My Trading Manifesto

The simple technique that will help you find the best trade opportunities - Every day

Disclaimer

High investment risks

Trading foreign exchange (Forex) on margin carries a high level of risk and may not be suitable for all investors. The high level of leverage can work against you as well as for you.

Please consider whether trading Forex is appropriate for you in light of your experience, goals as an investor, financial resources and risk appetite.

The possibility exists that you could lose some or all of your initial investment; therefore you should not invest money that you cannot afford to lose. You should be aware of all risks associated with Forex trading, and look for advice of any independent financial advisor if you have any doubts.

StraightForex opinion

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About this eBook

The content in this eBook will help you answer some of the most important questions about your trading:

- When should I start looking for trade opportunities?
- What currency pairs should I trade?
- What direction to trade?

I'm going to show you exactly the way I analyze the market and how each day I find the easiest to trade currency pairs and the ones with the most profit potential.

And believe me, the best thing you can do in your career as a trader is to find a way to define the clearest and easiest currency pairs to trade each day.

If at any point while reading this eBook you have any questions, send me an email to info@straightforex.com, I read every email I get, if I can't help you with an answer, I'll point you in the right direction. Even if you don't have any question, stop by to say hello.

How to use this eBook

What it's great about this eBook is that you can apply all the information in here to your current system or strategy.

You don't have to completely change the way you trade, you can just incorporate it (everything or part of it) into your system to get better results.

Even if you don't have a system, you can apply everything you'll learn here and create something that will give you good results.

You need to remember something though, as everything worth it in life, you'll need to practice, and I guarantee that as you become more experienced, you'll begin to see the results.

Ok, let's get things going.

Good market analysis kills a good entry system

"It's not about the entry system you use, but the pairs you choose to trade what will make you a successful trader."

There are a few things that I wish someone told me at the beginning of my trading career. The most important of them would be: **stop looking for the perfect system, and focus in choosing the right currency pairs to trade.**

If someone did, and assuming I followed his advice, It would had saved me years of frustration… maybe two or three years (perhaps four)?

I know you have been trained to look for the best entry system in the world. How do I know this? Because at one point I was a novice trader and I was looking for the same thing… plus I've worked with hundreds of beginner traders who were/are looking for the same thing: The Perfect System, the system that is right 95% or 100% of the time…

If you are still looking for that system, please STOP, here are a few reasons to stop now:

1 - You will save months or even years

2 - You could have the best entry system in the world, you could also have the perfect timing, but if you pick the wrong currency pair, sooner or later, the market will turn against you.

3 - A system that is right 100% of the time **DOESNT EXIST**

It doesn't matter what formula or indicator you use to time your entries, if you go long, when you are not supposed to trade that currency pair, or worse yet, when you are supposed to go short, you are going to get stopped out.

Sure, you might get lucky once or twice... but the overall result will be negative.

This is why I think **the analysis you do before you open your trade, is actually more important than the actual entry.**

You need to forget about trading just one currency pair, even for novice traders, it doesn't make sense to trade something that you have no idea what it is likely to do, does it?

Do me a favor and put those probabilities on your favor alright?

Once you learn what the market is likely to do, you'll begin to do marvelous things with the market, regardless of the system or strategy you use.

The best currency pair to trade

I get asked the following questions at least 5 times per week:

What is the best currency pair to trade? If I'm a newbie what currency pair should I trade? How many currency pairs should I focus on?

As most newbies, when I began my trading journey, I only traded the EURUSD, and sometimes the USDCHF. It wasn't until a few years later what a mistake it was.

Let me tell you how I see it. If you trade only one currency pair (like the EURUSD), there will be times that the EURUSD is clear and its ready to be traded, but there will be other times that it's just too difficult to trade it, it's not clear, you'll have no idea what the EURUSD is likely to do, but because you are trading only the EURUSD, you'll force yourself to take trades.

Like I said, when I began my trading career I just traded the EURUSD and sometimes the USDCHF, imagine what my results were at that time. I was a consistent trader, but from the negative side, I had consistent losses.

Now I realize how important it is to define the right currency pairs to trade.

And to answer the first question:

The best currency pair to trade (each day) is the one with the clearest market condition, the one you are more "certain" about its future movements (we'll never have complete certainty about future market movements, but for sure we have an idea about what the market is likely to do right?).

So, if you like to trade only one currency pair, then the best currency pair to trade that day is the one where it's clearer what the market is likely to do.

If you rather trade two or more, do the same thing, focus on the 2 or more currency pairs that have the clearest market conditions, the ones you feel most comfortable with.

Of course, if you are a newbie you should start analyzing two or three, but once you get more comfortable with your analysis, you should add more currency pairs and then trade ONLY the ones with the clearest market condition.

Now, let me clarify something, it doesn't mean that if you analyze, let's say, 6 currency pairs per day, that you will have to trade those 6 currency pairs.

Instead, you should pick the ones with the clearest condition. If you find that only one has a clear market condition, trade that one, if you feel comfortable with more pairs, then pick the best 2 or 3, on focus on them.

