Part 1

Traditional Elements of FOREX Strategy

Chapter 1

Trading Techniques

There are enough ideas for beating the markets to make you very rich—or very poor.

—Charles B. Goodman

Most traders consider trading techniques—the actual tools they use to make trading decisions—as the most important element of trading. The proof is in the pudding; just consider the corpus of information both in print and online that deals with trading techniques. The sheer amount is staggering.

As the FOREX market matures, some literature on money management and the soft elements is becoming available, but it is still dwarfed by information available about trading techniques. The demand continues to be for information on trading techniques. That is unfortunate given the importance of the other two elements.

Systems and Black Boxes

Before considering some of the most popular trading techniques or tools, let me briefly discuss systems and black boxes.

A *system* is a self-contained way to make trades. Systems generate specific buy and sell signals. Many FOREX trading systems are available either from broker/dealers or from third-party vendors. They are intended to be complete in and of themselves, although many traders still use them in conjunction with other trading techniques.

Systems typically show outstanding results over historic data, or they would not sell. But the historic data is very often curve fit. This means that the system was developed to fit the data and not the other way around. If that data related to some specific types of markets, such as volatile markets, trading markets, or trending markets, when the music changes the system is bound to fail.

Systems have always been popular in all the markets—stocks, options, futures, and now FOREX. Not all systems are bad, but they are all opaque and that is always a warning sign. See Figure 1.1.

Opaque and Transparent

If a trading tool is *opaque*, it is difficult or impossible to fully analyze what it measures. If a trading tool is *transparent,* what it measures is either obvious or easy to comprehend.

Indicators are generally opaque. *Charts* are transparent.

If you insist on using a system in your trading, be sure you understand which type of market it was build for or around—and use it only in those markets. However, determining which type of market the system was built for can be difficult. Many systems provide limited information regarding how they were developed. The best process is to look at charts of the markets vis-à-vis the system's performance. In which markets did it perform best—trading, trending, fast, slow? If the system vendor does not provide at least enough information to do this analysis, beware.

Black boxes are systems for which no information is available. You don't know how they were built, how they work, or what type of data they were built around. My recommendation regarding black box systems is to stay away from them. The less transparent the tool, the more difficult it is to make adjustments when things go wrong. A black box is the most opaque tool of all.

Robots have become popular in the FOREX markets. Usually, these are programs that automatically execute a trading system. In fast-moving markets they are very useful, especially to the professional money manager overseeing dozens or even hundreds of separate accounts. If your available time for trading is limited, you may want to consider using robots.

But if you have so little time to trade that a robot appeals to you, I recommend that you consider a professional money manager to trade your account. There are many money managers with excellent track records, but a discussion is beyond the scope of this book. Seek out a manager who has

FIGURE 1.1 Curve-Fit Data.
The moving average is curve-fit to the data. A five-day average was selected on previous market performance. There is no guarantee that the future market performance will work with this value.
Source: FXtrek Intellichart™. Copyright 2001–2007 FXtrek.com, Inc.

performed well in a variety of markets. It is more important that the manager has done well in a spectrum of market types than in specific pairs or crosses.

Technical versus Fundamental Analysis

Most traders today use technical analysis to trade. This refers to techniques based on price and other objective data that result from market action. The technician's credo is "Everything is in the market price."

The factors examined in fundamental analysis, such as a country's income, gross national product, and interest rates certainly drive currency prices in the long run. The problem for the currency trader is, as Keynes said, "In the long run we are all dead." The FOREX markets are highly leveraged; this is one of their main attractions. You can be correct about a currency pair in the long run, but the leverage may cause a price movement more than ample in degree to take you out of the market before you can profit from being correct about the fundamentals. It is discouraging to be correct in your determination of long-term trend direction—for example, "Interest rates will drive the U.S. dollar lower against the euro"—but lose money because volatility and leverage cause so many short-term fluctuations that you are never able to board the long-term trend successfully.

No one denies that fundamentals such as money supply, labor statistics, political events, and many others drive the currency markets. The problem—and why most traders use technical analysis—is how to interpret them, especially in the short term.

Most fundamental information is quantitative but much is not. For example, how does a trader convert an unemployment statistic to a price value? To further complicate matters, there are hundreds of fundamentals that impact prices, and the matrix of possibilities is astronomical. And some fundamentals, such as geopolitical events, are not even quantifiable.

The prices in Figure 1.2—tracked hourly for 30 days on EUR/USD—were ultimately driven by a wide range of fundamentals. But how does the trader discern them in advance?

Technical analysis allows you to zoom in as close to the markets as you want. In fact, an advantage of technical analysis is the ability to visualize the markets at multiple price levels simultaneously. See Figures 1.3 through 1.5.

There is no perfect world, of course. Fundamentalists will counter that the prices you use to do technical analysis are already history by the time you do your calculations, and they have no rational effect on the future prices.

But a simple example will show this concept to be incorrect, at least in theory. It is true that after I enter my order to buy or sell, I have had all the

FIGURE 1.2 Fundamentals—Right and Still Wrong.
Source: FXtrekIntelliChart™. Copyright FXtrek.com, Inc.

impact on prices that I will have until I enter the opposite order to exit the market. Yet every trader has a propensity to exit the market, once entered, on variable factors of price and time. At what price will I take a profit? At what price will I take a loss? How long am I willing to stay in a trade? These propensities vary from trader to trader, but the aggregate of all propensities creates a push and pull on the market that should, again in theory, be measurable. See Table 1.1.

All traders have access to market prices; the same cannot be said of fundamentals. There are literally millions of fundamental factors in any given currency, and the relationships among them are in the billions. Someone will almost certainly know a piece of fundamental information before you do. And how do you translate a fundamental like gross domestic product (GDP) to a specific market value or even a specific entry price? To add gasoline to the fire, remember that these relationships are almost certainly nonlinear and are changing rapidly all the time.

