

The Market Maker Method

Private Study Notes from Seminar of Steve Mauro

“Keep away from people who belittle your ambitions. Small people do that, but the really great make you feel that you too can become great.”
Mark Twain.

Authored by: Anonymous

MMM Notes

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PRELIMINARY NOTES

To successfully use the market maker method you need to begin to understand the motivations and tools that the MM has. The sole goal of the MM is to make a profit. The only tools at its disposal relate to manipulating price.

Price is a reflection of the number of transactions and the price paid for these transactions. A large number of transactions are required to shift the price. The Forex market is said to trade \$4,000,000,000,000 per day. The bulk of the transactions are carried out by large institutions, not by small traders. Therefore, the bulk of transactions made by small traders will be made with larger institutions. This also means that a price is moved predominantly as a result of what the large institutions are doing with currency. Their ability to dominate the market is overwhelming. **It costs about 10,000 lots to move the market by one pip.** MM's have the ability to move price at will retail traders do not. So for a retail trader to be truly successful, they need to at least have a concept of this process so that they understand what is happening and why. Even better, to be able to identify the patterns and strategies that MM's use to play the game and to the 'piggy back' with them rather than attempt to trade against them.

For example, if one institution places an order to buy \$1,000,000,000 (10,000 contracts) of Euro for instance, then it would require 10,000 traders selling one contract each, 100,000 traders sell 0.1 contracts each or 1,000,000 traders selling .01 contracts each to balance these transactions. Put another way, the same number of traders would be required to initiate a transaction at more or less the same time in the same direction to move the market.

So once you realise that price is moved as a result of deliberate, logical decisions the idea that price is a product of the emotional feeling of the various traders involved or of sentiment is misguided. Retail traders then, are left to react to the prices that they see, many of whom react emotionally.

In relation to learning and using this material, it involves changing the way you think about the market and it will be necessary to do the homework, absolutely essential to learn to spot the patterns. You won't be able to see them setting up if you can't see them in hindsight. Even after you are proficient, it will still be worthwhile going through setups on historical data to 'keep your eye in'.

Most of the successful students go through at least several years' worth of charts to identify the patterns.

Trading should be reasonably relaxing rather than stressful. So rather than trying to trade everything that moves aim to be extremely selective and then make as much as you can from that move. This of course involves trading heavily on these highly selected setups.

HOMEWORK EXERCISES

EXERCISE 1

Identify a peak formation high and a peak formation low. Then identify all the features of the 3 tiered cycle within both on a 3 day and an intraday cycle.

Understand that they will not all look perfect but nonetheless there are variations on the theme and being able to identify the variations is fundamentally important.

EXERCISE 2

Examine one or more cycles and put yourself behind the screen. In other words, imagine you are the market maker and what you would need to do at different times to trap traders and book your own profit. You will need to consider "where the money is", what might drive traders to behave in certain ways and then consider the methods that have been put forward including circular trading, stop hunting, testing patience, and so on.

EXERCISE 3

Choose a pair, one of the majors, go back and look at the course of 5 to 10 days of trading and try to identify the key features. The features need to include:

1. Peak formation highs
2. Peak formation lows
3. Midweek reversals
4. Levels 1, 2 and 3 with their consolidation levels
5. The intraday cycle
6. The US reversals
7. Areas where peak formation highs and lows correspond with intraday reversals

EXERCISE 4

Make a list of all of the patterns, features and characteristics that have been discussed. Create a definition or description for each of them.

EXERCISE 5

Find the expected high/low for the day on the 6 majors using Pivot calculations.

EXERCISE 6

Choose a pair and find and mark-up the divergence patterns using the RSI.

EXERCISE 7

Use TDI in the context of the MM pattern and mark up the entry and exit signals based on TDI

EXERCISE 8

Find and identify examples of the Straightaway Trade. Mark them out, particularly looking for previous trap moves and the levels.

EXERCISE 9

Describe the processes and patterns of a 24 hour trading cycle.

EXERCISE 10

Find stop hunts, M's W's, Trend Runs, MYC's, 200 Bounce, Shark Fin Long/Short on a single pair. If you can't see it in hindsight, you will never see it in foresight.

EXERCISE 11

Create a MMM Checklist that relates to the trades you will be looking for, the specifics of your scanning, and how you will be taking those trades, including money management, profit targets and so on.

FOREX MARKET SESSIONS

The Daily High/Low Reset 17:00 ET

JAPAN/ASIA

00:30 - 07:00 GMT

Gap time between 07:00 and 07:30 GMT
03:00 and 03:30 ET

EUROPEAN

07:30 - 13:00 GMT

Gap time between 13:00 and 13:30 GMT
9:00 and 9:30 ET

US

13:30-20:30 GMT

Gap time between 20:30 and 00:30 GMT

Note 1. The equities open is at 9:30 AM ET and this is an important place to start looking for the NYC reversal.

Note 2. The Gap time refers to a changeover period between markets and this is usually a quiet period and represents a period when one markets office sets up plans with the opening markets office.

WHAT IS THE MARKET MAKER?

In trading currencies, market makers function as intermediaries in sales and purchases between two parties and two currencies. For example a bank will function as a market maker when it collects sellers of the US Dollar to then sell to investors who have Euros in exchange. The value of each currency is based on the current market value.

To beat the MM you need to understand the basic objectives of their activity. Overall, the MM's are traders and their objective is to make money. This includes strategies to trade against retail traders. The major difference between them and other traders is that they have the ability, through access to massive volumes, to move price at their will. So to make money, they aim to buy at a lower price and then sell at a higher price. They achieve this by:

- 1. Inducing traders to take positions.**

This is achieved by using a range of price movements to 'trick' traders into taking a position in a given direction but then reversing it again. This means that the MM can sell a specific currency at a certain price and then buy it back at a lower price when the retail trader feels too much pain from the currency value moving backward and wanting to sell it back again (e.g. via the stop loss)

- 2. Create panic and fear to induce traders to become emotional and think irrationally.**

This often involves:

- quick moves
- spike candles
- news releases
- 'inexplicable' price behaviour.

- 3. Hit the Stops and Clear the Board.**

This forces traders into 'margin trouble' and ultimately out of the game.

WHAT TOOLS DOES THE MARKET MAKER HAVE?

Even though they have a number of tools at their disposal, they do have some restrictions imposed on them from outside authorities. These include:

1. The IMF restricts their ability to move price to a general range so as to avoid a collapse of the market.
2. This is generally limited to the ADR and will involve moves of as much as 200 pips per day in most pairs.
3. They do not have unlimited equity so it is necessary for the market-makers to close positions and regain balance periodically.

The only tools they have are to be able to buy or sell currency in different volumes at different prices. By doing this strategically, they can:

1. Entice traders to take positions by providing evidence that price is or is going to move in a certain direction.
2. Appeal to the emotional side of traders by changing the character and speed of price changes.
3. Once the trap has been set, and the bait taken, cause the price to move in such a way as to cause price to move against the traders, allowing the banks to buy currency back from or sell currency back to the traders so that they are square again.
4. This means that the trader has entered the market by buying currency from the bank at a given price and exited the market by selling back to the bank at a lower price. Conversely, the bank has sold to the trader at the higher given price and bought back from the trader at the lower price.

While these price movements are used to trap traders into unfavourable positions, they are not used 24 hours a day, but will be used more at certain times. The patterns are most commonly observed in the following time periods :

1. The beginning of the season (quarterly)
2. The beginning of the week (Sun/Mon)
3. The beginning of the day
4. The beginning of the session
5. The end of the session
6. The end of day
7. The end of the week
8. The end of the season.

In addition to move price MM's can take advantage of "sentiment" which develops as a result of news releases of varying types. Sometimes immediate price movements are designed and used to "cover-up" the MM is price movement. The rumour mill also has a role to play in generating a public expectation of price movement. It is not uncommon to see the general news being particularly pessimistic for example about a particular currency only to see the currency rise against it but usually after people have been trapped in line with the sentiment.

WHAT TOOLS DO THE DEALERS AND BROKERS HAVE?

Brokers and dealers have mechanisms available to them for manipulating price to enable the process of taking money from traders, who are also their clients!

Usually, trader's transactions are dealt with 'in house' and never make it to the interbank market so it is very easy for them to manipulate price to their own advantage. They have a number of additional tools at their disposal and include:

1. Requoting
2. Trigger all stops in a given price range (which is part of the dealers functions in the MT4 platform)
3. Vary the spread (which is why scalping methods often fail) at times when it is an advantage to them to do so.
4. Throw a price spike to take stops out, bear in mind that they know where the stops are.
5. Target traders who are in margin trouble and move price against their positions to "finish them off". Again bear in mind that they know who is in trouble because it is part of their backend platform.

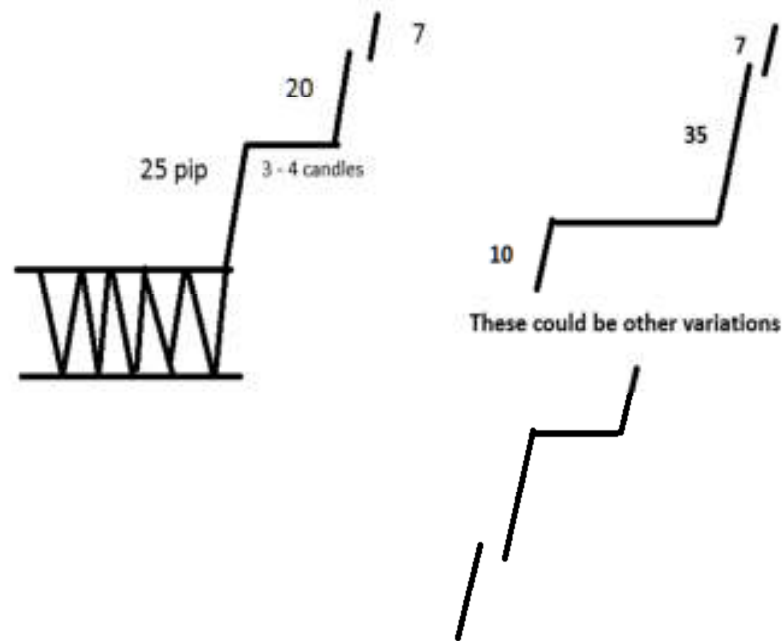
CHART OBSERVATIONS

ANATOMY OF THE ASIAN RANGE STOP HUNT

During a stop hunt it is normal to expect that the reversal will occur somewhere between 25 and 50 pips higher than the Asian range. It is also normal to expect that this will entail a journey of 3 pushes or candles to get there. However, it is not that simple and the 3 pushes may occur in increments of different sizes. It is important to remember this when assessing the movement as it escapes the Asian range and to not simply expect a straight 3 candle movement.

