Chris Lee's

RETAIL FOREX MANIFESTO

5 PRINCIPLES

To Creating Consistent Trading Profits *Easily* While Everyone Else Struggles To Break Even

www.pipmavens.com

Are You Ready To Set Aside Your *Fancy Indicators* And Focus On The Real Facts That Create Consistent Trading Profits?

I have to start with this question because not everyone out there is comfortable listening to the truth, even when it's backed by cold, hard facts.

Some people prefer excuses to real achievement, and others prefer fantasy to reality.

This manifesto will not tell you what you *want* to hear – it will tell you what you *need* to hear.

If you're not ready to have your assumptions about retail Forex trading sorely tested (and probably turned on its head), close this page right now.

If, however, you're ready to explore the counter-intuitive truths behind why you're struggling with trading, proceed with an open mind.

We All Want To Believe

These days, everything you could ever want to know about trading can be found with a simple Google query. Brokers are everywhere, and anyone can learn to trade online in less than a week.

This seems like a time when even the 'little guy' can get rich, doesn't it?

Here's the dream we all want to believe: "Anyone with a laptop and internet connection can start trading and making money. After some practice and experience, I'll be able to quit my job and make even more money trading full-time from home."

Ahh. If only it were that simple, we'd have a world full of homemade millionaires.

You see, this is only **half** the story.

It all really comes down to a matter of capital and strategy.

Allow me to explain.

The Secret Ingredient to Financial Success

I started trading back in 2005 when the retail Forex industry was relatively new (it still is, by the way). Indeed, I was able to attain a significant level of success trading a few hours a day by myself, even though I was stuck in a day job back then.

The most important advantage that retail Forex trading gave me was the availability of **leverage**. Of course, there are many other advantages, but this is by far the most important for someone with less than $100,000 to start making serious money.

If you've studied how people attained great wealth within 5 – 10 years, you'll find the common denominator to be their ability to use some form of leverage. This is perhaps best demonstrated by the financial success of Mark Zuckerberg (of Facebook) and Jeff Bezos (of Amazon.com) who leveraged the internet to reach more than a billion people online.

A small hedge fund can trade millions of dollars in assets, which puts it way out of reach for more than 99.9% of the world's population. With the leverage provided by the retail Forex industry however, just $20,000 will do it. Never before in the history of the world has such an opportunity been made available to regular people.

The fact of the matter is that the world of trading has changed. Previously, only wealthy individuals were allowed to speculate in financial markets. These days, a college student can deposit $500 into an account and start trading in 2 weeks.

Traditionally, any gains made from a $500 account wouldn't be worth half the effort (for both the trader and broker), **but with leverage**, the student can now find himself with a significant increase in pocket money, with no additional effort.

And what about the young working professional or retiree with a $20,000 account? There is suddenly the very real potential for a trading income that can replace that of a full-time job. This is what usually causes people to pick up trading – the promise of a new income steam. Not necessarily to get rich (not yet, anyway), but an extra $300 – $700 per month now wouldn't hurt, right?

But Here's The Rub

Pit an average retail trader against a multi-million dollar hedge fund – with all their specialized knowledge, resources, experience and manpower – who do you think will win in the end?

Clearly, all things being equal, the hedge fund will easily beat up the retail trader and take his lunch money.

But notice I said "all things being equal".

The Silver Lining

Military history tells us that although strength is a key to winning wars, weaker forces have indeed defeated stronger ones, many times before.

Can this also happen in an online trading environment?

Coming from Singapore, where we have a conscript army (all able-bodied men must serve in the military for two and a half years), I've learned a few things about winning and losing on the battlefield.

If you've taken a look at the world's military history, guerrilla warfare was the prime cause for many of the major upsets in war. History has consistently shown that small groups of men, applying the proper strategies and tactics, can cause great damage and stand up to armies of far greater size.

Firepower is not all that counts. If the general of a large army fights the guerrilla on the same terms as he would another large army, he is in for a rude awakening. The guerrilla has no regard for the rules followed by the great army.

An expert is not afraid of another expert. He is afraid of the fool, because he has no idea what to expect.

This is the same reason why the world is having such a hard time fighting terrorists - they don't operate on the same terms. The enemy is no longer wearing a uniform we can easily recognize and shoot down. How do you fight an enemy that you can't identify?

It soon became clear to me that as a retail trader, I cannot expect to survive long in the markets if I traded on the same terms as the professionals. I had to trade like a guerrilla. So that's what I did.

The outcome being that I was able to quit my job, trade from home (and often overseas while on vacation), and never having to worry about writing a resume or gaining employment.

Can one really make a comfortable income trading Forex at the retail level?

The answer is yes.

Will most people who attempt to do so, ever achieve this?

The answer is no.

This has little to do with the inherent difficulties of trading, but rather that it is the nature of trading for the majority to always lose. The fact is that for me to buy at a low price, I need the effort of others to *keep buying* to push prices higher for me to sell at a profit.

If this makes sense to you, keep reading. You'll probably pick up something here that will completely change the way you look at your trading.

The purpose of this manifesto is not to tell you something about trading that can be easily found online (or indeed, anywhere offline).

This will not be about the history of Forex trading, or market entry/exit techniques that everyone seems to be so crazy over.

If you've spent considerable time, effort and money learning new trading tactics but still struggle to make a decent trading income, this manifesto will reveal what you (and countless others) are doing wrong… and how to fix it once and for all.

I will explain a few facts that will give you a completely different perspective of Forex trading at the retail level, and how you can "up" your trading game to a level far surpassing that of your peers.

The 249% Profit Track Record Behind This Manifesto

Just so you know, I didn't dream up the material in this manifesto overnight.

I've been trading for over 9 years and have a track record of showing my trades LIVE in front of a public audience, attaining a 249.03% profit over a period of 5 years. That's an average 44.47% gain per year.

We'll talk more about this at the end of this manifesto, so keep reading.

Who Is Chris Lee?

You might know me from the Candlesticks e-book I published in early 2008 (www.forexcandlesticksmadeeasy.com).

In an industry filled with quick-fix tactics and trading robots that lost a lot of money for a lot of people, this e-book was an honest breath of fresh air for many traders.

From: "foo ky" <[redacted]@yahoo.com.sg>
Date: Sun, September 4, 2011 11:17 am
To: "Chris Lee" <support@pipmavens.com>
Priority: Normal
Options: View Full Header | View Printable Version | Download this as a file

Hi Chris,

Would like to inform you that I followed your Forex Candlesticks Made Easy! (pdf book) in July 2011 and the result was very good! I made about 109pips in a month of July 2011, considering I am not an active trader. (in Aug I traded without using your system and the result was poor - break even....that's my problem.emo-trading.)

"Fast, Friendly, Efficient"

Hi Chris Lee,

Absolutely Awesome Information, just wanted to comment on your Candlestick e-book….

Good solid information, clarifies some misunderstandings I have had about reading and interpreting the signals and formations….and the Great reminder of not jumping the gun and waiting for the market to tell you what its doing…..**Organized clearly for quick understanding, less fluff and more filling**........

Surprising information I did not know about the Shadows.....Cool......

Pretty darn interesting…..easy to understand, I am super impatient when it comes to getting results……**No B.S., Fast, Friendly Efficient**, Gotta Have it Now……Oh yeah…..Bring it on…….

Thanks for the e-book........

- **Todd**

hi Chris. i am sorry i am a bit late in responding but man the e book is awesome. still i have read only half book and starting applying the strategies and methods and believe me it made a huge difference. i am earning very good profits. i am really glad that i bought this book. . there is no irrelevant stuff and everything is to the point and you start getting enormous knowledge from the very first page. thank you for this wonderful book. i hope i will get more stuff in future. Nasir Aslam

Hi Christopher,

Thank you so much for your excellent presentation on candlesticks. I've read many articles about candlesticks, but **your information very <u>precisely</u> and knowledgeably explains what the different candlesticks mean.**

That is so much more helpful than trying to memorize all the different candle formations. Now I can look at a chart and know where the price action may be heading because I understand how to *interpret* the candlesticks.

After publishing this e-book, letters and email testimonials came in faster than I had time to read them (although I eventually did).

It didn't occur to me at the time, but the e-book had provided a channel of constant communication between me and thousands of frustrated traders who kept losing money.

It gave me a unique insight to the real problems plaguing retail traders, and I've since spent considerable time and effort figuring out how to solve them.

Then about five years ago, I disappeared from the limelight and began working on a "trade along with me" program where I taught my trading method to members by taking LIVE trades in the market.

Unless you've invested in the e-book, chances are that you've never heard of me. That's OK, because the trading principles I teach won't be easily accepted by the masses, and will probably never be popular.

This is perfectly normal, because only a small portion of retail traders will ever see success in the markets – the game of trading is such that **whatever is popular is unlikely to work.**

Why I Changed My Mind About Sharing This Material

I have never given away information as important as this, for free. But I'm doing it now for 3 reasons:

1. First, I am ever more disgusted with the magic pills and silver bullets being peddled online. I despise seeing people led down dead-ends with trading methods that can never work in the long run.

2. Second, it is getting increasingly hard for regular people to make a decent living. Jobs are getting cut and retirement funds are in danger of being wiped out. If there ever was a time to be serious about picking up the knowledge and skills to be financially independent, it is now.

