

THE ULTIMATE FOREX TRADING SYSTEM

Unbeatable Strategy to Place
92% Winning Trades

MOSTAFA AFSHARI

Third Edition

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mostafaafshari@hushmail.com

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Preface

Forex trading is about having a solid trading strategy, having a sound plan to manage your risks, being able to control your excitements during a trade and having discipline. “The Ultimate Forex Trading System-Unbeatable Strategy to Place 92% Winning Trades” is an attempt to create a balanced system of all these four key factors. The result is a high performance trading system quite adaptable to any trading habit and personal lifestyle. This book includes the following topics.

In part one I have explained preliminary but key concepts that every Forex trader need to know. Topics such as support and resistance, consolidation and breakout, the best currency pairs to trade, the best hours for trading and so on.

In part two you will find eight essential Forex trading strategies that have passed my strict criteria to be easy to apply, highly profitable and manageable. Chart patterns trading as a classic trading method is the first strategy that I have explained in this book. Only very high probable chart patterns are discussed and real examples help you to discover their trading potential. In this chapter I have focused on training eyes and mind to predict (with high probability) how the next bar(s) will unfold. Price rejection (a subsidiary of price action) is the second trading strategy that I have discussed in this book. Using price rejection pin and twin bars (that reveals the momentum behind the price) is a

classic skill that every professional trader has to know and benefit from it. The third strategy that I have explained is correlation (negative or positive) between currency pairs. Correlation trading is a very accurate strategy that exploits the discrepancy or time lag between two normally correlated currency pairs. Volume Price Analysis (VPA) is the next strategy that I have explored in this part of the book. Under this topic you will see how very simple rules enable you to interpret volume-price interplay and how it makes a real difference in your trading. For those who cannot be involved to trading 24 hours a day and wish to enter long term trades to have enough time to leave their trading room for a few days (or even weeks), long term trading strategy is the solution. Especially, a very highly probable trading method that I have called it Abandoned Baby EMA(5) is a very promising long term trading strategy. The sixth trading strategy uses real time sentiment charts (buy/sell positions) of worldwide traders to benefit from their opinion to forecast how the market will behave in the next hours. Checking multiple time frames is a good method to double confirm entering a trade. It has been discussed in Multiple Time Frame Trading Strategy chapter. News trading as the last strategy has been treated from a statistical point of view. How estimate your chance to enter a winning trade after or during news releases by studying the price history and market reaction to the medium or high impact news and what measures you have to take to manage this type of trading.

Part three is the climax of the book because you will learn to combine all your knowledge about Forex basic concepts and various trading strategies to enter only high performance (more than 90% winning rate) trades. Many real trading examples will guide you to reach this level of trading skills. Money and risk management has been discussed around the very practical concept of risk/reward ratio, the only mechanism you need to control your trades, minimize your risks, maximize your profit and do trade in a very relaxed and comfortable state of mind. And under Psychology of Trading you will find the summary of the best advices to control your psychology during trades and maintain a winner mindset.

Mostafa Afshari
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intuition are more helpful. However, two very simple methods can be useful and you can use them to identify a reversal with mediocre success. In the first method you can draw two Exponential Moving Averages for example EMA(9) and EMA(15). When the fast EMA(9) cross over or cross under the slow EMA(15), it is a sign of a reversal. The other method is using of two regression lines. In an uptrend draw a regression line tangent to lower lows and one regression line tangent to the latest two higher highs. If these two lines cross each other in some point it can be a potential reversal point and if not, the trend may probably continue. In downtrend, draw a line tangent to higher highs and a line tangent to the latest two lower lows. If two lines cross each other the cross point can be a potential reversal and if not the downtrend more likely will continue.



