# The Smart Trader's Guide To Online Trading


AXIORY
intelligence

# INTRODUCTION

If this isn't the greatest trading ebook in the world, it gets pretty close!

Hello dear friends, thank you for reading this. I'm Tomasz Tomasz Wiśniewski, CEO and Director of Axiory Intelligence, Axiory's independent market news portal.

If you're reading this, you're ready to learn something about trading. Or maybe you're my grandma and you just want to make me feel good.

Hey Grandma!

Anyway, this ebook will help ease you into trading the financial markets. There's enough insight and information in here to help you feel more comfortable and confident while trading. We may not cover every key concept you need to become a great trader, but we'll go through quite a few of them. There's more than enough for a beginner to get started or for an intermediate investor to learn something new. You're going to get a bit of everything including technical concepts you can use and ways to manage your trade while mitigating risk. We'll even briefly cover expert advisors, in case you eventually decide that you trust robots to do your trading more than you trust yourself. This ebook will also clarify key trading concepts you'll need to know before you start trading.

For now, the most important thing to note is that everything you'll read in this ebook comes from my personal experience. It's the result of countless hours in front of the screen, going through thousands of trades, and attending hundreds of webinars and seminars across the globe.

Trading is an awesome hobby/job/experience/whatever! Just please don't approach it like gambling. When it's done properly, trading is an art. It's a very enjoyable activity. With so many ways to approach it there's really no reason to ever trade like you're in a casino. You can approach trading as a day trader, scalper, or swing trader. You can approach it as a pure speculator or a more conscious value investor. You can choose to trade technically or fundamentally or both, or use none of those methods (moon phases, Mayan calendars, coin flips anyone?).

The most important thing you need to learn is how to control and manage your risk as much as possible. Concepts from this book will definitely help you do that like a pro-trader.

Now, buckle up amigos, we have some learning to do.

# HOW TO INSTALL MT4

In order to benefit from the content in this ebook, you need to first install a trading platform. I don't want you to start trading straight away, I just want you to get familiar with the look of the charts. I'll use charts here a lot, so it would be nice if you had an idea what they look like on the platform. Trust me, it'll make it easier for you to understand the whole concept better.

Getting your first trading platform is easy. Using it will be easy too. In this chapter, I'm going to show you how to properly download your platform. If you want to know how to use it then check out this webinar which covers this precise topic.

**Ok, the first thing that you have to do is to go to our awesome website**

**STEP 1** GO TO https://www.axiory.com

**STEP 2** Click on Platform & Tools and pick MetaTrader 4 in the **"How to Install" column.**

**STEP 3** Then, download the installation file.

**STEP 4** Next, from your computer, double click on the downloaded installation file

**STEP 5** Check the agreement box and click on "Next" to confirm the installation directory.

**Wait until MT4 has downloaded and installed then click on "Finish".**


# Congratulations!

The installation process is complete, now you can sign in and start enjoying the most popular trading platform in the world.

# CANDLES

First my dear traders, let's start with a bit of history.

The history of candles is a bit different from the history of other technical analysis tools. If we were to look at the history of an indicator for example, we'd probably start with the story of a super smart guy who developed the indicator using his extensive research and tons of calculations.  The history of candles is a bit different. It's a bit mystical, if you will, at least for westerners, mostly because the origin story of candles has its roots right on the edge of the map, in Japan.

## Once upon a time in Japan

The legend is that candles were developed in the 18th century in Japan and they were primarly used by a trader named Munehisa Homma.

Homma was a rice trader, but definitely no ordinary one, he was in fact, the best. Was he the best because he was using candles? Maybe... He did have a deep understanding of weather patterns, which of course were crucial for growing rice crops. But researchers speculate that the main reason for Homma's success was his ability to effectively obtain and use insider information.

Homma was extremely educated in the psychology of the market. Nowadays, it's common knowledge among traders that it's crucial to have a trader's mind in order to be successful, but back then, it was a groundbreaking discovery. For many years Homma studied the psychology of the market and market participants. From his research, he could see patterns which allowed him to create candles.

## What are candles?

Candles are a graphic way of seeing four crucial prices of an asset at the same time, instead of just one (ie, the closing price). Those four crucial prices are the minimum, maximum, opening and closing prices. You may be thinking "but is that really a game changer, seeing four prices instead of one? And then what? Are we going to find a pot of gold at the end of the rainbow?" I don't know about that, but I can tell you that I know candles work. Period. It's funny to think that we would probably know nothing about candles were it not for one gentleman by the name of Steve Nison.

Nison is the author of the traders' bestselling book "Japanese Candlestick Charting Techniques". The book was published for the first time in 1991. Before it hit the shelves, we knew about candles as much as we knew about the best holiday resorts in North Korea. And yet here we are, 30 years later, and almost every serious trader knows at least a little bit about candles, and most traders use them on a daily basis, and can't imagine trading without them. This contribution to the world of trading from Japan is as big as Godzilla - or even sushi!

In this ebook, we'll only scratch the surface of candles, and we'll only focus on pin bars. So if you want to learn more about candles I strongly advise you read Steve Nison's book. In it is every single thing you'd ever want to know about candles.

## Back to our focus... pin bars

Pin bar is a term from price action which groups a few japanese candlestick patterns into one group. "Why focus on this pin bar" you may ask. Well, the answer is because pin bars are extremely powerful and trustworthy.

Before I get into the details of various candles, I need to first explain how candles work, what they look like, how they're created and how they differ from old school line charts. Let's begin.

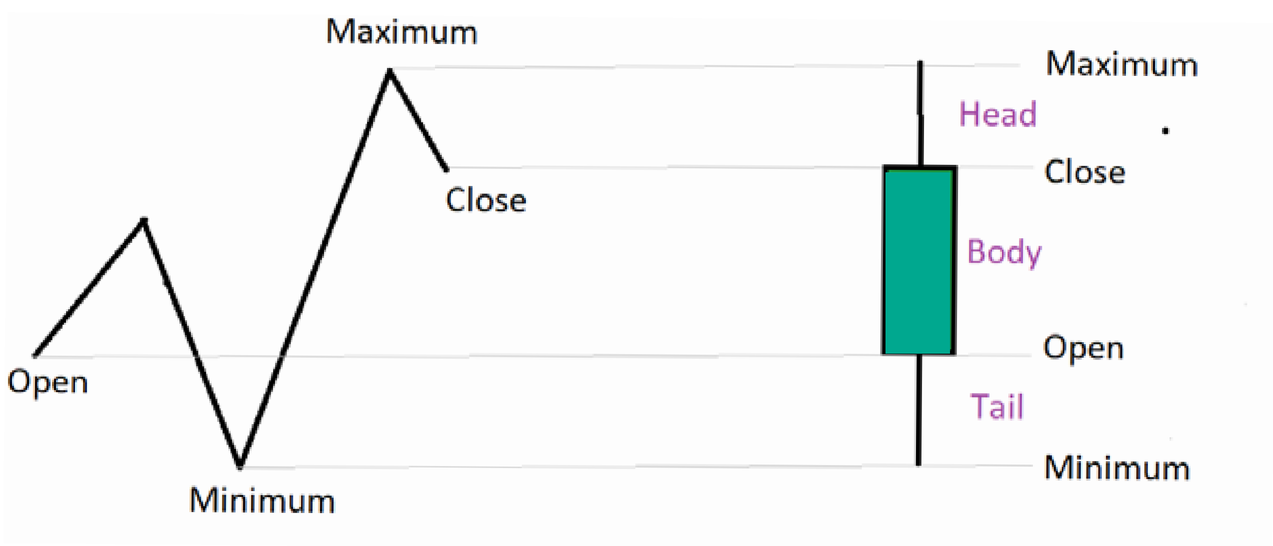
## Candles, how, what, when?

We now know that candles are built using four crucial prices. Normal line charts usually only use one price - the closing price. So, when we have a line chart of EURUSD in 2020 we get the closing prices from every trading day connected with straight lines. There is not much to explain here, we're all aware of line charts, having learnt about them as children, and everybody knows how they're built and how to read them. Candles, as I've previously mentioned, are completely different.

At first look, you may probably think: "What? Reading the candlestick names does not make it any clearer... dark cloud cover, abandoned baby... like seriously, what?" Bear with me, it's really simple. It'll take 5 minutes of your time to explain.

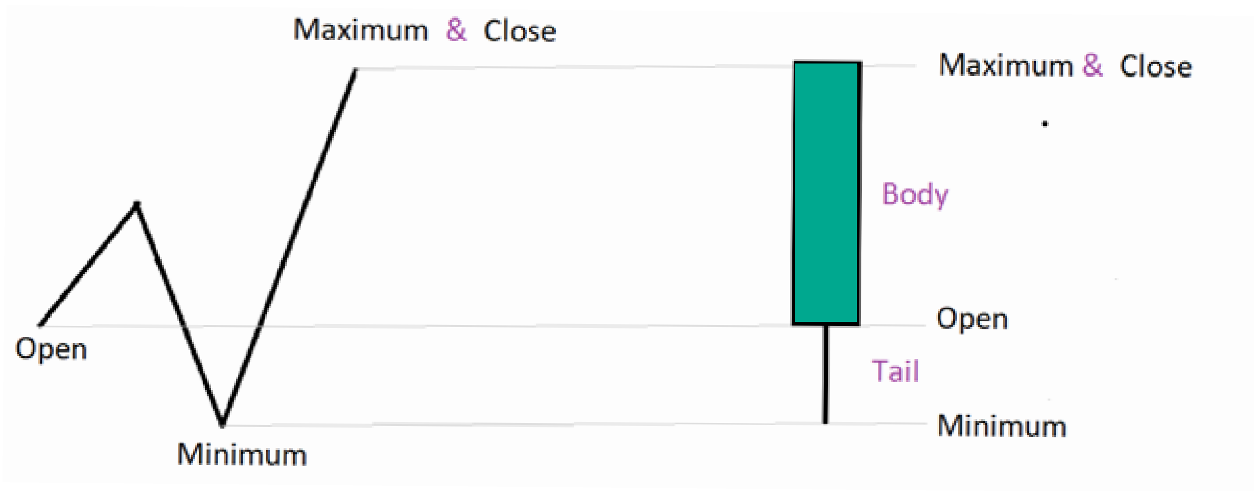
To begin explaining how candles are built, I'll use this simple picture.

