

PART ONE

**High Probability
Trading Strategies
for Any Market
and Any
Time Frame**

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CHAPTER 1

High Probability Trade Strategies for Any Market and Any Time Frame

This book is unique. Unlike most trading books, it will teach you a complete trading plan from entry to exit. Not a few well-chosen examples of isolated trade setups and strategies, but exactly how to recognize optimal trade conditions, objective entry strategies with the exact entry and exit price, and how to manage the trade with stop-loss adjustments to the trade exit.

The majority of trading books focus on a few techniques and show a plethora of carefully chosen examples to support whatever is being taught. Some of the phrases often used are “You could have bought around here or taken profit around here”; “depending on whether you are a conservative or aggressive trader, you could do . . . (this or that)”; “markets usually fluctuate around the volatility band, which is a good place to buy or sell”; and lots more nonspecific statements.

Brokers don’t take orders “around this or that price level.” They only take specific price orders. There is no such thing as a conservative or aggressive trader. There are only traders who either follow a trading plan or don’t. To maybe do this or that “around” a volatility band or any other indicator or chart position is not a trade strategy. A trade strategy is a specific action to take, including the specific buy and sell price. In other words, worthwhile instruction will teach you *exactly* what to do and how and when to do it.

While many trading books do teach some useful specific trading techniques or at least provide some ideas to explore, it is very unusual for a book or any other type of trading course to teach exactly what to do, from how to recognize a trading opportunity, to the exact entry and stop price, and how to manage the trade until it is closed out. That is what this book does. It will teach you a high probability trade plan with specific strategies from entry to exit. Most important, it will teach you how to think about the four key factors of momentum, pattern, price, and time; how to recognize what is useful and relevant market information that can be used to make a specific trade decision; and then how to execute the trade decisions from entry to exit.

A book is a static medium. It takes a lot of screen captures of charts to illustrate a trade campaign from entry to exit, no matter what market or time frame is used. Thus, this book has a lot of charts. I've taken care that the information on each chart should be quickly and easily understood. Most charts include text comments pointing out the most relevant information based on what I teach you throughout the book.

When John Wiley & Sons approached me regarding this book, I insisted I would do it only if it included an instructional CD where I could record additional examples, bar by bar, using trading software training mode. They agreed, and the addition of the CD trade examples makes this package a complete learning experience.

Don't rush to watch the CD. The book provides all the background for what is shown in the CD. In the CD recordings, I assume you have read the book, cover to cover. I assume you are familiar with all the terminology, trade strategies, and book examples. You will be lost watching the CD if you haven't first read the book. The CD is not a review or regurgitation of the material in the book. Rather, it provides the medium to be able to show more examples but in a bar-by-bar recording, so you can better see how the strategies taught in the book are put into practice day by day and bar by bar for many different markets and many different time frames.

I believe this book and CD combination provides a better learning experience than even most live workshops, because you can study all the material at your own pace and replay the recorded CD examples over and over.

ANY MARKET, ANY TIME FRAME

The trade strategies you will learn in this book may be used for any actively traded market and any time frame. Stocks, exchange-traded funds (ETFs), futures, and Forex examples are used. The same market structure is made day in and day out in all of these markets and in all time frames, from monthly to intraday data. If an example is not a market or time frame you typically trade, ignore the symbol and focus on what is to be learned. The strategy taught will apply to all markets and time frames.

CONDITIONS WITH A HIGH PROBABILITY OUTCOME

The objective of any trade strategy is to identify conditions with a high probability outcome and acceptable capital exposure. You will learn the four main factors of any market position and how to identify if each is in a position for a high probability outcome. When a market is set up for change from four different perspectives, the trader has an enormous edge, much more so than if only one or two of the factors are in the same position. To win in the business of trading, just as in any other business, you must have an edge. The edge you learn in this book is to recognize when a market is in a position to complete

a correction or a trend so you can enter a trade at the end of a correction in the direction of the trend or in the very early stages of the new trend and sell in the very late stages (often within one or two bars of the low or high).

Just as a farmer must know the optimal time to plant and harvest a crop, the trader must know the optimal time to buy and sell a position. Buying or selling too early or too late can result in, at worst, unacceptable losses or, at best, not maximizing the return from a position. The trader must clearly understand the relevant information about the market position to recognize the optimal conditions to buy or sell.

Markets can seem very complex. The plethora of relatively inexpensive trading software available with hundreds of studies and indicators can overwhelm a trader with often conflicting information, making it difficult to focus on the relevant information needed to make a confident trade decision.

The high probability approach taught in this book recognizes four market perspectives: multiple time frame momentum, simple pattern recognition, price reversal targets, and time reversal targets. The information from any one of these four perspectives could be overwhelming. But in this book, you will learn how to focus on just those few bits of relevant information from each perspective that should quickly identify both the market position and whether a market is in a high probability position for a trade.

I rarely do live workshops, but when I do I present a special exercise at the end of the session. I tell the students that I can apply what I have taught them to any symbol, including stocks, ETFs, futures, or Forex, and it will take three minutes or less to process all of the information needed to identify whether the symbol is in a high probability position for a trade setup or what that particular market must do to become a high probability trade setup. I have the students write any symbol on a piece of note paper. We collect them in a hat and I draw them out one by one. In less than three minutes, I apply everything I have taught them and arrive at a conclusion what is the probable market position of the symbol and the specific trade strategies. You, too, will be able to do this after you have studied this book and viewed the CD examples.

If a trader focuses on just the limited, relevant information needed to make a high probability trade decision, the chance of success is great.

