Jacko's Forex House of Pleasure and Pain

Contents:

Apr 26, 2007

Hello,

I have received a very small number of PMs and emails regarding how I trade.

Also a number of people were saying that my posts were all over the forum and that it would be nice if they were all put in one area, so I will try to consolidate everything into one rather condensed thread.

Why Do I trade Forex?

Why do I trade Forex?
Because I am ABSOLUTELY CONVINCED that this is the best "business" in the world.

There are:
1. no rent of offices (that is, NO dealing with Realtors, Lawyers, and government departments...man, what a pain in the ass). Also **no office fit-out costs**

2. no staff, (man, unless you have had large numbers of staff depending on YOU for their pay packet each week, you cannot know what a huge pain in the ass it is. They **ALL** want you to solve their problems)

3. No inventory or stock to buy. No shrinkage (theft of stock) and no "slow moving" items. No massive amount of funds tied up in inventory

4. You can "borrow" as much as you want (by increasing your leverage), WHENEVER you want. (Try running a big business and going to the bank for a short term loan for $10 mill...it will take a month minimum). I am trading $10-12 mill all the time and I get it **instantly** through the brokers by the use of leverage.

5. If the business becomes a hassle for whatever reason, you can shut it down (that is, close all positions) **instantly**...and re-open (initiate new positions) whenever YOU want to re-open your "business."

6. You can "scale" your business to **whatever size YOU want** simply by increasing/decreasing your positions.

7. Absolutely minimal paperwork. Simply send your 12 month summary Profit and Loss Statement to your Financial Accountant for tax payment purposes.

8. You can trade from anywhere in the world. My wife and I travel most of the year. (take your laptop or PDA or whatever else they will come up with and trade while sipping a nice drink as close by as your local cafe or as far as some open air cafe in some remote little town in beautiful Italy while you watch a bocce match at the park.)

I could keep telling you more of the benefits of this business, but suffice to say...this is the best "business" in the world. **I run a multi-multimillion dollar business from my laptop.**

And did I mention that it was exciting and fun????

What are the disadvantages of this "business" of trading Forex?

For me there are none. I am old (early 50s), retired, financially well-off and experienced (20+years) in trading shares property and commodities. I have also had much experience in business (having sold two businesses for substantial amounts of money) Even though I trade large volumes, the financial risk at the margin is relatively small. Also, I have had extraordinarily good luck in this market and have made a significant sum of money in the last twelve months (so I am now playing with the Forex casino's money).

For many of you, the situation may be different. You are probably young, working, keen to make a lot of money and inexperienced. **That is a dangerous combination.**

Most young traders here all suffer from the basic same problems.
1.There is a tendency for newbie's to "**PANIC**" when the market goes a little against them This is due to:
a. Probably scared to lose money
b. Probably undercapitalized
c. New to industry....therefore probably uncertain about your own abilities
d. Unsure that the trend lines, 50% Fib line and "round numbers" are as reliable as they are in practice.
e. Probably inexperienced in business and investment from a practical aspect
f. Probably unsure who to talk to for guidance

2. The second problem is that they are all looking for the "Holy Grail" There is **no "mechanical system" that is a "Holy Grail"...**I have been watching the contortions of a trader here who is trying to prove that Elliott Wave is the answer... BS !
However, let me tell you a secret...**there is a "Holy Grail".** Every time you look in the mirror, you will see it. It is you.

3. The thing that kills new traders is the "wild punting" on everything that moves two ticks.

4. stop thinking that you have to "outsmart" the market.
You don't have to..this business is very easy if you leave your brain at the door....**just follow the trend = follow the money =going with the flow = barking with the big dogs.**
Stop thinking that "it can't be that easy".......it is!!!

5, you have to detach yourself emotionally from the money...that is the hard part...**stop seeing it as money, and look at it as numbers.**
Also, don't play with money you can't afford to lose...or alternatively, put the money aside and tell yourself that it is already lost. (You MUST detach yourself from the money

6. And remember, **Leverage can make you a fortune...but leverage will kill you quicker than you think..!!**

Finally, I am not saying anything different to what all the good trading books say...but it is amazing that every newbie wants to "take on" the market and then wonders which express freight train flattened them (and destroyed their trading accounts).
Most people are trading for the adrenaline rush rather than the boring concept of just maximizing profits.

