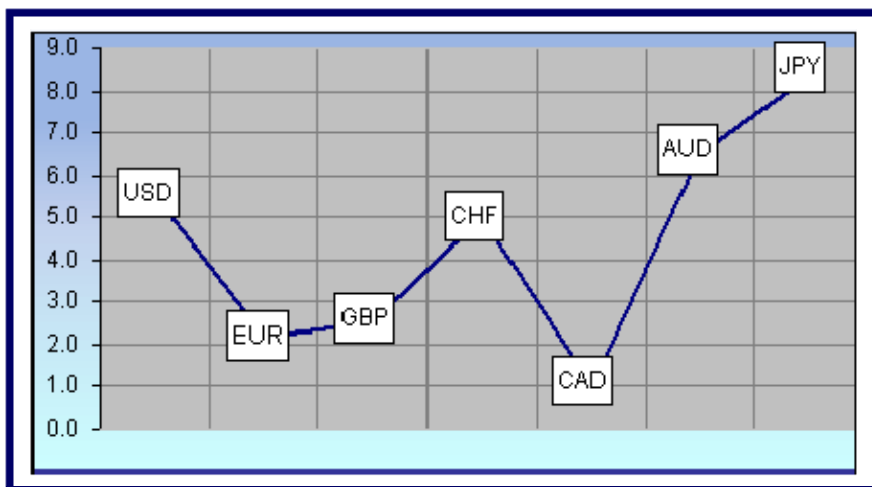




FOREX STRENGTH TRADING



(Unlock the power of the Foreign Exchange Market)

Forex Strength Trading

(Unique tools for a unique approach)

If you're a trader, I'm sure you're familiar with fundamental trading, technical trading, trend trading, candlestick trading, swing trading and all the other varieties of trading styles that riddle the markets these days. Each one professes to be "the way," but in reality, none of them really are.

The only constant I've found in trading any of the markets I trade, especially forex, is that **strength** is the only thing that drives prices especially in the short term. And since I am a short term trader, this is the only time frame I'm interested in. Strength is a direct indicator of **supply vs. demand**, and is therefore more of a fundamental indicator than a technical indicator.

However, for some bewildering reason, short term traders have chosen technical analysis as their method of choice. You've probably noticed that every charting website or charting software package includes a long list of technical indicators free of charge. I believe that the reason they're free is because you get what you pay for. These indicators are really good for nothing other than **predicting the past**.

There is no shortage of websites and ads that are hawking trading systems that use a combination of technical indicators in some revolutionary way to predict price movement and ensure profitable trades (of course, none are guaranteed). The offers always include some phenomenal back-testing results that were achieved using these indicators.

Unfortunately, back-testing is one of the most useless methods of testing a trading system. What these folks do is use their platforms to run trading tests over past periods of time using the technical trading systems they are selling. They keep testing until they find the time period **in the past** that yields the greatest results for their system.

However, all they've accomplished with their back-testing is to prove that their system **can** work under a specific set of market conditions. This makes the assumption that market conditions never change. These results tell you nothing about how these trading systems **will** work today, tomorrow and all the days thereafter when the conditions will surely be much different than they were during the testing period.

For me, this is all much too complicated anyway. There are too many indicators and too many theories to choose from, and no real way to evaluate their effectiveness. In my opinion, it all boils down to **current** market conditions; knowing what is being bought (strength) and what is being sold (weakness) at the time you are looking to trade.

For the forex market, this is especially important because you are trading **currency pairs** in which one currency is being bought while the other currency in the pair is simultaneously being sold. So that if you can identify at any given time which currencies are strong (being bought) and which currencies are weak (being sold) you can easily match a strong currency with a weak currency and choose that pair to trade giving you a high probability of making a successful trade. Nothing is of more importance than this **strength relationship**.

Even though there are only 7 major currencies, because each of them cross-trades with most of the others there is a long list of currency pairs to choose from. So, to evaluate the relative strength of each currency in a pair with respect to all the others would be a daunting task without the use of a tool that allowed you to see all this information on one screen in real time.

It is important at this time to understand that the strength relationships I am talking about are not in any way connected to the technical indicator called Relative Strength Index (RSI). The RSI is a so-called indicator of overbought and oversold conditions in the market and it pertains to the **currency pair** and not the **individual currencies within the pair**. Personally, I have never found the RSI to be of any value in predicting price movement in the forex market whether it is used alone, or in combination with other technical indicators.

Think for a moment what the RSI is telling us. Take the EUR/USD pair for example. If the RSI for the EUR/USD is below 20, that is supposed to mean that the EUR/USD is oversold, and that the pair is likely to now start rising in price to reach some equilibrium price.

