

[www.Market.Advance.Life](http://www.Market.Advance.Life)

# Thoughts on the Market

Weekly research, analysis and selected writing. Issue 02.

Anatoliy Schneider  
2/7/2015

## Table of Contents

<b>PERSONAL DISCLAIMER</b> -----	2	EURCAD Daily chart -----	13
<b>US GOVERNMENT REQUIRED DISCLAIMER</b> ----	2	EURCAD H4 -----	14
<b>INTRODUCTION</b> -----	3	Trade management -----	14
List of abbreviations-----	3	EURUSD Daily -----	15
<b>CORRELATION: PRACTICAL USAGE</b> -----	4	EURUSD H4 -----	15
Correlation indicator recap-----	4	EURGBP Daily -----	16
Improvements -----	4	EURGBP H4-----	16
Analyzing the charts-----	5	Summary -----	17
Summary-----	7	<b>CLOSING WORDS</b> -----	18
<b>PSYCHOLOGY</b> -----	8	Summary -----	18
Being a businessman -----	8	The next issue-----	18
Being a trader -----	8		
Being an analyst -----	9		
Putting it all together -----	10		
<b>WEEKLY ANALYSIS</b> -----	11		
USDMXN and Oil daily-----	11		
Oil Weekly-----	12		
Trading Oil-----	12		
<b>TRADES OF THE WEEK</b> -----	13		

## Personal disclaimer

All the information provided here purely for educational purposes. I do not offer any trading advice publically through this newsletter. Anyone seeking personal advice or consultation should contact me personally and I will try to help to the best of my abilities or provide a reference. All the trades shown or implied in this newsletter are assumed to be made in demo accounts only with virtual money. I do not make any claims of my trading system profitability, nor do I sell my trading system or any parts of it. I personally do not seek nor accept any public funding or investments for trading purposes.

I do accept custom programming orders to help traders automate and test their ideas. I am also available to conduct custom market research, including programming any tools necessary. Anyone interested is welcome to contact me through information provided in this newsletter.

Reprinting any material presented in this newsletter is allowed only with proper reference to [www.market.advance.life](http://www.market.advance.life)

## US Government required disclaimer

The National Futures Association (NFA) and CFTC (Commodity Futures Trading Commission), the regulatory agencies for the forex and futures market in the United States, require that customers be informed about potential risks in the forex market (see the information below). If you don't understand any of the information provided on this page, please contact us or seek advice from an independent financial advisor.

Commodity Futures Trading Commission Futures and Options **trading has large potential rewards, but also**

**large potential risk.** You must be aware of the risks and be willing to accept them in order to invest in the futures and options markets. **Don't trade with money you can't afford to lose.** This is neither a solicitation nor an offer to Buy/Sell futures or options. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed on this web site. The past performance of any trading system or methodology is not necessarily indicative of future results.

## List of abbreviations

Any currency can be abbreviated with its first letter:

- U – USD, US Dollar
- E – EUR, Euro
- G – GBP, British Pound
- C – CAD, Canadian Dollar
- H – CHF, Swiss Franc, (because C is already used for Canadian Dollar)
- A – AUD, Australian Dollar
- N – NZD, New Zealand Dollar
- J – JPY, Japanese Yen
- M – MXN, Mexican Peso

Similarly any trading pair can be shortened to 2 letters. Examples:

- EURUSD – EU
- USDMXN – UM
- CHFJPY – HJ

Support and Resistance levels:

- S – Support
- R – Resistance
- SR – Support and Resistance (when referred to in general)
- TL – Trend Line
- Ch – Channel
- PP – [Pivot Point](#)

Time frames

- TF – Time Frame of the chart
- MN – Monthly
- W1 – Weekly
- D1 – Daily
- H4 – 4 hours
- H1 – 1 hour

### Correlation indicator recap

In the previous issue we researched the correlation between Oil and Mexican pesos and in the course of that research developed an indicator that helps us see the correlation right on the chart by marking any bars where Oil and Peso are going in the opposite directions.

### Improvements

During this week I looked into a couple ideas to test in the indicator.

The main ideas that I tested were:

1. Filtering out the bars where one of the instruments (Peso or Oil) is less than one average deviation;
2. Instead of comparing the instruments bar by bar I compared their general direction, trend or sideways;
3. Marking the places where correlation was lost for more than one bar.

In the end of the day I have to say that none of these tests offered considerable benefits that can really help in practical trading. Sure, it is interesting to see that the correlation never goes away between Oil and Peso for more than 5 days in a row in the past couple years, or to calculate the statistical probability if the next month will correlate or diverge. But the main point is even if we know with 90% certainty that tomorrow the prices will correlate we still have to answer the main question: what

direction they are going to correlate in?

Instead of discussing the numbers I gathered during my tests, let's take a look at a couple charts showing practical examples to see how it is possible to make the trading decisions based on price action diverging between Oil and Peso.