In this picture you can see the price change over time shown as a line on the left and a corresponding candlestick on the right.



To create a candle, we first need a timeframe. If we turn on the hourly candlestick chart, you'll see candles showing you four important prices in one hour. On a daily candlestick chart, you'll get candles showing you four of the most important prices in one day. Those prices, as I mentioned above, are minimum, maximum, open and close.

The distance between open and close is marked as a body - that's the thick part of the candle. If the price went up within that hour, the closing price is higher than the opening price and the body is bullish (that means it's usually white or green but you can change the colors as you like).




If the closing price is lower than the opening price, then the price fell within that hour and the body of the candle is usually red or black. In the meantime (between opening and closing), you can see that the price made local minimum and maximum. Those minimums and maximums don't have to be different prices. They could refer to time. Sometimes the maximum is at the same time, for example, as a closing price.

If the maximum price is above the body, then the head is created (that's the thin part of the candle connecting the body and maximum price). If the minimum price is below the body, we have a tail.

Candles come in all shapes and sizes. They can be short or long, they can have small or big bodies. They can have long heads and no tails or short tails and big bodies in the middle. You name it! Really, every combination is possible.

Does that mean that every candle has a meaning and is technically relevant? Nope! Although we have a lot of candles, most candles don't give any signal, so you don't have to pay a lot of attention to every single one of them. Also, candlestick formations work better when they are present on a crucial support or resistance level. It can be a trendline, like a Fibonacci retracement, or a line coming from a technical pattern, or any other important S/R level.

When a candlestick pattern is present on an important support or resistance, we have a great candidate for a very handsome trade. This can still fail of course, but at least the odds are in our favour. Other candlestick patterns may be the focus of my next ebook, but for now we're focusing on pin bars.

## Okay, but what are pin bars?

Generally speaking, pin bars are candlestick patterns with very small bodies and long heads and/or tails. In classic Japanese nomenclature, they're named after dojis, hammers, shooting stars, hanging man and spinning tops. You can see the most common types of pin bars on the graph below.

## What do pin bars mean?

A pin bar candlestick pattern visually shows when price reverses in a time frame back near its starting point. The common thing among pin bars is that the opening and closing price is almost the same, however, in the meantime, there's significant movement in any direction. That can mean that the market is done with the previous movements and there is still time for reversal. It can also mean a temporary pause, a small stop before going deeper. It's all relevant. The placement of the candle is what's crucial here.

I wouldn't be myself if after a theoretical look, I didn't show you a few practical entries with pin bars.

One of my favourite pin bars are hammers and shooting stars.

A hammer, present on a crucial support, means that the price at some point entered the support area and immediately triggered a reversal. That means traders saw this price and found it extremely attractive, which resulted in a rapid rise. Hammer on a support indicates strength. We have new buyers jumping into the market. What do the old sellers do? They often abandon their positions, which causes an additional increase in the following bullish momentum. What do traders without a position then do? They see the price and jump in on the occasion with a long position. That sorts out the trend and confirms the hammer as a very reliable trading partner.

We'll cover stop-loss a bit later on in this ebook, but for those of you who may be looking at this chart in terms of a stop-loss order, hammers are very simple. You tend to put a stop-loss below the tail. Yes, the price can go lower and create a double bottom formation that kicks you out of the market, but in most cases, a stop loss below the tail is good practice.

On the other hand, let's see what happens during the creation of a shooting star. The price rises and meets a crucial resistance. That triggers a selling action from traders. First of all, buyers close their positions to take-profits. Then, sellers jump-in because they find this resistance attractive and want to earn money on a reversal. The price drops creating a long head and a small body on the bottom, the signal is confirmed. Very often, after this happens, the price continues to drop, at least for some time, or long enough to make a change in your trading account.


And again, in terms of a stop-loss order you'd have one above the head of the shooting star. Remember to add the spread to make the stop-loss a little bit wider. Why? Because when you sell, you sell with bid but close your position (buy) with ask, which is higher.

Now, imagine a price that is dropping, reaches a support and instead of a hammer, creates a doji. Is that a signal to buy? Well, it depends. I prefer hammers and hammers only - but many traders would open long with any doji here. I just want to signal that there is such an option. Try it for yourself (on a demo account first, which is always better to test things out on).

## Hammer or hanging man?

What's the situation with those two, they look the same, right?
Yes, they do, but the difference is in the place they're present. Hammers, as I previously mentioned, are present on supports after the decline. Hanging man, are present on resistances after the rise.


Are they equally powerful? I have my own story about this.

A few years ago, I conducted my own extensive research about the efficiency of the most popular candlestick patterns. Hanging man was among them. I found that this pattern doesn't work as one would expect. The fact that we had a hammer after the rise, was not enough to give us a proper sell signal. Hanging man alone is weak. You can make it stronger by trading it only on absolutely crucial resistances but still, the efficiency would be low.

During my research, I found a factor that can increase the efficiency here, and it's the candle after the hanging man. If it was a bearish one, then the sell signal was stronger than if it were coming from the hanging man alone. Nevertheless, even with that, the hanging man was still behind other pin bars. It's a no-go zone for me.

As I mentioned before, we also have different types of dojis and spinning tops among pin bars. Is there a big difference between them? In shape, maybe a small difference, but in principle, not so much. What matters here is the principle!  Price meets a resistance and reverses, creating either a shooting star or a gravestone doji or even a spinning top. Does it matter what we name it? No!

That's why price action comes with a common name: pin bars. And you trade them in the same way. Sell, after this candle finishes on a resistance with a stop-loss above, or buy when this candle finishes on a support with a stop-loss below the tail.

Sometimes, you just want to be more cautious and get additional confirmation. Fair enough. In that case, you sell after the next candle, after the pin bar is bearish, and you buy if the next candle after the pin bar is bullish. You lose a bit of the movement but you gain a bit of confidence in the movement.

One question that comes up repeatedly is this: Does the color of the body in pin bars have a meaning? The answer is NO. Again, the big picture. Imagine a hammer bouncing from the support and the tail is 30 pips long. The difference between the color of the bodies can be 2 pips (one pip up - bullish, one pip down - bearish)! Can those 2 pips change the whole signal coming from the 30 pips reversal? They shouldn't.

Pin bar is a pin bar regardless of the color of the body (keeping in mind that the body in pin bars is small).

The best thing about candles is that they are not rocket science and understanding them can really make a difference to your trading account.

# MACD

In this chapter, we'll focus on indicators. Traders love indicators and often use them when investing. Why? Well, I don't use them very often, so my answer is going to be a little bit biased.

Traders use indicators because they give clear trading signals, while at the same time, removing responsibility from the trader. It goes something like this: The indicator gives you a signal, then you make a trade, and should you lose, it's not your fault, it's the fault of this particular oscillator.

To be honest with you, in my 10+ years of experience trading, I've never once heard about a single indicator that will give you an edge over the market. Don't get me wrong, indicators most certainly work, but not always and not everywhere. They work great for sure when they're combined with other tools.

Okay, we're gathered here to learn about MACD. Why MACD in particular? Well, because it's not only one of the most popular indicators, it's also quite reliable. I'm speaking for myself but I guess that even many price action users, who normally wouldn't use indicators, will sometimes use MACD, just to confirm some movements.

## What is MACD

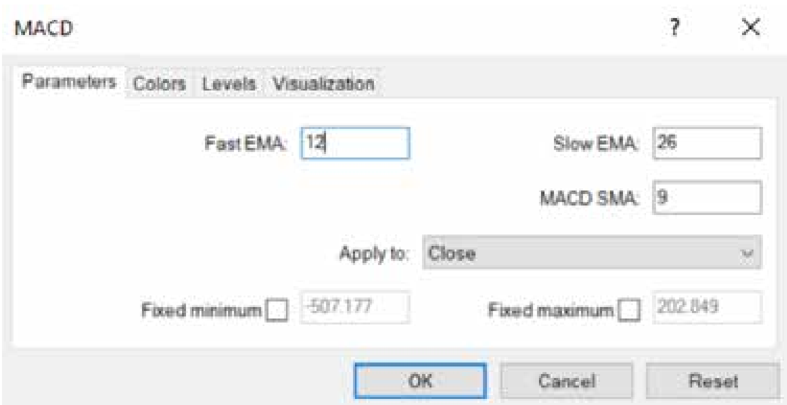
MACD is an abbreviation for (Moving Average Convergence Divergence). It's not a complicated tool. You can use it in many different ways but I like using it for detecting divergences. That would be my number one pick for using MACDS. Others....hmmm, their efficiency may be a little bit more questionable.

As an indicator based on momentum, MACD tracks the movement of the price. It's also a lagging indicator, which means that the signal it gives is usually late compared to the actual price movement on the chart. For example, when you use it on a daily chart, and the price reverses giving a sell signal, MACD will give you this signal 3 days later. If that's still something you're looking for then keep reading.