The idea is to filter out the currency pairs that don't have a clear market condition, forget about them, and trade only the ones that you feel most comfortable with aka the ones with the clearest market condition.

You see the difference about trading this way?

Trading is all about using the probabilities in your favor, choosing the right currency pairs will definitely help you stay on the right side of the market.

What type of analysis should I do

Tell me if this sounds familiar:

I will go long if the RSI reading breaks up the 50 mark, and the EMA(21) breaks above the EMA(50). I also need to see a CCI divergence to confirm my trade.

Too complicated isn't it? Why do we like to over complicate things? We are especially good at it.

We are good at complicating what is simple, and overcomplicate things that are already complex. And believe me, this gets worse and worse as you become more experienced, we keep adding and adding complex indicators making our trading a total mess.

We end up with a very complicated system that we can't even follow.

For some reason, **we tend to think that if something is complicated, it must be thoughtful, on the other hand, we think that something simple is not going to work…**

From what I've seen and my experience, that couldn't be further than the truth.

Some traders even get better results when they start their trading career. The reason for this is that as traders become more experienced, they discover new indicators and keep adding and adding them to their strategy.

While when they were newbies, they just focused on a simple indicator… making it easier for them to make the decision to trade.

Luckily for us, we can change that.

We all now about the KISS principle: keep it simple, stupid. Adhere to this principle. I do it myself.

- When the system has just a few variables, fewer variables could go wrong.
- When the system is simple, we can clearly identify our signals.

- When the system is easy to follow, it's easier for us to gather important data to analyze the results and make further improvements to the system.

So now you know… If you find yourself trading with tons of indicators and complicated rules, throw everything away and start all over again. Go back to the basics, you don't need all that stuff.

Simplify your trading and ask yourself:

If I'd use only one indicator to define the trend of the market, which one would I feel more comfortable with?

If you don't feel comfortable enough with only one indicator, add another one as a filter. Test it in a demo account and make the necessary changes until you feel comfortable with it.

Remember, a simple system will ALWAYS be better than a complicated one.

This is how I analyze the market

"There are many characteristics of successful traders, I believe the most important of them all is the type of analysis that they do before they start to trade."

No matter what entry system you use, the kind of risk and trade management you use, if you are not trading the right currency pair, you will get nowhere.

In the following sections I'm going to explain to you how I do my analysis.

This type of analysis has allowed me to filter out the bad currency pairs from the good ones.

Market Condition vs. Trend of the Market

I base my analysis on what I call the market condition, which is a slightly different concept than the trend of the market.

The **trend of the market** refers to market general direction (uptrend, downtrend), while the **market condition** refers to what is the market likely to do in the following hours/days (bullish, bearish, ranging, undefined) and it is measured by the way the market reacts to important support and resistance levels.

Focusing in the market condition is far more practical than using the trend of the market because it suggests what you can do right now on the market: go long, go short or stay on the sidelines.

On the other hand, if you focus in the trend of the market, it might be in an uptrend, but what if it is in a pullback or retracement? See the difference?

Now, let me ask you one question: Is it possible to have a bearish condition in an uptrend? Or a bullish market condition in a downtrend? Yes, it is possible.

To make sure everything is clear, let me show you this chart:

In this chart, clearly the market is in an uptrend, the general direction of the market is up (it has higher highs, and higher lows).

But it is also in a bearish market condition, because the market is likely to react to the upper green resistance level.

So instead of looking for long opportunities based on the trend of the market, I'll rather start looking for short opportunities based on the market condition.

You see the difference?

Following the market condition gives you actionable advice that you can use to take timely decisions.

In the following section I'll show you exactly how to determine the market condition.

Types of Market condition

The market condition answers one simple question: **what is the market likely to do in the following hours/days.**

At any moment, the market is doing one of these four things:

- The market is going up (bullish)
- The market is going down (bearish)
- The market is ranging (rangebound)
- The market is undefined (undefined)

Bullish market condition - If you know the market is likely to continue its way up, what would you do? You'd look for long opportunities right? Why would you go short and try to take advantage of a small retracements, if the market is likely to continue its way up? In a bullish market condition, upward moves will last longer and will move with more momentum…

Bearish market condition - Now, what if the market is likely to continue its way down? You'd look for short opportunities, there is no doubt about it. And of course, you'll ignore every signal to go long, right? Likewise, in a bearish market condition downward moves will last longer and will move with more momentum.

Rangebound - Some traders say that the market ranges about 70% of the time, whether it's true or not, we need to be ready to trade ranges too. Once we identify them, the only thing that we need to do is look for long opportunities around the bottom of the range, and short opportunities around the top of the range. That's it.

Undefined market condition - There are also times when the market is just difficult to trade, we look at the charts and see no clue of what it is likely to do. This is when we need to stop trading that currency pair and try to focus on others with clearer market conditions.

Those are the four types of market conditions that you are going to learn to identify to trade with better results.

So this is what I do every morning:

I look at each one of my charts, and ask myself:

Do I have any idea what this currency pair is likely to do?