For example, the 1st push or candle may be a full 25 pips. At this point price may be held for 3 or 4 candles taking a full hour. At this point it is pushed up another 20 pip making a total of 45 pips from the top of the Asian range and finally another 5 to 7 pip on top of that. The effect of each these moves as follows:

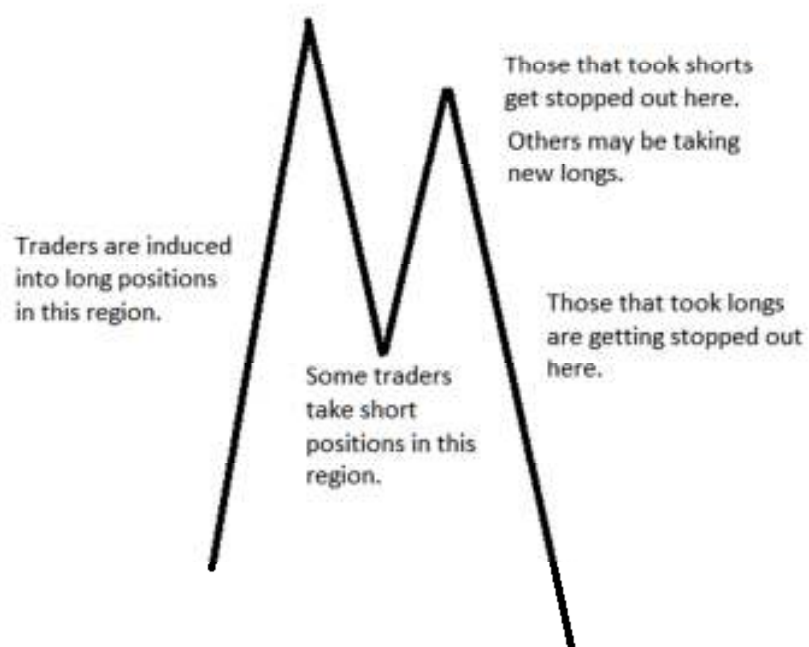
1. Range traders who have taken short positions at the top of the Asian range will have a stoploss somewhere between 25 and 50 pips from this point. Therefore the initial 25 pip push will take-out the 1st of the stops.
2. The 1st upward movement will begin to entice traders to take long positions on the basis of a breakout trade.
3. This is accentuated by the following period of consolidation where price is being held and traders will be expecting a continuation pattern to develop.
4. It is further accentuated with the next 20 pip push further enticing long positions as price has now been rising for an hour and a half.
5. The last 5 to 7 pip is about taking the last of the 50 pip stop loss's from the range traders. The last move is almost always just a tap, identified as a pin. The main reason for this is that it costs money to move the market and this is a cheaper option for the MM.

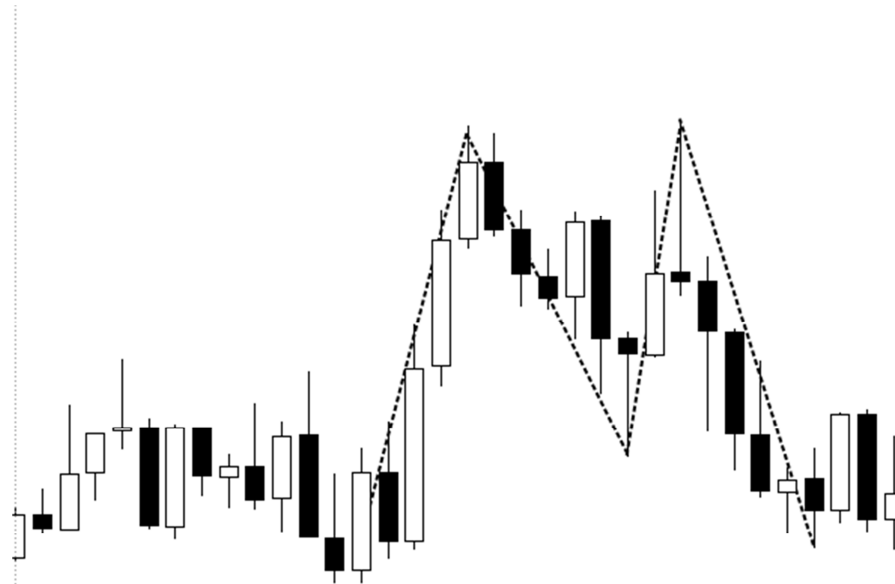


ANATOMY OF AN M AND W FORMATION

The M or W pattern is a frequently identified pattern and is a particularly good reversal pattern. The following diagram shows the reasons for the movement in terms of the market makers use of the pattern. It is also worth noting that a RRT pattern is really an M or W pattern that has occurred more quickly and thus has the same effect.

The time gap between the 2 peaks of the M or W will usually last for somewhere between 30 and 90 min (though occasionally longer). The fastest occurs when the pattern is defined by a railroad track (in other words 15 min up followed by 15 min down). Longer periods are also common and used to gradually accumulate more positions of traders who are enticed into taking trades in the direction of the technical trend.

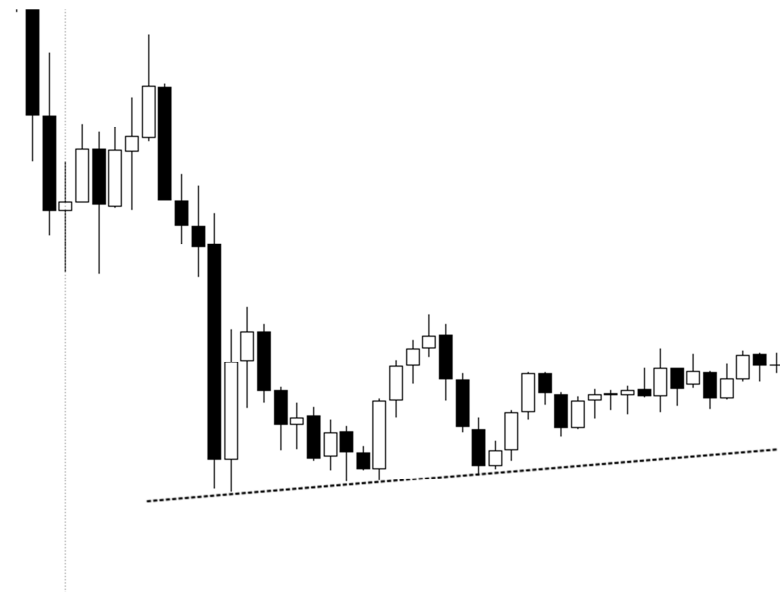
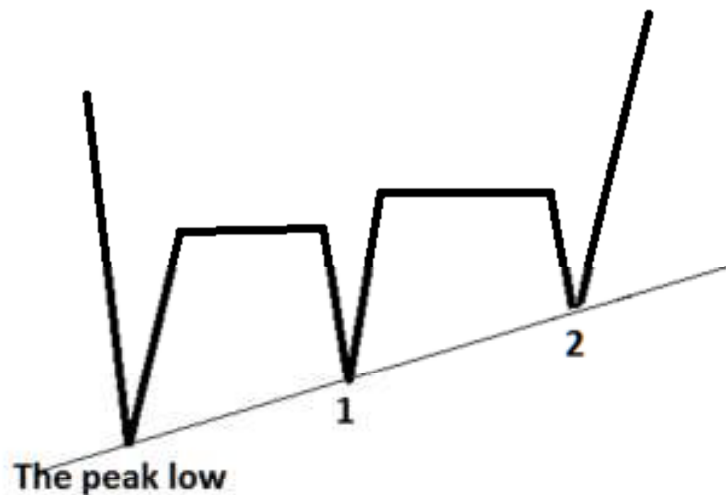




TRAPPING VOLUME

At a peak formation low or a peak formation high, several spikes may appear which are all apparently contained by a trend-line. But what is really happening here? The MM is trapping volume and it is important to notice that each subsequent spike it is not lower (or higher) than the previous so that any new trades taken in the direction of the spike do not have an opportunity to become profitable. They become trapped.

So in the example below, the peak low is identified and followed by 2 further downward spikes. The important feature to notice is that each of the spikes is higher than the previous which prevents short position holders from taking any profit whilst potentially encouraging new shorts in this region.

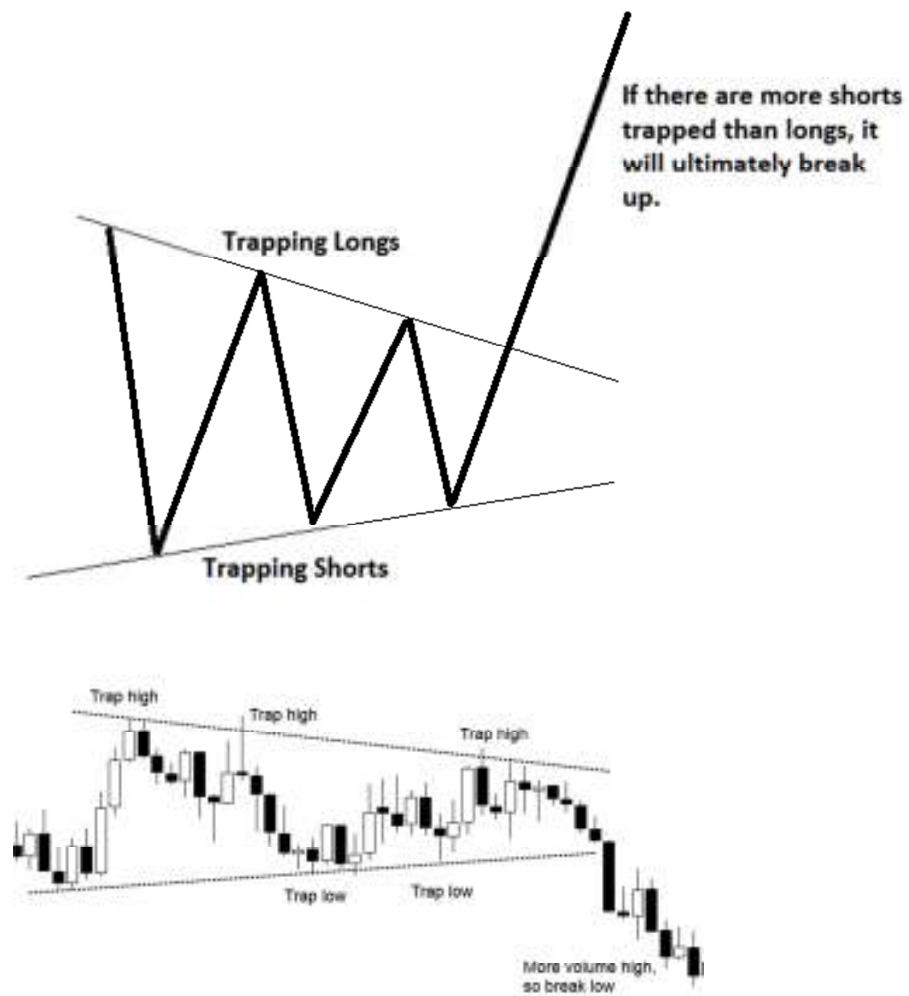


THE WEDGE REDEFINED AS A VOLUME TRAPPING MECHANISM

In a similar way to the mechanism of trapping volume described above, a wedge or pennant pattern works in much the same way except that it is trapping volume in both directions.