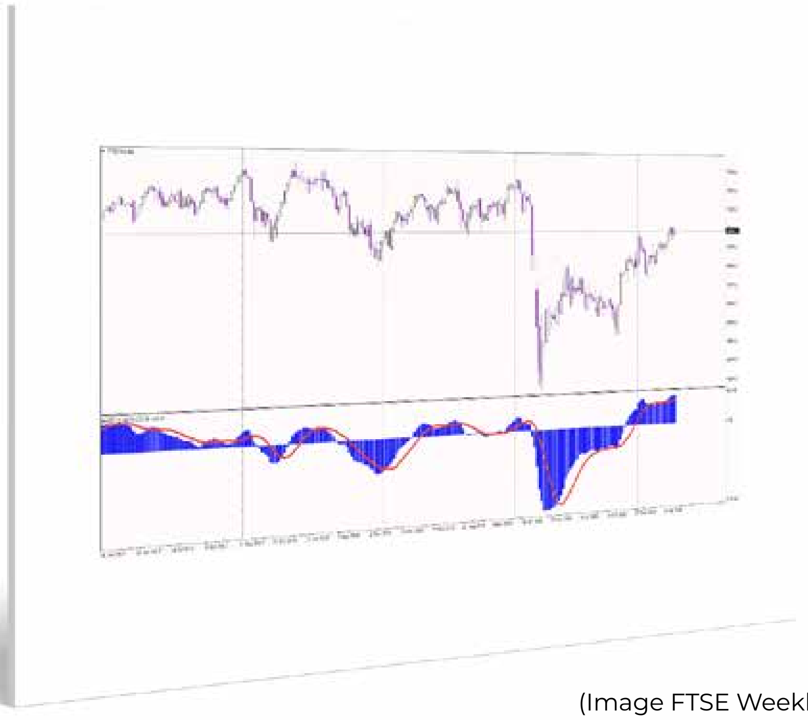
Traditional MACD consists of a MACD line, MACD signal line and a histogram. MACD is by default available on MT4 - the most popular trading platform in the world. On MT4, MACD consists of the signal line and the histogram alone. To trade effectively, you don't really need to know the formula for how this oscillator is calculated... but ok, if you insist, here you go:

***The MACD is calculated by subtracting the 26-period exponential moving average (EMA) from the 12-period EMA. The result of that calculation is the MACD line. A nine-day EMA of the MACD called the "signal line," is then plotted on top of the MACD line, which can function as a trigger for buy and sell signals.***

## Here's what the parameters on the MT4 platform look like:



# After adding MACD to your chart, you'll see something like this:



(Image FTSE Weekly)

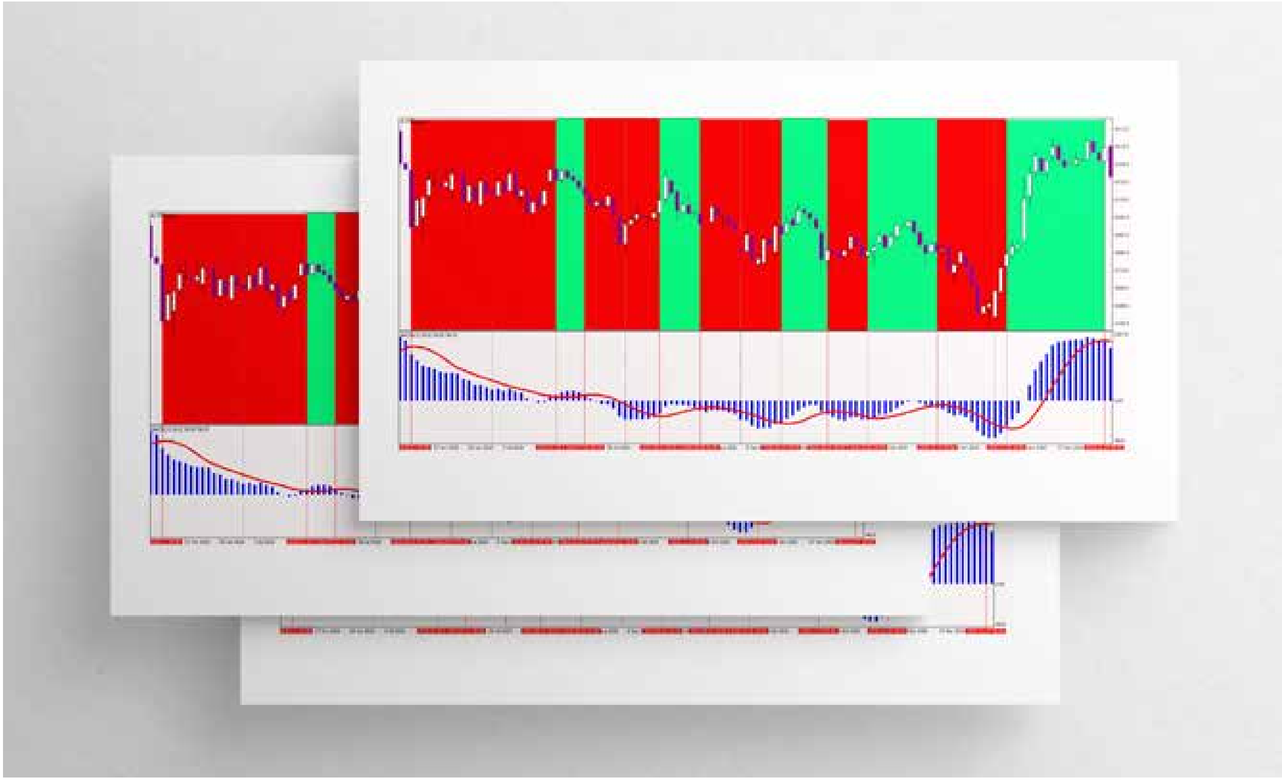
Of course, colors will differ and you can change them yourself. What's important here is for you to know that the red line is the signal line and the blue bars are the histogram.

The first way to trade MACD is to trade the breakouts of the signal line and the histogram. To be honest with you, I don't think it's the best idea but hey, we're here to try things out and learn something in the process!

Again, I'm not trying to sell you or MACD trading systems, so I'll use completely random charts with MACD on, so we can check if those signals make sense, shall we?

# Buying and selling with MACD

Let's continue using FTSE, but let's change the timeframes and periods. Check this one out:



When the histogram falls below the signal line, it's time to sell, then the histogram rises above the signal line, and it's time to buy. It's a no-brainer, the histogram tracks the price more closely, the signal line is more delayed.

When the sell signal is present on the chart it's marked using the color red, and the same goes for when the buy signal is present, but in this case, it's marked using the color green. It's not a pharmacy, so we won't calculate it very accurately but you can see that the first sell signal ends on loss, next, there is a buy signal, which also ends on loss. Then a sell signal, which ends on a small profit, and then a buy signal, which ends on loss, another one is a sell signal, which gives a tiny profit, and then a buy signal, which is wrong again. Then three break-even trades and finally, we have a profitable buy signal.

You know what? Screw this type of indicator! Of course, if I had to find a great example of it working flawlessly I'd find it, but that's not the point, right?

I'll let you in on a little secret about this. I knew the results even before applying the indicator on the chart. It's just a matter of how it's built and what type of movements you're using.

So MACD is based on the moving averages, right? By default, moving averages get lost in sideways trends, in trendless movements. They give a lot of delayed losing signals. If you trade in a range using Moving Averages (MA) you end up spinning in place and chasing your own tail.

Things change when there's a strong directional movement present, like in the case of the last signal in the example above. The price rises rapidly and the buy signal is profitable. That's just Moving Averages (MA) at work. You lose when you use them in sideways movements and you make a great score if you use them in strong trends.

The fact that MAs get lost in trendless movements does not mean that nothing works there. Various oscillators come to the rescue, with RSI or CCI being the most popular ones. Actually RSI is often used together with MACD but more for the purpose of looking for divergences. And that actually brings us to a second way of using MACD. The second way here in this book but the primary way if you consider yourself a serious trader. It's time to talk about divergences.

## MACD and divergences

When trading divergences, you focus only on the histogram and the price, you look for them only on important tops or bottoms, when the price is making double or triple top/bottom formation.

Look, at this chart. Here we have three divergences:

The first one on the left is a bearish divergence, so it gives a sell signal. The price makes double top; the second top is higher than the first one but the histogram is not making a higher high. Yes, in general, the histogram should follow the price but when it stops doing that, we have to be cautious. So the price is making higher highs but the histogram does not, voila - you have your sell signal.

Then, we move to the second divergence, this time a bullish one. The price is after a heavy drop and is making a double bottom formation, one low and the second lower low. A quick look at the MACD's histogram and it's not making a lower low divergence again! This time it's a bullish divergence because it gives us a buy signal. Awesome, right? Well yes, but hold your horses. We move on to the third example and we can see a double top again. The price makes a higher high which is not confirmed by a higher high on the MACD, that's a sell signal again, right? Right, but this time it works only for a while and the price ends up climbing higher later. So in this case divergence does not work.

Again, I could find an example where divergences will always work but just imagine: If this easily accessible tool on MT4 worked all the time, trading would be trivial! Everybody could do it and the whole process would be risk-free and completely effortless.

Let me get one thing straight. Divergences work, but they don't always work! I'm sure that if you combine divergences with other technical/fundamental tools then it can significantly improve your results. "What tools?" you ask.

For example, when you have a divergence and the second top is a shooting star bouncing from a horizontal resistance then this trade looks extremely strong and is screaming for your bearish attention! Like in this example below:

We've talked about candles where I focused mostly on pin bars. But there are many more candlestick patterns, like for example the bullish engulfing. This is a two candlestick formation, where the first one is bearish and the second one is bullish and covers the first one entirely. When you combine that with a price action and the MACD, you get a triple bottom formation with a divergence and in consequence - a very powerful buy signal.

# RISK AND LEVERAGE

I know what you're thinking. You like high leverage because it means large profits and big returns on small investments. At the same time, you don't want the risk of high leverage - even though you still do risky things, hoping that you'll somehow be protected from it. You may be asking; "how did he know that"?

Well, I've talked with thousands of traders all over the world at seminars across five continents and I know exactly what the vast majority of traders have on their mind.

In this chapter, I'm going to share a few crucial things you should know about leverage and managing risk. The first thing to know is that those two things are connected; the higher the leverage - the higher the risk. Second, leverage is always risky because, with it, you trade with more money than you actually have. However, trading can be risky even without leverage like, for example, when you're trading stocks.

## Leverage, a double-edged sword

Yes, that's what leverage is often called; the double-edged sword. Why? Because it can bring you big profits but at the same time, it can incur massive losses.

Many financial services regulatory bodies cite leverage as the main reason why retail traders lose money on the market. I only partly agree with that, because it's very easy to blame leverage, and it doesn't address the core problem, which in my opinion is poor education.

People start trading without a proper understanding of trading. That's all there is to it. This doesn't happen with many professions. In order for surgeons to work, they need to finish medical school and complete hours and hours of training. The same goes for pilots. But traders? Nah! They think "investing is so easy, all I need is one book and a 10-minute Youtube video and a couple of TikTok videos, and I'm ready to go". I'm not kidding, thousands of traders I've spoken to started out like that, then they expect extraordinary results, and are genuinely surprised when they don't get them. Getting educated on trading is key, and that's what we're here to do.

So getting back to leverage.

You've probably heard that the Forex market is very volatile. The reality is that the Forex market is not volatile at all. Cryptos are, even stocks are but Forex? Nah. On an average day, with no important market events, major currency pairs often move by less than 1%. That's not exactly what we call volatility. What's happening is that currencies SEEM volatile because of leverage.