There are 3 possible answers here:

1. Yes, I know what this chart is likely to do
2. No, I have absolutely no idea what this chart is likely to do
3. I might… but not sure.

If the chart is clear and I know what it is likely to do, I put it on the tradable side (the currency pairs that I'm going to monitor throughout the day to look for trade opportunities), if I'm not sure or I have absolutely no idea what the market is likely to do, I put them on the non-tradable side for the day (I will not monitor these currency pairs, until the next day).

The currency pairs that I trade today, might be different from the ones that I'll trade tomorrow. That's up to the market. I'm not going to force anything, I'll let the market tell me which currencies are the ones with the most profit potential.

But there is still one unanswered question (very important by the way):

How to determine the market condition?

To do this, you need a methodology that answers the following questions:

- How do I know when the market is likely to go up?
- How do I know when the market is likely to go down?
- How do I know when the market is ranging?
- How do I know when I'm not supposed to trade a currency pair?

I'll get there, don't worry… but first I need to make sure you understand a few concepts that are essential to determine the market condition.

Support & Resistance levels

Once you know what the market is likely to do, your trading will become much easier, less stressful and believe me, more profitable. So we are going to spend a few pages on this…

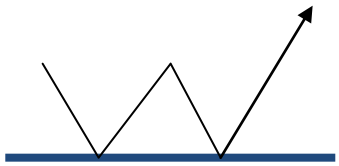
Having a clear understanding of support and resistance levels will help you answer the following questions:

- What is the market likely to do?
- Where should I place my take profit and stop loss orders?
- Where should I enter my trade?

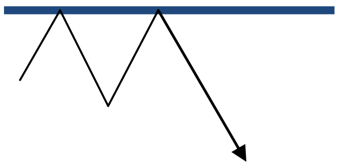
In this section we'll focus in the first question.

Support level: Is a level in which the market has been rejected at least twice, keeping the market from reaching lower levels.

Resistance level: is a level in which the market has been rejected at least twice, keeping the market from reaching higher levels.



Support level



Resistance level

Is it important for me to understand why the market has been rejected from these levels?

No, it isn't. I don't care why the market was rejected from an important level, what is important for me is to determine what the market is likely to do on the following hours/days (after the rejection has happened) so I can profit from it.

It's not important to determine why the market moved up or down, what is important is: whether or not you profited from it, isn't it?

3 Simple rules to draw perfect support and resistance levels

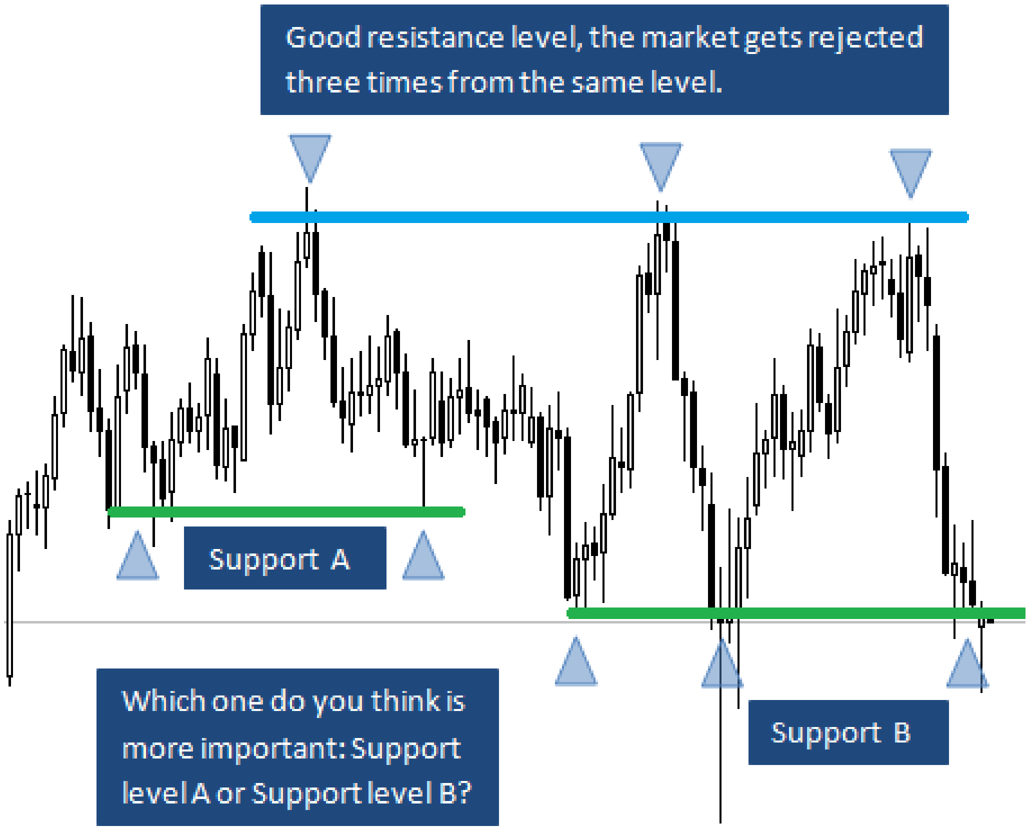
These are the rules that I use to draw support and resistance levels

Rule No. 1: the market needs to get rejected at least twice from the level (not once, twice).

