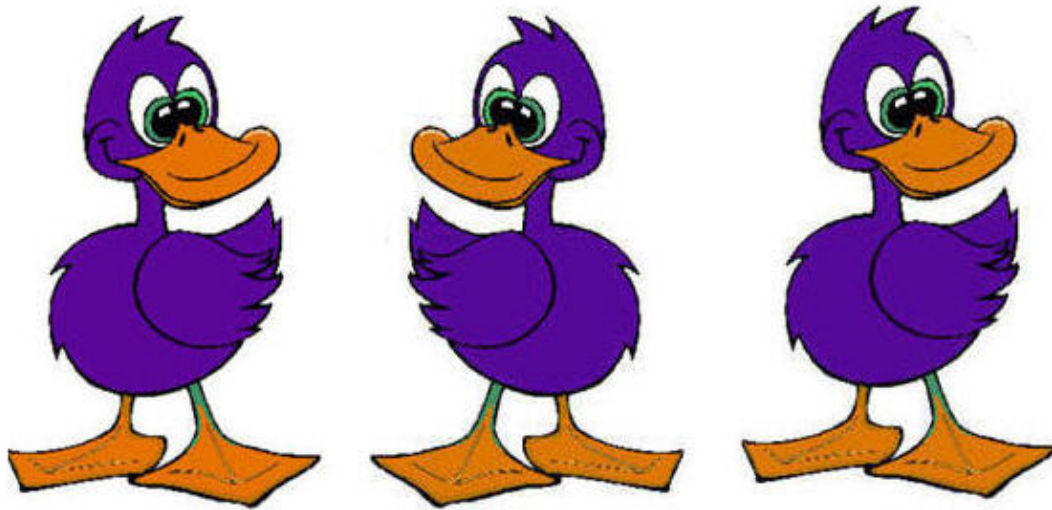


The 3 Duck's Trading System



A simple system that will improve your trading

**By Andy Perry
aka Captain Currency**

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A common sense approach to price observation

Buy when prices are going higher and sell when prices are going lower. In a nutshell this is my goal when I am trading the forex market. But the above statement of buying when prices are going higher or selling when prices are going lower may be too broad and therefore it may need some guidelines and rules, this is where The 3 Duck's Trading System comes into play. The system will help you identify buying opportunities in the direction of the last uptrend and selling opportunities in the direction of the last downtrend. The "ducks" in the title comes from the saying "to have all your ducks lined up" an expression meaning to have everything in the correct order. There are three ducks, the first duck will help you to identify the last up or down trend, the second duck helps to confirm the direction of the trend and the third duck will help to identify buying or selling opportunity in the direction of the trend.

This system involves using three different timeframe, a 4 hour chart (first duck), a 1 hour chart (second duck) and a 5 min. chart (third duck). A 60 period simple moving average is applied to all three timeframes. That's what I call keeping it simple!



Back testing – I'm not a big fan

With comments like this one I often get a mixed response. Back testing has its uses, but if a system buys when prices are going higher and sells when prices are going lower I don't feel a need to back test the last twelve months or the past 100 trades. What I will do is forward test the system in real market conditions. The first phase of forward testing for me would be to observe the system. I really want to see the system working with the trend and doing what it is supposed to do most of the time. I believe that if prices are going higher there is a greater probability that they will continue in that direction. The second phase would be for me to see what I can do to make the system perform better, how can I get this system working at its optimum? If I know what my trading goals are i.e. x% per month or x% per year, what do I need to do to give the system the best possible opportunity of achieving these goals? How much should I risk per trade? What size stop-loss should I use? what size targets will work best for me? would it be best for me to positional trade this system or would day trading this system be better? When I have decided on the above I can forward test the system again with these figures in place. After a number of trades or over a period of time I can calculate my win/lose ratio – what is my average winner compared to my average loser? I will also calculate my probability of a winning. Armed with these stats and with confidence in the system I will then happily commit to it 100%, I will always be keeping a close eye on my stats and looking for ways to improve.