In the example below, you can observe that on the lower boundary of the wedge, the peaks become slightly higher each time it comes down to the line. This has the effect of ensuring that none of the trades that are taken short in these regions can turn a profit. Similarly, on the upper boundary of the wedge, the same thing is happening with each of the peaks becoming progressively lower and trapping the higher level longs and pulling them down.

There is no way of predicting which direction the price will ultimately breakout. This will be determined by the net volumes that occur. In other words, if there is a greater build-up of short positions over the long positions, then the wedge will break up.



MAINTAINING THE VALIDITY OF HIGHS AND LOWS

As long as the price stays above the low after your entry or below the high after your entry, then the entry and therefore the trade remain valid.

Some caution needs to be applied when interpreting price movement that exceeds the high or low but closes back inside the noted high or low price. In these situations, the market-makers have spiked the price beyond the high or low to both trigger stops as well as to further induce traders to enter in the wrong direction.



FALSE SUPPORT AND RESISTANCE LEVELS

Consolidation zones are created during the cycle to create support and resistance levels which become visible on the charts and are used by traders to make decisions. These levels can then be predictably used by the market maker to plan strategy. With this understanding you can buy or sell stop hunts against the herd and in line with the market maker moves.

Simply buy the Level III corrections and sell 3rd level rises.

THE ANATOMY OF THE HALF BATMAN PATTERN

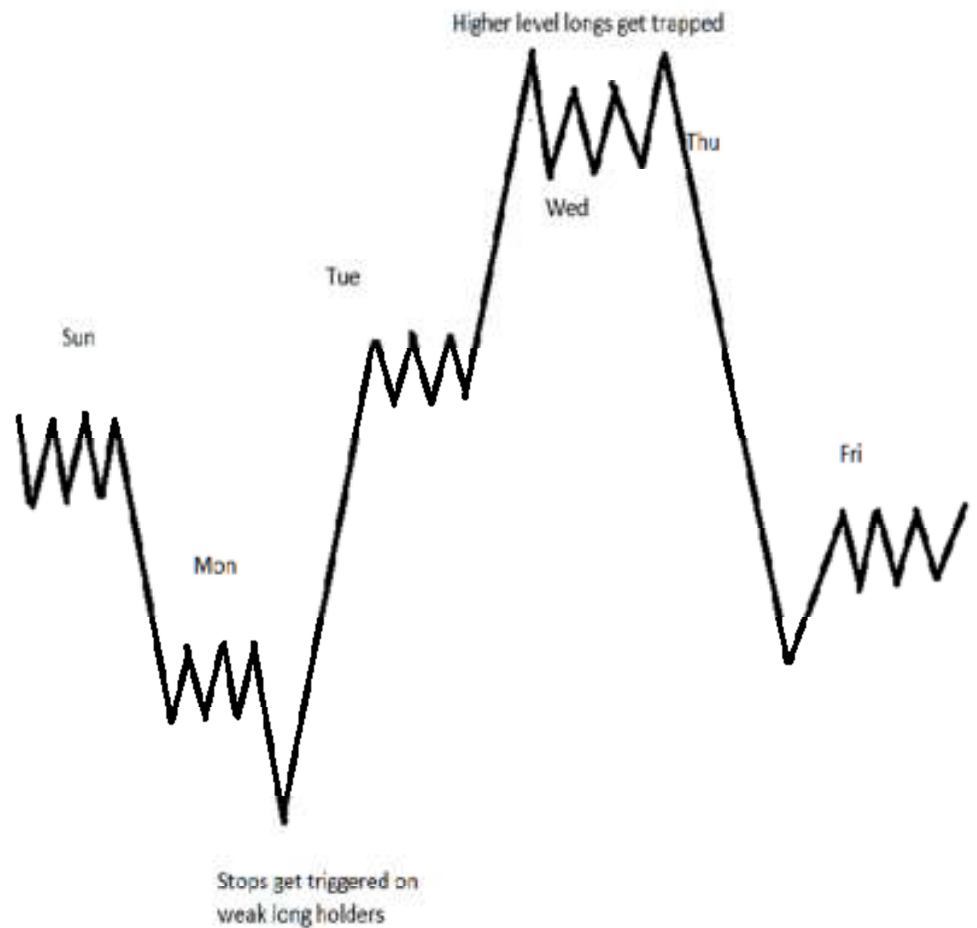
This pattern commonly occurs at a Level I Consolidation and is similar to the Straight Away trade. Essentially, there is no need for a 2nd move back to the high because there are already traders trapped from further up and the MM does not want to provide an opportunity for them to close their trade at a profit, or even a small loss. Instead, price is moved down providing an inevitable loss to the traders.

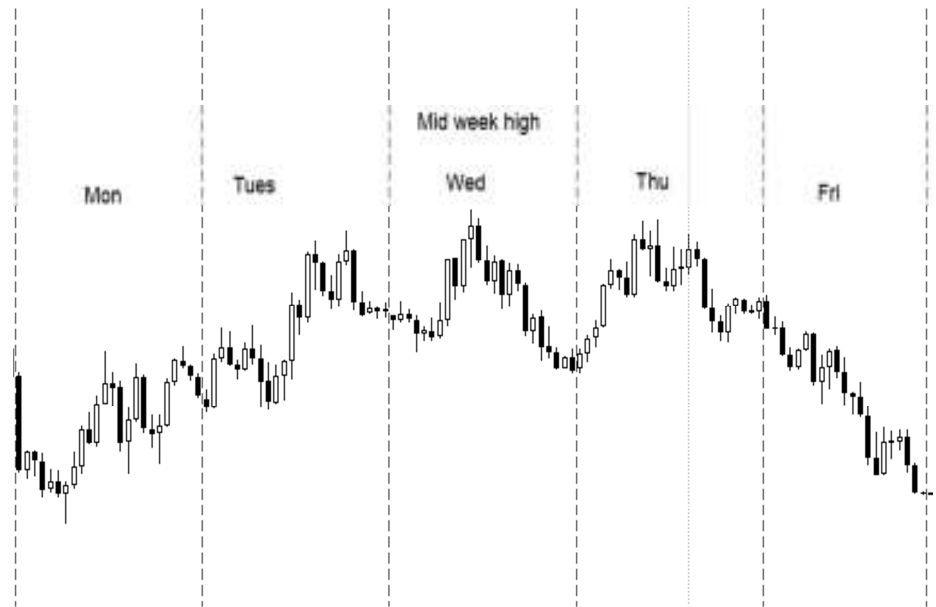


WEEKLY PRICE MOVEMENTS

The weekly pattern does not imply the use of a weekly time frame. It refers to the pattern that is seen in a 15, 60 or 240 minute chart over a period of a week.

However, MM's also have seasonal variations of price movement and so it can be seen on longer time frames, though it is probably too slow to be traded effectively.





THE THREE DAY CYCLE

A typical pattern of behaviour particularly when examining the three-day cycle is to be able to identify a peak high followed by three moves down and a reversal which forms the peak low.

Each time price moves down a level they can be referred to as achieving or making either a Level I, Level II or a Level III move.

Level I and Level II have relatively similar patterns of behaviour (1-2-3 stop hunt). However Level III tends to be choppy with a wide range and represents an area of profit-taking for the institutions and signifies the beginning of an accumulation period for another cycle.

The reasons for this behaviour can be understood if you consider what happens during the rundown:

1. On day one, you (the retail trader) are selling and the institution buys from you.
2. On day two, you are selling and again the institution buys from you.
3. However, on day three the retail trader is again interested in selling and the institution buys up heavily.
4. Now they move price up aggressively triggering stops and taking a profit. *(In effect, they are using a scaling-in method to book their profit).*
5. Following a Level III pullback price becomes choppy and continues because of what happens with the trader's psychological adaptation to loss. After the market has run down for three days and traders have taken losses, these individuals react by pulling away from the market quite literally and having a few days off before coming back to trade. During this period the market is choppy and relatively stagnant until the traders have returned to play in the game again.

To remember the patterns use the following:

1. *"After a big drop the market must chop"*
2. *"After three days of drop the market must chop"*
3. *"After a big rise the market needs more guys"*
4. *"After three days of rise the market needs more guys"*

Also, it is again worth remembering that the patterns are similar in different time frames. Additionally, the areas of reversal in both are often synchronised so that they occur at the same time in different timeframes. Using this knowledge it is possible to convert a spot trade into a swing trade when you enter it from a peak formation high peak formation low. If you are prepared to continue adding to your position as the trade progresses in your direction, it is possible to make very large profits as the whole move might be as much as 300-400 pip with numerous possibilities for supplementary

entries. Another way of recalling this key issue is "*The patterns are the same no matter the timeframe*".

So it is obviously important to count the levels so that you know what part of the cycle price is in at the current time. Quite obviously if you are able to enter a trade at these peak reversals then you are in a good situation to run your trade for the full extent of its journey.

So, to win in the market **you should only take a long position when the LOD/HOD is clear**. This is the only place that has a high level of certainty in directional movement.

It is also important in making these assessments to consider the bigger picture and where the market is in cycle.

This includes looking for a midweek reversal which will generally correlate with one or both of the intraday reversals.

With an awareness of the longer cycle and assuming you are in the correct place within the cycle, it is possible to convert a spot trade to a swing trade from one of the 3 day cycle peaks to the other given an appropriate entry. This would involve going from one peak formation high to the next peak low and may take several days.

On an intraday trade, it is still important to understand where you are within this larger cycle as it will help you to make a judgement about how far a run my last. For example, if price has just passed the peak high and is at a Level I accumulation then an intraday long trade after a bearish stop hunt, while valid, will not be likely to produce consistent results. Hence, it is a good idea to not take trades against the longer trend at a Level I accumulation.



INTRADAY PRICE MOVEMENTS

THE ACCUMULATION PHASE

This phase commences with the resetting of a daily high/low. It occurs at 5pm ET which is the beginning of the “Dharma” period. The Dharma period occurs after the US markets have closed and before the London markets have opened. During this period there tends to be little activity and the market just cycles back and forth between two price points.

This occurs because Bank A will buy a quantity of currency from Bank B [1]. This causes price to rise. This is followed by bank B selling the same currency to Bank C [2] and this causes price to fall. This process goes around in circles and so the price simply oscillates back and forth.

After a while, the range begins to widen [3]. This has the effect of triggering pending orders placed by breakout traders. So positions become committed and gradually accumulate as more and more traders begin to ‘take the bait’. However, when they are triggered, price is quickly pulled away and they will often be stopped out on the other side of the range which is also widening.



THE STOP HUNT – ALSO DEFINING THE HOD / LOD

Sometime between 1 – 4am ET, they make a stop hunt. The stop hunt involves a deliberate movement outside of the range to what will become the high or low of the day. The move usually occurs in three pushes which can be as simple as three candles though you will sometimes see a small pause in the form of a pullback in the middle of this.

The stop hunt has two main objectives:

1. Take out existing stops
2. Encourage traders to commit to positions in a direction that is opposite to where the real trend is going to be.

