

NB 10.0

An attempt at a total complete system to trade any market condition

INTRODUCTION

I Suppose I am going to try to do something that most people including professionals consider insane and impossible. I am going to try to take everything I have learned about Forex and put it into one neat package. This is an attempt to show a trader how to trade any market anytime of any day. About the only thing I cannot account for is news spikes but the reasoning behind that would be quite obvious.

This is a culmination of all my trading systems. 60x90, Countertrend systems 3.0-6.0, trend trading system 1.0, Sell high/buy low, trading the Aud/Nzd successfully, my recovery system and finally something totally new: how to hedge trade. In 10.0 you will see elements of all these systems wrapped into one. Some of you may think, isn't this going to be confusing. At first I thought this would be true but once you can understand the basic read and know where to go next in trading it will be quite simple once you grasp the basics. In fact, if you already have a fairly successful or mildly successful trading system you are comfortable with, 10.0 will help your system become better and easier to use. In its simplest form 10.0 is designed to tell you: I should trade this market this way. It is going to attempt to tell you: range trading ends here or trend trading ends here, range trading starts here, trend trading starts here. When I get done explaining these principles to you, you will know with one look at the chart:

1. What was the market doing just now.
2. What probably will the market do next.

Having this kind of information gives you a leg up over every trader on the market. Impossible you say, I only ask that you keep an open mind and let all your previous training and knowledge be set aside as you consider the possibility that it can be done. Of course, no system is 100% accurate but I think you will find this system gives very good clues. Obviously the unexpected can happen but over even big runs or small you will have a trading tool I think will become one of the most valuable ever seen

The one fundamental thing this system attempts to do is to finally define clearly terms that are used in practically every trading system or trading discussion I have seen or read about but never defined. In 1.0 I attempted to define a trend, now I will try to define a trend, when it begins and ends and also range trading, when it begins or ends. These definitions will be slightly different than the ones I used in 1.0. The reason is in my studies I saw where range trading begins and this altered my trend definition. Later when you see my logic you will understand their similarities but also why I made it more universal. This makes the whole system easy to understand.

So what makes this different than all the other system and ideas out there on the market. Well, 10.0 is going to try to do 2 things I have not seen done before.

1. Tell you when something has started.
2. Tell you when something has ended.

In other words, when you see this a trend has started and when you see that the trend has ended all in one candle move. So let us begin.

FOUNDATIONS

Where do we start? Let's start with definitions. The reason most traders don't know what a trend is, is because it is never defined, just spoken of. In my 1.0 trend system I defined a trend as the direction price is moving based on a 1 week chart. I used a 1MA median to define it and a 2MA median numbers in lower charts to trade it. It worked to a degree and people were able to win on the system. I look at 10.0 as an improvement on that definition because I will stay with that basic definition but use it in a different way. In that system we took that definition and went to the 1H chart to trade. In 10.0 the weekly chart trend becomes secondary and the daily chart trend becomes the major indicator where choices are made on how to trade. After we get our read on the daily chart we then can go to the lower charts to trade. However, before I get to the daily let us glean from the weekly first so you can better understand a trading week and what is happening over the last 3 years. From dotted line to dotted line represents 1 year. Charts start around middle of 2008 to the present. I also marked 3 major news stories with arrows so you can see their reaction on the markets.

USD/JPY



As you look at the chart above I want you to notice several things.

1. Almost all weeks the candle bodies are bigger than the candle wicks. The conclusion you can draw from that is once price moves in a direction for the week it continues in that direction for the rest of the week. So we will trust the trend direction for the week when it shows up on the chart. Consistent body candles give direction signals to trade for that week.

2. Because of this observation I am going to change the 1.0 system to following the trend based on daily direction instead of the weekly direction. This should allow us to minimize that grey area of trend direction change from following the weekly trend. Following the daily trend direction will make the turnaround easier to see and easier to change directions on our trades.
3. This observation also will lead to our definitions of trends, ranges, countertrades and hedges. We can see what the market is doing and it gives us signals of when it is changing.
4. Another observation is my currency volatility groupings will be based on the ranges since the Oct. 2008. I am going to treat that as a once in a lifetime event that hopefully we will never see again. (Yes I understand that there are forces still out there that can cause similar problems but that will be what my hedging ideas will be for using in trading.) I will base my information from these charts. In other words how volatile a currency is will be based on its high and low since the Oct. 2008 recoveries. This will give me my volatility formulas for how to trade volatile currencies later
5. I wanted to show the difference between normal news stories and super news stories. So called big stories like NFP, etc. that news traders trade do not even show up on a weekly chart. That even in big news stories you can hedge and wait out the storm and recover weeks later from the damage without taking huge hits to your account.
6. If you make your decisions on which direction to trade or what trading system you wish to use before you go to the lower charts your chances of successful will rise significantly.
7. 10.0 reads can help your trading system. You may have your own system that you are comfortable with and can trade with some success. I think you will find the reads of 10.0 will increase your profits of your already existing system. You do not need to change to what I am using but continue with what you are already familiar with and can use successfully.
8. Let us just look at some charts and make some observations. **Here is my #1 rule of FOREX trading and is the foundation of everything I do.** This is the only truth in Forex that I have always found to be 100% true. I trade with this truth always in my mind. You don't have to believe me but check all the charts I am showing. It always happens.

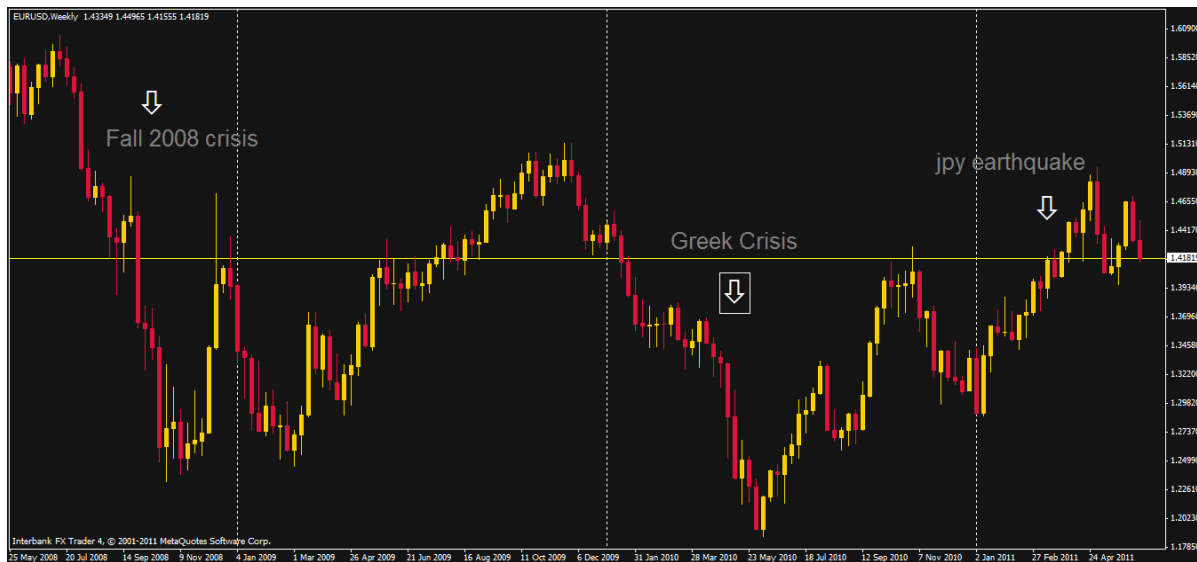
WHAT GOES UP MUST COME DOWN AND WHAT GOES DOWN MUST COME UP.

