THE MILLION DOLLAR SET-UP

"Just who is Raghee Horner? That's easy. If you are a Forex trader, Raghee Horner is a young woman who can change your life. She can turn your losses into profit. She can take the mystery out of trading this incredible market."

- PETER MCKENNA
Investor's Business Daily

The Millionaire *Maker's* Guide to Creating the Million Dollar Forex Set-Up

Raghee Horner

Author of Forex on Five Hours a Week, How To Make Money Trading on Your Own Time

The Million Dollar Set-Up

By Raghee Horner & Jeffrey Alan Brandzel

Introduction by Peter McKenna of Investors Business Daily

INTRODUCTION

By Peter McKenna of Investors Business Daily

Who is Raghee Horner and Why is Everyone Talking About Her?

Just who is Raghee Horner? That's easy. If you are a Forex trader, futures trader or a stock trader, Raghee Horner is a young woman who can change your life. She can turn your losses into profits. She can take the mystery out of trading this incredible market.

This is not an idle boast. Raghee can teach you how to navigate the markets because she has put in the time and effort it takes to master Forex trading. Raghee is the quintessential hard worker who won't let go of a topic until she understands every aspect and every nuance. She is also a natural teacher who makes her winning techniques easy to understand.

In fact, it's almost as if Raghee has been preparing her whole life to be a Forex teacher. She became "obsessed" with the stock market when she was a 17-year-old high school student. While her friends spent their time thinking about what they were going to wear to the next party, Raghee taught herself what separates good stocks from bad stocks. She read everything she could find about how the market works.

Why the stock market? "I realized that if I could learn how to make the stock market work for me, I would never have to get a boring job, I could work for myself." Raghee says. "It opened a new reality for me."

As she approached her college years, Raghee successfully refined her stock trading style. She spent hours studying market timing and technical analysis and even plotted stock charts by hand. Her obsession slowly became her profession.

During her freshman year in college, she met a professional pit trader who introduced her to futures trading and she soon added commodity futures to her trading arsenal.

Slowly and diligently, Raghee developed highly disciplined trading strategies based on hours and hours of chart work, research and trial and error. It wasn't long before her trading ability was noticed by Wall Street. High powered executives on the Street hired Raghee to teach her trading strategies to mutual fund managers and hedge fund managers. Even individual traders sought her advice.

"I have taught everyday traders from all over the world who want to make the leap from trading novice to expert," she says. "Teaching is a fantastic way to remind myself of the tried and true basics of trading, and frankly I feel it has improved my personal trading ten-fold."

In 1999, after years of successful stock and futures trading, Raghee turned her attention to the Forex and fell in love with this fascinating market. "The technology of faster computers and the Internet have made the Forex market the best market to trade," she says, "and today most of my effort is focused on teaching others to navigate this market."

Over the years, Raghee has developed a community of loyal followers. With an emphasis on charting and price action, Raghee continues to teach the tools and strategies that encourage self-directed traders to pursue the study of technical analysis and market psychology.

Today, she runs the wildly successful www.raghee.com web site at which she takes traders by the hand and guides them through the Forex trading process; teaching all the time through a question and answer process.

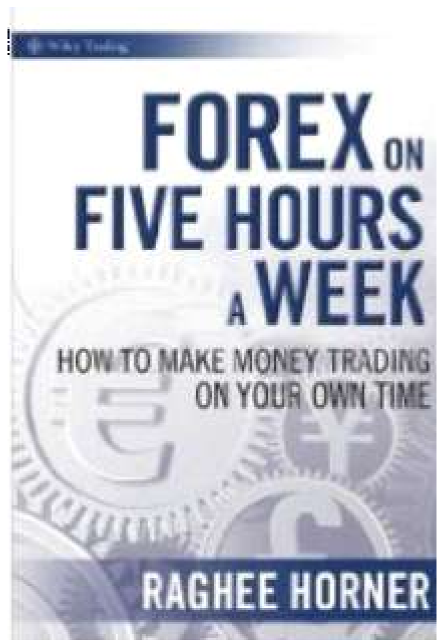
Raghee is hosting a new program called the Winner's Circle, which includes a package of CDs, on-line webinars and live chats with Raghee herself. Every Monday and Friday Raghee goes online live and shows Winner's Circle members her latest charts while she talks about the market, economic indicators, chart analysis and trading set-ups.

Raghee will also critique your trades and give you a no punches pulled assessment of how to grow your talents. Many have found the money they save on correcting a few trading mistakes more than paid for the course. Although the main emphasis is on Forex, Raghee always offers some special classes on futures and stocks. In addition, her indicators and triggers are universal to all the markets.

Raghee's third book on Forex trading, **Trading Forex on Five Hours a Week**, will be published in January by Wiley & Son Publishers. She has written more than 100 articles on investing, active trading and market psychology. She has written articles for Technical Analysis of Stocks and Commodities, Currency Trader, Futures Magazine and Traders Journal magazine. Her chart analysis and commentary appear on Trading Markets, JAG Notes, StockCharts.com, and FXstreet.com. She has also been a regular on the Money Watch Radio Network.

"Forex trading is something anyone can learn to do well, but we all need a checklist, a series of steps to examine before we enter or exit a position," Raghee says. "I show traders and investors the importance of understanding market cycles, price action, chart patterns, Fibonacci, time and inter-market correlations."

Raghee was very excited to write this eBook in the hopes of sparking interest in others that might wish to pursue the markets with a solid trading foundation and proven techniques. I believe she has hit a homerun with it and was honored to have been asked to write the introduction.



Raghee's Newest Book to be
Released Early 2010

INVESTOR'S BUSINESS DAILY

WWW.INVESTORS.COM

Schwarzenegger's Duty | And The Moral Is... | Web Without Wires | Retail | Fund Finds Its Price | Just Hang Up

TRADER USES PERSONAL TOUCH TO TEACH FOREX TRADING

By Peter McKenna

Veteran Forex trader Raghee Horner has taken instruction to a new level.

Horner is widely regarded for her two best selling books on Forex trading and the web site chat room she operates for Forex traders. Now she is working with traders in a personalized, interactive setting.

"I have discovered over the years that working with students directly is the best way to make things absolutely clear and clean-up any confusion that may arise," Horner says.

Exactly what is the Forex market? It's a market, open 24 hours a day, that pairs the currences of two countries. If you think the U.S. dollar will appreciate against the Euro, for example, a Forex trader would buy the dollar and short the Euro at the same time. A profit is made if the dollar goes up while the Euro goes down.

Actually trading currency in a live market, of course, is more complicated than the example above. That's where Horner comes into the picture. She has spent more than half of her life studying patterns in the Forex markets. She has developed strategies for entering and exiting trades based on technical analysis, trendlines and other market indicators.

Teaching others to master these techniques has become Horner's passion. She has a new program, called the Winner's Circle, in which she offers "how to" instruction that takes the mystery out of Forex trading.

WINNERS CIRCLE

The program, designed for novice, intermediate and advanced traders, allows students to work at their own pace. Students first read her acclaimed books, Forex Trading for Maximum Profit and Thirty Days of Forex Trading.

Then they delve into instructional CDs that cover the same ground explained in the books.

"The CDs are linear to Raghee's written words; it's almost as if she were reading the book to you herself," said a spokesman for the new program. "She answers the questions that inevitably arise when you get into

The program is wide ranging, covering everything from reading Forex quotes, risk management and the advanced technical analysis used to pinpoint entry and exit points.

Horner runs a chat-room, called Raghee's Forex in The Morning, in which she guides traders through the process of trading on a daily basis. She answers questions and discusses trades she is considering.

"I love being a mentor for others," Horner says, "because the Forex market can be rewarding if you take the time to master trading techniques."

PREFACE

The Million Dollar Set-Up is more than just a series of steps – it's a mindset. It's an opportunity to view the markets in a way that allows you to hear what the market is trying to tell you. Successful traders know there is a message that the market is always communicating. Profitable traders listen for the cadence and ignore the cacophony. Unsuccessful traders try to impose their will on the market and that's a sure path to failure!

Table of Contents

CHAPTER ONE

Education First!

Last night, August 26th, 2009, I was watching Jeopardy on ABC. I won't bore you and report my low score going into Final Jeopardy but the Final Jeopardy question was one I actually knew. Thanks to Raghee!

It was probably five or six years ago that Raghee and I were talking about her specialty, Forex, and my insatiable desire to learn how to trade the Forex market successfully.

She was in the process of writing her bestselling book, **Forex Trading for Maximum Profit**, and I was working with her as the editor of the text.

I had been interested in the currency market for years and became a student of its history, as well as trying to teach myself how to trade the more popular pairs. Needless to say, my early trading results were less than stellar.

Raghee changed how I looked at the market and how I traded as she began to share her knowledge through the written word.

We worked on the book for the better part of a year and spoke regularly about what topics should and shouldn't be included. I'd ask her trading questions and every answer provided me with greater clarity to the Forex market, and to all the other markets as well.

She explained to me the tools she used and how she used them. Sure, I had heard of Fibonacci and Elliot Wave. Yes, I could chart and yes I knew what a PIP was, but could I open an account and profitably trade?

The answer was a resounding "No."

After all, history didn't lie.

The longer we collaborated on the book, the greater my understanding became of the Forex and how a professional looks at the market. Raghee had trading rules, as we all do, but the difference between hers and mine were that she followed hers and didn't allow for exceptions.

I had no problem making allowances when a trade was going my way and if I stayed in the trade, I thought I'd make more.

Conversely, I often chased a bad trade.

That's just some of the differences between an amateur and a pro.

When Raghee and I started discussing the chapter on trendlines, breakouts and breakdowns, she stressed the number one rule she lived by. She calmly said, "My tools must answer the three questions I ask myself when setting up a trade. The first is where to enter the market? The second is where to set my profit targets, and the third, where to set my stop-loss."

At that moment, the way I approached trading was forever changed. Maybe it was the way she said what she said, with conviction and a firm but delicate tone that oozed sincerity and correctness.

But I started to become a trader by incorporating those basics.

I would never make the claim that I have become a great trader, but because of Raghee, I am continually improving and envision doing very well as I implement more of her teachings. I am telling you now, utilizing her sound fundamentals and incorporating her money management methods will bring you closer to trading success.

We are all aware that Forex trading has soared in every corner of the world these last ten years. Your long term profitability will be predicated on your knowledge. Sure there is an element of luck involved, just like anything in life, but you can stack the odds in your favor by acquiring the basics that will insure your lasting success in an industry that is fun, exciting and highly lucrative.

You do not have to make the common mistakes that many new traders make if you follow Raghee's approach to trading. She'll provide you with proven strategies that you can easily apply as well as show you how to analyze the charts and help fortify your confidence.

How familiar are you with trading on margin?

Do you know the interest rate differentials of the different currencies?

How deep is your understanding of spot and forward trading?

How do you respond when you are in a stress situation?

Do you possess critical thinking skills?

Can you manage your time?

Are you disciplined?

All of your uncertainties should be and must be clarified before you open a live account. The bottom line is that Forex trading is a terrific way to make a great deal of money but there aren't any shortcuts.

There is no larger market than the Forex, an estimated $3.2 trillion dollars is transacted every day and dwarfs the combined daily turnover of all the world's stock and bond markets. There is a reason why only 3-5% of those involved in this market are surviving and thriving and don't think for one second that the small percentage of winners are just lucky all the time.

The winners in this business are not naïve nor are they couch potatoes filled with delusions of grandeur. They have done their homework and I am here to tell you that the attendees of the School of Hard Knocks never have lasting winnings and only graduate with a degree called FAILURE!.

If you think you can self-teach, think again.

The way you learn is by learning from someone who can answer your questions and from someone who trades.

Raghee Horner.

She's plenty good!

Before I forget, the Final Jeopardy question was in the category World Money. The question was posed to the contestants as this:

AMOUNTS ON THE BANKNOTES OF THIS COUNTRY, ONE OF THE WORLDS LARGEST, ARE IN 17 DIFFERENT OFFICIAL LANGUAGES.

The first contestant said China.
Wrong.
The second and third contestants answered correctly.
As I mentioned at the outset of this chapter, I knew the answer because Raghee would talk about this phenomena as we worked on the text of **Forex Trading for Maximum Profit**. In fact, we still talk about it and did so while we were working on her newest book, **Forex on Five Hours a Week**.

Look at the chart below and see if you can find the answer.

