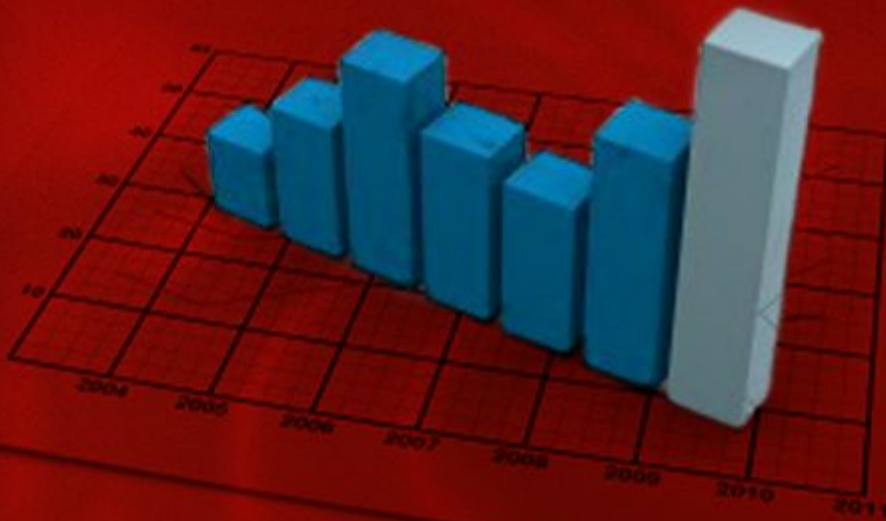


# MASTERING THE SKILL TO SUCCESSFUL CHART ANALYSIS

KL



KELVIN LEE  
A U T H O R

### Introduction

In this course, you will be taught the exact way how I read my chart everyday. The purpose of setting up this course is to help those of you who are either new to trading or is still struggling in your trading by teaching you the right way to read your chart.

This method of technical analysis is the accumulation of my years of forex trading and constant fine tuning. Therefore I hope that you will spend some time to read through this book and most importantly put it to practice everyday until you are able to do it properly.

In this entire course, you will be taught how to conduct a proper technical analysis with the top down analysis technique that I often use in my trading. This will make sure that you have a good picture of the market long term, medium term as well as short term movement.

After that, I will show you the best way to identify the trend of the market as well as the strength of each of them. This will again gives you a good picture of the long, medium and short term trend of the currency pairs.

With the trend identified, I shall then teach you how to identify important candlestick patterns and formation which can be very useful in your trading. Being able to read the candlestick formation can give you a better feel of the market movement. In addition, you will be taught how to identify strong support and resistance levels that can help you in your entry and exit.

At the end of this course, you will be able to read the chart like I do everyday and this will help you to have a better understanding of the market movement and eventually gives you more winning trades.

## Chapter 1: What Is Forex?

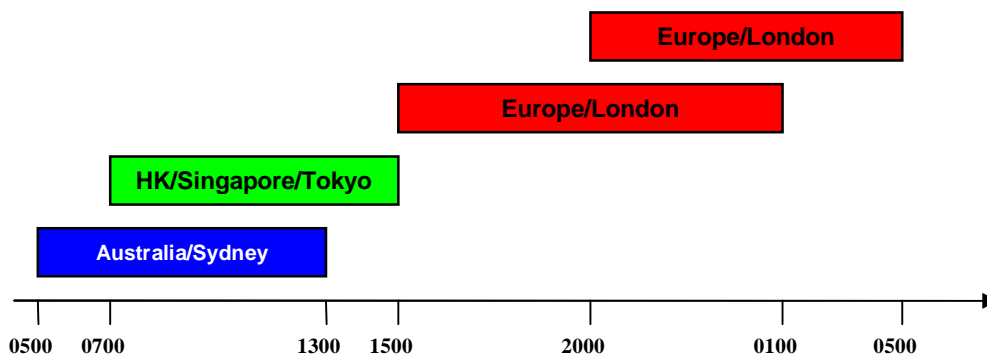
Forex is the short form for the word “Foreign Exchange” and this actually means the buying and selling of international currencies. In forex, you are actually buying a country currency and at the same time selling another country currency.

Currencies are always traded in pairs like Euro/US dollar always known as EUR/USD pair or US dollar/Japanese Yen always known as USD/JPY pair. Let’s take the EUR/USD pair for example; when you are buying EURO, you are actually selling the US dollars in exchange for the EURO dollars.

In fact, when you are exchanging money from your bank or money changer, you are in the process of forex trading. You are selling your country currency to buy another country currency. However the physical exchange above is only playing a small part in the market. In fact, there is a huge marketplace where large volume transaction takes place and this is what really move the market.

The main player in the market is the banks and this is known as the interbank market. In the interbank market, there are a group of banks that trade against one another and this simply accounts for trillion of dollars everyday.

For the forex market, it goes on for 24 hours a day from Monday to Friday. This is because when one market closes, another market opens and you can see the diagram below for better illustration.



## **Section 1.1 Why You Should Trade Forex?**

Before you begin your journey to explore the world of forex trading, here are some reasons why you should trade forex.

- 1) The average daily turnover in the forex market is estimated to be around \$3.98 trillion which is much higher than the volume of NYSE, NASDAQ and London equity market combined. With the high volume of transactions, it gives rise to high liquidity which means that you can sell or buy a currency pair almost instantaneously without the need to wait for buyer or seller.
- 2) The market is open 24 hours a day except for weekends and this provides a trading opportunity for traders all around the world. For those of you who are working and is looking to make extra income from forex trading, the 24 hours market allows you to trade after you finish your work.
- 3) The forex market provides a large leverage factor that allows anyone to trade with small capital. Imagine you only need USD 100 to trade USD 10,000 against the Yen.
- 4) The forex is a recession proof skill as it allows the traders to SHORT the currency pair. Unlike the stock market in certain countries where you are only allow to BUY. Forex allows the trader to buy or sell depending on their analysis.

## Section 1.2 Breaking the Myths

For the past few years till today, there are more and more people joining the field of forex trading hoping to be able to achieve financial freedom one day. Other than the real possible income and freedom that forex trading can offer, I think that most people are attracted by the hype and myths that is created by advertisements that appears on the internet or even local newspaper.

The promise of “making millions in months” and “quitting your day job in weeks” are the most successful bait for most people. Therefore in this chapter, I am going to debunk some of the myths of trading so that you can concentrate on what I am going to teach you at the later part of this book.

### ***Myths #1: Existence of Holy Grail Trading System***

People are constantly in search of a trading system that can make them money 100% of the time. If you ask those new traders who have just joined the arena of forex trading whether they think that all successful traders have a secret trading strategy. The answer is mostly YES.

Most people thought that those successful traders have a Holy Grail system that generates them money day in day out but the actual fact is there is no Holy Grail system in the world.

Even the most successful trader makes 30% losing trades some months. The problem with most new traders is they abandon their trading plan once it generates a losing trade for them. The reason why there are successful traders and there are people who fail miserably in forex lies in the discipline.

A successful trader will continue to place their trade based on their trading plan even when they are losing 3 days in a row. This is because they know that the strategy works in the long run and they will be profitable in the long run as long as they continue to follow their plan.

***Imagine this:***

The probability of getting a head in a coin tossing game is 50% and the probability of getting a tail in a coin tossing game is 50%. If you were to toss an unbiased coin 10 times, do you really think that you will get 5 heads and 5 tails? But if you were to throw about 100 or 1000 times, you will most probably get 50 heads or 500 heads respectively.

This is exactly what is going to happen to your trading plan. If your trading plan has an accuracy of about 60%, you need to trade long enough for the probability to kick in and make you money.

***Myths #2: Forex is a 50-50 Game***

Most people thought that forex trading is a 50 – 50 game. They think that the market will either move up or move down only and forget that the market can also move sideways.

With the additional sideways movement for market, forex trading is not a 50 -50 game. Therefore you need to do proper technical analysis to create an edge against the market.

***Myth #3: You can make money with the click a button***

This is a message that is always sold on an advertisement and it has created a swamp of people getting into forex trading thinking that it is as easy as clicking a button.

In fact, over 80% of new traders joining forex trading loses all their capital within their first 3 months of trading. The main reason for their failure is their lack of knowledge and practice in this field.

Forex trading is like any skills that you want to learn, you need to put in hard work and effort to learn the rope, put it to practice and eventually make money from it. It took me about a year of learning and practicing before I really make money from trading.

***Myth #4: You need a Sophisticated Trading Strategy to Work***

This is another common myth that most traders believe. They are always looking for the best indicator, the best combination of indicators and the best trading strategy.

When they are handed with a very simple trading strategy, they usually chunk it aside thinking that it must be nonsense. In their mind, they always believe that a sophisticated strategy is the best.

In actual fact, most successful traders trade with very simple strategy and there are even some who trade with no indicator at all. The key to a successful trading strategy lies in the person executing it. You can give 2 person the same strategy and later find one person making a living with it and another losing all his money.

