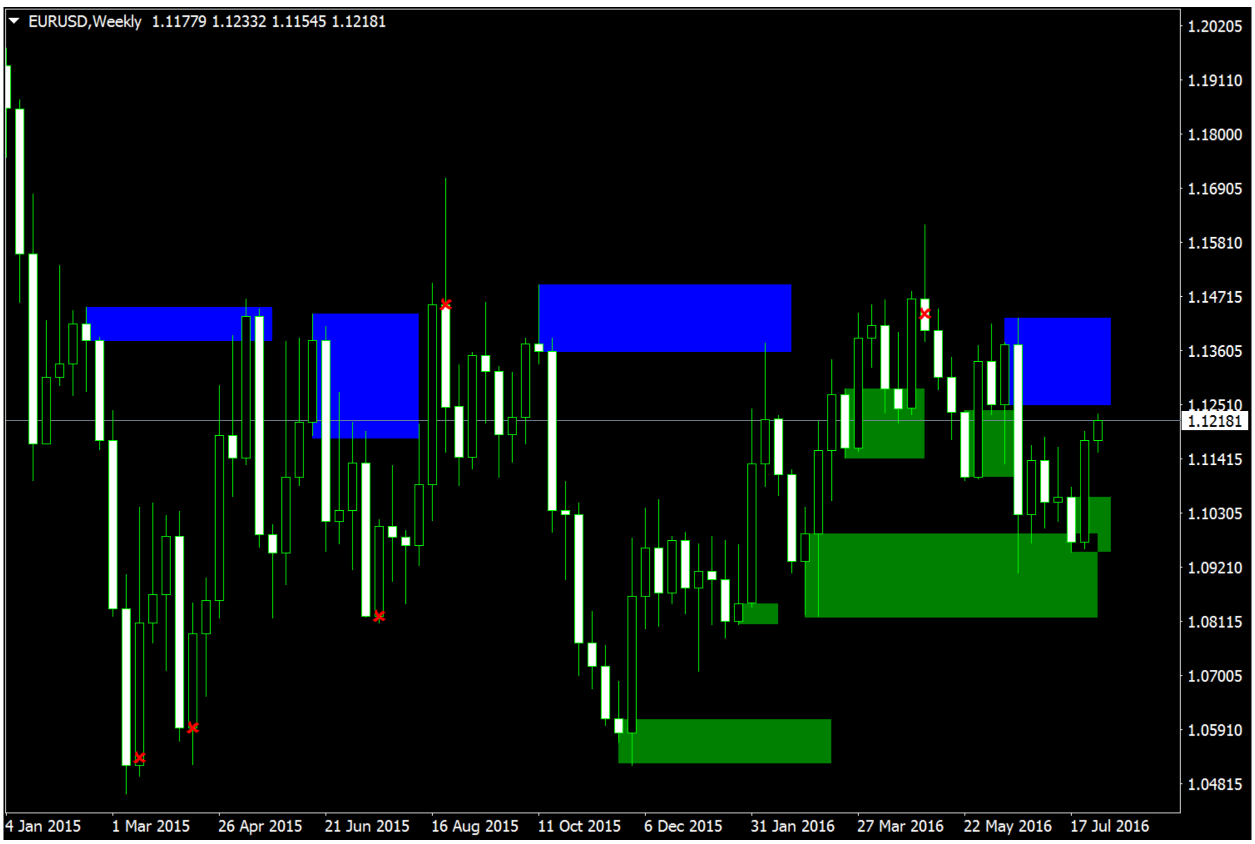