3. Third, there isn't much time left. The retail Forex trading industry is changing in ways that do not benefit small-time traders. The faster you can build your account to $25,000 – $50,000 or more, the safer you are from the changes that are coming. More on this later.

I started my publicizing my trades LIVE in April 2009, right in the middle of the global financial meltdown.

This was the time when the investment giants Bear Sterns and Lehman Brothers collapsed practically overnight, Citigroup dropped below $1 per share, and the world continued on to suffer the longest list of bank failures in history. Talk about being at the wrong place at the wrong time.

Despite all this however, our small group of traders enjoyed a 79.38% win rate and an average return of 102% per year during that period.

What I'll be revealing here are some of the concepts and principles that got us these results.

I'll Take You Beyond The Usual Short-Term Tricks

As you read this manifesto, I promise to take you beyond just another trade entry/exit technique that might make you some money temporarily.

The stuff I'll be revealing to you is as true as gravity, regardless of the tools and indicators you might already be using.

If trading can be likened to building a house, indicators are the tools we use to build it; and what I'll be sharing with you here is about the a*rchitectural design*.

Regardless of the quality of building materials or workmanship, a poorly-designed house will collapse – it's only a matter of time.

The key is to have your house designed with the right foundations to begin with.

If you've been trading for more than 6 months but are still struggling to make consistent profits, it's likely that your problem is not about finding more tools, but rather finding the right design (plan) to properly use the tools you already possess.

FACT: More Than 65% of Retail Forex Traders Lose Money After 3 months.

Here's a list detailing some of the major retail Forex brokers, and the percentage of profitable trading accounts every quarter:

	2012				2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	**Average**
Interactive Brokers	41.4%	42.3%	44.6%	46.5%	43.3%	46.5%	44.0%	45.3%	43.1%	44.1%	46.9%	**44.4%**
OANDA	39.8%	36.2%	38.1%	40.5%	38.1%	35.1%	35.1%	32.5%	42.2%	45.5%	37.4%	**38.2%**
FXDD	32.9%	32.2%	30.3%	30.1%	36.2%	31.5%	29.1%	29.9%	34.3%	-	-	**31.8%**
ILQ	-	33.4%	43.0%	22.7%	30.3%	32.6%	22.3%	23.1%	32.6%	-	-	**30.0%**
Gain Capital	32.0%	29.0%	28.0%	36.0%	33.0%	33.0%	31.0%	27.0%	33.4%	38.0%	33.0%	**32.1%**
IBFX/TradeStation	30.9%	32.0%	30.0%	33.0%	33.0%	30.9%	32.0%	30.2%	34.6%	37.5%	36.5%	**32.8%**
FXCM	28.0%	29.0%	26.0%	31.0%	29.0%	28.0%	28.0%	28.0%	33.0%	33.0%	32.0%	**29.5%**
CitiFX	41.0%	39.0%	45.0%	43.0%	41.0%	42.0%	-	42.0%	42.0%	39.0%	44.0%	**41.8%**
MB Trading	28.1%	32.1%	25.8%	31.0%	26.9%	32.0%	27.2%	26.8%	27.4%	28.0%	-	**28.5%**
												34.4%

A 34.4% chance of being profitable each quarter works out to a mere **1.4% chance of being profitable every quarter of the year.**

So don't be too upset if you find that you're having trouble making money — an overwhelming majority of people don't.

And in this manifesto, I'll explain why.

I'll show you how to tell if a trading strategy is likely to work in the long run.

You don't want to waste time and effort on a strategy that makes money temporarily, but loses effectiveness after a few months.

Whatever trading strategy you're applying right now, regardless of the technical indicators you're using, this information can raise your trading to a level you may never have thought possible.

I Also Promise You The Trading Principles That Will Never Go Out Of Style

You can walk into a magic shop, buy off-the-shelf tricks and use them to entertain your friends for a few days… but you can only perform those tricks a couple of times before their effect wears off.

The secrets I'll be sharing with you is *not* about getting new tricks… it's about understanding the **key principles** of how to <u>continuously</u> mystify people.

Once you understand these principles, you'll immediately see not only why so many retail traders lose, but also why they will never be profitable in the long run.

You'll discover what you'll need to do, to change your experience of trading from "frustrating" to "enjoyable"

You do NOT need any special background, education or skills to use this knowledge. The only thing you'll need is the *will* to make the changes you know you'll need to be making.

I can tell you exactly what you need to do and even give you a map on how to do it – but you need to be the one to take action.

After going through this manifesto, most traders will realize they can't keep trading in the same way… and this will be met with internal resistance because it is human nature to resist change.

In the end, your willingness to make the changes you KNOW you'll need to make, will spell the difference between long term success, and short-lived profits.

It's your choice.

A Lesson in Recent History

Until recently, I purposely avoided the spotlight and all online publicity… despite being constantly sought after by numerous internet marketers and robot-selling vendors who asked for my participation in the promotion of their products.

If you've been surfing online for trading strategies in the past 3-6 months, you'd have seen a couple of them. And if you've been my subscriber all this time, you'd know that I don't promote these $97 "automated teller machines".

In fact, I avoided them like the plague, and for good reasons.

Just by looking at how those robots took trades, I knew there was no way they could be profitable in the long run. It was only a matter of time before these machines blew up… which they eventually did, in a matter of months.

The only people making money from this arrangement were the sellers of these "magic boxes" and a few traders who got lucky.

Whenever one of these robots blew up, the sellers simply disappeared and re-emerged later with a new website, selling a new product, under a new name.

The retail Forex industry became an ugly place.

Every other day, I would hear about people blowing up their accounts with robots, and yet they would continue searching for the next "sure-win" automated trading solution.

This sickened me.

Don't get me wrong – it wasn't that I felt sorry for those robot users.

On the contrary, I think they got what they deserved. They were looking to make money without learning or practice. They were looking for a free lunch: pay $97 once for a robot that makes $500 *per* month

Yeah, right.

These people didn't want to put in the effort to **learn to trade for themselves**… they wanted a chuck of computer code to think and make decisions for them, for a low one-time payment of $97 ("Quick, where's my credit card!!")

The truth is that automated robots are simply **tools**. And just like any other tool, their effectiveness depends entirely on *when* and *how* they are used. Sadly, most robot users don't even know how they work.

It's one thing to understand exactly what the robot is programmed to do, and under what circumstances it should, and should not be used.

It’s another thing to run the robot on an account without knowing anything about its operative parameters.

Unsurprisingly, many people got burnt for their laziness and greed.

I’ve had the enlightening experience of receiving more than a few emails from people who were truly sincere about making money trading, *but didn’t want to actually learn how to do it.*

To this day I still can’t believe how naïve some people are. This is like wanting to be a Formula 1 driver without ever having to step inside a car.

> **“Sell a man a fish and you feed him for a day. Teach a man to fish, and you ruin a wonderful business opportunity.”**
>
> *– Karl Marx*

It’s utterly ridiculous.

OK, I get your point Chris.

But You’re Kind Of… Rude?

Why, thank you. In the years that I’ve been teaching people how to trade Forex, I found that being “nice” doesn’t help.

An army recruit may resent his sergeant for being strict on discipline, but in war, it could very well save his life.

Trading is war, people.

If you want the financial rewards and freedom that comes with this, you'd better be ready to hear some hard truths. I'm not here to make merry.

I'm here to smack you on your helmet, tell you to hold on to your rifle, stay low and don't get shot. Try to be a hero and the market makes an example out of you.

If you can do this, you stand to possibly change your life in ways you probably can't even imagine right now.

I wrote this Manifesto to get people to WAKE UP and get their heads out of the clouds.

Trading is serious business, and unless you have some operative knowledge about how the game is played, you'll always be the guy with the short end of the stick, wondering why your account keeps dwindling.

Get Ready

Trading at the retail level is inherently difficult because the principles that bring success often run counter to what we're used to in our daily lives.

In other words, **for most people, winning at trading is <u>not</u> something that will come naturally**. It's something that has to be learned and trained.

The concepts and principles I'm about to share with you were learned the hard way – through painful experience and careful reflection.

After dedicating almost every waking hour to figuring out the game of retail Forex trading, I now present a portion of what I've learned here for anyone who might have an interest in attaining financial independence with Forex.

Use this knowledge to better your trading and your life.

Let's begin.

The Real Reason Why Retail Traders Struggle

Let's start with uncovering the reason why you may be struggling with your trading.

Depending on your experience, you're likely to fall into one of these categories.

Sound familiar?

Here's the good news: **there is a common cause to these problems**.

And you're about to find out exactly what that is.

An Open Advantage

I have a confession to make – I sometimes to go to trader gatherings acting as a new trader. I do this to experience first-hand, the real frustrations of people who are struggling with trading.

Why do I do this? Because I get more realistic feedback as "one of the strugglers" rather than as a winning trader.

People tend to be less straightforward with me when I'm perceived to be "better" or "different". I want to know what's really going on in their minds, not what they want me to think.

So what did I discover?

Almost every time, I'm struck by **how everybody is approaching trading the wrong way.**

You see, although retail traders understand the technicalities of trading (like, what the pip spread is), few actually use this knowledge to their advantage.