This is because every man trades and sees things differently. Therefore it is not how sophisticated the strategy is that makes you successful, it the how you trade with it that eventually makes you successful. If you have been reading my blog, you will find that I always emphasize the importance of trading demo. This is the best time for anyone to fine tune a strategy to suit his/her trading style. All you need is a simple to execute strategy with good risk reward ratio and you follow it like superglue, I will assure you that you will be profitable in the long run.

### Section 1.3 Types of Traders

Before you continue to go through the rest of this book, you need to understand the various types of trader and their trading methods. Eventually you need to decide on the type of trader you want to become so that you can focus on practicing and fine tuning the strategy that suits your trading type.

#### ***Scalper***

The scalper is a trader that stays in a market for a short period of time. A scalper will usually enter and exit a trade within a few minutes of time. The main attraction of a scalper is that they are able to see their profit faster compared to other type of traders.

The main drawback for a scalper is that they have to think fast and is always acting under pressure. Due to the short duration of each trade, a scalper has to decide on a moment whether to enter a trade or not.

The scalping trader usually uses lower time frame chart like the one minute and 5 minutes. These allow them to analysis and enter their trade fast.

#### ***Day Trader***

The day trader will usually enter and exit their trade within the same day. Unlike the scalper, the day trader place their trade and usually exit within 30 minutes or even hours.

The good thing for being a day trader is the amount of time available for analysis. A day trader usually has a specific time of the day where they like to place their trade. Prior to that period of time, they will usually do an overall analysis of their charts so that they have a feel of the market.

When the time comes, they will then wait for opportunity to enter a trade. The day trader usually uses the 15 minutes, hourly and at most 4 hourly chart for their analysis.



***Swing Trader***

As for the swing trader, they usually trade the swings everyday. If you take a look at your chart, you will definitely see a lot of swings. However not all swings are tradable as some of them are too small for you to trade with.

The swing trader will focus on capturing swings that are larger in nature and these swings usually occur at London open and New York open.

A swing trader is pretty similar to a day trader; they usually exit their trade within the same day.

***Position Trader***

As for a position trader, they usually enter and exit a trade for days or even weeks. This type of trading is most suitable for people who do not have time to look at their chart everyday.

The pro of a position trader is the high profit it can generate as it allows profit to run for days or even week. However the stop loss for a position trade is usually very large. Therefore position trading is only suitable for those with more capital.

## Chapter 2: Trend Analysis

Before we embark on the top down analysis technique, I shall go through with you how to do trend analysis, how to identify important candlestick patterns and how to find strong support and resistance levels.

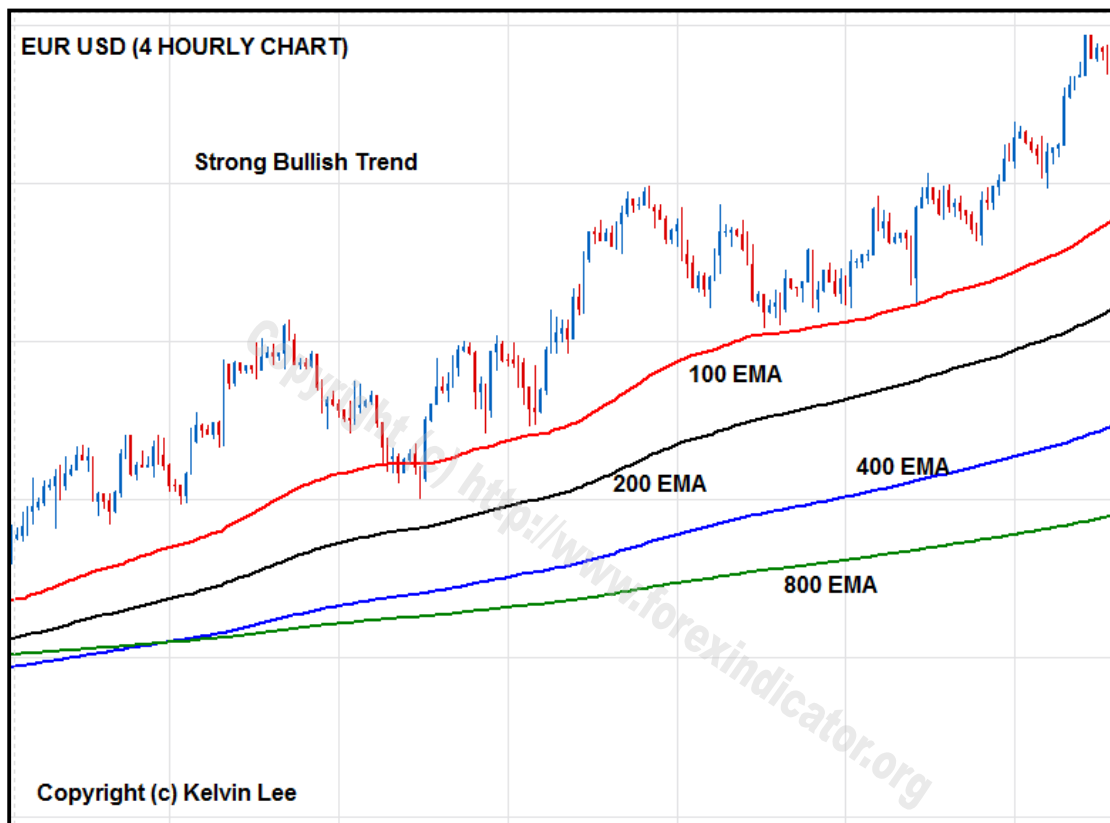
In this chapter, I shall start by talking about the trend analysis techniques. The most common technique that I use is through using the moving averages. I will plot the 100 EMA, 200 EMA, 400 EMA as well as the 800 EMA.

In order to identify the current direction of the trend, you can just read it from the 200 EMA. If it is sloping up, you are in an uptrend and if it is sloping down, you are in a downtrend.

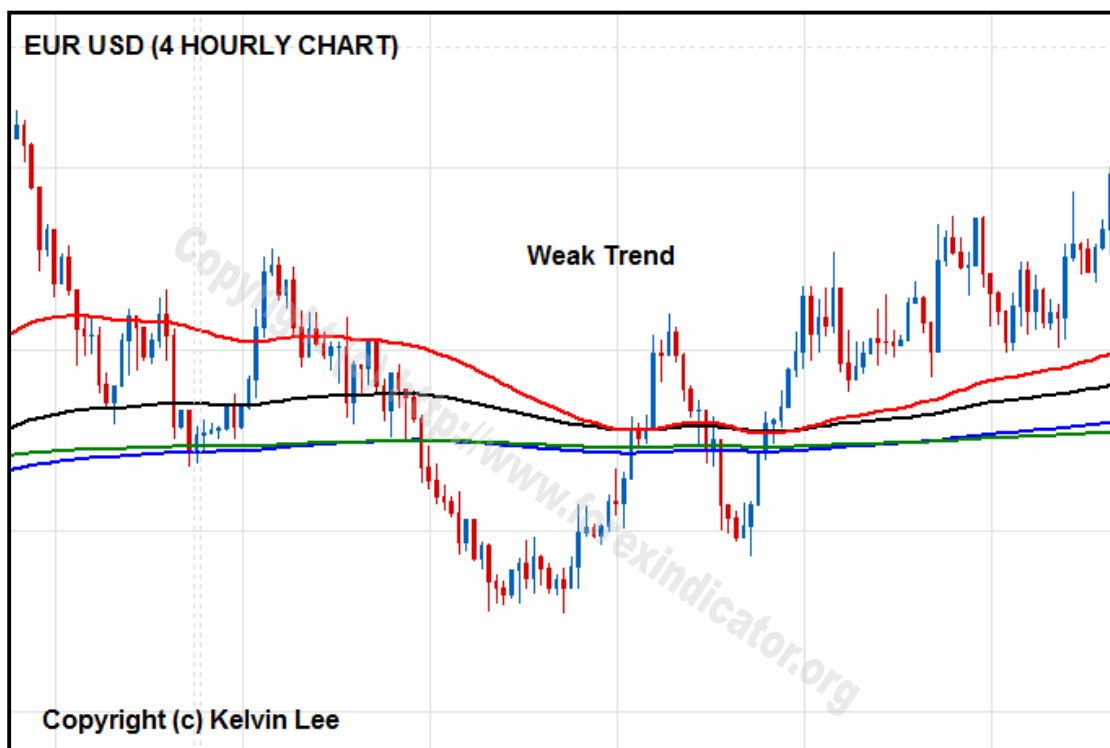


Once you have the direction of the trend identified, you can proceed to identify the strength of the trend. This can be done by observing the angle and separation of the 4 EMAs.