Rule No. 2: the more rejections the level has, the more important it becomes

Rule No. 3: most recent rejections are more important than less recent rejections

A chart is worth a thousand words :)



The resistance level (blue line at the top) is very important, the market has been rejected three times from the same level. If there was another resistance level near this one, with only two rejections, the one marked on blue would be more important (according to rule # 2).

Now, about the support levels (both have three rejections), which one you think is more important?

I'd say support level B (according to rule # 3), because it is more recent than support level A. So If I was trading this currency pair, I'd take in consideration only support level B.

There is also another rule that I always follow: **only take on consideration the support and resistance levels that the market is actually taking in consideration.**

So if there was an important support or resistance level, that once was important, but now the market is not taking it in consideration (the market breaks through that level as if there was no level there), get rid of it.

Why would I trade based on a level that the market is not responding to?

The rule of thumb is: once the market breaks through an important support or resistance level twice, get rid of it.

One more important thing to consider: support and resistance levels are more like zones instead of levels. So don't break your head trying to figure out the exact level where to draw your level: at close of the candlestick, at the lowest low, etc. Just draw it where it touches the most rejections.

What happens when the market breaks through an important level?

Once the market breaks through an important support level, it becomes an important resistance level. And similarly, once the market breaks through an important resistance level, it becomes an important support level.

This is the psychology behind this:

What was thought as a "cheap" price (the support level kept the market from falling below this zone attracting new buyers), it becomes and "expensive" price (and the market is likely to get rejected when it approaches to this level as bears are likely to take the command of the market around that zone).

The same happens when the market breaks through an important resistance level, it becomes an important support level.

Now, every time the market gets close to an important support or resistance level three things could happen:

1. The market could get rejected from that level
2. The market could break through that level
3. The market could stall around the level

And this takes us to the holy grail of trading, which is: understanding what the market is likely to do.

Ok, you have drawn support and resistance levels, now what? What can you do with them?

You can use them for a wide variety of reasons, but the specific questions we are going to answer in this section are:

- When to start looking for long opportunities
- When to start looking for short opportunities
- When to look for trades inside the range
- When to stop trading a particular currency pair

Remember this is not an entry system (we'll cover that in another eBook), this is about the analysis you need to do before you start looking for a trade opportunity, which will tell you: what currency pairs to trade and what direction to trade them.

Market swings

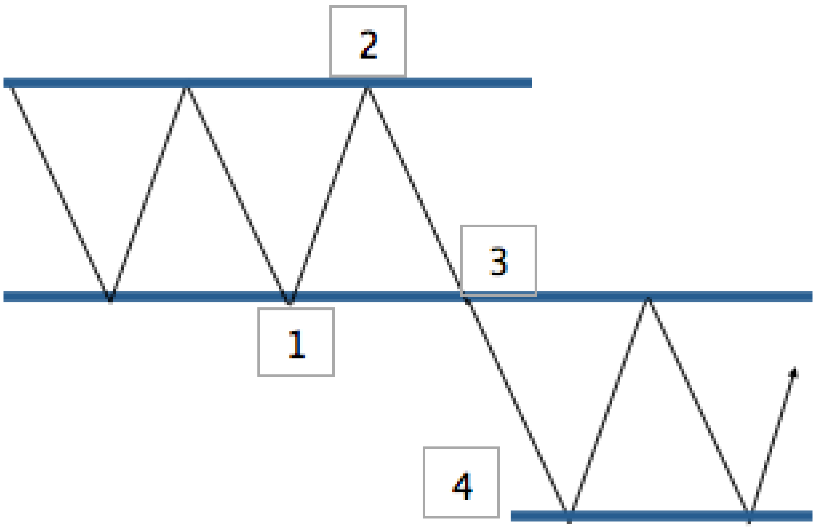
Whether we like it or not, the market moves in swings.

When you look at your long term charts (e.g. 4 hour, daily or weekly charts) you'll see that most of the time, the market moves from one level to the other (from one support level to a resistance level and vice versa).

This pattern repeats over and over again.

So let me ask you one question: instead of trying to guess where the market is going, doesn't it make more sense to follow what the market is actually doing?

It does to me.



Anyway, market swings look like this:

Remember this analysis is made on the long term charts (the 4 hour and the daily chart or even on the weekly charts). It doesn't mean you are going to trade off the long term charts, we are just doing this analysis to determine which currency pairs to trade. We can then move on to the short term charts to look for our entry.

Most of the time, once the market gets rejected from an important level, it goes up or down until it hits the next level. And the process repeats itself.

We are at point 1, the market gets rejected from an important support level, when this happens, since it was rejected from the bottom of the range, it is likely to continue its way up until it reaches the next resistance level (point 2).