This is the prime cause for so much struggling and time wasting. It's the reason why the overwhelming majority of new traders will fail in achieving their dreams even if they buy lots of "how to" products, study them religiously and work extremely hard at it.

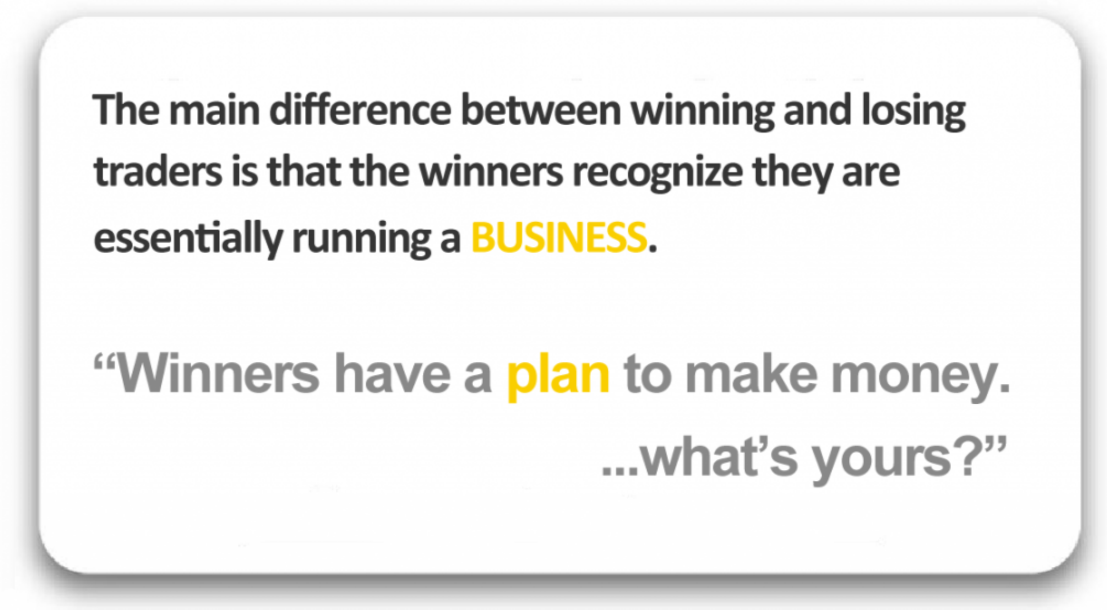
This is going to be important, so read the following carefully.

Your Trading Business

Before we proceed, I need to make sure we're communicating off the same level of understanding. This way, we'll avoid any confusion and unnecessary guesswork along the way.

To kick things off, we need to step back and take a look at the **business of running a trading operation.**

All traders run a trading operation – some just do it better than others. Most are not even aware that they're running one.



Losing traders treat their trades like lottery tickets: each one having no connection to the others. Trades are taken in isolation, each one serving as a lottery ticket that – hopefully – makes some money. If not, they just keep trying until they get lucky, or wipe out.

Winners, on the other hand, have a **plan**. As retail traders, they know that certain trading styles put them at a natural disadvantage, and so they cleverly avoid those. Each taken trade plays a role in an elaborate strategy that skews the probabilities in their favour.

Winning traders do not know which specific trades will be winners or losers, but they know they are likely to walk away richer than when they started.

> "Every battle is won before it is even fought."
>
> – *Sun Tzu*

Planning To Win

The first reason wealth eludes so many traders is poor preparation. The path to success begins with the words 'I need a plan'.

But an effective plan is more than simply a series of steps to follow. How do you know your plan is likely to work?

Even among the minority of retail traders that have a plan, most have absolutely no idea how effective it will be. Here's an example.

Would you bet money on yourself in winning a street fight against Bruce Lee?

Probably not.

You know the moment you step within his reach you're going to get your ass handed to you. It's not a matter of IF you're going to lose; it's a matter of HOW QUICKLY you're going to lose.

In the same way, retail traders pit themselves against the trading equivalent of Bruce Lee every day – they click the buy button thinking they might win in the end, when they never stood a hair of a chance to begin with.

Most retail traders have no idea how heavily the odds are stacked against them.

Here's why:

1. Retail traders don't know who they're trading against; and
2. Their plan for success (if they even have one) don't take into account their natural strengths and weaknesses as retail traders.

Now imagine on the other hand, that you're a skillful chess player and you challenge Bruce Lee to a round of chess. Wouldn't you stand a much better chance at winning?

This isn't rocket science, folks.

In short, here's what you need to do:

1. Learn about the technical aspects of trading (I'm not talking about technical analysis here)
2. Figure out your strengths and weaknesses as a retail trader (compared to professional traders)
3. Devise (or learn) a trading strategy that maximizes exposure your strengths while minimizing exposure to your weaknesses
4. Devise (or learn) trade entry/exit techniques that compliment your strategy

Most retail traders skip steps 1 – 3 and jump straight to step 4. They focus on the 'hows' of trading, but ignore the 'whys'.

Take this example. In applying a moving average cross-over to identify trade entries, one should ask, "Why would a moving average cross-over work as a trade entry signal?" What are the reasons? Does this method maximize my strengths as a retail trader?

In my candlesticks e-book (http://forexcandlesticksmadeeasy.com), I detailed not just candlestick patterns. More importantly, I revealed to my readers *why* those candlestick patterns work.

Once you understand *how to read* candlesticks, no memorizing of candle patterns is necessary. With this knowledge, you can effectively interpret any combination of candlesticks, in any market!

The difference between surface knowledge and true understanding …is knowing the answer to the "why" question.

If a stranger walks up to you and tells you he can turn a $100 bill into a $500/month income stream, but won't explain why his method works, would you hand him your money?

I hope not.

But this is exactly what people are doing online every day, even right now.

The world's richest investor said it best:

> **"Never invest in a business you don't understand."**
>
> *– Warren Buffett*

Obstacles of the Mind

Before I expose why some trading strategies work (while others don't), the first thing we need to look at is your thinking.

It's ineffective to talk about trading methods without addressing the most important component of trading – your perspective.

In an industry filled with exaggerated (and largely unrealistic) claims, our first area of business is to correct any psychological obstacles that will hinder your progress.

By eliminating these obstructions, you'll be able to grow your capital faster and easier than you might think is possible. These are the overriding concepts that successful retail traders operate on.

See if you can identify with the following symptom:

Symptom: Buying anything that looks like it will make you money, getting no results.

Cause: Opportunistic thinking

Root Problem: Lack of Strategy due to misinformed expectations.

There are two opposing ways of thinking when it comes to trading at the retail level. There's opportunistic thinking, and strategic thinking.

Opportunity seekers are always looking for their big chance to make lots of money. Their only criteria is, "Can I make money from this?"

So today it's automated robots, tomorrow it's binary options, and yesterday it was some other concept already forgotten.

Opportunity-seekers pick up lots of trading techniques, use a few, and abandon everything the moment there are a few losses or the next "easy" way to trade comes by.

The only question they ask is, "What's the easiest way for me to make money right now?"

A strategic trader, on the other hand, is a completely different animal. He is clear about how much money he wants to make and how to get to that goal.

He knows the strengths and weaknesses of retail traders compared to their professional counterparts. He understands what drives market prices and devises (or learns) different methods for taking profits based on this.

After reviewing the pros and cons of each method he picks the one most likely to achieve the results he wants.

The strategic trader knows that the biggest opportunity lies with how his trading operation is run, not the hot new product that is promoted this week.

Here's the thing: The overwhelming majority of retail traders are nothing more than opportunity seekers. They have no strategy for choosing the trading products they buy.

They hop from one method to another, and while they may have some arbitrary income goal they have no idea how to achieve it.

And since they don't have a clear strategy they cannot follow any sort of plan to reach that goal… so they end up buying anything and everything that comes with the promise of easy money with the hope that this is going to be it — this is their chance to make it big.

They especially love (and fall victim to) "automated money" products promising huge rewards with little or no effort.

> **"If you don't stand for something, you'll fall for anything."**
>
> *– Malcolm X*

Forex trading *is* incredibly lucrative and one *can* make a lot of money in an embarrassingly short period of time.

However, the capital and skills required to do this consistently **takes time and effort to build.**

All right, assuming you now have the right expectations and understand the need to get serious with building a trading operation around an effective strategy (that you fully understand), let's talk about what else stands in your way…

Symptom: Hops from trading method to trading method, never really making much money.

Cause: Poor methods selected.

Root Problem: Lack of market/industry knowledge.

The semi-experienced trader buys books, videos and attends seminars to learn about various trading "strategies". Most of these methods include some combination of technical indicators that serve as trade entry/exit signals.

Now before we continue, I want to state for the record that all of these methods work. **All** of them.

I say this because you need to understand the subtle truth behind this statement.

There's a BIG difference between a method that works, and a method that works ***consistently***.

And therein lies the key to understanding why so many trading strategies fail.

Would you rather make $500 on 2 trades, only to lose $450 on the next 2 trades? Or make a consistent $30 on each of 4 consecutive trades?

A winning strategy should not be based on how much money is made on each trade, but how *consistent* the wins are.

Consistency trumps short term gains.