Fundamental traders conclude that prices have no memory and that only raw fundamental information drives the markets. The following is only a partial list of potential fundamentals for the U.S. dollar (USD). Other countries will have similar lists. Now, don't you really want to be a technical trader!

FIGURE 1.3 Price Level Analysis: 15-Minute Bar Chart.
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

- ABC/*Money* magazine Consumer Comfort Index.
- Aggregate hours worked.
- Atlanta Fed index.
- Average hourly earnings.

FIGURE 1.4 Price Level Analysis: Hourly Bar Chart.
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

- Average weekly earnings.
- Average workweek.
- Balance of trade.
- Federal Reserve Bank's Beige Book.

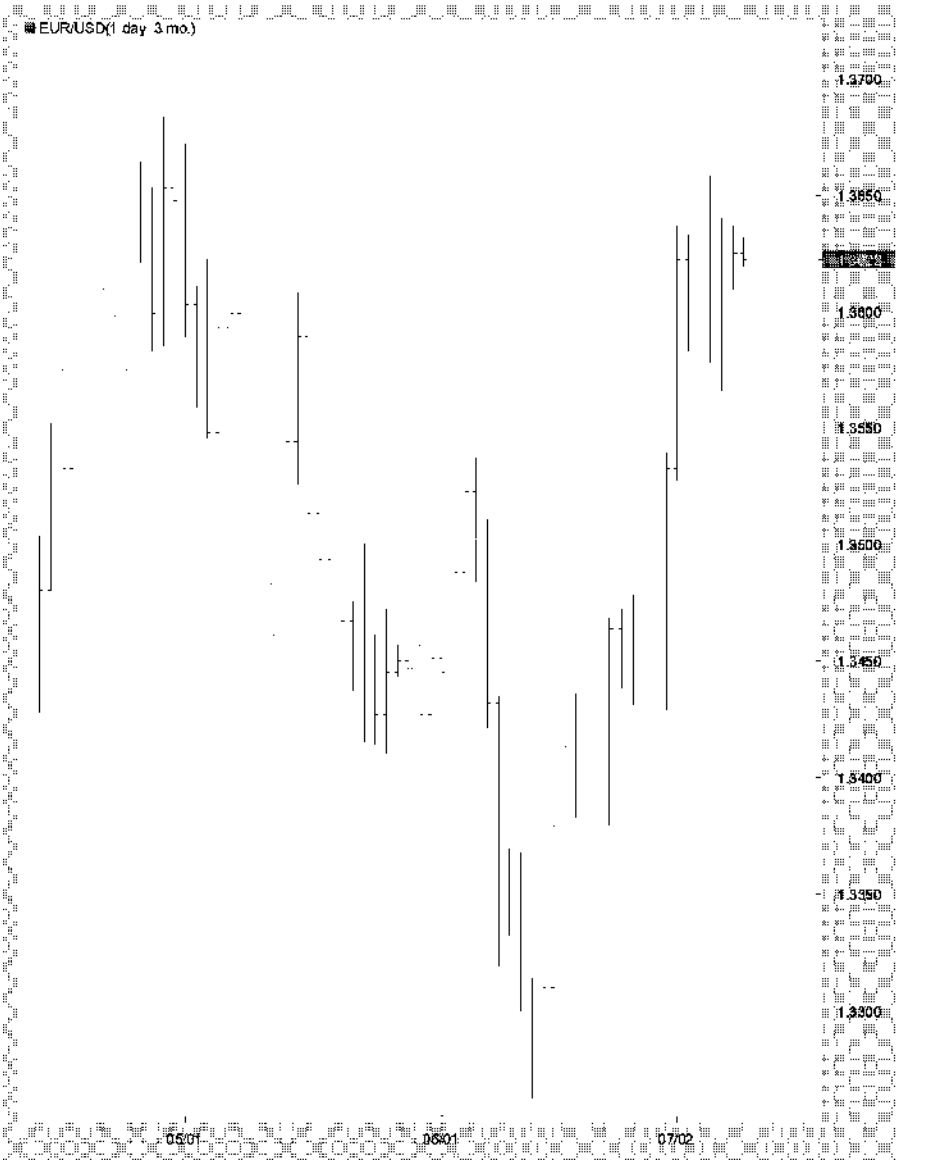

FIGURE 1.5 Price Level Analysis: Daily Bar Chart.
Most of the 15-minute bar chart is contracted into the single right-most bar of the daily chart.
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

TABLE 1.1 The Technical Market Paradigm

The theory of technical analysis states that all information relevant to the market is contained in the price data. Even volume and open interest statistics (not available to FOREX traders unless artificially synthesized from price data) are secondary to price data.

SYMBOL	USD	EUR	GBP	CAD	AUD	JPY	ZAR	CHF
USD		0.75002	0.50769	1.16061	1.2349	118.053	7.2124	1.2156
EUR	1.3329		0.67673	1.5467	1.6449	157.36	9.6155	1.6204
GBP	1.9692	1.4769		2.2854	2.4309	232.45	14.196	2.3936
CAD	0.86125	0.6465	0.43732		1.063	101.686	6.2148	1.0468
AUD	0.8098	0.6073	0.4111	0.9396		95.59	5.8427	0.9842
JPY	0.0085	0.0064	0.0043	0.00983	0.01045		0.0611	1.0287
ZAR	0.13832	0.10379	0.0703	0.16069	0.17088	16.349001		0.16834
CHF	0.8226	0.6171	0.4175	0.95449	1.015	97.07	5.9339	

Source: www.TradingCharts.com.