Who Am I ??

Who am I ??

I started trading Forex about a year ago. Have traded futures for much longer (15+ years?).

Started a trading journal at DailyFX in Feb 2006.(**ONLY FOR PEOPLE IN LIVE TRADES-Jacko's Pleasure and Pain conversations).**

http://www.learncurrencytrading.com/...ead.php?t=2373

Lost interest there when a lot of young aggressive newbies came in.

This seems a more rational forum.

On that Forum I traded live time for about six months and, as was seen by all who followed those trades, was very successful in my trading. If you have read that journal, you will know that it was **"live time trading"** and there was no possibility of any B.S. because I (and others) were all posting **as we traded**. If we had tried to B.S. then everyone would have jumped on us. Initially, I started with very small numbers of standard lots, but as I started to make very serious money, I stepped up my trading volumes and eventually found my ideal comfort level. I am still trading those large lot numbers.

I trade a little differently now than in my original trading pattern. I trade longer term, and trade on average only about twice a week. Less stressful, more profitable.

I am an American who now resides in Asia. I am amazed and angry at how stupid our Government and businesses has been.

I watch, almost on a daily basis, the growth of the Asian economies and realised some time ago that ole George and his recent predecessors have squandered the enormous wealth of America on foolish follies.

China will overtake the US as a world manufacturing economic power sooner than everyone expects.

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Trend Trading.

I am a Trend Trader

EVERYONE SHOULD TEST OUT THIS VERY UNUSUAL AND RARELY USED STRATEGY;

1. buy/ sell ONLY in the direction of the major trend and
2. buy/sell on dips.(Use support lines to guide you as to price...also "round" numbers ... I also use the 50% Fib ratio..)
3. bank your profits

Firstly, how do you know what the trend is?

DETERMINE THE TIME FRAME THAT **YOU** WANT TO TRADE.

1. If the graph on the chart starts in the bottom left hand corner and ends in the top right hand corner, **the market is going UP**.

2. If the graph on the chart starts in the top left hand corner and ends in the bottom right hand corner, **the market is going DOWN.**

3. If you are still confused, print it off and show it to a 5 year old...they will get it right EVERY time...LOL

The trend is the BEST friend you will ever have in the Forex market.

When you trade with the trend, even if you make a mistake, the market will get you out of your problem....If you make a mistake and you are fighting the trend ...YOU ARE STUFFED, BIG TIME !!!

Secondly,I think the **round numbers** (1.2900...1.3000...etc) are valuable. I only use **minimal** numbers of trend lines and the **ONLY** Fibonacci number I use is the 50% number....
That's the limit of my T/A...

KISS = Keep It Short and Simple
Note: I do NOT use any moving averages (or any other of the fancy measures). They are **historical** numbers!!!

The reasons that I use only Round numbers, trend lines, and the 50% Fib number is that **the big players ALL use them.** The more complex you make your trading parameters, the less number of people will be using them.

Forex is one of the most "trendy" markets. That is, it trends MUCH stronger than say metals, oils etc in futures markets. The pair that are the strongest "trend" market is the Euro/USD. Trending markets are soooo much easier to trade than choppy, volatile and erratic markets

Thirdly, Slow down... this market will be here for the rest of your life...
DON'T BET YOUR BANK...

It is better to get rich slowly...than to go broke spectacularly fast.

Fourthly, A much wiser man than me once said that "If you find yourself in a deep hole, then stop digging"

Do NOT throw good money after bad money...stop and accept the loss... then clear you head so that you can see more clearly...

You should either

1. Close out the trade, and let the market go up/down....but after the market starts to retrace, then put your "short"/"long" position back on at exactly where you closed it out. This ensures that you get back into the trade on the way down (the Jacko "alternative method" to hedging) or

2. Close the position and take the loss. Then look at getting back into a "good" trade next time. This market will be here long after you and I will be dead, so there is no need to rush in and try to get all your money back in one day.

Fifthly, the is a tendency for newbies to "**PANIC**" when the market goes a little against them
This is due to:
1. Probably scared to lose money
2. Probably undercapitalised
3. New to industry....therefore probably uncertain about your own abilities
4. Unsure that the trend lines, 50% Fib line and "round numbers" are as reliable as they are in practice.
4. Probably inexperienced in business and investment from a practical aspect
5. Probably unsure who to talk to for guidance

There is a solution to all the above...... It is called "old age"........LOL

Finally, you ask why I prefer to use the longer term trades. The answer is that the shorter the time period, the more you are gambling and punting on tiny movements. The smaller the time frame, the less they will follow the trend lines, Fib numbers and "round number" rules.