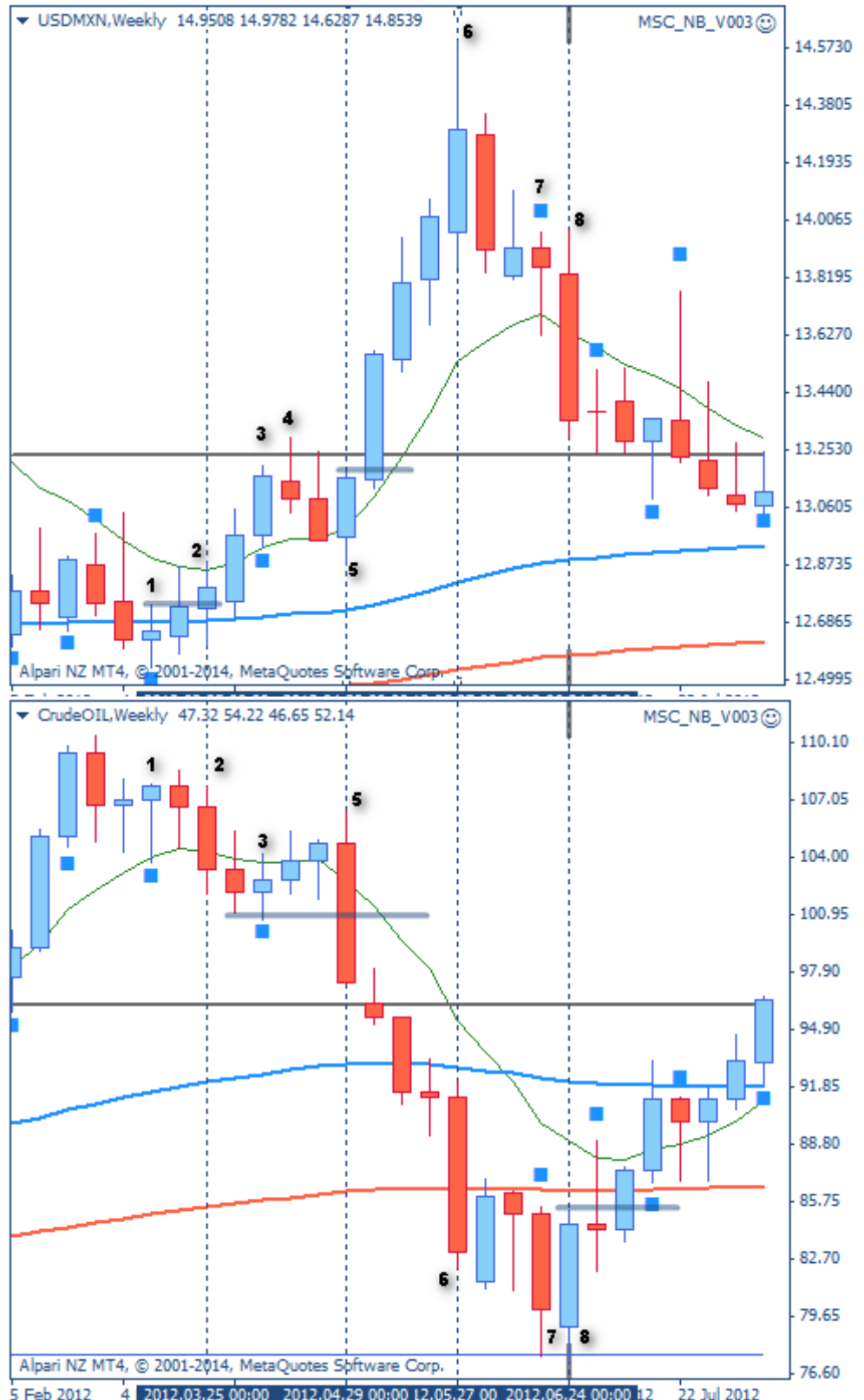
## Analyzing the charts

Let's take a look at Weekly charts from February to July 2012. There is no particular reason why we chose this period, the same principles apply anywhere with sufficient volatility and liquidity.

In USDMXN (UM) the price has stalled at 100 EMA for more than a month. At bar before 1 we broke below, but the price reversed at 1 after making a new low. At the same time OIL has made its high 2 weeks prior to that. The price continued to go up on UM for the next 2 weeks, both of them touching the 20 EMA and retracing back.

Bar 2 in Oil, however, has broken below its 20 EMA and also closed below the previous 5 weeks, canceling any bullish sentiment that was left in the previous trend. Using this signal, we go back to bar 2 in UM. If the price breaks above the high of 2 it will break green EMA at the same time. That is good enough for us to enter a buy with a SL below the bar 2 or below 1 for more conservative entry (high chance of success, lower return on the risk).

Moving on, the price has confirmed our scenario. Bar 3 in UM closed just below the yearly pivot, while the same bar in Oil closed in opposite direction – signaling a possible start of correction. With proper trade management we would want to take at least part of our profits just below the pivot level.



After the price was rejected from above the pivot in bar 4 in UM, creating a bull trap, we could review our analysis and enter short on the

break below 4. One hint not to sell there is the price action in Oil during the same bars: each of the 3 bullish candles closed inside of the previous

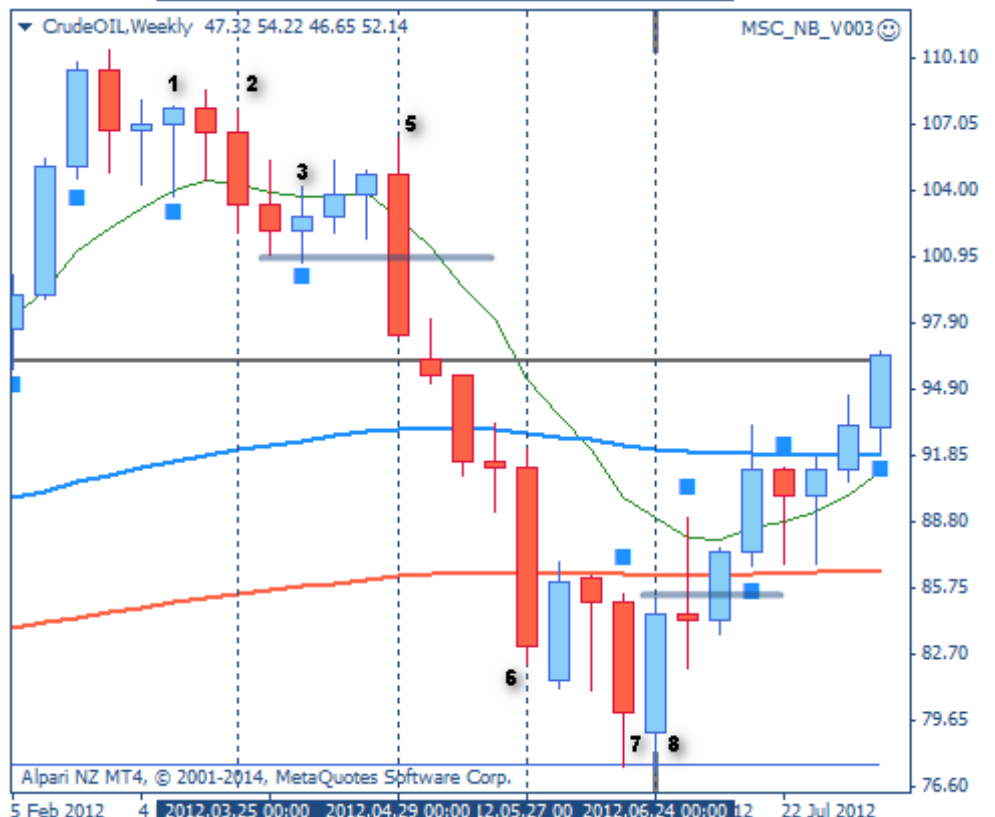
one. Let's assume we did enter short there, expecting further price decrease on the bounce from the pivot. Our SL is above candle 4.