No matter what happens in price movement. There is a corrective move you can use to get yourself out of trouble. The key is knowing when it will come and how effective it will be when it does. In every group of red candles there are yellow ones and in every group of yellow candles there are red ones. Recovery is on the way if you trade it properly with good money management and lot sizes. I am going to make a totally

outrageous comment but I have found it to be true. I can make almost 100 dollars a week trading nickels and dimes. I can wait out almost any market move with 1-2000 dollars in my account. You don't need massive amounts of money, nor large lots to be successful in this business.

NOW SOME MORE WEEKLY CHARTS

EUR/USD



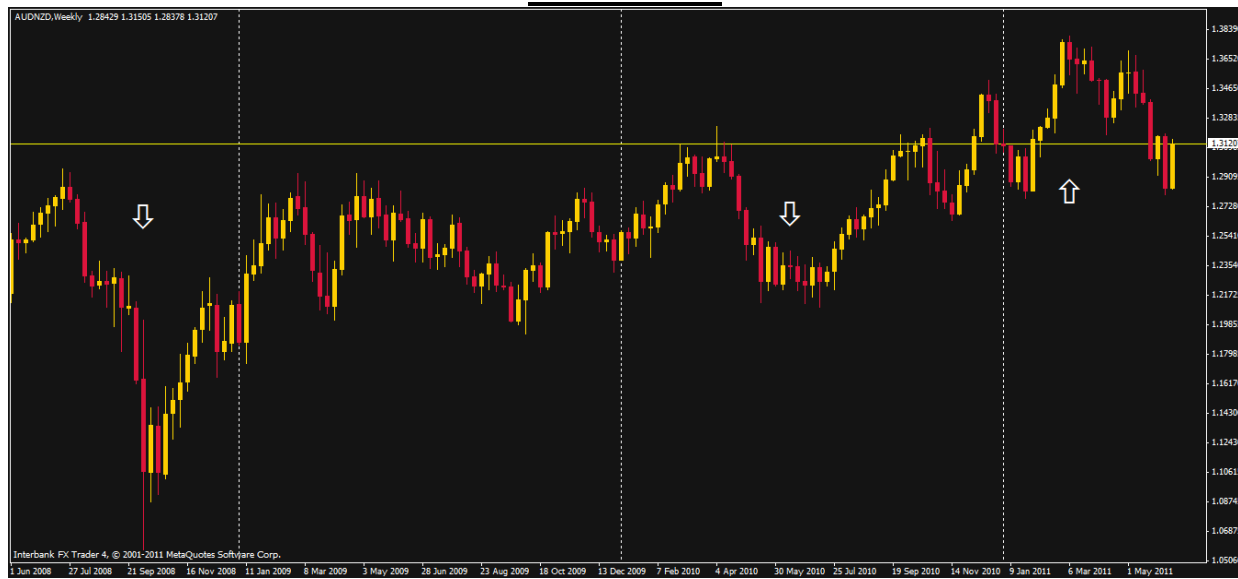
GBP USD



USD/CHF



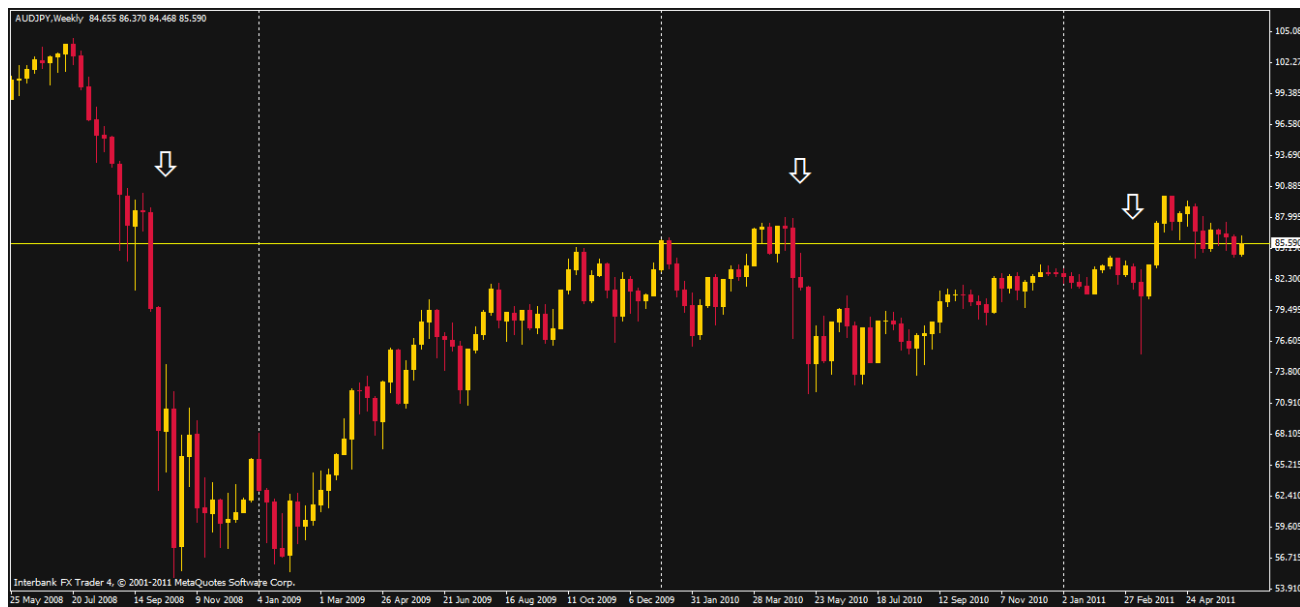
AUD/NZD



EUR/JPY



AUD/JPY



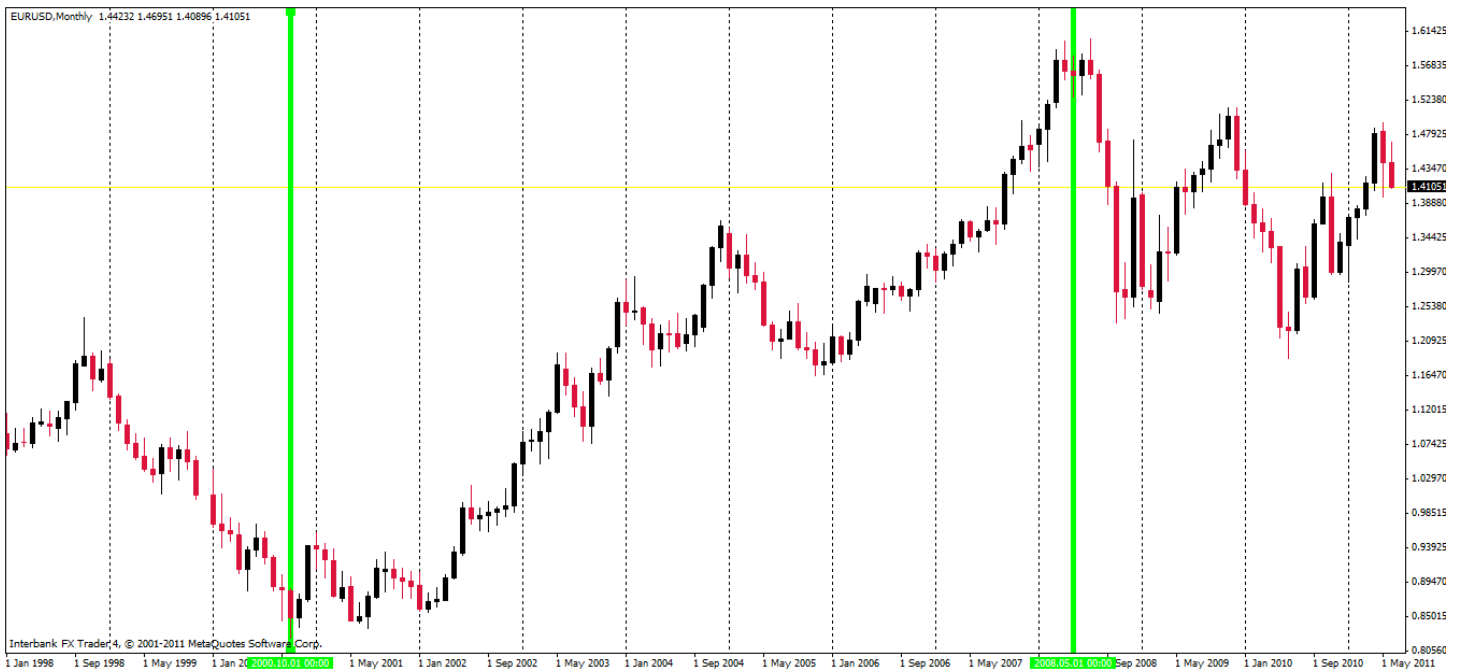
SOME OBSERVATIONS

1. All charts show candles to be mostly full bodied.
2. USA big news stories effects all currency pairs.
3. Euro stories affect Asian and USD pairs for only weeks but can affect Euro pairs for months.
4. Earthquakes affect FOREX but only over a period of a couple of weeks. Compare the NZD with the JPY earthquakes and how they affected Forex.
5. Right now CHF pairs have been going on long drawn out trends so countertrading them is very, very difficult.
6. Some pairs would be very difficult to trade using a weekly trend. (Notice Asian pairs) The gbp/usd, eur/jpy, aud/nzd, aud/jpy have ranged for almost 2 years now.
7. The eur/usd is all over the place and the usd/chf is trending like it knows nothing else.
8. Anyway seeing charts from a 3 year perspective helps you to understand the play of strong fundamentals on a currency. The USA with its QE1 and 2 and the euro with its possible sovereign defaults are very active and volatile. Other currencies like the Asian currencies are content on being content. The CHF is being used as a safe haven from the EUR and USD.
9. I am not going to post all the pairs but now you know what to look for on weekly charts. What has a currency been doing? If you like to range trade aud/nzd is one of the best pairs ever. gbp/usd has been good for the last several years for range trading. If you like to trend trade choose the usd/chf pair.
10. This concludes my conclusions on viewing weekly charts. I am sure there is more to be gleaned from here but in 10.0 the weekly trend will now take a back seat to the daily trend charts. The important thing to learn is: **WEEKLY CANDLES ARE USUALLY FULL BODIED**. That will be the big difference between 1.0 and 10.0.

INDICATORS

A very intelligent trader has a thread called: Technical Analyses Fallacy. You can read it here at: <http://www.forexfactory.com/showthread.php?t=57639> I think every trader should read what he has to say. Basically everything he says has some truth to it. He shows the weaknesses

