

# The Beast



## USER'S MANUAL

*By: Steve Hopwood*

## Revision Sheet

Release No.	Date	Revision Description
1.0	1/4/2011	Initial Revision

A Steve Hopwood Production  
Original Screenplay by MacMan  
Directed By Nanningbob  
Production Assistant FX Dragon  
Supporting Cast and Credits: All other contributing members at Forex Factory too numerous to list

## **SERIOUS WARNING**

- Most Forex traders lose all their money.
- Using the robot posted here in trading Forex does not guarantee success.
- Trading this robot could lead to serious financial loss.
- Trading this robot without understanding its underlying trading strategies *guarantees* traders will lose their money.
- To trade this robot, you have to understand how to use the Sixths indicator. To learn how to do this you need to learn NanningBob's V5 trading system, so go to <http://www.forexfactory.com/showthread.php?t=246113>

Welcome to The Old Beast. Congratulations on finding your way here. Some of the brightest minds at FF are at work on this project.

Confused, baffled and bewildered newbies, dump The Old Beast on demo charts, make sure the lot sizes are acceptable to your criminal, and accept the defaults and sit back to watch until you do understand what is going on.

### **Live trading**

Many of us are trading TOB live and have been for some time. In an average week, it makes 1 - 1.5% profit on the balance at the start of the week. As the balance increases, so does the profit.

**DO NOT** mortgage the house and start a live account with \$50,000. Forex trading requires traders to demonstrate two *huge* personality traits:

1. Patience
2. Balls of steel

The idea is to start with a small account and grow the balance into a large account. This takes time - hence the patience bit. Once your equity exceeds your deposit (equity = balance - drawdown) by a comfortable margin, you are playing with 'free' money and can breathe a sigh of relief.

You need balls of steel because this trading leaves your account in drawdown (i.e. open trades with a 'loosing' balance) most of the time. I run my account with a near-constant floating dd of 5 - 10% of the balance. If you cannot tolerate dd, then go away now.

Lot sizes need to be tiny enough to withstand a *colossal* move against you without causing sleepless nights. It is impossible to offer accurate advice, so experiment on demo; if your lot sizes regularly cause more than 10% floating dd, then they are too high. For what it is worth, here are mine:

- Broker: IBFX Australia
- Leverage: 1:100
- Lot size: 0.01 lots per \$200 balance. Therefore my current lot size is 0.07 on my account balance of \$1,527 (10th March 2011).

My live trading pairs are these: Big Four; Psychotically Deranged; AUDJPY/CAD/USD; GBPAUD/CAD/CHF; EURAUD/CAD/CHF/JPY/GBP. There is no deep market understanding lying

behind my choices; I simply want a variety. These are not my recommendation. You *do* need a lot of charts to generate a decent trading volume; TOB is not a trading tart.

Much of this thread concerns development of the first incarnation of The Beast and is of no relevance. I closed the thread for a while; we were developing Beastie and I thought this thread had run its useful course. This turns out to be a wrong assumption. Posts following its re-opening begin at post 620 on page 42 (<http://www.forexfactory.com/showpost...&postcount=620>).

Ok, have fun. Make profit. The rest of us are.



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# USER'S MANUAL

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## 1.0 GENERAL INFORMATION

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## 1.0 GENERAL INFORMATION

Remember: **this is an H1 trading system**. Trading the lower time frames is a waste of time; trading the higher bugger up The Old Beast's calculations.

The Old Beast is a retrace system based on an idea by MacMan. It uses a “sixths-line” calculation to find optimum Entry and Exit points calculated from bar history for individual pairs. These calculations produce 5 horizontal lines which are automatically plotted on your chart for you; these lines are then used by The Old Beast for Entries and Exits. The bar history is recalculated at every new bar - enough movement and you get new Entry and Exit points; any unfilled pending orders are deleted and new orders are placed based on the latest info - as the market changes, so does The Old Beast.

Relevant User Inputs are in **red**; brief descriptions of important inputs are in **blue**. The Trade Management Module is basically from the Multi Purpose Trade Management EA coded by Steve Hopwood, and so it isn't covered in depth here. If you aren't familiar with it you should be - very nice piece of work. Both the MPTM EA and the detailed instructions .pdf can be downloaded here: <http://www.forexfactory.com/showthread.php?t=89371>

Nanningbob's original method can be found here:  
<http://www.forexfactory.com/showthread.php?t=246113>

### Live trading

I trade TOB live on most available pairs. I release TOB using the inputs

I am trading live, apart from the lot sizes.

If you trade TOB live on an account, it is best not to trade another system on the same pairs. TOB regards *any* open trade as its own.

Users need to hide as much information about their activities from the criminals as possible. Magic numbers and trade comments make it obvious when a trader is using a trading robot. This is why TOB has no magic number and I release it with blank trade comments. The crims can still work out we are using a robot, but there is no need to make it easy for them.