Well, it just *may* do that if enough technical traders are using the RSI to trigger their trades and they all start buying that pair when the RSI goes below 20. But that only indicates that success in technical trading is the result of self-fulfilling prophecy and as long as you choose the indicator that all the other technical traders are using you can participate in the price movement they themselves create as long as you get in early. For me, that's too much of a long shot.

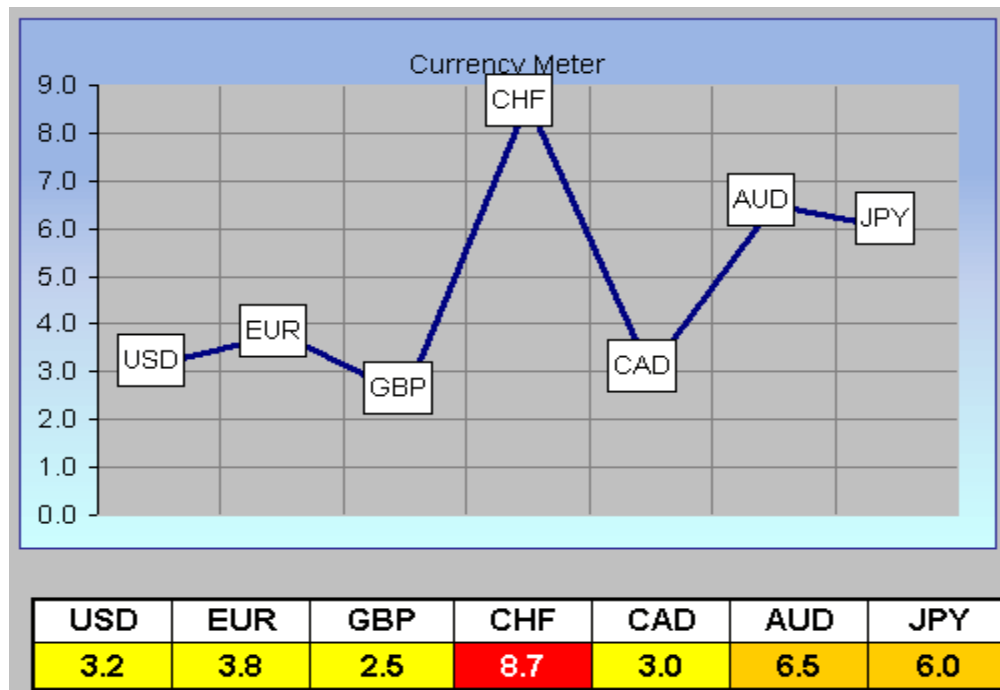
What the RSI is not telling you is the strength relationship between the EUR and the USD with respect to **each other** and to **each of the other currencies they trade in pairs with**. And that's the most important information you need to make a trade on that pair.

In other words, if the EUR is strong against all the other currencies it trades in pairs with, and the USD is strong against all the other currencies it trades in pairs with, and there's no **strength imbalance** between the EUR and the USD, the probability of the EUR/USD pair making a considerable price move is very low regardless of the RSI reading.

We make money in forex by trading a pair that has a great imbalance of strength between the 2 currencies in that pair.

Let me illustrate my point more clearly using a **unique tool** called the Currency Meter that shows the **strength** of each major currency with respect to the others at any given moment in real time. This tool takes a free data feed and measures the actual buying and selling activity of each individual currency and displays it as a line chart with the higher numbers on the vertical axis indicating buying strength and the lower numbers indicating selling or weakness. It updates itself tick-by-tick.