to indicator trading. He can take almost every indicator made and tell you how it fails. This actually is very valuable information because knowing the weaknesses of your trading system will make you a better trader. In fact not knowing the weaknesses of your trading system or indicator can spell doom to your trading career. That is why I never buy out of the box EAs because I simply don't know what makes them tick or why they will fail. What their strength or weakness is will never be told to you buy the seller. I remember one guy who tried to sell an EA that never lost a trade on the eur/usd in 8 years. Well he was right, from 2000 to 2008 if you set an EA on buy on the eur/usd it never would have lost a trade. (See Pic below of the monthly chart. Dotted line to dotted line is 1 year.) You would have suffered some draw down at times but it would have worked. One look at a monthly chart ruined his little sales gimmick though.



So my thought was this, how can I change looking at a chart or indicator that would give a new perspective in trading that was really valid or at least seems to be. Here is one of his thoughts from page 1 post 1 on indicators at Forex Factory.

“What many fail to realize, is that all these studies, basically are statistical tables plotted in graphic form to present a "picture" to assist traders in their decision process. The maxim being, that a picture tells a thousand words.”

“The problem with some people and some professional Technical Analyst today (being a certified Technical Analyst myself) is that they use the Technical studies as if, it were the "Holy Grail" of trading & their pathway to the millions.

How far that is from the truth. Any person with a good brain on their shoulders, will ultimately come to the realization that these are just tools. **(1.)** Tools that are built on historical and lagging

databases. (2.) Moreover the rigidity of the parameters used in the studies imposes rigid responses to changing market conditions.”

The writer of the thread posed three major problems of all indicators:

1. They lag in giving information because they only show what happened in the past and cannot predict the future.
2. When markets change it takes time for indicators to assemble the information to pass it on to you so before you actually know a change has happened. Now I will add a third,
3. If an indicator shows a change -- by the time you analyze the change, it may not continue because the market is dynamic. So the question becomes: Can I use an indicator(s) that can overcome these 3 issues?

Let us decide a new and fresh approach to this problem. For example the typical read of an indicator would be if A is crossing B then you do C or a group of A's is crossing B's that should equal action C. A popular phrase for this is: **“When you see a convolution of events, you can pull the trigger on a trade.”** For example in the 5.0 series if price is above/below a static indicator like the sixths (you could be using fib lines, S&R lines, pivot points, etc. in other systems) and you have indicators above the 85 or below 15 and then a MA cross you have a chance to go into profit. You use an indicator to make a choice based on the information it is giving you. I propose a different way of handling the problem.