Most Traded Currencies

Currency Distribution of Market Turnover

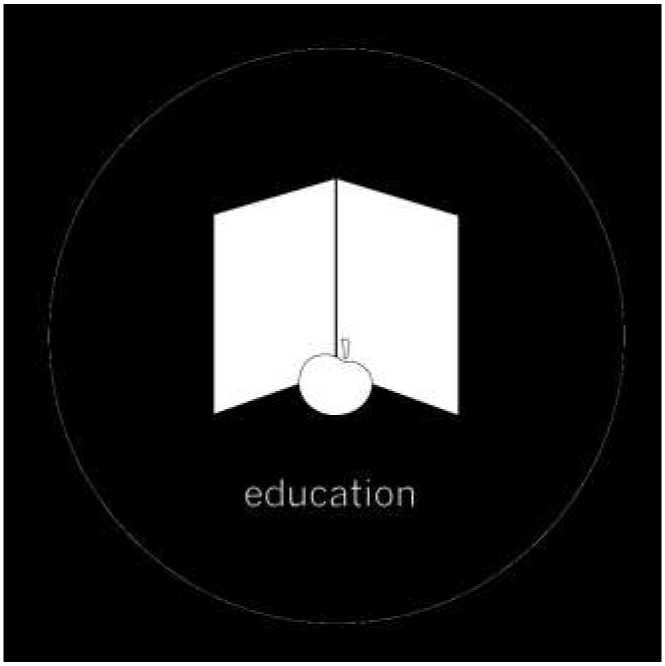
Currency Pair	U.S. Dollar versus	Volume	%
EURUSD	Euro	$131,477M	33.43%
USDJPY	Japanese Yen	$59,728M	15.19%
GBPUSD	British pound	$42,032M	10.69%
USDCHF	Swiss franc	$24,896M	6.33%
USDCAD	Canadian dollar	$19,625M	4.99%
AUDUSD	Australian dollar	$17,125M	4.35%
USDMXN	Mexican peso	$10,090M	2.57%
USDBRL	Brazilian real	$1,994M	0.51%
USDCLP	Chilean peso	$1,088M	0.28%
USDARS	Argentine peso	$214M	0.05%
ALL OTHERS		$18,834M	4.79%
	Euro versus		
EURJPY	Japanese Yen	$24,815M	6.31%
EURCHF	Swiss franc	$15,160M	3.85%
EURGBP	British pound	$11,471M	2.92%
ALL OTHERS		$14,712M	3.74%
TOTAL		**$393,261M**	**100.00%**

If you guessed any of the above, you are incorrect. If you said "India," you are right!

Over the years I have worked with some of the world's most well-known traders and it is privilege I do not take lightly. I have learned from them all but I say unequivocally there is no one who uses and teaches a more non-emotional way of trading than Raghee. She sets herself apart from the *best of the best* by using a technical analysis that allows her to enter and exit trades profitably and consistently.

During these last six plus years of working with Raghee, I've met a lot of people at conventions and trade shows who profess to be professional Forex traders. Invariably, I ask these people how they learned the business of trading and those that claim to be self-taught, my antenna goes up and I question their veracity.

Those people who tell me they have had a mentor, someone who has taught and guided them, those are the people I believe. After all, Raghee had a mentor when she started out and she has been mine. And that is why I say, **Education First**!



CHAPTER TWO

Trading Forex

There are a plethora of reasons to trade the Forex but before we get into the positives, let's include a balanced look at the negatives. After all, we're not children believing the way to riches is by buying a lottery ticket.

Is it fair to say that trading any market has its perils?

Does self-discipline and self-control have an effect on the bottom line?

Of course!

Take a look at the following chart.

Top 10 Currency Traders

According to Wall Street Journal Europe
Approximately 75% of the trade volume is covered by:

Top 10 currency traders [5]
% of overall volume, Sept. 2009

Rank	Name	Market Share
1	Deutsche Bank	17.30%
2	UBS AG	15.21%
3	Barclays Capital	9.12%
4	Citi	7.49%
5	Royal Bank of Scotland	7.30%
6	JPMorgan	4.19%
7	HSBC	4.10%
8	ABN Amro	3.38%
9	Goldman Sachs	3.47%
10	Morgan Stanley	2.86%

Do you recognize the majority of those names?

I'm sure you do, given that the above listed firms are some of the most well-known companies in the world.

The reason they trade the Forex is for the same reasons that you, Raghee and myself trade this wonderful market.

We all think we can prosper and be assured, we can.

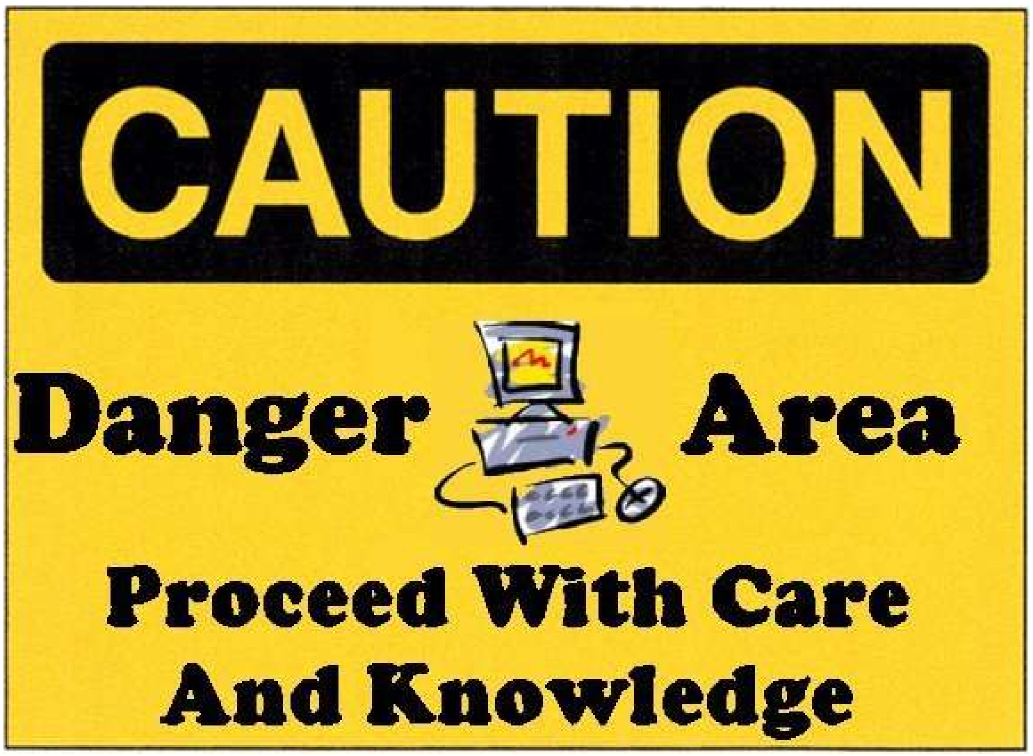
And do!

But easy it isn't.

Visit Raghee's website, www.raghee.com, and read at the bottom of the home page some words of wisdom.

As all investors should be aware: Past performance is not indicative of future results. Forex trading involves substantial risk of loss and is not suitable for all investors. Leveraged trading magnifies profits and losses. Increasing leverage increases risk.

Full Disclaimer



And that's from one of the world's best traders!
Don't think she didn't learn from experience.

Forex trading like any business has its ups and downs but I don't believe there is a business that is flourishing more in the twenty-first century than currency trading. Before you can make profits in this business you need to learn and understand the basics of how this market works and thoroughly grasp the fundamentals.

Once you accept that the risk of loss is at least equal to the possibility of becoming profitable, you should then accept the fact that you need a mentor.

The positives of trading the Forex are numerous and novice traders generally only see the plusses without noticing the negatives.

We are all attracted to a seamless market, and a market where we can start trading with as little as two hundred and fifty dollars. The high leverage in this market is another strong enticer as is the commission structure.

Don't fool yourself.

Trading is stressful and if you don't have an innate passion for the Forex market, you should save your time and money and pursue an interest where your desire is as natural to you as holding hands with a loved one.

The overwhelming majority of traders fail and the reason they fail is that they haven't learned their ABC's.

Don't be one of them.

And don't make the same mistakes that thousands have made.

Your confidence will come from your competence.

Only then can your account soar.

You can separate yourself from the losers and become a winner by mapping out a plan.

Once you familiarize yourself with the terminology and the mechanics of the Forex, you'll need to acquire stress management, time management and critical thinking skills. The tangibles and the intangibles are closely woven together and one without the other will doom the new trader to failure

In the next couple of chapters Raghee is going to share with you some of the proven strategies and set-ups that she uses to generate heavy amounts of profits. Enjoy your journey and remember that you should work from your strengths. And your biggest strength will be Raghee's comprehensive training program which is virtual one-on-one sessions that are guaranteed to enlighten your trading career!

CHAPTER THREE

The Tools I Use

When most traders first learn how to trade they are introduced to a single strategy that if applied would make trading the market easy. This new strategy captures our imagination and we see the limitless opportunities for the success and income we soon anticipate enjoying. And then reality strikes.

Reality comes in the form of our winners or our losers, our profits or our losses. Usually, not always, we see enough positive results that keep us going through the inevitable bad times we must endure if we are to become successful traders. Surely, *I'm doing something wrong* you're probably thinking when your trade goes the complete opposite direction you had anticipated.

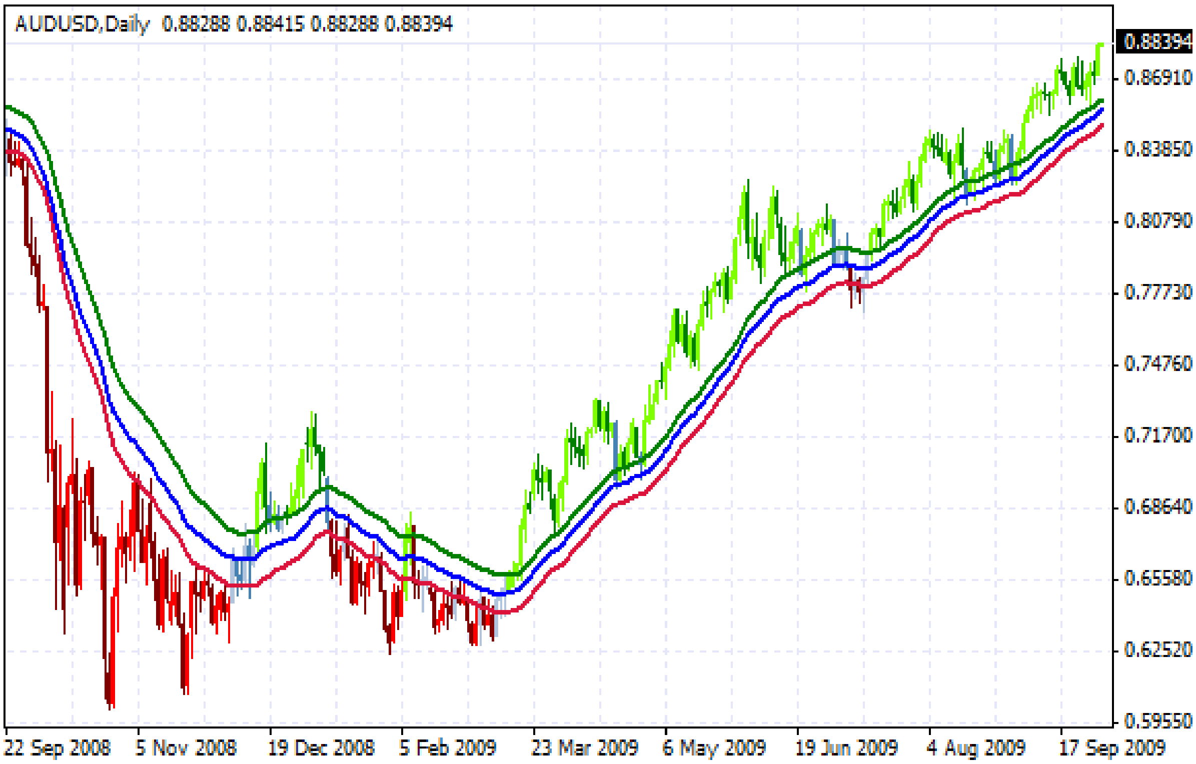
It wasn't long after I began trading, over twenty years ago in fact, that I began wondering why I was inconsistent. Sound familiar? If something works at times then there must be something that is allowing it to work. What was the missing link? I kept digging and realized it wasn't necessarily me or the strategy but the market's behavior that was dictating my success or failure.

The market's behavior can also be called the market's cycles. We all have transitions in our moods: happy, sad, confused, angry, aloof or plain disenchanted with everything in general. The market moves in the same way as our personality moves because the market reflects human behavior. If you are a student of human behavior you already know the most important thing about the markets, and that is the market reflects our moods day to day and minute to minute.

