FREE PDF

6 Proven Simple Strategies to Make You Money Every day in the Forex Market

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6 Proven Simple ways to Make You Money every day in the Forex Market

1. HEAD AND SHOULDERS

This is one of my favourite reversal patterns to trade. The Head & Shoulders is one of the most reliable chart patterns, having accuracy of almost 90% and generating profits for decades. It is one of the most recognized of all chart patterns.

It does not take a seasoned trading eye to spot one forming on a chart.
They don't come around often but when they do the profits can be considerable.

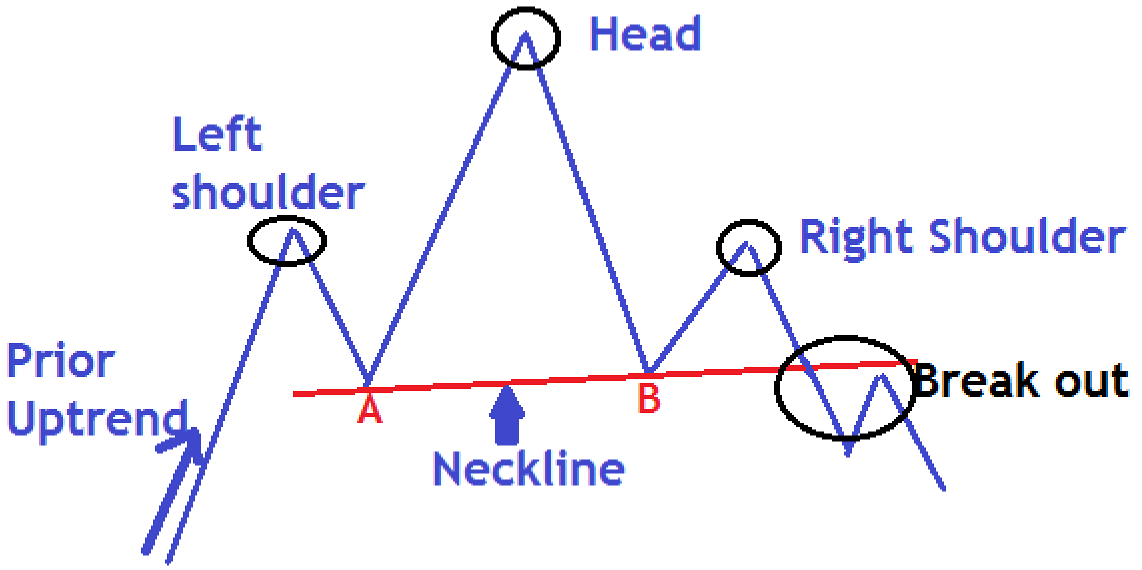
The head & shoulders pattern can develop over virtually any timeframe. This is one of the major reasons why this pattern has potential to make you profits every single day

Questions I often get are about entries, objective exits and Stop losses. But don't worry now. I am going to show you everything you need to know to make money from this reversal pattern.

Great, let's get started.

What is a head and shoulders pattern?

The best question would be, what *really qualifies* as a head and shoulders?
Let's begin with the illustration below;



From the above illustration, there are five components of a Head & Shoulders pattern that must be present in order to confirm the pattern has formed.

- Prior uptrend
- Right shoulder
- Head
- Left shoulder
- Neckline

We will look at each part individually, and then later put them together with some examples.

Step 1: Prior Uptrend

This is the very first part. There must be a clear prior uptrend.

As a general rule, the longer the uptrend lasts, the stronger the reversal is likely to be

Step 2: Left shoulder

At this point, the market moves down to form a higher low. This gives a peak which is the left shoulder. But at this point there isn't anything substantial to confirm the pattern

Step 3: Head

From the low of the left shoulder, the market advances and makes a higher high which marks the top of the head. It then moves down and forms another low. This completes the head structure

At this point, we have the left shoulder and the head of the structure. The pattern is now starting take shape.

Step 4: Right shoulder

The advance from the low of the head forms the right shoulder. This peak is lower than the head (a lower high). You can't have a shoulder higher the head, right?

At this point the pattern structure is clear.

But one main part missing: The Neckline

Neckline:
This level will become a key component when we get into how to trade the breakout. The neckline is drawn by connecting low points A and B.

Low point A marks the end of the left shoulder and the beginning of the head. Low point B marks the end of the head and the beginning of the right shoulder.
Typically the neckline is not horizontal

Psychology behind the head and shoulders pattern (Why does it form?)

The psychology in every pattern is a shift in strength between the buyers and the sellers. In the head and shoulders, the buyers are tiring. That simply means we are having a shift in strength from buyers to sellers.

OK! That must be a bit confusing! Let’s explain more.

The prior uptrend indicates a lot of strength in the buyers, pushing prices higher. *As the buyers are tiring, there is a general shift of strength from the buyers to the sellers.* At this point, prices start to fall as more sellers come in. this is how to the left shoulder gets to be formed.

At the low of the left shoulder, we have *more buyers who are not yet convinced of the falling prices and actually take advantage of falling prices to even buy more*. This leads to prices pushing even much higher to form the tip of the head.

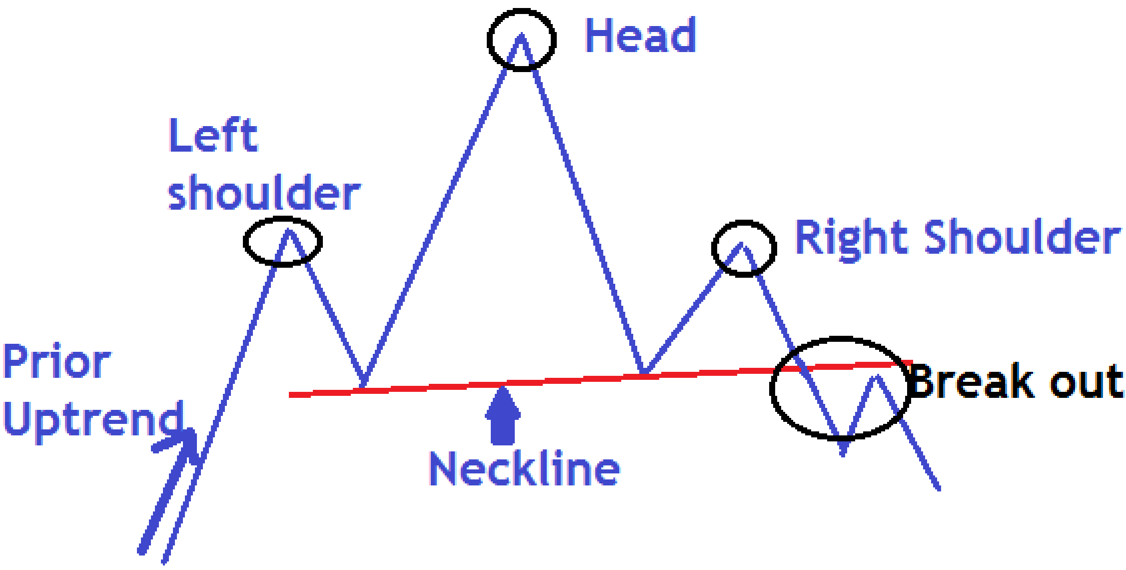
At this point, *most of the buyers exit their positions and this causes a lot of panic selling that completes the head structure. So if you just bought at the tip of the head, you would now get trapped.* ***Actually, the head is basically a ‘bull trap’***

At the low of the head, a few buyers come in to take advantage of the low prices. This causes a slight rise in the prices up to the tip of the right shoulder. Remember we are having very few buyers in the market this time. *That’s why the tip of the right shoulder is actually lower than the tip of the head.*

So the right shoulder is fully formed when *almost all the remaining buyers exit positions and now more sellers enter the market pushing prices lower*.
Now we are at the point where we are in the neckline zone, waiting for the break out.

Sit back and relax now. We are getting to the one the important parts; THE BREAKOUT!

Head and shoulders breakout



We need to start by knowing what qualifies as an actual breakout. *An actual break out is **when the candle closes below the neckline** and I mean close below the neckline, not just the tail touching.*

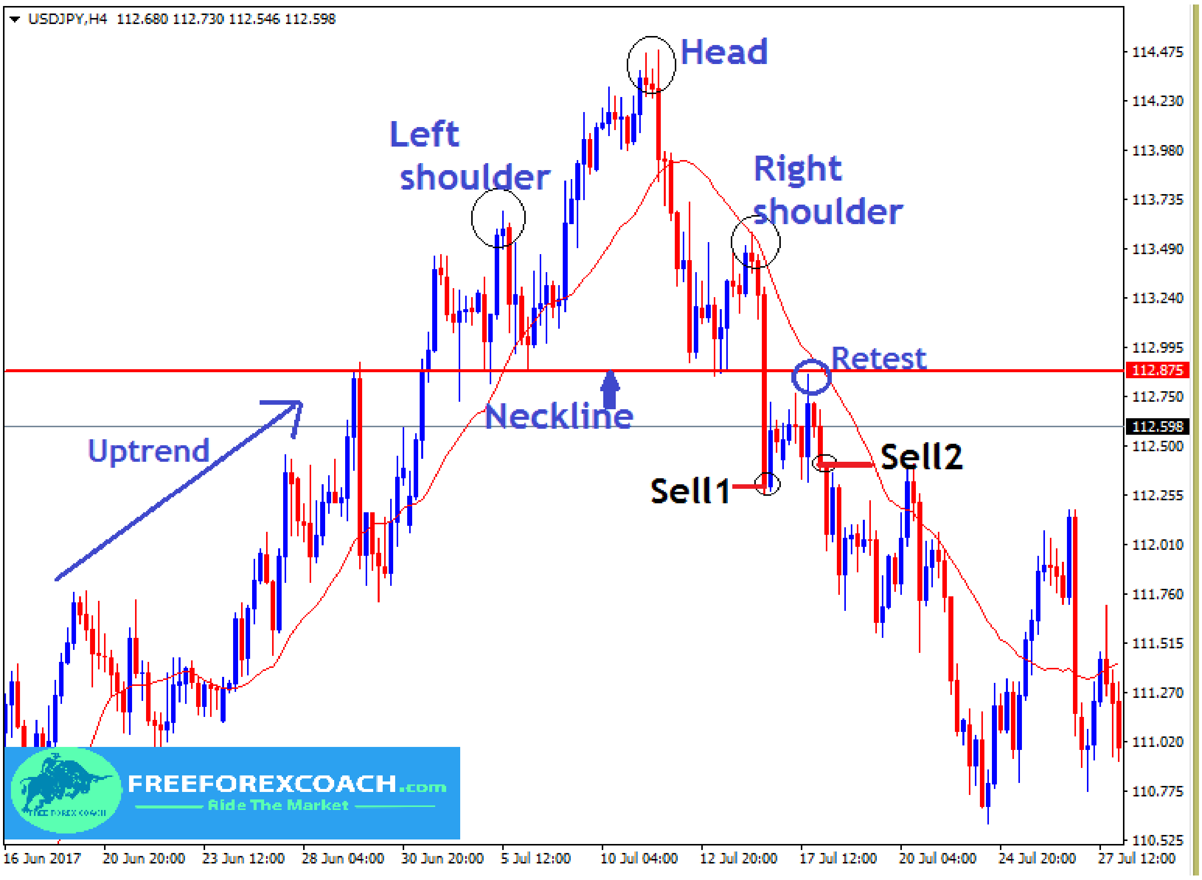
Now that we know what an actual breakout looks like, let us see how to enter trades following the head and shoulder pattern.

How to make entries on a head and shoulders breakout.

Now this is *really* the fun part – how to trade and of course profit from a head and shoulders reversal.

There are two major ways how you can enter a trade on a header and shoulders breakout; *An aggressive entry and a Conservative entry*.

Let's look at the USDJPY, 4-hourly chart below



An aggressive entry (sell 1)

An aggressive way to enter the head and shoulders is to *enter as soon as the candle breaks through and **closes below** the neckline*. Just as shown at Sell 1 entry

A conservative entry (sell 2)

A more conservative way of trading the neckline break is to wait *until the price has broken through the neckline and then **retested** from the other side as resistance*. Just as shown on Sell 2 entry

This is based on the fact that a broken support becomes new resistance and vice versa. So when the candle closes below the neckline. Wait for the price to come back to the neckline for a retest and find resistance, then you can enter a sell position.

Waiting for a retest accomplishes two things:

- It helps validate the recent break

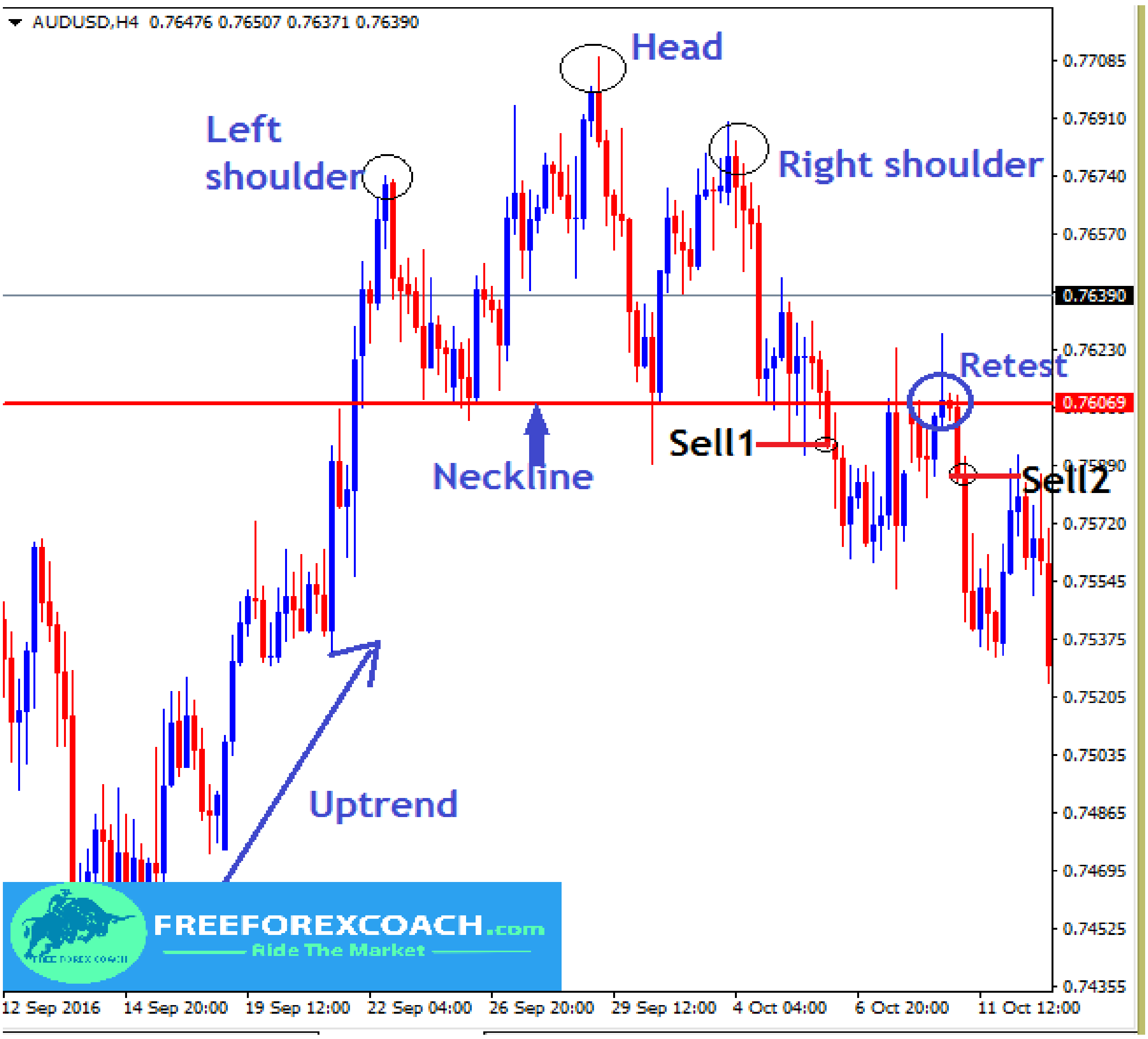
- It offers a more favourable risk reward ratio

This combination is why I almost always opt for the conservative method. There is, of course, a greater chance of missing an entry by waiting, but the potential reward for doing so is equally great.