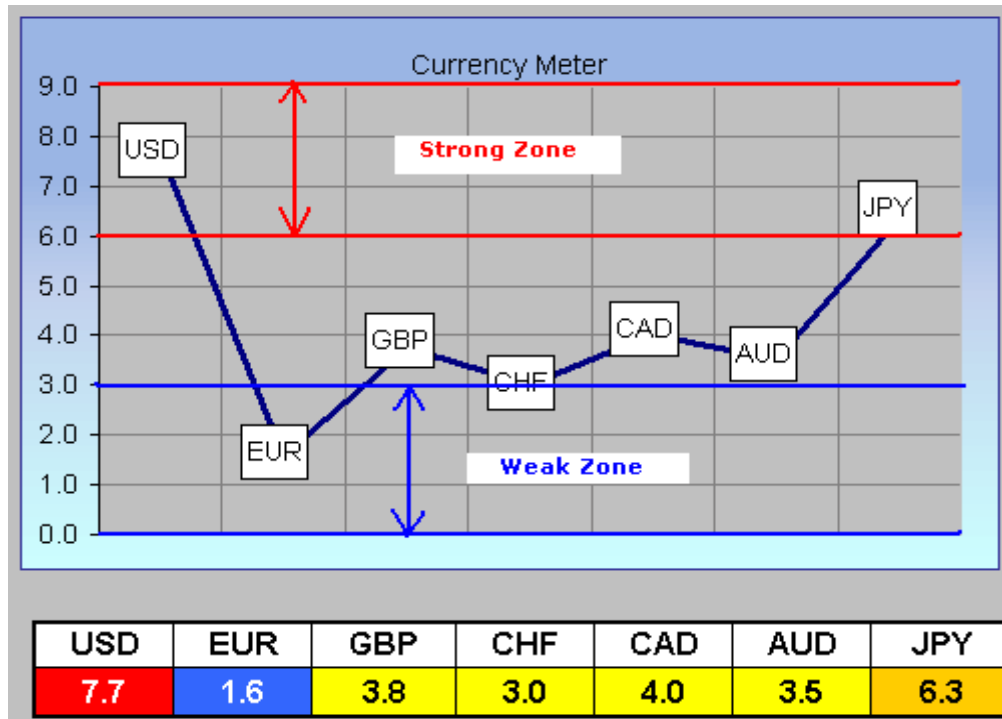
Look at the relationship between each of the currencies in the figure below that was captured during one of my trading sessions. Although the RSI was indicating an oversold condition for the EUR/USD, because of the **lack of an imbalance of strength between these 2 currencies**, the probability of price movement is low, and I would not go long of this pair at this time.



When you look at it this way, it becomes clear that the RSI is not telling us the whole story and for that reason is of limited value. Note that at the time of this screen capture, I **would** be looking very seriously at going short of the USD/CHF pair as the strength imbalance is great between these 2 currencies and the probability of predictable price movement and a profitable trade in this pair is extremely high.

I have no idea what the RSI reading is for the USD/CHF at this time and I really don't need to know. I can clearly see the **supply vs. demand** relationship of each currency in this pair at the time I want to trade and that is the information I really need.

Here's another screen capture of the Currency Meter showing a condition in which I would be very interested in trading (shorting in this case) the EUR/USD pair. I've drawn in some lines to depict the strong zone and weak zone. These are the areas of the chart I look for currencies to be in when I **match a strong currency with a weak currency** and choose the currency pair I want to trade. The USD is in the strong zone, and the EUR is in the weak zone. It's really no more complicated than that.



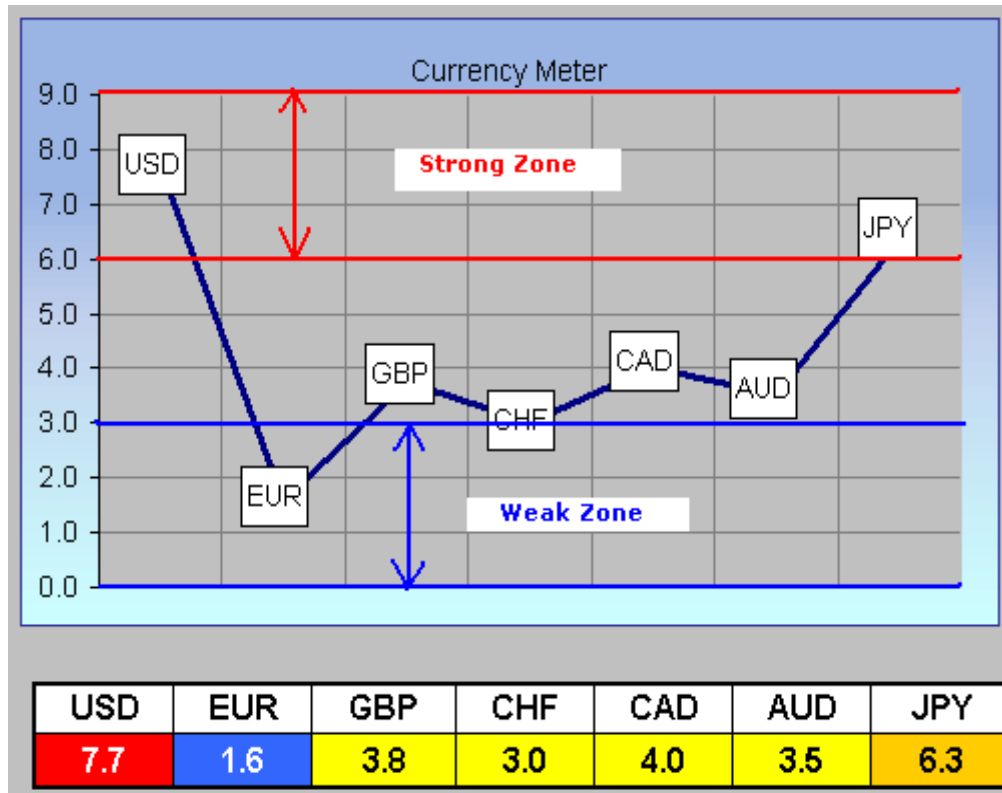
I liken this meter to a football field with the strong zone being one end zone, and the weak zone being the other. When each of our currencies of interest is in its respective end zone, we (the trader) score a touchdown with a profitable trade. In fact, I call the two zones the **trend zones**, because when currencies are deep in these zones the pair that includes these 2 currencies is definitely **trending**.