LEADING AND LAGGING INDICATORS

The vast majority of traders use only *lagging indicators* for their trade strategies. Every indicator or oscillator in every trading platform and charting program is a lagging indicator. A lagging indicator will show you how the current market position relates to past data for the lookback period, but has little predictive capabilities. A *momentum indicator* can be useful to help identify trend direction and trade execution if used with the unique multiple time frame momentum strategy you will learn in this book. But the momentum strategy is still only useful when it is part of a trading plan that includes leading indicators.

A *leading indicator* will prepare you in advance for probable trade conditions. Using my unique approach to dynamic time and price strategies, developed over the past 20 years, you will learn how to identify *in advance* the probable price and time target zones not just for support and resistance, but, more importantly, for trend reversal. We call these price and time strategies leading indicators because they identify *in advance* conditions with a high probability outcome. If a market fulfills those conditions, a trade setup is made. I know they will become a very important part of your trading plan when you learn the power of being prepared in advance for specific price and time targets for trend reversal.

WHAT YOU WILL LEARN IN THIS BOOK AND VIDEO CD

In this book, you will first learn the four dimensions of market position: multiple time frame momentum, pattern, price, and time. Each factor provides an important piece of information you will use to make a trading decision. A trading plan that does not include these four market dimensions is missing a big piece of the market puzzle and is much less effective than one that includes all four dimensions.

Most readers are familiar with momentum studies, also called *indicators* or *oscillators*. A momentum indicator by itself is not of much practical use to the trader. All momentum studies are lagging indicators. They are great for showing you the current market position relative to the past, but are not of much help in pointing to the probable trend position in the future—unless you use them in the unique way you will learn in Chapter 2. Chapter 2 presents a momentum strategy used by few traders that will teach you how to use the lagging momentum indicators as a powerful technique as a filter for trade direction and execution setups. This multiple time frame momentum strategy will become the most useful and practical momentum application you can add to your trading plan.

Elliott wave pattern analysis has been so overcomplicated and misinterpreted over the years that many traders avoid it like the plague. I don't blame them. In Chapter 3, you will learn the simple guidelines based on Elliott wave structures to identify three frequent patterns for all markets and all time frames. One simple guideline will instantly reveal if a market should be in a trend or countertrend. This simple guideline itself should make a big difference in your trading results. It is critical for the trader to recognize whether the current market condition is part of a correction or trend, and, more important, if the correction or trend is in a position to be complete. This information can be a very important part of your trading plan and help prepare you for market reversals of any time frame. After you have learned the pattern guidelines in Chapter 3, you will be able to quickly recognize the probable structure position of any market and any time frame.

Most traders are familiar with Fibonacci (Fib) price retracements. Like a single time frame momentum study, they are not of much practical use by themselves to make a trade decision. Chapter 4 teaches you how to identify *in advance* which retracement

level is likely to complete a correction of any time frame. It also teaches you how to project the probable trend targets in advance to be prepared for the price level at which a trend should be complete. You will also learn some new ratios that are not a part of the Fib ratio series that are a key to correction and trend price targets. Once you learn my Dynamic Price Strategies in Chapter 4, you should be prepared not just for temporary support and resistance levels, but for the specific price levels for trend and countertrend reversals.

Market timing in its true sense—identifying specific time target zones for trend change in any time frame—is rarely used by most traders. W. D. Gann taught many years ago, “When time is up, change is inevitable.” Chapter 5 teaches you my unique Dynamic Time Strategies I’ve developed over the past 20 years, which will allow you to project the probable minimum and maximum time targets for trend reversal. You will also learn how to project time bands in any time frame to target a relatively narrow time range with a high probability for trend change. Practical market timing should be an important part of every trader’s plan.

After you have learned these four key factors of market position that will prepare you to recognize optimal trade conditions, Chapter 6 teaches you two completely objective entry strategies and how to quickly determine the maximum position size for any trade. The strategies you learn in Chapter 6 will completely eliminate any guesswork on what price you should enter a market and what should be the stop-loss price. Most important, you will learn what all successful traders know: The proper position size for any trade setup on any time frame is one of the most important keys to long-term success for the business of trading.

Earlier I promised that you would learn how to manage a trade from entry to exit. Chapter 7 is the heart of this book, as far as I’m concerned. This is where you learn to apply all of the practical strategies, from recognizing high probability trade setups, to the specific entry strategy, stop-loss adjustment, and exit strategy. In other words, Chapter 7 teaches you how to manage a trade from entry to exit. You will learn how to make confident and logical decisions throughout the trade process.

Chapter 8 gives trade examples from students of my live and online workshops, educational CD programs, and other educational trading material I’ve produced over the past 20 years. These examples by other real-world traders show you how what you learn in this book has been put into practice every day in many different markets and many different time frames.

Chapter 9 offers more insight into the business of trading, what it takes to be successful, and a whole lot more. A lot of misleading information and sometimes just plain misinformation has been published about the business of trading. You’ll find in this chapter that I don’t pull any punches. If you thought I was a bit opinionated as you read through the earlier chapters, wait until you get to Chapter 9. I want you to be successful, and Chapter 9 will help keep you on track on the road to a successful trading business.

The video CD included with this book is an important part of the learning experience. Again, do not play the CD until you have read the book cover to cover. It will be a valuable

resource, but you will only get the full benefit if you have first familiarized yourself with all the background material in the book.

LET'S GET STARTED

It's time to get started and learn *High Probability Trading Strategies: From Entry to Exit for the Futures, Forex, and Stock Markets*. We begin with a unique approach to momentum strategies, the multiple time frame momentum strategy in Chapter 2.

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