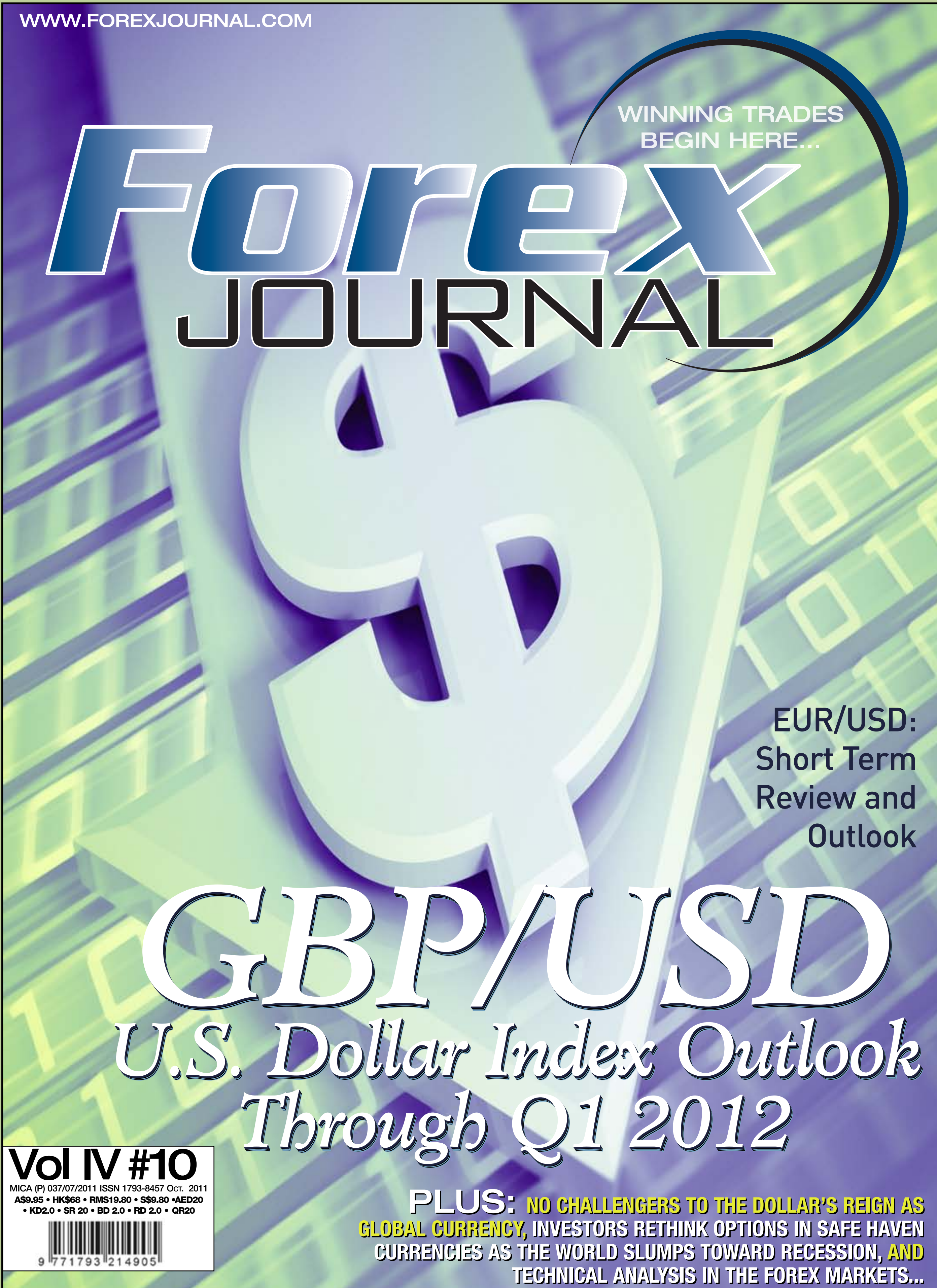
WWW.FOREXJOURNAL.COM

WINNING TRADES BEGIN HERE...

Forex JOURNAL



EUR/USD: Short Term Review and Outlook

GBP/USD

U.S. Dollar Index Outlook Through Q1 2012

Vol IV #10
MICA (P) 037/07/2011 ISSN 1793-8457 Oct. 2011
A$9.95 • HK$68 • RM$19.80 • S$9.80 •AED20 • KD2.0 • SR 20 • BD 2.0 • RD 2.0 • QR20
9 771793 214905

PLUS: NO CHALLENGERS TO THE DOLLAR'S REIGN AS GLOBAL CURRENCY, INVESTORS RETHINK OPTIONS IN SAFE HAVEN CURRENCIES AS THE WORLD SLUMPS TOWARD RECESSION, AND TECHNICAL ANALYSIS IN THE FOREX MARKETS...