The longer the time frame, the stronger will be the trend lines etc

Also, short term trading is emotionally much more draining.

Just some additional little things that I have remembered that may be of assistance to anyone looking to position trade:

Firstly, don't over-trade. Some people here seem to want to bet on every tic. The thing that kills new traders is the "wild punting" on everything that moves two ticks.

Secondly, stop thinking that you have to "outsmart" the market.
You don't have to..this business is very easy if you leave your brain at the door....**just follow the trend = follow the money =going with the flow = barking with the big dogs.**
Stop thinking that "it can't be that easy".......it is!!!

Thirdly,, you have to detach yourself emotionally from the money...that is the hard part...**stop seeing it as money, and look at it as numbers.**
Also, don't play with money you can't afford to lose...or alternatively, put the money aside and tell yourself that it is already lost. (You MUST detach yourself from the money

Finally, I am not saying anything different to what all the good trading books say...but it is amazing that every newbie wants to "take on" the market and then wonders which express freight train flattened them (and destroyed their trading accounts).
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The Forexmarkets are arguably the most "trendy" market there is, especially the Euro.

Once a trend is in place, it takes a lot of power to reverse it. Take a look at the weekly charts. This current "long" started back in early Dec 2005 at approx 1.1650. (nearly 1700 pips from where it is now) It had a relatively "minor" correction from approx 1.3000 to 1.2500 before continuing on to where it is today.

Even more strong evidence for the power of the trend is that the above "long" is part of an even stronger "long" from 0.8363 from July 2001.

Price does not like support or resistance levels. It mostly tests them and then moves away quickly. You'll rarely find much price action in the vicinity of the line. **If price is hanging around a support or resistance level, it's likely to break in the opposite direction.**
(For example we know that professional traders love round numbers to target...it brightens up

their dull day to push and cajole the market to a target number. Now Euro/USD 1.3000 is the roundest number there is around those levels, so the pros have gotta be saying that the big game in the industry is to now grind and push the market to 1.3000. After that they don't care, they have had their fun...and thats why a market will whip and drop/rise dramatically straight after the target has been hit).

Smart Money is the Central Banks. They actually **determine** the trend by sheer weight of money. (Central Banks turn the long term currency markets to accomodate the relevant government's trade requirements). Then following them are the huge hedge funds.

An Alternative to Hedging. Jacko's Anti-Hedging Strategy

This strategy was invented by me as an alternative to "hedging" which was often discussed on Forums as a panacea to a losing trade.

"Hedging " to me is simply hiding a loss under another opposite trade...and sooner or later, when the hedge comes off, there is an ugly loss exposed...I don't like that concept !!! (However, to those who use them, I say, different strokes for different folks...that is, its a personal choice).

Currently, this is what seems to happen to some Traders...

1. you put a trade on and you put a stop loss of around 40- 50 pips
2. the market goes against you (horrors....I was wwwwwrong !!)
3. let the market continue...it will probably go say another 30 - 100 pips past your stop...who knows ???
4. FINALLY, the market comes back around and starts to head in the opposite direction
5. by now you are totally hacked off with the market and you let it go

The solution that that I found is a pretty simple one but one that has to be executed without fail...

Scenario 2

That strategy is:

1. you put a trade on and you put a stop loss of around 40- 50 pips
2. the market goes against you (horrors....I was wwwwwrong !!)
3. let the market continue...it will probably go say another 30 - 100 pips past your stop...who knows ???

4. **PUT AN ORDER IN AT THE EXACT SAME FIGURE AS YOUR STOP LOSS (if you were originally "short" then place a "short" order) This ensures that when the market comes back, as it invariably does, you have a DEFINATE order in place to put you back in the market where you were originally...and you are now in the same direction as the market is moving..**

5. FINALLY, the market comes back around and starts to head in the opposite direction
6. The market picks you back up on its new direction

7. THE **ADVANTAGES** OF THIS (THEORETICAL) STRATEGY IS THAT
a. IT HAS AN EFFECTIVE AND DISCIPLINED COURSE OF ACTION
b. IT GIVES YOU A SPECIFIC "ENTRY" POINT
c. **IT REDUCES LARGE DRAWDOWNS**
d. IT PUTS YOU BACK IN THE MARKET EXACTLY WHERE YOU GOT OUT

I know that there are DISADVANTAGES with this strategy, buy I think that the overall effect of the advantages outweigh the disadvantages.