Leverage was introduced to the Forex market in order for traders to be able to trade on low volatility. Imagine that there was no volatility and you have 100 USD to trade an instrument that moves 0.4% the entire day. How cool is that? Answer: Not cool at all.

Leverage allows you to trade multiple times the amount you actually have in your account.

The most common leverage is 1:100, which means that you control the position 100x bigger than without the leverage. Instead of opening a position worth 100 USD, you open one worth 10,000 USD.

Wait, what? You can trade using a much larger amount of money than you actually have? Who is Santa Claus here, who is giving you money to trade? The broker is, through the online account you open with them.

## How leverage works

When you trade currency pairs and want to open a position worth 100,000 USD, you don't actually need to have that amount of money in your account. You just need a margin, which is a fraction of that amount of money. The margin is 'blocked' in your account. The bigger the leverage is, the smaller the margin. It creates a situation, where you can simply open larger positions because you'll only need a small percentage of that money to use as a margin. At the same time, if you have low leverage (like 1:10 for example), then you'll need a larger margin which could prevent you from opening bigger or more numerous positions.

Leverage is 'mystical' and many traders don't understand how it works. Also, people who don't trade have the wrong understanding of leverage. Don't worry though. You're reading this ebook on your screens right now, so having a clear understanding of leverage and the risk associated with it won't be a problem for you anymore!

My dear friends, first of all, if you're serious traders with proper money management, you won't care about leverage. You'll be able to have 1:500 leverage and still trade with strict risk control and apply good trading practices. You can have leverage of 1:20 and still go nuts and do totally irresponsible things that can blow up your account. Much more importantly, in terms of risk control is the percentage of the money you're risking on one trade and the percentage of your capital that you're risking on a trade in general and at any given second.

I'll explain all of this to you a little later, so brace yourself for a journey through risk control coming up soon.

For now, I'm going to share another secret. On my account, I don't even know how big my leverage is. Seriously, I can't be bothered with it because as a parameter it changes nothing. The reason why I don't look at the leverage is that every trade I make has a maximum loss of 1-2% of equity. That's not big, so I'm not worried about clogging my equity and not having enough margin left to trade. I also have a maximum of 4-6 positions opened at one time, to make sure the risk I'm taking at any given second is small. No all-in bullshit, no over-leveraging, no hoping that one lucky shot will make me rich overnight.

Yes, I trade on leverage, it allows me to benefit from really small volatility in the Forex market. It helps small accounts to take part in the wonderful world of trading where starting at day one you can fight for something more than mere peanuts. That's where leverage is your friend. For others, leverage can turn into a mugger who steals your money in a dark alley and then beats you with a stick.

I know that many traders open accounts with the specific goal of getting the highest leverage possible. My best guess would be that those folks are kamikazes! Not all of them of course but most of them. They go for high leverage with one purpose in mind: make big money fast. They apply systems based on this type of thinking and then go with an all-in or nothing attitude. They open the absolute maximum that they can and then the price moves and then...either they're gone with this account or the initial investment is multiplied. You have 10 accounts like this and maybe, maybe, at the end of the tunnel, you will see a light.

For me, that's a way of acting straight out of the casinos and has nothing to do with the art of trading and investing. I'm an advocate of old-school trading, where you eat with a small spoon and do it slowly but surely. Kamikazes, sorry I've wasted your time. In this book, my intention is to show you the way of a samurai; there's no place for crazy kamikaze moves, just pure discipline.

### The pros and cons of leverage

Let's sum things up really quickly. The leverage that brokers extend to us as traders has a few benefits. First of all, it magnifies profits and allows traders with small accounts to still make significant gains. It also allows you to trade more instruments because you have more free margin. It also allows you to trade low-volatility instruments. However, it has some cons too. Namely, the double-edged sword. Leverage can increase your profits but it can also increase your losses. That's why you need to use it very carefully and with a healthy dose of respect.

To use it properly, you need to be risk aware, and hey! that's exactly what I'm here to teach you.


## 1-2% risk

This is the simple part, my friends. Theory and all that aside, in order to apply all the knowledge I'm teaching you here, you need to be disciplined.

So the main principle of discipline to practice is to use a maximum of 1 or 2% of your equity on one trade. It doesn't mean the margin. It means that the maximum amount of money that you can lose on one trade is 1-2% of your deposit/equity/money that you have for trading.

1-2 %...the difference between those two is 100%. So how much you apply depends on your risk tolerance. Maybe you don't tolerate risk and losses well, in which case 1% may be a better number for you. Maybe you tolerate risk better than most and the money you have for trading isn't the money you need for bills and food for your newborn. In that case, 2% may be a good number for you. You could also mix it up a little. Use 1% on a daily basis and 2% from time to time, like when a setup is smoking hot and screams to you: **"I'M THE BEST SETUP IN THE WORLD! OPEN ME!!!!".** Then yes, by all means, go nuts, and risk that 2%!

Moving on, in order to risk 1% on a trade, you need to know the position size as well as the place where you'll close your position at a loss.

For new traders or yolo traders, this gets tricky because they often don't know where to close a trade at a loss and/or simply don't want to do it! This is so common that I'd say it's normal for retail traders. They don't want to close their position with a loss. They're willing to wait and wait and hope and pray for a reversal. Sometimes the reversal will happen but sometimes it won't, and instead of closing the trade on 1%, they'll close it on a 40% loss. How bad is that? Pretty bad.

So the order goes like this: You find a great trade, analyze an instrument, and come up with a great trading idea. The next thing you do is find the place for a stop-loss, which will close your position on a loss if the market is moving in the opposite direction of your trade.

## Finding a place for a stop-loss

I'll teach you how to place a proper stop-loss order in the next chapter. For now, all you need to know is that you need to have a stop-loss. You have an entry point and a stop-loss order. You know how many pips or points you are losing in case the trade goes wrong.

Now, you have to do a little bit of math. Don't worry, that's what calculators are for.

You know the number of pips that you're losing on this trade. You also know how much money you can lose on the trade. For example, that would be 10 USD if you have 1000 USD on your account, or 500 USD if you have 50000 USD.

So you open the calculator, then fill out the empty fields, and voila! You can keep adjusting the volume in lots there until you get the proper volume corresponding with the expected loss.

If you don't want to use a calculator, you can use this option, which I use a lot myself. Before you open a trade on a real account, try it out on a demo account first with a random size like for example 0.1 lot. First, adjust stop losses and check how much money you're risking. Then adjust the volume according to your findings. Once you have a proper value, you can open that trade on a real account.

## The 1% rule

Listen, I know what you're thinking: 1% is not enough! I'll never buy a Ferrari with that!

No, you won't, at least not now, but 1% can add up if it's repeated over and over again. Compound interest can make you very wealthy. What's more, you're risking 1% for a potential gain of 3 % or 10% on a trade.

The 1% rule is all about managing losses. It's designed to let you enjoy the trading experience as long as possible. Imagine what it would be like if you're losing 20% on your first trade, then 30% on the second one, and... you see where this is going! Big losses can be devastating for your mind and your portfolio. It's much worse to recover from a 20% loss than from a 2 % loss. In order to recover from a 50% loss, you need to make 100%! Let that sink in.

By risking 1% you're allowing yourself the time to learn and trade and learn and trade some more. You're also not destroying your motivation or enthusiasm. -1% won't do that, -10% will! Never go too crazy with your position size, it's not worth it. We are here for the long haul, and for a good time! Not for a short run and a bad time. Never! Where's the fun in that? Trading with huge positions is not worth it.

Now you know why I said that I don't care about leverage; because I keep my positions small anyway. I don't need big leverage because my trades are small. The best thing about all of this is that you don't have to trust me - it's written and repeated in almost every book about trading.

The authors of these books explain this and warn traders of excessive risk. And still, retail traders don't listen and trade with much bigger portion sizes than they should. Why? Discipline! They know what the right thing to do is, but they still can't execute on that knowledge properly due to poor discipline. Do you want to be a good trader? Work on your discipline, everywhere and every opportunity you have!

And there you have it. I guess we can now say leverage and risk are pretty clear now.

Let's move on to stop-loss and take-profit.

# STOP-LOSS AND TAKE-PROFIT

Leverage and risk should be clear by now but before jumping into trading, you need to master stop-losses. Yes, take-profits too, but that would be just a sweet addition to the mix. Learning stop-loss is an absolute must.

A stop-loss is an order which closes your position on loss. You're thinking, "What!? an order that allows money to be taken away from me? And this information is considered must?" Yes, it is. And no, I'm not crazy.

A stop-loss order is something you have to master. It's the only way to increase your chances of becoming a proud, long-term, profitable trader. And by 'long-term' I'm not referring to the duration of your trades but your lifespan as an investor.

## Why is stop-loss a good thing?

Let's start by considering the name first, shall we? Stop-loss, meaning, it 'stops' your 'loss'. Brilliant!

A stop-loss order protects your money by not allowing you to hit big, painful losses. In order to explain it's amazing characteristics, we need to talk about trading psychology.

It is natural when you open a trade to not be thinking of how much money you're about to lose. In fact you're more likely to be thinking the exact opposite thought - how much money you're about to win.

Nobody opens a trade and naturally thinks about the losses, but you should. In fact, that's the first thing you should think of. When you open a trade, the first thing you should think is; "when should I close this trade if it turns out that I'm wrong." And why would you be wrong? Well, for thousands of reasons.

First of all, the financial market is enormous and is driven by several forces, none of which are within your control. You don't have control over the central banks, governments, trade deals, hedge funds, billion dollar trades and millions of other market participants. So because none of those things are under your control, the only thing you can really do is control yourself. In other words, you have absolutely no chance of affecting the price movement, so all you can really do is deal with what the price is doing.

The truth is, despite your best efforts, deepest analysis and the most detailed research, sometimes you'll be wrong. You'll be wrong, not because you're dumb or the market is dumb or politicians are dumb. No, you'll make a mistake simply because sometimes the market will move in the opposite direction and in cases like that, you'll need a stop-loss order.