Figure 6.4 Confirming a reversal by cross of two regression lines



Figure 6.5 Confirming a reversal by cross of two regression lines



Figure 6.6 Confirming a reversal by crossover of a fast and a slow EMA

12. Chart Patterns Trading Strategy

12.1 The Most Profitable Forex Chart Patterns

For many reasons, Forex charts usually form some repeated patterns. If you work with them and your eyes are trained by looking at them, these patterns are very powerful tools to guide you during your trades. There are many patterns and each of them has its name but to be simple and short I explain here only the most profitable patterns which always work and you can rely on.

12.1.1 M and W (Bat) Patterns

These are the most frequent chart patterns and more or less have M or W shape. Sometimes, one leg extends or another leg gets short.



Figure 12.1.1.1 A W (bat) pattern

These are not very accurate signals but they help you to get a rough estimation of a currency move.

12.1.2 Triangle (Weakening M and Strengthening W) Patterns

Contrary to M and W patterns, triangle (or weakening M and strengthening W patterns) are very accurate signals (0.8 or more probable). A weakening M is formed when an upward (bullish) move is completed, then a weaker downward move (one third or half of the first move) happens and then a very weak bullish (usually one candle) comes after it. After completion of the third move you can say with a high confidence that the currency price will sharply drop. This is the place you should sell the currency and make a nice profit. Strengthening W pattern has just the same story but in a reverse order.



Figure 12.1.2.1 A triangle pattern

The price in triangle patterns usually converges to a tight range and then tends to breakout. I love triangle patterns because they are very strong signals and nearly always are correct.

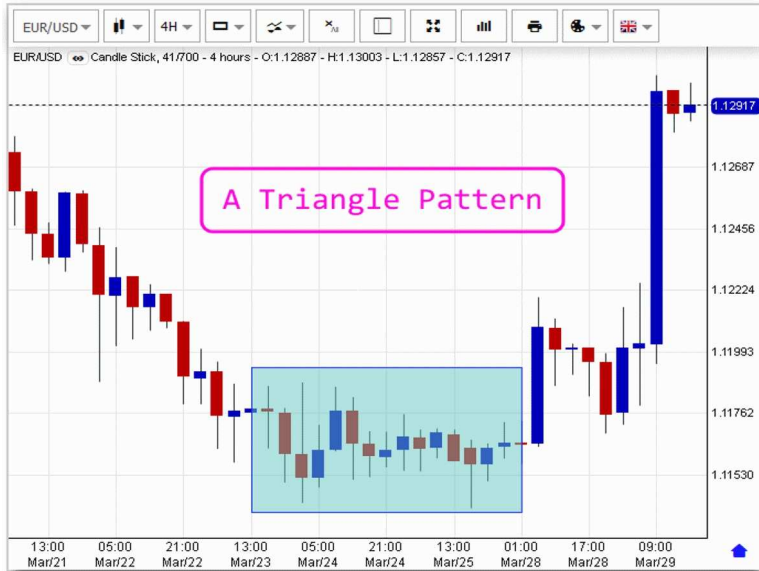


Figure 12.1.2.2 A triangle pattern

12.1.3 Cascade (Weakening Upward or Downward) Patterns

These are in fact upward or downward price moves that follow a curved path and get exhausted during the time. For example, an upward move starts with three bullish candles, then follows by one bearish candle, then two bullish and again one bearish and hence forth. It is obvious that the move gets weakened and then tends to reverse (a major or minor reversal depends on the significance of support or resistance level, for example if a weakening upward cascade reaches a major resistance level a big reversal is highly

Twin patterns reflect strong price rejections and are very reliable to trade.

Exercise 7. Draw charts for a few major currency pairs in different time frames on <https://www.tradingview.com/e/> and try to find the pin bars in support and resistance zones or up and downtrends. In support or resistance zones see when and how the reversals take place.

Exercise 8. On 1H and 4H historical charts look for pin bars and find how the length of pins is relevant to the momentum the price will take.