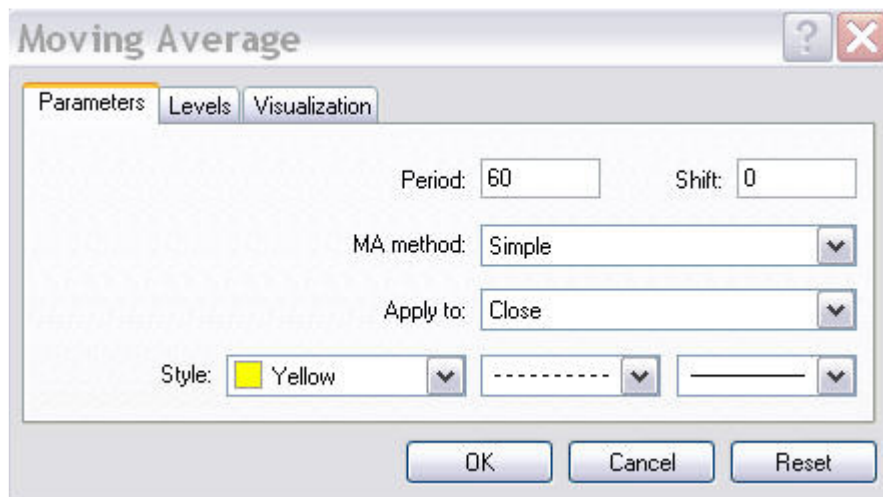
Risk versus Reward – It's GOLDEN

"Let your winners run and cut your losers short" is what all the trading books tell us. This statement is true, but with a lot of trading statements you got to ask yourself, what does this mean to me? For me it means having a positive risk versus reward ratio. If I enter a trade with a 30 pip stop-loss my projected reward must be greater than 30 pips, how much greater does it need to be? Every trading opportunity will be different but I would need at least one and a half times my risk, which is 1 : 1.5, a trade with a 30 pip risk must have the potential to gain at least 45 pips. I think trading with anything less than 1 : 1.5 would be just like playing tennis with my broker! Because The 3 Duck's Trading System trades in the direction of the trend it can offer some great risk versus reward trades. Having a positive risk versus reward ratio is one of the reasons I can stay focused on my trading after a losing run, I know in the long run I will come out on top.



Getting started

You can use most of the free charting packages to plot the system on. You will need a 4 hour chart, a 1 hour chart and a 5 min chart for each currency pair. For EUR.USD open the 4 hour chart and apply a 60 period simple moving average (sma) like below:



You need to do exactly the same for the 1 hour chart and the 5 min chart. You should now have three charts that look something like this:





We now have three charts for the EUR.USD pair, we can have a closer look at each chart starting with the 4 hour then the 1 hour and finally the 5 min chart.

Note: Over the next few pages I will be using the words “buying” and “up trend” to explain how this system works. This system works for buying and selling opportunities. Simply do the opposite for selling opportunities starting with steps one, two and three. This system will work best between the times of 7am – 4pm GMT. This system can be applied to any currency pair just be careful to take into account different currency “personalities”. All charts are for demonstration purposes only.

The first duck

The 4 hour chart is our starting point, our first duck. We need to find out if prices have been going higher or lower, is the trend up or is it down? We can very easily and quickly get the answer to our question: If the current price is above the simple moving average on the 4 hour chart this will tell us that prices have been going higher over a period of time. We **may** be looking for buying opportunities, but firstly we need to check our other two charts and make sure all our ducks are lined up in the same direction.



The second duck

The 1 hour chart, our second duck is used to confirm what the 4 hour chart is telling us. If the current price is above the sma on the 4 hour chart it will also need to be above the sma on the 1 hour chart. If the current price is above the 4 hour sma but below the sma on the 1 hour chart, that would mean the two charts are not lined up in the same direction and we would not be able to move on to step three. However if the current price is above the sma on the 4 hour chart and the sma on the 1 hour chart we could move on to step three.