Take a look at another example on how to make entries on head and shoulders below on the AUDUSD, H4

From our chart below;

- Sell 1- Aggressive entry
- Sell 2- Conservative entry

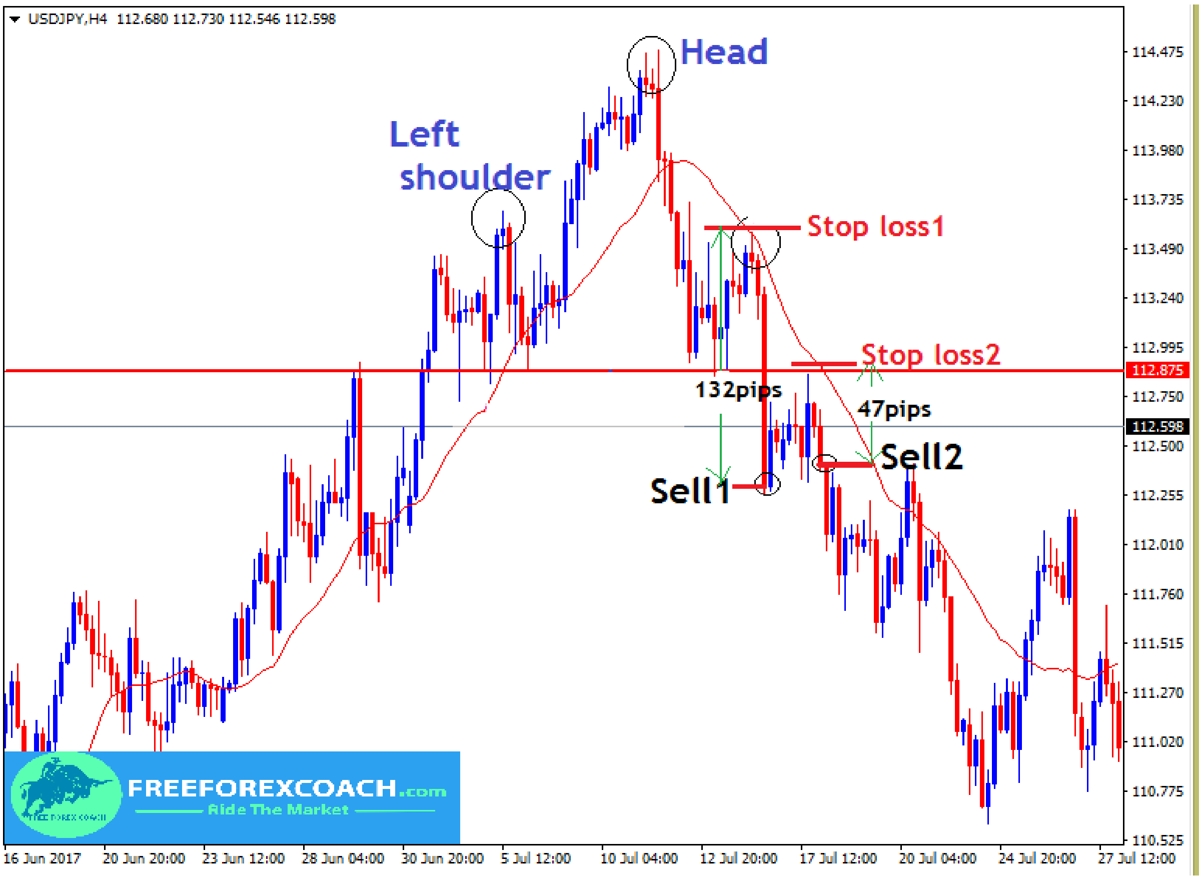


Setting Stop losses on Head and Shoulders pattern

Let us take look at how to set stop losses and manage our risk while trading the head and shoulders.

There are basically two ways of setting stop losses that I will share with you here. Just like we have conservative and aggressive entries, *we can also set our stop losses aggressively or conservatively*.

Let's take a look at the USDJPY,4-Hour chart below;



Conservative Stop loss setting (Stop loss 1).

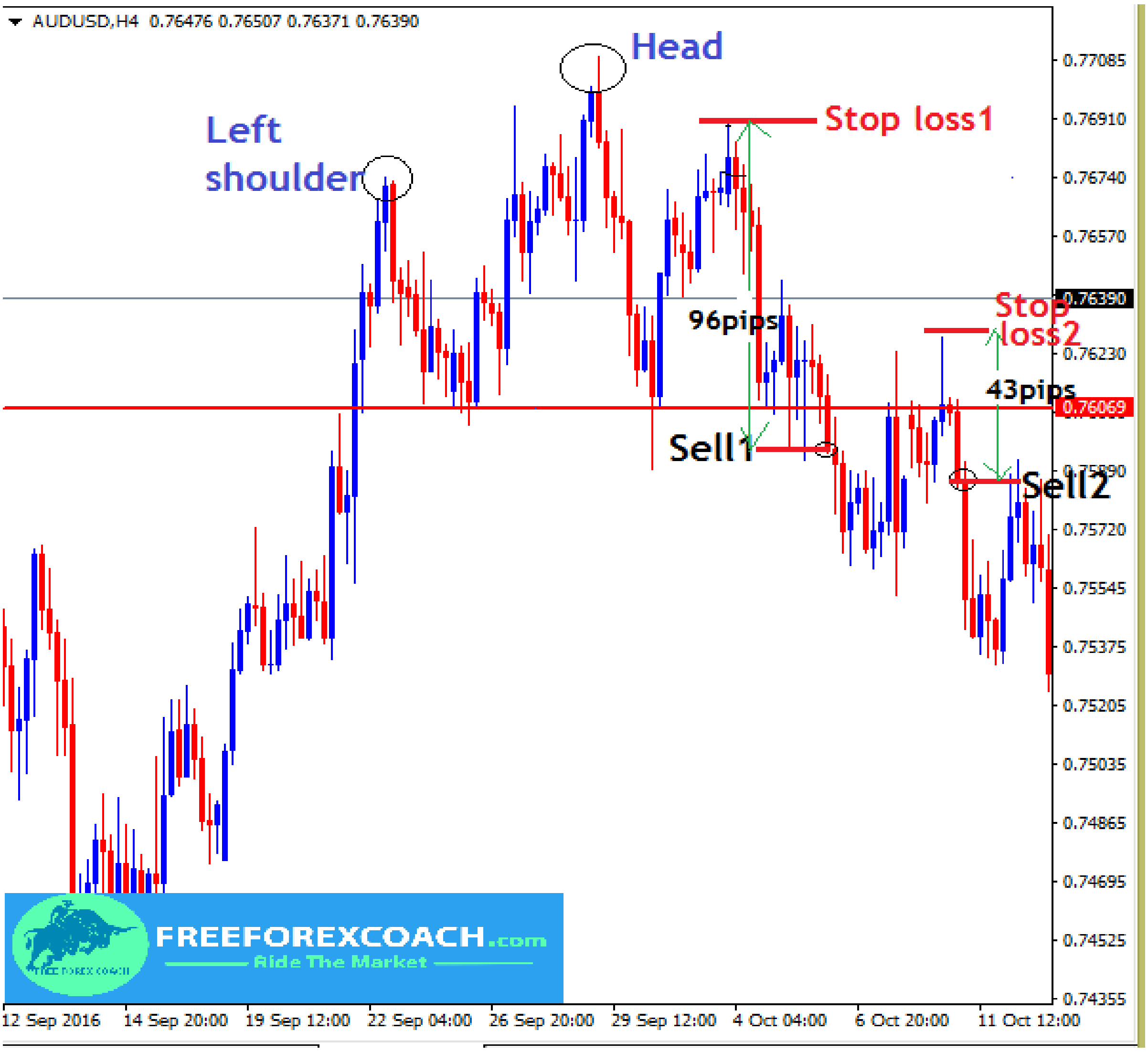
Here you *set the stop loss just above the right shoulder*. Just as shown on **Stop loss** 1 on the USDJPY 4-hour chart above

This gives the market enough breathing space between the entry and stop loss but cuts your potential profit in half or worse since the Stop is very wide.

Setting Aggressive Stop Loss (Stop loss 2).

In this case the Stop loss is just set on the previous high as shown above on Stop loss2. I really prefer to use the aggressive stop loss. Simply because it allows for a much better risk to reward ratio while still offering room for price to swing up and down.

Let's look at AUDUSD chart once again to understand this better.



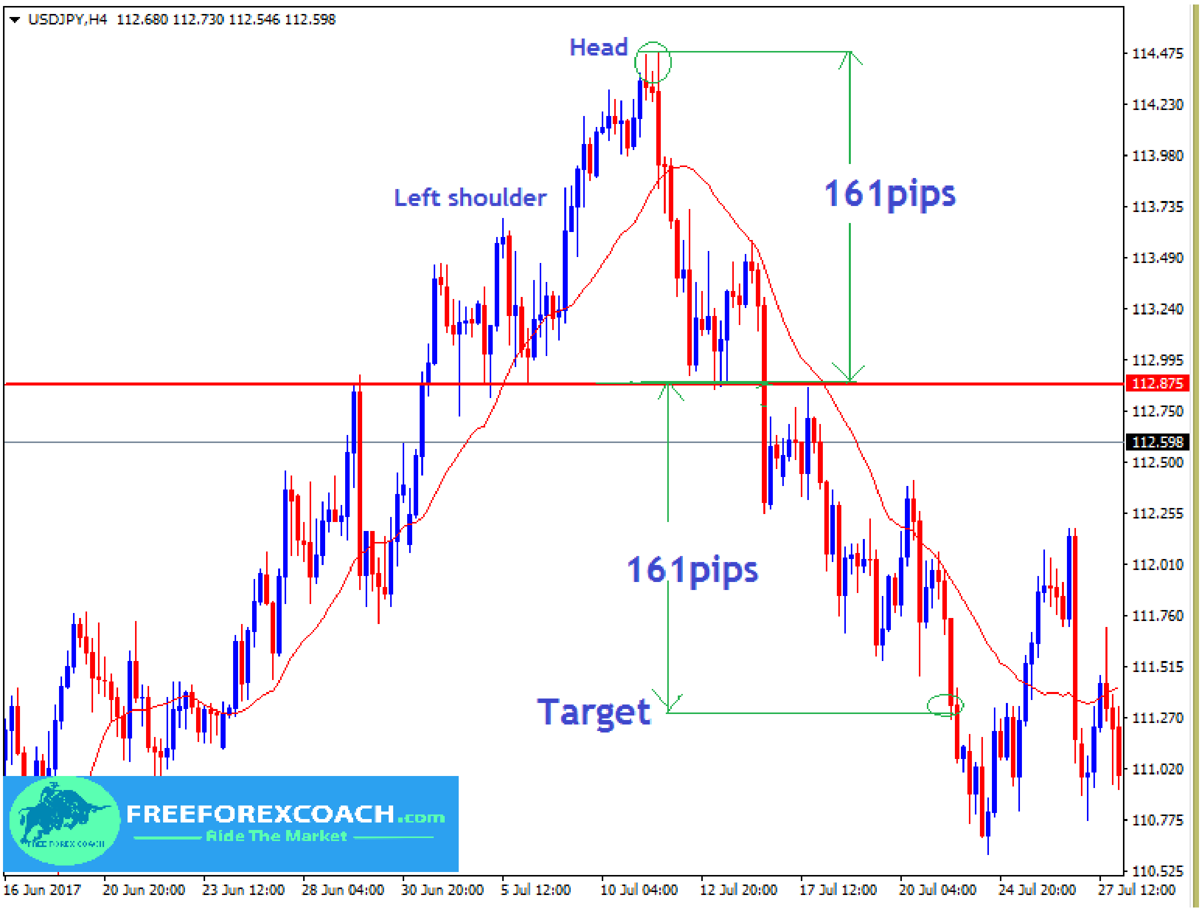
As you can see from our chart, the stop is placed just above the last swing high (stop loss 2). This is still about 43 pips from my entry, so there is still more room for the market to breath, but it isn't so far away to adversely impact my potential reward. When you set your stop above the last swing high, you've cut your stop loss distance from 96 pips down to 43 pips, yet keeping same target. This earns you more money with a small risk

Setting Profit targets and measured objectives

You're in business to make profits. A specific profit target can be a powerful catalyst for the growth of your account balance.