**Strong Trend** = The 4 EMAs are stacked one after another with good angle and separation.



**Weak Trend** = The 4 EMAs are stacked one after another with poor angle and separation.



**No Trend** = The 4 EMAs are clustered together with flat gradient.



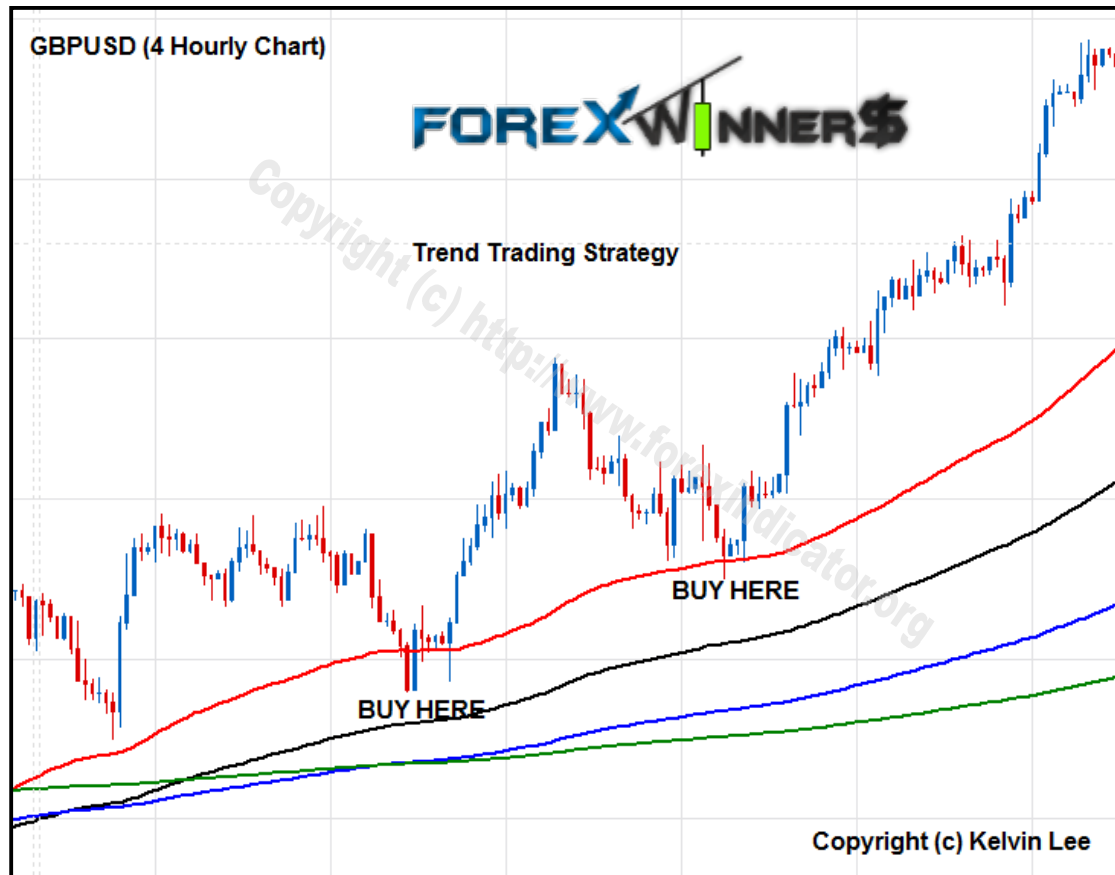
### **Why You Need to Know The Trend**

Understanding the trend is very important, this will prevent you from trading against it especially in a strong trending market. Most of the time, people get stopped out of their trades because they are actually entering a trade in the opposite direction of the trend.

However it still depends on the type of trading strategy you are trading. If you are a range trader, you will wait for the EMAs to become flat before looking for trading opportunity.



If you are a trend trader, you will always wait for the trend to become strong before looking for trading opportunity.



Therefore knowing the type of traders you want to become is very important. If you have not decided yet, it does not matter as the trend analysis can fit any type of traders.

### Chapter 3: Important Candlestick Patterns to Look Out For

The candlesticks are what people often called price action. They are the reflection of the marketing movement and sometime it can give you advance notice about an incoming movement.

With the candlestick pattern, you will be able to tell if the market is going to reverse or continue to move in the direction of the trend. Being able to read the candlestick pattern can be a great help when you are trading and this is what I am going to teach you here in this chapter.

I know that some of you may think that the candlestick patterns are very simple knowledge but I can tell you that most of you are unable to identify them now even when you see them on a chart. So spend sometime here to learn and then put them into practice later in your trading.

#### ***Head and Shoulder Pattern***



This pattern is in fact a reversal candlestick pattern; it is only useful when you see it on a strong trending market. What it must consist of is a left shoulder, a higher head in the middle and a right shoulder.

Once you have identified the pattern, you should start to draw the neckline of the pattern which is the connection between the 2 lows of the head formation.

### ***How To Enter a Trade***

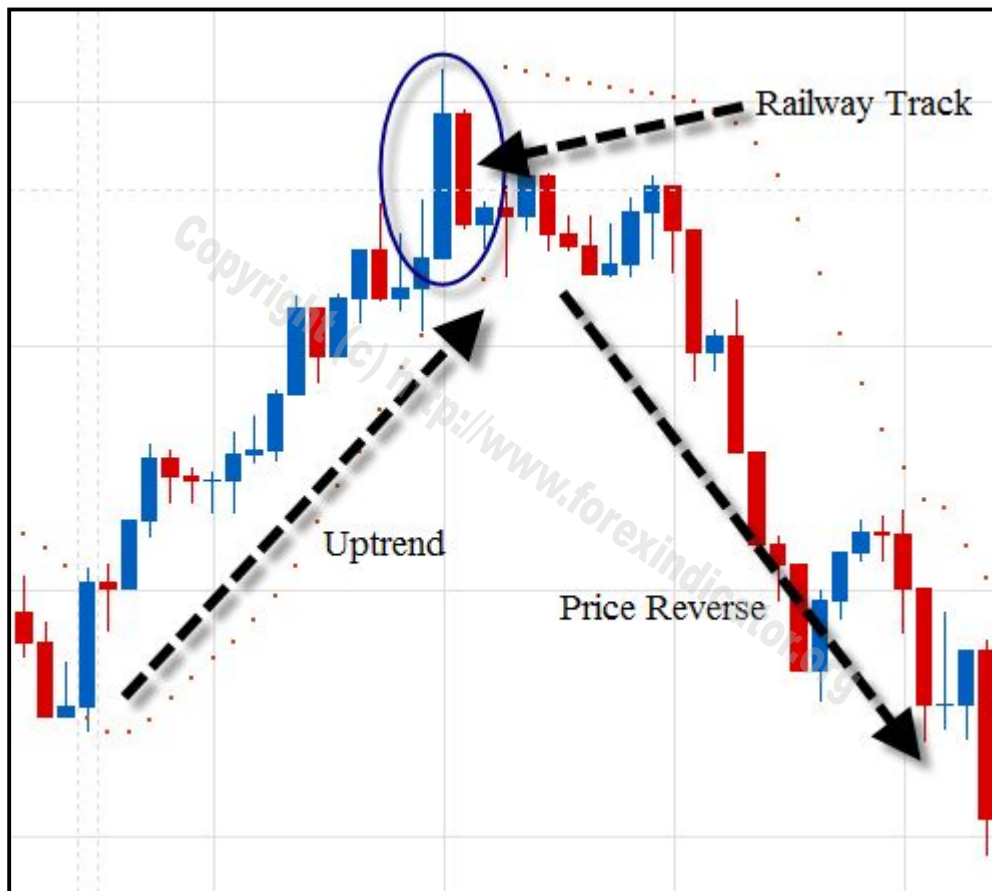
When the price actually breaks below the neckline, you will enter a trade. If you miss the trade at the point of the breakout, you can wait for the price to move back to retest the neckline one more time before you enter your trade.

### ***How To Exit Your Trade***

I shall teach you the technique to price projection for this pattern. You just need to measure the vertical distance from the top of the head to the neckline. Next you will place the vertical line at the point of breakout and you will know when to exit your position.



### ***Railway Track***



This is another reversal candlestick pattern. However there is one thing that I hope that you can understand. Sometime what looks like a reversal on a lower time frame is just the retracement on the higher time frame and that is where the top down analysis becomes important. I will show you more about the top down analysis later in this course as I need you to understand how to read the chart elements first.

The railway track is made up of 2 long candlesticks, each of opposite direction. This is a sign that the traders realize that something is wrong and started to get into the opposite direction. In fact, this can also be a continuation pattern when the market is in retracement.



**How to Trade This Pattern**

This pattern is especially powerful when it occurs at a major support or resistance levels. If you see the formation of the railway track at a major resistance like the daily pivot (Which I will go through in the next chapter), you should be ready to go SHORT.



### ***Double Top***

The double top and bottom is another pattern that I always look for in a chart. This is also a sign of reversal or retracement after the price has been moving in a particular direction for sometime.