- Bridge/Commodity Research Bureau (CRB) indexes.
- BTM-UBSW Chain-Store Sales Index.
- Building permits.
- Business inventories.
- Capacity utilization.
- Capital flows, per Treasury International Capital System (TIC).
- Confederation of British Industry (CBI) report.
- Challenger, Gray, and Christmas layoff announcements.
- Chicago Purchasing Managers Index (PMI).
- Chicago Purchasing Managers Survey.
- Chartered Institute of Purchasing and Supply (CIPS) report.
- Composite Index of Leading Economic Indicators.
- Consumer confidence.
- Consumer installment credit.
- Consumer price index (CPI).
- Consumer sentiment.
- Consumer spending.
- Corporate profits.

- Current account (balance of payments).
- Durable goods orders.
- Employment cost index.
- Employment report.
- Employment situation.
- Existing home sales.
- Export prices.
- Factory orders.
- Federal budget.
- Federal government finances.
- Federal Reserve Policy disclosures.
- Financial account balance.
- Federal Open Market Committee (FOMC) minutes and transcripts.
- Foreign trade.
- GDP.
- GDP advance.
- GDP deflator.
- GDP final.
- GDP provisional (revised).
- GNP indicators.
- Goldman Sachs Commodity Index.
- Goldman Sachs Retail Index for Same-Store Sales.
- Help-wanted index.
- House prices.
- Housing starts.
- Humphrey-Hawkins testimony.
- German IFO index.
- Import prices.
- Industrial production.
- Industrial Production and Capacity Utilization report from Federal Reserve Board.
- Initial claims.
- International trade.
- Institute for Supply Management (ISM) Manufacturing Index.

- ISM Nonmanufacturing Survey.
- ISM Services Index.
- Jobless claims.
- Kansas City Federal Reserve Bank manufacturing survey.
- Lynch, Jones & Ryan (LJR) Redbook report.
- Manufacturers' shipments, inventories, and orders.
- Manufacturing and trade inventories.
- Michigan Consumer Sentiment Index (MCSI).
- Monetary base.
- Money supply figures (M1, M2, M3) released monthly by Federal Reserve Economic Data (FRED).
- Mortgage Bankers Association weekly survey.
- National Association of Purchasing Managers (NAPM) index.
- National Association of Home Builders (NAHB) survey.
- New home sales.
- Nonfarm payrolls.
- New York's Empire State Index.
- Orders, sectoral production, and inventories.
- Payroll employment.
- Personal consumption expenditures.
- Personal income.
- Philadelphia Fed index.
- Philadelphia Federal Reserve Bank Business Outlook Survey.
- Prices, wages, and productivity.
- Producer price index (PPI).
- Productivity.
- Purchasing Managers Index (PMI).
- Real earnings (real average weekly earnings).
- Real GDP.
- Redbook Index.
- Residential construction spending.
- Retail sales.
- Richmond Federal Reserve Bank Survey.
- Trade balance.
- Tankan report.

- Unemployment insurance claims.
- Unemployment rate.
- Unit auto and Ttuck sales.
- Unit labor cost.
- U.S. Treasury Borrowing Schedule.
- Wholesale inventories.

List courtesy of www.FOREXrealm.com.

Econometric Analysis

Econometric analysis attempts to convert fundamental data into pricing forecasts, most typically long-term forecasts. Because of the high leverage in FOREX, long-term forecasts may not be of value to many traders.

Econometric analysis typically yields complex mathematical/statistical models. Because of the complexity they are computer-based simulations.

The EXPO econometric software (www.lmt-expo.com) attempts shorter-term price forecasts, incorporating the following factors:

- *Data Transformations:* Box-Cox Transformations, Differencing, Logit, Seasonal Adjustment, and Periodicity Conversion.
- Statistical Analysis: Autocorrelation and Partial Autocorrelation Analysis, Q-statistics, Restricted Histogram, Correlation, and Variance/Covariance Matrix.
- Econometric Tests: Additional variables, superfluous variables, Dickey-Fuller Unit Root, Engle-Granger Cointegration, Granger Causality, Multicollinearity, Normality, LM Serial Correlation, GARCH and White Heteroskedasticity, Chow, and Ramsey.
- Model Estimation and Forecasting: OLS, GARCH, ARIMA, Ridge, rolling/moving regression, instrumental variables, and autoregressive errors.
- Random Number Generation: Using Binomial, Chi-square, Exponential, F, Student-t, Normal, Lognormal, and Poisson Distributions.
- Frequency Analysis: Convolution, Discrete Fourier Transform, Fast Fourier Transform, Inverse Fourier Transforms, impulse

(*Continued*)

Econometric Analysis (*continued*)

filters, power spectral density, trigonometric functions generator, digital filter functions.

- Polynomial Analysis: Cubic spline interpolation, polynomial estimation, and statistics.
- Statistics: Summary statistics, rolling correlation and statistics; Student-t, F, ANOVA, and Chi-square tests.
- Mathematical Functions: An extensive set of advanced functions for matrix math and calculus are provided in EXPO's "Analyze" menu.

Courtesy of www.lmt-expo.com.

Why Technical Analysis?

Pay your money; take your pick. Technical analysis, despite its faults, has attracted more traders than fundamental analysis has, for the following reasons:

- Technical analysis input (primarily prices in FOREX) is objective, transparent, and available to everyone.
- Technical analysis offers a nearly infinite number of possibilities for manipulation and application. Despite the millions of hours of effort expended on technical analysis, the field is wide open. Who knows what you might discover?
- Technical analysis allows traders to see the markets at many different price levels—of their choosing—at the same time.
- Technical analysis lets traders easily time their entries and exits as well as monitor their trades while they are open and active.

If you are right using technical analysis, you will probably make money on a trade. If you are right using fundamental analysis, the leverage inherent in the market may well cause you to get stopped out or exit the trade before you can collect on your judgment.

Despite the fundamentalists' concept that prices used in technical analysis are "instant history," the technical market paradigm infers that actions in the market of buying and selling obviously have reactions in the markets of selling and buying. Past prices contain information about future prices. Whether this information can be usefully deciphered is an issue for the theorists.