14. Correlation Trading Strategy

In Forex market, some currencies (that usually belong to one monetary zone or originate from economically linked countries) are (negatively or positively) correlated. This correlation provides traders very highly probable trading opportunities. In correlation trading we are seeking moments that one highly correlated currency pair (correlation coefficients of +0.75 to +0.85 or -0.75 to -0.85) slightly lagging (or leading) the other. In fact, the essence of correlation trading is the time lag (or divergence) of two tightly bound currencies. As these lags last only for a short time, 1H time frame is the standard of this sort of trading. As an example, GBP/USD and AUD/USD are traditionally correlated and if a divergence is caught on time, it offers a great trading opportunity. Sometimes AUD/USD is leading and GBP/USD is lagging and vice versa. It is obvious that in correlation trading, we only trade the lagging currency.

Correlation trading setups are among the most accurate, highly probable trading opportunities you may spot on the market. Especially, I recommend this type of trading for beginners. Because of their high accuracy they are also ideal for optimal trading (see chapter 22). Even you can use two currencies correlated to another one to place double correlation trades. For example, use USD/JPY and AUD/USD to double confirm a EUR/USD trade. It is obvious that double correlation setups happen much less than single correlation setups but when come, you can trigger an optimal trade with 99% confidence and harvest some big bucks.

Exercise 9. On 1H Forex charts overlay normally correlated currency pairs (EUR/USD-NZD/USD, GBP/USD-AUD/USD, USD/JPY-USD/CHF, USD/CHF-USD/CAD etc.), spot the time lags and examine if the two conditions of correlation trading are met.

15. Volume Price Analysis (VPA) Trading Strategy

Volume is the concurrence of price and as important as it is. A smart trader always has an eye on the volume during the trades. Volume Price Analysis (VPA) is simply the analysis of volume-price interplay. A significant change in volume of the current bar in comparison to the previous bar (usually in 1H and 4H time frames) tell us that the combination of buyers and sellers has changed. This means that the market is under new supply-demand shifts and will definitely react to this change. This is an early signal and we can take the full advantage of it in our trading.



Figure 15.2 Volume-price analysis trading

On the above picture, arrow 1 shows a short bar but the volume spike signals the end of the downward move and dominance of the buyers. As you see, a long move starts immediately. Arrow 2 shows a short head pin bar. The relevant volume spike signals that sellers have taken over at higher high and the next short move is confirmed. Arrow 3 and its volume spike indicates the dominance of the buyers at support level (lower low) and hence a long move is expected (that has already happened). Arrow 4 shows an evening star pin bar at resistance level. The spike informs us that a short move is on the way.

Exercise 10. On historical Forex charts activate volume indicator and find some volume spikes. Try to interpret the price changes in relation with the volume spikes.

17. Sentiment Trading Strategy

17.1 What Is Traders Sentiment?

One of the most influential factors in financial markets including Forex is supply-demand pressure (or buyers-sellers pressure). In Forex, as a sparse market, we are not able to measure this factor in real time, but fortunately, a very close estimation of it is in hand that is called sentiment. Sentiment, as it is understandable from the word is the feel or opinion of the traders about the market. In a given time, a part of the traders sense the market as bullish and tend to open long positions and the other part sense the market as bearish and tend to open short positions. This game is repeated all the time and the opposite sentiments of the masses act as a considerable supply-demand force. So, the trick is to look at the sentiment charts and follow the dominant group.



Figure 17.1.1 Bull/bear sentiment evolution

Fortunately, some of the big brokers publish the sentiment of their traders in real time and these tools are valuable gems to inform us how the community of traders thinks about the market. This sentiment is simply shown in percent (percent of long and short open positions). Among the best sentiment charts I have to name Oanda, Dukascopy Bank and SaxoBank. Especially, Oanda has done a great job to generate a variety of nice, informative charts that is quite fit to our purpose.