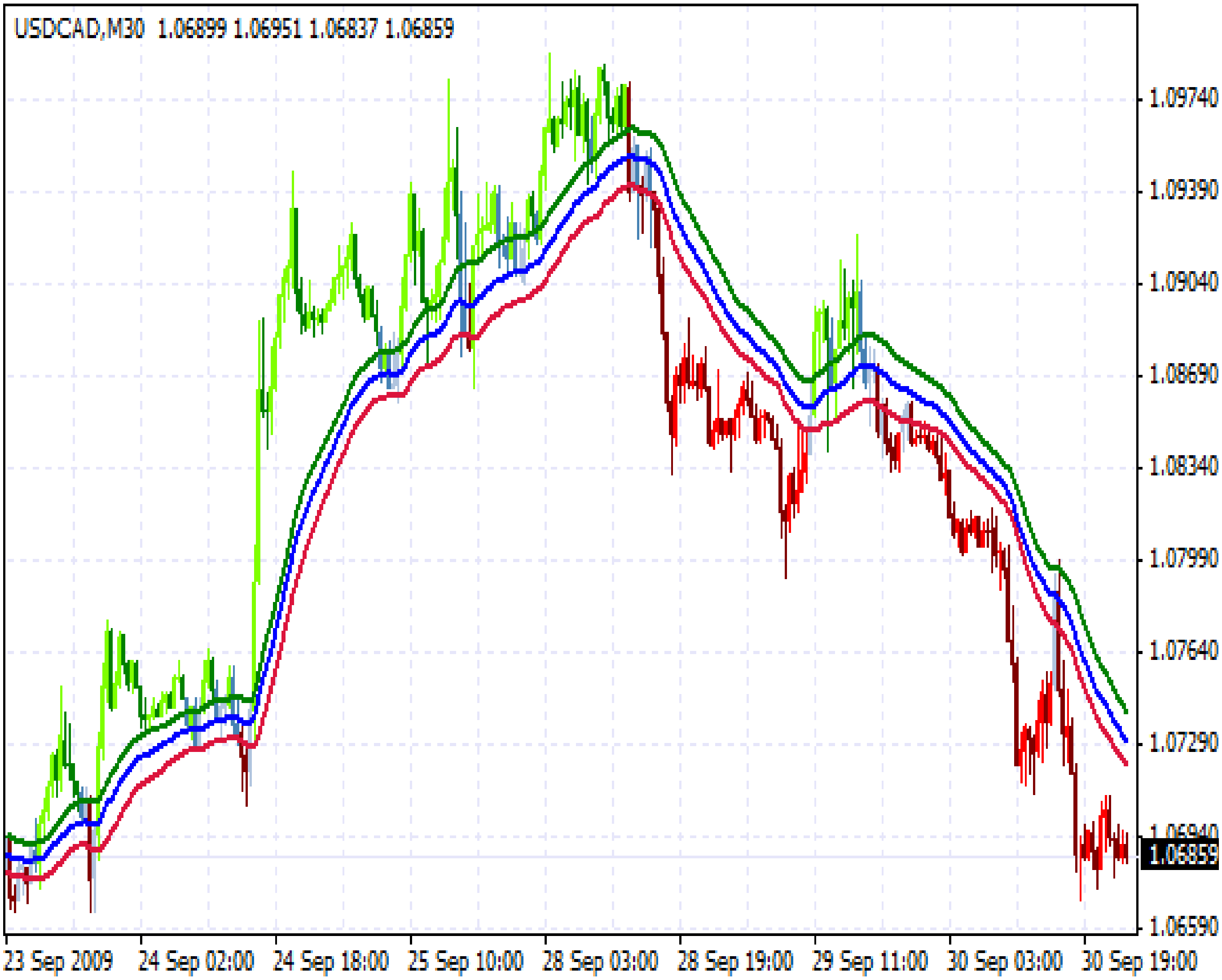
If I were to then translate what *happy* is in the market, I think most people would say *happy* is buying and therefore an uptrend is occurring. Some people would say this is greed. *Sad* is what most people would say is a downtrend, or what I believe, *sad* can also be referred to as fear and confused.

Range-bound movement is where the market can't seem to get out of its own way: Does it go up or down? When you find yourself asking the market to "make up its mind!" that is likely the distribution cycle. Finally, there's the quiet period – which for some people is boring. That cycle is known as accumulation.

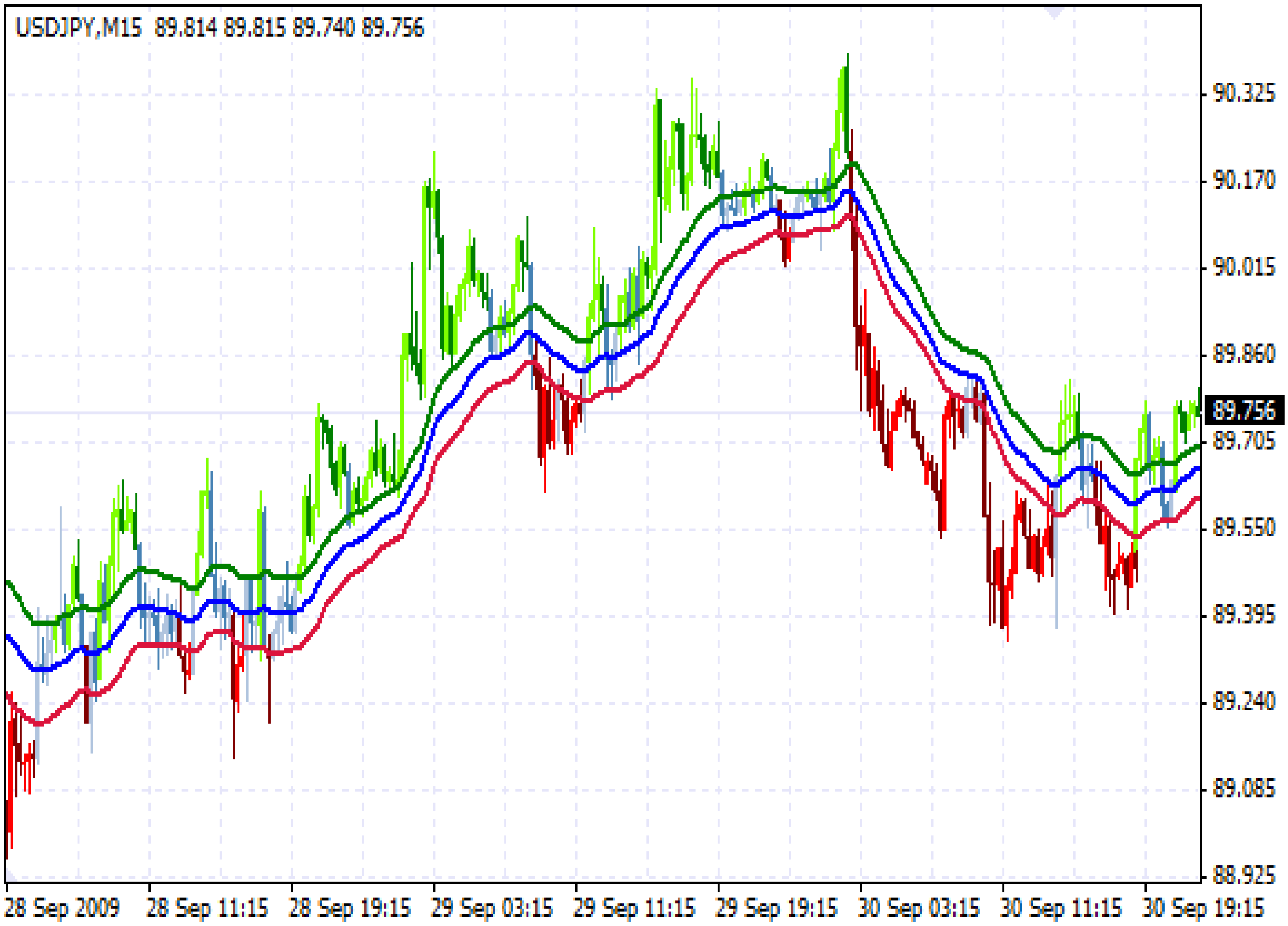
"HAPPY" MARKET EXAMPLE

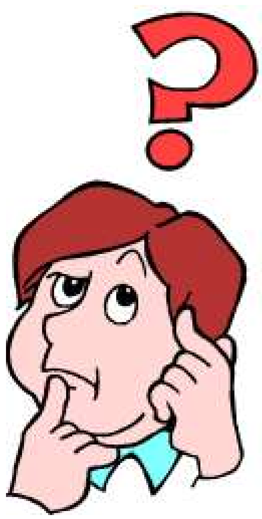


“SAD” MARKET EXAMPLE

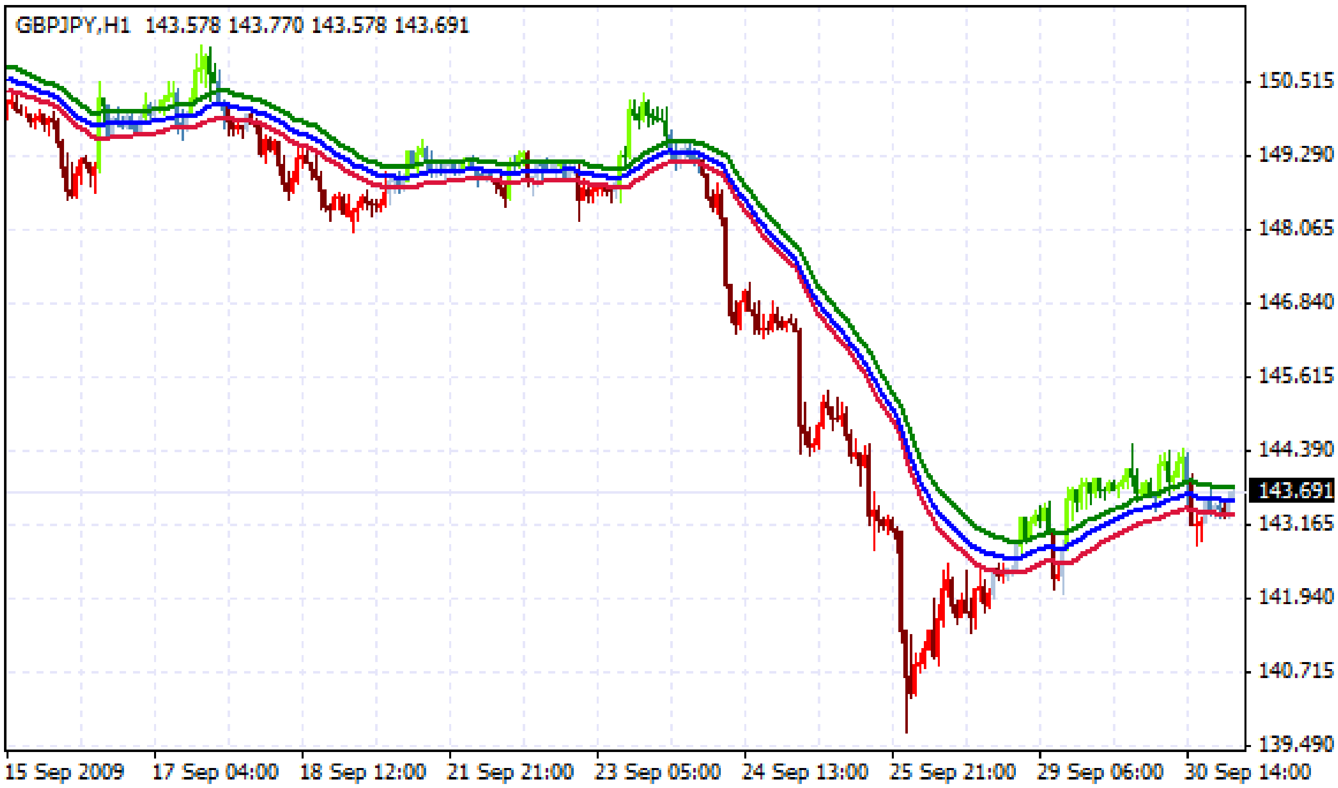


“CONFUSED” MARKET EXAMPLE





“BORED” MARKET EXAMPLE



Knowing that these cycles even exist and that they reflect the market's psychology is one thing and certainly important, but the real issue is how do you recognize which one of these cycles is present on any chart. That's right! How do you determine whether people are happy on a five minute chart or bored on the daily? That's something most people really couldn't do with a reliable, visual tool. Until the Wave that is…

My main tool is a price chart. Anything can be measured and certainly to a great degree greed and fear can be quantified on a price chart. This doesn't mean that I ignore the news around me or economic data or geopolitical events…, it simply means that I will measure the impact of this using a price chart. You see data or "fundamentals" as they are more commonly known and they are a tricky thing to measure because the way the market digests them is not as simple as you may think. Let me walk you through a very common scenario, one you will likely deal with every day as a trader.