This represents the high/low of the day (HOD/LOD). Once the HOD/LOD has been hit:

1. The spread is opened up by a few pips. This allows traders orders to be triggered outside their normal boundaries and they will be holding negative positions from the outset.
2. It is common to see price undergo a further period of accumulation lasting 30 to 90 minutes which encourages traders to take further positions. When there are enough positions, the price is moved in the direction of the true trend and their stops will be triggered.
3. There is often a second move to the HOD/LOD though most of the time it will fail to take it out (so as to not give those who got in a profitable position to escape from). This forms the typical W or M pattern. Note that RRT formations are also common here, but they represent W's or M's happening on a faster time scale.

This is the preferred point of entry for most of these trades, particularly the second leg of the M or W. It is relatively slow moving and so there should be no reason to rush or impulsively take a trade.



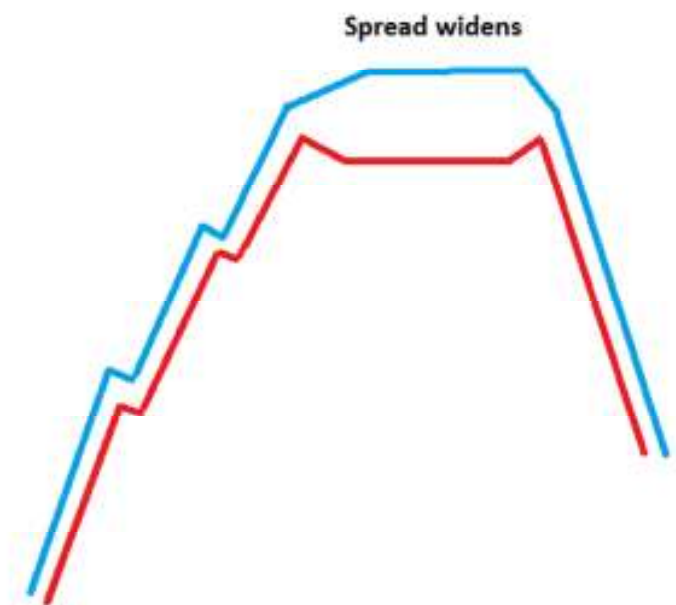
OTHER BEHAVIOURS AT THE HOD/LOD REVERSAL

Market-makers induce traders to take the wrong direction by using sharp and aggressive moves near the high or low of the day. One of the ways of identifying that you are in the right place is that the market will seem to be quiet, in consolidation and make a sharp move out of the range, faking "the breakout".

If you were to take a trade in the area of the HOD/LOD you might notice that price is moving around but your position changes little. If you are looking at the price board you will see that it is "flickering red and blue" with lots of changes suggesting that there is lots of activity but in fact there is little. When you see this at the right time of the day, you know that the reversal is imminent.

Another observation during this period is that the spread widens. This is done so that a broader range of orders can be collected and accumulated during this period, making it even more difficult for traders to take profit as they are in a losing position right from the outset. The diagram below demonstrates what happens to the spread during this period.

But these patterns do fail sometimes. This occurs when there has not been enough volume to make it worth their while to take a reversal. In these situations that price is moved to the next level to further induce positions to be taken in the wrong direction, against what is to become true trend. This is called the extended stop hunt.



Or

THE EXTENDED STOP HUNT

When price is pushed outside of the Asian range and comes to rest 25 to 50 pips beyond the range, the MM's motivation is to generate a stop hunt. However, if as a result of this move the accumulation of positions is inadequate for their purposes, then the stop hunt will be extended. This means that price will be pushed beyond this Level in the direction of the technical trend in an effort to induce more traders to enter positions and build up the positions required.

Like before, this move will be in the 25 – 50 pip range and be comprised of 3 candles or pushes. But also like before this is not necessarily the case and more or less are also possible. Again the trader must use their own judgement and discretion.

Therefore, if you identify that after a period of time the stop hunt has not led to a reversal then you should scratch trade. An appropriate period of time is 2 hours following the 2nd leg of an M or W. If the trader has not moved in the expected direction by this time, something is wrong and they have not been able to build up enough volume to make it worthwhile to reverse the market.



THE TRUE TREND

The stop hunt is then followed by a reversal and a slower trend that continues against the 'faked' trend toward the opposite high/low for the day.

This trend tends to move in three waves, the pause between each wave representing a new opportunity to fake out traders by reversing direction and then moving against them again. These pauses are often characterised by sideways movement rather than a significant retracement though both are possible



THE OPPOSITE LOD /HOD AND REVERSAL

Ultimately the opposite LOD/HOD will be reached and there will be another reversal. This often occurs in the NY session, called the NYC Reversal Trade. This trade is likely to return a smaller profit than the initial stop hunt reversal trade though it is still worth taking particularly if you are not able to enter a trade following the London open.



A RETURN TO ACCUMULATION

Once the reversal has occurred, price tends back toward the centre, often not far from the starting point and recommences a new period of accumulation to lead into the new Dharma period and tomorrow's cycle.



LEARNING TO COUNT

In order to trade successfully it is important to understand clearly what part of the cycle the market is in. As previously noted there is a pattern which can be identified on both intraday and multi-day views.

Understanding the count of the intraday pattern, the 3 day pattern, and the weekly pattern is everything. If you understand these 3 things then you can expect to be better than 90 or 95% accurate.

Much of the pattern is based on exploiting the trader's psychology. The consistent pattern of 3 moves is used to entice and encourage a particular directional behaviour. The brakes are then applied and all of a sudden fear and inexperience are exploited to have the traders close their positions for a loss.

The notion of counting involves an awareness of how many times a move in a particular direction has occurred and this can be observed in a number of time frames. This can include the longer time frames but for our purposes examining the cycle of 3's on an intraday basis and over a week or more (where you can see three day cycles) is helpful.

THE COUNT OF THE 3 DAY CYCLE

Look at the chart (a 15 min or hourly) over a week and see what is going on. For example if price is running higher and higher, there has to be a retracement.

Market-makers don't have infinite amounts of capital and have to make retracements to book a profit before they continue. This is why they have aggressive pullbacks that seem to occur out of nowhere. As an example, it is possible that you were up 100 pips and all of a sudden you're up by only 20 because they have brought price back the previous level. So what do people do, they close the trade because you don't want to turn 100 pips into a loss and just accept the 10 or 20. However, the trade was still valid because the previous low had not been taken out and what happens next is that price takes off again, leaving the trader behind without the profit. Psychology has been used to clear traders out of the position. Price then moves aggressively up again.

Market-makers form zones or levels to trap traders, hit stops and book profits.

As a trader, your 1st job is to identify the zones, particularly the current place in the cycle.

The zones or levels can be described under the following headings:

1. PEAK FORMATION HIGH

The highest formation on the chart is the peak. They will pull away quickly and form out the M.

2. LEVEL I AND CONSOLIDATION

After falling away from the M, price falls into a new zone and reaches a Level I Consolidation.

During the consolidation they hit stops up, hit stops down and then drop it again.

You should never trade against the Peak Formation out of Level I Consolidation.

This is also the most common place for a Straight Away Trade to develop because the market-makers already have what they need, which is people trapped from the previous reversal.

3. LEVEL II AND CONSOLIDATION

Price drops from the Level I Consolidation to Level II and then into a new area of consolidation, Level II consolidation.

Again, they hit the stops up, hit stops down and then drop price again to Level III.

4. LEVEL III

Having reached Level III, the objective is a little different. Price will be dropped in order to demonstrate further bearish movement by satisfying various criteria of the traders. However, they then pull away quickly, move price up and book a profit.

Level III will appear disorganised with price chopping back and forth, usually within a wide range. If you are having difficulty identifying what level you are currently in, then identify the last Level III and this should give you a point of reference depending on whether or not price has been coming to the Level III zone from above or below and what has happened since.

Additionally if you notice that price is chopping around (in other words you are currently in Level III) then you should also be aware that a reversal is imminent.

This level often causes the formation of a head and shoulders pattern, which is a special kind of M or W formation. You should buy or sell on the 2nd shoulder.

5. PEAK FORMATION LOW

Following Level III, a new Peak Formation Low is defined and the cycle starts again. This becomes an area where you are aiming to buy with the MM, even though all of your other indicators and prior learning will have told you that this is still in a sell zone. *So you will be buying against what you have learnt previously; against the rest of the world; you will be buying against the trend.*

THE COUNT OF THE INTRADAY CYCLE

The pattern is identical to the 3 day cycle.

However, within the 3 levels, the amount of activity of the MM varies.

1. The 1st level and its correction is driven by the MM and is characterised by fast moves.
2. The 2nd level and correction is market-driven in the absence of market-makers support. Instead it is driven by emotional traders who enter the market. Because this is not driven by the market-makers the size of the moves tends to be smaller. This is because retail traders don't have access to the size of trades or the co-ordinated effort to move price at will.
3. The 3rd level and its correction see a return of the market maker to the table. This is an area of profit taking for the MM where further movement in the direction of the technical trend is encouraged before the stops are triggered. Traders can become panicked and confused. During the 3 levels market-makers will buy from traders to create positions. The heaviest volumes are seen at the 3rd level.

With each of the Levels is a corresponding level of consolidation. Most of the time this will correspond to period when stops are being triggered before the next Level is started.

The consolidation zones often involve 20 to 30 pip swings in an effort to accumulate positions and hit stops. This occurs in both directions and makes the ultimate movement to the next level easier for the market maker with no buying and selling pressure being exerted by the wider marketplace.



CHART SETUP

The method can be traded with little or no indicators on the chart. However to make things easier a number of features and indicators can be added at your discretion. These include:

1. Candlestick patterns
2. EMA's 5/13/50/200
3. Colour-coded sessions
4. Yesterday's HOD/LOD marker
5. Pivots
6. TDI
7. MM level counts

CANDLESTICK PATTERNS

The 1st and perhaps most important thing to understand about candlesticks and price action is that in the wrong market conditions they have little or no meaning. For example a hammer in the middle of the trend is relatively meaningless. A hammer at the high or low of the day has a great deal of significance.

It is also important to understand that the Candlestick pattern can only be defined at the close of the candle. The expression "backside of the hour" refers to the behaviour of candles to provide their true identity in the last part of the candlestick's period. This is a feature controlled by the MM and is particularly noticeable in the hourly and four hourly charts. In areas where it is their intention to convince traders that there will be continuation it makes sense to leave the candle as a solid green or red candle until the last moments when it is pulled back revealing itself as a spike or some other relevant shape.

The candle patterns that are most helpful are:

1. SPIKE CANDLES

This description includes spike candles, "Empire State candles" and oversized candles in a 15 min chart. These candles are designed to "get you excited", trade emotionally, and encourage you to enter the market. However, price is pulled back before the candle is closed and those traders who entered on the excitement then find themselves trapped.

These candles are most often seen in the 1st leg of a reversal set up. But it is important to remember that price will almost always pull off very quickly.

The other place that these candles are often seen is at Level III of the three-day cycle.