On candle 5 the Oil closes extremely bearish, breaking the prices of the previous 5 weeks and the green EMA. UM also closes up (meaning that the Peso decreased in value, correlating with Oil), but does not break the previous candle's high. However, we can see a bear trap with the price being rejected from below the green EMA. Peso really did not move nearly as much as Oil did, allowing us to look for earlier entry up. This week's candle on both Oil and Peso definitely cancelled our assumptions about the bearish sentiment in the price.

On the break of 5 in Peso we enter long, simultaneously scratching our previous sell, accepting half the originally planned loss.

With correct trade management we should be taking part profits as the trend continues up, breaking the yearly pivot. Nothing interesting happens until candle 6, where Oil breaks down through the red 200 EMA and UM is rejected from higher prices. Next bar after 6 reverses the previous sentiment in both instruments but stops at the low of the 6 in Peso and at the red EMA in Oil. At this point we close whatever position we have left in Peso.

Now we are looking for further price action to give us an edge



trading bullish or bearish. The price needs to overcome the levels where it stopped. Next candle provides no clear signal yet: Oil went down to the previous low, bounced, went back to red EMA and closed below it without

ever breaking up; similarly Peso could not break the previous low either. It is bar 7 that gives us further insight into the price action.

The bar is marked with our correlation indicator, and we can clearly see that both charts closed bearish, meaning that Peso and Oil closed in different directions. The price was rejected from green EMA in UM, but still there were enough bears to push it down during the week. The Oil, however, broke below the previous 3 weeks but was rejected from yearly support level (blue line).

From the perspective of our correlation research we have a couple possible scenarios at that moment:

1. **We expect Peso to follow the direction of Oil.** The week closed very bearish in Oil, Peso diverging and closing up (UM is a reversed pair). Peso, however, was rejected from its breakout. We could see the Oil break as the continuation of the trend and look for a buy in UM above the bar 7.
2. **We expect Oil to follow the Peso.** UM chart has lower lows and lower highs for straight 4 weeks in a low. The bulls are struggling against the bears but winning so far. Oil closes lower, making a new extreme but is rejected from an important support level. We can enter at a very good price with a risky early entry or wait for the price to break above 7's high.

I would prefer the second scenario due to a very attractive buying price in Oil where I could enter with a reduced risk in anticipation of a bounce from the support. Such trade has a low probability of succeeding but offers a very high Reward to Risk ratio with a stop below the support. ([see NZDUSD trade the previous week](#)).

A very important goal in trading is to try anticipate what the price can do the next bar before it is obvious to other traders. Taking the risk and enjoying complete uncertainty is what's the trading is about, in my opinion. The main trading paradox is that I have zero confidence in the success of any trade and yet I enter with confidence, knowing that in a series of 10 or 20 trades the system offers me enough edge to end up with profits (we will cover it in detail in later discussion of trading psychology).

In this situation the best conservative scenario is to wait for further price action confirmation.

Bar 8 closes extremely bullish for Peso, breaking below the previous candle and green EMA in UM. Oil bounces from the support and closes at the previous candle's high. Seeing that scenario 2 is now confirmed we have a much better price in Oil compared to Peso to enter long on the break of candle 8.

## Summary

It is easy to get lost in such research, trying to build an indicator that will give clear, profitable entry signals. However, that was never the premise of this work. After we establish that there is a correlation between any two trading instruments (and the tools developed in the course of this research can certainly get that job done) the next step is to start using that information for practical purposes. And the only way I see is to read price action in both instruments and look for the points where one side is giving a clearer signal of bullish or bearish bias, suggesting that the other will follow.

The correlation indicator (any indicator for that matter) by itself is not sufficient to trade profitably. The understanding of the market and ability to read price action is essential. However, the indicator can show opportunities not visible otherwise. While price action trigger may be present in one instrument it can be too late to enter with a favorable SL and therefore Risk/Reward ratio will suffer. Finding a highly correlated instrument, that has not started the move just yet, can give us an early entry, otherwise invisible even to the best price action reader.

In our analysis the decision to jump from trading Peso to trading Oil depended on what instrument gave us better price by being a little bit behind its correlated counterpart.



Today we are going to look at the 3 main parts of trading profession, the essential traits of character for any successful trader.

### Being a businessman

Trading is first of all a business. It is about embracing the risk, taking the action and accepting the full responsibility for the actions we take.

When I read about trading online, I always see that trading is about being home, waking up whenever you want to, and taking a couple trades with an easy to follow trading system that you can conveniently buy on the same website for \$99.99. Even better, the system can be fully automated, a miniature variant of money printing machine at the convenience of your home office! Sure, I get the fine print required by the government about how risky it is (you can find it in the beginning of this newsletter as well), but the big letters right here say clearly “90% success rate on any timeframe, any trading pair, any account size!”