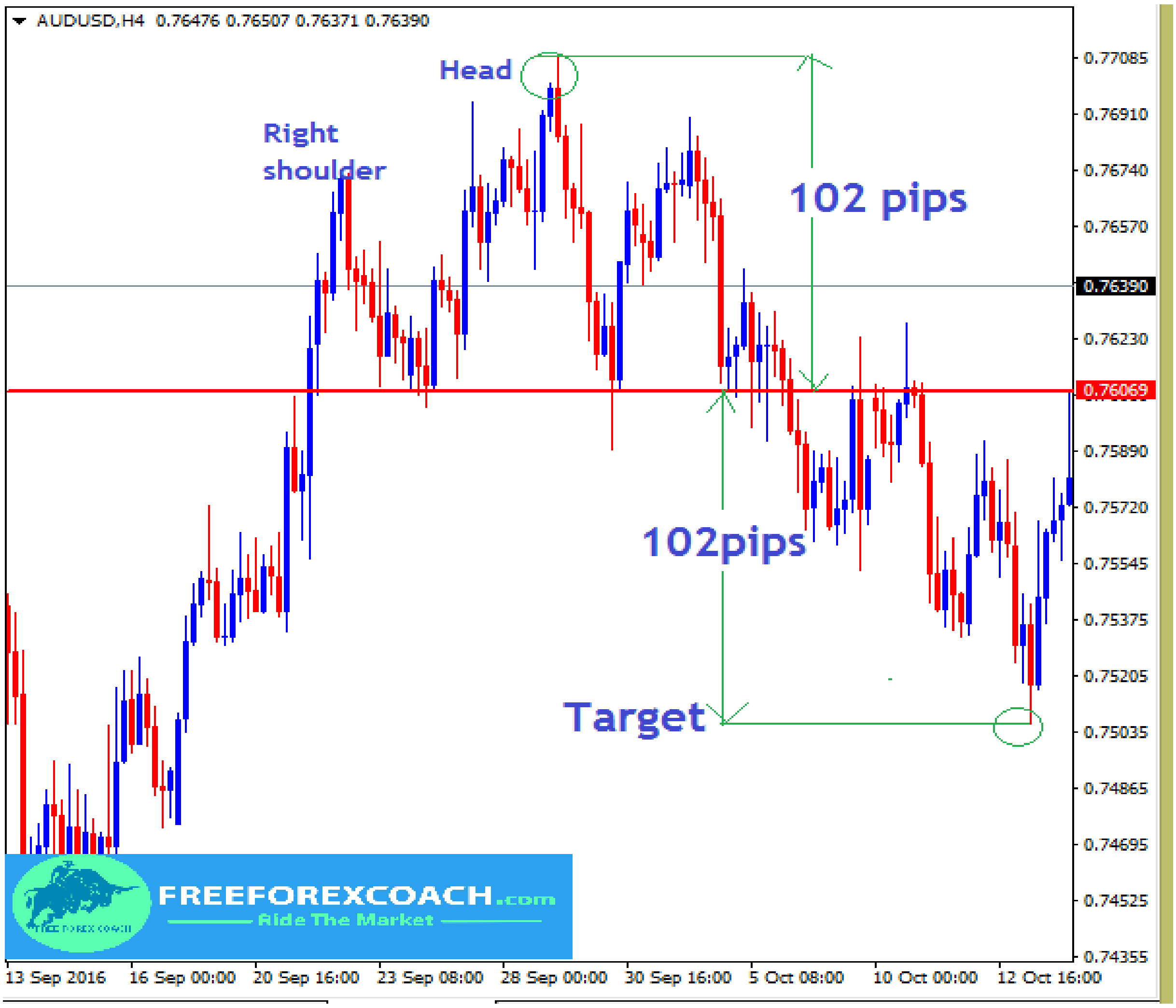
For a head and shoulders pattern, the basic method you can use in setting profit targets is the measured objective .This is the traditional way of setting a profit target on the head and shoulders pattern.

Let us look at how exactly this is done.



From the example above, note that we measure the *vertical distance from the peak of the head to the neckline (161 pips)*. Then measure this *same distance (161pips) down from the neckline beginning* at the point where prices penetrate the neckline after the completion of the right shoulder.

This is the same method we used to measure the profit target for our second example on the AUDUSD, 4-Hour chart below;



This was 102 pips from the tip of head to the neckline and the same vertical distance to the downside. This gives the minimum objective of how far prices can decline after the completion of this top formation.

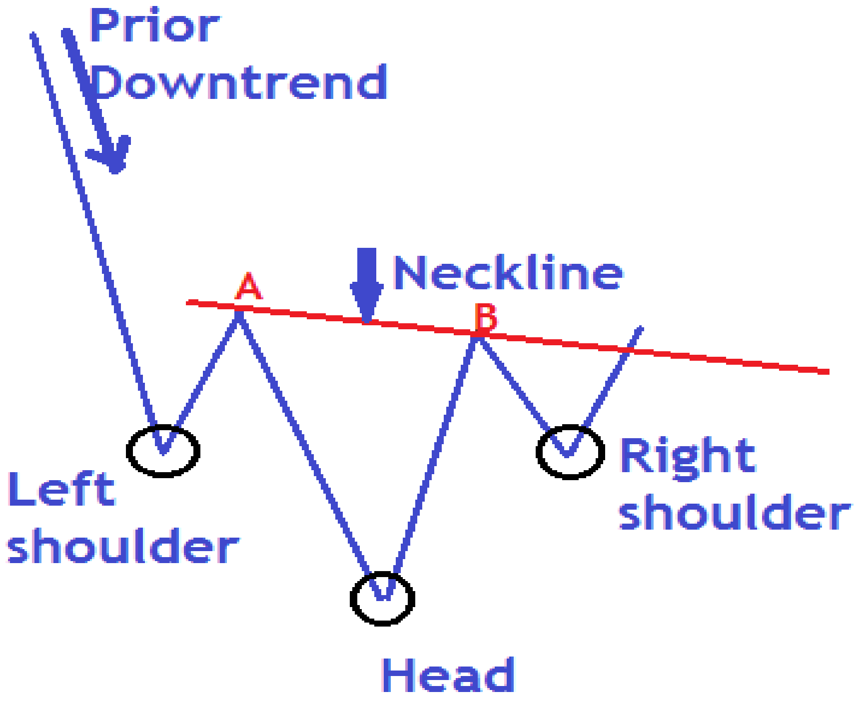
Usually this measured target zone corresponds with a key support level. This confluence actually increases the probability of your profit target being hit and therefore gives you greater confidence in your target.

In conclusion, the head and shoulders pattern is very profitable if you follow the basic rules. The pattern appears on all time frames and that's why it has potential to make you money every single day.

2. INVERSE HEAD AND SHOULDERS

This is typical head and shoulders but turned upside down. It also happens on all timeframes and all market instruments (forex, stocks, commodities etc), so it has potential to make you money every single day.

Let's start by looking at the main features of an inverse head and shoulders



From the above illustration, there are five features of an Inverse Head & Shoulders pattern that must be present in order to confirm the pattern has formed.

- Prior downtrend
- Right shoulder
- Head
- Left shoulder
- Neckline

We will look at each part individually, and then later put them together with some examples.

Step 1: Prior Downtrend

This is the very first part. There must be a clear prior downtrend. As a general rule, the longer the downtrend lasts, the stronger the reversal is likely to be

Step 2: Left shoulder

At this point, the market moves up to form a higher high. This gives a bottom which is the left shoulder. But at this point there isn't anything substantial to confirm the pattern

Step 3: Head

From the high of the left shoulder, the market advances and makes a lower low which marks the peak of the inverse head. It then moves up and forms another high. This completes the head structure

At this point, we have the left shoulder and the head of the structure. The pattern is now starting take shape.

Step 4: Right shoulder

The fall from the high of the head forms the right shoulder. This bottom is higher than the head (a higher low).

Neckline:

The neckline is drawn by connecting high points A and B. High point A marks the end of the left shoulder and the beginning of the head. High point B marks the end of the head and the beginning of the right shoulder. Typically the neckline is not horizontal

Psychology on the Inverse head and shoulders pattern (Why does it form?)

The prior downtrend indicates a lot of strength in the sellers, pushing prices lower. As the sellers are tiring, *there is a general shift of strength from the sellers to the buyers*. At this point, prices start to rise as more buyers come in. This is how to the left shoulder gets to be formed.

At the high of the left shoulder, *we have more sellers who are not yet convinced of the rising prices and actually take advantage of rising prices to even sell more*. This leads to prices pushing even much lower to form the tip of the head.
At this point, *most of the sellers exit their positions and this causes a lot of panic buying* that completes the head structure. So if you just sold at the tip of the head, you would now get trapped. ***Actually, the inverse head is basically a 'bear trap'***

At the high of the head, a *few sellers come in to take advantage of the high prices. This causes a slight fall in the prices up* to the tip of the right shoulder. Remember we are having very few sellers in the market this time. That's why the tip of the right shoulder is actually higher than the tip of the head.

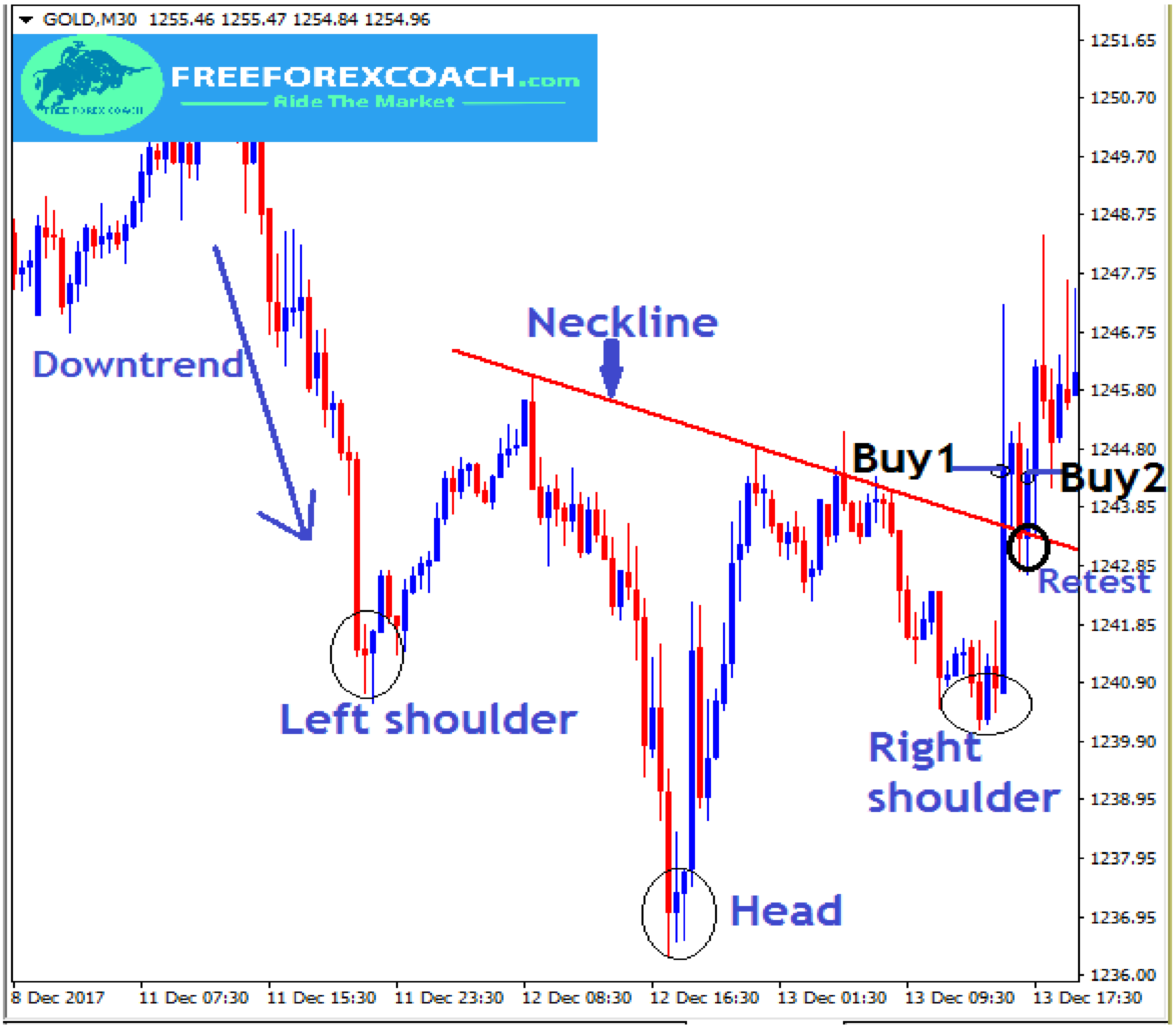
So the right shoulder is fully formed when almost all the remaining sellers exit positions and now more buyers enter the market pushing prices higher.

At this point we are waiting for a neckline break to confirm the buy entry. ***The neckline break is only confirmed the candle breaks and closes above the trendline***

How to make entries on the Inverse Head and Shoulders

On the Inverse head and shoulders, there are 2 ways to make entries;
Aggressive entry and Conservative entry

Let's look at the example below. *This was on gold 30 minute chart that we traded just a few days ago **13th Dec 2017**.*



An aggressive entry (Buy 1)

An aggressive way to enter the inverse head and shoulders is *to enter as soon as the candle breaks through and closes above the neckline*. Just as shown at buy 1 entry

A conservative entry (sell 2)

A more conservative way of trading the neckline break is *to wait until the price has broken through the neckline and then* ***retested it as support***. Just as shown on buy 2 entry

This is based on the fact that a broken resistance becomes new support and vice versa. So when the candle closes above the neckline. Wait for the price to come back to the neckline for a retest and find support, then you can enter a buy position. Like we mentioned above, waiting for a retest accomplishes two things:

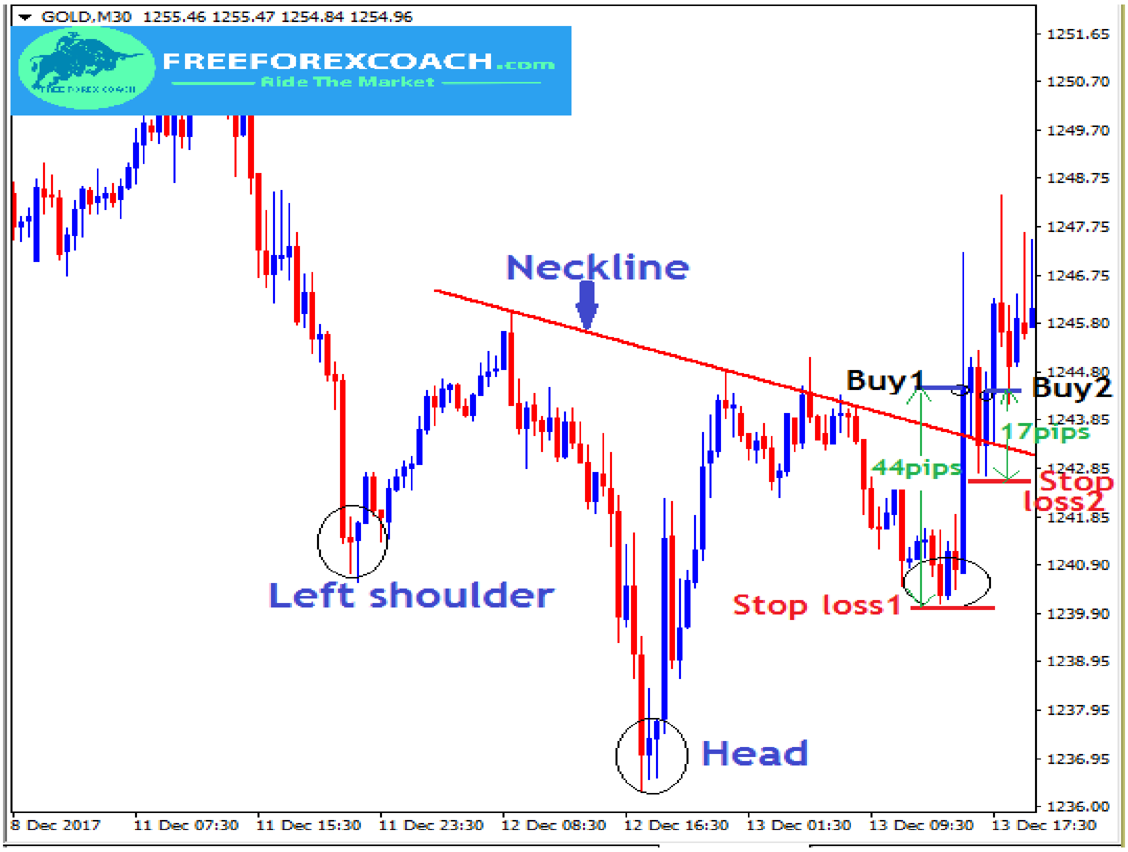
- It helps validate the recent break
- It offers a more favourable risk reward ratio

This combination is why I almost always opt for the conservative method and it is the same method I used to enter this buy position. There is, of course, a greater chance of missing an entry by waiting, but the potential reward for doing so is equally great.