At point 2, the market gets rejected again, but now from the upper extreme of the range (resistance level), and we need to start looking for short opportunities.

When we get to point 3, the market is again at the support level, but this time, it breaks through that level, so we know the market is likely to continue its way down, therefore we continue to look for short opportunities.

Point 4 – The market reaches a new support level, and this time it gets rejected from that level, so it's time to look for long opportunities again.

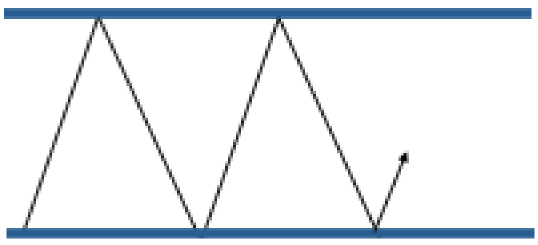
And so on and so forth.

You get the idea right? We need to trade once the market has confirmed the most likely direction.

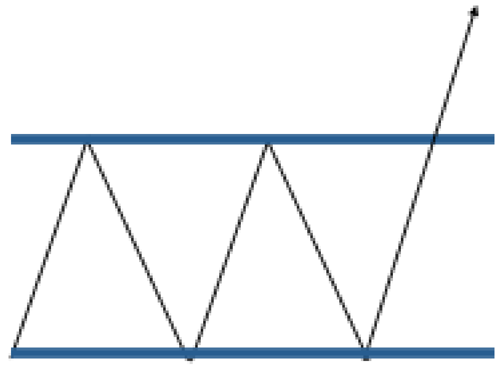
When to look for long opportunities:

Look for long opportunities when the market gets rejected from an important support level or when it breaks through an important resistance level:

Rejection from an important support level

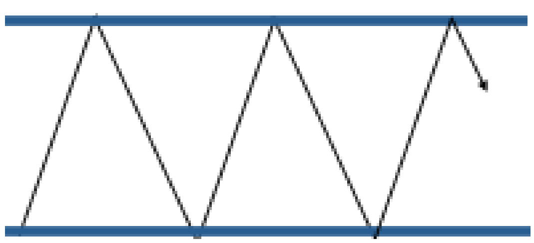


Breaks through an important resistance level

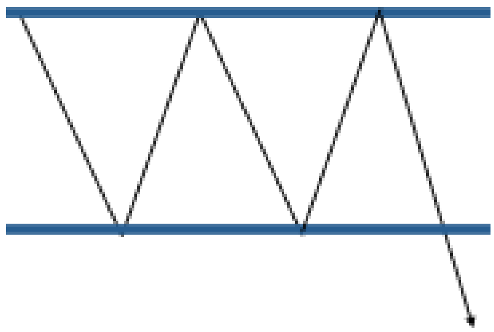


When to look for short opportunities

Look for short opportunities when the market gets rejected from an important resistance level, or when it breaks through an important support level



Rejection from an important resistance level



Breaks through an important resistance level

And the question remains: When should I start looking for long or short opportunities?

The SF Box

The **SF Box** can help you determine the exact level in which you can start looking for trade opportunities.

Remember what I said before, that you should consider every support and resistance level as zones instead of plain levels. Well, this concept comes in handy right now and here is why.

Every time the market gets close an important level something happens: supply meets demand. There is a fierce battle between buyers and sellers, and the winner will the determine whether the market will break through an important level or get rejected from there.

This battle between buyers and sellers makes the market trade in a small range or a zone, which is what I call **The SF Box.**

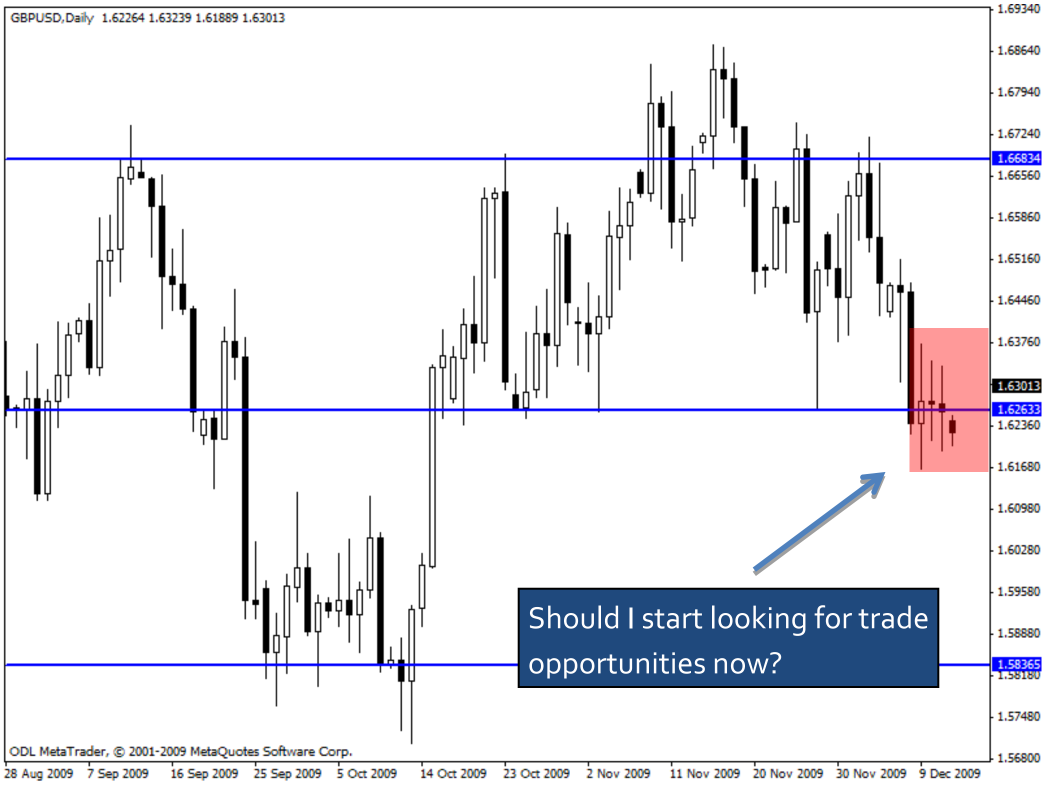
This is why it is not important to find the exact level to place your support and resistance level, as long as it is placed in between the "zone" (which I will clarify in a minute).