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## **2.0 TRADING STRATEGY – EVOLUTION OF A BEAST**



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## TRADING STRATEGY – EVOLUTION OF A BEAST

A few months ago, Naningbob posited this basic strategy:

- Pull the H4 chart out until you can see the previous 4 weeks work of trading.
- When the market is in the top/bottom sixth of the chart, it is ready to retrace back towards the centre.
- As an aid to dividing up the charts, Bob published a Sixths indicator that draws the relevant lines on your chart.
- Bob makes great use of Bollinger Bands as an extra trade filter. Read his strategy at <http://www.forexfactory.com/showthread.php?t=246113>. New/inexperienced traders can learn how to trade by reading here and following Bob's methods manually.

Using the indi, the top and bottom Gold lines delineate the trading zone. In between the top and bottom green lines are the 'killing zone' where most traders try to catch the trend and get financially murdered from this attempt. Bob's premise is simple; wait until the trend has run its course temporarily, then trade the inevitable retrace.

I coded NB V5. It was succeeded first by The Beast, then by The Old Beast. I cannot recommend it for actual trading and mention it only because it is part of the evolution of The Old Beast, which would not have been born without NB V5. The thread is found at <http://www.forexfactory.com/showthread.php?p=3913795#post3913795>.

A few weeks after I published NB V5, macman contacted me to ask me to code a robot to trade his slant on Bob's system. macman is one of the best and most clever traders here at FF; when he posts, take notice of what he says. He wanted an ea that:

- H1 charts
- When the market is above the Sixths top Gold line, send a pending Primary sell trade at the Gold line and a secondary trade for half the lot size at the top Green line. Vice-versa at the opposite end of the chart for a buy.
- Close both trades when the market reaches the middle White line.

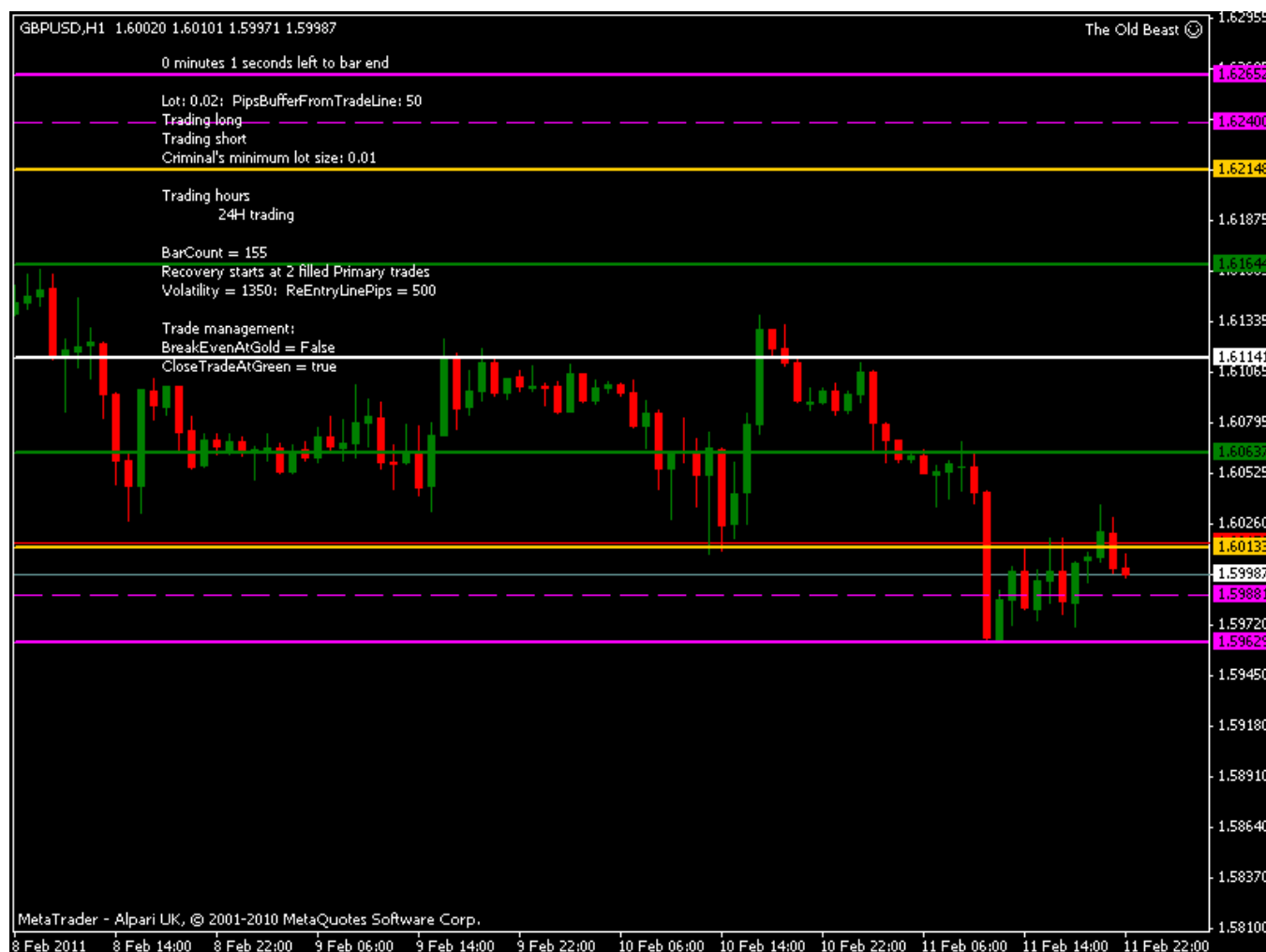
Thus was born The Old Beast. I published it at FF and there followed several weeks of development. There are a couple of threads devoted to this:

- <http://www.forexfactory.com/showthread.php?t=259284> where I first posted The Beast.
- When this descended into farce, I opened a second at <http://www.forexfactory.com/showthread.php?p=4135863&posted=1#post4135863>. Some serious development continued throughout this thread.

During The Beast's development, we battled constantly with drawdown, as the market allowed trades to fill at the Gold lines then carried on its merry way in the direction of the original trend. Despite this, many of us were trading TB live and making pips.

I noticed that the market did not often move outside the areas that would be delineated by the high and low from which the Sixths are calculated, so I added these lines to TB, along with dashed lines half-way between the top Magenta line and its partner Gold line.

With TB (now The Old Beast) running, your chart will look something like this, if you pull out so you can see the whole sixths system:



I coded TB to send pending trades when the market reaches the outer Magenta lines, the price represented by the dashed lines.

I started to experiment with versions of The Beast that used what I light-heartedly call Stealth Technology, calling these Experimental versions. Eventually, one emerged that looked to have a future and so the live-trading version morphed into The Old Beast (TOB). From here on, this is the version that this document describes.

Many of us are trading this version of TOB live and making pips from it. The robot you want to trade this is **The Old Beast**; it is available from post 1 in the thread from which you downloaded this document.

Our experiments with Stealth Technology continue. Also, Bob published an H1 trend-trading system that meshes perfectly with the counter-trend method. I amalgamated the two systems into Beastie. Find Beastie at <http://www.forexfactory.com/showthread.php?p=4331411#post4331411>; it has the same counter-trend trading engine as TOB; in fact, we developed the Volatility stuff used here in Beastie's thread. New traders, there is a section for you at the end of this document that describes how to spot a trend and therefore when to look for the retracements that this robot trades.

**The Old Beast** has no Stealth Technology because:

- Some traders are unable to use it on their platforms

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- Some traders prefer the security of seeing actual pending trades sent to their platform, rather than held in virtual memory as required by Stealth.

I closed TOB's thread for a while because I thought that Beastie would offer us everything we need. This assumption turns out to be incorrect, but a lot of the thread is irrelevant to TOB as it now is. Read post 1 with care, then cut to post 620 on page 42 to catch up with any subsequent developments (<http://www.forexfactory.com/showpost.php?p=4391476&postcount=620>).

### **Profitable trade exit:**

You have various trade-closure level options, including one to tell TOB to calculate the level for you:

- **CloseTradeAtGold:** closes the trade when the market reaches the gold line
- **CloseTradeAtGreen:** closes the trade when the market reaches the nearest green line
- **CloseTradeAtMiddleWhiteLine:** closes the trade when the market reaches the middle white line
- **AutoCalcTradeClosureLine:** tells Beastie to calculate the appropriate trade closure line according to the pair's volatility:as calculated by Beastie. How you set these depends on what you want Beastie to do:
  - Beastie to take complete control of CT trade-closure:
    - Set all of the CloseTradeAtxxx inputs to false
    - Set AutoCalcTradeClosureLine to true
  - Select the trade-closure line yourself then have Beastie close the trade when appropriate::
    - Set one of the CloseTradeAtxxx inputs to true
    - Set AutoCalcTradeClosureLine to false
  - Take full manual control of all CT trade closure:
    - Set all of the CloseTradeAtxxx inputs to false
    - Set AutoCalcTradeClosureLine to false

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### **3.0 NANNINGBOB-STYLE RECOVERY SYSTEM**

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## 3.0 NANNINGBOB-STYLE RECOVERY SYSTEM

Once a trade is open, TOB should not take out new trades at less than **MinPipsFromLastEntry** pips distance from an existing trade (at the time of writing defaults to **50**). This means that the first trade is quite a long way into drawdown when the second is taken.