The third duck

The 5 min chart, our third duck is used for entries. What we are really looking for on the 5 min chart is for prices to get above the sma and move higher than the last high on the 5 min chart. For me to explain this system as clear as possible let's have a look at the chart below;



From this chart we can see that prices were below the sma, then prices crossed above the sma, this would mean that all our three ducks were lined up in the same direction. We would now be looking to buy when prices move above the last **high** (*two candles to the left with lower wicks and two candles to the right with lower wicks*) on the 5 min chart.

Entries – A good entry makes a big difference

Buying or selling at the early stages of an up or down move is very nice if you can do it. Some of my best entries and most profitable trades using this system have come from when the current price was above the sma on the 4 hour chart and the sma on the 1 hour chart but below the sma on the 5 min chart. Similar to the chart above, if you can then enter a trade on the “first move” when prices move above the 5 min sma and the last high, I think you will be potentially catching the move in its early stages. You can enter a trade when the open 5 min candle get above the last high or you can wait until you get a closed candle above the high. The EUR.USD pair will pullback some of the time after it has broken the high. It may be worth your while to wait for a small pullback after it has broken the high, this will allow you to enter the trade at a better price. As long as the current price is still above the 5 min sma the potential trade is still good. From the chart below we can see how prices pulled back after it broke the high and then continued moving up again.



Captain Currency

GBP.USD is a different story! This pair will often break the high or low and continue moving in that direction without a pullback.



On the above chart we would be looking to sell when prices cross below the last low and the sma on the 5 min chart.

Entering a position if the candle is open or closed really does not make a huge difference on a 5 min chart in my opinion. I will enter most of my trades when the candle is still open – a HOT candle! After all I am trading price, not candles. There is nothing stopping you from entering or adding to winning positions when the current price is higher/lower than the “first move” as long as all your ducks are still lined up in the same direction you could still be looking for opportunities on pullbacks or breaks of the highs/lows.

Here is a question I get asked a lot: *If the current price is above the sma on the 4 hour chart and above the sma on the 1 hour chart, but the current candle is NOT CLOSED above the sma on the 1 hour chart, would I wait for a closed candle on the 1 hour chart before I drop down to the 5 min chart to look for a buy entry?*

My reply to that question would be: *The 3 Duck's Trading System has a number of rules or "guidelines" as I would prefer to call them. Rules are good, but sometimes rules can get in the way of a good trading opportunity! If the trading scenario in the above question was happening in front of me I would certainly be prepared to bend one of the rules if I thought the circumstances where right.*

The same can be said for a lot of other trading dilemmas and questions that may arise from trading this system. I like to use this system as a guide in addition to my own market knowledge i.e. what is happening around me today? Is there economic news out today? What time in the day is it? Is it a holiday today? Is the market stuck in a choppy range? etc etc. The principal of this system is to trade in the direction of the trend and to enter a trade at a price that offers you some chance of success. Prices on all three timeframes MUST be above/below their sma's, this is the one rule I will NOT bend!

Stop-losses – If it doesn't work out, get out

What size stop-loss should I use and where should I place my stop-loss? There are defiantly more questions than answers in trading! I love stop-losses, I just hate when they get hit. By knowing what size my stop-loss is and what size my target is, this will allow me to calculate my potential risk versus reward ratio. And as I've said earlier, risk versus reward is golden. The size of your stop-loss really depends on how you are going to trade this system. Positional traders and swing traders will probably be using wider stop-losses than a day trader. A positional trader may want to use support or resistance off a 1 hr, 4 hour or daily chart as a stop-loss location. The 60 period sma from the 1 hr or 4 hour chart could also be used as a stop-loss location for positional traders. After all if you where buying and prices dropped below the sma on the 1 hour chart or the 4 hour chart, this would mean that your ducks would not lined up anymore for a buy, so this may be a stop-loss location. Support or resistance off a 1 hour chart or lower timeframe may be useful as a stop-loss location for a day trader. Fixed stop-losses are also good for positional or day traders. A positional trader may use a fixed stop-loss of 100 pips for example. A day trader may use a fixed stop-loss of 20, 25 or 30 pips for example. The question of where to place ones stop-loss can really only be answered by the trader him/her self.

