DCAST
Capital Investments, LLC

Desicio

Rules of Engagement (ROE)

We live by the decisions we make!

By: Damian Castilla, CEO
DCAST Capital Investments, LLC

Mission Statement:

"Gaining mastery over my destructive propensities, through the exercise of awareness and self-discipline with regards to my trading frees me from the inner turmoil that naturally arises when my emotions are at odd with my process. In place of this turmoil come confidence, clarity and the strength to follow my plan."

- Damian Castilla

My Beliefs:

- That the financial markets are 100% psychologically driven, the tangible results of the collective emotions of its participants.
- That positive trading psychology is the most important factor in my trading.
- I am a 100% technical trader and fundamental data is already reflected in price therefore, news events represent periods of increased volatility and bare no weight on my course of action.
- That I cannot control market direction, but I can control my response to the market.
- That directional movement is started by a decision and end with and opposite decision.
- That I can forecast future price action accurately through proper structure and order flow analysis.
- That all of my trades are successful if I have followed my Rules of Engagement (ROE).

"I am excited about the opportunities the market will give me today! I am here to trade my plan. I believe when I trade my plan that the profits will always follow."

-Damian Castilla

I TRADE WHAT I SEE, NOT WHAT I THINK!

Objectives:

- To maintain situational awareness at all time.

- To exploit trading opportunities in the direction of market order flow and against the direction of market weakness.

- To stay profitable and maintain discipline.
- Keep it simple and follow the trade plan.
- To accept responsibility for whatever happens.
- To be the best!

"IF YOU FAIL TO PLAN, YOU PLAN TO FAIL!"

-UNKNOWN

System Parameters:

Days of week to trade: Monday thru Friday

Time of day to trade: 8:00 a.m. thru 12:00 p.m. EST

Market: FOREX, Any Major Pair & Crosses Special Focus Majors

Platform: FXCM Trading Station.

Time Frame: 2 Minute Chart (M2)

Strategy: Swing Trading, Price Action Manual Trading

Template: DCAST Capital

Indicators: No Indicators, I Use Price Action and Platform Tools

Structure Analysis:

Structure Analysis is the foundation to proper chart reading. It is also by far the most neglected component to technical analysis among traders. Market Structure is how the chart speaks to us technical analysts and lets us know with very high degrees of probability where it wants to go next. It is our job to pick up on these clues to properly and accurately forecast where the market is heading.

Contrary to the beliefs of many of my colleges the market is not random and forecasting its future path with accuracy is completely possible.

Market Structure is much more then horizontal lines that indicate Support or Resistance or on a more complex level areas of Supply and Demand. This is where novice technicians seek to identify imbalances between the two and where they fall prey the highly skilled 10%ers and institutional traders.

Performing proper and meaningful Structure Analysis in tells the proper identification of certain structural landmarks, the relevance of those land marks and the proper expectation that derives from the combination of these three components.

Supply and Demand or Support and Resistance have nothing to do with structure analysis. I will address this topic later in the Trade Plan.

I use four basic descriptions to identify the structural landmarks I am particularly interested in. These landmarks assist me in forming expectations for price to follow. These four basic landmarks and the respective expectations that price should follow are:

1. New Structure High (NSH) – This is a new high in a price swing and forms from an impulse leg or move up. This is a clear message that the market intends to move higher. The expectation from this is for price to correct or as some would call retrace into the next expectation.

2. Higher Low (HL) – This is an expectation from a NSH and is known as the retracement, correction or the corrective swing. This is how the

market confirms to us that it indeed wants to move higher. The expectation from this is another impulsive move into another NSH.

3. New Structure Low (NSL) – This is a new low in a price swing and forms from an impulse leg or move down. This is a clear message that market intends to move lower. The expectation from this is for price to correct or retrace into the next expectation.

4. Lower High (LH) – This is an expectation from a NSL and is known as the retracement, correction or corrective swing. This is how the market confirms to us that it indeed wants to move lower. The expectation from this is another impulsive move into another NSL.

It is vital to have and trade with expectations as they keep you in line with the strength of the market as well as with proper order flow. These basic expectations of Structure Analysis alone will help you forecast with a very high degree of accuracy where the market intends to move to next.