That was the general mental state I was in when starting to trade. However, trading turned out to be one of the most difficult paths one can take in life. As mentioned in the introduction to [the first issue of this newsletter](#), I was lucky enough to find an online community of professional traders where I learned not only all the basic and advanced technical analysis but more importantly the

right attitude to trading. The rules for all newbies were the same: not only had you pay the monthly fee to be allowed in, but every day you had to be there in the discussion from 8am GMT+3 (start of the European session) to 6pm (after the start of US session) and had to create pictures for every single post that pros make. Only by going through that, following them word to word, typing in their comments in the pictures, could you understand what trading is about.

Of course, it was strictly intra-day short term trading – It is a *little* bit slower pace of action on higher timeframes. Either way, anyone expecting to have a relaxed time trading should seriously reconsider his goals.

Having said all that, it is not just hard work that make the trading difficult for most people. Being a businessman implies another important character trait – the ability to accept full responsibility for one’s life. Most people can never truly exchange the comfort of day job with an expected paycheck by the end of each month, employer provided benefits and a relative sense of stability for more freedom. Freedom of being self-employed implies the ability to make your own choices and decisions in life. It never implies freedom from responsibility. Only by embracing the risk, the unknown, being responsible for each moment in your life you can truly succeed as an entrepreneur.

### Being a trader

What does it mean being a trader? If we had to define one core function a trader has to perform, what that would be?

Trading, like any other profession requires a particular set of skills. We teach economists, analysts, bankers, but I will argue that having all these skills, even at a very high level, does not guarantee any success in trading. In fact, I found that studying the market only made it more difficult for me to actually trade.

First of all, let’s define what trading is NOT about at its very core.

Trading is not about analysis of the market. It is not about forecasting the price, knowing where it will go. Trading is also not about understanding the underlying economic reasons why the price moved where it did. Sure, all these things can and will help in trading and I am not denying the great value in this additional knowledge, but at its core these skills are not definitional of trading.

Let’s take a look at an example. A musician, just like a trader, needs a certain set of skills to become successful. He can learn all he wants about the history of music, understand all different musical styles, become very knowledgeable in works of every major composer, learn all ins and outs about musical theory and harmony, etc. All these things are extremely important but in

themselves they will only make a good historic of music, or (god forbid) a music critic.

What defines a musician, however, is first of all his ability to play, to perform. There are countless successful musicians, especially in modern popular music, that reached success with no knowledge of musical theory but simply by superb performance of their original or someone else's work. The technique, the ability to make the sounds pleasant to our ears is the core of any musician.

Coming back to trading, let's see if we can define a trader's core skills in a similar fashion. Just like musician final creative output is the sound he produces, the trader's final output is the money. There is nothing else a trader generates by the end of the day but a balance – negative or positive – in his account.

Musician's ability to produce sounds pleasant to our ears is defined by his technique – his ability to execute every single note in just the right way. Similarly a trader can produce money by his technique – his ability to execute every single trade at the right time in just the right way.

I accept that one can be a high level composer, writing music for the orchestra or solo performers, without having the ability to perform his work himself to a high standard. You can also be a good market analyst, forecasting the price with high precision. You can plan your perfect

trades all day long, and still be unable to trade your plan.

So, at the core, being a trader means executing the trades, pulling the trigger with no hesitation and great consistency. There may be bad trades indeed, but I never said that trading is only about taking the trades – I only shared my opinion that without that ability no one can be called a trader.

### Being an analyst

This is where you plan your trades. We discussed trading the plan in the previous section, when in reality you have to plan the trades before you can trade them. However, I feel it is important to emphasize how much more crucial it is to execute the plan then to write it.

When I started my main goal was to analyze the market the best I can, try to forecast the price, predict every single move of the market. I read and learned everything I could find, starting with simple charting tools such as trend lines and channels, then trying every single indicator, hoping that I can find "the one" that works more often than it doesn't, exploring the Fibonacci set in great detail (going as far as reading his original work), getting stuck with Elliot Wave theory for at least 5 years and then finally programming the most complex automated trading strategies I could imagine, powered with desire to have my own money-printing machine in the office. Naturally, none of that worked.

It was a very vicious cycle indeed, something many traders get stuck in for many years. You find something that seems to work on the history, start using it life, fail with the first couple of trades and quit before too long, swearing never to come back to the markets again. However, as frustration wore down with time I was ready for another try, another great idea to make me rich overnight.

Many traders are lucky to end that cycle either by becoming totally hopeless or losing enough money to quit for good. I did not have such luck on my side. Being careful enough to follow money management rules and never risking more than 1% in a trade I was going in circles for more than 7 years. When I was ready to quit after the first 4, I started programming for other traders and that was fueling my desire to come back to the markets all the time, nonstop.

I never actually did badly, I had many good trades and was considered a good analyst. The fact that I did not get at the time was that being a good analyst, predicting the price and winning consistently in trading have very little in common.

Until very recently I never even considered that my problems could be in trading execution. Any time I would miss a good signal that I planned to take, I blamed my analytical abilities – they are not good enough to provide the confidence to take the trades I plan. And so I searched for the next golden trading rule. When I took the trades that

failed, guess what, I blamed my analytical abilities again. When I took the trades I never planned I once again reasoned that I do not have a trading system good enough to trust and not consider taking any trades that are not part of it. You see, our brain is extremely good at finding excuses.

### **Putting it all together**

Just like any other profession or pursuit in life, trading is a journey. In this series of articles on trading mindset and psychology I am attempting to draw a map that we can rely. It is not going to be a perfect map that can change us from failure to consistent success overnight, to follow the map precisely we will need a key. That key is our understanding of ourselves – our own beliefs, fears, expectations, the excuses our brain makes. Developing such deep understanding that is necessary to succeed goes well beyond the scope of any writing – it is the pursuit of one's whole life.

