What Came First ... Fundamentals or the Technicals?
By Jared Martinez

I am honored to share my thoughts on our methodologies, focusing on the current technical movements and conditions of the FOREX Markets, i.e. USD traded against the major world currencies such as the EUR, JPY, GBP. Let me ask this question. In your opinion, what drives the markets first ... Fundamental conditions or technical movements?

I am sure you all have an opinion. Perhaps you have never even though about it. My belief is and what I have found that what works for me is the reliability of the technicals out performs the reliability of the fundamentals. Even though I strongly recommend, every trader must be aware of fundamental announcements, i.e. Governmental reports, Central bank decisions, interest rate changes etc. as best they can before they trade. My methodologies and rules for trading as well as risk management are based off of the technical movements (technical analysis) in the market.

If a trader wants to play this game and find long-term success, the best thing they could do for themselves is create a trading plan with a checklist of criteria for entry, and exiting positions. Creating a trading plan before entry plays a large part in avoiding emotional decisions and staying structured in your trading. After all, the worst time to check your fuel as a pilot is after the plane has taken off. The reason there are less accidents in the air, verses the ground, is due to well thought out flight plans by pilots, who create several alternative scenarios should things go wrong. I have come to the realization that, not only does Murphy's Law apply to trading in the markets, Murphy's primary residence is found in the trading charts. If any thing can and will go wrong, It will go wrong.

Trading is not a game of chance or luck. It is a solid means of creating income. It can be like playing a game of chess. At all times, there are several scenarios that can take place. The expected move of the market is usually not in the direction we thought and the out come is like playing chess with an expert. They have a habit of blindsiding you as you play with the out come of the game ending unfavorable and a lot earlier than you anticipated. Income comes to those who approach the market with knowledge and a serious level of disciplines. Safety and longevity in trading comes from properly educating yourself on how the markets work first and then knowing how to manage your risk.

Having said that let me get started with our approach in trading on the FOREX.

I don't care how you look at the market. It can only move up, down and sideways. The question is, on what time frame?

Every day the market is filled with traders who have different opinions of which way the market is moving. I have learned that one of the reasons they think and feel so differently is based on the charts and time frame they are looking at. A trader who looks at daily charts may think the market is trending up, while a trader who looks at a 60 minute chart may think the market is trending down. The fact is, they may both be right.

The question is, how are they both right? What were the signs or analysis that made them both right? It comes down to understanding technical analysis and whether your trading style is that of a day trader / scalper or long-term position trader. We have created a trading methodology that includes 4 major aspects of Technical Decision making:

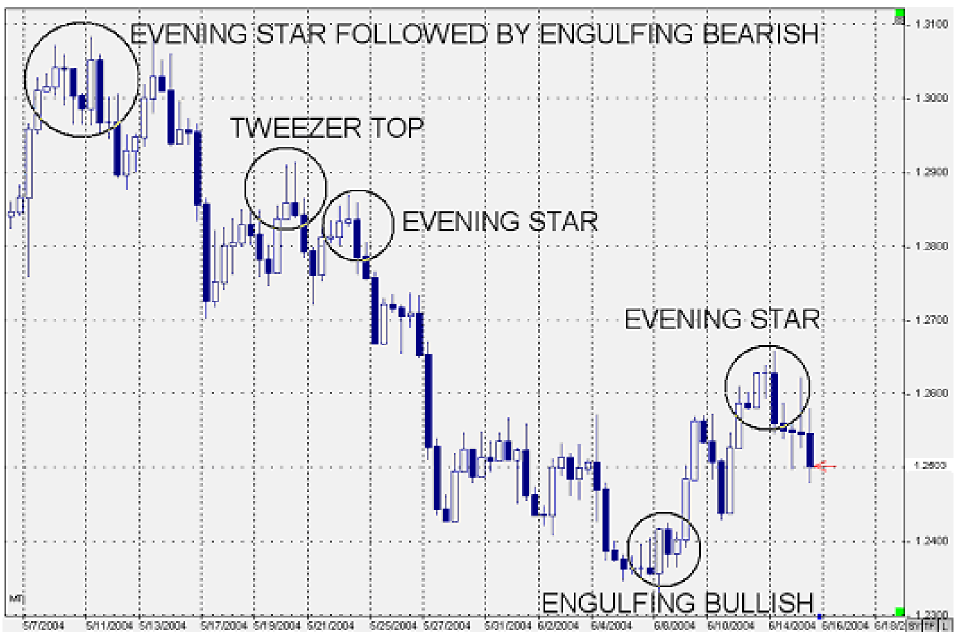
1. Candlestick Formations
2. Fibonacci Corrections / Retracements and Extensions
3. Financial Breakouts
4. Trading in the direction of the trend using Trend lines

