

“Silent Service Method”

By Clockwork71

Basic premise:

While learning how to trade, I have tried several different types of systems. I have no doubt that there is no “one size fits all” system out there. However, I have found something that works for me, without getting too involved in hyping Foreign Exchange trading. The sad truth is this: It’s not a get rich quick scheme. In fact, if leverage is approached responsibly, it is very similar to any other type of trading.

I believe that the “400 to 1” leverage is the real culprit. Some places offer more, some offer less, but the truth is the same: Slow and steady wins the race.

I also believe that we get into trading as a means to an end. We don’t go into this endeavor thinking how much fun it would be to sit at the computer for 16 hours day, yet many do. Seriously, you probably had some vision of sitting on a beach, pressing a few buttons on a laptop, and making \$10,000. What happened? Reality is what happened.

Even with all the possible pitfalls, it *is possible* to do this in a responsible and convenient manner. I don’t want to sit at this desktop all day. It was when I realized this, that I began to truly enjoy trading. It is not the center of my day anymore. It’s a hobby that just happens to pay fairly well. That’s all. It’s a side business. I am living the dream in some way. I am making money out of “thin air”.

Only trade where it “matters”:

It took me a while to grasp this ridiculously basic concept: Not all support or resistances lines carry the same weight. When I started trading, I had a “mentor” who advised me that “Trading daily or weekly charts are nice, but those are for the big boys, not us.” I actually believed that. I think most traders do at one point in the beginning. (Some probably think that way forever.) I believe this comes down to greed. It’s just not sexy to say “I made \$45 this week in Forex.” Most people want to be some kind of hero when trading. It’s an ego thing. This is why I believe women have a better chance doing this. (Just an opinion, please don’t email me about this.)

As I alluded to in the previous paragraph: I like to trade support or resistance areas that show up on larger time frames. Why? Because they tend to hold up, time and time again. Also, I believe it comes down to where the “big boys” are. When you are buying large volumes, you have to “fade in” your positions. (There literally are places that could move the market against themselves if they went “all in” on some pairs.)

Again.....trade only where it matters. I prefer weekly support and resistance.

Make it easy, and not overly time-consuming:

I don't spend much time trading. In fact, I bet it works out to about 30 minutes a week. I tend to have my charts set up days in advance, and just wait for price to get to where I want it to be. I prefer to trade like a submariner tracks his prey. (Hence the name "Silent Service"....think of submarines, and the way they silently, patiently, and methodically track a ship.....) I wait for price to come to me. Why? Because much like the submarine, I am in a "dangerous" battle. I have to know where to strike, when to strike, and most importantly, when and how to get out if something goes wrong.

It is easy if you use weekly support and resistance lines. This way, you can check your charts every 4 hours or so, see if price is near a line. If it's not: Move on, no trades. I can glance and rule out charts in a matter of seconds. That fact alone keeps me out of a lot of trouble.

Besides: Have you ever noticed how most people's eyes glaze over when you talk to them about trading foreign currency? You know why that is? It's an incredibly boring subject, that's why! Your life shouldn't revolve around it is my point. Don't be that boring guy at the party talking about things nobody understands, not because they aren't intelligent, but because they don't care.

The goal is to make money, not waste a shitload of time.

The first step:

The first step in becoming a good trader is to understand a lot about you. Most people think they know themselves pretty well. A few months of trading can change that assumption pretty quick. The number one question I have always asked someone was the following: "Do you need to be right a lot? Or could you stand being wrong a lot, yet still make money?" I know this seems improbable, but you *can make money while being wrong more than right. It comes down to how big your winners are, and how small you keep your losses.*

If you have one winner that is equal to 8% of your account, and three losers or 1% each, you have done your job. You are in profit. Trading is that simple. The question is what are you more comfortable with? Only you can answer this question. Most people have a hard time being wrong 75% of the time. Ego is one of our biggest enemies when it comes to trading.

The other question you need to ask yourself is "How much can I handle risking on a single trade?" Most people stick to a 1-2% rule, and I believe this is good advice. However, some people are perfectly comfortable risking 5% and that's perfectly acceptable. As long as you *truly accept the risk, that's what matters.*

I know most people would consider that a form of heresy, and I am not here to debate it. I do have a litmus test though. My idea of being comfortable in a trade is being able to walk away from the computer and go on about my normal life. I suspect risking 25% of your account doesn't allow you that

kind of comfort. (For most people, that is.) If I place a trade and can leave the house without thinking too much about it, I know I am in my comfort zone.