## Weekly analysis

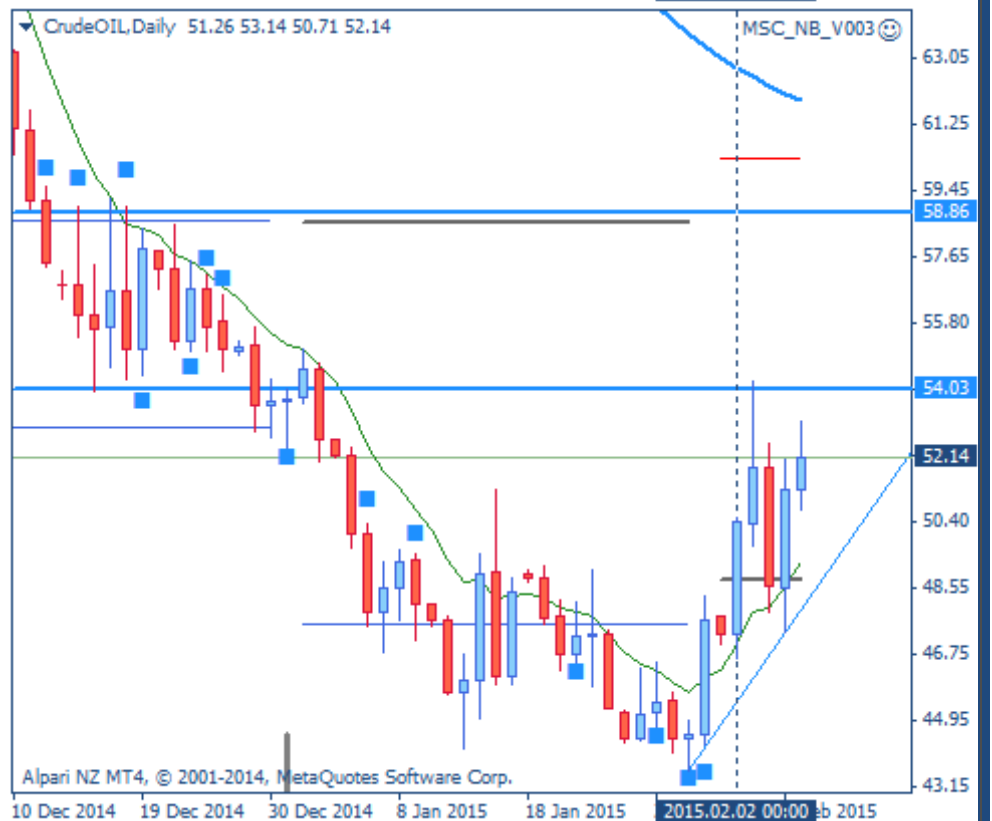
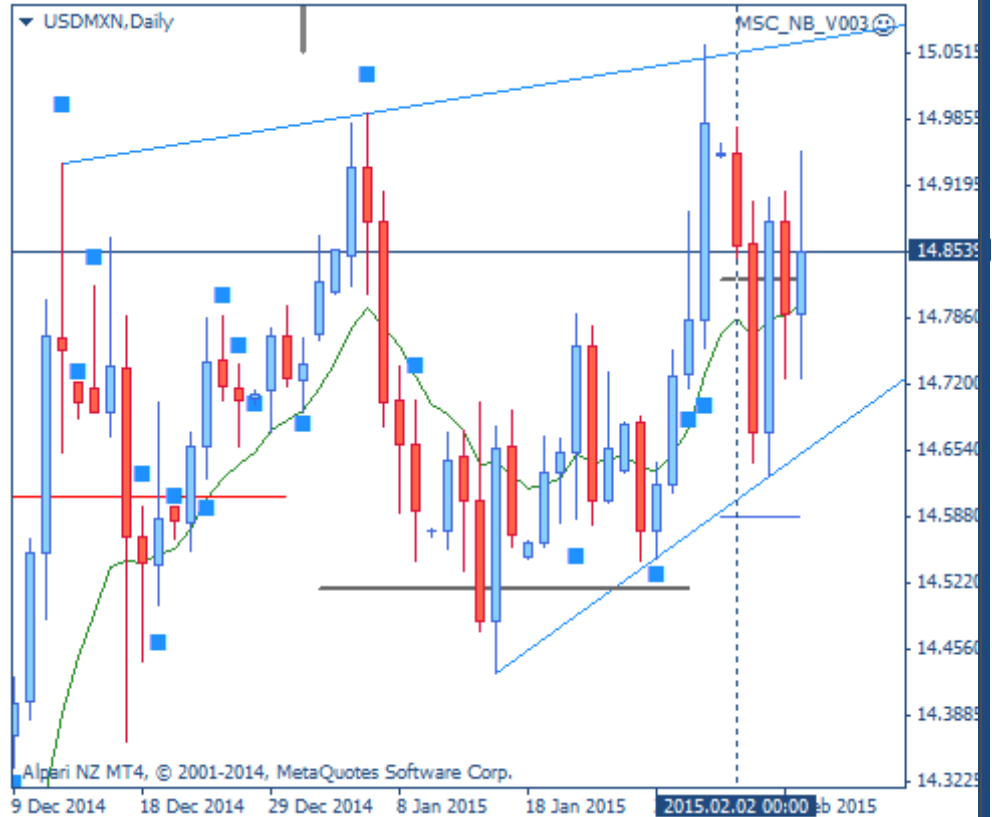
### USDMXN and Oil daily

The diverging price between Mexican Peso and Oil that we mentioned the previous week resolved in Oil winning and pulling Peso back from the previous high. On Monday and Tuesday both Peso and Oil were growing to the dollar. On Wednesday the price bounced from the trend line in USDMXN chart and from previous level of resistance (the price stalled at that level for a couple weeks on the way down) in Oil.

