

## Chapter 6

### **“Starting From Scratch Again”**

So moving forward what I decided to do was to start from scratch. Why did I do this? Well nothing that I'd learned and nothing that I've tried over the previous couple of years since I started trading that actually worked for any length of time in real time.

A lot of these things worked in hindsight and in back testing but nothing was successful for me on live accounts and working from the right hand side of the chart and after all working for the right hand side of the chart, watching the actual live bar moving up and down and taking a trading decision from there is really the only way you can make money in Forex.

Everything else that's happened is great and yes you can learn from that and use that information but you can't actually make money from that right now so I needed to start again. What I actually did was I took everything off my charts. I deleted all the indicators, all the robots, the scripts, everything that I bought or I had written for me over the last couple of years. I took the whole lot off it hadn't work in the past so I decided I need to basically pretend I was starting again and actually work out something that was going to make money.

Another thing that I also did and it's something that I highly recommend is that I unsubscribed to all those email lists that I found myself on, either lists that I choose to sign up to or lists that I somehow ended up on. Even so, every couple of weeks I found myself back on some of those lists again so I then unsubscribed again. I just tried to clean up my whole Forex related email inbox because what I found by reading all these email about new robots, indicators or E-books was just confusing me. I'm sure you can relate to that because it seems like everybody's out there selling their system or their indicator promising you it's the holy grail of Forex trading which is going to solve all your financial problems.

Even though I knew by that stage that most of them were rubbish there's just something at the back of your mind that says "oh I'll just read this one" or "wow this sounds really good, maybe this is the one that's going to actually work" even though you kind of know it's not going to and even though you know that you shouldn't be spending another \$37 or \$97 on a robot or indicator. You know that you shouldn't but there's something that tempts you to say "just one more".

So I decided to say "no, enough is enough. I'm not going to buy any more of these robots and software and I am going to start from scratch and build up from there". So that's what I did and I actually found by taking that mental approach and by physically carrying out that unsubscribing and deletion, it actually cleared that lot of clutter from my mind and by looking at just the price action I started to see things that in the past I hadn't seen.

You see by having so many indicators on your charts, what you tend to do is become reliant on them of course because that's why they are there. You tend to start watching this bar crossing over that bar or this line crossing over that line or going above a certain level or closing below a certain level whatever it might be. Like I said previously, pretty much all indicators are the same, it's just they show different variations of previous price action.

By studying those indicators all you're doing is just watching indicators. You're not actually watching the real thing that matters which is the actual price because the indicators don't really matter when you think about it. It's the price that matters. By eliminating all that clutter from my charts, not only did it free up my thoughts from clutter, it made me concentrate on and watch the price action.

So I started to get interested in almost an art form of reading a chart because as I now realise many years later, good technical based Forex trading is an art form. You are reading a chart, you're interpreting what's happening all around the globe with multiple buyers or sellers all in the market at the same time.

All of that information has basically been processed and put together into the price moving up and down as it does. Really when it comes down to absolute basics all the chart's doing is telling you a picture or story of what is actually happening in the market. I soon got to realise the economics of what's happening behind the scenes. Are there more buyers? Are there more sellers? Really that's what's happening. If there are more buyers in the market, the price has been pushed up. If there are more sellers in the market, the price has being pushed down, it's as simple as that when it comes down to it. The price very rarely stay flat, it's either moving up or it's moving down and that's what the price and candle patterns and bar charts started to tell me.

So I did a lot or research into price action and into candle patterns themselves and I struck a problem with most of the candle patterns as they used multiple candles to create the patterns. The problem was similar to the issue I had when I found the Elliott Wave Theory. It was fantastic in hindsight when I could see certain candle patterns or certain Elliott Wave sequences and steps on historical charts but when I was trading from the right hand side of the chart, I found that with the price bars moving up and down, I didn't really know when looking at Elliott Wave what stage of the wave we were at. With candle patterns, I didn't know if the pattern was a head and shoulders pattern, was that a butterfly pattern? There are many known patterns but I couldn't quite tell enough in real time what part of the formation the current candle was actually creating and whether it was relevant or not.

I suppose that then came across as yet another hurdle, yet another problem. To overcome this I then started to look at just individual candle patters. What I mean by that is I started looking at just the individual candle itself. Once the candle had formed, let's say I was looking at the 15 minute chart, then every 15 minutes I could make a decision.

What is this candle that has just closed now, either at the top of the hour or a quarter pass or at half pass or at quarter to the hour telling me? What is that candle actually telling me about the market right now and is that giving me enough information to justify placing a new trade or if I'm already in a trade is this giving me enough information to say "Hey it may be time to exit or add to the position or close part of the position" whatever that might be.