### ***How to Trade This Pattern***

You will draw a neckline for the double top/bottom formation. Once the price breaks below the neckline for the double top or break above the neckline for double bottom, you will enter a trade in the direction of the breakout.

### ***How to Exit Your Trade***

The way to do a price projection for the double top or bottom formation is similar to the head and shoulder pattern. You just have to measure the longest distance from one of the top/bottom to the neckline and then project the distance from the point where the price breaks through the neckline and you will know where to exit your position.



**Spinning Top/Hammer**



The spinning top is formed by a short body with 2 long wicks at each ends, this is a sign of indecision between buyers and sellers and therefore the price stick to a point. Again this is a sign of retracement or reversal in action.



As for the hammer formation, it is formed when the price forms a short body with a long wick at one end of it. This is a sign of a stronger resistance or support trying to repel your price movement.

Unlike those formations where you can draw neckline and then do price projection, the hammer and spinning top/bottom do not have a neckline nor is it able to do any price projection. You need to make use of trend line or other strategy to make use of these 2 patterns. As a whole, the above patterns are just warning that the price is either retracing or reversing.

### Long Candlestick



The long candlestick is one pattern that I always stay away from in trading, the purpose of writing you this long candlestick is not to teach you how to enter a trade based on it, it is to inform you to avoid trading whenever you see the formation of such candlestick.

This is because the volatility of this candlestick will be enough to stop you out no matter what direction of the trade you take. It is always better to wait for the price to settle down before looking for a trade.

## Chapter 4: Support and Resistance

Whenever I open my chart to do my technical analysis, I will always look for major support or resistance as these are levels where the price will react to. There are times where you think that the market is going against you by stopping you out again and again, this is because you do not know that the price has indeed hit a major support or resistance level and it simply reacted to it.

Therefore identifying important support and resistance levels are what I always do before I look for any trading opportunity.

Below are the important support and resistance levels that I look for every time:

### 1) Major Swings

If you have been looking at your forex chart, you will realize that the market is made up of numerous ups and downs in the form of waves. With every up, you will have a swing high and with every down, you will have a swing low.

Although there are numerous swing highs and lows in the chart, not all of them are equally powerful. You need to know how to identify those powerful swings as these are what make the support and resistance.

Swing highs are N-shaped candlestick formation



Swing lows are V-shaped candlestick formation



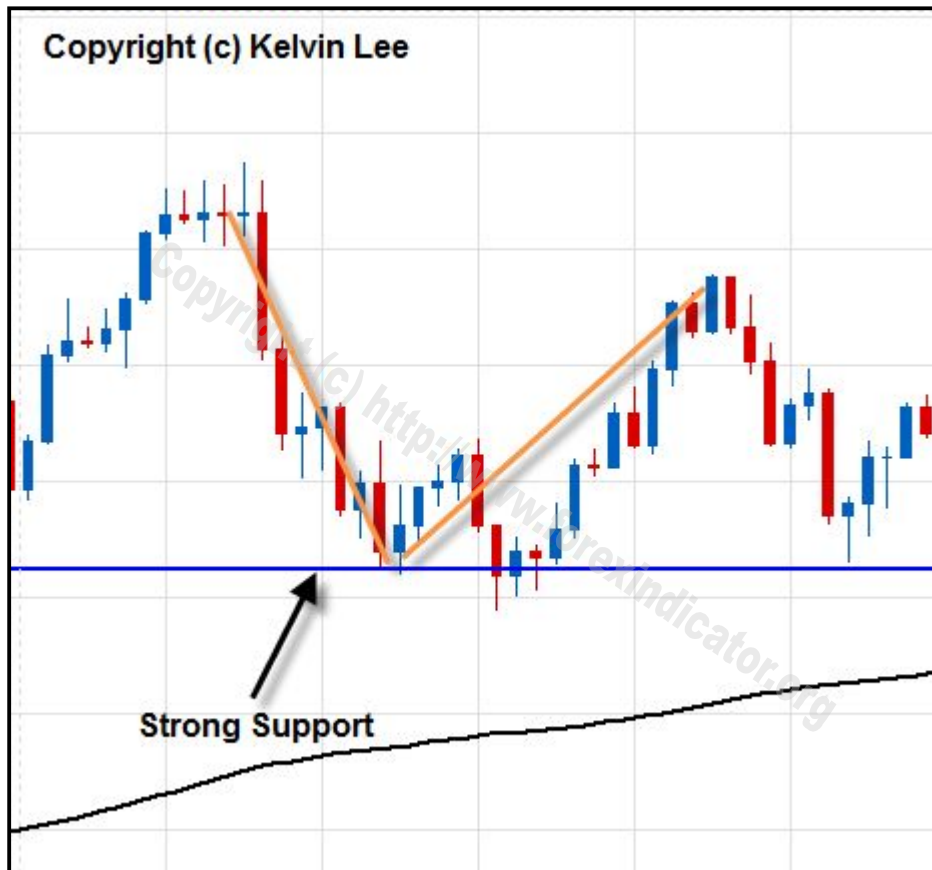
***How do you differentiate strong swings and weak swings?***

The best way to tell is through the depth of the swings. If you have a swing that is very deep, you are seeing a powerful swing. If you have a swing that is very shallow, you are seeing a weak swing.



Therefore one thing you must do whenever you are looking at your chart is to identify the position of these strong swings as there are usually places of strong support and resistance.







## 2) Pivots

Once you have grasped the idea of swings, you will need to learn the power of the pivots. The pivots are levels of support and resistance used by institutional traders and therefore it is often considered as a strong level of support and resistance.

Most of the time, you will find the price respecting these pivot levels and if it manages to break through it, it will usually move in a strong trend to the next level. Do not worry about how to plot these pivot points as they should be available in your trading platform. All you need to do is to select the type of pivot points you want, whether daily, weekly or monthly.

Do note that the higher the duration of the pivot points, the more significance it is. The monthly pivots are more powerful than the weekly pivot and the weekly pivot is in turn stronger than the daily pivot.

My personal recommendation is to plot the various pivots on the same time frame. Usually I will plot them on the time frame where I make my trading decision. Just in case you do not have a platform that plots the pivot point for you, below is how you determine the pivot levels manually.

### **How to Trade Pivot Points?**

The pivot points can serve as a good entry and exit indicator. There are different ways you can trade with pivot point depending on the type of traders you are.

Do not worry about the calculation and the formulas as there are numerous pivot calculators out there that you can use to help you calculate all the levels.

In this section, I will go through the step on how you can set up pivot points on your chart manually if your trading platform does not automatically plot it for you.

**Step 1:** Go to your Hourly chart (Each candle represent an hour)

**Step 2:** Select a time that you are trading and then back date 24 hours  
(Example: if you are trading at 7th January 2010 7am EST, you will also need the data on the 6th January 2010 7am EST.)



Hourly Chart Setup

**Step 3:** Place your cursor on the 6th January 2010 7am EST candle and



Record OPEN Value

**Step 4:** Look for the highest candle within the 6th January to 7th January and then place your cursor on the candle to record the highest (H) value



**Step 5:** Look for the lowest candle within the same period as step 4 and then place your cursor on the candle to record the lowest (L) value



**Step 6:** Place your cursor on the 7th January 2010 8am candle to record the OPEN (C) which is the closed value for the day



Record CLOSE Value

**Step 7:** Go to your pivot point calculator and then enter the OHLC value to calculate the pivot levels. You can simply find them by searching for pivot point calculator on Google.

This Pivot Point Calculator can be used to calculate pivot points for forex, futures, bonds, commodities, stocks, options and any other financially traded instrument that has a high, low and close price in any time period. Not every pivot point calculator is the same. The pivot point calculator lets you select the formulae you want to use and remembers your choice when you

Open	1.59821
High	1.60586
Low	1.58964
Close	1.59071

Decimal  Decimal  
 32nds  
 64ths

Decimal Places

Quick Change Formula Set  
 Classic

Ads by Google

[Free Options Tutorial](#)  
 Trading Option Contracts Explained Step By Step Guide, Download Now [www.TheTrendRider.com](http://www.TheTrendRider.com)

	Formula	
R4	PP + RANGE * 3	1.64406
	midpoint	1.63595
R3	PP + RANGE * 2	1.62784
	midpoint	1.61973
R2	PP + RANGE	1.61162
	midpoint	1.60640
R1	2 * PP - L	1.60117
	midpoint	1.59829
PP	(H+L+C)/3	1.59540
	midpoint	1.59018
S1	2 * PP - H	1.58495
	midpoint	1.58207
S2	PP - RANGE	1.57918
	midpoint	1.57107
S3	PP - RANGE * 2	1.56296
	midpoint	1.55485
S4	PP - RANGE * 3	1.54674

Enter The Recorded Values Here

Here are the calculated Pivot Point Levels



If your trading platform is able to plot them for you automatically, you will not need to know anything above. All you need to plot is the daily pivot and weekly pivot and you will have a series of strong support and resistance.