2. SPINNING TOPS, HAMMERS AND INVERTED HAMMERS

3. DOJI CANDLES

4. EVENING STAR AND MORNING STAR FORMATIONS

Evening Star and Morning Star candles are often described as indecision candles. In this context they are considered to be an extension of RRT formation, simply making it a 45 minute RRT instead of a 30 minute RRT. So it is not the MM's indecision, they know exactly where they're going.

5. RRT (RAILROAD TRACKS)

RRT trick people into going in the direction of the 1st candle. But it is snatched away quickly on the next. They are really an anomaly of an M or W pattern. The pattern simply occurs more quickly so it is compressed into a RRT.

The same compression "trick" can be observed when an M/W pattern in a 15 min is viewed on an hourly or 4 hourly time frame.

6. HIGH TEST PATTERN

The high test pattern occurs at the price of yesterday's high. For example, the general technical trend may be demonstrating an uptrend but as price reaches yesterday's high a reversal pattern is seen. Any of the Candlestick patterns are possible in this region and all mean the same thing. **You should change direction and trade against the technical trend.**

If the pattern is a double tap test, but then it fails when it closes above the high of the 1st, **you do not have to wait for your stoploss to be triggered**, rather you can shut it down and wait another opportunity.

You may be able to identify a close just below the previous high and not wait for price to pull away and confirm the reversal, in other words you take the trade on the expectation of the reversal. This will create a remarkably small stoploss and a greater profit should it move back in the intended direction. *(This is an area where using a sniped entry with a faster chart such as a 250T, may be helpful.)*

7. LOW TEST

The low test pattern is exactly the same as the high test pattern except that it refers to the price action and subsequent changes of trend around the previous low.

News spike candles should not be used as a point of entry. You will often observe that a news spike candle pushes up very quickly and then down quickly or vice versa. Those who straddle news spike candles will sometimes find that it work when they try this on demo accounts however, when it is used in a live market the entries are pushed to the outer extremities of the

spikes ensuring that they obtain the worst possible fill. Then they quickly pull back to the other side and will be stopped out. News candles are really nothing more than a means for banks, brokers and dealers to grab your money.

EMA's

Moving averages, when used in the appropriate way (i.e. in the context of the market maker methodology) can give:

1. A true reading of market direction
2. A reading of market momentum
3. Entry and exit signals
4. Moving support and resistance points
5. Targets for a take profit

An exponential moving average, or an exponentially weighted moving average, applies weighting factors which decrease exponentially. The weightings of old data points exponentially decrease giving much more importance to recent observations while still not discarding old observations entirely.

The specific EMA's used in Mauro's charts are the 5, 13, 50 and 200 bar EMA's.

- Crossovers of the EMA's can offer entry triggers or confirmation of entry triggers when viewed in the right context, the context of the market.
- The 5 and 13 EMA's are the signal lines.
- The 50 EMA is the balance line and shows the intraday trend
- The 200 EMA is the home base defining the longer term trend. Price always returns to home base.

Note that the 200 EMA represents the 50 EMA on the next higher timeframe. So, if you are examining the 15 min chart, the 200 EMA represents the current trend on an hourly chart. In this way you can see the hourly trend on a 15 min chart.

The 50 and 200 EMA's are used almost universally by institutions and are even reported in public announcements. Crossovers of these EMA's can be used as buy and sell signals.

The 5 and 13 EMA's happen to match up the TDI used by Mauro and provide responsive signals. He notes however that any other rapidly moving pair of EMA's would achieve the same goal.

The context of the EMA's is important. If you are in Level III the EMA's will almost certainly be heading in the wrong direction. However, when a reversal occurs, the EMA crossover will follow and this will provide a confirmation of the direction that has been taken.

Also, when the EMA's are spread out and Level III can be identified, it is likely that the trend will be getting ready to collapse. The EMA's will follow rather than lead.

It is very important that you accept and understand that no indicator will have the ability to identify when a trade should be entered. The pattern and the count remain the most important features. In fact, many people who use this method do not use the indicators at all. Identifying the count and the patterns is central and is enough to trade successfully.

An exception exists though, if you are having difficulty identifying the count on a price chart because there is too much noise, then using a rapid EMA such as the EMA-5, can show the patterns quite clearly.

COLOUR-CODED SESSIONS

Two boxes can be drawn.

The 1st is drawn around the Asian session and simply denotes the area of consolidation that is expected during this period. It does not mean that a range can only be broken outside of this box. It does not mean that you should not identify smaller ranges that occur during this period. It is just a guide.

The 2nd is a smaller box and highlights a time when there is a high probability of the midsession reversal (the New York Reversal). It starts at the beginning of the NY open and runs for about 3 hours.

If this period also encases the ADR high or low then the likelihood of reversal in or around this area is even more likely. However, as before this is not the only place that reversals can occur and should be treated as a guide only.

During this period, it is most important that you maintain "the count" because this will be a key feature telling you whether or not a reversal is likely.

PREVIOUS HOD/LOD MARKERS

The high and low prices from the previous day were used by the market maker to trap volume. It is therefore significant to know how price acts at these levels the following day. These levels will often line up with other support and resistance zones.

When this occurs, it is not uncommon to see price approach the line, and "throw a spike" over the line. At other times price might approach but not quite reach the previous high or low. This tells you that the current price is already on the correct side. You will therefore expect the price to "bounce down" or "bounce up" as the case may be. This will most often occur around the time of the London open. You should recall that this is likely to be part of the market makers aim of keeping traders trapped. If they've already made a high for instance, and there are positions trapped here then they will not want to push price above it again but will then approach it, perhaps even spike with an enlarged spread and pull away again.

So this becomes another piece of the puzzle to help identify where the "strike zones" are likely to be.

ADR HIGH AND LOW

The ADR is normally plotted as an oscillator. It is however difficult to read in this format and Mauro has produced a version which is read on the price chart and provides a high and low value.

Understanding the ADR and where the high and low targets might be on the basis of the ADR can help to determine areas where reversals might be likely to occur.

As with other indicators the real strengths of the ADR occurs when its values coincide with other indicators being used. These would particularly include the pivot point or with a 50 or 200 moving average.

PIVOTS

Pivot points are a widely available indicator that provide a "grid" based on the previous day's range. As a grid, they can provide a clue about where today's high or low might sit. As with other indicators, their strength really appears when there is a confluence of signals.

In effect, the pivot levels are a grid of the ADR because they are based on the high, low, and close of the previous day's candle.

So, if the previous day's candle was *red* then this indicates that today might be an *M1/M3* day. (This means that price will move between the M1 and M3 pivots)

Alternately, if the previous day's candle was *green* then this indicates that the day might be an *M2/M4* day. (This means that price will move between the M2 and M4 pivots).

| The Pivot Levels | The Midpoint Pivots of interest after a red day | The Midpoint Pivots of interest after a green day |
|---------------------|---|---|
| R2 | | |
| | | M4 |
| R1 | | |
| | M3 | |
| Central Pivot Point | | |
| | | M2 |
| S1 | | |
| | M1 | |
| S2 | | |

Looked at another way:

1. The HOD is more likely to be located at the M3 or M4 mid-pivot points
2. The LOD is more likely to be located at or near the M1 or M2 mid-pivot points

Not surprisingly, when you consider these points on your charts you will often find that they are located 25 to 50 points above or below the Asian range.

Similarly, if you are able to enter a trade at the HOD then it is possible that a reasonable target may be at the M1 or M2. This can help when you are following the trend and trying to avoid early exits on pullbacks. Note that understanding the count is probably more effective but the pivots provide further confirmation.

There are some situations where pivots are inaccurate. If the previous day's range has been unusually large or unusually small then their predictive value is poor.

It can be more accurate if it is coupled with an ADR indicator which tells us the average daily trading range of the last 2 weeks. So, for example, if the ADR high lines up with M3 and is then also happens to be an EMA 200 in the same place then this is a high probability area for a reversal.

As with all the indicators, the trader has to act as a filter and be able to interpret that filter in the context of information being provided by the other indicators. And, be aware that the price action or chart patterns override everything else. The indicators are only there to provide a guide.

RSI

The RSI:

1. Is based on the close and does not tend to react to price spikes.
2. Helps to confirm shift in momentum. This is further demonstrated by crossover of the EMA 50 and this is a significant confirmation when you have seen the reversal (e.g. via an M pattern).
3. The crossing of its baseline represents a cross shift in momentum. So this pattern confirms what you are seeing on the price and on the EMA's.
4. The overbought and oversold conditions of the RSI are seen at the extremes. When this occurs, in the right context of course, then you will be expecting to see M or W formations in the RSI itself.
5. Is also excellent for spotting divergence. This means that when the market maker is throwing an extra spike to entice traders to continue further into that direction, the RSI filters this out because it is based on the close. Consequently, a trend line on the price may show an increasing movement because it is based on the highs, while the RSI may be flat or even reducing. This is the divergence.

TDI (TRADERS DYNAMIC INDEX)

The TDI is an improved version of the RSI and is really a hybrid of a number of different indicators. It incorporates a number of lines:

1. A basic RSI line
2. A trade signal line which provides entry signals when the RSI crosses over and this tends to be much earlier than would be possible if you waited for the RSI to cross the midline
3. A market baseline which replaces in many respects the usual midline of the RSI except that it is a dynamic line and so the crossover also occurs earlier.
4. Volatility bands which are similar to a Bollinger band but applied to the market baseline of the indicator instead of price.

The volatility bands have a number of uses:

1. They act as support and resistance lines based on the close which is much stronger
2. When the bands re-contain the RSI line after breakout, it is a sign of weakening and an impending reversal. This represents a stop hunt.
3. When viewed in the proper context, they can identify stop hunts, entries and exits

Mauro's specific use of this indicator identifies the following indicator patterns which, when looked at in the context of the price action, provide an even more accurate means of triggering trades. The patterns are:

1. Shark Fin Short.

Look for the following features:

- The volatility bands have been tight. They show the consolidation of the Asian range
- The RSI line breaks out of the volatility bands. Provided the price is in the right area (25 to 50 pips above the Asian range), then this indicates that price is in the stop hunt area.
- If it reaches an overbought state and the price action is in agreement this can be an ideal place to sell.
- The RSI line will then cross back below the signal line so that it looks like a shark fin. Entering the trade at this point would still be valid.
- The RSI then crosses the red signal line. Entering a trade at this point would still be valid.
- Note that these secondary places for entry would also represent potential places for adding to your position.
- As the trade progresses, you would normally be trying to identify the count from the price data. However you get further

confirmation of this when you review the shape/pattern of the RSI in its journey back to the other side of the volatility bands.

- An exit is suggested when the RSI gets the opposite Volatility band and recrosses the Signal line again.

Again, this is only valid when it is occurring at the correct place. If it occurs during the consolidation phase for instance, it is meaningless. It is meant to be used in the same area that price action would identify the stop hunt (where the M/W pattern is).