Being in your comfort zone is essential to good trading. If you are not comfortable, *you will screw things up. Either by getting out too early, or freaking out and taking a loss that wasn't necessary. We are not trading to punish ourselves. If trading makes you unhappy, it's not worth it. Stress does NOT have to come with this endeavor.*

How do I know that the price is at an important "area"?

One of the most important things you can do to improve your results is to look beyond the noise. Markets, and to an extent life, are both full of random noise. You have to remember that the same weaknesses and ridiculous behavior you witness in the "real world" show up in the markets. Why? Simple, it's full of people making decisions. Most trades are based either on fear or greed. Most aren't at important areas. But what if you could eliminate that?

As a general rule, I like to look for areas that price react to over and over on a weekly chart. You can find areas like this on a 15 minute chart as well, but they aren't as important. You want your trades to originate from areas that are pretty obvious. I have a saying, "If a trade isn't moron-proof, then it isn't for me." ;-)

Below you see an AUD/USD weekly chart. The blue boxes represent areas that I would be interested in trading at. Why? Price reacts to them over and over. It's not a sure win every time, but it does mean that you are trading with the larger order flow. It's these areas that drive the markets. You can either swim against the current, or with it. It's your choice, but I know that once I adopted this into my trading I became profitable almost immediately.

The areas are "zones" and not lines. The areas can be 50-100 or even more pips at times. Other times, they are much more precise. This is why we also look for Price Action as well, when we are at these areas. Once I plot some obvious areas on my weekly charts, I zoom in on the 4 hour, and leave it like that.

I have the luxury of going into my office every 4 hours or so, glancing and seeing if we are even near where I want to be. I will warn you: More often than not, there's no trade. But this is about *quality, not quantity*.

If you get 4% this month, does it matter if it was doing 4 or 12 trades? Why increase stress if you don't need to? Only take trades that mean something.....



See how price bounces off these areas? This shows a lot of order flow at these areas. The areas are almost always at “round numbers”. A few examples of round numbers would be 1.2400, 1.3600, and even “50” numbers like 1.1950.

Position sizing:

I know someone out there is saying “I can’t have 150 pip stop losses!” Yes you can. If you are aiming for 600 pips, does a stop loss of 150 seem so bad? Remember, we are aiming for quality trades, and a

smooth equity curve. Once you get used to thinking in terms of “handles”, (round numbers....) it changes trading completely. It’s like “Seeing the forest from the trees” to paraphrase a common expression. Also, when trading these larger areas, it gives you all the time in the world.

Price Action:

I cannot pretend that I have invented any of this part. I use “Martin Pring on Price Patterns” as a reference guide. A Pinocchio Bar, an Outside Bar, or even an Inside Bar at one of our “areas” is what I look for. It’s that simple. (At least as far as getting into a trade.) I *highly recommend* Mr. Pring’s book.

It is a lack of “reinventing the wheel” on price action that sped my progress along. Again the idea is to make money, not punish myself trying to “invent” something.

Systems:

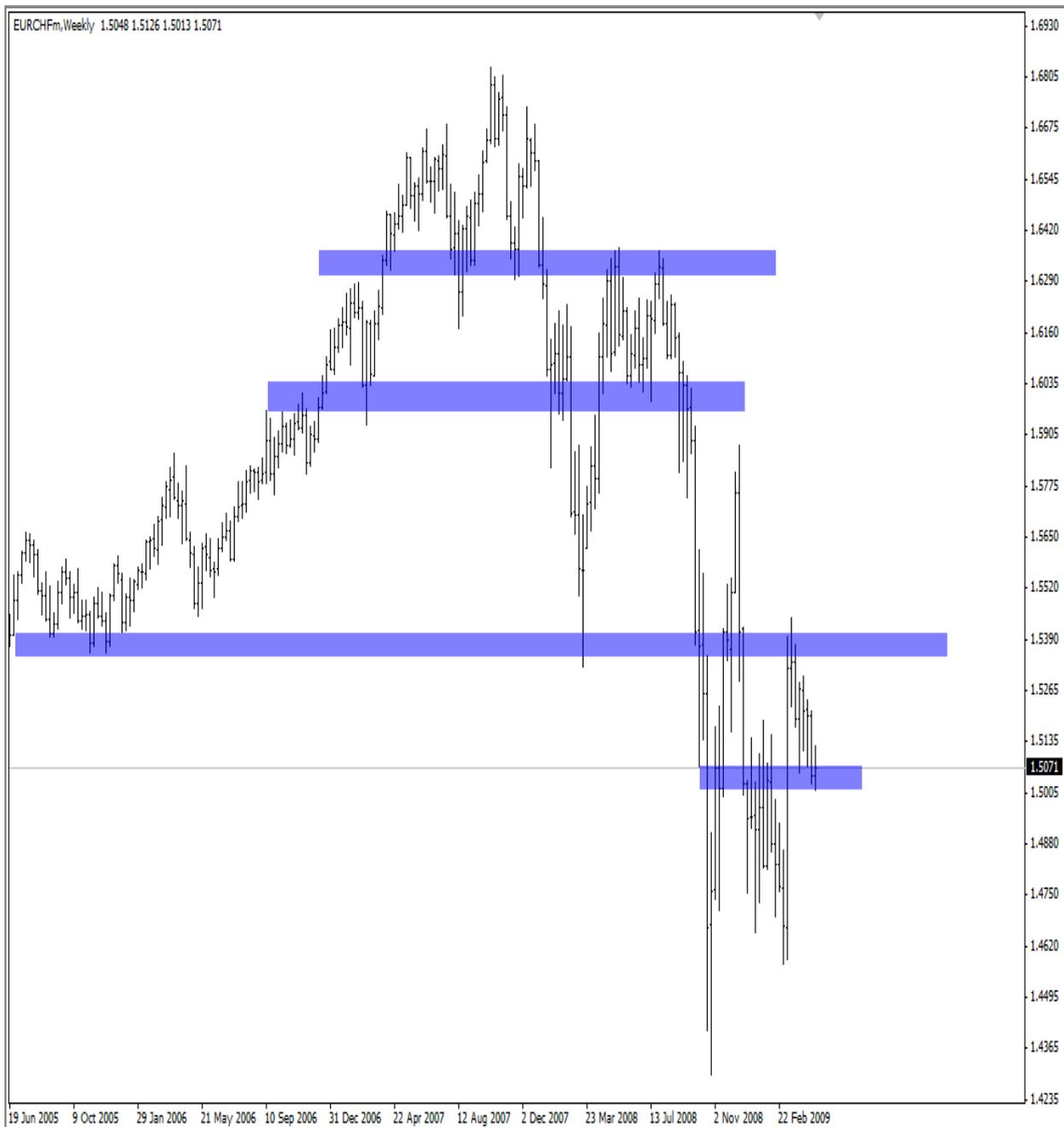
This is a method, not a system. Systems are a joke. You hear constantly, “My system has an edge to it; it exploits inefficiencies in the market.” What the hell does that mean? This person probably spent days and days back testing some cross over and MACD combo. They are simply looking for that magic combination. Trading really isn’t that difficult. In fact, it’s amazingly simple.

I don’t do anything new here; I just thin a lot of crap out of the mix. It works more often than not, and that means profits. Will the market ever change and my “system” break down? No. Its basic technical analysis and common sense. Will I have a few losing trades here and there? Yes. That’s trading.

Also, I have found that this stuff really works. I am not trying to “optimize” my system. It’s only trading, it’s not my life. I have found that most of my “optimization” tends to be in the form of psychology. Letting trades run, etc.

Quality not quantity:

Take the following chart. It’s nothing special, and in fact, I actually pulled it up at random. I have put blue boxes on it to signify where I believe there are important support and resistance areas. When taking a trade based on these areas, and using a smaller time frame to enter – (like the 4 hour.) it can mean some great risk to reward scenarios. It is not uncommon to enter a trade with a possible 5 to 1 ratio. How many of these do you think you need a month? Not too many, and that’s the idea. The less you trade, the less you risk. The less you risk, the more time you spend worrying about the truly important things in life, not you trading account!



As you can see, if trades are only taken at important areas – the reward can be great. Let's say you have a gain of 5% this month. Does it matter if it's done on one trade or ten? Yes, it does. Taking all those trades really increases your risk. It increases your stress, and makes trading more work than it needs to be. Trust me – I have been down this road, and it's a hard way to go for most of us.