1. Japanese Candlesticks. They are more user friendly to the novice trader and many times are preferred by the experts. Candlestick formations offer great buy & sell signals with excellent

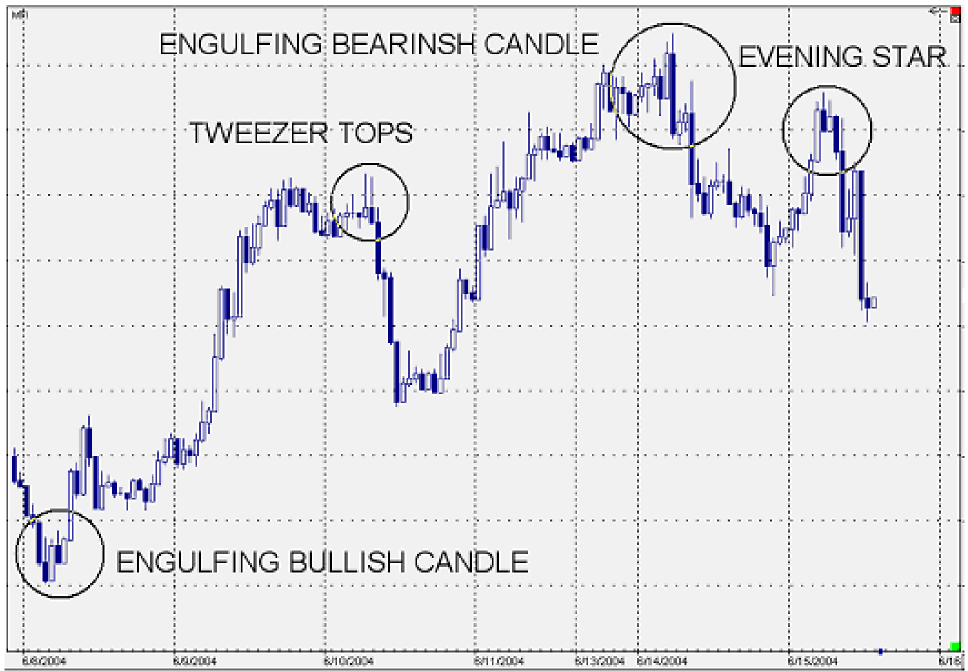
Equity Management for the Trader. I have always said, ***"Charts may be deaf and mute, yet they communicate. Candlestick formations are the sign language of the market. They tell the trader a large majority of the time where the market is going."***

Candlestick formations identified as "Engulfing Candles", "Tweezer Tops" or "Tweezer Bottoms", "Evening Stars" or "Morning Stars", can become major turning points in the market. These formations appear on all time frames, i.e. 15 minute, 60 minute, 4 hour, daily, weekly and even monthly. Learning to identify these formations and understanding the rules governing the formations, lends itself to creating great trading plans with great risk / reward ratio's.

Finding a candlestick formation on a larger time frame, i.e. a daily chart or an 8-hour chart that has just created an engulfing bullish candle which is a buy signal, lends itself to entering the market on a shorter time frame with less risk. Example: the Bullish engulfing candle on the daily chart is telling the trader that the market has a high probability of rallying higher.



By Turning to an hourly chart and looking for either a bullish candlestick formation or a pullback from a recent high, would help to identify the Buying Zone for the next wave up, creating a trading plan for a potential trend reversal.