Setting Stop loss (SL) on inverse head and shoulders

There are basically two ways of setting stop losses that I will share with you here. Just like we have conservative and aggressive entries, we can also *set our stop losses aggressively or conservatively.*

Let's first take a look at our buy positions on a chart with SL set



Conservative Stop loss setting (Stop loss 1)

Here you set the stop *loss just below the right shoulder*. Just as shown on **Stop loss** 1 on chart above

This gives the market enough breathing space between the entry and stop loss but cuts your potential profit in half or worse since the Stop is very wide.

Setting Aggressive Stop Loss (Stop loss 2).

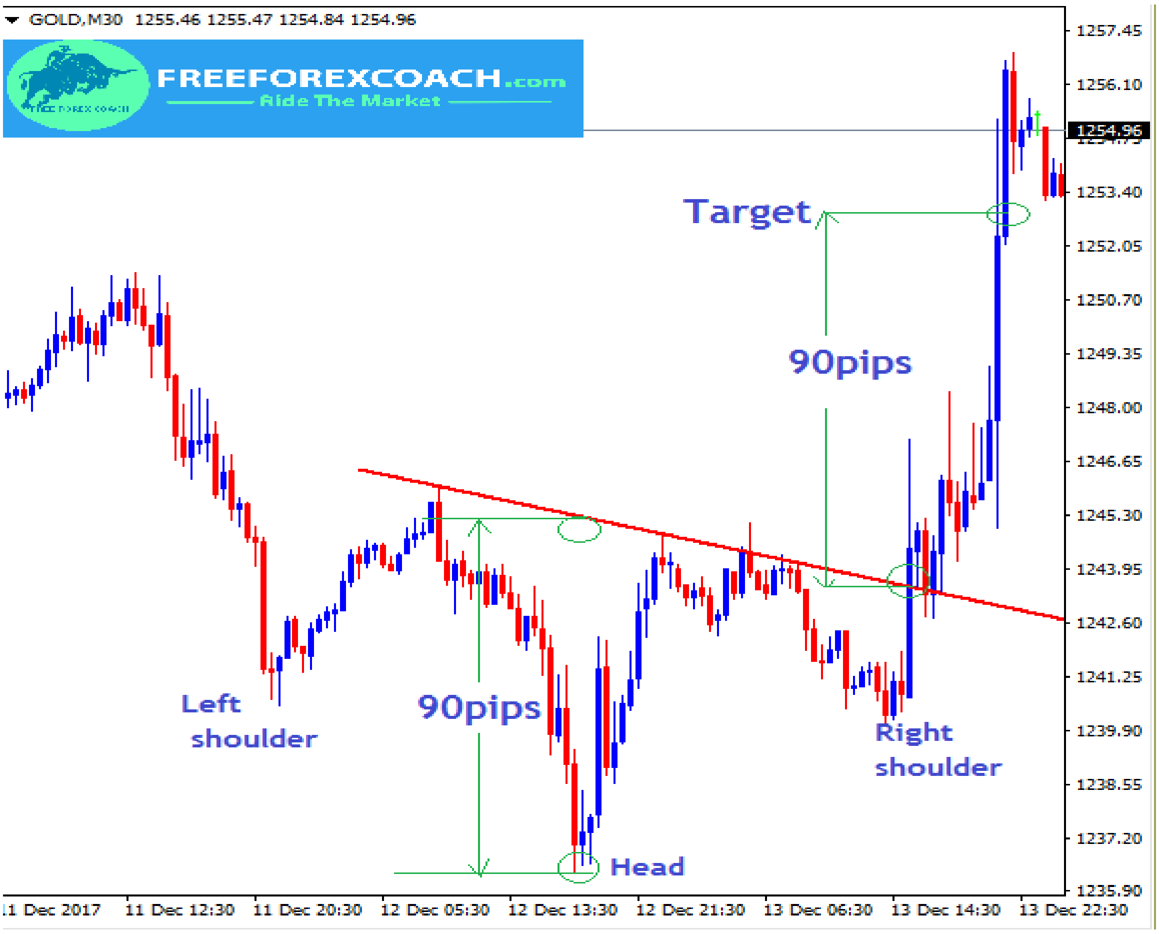
I really prefer to use the aggressive stop loss. Simply because it allows for a much better risk to reward ratio while still offering room for price to swing up and down.

When you set your stop above the last swing low, you've cut your stop loss distance from 44 pips down to 17 pips, yet keeping same target. This earns you more money with a small risk

The aggressive Stop loss 2 is one I used on the trade. This kind stop loss setting is logically applicable when using conservative entry (Buy 2).

<u>How to set targets (Take profit) on inverse head and shoulders.</u>

The most logical way is to use a measured objective. Let's look at how that would have been done on our above trade.



Note that on the GOLD chart above, we measured *the vertical distance from the peak of the head to the neckline (90 pips)*. Then measured t*his same distance of 90 pips up from the neckline beginning* at the point where prices penetrate the neckline after the completion of the right shoulder.

The target is same whether you entered aggressively or made a conservative entry.

3. DOUBLE TOP

This is one of the most popular reversal patterns in the market. Very rewarding as long you understand how to *rightly* trade the pattern.

When the pattern has fully formed it means the prior uptrend is over, and a downtrend is likely underway. This is why it's called reversal patterns.

It forms on all timeframes, all market instruments (forex, stocks, gold, Bitcoin etc). However, as simple as that may sound, there are a few critical things that must be present for this topping pattern to be useful (and profitable).

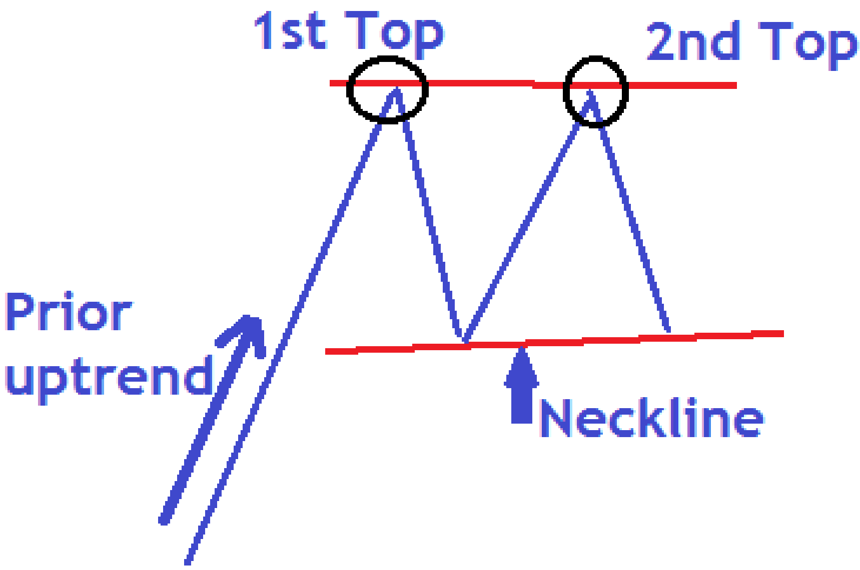
By the time you finish, you will know exactly how to identify a double top as well as how to enter and exit the pattern to maximize profits.

Let's start by looking at the typical characteristics of a double top

A double top majorly consists of 4 major parts

- Uptrend
- First top
- Second top
- Neckline

Let me show you all the above in an illustration



From our illustration above, the market was in an uptrend. It made an extended move higher *but was quickly rejected by resistance* (first top).
The price then *fell back into support and subsequently retested the same resistance level (second top)*. Once again the market was *rejected from this level and falls back into same support level (neck line)*.

Why does it form?

The psychology in the pattern is pretty simple. The *bulls (buyers) are exhausted after an extended uptrend and some exit positions at the resistance zone*. This leads to formation of the first top.
Some bulls *take advantage of the fall and buy the dip in price, they push price back up toward the old high*. Unable to push price back above the old high, *buyers give up and more sellers come in the market*, so prices begin to fall back to support. This leads to formation of the second top completing the double top structure.

A double top is only confirmed and therefore tradable ***once the market closes below the neckline***. One common misconception is that the double top pattern becomes tradable once the second top forms.

Now let's get to the most interesting part, how to trade and of course make profits daily with double top pattern.

Trading the double top

There are mainly two ways of making entries on this pattern

Method1

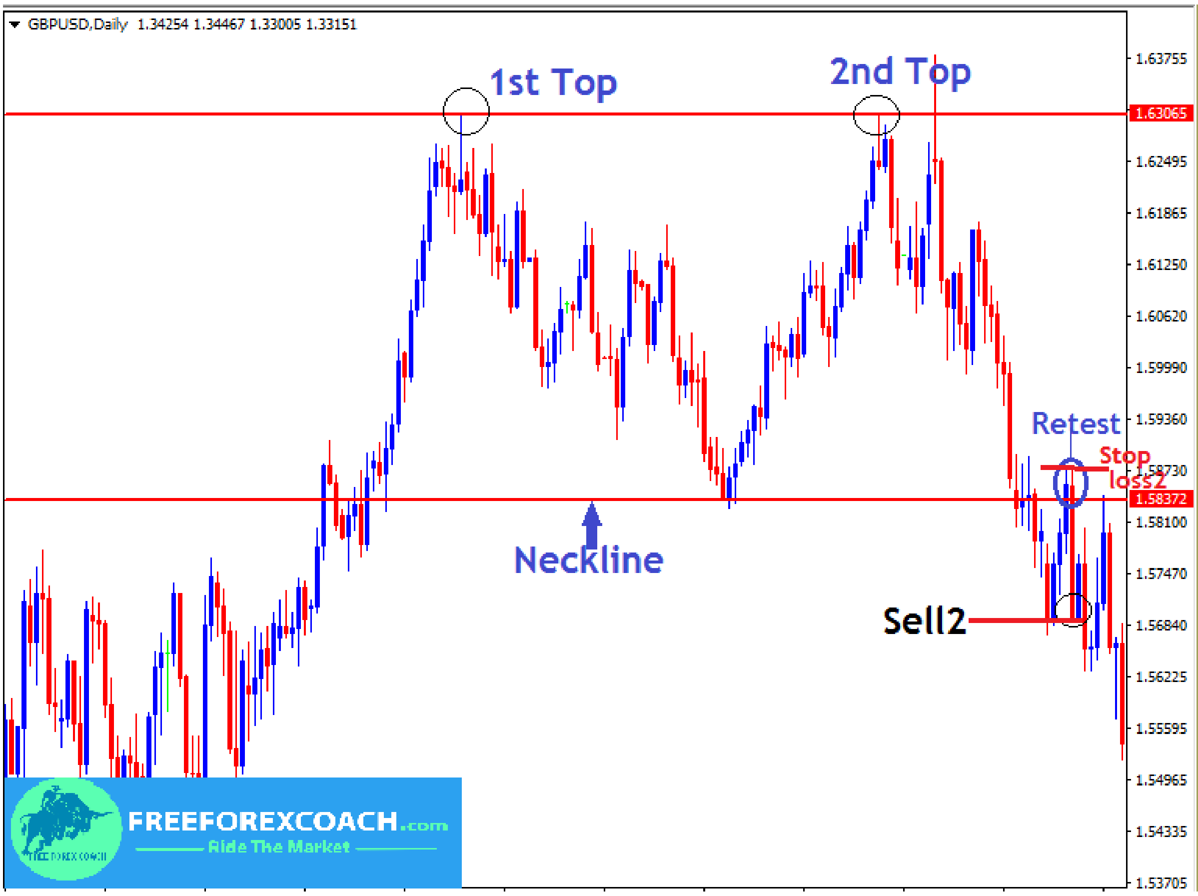
The first way to trade this pattern is to look for the neckline that is marked on the chart below. Once the *price breaks and closes below the neckline*, you can then *enter the market with a sell order*.

In this case, *the stop loss is placed above the second double top*. If the price trades beyond this point, the pattern has failed and you do not want to be in the market any longer.

Now let's look at the second method, this is my preferred and recommended way of trading a double top

Method 2

In this case, we *wait for the price to trade below the neckline (broken support) and then look to place a sell order* ***on retest of the neckline*** *as resistance (broken support becomes new resistance).* The ***stop loss would go above the new resistance*** as shown below



So what we basically need is a retest of the neckline as new resistance. This ensures a favourable risk to reward ratio, which is an essential ingredient if you wish to succeed in this business over the long-term. This the main reason why I recommend this method of entry.

You risk less and make more since the target stays constant.

At this point, we have now learnt how to identify, enter a sell trade and set a stop loss using a double top. The next is PROFIT TARGET

How to set profit targets on a double top.

The easiest and traditional way to set a profit target on a double top is a measured objective move.

This is how this is done; you take *the distance (height) from the double top resistance to the neckline* and *project the same distance from the neckline to a lower, future point in the market*.

Let's look at the chart below

The distance from the double top resistance level to the neckline, in this case, is 470 pips. Therefore we would measure an additional 470 pips beyond the neckline to find a possible target as shown on the chart above.

Pretty simple! Right?

4. WOLFE WAVE PATTERN

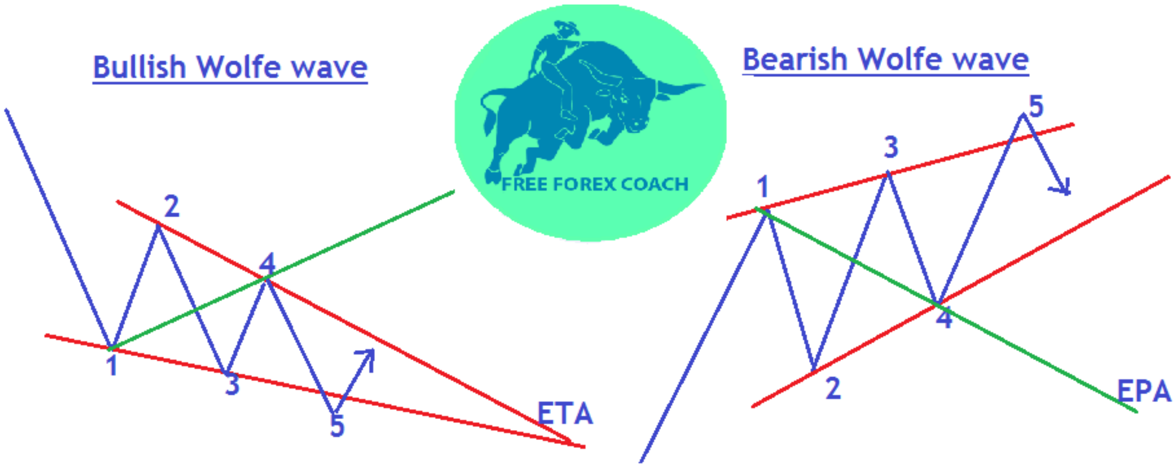
Don't worry, a Wolfe wave is nothing like that animal up there.