Just to make sure it's clear, pull up any daily chart (or 4H or weekly chart) and you'll see that almost every support and resistance levels are alright even if you move them a few pips up or down.

This is why we always must consider long term support and resistance levels as zones instead of plain levels.

Let's take a look at some charts to clarify this idea.

This is the GBPUSD daily chart:



From this chart, I can see that there are three important levels (in blue), and that the market it's currently trading just in the middle of the range (which happens to be another important level at 1.6263).

I can also see that the market is trading just below the important support line - 1.6263.

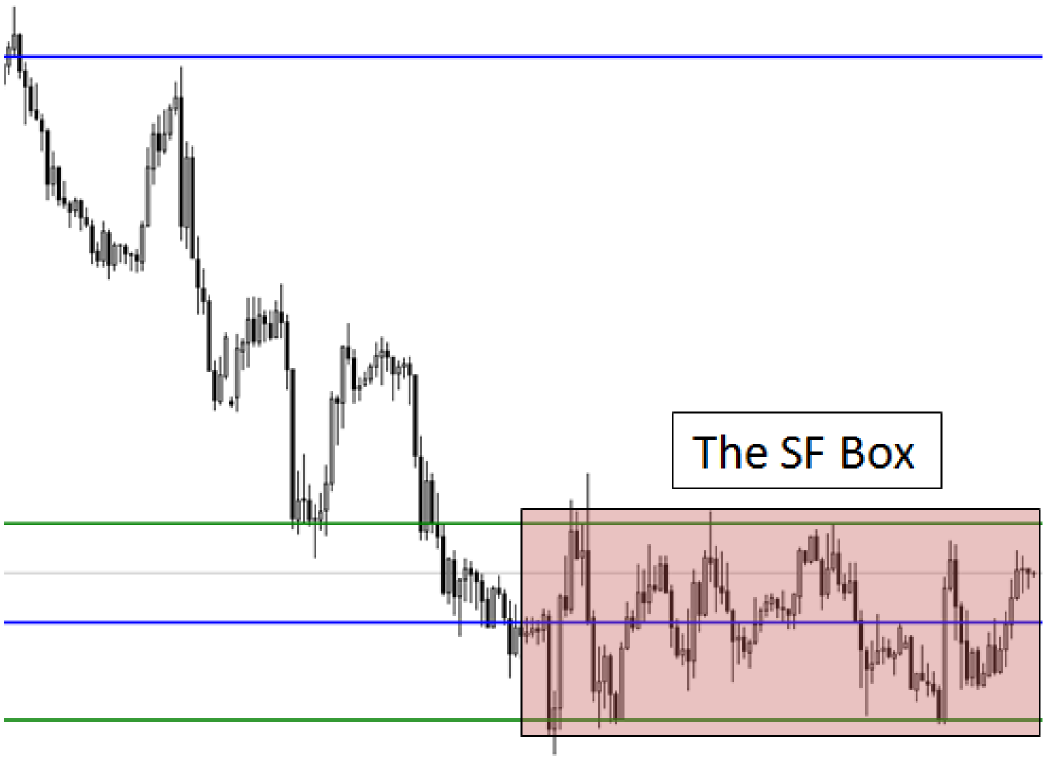
And here comes the million dollar question:

Should I start looking for short trade opportunities right now? What's your take?

Think about it some more and come up with an answer.

If you asked me, I wouldn't… at least not yet.

You already know all S&R levels are actually zones, but it's kind of complicated to clearly see the zone on the daily chart. So let's take a look at it from a different perspective, from the hourly chart:



Now you see what I mean, when you look at every long term S&R level (blue level) in a short term chart, it's actually a zone (in the hourly chart), this zone is what I call **The SF Box.**

You can also see that it doesn't matter where you place the long term level (**blue line**) as long as it is in between both short term support and resistance levels (**green lines**) we'll be talking about the same level.