Order Flow Analysis:

Order Flow Analysis goes hand in hand with Structure Analysis and helps you gauge the strength or weakness of the price swings. We can achieve this by observing and comparing the three components that determine strength and weakness from swing to swing in any market. These components when analyzed properly gives the technician a huge advantage in determining whether a trend is strengthening, weakening or if a reversal is imminent. The most important element of this analysis and the one overlooked the most is its ability to provide extremely accurate expectations as to where these cycle highs and lows are likely to occur. This become even more powerful with the use of Bar by Bar Analysis and Fibonacci Studies. Before I address this I will address the components of Order Flow and the expectations we have from them.

- Projection is the distance a NSH or NSL makes from the previous NSH or NSL. The expectation from Projection is that the stronger or longer the projection the more strength behind price and the shorter or weaker the correction. Whereas a weak or shallow Projection shows weakness and we can expect a deep correction or possible breakdown in the trend.

- Momentum is not looked as in the traditional sense of the word. Momentum is the pitch or angle of the swings in comparison to each other. Steeper angles in comparison to the previous swing are an indication of strength building. The opposite is true if there is a decline in pitch as this signifies weakening in price action.
- The third and final component is Depth. Depth is all about the pullback, correction or the retracement. It is the distance from a NSH or a NSL to the corrective swing high or low. Deep depth in price action indicates weakening of the driving force while shallow depth indicates strength.

This is the analysis we focus on to identify breakdown in price swings and to identify possible turning points or market reversals. It also helps us determine based on expectations areas of interest for possible entries on either continuations or reversal opportunities.

Bar By Bar Analysis:

The analysis we have conducted so far is an assessment and tells us with very high degrees of probability the likely future order flow direction. We will be updating this assessment bar by bar as new data unfolds. The advantage to this is that if we are wrong, we will be able to see it in a timely manner, allowing us to reassess and adjust our expectations and or trade management. And if we are right be prepared for any trading opportunity that will present, as price follows our expected path.

Our initial analysis resulted in an initial assessment of future order flow. Ongoing analysis requires a bar by bar reassessment of our previous analysis, as more price action unfolds on the right hand side of our charts.

New data will arrive, one candle at a time. Each new candle being a source of information; most of which will offer nothing new or relevant; but some of which will alter our analysis, either strengthening or weakening our assessment of the market and its future order flow.

Every new candle has significance. Failing to monitor price with each new candle means you will be forced to be reactionary – surprises by price action developments and chasing price after they've become obvious.

Ongoing monitoring ensures we maintain focus and maintain situational awareness – staying ahead of the current price action – assessing where it's likely to travel, how that will impact the decision making of other traders, and where that will create trading opportunities.

Ongoing price analysis can be conducted on all timeframes; however our main interest is with the trading timeframe. We question every candle, to determine what it means with regards to the shift in sentiment between the bulls and the bears; and whether or not it changes our expectation for the future.

This Bar by Bar Analysis is how we assess the price action within the Price Reversal Zone (PRZ). And the most important source of information in making a trading decision once an opportunity presents itself.

Decision Candles

Every swing begins and ends with a price imbalance followed by transfer of power between the two forces that control price movement. This is what we call the decision candle or candles. This is the precise moment where one force overpowers the other and a decision is made to either buy or sell. This transition occurs at every swing high or low and on every correction in price action. This is how we confirm possible swing highs and lows and how we time our entry once we have identified a potential trading opportunity. The diagram below give a visual representation of what these candle look like and how we can identify them.

Supply and Demand

The more and more information you use to try to find a trading opportunity, the less likely that you are going to be focusing on the one true thing that will always give you the clearest idea of price action, mainly price itself. By focusing on the ancient laws of supply and demand, you respect price and price alone and also the dynamics which dictate the movement of price in any free-flowing market. At the end of the day, if I'm going to make a decision whether or not to buy or sell a currency pair, I want to make a decision based upon the hard evidence that is clearly in front of me. Price is the only thing that will give me that information. What becomes obvious when you start to incorporate an understanding of supply and demand onto a price chart, is that you can actually see when major activities of buying and selling have taken place on the charts and if you look at this the right way, you can also understand what this means for upcoming trades as well. Would it not make sense to buy in an area where demand has shown itself to be greater than supply? Would it also not make sense to be selling at an area where supply has shown itself to be greater than demand? The rules clearly state that if demand is greater than supply prices must go up and if supply is greater than demand prices must go down. Our job as objective and disciplined traders is to simply incorporate this dynamic into our trading activity with confluence of ratios and or harmonic patterns.