Imagine a typical 8:30 am EST data release. Doesn't matter what it is. The first thing to look at is an economic calendar that lists not only the data being released in the U.S. but also in Asia, Europe, and the U.K. Other than the time, the data to be released is the only other number to focus on before the release of the Consensus or Forecast number. This is the number that the market is expecting; it's the number that reflects what has been "discounted" or "baked into the cake."

This is how the market works. It reacts before the announcement and factors this into the current price. Traders who use price charts to make a majority of their trading decisions are known as "technicians" or "chartists." The main belief behind this trust of price action is that it already reflects the current fundamental opinion. Price is the measuring stick we use to figure out where the market is going based upon whether traders are happy, sad, confused, bored, in love, out of love or whatever. I am relaying all this to you in a simple way not because I am patronizing you but because there is no need to overcomplicate market action.

Most of what you typically read when you are learning how to trade is material that is trying to dazzle you with complicated terms and sophisticated strategies. In reality, the best traders use very simple strategies that allow them to capitalize on the market's mood. Trading is not complicated but there are some basics you must know and since you are reading this right now that tells me that you are willing to put in the work!

Now that we know the main tools are a price chart, if you head over to www.raghee.com, you can request a trial of a full featured charting platform with data-feed. In fact, this platform can run little programs on it that will allow you to automate some of your analysis! You're also going to need access to an economic calendar, which can be found free on the internet at a number of Forex sites. So what's next? This next tool is the game changer and I'm going to give it to you right now. Ready?

CHAPTER FOUR

Set-Ups

Let's start by looking at the chart below. It's a look at the Euro/U.S. Dollar or EUR/USD. It tells us at a glance how many U.S. Dollars we need for one Euro. See the current price, that's the exchange rate.

At the heart of Forex trading is something real and tangible, and that is currency. In the case of foreign exchange trading it all boils down to how much money of one currency I will get for another. Euro to dollars. Franc to Yen. Yen to dollars. Dollars to pounds. This is something any world traveler knows and all corporations must deal with. In a global economy knowing the value of the currency you do business in, pay bills in, take loans in, and receive payment in…is a MUST! That's why this market – the foreign exchange – is so large.

So if I were to ask you what the market's mood is right now what would you say? Do you believe the market is happy, sad, confused, or bored? Remember, the market behaves like a human being because it reflects us.

Now I'm going to share the game changer with you. It's a beautiful and yet simple visual tool that will allow you to read the market's mood at a glance. This is the only tool that I know of that reads market cycles and is deigned to not only tell you the market's mood but also show you where support and resistance may be in a trend! But I am getting ahead of myself, aren't I?

Moving averages are probably the oldest and most time tested technical study there is. Now that may not sound impressive to some of you since as a culture we have been programmed to think of "old" as outdated, but my feeling is that if something is old, that means it has been able to stand the test of time. And to my way of thinking, that's important.

Moving averages are simply a way to take a certain number of closing prices or highs or lows and calculate an average price. Pretty simple you think, right? If I wanted to know the average of say the last 20 closes I would use a 20 period simple moving average to give me that number. Each close is weighted the same in importance in a simple moving average. I mention that because there is another type of moving average called an exponential moving average that takes that same basic idea of a simple moving average but instead of each close having equal weighting in the average, more recent closes instead have more weighting. So essentially the more recent pricing of the market is more important to an exponential moving average.

I personally like exponential moving averages because they reflect the current mood of the market without getting too far away from what the market was feeling just a little while ago. I know that the psychology 20 days or even 20 minutes ago is important, and should not be ignored, but I also know that what the market was doing five minutes or five days ago is fresher and a better reflection of the market's mood. Make sense?

At the heart of what it means to use any indicator is to gauge market movement and help determine the mood – we can begin to call them cycles if you wish – of the market. Never let that truth escape you. Always remember that you are really measuring human behavior and opinion as it is reflected in the market. The measuring tool is price.

In the next chart I have the same image as before but now with three exponential moving averages laid over price. Now whether you have seen this tool before or not I am going to show just how easy it is to interpret. You don't need any special skill. In fact, all you need is a watch.

It's probably no accident that a child – he's a grown man now – helped me with how to read trends. Seriously, I call the reading of the moving averages on my chart "clock angles" because everyone knows what and where one o'clock or four o'clock is. The angle is familiar. My neighbor's youngest is the one that clued me into the angles and it's what I've used ever since. It's funny how teaching makes you find uncomplicated ways to communicate an idea. Before I began to teach people all over the world how to trade, I never worried about such things as explaining these moving averages to anyone. I have very quietly and happily used this tool for over a decade. The more I began to introduce this tool to traders and what I had learned about market moods or cycles from reading Charles Dow (yes, that Dow as in Dow Jones), the more I had to find a way to make this information easy to understand and use.

I have a theory on internal psychology. There are actually two types of psychology, internal and external. Internal is what goes on between your ears and external is what the market as a whole is doing. Let's go back to the challenge of making this easy to understand and use. There is not a single thing I can make you do unless you see the potential value in it. The only way you see the value is if in some small way you were educated about why it may help. Perhaps it struck a chord. Perhaps it fell in line with ideas and beliefs you already had. Whatever it was, there was some understanding or comprehension. Without this you wouldn't ever pursue anything. We can't follow or do something we don't understand, at least not for very long and not very well. Comprehension is the foundation. The next step is proving that what you know is doing what you would expect it to do and that's confirmation. Confirmation is taking what you know and testing it out in the market. Far too many traders, overeager and ready to see results, jump to confirmation without spending enough timing on comprehension. So if nothing else, I hope that the idea of the market's moods and the idea that we must have a way to measure them is something that for now you understand is important. By the way, the only way to have confidence in any trading approach is to go through those first two steps of comprehension and confirmation.

There is honestly no real answer when someone asks, "How long will it take for me to be a successful trader?" Maybe you will learn the concepts on trading quicker than another person and therefore your comprehension time will be less. Maybe you are more of a slow and methodical learner and your comprehension phase will be longer. Perhaps you are someone that needs to see something work a handful of times before you gain confidence or maybe you are more jaded after years of failed attempts at trading. Maybe you need more time to test out an idea and see that you've got it right. Again there's no way to know – it's such an individual thing and so to put a time frame on it just wouldn't make sense. I believe we all can get the confidence we need but we're going to get there in our own way and in our own time.

If you recall when we looked at the four market moods or cycles in the last chapter, each chart seemed to be moving in a way that was unique to that cycle. The easiest to decipher were undoubtedly the "happy" and "sad" markets because these were the uptrend and downtrend cycles. Maybe you know them better as a bull and a bear market. If I told you that trending strategies are different than non-trending strategies, it may not make sense right away. But when you looked at those four charts it was obvious that the market's mood was telling us something specific in each chart: That's the message of the market that we must be listening to.

Trending strategies are needed because two of the cycles of the market are trending and they must be applied to trending markets. Now that may sound obvious but I can tell you that most traders do not trade this way. If they have a strategy they apply it usually is in a random way and not based upon the cycles of the market. And frankly, how could they? There really has not been a tool or indicator to tell them what the market was doing in terms of direction. I know that may sound hard to believe but go ahead, head over to Google and look for market cycle analysis and see what indicators show up.

If you went to Google and put in *market cycles,* it's likely you would come across some articles written by me. And you probably then would have seen the "Wave." That's the name of the game changer. The three lines you see on the charts. That simple visual tool can right now take any strategy you have and make it better because you will be applying it to the correct market cycle. That's the missing puzzle from every trading approach you've ever read about or seen. That's the reason for sporadic successes and failures. That's the reason that you're not ever 100% sure if you should be on the sidelines or in the game.

So what about non-trending strategies? What happens when the market is sideways? There are strategies for that as well! The bottom line is that every trader needs an approach for trending markets, trend reversals, narrow range-bound markets and volatile range-bound markets. The market can only move up, down, or sideways and a complete trader has a strategy to deal with each. A well-prepared trader knows which apply.

CHAPTER FIVE

The Million Dollar Set-Up

We all have heard and learned in school that an object in motion tends to stay in motion. Emotions are the same way. When we're happy we tend to roll with it and when we're angry we tend to cling to that as well. An EMOTION in MOTION tends to stay in motion and often increases. You know psychology and physics share some of the same traits and therefore so do the markets!

There has been renewed interest in trend following over the past few years and it's not as if it ever really left. We've simply found a way to recycle one of the most popular ways to trade the market. Trend following is a tried and true way to play the optimism or pessimism of the market. The way I'm going to show you how to play the trend though will not be like anything you've ever seen before. It's the simplicity of following the market's mood or cycle and then using my moving average indicator to identify your entry points.

You will need a charting platform that can run three different exponential moving averages. You remember we spoke about what an "exponential" moving average is, right? The setting for the three moving averages will be:

The 34 period exponential moving average on the high.
The 34 period exponential moving average on the close.
The 34 period exponential moving average on the low.

These three moving averages are all you will need to put on each chart in order to identify the mood of the market and where the support and resistance is that you can set-up buy and sell signals from. The 34 period is based upon the Fibonacci series. The number is not a random choice. It is based upon decades of real market use, months of testing, and hundreds if not thousands of test charts.

It's far easier to use familiar visual cues when trading. This explains why chart patterns are so popular and time-tested- literally over one hundred years! The fact that we all know what a triangle is, or a rectangle, or a channel and wedge are - that means there is a very short learning curve when we try to identify these formations.

The visual familiarity of the clock is one that all traders can recognize as well. If you look at your watch or a clock, you are already comfortable with where 12, 3, 6 are on the face. What about 2 or 4? These are familiar as well. So if I were to describe a 4 o'clock angle, you likely understand what that angle I am referring to. That's the way you will learn to recognize what the three exponential moving averages are telling you about the mood of the market.

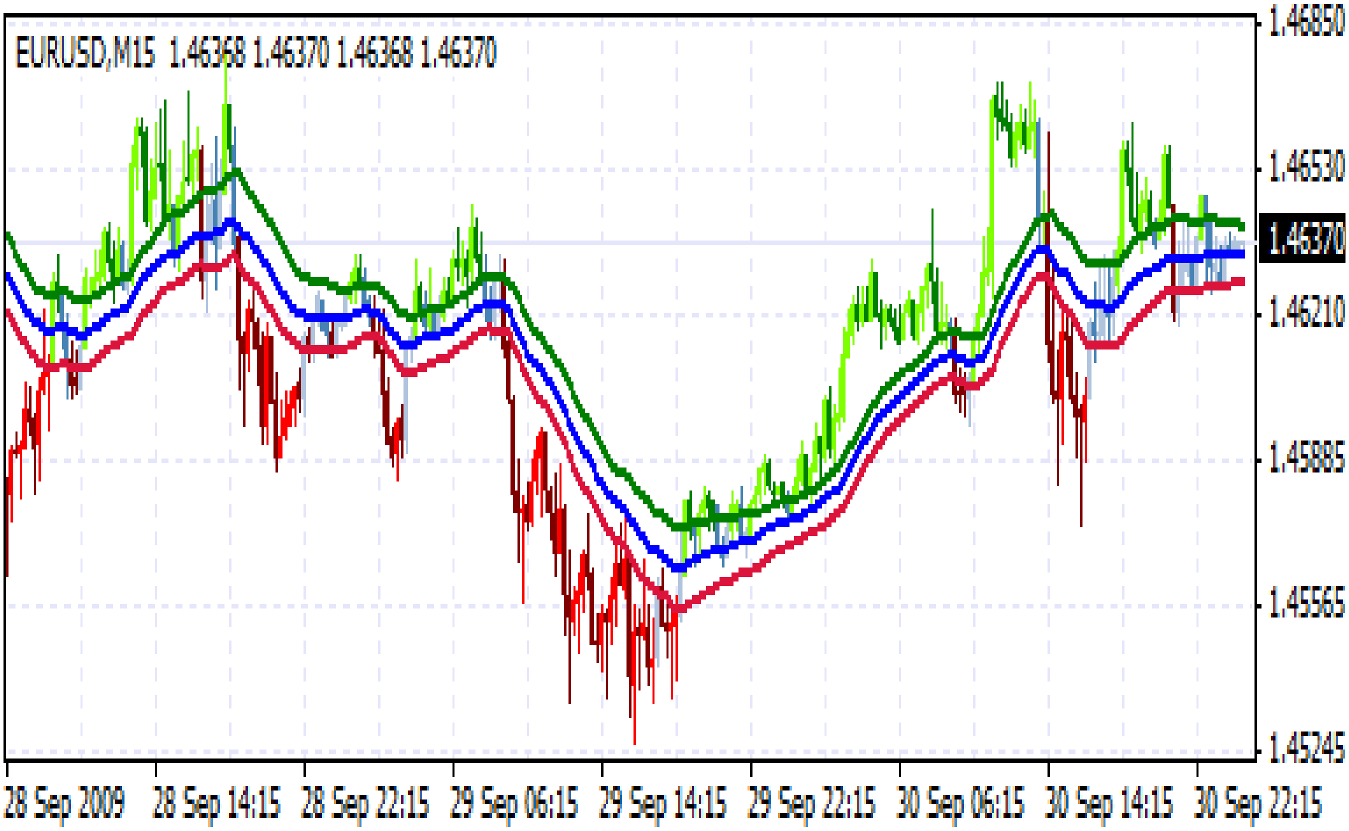
There are three angles you must know:

An uptrend is a 12 to 2 o'clock angle.
A downtrend is a 4 to 6 o'clock angle.
No trend is a three o'clock angle.