Using the SF Box concept you can do marvelous things with the market.

Ok, now let's go back to the daily chart and see what the possibilities are…

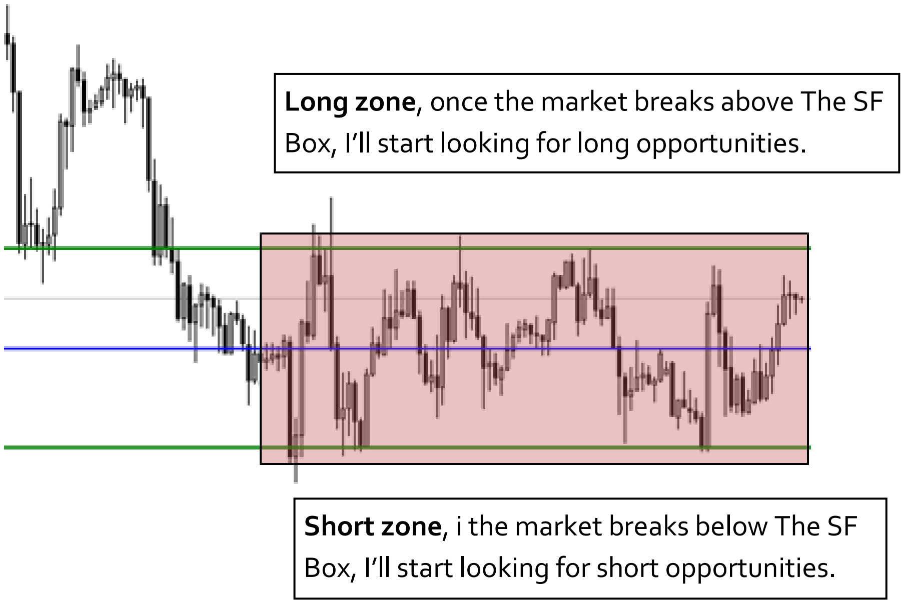
There are two possibilities:

If the market gets rejected and the market moves up (also known as bullish condition), it is likely to continue it's way up, until it reaches the next long term resistance level. If this is the case, I'm going to be looking for long opportunities.

If the market breaks through the level and the market moves down (also known as bearish condition), then it is likely to continue its way down until it reaches the next support level. If this is the case, then I'll start looking for short opportunities.

On either case, I'll only look for trade opportunities in the direction of the market condition.

Now you can have a well-structured trading plan



Now you are prepared and what is most important is that you will not be expecting anything, you'll be following the market.

With all these information, now you can have your own trading plan, which will be something like this:

1. If the market breaks above **The SF Box**, I'll be safe by looking for long opportunities (and will ignore every short signal).
2. If, on the other hand, the market breaks below **The SF Box**, I'll be ready to start shorting it (and ignore every long signal).

With this methodology you'll be following the market, instead of trying to guess where it is likely to go.

Once you become more experienced with this kind of analysis, it'll become more natural to you, and you'll be able to come to a conclusion by just taking a quick look at your charts!

A closer look at The SF Box (Trading ranges)

So far we've seen two types of market condition, when the market is in a bullish condition and we look for long opportunities, and when the market is in a bearish condition, when we look for short opportunities.

But what happens while the market is trading inside **The SF Box**?

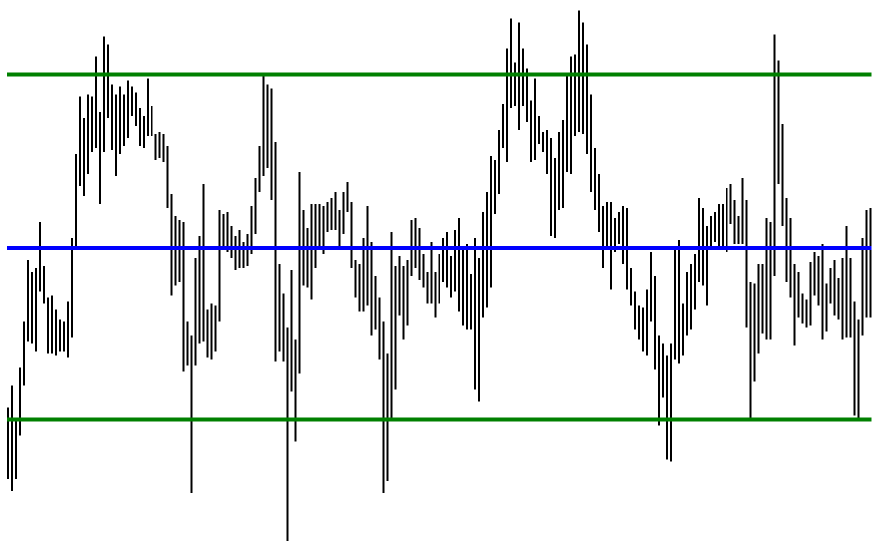
As you already know, most of the time, when the market gets close to an important level it will trade in a range (again, which is what we call **The SF Box**).