A Winning Strategy is not determined by how much money is made on each trade, but the consistency of the wins.

So it's not a question of whether the strategy makes money (even a monkey can make money trading), but whether it can make money *consistently*.

And how can we find out if a trading method is likely to make money consistently?

First, you'll need to…

Understand Your Business

In case you haven't realized by now, **we are in the business of retail trading.**

And just like how a savvy entrepreneur studies the **industry environment** before coming up with a business plan, so to must we take a good look at the retail trading industry and **select the path of least resistance to making money.**

You don’t want to get involved in a business that tries to sell ice to Eskimos. You want to run an easy business, not a tough one. Swim with the current, not against it.

The bottom line is that we don’t want to end up with a strategy that works against our natural strengths and weakness as retail traders.

Many people can’t make consistent profits simply because their trading method exposes their weaknesses while avoiding their strengths.

From here on, I’ll be sharing with you what you need to be doing, and more importantly, why you need to be doing it. Be sure to take notes.

Let’s go.

Principle #1: Trade on the Longer Time Frames

Why is it preferable for retail traders to trade on the longer time frames?

To understand this point, we’ll need to once again step back and look at our trading from a **business perspective**.

In business terms, our trading profits are the *income* of our trading operation, while our losses are the *expenses*. Nothing groundbreaking here.

There is, however, one type of expense that’s often ignored by retail traders… the **bid-ask spread**.

It’s the cost we pay our broker for their services, and it typically ranges from 2 – 4 pips on the major currency pairs.

So how does the pip-spread affect the way we run our trading operation?

Allow me to explain with an example…

Imagine you run a bakery that makes and sells (incredibly delicious) bread.

Each loaf costs you $0.50 to bake (an expense).

You now have to decide how much to sell each loaf of bread.

Should you set the sale price at $1 or $2? (Ignoring all other factors)

Which would you choose? The answer is pretty obvious…

Most people would choose $2, since that leads to more income and profits.

From an operational perspective however, there's another reason why $2 is a better choice…

Allow me explain by posing a slightly different question:

In the same bread example, how many loaves of bread would you need to sell, to make a profit of $300?

If your sale price was **$1**, you'd have to sell **600** loaves to make a $300 profit.

If your sale price was **$2**, you'd have to sell **200** loaves to make a $300 profit.

Take a close look at the numbers…

By simply **doubling** your income, you reach your profit goal **three times faster** (not just twice).

This little-understood concept has immense implications when it comes to trading.

If you have an income goal of $80,000 per year, would you rather reach that level in 60 small trades or 20 medium-sized trades? Which is easier to achieve – being right 60 times or 20 times?

This is the first reason why short-term traders find it difficult to reach their income goals — **they have to be right a lot more times than a medium-term trader (like me), who only has to be right a fraction of the time.**

And there's another reason why it's difficult for short-term retail traders to consistently make money — **their account gets quickly eaten up by the bid-ask spread.**

Huh?

Allow me to explain further.

You see, a trader who pays a 2-pip spread on 1 trade (to make a profit of say, 200 pips), pays a *smaller portion* in fees compared to another trader who pays a 2-pip spread <u>each</u> on 11 smaller trades to make the same profit.

Here's what I mean:

Trader A is a short-term trader looking for trades of 20 pips profit.

Trader B is a medium-term trader looking for trades of 200 pips profit.

Trader	# of trades	Profit per trade	Gross Profit	Spread per trade	Total spread	Net Profit
A	11	20 pips	220 pips	2 pips	22 pips	198 pips
B	1	200 pips	200 pips	2 pips	2 pips	198 pips

Trader A pays a 2-pip spread for each of his 11 trades for a total expense of 22 pips.

Trader B pays a 2-pip spread for his 1 trade for a total expense of 2 pips.

So in total, Trader A had to make a gross profit of 220 pips and pay the spread (-22 pips) to arrive at a net profit of 198 pips… while Trader B only had to make a gross profit of 200 pips and pay the spread (-2 pips) to arrive at the same net profit.

Trader A had to make 20 pips MORE than Trader B, just to get the same net profit.

If both traders were competing to see who made the most net profits, **Trader A would have to perform 10% *better* than Trader B, just to get even.**

By simply trading on a larger timeframe, Trader B gets a natural advantage over Trader A!

To summarize, Trader B enjoys:

- Fewer trades (less effort)…
- More profit per trade…
- Paying less brokerage fees…
- Less pressure to perform…

…all while getting the same net profit as Trader A.

I hope something just clicked in your head.

This is what I mean by choosing an easier path to achieving the results you want.

Add to all of this the fact that **professional traders trade with a much lower spread than retail traders**, and you know that competing against them on the same level (i.e. short-term trading) puts us at a significant disadvantage.

When Trading Short Term, You Are Fighting Against The Professionals For Scraps

As large as the currency market is, there's a limited amount of profits to be made each day – a quick look at any of the major currency pairs will show that few will move more than 150 pips per day.

Intraday retail traders who try to open and close trades within the same day for a profit are thus effectively trying to get a portion of a limited number of pips.

When trading in the short term, you pit yourself against the professional traders for the limited scraps of "meat" in the market. And more often than not, it's the retail traders who end up as part of the scraps.

Compare this to the medium-term trader who trades over a period of days or weeks – suddenly, there's a lot more meat to go around.

With the right trading approach, and with no extra effort, you can set yourself outside the professional's crosshairs, and stand to make more pips in the process.

The secret is to trade on different terms than the professionals. Don't compete against them at their own game. Smart retail traders choose a hunting ground where they have the advantage.

Short Term Trading is particularly susceptible to re-quotes and slippage

If you've ever tried entering/exiting a trade as the market price was moving quickly (as is typically done in short-term trading), chances are that your order either did not get executed by your broker, or you suffered some slippage.

Both are factors you cannot control… so think about this: **If these are factors you cannot control, is it a good idea to have your trading business be *especially vulnerable* to them?**

With a short-term profit target of 20 pips, a slippage of 2 pips is an additional 10% cost (expense) to your bottom line. With a medium-term target of 200 pips, a slippage of 2 pips is a mere 1% cost.

Repeat this over hundreds (or even thousands) of trades… and this seemingly small expense really begins to add up.

Again, think about which approach makes it *easier* for you to be richer after a year of trading:

	Short Term Trading	**Medium Term Trading**
Effort required	More	Less
Profit per trade	Less	More
Brokerage (spread) fees	More	Less
Risk of un-executed trades	Higher	Lower
Risk of slippage	Higher	Lower
Impact of slippage	Large	Small
Competes against professionals	Yes	No

Which looks like a better arena to trade in?

The answer is glaringly obvious. Yet so many new traders come into the market looking for the thrill of fast money that they don't stop and think about whether short-term trading plays to their advantage.

The only "downside" of medium-term trading is that it does not give the adrenaline rush that short-term trading does.

So ask yourself: are you trading for a *thrill*? Or to *make money*?

Your Broker Says "Thanks"

So why is short-term trading so popular among retail traders?

The first reason is that they don't understand the concepts you've just learned.

The second (and more insidious) reason is that brokers typically promote Forex trading as a means of making a fast buck… simply because it's such a lucrative business for them.

Think: would a broker prefer a retail trader like me, who makes a 200-pip profit while paying only 2 pips on the spread, or someone else who makes the same profit trading short-term, after paying *10 times more* than I did in spread fees?

It's business, not personal. If I were a broker, I'd do the same thing and promote the hell out of the "benefits" of short-term trading.

Only educated and savvy retail traders like you will see past their marketing gimmicks and choose to play the game that avoids your natural weaknesses. You want to play the game where you have an advantage to win.

The longer term you trade, the less you are affected by the negative impact of the bid-ask spread.

At first glance, a 2-pip spread may not seem significant… but across a large number of trades, it's like bleeding to death from a thousand paper cuts.

It's the quiet poison that sabotages your trading success without you being aware of it.

So what's considered to be the medium-term timeframe? For most purposes, this refers to the **4-hour chart** and **daily chart**.

Trade on the smaller time frames (such as the 15-min or 5-min charts), and you're setting yourself up to swim against the current.

If you're going to be trading for a long time, you need to decide if you want to keep struggling, or to let the wind carry you.

Remember, it's all about choosing the path of *least resistance* to making your profits.

Moving On…

If you're still reading this, congratulations, you're likely to be in the minority of traders who act based on *facts*, not emotions.

Countless others would have simply denied the facts, and moved on to the next shiny trading tactic that makes them *feel* good.

Trading becomes “Fun”

Among the 5 physical senses, the sense of sight is the one most utilized and appreciated by people. The lure of retail trading is in this way deeply rooted in the human psyche – it appeals to a person’s need for *visual entertainment*.

Unsurprisingly, most of our modern entertainment such as movies, magazines and television are catered to fulfilling this need. It is of little wonder thus, that the availability of free trading charts has led to a dramatic increase in the number of retail traders in the past decade.

Unfortunately (and unknowingly) for many of these people, trading has become a source of entertainment rather than profits.

In fact, it may surprise you to know that **most retail traders do not get as excited making profits, as they do watching the market move in their favour.**

The result is that traders tend to resist taking profits, preferring to allow prices to continue moving in their favour… until of course, it doesn’t, and reverses back past their trade entry level.