- Once **Start\_Recovery\_at\_trades** trades are open (defaults to **2**), TOB concludes that Recovery is necessary and begins the process.
- You have 2 choices of Recovery:
  - 1.1.3.3
  - 1.1.2.4
- TOB works out the breakeven tp for the basket of open trades and adjusts the tp's accordingly.
- It draws a breakeven line on the screen. If users highlight and move this line, TOB will adjust the tp's according to the new value of the line.
- When in Recovery, TOB draws the re-entry line - you have to understand Bob's Recovery to understand this – visit his thread to read about it. You can set the re-entry line distance with the **ReEntryLinePips** input. Leave this set to zero to have TOB calculate it for you.
- By the time Recovery kicks in, the market has a fair way to go to recover to breakeven. A move strong enough to do that most likely has some strength left, so **RecoveryBreakEvenProfitPips** allows you to add a few pips to the breakeven tp.

You can opt out of Recovery and have a stop loss instead. Just do not opt for *both* Recovery and SL - you will cause chaos.

Recovery is not easy to understand, so I have added a full description at the end of this pdf, just ahead of the 'Basics for Newbies' section..

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## 4.0 HEDGING

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## 4.0 HEDGING

There is an unbreakable, unshakable, unavoidable rule when trading Forex and it is this: if an event *can* happen, and said event is bad for you, then it *will* happen. Therefore, there will come a time when a pair trends massively against you and leaves your initial and Recovery trades ridiculously into drawdown.

In this event, TOB will attempt to hedge you out of trouble. The first thing TOB tries to do is ascertain whether the market is trending against you by consulting the D1 Rsi(20). This will result in 3 possible readings:

- Rsi > 55: market is trending upwards
- Rsi < 45: market is trending downwards
- Rsi in between 45 - 55: market is ranging

There is a multi-timeframe Rsi attached. This will display the D1 Rsi(20) on your H1 charts. You don't need it, but it is available if you want it.

If you have hedging turned on (i.e. **UseHedging = true**) then TOB will hedge trades at **HedgeAtLossPips** if the market is trending in favor of the hedge trade and against your original trade. TOB will then monitor the entire position and close it at breakeven.

The long term success of this strategy is yet to be proven. Remember also that hedging is not available to those of you whose accounts are held by US criminals; you need to remember to turn hedging off.

### Stop Loss

If you turn the stop loss on and leave it set to zero, TOB will calculate the stop for you, using  $Atr(20) * 3$ .

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## **5.0 SETTING UP THE OLD BEAST**



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## 5.0 SETTING UP THE OLD BEAST

Close down your MT4 platform.

- The Old Beast calculates the Sixths lines for you. The indicator it simulates is attached for you to play with, but you do not need it.
- Download 'The Old Beast.mq4' to your Expert's folder.

Restart your platform.

- If on demo, start as many charts as you want (don't trade live until you understand the behavior of the bot).
- **Use H1 charts**
- Load The Old Beast onto each chart.

If this is a newly downloaded demo, you need to make sure Expert Advisors are enabled. MT4 defaults to a neat little trick; ea's are disabled and you can stare at one for days wondering why it is refusing to work. So:

- Click Tools|Options and select the Expert Advisors tab.
- Put ticks in the boxes next to:
  - Allow Expert Advisors
  - Allow live trading
  - Allow DLL imports
  - Allow external experts imports
- Remove ticks from all other boxes
- Click the OK button
- If EA's are now enabled, yours will be showing a smiley face in the top right corner of your chart. Previously, it would have been wearing a frown.

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## **6.0 THE OLD BEAST – EA INPUTS AND OPTIONS**

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## 6.0 THE OLD BEAST – EA INPUTS AND OPTIONS

**Note: all pip inputs** require you to enter them as 'proper' pips as shown in the defaults. TOB automatically adjusts these inputs to cater for different digit criminals.

### ----General inputs----

General EA inputs settings are defaults and have been optimized. It is recommended you leave them at these settings until you are familiar with TOB and how it operates.

Lot=**0.02**

User defined Lot sizes for your trades. Make sure the lot sizes are acceptable to your criminal.

BarCount=**0**

Leave at 0 to have TOB calculate Bars Back for you (highly recommended)

StopTrading=**false**

true, turns off TOB EA

false, turns on TOB EA

TradeLong=**true**

true, allows long trading (i.e. Buys)

false, stops long trading

TradeShort=**true**

true, allows short trading (i.e. Sells)

false, stops short trading

MaxTradesAllowed=**5**

Maximum number of trades per pair after original Entry

MaxOpenPairsAllowed=**5**

Tells TOB how many pairs you will allow to be traded at any one time. It will continue to add Recovery/Hedge trades, but should not start trading new pairs.

PipsBufferFromTradeLine= **5**

sends the Primary pending trade when the market comes within this number of pips of the outer lines

MinPipsFromLastEntry=**50**

Minimum number of Pips away from last trade before re-entry

MaxSpread=**120**

Tells TOB what is the largest spread you will accept. If exceeded, TOB will abort sending a fresh pending trade, or delete an existing one. This you enter as your criminal displays them, so the default is for a 5 digit crim; if yours is still a 4 digit, then you need to adjust this considerably.

TouchesRequired=**0**

There is a new input: TouchesRequired. This tells TOB how many times the market must breach the buffer around the outer magenta lines to trigger a trade. Leaving the default at zero or 1 turns this off and TOB will display no information about it.