2. Shark Fin Long.

- Is the same as the Shark Fin Short, but upside down

3. Scaling-in positions

Use each of the entry locations noted above ie

- the appearance of the shark fin (1st)
- the Market base line cross (referred to as Blood in the Water) (2nd)
- break out of the opposite volatility band during the trend run (3rd)



CONFLUENCE OF SIGNALS

Some patterns and signals when seen in combination provide very high probability setups. Overall though you must consider:

1. Price action and the patterns

- M/W
- Half Batman
- Straightaway
- RRT

2. The count

- The weekly cycle
- The three day cycle
- The intraday cycle

3. The timing

- Distance from the Asian range
- Need for second move after accumulation

4. The indicators

- EMA 5/13
- EMA 50/200
- RSI/TDI
- Pivots

TREND ASSESSMENT

There are 2 types of trend in the market place. There is the MM Trend, or the True Trend and the Technical Trend.

The true trend is set by the market maker and can be reversed at any time. Understanding this key issue is important because it allows you to be free of the trend bias that tends to keep people locked into wanting to trade in a fixed or single direction. The trend can move in both directions, and as the MM's can change the trend at will, so should you.

Identifying where you are in the count will help project the next move. It is important not to become married to this projection, because the MM is more than capable of changing trend several times in a short period of time. These moves will often have other roles with regard to triggering stops and having traders enter on the basis of a technical trend while the True Trend turns out to be different.

The hourly chart will often remove some of the noise created by the faster 15 min chart and can be useful to review the trend. A 4 hourly chart will often highlight the peak formation highs and lows even more clearly as a pin bar or a RRT formation. But a daily chart is too slow to identify the patterns use fully.

If you identify areas where the patterns all line up, for example, a 4 hourly pin bar, with an hourly RRT and a 15 min W/M then the indications are very strong for a reversal at this point.

The intraday trend usually lines up with the higher time frames. It typically begins at the stop hunt (except in a straightaway when it starts out of the Asian session).

While trading the intraday Sessions it is still important to step back and look at the bigger picture. For example, if, on the three-day cycle you are at a Level III move then you will expect the charts to demonstrate a Technical Trend. However because of the position in the cycle, you also know that the trend should be coming to an end and a collapse and reversal is imminent.

BASIC TREND ANALYSIS WITH ALL INFORMATION AVAILABLE

Features identified in an uptrend are:

1. RSI in the 80 to 40 range
2. Spike bottoms
3. W bottoms
4. The EMA 5 and EMA 13 are positive
5. Price is above the EMA 50 and EMA 200

Features identified in a downtrend are:

1. RSI in the 60 to 20 range
2. Spike tops
3. M tops
4. The EMA 5 and EMA 13 are negative
5. Price is below the EMA 50 and EMA 200

TRADING AND TRADE SETUPS

COMPONENTS OF A TRADING SYSTEM

The 1st thing to consider is that you must have a reason for entering the market. Essentially this involves:

1. A setup and in this case will include understanding where the level count is, and what your assessment of true trend direction is going to be.
2. There must be a signal present for entering or staying out

The signals are:

1. A stop hunt usually in the form of a pin formation to the high or the low
2. The development of W or M

Once you understand how the market is structured there are really only four trades that you should be looking for. These trades are better than 90% accurate and can provide enormous success.

When looking for the setups it is important that the setups are clear to you and well-defined. If they do not present themselves then the object of the exercise is to move on and come back tomorrow.

So when you "turn up to the office" every day the general plan will be to:

1. Identify the peak formation high or low in the weekly views
2. Identify setups within this context, specifically looking for the most pristine setups where there is maximum opportunity for scaling in heavily and trading with high lot sizes without being concerned about losses because of the size of your stoploss and the confidence you have in the setup.

RULES TO PROFIT

1. Stop trading every day.
2. Show up every day, but if there is no set up then there is no trade.
3. Learn to become highly selective
4. Trading hours should be from the end of the Asian session and into the London open for 4 hours. Then take a break. Then look for reversal setups at the opening of the US session for 2 - 4 hours.
5. Always enter positions in their consolidation levels where possible. This should be done when there have been a number of signals or triggers at a time when you believe the HOD or LOD has been or is forming. If you do not, if you take trades after price has begun moving, then you are effectively chasing the trade which has a negative effect on the size of your stoploss, and therefore the size of your trade and therefore profitability.
6. Ensure that you only trade on the basis of closed candles, preferably with multiple confirmations.
7. Only take trades at the peak formation highs and lows on the intraday cycle. This will be an even stronger signal if it also lines up with a peak formation high or low in the three-day cycle.
8. Rather than aiming to make many pips per day to achieve your income targets, use a method which is highly reliable and ramp up your contract size.

Why did we become traders? For time, freedom and leverage. *"But because we sucked out it we lost sight of what we were supposed to be doing"*. Because you are trying to be highly selective you don't have to be in front of your computer all the time. Instead, be selective and therefore more focused on what you're looking for. When you're learning, aim to make 50 pips per day.

Remember if you make 50 pips per day and are trading 1 lot, you will make \$500 and if you are trading 10 lots you will make \$5,000. But if you make 50 pips per day and are trading 50 lots you make \$25,000. *If you are confident with your setups and your level of accuracy you can afford to trade heavily.*

Most people only trade smaller sizes because they are only guessing at the direction the trade is going to travel in.

FRACTIONAL DISPARITY

Looking at a collection of one hour charts allows you to examine what level each of the pairs is in and to understand interactions between the pairs.

For example:

1. Consider the commodities pairs (AUD, CAD), and as they get to Level III they will be choppy.
2. At the same time EUR, GBP & CHF will be at Level II.
3. So while they are rising toward Level III and the commodity pairs are holding their crosses will be handled.
4. So, if AUD goes to Level III and is in a choppy period, it means that AUDEUR, AUDJPY, AUDCHF are being worked. These could be better options to look for a clean setup.

These observations are not essential for understanding this model, or for making a profit. But it can explain why you might sometimes take a trade with reasonable criteria and it doesn't seem to move. At these times, you will often be able to observe the movement in the cross pairs.

Also, it can give you an edge if you are trading one pair, for example EURUSD and it drops rapidly, perhaps not providing an entry opportunity. The expectation then will be that it will take 1 - 2 candles for this to have a ripple effect into one of its cross pairs, for example EURGBP.

SCANNING VIEW

Use a 1 hourly chart to quickly scan a number of currencies so that you can ascertain what level you are at in the three-day cycle and what your expectations are for the next intraday cycle.

The pairs that SM routinely reviews are:

- EURUSD, EURCHF, EURJPY
- GBPUSD GBPCHF, GBPJPY
- AUDUSD, AUDCHF, AUDJPY

This provides a view of the majors along with their crosses.

You can set up an “Intraday Directional Matrix” which aims to cover the necessary review data quickly before you start scanning for specific setups. The matrix would include the following data:

| | | |
|--------------|------------|--|
| Daily Colour | Red/ Green | |
| The Count | 4 Hourly | |
| | Hourly | |
| The Range | M1 – M3 | |
| | M2 - M4 | |

Go through each of the pairs you are scanning, and cross off those that do not seem interesting, the others move on to more details intraday analysis.

PUTTING THE CHART TOGETHER

The primary object of this exercise is to decide what pairs you are going to trade. So you are going to need to ask yourself a number of questions when you assess each chart. Some essential questions are:

1. What level are we in?

Examine the 60 min and 15 min chart. From this, you can make an assessment about whether or not you think the pair is "ripe" for a set up that you would like to trade and would therefore begin to watch more closely.

2. What day of the week is it?

This can help to determine what your profit targets for the day should be. If it is Sunday or Monday, then perhaps aiming for 40 or 50 Pip will suffice. However if it is Wednesday or Thursday and if the midweek reversal has been identified then it may be more reasonable to convert the spot trade to a swing trade.

3. What has happened in the last 3 days?

Again this provides further information about where price has come from and where you are in the cycle. Remember the weekly cycle and where you are in it. This has ramifications for the type of trade that is likely and the targets that might be possible.

4. Is a straightaway possible?

So after you have asked these questions, you need to make an assessment about where you think the market is going and how you intend to take advantage of this.

LOOK FOR STRIKE ZONES

A strike zone is an area where price will find intraday support or resistance. It therefore becomes a place where there are possible setups and exits. They tend to be areas where there are multiple things coming together, providing a confluence of signals.

So the things to look for to form a strike zone are:

1. Identifying of the Asian range is less than 50 Pip
2. What is the count, what level are you at?
3. Has there been a quick move out of the box, and were there 3 swipes?
4. Is there a significant pivot point near this price?
5. Has there been sideways price movement for 30 to 90 min following the 1st strike?
6. Has the ADR being hit?
7. Has yesterday's high or low been worked?
8. Is there an M or W pattern visible?
9. Is there a half Batman pattern visible?
10. Is there evidence in a Straightaway pattern?
11. Is there an M or W on the TDI sub graph?
12. Can you identify Sharks Fin formation?
13. Has the RSI crossed a signal line?
14. Is there support or resistance identified from one of the EMA's?
15. Are there reversal candles coinciding with these patterns including RRT, star formations, hammers, and spike candles?

A SUGGESTED ROUTINE

The 1st thing you should do when you come to the office is check the news. The best place to do this is at Forex Factory. Be aware that news disrupts the technicals and should be avoided while learning. Also be aware that news can be used to help the MM achieve their targets. It is therefore better to avoid being in a trade while there is news on the horizon, though once you're more experienced you'll be able to identify News setups.

Having checked the news you should:

1. Avoid trading non-farm payroll at all.
2. Avoid trading when the Fed chair speech is running

As a trader your job is to identify the condition and apply the appropriate action. The market has only 3 conditions. They are:

1. consolidation/accumulation (which anticipates a stop hunt)
2. the stop hunt (you must wait the signal or the setup)
3. the trend (take a trade, count the levels and maximise profit)

It is important to have a routine when you examine your chart and take trades. The following is a suggested routine:

1. Before you hit the 15 min trading window look at the hourly chart and verify the count and particularly observe the high or low prices.
2. In a 15 min trading window perform an intraday level count
3. Wait for or look for a channel of less than 50 Pip in the Asian range or similar
4. Wait for or identify price moving out of this range using 3 swipes
5. Look for evidence of an M or W formation that take somewhere between 30 to 90 min to develop
6. For additional confirmation, look for evidence that it is supported or resisted by pivots, ADR, high low, EMA's.
7. Pull the trigger; place the stop (and the target if you plan to use a fixed target).
8. Plan for additional entries and pull the trigger when the relevant criteria have been met. These entries may be taken from TDI triggers
9. As the trade progresses, continue to count and try to stay with the trade while the count remains valid. When there is evidence that the move has reached Level III and shows choppy behaviour or a new reversal pattern, exit trade.

Or use a minimum checklist including the following:

MMM Notes

- ☐ Out of news time, confirmed by Forex Factory by at least 1hour (liquidity dries up during that time)
- ☐ Accumulation channel less than 50 pip
- ☐ What is the count?
- ☐ Third level triggers with M or W formation.
- ☐ HOD/LOD Locked in
- ☐ 1 Hour Close / Trend agrees
- ☐ Pivot Extreme M1/M2 M3/M4
- ☐ TDI signals present
- ☐ Candle Formations Present

MARKET TIMING

The best times of the day to trade are:

- between 1 and 5 AM ET (Asia/London)
- between 8 and 11 AM ET (US)

The best times a week to trade are related to the 3 day or weekly cycle. Observe that the cycle starts on Sunday and you are going to expect the midweek reversal to occur on Tuesday through Wednesday so the most profitable days are likely to be Wednesday, Thursday, Friday (ET)

Expect mid-December through mid-January to be quite choppy and potentially difficult to trade. This is because the MM's will take holidays during this period.