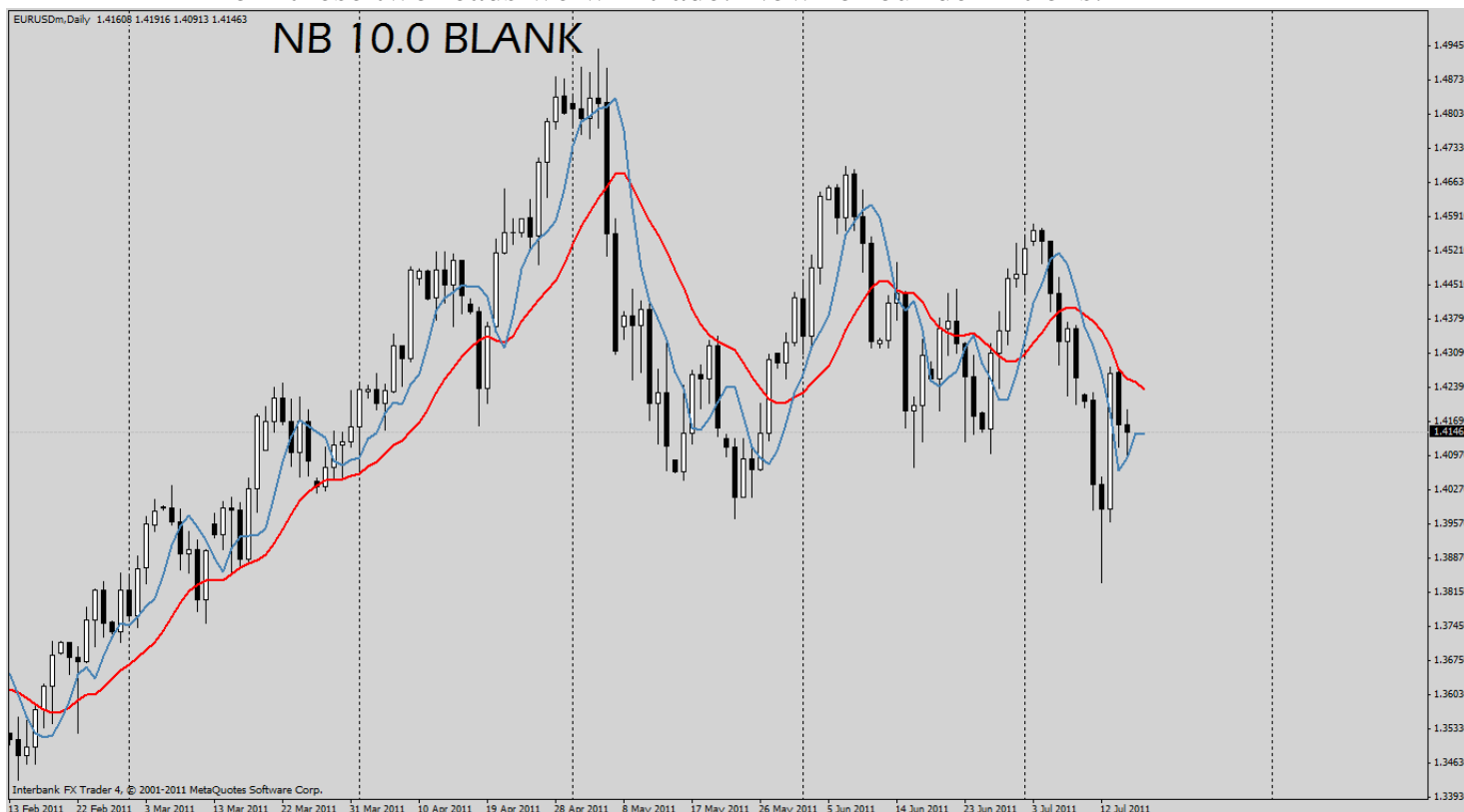
1. There is a lack of definition as to what the market is doing. In other words we use terms that are not defined. The market seems to be ranging today, or this week, or Can I ask a question? What does ranging mean? What is an uptrend/downtrend? I propose to clearly define what these terms mean specifically enough so when a change in the definition happens we then can change our approach to the market. We are not stuck waiting for an indicator(s) to gather information to tell us to change. We make the change immediately with the market.
2. With definitions in hand we then can change our strategy to within one candle. In other words when we see a certain action in price, it only takes one candle's action to then adjust to the new movement in the market. We are able to change with a changing market instead of waiting for an indicator to tell us the market has changed or guessing a fundamental or news story.

This is going to be the heartbeat of 10.0. When we see a certain action we will change our approach immediately to that change. In other words candle A just did this therefore we are no longer trending or if candle B does that we are no longer ranging. With this information we can then close/open positions and change our approach to the market. If some force has made its imprint on the market we are going to change with it and this change will be immediate. So our approach to the market will be this. We see what has been the direction of the market, now it is going to change. So we change also, because the market has changed. **We are not going to be rigid but change with the flow of the market. This will be a trading skill that needs to be mastered with practice and patience.**

At some point someone is going to say this guy is insane. I probably am, so bear with me in my insanity.