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## ----Available Margin checks----

There are 2 account margin filters to prevent TOB taking trades when the margin is getting low.

- UseScoobs will stop trading if if your account margin > your free margin divided by 100
- UseForexKiwi will stop trading if your margin percent drops below your selected figure.

Watch the defaults; they are my preferences.

## ----Trade closure----

- CloseTradeAtGold:** closes the trade when the market reaches the gold line
- CloseTradeAtGreen:** closes the trade when the market reaches the nearest green line
- CloseTradeAtMiddleWhiteLine:** closes the trade when the market reaches the middle white line
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  - Take full manual control of all CT trade closure:
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    - set AutoCalcTradeClosureLine to false

## Volatility inputs

Beastie calculates the volatility of a pair by working out its average pips movement per day, over the period set in **LookBackDays**. The four inputs that follow this allow you to set your boundaries for levels of volatility that Beastie works with:

- Recovery:**
  - all four inputs are used to calculate the re-entry line.
- Trade closure:**
  - LowVolatility: trades close at the Gold line
  - Medium and HighVolatility: trades close at the Green line

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•PsychoticallyDeranged: trades close at the middle White line

### ----Swap Filter----

CadPairsPositiveOnly = **True**

AudPairsPositiveOnly=**True**

NzdPairsPositiveOnly=**True**

I have added filters that allow you to make TOB trade only in the direction of positive swap on the CAD, AUD and NZD pairs. Sing out if you want any more added. The inputs are CadPairsPositiveOnly etc; when enabled TOB will trade only in the direction of positive swap, apart from hedging.

### ----Recovery----

UseRecovery=**true**

true, uses Macman style Recovery

false, Recovery is disabled

Start\_Recovery\_at\_trades=**2**

Number of trades before Recovery kicks in

Use1.1.3.3Recovery=**false**

Use1.1.2.4Recovery=**true**

ReEntryLineColour=**Turquoise**

BreakEvenLineColour=**Blue**

ReEntryLinePips=**0**

Leave at 0 to have TOB calculate Bars Back for you (highly recommended)

RecoveryBreakEvenProfitPips=**20**

Number of pips above BE to attempt small profit when in Recovery Mode

### ----Stop loss----

UseStopLoss=**false**

false, Stop Loss is not used

true, Stop Loss is used – Warning – Do NOT use with UseRecovery=**true**

StopLoss=**0**

Number of Pips to use for Stop Loss if enabled

### ----Trade management module----

Defaults are those I am using in my live trading:

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DoNotOverload5DigitCriminals=**true**

#### **Break even settings**

BreakEven=**true**

BreakEvenPips=**40**

BreakEvenProfit=**30**

HideBreakEvenStop=**false**

PipsAwayFromVisualBE=**5**

#### **Jumping stop loss settings**

JumpingStop=**true**

JumpingStopPips=**30**

AddBEP=**false**

JumpAfterBreakevenOnly=**true**

HideJumpingStop=**false**

PipsAwayFromVisualJS=**10**

#### **Trailing stop loss settings**

TrailingStop=**false**

TrailingStopPips=**50**

HideTrailingStop=**false**

PipsAwayFromVisualTS=**10**

TrailAfterBreakevenOnly=**false**

StopTrailAtPipsProfit=**false**

StopTrailPips=**0**

#### **Candle trailing stop settings**

UseCandleTS=**True**

I have added the candlestick trailing stop requested by several users. Set UseCandleTS to true to use this. It should move the stop of a trade to the hi-lo of the previous candle, so long as the trade is in profit and there is sufficient distance between the stop and the market to allow the stop to be set. A good use for this feature would be: turn off the automatic trade closure line feature and set the white line as your closure target. This would take advantage of a big move.

#### **Hidden stop loss settings**

HideStopLossEnabled=**false**

HiddenStopLossPips=**20**

#### **Hidden take profit settings**

HideTakeProfitEnabled=**false**

HiddenTakeProfitPips=**20**

#### **----Hedging----**

UseHedging=**true**

true, opens opposite position

---

false, Hedging is not used

HedgeAtLossPips=**500**

Number of pips in DD before beginning Hedging function

HedgeLotsMultiplier=**2**

Multiplies your Entry Lots by this number

Atr hedging: You have the option to use ATR (Average True Range) to direct TOB's hedging activities. To use it, turn UseHedging set to true but also set UseAtrHedging to true (the default). If you do not know what ATR is, you are probably best off leaving at default settings; ATR is a *very* useful weapon in your armoury.

### ----Trading hours----

Trade\_Hours= "Set Morning & Evening Hours"

Trade\_Hoursi= "Use 24 hour, local time clock"

Trade\_Hours\_M= "Morning Hours 0-12"

start\_hourm = **0**

end\_hourm = **12**

Trade\_Hours\_E= "Evening Hours 12-24"

start\_houre = **12**

end\_houre = **24**

### ----Odds and ends----

ShowManagementAlerts=**true**

Disclaimer and Risk Disclosure:

*Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work with as well as against you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor should you have any doubts.*

I will put this a tad more bluntly:

Most Forex traders lose all their money.