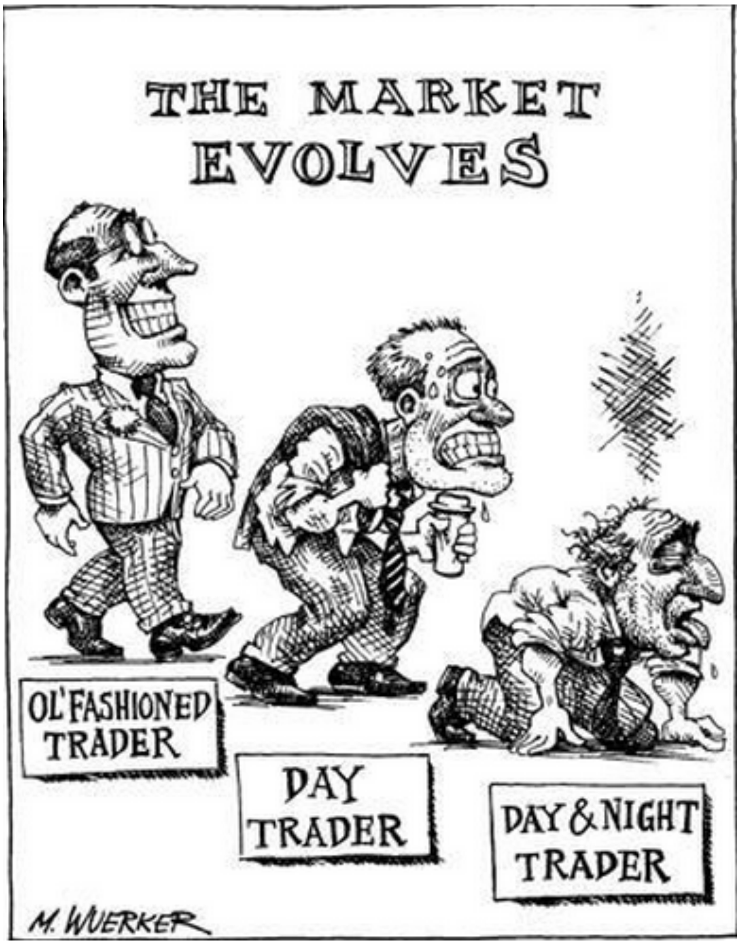
Retail Trading has become a source of entertainment, rather than profits.

Now, trading off a price chart is not a problem in and of itself. It is how we (as humans) respond to it that leads to disaster.

You see, behavioural economists estimate the intensity of a negative trading experience to be 2.5 times that of a positive experience.

In other words, you need to go through 2.5 times *more* positive trading experiences to offset any one negative experience.

It's no wonder that short-term traders get frustrated and burn out at the end of every trading week, even when they've made a net profit.



Short Term Trading Leaves People Emotionally Drained

The constant staring at the trading chart and the daily emotional roller coaster ride that accompanies short-term trading leaves most people emotionally drained.

And the worse they feel, the more they tend to make emotional trading decisions.

This quickly becomes an endless cycle of:

1. Staring at price charts for hours
2. Getting emotionally attached to trades
3. Going through emotional ups and downs due to price fluctuations
4. Making poor trading decisions
5. Continuing to stare at price charts

The Cure To Emotional Trading

Most trading books and courses (especially those on trading psychology) spend significant time and effort trying to get its readers and students to avoid emotional trading. To me, this is a complete waste of time because people *are* emotional beings.

As much as we try to be objective in our daily lives and in trading, being 100% rational (especially in trading) is practically impossible. We can't stop being affected by our emotions any more than a fish can stop swimming. It's quite simply, in our nature to be affected by emotions.

I will never be a completely rational person. And chances are, neither will you.

So how can we get around this problem?

Principle #2: Minimal Monitoring

Instead of trying to avoid our emotions, a better approach would be to eliminate the *triggers* of these emotions as much as possible.

In other words, instead of trying to avoid being affected by our emotions, we want to avoid the *situations* that cause us to be emotional in the first place.

This leads to the inescapable conclusion that **the less we look at the trading chart, the more likely we'll make sound trading decisions, and the better our trading will be.**

Any trading strategy that relies on constant trade monitoring harbours the seed for emotional reaction to market price swings. It is what causes us to adjust our stops and extend our profit targets, even when we know we shouldn't.

And since we can't stop ourselves from being emotionally-driven, it makes sense to follow a trading approach that places minimal emphasis on staring at price charts.

Again, this is a foundational truth that few traders will be willing to accept. They enjoy the thrill of trading too much to let it go.

Starting with the End in Mind

Every wealthy person is clear about what they want, in the end, for their efforts.

Serial entrepreneurs start new companies knowing they're going to cash out in the end.

Property developers build apartment buildings knowing who they're going to sell to, and when.

Long term investors like Warren Buffett look to hold their investments for as long as possible.

Successful people know exactly what they want, and design their methods according to those standards.

Why should trading be any different?

In all the years I've been talking to retail traders, only a handful know specifically what they want out of Forex trading.

Most other traders just want to "make money", and that's not specific enough.

So I want you to sit down and spend some time alone. Think seriously about the type of trader you want to be.

Imagine yourself 5 years from now, making a comfortable income trading from home. What's it like, on a regular trading day for you?

I say this because **if you don't know exactly what you want, you're likely to get everything else that you *don't* want.**

An Important Lesson

I don't talk publicly about the people close to me, but this is a lesson that may be useful to you, and just as importantly, I have permission to share this story.

OK, so.

I have a good friend, Mike, who's also a retail Forex trader.

Mike's probably the most determined guy I've ever known. When he first started trading, he'd spend 8 hours a day staring at 5 minute charts, watching the price action and trying to identify high-probability setups. This guy has the concentration of an Olympic athlete.

After 6 months of continuously watching the markets for 8 hours a day, he started to pull some impressive profits.

On good months he would grow his capital by 200%. That's a tremendous investment return. The results were so ridiculous I didn't believe him until I saw his broker statements.

At that time, although I was more experienced at trading, I was impressed by how he managed to keep performing week, after week, after week.

I've known Mike for a while now, but his unbelievable results made me incredibly skeptical… I half-expected him to blow up his account sooner rather than later.

But there he was, day in and day out, taking 5 pips here, 10 pips there, watching the price charts like a hawk.

After a few more months and hundreds of trades later, I could no longer deny that Mike clearly had attained the intuitive skill of predicting short-term price movements. It's a tough skill to acquire, but he somehow did it.

Fast forward a year, and where do you think Mike is now?

Lying on the beach, sipping a cocktail on some remote Caribbean island?

In reality, Mike has since closed his trading account, quit trading, and is now quite happy making $3,000 – $4,000 a month selling second-hand cars.

So what happened?

The Fallout

In short, Mike realized that although he gained the rare skill of profitable short-term trading, this meant that he would forever be chained to his trading desk — he wouldn't be able to get away from it for as long as he was a short-term trader.

Mike spent almost a full year learning how to scalp (trade in the short-term), without considering if that was what he wanted to *keep* doing for the rest of his life.

He'd spend his days sitting in front of the computer, waiting for the right setups, which sometimes for days, never came. Imagine staring at the 5 minute price chart for 8 hours a day, over a few days, waiting to take a trade.

I noticed how he became increasingly irritable and constantly tired. Whenever I met him for lunch (he would usually eat-in, as he couldn't leave his trading desk), he was constantly worrying about how the price might move within the next hour – he couldn't even eat a simple meal in peace.

In the end, he realized this wasn't something he could keep doing. He thought he could scalp for two years, make enough money and then quit. In the end, he stopped after less than 3 months of profitable short-term trading. It was eating up too much of his personal and social life.

So he closed his trading account, found a job he liked and never looked back. One day perhaps, he says, he'll get back to trading again. But this time, he'll set his sights on trading in the medium and long term.

Being a Short-Team Trader means you can't walk away from your computer.

It becomes another job.

Unlike Mike, unfortunately, not many people have the courage to give up something they've spent so much time and effort on, even when they find out they're on the wrong path.

Could Mike have continued on to trade successfully in the short-term, if he chose to? I honestly don't know. I've never met anyone who has managed to do what Mike has done in terms of raw profits.

Maybe he would have blown up his account in the next year, or maybe he would have gone on to become one of the world's most successful traders – your guess is as good as mine.

I do know, however, that as talented a trader as Mike was, the one mistake he made was not thinking about how he wanted to be trading for the rest of his life.

It's one of those things that don't seem important at first, until it's too late.

Thinking About Your Future

The bottom line is you need to think about the type of trader you want to be, before you even start trading. This may seem like an insignificant thought now, but it will make all the difference in your trading journey.

Personally, I want to spend as little time in front of the trading charts as possible.

I want my trading operation to work for me, not the other way around.

What about you?

Principle #3: Not the Best-Performing, nor Worst Performing

At any one time, there will always be bad traders that out-perform good traders.

This goes back to the concept of absolute gains vs. consistent gains (that we've covered in the first part of the manifesto).

Take this example. Trader X can trade with too large a lot size (over-trade), get lucky and make a $500 profit, while Trader Y can practice sound money management, and make only a $30 profit. During this particular period, Trader X has performed 1,667% better than Trader Y.