***The Power of Alignment***

The best time to enter a trade is when the major swing aligns with the pivot level. This will give you a stronger level of support or resistance. In addition to the alignment, it will be even better if you see any candlestick formation happening.



## Chapter 5: The Power of Top Down Analysis

The top down analysis is a technique where you will read the chart of the currency pair from higher time frame like the daily chart to the lower time frame like the 15 minutes chart.

My personally suggestion is for you to plot the following time frames for all the currency pairs you are using

- Weekly
- Daily
- 4 Hourly
- Hourly

Once you have done that, we shall begin with the top down analysis techniques. What we are doing is to do a trend analysis for all the time frames above. All you need to do is to follow the trend analysis steps you have learned earlier in the chapter.

With the entire trend being identified, you will be able to tell the current trend of the market. It will be best if all the time frames show the same trend, however if you have a situation where there is a contradicting trend on the time frames, you will take the trend to be the one with the more **STRONG** word.

### **Example:**

Weekly Chart: Strong Bearish

Daily Chart: Strong Bearish

4 Hourly Chart: Weak Bullish

Hourly Chart : Strong Bullish

Since the weekly and daily chart show sign of strong bearish trend, the overall trend will be strong bearish. This is because they are 2 strong bearish as compared to one strong bullish.

Now that you have identified the trend, you will need to go to the daily chart to look for candlestick patterns as well as areas of support and resistance. Try to identify as many things as possible on this time frame and once you are done, you will move down to the 4 hour chart and do the same thing.

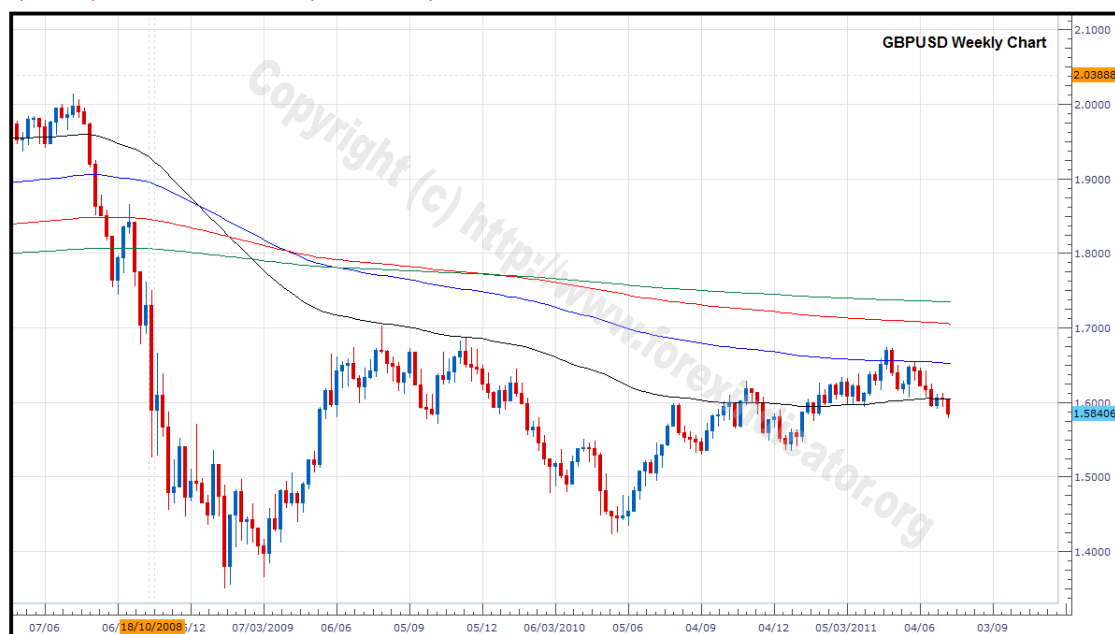
What I meant by the top down analysis is to do the above analysis from the higher time frame and then slowly move down. This will give you a good picture of the overall market movement and therefore is very useful for your trading.

Below is an example of a top down analysis I have done for GBPUSD on the 12<sup>th</sup> July 2011.

### Trend Analysis

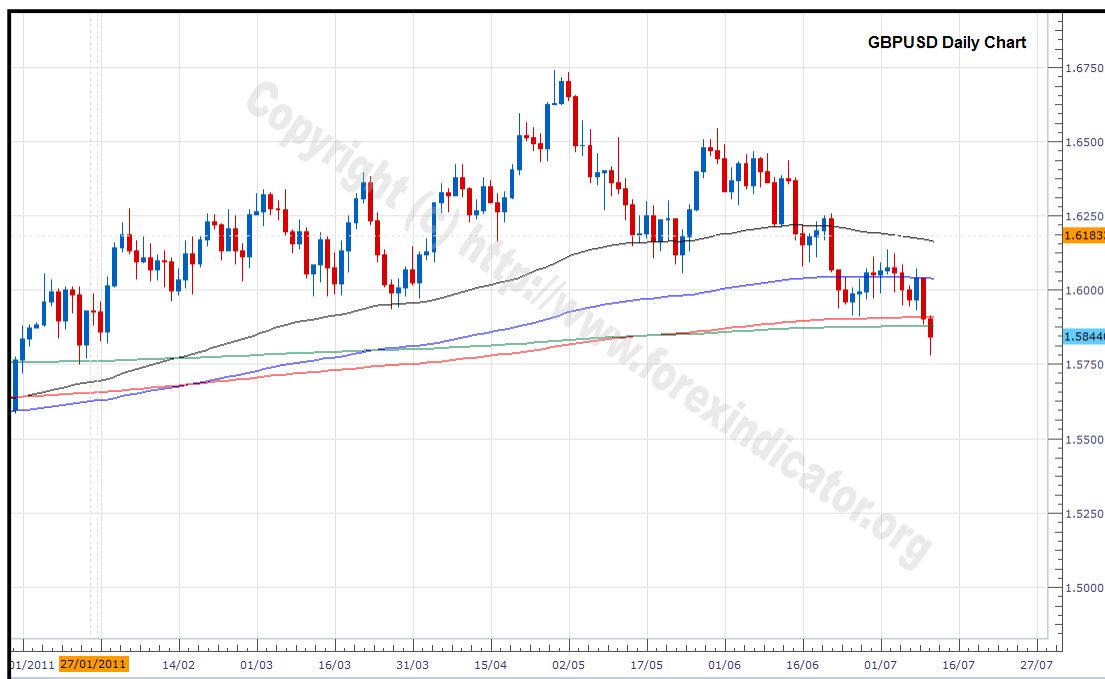
**Step 1:** I will open a weekly, daily, 4 hourly and hourly chart

**Step 2:** I start to plot the 100 EMA (BLACK), 200EMA (BLUE), 400 EMA (RED) and 800EMA (GREEN) on all chart

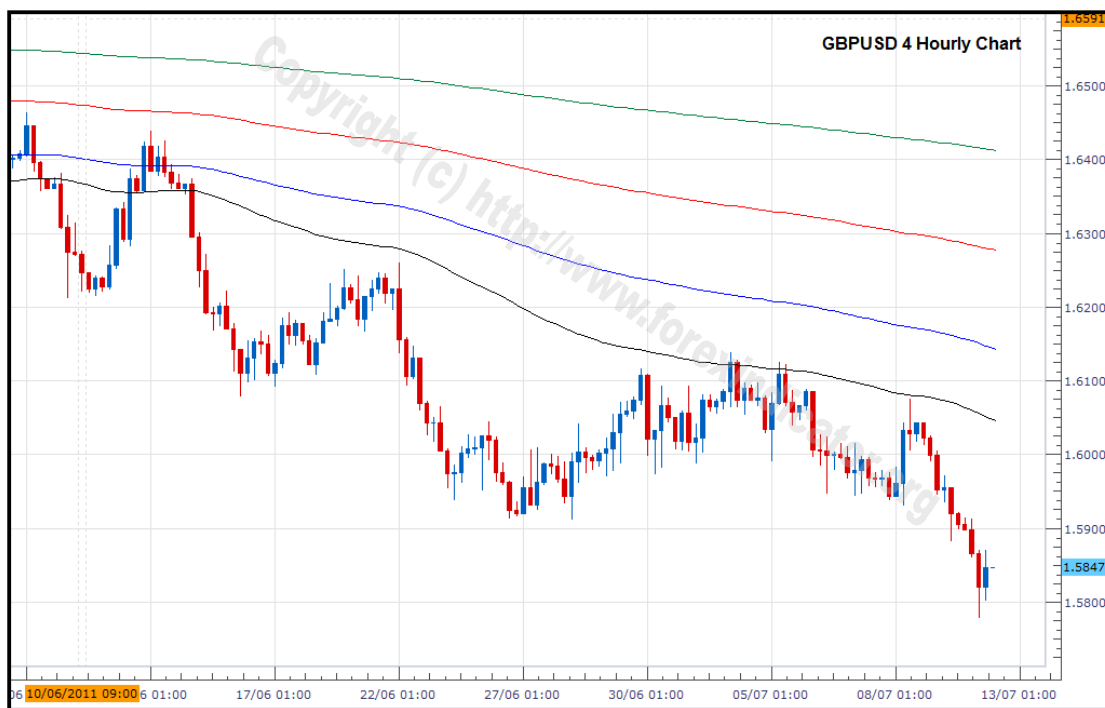


From the picture above, you can see that the EMAs are all stacked downward nicely one after another and therefore this is a sign of STRONG BEARISH (DOWN)