- Using The Old Beast in trading Forex does not guarantee success.
- Trading with The Old Beast could lead to serious financial loss.
- Trading The Old Beast without understanding its underlying trading strategies *guarantees* traders will lose their money.
- To trade The Old Beast, you have to understand how to use the Sixths indicator. To learn how to do this you need to learn NanningBob's V5 trading system, so go to <http://www.forexfactory.com/showthread.php?t=246113>

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Good luck. Have fun. The rest of us are. We are making money as well.

### The Recovery system

Nanningbob's Recovery system is based on this very simple principle: no matter how far a market moves, it *will* retrace eventually. As I often put it, “Dem markets dey go up, den dey go down again, den dey go up again, den.....”

So, rather than insert a conventional stop loss and crying when it is hit, Recovery allows you to ride the move against you and enter with additional trades when the moment is right. You will see these options in the Recovery inputs:

- Use 1.1.3.3 Recovery
- Use 1.1.2.4 Recovery

Isolate the numbers from these inputs and we are left with:

- 1.1.3.3
- 1.1.2.4

In Nanningbob-style trading, we talk about trades at Level 1, Level 2, Level 3 and Level 4. Level 1 is the initial trade. Levels 2, 3 and 4 are Recovery trades. The digits in the 1.1.3.3 and 1.1.2.4 refer to multipliers of the initial lot size So:

- in 1.1.3.3:
  - 1 is the L1 trade (Level 1 or initial trade) at your chosen lot size
  - 1 is the L2 trade at your chosen lot size
  - 3 is the L3 trade at your chosen lot size x 3
  - 3 is the L4 trade at your chosen lot size x 3

- in 1.1.2.4:
  - 1 is the L1 trade (Level 1 or initial trade) at your chosen lot size
  - 1 is the L2 trade at your chosen lot size
  - 2 is the L3 trade at your chosen lot size x 2
  - 4 is the L4 trade at your chosen lot size x 4

TOB will only send Recovery trades when:

- The trade has moved ReEntryLinePips against you **and**
- The conditions are correct to enter a trade, i.e. the market has touched the relevant outer magenta line and has triggered a pending trade. It will **not** merely send a trade because the market has moved x pips against you. In other words, it trades Recovery as it trades normally.

Here is how it works. Imagine you are using 1.1.2.4 and RecoveryLinePips = 100 (proper pips, not 5 digit wally-plonker-dipstick-crim points):. For the purpose of this example, imagine that 1 pip = \$1:

- An L1 sell trade fills. The market continues to rise and goes 100 pips against your trade.
- TOB looks for an opportunity to enter an L2 sell trade at your normal lot size. This arises, so you have two trades open:
  - L1 is -\$100
  - L2 has just opened at your normal lot size.
- The market co-operates and begins to fall. If falls 50 pips. At this point:
  - L1 is -\$50
  - L2 is +\$50



- 
- so the position is at breakeven and can close
  - Suppose the market refuses to cooperate and rises another 100 pips, so now:
    - L1 is -\$200
    - L2 is -\$100
    - TOB looks for an opportunity to enter an L3 sell trade at double your normal lot size. This arises, so you have three trades open::
      - L1 is -\$200
      - L2 is -\$100
      - L3 has just opened
      - The market co-operates and begins to fall. Because your L3 trade is at double your lot size, we double the effect of the L3 on the open basket of trades. The market falls 75 pips
      - L1 is -\$125
      - L2 is -\$ 25
      - L3 is +\$150
    - so the position is at breakeven and can close
    - Suppose the market refuses to cooperate and rises another 100 pips, so now:
      - L1 is -\$300
      - L2 is -\$200
      - L3 is -\$200
      - TOB looks for an opportunity to enter an L4 sell trade at four times your normal lot size. This arises, so you have four trades open::
        - L1 is -\$300
        - L2 is -\$200
        - L3 is -\$200
        - L4 has just opened
        - The market co-operates and begins to fall. Because your L4 trade is at double your lot size, we quadruple the effect of the L4 on the open basket of trades. The market falls 90 pips
        - L1 is -\$210
        - L2 is -\$110
        - L3 is -\$20
        - L4 is +\$360
      - so the position plus a few, is at breakeven and can close

The reality is that L3 is rarely reached, although it does happen occasionally. I have yet to reach L4 in my live or demo trading. It will happen one day, but you can see that this involved a *huge* movement against my original trade.

This process is self-limiting and holds within it the means to get out of an increasingly nasty situation. Once a L4 trade is sent, TOB can do no more and it is up to traders to manage their way out of the situation. Turn off the bot. Suppose the market continues to move against the trade and moves a further 100 pips against us?