A Simple System to Capture False Breakouts

There are all kinds of strategies to trade daily breakouts. Ron Schelling outlines a simple but effective breakout strategy for trading the Forex markets.

My article in the May 2010 issue of *The Trader's Journal* was about opening breakouts on the major Forex markets, but it can be used on other markets as well.

However in this article, I will explain a very simple and robust breakout strategy with limited and controlled risk that can be used in many markets every day. Many professional traders use this strategy on a daily basis with a great deal of success in all kind of markets.

It is a daily discipline where, as with most strategies, money management is the most important factor to create profit and control risk.

Many private traders work to create complex strategies trying to make trades successful, but many forget the money management part of the trade. The major part for this strategy is the High and the Low of the previous day.

The psychology of the trading crowd is usually that if the previous day's high is crossed to the upside, the general price move is up and the crowd is more likely to buy than to sell.

If the previous day's low is crossed to the downside, the crowd is usually more likely to sell that market than to buy it.

With that in mind, we have an edge in the market by going long if the previous day's high is crossed up and going short if the previous day's low is crossed down.

The crossing of the high or low is not a clear directional signal, but by crossing the high up or the low down, the trader can expect that price will at least go a bit further than yesterday's high or low.

Of course there are alternatives to this strategy, which is good for the market too!

Some go short when the market makes a new high or go long when the market makes a new low in order to get a better average price, but there is also much more risk involved when using this strategy.

So how can you trade this strategy?

The Forex markets are open 24-hours a day and there is no real daily open or close. However many traders use the opening in Australia and the close in New York (Wall Street close), while Europeans measure the London opening until the New York close as the high and the low for the day.

HERE ARE THE BASIC TRADING RULES:

1) Enter a long trade on a stop order if the previous day's high is crossed by 2 pips.
2) Take profit is the trade gains 10 pips
3) Exit on a stop if the trade loses 30 pips.
4) Enter a short trade on a stop order if the previous low is crossed by 2 pips.
5) Take profit is the trade gains 10 pips
6) Exit on a stop if the trade loses 30 pips.

Do this on the 5 or 6 major currency pairs each day.

Keep your maximum account risk at 2% for all of the trades combined.

If you input after the close both the long and the short trade, take out one side once the other side is hit and active, never keep the 2 sides of the trade active.

Try this strategy on a demo account first to build your daily disciple. It takes a few minutes to input the orders on the daily bars.

The most important thing to consider is the maximum level of total account risk per day.

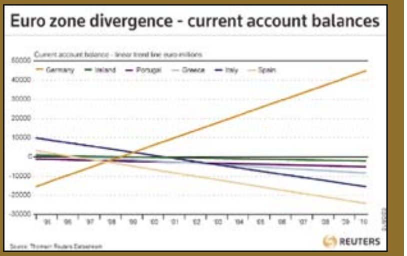
There are many variations on this strategy. So far, it is very effective as part of an overall approach spreading risk across several trading systems. **FJ**

Ron Schelling is an independent trader in The Netherlands with over 25 years experience trading Forex and futures arbitrage. He can be reached on: www.2hedge.com.

<< (Con't from pg 53)

The chart on the right compares the labor efficiency of the weaker periphery states to Germany. The gap has widened tremendously despite all of the money thrown at the weaker countries during the past decade – proof these countries squandered the cash and have only big debts as a result.

The chart on the right shows how these weaker countries tended to squander all that cash – they bought German goods. The orange up-sloping line represents Germany's current account surplus. It is no coincidence that Germany's current account surged into positive territory just after the introduction of the euro and is about equal to the sum of the current account deficits of the weaker states in the system. This represents what I call "the dirty little secret of why Germany was so quick to relinquish its much vaunted Deutsche mark" – the single currency zone created a captive market for German industrialists.



So, the key question – How will the weak periphery countries ever be able to create enough wealth to pay back their growing debts when they continue to have to compete against Germany using the same currency? The answer is – They won't be able to create enough wealth to pay back their debts. The only way they will be to regain competitive efficiencies against Germany is if they leave the single currency, go back to their old currencies, and devalue.

Milton Friedman, a harsh critic of the single currency experiment from the beginning, summed up the final outcome of this flawed system just as it was being introduced: *"The problem is that, in a world of floating exchange rates, as Italy was before the euro, if one country is subjected to a shock which requires it to cut wages, it cannot do so with a modern kind of control and regulation system. It is much easier to do it by letting the exchange rate change. Only one price has to change, instead of many."* - Milton Friedman

The shock is here. Who leaves first: Greece, Portugal, Spain, or Italy? That is the only question left in my mind. **FJ**

Jack Crooks has over 20 years experience in the currency, equity and futures trading arena. Jack is founder and president of Black Swan Capital LLC and Black Swan Capital Management. He has written extensively on the subject of global currencies and international economics. To learn about Black Swan's currency services, please visit www.blackswantrading.com/global-forex-trader