Whenever there is a US holiday expect the Asian session to be bigger and for this to be the active session.

News releases should not be directly traded but can be understood as a method for the MM to finish or move their levels.

Most of the time, if you take only the best setups you will only have 2 to 3 trades per week. However, if you load those trades, then you can expect to be very profitable

THE TRADING ZONE

There are a number of features to consider in identifying an ideal trading zone.

1. The ideal Asian range is 50 pips or less.

This represents the area of circular trading and matches with the expected cycle.

2. The trading zone is set 25 to 50 pips higher (or lower) than the Asian range.

The reason for this placement is that most people put their stops 25 to 50 pips behind the trades. In pairs that do not move quite as quickly (CAD) the range is often smaller, conversely, in pairs where price movement is more volatile (eg GBPJPY) the range is larger.

If there has not been an adequate accumulation of positions then price may be shifted 25 pips or higher again in order to gain a greater accumulation of positions.

3. Setups occur in the last hour of the Asian range or the first 2 - 3 hours of the European session.

This setup can occur earlier or later than these times and discretion and judgement is required when deciding to take these trades or not. Essentially, if the setup occurs you can trade it provided the central features are there.

| | |
|--------------------------|-----------------|
| | 50 pips |
| | 25 pips |
| Accumulation Area | |
| | -25 pips |
| | -50 pips |

THE STRAIGHTAWAY TRADE

This is the most difficult trade to recognise contemporaneously. In a Straight-Away trade the trapped move is made in the previous day or the previous session. Leading up to non-farm payroll a trap move might occur as much as 2 days earlier followed by extended consolidation.

So when the consolidation concludes price moves into the true trend without a stop hunt. It is the stop hunt that we usually use to identify the strike zone.



The key to identifying it is looking for some of the other features including:

1. Timing – after Level I consolidation
2. In Line with Technicals – in this situation it is likely to be in-line with the technicals rather than contrary to it
3. A pull back to the EMA's (50 or 13 likely)

THE 2ND LEG M OR W SETUP

This is the bread-and-butter trade of this methodology. It is the easiest to identify and the most reliable with the smallest stop loss.

The main features of this setup are the identification of:

1. A 50 pip range during the Asian session.
2. A move outside of this range by 25 to 50 pips into the "trading zone".
3. 3 pushes in this move.
4. An M or W pattern in which the 2nd leg of the pattern is less extreme than the 1st leg. The time between the 2 legs is generally between 30 and 90 min.

There are a number of acceptable variations to these patterns however and they include:

1. A narrower Asian range which may be even more attractive representing a wound up spring with a larger move to follow.
2. A blown out Asian range where the range has perhaps shifted from a lower or higher level to a different level and is still within a relatively narrow area.
3. More or less pushes in the move outside of the range.
4. A narrow M or W pattern which appears as a railroad track formation (RRT). Note that this would appear as an M or W in a shorter time frame.
5. A railroad track formation that has a small candle between them, effectively creating a "slower RRT".
6. Even though this trade is most often described as coming out of the Asian session, sometimes the timings are varied because they are run from a different office. This means that instead of the London session being responsible for creating the HOD/LOD for a period of time this responsibility could be passed to the Asian or the US office. So is important to interpret what you are seeing in context of the pattern rather than just a time.

The setup should be scratched if more than 2 hours passes between the time the trade is taken on the 2nd leg and when price should move away. If it has not moved within this period time and become profitable then there is something else going on and it becomes less safe. Scratch the trade.

When this happens it is usually because there has been inadequate volume built up and it suggests that the market will move further away from the Asian range and go through the process again. In this situation, it is likely to move another 25 or so pip, again a standard distance for a stoploss attached to short positions that had already commenced on the M pattern.

If this happens, then waiting until the next level and going through the process again is all that is required. So the small loss that might be taken on the 1st attempt will be made up the 2nd. Occasionally this will happen a 3rd time but this is less common.

There are some other facts that make it helpful to trade this setup better. These include:

1. Being aware that all 3 levels do not necessarily present every day.
2. Level I and Level II average about 75 pips from peak formation high or low to the consolidation at the end of the day.
3. You will not be able to deal from the absolute bottom or top, so you must add 10 to 15 pips to stoploss and profit targets to account for this.
4. You must include the spread and slippage of 5 pips on average per pair.

Key price points for your trade include:

1. The close of the candle that defines the 2nd leg of the M/W represents the entry price for the trade.
2. 7 Pip above or below the 1st leg (or the 2nd leg if it happens to be more extreme) represents the stop loss of trade.
3. An initial profit target would be set about 50 Pip from the open. Depending on what level you are in and what part of the three-day cycle you are in, letting the trade run further can be possible. In these cases it makes sense to move the stop behind the last consolidation zone once it has moved into the next zone.

STOPLOSS PLACEMENT

Stoploss placement would ideally be above the 1st swing high after the push out of the consolidation range. This is important because it is not uncommon or infrequent for there to be a 3rd swipe at the HOD or LOD.

If your stoploss has been hit it does not mean that the pattern necessarily fails and you should not "*go on vacation*". In most cases it means that there was not an adequate accumulation of positions at this level and the MM decided to move 25 Pip further away to entice more and more traders to take this direction. So the strategy on the 1st failure would simply be to wait for price to move another 25 Pip or so further away, develop another reversal pattern and then re-enter the trade when you see the setup recurring.

If you do happen to be going the wrong way (i.e. against the true trend) then it is worth recalling that if the ADR is about of 150 pip, and you know that the market moves in 3 levels then even if you continue to enter in the wrong direction with your signal you will eventually fall into the right trade. This will still be profitable provided you have a tight stoploss and still maintain a 50 Pip minimum target. This will be accentuated if you scale into a position so that the initial stop loss is relatively small compared to the overall scaled in position.

1st Leg Stoploss

If you take an entry on the 1st leg of the M or W then there is an increased likelihood that the HOD or LOD will be retested. In these situations, it is sometimes seen that the 2nd leg will spike above the 1st leg HOD or LOD and this needs to account for.

For this reason the stop loss will be placed further away and the stoploss of **23 Pip has been found to be effective in these situations**. This allows for a 15 Pip needle or spike past the 1st leg high or low as well as a spread and several pips of safety margin on top.

2nd Leg Stoploss

As already noted this is the much safer entry. It provides a high degree of confirmation that the setup is correct and is required in order to take multiple contracts with little or no drawdown.

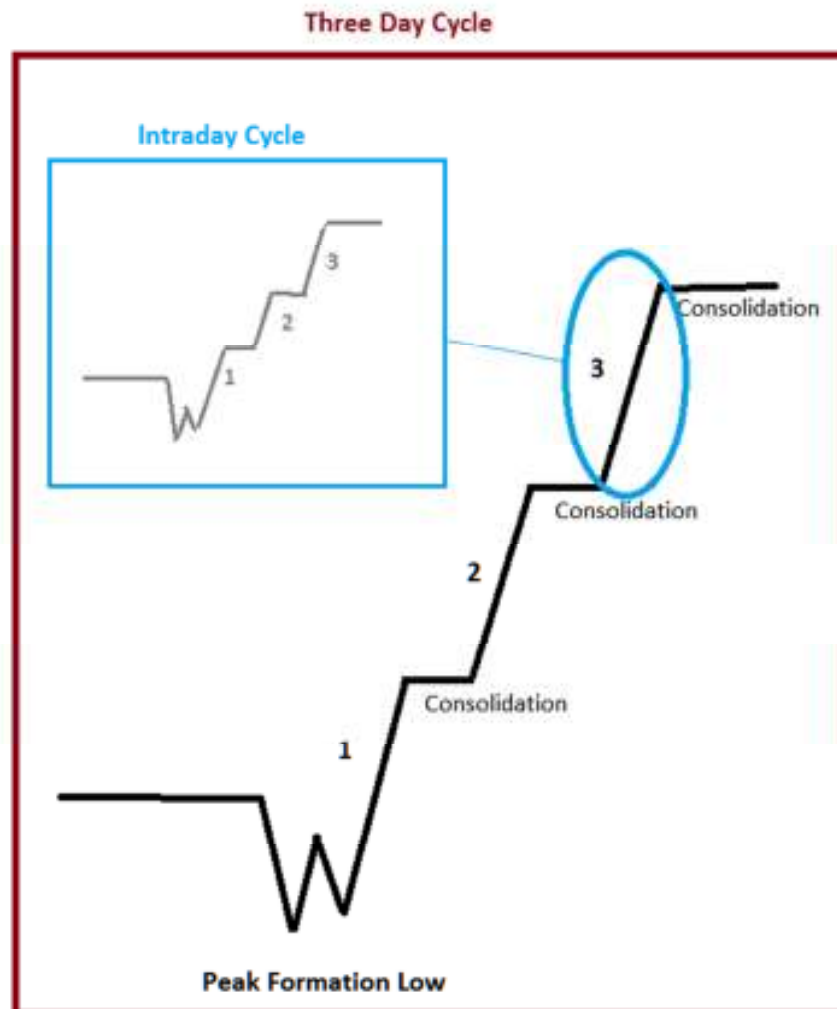
These entries require a stop loss of as little as 7 to 10 pips outside the HOD/LOD.

THE 33 TRADE

The 33 Trade refers to having a 3 level rise over 3 days in combination with a Level III rise on an intraday chart. If this is identified it is a strong sell signal.

So as an example, if you were able to observe that you were in day 3 of a rise following a peak formation low and, during the Level III move of the three-day cycle you were also able to observe 3 levels of movement on the intraday cycle, then a reversal is imminent.

In these areas, it is possible that the final consolidation will last longer than usual and that the day will close at or near the high. These observations provide additional evidence that a reversal is imminent rather than suggesting that the trade is invalid.



THE SWING TRADE

The basis of taking the swing trade is to enter the trade at the W/M formation of the beginning of the 3 day cycle.

One of the keys to this approach is to not have the stop loss too close to the current price as follows:

1. Take the initial trade and allow it to move 50 pips.
2. When it has moved 50 pip, move the SL to BE
3. It will then enter the Level I consolidation – DO NOT MOVE THE STOPS HERE. If you were move the stop loss behind the Asian consolidation at this stage, it is likely to be hit in the London open Stop Hunt.
4. Once the Stop Hunt has occurred, then move the stop up behind the Asian consolidation where it stays until Level 3 has started. You should not move it up to the next consolidation for the same reason stated above.
5. Once it has entered Level 3, THEN move the Stop Loss and exit the trade when it makes a stop hunt in the direction of the technical trend at this stage, which will be signifying that the trend is over. You can then look for an opportunity to reverse the position and trade it back in the other direction.