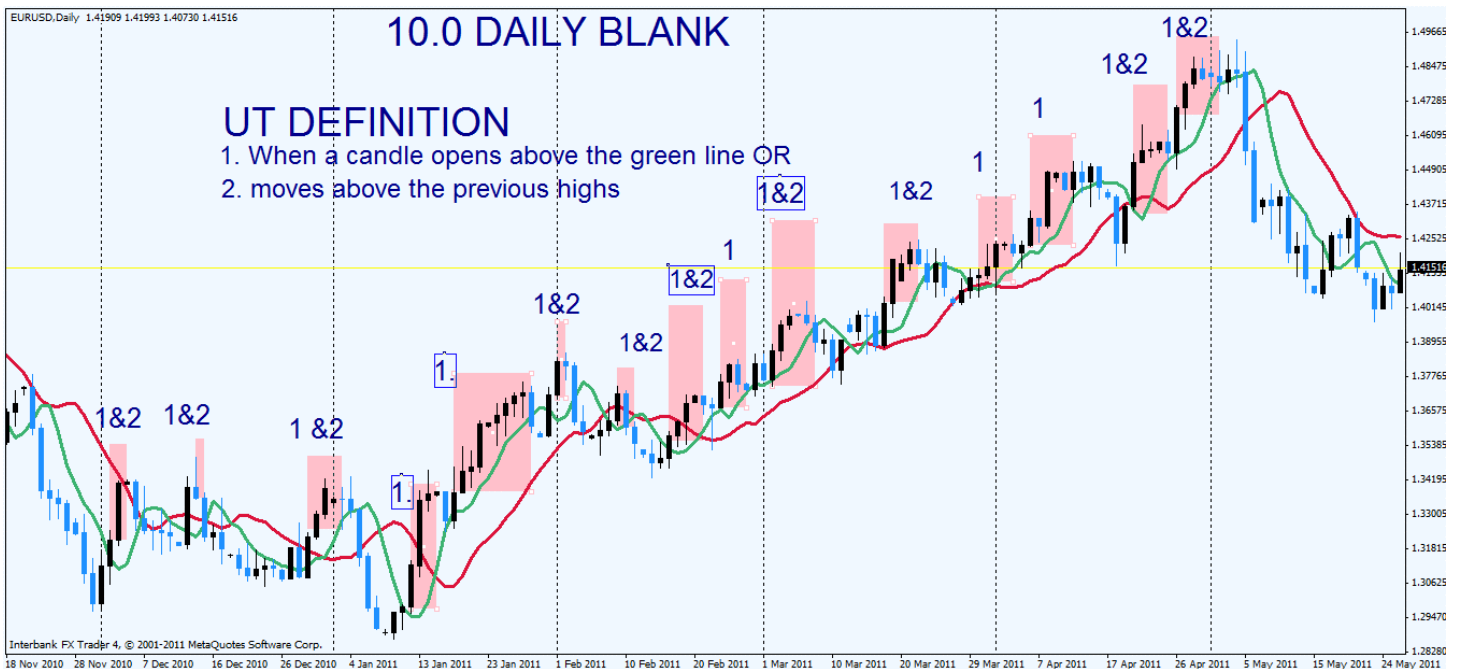
FOUNDATIONS OF MY INSANITY

1. **DAILY CHART**-We define trends and ranges better using a daily chart for intermediate trading. Trades can be from hours to a week. This is not a scalping system.
 - a. In using the daily chart we take a read every day from the daily and then go to the lower charts to trade depending on your read or you can trade from the daily chart with my system. You should have one profile set up with only daily charts in your MT4. Take your read every day and then go to the lower charts to trade using the system you like to use. As the future unfolds I will post my trading systems but feel free to use these reads with a system you are comfortable with.
 - b. Without going into the entire math on every chart which would takes pages to explain I have used the following figures to get my lines on all the charts. The lines are approximations of these different indicators: 200MA from the 1H chart, TMA indicator from the 4H chart, and the 2MA from the weekly chart.
 - c. This is the eur/usd daily with our two MA lines. The red is our trend based on the 200MA from the 1H chart (MA8, Smoothed, shift 2, Median). The blue is an approximation of the TMA from the 4H chart (2MA Smoothed, shift 2, Median). From these two reads we will trade. Now for our definitions.



2. **Definition of a trend** based on a daily chart

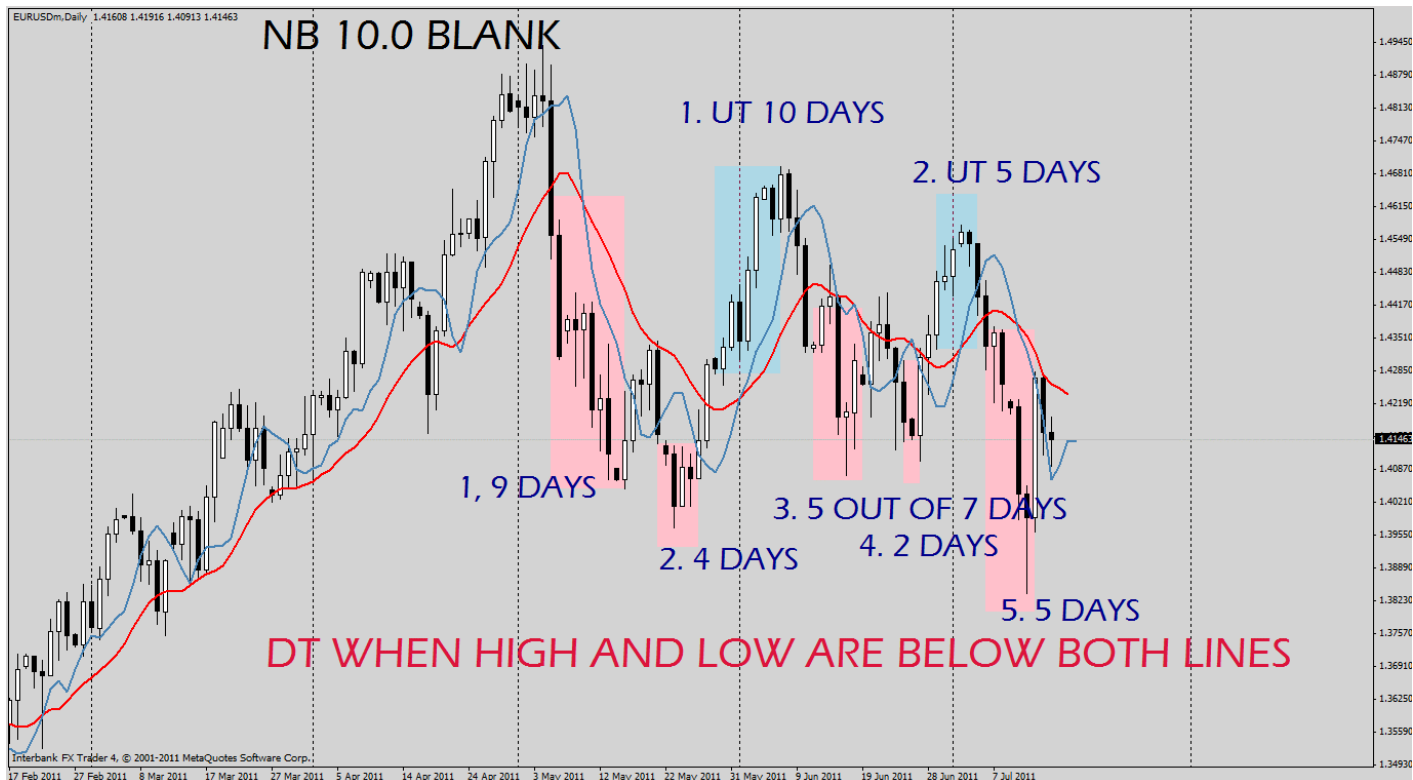
- a. When price action is above the red line and the high and low of both candles is above both lines, we are in an uptrend (UT).
- b. When the high and low of a candle is below both lines, we are in a downtrend (DT).
- c. Let us take a look at some UT scenarios.
- d. **WE ARE NOT TRADING THE DAILY CHART WE ARE ONLY DECIDING WHAT WE ARE TRADING THAT DAY. THE LOWER CHARTS IS WHERE WE WILL ENTER MORE PRECISELY. SO DON'T GET HUNG UP ON THE ONES THAT LOOK LIKE MAYBES OR REVERSE QUICKLY. WE WILL PICK THESE MOVES UP ON A LOWER CHART. AS LONG AS THE HIGH AND LOW ARE ABOVE/BELOW THE GREEN LINE WE ARE LOOKING TO BUY OR SELL. THAT IS OUR DEFINITION.**



- e. On the chart on the next page we will look at the last 62 days or about 1 ½ month of trading days. Of the last 62 days 40 of the days were in an UT or DT. The pink is the DT periods the blue is the UT periods. Knowing whether you are in an UT or DT will really affect your trading style.