A wolfe wave is a natural pattern in the market formed *by forces of demand and supply*. It is very versatile and occur in a wide range of time frames, over minutes or even as long as weeks or months. *This pattern has potential to make you profits every single day.*

The pattern is named after *Bill Wolfe*, a trader who specialized in trading the S&P500 index and who is credited with first describing the Wolfe Wave trading system and inventing the indicator that goes by the same name.

Let's start by discussing the wolfe wave characteristics.

First, take a look at this illustration below;



From our illustration above, a Wolfe Wave pattern *consists of five waves*, with the *2nd and 4th ones being the retracement waves.*

Rules for identification of this pattern include:

- Waves *3-4 must stay within* the channel created by 1-2
- Wave *1-2 equals Waves 3-4* (they are symmetrical).
- Wave 4 lies between Waves 1 and 2.
- There is a regular gap between all waves.
- Wave *5 exceeds the trendline* created by Waves 1 and 3 and it is the entry zone.

Other features to know about the pattern is the EPA and ETA

Let's start with the most important; EPA line.
EPA means Estimate Price at Arrival. It estimates how far price will move in extended into the future. Hence, ***EPA line is the Take profit level***
EPA line is always drawn connecting points 1 and 4, regardless of whether the wolfe wave is bullish or bearish.

Now let's talk about the ETA line.
This is *not very significant in trading the pattern* so it is a line that shouldn't really bother you. Well, it does no harm to know 1 or 2 things about it.
If you've booked airplane tickets, you'd know what this means. It stands for Estimated Time on Arrival.

In wolfe wave trading, the ETA line is used to estimate at what date price will arrive at the apex of the two converging lines.

But like we mentioned above, the EPA is the most important line so keep your focus on it

The 3 common places where Wolfe wave can be found are these:

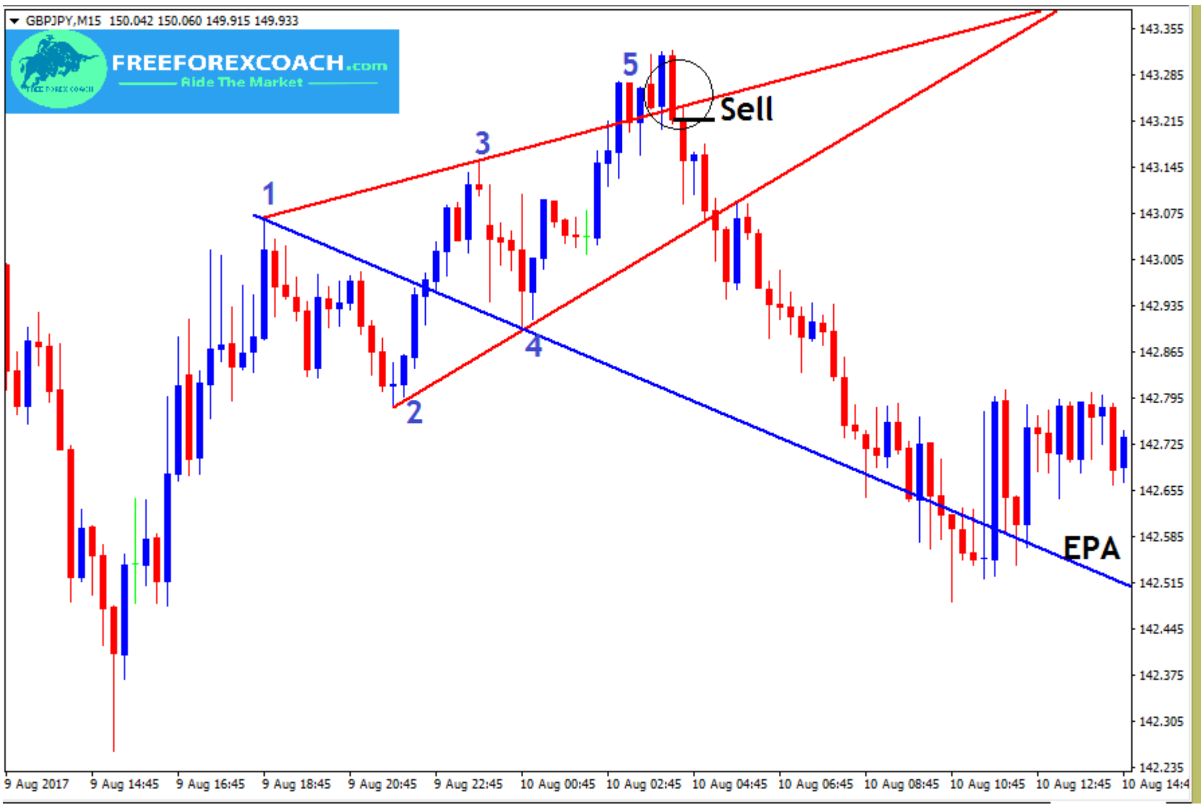
- Channels in an uptrend (look for bearish wolfe wave)
- Channels in a downtrend (look for bullish wolfe wave)
- Horizontal channels when price is consolidating.

Now let's do the really fun part; how to trade and profit from the Wolfe wave

How to make entries on the Wolfe wave

Here, am assuming we have identified the Wolfe pattern formation on the chart at we are at point (wave 5). So what exactly triggers the buy or sell signal/entry?

Take a look at the chart below.



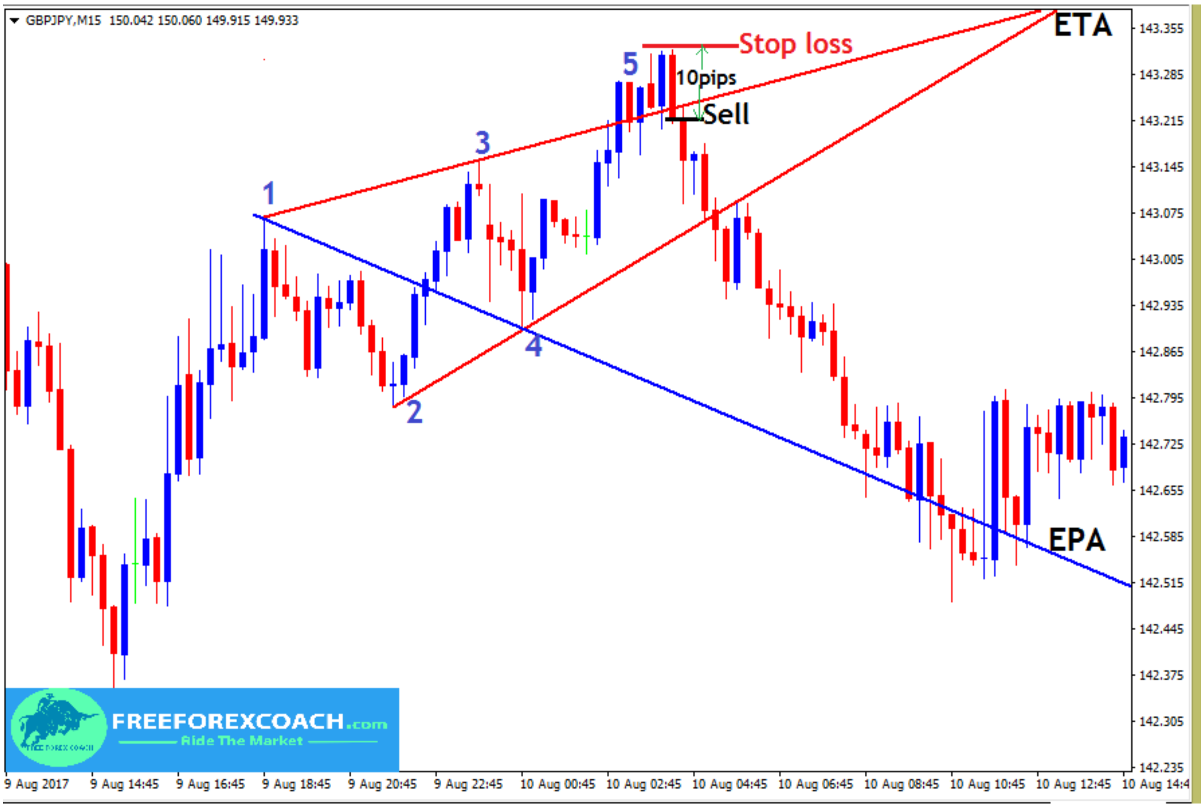
From our above GBPJPY,15 minute chart , the trigger for the *sell entry was the engulfing pattern that closed below the trendline*. So it is very important to combine the wave trigger zone with a ***candlestick pattern for extra confirmation***

Let's look at another example below, this is bullish Wolfe wave on the GOLD hourly chart. This confirmed just ***last week on 12th Dec 2017***

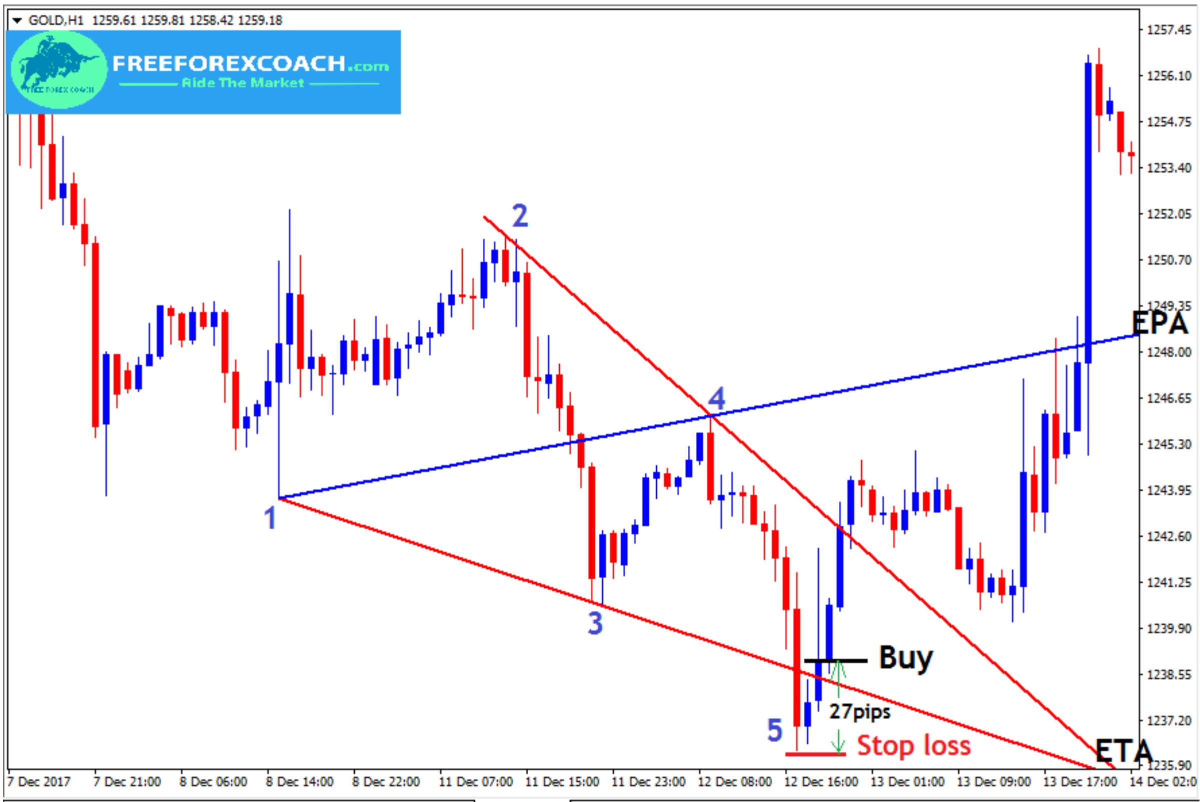
On the above chart, you can see *the confirmation for entry was the inverted hammer on wave 5*

<u>How to Set Stop Loss on the Wolfe wave.</u>

Like we mentioned before, a stop loss is your risk control measure.
In Wolfe wave trading, the *Stop loss for bearish pattern is place just **above wave 5*** as shown the GBPJPY chart below.