Charting

Price charts of market behavior have been around for centuries, probably almost as long as markets have existed in both the East and West. The most important types of charts used today are bar charts, candlestick charts, point and figure charts, and swing charts.

All charts share the primary characteristic of visually depicting price behavior over some period of time. They differ as to their secondary characteristics and type and degree of visual impact.

Bar Charts

Bar charts are the most popular and enduring for all trading, whether stocks, options, futures, or FOREX. They are time-specific, meaning that they are scaled according to time increments. For FOREX this can be ticks: 5-second, 10-second, 30-second, 1-minute, 5-minute, 10-minute, 30-minute, 1-hour, 12-hour, daily, or weekly. See Figure 1.6.

Time-Specific versus Price-Specific

Charts constructed as a function of time units are said to be *time-specific*. For example, a bar chart using five-minute, daily, or weekly information is time specific. Point and figure charts are *price-specific*; they require only price unit information to construct them. Goodman Swing Charts are both time- and price-specific; information for both time and price is required.

Candlestick Charts

Candlestick charts, a charting idea from the East, are especially popular in FOREX. Candlestick chart patterns emphasize the technical analysis paradigm—that past prices carry information about future prices. Candlesticks are also time-specific.

I used candlestick charts in the 1980s to trade cocoon futures on the Japanese commodity exchange. When in Rome, do as the Romans do! See Figure 1.7.

Point and Figure Charts

Point and figure (P&F) charts have fallen from favor over the past 20 years. Perhaps this is a good reason to give them some extra consideration now. Point and figure charts are price-specific. Instead of scaling as a function of time,

FIGURE 1.6 Bar Chart.
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

P&F charts are scaled as a function of price. In the end, it is a half-dozen of one and six of the other. Prices occur over time, and time is relevant only as it depicts changing prices.

It is said P&F charts were the "secret" of many of the robber barons of the nineteenth century who often raided railroad stocks using a tool no one else

FIGURE 1.7 Candlestick Chart.
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

used. I don't know how true that is, but it rings true to me. Trading tools invariably are most effective when they are not widely used. After a technique becomes popular, it loses much of its effectiveness. The theory is this: The market, never interested in cooperating with traders, essentially immunizes itself against overly popular techniques to prevent the masses from making money.

To understand the market's ability to discount and immunize itself, we need only to consider the commodity spread relationships in grain futures. Useful and effective in the 1950s and 1960s, they have shifted so dramatically as to be worthless today. See Figure 1.8.

Swing Charts

Swing charts can be either time-specific or price-specific, although most of them are price-specific in the manner of P&F charts. I like swing charts very much for my close-up view of markets when I am looking to enter or exit. They are also, obviously, useful for detecting swings in the market. When I discuss the FxCodex method of trading, you will see how important the information derived from swing charts can be to trading currencies. See Figure 1.9.

There is no best chart technique. Many traders use more than one for studying the markets. I use bar charts and swing charts and occasionally refer to point and figure charts. If you haven't selected a primary chart tool, look at the same market over the identical period of time with each type. Which one speaks to you? If you have already selected a charting technique, feel free to use it to develop your personal codex.

I strongly encourage a charting method as your primary tool both for watching the markets and for deriving buy and sell signals.

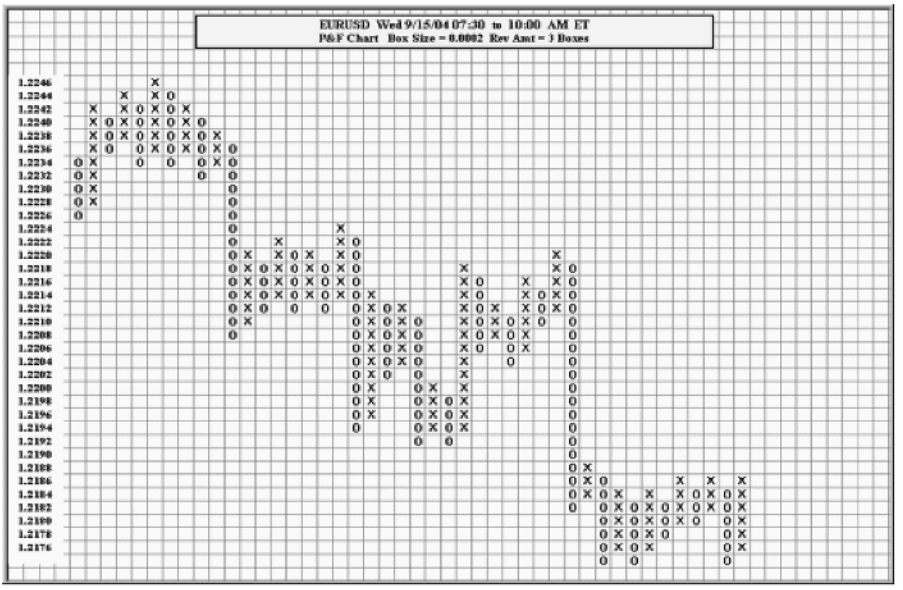

FIGURE 1.8 Point and Figure Chart.

FIGURE 1.9 Swing Charts.

Indicators

Indicators are popular with traders. The classification and sheer variety of indicators is vast, and a full discussion of them is beyond the scope of this work. Because most of us aren't math and statistics experts, anything that uses dazzling displays of mathematical pyrotechnics often seems somehow magical and infallible to us.

Many traders use an indicator battery (IB), which is a selection of perhaps a dozen or more indicators covering all the technical bases. If you use an IB, you need to have ad hoc rules (or a meta-indicator or indicators) to determine what all of its components mean and how to apply them in actually executing a trade.