The time spent by the market in **The SF Box** varies, it could go from just a few hours to a few weeks.

So the idea is, if **The SF Box**, is clear enough, we could trade it and take advantage of the short term range: looking for long opportunities around the bottom of the range and short opportunities around the top of the range, that easy.

The SF Box or a range is clear enough to trade it when it's got both, clear support and resistance levels on both extremes of the range.

Here is chart with a tradable SF Box:



In this chart, the market is trading near an important long term level (blue line), and as you already know, it doesn't matter if it's at the middle of the range, as long as it is between both green levels, we are taking about the same level.

We also see clear support and resistance levels on either extremes of the range. So in this case, it makes sense to trade on both sides of the range: Look for long opportunities as it gets rejected from the bottom of the range, and short opportunities as it gets rejected from the top of the range.

So we have three trading scenarios here:

1. If the market keeps trading in between **The SF Box**, we'll trade the range, long opportunities around the bottom of the range and short opportunities around the top of the range.
2. If the market breaks the top of **The SF Box**, it will trigger a bullish condition, therefore only long opportunities will be in play, until it reaches the next long term resistance level.
3. If the market breaks the bottom of **The SF Box**, it will trigger a bearish condition, therefore only short opportunities will be in play, until it reaches the next long term support level.

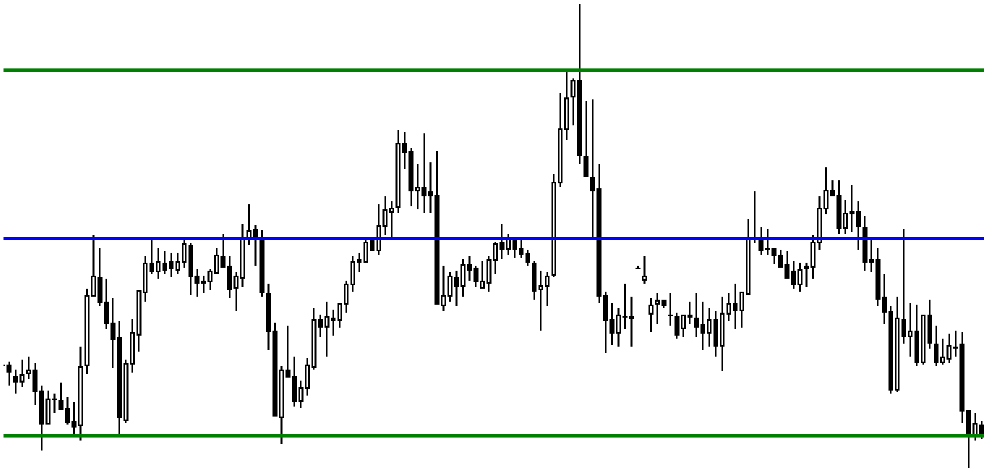
And you've got yourself a pretty complete trading plan.

Having a trading plan like this one is very powerful, because you will not get biased, you will just act based on what the market is doing, taking advantage of what the market is telling you: if it keeps trading in the range, you'll trade the range, if it breaks the upper resistance level, you'll start looking for long opportunities, if it breaks the lower resistance level, you'll start looking for short opportunities.

You see the benefit?

Remember, we are allowed to trade both sides of the range when it has clear S&R levels, and when it is trading around an important long term level (which is the **SF Box**).

Here is a SF Box where it is not possible to trade it, because it doesn't have clear support and resistance levels:



In this chart, the market is also trading near a long term level (blue line), but in this case The SF Box is not well defined. It doesn't have both, clear support and resistance levels on both extremes of the range.

In this case, we'll just wait until the market breaks The SF Box, and we'll be ready to take trades only in the direction of the breakout, until it reaches the next level.

Makes sense?

Another thing to remember. When the market is trading in a clear market condition (bullish or bearish) you are not allowed to trade against the direction of the trend, even if the market trades in a small range. In this case you'd only take trade in the direction of the trend.

Key eBook Takeaways

1. Choosing the right currency pairs to trade is more important than your entry system.

2 The best currency pair to trade is the one that has the clearest condition of them all, the one that has clearer levels and you feel most comfortable with.

3 Ceteris paribus, a simple system is always better than a system with more indicators/tools.

4 Every market could do 4 things: it could go up, down, it could trade in a well-defined range or trade in an undefined range.

5 Support and resistance levels are the most important concepts you could learn and master.

6 All support and resistance levels should be considered as zones instead of plain levels.

7 When the market approaches an important level, it could break through it, it could get rejected from it, or stall around there.

8 Most of the time, the market swings, it goes from one level to the other.

9 I look for long opportunities when the market breaks through an important resistance level or gets rejected from an important support level.

10 I look for short opportunities when the market breaks through an important support level and gets rejected from an important resistance level.

11 The SF Box helps us determine exactly when we should start looking for trade opportunities and have a well-structured trading plan.

12 It's possible to trade the range when the market is trading near an important long term level and the range is well defined.