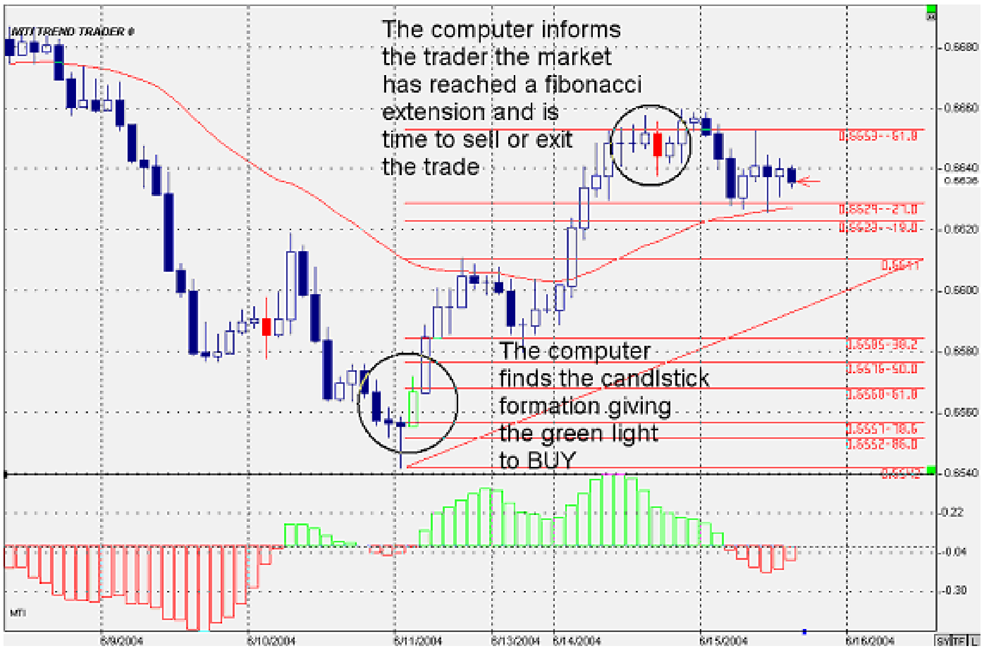


Candlestick formations offer one of the best risk-reward potential trades available. Learning how to accurately read Japanese candlestick formations has a high probability of defining turning points and having the market move in your direction from the beginning and that is exactly what all traders are looking for.

The ideal scenario is to have a charting package that finds your candlestick formations for you as seen above.

2. Fibonacci Retracements & Extension Levels: ***"The markets move in a natural harmonic Fibonacci sequence, similar to that found in nature. Understanding that sequence places the Trader at a huge advantage."*** Trading cycles and market waves run in synergy with the "natural movement" of the market. These are similar to the natural cycles in nature. Knowing where the market has a high probability

of "bouncing" on the retracement in the direction of the trend, allows a trader to get in and have the market move in their direction from entry

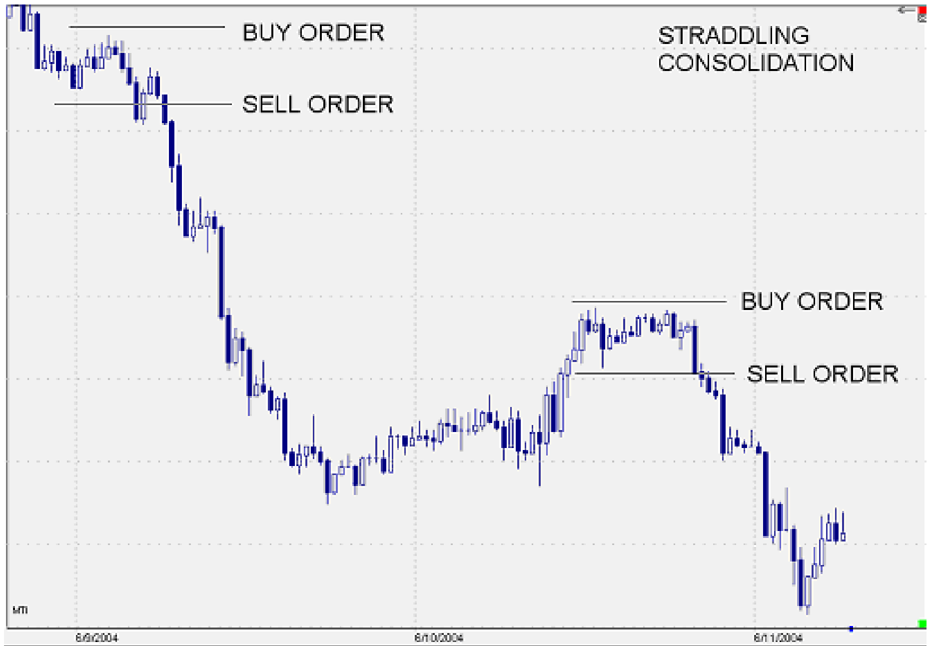


Recruiting the help of software that can help you find your Fibonacci numbers as well as your entry and exit points as the market is turning, becomes the environment of choice as one trades.

Knowing the Fibonacci extensions levels allows a trader to profit take before the next major retracement. Learning and understanding the Fibonacci retracement and extension levels may mean the difference between success and failure. Some of the highest paid positions in Banks go to those Analysts who understand the market in a Fibonacci sequence in both short and long term time frames.