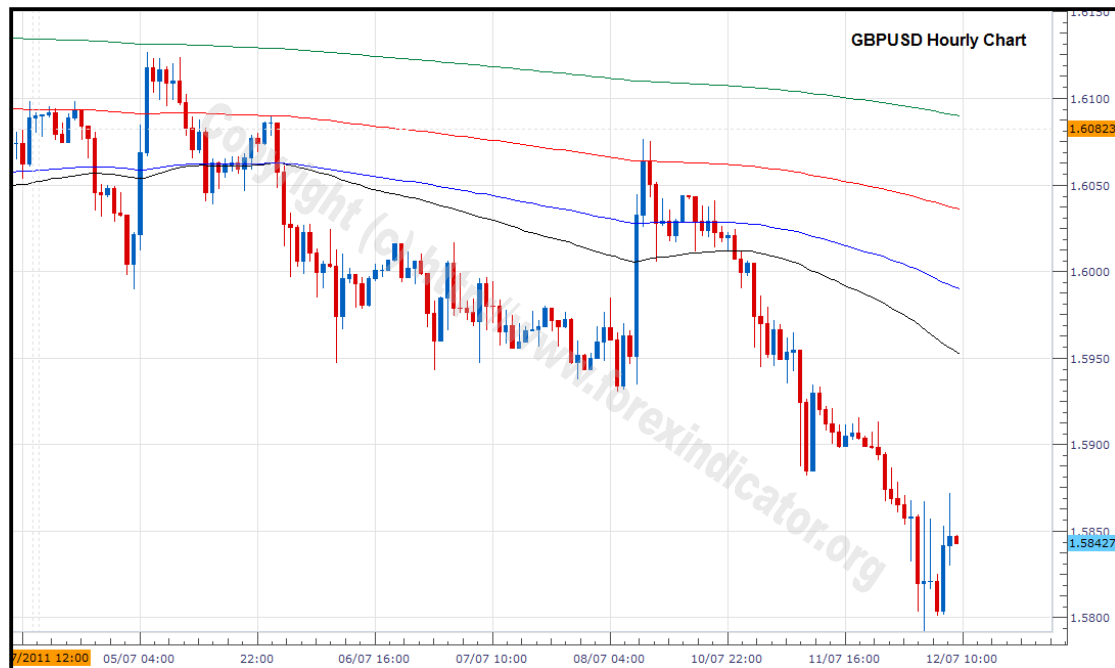




From the picture above, you can see that the EMAs are all stacked upward one after another but the 800 and 400 EMAs are a bit close and therefore the price is WEAK BULLISH (UP).



From the picture above, you can see that the EMAs are all stacked downward one after another with good angle and separation. This means that the trend on the 4 Hourly chart is STRONG BEARISH (DOWN)



From the picture above, you can also see that the EMAs are all stacked downward with good angle and separation. This means that the trend on this chart is STRONG BEARISH (DOWN).

### **Step 3:** Determine the Overall Trend Analysis

Since the trends on 3 timeframes are all showing DOWNTREND and 2 of them are in a strong mode. The overall trend for GBPUSD this week is DOWN.

### **Forex Technical Analysis**

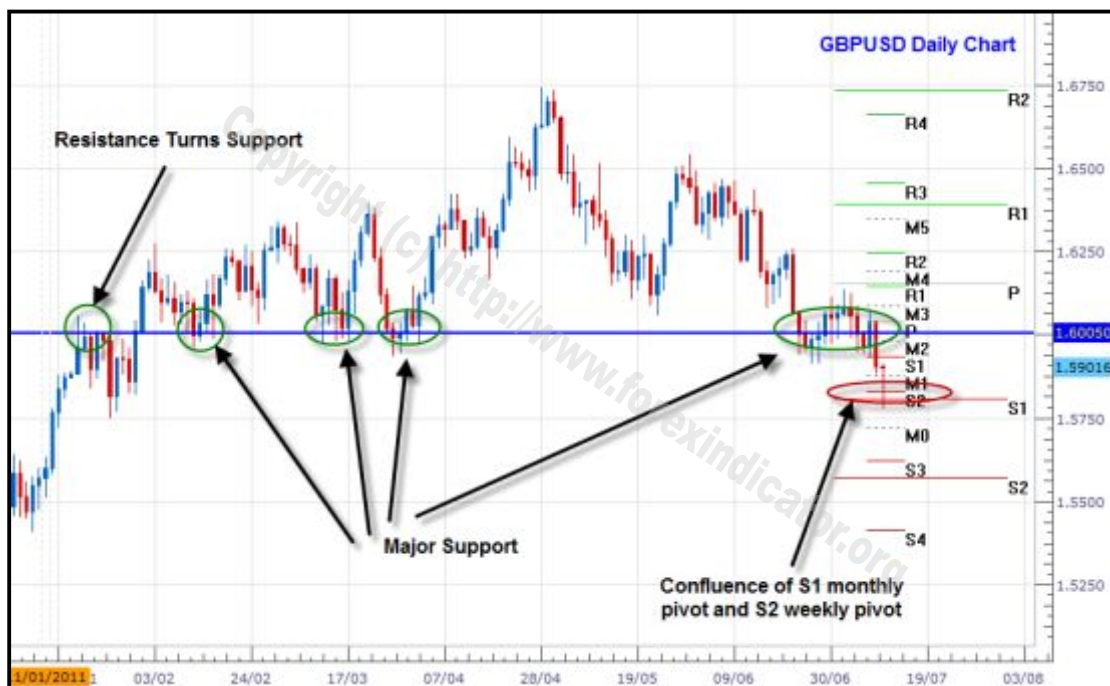
**Step 4:** Start doing technical analysis from the highest time frame which is the weekly chart first. What you should do is to look out for important candlestick patterns that I have taught you in Chapter 3 and then identify all the important support and resistance levels that I have taught you in Chapter 4. Once you have finished your analysis on the weekly chart, you can then move on to the daily chart to repeat what you have done on the weekly chart. You will then move down to the 4 hourly chart to do the same thing and lastly move to the hourly chart. This is what I call the Top Down Analysis.

After you have done that, you will have a very good understanding of the currency pair for that week and you can then apply your trading strategy.



From the picture above, you can see that I have identified the formation of the railway track candlestick pattern which is a sign of reversal or at least a retracement.

After that, I start to look for major support and resistance level. You can see that I have drawn all the major levels out so that I know where exactly they are. These are good level to enter or exit your position.



Now that I have moved to the daily chart, I will do the same thing as what I have done on the weekly chart. I have identified a major resistance level and

find out that the price is currently being supported by a confluence of S1 month and S2 weekly pivot.



On the 4 hourly chart, I find that the price is being supported by a confluence of pivot levels and the price has moved up.



On the hourly chart, I have identified a spinning bottom at the point confluence of pivot point.

### Overall Technical Analysis

From the analysis above, we have seen that the price is currently being supported by confluence of major supports and there is a high chance that the price will moved up.

However we have to be careful of the major resistance at 1.59369 if I enter LONG. Now that we have identified all the major levels of support and resistance, we will be able to enter a position once any major level is being broken.

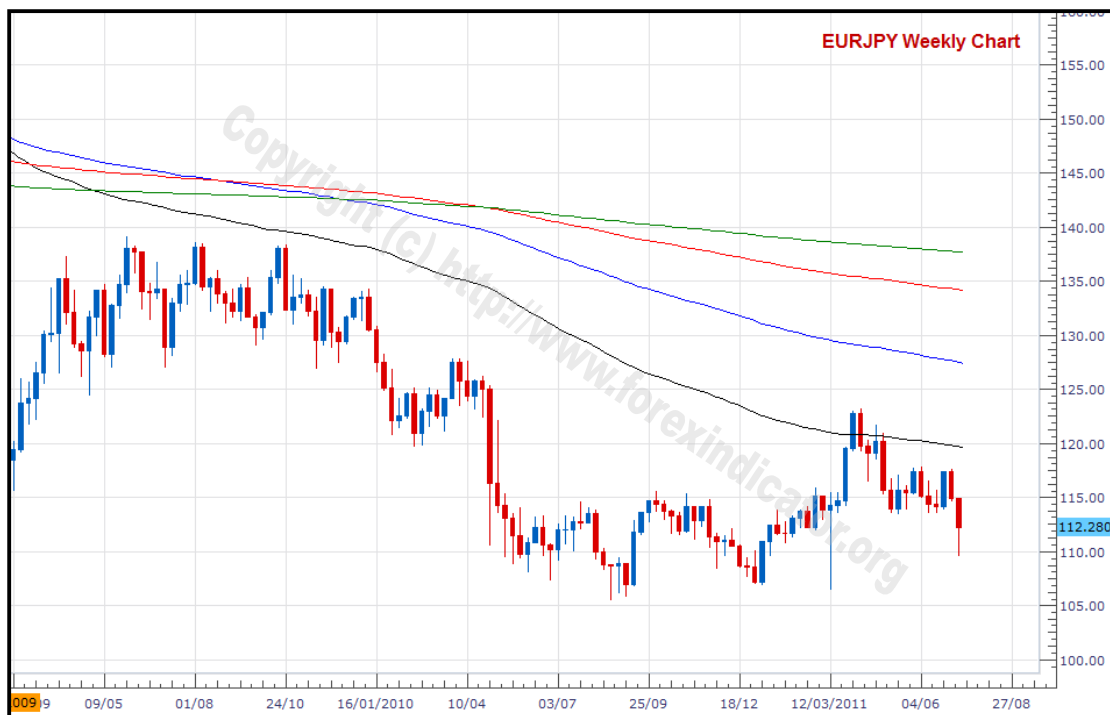


Below is an example of a top down analysis I have done for EURJPY on the 14<sup>th</sup> July 2011.