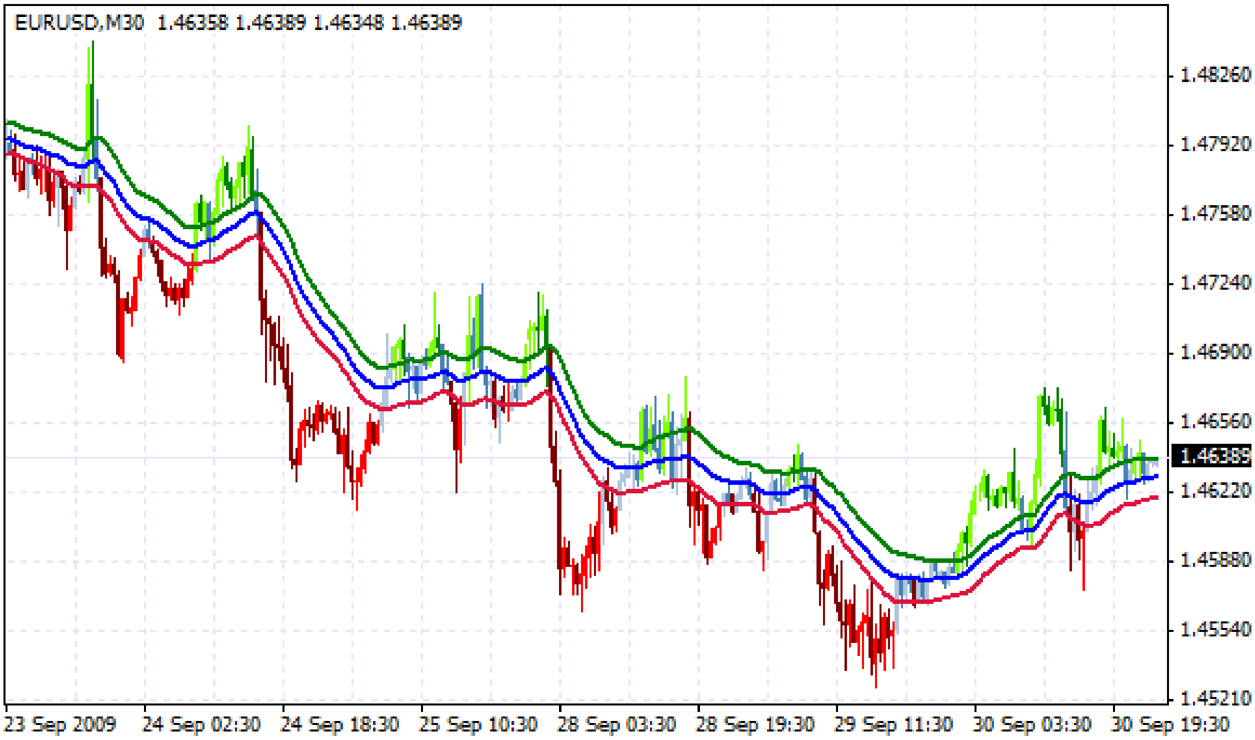
In order to get a consistent reading of these "clock angles" to identify the cycle of the market we must also know how to set-up our charts. This may seem rudimentary for some of you but the fact remains that I see far too many traders overlook the proper view of each time frame.

The main timeframes you will be watching are the 15, 30, 60, 240, and daily charts. Each has a particular amount of data that should be on each chart view. Here are the five time frames with the appropriate amount of data on each:

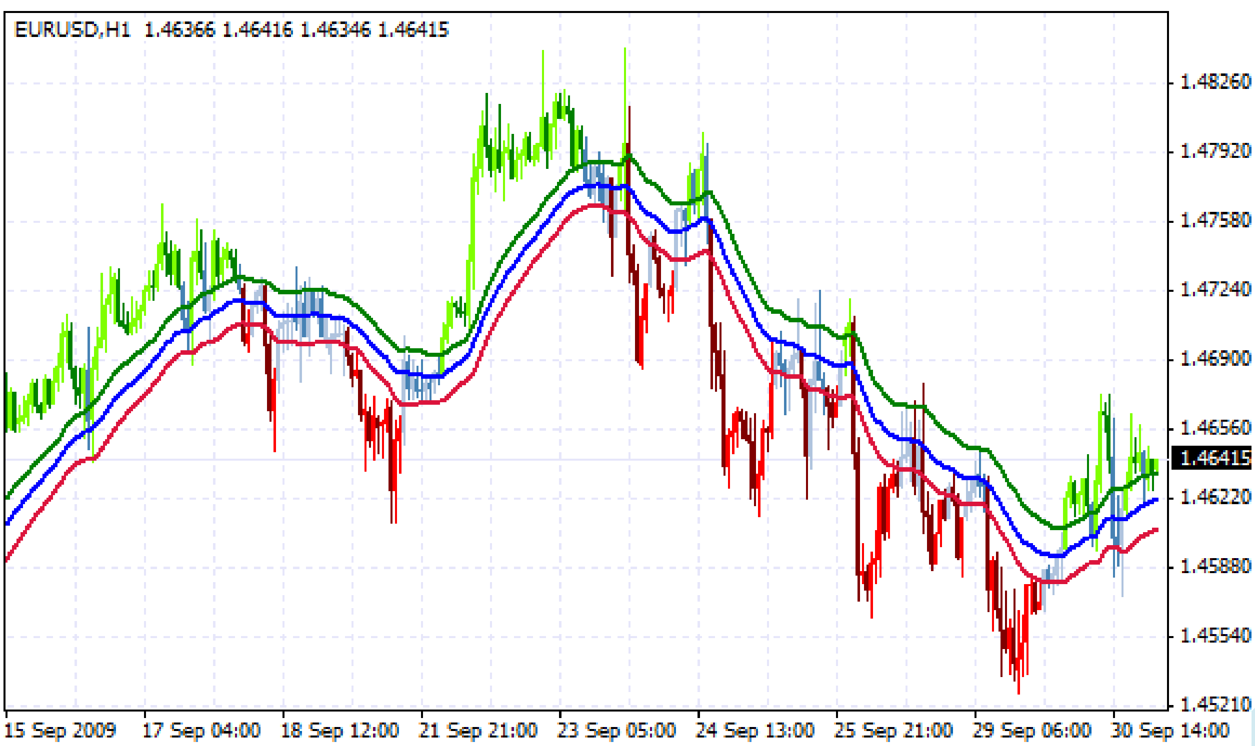
15 Minute Chart



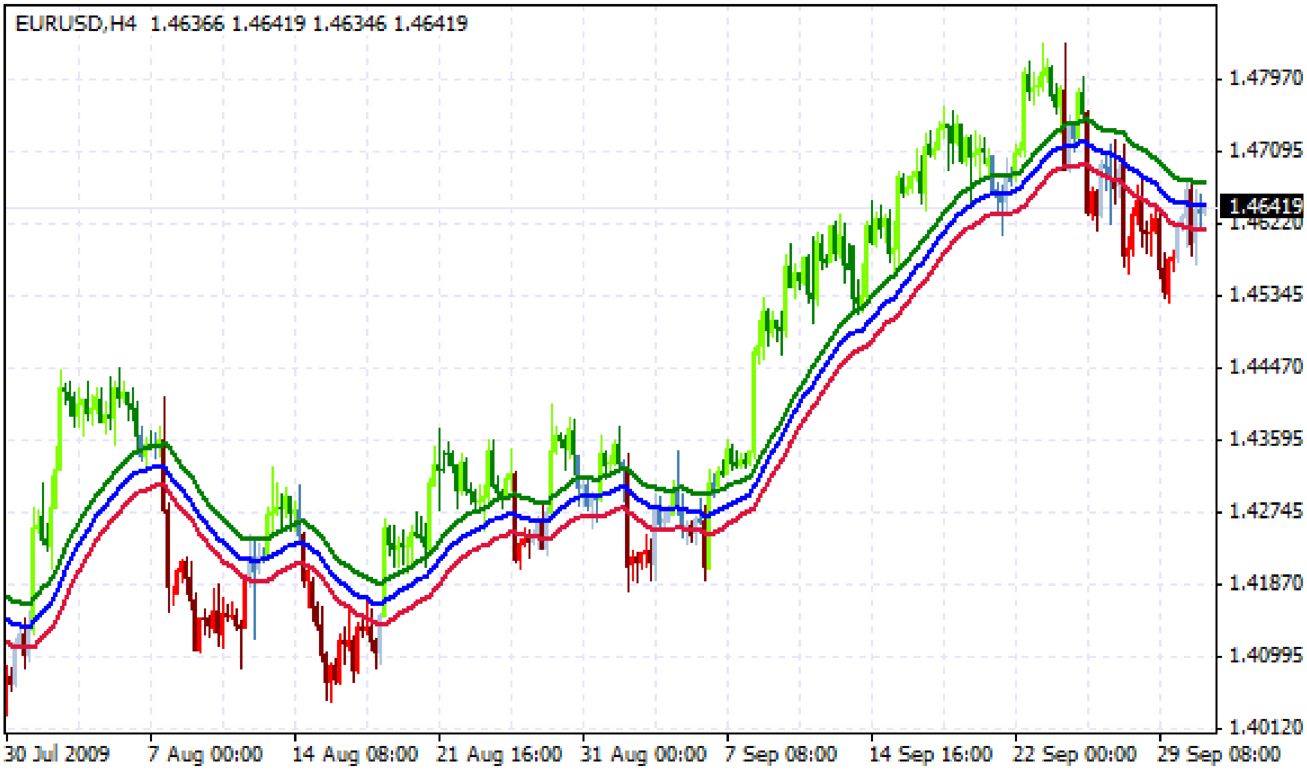
30 Minute Chart



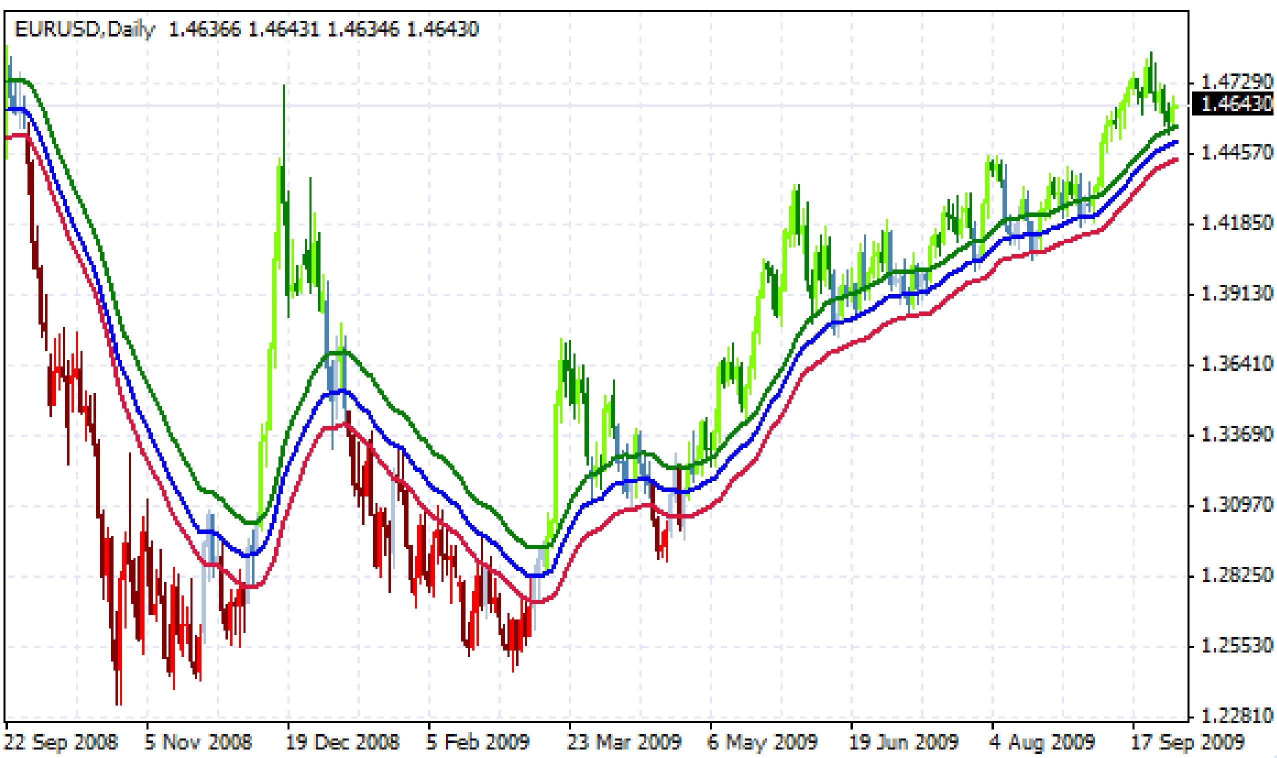
1 Hour Chart



240 Minute Chart



Daily Chart



The logic behind each view is based upon market memory. Consider that a 15 minute chart reflects a short term psychology and that the view for such a time frame does not need to be more than three to five trading days with particular emphasis on highs and lows from each financial center. The 30 and 60 minute charts are still short term intraday charts. However, to get a complete view of the psychology they reflect, look at two weeks of trading. This will show recent significant rallies, sell-offs, highs, and lows. The 240 minute chart is a longer term intraday time frame and one that requires at least four weeks and can be extended to six weeks. Finally, the daily time frames which is the longest time frame I will trade, requires 12 months as yearly highs and lows and they are very significant levels to be aware of.

There are two reasons for these market memory settings. First is that seeing the market in a complete way is the only way to set-up trades properly and secondly it has to do with the angle of the 34ema moving averages. The amount of data you squeeze into a chart will affect the angle of the three moving averages and since it's the angle of these moving averages that identifies the market cycle, this becomes very important to the clock angle reading you will take before each and every trade. Too little data and the angle will be flattened out. Too much data could show up as too steep. It's important to know the market memory and work as close as you can to get the settings. This will keep you focused on the correct view of price action.

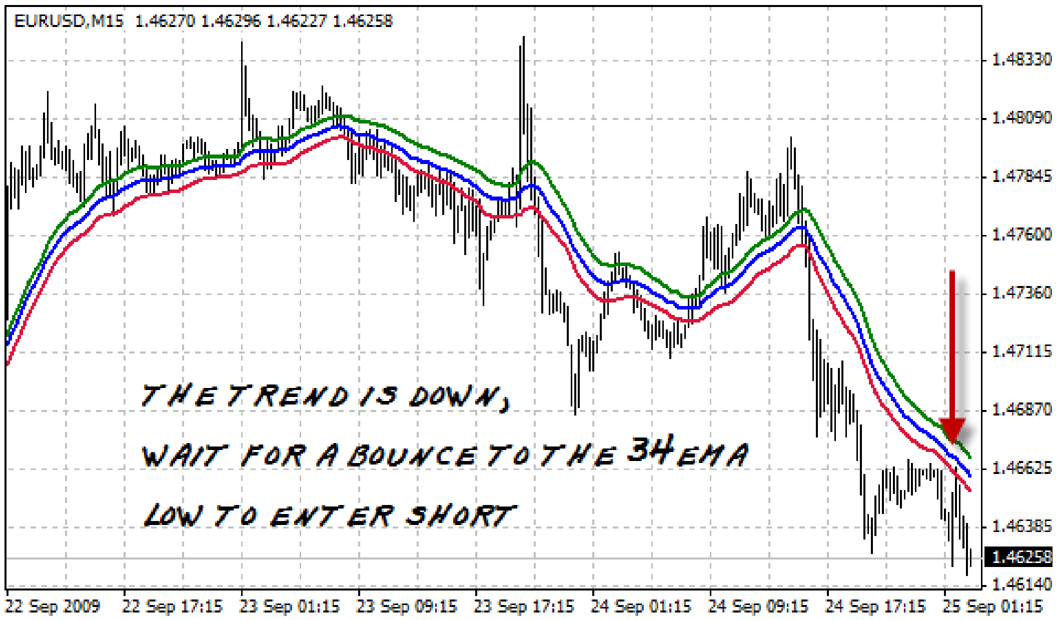
So we know that there is a proper view for each time frame and that we will determine what the market's mood is from this view. We know how to determine if a market is trending or not trending with the 34ema Wave. So let's get to how to trade a trend by identifying the corrections and knowing when and how to enter.

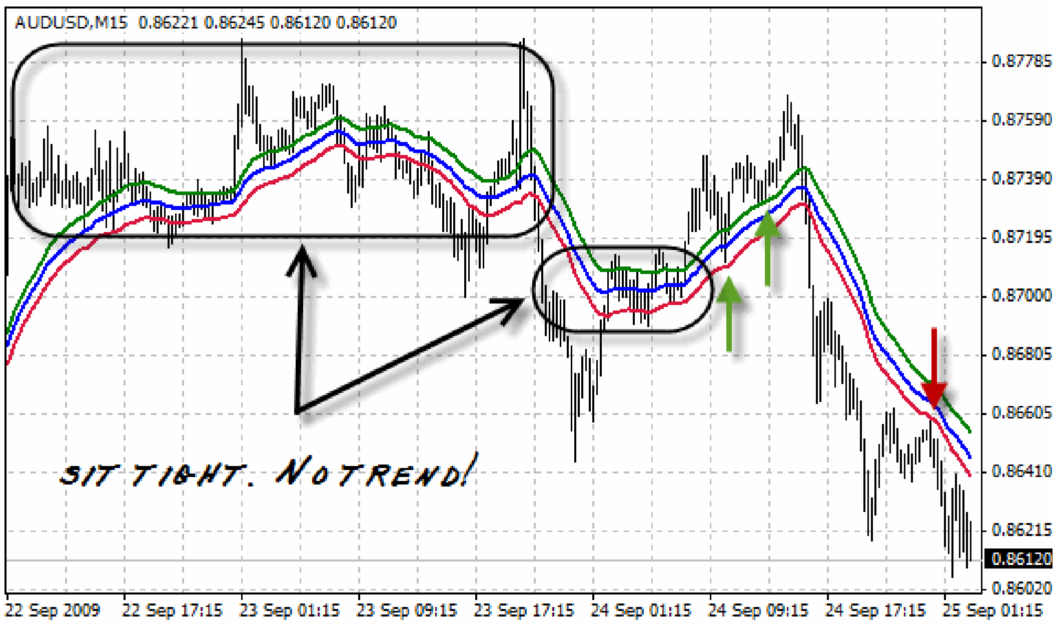
First of all let's define swing trading. Swing trading is an entry style where a trend is already established and the corrections are either bought or sold. We buy pullbacks in an uptrend and sell or short bounces in a downtrend. We know that an uptrend is 12 to 2 o'clock and a downtrend is 4 to 6 o'clock.

In a downtrend we wait for the market to rally to the 34ema low which is the bottom line of the Wave.

In an uptrend we wait for the market to sell-off to the top line of the Wave which is the 34ema high.

Let's take a look at a couple of examples across multiple time frames.





Swing Trading is the entry strategy and it describes how to trade markets that are already trending. Remember that trending markets tend to keep trending until they reach a floor or ceiling and then transition into a sideways market cycle or reverse. Trends are psychologically powerful. There are three types of participants in a trending market. The first group is the traders that are commonly thought of as insiders or pros. They are willing to take calculated risks and will see that a market is moving from a sideways market to the beginning of a possible trend. They are able to see the transition in the markets direction and a shift in the mood.

The second group is more comfortable when the trend has completed its transition and the direction is more obviously up or down. The trend traders and the bulk of the market savvy traders will join in at this point. This is the largest group and thus they take the longest. It is here though that a trend gets noticed and the longer it trends, the more attention it gets.

The third and last group is the late arrivals and they usually have done very little homework and are entering the market more because they fear they will miss something if they don't. This group rarely has a plan because it is pure emotion that has pulled them into a trade.

If we were to break down the cycles of the market with each participant, the first group would be taking advantage of confusion or boredom into a happy or sad mood. The second group would be the happy or sad traders. These traders are sure that the market is moving and are getting in with the trend. The last group usually enters when the market is making the transition back into confusion or boredom. They may get lucky and capture some of the remaining trend but they usually overestimate how much trend is left and do not have an exit plan. You never want to be in this last group and if you know how to use the 34ema Wave and get in the habit of reading the market cycles before you enter any trade, you seldom will ever be in this group!

You want real cash-in-pocket like this...

Account: [redacted] **Name: Dean Saunders** **Currency: USD**

Closed Transactions:

Ticket	Open Time	Type	Size	Item	Price	S / L	T / P	Close Time	Price	Commission	Taxes	Swap	Profit
32747518	2009.01.05 08:27	buy	1.00	gbpchf	1.5843	1.5843	0.0000	2009.01.05 18:48	1.6230	0.00	0.00	0.00	3408.69
32784442	2009.01.05 08:27	buy	1.00	gbpchf	1.5843	1.5843	0.0000	2009.01.05 18:50	1.6223	0.00	0.00	0.00	3344.32
32844932	2009.01.07 13:17	sell	2.00	usdjpy	92.71	92.71	0.00	2009.01.08 11:06	91.66	0.00	0.00	-33.77	2263.81
32890000	2009.01.07 21:02	sell	3.00	gbpusd	1.5119	1.5119	0.0000	2009.01.08 07:45	1.5015	0.00	0.00	-88.16	3120.00
32994924	2009.01.12 12:28	buy	3.00	[illegible]	1.3444	1.3313	0.0000	2009.01.12 15:11	1.3313	0.00	0.00	0.00	-3930.00
33066015	2009.01.13 20:31	sell	3.00	[illegible]	1.2230	1.2230	0.0000	2009.01.14 03:04	1.2148	0.00	0.00	-19.35	2009.32
33174055	2009.01.16 03:30	buy	3.00	nzdusd	0.5465	0.5465	0.0000	2009.01.16 14:41	0.5465	0.00	0.00	0.00	0.00
33221503	2009.01.19 08:54	buy	3.00	eurgbp	0.9057	0.9057	0.0000	2009.01.20 05:00	0.9156	0.00	0.00	-27.87	2689.92
33282042	2009.01.19 08:54	buy	1.00	eurgbp	0.9057	0.9057	0.0000	2009.01.20 11:58	0.9310	0.00	0.00	-9.28	2291.42
33501907	2009.01.25 23:09	buy	2.00	gbpjpy	120.76	116.76	0.00	2009.01.26 01:16	120.76	0.00	0.00	0.00	0.00
33531193	2009.01.26 13:57	sell	2.00	usdchf	1.1516	1.1516	0.0000	2009.01.26 20:27	1.1352	0.00	0.00	0.00	2847.04
33534373	2009.01.26 14:08	sell	2.00	usdchf	1.1508	1.1508	0.0000	2009.01.26 17:20	1.1406	0.00	0.00	0.00	1770.72
34030512	2009.02.10 00:35	buy	3.00	usdcad	1.2222	1.2135	0.0000	2009.02.10 00:53	1.2252	0.00	0.00	0.00	734.40
34113811	2009.02.11 13:02	sell	1.00	eurusd	1.2916	1.2996	0.0000	2009.02.11 13:50	1.2996	0.00	0.00	0.00	-800.00
34136169	2009.02.12 14:09	sell	3.00	eurcad	1.5936	1.5936	0.0000	2009.02.12 15:56	1.5936	0.00	0.00	0.00	0.00
34191044	2009.02.13 02:09	buy	1.00	gbpjpy	130.30	130.30	0.00	2009.02.13 10:51	133.01	0.00	0.00	0.00	2078.57
34212934	2009.02.13 02:09	buy	1.50	gbpjpy	130.30	130.30	0.00	2009.02.13 10:51	133.01	0.00	0.00	0.00	3117.85
34230145	2009.02.15 23:10	buy	1.00	gbpjpy	130.47	129.47	0.00	2009.02.16 09:07	130.96	0.00	0.00	0.00	376.36
34317211	2009.02.18 14:04	buy	2.00	usdcad	1.2548	1.2548	0.0000	2009.02.18 14:59	1.2600	0.00	0.00	0.00	1263.60
34344011	2009.02.18 14:04	buy	2.00	usdcad	1.2548	1.2548	0.0000	2009.02.18 14:59	1.2600	0.00	0.00	0.00	1263.60
34460111	2009.02.23 01:51	buy	3.00	eurusd	1.2911	1.2911	0.0000	2009.02.23 08:17	1.2911	0.00	0.00	0.00	0.00
34656508	2009.02.27 00:29	buy	3.00	euraud	1.9726	1.9726	0.0000	2009.02.27 10:11	1.9827	0.00	0.00	0.00	2181.60
34672089	2009.02.27 00:29	buy	1.00	euraud	1.9726	1.9726	0.0000	2009.02.27 13:16	1.9885	0.00	0.00	0.00	1144.80
										0.00	0.00	-178.43	31,021.34
										Closed P/L:			**30,997.59**

Open Trades:

Ticket	Open Time	Type	Size	Item	Price	S / L	T / P		Price	Commission	Taxes	Swap	Profit
										0.00	0.00	0.00	0.00
										Floating P/L:			**0.00**

These results can be yours if you **GET EDUCATED!**

RAGHEE'S FINAL THOUGHTS

Trend following is a trading style that you will always be able to use as long as you know HOW to identify a trend. Remember that you can use this strategy on any time frame. The idea behind following a trend is all about the way psychology builds in the markets and the different types of participants that move the markets. You now have the view and tools to identify a trend and a correction so you are lowering your risk.