Trader	**Capital**	**Profit**	**Percentage Gain**	**Performed better by**
X	**$5,000**	**$500**	**10%**	**1,667%**
Y	**$5,000**	**$30**	**0.6%**	**-**

At first glance, it may look like Trader X's strategy is the one we want to follow.

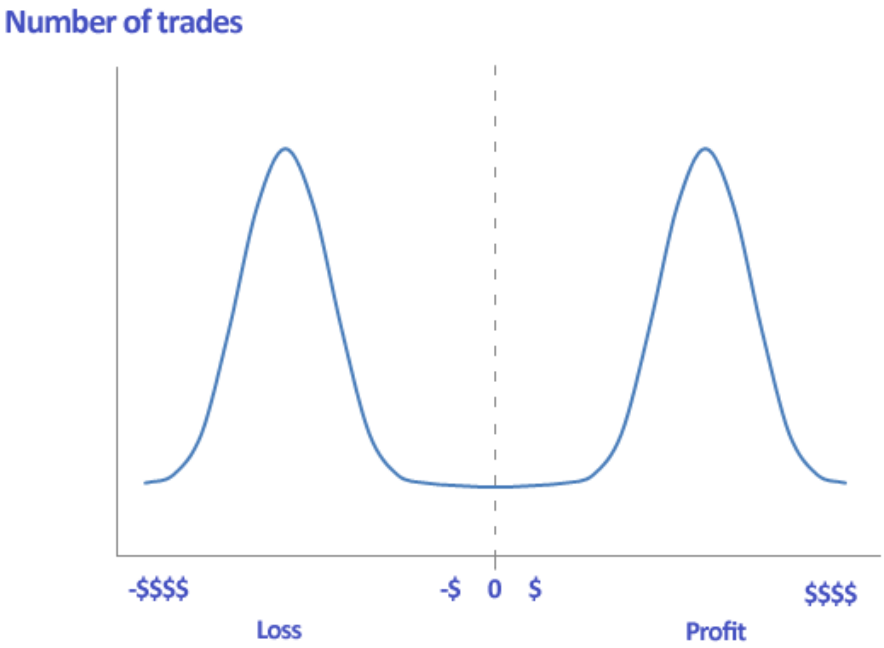
What happens, however, when both traders take an equivalent loss instead?

Trader	**Capital**	**Profit**	**Percentage Gain**	**Performed worse by**
X	**$5,000**	**-$500**	**-10%**	**-1,667%**
Y	**$5,000**	**-$30**	**-0.6%**	**-**

Note that in both cases, Trader X was either the best, or worse performing trader. This has got to do with a term in statistics called **variance**.

Basically, the larger the difference between the wins and losses (of a trading method), the larger the equity swings, and the more at risk the trader is at wiping out his account.

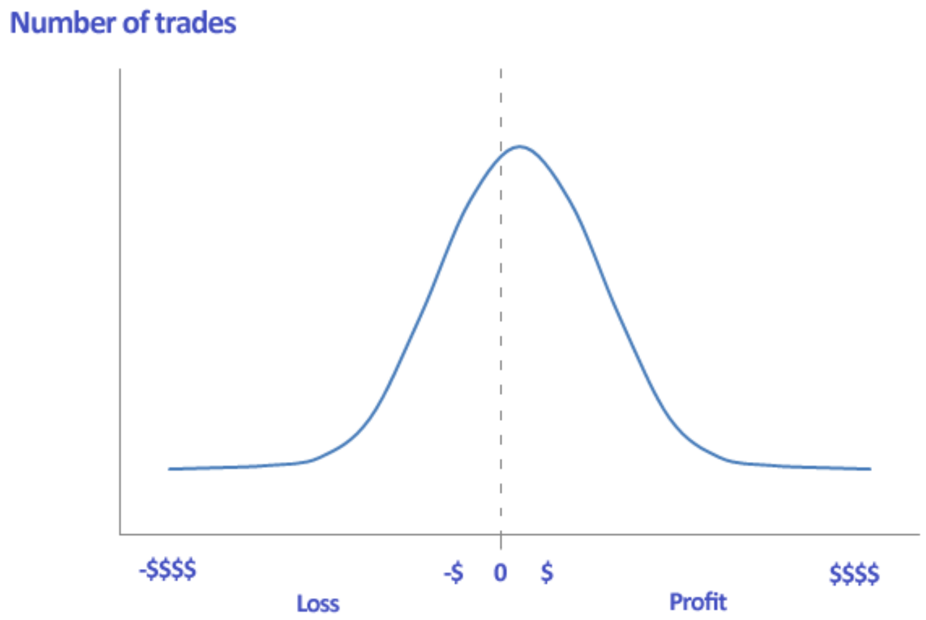
Here's a graph describing the typical trade results of bad traders:



Notice that these traders either made huge losses or huge gains, with few trades making a little, or losing a little.

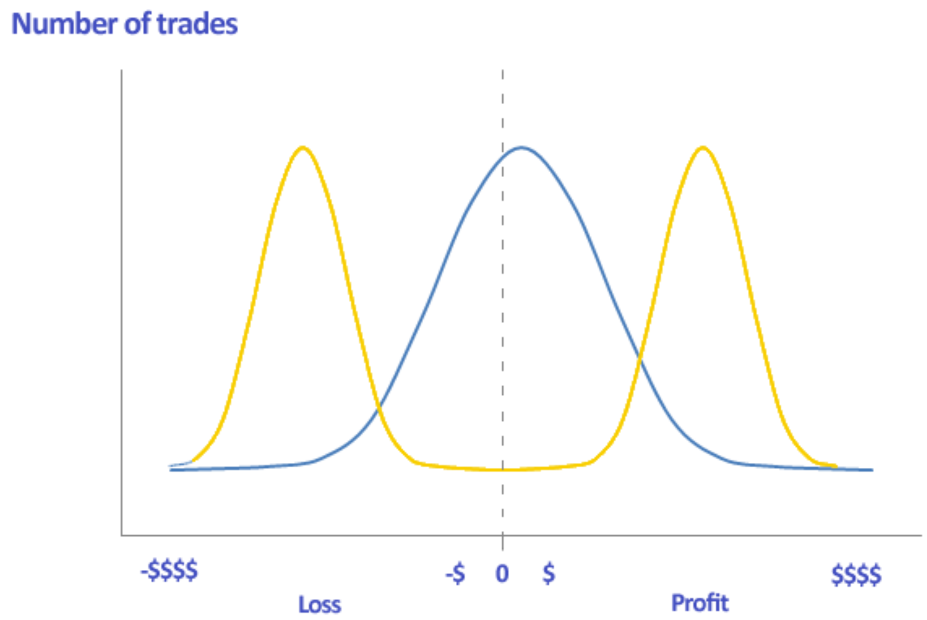
These are trade results with a **large variance** between the winning and losing amounts.

Compare this to the trade results of good traders:

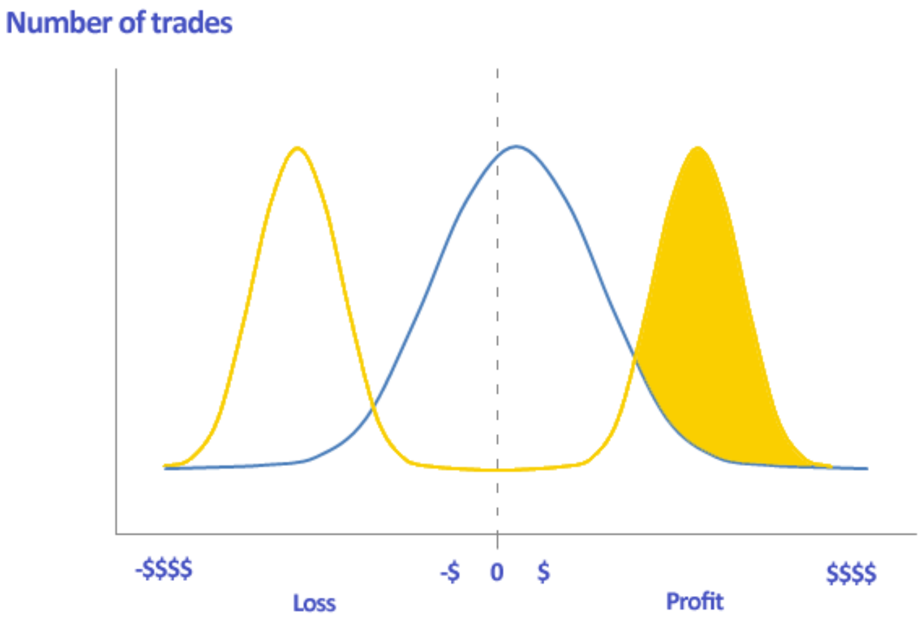


Good traders take consistent profits often, and in relatively small amounts. They don't typically take large, windfall profits, nor do they take large, unmanageable losses.