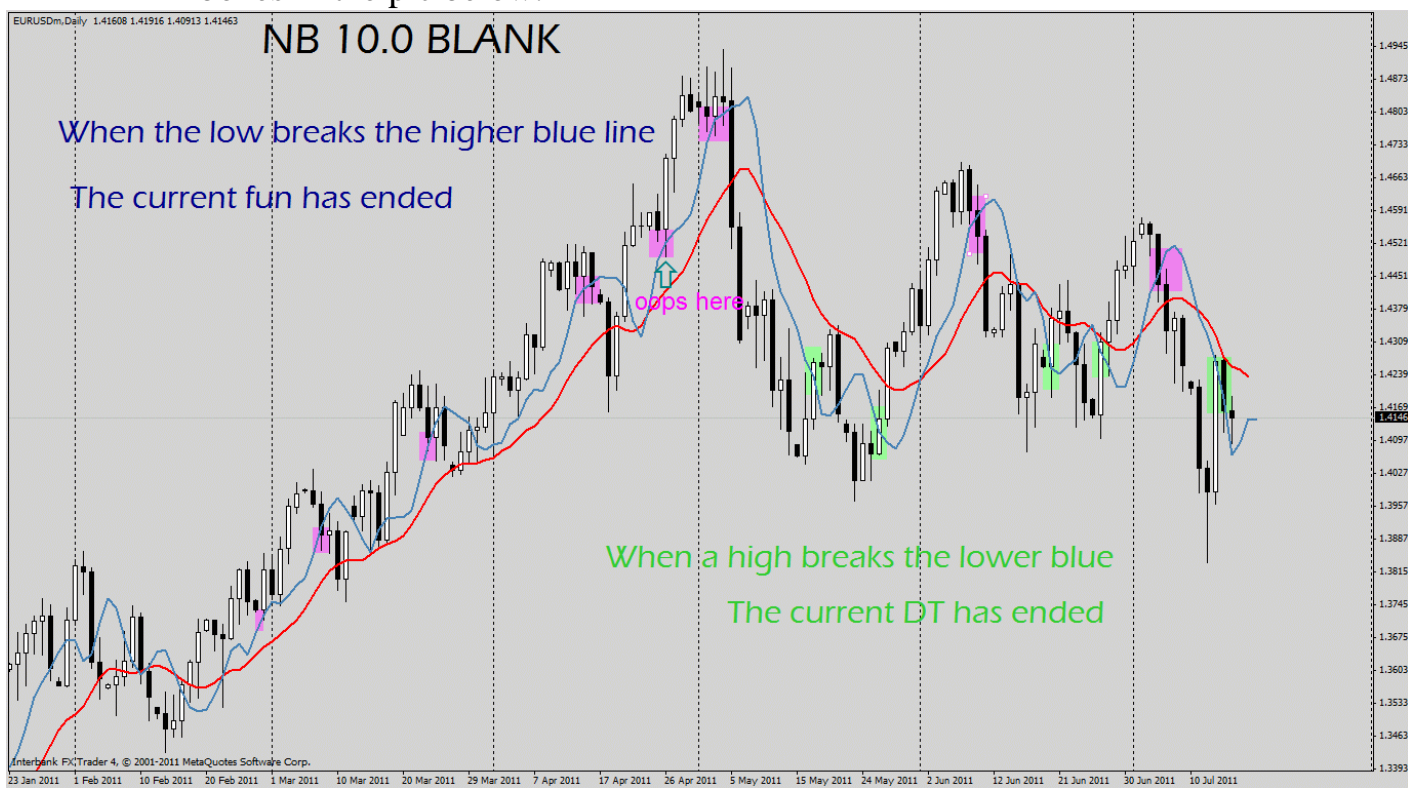
THIS IS IMPORTANT TO KNOW: NO MATTER WHAT THE FUNDAMENTALS ARE DOING WHETHER WEAK OR STRONG YOU KNOW WHEN IT STARTED AND NEXT YOU WILL KNOW WHEN IT ENDS.

- f. You don't need to know the specific fundamental(s) that are driving the market, you only need to know that it is or isn't driving the market. As long as price action stays outside those sets of lines you can ride the trend



3. END OF A TREND

- When a low in an UT breaks the blue line the present run has ended. See the pink boxes below.
- When a high in a DT breaks the blue line the present run has ended. See the green boxes in the pic below.

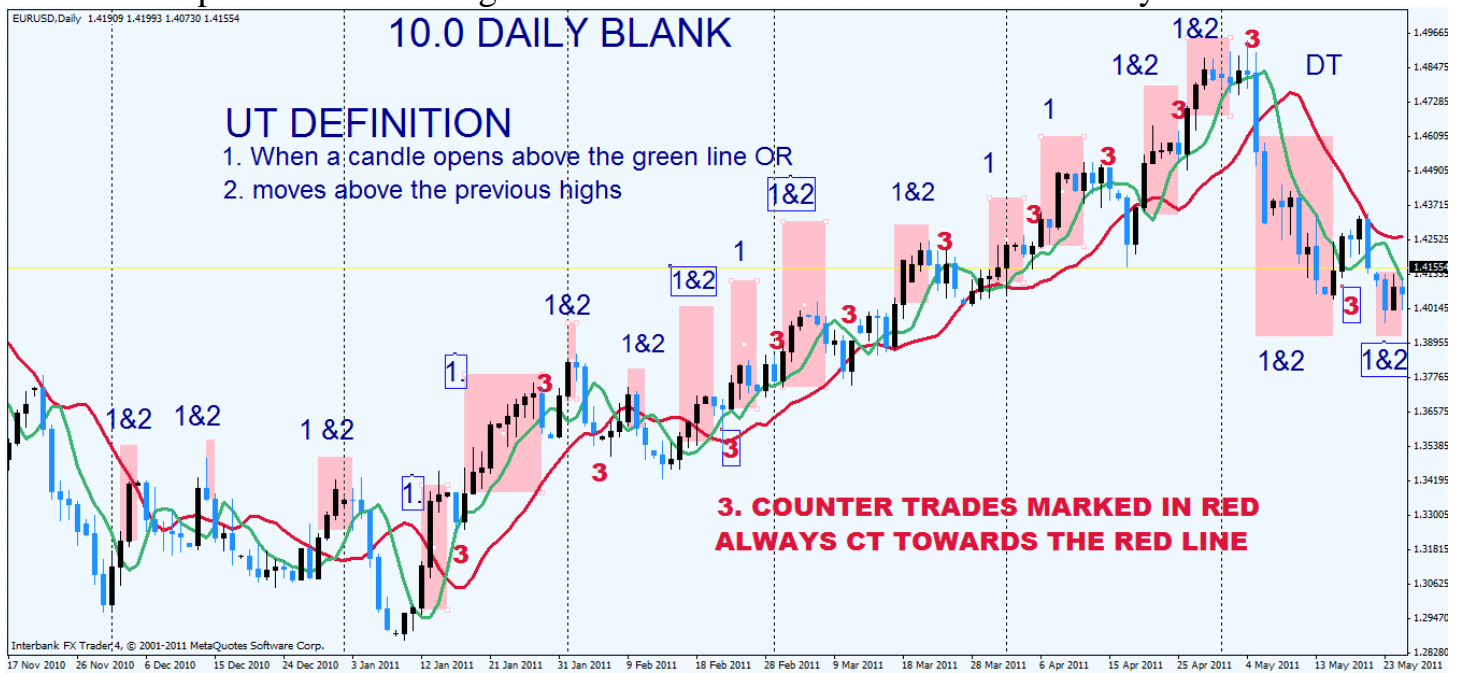


4. REVIEW OF TREND DEFINITIONS.

- BLUE LINE ABOVE RED UT. BLUE LINE BELOW RED LINE DT.
- When high/low is above both lines trade the UT run.
- When high/low is below both lines trade the DT run