THE NEW YORK CITY REVERSAL TRADE

This is essentially a reversing trade that occurs following the trade opportunity coming out of the London session. It has the following characteristics:

1. Most often it occurs during the 1st 3 hours of the New York session (from 8 AM ET).
2. Price will be at level III
3. The HOD and LOD have already formed
4. Price has met or exceeded the ADR
5. Price has pulled away from the moving averages
6. Price forms a candlestick reversal pattern
7. Upon the trade open the RSI/TDI confirmation should appear
8. Profit target is the EMA 50 or the middle of the range
9. You are likely get 40 to 50 pips or less

REVERSAL ON THE EMA 200

The pattern, the M or W, occur right on the EMA200. If this happens, the underlying trade has a very high likelihood of success.

SUMMARISE THE ENTRIES

The entries available to be used:

1. M and W Reversals
2. Straightaway Trades
3. 33 Trade
4. Swing Trade
5. Hold the Mayo – 200 Bounce
6. 5/13 Crossover
7. Pins and Spike candles
8. Pivot Level Holds or Rejects
9. 3 Level Rise/Drop
10. Shark Fin
11. Half a Batman
12. Divergence
13. Stop Hunt
14. Hourly Close

SUMMARISE THE EXITS

The exits would be more or less the same as listed above, at the opposite side.

RISK LEVEL

When you are learning, the aim is to take a 1 – 3% risk per trade, but when you are proficient (hitting 9 – 10), then increase the per trade risk to 5% of your account balance.

| Stop Loss Size | 1% (per \$100K) =\$1000 | 3% (per 100K) =\$3000 | 5% (per 100K) =\$5000 |
|----------------|----------------------------|--------------------------|--------------------------|
| 10 pip | 10 lots | 30 lots | 50 lots |
| 15 pip | 6.7 lots | 20 lots | 33 lots |
| 20 pip | 5 lots | 15 lots | 25lots |

STOP LOSS WHEN SCALING IN

Assume that you scale in the following ratio – 5:4:3:2:1

If you have a good setup, it provides a safer way of gaining profit, you have to identify only one setup rather than many and you simply capitalise on good trade rather than trying to take numerous trades of mediocre quality.

The process should be as follows:

1. After the 1st order shows a profit,
2. Order 2 should then fire
3. When half way to Order 3, you should be up about 20 pip. So move the 1st SL order to BE.
4. When Order 4 fires and gets separation of 10 pips, move your SL to between order 4 and order 3. Now you cannot lose.
5. So you now let the trade run.

If you have multiple orders on and you can identify that you have the midweek reversal, consider holding the trade and converting it to a swing trade for 2 more days. If you have moved the Stop Loss to BE or better already, you can't lose, but if it goes for 200 pip then you will make this on each of the orders – it will be very profitable.

TRAILING STOPS

If you want to use a trailing stop at any time because can't stay with the trade, then set it to 32 pips, this seems to provide the best results for getting 50 pip targets.

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PERSONAL OBSERVATIONS

THE PT INDICATOR ON A 5 MINUTE CHART

The PT stop dots when used on a 5 minute chart will almost always be against the true trend at the time of entry. However, it should change very soon after.

Additional entries can be taken when the PT first changes colour. Subsequent entries might also be suggested if price retraces back toward the stop dots and then takes off again. This can be defined when price crosses over the short EMA's (5-8).

Also, once it has changed bias is with the True Trend, then it is likely to remain synchronous for the duration of the trade.

So the trade should only be exited if price has moved to a LIII and shown evidence of reversal or, ... if the PT changes bias before this has occurred.

THE 250T CHART

The 250T chart can be a good place to take additional entries, waiting for price to cross to the correct side of the rapid smoothed TMA provided that the EMA-50 is heading the same direction. If the EMA is against the planned movement, withhold additional entries until it is.

It is unreliable as a place to take exits or hedge the trade as it triggers this action with minimal change in direction.

THE MULTIDAY COUNT

At least for now, the Multiday count is difficult to identify a lot of the time. The most important thing to recognise though is the presence of a PFH or PFL to ensure that when a setup occurs on the intraday charts, that you can avoid trading against the Peak Formation.

SUMMARY QUIZ

1. WHAT IS THE MARKET MAKER?

The market maker is a collection of large market players though in some ways it can be easier to think of the market maker as a single entity.

Because the market maker is overwhelmingly large, they have a role in most transactions, being the other side of most transactions of retail traders.

2. WHAT ARE THE MM'S MOTIVATIONS?

In many respects market maker is like any other trader. The primary motivation is to make a profit from the market. Like most large companies that aim to make a profit, this may be at the expense of others in the marketplace.

Nonetheless, this is the market maker did not exist and did not take an active role in the market it is likely that there would not be enough price movement to make it worthwhile to trade. The market maker is an essential element.

3. WHAT TOOLS DOES THE MM HAVE TO WORK THE MARKET?

The market maker has very limited tools in reality. They are quite simply to buy and sell in quantities and prices geared towards moving the overall market price. This movement is then aimed towards enticing other market players to buy or sell at prices that will be advantageous to the market maker will be advantageous to the market maker when they deliberately move price back in the opposite direction.

4. WHAT IS THE ANATOMY OF THE ASIAN RANGE STOP HUNT?

The market is typically becomes quieter US session finishes and price moves into the Asian range. In the ideal situation you can observe that price has been moving back and forth during the Asian session which will have the effect of encouraging traders to take positions and the market maker then "goes on a stop hunt" which 1st triggers traders to enter positions and then "traps them" by moving price back into the range and perhaps the opposite side.

These movements can become wider and eventually to the stop hunt proper when price escapes the range, usually making 3 decent swipes or pushes, this has the role of trying to convince other traders that price will be moving for entering into a trend so that they take positions in that direction.

Once the market maker has accumulated enough of these positions (meaning they have acted as the "other party" in all of these transactions) they use their ability to move price in the opposite direction (the true trend) which then causes retail traders to close their positions via stoploss which of course are against as acting the market maker who books a profit.

5. *WHAT IS THE PURPOSE, IN MM TERMS, OF AND M OR W FORMATION?*

The M or W formation is the same at opposite ends of the spectrum. Using an M formation as an example:

the 1st leg of the M encourages traders to take positions in line with the technical trend. It usually involves 3 swipes which is a psychological tool to help encourage traders to believe that this is the correct direction.

At the peak of the 1st leg, price is pulled away which has 2 effects. The 1st is that with the benefit of a spiking candle encourages other traders to take short positions against the technical trend. The 2nd is that some of the traders who had been induced is taking long positions after the 3rd candle will be stopped out at a lower price.

At the bottom of the M price is again moved upwards though it really exceeds the high of the 1st leg. Those taking short positions after the 1st leg will be stopped out for a higher price in this area. Traders who took long positions in the 1st leg will be unlikely to find themselves in a position where they are able to book a profit because price is never allowed to exceed the 1st leg high. This subsequent move up, I also be an incentive for some traders to enter the market long believing they has just seen a retracement.

Price is then pulled back down. All the long positions will be stopped out a lower price (which books a further profit for the market maker). Prices that allowed to move in the direction of the "true trend" which is directed/managed by the market maker.

6. *HOW DOES THE MM TRAP VOLUME?*

The market maker traps volume by moving price in such a way that it encourages traders to move in a fixed direction but then pulls price away so that they are not in a winning position. Further volume can be trapped by re-approaching the peak of these prices. The prices are not exceeded however because this would give an opportunity for retail traders to book a profit or escape from the trade at breakeven. With ghostly

7. *WHAT IS THE IMPORTANCE OF MAINTAINING THE VALIDITY OF HIGHS AND LOWS?*

If you have identified the HOD or the LOD correctly then provided price stays within these parameters (i.e. low the HOD or above the LOD) the trade remains valid.

If the HOD and LOD are broken however the trade taken on this basis becomes invalid.

8. *WHAT ARE FALSE SUPPORT AND RESISTANCE LEVELS?*

The market-makers have the capacity to move price in such a way that support and resistance levels that be defined on a technical basis can be established and used by retail traders to take positions.

They can then be manipulated to create places where volume be trapped.

9. *WHAT IS A HALF BATMAN PATTERN?*

A half Batman pattern occurs where an M or W formation would normally occur but there has been an adequate build-up of volume already to make the expense involved in the 2nd leg necessary.

10. *DESCRIBE THE GENERAL PATTERN OF WEEKLY PRICE MOVEMENTS?*

A typical week starts with traders already trapped in positions over the weekend. Price will be held in a smallish range, and perhaps moved in one direction to draw more positions.

Price is then pulled back in the opposite direction, a significantly larger move and leads to the midweek high or low. From here, price

will be reversed and move back toward another area of consolidation to close the week.

11. DESCRIBE THE 3 DAY CYCLE.

The three day cycle is similar to the weekly cycle in some ways though it is probably better structured. It involves moving through three levels. It starts from a Peak Formation Low (LFH), which is also the end of the previous cycle. It then has a Level I rise and stalls in consolidation for a period. It then makes another push, the Level II rise ??????????????????????????????

12. DESCRIBE THE INTRADAY PRICE CYCLE.

13. WHAT IS THE ACCUMULATION PHASE?

14. WHAT IS THE STOP HUNT AND HOW DOES IT RELATE TO THE HOD/LOD?

15. WHAT OTHER PRICE BEHAVIOURS ARE SEEN AROUND THE HOD/LOD REVERSAL?

16. WHAT IS AN EXTENDED STOP HUNT AND WHY DOES IT OCCUR?

17. WHAT IS THE TRUE TREND AND HOW DOES IT DIFFER FROM THE TECHNICAL TREND?

18. *WHAT USUALLY HAPPENS WHEN PRICE MOVES FROM THE LONDON HOD/LOD INTO THE NY SESSION?*
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43. *DESCRIBE A ROUTINE FOR ASSESSING THE CHARTS.*
44. *DESCRIBE A ROUTINE FOR ASSESSING EACH CHART AND THE CHARTS OVERALL.*
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- 46. *DESCRIBE THE 2ND LEG M OR W SETUP.***

- 47. *DESCRIBE THE NEW YORK REVERSAL TRADE***

- 48. *DESCRIBE THE 200 BOUNCE TRADE***

- 49. *DESCRIBE THE STRAIGHTAWAY TRADE.***

- 50. *DESCRIBE THE 33 TRADE***

- 51. *DESCRIBE THE SWING TRADE***

- 52. *WHAT STOP LOSS SHOULD BE USED IF YOU TAKE A 1ST LEG TRADE?***

- 53. *WHAT STOP LOSS SHOULD BE USED IF YOU TAKE A 2ND LEG TRADE?***

- 54. *HOW SHOULD PYRAMID POSITIONS ADDED?***

55. *HOW WILL STOP LOSSES BE MOVED WHEN YOU ADD TO THE POSITION?*

56. *ONCE THE TRADE HAS BEEN TAKEN, HOW WILL IT BE MANAGED AND WHEN WILL IT BE CLOSED.*

NOTES