I also think that this strategy is more appealing to my business sense of minimising risk than the original concept of "hedging" that initially set me off to discover an alternative strategy to hedging.

I have now been using this strategy for a couple of months and it is working brilliantly.

PLEASE NOTE: I am a medium to long term trend trader. The above method works best on those time frames. It works less well on short term time frames because of the volatile "noise" in the market.

When a stop loss has been triggered, I allow it to go past my SL by a **minimum** of 50 pips before I set the new order.

When the market has turned and is coming down in the "trend" direction, my order is then opened.

Try it...you will be surprised how good it is.

The key advantage is that you are not tempted to "hang on" to a losing trade....and therefore your drawdowns are minimised.

However this is a "default" trade. It is NOT the prime strategy to use.
DO NOT LOSE SIGHT THAT the prime strategy is to trade medium/ long term and trade with the trend, with a trailing stop.

Timeframes for Determining The Trend

Time frames (for me) as a Trend Trader

I start with weekly, then move closer in using daily, 4 hour and 1 hour to help me make a decision. Less than 4 hours tends to be "noise" rather than a "trend". They are the "sucker" rallies and declines.
PS Don't be the sucker...

But I am also starting to notice that it doesn't really matter anymore where I buy or sell.
The anti-hedging strategy is FAR, FAR, FAR more important.

The anti-hedging strategy ensures that,... if you make a trade in the wrong direction,.... you can get your losses back ...AND you are in the direction of the trend.
Stick a trailing stop loss on it and you are guaranteed a profit.

So...
1. If your trade is a winner, you stick a trailing stop loss on it and let it run.

2. If your trade is a loser, employ the anti-hedging strategy, and at some time, you can get your losses back ...AND you are in the direction of the trend. Stick a trailing stop loss on it and let it run.

K.I.S.S. (keep it short and simple)

An Opinion on "Trading the News"

In my opinion,

You have **NO** chance trying to trade the news (buy or sell as soon as the news is released)...the dealers will **ALWAYS** be in front of you. (you need a broker too that won't play unfair tricks during those high volatility times, those **tricks include freezing the platform, some will widen the spread way too much, others will get you filled way to far from the price you wanted to).**

Whichever broker you trade with, you are trading through **their platform.** Consequently, **their brokers** will therefore have an advantage over you.
To think otherwise is naive.
They are taking the other side of the trade (which they **must** in "trading the news" because they don't have time to spread their risk), and they will fight tooth and nail not to give away a business advantage to any trader. That's why they are doing all the things (plus much more) outlined above.

Its like poker, if you look around the room and can't see the patsy, then YOU are the patsy. The faster / shorter time frames that you try to play in this business the more you are at a disadvantage. Retail traders trading the news are like fish swimming with hungry sharks in blood-filled water.

Results

Aaagghh...the bit everone wants to know..the results.

Prior to March 2006

Until early March 2006, I was a RABID "short". I was vociferous about going "short" because the Forex Express was definitely a South bound Express.
When I look back through my earlier posts on that Forum (DailyFX), I was really quite rude...but still...I was making money and others were losing money...so I was just trying to help.

On March 29, 2006

Below is a copy of a thread from the only other Forum of which I have been a member. (I haven't posted there for ages...too many loopies were hanging around...)

It is dated EXACTLY one year ago on March 29 2006. See Post 5305

http://www.learncurrencytrading.com/...=2373&page=354

Quote:

> **Quote:**
> **My opinion...for what it is worth...**
>
> **We are the start ...(actually, the turning point was November 15 2005)...**
> **of a major bull run in the Euro that may continue for maybe 1 or 2 glorious years.**
>
> **The strategy is not difficult...buy and hold...then buy some more...then buy some more...**
>
> **No need to over-leverage...**
>
> **I seriously doubt that we will see under 1.2000 again in the near future unless there is a major disaster /calamity/new war etc**
>
> **I personally won't be shorting this market again. It is not worth the pain of betting against**

the trend...