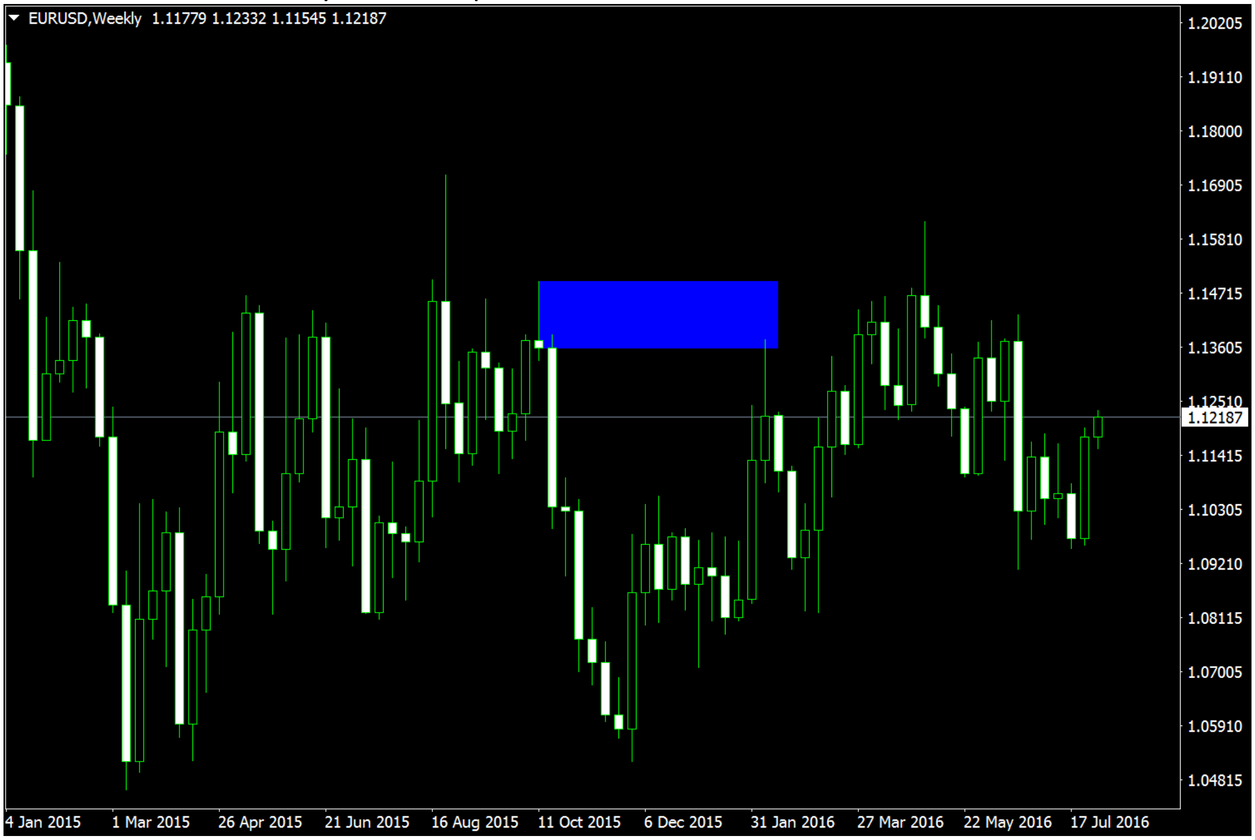
Truth in Trading
2.0