*OK Captain what about the second part of the above title, the bit about: **If it doesn't work out, get out***

A lot of traders will get out of their winning positions too soon, but do they ever get out of the losing position too soon? Probably not, they let prices drop down to their stop-loss and get taken out for the full stop-loss amount.

One of the things I like to observe when I am trading this system is: are prices obeying the 3 Ducks rules (current prices above/below sma's on the three timeframes) this is especially true for when I am in a trade. Let have a look at the chart below, the current price is above the 4 hour sma and the 1 hour sma (two ducks are lined up). I am now looking at buying when prices cross above the sma on the 5 min chart and the last high on the 5 min chart (all three ducks line up). I am day trading so I will put my stop-loss below the last decent low on the 5 min chart which would be 20 pips away from my entry. My target for this trade is 40 pips.



Captain Currency

Everything is going according to plan in this trade, we have entered the trade by following the rules and our risk versus reward is good, now we play the waiting game.

But what happens next may have put our trade in doubt. The current price has dropped back below the sma on the 5 min chart by more than 10 pips, this mean that all our 3 ducks are no longer lined up in the same direction. Our stop-loss is still in place and has not been hit. We have two choice, we can either wait and see what happens or we can get out of this losing position early and save some pips, after all our ducks are no longer lined up!



This is what I call "If it doesn't work out, get out" plan. If this trading scenario was to happen I would gladly get out of this position early before my stop-loss was hit. Let's roll this chart on and see what eventually happened:



This trade would have continued lower and would have easily taken out our original 20 pip stop-loss. By understanding this system and been able to identify when prices are not obeying the system you can save yourself a lot of pips.

Note: If you where a positional trader using this system the above scenario may not bother you too much. I would mainly use this exit plan for day trades.

Targets – Letting it run & knowing when to exit

Knowing when to get out of a winning trade can be one of the biggest brain drainers for traders. But now that we understand how this system works and we can clearly see if prices are obeying or not obeying this system, we can use this information to our benefit while we are in a trade. As pointed out in page 3, risk versus reward is GOLDEN so before you ever enter a trade the potential reward should be greater than the risk. Support and resistance levels from a daily chart can be good target areas. Some questions I would ask myself in relation to potential targets would be: "has this currency pair been moving in a strong trend? (Have a look at the 4 hour chart) If the answer is yes you could be more generous with your potential targets. If the prices have been moving in a 100-200 pip range, then a more conservative target may be needed. Letting profits run can be done by observing how the current price is moving in relation to the sma's. Let look at the chart below:



From the above chart you may have bought using the rules of this system. You can see that prices are staying above the sma, this is obviously a good sign if you are long! If you are trading this system you could stay in this position as long as the current price remains above the 5 min sma. This is an example of how you can let your profits run!

Positional traders may wish to hold their winning positions as long as the current price remains above the sma on the 1 hour timeframe.

Knowing when to exit a winning position can also be done by observing the current price in relation to the sma's. From the same chart, we can see when prices drop back below the sma this may be a good exit plan from you winning position.



Again, positional traders using this system may decide not to exit a winning position using this strategy.

Make it your own

You have now seen how this simple system works but you and only you can make it work for your trading. When I say "Make it your own" I DON'T mean change the sma periods or use different time frames. This system works, don't break it! What I do mean when I say "make it your own" is: decide how you are going to trade this system, day trading or position trading? How much will you risk per trade? What size stop-loss will you use? How will you decide where to take your profits? By having a clear plan now, it will help you later on.

How many pips can I make a week? YOU TELL ME!

This is the one question I get asked on a daily basis and it drives me MAD! You should be interested in what YOU can make using this system. If ten traders where to use this system, I guarantee you would get ten different results. What I would say is: by having a solid plan, following this system and having good money management, I would expect this system to make more money than it loses over the long term.