The week is closing completely undecided in Peso, 4 days out of 5 trading up and down around the monthly pivot (gray line on the chart). Oil closed with more bullish sentiment but was not able to reach the high it set on Tuesday.

The fact that USDMXN didn't close above its previous high, immediately retracing back upon testing it, was a bearish sign. After Monday closed bearish for USD, along with extremely bullish candle in Oil, breaking above monthly pivot, all short term buys in USDMXN (like my trade left over from the previous week) should have been closed.

I also mentioned that it is very dangerous to buy Oil only because 1 day closed bullish, but this week increased bullish sentiment greatly. If Oil can break above \$54 it can start a trend up with the next resistance being the area of \$59. Let's take a look at weekly Oil chart.



## Oil Weekly

Looking at the weekly Oil chart we can truly appreciate how bullish the current move is. The price went up almost \$11 in 5 days from Thursday the previous week to this Tuesday. To put it into perspective this is not only the biggest bullish move of the whole trend since June 2014 (obvious on the chart), but the current week from low to high going for almost \$7.5 is the most bullish since June 2013.

In this chart we can also see that the weekly bearish trend line (red) and 20 EMA (green) are in the same area with our \$54 resistance area where the price bounced down. This level could be crucial for further bullish development.

## Trading Oil

Here is the most important part though: no matter how much bullish sentiment the price is showing right now I have no idea where it is going next. When trading a commodity such as Oil many tend to think that you can never go wrong buying it low. That might as well be true, depending if your pockets are deep enough to sustain a possible drawdown of \$20-30 per barrel. When I look at a chart like this I do not think "The Oil is going up, the sky is the limit, and there is no stopping it". All I think is "The Oil shows a lot of bullish sentiment, I must look for any price action opportunity to buy it with a short Stop Loss". The most important part is to review this plan at least once



a week for long term traders – I prefer to review the charts daily. Today's detailed chart analysis in the Correlation article provides a good example where we could only make money by reviewing our bias at each and every bar.

It must be said once again that I am not following the world news and fundamental analysis that may suggest buying Oil anywhere below \$40 or at any other low level. That brings to mind a classic example: Jim Rogers (co-founder of Quantum Fund together with George Soros, considered by many to be one of the best fundamental analysts while never using any kind of technical analysis in his trading) selling Gold at \$675 during [the hysteria of late 1979 – early 1980](#).

In words of Jack Schwager,

interviewing Jim in his book "Market Wizards":

*"I doubt many traders would have been able to sell gold at \$675, stay short while it surged to \$875 in only four days, and then hold the position through the subsequent long-term collapse, eventually liquidating at a large profit. Even if you have the steel nerves necessary to duplicate this feat, you probably lack the financial resources to outstay this type of market or the same high degree of accuracy in picking your shots."*

The same with Oil: I much prefer testing the market, buying with a short stop and have the ability to be wrong many times before I can be right.

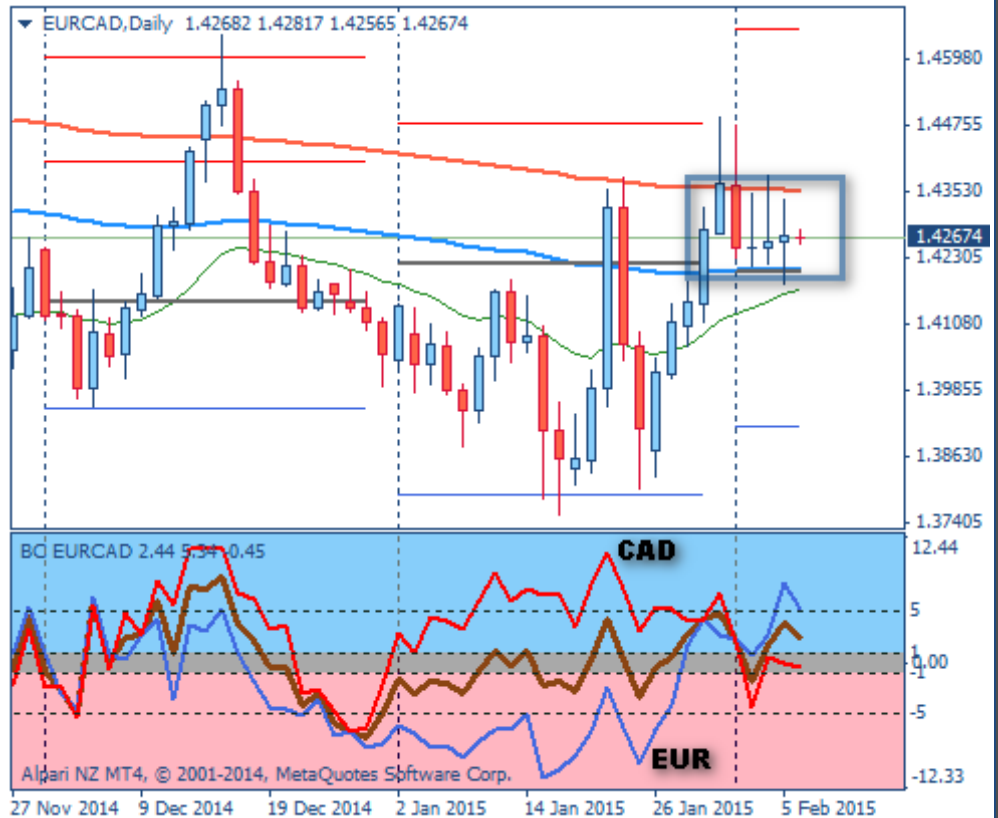
## Trades of the week

This week we will look at 3 EUR trades, opened on Tuesday in EURGBP, EURUSD and EURCAD. These trades all happened to close in profit, but the interesting part here is that I was selling EG and EU while buying EC at the same time.