I'll get right to it with some charts. Let's define what are supply and demand levels or zones. Supply is where price descends with force and the candle body engulfs 1 or more prior candle bodies on its' way down. Demand is where price ascends with force and the candle body engulfs 1 or more prior candle bodies on its' way up. Clean supply and demand zones are when the engulfed candles have little or no wicks. Dirty supply and demand zones are when the engulfed candles have significant wicks.

In general, the cleaner the zone the more desirable. However, you will find that even dirty zones can be very profitable.



Let’s examine this weekly zone that price has returned to.



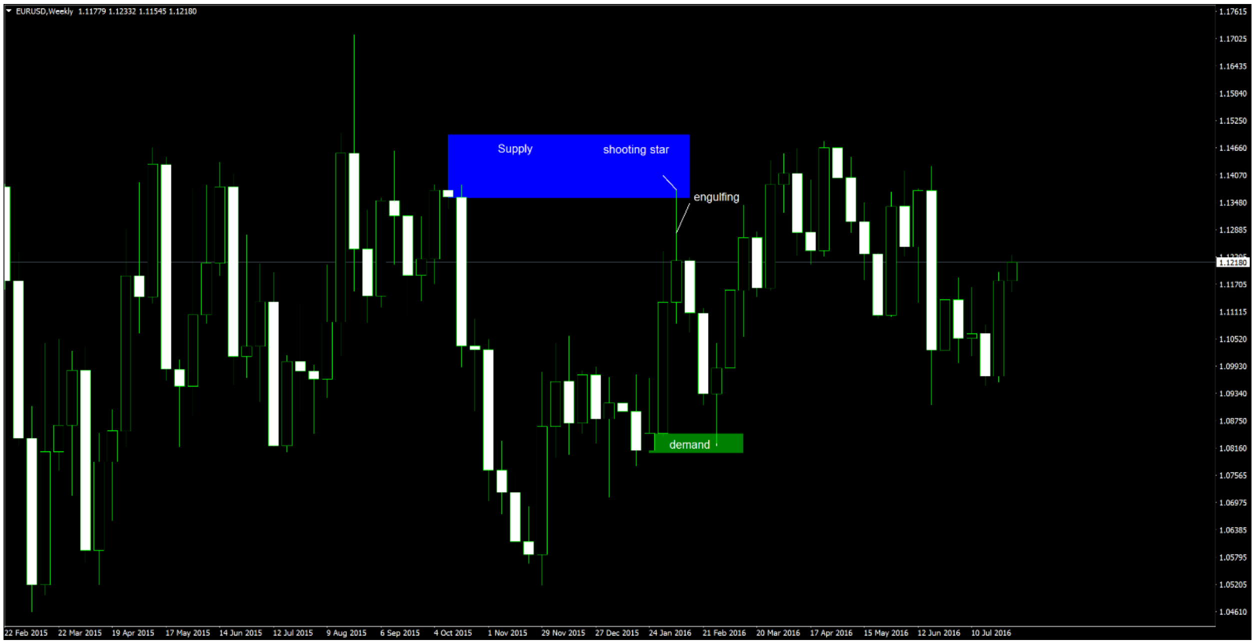
Zone Return Method

The blue supply rectangle is unchanged from the prior weekly chart but this is a daily chart. We will always use at least one time frame lower for entry signals. When price returns to the weekly zone on the daily time frame we see a shooting star form after touching the weekly supply zone. This is followed by an engulfing candle.

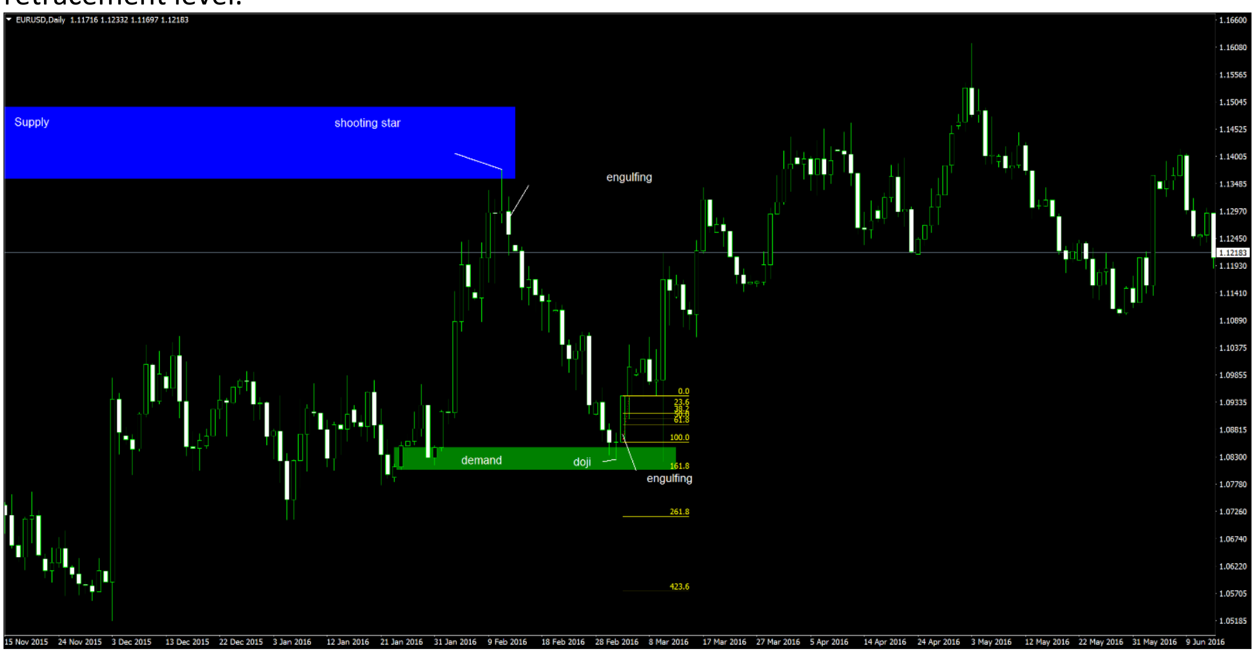
As in TIT1.0 Japanese candle theory is relevant. However, I prefer to use engulfing candles as a confirmation. This is just my preference and not a strict rule. You may use different Japanese candles for entry signals.

This entry method is the **Zone Return Method**. Price formed a supply zone in this case then some time later returned to the zone where we observed price action and determined that sellers were still interested in selling in this area.

Let's look at a demand zone.