By the way, a pip is a pip and a dollar is a dollar, they are two different things and not to be confused!

A few final words

Becoming successful in trading is really all about making more money than you lose. Having a system that you understand and have confidence in and that also makes sense will make your trading life easier. Having a positive risk versus reward ratio will certainly help you too. Your trading results should be really judged over a long period of time or over a high amount of trades. Not every single winning trade in your account will end up having a positive RvR ratio. But by knowing that every trade you enter has the potential to earn more than it can lose and by embracing the “cut your losers short and let your winners run” mind frame, you would be one step closer to successful trading.

The views in this book are my own. I hope that I have helped you in you trading and that success is close by. The 3 Duck’s Trading System does have losing trades and losing run, you would be foolish to think it didn’t.

Sincere thanks to all who have helped me with this e-book and to the followers of The 3 Duck’s Trading System.

Carpe Diem,

Andy Perry

Captain Currency

<http://captaincurrency.blogspot.com/>



Read What Traders are saying about The 3 Duck's Trading System

Pma: (Elite Trader) Nice trading Captain! Your system cleaned up on the euro today!

Billbss: (Forex Factory)

I picked up 98 pips on GBP/USD within the last 4 or 5 hours, with an initial 24 pip SL.

Trader1234: (Baby Pips) probably one of the best & simple tips to help stay with the market that I've read in awhile.. thanks Captain.

JTrader: (Trade2Win) This system is a simple example of how multi-timeframe confirmation can be used to ensure you are looking to trade in the right (trend) direction.

Dav: (Baby Pips) Just read your thread and tried your methodology, works pretty nice... well done.

Petersurrey: (FX Review) Having just attended an excellent seminar by CC and followed the 'system' for most of this week on various currency pairs I can thoroughly recommend it for the following reasons: precise entries and exits set in advance, one trade per day per currency on average, excellent risk:reward ratio minimum of 2:1 but can be up to 4:1, trading with three time frames in unison not one, always trading with a strong trend be it up or down, suitable for any currency pair price action based with no indicators apart from one SMA , very easy to tell of trade is going against you and therefore reduce losses even further

Skyline: (Forex Factory)

Made 100 pips yesterday on gu , today 107 on gj and 39 on gu for a total 6 wins and 1 loss (20 pips on gu today)

Ampro: (Trade2Win) you'll be filling your tank up this week CC huh? Nice pop on the Cable earlier around the UK Hse Prices release. Couple decent add in longs on the EUR/YEN & GBP/YEN this week too by the looks. Guinness tab is on you for next month then

Pkffw: (Baby Pips) Hi Captain, Interesting system you have here. I like the simplicity.

Primajaya: (Forex TSD) always like simple methods, for me simple method work best and your's are simple too..

Droesparky: (Baby Pips) Hey CC nice system with very simple and straightforward logic. I think even I can follow it.

Bocajunior: (Baby Pips) Thanks for sharing this system. I like it's simplicity.

Tonymand: (Baby Pips) Very useful to have the trade charts Captain. If you are going to make this a regular feature I very much look forward to following along

Trader333: (Trade2Win) Thanks for sharing, I can see that this is a great little method you have

Tess: (Baby Pips) Nice to see yet another simple, easily assimilated & common sense approach to price observation posted on the forum! Kudos to you for slinging it up. I guess those who quickly appreciate exactly what it is you're gently nudging folks towards, will pick it up & run with it Easy on the eye & very simple to wrap around each persons individual risk tolerance! Cool.

Patch: (Forex TSD) Captain Currency, I love your Logo and your handle !!! What great fun. And the three duck picture is priceless and a reminder of simplicity. I've come to realize that simple is always best when it comes to me and trading.

Ronyn: (Forex TSD) Thanks for sharing

LazyPip: (Forex Factory)

This system looks very promising, thank you very much for sharing it! I really needed something to do while my longer timeframe trades don't set up. Will do some backtesting now.



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