- Now we have:
  - L1 is -400 (original lotsize)
  - L2 is -300 (original lotsize)
  - L3 is -200 (original lotsize x 2)
  - L4 is -100 (original lotsize x 4)
  - From here, we start closing trades in the order of oldest first. A re-entry opportunity arises so we::
    - Close the L1 trade and cry

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- Mentally move all the trades down a level, so the old L2 is now L1, old L3 is now L2 and old L4 is now L3
  - We start the lot size process afresh, so the new L4 trade is the original lot size.

Reaching the point described in the last paragraph would not be a happy experience, but it is important to remember that **there will never be more than 4 trades open**, so we cannot blow our accounts unless we start with an oversized lot size to kick off with. The worst losing trades always get kicked off the end. It will make a dent in the account, but will take a long time; in the meantime, other successful trades are continually adding to the balance to offset the problem.

Mind, if *this* does not convince you to trade tiny lot sizes, then you are an idiot and should be shot.

Also, if it makes you want to use stop losses instead then go ahead and try them. You *might* keep it up for a week, if you are absolutely determined to ignore the advice of all the experienced traders that sl's and this trading system do not go together; I doubt it.

### **The Basics for the Newbies**

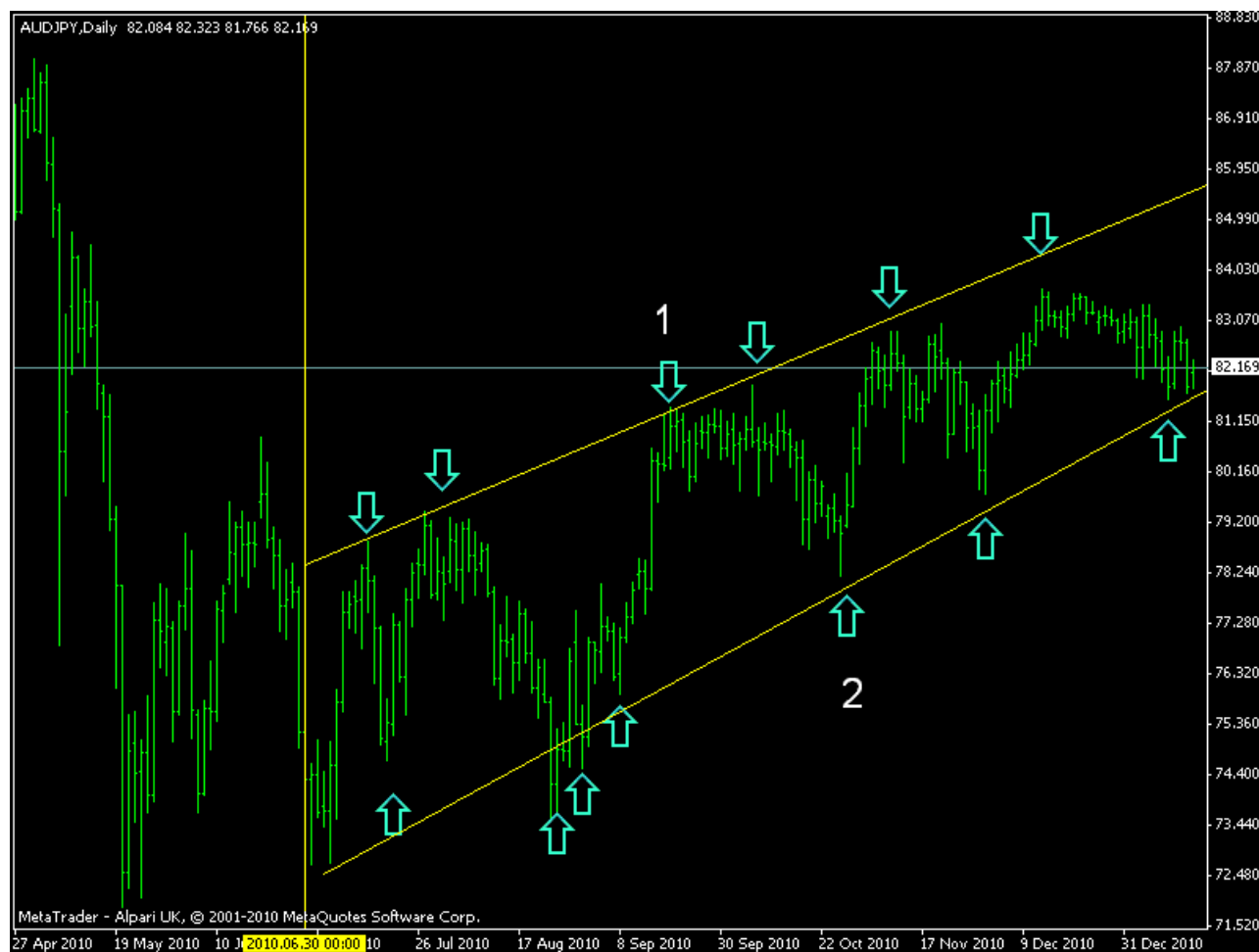
Newbie traders, be afraid. **Be very afraid. You are going to lose your money when you start trading live.** Unless you are exceptionally clever, it will take you two years of hard study to stop losing money. By then, you will have blown an account or five. If you last that long, you will stop losing and start to understand what you were doing wrong. When you go live, do so with a couple of hundred dollars that you can afford to lose. **Do not** start a large live account.