I will also be trading from the longer term view from now on...I am seriously loaded with "longs" from the low 1.2000's and will probably just buy more every time the market goes up 100 pips.

So I won't be making too many comments here in the future...but I will be watching with interest

On April 25 2006

Below is a copy of a thread from DailyFX It is dated EXACTLY one year ago on April 25 2006. (See Post 11079) regarding my long term "guess" on where the market was going.

http://www.learncurrencytrading.com/...3666#post92696

Quote:

Quote:
I think that this market is going to go vertical in the next few days...it appears that everyone is just recognising the fundamental shift in the world economy from US dollars to Euros.
Reasons are that interest rates in Europe will be bigger and more frequent than in US...Huge US deficit..etc, etc

I am looking to 1.3666 within 12 months...and then it will continue on higher

It was followed a couple of days later by this post (post 11670).

PLEASE NOTE: This was posted 12 months ago

Quote:

Quote:
I am currently working my trades on the basis that there has been a seismic shift in the perception of the USD.

The Euro currency will soon retrace, but the retracement will not be as big as everyone expects...Everyone still thinks that it (perceptions) will all quickly go back to the way it was a week ago. However...

1. Europe has effectively told the world that it will have more interest rate rises than the US ...and the rises will be bigger....

2. Ben Bernake yesterday just agreed with Europe

3. The Arabs/ Swedes/ etc etc will not sell their massive holdings of Euros that they have just bought (and are still buying) to get back into US dollars.

4. The enormous US deficit will not disappear. China effectively told ole George W last week to get stuffed and that they would not change their currency peg. (Read: China will continue to flood the market with cheap goods and slowly strangle US businesses).

5. After the fall of the communist regimes, Europe is now finally getting its act together

6. The Iraqi war is another Vietnam and will continue to suck money.

Without wanting to be an ass, a couple of days ago (**prior to the rapid rise**) I said

Quote:

> Quote:
> **I think that this market is going to go vertical in the next few days...it appears that everyone is just recognising the fundamental shift in the world economy from US dollars to Euros.**
> **Reasons are that interest rates in Europe will be bigger and more frequent than in US...Huge US deficit..etc, etc**
>
> **I am looking to 1.3666 within 12 months...and then it will continue on higher**

I think that we need a new mental shift to a continuing weaker US dollar for at least a couple of years. (This does not mean that every time the Euro drops 100 pips or so, that all the smart asses can say that Jacko got it wrong...it is a general observation on which I am basing my trades for the present)

A little "brag"

As seen from above

On April 25 2006 (when the Euro was at 1.2400) I suggested that "**I am looking to 1.3666 within 12 months**"

On **April 25 2007**, the Euro hit **1.3664** **(I missed the target by 2 pips !!!)**

All this goes to prove one thing..........

ANYONE can get lucky in this business

Jacko's Forex House of Pleasure and Pain

The House is open.

The House is open.

If you have any questions, feel free to ask...
If I don't want to answer....well, then I won't !!!

If I haven't answered, its probably because I haven't seen it or, more likely, I am ignoring the question (so please don't ask it twice).

However, please read the above posts so that I don't need to repeat myself endlessly. (I am NOT your mother, so I expect you to do some work BEFORE asking me questions).

Also, everyone who is truly interested in Forex should read as widely as possible. I have recently read some excellent books. I have highlighted the salient points:

Jesse Livermore: The Worlds Greatest Stock Trader by Richard Smitten
1. Don't Lose money
2. Always Establish a Stop
3. Keep Cash in reserve
4. Let the (Successful) Position ride...until you have a Clear Reason to Sell.
5 Take the Profits in cash...and place 50% in a separate account

Lessons From the Greatest Stock Traders of all Time by John Boik
1. Trade with the Trend
2. Cut Losses short
3. Let Profits run
4. Manage Risk

How Legendary Traders made Millions by John Boik

1. Understand the General Trend of the market
2. Use the Knowledge of History in your Study and Observation of the Markets
3. Use your Own Research and Don't Listen to Others
4. Buy the Leaders
5. Buy only on Breakouts and Use a Pyramiding Strategy to add to those Winners
6 Cut Your Losses short
7. Hold on to your Winning Positions until Classic Sell Signals tell you to unload your Positions

NOTE: In asking any questions, remember to please allow for time differences.