We also have basic and powerful expectations for Supply and Demand Zones. Support and Resistance is basically the same as Supply and Demand but on a much smaller scale. While Supply and Demand Zone are more visible across larger time spans weeks, months even years, Support and Resistance are more on the immediate, a smaller time

span of a couple of days or even swings. They do however share something in common and that is our expectation from them.

- Supply and Demand Zones are expected to hold unless they are approached with strength. We must also evaluate how these zones have held up to strong attacks from the past and consider the strength of the order flow when the zone is being tested.
- Support and Resistance share the same basic expectation aspects as Supply and Demand but on a more current scale. We are basically addressing local intraday levels and swing highs and lows. The expectation is the same. They are expected to hold unless they are approached with strong order flow.

Fibonacci Ratios:

Fibonacci Ratios are used as a measuring tool to calculate the distance of the corrective swing and also to qualify the different points of the advance patterns I trade. I believe this tool is extremely effective when combined to other technical elements such as areas of supply or demand and confluence zones. The ratios I use are:

- 38.2% - A correction to this point indicates very strong bearish or bullish order flow and a continuation to new highs or lows is very probable.
- 50% - This is known as the pivot and helps determine the general bias of the order flow (Bullish or Bearish).
- 61.8% - This is known as the golden ratio and most swings have a high probability of finding support or resistance there.
- 78.6% - A correction to this area indicated the driving force is losing strength and the order flow may be changing. It also offers the best risk reward options.
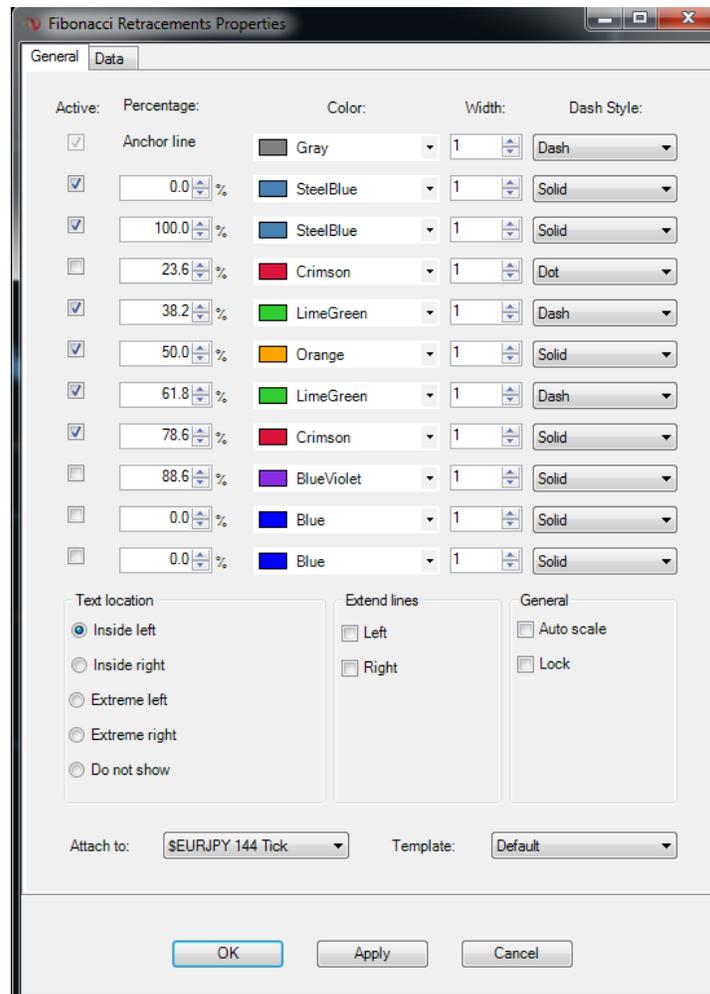
Fibonacci Extensions:

Fibonacci Extensions are used as a measuring tool to calculate areas of exhaustion or areas where price may be over bought or oversold. I also use these extensions to validate advance patterns and their completion points.