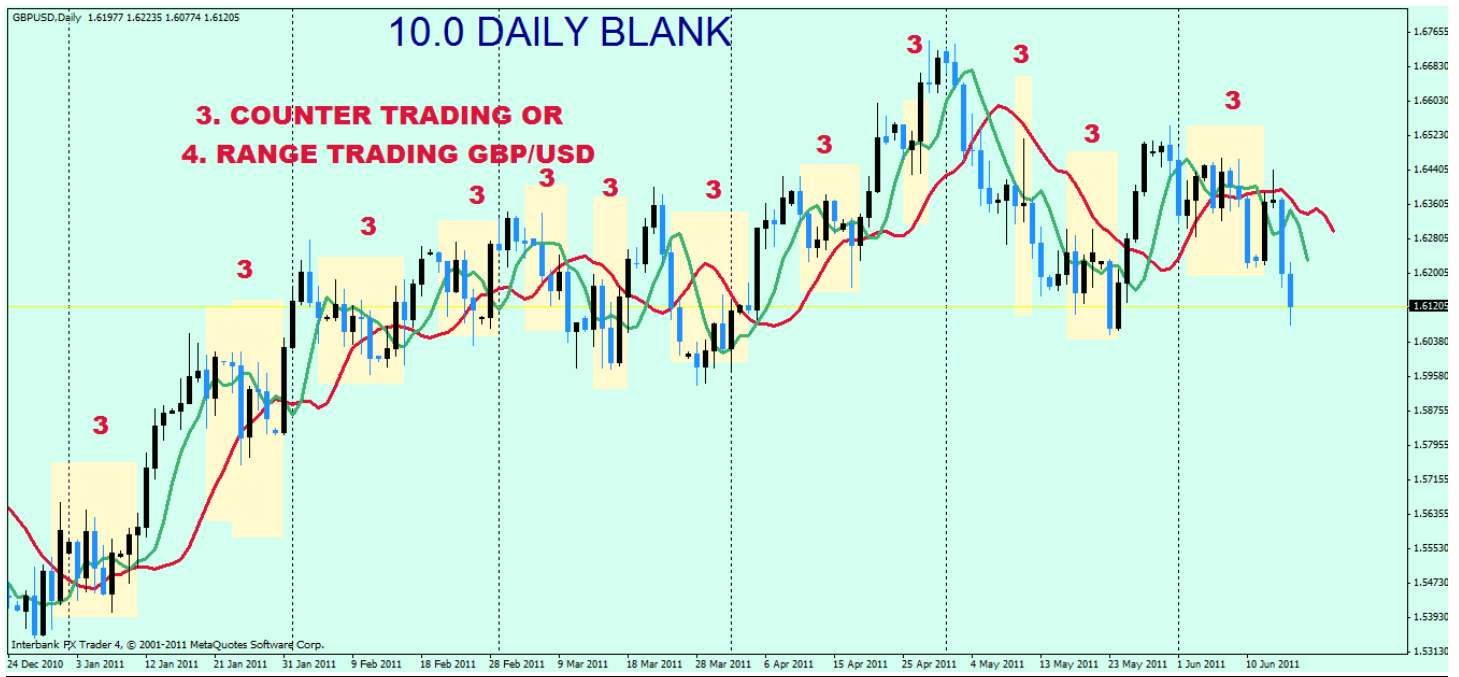
5. DEFINITION OF A RANGE OR COUNTER TRADE OF PRICE ACTION.

- a. **I WANT TO APOLOGIZE FOR USING DIFFERENT COLORED CHARTS BUT I MADE SOME CHANGES AFTER TESTING BUT I DIDN'T WANT TO REWRITE THE COMPLETE BOOK. THIS EARLIER VERSION USED GREEN LINES AND BLUE BACK GROUND. I TRUST YOU CAN GET THE MAIN THOUGHT EVEN THOUGH THE COLORS MAY HAVE CHANGED.**
- b. When a low/high touches the green/red line, we are in a range or breather time. This is when we counter trade. In other words the low is on one side of the green/red line and the high is on the other side of a green/red line. We can use lower time frames to enter trades.
- c. When the open is above or below the blue or green line or previous high is broken we stop counter/range trading. At that point we take a stop loss, use the 10.0 multi-level reentry or we hedge. (Hedging should only be done when headlines news is on the front page of the news. Otherwise you will be going nuts undoing hedges.)
- d. Here is a pic of the same chart with the CTR (counter trend/range) trades marked #3 on the chart. Remember these are daily charts and CTR trading can last 1 or more days even though you are in a long UT. CT trading will look easier when price is not trending. See chart below CTR trades are marked by the red #3.