### EURCAD Daily chart

Let's start with EC first and take a look not just at chart analysis and entry point but also at trade management.

On daily chart we can see that January was trading in a wide range. Currency strength shows that EUR and CAD were pushing the pair in different directions, as EUR was trying to push lower (red zone) and CAD higher (blue zone). This is a good indication of possible flat market, when any trades should be managed aggressively between the lower and higher boundaries. By the end of January, however, the currency went into the blue zone together and the



price broke 200 EMA, after which the price was rejected back.

monthly pivot happened to be at the same price.

At the moment of the entry the pair was trading between the 100 blue and 200 red EMAs, blue offering slightly more support because the

Let's take a look at the entry points on the H4 chart.

## EURCAD H4

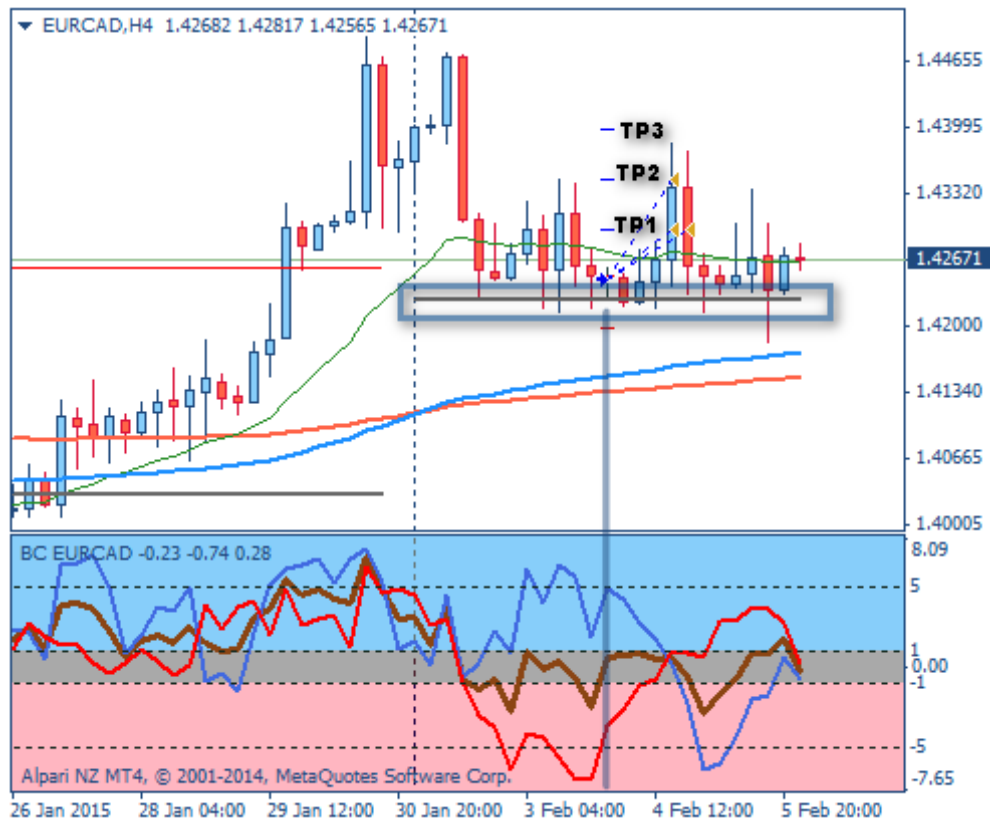
Going down to H4 we can see that the price was trading right at the weekly pivot for the first 2 days, being rejected from below on 4 separate occasions. I took the entry after the 4<sup>th</sup> rejection with expectation of the price testing the local weekly high. As you can see CAD and EUR strength on the indicator diverged once again, indicating the higher possibility of a sideways market. I reasoned that the pair does not have the power to break below the weekly pivot until the currencies push it in the same direction and used it as an additional confirmation to buy.

## Trade management

Let's take a look a little bit at trade management. Every time when I take a signal I try to place 3 trades at the same time to close the position at key levels and reduce the risk on that entry faster.

Since I switched from trading lower timeframes I often had a problem with taking the profit on the trade. I wanted to catch the whole move, make the market pay me 10 times and more the amount I risk. Sometimes it worked out, but more often than not (more than 90% of all entries) closed in a loss or breakeven after I would already be 100+ points in profit (at least 2 times my risk).

I picked up the current trade management strategy in Trading in the Zone by Mark Douglas (we will come back to this book in detail later on). Instead of expecting the market to pay the amount I want I now



assume that I have no idea how much it is going to go in my direction. Therefore I take 3 positions and take the first profit at the nearest SR level or predefined amount of pips (at least 1 times my initial risk). At the same time I move the 2<sup>nd</sup> and the 3<sup>rd</sup> positions at breakeven as soon as the 1<sup>st</sup> take profit is hit. The second trade is closed a little bit later and when only the 3<sup>rd</sup> remains its SL is trailed further, where the 1<sup>st</sup> TP was taken. At that stage I have a risk free opportunity to be on the market. I have taken my profits and I secured the profit on the last trade if the market goes against me (like it did in EC). If I see that the trend is not exhausted on Daily timeframe, I take the 3<sup>rd</sup> TP from the market, allowing the trade to run.

With this strategy my main goal is still to catch the big moves, but even if I am able to get it only 1 time

out of 10, I am still making money on shorter term positions. Because I have no idea what the market is going to do the next moment from now, I'd like to pay myself when the money is available. When the last trade is left without any risk attached I am also much less likely to close it prematurely, being afraid to lose the profit I already made.

## EURUSD Daily

In EU we can see that the powerful bearish trend started in May of the previous year, went into a correction on 26<sup>th</sup> of January. This Tuesday the price attempted to break above the monthly pivot, bounced from the green 20 EMA and ultimately closed right below the pivot. That was enough bearish sentiment to look for sell entries with an established bearish trend, even though pair strength is already bullish.