Let's put the two graphs together and compare them:

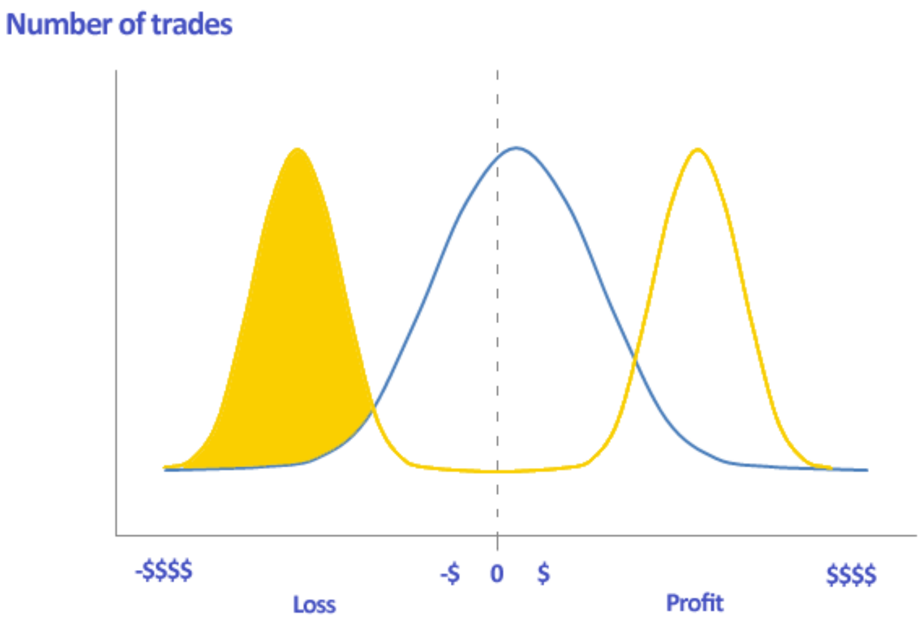


Notice that there will always be a portion of trades where the bad trader makes a lot more money than the good trader:



The coloured area depicts the trades where the bad trader out-performs the good trader.

What is unseen however, is the potential for equally large, or even larger losses:



This has significant implications when choosing between different trading strategies.

You see, bad trading strategies have a short-term advantage over good strategies, in that they will almost always see significantly larger profits for a certain period of time. When the market phase changes however, their potential for large losses will be realized.

This is why so many seemingly profitable strategies eventually fail.

Every time a bad trading strategy blows up, a new one (that also boasts large profits) will quickly take its place as the popular choice… until it also blows up and the cycle is repeated.

All this happens while the good strategies quietly make smaller, consistent profits in the background.

Truly effective strategies are often shunned by ignorant traders as having “weak performance”.

The fact is that at any point in time, the best-performing strategies are likely to be the worst overall strategies.

They enjoy large profits only because they fit well into the latest market phase.

The problem is that once the phase changes, they lose all the profits they’ve accumulated, and often more.

The only way to tell a good trading strategy from a bad one is the **consistency of the wins**, and period of time the strategy has been applied. Absolute profits (per trade) tell nothing of the long term survivability of a trading method.

So don’t focus on making the most amount of money per trade. Focus on small, consistent gains. Consistency will cushion the impact of market phase changes on your account.

In trading, slow and steady truly wins the race.

We have now covered the first 3 Principles of a successful retail trading strategy:

1. Trades on the longer time frames
2. Does not require constant monitoring
3. Is not the best-performing, nor worst performing strategy

These are probably the least exciting principles you've ever heard of.

Ironically, this is the reason why most retail traders will never achieve their dreams of financial freedom with trading – the opportunity-seekers are too busy hopping from one holy grail to another without realizing that the least attractive methods are the most effective ones.

Even as I type these words, I am struck by how boring these Principles are. And yet they are the ones that helped me quit my job, pay for my car, apartment and a few other financial investments so far.

These Principles work whether you believe in them or not.

Principle #4: Price Is More Important Than Time

Many retail traders today are obsessed with the timing of their trades – and they pay good money to learn various techniques to decide *when* to enter and exit the market.

These typically include some combination of technical indicators that supposedly provide accurate entry/exit signals.

Now, I'm not going to tell you that timing techniques aren't important, but what most people don't realize is that **the timing of trades is only effective in the *context* of the current price level.**

You see, for us to sufficiently profit from a trade entry signal, the market price must have significant *potential* to move further in the anticipated direction.

For example, a trade entry signal to "buy" is dangerous if current prices have hit a historical resistance area.

The same entry signal however, would be a lot more effective if current prices are near a support area, in an uptrend.

You see, when people decide to buy/sell a certain currency (or pretty much anything else), the operative factor is the *relative price*. The timing is of secondary importance.

To understand what I mean, allow me to give a non-currency example.

Let's say you run a gold dealership that specializes in gold coins and bars.

You buy gold from various suppliers as well as from walk-in customers.

You sell gold to anyone who is willing to pay your listed price. In addition to selling at a small mark-up for your efforts, you want to profit from the fluctuations of gold prices in the open (financial) market.

This means that when gold prices are relatively low, you want to buy (and hold) as much gold as you can get your hands on. When prices are relatively high, you want to sell as much of the gold as people are willing to buy from you.

This may seem like a no-brainer example, and that's exactly my point.

Whether it be gold, pork bellies, currencies or orange juice, all markets are driven by the basic premise of whether prices are *relatively* high or low.

If the price of gold has been ranging from $1,800 – $1,900 the past 4 weeks, would it be a good idea to BUY more gold when the current price is at $1,899? Even if your indicators show a "buy" signal? (hint: the answer is no)

We've all heard of the phrase, "buy low, sell high".

These days, a variation of it, "buy high, sell higher" has become increasingly popular.

But regardless of your trading philosophy, both methods require you to understand something about what is considered to be 'high' or 'low' – and this refers to the *context of price*.

The point I'm trying to make here is that no matter how many entry/exit techniques you've acquired, they are unlikely to keep working in the long run unless you have a view of the bigger-picture that tells you whether prices are relatively high or low.

In my candlesticks e-book (http://forexcandlesticksmadeeasy.com/), I mentioned that being a trader is like being a detective. Candlestick analysis is what we use to gather "evidence" of where prices are likely to move next. But doing this without the *context of the current price level* is like looking for evidence at the wrong crime scene.

We can only make a profit when we sell at a higher **price level** than we buy, and vice versa.

The timing matters *only* when it coincides with the right price level to buy/sell.

Principle #5: Considers Fundamental (Economic) Trends

Many retail traders shun fundamental analysis because its counterpart, technical analysis, is easier to understand, quantify and apply. It's much easier to add a few indicators to a price chart and wait for a "buy" signal, than it is to ponder the impact of increased inflation in the United States.

Naturally, the consensus among retail traders is that fundamental analysis is something only financial analysts and economists can understand. It's comforting to watch the technical indicators move (and take trades based on them), than it is to think about abstract ideas like monetary policy. It's "complicated" stuff, so we're better off just focusing on technical analysis, right?

Not necessarily. It all depends on the answer to two questions:

1. Is technical analysis alone, enough to get consistent trading profits?
2. Is it difficult (or complicated) to apply fundamental analysis effectively to our trading?

These questions require subjective answers, so I won't pretend they'll apply equally to everyone. However, given that retail traders are typically smart and sophisticated individuals, I believe fundamental analysis won't be difficult for most traders to learn, assuming they realize the need for it in the first place.

Fundies vs. Techies

There are generally 3 camps in the world of trading. There are the pure technical traders, pure fundamental traders, and traders that use a combination of both approaches.

Technical traders believe that historical market prices can predict (to some extent) future market prices. Fundamental traders on the other hand, trade based on their expectations of economic factors.

It's a common misunderstanding that these are *opposing* methods of trading, when they are in fact two *completely different* methods of trading.

Few traders will dispute the significance of technical analysis, so let's focus our attention on its counterpart. The first question we should ask is:

How important is Fundamental Analysis?

Because let's face it — we're not going to bother with it unless it gives us some advantage to achieving our trading goals, that technical analysis does not provide.

To understand the answer, let us once again look at this issue from a business perspective.

Remember a time before the popularization of digital cameras, when pictures were taken with analog cameras and rolls of film?

It was a time when Kodak, the first company to produce a camera for consumers was valued at $31 billion. If you were a technical investor looking to invest in this business, the future would have looked bright:

Then in 1997, the first digital megapixel camera was sold to consumers. Kodak ignored the budding digital camera revolution, and decided to stick solely to manufacturing traditional analog cameras.

In the same year, the Kodak share price made a temporary dip. From a technical standpoint, it was nothing much to worry about. The future still looked bright:

Now, a technical trader/investor would have seen this latest dip as an opportunity to invest in more Kodak shares, since the trend was still up.

From a fundamental perspective however, the entire livelihood of the company was at risk.

Since Kodak had practically no involvement with the growing digital camera market, the company would become obsolete if everyone used digital cameras instead of analog ones.

At this juncture, even a weak fundamental analyst would avoid buying more Kodak shares, and may even consider selling.

Here's the Kodak stock chart as of 2011:

Now of course, the technical investors would certainly have detected a change of the trend from "up" to "down", and adjusted their investments accordingly.

However, most would have only confirmed the trend change in late 2000, approximately 3 years after the introduction of the first megapixel digital camera.

In practice, this is the main difference between fundamental and technical analysis.