<http://fxtrade.oanda.com/analysis/open-position-ratios.shtml>
<https://www.dukascopy.com/swiss/english/marketwatch/sentiment>

<http://www.saxobank.com/market-insight/saxotools/forex-open-positions>

17.2 How to Use Sentiment Charts in Trading?

Sentiment charts show long and short sentiments in percent in two colors respectively blue (or green) and red. As shown on the picture, for example in USD/JPY pair, the long sentiment (open positions) is 54% and the short sentiment (open positions) is 46%. We call these figures absolute sentiment as they show us the cumulative sentiment of the traders (total open positions) from the current time date back to even a few months ago. The important point here is that the sentiment charts may not reflect the most recent sentiment of traders because they carry the sentiment information of the mass from the past dates.

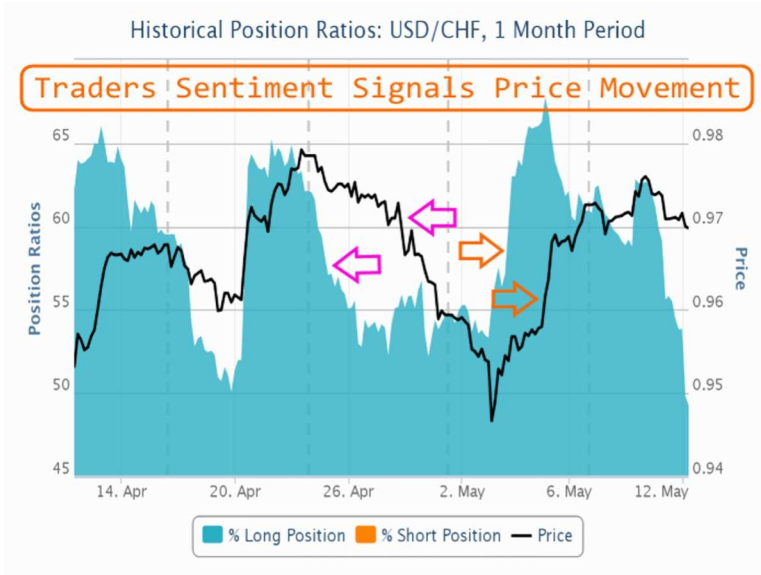


Figure 17.2.1 Traders sentiment as a leading signal

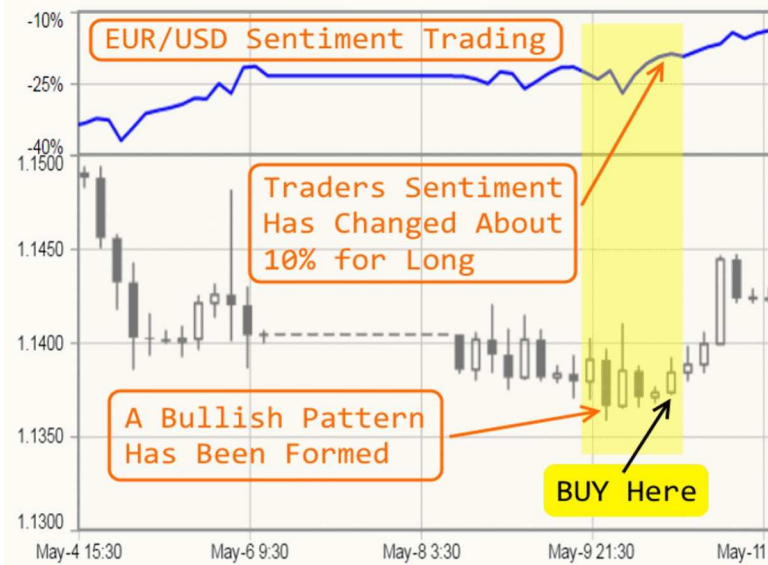


Figure 17.2.2 A sentiment trading opportunity



Figure 19.3.1 A news trade analysis

But, analyzing AUD/USD for the same news release, we find that all conditions of a successful news trade are met. A very tight resistance level and acceptable risk/reward ratio (1:2.2) qualify AUD/USD for this trade.