- 127.2% - This is the first level of exhaustion and price is expected to reach this level once a NSH or NSL is achieved. A correction to this level indicates order flow weakness and expectation is for a deep correction of price. Somewhere beyond the 61.8% retracement.
- 138.2% - This is the second level of exhaustion and would indicate moderately strong order flow. The expectation from this level would be for a mid to slightly deep correction of price. Somewhere between the 50% and the 61.8% retracement.
- 161.8% - This third level of exhaustion and would indicate extremely strong order flow. The expectation from this level would be for a light or shallow correction of price. Somewhere prior or slight past the 38.2% retracement.

As mentioned the correlation of these exhaustion points, price and confluence add strength to your setup and offer high probability trading opportunities.

Fibonacci Settings for Ninja Traders:

These are the default parameters for lines and color styles. The defaults Fibonacci tool is used to measure ordinary swings and secondary measurements from main swings.
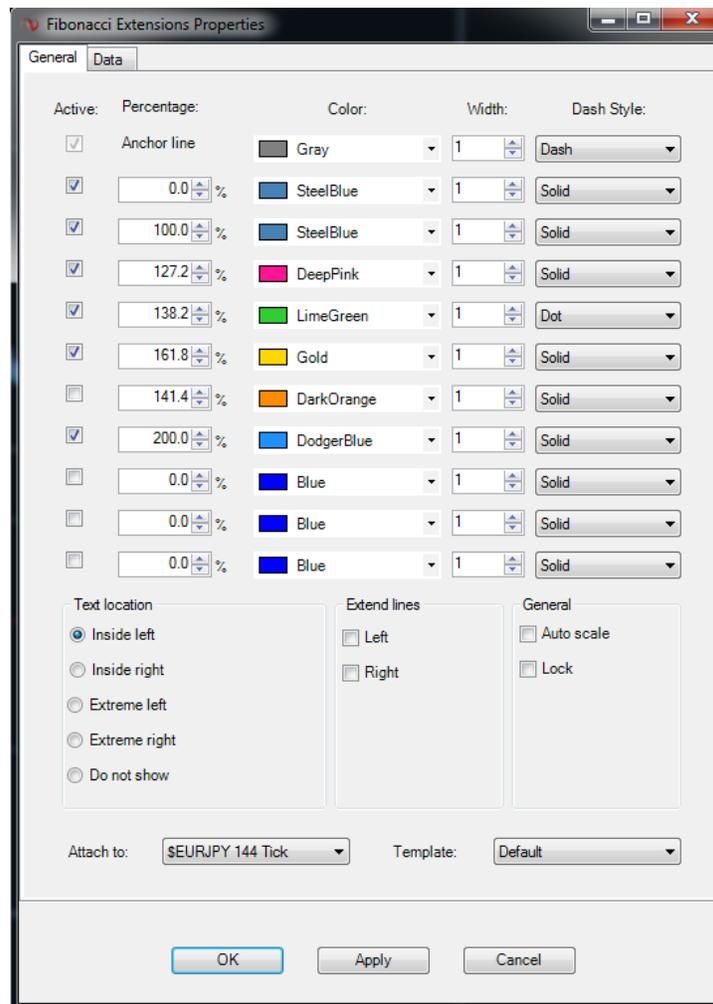
The main settings and line colors are used to measure main swings and the primary formation of the advance patterns I trade.
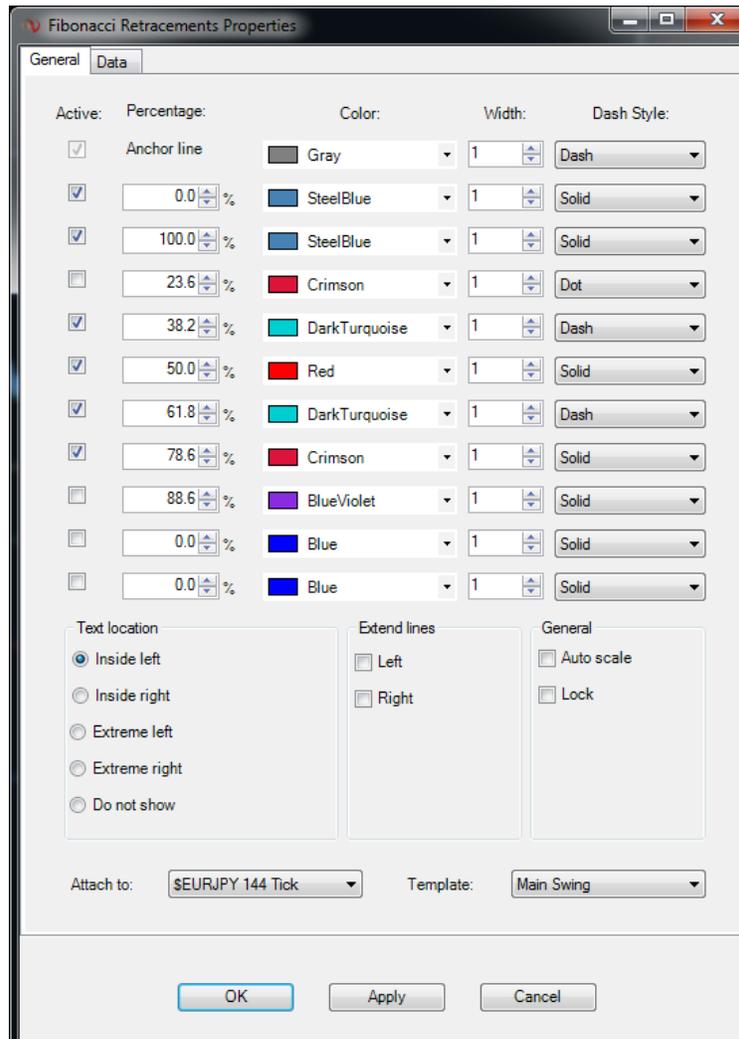
Fibonacci Extension Settings for Ninja Trader:

These line settings and colors are used to measure exhaustion points and to identify Price Reversal Zones (PRZ).

Infrastructure and Setup:

My broker of choice is FXCM. Their contact information is:

FXCM Contact Information

Forex Capital Markets, LLC is a registered Futures Commission Merchant and a Retail Foreign Exchange Dealer with the Commodity Futures Trading Commission and is a member of the National Futures Association ("NFA"). NFA Number: 0308179.

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My FXCM account number and password are stored in a safe and secure location.

The primary order execution platform is Trading Station which is proprietary to FXCM. I have integration with Ninja Trader which interfaces with Trading Station for technical analysis, trade execution and order management.

My Ninja Trader License Key and connection parameters are stored in a safe and secure location.

Measures have been implemented to counter and ISP failures. My internet service provider (ISP) is Xfinity and their contact number is 1800 COMCAST.

I also have a VPS which maintains constant connectivity and ensures in an event of a local ISP failure, that my trades and connection with FXCM are never at risk. The VPS provider is FXColo.com and they work with FXCM. Documentation and setup instruction are located in the appendix section of this trade plan. VPS login and password are also stored in a safe and secure location.

As a third option or an on the go situation I also have the FXCM custom mobile app which allows me to make any adjustments that may be necessary. I also has Trading Station and Ninja Trader installed and functional on my lap top as well.

Professional Trade Plan Rules Of Engagement (ROE):

Let each trade run its course!

Technical Analysis:

- On a 233 or 144 Tick chart, identify key areas of Supply and Demand both above and below current price action with a horizontal line or rectangle tool.
    - Identify Market Structure by the process of Structure Analysis.
        - Is the market's intention to move up or down?
        - Is the market moving towards any areas of Supply or Demand?
    - Identify Market Strength by the process of Order Flow Analysis.
        - Is price accelerating (gaining strength)?
        - Is price decelerating (losing strength)?
        - Develop and expectation on whether Supply or Demand will hold or fail based on order flow analysis.
    - Identify with the line tool any potential advanced patterns relevant to price action of the long term order flow. Guides to the patterns I trade are located at the appendix of the trade plan.
- On the same Tick chart, identify areas of short term support and resistance with the line tool. Use the most obvious and current price swing to achieve this.
    - I pull Fibonacci Ratios of the most recent and most relevant swings to identify ratio confluence areas for high probability retracement zones.
    - Identify current strength of price action (is price action above or below pivot 50% Fib) and what does the order flow tell us? Are we in a retracement or a continuation move? This tells us the short term strength and weaknesses of price action.
    - Identify with the line tool any potential advanced patterns relevant to price action on the intraday order flow. Guides to the patterns I trade are located at the appendix of the trade plan.
    - Use Fibonacci extension ratio confluence areas to identify exhaustion points, profit targets and potential reversal zones.