Again, let's get this much straight - you will not be right every single time! You will not correctly forecast every single movement. Not now, and quite possibly not in 10 years from now, probably not ever. The good news is that you don't have to be right all the time in order to make money on the market. You don't even have to be right every other time in order to be profitable! Seriously, your efficiency can be less than 50% and you'll still be able to make profits in the long-term. How? Keep reading.

OK, so now you know that you could sometimes make a mistake, right? You opened a long position and instead of the price climbing higher, it went down. What's happening when you have a stop-loss order? Nothing, the price drops, activates your stop-loss order and you end up with a 1% loss. No biggie. I think you can survive a 1% loss, right?

Now onto the second possibility. You buy and the price goes down. You don't have a stop-loss order, and the price doesn't stop dropping. It drops like a rock and so does the sweat on your forehead. You still have hope for a reversal, you begin to see things that aren't actually there, you use indicators that you never usually use, you read analysis that you never usually read. You do everything you can, just to find an idea to support your initial bullish view. But the price keeps dropping and nothing can change that. Finally, it hits your pain threshold and you decide to close your losing trade manually. Full of regrets, emotional pain and disappointment, you close your position with a 30% loss. You feel betrayed and devastated. What do you think your next move will be? Most likely you'll enter a spiral of bad decisions.

That doesn't sound great, especially considering that all of it could've been avoided with a simple stop-loss order, which could have effectively closed your position on a 1% loss!

You're smarter than that, and smart guys don't allow themselves to have big, devastating (and avoidable!) losses. Losses don't only kill your account, they also kill your mind and your mood. Trading should be fun and easy. When you stick to the rules, it really is that way.

Let me make that clear again. You won't always be right! Sometimes you'll make mistakes and open a trade in a wrong direction. In order to protect your money, you need stop-loss orders.

## Stop-loss like a boss

Fun fact. I've already written an ebook on this topic and I'd l be more than happy to write it again. You know why? Because stop-losses are that important.

So without further ado, let's learn how to properly place them. The order looks like this:

1

First, you get a trading idea and look for an entry point.

2

Next, you look for a stop-loss order and how much potential profit you make from this trade.

3

Then, once you have the price for a stop-loss order, you calculate the position size in order for it not to exceed 1 % equity loss for one trade.

4

Finally, once you have volume in lots, you open a trade .....and voila!

.....and voila!

When you open a trade, you will most probably have a reason for that (or at least you should). So for example; you're selling EURUSD because you see three technical factors promoting the downswing. When you see this, you need to ask yourself a question: When will my bearish outlook fail? What's the price have to do to cancel the sell signal? Where's the price have to go to deny the bearish sentiment? And that's your place for a stop-loss order. Simple.

You place a stop-loss where your initial thinking about the direction lost its relevance. You place it where the sell signal is no longer the sell signal and the other way round.

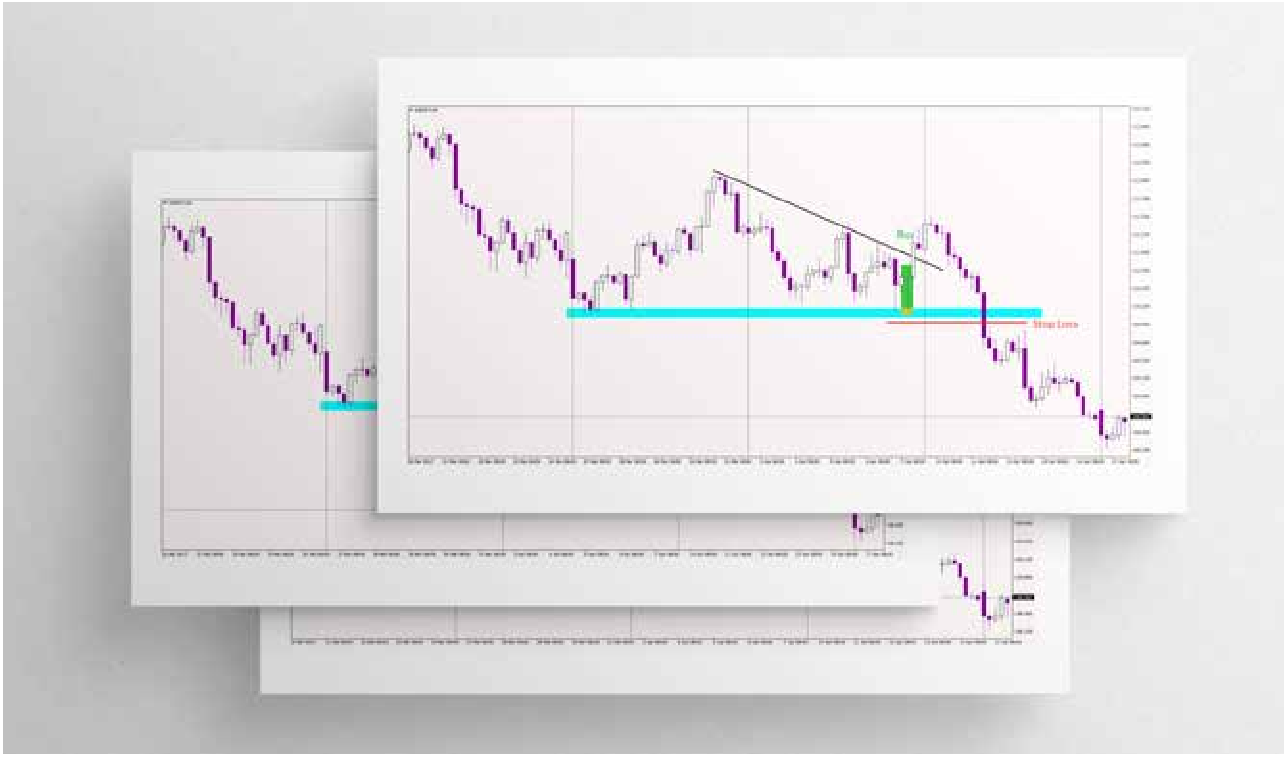
Let me show you a few life examples from various technical situations, which will explain all of this in more detail. All of these examples are based on the concept of supports and resistances. Why? Because they work.

We'll start with an easy one.

You buy a bounce from the support. The price is testing the horizontal support and eventually bounces from it sharply. That brings us a buy signal. This buy signal will be denied when the price breaks this horizontal support, so that's a place to escape your buy position with a stop loss.

Here are two examples, both show you what it looks like when everything works out well but in the first, the price went higher and in the second one, the price doesn't go high but the stop-loss saved your a...ccount.

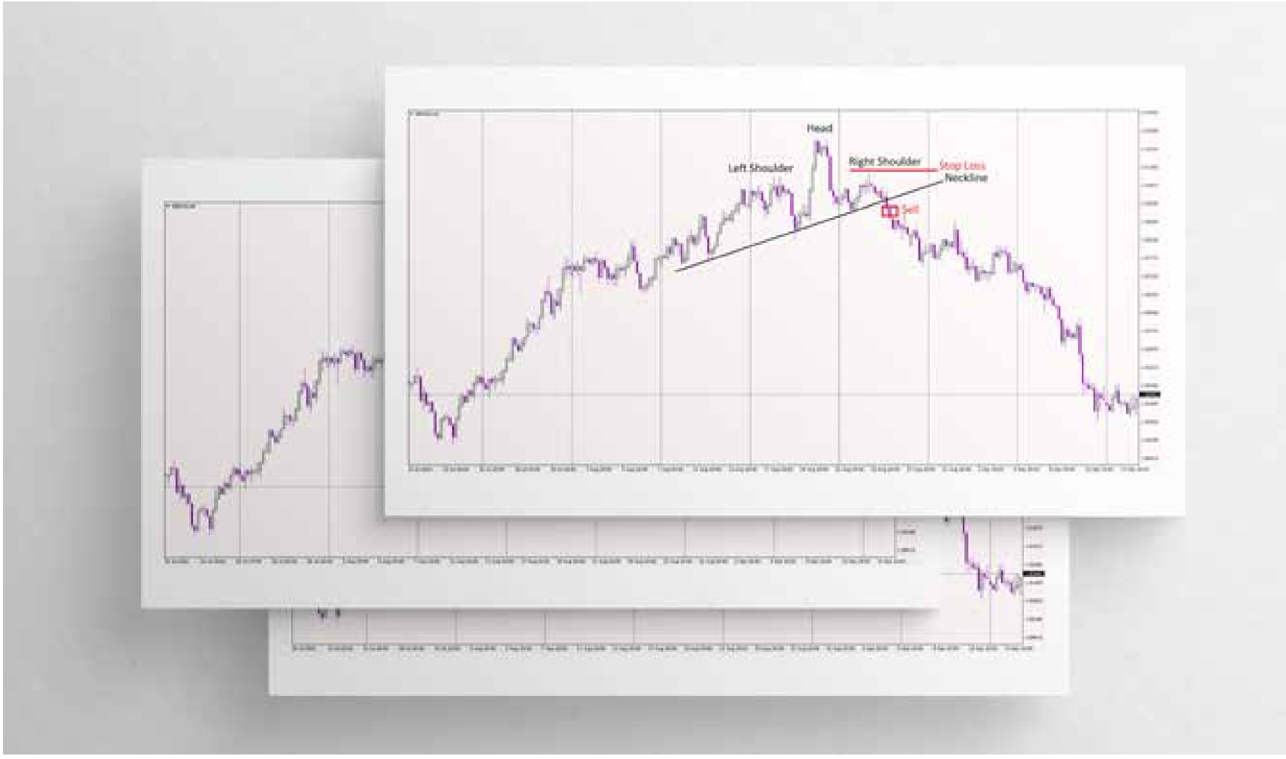
In the case above, we have a bounce from a horizontal support (blue) and then a breakout of the dynamic resistance. The breakout of the resistance brings us a buy signal and our stop-loss should be below the blue line because the breakout of this support would mean a cancelation of a positive sentiment.



In the case above, we also have a defence of horizontal support. At the end, the price defends it with a nice looking pin bar (green). We also break the mid-term down trendline (black) like in the previous example. The price goes up for a while but then collapses. The reason why we're happy here is that the trade was closed on a stop-loss, which took away only 1% of the capital. If you didn't have this stop loss order, you could have lost much much (much!) more, and no one wants that. Who's a fan of losing more money?