Charts offer traders a transparent one-to-one correspondence with market prices; indicators do not, and that is the primary problem with them. Indicators are second-level techniques. They use the primary market data such as prices but manipulate it to attain a new level, hopefully, of understanding.

Information theory tells us that such translations or manipulations are fraught with some risk and danger. Without being 100 percent certain how the indicator relates to the underlying data, we can be easily misled. Markets move in prices, and using indicators requires that we constantly shift levels to make trading decisions. Each shift can cause an error, and because the markets move very swiftly, errors compound quickly.

Indicators also tend to be curve-fit. That is, you must somehow select time frames and other parameters to calculate the indicator value. As the markets change, these parameters may need to be constantly altered and updated. Trending markets evolve—sometimes rather quickly—into trading markets, and vice versa. Some indicators do this internally, after a fashion. For others—you guessed it—you need another indicator to make those decisions.

Indicators are opaque to varying degrees. The more complex the indicator the more difficult it is to determine what it is really measuring. In the meantime, the markets are marching onward and upward or downward. Another consequence of this opaqueness is that it is difficult to develop rational money-management tools using most indicators because the primary-level connection to prices has been severed in the calculation process. Stops, for example, are a function of prices, and your indicator needs to convert its findings back to price levels to determine a stop. Of course, you can always build another indicator to do that for you. If you've guessed that I'm not a big fan of indicators, you are correct.

Figures 1.10 through 1.12 provide examples of the three most common types of indicators—moving averages, oscillators, and relative strength.

Cycle Analysis

If the technical market paradigm is correct, then prices have a memory of some sort. *Cycle analysis* accepts this as an axiom and takes the idea a small step further: Prices behave in cycles. There is certainly logic to this, I think. But whether the markets are cyclical in nature or simply exhibit cyclical behavior from time to time is the big question.

Components of a Cycle

All cycles are defined by four parameters:

1. Amplitude—the distance between the maximum or minimum value and the mean value of the cycle; half the vertical range.
2. Wavelength—the period of the cycle as measured from one peak to the next peak or from one trough to the next trough.
3. Phase—the horizontal shift left or right for a cycle.
4. Decay/expansion—cycles may decay or expand for the above values over time, either linearly or nonlinearly.

Markets, if they have cyclical aspects, must certainly have multiple cycles. Small cycles represent the shortest-term traders; intermediate cycles

FIGURE 1.10 Popular Indicators: Exponential Moving Average.
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

represent the next level of traders; and large cycles represent long-term traders—the latter even exist in FOREX. There are perhaps dozens of levels in between.

Theoretically, if you sum all the cycles inherent in a market—again, assuming they are even there—you will get a summed cycle that has the same peaks and valleys as the underlying market. See Figure 1.13.

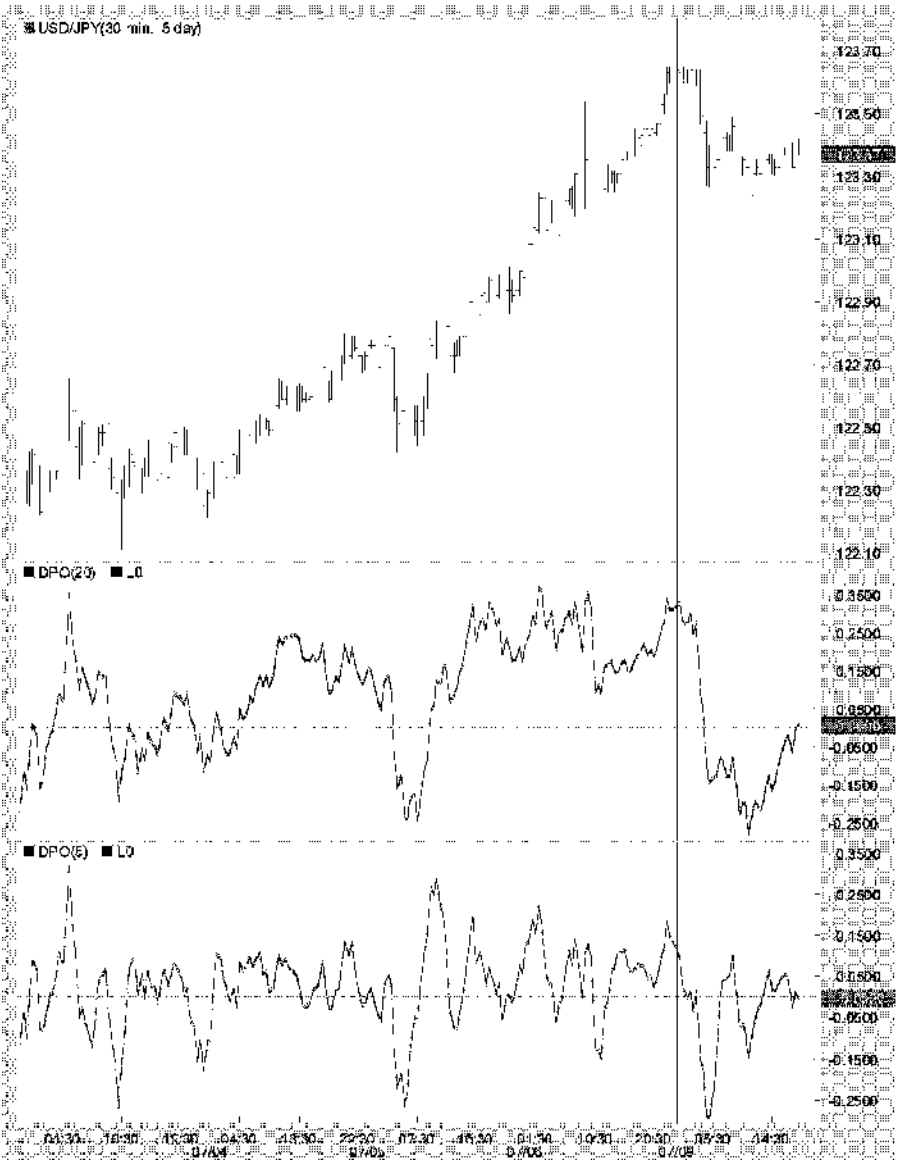

FIGURE 1.11 Popular Indicators: Oscillator (Bollinger Band).
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

Behavior Analysis

Behavior analysis takes another tack in accessing the technical market paradigm. Its central concept is focused on the behavior and propensities of traders. According to the behaviorists, their activities of buying and selling can be profitably measured and monitored. See Figure 1.14.