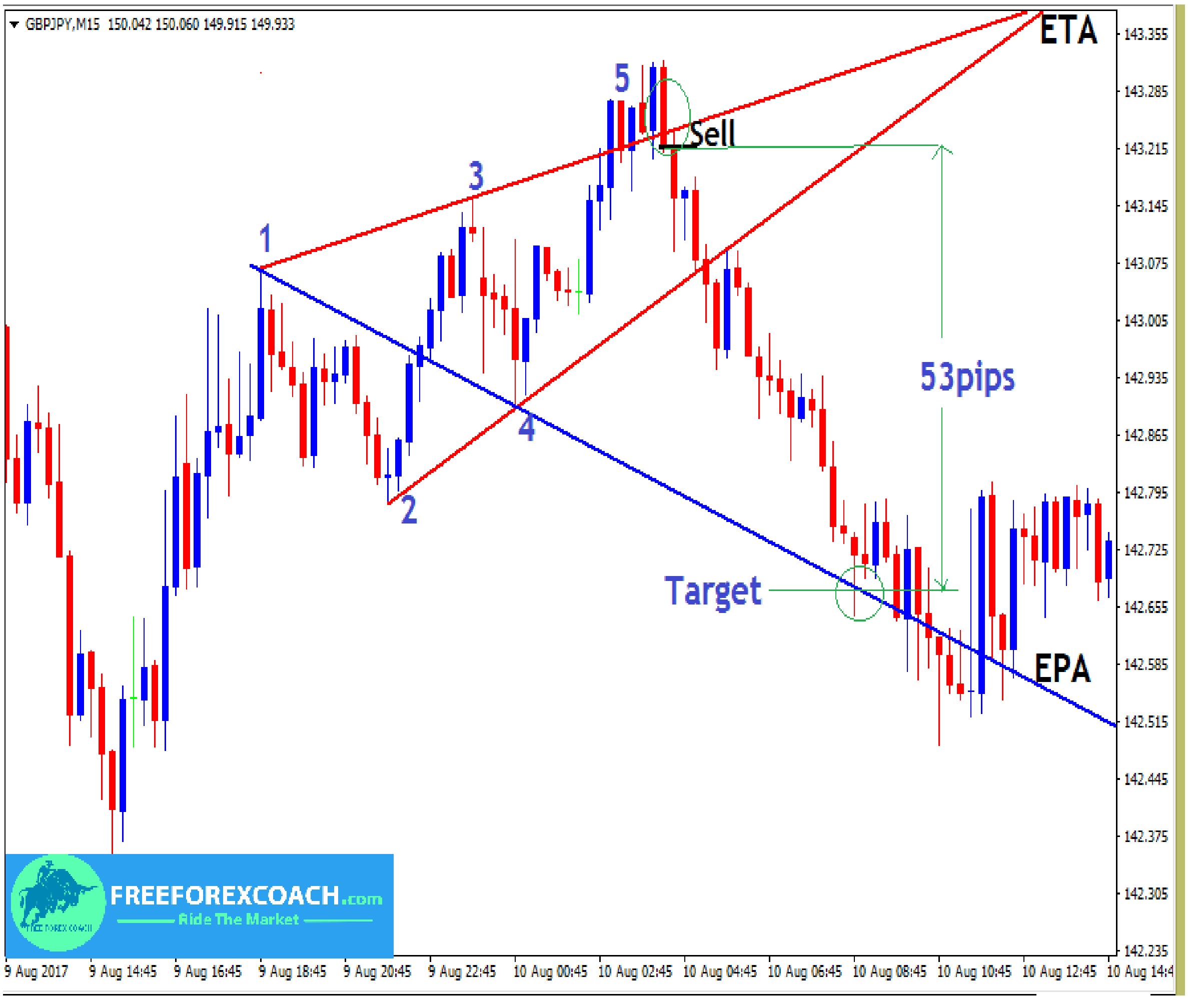
On the bullish Wolfe wave on Gold below we *set the Stop loss just below point 5* as shown below. ***The lowest low of wave 5***



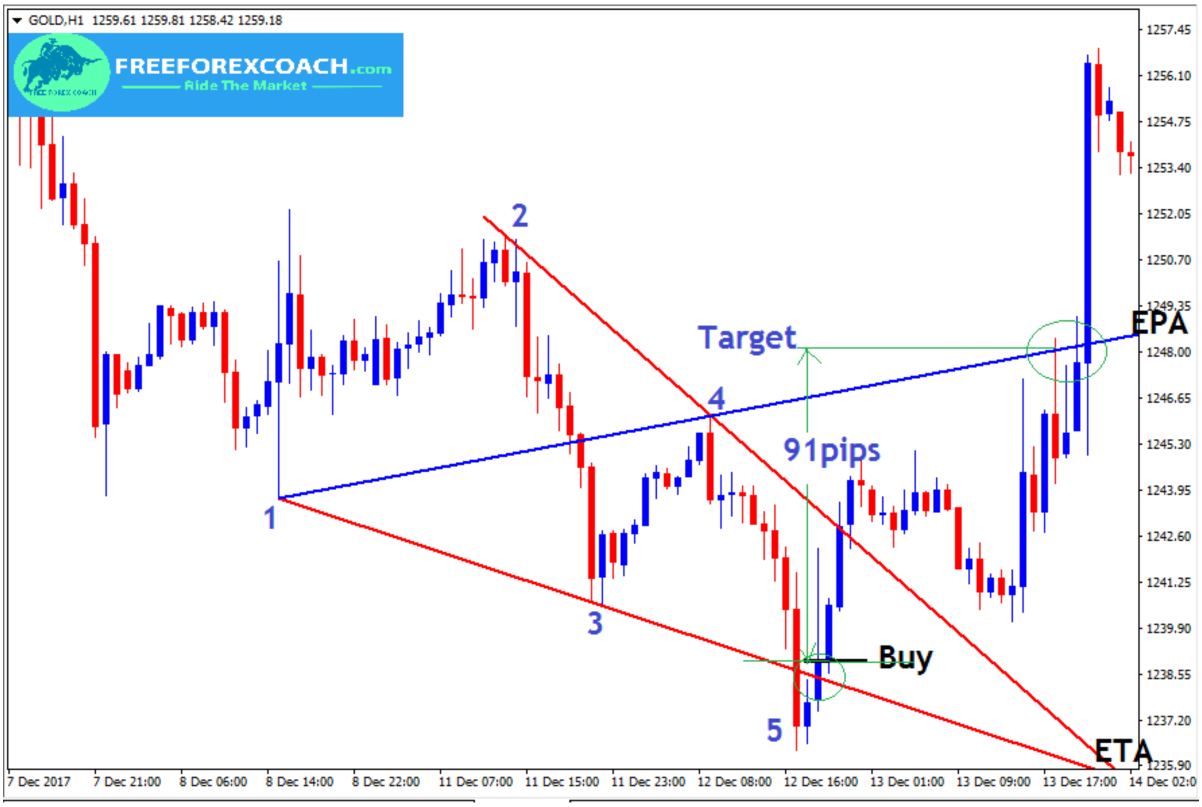
How to set Profit Targets o Wolfe wave pattern.

The EPA line is the target area on the pattern. EPA line is always drawn ***connecting points 1 and 4***, regardless of whether the Wolfe wave is bullish or bearish.

Take a look at the bearish Wolfe on GBPJPY below. *The profit target is* ***when price hits the EPA line*** *as shown below*



Same applies for the Bullish wolfe wave below on the GOLD Hourly chart. The EPA line is drawn connecting wave 1 and 2. *The target is* ***where price meets the EPA*** *as we mentioned above.*



In conclusion, the Wolfe wave pattern is very profitable if you follow the basic rules. It has one of the best risk reward ratios i.e ***the reward is always great as compared to how much you are risking****. The pattern appears on all time frames and that's why it has potential to make you money every single day.*

5. DOUBLE BOTTOM

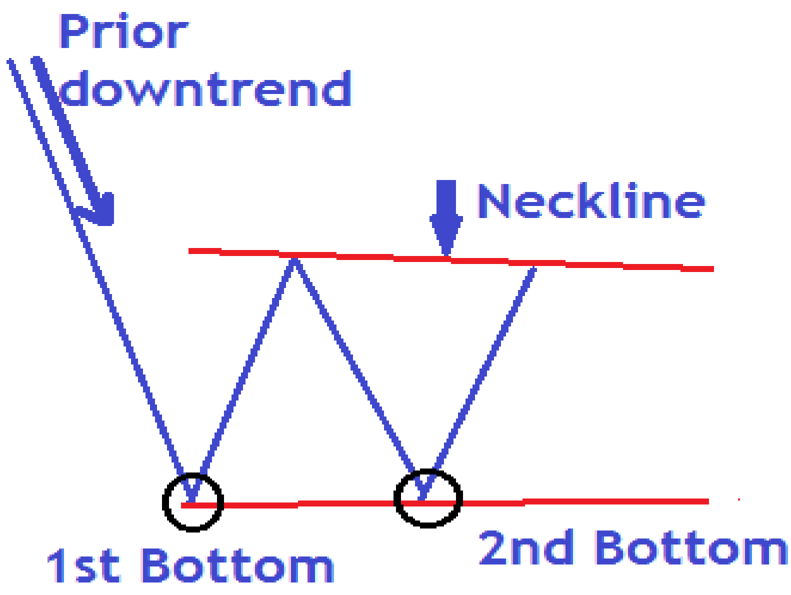
This is like a double top reversed.

Let's start by looking at the typical characteristics of a double bottom

A double bottom majorly consists of 4 major parts

- Down trend
- First bottom
- Second bottom
- Neckline

Let me show you all the above in an illustration



From our illustration above, the market was in a downtrend. *It made an extended move lower but was quickly rejected by support (first bottom).*

The price then fell back into resistance and subsequently *retested the same support level (second bottom)*. Once again the market was *rejected from this level and rises back into same resistance level (neck line).*

Why does it form?

The psychology in the pattern is pretty simple. The *bears (sellers) are exhausted after an extended downtrend and some exit positions at the support zone*. This leads to formation of the first bottom.

Some bears take advantage of the rise and sell the rise in price, they push price back down toward the previous low. Unable to push price *back below this previous low, sellers give up and more buyers come in the market*, so *prices begin to rise back to resistance*. This leads to formation of the second bottom completing the double bottom structure.

A double bottom is only confirmed once the market closes above the neckline.

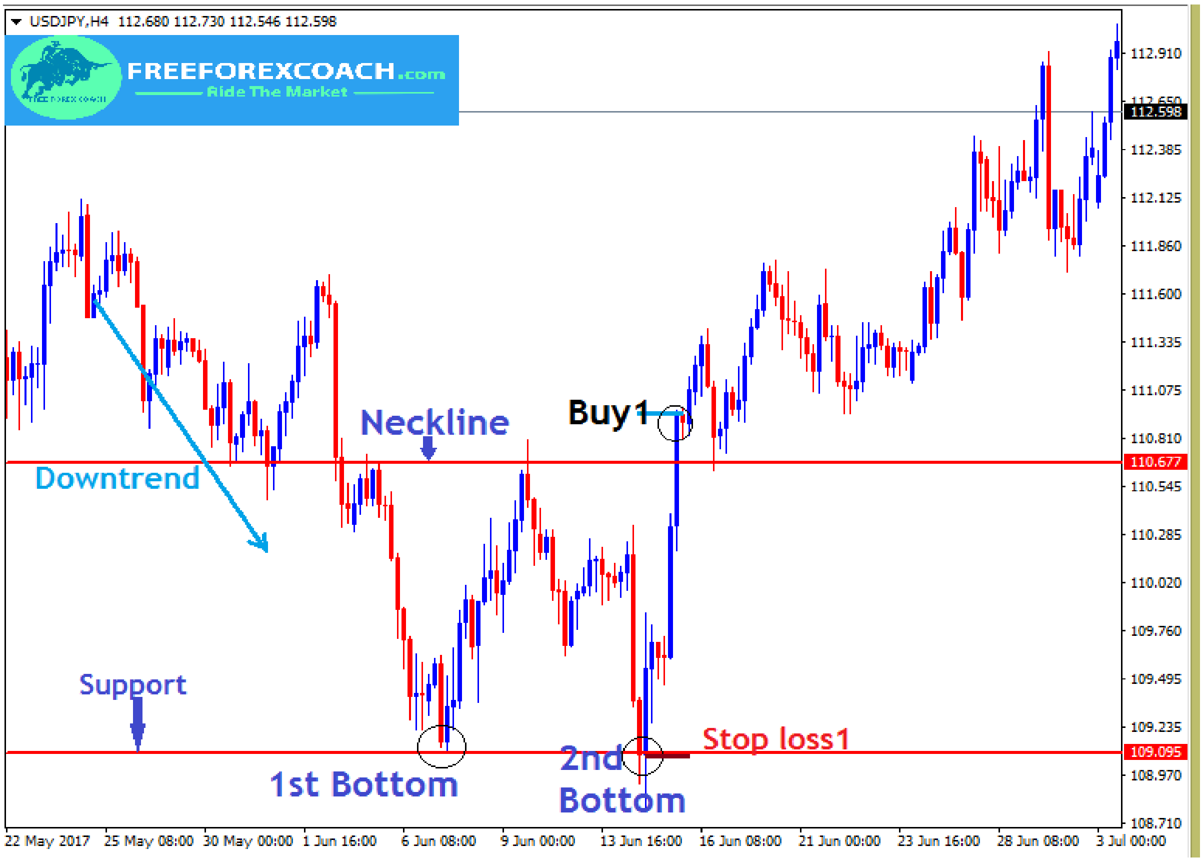
Now let's get to the most interesting part, how to trade and of course make profits daily with double bottom pattern.

Trading the double bottom

There are mainly two ways of making entries on this pattern

Method1

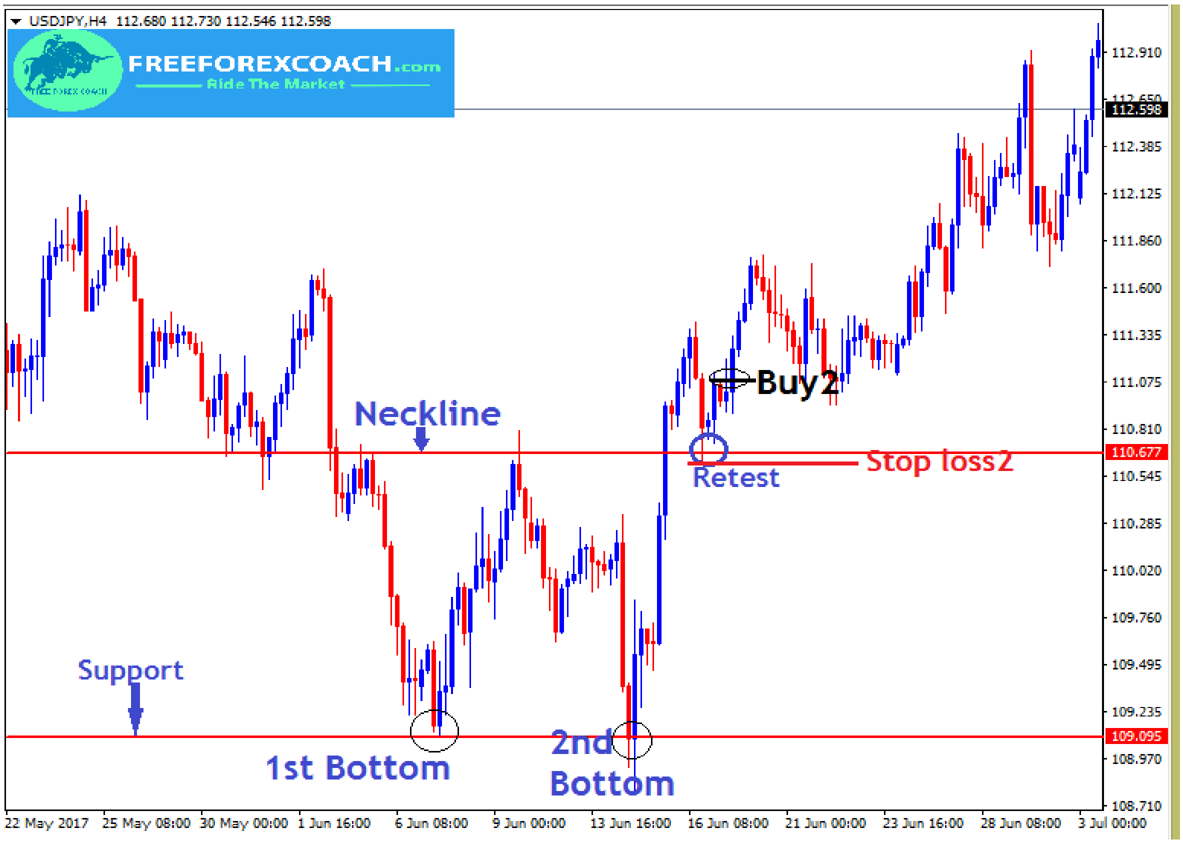
The first way to trade this pattern is to look for the neckline that is marked on the chart below. Once the *price breaks and closes **above** the neckline*, you can then *enter the market with a **buy order***. Stop loss is *set just below the 2nd bottom*