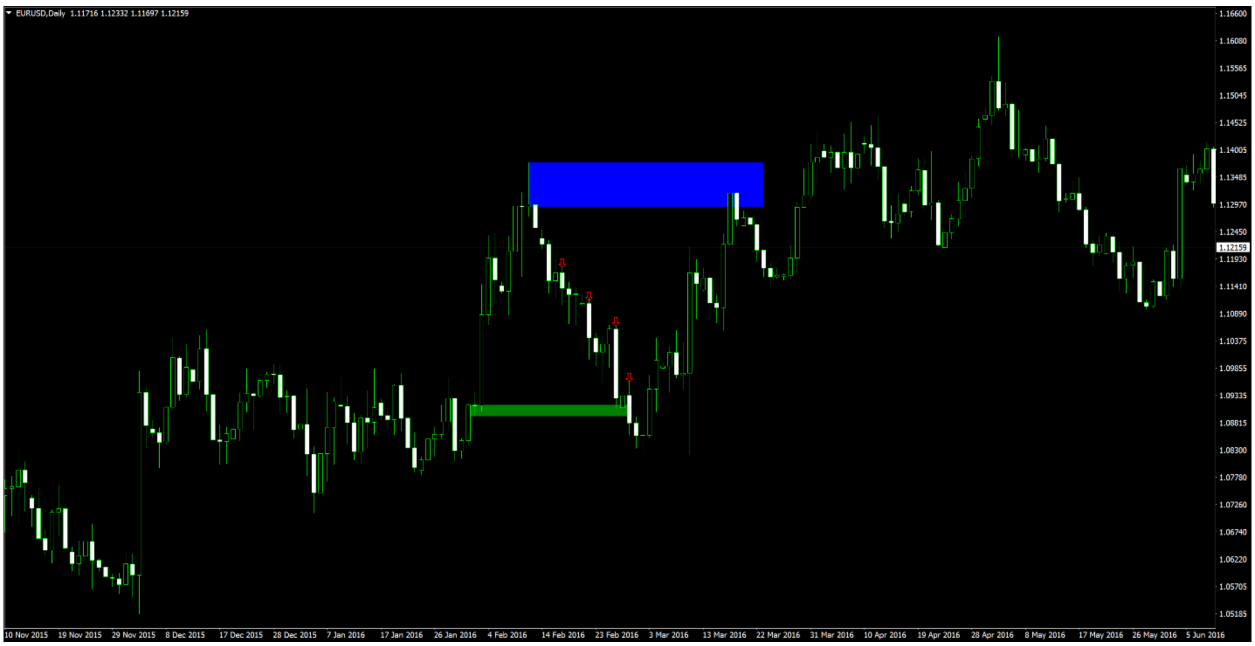


Daily chart showing unaltered weekly zone. A Doji forms followed by a large daily engulf. I included a fib. I prefer to enter these large engulfs after a retrace. I use fibs for this purpose. In this case price retraced to the 50% fib. However, I will usually enter on a retrace at the 38.2 retracement level.



Continuation Method

Once price forms a zone we don't necessarily have to wait for price to return to the zone for an entry. The formation of a zone in and of itself signifies momentum and we can look for continuation of this momentum in the form of continuation. Notice the daily zone formed followed by 4 engulfs. These are riskier entries but they can be quite profitable. You can look for these engulfs on the same time frame or a time frame lower.



Targets:

Ideally we target the next zone. If you are trading a daily entry signal in a weekly supply zone then I would target the next demand daily zone if it is obvious. But I have something to say about targets.

Targets are targets. They are not absolute do or die. In other words if you are moving towards a defined target but have achieved significant profit you should not let your profit evaporate on a retrace. Either take full profit or partial profit and let the rest ride at break even. Don't let a winner become a loser.

Micro accounts:

Micro accounts are most likely the most popular accounts used by those who can't afford larger accounts. With Oanda you can open a micro account with as little as $10.00 USD and maybe less. With their on-line FX trading platform you can trade as little as 1 cent per pip (a MT4 live account will limit you to no less than 10 cents per pip). With an account this small a 10 pip increase on the euro represents just 1% increase on a $10 account or 10 cents. You need to bag 100 pips just to make 1$ in this instance. The discipline needed to accept such a small profit is enormous.

On an account where one can trade a minimum of $1 to $10/pip ($1000-2000USD) a 10 pip advance represents $10-$100. One is much less liklely to let such a profit evaporate whereas a 10 or 20 cents profit is rather unmeaningful even in 3rd world countries. So my advice is to not open a live account until you can afford to trade a minimum of $1 per pip.   Save your cash until you can afford an absolute minimum $1000 account. Anything less is difficult psychologicaly to manage.