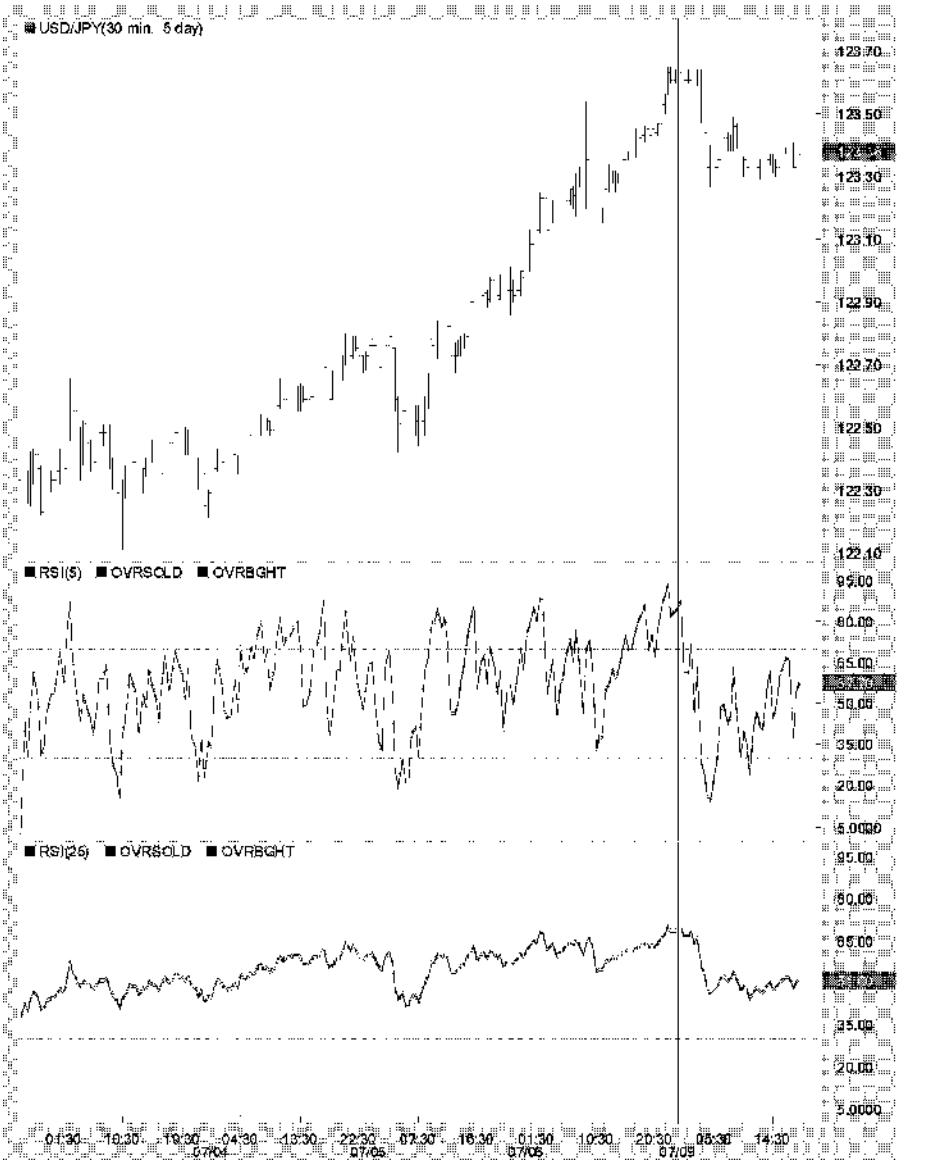

FIGURE 1.12 Popular Indicators: Relative Strength (Stochastics)
Source: FXtrek IntelliChart™. Copyright 2001–2007 FXtrek.com, Inc.

Much of the data for behavior studies derives from trading volume and open interest. *Trading volume* is the gross number of trades made over some period of time. *Open interest* is the total number of buyers and sellers in the market as a function of whether they are *new* buyers and sellers over some period or *old* buyers and sellers already in the market.