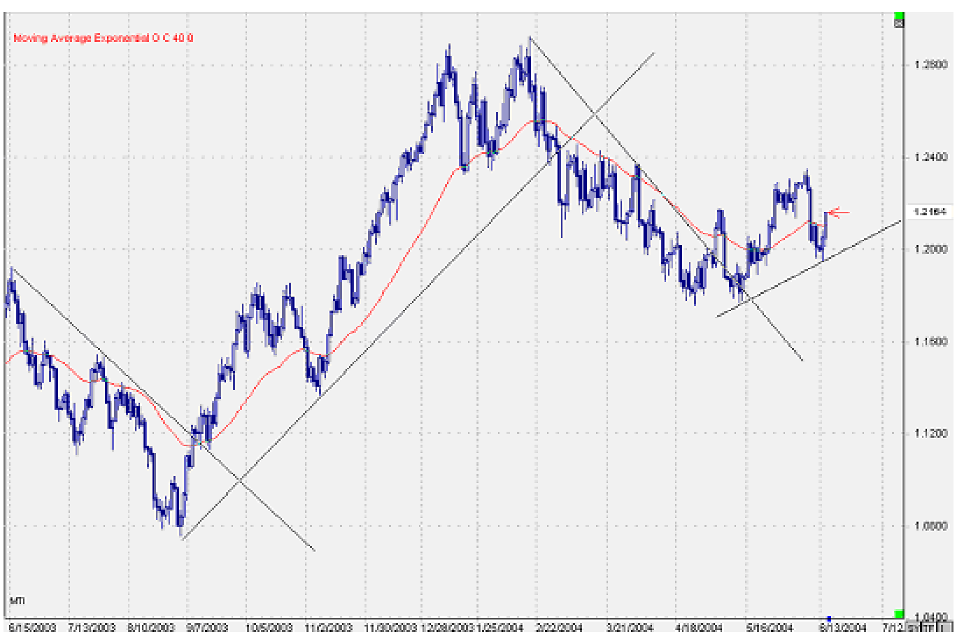
3. Financial Break-Outs: "The only thing in life that is consistent is change ... most fundamental announcements create a dramatic change in the market."

Currencies may aggressively react to "fundamental announcements". Educated traders respond rather than react to those announcements. Fundamental announcements, where there are unexpected surprises, can create trading ranges of perhaps 150 -300 pips in a single trading session. Consolidation usually takes place before most major fundamental announcements. Straddle the market becomes the trading strategy of choice to take advantage of the "break-outs



4. Trends: "The Trend is your friend until it bends." The currencies have a tendency to trend 1,000 pips or more in a direction, and then retrace back 1,000 pips or more within a 4 to 6 week. period. This type of price movement, gives the position trader a great trading opportunity.

Drawing Trend lines may become the difference between success and failure in trading. Knowing how to properly draw trend lines is an art. Knowing how to draw the inner, the outer and the long term Trend lines can allow a trader to get in on a trend at the right location. Trend lines play a big part in knowing where to place your protective stop, protecting and locking in profit on your open position. Placing your protective stop loss order where it is vulnerable to market fluctuations, is doing nothing more than paying the "kitty" and being thrown out of the game early while being denied your right to a proper return.



Trend lines are hand drawn in black in the above chart. The red line is an automated trend line that keeps up with the trend movement. In an Uptrend, the north side of the trend line acts as Support while the backside acts as Resistance. The opposite takes place in a Downtrend.

In Summary;

Looking at a chart and seeing what is really going on is usually the difference between success and failure in trading. Most novice traders look at charts, yet they see very little. In fact, all charts are telling a story to the educated Technical Trader. Using a Charting package that can provide Buy and Sell signals accompanied with a clear education and understanding of the market may increase your percentages of success tremendously.
To the Technical Trader, the chart is nothing more than what an x-ray is to a Doctor. It is an instrument offering a way to a productive end result. It is telling a story. The greatest story it is telling is the high probably of it's next move in the market. The educated trader will determine if the trade aligns with their equity management and choose to get involved or not get involved. Why? Teachers love to teach, doctors love to operate, and traders love to trade. Either way, to the educated trader, failure in trading is not an option.

The majority of novice traders look at charts in amazement. What they see is a chart with a never-ending movement of prices. Increasing, then decreasing, perpetually going up, down and sideways. The creation of price waves never seems to end. The main reason most traders lose money in the market is, they have no idea how to make sense of all that price movement and which time frame they should be watching.

"Where should I get in? Where is the safest place? How much can I afford to risk? How much will I gain? Should I wait a little longer?" After all, no trader can be 100% right and every trader is just trying to make a profit. We are all trying to find comfort in the number we are trading. Perhaps using a simple combination of Candlestick formations, Fibonacci levels, trend lines, a well as a charting software with signals, can allow you some comfort in the numbers you trade!

I sincerely wish you well with your efforts to become successful traders.

Health, Happiness and Successful trading!
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