Remember that the Wave will let you know the difference between a correction and a reversal and as you learn more about the way markets transition from one cycle to another you will be able to pick the strategy that is right for the markets current mood. Never forget that you are trading emotion and opinion and this is a human behavior game, not a financial game. As long as you know that it's the fear and greed of the market that you are trying to capitalize on you will never lose site of what really moves a market.

I have no doubt that you desire success in your trading but I just want to reiterate that the only way to achieve an account that is constantly growing is to learn to trade from the basement up. There are no shortcuts, not in this business. Most traders are stuck between amateur and professional and if you want to go to the professional side, I can help you achieve your goals through my Winner's Circle mentoring program.

I look forward to hearing from those who would like to work with me and learn from my over twenty years of experience.

Yours in Trading,

GLOSSARY

A

AAA - American Arbitration Association

Aftermarket – Trading activity in a security immediately following its offering to the public.

Agency Order – An order that a broker/dealer executes for the account of a customer with another professional or retail investor and for which a commission is typically charged.

All-or-None (AON) – A type of order instructing the exchange or market maker to execute the entire order quantity at the stated price (or better) or none of it.

Appreciation – A currency is said to appreciate when it strengthens in price in response to market demand.

Arbitrage – Arbitrage involves the simultaneous purchase of a security in one market and the sale of it or a derivative product in another market to profit from price differentials between the two markets.

Arbitration – A method where conflict between two or more parties is resolved by impartial persons – arbitrators – who are knowledgeable in the areas in controversy.

Around – Dealer lingo used in quoting when the forward premium/discount is near parity. For example, "two-two around" would translate into 2 points to either side of the present spot.

Ask Rate – The rate at which a financial instrument is offered for sale (as in bid/ask spread).

Asset Allocation – Investment practice that divides funds among different markets to achieve diversification for risk management purposes and/or expected returns consistent with an investor's objectives.

B

Back Office – Refers to the clerical operations of a brokerage company that support the trading operations. Their responsibilities include trade settlement, order conformations, technical support, record keeping, and regulatory compliance.

Balance Sheet – An accounting statement reflecting the firm's financial condition in terms of assets, liabilities, and net worth (ownership). In a balance sheet, net worth = assets + liabilities.

Balance of Trade – The value of a country's export minus its imports.

Base Currency – In general terms, the base currency is the currency in which an investor or issuer maintains its book of accounts. In the FX markets, the U.S. dollar is normally considered the base currency for quotes, meaning that quotes are expressed as a unit of $1 USD per the other currency quoted in the pair. The primary exceptions to this rule are the British pound, the euro, and the Australian dollar.

Bear Market – A market distinguished in which prices are low or declining; a bull market is one in which prices are high or rising.

Bid Rate – The rate at which a trader is willing to buy currency.

Bid/Ask Spread – The difference between the bid and offer price, and the most widely used measure of market liquidity.

Big Figure – Dealer expression referring to the first few digits of an exchange rate. These digits rarely change in normal market fluctuations, and therefore are omitted in dealer quotes, especially in times of high market activity. For example, a USD/JPY rate might be 107.30/107.35, but would be quoted verbally without the first three digits, e.g., "30/35."

Book – In a professional trading environment, a book is the summary of a trader's total positions.

Breakdown – A drop below a level of support that is usually accompanied by a significant rise in volume.

Breakout – A rise in a security's price above a resistance level that is usually accompanied by a significant rise in volume.

Broker – An individual or firm who acts as an intermediary between a buyer and seller for a fee or commission. In contrast, a dealer commits capital and takes one side of a position, hoping to earn a spread (profit) by closing out the position in a subsequent trade with another party.

Bretton Woods Agreement of 1944 – An agreement that established fixed foreign exchange rates for major currencies, provided for central bank intervention in the currency markets, and pegged the price of gold at USD $35 per ounce. The agreement lasted until 1971, when President Nixon overturned the Bretton Woods agreement and established a floating exchange rate for the major currencies.

Bull – A trader who is optimistic about the market. Bull markets are characterized by enthusiastic and sustained buying.

Bundesbank - Germany's Central Bank

C

Cable – Trader lingo referring to the sterling/U.S. dollar exchange rate. So-called because the rate was originally transmitted via a transatlantic cable beginning in the mid-1800s.

Candlestick Chart – A chart that indicates the trading range for the day as well as the opening and closing price. If the open price is higher than the close price, the rectangle between the open and close price is shaded if the close price is higher than the open price, that area of the chatty is not shaded.

Capital – The total amount of money the trader has to trade with. Or, the term that refers to the money that the individual has accumulated and is available to produce more money.

Cash – Coins and currency that is readily available.

Central Bank – A government or quasi-governmental organization that manages a country's monetary policy. For example, the U.S. central bank is the Federal Reserve, and the German central bank, noted in the glossary, is the Bundesbank.

Chartist – An individual who uses charts and graphs and interprets historical data to discover trends and forecast future movements. Also referred to as Technical Analysis.

Clearance – The conclusion (settlement) of an exchange of securities.

Close – The price of the last transaction of a security on a particular trading day.

Collateral – Something given to secure a loan or as a guarantee of performance

Commission – Fees paid to a broker for executing a trade based on the number of shares traded or the dollar amount of the trade.

Confirmation – Formal memorandum from a broker to a client giving details of a securities transaction.

Contagion – The tendency of an economic crisis to spread from one market to another. In 1997, political instability in Indonesia caused high volatility in their domestic currency, the Rupiah. From there, the contagion spread to other Asian emerging currencies, and then to Latin America, and is now referred to as the "Asian Contagion."

Contract – The standard unit of trading.

Country Risk – Risk associated with a cross-border transaction, including but not limited to legal and political conditions.

Cross – When trading with currencies, the investor buys one currency with another. These two currencies form the cross; for example EURUSD.

Cross Rate – The exchange rate between any two currencies that are considered non-standard in the country where the currency pair is quoted. For example, in the United States, a GBP/JPY quote would be considered a rate, whereas in the United Kingdom or Japan, it would be one of the primary currency pairs traded.

Currency – Any form of money issued by a government or central bank and used as legal tender and a basis for trade.

Currency Risk – The probability of an adverse change in exchange rates.

Customer (Account) Statement – Also called the month-end statement. This document states the customer's positions and activity. It must be sent out quarterly, but if there is monthly activity in the account, it is sent out monthly.

D

Day Trading – Refers to positions which are opened and closed on the same trading day. The opposite of the buy and hold strategy.

Dealer – Any person or company in the business of buying and selling securities for his/her own account, through a broker or otherwise. Usually, they will also have inventory on hand. (See **Broker**)

Debit Balance – The amount of loan in a margin account.

Deficit – A negative balance of trade or payments.

Delivery – An FX trade where both sides make and take actual delivery of the currencies traded.

Depreciation – A fall in the value of a currency due to market forces.

Derivative – A generic term often applied to a wide variety of financial instruments that derive their cash flows, and therefore their value, by reference to an underlying asset, reference rate, or index.

Devaluation – The deliberate downward adjustment of a currency's price, normally by official announcement.

Divergence – Technical Analysis term used to describe a condition when prices and indicators fail to act in unison. Divergences present some of the best opportunities in trading.

E

Economic Indicator – A government issued statistic that indicates current economic growth and stability. Common indicators include employment rates, gross domestic product (GDP), inflation, and retail sales.

Electronic Commerce – Business that is transacted via the Internet, sometimes referred to as "e-commerce."

Electronic Communication Networks (ECNs) – Electronic stock exchanges that facilitate the rapid executions of customer orders. Some ECNs can only execute an order when there is a similar internal order while others have a computer algorithm that allows their system to seek other means of filling the customers orders.

Eligibility Rules – The Code of Arbitration states that no claim shall be eligible for submission to arbitration where six years have lapsed from the occurrence or event giving rise to the controversy.

Elliot Wave Theory – A pattern-recognition technique published by Ralph Nelson Elliott in 1939 that believes all markets move in five distinct waves when traveling in the direction of a primary trend and three distinct waves when moving in a correction against a primary trend.

End of Day Order (EOD) – An order to buy or sell at a specified price. This order remains open until the end of the trading day, which is typically 5 pm ET.

European Monetary Union (EMU) – The principal goal of the EMU is to establish a single European called the euro, which officially replaced the national currencies of the member EU countries in 2002. On January1, 1999 the transitional phase to introduce the euro began. The euro now exists as a banking currency and paper financial transactions and foreign exchanges are made in euros. This transition period will last for three years, at which time euro notes and coins will enter circulation. On July 1, 2002, euros became the legal tender for EMU participants, and the national currencies of the member countries ceased to exist. The current members are Germany, France, Belgium, Luxembourg, Austria, Finland, Ireland, the Netherlands, Italy, Spain, and Portugal.

Euro – The currency of the European Monetary Unit. A replacement for the European Currency Unit (ECU).

European Central Bank (ECB) – The central bank for the new European Monetary Union.

EURUSD – Means that you trade EUR against dollars. If you buy euro, you pay in dollars and if you sell euro you receive dollars.

Exchange Rate -

Executive Sessions – A private conference between the arbitrators during the course of the hearing to determine matters that have arisen such as evidentiary objections or motions.

Exhaustion Gap – A gap in price that signals the end of a trend with one last burst of enthusiasm or fear.

F

Failure to Execute – The failure of a broker to execute an order of his/her customer.

Fast Market – A market condition in which a large number of orders are received within a short period of time. Orders arrive faster than the broker-specialists and market makers can handle effectively. These situations are often caused by the announcement of some unexpected news.

Federal Reserve (FED) – The Central Bank for the United State.

Fibonacci (Fibs) – Technical indicator based to the mathematical tendency of trends to find support at the 385%, 505%, or 62% retracement of the last major move

Fill or Kill (FOK) – An order that requires execution of the entire quantity immediately at the specified price. If not, the order is canceled.

Flat/Square – Dealer lingo used to describe a position that has been completely reversed. For example, you bought $500,000 then sold $500,000, thereby creating a neutral (flat) position.

Foreign Exchange (Forex, FX) – The simultaneous buying of one currency and selling of another.

Filing – Delivery to the director of arbitration of the statement of claim or other pleadings, to be kept on file as a matter of public record and reference.

Forward – The pre-specified exchange rate for a foreign exchange contract settling at some agreed future date based upon the interest rate differential between the two currencies involved.

Forward Points – The pips added to or subtracted from the current exchange rate to calculate a forward price.

Fundamental Analysis – Analysis of economic and political information with the objective of determining future movements in a financial market.

Futures – Agreement to buy or sell a predetermined amount of a commodity or financial instrument at a certain price on a stipulated date.

Futures Contract – Agreement to buy or sell a set number of shares of a specific stock in a designated future month, at a price agreed upon by the buyer and seller. The contracts themselves are often traded on the futures market. A futures contract differs from an option because an option is the right way to buy or sell, whereas a futures contract is the promise to actually make a transaction.

G

Generally Accepted Accounting Principles (GAAP) – Rules, conventions, standards, and procedures that are widely accepted among financial accountants. Since 1973, GAAP doctrine has been established by the Financial Accounting Standards Board (FASB), an independent, self-regulating organization.