So, in essence **strength trading** and **trend trading** are closely related and are the most effective ways to trade the forex market if you have a tool like the Currency Meter that will allow you to see the strengths this clearly.

Now that you've seen what this tool does and how it works, let's see how the use of this tool and the strength information that we get from it can translate into a profitable forex trade by looking at the EUR/USD trade I made at the time I captured the figure above.

You'll notice that I do use one technical indicator called Average True Range (ATR). I use it only as a rough guide for setting my initial profit target as it is a measure of volatility and price movement over the past several periods.

This trade was made on 12/19/2008. There was a lot of volatility in the EUR/USD pair as the dollar was rallying back from the plunge it had taken after the FED announced that it was dropping the interest rates to historic lows. The USD had been strong all morning compared to the EUR. Here's another look at the Currency Meter at trade time:



I opened a **short** trade of the EUR/USD at 6:36 AM (see figure below). My entry price was 1.4004. For risk management, I immediately set a stop loss at 1.4044, just above the recent highs. My risk is now defined for this trade.

Next, I look at the ATR indicator (bottom of chart), which I use as a guideline for setting my initial profit target. It is reading 23. Based on this reading, I will set my profit target a couple of pips less at 20 pips. So, I set a take profit order at 1.3984, 20 pips below my entry price.

Once I'm in the trade, the price moves down and I am immediately in profit by a few pips, but not enough to hit my profit target. The price then pulls back up, but does not hit my stop loss. Here's where the Currency Meter comes in very handy. The meter readings haven't changed at all since I entered the trade, even during the price pull back. The USD is still showing the same level of strength, and the EUR is still showing the same level of weakness. This is important because I can now feel comfortable staying in this trade and giving it more time to play out.

Sure enough, after the pullback, the price continues downward in the direction of the trend that is indicated by the Currency Meter. I choose to close out the trade manually at 1.3987 for a **17 pip profit** since that is close enough to my profit target for me. No need to get greedy.

Here is a screen capture of my trading platform that shows the trade. The blue and orange arrows are entered by the trading software when my orders are executed. The orange arrow is generated at the execution of the short sale to open, and the blue arrow is generated at the execution of the buy to close:



Here are the results of the trade. This is a screen capture of this morning's activity in my OANDA trading account. The total profit on the trade was **+17 pips**, for a **\$173.84** cash profit in approximately 22 minutes.

Ticket ↕	Date ↕	Transaction	Pair	Price	Units	Take Profit	Tran Link	Interest	Amount
579654677	December 19 06:37:04 2008	Change Trade	EUR/USD	1.4004	100,000	1.3984	579654590	0.0000	0.0000
579654755	December 19 06:37:27 2008	Change Trade	EUR/USD	1.4004	100,000	1.3984	579654590	0.0000	0.0000
579654590	December 19 06:36:42 2008	Sell Market	EUR/USD	1.4004	100,000				0.0000
579658673	December 19 06:58:55 2008	Close Trade	EUR/USD	1.3987	100,000	1.3984	579654590	-0.1562	173.8438

This is just one example of **strength trade** setups that occur over and over throughout the course of every trading day in the forex market. Using a tool like the Currency Meter will allow you to see these setups clearly and capture profitable trades again and again.

If you'd like more information on strength trading using the Currency Meter and another unique tool that works directly with the Currency Meter to further enhance your ability to make profitable forex trades, please visit my website using the link below:

<http://www.forex-trend-trading.com>

At the website, you'll find a more in-depth discussion of strength trading and trend trading using these unique tools, as well as other valuable trading resources for forex traders.

You will also find an offer that will allow you to download a free, fully functional version of the Currency Meter that will be yours to keep.

Thanks for reading this eBook and I wish you all the best in your forex trading going forward.

Regards,
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