While technicals are great for picking entry and exit points, fundamentals serve to detect the strength and potential change of underlying trends — they give the trader a context within which to enter and exit trades.

Fundamental Analysis serves to detect the direction, strength, and potential change of underlying (economic and price) trends.

Technical Traders Galore

Over the years, I've observed that most retail traders belong to the pure technical camp.

Some may *think* they're using both fundamental and technical analysis, but a close look at their trading method reveals that while they may pay some attention to economic indicators and news, most do not incorporate a tangible decision-making system based on shifts in the economic landscape.

It's one thing to acknowledge that fundamental analysis is important; It's another to have a system where fundamental factors actually play a role in deciding *whether* to buy or sell, and *how much* to buy or sell.

Can fundamental analysis really help in making these decisions in a specific, quantifiable way? The answer is yes. I do it all the time.

“But! But!”

Now before we continue I’d like to state that despite revealing all this, I fully expect the majority of people reading this to continue avoiding market fundamentals. A simple, straight-forward explanation like this cannot overcome the immense power of laziness, no matter how logical.

And besides, most people prefer to be told what to do (by their technical indicators), instead of making their own decisions.

You see, the one that that fundamental analysis requires, is THINKING.

And the fact is that most retail traders don’t want to – or don’t dare to – make their own choices.

They want a fully indicator-based system where they can simply click BUY or SELL when the indicators flash a signal.

To these people, I mean no offence but that’s just naïve. Making money from one of the world’s most lucrative endeavours is a little more complex than watching for a signal to buy or sell.

I released this manifesto knowing it will not be well received by the masses, but there is a small group of you who will see the truth in these words, and will respond accordingly. This is the group that I’m looking to help. You are the ones that stand a respectable chance of achieving your trading goals.

If what I’ve been sharing with you so far makes sense, read on.

Think Big, Trade Small

With all sorts of misleading advertising on the internet, magazines and newspapers, many new traders come into the market expecting to make a lot of money quickly.

This is a trait easily revealed by their insistence on making perfectly-timed trade entries and exits.

Instead of thinking in probabilities ("what's the most likely way for me to win?"), they think in definite steps ("I'll just follow these steps and will make money at the end of it.")

This is a big reason why they gravitate towards short-term trading. If you believe you can make money by following a series of steps (or indicators), wouldn't you prefer to do it in as short a time as possible? That's only natural.

What these traders don't understand, however, is that trading, like life, is not conquered by a series of specific steps.

To losing traders, winning trades are the only goal.

To winning traders, winning trades are only symptoms of a larger goal.

It's naïve to think that if you ace a few exams in college, you'll be successful in life. More likely, if you hold the right values and surround yourself with positive, successful people, you'll flow in the right direction.

Trading works in the same way.

Fundamentals align our trades in the right direction, so that our chances of getting a winning trade is not influenced by some arbitrary combination of technical indicators, but by the flow of billions of investment dollars flowing into and out of financial assets around the world.

Once you understand how to get into the right "flow", the exact timing of 1trades becomes of secondary importance.

This is not to say that trade entries are not at all important. Well-timed trade entries can make a considerable difference to your bottom line. But it is better to have a poorly-timed entry in the right direction, than a well-timed entry in the wrong one.

> **"It is better to be vaguely right,**
> **than precisely wrong."**
>
> *– John Maynard Keynes*

The combination of the need for instant gratification (instant wins) and unrealistic expectations leads new traders to over-trade.

If one believes he can make a lot of money quickly by following a few steps, it makes sense to trade with as large a volume as he can. After all, the larger he trades, the more profits he'll make, right?

Again, this is a natural consequence of *misunderstanding* the business of trading. There's a simple mathematical explanation for this, but I won't get into the specifics here (if you want to learn more about the business of trading, you can check out the course I've created, at the end of this manifesto).

Winning Traders	Losing Traders
Typically: Understands the need for fundamental analysis.	**Typically:** Finds fundamental analysis “too difficult” without really trying it.
Trades: Smaller lots across multiple entries, in the right direction.	**Trades:** One large lot in an all-or-nothing gamble.
Result: Is not concerned with the ouctome of individual trades.	**Result:** Gets emotionally and financially devastated when losing a few trades.

Weak traders don’t think in probabilities – that’s why they tend to trade with too large a lot size. They think their fancy indicators can accurately predict the market, and jump in guns blazing. In the end, they’ll either make a killing, or get killed in the process (remember the graph in part 3 of this manifesto).

Experienced traders on the other hand, know the limitations of technical analysis. They keep their heads low and test the market with small, token trades. They know that as long as they get their fundamentals right and don’t commit with trades too large to handle, the market will soon resume its flow and push all the small trades into profit.

Bad retail traders think small and trade big. Good retail traders think big and trade small.

Make More Money, More Often, With Less Effort

If you’re getting this then you should see the value of choosing a trading operation that serves you as many ways as possible.

Obviously, there are more advanced strategies and tactics but if you don’t get the basics right then all the advanced stuff won’t do you any good.

The bottom line is that to succeed in the game of trading, you need to take a close look at the rules (both explicit and implicit), understand how the game works, and make choices that benefit you as much as possible.

Nothing else is more important than this.

Recap of the 5 Principles

What I’ve attempted to do in this manifesto is to get you thinking about retail Forex trading differently than you have before. Here’s a quick recap of the 5 Principles behind a successful retail trading strategy:

1. Trades on the longer time frames
2. Does not require constant monitoring
3. Is not the best-performing, nor worst-performing
4. Price is more important than Time
5. Considers fundamental (economic) trends

If you follow these suggestions you’ll be well on your way to consistent trading profits, while reducing your stress and trading hours.

Your Trading Approach

By now, you may realize that your current trading approach needs some tweaking (or in many cases, a complete overhaul).

In any case, don't wait to make the changes you know you'll need to be making.

There isn't much time left.

Time Is Running Out…

Just like in any other industry, the best time to get involved is at the beginning, just as it starts to flourish. Stock trading has been around for some 300 years, while retail Forex trading has only gained popularity in the last 10-20 years.

You can be sure that in the next 5 years, retail Forex trading will be significantly different from what it is today.

Given the industry trends of the financial markets that have already matured, and what's already happening in the retail Forex industry, I can make the following prediction:

- More and more people will join the ranks of retail Forex traders
- …which leads to more people losing their money (the majority always does)
- …which leads to more complaints made to the financial and political authorities
- …which leads to increased regulation and restrictions to the choices available to the trading population

This is, of course, a simplistic description, but it sufficiently highlights the important parts.

Just like how the stock and futures markets have evolved over the decades, the spot Forex market is likely to follow suit.

Already in the United States, the availability of leverage is slowly but surely drying up.

In May 2009, available leverage was reduced from 400 times to 100 times.

Then in October 2010, it got further reduced to 50 times.

What this means is that in less than 2 years, the profitability of a retail Forex trader has been cut down by a factor of 8. If you were making $80,000 per year trading, you would now be making only $10,000.

Of course, the authorities believe that these regulations serve to limit the losses of bad traders (which they do, to an extent), but it is not the availability of leverage that wipes traders out — it's the lack of education and discipline on the trader's part.

In my view, the only real difference such regulations make is that instead of taking 3 months to wipe out a bad trader's capital, it may now take 9 months… but the end result is still the same. Bad traders will keep losing until they improve. The availability of leverage has little to do with their losses.

Similar to the effect of diversification, reduced leverage protects losing traders while punishing the winning ones.

> **"Wide diversification is only required when investors do not understand what they are doing."**
>
> *– Warren Buffett*

Regardless of my opinion, though, the regulations are in place. Bad traders are now less effective in wiping out their accounts, just as good traders are now less effective at making money.

The point here is that the longer you wait to start trading seriously, the less effective you'll be. And it's not like you can instantly jump into the market and start pulling big bucks — you'll need time to build up your account and trading experience before you can start making a decent income from it.

The good news is that you *still* have time. Retail Forex trading is a young industry, and you still have several advantages working in your favour, but I promise you this opportunity won't last forever.

Singing The Same Tune

I hope these 5 Principles have got you thinking about how you're approaching the game of retail Forex trading.

If you're still reading this you probably realize there's more to it than meets the eye.

The vast majority of retail traders out there will continue visiting the so-called "authority" websites that sing the same tune: "Learn how to use the moving average. Learn Stochastics and MACD. Learn RSI. Stick to the strategy. Have good money management. Set a stop loss. Be disciplined."

It's the same old mantra, repeated over and over again…

But guess what? More than 98% of traders *still* lose money after one year of trading.

Just THINK:

> If everyone is following these same guidelines, and more than 98% of them are losing money…
>
> then maybe…
>
> you should be looking for a different way of trading!!

Don't get me wrong – I'm glad most traders out there have no idea why they're losing even when they follow the same old "advice"…

…because it keeps me on the upper levels of the trading food chain.

You see, in trading, the majority ALWAYS loses. Always. There's no exception.

All right! I hope this manifesto has opened your eyes to what's *really* going on in the retail trading industry, and that you've picked up a few tips that will change the way you approach your trading.

Thank you for reading, and I'll speak to you again soon.

Christopher Lee

P.S. If you haven't already, check out my blog at:

http://www.pipmavens.com/blog/