Good 'Til Cancelled Order (GTC) – An order that does not expire until it is either executed or canceled. Some brokerages will cancel all GTC orders after 60 days. Make sure you check their rules and procedures first.

Guardian - Someone authorized to manage the property of another who is incapable of managing the property themselves due to their age, lack of understanding or lack of self-control.

H

Hammer – A candlestick reversal pattern that is formed when prices open up and sell off within the period and then rally to close near the open price. The pattern has a small body and a long wick below it.

Harami – Term used to describe the position of a candlestick in which the open-close range is much smaller than the high-low range and sits within the real body of a tall prior bar.

Hedge – To reduce the risk in one security by taking an offsetting position in a related security.

Held – A situation where a security is temporarily not available for trading. Market makers are not allowed to display quotes of held securities.

Historic Volatility – The range of price movement over an extended period of time as compared to current activity.

House Requirement – The minimum amount of equity brokerage firms require margin clients ot maintain in the account.

I

Individual Investor – A person who buys or sells securities for his/her own account. The individual investor is also called a retailer investor or retail shareholder.

Inflation – The rate at which the general level of prices for goods and services is rising.

Initial Margin – The initial deposit of collateral required to enter into a position as guarantee on future performance.

Inside Day – A price bar whose price range for the day is within that of the previous day. It has a lower high and higher low than the bar that preceded it.

Institutional Investor – A bank, mutual fund, pension fund, or other corporate entity that trades securities in large volumes.

Interest Rate Differential – The yield spread between two otherwise comparable debt instruments denominated in different currencies.

Interbank Rates – The Foreign Exchange rates at which large international banks quote other large international banks

Investor – A person who buys or sells securities for his/her own account or the account of others. (See **Individual Investor**)

J

Joint Account – An account with two or more individuals acting as co-owners.

Joint Tenants With Rights of Survivorship (JTWROS) – A joint account that allows the remaining tenant(s) to retain the deceased tenant's interest in the account.

L

Last Sale – The price at which the security last traded.

Last Sale Service – A service that allows real-time access to last-sale information reported by market makers.

Leading Indicators – Statistics that are considered to predict future economic activity.

Leverage (gearing) – The investor only funds part of the amount traded.

LIBOR – The London Inter-Bank Offered Rate. Banks use LIBOR when borrowing from another bank.

Limit - In relation to order instruments, the limit would specify the minimum selling or maximum buying price.

Limit Order – An order to buy or sell a security at a customer-specified price; a customer order to buy or sell a specified number of shares of a security at a specified price.

Liquidation – (1) Closing out a position. (2) An action taken by the margin department when a client hasn't paid for a purchase.

Liquidity – The liquidity of a stock is the ease with which the market can absorb volume buying or selling, without dramatic fluctuation in price.

Liquidity Ratio – The liquidity of a stock is the ease with which the market can absorb volume buying or selling, without dramatic fluctuation in price.

Listed Securities – Securities that trade on a national exchange.

Loan Consent Agreement – An agreement whereby the customer gives the brokerage firm permission to lend his securities.

Loan Market Value – The value of securities in a customers account.

Long Position – A position that appreciates in value if market prices increase.

Low – The lowest closing price of a stock over a certain period of time.

M

Margin – An account in which a customer purchases securities on credit extended by a broker/dealer. It is the required equity that an investor must deposit to collateralize a position.

Margin Call – A request from a broker or dealer for additional funds or other collateral to guarantee performance on a position that has moved against the customer.

Market Maker – A firm that maintains a firm bid and offers price in a given security by standing ready to buy or sell at publicly quoted prices. The NASDAQ Stock Market is a decentralized network of competitive market makers. Market makers process orders for their own customers, and for other NASD broker/dealers; all NASD securities are traded through market maker firms. Market makers also will buy securities from issuers for resale to customers or other broker/dealers. About 10% of NASD firms are market makers (if the firm meets capitalization standards set down by NASD).

Market Maker Spread – The difference between the price at which a market maker is willing to buy a security and the price at which the firm is willing to sell it.

Market Not Held – A market order in which the floor broker has the discretion to execute the order when he/she feels it is best.

Market Order – An order to buy or sell a stated amount of a security at the best possible price at the time the order is received in the marketplace.

Market Risk – Exposure to changes in market prices.

Mark-to-Market – Process of reevaluating all open positions with the current market prices. These new values then determine margin requirements.

Maturity – The date for settlement or expiry of a financial instrument.

Minimum Maintenance – Established by the exchanges' margin rules, the level to which the equity in an account may fall before the client must deposit additional equity. It is expressed as a percentage relationship between debit balance and equity or between market value and equity.

Moving Average – Technical analysis tool that calculates the average price of a security or commodity over a period of time. This period can be as short as a few days or as long as several years.

N

Narrow Range Bar (NR) – A price bar with a smaller range as compared to the prior bar's high-low range.

Narrowest Range of the Last 7 Bars (NR7) – A low volatility time-price convergence that often precedes a major price expansion. A price bar with a smaller high-low range as compared to the prior six bars high-low range.

Neckline – A trendline drawn under the support of a head and shoulders pattern or over the resistance of an inverse head and shoulders pattern.

Negotiable – A feature of security that enables the owner to transfer ownership or title.

Net Change – The difference between today's last trade and the previous day's last trade.

Neutral – One or more individuals assigned to mediate through negotiations or arbitrate by adjudication claims between or among disputing parties.

New Account Information Form – Document filled out by a broker that details vital facts about a client's financial circumstances and investment objectives.

Noise – Price and volume fluctuations that confound the interpretation of market direction.

Not Held (NH) – An order that gives discretion to the floor broker as to time and price. The floor broker is "not held" responsible for capturing the best price.

NYSE – New York Stock Exchange

O

Offer – The rate at which a dealer is willing to sell a currency.

Offsetting Transaction – A trade that serves to cancel or offset some or all of the market risk of a position.

On Balance Volume (OBV) – A volume indicator that measures the amount of accumulation distribution occurring in a stock.

One Cancels the Other Order (OCO) – A designation for two orders whereby one part of the two orders is executed the other is automatically canceled.

Open Order – An order to buy or sell a security that remains in effect until it is either canceled by the customer or executed.

Open Position – A deal not yet reversed or settled with a physical payment.

Order Ticket – A form completed by a registered representative of a brokerage firm upon receiving order instructions from a customer.

OTC Bulletin Board – An electronic service that provides selected quotes on over-the-counter stocks.

Over the Counter (OTC) – The extremes of price movement to the upside where prices are likely to run out of buying pressures.

Overbought – The extremes of price movement to the upside where prices are likely to run out of buying pressures.

Oversold – The extremes of price movement to the downside where prices are likely to run out of selling pressures.

P

Pattern Analysis – Method of analyzing charts. Their objectives are to identify patterns that are formed in order to predict the future price direction.

Pennants – Type of chart pattern.

Pips – Digits added to or subtracted from the fourth decimal place, i.e. 0.0001. Also called points.

Political Risk – Exposure to changes in governmental policy which will have an adverse effect on an investor's position.

Portfolio - An individual's or institution's combined investment holdings. This includes cash, stocks, bonds, mutual funds, and real estate.

Position – The netted total holdings of a given currency.

Premium – In the currency market, describes the amount by which the forward or futures price exceed the spot price.

Previous Day's Close – The previous day's last reported trade.

Price Transparency – Describes quotes to which every market participant has equal access.

Program Trading – Refers to trading done by large institutions that trade based on computer-generated signals. These orders are usually entered directly from the trader's computer to the market's computer system and executed automatically.

Q

Qualified Institutional Investor – An institutional investor permitted under Securities and Exchange Commission rules to trade placed securities with other qualified institutional investors without registering the securities with the SEC. A qualified institutional investor must have at least $100 million under management.

Quote – The highest bid and lowest offer on a given security at a particular time.

Quotation Size – The maximum number of shares per order of a particular security that a market maker is willing to buy or sell at his/her current price.

R

Random Walk – Classis theory that chaos drives all market activity and that price movement cannot be predicted.

Range – The difference between the high and low trading price during a given period.

Rate – The price of one currency in terms of another, typically used for dealing purposes.

Rectangle – Small continuation pattern that points sideways to the primary trend.

Relative Strength Index – A technical indicator invented by J. Welles Wilder that measures overbought, oversold, and divergent market situations.

Resistance – Price level where selling pressures were strong enough to interrupt a price advance. Prices trend to these levels on the way up and reverse its direction.

Revaluation – An increase in the exchange rate for a currency as a result of central bank intervention. Opposite of devaluation.

Reverse Head and Shoulders – This classic reversal pattern forms from an extended low that sits between two higher lows. Three relative highs above the three lows connect at a trendline known as the neckline. Popular opinion expects a major rally when the neckline breaks.

Rising Wedge – Reversal pattern that slowly rises in an uptrend until the price suddenly ejects into a sell-off.

Risk – The inherent possibility that an investment will lose value.

Risk Management – The employment of financial analysis and trading techniques to reduce and/or control exposure to various types of risk.

Roll-Over – Process whereby the settlement of a deal is rolled forward to another value date. The cost of this process is based on the interest rate differential of the two currencies.

S

Second currency (variable currency or counter currency) – The currency that the investor trades the base currency against (i.e. USD in EURUSD).

Settlement – The process by which a trade is entered into the books and records the counterparts to a transaction. The settlement of currency trades may or may not involve the actual physical exchanges of one currency for another.

Shooting Star – A candlestick reversal pattern with as a small real body, long wick (at least twice the length of the real body) above it, and a small or nonexistent tail below it.

Short Position – An investment position that benefits from a decline in market price.

Spot Price – The current market price. Settlement of spot transactions usually occurs within two business days.

Spread – The difference between the bid and offer price.

Sterling – Slang for British pound.

Stochastics – Technical indicator in the oscillator class that was popularized by George Lane. It compares the relationship between the closing price and its price range over a given period of time.

Stop-Loss Order – Order type whereby an open position is automatically liquidated at a specific price. Often used to minimize exposure to losses if the market moves against an investor's position.

Support – Price levels where buying pressures were stronger than the selling pressures. Support levels interrupt a price decline and prices usually reverse and go up from there.

Symmetrical Triangle – A chart pattern formed when price moves sideways, the highs are lower from peak top peak, and the lows are higher from trough to trough.

Swap – A currency swap is the simultaneous sale and purchase of the same amount of a given currency at a forward exchange rate.

T

Technical Analysis – Type of analysis that studies crowd behavior through price and volume activity. The intention is to predict future price movements.

Tomorrow Next – Simultaneous buying and selling of a currency for delivery the following day.

Transaction Cost – The cost of buying or selling a financial instrument.

Trade Date – The date on which a trade occurs.

Trading Authorization – Written permission for one to trade in another's account.

Trading Range – The difference between the high and low prices traded during a period of time.

Trendline – A line that connects a series of highs or lows. The slope of this line determines the direction of the trend. Trendlines also serve as support in an uptrend or resistance in a downtrend. Horizontal trendlines mark support resistance and range-bound conditions.

Triangles - A type of chart pattern that looks like a triangle after the trendlines are drawn.

Turnover – The total money value of all executed transactions in a given time period; volume.

Two-Way Price – When both a bid and offer rate is quoted for a FX transaction

U

Unauthorized Trading – The purchase sale, or trade of securities in an investor's account without the investor's prior authorization.

Uptick – A transaction executed at a price higher than the preceding transaction in that security.

Uptick Rule – In the United States, a regulation whereby a security may not be sold short unless the last trade prior to the short sale was at a price lower than the price at which the short sale is executed.

U.S. Prime Rate – The interest rate at which U.S. banks will lend to their prime corporate customers.

V

Value Date - The date on which counterparts to a financial transaction agree to settle their respective obligations, i.e., exchanging payments**.** For spot currency transactions, the value date is normally two business days forward. Also known as maturity date.

Variation Margin – Funds a broker must request from the client to have the required margin deposited. The term usually refers to additional funds that must be deposited as a result of unfavorable price movements.

Volatility – The degree of price fluctuation for a given asset, rate or index. Usually expressed as a variance or standard deviation.

Volume – Amount of trading activity, expressed in shares or dollars, experienced by a single security or the entire market within a specified period, usually daily, monthly, or annually.

W

When-Issued Trading – A short form of "when, as, and if issued." The term refers to a conditional security; one authorized for issuance but not yet actually issued. All "when issued" transactions are on an "if" basis, to be settled if and when the actual security is released.

Whipsaw – Slang for a condition of a highly volatile market where a sharp price movement is quickly followed by a sharp reversal.

W-Type Bottom – Another name for the double-bottom chart pattern.

Y

Yard – Slang for a billion.