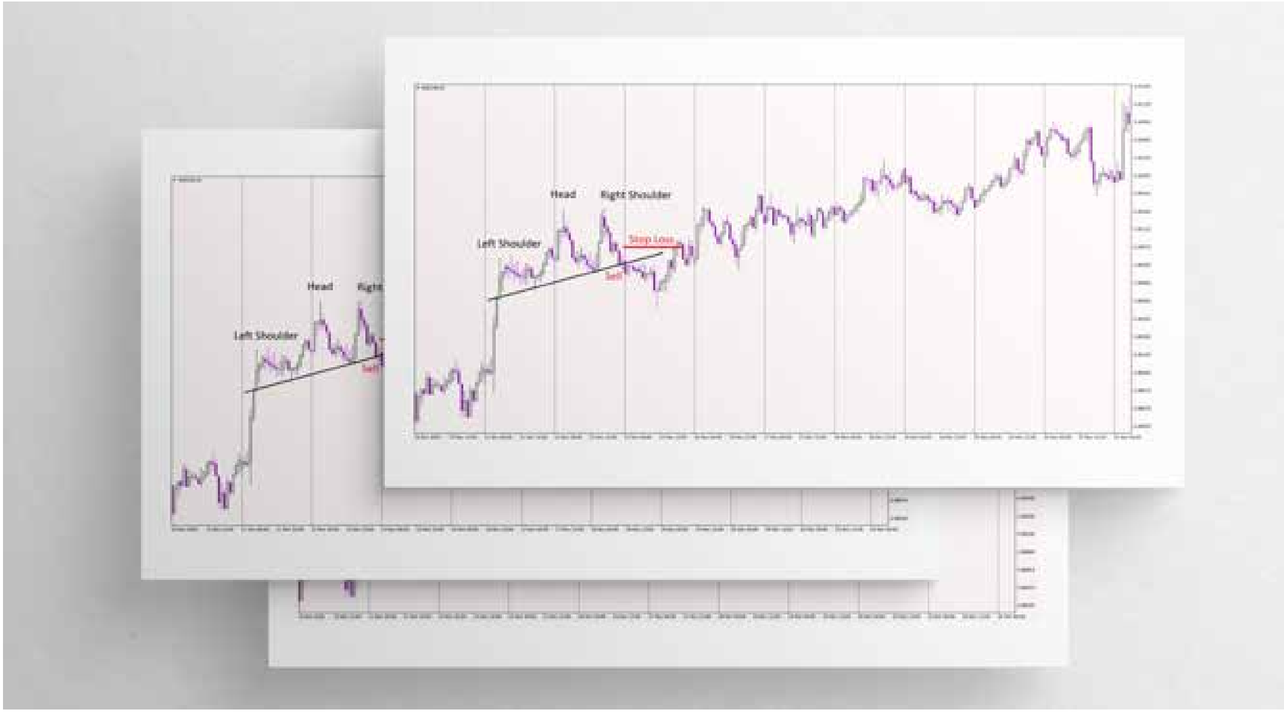
## More complex situations

Let's for example use the head and shoulders (H&S) pattern. This is a formation which, when formed on local top, can bring us a bearish reversal. It consists of three tops. The first one is a left shoulder, then we have a higher high which creates a head and a lower high which is a right shoulder. The formation has a base, which is a dynamic or horizontal support and breakout of that one brings us a sell signal. Don't worry, I'll show you some examples that will explain everything. And again, two cases, one where the stop-loss is there just to protect you and the other one, where the stop-loss actually saves you.




If the breakout of the neckline brings us a sell signal then a comeback above the neckline would mean that the sell signal was fake and is no longer valid, right? We use this exact logic and this is the place where we place our stop-loss order. Price coming back above the neckline would mean a cancelation of a bearish sentiment.

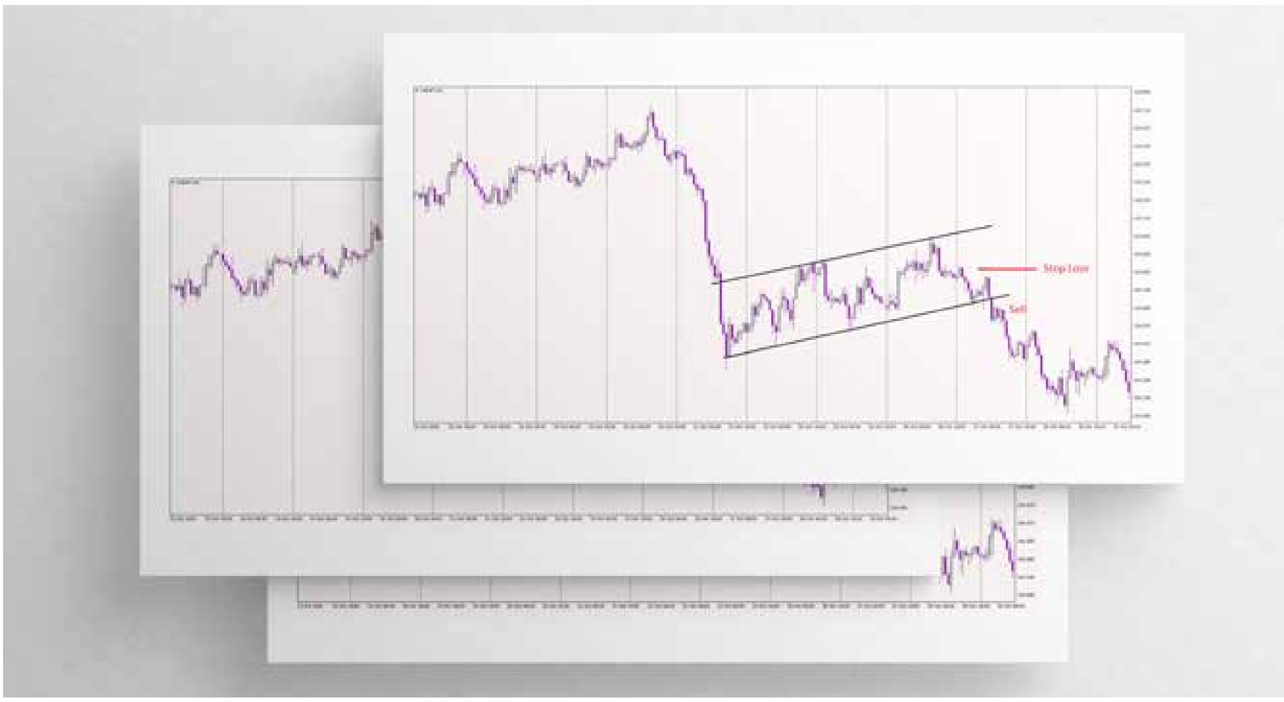
Now, the stop-loss can't be too tight, as in the case of a H&S formation the price very often comes back to test the neckline as a closest resistance. There's a difference, a comeback, a test and a further drop is healthy and normal but a comeback and then a further comeback above the neckline is not. Here, everything works fine and the price drops as expected.



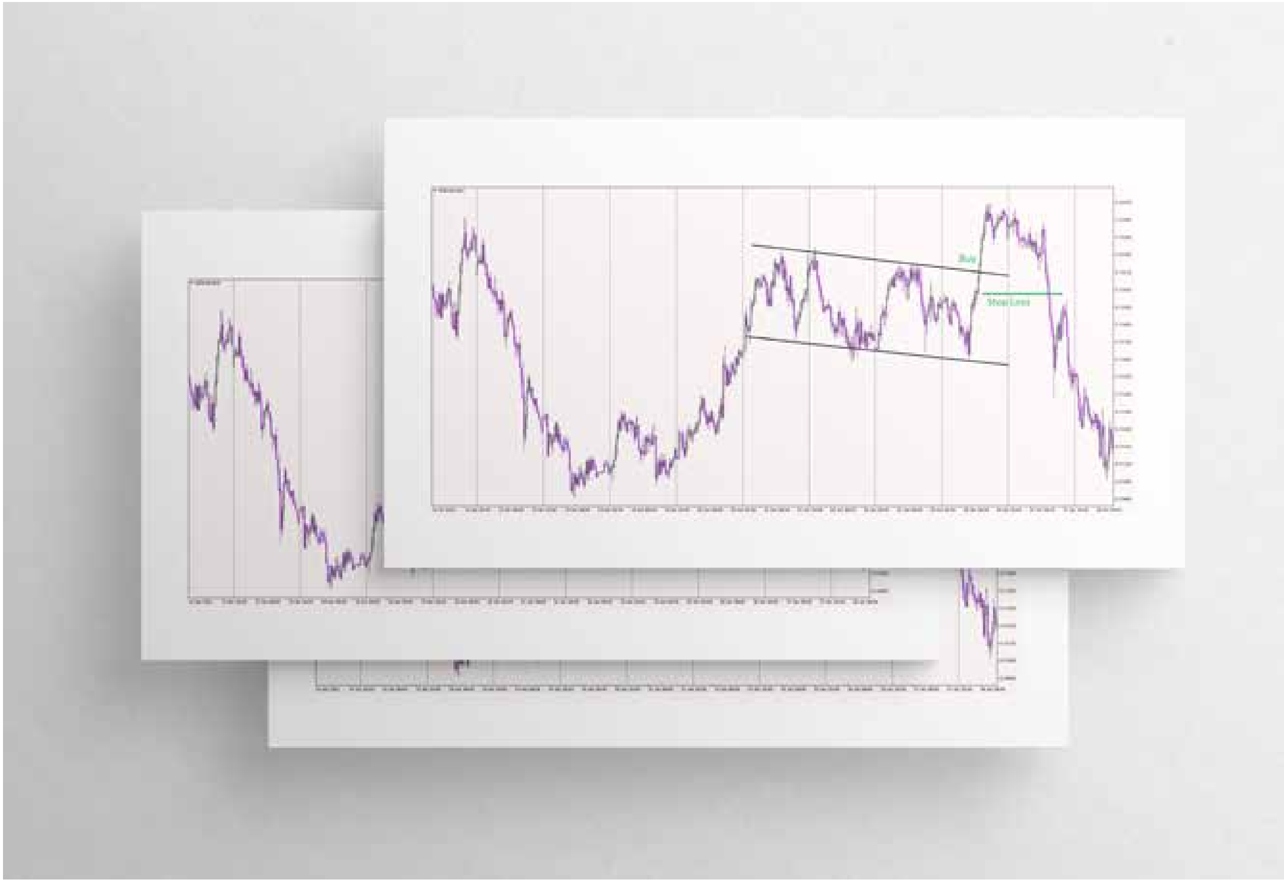

The case above also has a head and shoulders pattern but this time it didn't work out. By the way, you may look at this pattern and think, come on, I'd never sell this H&S! Yes, you may think that because you see what happened later but at the moment of creation, after the breakout of the neckline, it was a legitimate looking formation.