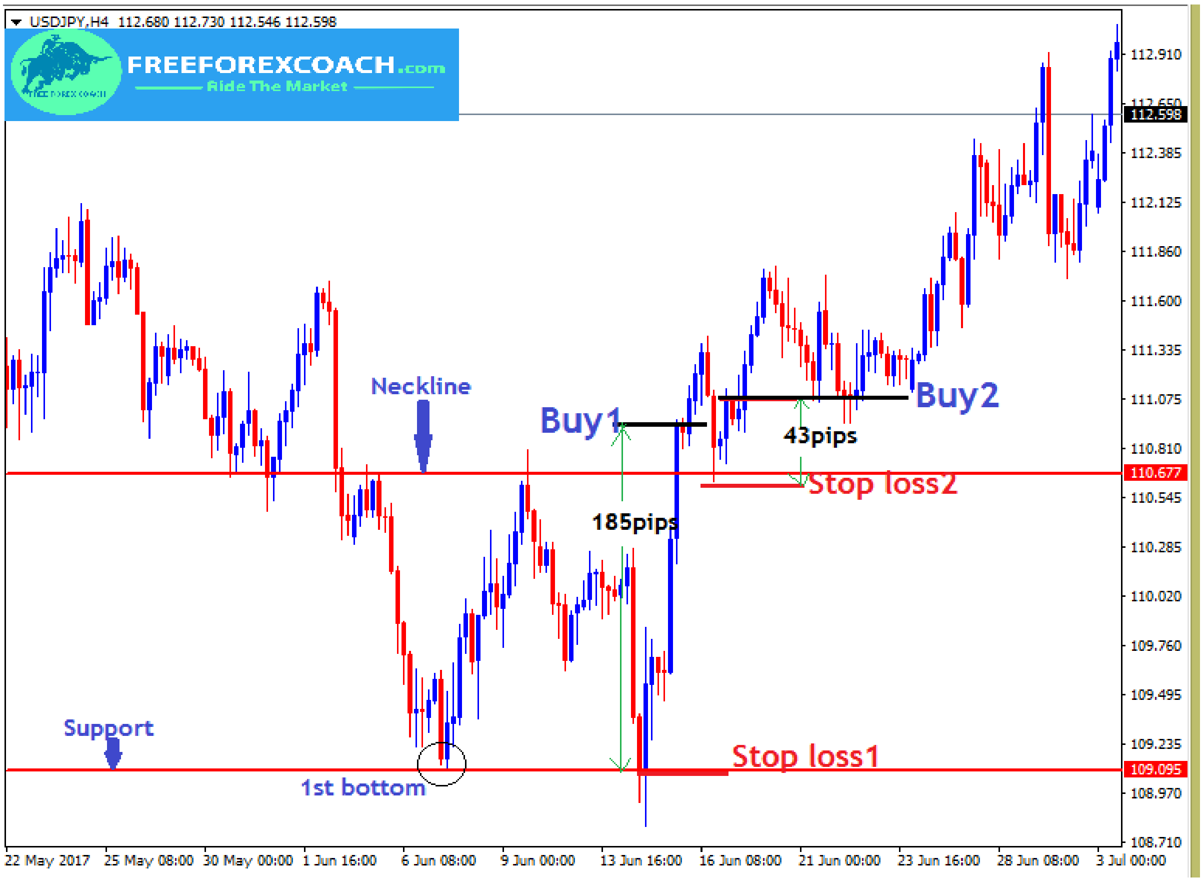
Now let's look at the second method, this is my preferred and recommended way of trading a double bottom

Method 2

In this case, we *wait for the price to trade above the neckline (broken resistance) and then look to place a buy order on **retest of the neckline as support** (broken resistance becomes new support). The stop loss would **go below the new support*** as shown below



I recommend the second method for entry because it ensures a favourable risk reward which is an essential ingredient if you wish to succeed in this business over the long-term. Let's compare the stop losses for both entries;



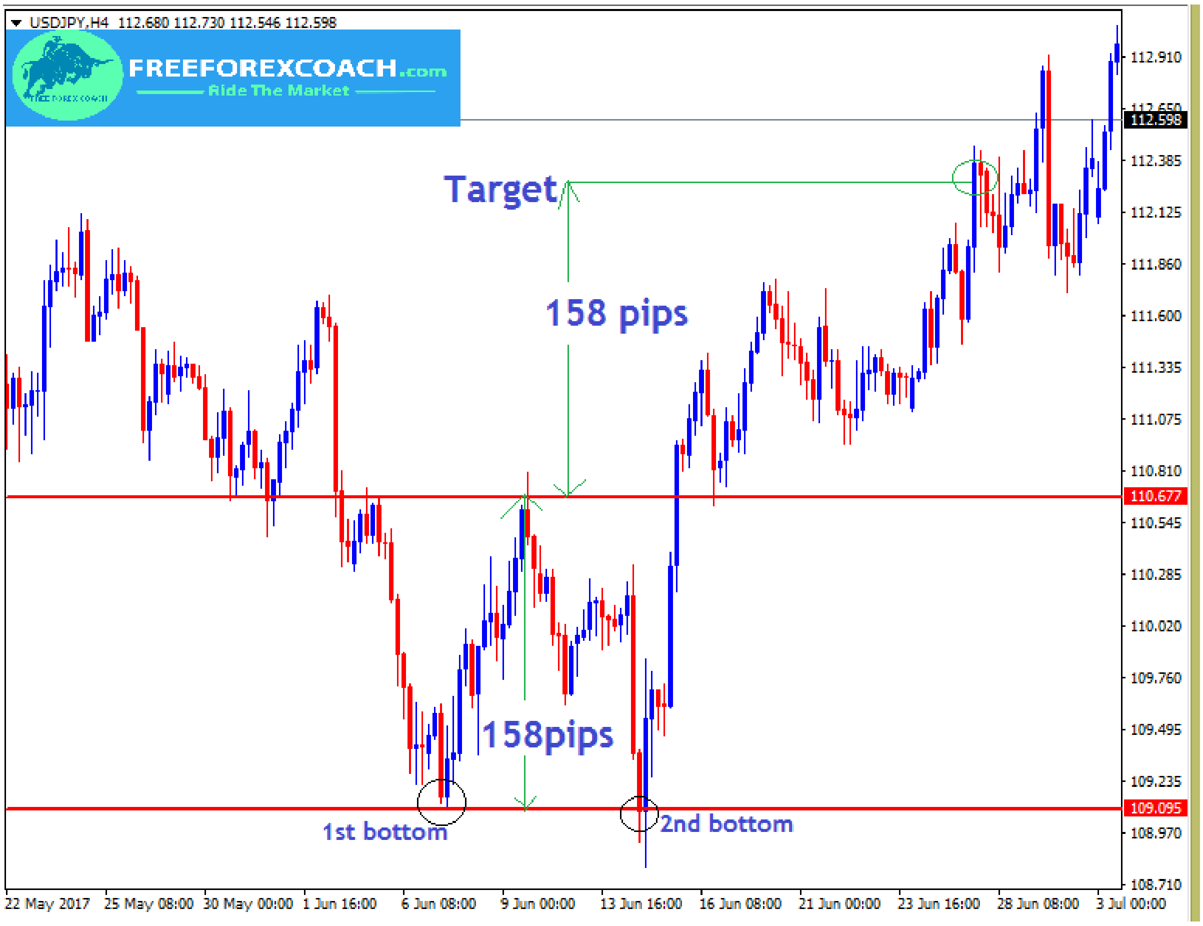
Looking at our chart above you can see how the Stop loss on the second method was cut from 185pips to only 43 pips. ***This means you risk less and make more profits since the target stays constant***. This the main reason why I recommend this method of entry.

At this point, we have now learnt how to identify, enter a buy trade and set a stop loss using a double bottom. The next is PROFIT TARGET

How to set profit targets on a double bottom.

Just like the double top, the easiest and traditional way to set a profit target on a double bottom is a measured objective move.

This is how this is done; you take *the distance (height) from the double bottom support to the neckline* and project the *same distance from the neckline to a higher, future point* in the market. Take a look at the chart below;



The distance from the double bottom support level to the neckline, in this case, is 158 pips. Therefore we would *measure an additional 158 pips beyond the neckline to find a possible target* as shown on the chart above.

6. SHOCK WAVE PATTERN

I wrote *this last because you must not miss this*. This is the first time the pattern will be shared publicly since its discovery. I had a chat with the discoverer of the Shock Wave pattern and got consent to share the strategy with only you.

The strategy will be published in 2018, and I will let you know first when this happens.

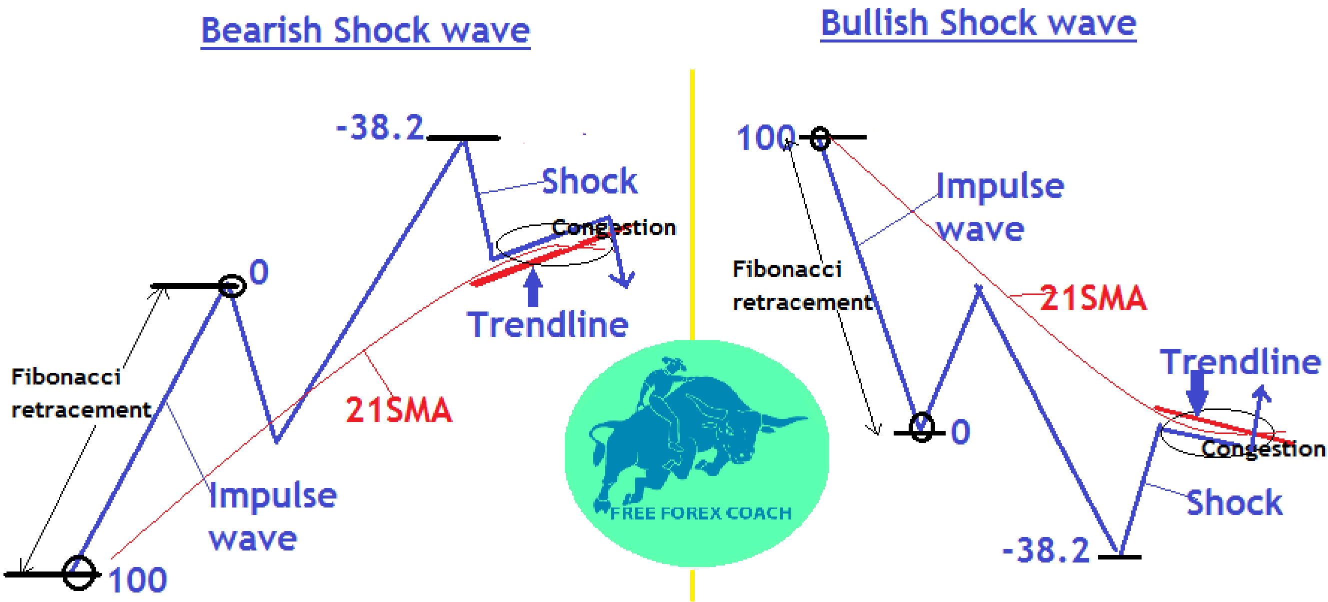
Just like any other pattern I have shared above, it also very versatile and occur in a wide range of time frames, over minutes or even as long as weeks or months. *This is the reason why this pattern has potential to make you profits every single day.*

Shock wave pattern has a very high winning rate when fully utilized it can give large profits. The challenge at the start may be identifying the wave, but as you continue to train your eye, you will be able to see it on spot.

But most importantly, let’s look at what the Shock wave pattern is, and of course how we can use it to make money while trading.

Attributes of the Shock Wave Pattern

Let's begin with the illustration below



From the above illustration, there are 5 components to the Shock wave pattern that must be present in order to confirm the pattern has formed.

- Impulse wave
- Fibonacci retracement
- -38.2 retracement level(added level)
- Shock
- Small congestion and 21 Simple Moving Average

We will look at each part individually, and then later put them together with some examples.

Impulse wave

This is a swing where the Fibonacci retracement is drawn. The retracement of impulse wave and must at least be up to 38.2% retracement but not beyond 100%.

Fibonacci retracement

This is drawn on the impulse wave. In the Shock wave strategy, another extra level is added which is the -38.2 level after the 0 level as shown on the illustration above. The 61.8% retracement level is the Take profit level

So the main important levels are -38.2% and 61.8%. Don't get so bothered by other levels.

-38.2 retracement level (Shock zone)

This is the zone where price must give an immediate strong opposite reaction (Shock). Price must reach the level but also ok for price to go beyond the level as long as the Shock is clear

Shock.

Like we mentioned above, this is an immediate strong opposite move. It is very important because it shows a shift in strength from buyers to sellers (bearish pattern) or vice versa for a bullish pattern

Small congestion and 21SMA

The congestion must be below the -38.2 level for bearish pattern or above for bullish pattern and must be in the zone of the 21SMA. The 21SMA can be through, just above/below the congestion.

The congestion indicates total takeover of buyers or sellers after the Shock. For a bearish shock wave pattern, this would mean buyers have failed to make a new high hence more sellers into the market

For a bullish pattern, this would mean that the sellers have given up and can't make new lows and more buyers into the market.