What I really then discovered was if I'm looking just at the individual candle, it gave me a lot more focus. It meant that I could just look at that candle and say "yes this is an engulfing candle and it's a bullish candle because it green it's closed near the high and that means that there is a strong likelihood that the price is going to continue moving up because at the completion of the candle (which is only formed due to time), there are definitely more buyers in the market and they were outweighing the sellers. The buyers were pushing the price up and on the completion of the bar, it closed near the high therefore the buyers are likely to continue pushing the price up into the next candle. That was the logic behind that.

It also meant from a practical point of view, I knew when I needed to start looking at charts. If I was trading at 15 minute charts it meant I could look once every 15 minutes. I then developed an understanding of the high timeframes. I then started moving into the hour charts, the four hourly charts, the daily charts and sometimes even the weekly charts.

As an example if I was looking at the daily charts it meant that I just needed to look at candle pattern just once per day and of course that becomes so much more easier to plan your day around and everything else that's going on in life, whether you have a job, a family or whatever it is. It becomes far easy to plan around knowing when you need to look at your charts. So for me, it meant that once a day was all I needed to look when I traded the daily charts.

I then figured that because I was not doing anything else in terms of actual paid employment, I was then looking at the four hourly charts and I could look at those once every four hours. With the one hour charts I could look at them once every hour and then any smaller time frame chart if I wanted to. The result of that was it began to free me up from being glued to the computer screen all day and night.

You see when you're looking at the indicators, A could cross over B and close under C anytime of the day, the problem being you just don't know when that's going to happen. The beauty that I discovered with candles themselves was not only was it reflecting the actual price action right now which is the important factor, it meant that I could plan my trading around my day or plan my day around my trading whichever it came to.

It meant that I knew the times of the day when I could go to the charts. It also meant I wasn't stressing about missing pips, and ticks and price movement within the formation of the candle because I knew that if I was trading one hour charts for instance, as soon as I had looked at let's say the 3 o'clock close, I knew I had no new trade until the 4 o'clock close.

This meant freeing me up from charts and I actually started to enjoy my trading. I think when you do that, the emotions become less of a factor because you're not panicking about missing things. So you can see now that once I discovered I needed to actually have no indicators and then I added just price action and candle patterns, how that already could lead to some kind of plan coming into place and some normality and less emotions.

Of course there was still a long way to go at this stage but you can see how things could start to take shape as opposed to being reliant on indicators.

The other thing that started to come into play then is I started to not only look at different timeframe charts, I started to look at different currency

pairs and how they reacted and so different currency pairs react differently at different times of the day, and on different days of the week.

News announcements can have an impact. For instance, if news came out of Australia, that news would affect the Australian dollar pairs but would it also affect the New Zealand dollar pairs? Does it affect the Euro? Maybe it does depending upon what the news announcement is.

I then started to look at the relationships of different currency pairs with each other and how they interact. For example if the EUR/USD increases in price, generally the USD/CHF will decrease. That particular example is common knowledge but there are many other occurrences that I discovered that between various currency pairs which have certain behavior patterns.

When I started to discover that, it was as a result of looking at price action. As I had eliminated indicators from my charts and as I wasn't letting a robot decide for me, the price action and the interaction between currency pairs become not only very interesting for me but it suddenly opened up a new understanding of the whole global financial system and how that affected the Forex markets.

Therefore price action and discovering the importance of this made a huge difference. One, it created an enjoyment of my trading, two it created an understanding and three, it definitely created profitability and an ease of trading.

So that was a major breakthrough for me, looking at different timeframes and how the different currencies interacted with each other. However I was still noticing that if I was taking a buy trade every time I saw a bullish engulfing pattern, I was getting too many losing trades. For instance I might be buying right at the top of the trend and I was thinking "well this is a bullish engulfing pattern, the trend is likely to keep continuing up" only to find the next candle will crash as the price drops.

I needed to try and find some way to eliminate those losing trades and so my research continued and then I made a point to try and research what was happening out there in the big financial institutions such as the banks.

I needed to understand what the big players were using because after all they are the ones who control some of the movement in the market and they have an influence on the market.

If they are trading for example, millions and millions of dollars per position or per trade, then I was of the understanding that they were likely to be doing something differently to what I was doing with my \$10,000 account.

So that lead me onto more research about try to understand what instruments, what indicators if any, what methodology the big banks and institutions were using. So I want to talk about that next.