So you sell, and place your stop loss order above the neckline. At first, it's all going well, the price is dropping and champagne is popping. But then, the price comes back to an uptrend. The stop-loss helps you by closing your order on 1% loss. Without the stop-loss you'd be destroyed by your unprotected short trade.

We have more! What about flags? We like flags because they're very reliable trend continuation patterns. A flag is a correction pattern, with two parallel lines going opposite to the trend. Breakout of the upper line gives us a buy signal in the up trend and breakout of the lower line gives us a signal to sell...in the down-trend of course.



What we have here is a clear downtrend, which is paused by a bullish correction locked inside of the flag pattern (black lines). In theory, a breakout of the lower line of this formation ends the correction and resumes the bearish trend. Logically, if after the breakout, the price comes back inside of the flag, that would mean a denial of the sell signal and a false breakout. That's why our stop-loss order should be above the lower line of the flag. As you may expect, the trade works flawlessly, the stop-loss is there guarding your money like Kevin Costner guarding Whitney Houston in the movie Bodyguard.



Another flag, but this time in another direction. Here, we do have a bullish trend and a bearish correction. The correction ends with a sharp rise, which breaks the upper line of the flag and gives us a buy signal. It works for some time but then, the price collapses and triggers our stop- loss order. We are out with a 1% loss, without the stop-loss, our loss would've been much bigger and so would the pain and regret.

## A tour of take-profit

I hope those six examples showed you the importance of stop-loss orders. Really guys, never try to be smarter than the market. Being just smart is absolutely enough, you don't have to fight and go up against billions of dollars.

Remember when I told you that you can lose money on 50% of your trades and still be profitable in the long run? You can even lose on more than 50% of your trades and be a winning trader too. It all has to do with the risk-to-reward ratio. In trading, you always try to limit the risk and make the reward as big as possible.

We've already established that your maximum loss should be 1-2% of your equity. How big then should your profit be? Unlimited!! Seriously. Profits should be as big as possible.

When you go with the trend (and you always should) profits should be enormous. You try to catch a trend and ride it, squeeze it like the lemon to your margarita. Traders usually say that profits should be at least twice as big as losses. So when you risk 1% on a trade, profit should be 2%. If you risk 100 pips, you should aim for 200 pips and so on. When scrolling through various trading materials, you can see that many experts advise profits to be at least 3 times larger than the loss, that also makes sense.

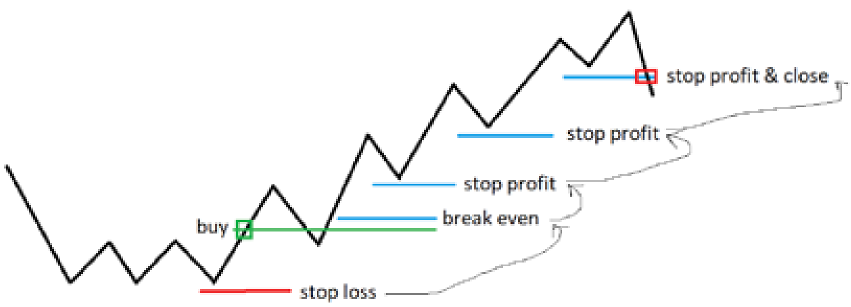
I'd propose something more 'situation sensitive' rather than this cold mathematical number of 2x or 3x. I'd suggest that your take-profit would be affected by the market situation, by supports, resistances, trendlines and so on. I'll explain what I mean with a couple of practical examples.

You may ask yourself if you really need take-profits. To that I would say: It depends. There is a saying that nobody went bankrupt from taking small profits. Personally, I don't use take-profits. Maybe sometimes, like maybe once every 20 trades. I always want to give the price a chance to go up even higher and higher.

Instead of a take-profit, I use a stop-profit order, which is more like a manual trailing stop. For example, when I hold a long position and the price keeps pushing higher, first I move my stop-loss to break even point, which allows me to remove the risk from the trade. When the price keeps pushing higher, I move my stop-loss from break even to higher levels, which effectively makes it a stop-profit order.

A stop-profit is usually placed below important local lows. If the price is about to move in a proper uptrend, then it should make higher lows right? So my idea is to put a stop-profit order below those higher lows. Once the uptrend stops and the price makes a lower low, my stop profit order will be triggered, closing my whole trade.

For a long position, it looks something like this:

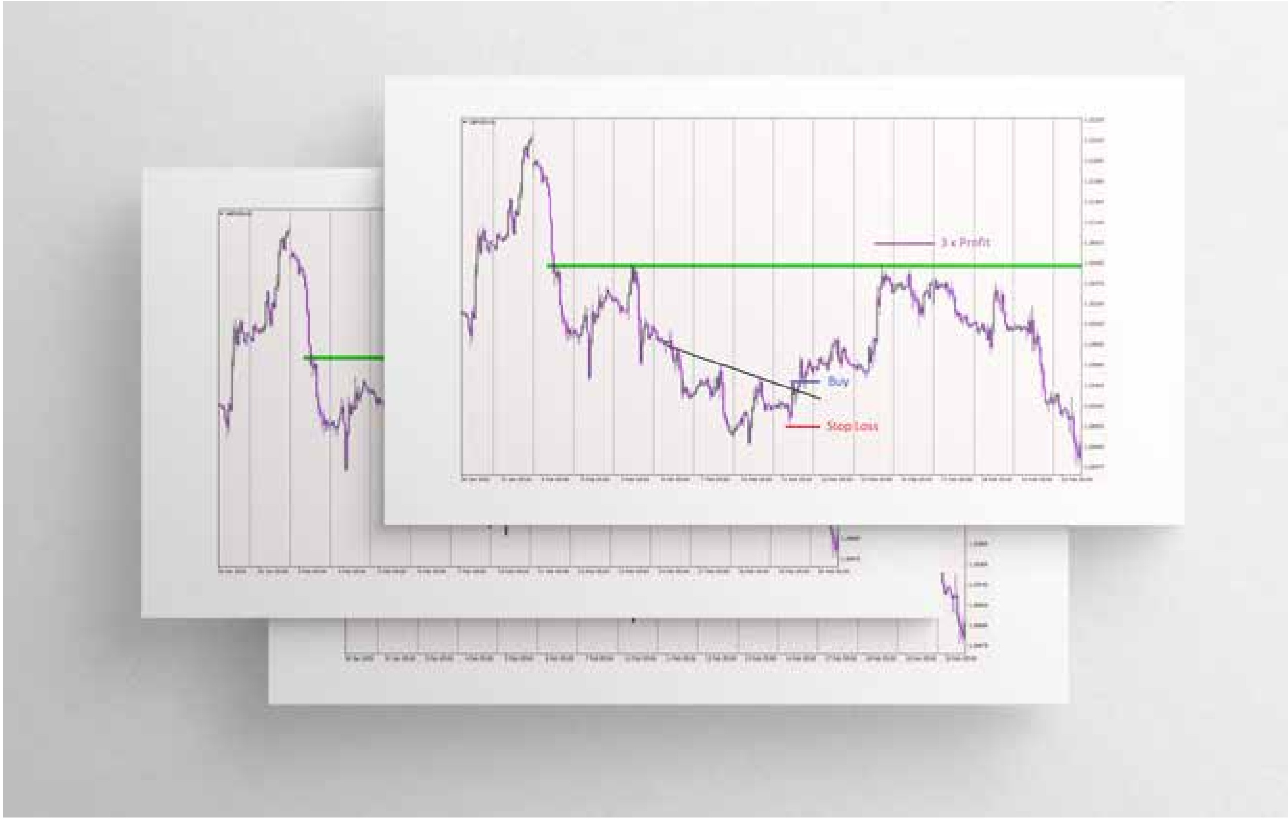


In this hypothetical situation, we have a profit of more or less 3 times the size of the initial loss, so we did what was recommended anyway. The difference is that we opened ourselves for more. We left ourselves an open window for much bigger profits (if the bullish trend continued). It won't happen often but when it does, it'll make a huge difference to your account.

Actively taking care of your trade is more complicated though. If you do not have enough experience and knowledge, it can actually do more harm than good. That's why, when you start your journey, maybe it would be better to stick to taking profits and later evolve it into something more sophisticated (not that it's necessary to do that though).

## A closer look

The example below shows you what I mean when I'm talking about a more support/resistance- driven approach. Here is the GBPUSD chart, which shows us a bullish reversal after the inverse head and shoulders pattern. The reason for buying is this iH&S formation and the breakout of its neckline (black). T he stop-loss goes below the right shoulder and is around 50 pips.