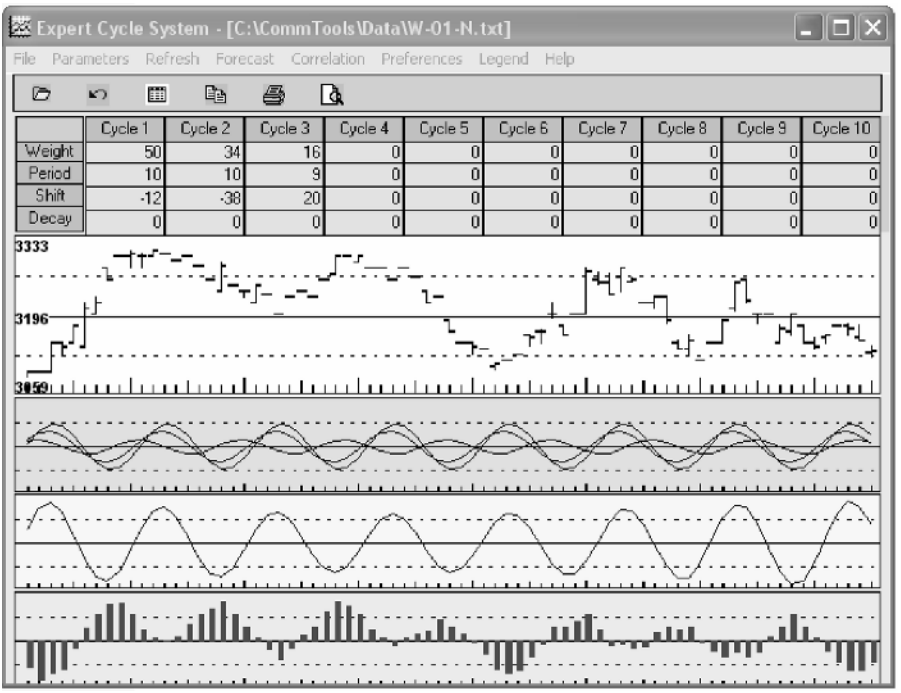

FIGURE 1.13 Summed Cycles.
The three cycles in the middle of the chart are summed to create the cycle just below it.
Source: Expert Cycle System (www.FxPraxis.com).

Volume and Open Interest

Because there is no central clearinghouse for currency trading, there are no aggregate volume or open interest statistics. In theory, this information could be synthesized from price data.

Volume is the total number of transactions (buy/sell) over a period of time. *Open interest* is the total number of trades open and active at a given time in a specific quantity unit.

Volume and open interest in futures are classically interpreted as shown in the following table:

Price	*Volume*	*Open Interest*	*Interpretation*
Rising	Rising	Rising	Market is strong.
Rising	Falling	Falling	Market is weakening.
Falling	Rising	Rising	Market is weak.
Falling	Falling	Falling	Market is strengthening.

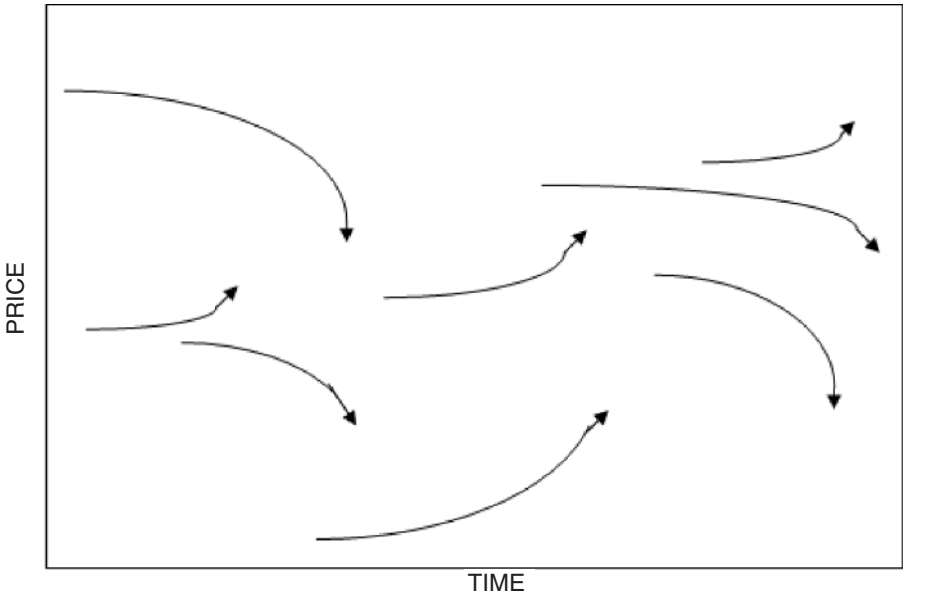

FIGURE 1.14 The Ultimate Trading Paradigm.
Every trader in the market has a propensity to exit the market at some combination of price and time. Every trader contemplating entering the market has a propensity for some price and time. The sum total of these propensities or decisions constitutes the flow of prices over time.

Behavior analysis is less useful in FOREX than in futures or options. There is no centralized exchange or clearinghouse and thus no reporting of total volume or tracking of open interest.

Because I have a high opinion of behavior analysis, I have spent a considerable amount of effort devising *synthetic volume* and *synthetic open interest* to provide analogous data for currency behavior analysis studies. For more information on this research, you may want to visit my web site, www.FxPraxis.com.

Market Filters

Market filters, in general, are statistical tools indicating possible high-risk trading areas or times. Because of the leverage and pace in FOREX trading, filters can be extremely useful. If a filter prevents you from making a single bad trade, it has paid the cost of having it in your toolbox.

Here is a simple example of a useful filter: The Federal Reserve makes routine (and sometimes not so routine) pronouncements at 8:30 A.M. Eastern

Standard Time. The markets—those involving the USD—often react very violently just after such announcements (as you will see in Figure 1.16). Pull up some charts of this time of day and see for yourself. Observe how often the market feints in one direction right after the announcement and then proceeds in the opposite direction soon thereafter. Don't enter a trade just before a Fed announcement. Do watch the action after an announcement. See Figures 1.15 and 1.16.

After you decide which pairs and crosses you will trade, it is important to develop and keep a calendar of relevant events and announcements for the country in question. Serious traders will also follow general events in that country for clues to news that may impact its currency.

Your daily trade plan should include a calendar showing any such scheduled announcements. Not stepping in doo-doo is more important than finding the pot of gold at the end of the rainbow. The pot of gold is always there, but if you lose too much money you will no longer be in the race to find it.

Whereas fundamentals may be difficult to use, news is not. News provides important feedback about the market. A market's reaction to news may yield valuable clues as to the underlying strength or weakness of a currency. I say more about using news in Part 3.