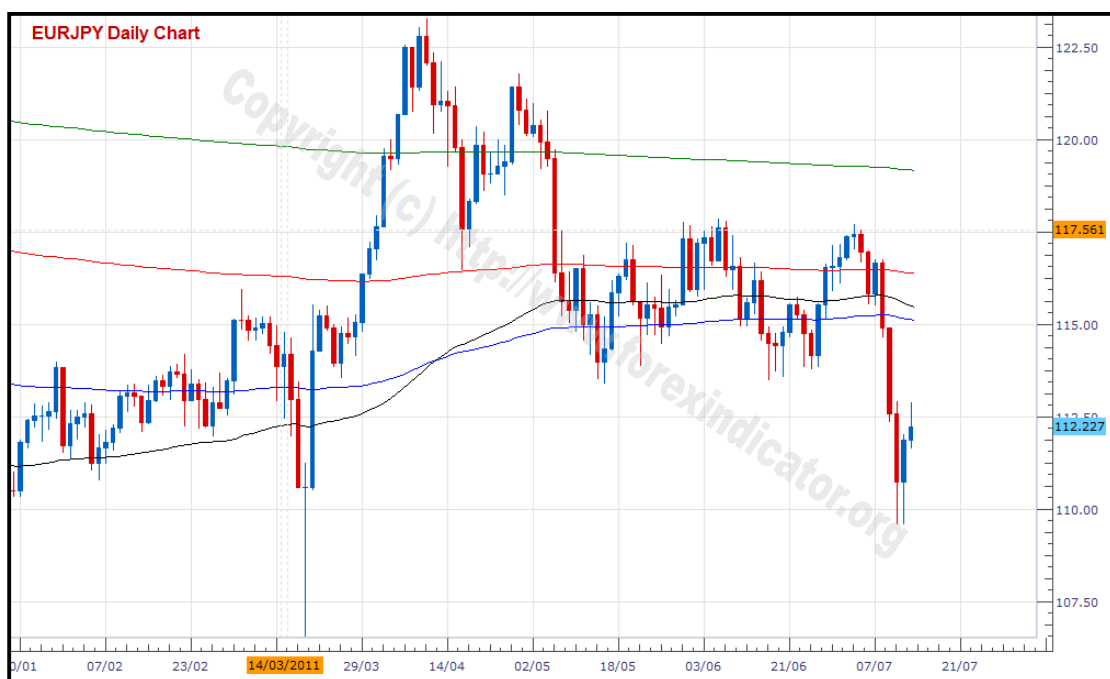
### Trend Analysis

**Step 1:** I will open a weekly, daily, 4 hourly and hourly chart

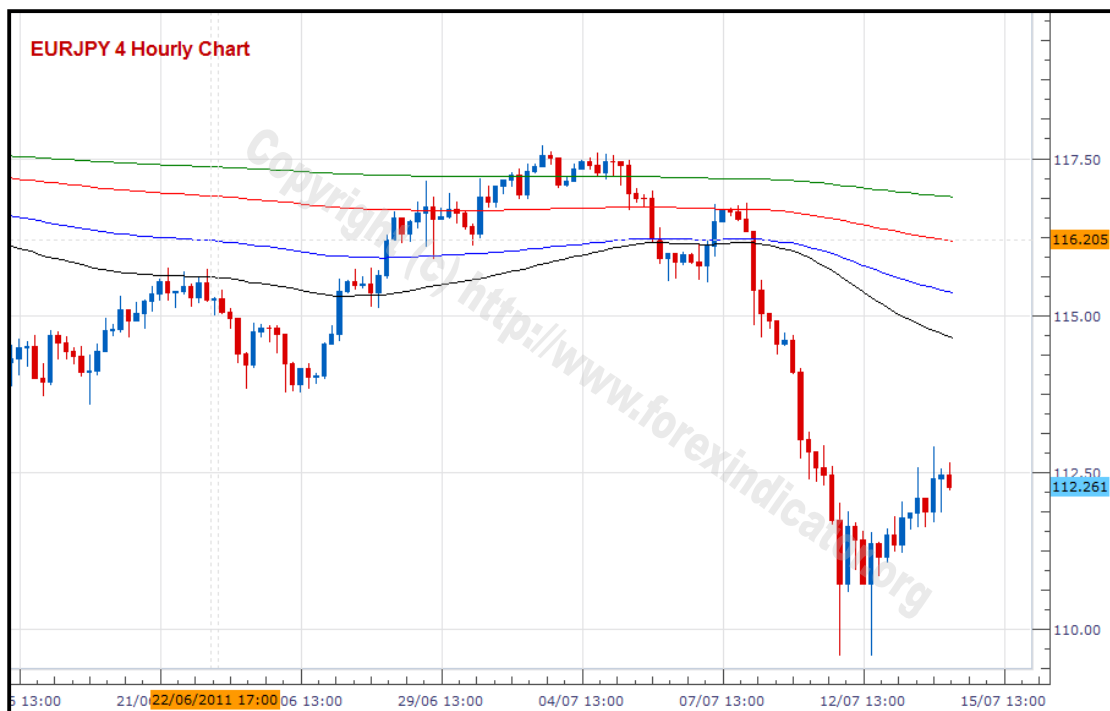
**Step 2:** I start to plot the 100 EMA (BLACK), 200EMA (BLUE), 400 EMA (RED) and 800EMA (GREEN) on all chart



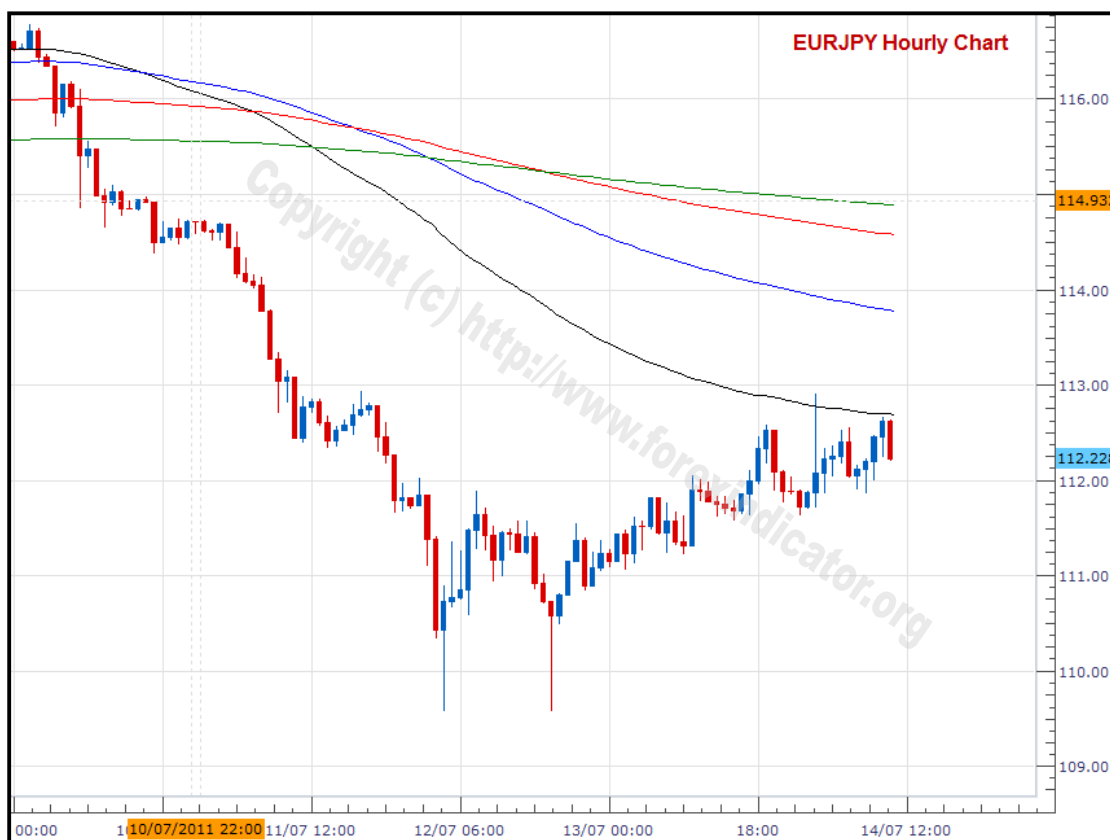
From the picture above, you can see that the EMAs are all stacked one after another in the downward manner. Since all of them are in good angle and separation, the trend is **STRONG BEARISH**.