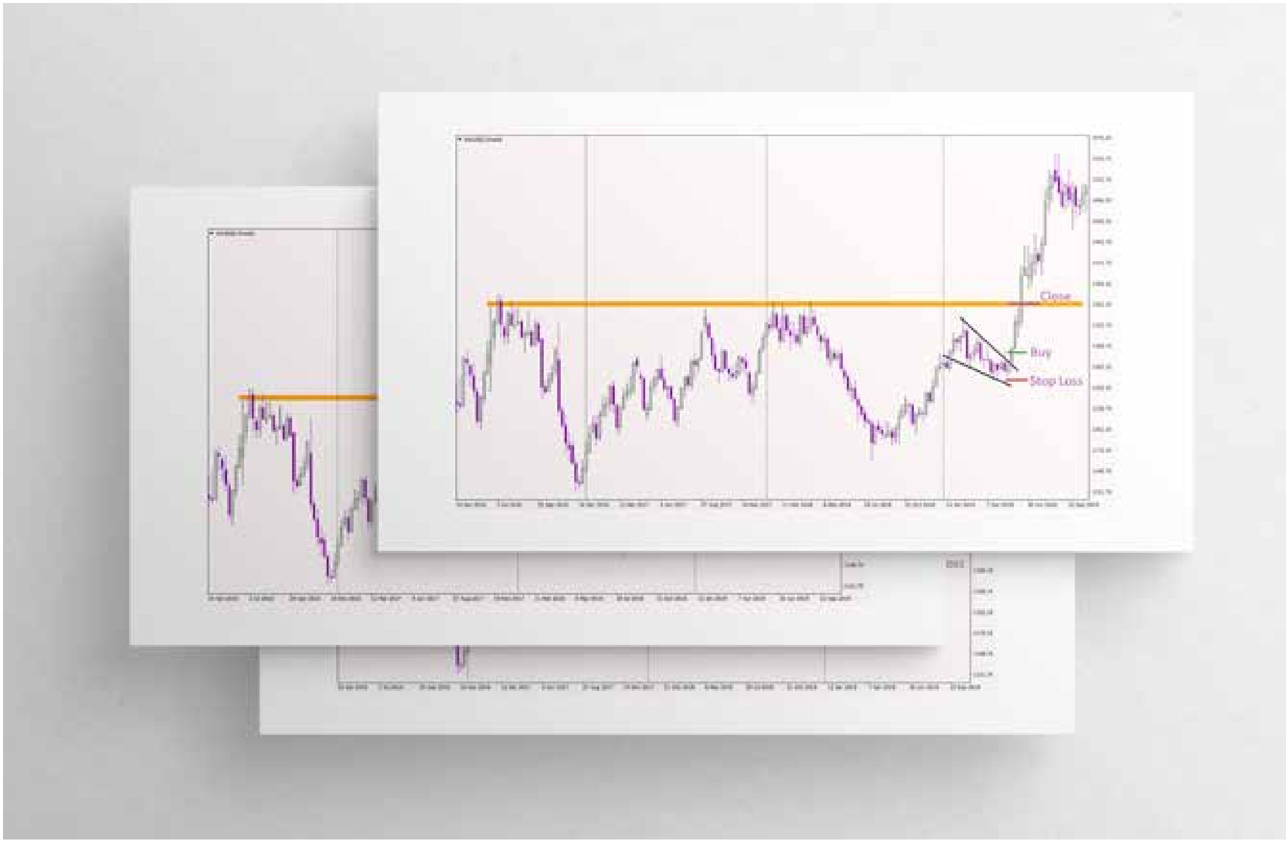



If you wait for the profit to become 3x bigger than the loss, then you'll most likely miss it and instead of taking a bit smaller profit, you'd actually end up with a loss. In that case, it would be better to adjust your target to the technical situation on the chart. There is a horizontal resistance marked with a green line and the chance that it can work is pretty high. Taking profits there is a much better idea and it's still awesome from a risk-to-reward point of view. Instead of taking 150 pips, you'd take 120 pips, which is still a marvelous result (with that 50 pips stop-loss, you may remember).

I think that in most cases, your aim should not be 2x or 3x but a key support/resistance close to those values. It's not a perfect, error-free approach though. Actually nothing in trading is.

I have to show you this example of how looking at the resistance alone is not the best approach. It's an example on my beloved Gold.

You can see that a long position is opened here because the price escapes from the wedge (black lines) and aims higher. The natural target for this upswing is on the orange horizontal resistance, which in theory, looks extremely strong. The stop-loss is naturally placed inside of the wedge, below the latest crucial lows. The price gets to the resistance pretty fast, in terms of the profit, we're here on 2x the initial risk. It's a good place to be, so you decide to close your trade. The trend is strong though and the price does not stop, even for a while, and eventually breaches this resistance with a bang. You've got your 2x but the potential was for more, 5x or even 6x.

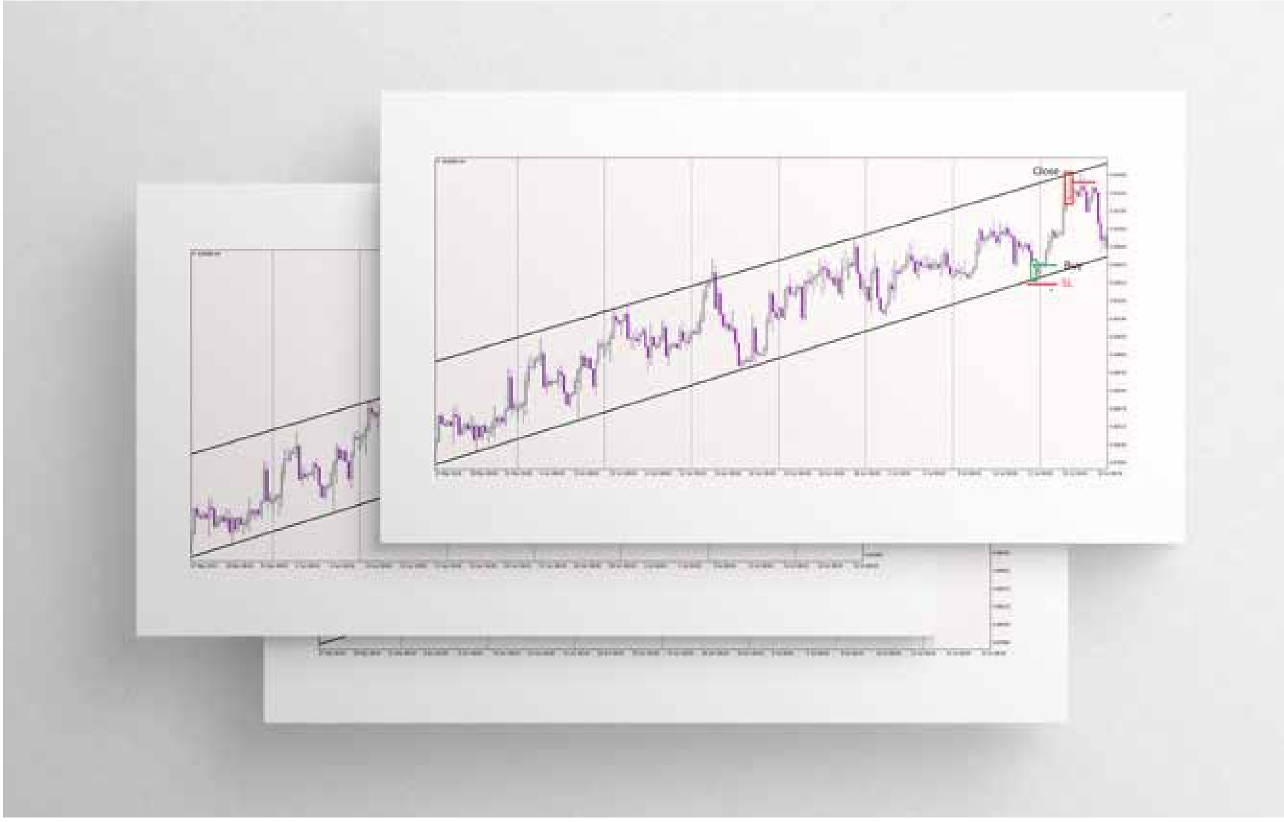



I'm showing you this example just to make one thing clear: You'll most probably never buy the exact dip or sell on the exact top. If that does happen though, it will most likely be a stroke of pure luck which will be extremely hard to repeat.

If there's no chance that you'll ever catch the exact top or bottom, then stop chasing it! Don't be sad when you close your position on 3x and then the price keeps rising. There should be no regrets in trading. 2x or 3x is still great and when you see it on your statement, welcome it with a smile on your face.

In trading, we're trying to make a perfect trade knowing at the same time that perfect trades don't exist. So you try to be as close to perfect as possible but you can't get mad that you don't catch the exact top or bottom. Limit the risk, let profits fly and carry on.

Before we wrap up this topic, let me show you one more example which you may find useful in understanding the take-profit concept better.




The example above uses the EURGBP. The pair is moving inside of the channel up formation. We're |bouncing from the lower support and upper resistance. After some time, the trader decides to enter this movement and buys after the price creates a pin bar on the support.

Naturally, a stop-loss order is placed below the channel up formation because the price breaking the support would mean a sell signal. The price goes up as expected though and reaches the resistance, where EURGBP creates a shooting star, another pin bar if you will. That's a good place for closing your buy order. After that, the price drops and aims for support again.

This example is clean as a whistle and really shows proper price movements. Trading this is not perfect but it's close to it. Your job as a trader is to find as many occasions like this as possible. Profit taken here is over 3x bigger than the initial loss. Both the trend and resistance are respected. I wish you many trades like this from the bottom of my heart.

# CONCLUSION

That covers it! There's so much more I'd like to write about though. Fundamental analysis? We didn't even touch on it. Technical Analysis? Trading Psychology? There's so much more to cover! So this is not going to be the last ebook from me, that's for sure. Plenty more are coming your way, and I hope that you'll read those when they're published as well.

At Toshi Academy, we're just professional traders who happen to enjoy sharing their knowledge and experience with you, for free.

## WHY

Maybe it's because someone shared their knowledge with us a long time ago, and it really helped. Maybe it's because sitting in front of a screen alone makes you want  to share some of the things you're learning with fellow traders. Or maybe it's just the right thing to do. I don't know for sure. What I do know is that the lessons in this book give you a lot to get practicing with. You can do no wrong by trying to apply what I've included in this ebook in your trading approach.

I can't stress this enough: Trading is risky, so focus on managing that risk properly, and have fun along the way! Buy, sell, trade, invest. Whatever you're doing, take good care of your future and be proactive regarding the additional cash that you're making on a side.

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# ABOUT THE AUTHOR

Tomasz Wiśniewski is CEO and Director of Axiory Intelligence, Axiorys independent dedicated market news portal. Tomasz has been an active part of the markets since 2008, starting his experience as an equity trader on the Warsaw Stock Exchange before joining the Forex world.

During his career, Tomasz has held over 400 webinars, live seminars, lectures, online training courses, and live trading sessions, across the globe in addition to his experience as an academic lecturer at Poland's prestigious Kozminski University.

Tomasz tends to prefer a technical approach to trading, mainly price action, with very strict money management rules He believes that the most important thing in trading is your mind, so it's much better to focus on trading psychology than to look for the Holy Grail of trading systems.

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