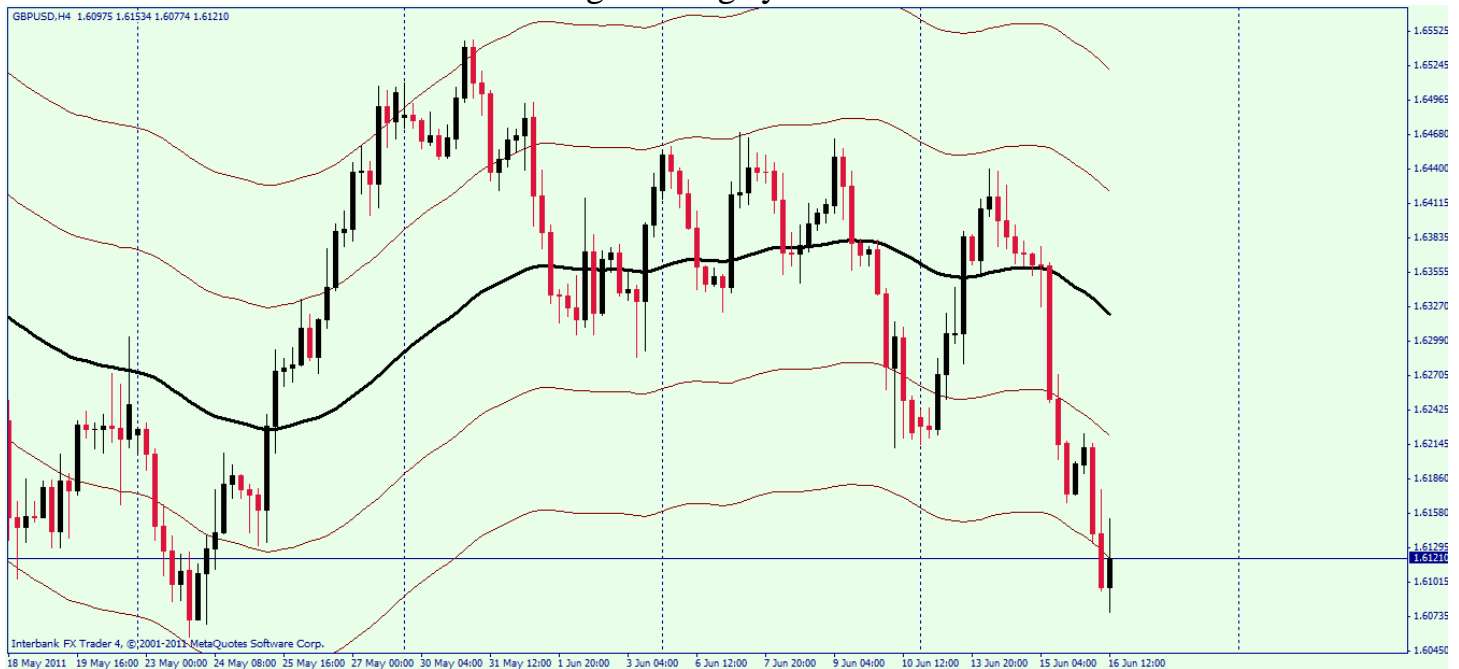


6. Range trading—Good example of a ranging pair is the gbp/usd.

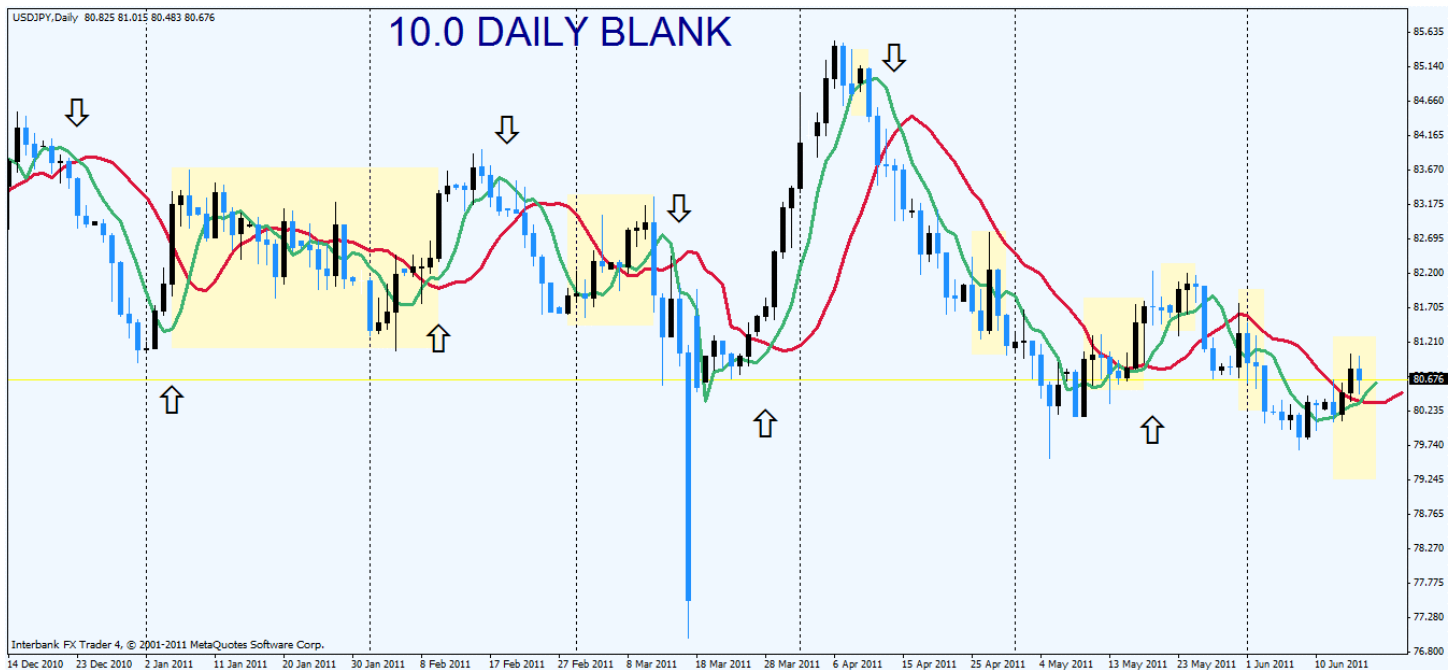
- a. For the last 2 years the gbp/usd has been ranging very well while the eur/usd and usd/chf have been trending. Knowing this by studying the weekly charts will hopefully keep you out of trouble. Even though I showed range trades on the eur/usd they really weren't a good place to range trade. Probably right now you would only want to trend trade those two pairs and range trade the gbp/usd.
- b. Let us take a look at the gbp/usd range trades. You would not know to do this unless you had looked at the weekly chart. But you are sitting on a range or counter trading gold mine with the gbp/usd for the last two years. Here is a picture of the gbp/usd using the CT trading marks.



- c. Here is a simple range trading system with line 100&200 above and below on a 4H chart. 2 levels deep would work just wonders on the gbp/usd right now.
- d. You could have traded this simple system successfully for the last two years and would have been knocking down several good trades a week.
- e. We will talk about the range trading system later.



- 7. Here is a pic of the usd/jpy. You could have beautifully caught the earthquake runs going both ways for a nice profit reading off of this system. Price broke south and broke the previous low and then rebounded the next day. After a 7 day CTR price broke above both lines for a nice 10 day UT trend run. It then would have range traded for 4 days and then two DT runs of 9 days and 6 days.



SUMMARY

Let us review

1. We look to follow what price is telling us with a system that lets us know immediately when to change our trading strategies. These definitions are simple and easy to comprehend.
2. The heartbeat of 10.0 is this, we don't use indicators to predict the future, we use them to signal to us that what the market has been doing has just changed. In other words we change when the market changes and indicators are no longer lagging but dynamic. They indicate to us that something has or is going to change the market so we will change with it. Our first assumption is when we see a certain movement in price: **the market is not going to continue what it has been doing so we are going to stop what we have been doing and change to another trading form.**
3. We are going to specifically define UT, DT, and CTR so when we get a signal we are going to change or stop our present trading form.
4. We believe then that indicators now become dynamic and now instead of lagging and slow.
5. **Trend trading starts** is when both the high and low of a candle is above/below the green 2MA Median shifted 2. As soon as you see the open on the other side of the green/blue line you can follow the trend.
6. **Trend trading ends** as soon as the high/low breaks that line the present move has ended and how we trade also changes. We will seek our best exit from the present strategy.
7. **CTR**- counter trading-range trading is done when the high and low are on opposite sides of the green/red or blue/red lines on a daily chart. You continue to trade this way until the open of a candle and/or previous high/low is broken.
8. The 10.0 is only a read system, trading is done on the lower charts with the trading system of your choice or you can use the ones I will provide.
9. I will be posting trading systems to go with 10.0 but first I wanted to explain the basics.

10. You do not have to trade off of the daily chart, but we get our type of trading from the daily chart. However, some of the EAs can be traded from the Daily chart.
11. One candle is all it takes to change our trading style. That is both the simplicity and beauty of 10.0. A simple read sets you in motion.
12. All the different types of trading styles will be posted at a further time. I plan to include:
 - a. Range trading system
 - b. Trend trading system
 - c. Counter trading system
 - d. Hedge trading system
 - e. Recovery system

**MAY YOU ALL PROFIT FROM
MY INSANITY.**

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