From the picture above, you can see that the 100 EMA has crossed the 200 EMA while the rest are all stacked one after another in the downward manner. Therefore the trend on this chart is **WEAK BEARISH**.



From the picture above, you can see that the EMAs are all stacked one after another in a downward manner with good angle and separation. Therefore the trend on this chart is also STRONG BEARISH.





From the picture above, you can also see that the EMAs are all stacked one after another in the downward manner with good angle and separation. This means that the trend on this chart is STRONG BEARISH.

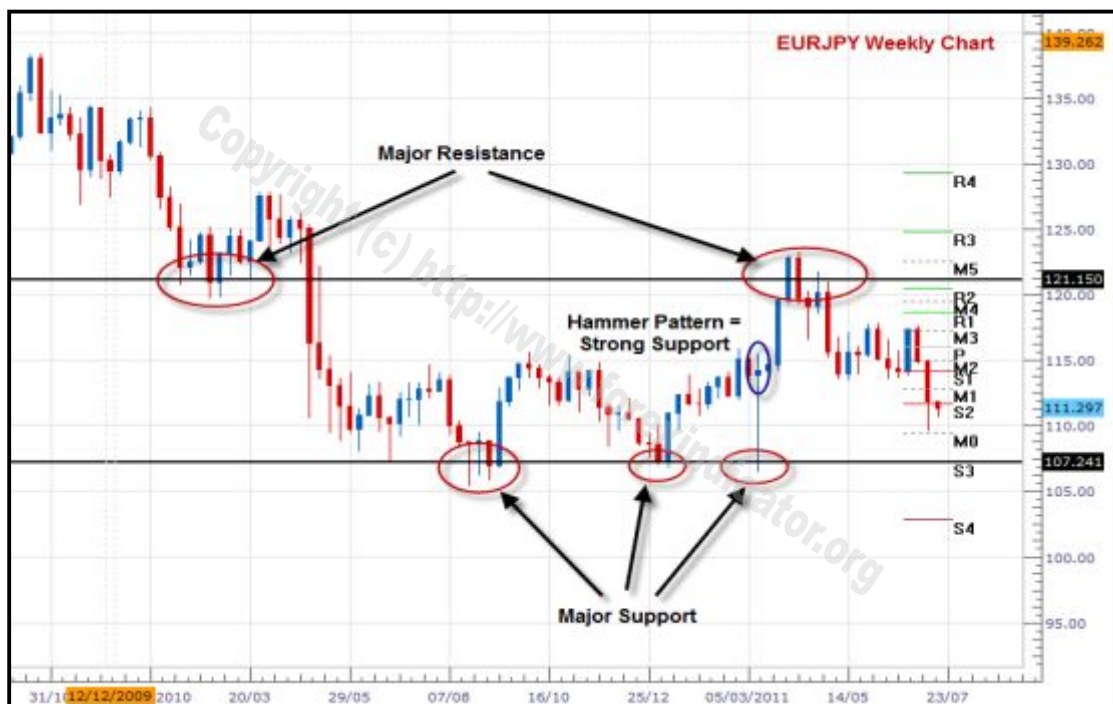
**Step 3:** Determine the Overall Trend Analysis

Since the trends on 4 timeframes are all showing DOWNTREND and 3 of them are in a strong mode. The overall trend for EURJPY this week is DOWN.

**Forex Technical Analysis**

**Step 4:** Start doing technical analysis from the highest time frame which is the weekly chart first. What you should do is to look out for important candlestick patterns that I have taught you in Chapter 3 and then identify all the important support and resistance levels that I have taught you in Chapter 4. Once you have finished your analysis on the weekly chart, you can then move on to the daily chart to repeat what you have done on the weekly chart. You will then move down to the 4 hourly chart to do the same thing and lastly move to the hourly chart. This is what I call the Top Down Analysis.

After you have done that, you will have a very good understanding of the currency pair for that week and you can then apply your trading strategy.





From the picture below, you can see that there is a major resistance level as that level has been tested several times before. There is also a major support level as it has also been tested several times before.

Most importantly, you can see the formation of a hammer pattern with a very long wick after hitting the support and this makes the level more strong.



From the daily chart above, you can see the major support being at the same level as the M2 Daily pivot. Whenever there is a confluence of supports or resistance, this will make the support or resistance more important.

As for the resistance level, it has been tested several times in a row and most importantly that resistance level is in confluence with M3 Monthly and R2 Weekly Pivot. With so many confluences, you are actually having a very strong resistance level.



From the 4 hourly chart above, you can also see there is a hammer formation after hitting the major support level. At the same time, you have identified 2 confluences of pivot points which will be a major resistance for you. These are good area to exit your position if you are looking to go LONG.



From the hourly chart, you can see a major resistance which is in the form of a trend line. As this trend line has been tested so many times, it is a very strong trend line.

## Overall Technical Analysis

From the analysis above, we can see that the price is being supported by strong support level and there is a reversal candlestick pattern forming on the hourly chart.

However we have to take note of the strong resistance of the trend line as well. The power of this technique lies in our identification of major support and resistance as well as important candlestick pattern. This will give us an understanding of the important zone and help us in determining our entry and exit.

I will go LONG if the price manages to break above the trend line as it is currently facing strong support and there is also a spinning bottom candlestick pattern.

On the 18<sup>th</sup> July 2011, the price eventually manages to break above the major trend line with valid trend line break and it then moves up 200 pips for the next week.



### **Why I love this Chart Analysis Technique**

With this method, I am able to tell those areas of strong support and resistance as well as important candlestick patterns. With these area identified, you will be able to know when to enter a trade and when to exit one.

If you have identified a level of strong support and a strong resistance and you see the price breaking above a major trend line. You can use the strong support as your stop loss position and the exit can be set at the next strong resistance.

This is because the price will usually move in a particular direction until it hits a resistance or support. With this technique, you now have a clearly picture of what you are trading and no longer trade with your eye close.

## Chapter 6: Trade Management

With a strong knowledge on how to read your forex chart, you are now ready to trade. However I will like to take this chance to talk about something known as the trade management. Without proper trade management, you will never be profitable as you will always find yourself being stopped out in the end.

This is the exact thing that I do whenever I am trading and I hope that you will put it to practice as well.

The most important thing in trade management is never to adjust your stop loss to put you to greater risk as well as cutting short your target profit. This will lead to you constantly trading with low risk reward ratio.

***For example:*** You enter a SHORT trade and you see the price slowly moving toward your stop loss of 30 pips and you decide to shift the stop loss to 50 pips hoping that the market will eventually move in your favour.

Most of the time, you will find that the price will still stop you out at the 50 pips which means that you are now trading with more losses. As a trader, we have to accept the fact that we are in a wrong trade whenever the price moves to stop us out and not to shift the stop loss to incur bigger loss in the end.

This is a very common mistake made by new traders as they are unable to accept any loss in their trading. So I am going to share with you something that I usually do in my trading.

Whenever the price moves against my position, I will stick to my stop loss and if the price ultimately stops me out, I will accept it and look for another trade to occur.

If the price moves in my favour, I will slowly shift my stop loss to breakeven and eventually wait for the price to hit my target. In this case, even when the

price reverses to stop me out, I am not losing a single pip and this is how I protect my capital.

As a trader, it is very important for you to understand the importance of protecting your capital. To a professional trader, protecting his/her capital is more important than winning a trade. If you are planning to become a profitable trader one day, you must understand and apply this good trade management skill to your trading.

## **Conclusion**

Finally we have come to the end of this course and I hope that you have benefited from this course. However if you were to be able to execute what I have taught you here in this course, you need to put in some effort to practice what I have talked about here.

Being a profitable trader is not hard but it is neither easy. It is a combination of a good trading strategy plus a good discipline in executing your strategy. So you need to first understand what to look for when seeing a chart and then start to learn a good trading strategy that has good record.

In fact, what you have learned in this course is what you have to do everyday when you open your chart. This will give you an overview of what is happening for the currency pair you are planning to trade. Irregardless of the trading strategy you are going to trade, having a better understanding of your currency will definitely help you to make better analysis for your trade.



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