Figure 19.3.2 A news trade analysis

your experience, skills and your psychological control will determine how much your success rate will be. But, without doubt you can see that a combination of trading signals will greatly enhance the accuracy of your trading and the winning ratio of your trades. Also, as I will discuss in the chapter about psychology of trading, being more certain about your trading decision, will help you to lessen your stress and be psychologically more ready to manage your trade to a winning end.

In the following examples I have tried to illustrate the advantages of high performance trading using simultaneous combination of a few trading signals. On the pictures, figure 1 refers to a pattern signal, figure 2 refers to a correlation signal and figure 3 refers to a volume spike signal. Coincidence of all these signals tells us that we can enter a very highly probable trade.



Figure 20.1 High performance trading opportunity



Figure 20.2 High performance trading opportunity



Figure 20.3 High performance trading opportunity

The following pictures show you how set your best SL and TP targets and how calculate your risk/reward ratio.

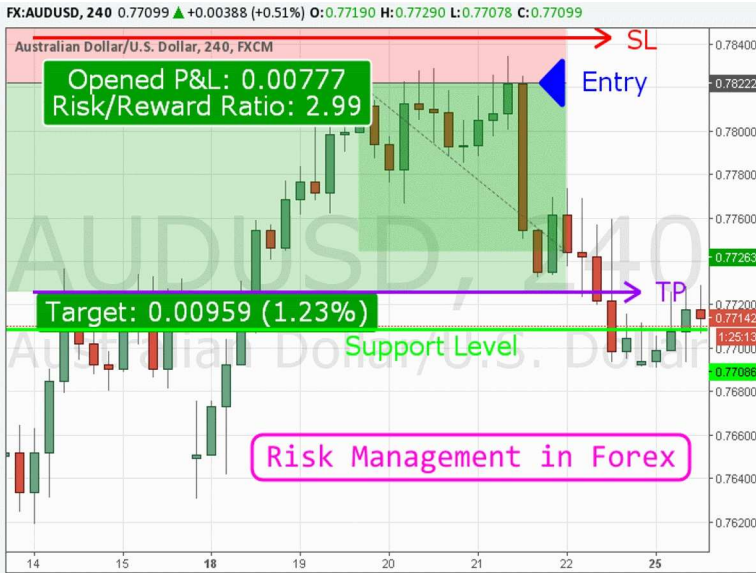


Figure 21.2 How to manage your risk in Forex

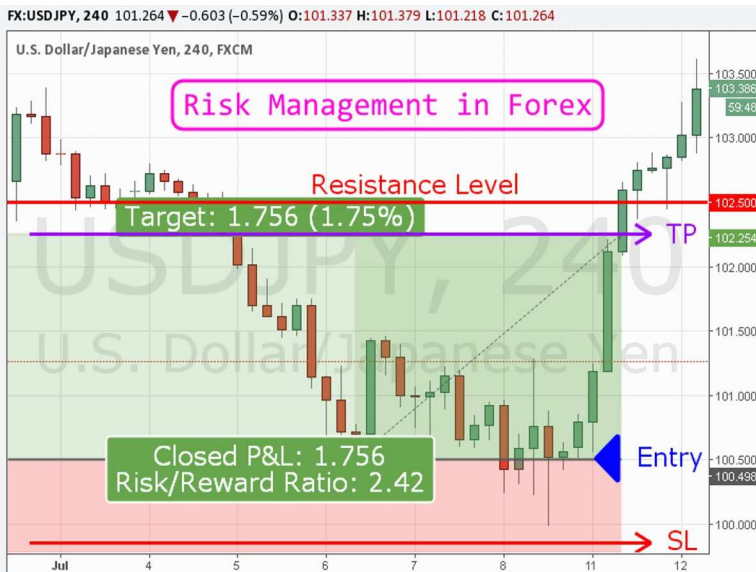


Figure 21.3 How to manage your risk in Forex

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