The Toolbox Approach

A typical toolbox takes tools from several categories:

- Charts, including:
  - Bar Charts
  - Swing Charts
  - Point & Figure Charts
  - Candlestick Charts
  - Indicators—the list is long, but most can be reduced to these categories:
- Moving averages
  - Oscillators
  - Bands
  - Stochastics
- Cycles
  - Market filters

The traditional trader will generally pull techniques from all these categories. That is both good and bad. It is good because more information for making intelligent trading decisions is at your fingertips. It is bad because the more techniques you use, the more opaque your trading strategy becomes. The more opaque your strategy—the further away you get from the actual

Forex Calendar: Economic Indicator and Central Bank Dates

FX Monthly Calendar updated weekly - - FX Schedule

All times GMT-

Mon, Jul 9, 2007
23:50 JA- May core machinery orders
23:50 JA- Jun M2+CDs
06:00 DE- May Trade
08:30 UK- Jun PPI
08:30 UK- Jun Trade
10:00 DE- May Ind Prod
19:00 US- May Consumer Credit

Tue, Jul 10, 2007
09:30 UK- Jun Trade
13:00 CA- BOC Policy Announcement
14:00 US- May Wholesale Trade (see +0.4% vs. +0.3%)

Wed, Jul 11, 2007
JA- BOJ meeting -- day one
23:50 JA- May C/A
23:50 JA- Jun Corp Goods Prices
09:30 UK- Jun Trade
14:30 US- Weekly Enegy

Thu, Jul 12, 2007
JA- BOJ meeting -- day two
00:30 AU- June Employment
05:30 JA- May final IP
09:00 EZ- May IP
10:00 EZ- 1Q07 GDP (2d release)
12:30 US- Weekly Claims
12:30 US- May Trade (see -$60bn vs. -$58.5bn)
12:30 CA- May Trade
18:00 US- Jun Budget

Fri, Jul 13, 2007
12:30 US- Jun Retail Sales (see +0.4% vs. +1.4%; ex-autos +0.4% vs. +1.3%)
14:00 US- May Business Inventories (see +0.3% vs. +0.4%)
14:00 US- Jul prelim UM sentiment (see 85.5 vs. 85.3)

FIGURE 1.15 Fed Announcements.
For those trading the USD versus any other currency, the announcements by the Federal Reserve are critical. These announcements very often elicit high volatility and extreme price movements, at least for a few minutes of trading. Most broker/dealer trading platforms have an economic calendar with all important news and announcements listed. One excellent resource is www.ForexEconomicCalendar.com.
Source: www.global-view.com.

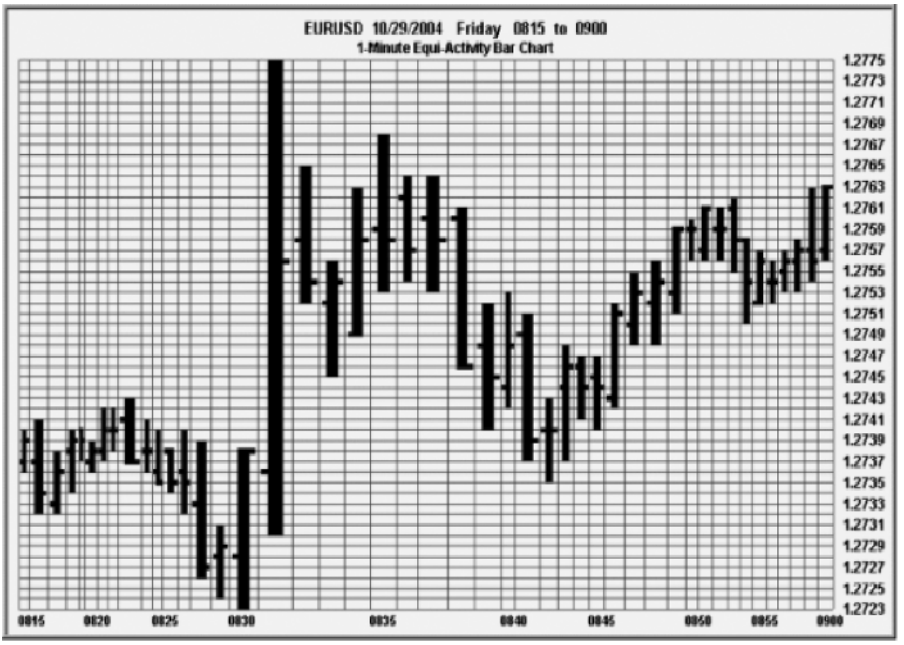

FIGURE 1.16 Shockwaves

prices going by on your trading platform screen—the more difficult it is to know what you are actually seeing and measuring. Consequently, it becomes more difficult to convert that plethora of information to an actual trade. The markets move quickly and it is very easy to get lost in your own toolbox. By the time you find your hammer, some other trader has driven the nail home.

Select tools that complement and supplement each other. If you use indicators, don't use four different oscillators and no moving average; if you do, you've left out a good trending market tool. If you use charts, don't use both point and figure and swing charts—they overlap too much.

Toolbox Configuration

A no-nonsense, classical toolbox configuration might look like this:

Charts
- Bar charts

Indicators
- Moving averages
- Oscillators

Market Filters
- Time-of-day studies
- Announcements and news

Summary

This chapter is intended to give you a very brief overview of traditional trading techniques as a trading *element*—their pluses and minuses individually and collectively. The field of technical analysis is vast and enormously interesting. This is certainly one reason that most traders spend most of their time and effort here. The resources of technical analysis are staggering, and the possibilities—for better or for worse—are endless.

More specific information is presented in Parts 2 and 3 for those tools selected for the FxCodex method. The codex approach folds trading techniques into an analytical *process* and they become less important individually than they are to the traditional trader.

Don't let the sheer quantity of information confuse or mislead you. Trading tools are only one-third of the successful trader's set of elements. Money management and the soft elements are just as important, perhaps more so. The alluring siren song of trading techniques has been the ruin of many, many traders.

Let the trader beware!