You will often hear different varieties of statements about trend trading. The most common ones are:

- Trade with the trend
- Let the trend be your friend

If you have been trying to follow this advice and trade in the direction of the prevailing trend, and are not already an experienced trader, then your attempts to do so will often have met with failure. Time and again, you will have identified a trend and jumped on the bandwagon, only to see the market instantly reverse against you and eventually stop out the trade – often minutes before the market resumes in the direction of the trend.

Spotting a trend is relatively easy. Look at this chart and ignore the numbers 1 and 2 for now:



Look at the candles to the right of the yellow vertical line. They are tracking upwards. Our reading tells us that an up trend consists of higher highs and higher lows, but this is not always a simple concept to grasp when faced by charts we basically do not understand.

Now look at the downward pointing arrows; these highlight new highs – what we call a 'swing high'. These rise towards the right of the chart.

Then look at the upward pointing arrows. Leaving aside the blip of the second one, they are all rising. These highlight higher lows – what we call a 'swing low'.

So, we have rising highs and rising lows; we are in an up trend.

This is a doddle to see in hindsight, but what of the reality of the actual moment in time we occupy? What is going to happen? Look at the final candle in the chart. What happens next? Will the trend continue? Will it reverse? Nobody knows, so we do not try to guess.

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Next, look at what happens in between the highs. The price dips, often a long way. We call this a 'retracement'. The market moves in waves like this all the time. So, even a strong trend will have periods when the market is moving in the opposite direction. So, we can identify that:

- **an up trend** is characterised by higher high points (peaks) and higher low points (troughs). Each peak is followed by a trough, where the market has retraced to a new low, but the low is higher than the previous one.

- **a down trend** is characterised by lower low points (troughs) and lower high points (peaks). Each trough is followed by a peak, where the market has retraced to a new high, but the high is lower than the previous one.

This pattern of price movement followed by retracement causes newbie traders no end of trouble. Time for some homework. Go to some charts and identify some trends for yourself. Work out how to draw the trend lines with the tool provided for you by the mt4 platform. You will learn much.

Now I can describe where newbie traders get things so horribly wrong in your early trading attempts. Go back to the chart above and look at the lowest point in the market a few candles to the left of the vertical yellow line – just above where it says 'Alpari UK'.

The market had dropped with stone-like determination. Imagine you are at that point in time – you cannot see the rest of the chart because it has not happened yet. The market is clearly trending down; it is going to hell in a hand basket Time to sell, so you take out the sell trade.

Just before the market starts to scream upwards. Again. As usual. If you were lucky/determined then you might have exited with a small loss a few days later. If not, the price never again reached your entry price and your stop was hit – or you are stuck with an open trade so far into draw down that the cost of closing it is horrible.

So, whilst all this has been going on, you have been reading and learning. You now realise that it takes time to identify that a trend is in place and are prepared to wait. Finally, you identify that an up trend is in place. By the time you get to the point marked 1 on the chart, you have recognised higher highs and lows; the market is trending upwards. Remember, you cannot see the rest of the chart and do not know what will happen next.

At this point in our development as traders, most of us still had trouble coming to grips with another couple of central tenets of trading, which are:

- when the price is high, the experts will be selling – 'sell into a rising market'.

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- When the price is low, the experts will be buying – 'buy into a falling market'.

This is counter-intuitive. The market is trending up; the price is rising; surely we should be buying?

So, at point 1 you confidently take the buy trade.

Just before the market plummets. Again. As usual. If you have balls of steel and stay with the trade, it works out eventually – very, very well in fact. Most of us will have closed it either manually or at a stop loss a long time before it turns around.

The point at which you *should* have bought is point 2 on the chart. The trend is established; the market has followed one of its wave-like retracements and the time is ripe for entering the trade.

I provide all this for information and enlightenment only. TOB makes no attempt to trade the trend. TOB scalps the inevitable retraces that occur during a trend.

One more concept that newbies often fail to grasp immediately. There is a **trade setup** and a **trade trigger**.

- The trade setup is when conditions are right for trading in general terms. For example, we want to buy a pair so we want an up trend. When we have firmly established that the trend is up, this is the trade setup. On the chart higher up in this pdf, the setup occurs at point 1, when we have identified the up trend.

- The trade trigger is that precise moment when it is right to enter the trade. On the chart higher up, the trigger is point 2, when the retracement is at its lowest.

For TOB:

- The *setup* is the market reaching the outer, solid magenta lines.
- The *trigger* is the market retracing to the inner, dashed magenta lines.