IF:

- Price approaches an area of support look for buying opportunities (Long).
- Price approaches an area of resistance look for selling opportunities (Short).
- Price finds support or resistance at a ratios area of confluence look to enter long or short.
- Price is in a final leg of any advanced patterns.
- Price completes an advanced pattern.

Each of the conditions above when met will be awarded a point and will be displayed as follows:

SOS 1-4 (Strength of Signal). The more points are accumulated the higher the probability of a low risk high reward trade setup.

- SOS 1 = The most aggressive buy or sell signal off of support or resistance and offers a high risk trade setup.
- SOS 2 = Is a very aggressive buy or sell signal which adds a slightly reduced risk of trade setup. This setup finds price action respecting S/R in conjunction with Fibonacci ratios confluence.
- SOS 3 = Is what I call an aggressive C buy or sell signal. This is usually found in the beginning of the C leg of an advanced pattern and offers a much safer entry.
- SOS 4 = It is the less aggressive and the safest entry point into the market providing the highest probability trade possible with the least risk. This occurs at the completion of an advance pattern with ratio confluence and support or resistance.

Signal Bar:

Signal Bar= When the price bar closes where any or all conditions above are met SOS 1-4. The signal bar may penetrate an area or support or resistance but must not close above or below it or it becomes an invalid signal bar.

Advance Patterns:

Advance patterns must meet the following criteria to be considered valid and tradable:

- Pattern's Fib levels must be respected by price action.
- Price may extend past a Fib level but must close at or below to be considered.
- If price fails to reach a Fib level it will be considered a Fib failure and must be reanalyzed for other strength of signals to validate entry.
- Extended areas of price consolidation within pattern formations add weakness to the pattern. Other strength of signals must be present for entry.

Then:

Once I have an SOS 1-4 signal bar we buy/sell next bar market.

Stop loss:

SL= 20 Pip hard stop to protect from volatility spikes but the position is liquidated if I get a close above/below previous swing or structure if close to signal bar. Stop loss moves to breakeven plus 5 once price reaches 38.2% Fib level and trails to nearest structure support or resistance minus 5 pips until profit target is attained or stop is triggered.

Profit Targets:

Target 1= 78.6% Fibonacci retracement of the swing that triggered entry of signal bar.

Target 2= 138.2% Fibonacci extension of swing that triggered entry or advance pattern completion.

Harmonic considerations will be taken into account to adjust profit targets to realistic expectations.

Exits:

Scenario A - If profit target 1 is attained, then close ½ of the position and moved stop loss to break even or 5 points above or below the nearest structural support or resistance. If profit target 2 is attained close the remaining position and search for reentry opportunities.

Scenario B - If profit target 1 is attained, move stop loss to secure 50% of profit and trail 5 points above or below the nearest structural support or resistance until target 2 is attained or stop loss is triggered.

Reentries:

If profit target 1 is attained and price retraces back to support or resistance and I get another SOS 1 - 4 signal, then I can enter next bar market with ½ of a position. This reentry is known as SRT-1 (Support / Resistance Test-1).

Stop loss is set to same as open position which is breakeven.

Profit target for a reentry position is profit target 2 of open position.

Money Management, Risk/Reward and Financial Goals:

- I use a smoothed ratio money management formula to trade the Forex Market. A copy of this concept is located in the appendix section.
- I use a custom Excel spreadsheet to assist with position sizing in accordance with the smoothed ratio money management formula we follow. A copy of this is also located in the appendix section.
- I follow this formula making the recommended adjustments to position sizing as needed. This formula's objective is the preservation of trading capital and to maximize gains.
- Risk/Reward is preferred at minimum of 1:1 ratio, but waiting for the setup and trading the rules is paramount and given the opportunity this standard is a guideline.
- My goal is to successfully net a minimum of 20 Pips daily average in the Market.

Note:

Losses are acceptable, not desirable but I can minimize them with compliance to the rules, especially avoiding impulse trades and never being in a trade without a plan or a stop.

Trading is my business and I am here to profit!

Each trade will be recorded in the MyFXBook.com website to have statistical data that will be studied weekly to measure performance and make adjustments to my trade plan that maximizes gains and reduces losses. Any changes to my trade plan must first be validated through back testing.

KEEP IT SIMPLE!

To My Success,

Damian Castilla, CEO DCAST Capital Investments, LLC

<u>Appendix:</u>