## EURUSD H4

The trade was taken on Wednesday's open (3pm local time) when I saw that the previous bar was rejected from blue 100 EMA and the strength has already started decreasing.

Arguably the right place for a SL is above the previous bar's high and not above the blue EMA where I put it. However, the first thing I consider is where can I start taking profit on the trade? For a trade to be worth taking it needs to have a potential of providing 3 times the Reward compared to the Risk I am taking. Setting the stop above that high would in turn increase all profit targets by almost 2 times. Every trader is different – I personally almost always prefer to take a little bit lower success trade (higher chance being stopped out) but if the trade works out having much better reward for my risk.

Continuing our discussion on trade management, the entry had 3 separate targets as well. They all happened to trigger before I was able



to adjust the targets. If I would be analyzing the market right after the big red bar I would have removed the 3<sup>rd</sup> TP, resulting in a the trade closing

at the same price with the 1<sup>st</sup> order (the SL is trailed to 1<sup>st</sup> order's profit target, as discussed earlier).



## EURGBP Daily

Just like there is correlation between Oil and Peso there is obvious correlation between EUR pairs. The bearish sentiment on Daily chart in EG is almost exactly the same as in EU: the price bounced right from the monthly pivot continuing in the direction of the previous trend.

## EURGBP H4

On H4 the trigger is also exactly the same: the price went to blue EMA in the previous 4 hours and was rapidly rejected. Pair strength decreased even further, compared to EU.

I took the entry right on the next bar, at the same time with EU. Unlike EU, however, I was able to put a better SL which happened to be above the previous candle's high and blue 100 EMA at the same time. Having these 2 correlated entries (EU and EG) provides additional assurance in case one of them gets stopped out by a spike, not canceling the overall direction (EU was a good candidate for such a possibility, as the price could have hit its SL without breaking the high and therefore not canceling the signal). However, if the signal is not working out, there is a high chance that both pairs will produce a loss so we need to make sure that reduced risk is used for each pair, as there is an obvious lack of diversification.

On the picture you can see that 1<sup>st</sup> and 2<sup>nd</sup> profit targets were hit and SL was automatically moved to the 1<sup>st</sup> order's target, resulting in a no risk opportunity. In this case the price



did not reach the 3<sup>rd</sup> TP and I was able to take it out allowing the trade to continue with the trend for a possible break of the daily low. On the next

page you can see the current state of the trade, where I moved SL even lower as the bearish sentiment was further confirmed by the price.

## Summary

Seeing the path of least resistance where the market can go, finding your entry and then pulling the trigger and taking the trade. These are all important aspects of trading and essential to master first of all (after 10 years I am not even close to truly mastering these). However, you are not getting your money by analyzing or even by taking the trade. You earn profit or accept the loss when you close the trade, not when you open. Working on trade management is just as important, if not more so.

Accepting that you simply have no idea about how far the price will go in your direction is the first step to learn proper trade management. When you don't know, you don't expect the price to move in your direction forever and you start paying yourself at the first opportunity.

Sometimes the trades don't work out as expected and you see that your assumption about the market sentiment was not correct (EURCAD trade) and yet you can still make money. Other times you get it right (EURGBP) and the market accepts your scenario by moving in your direction. Not only you will make money in this case as well, but by managing the trades properly you will



create a risk-free opportunity, where you have already taken the profits on your signal and secured the profits on the remainder of the position and now can allow it to run as far as the market goes.

I hope to discuss the trade management in much more detail in later issues. One thing you might have thought right now is how tedious it can be to manage the positions in 3 steps, constantly watching the market and moving your stops to break even and then to profit. The good news is that all these tasks can be completely automated. In trading my responsibility is only the analysis of

the market and pulling the trigger – initiating the entry. When I press buy button the program automatically calculates all position sizes to ensure proper risk and money management, divides the total position between 3 orders (allocating a little bit more to the 3<sup>rd</sup> trade), opens the trade and continues to watch them day and night to move SL to BE and later to profit when appropriate.

Removing all mundane tasks like these will reduce the risks of trading and ensure that there are no user errors in trade management. This is just another part of making the trading a truly successful business.

## Closing words

### Summary

Today we continued our work on the correlation between Oil and Mexican Peso. We reviewed a couple trading weeks by bar, discussing how correlation can be used for real time entry triggers together with price action. I am also hoping to find additional usage for this indicator in other Forex trading pairs and metals. I am sure that we will come back to this discussion after the results of our research and the indicator itself will pass the test of time.

As promised last week, today we started a series on Trading Mindset and Psychology. I honestly believe that there is nothing more important to success of any trader or investor than getting his head right about this profession. It is somewhat frustrating how much time most traders (including me) have spent and continue spending on the Holy Grail

hunt, always looking for quick fix solution, the next hot money printing machine. At the same time they are either unable or unwilling to work on themselves, getting the right attitude and accepting that trading is just like any other profession requires a certain set of skills – most of them mental skills. Unfortunately, very little education is available on this topic and most of what I have learnt have been taken from other books and studies that often had nothing to do with trading itself.

I do not pretend to have no issues left in my own mindset. My hope is to learn and improve myself as I work on this newsletter. You know what they say: “A teacher and the taught together create the teaching”.

### The next issue

Right now I am writing further articles on trading psychology and

mindset. In my opinion there is nothing more important than getting our mind right, removing all unrealistic expectations about trading and learning to manage it as real business. We will look in more detail into each aspect briefly covered today in the course of the next couple issues.

Another topic I would like to start discussing is Price Action. I am nowhere close to the total mastery of reading the market (nor could I ever be), but I learn a lot each week, apply it in my trading and then I can share my findings in this newsletter. In the next issue we will look at the basic usage and calculation of Support and Resistance levels.

As usual, we will update the views on Mexican Peso and Oil.

---

*ANATOLIY SCHNEIDER*

---