The congestion determines entries and Stop loss levels. We will discuss this in detail below

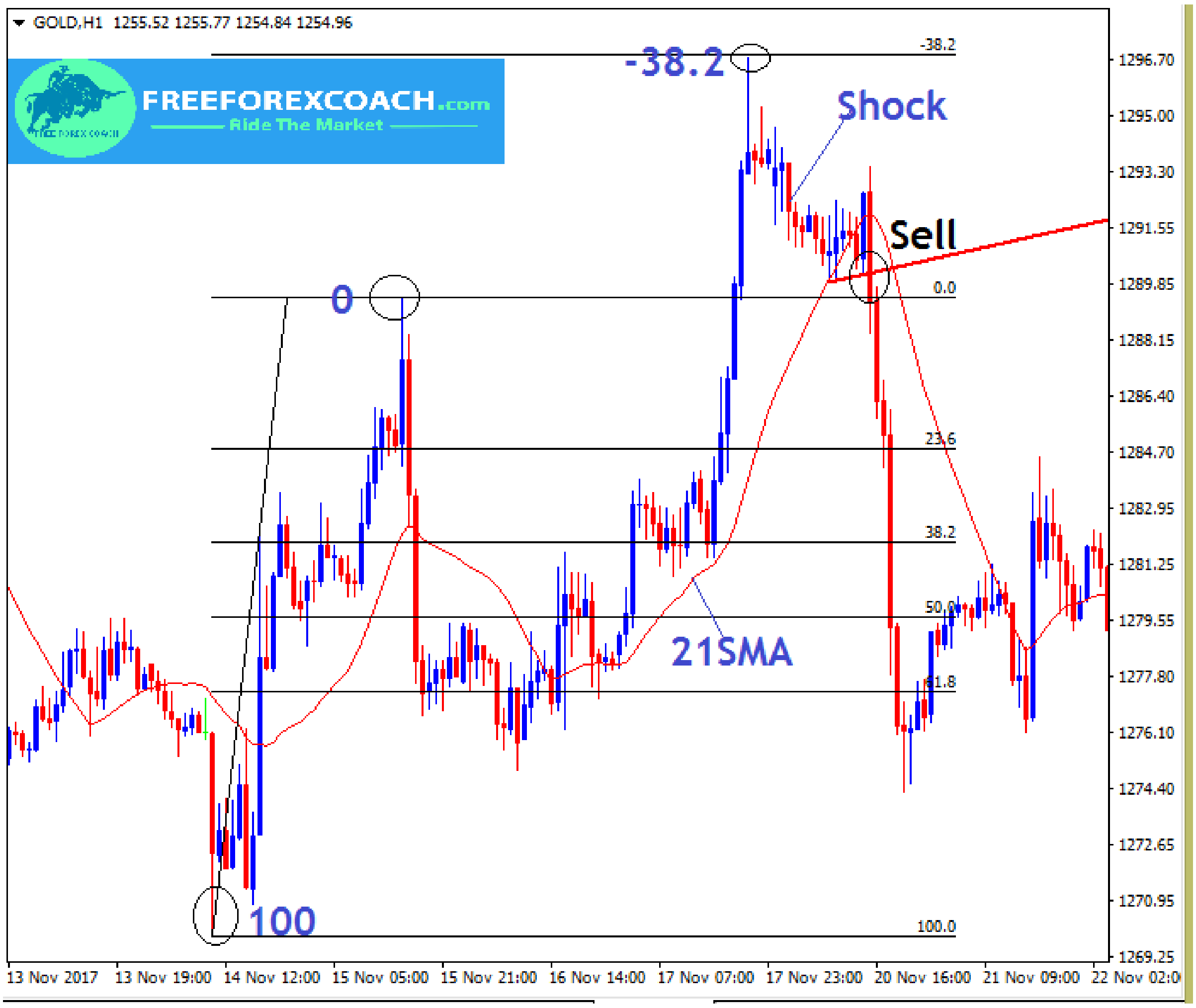
Now the *really fun part*, how to make entries nag profit from the pattern

How to make entries using the Shock wave pattern.

The small congestion in the 21SMA zone is the trigger zone.

A trend line is drawn on the candle tails and a break and close of the candle below for a bearish pattern confirms the sell entry.

Let's look at an example below;



From our chart above, *a break and close of the bearish candle below the trendline confirmed the Sell/short entry.*

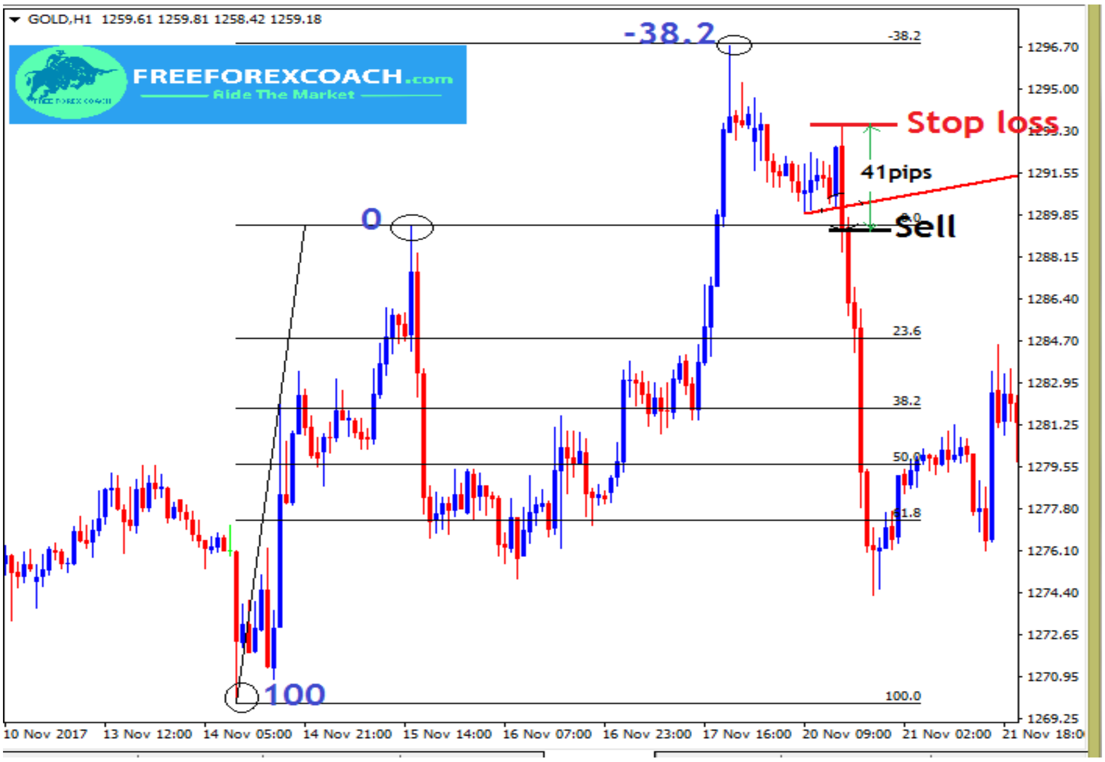
For bullish pattern, *a break and close above the trendline confirms the entry.*

Take a look at the chart below. *The bullish candle that closed above the trendline confirmed the buy entry*

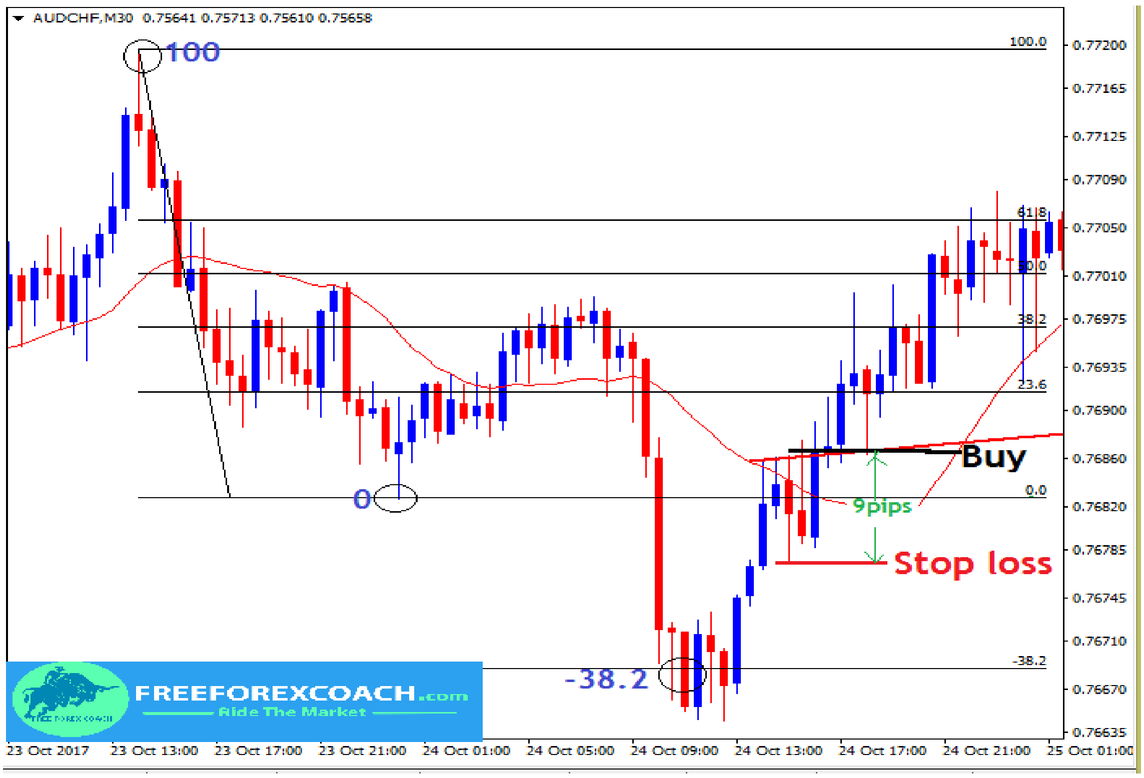
So the buy entry on the above chart is made immediately, when the bullish candle closes above the trendline..

How to set Stop Loss (SL) on the Shock wave pattern.

The SL is *set at the highest high of congestion* for a bearish pattern as shown on example below



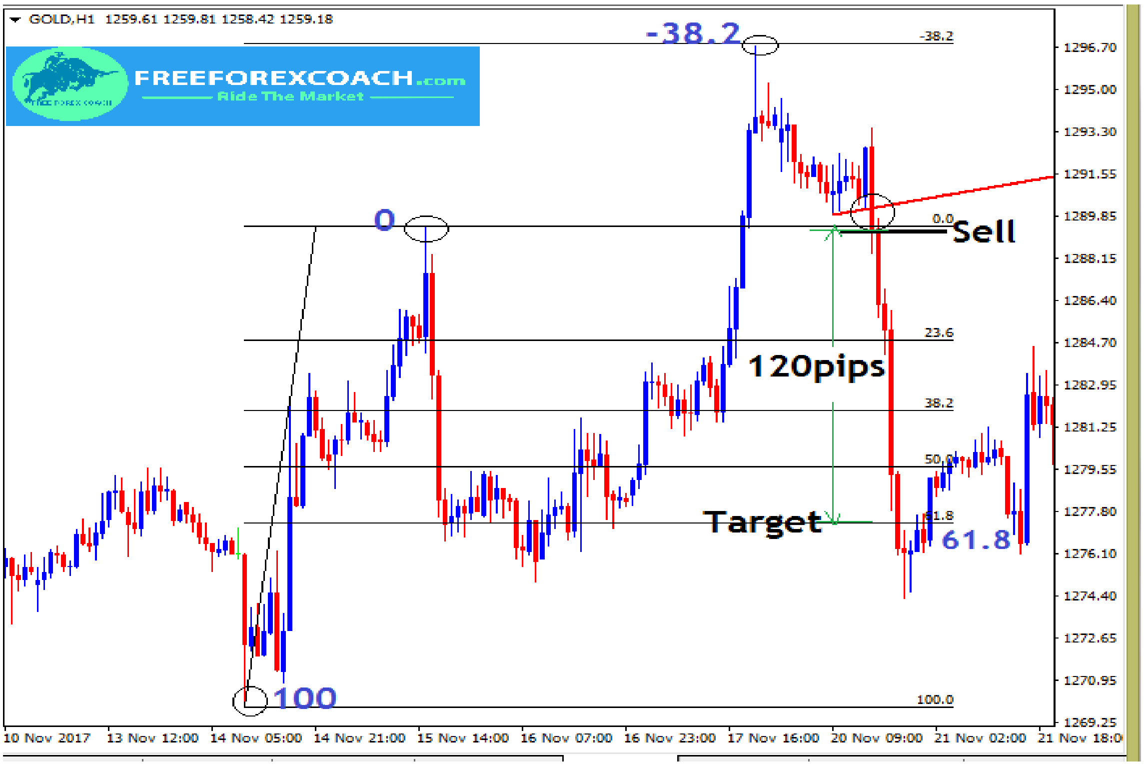
For bullish pattern our example, the Stop loss *is set on the **lowest low** of congestion as shown below*



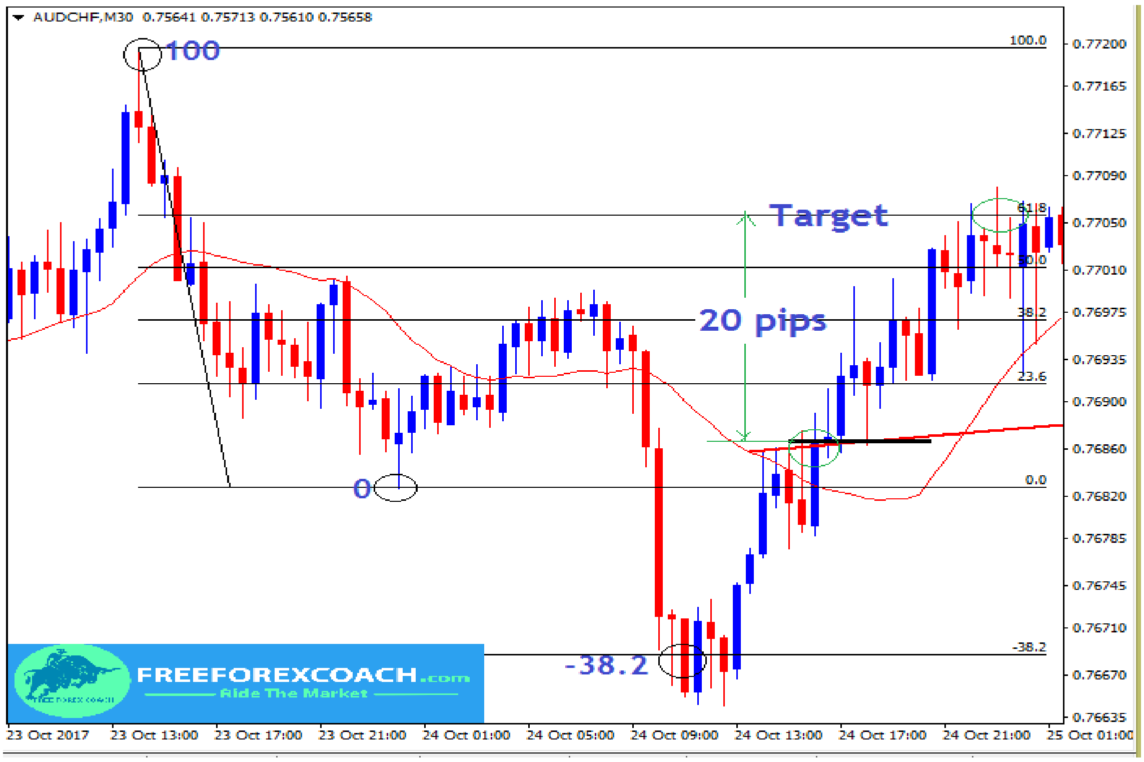
How to set target (Take Profit) on the Shock wave pattern

In this pattern the *target is plain clear*, ***61.8% retracement level***. This is retracement of the impulse wave.

So on the Shock wave bearish pattern on



On the bullish pattern below, this would look as follows;



Looking at our examples above, you can see price *always moves with strong momentum so the target usually hits fast and you book your profits early*. But this of course depends on the timeframe with the setup

LAST REMARKS

If you are new to forex trading, I highly recommend that you go through the simple step by step ***free coaching sessions*** at ***http://www.freeforexcoach.com/free-coaching/***. You will get the details of what forex is, how it operates and how to profit from the entire forex market.

I also recommend that you take part on the ***Forum section*** to at ***http://www.freeforexcoach.com/forum/***, there are many forex experienced traders who will be able to answer all your questions. This will shorten your learning curve as you learn from the experts.