

Trading with Sam Chang

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FOREX TRADING



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Trading Psychology

- Conviction/Confidence
- Limit Losses early and let Profits Run
- Discipline/Trading Plan
- Do not chase losses
- Detachment/ Forget about the money
- Patience
- Focus

Conviction/Confidence

- Have Confidence in your trades and trading strategies. Believe in yourself and in your own abilities

Limit Losses early and let Profits Run

- Many traders violate their predetermined trading plan and take profits before reaching their profit target, or sit on losing positions and allowing the market to move against them for hundreds of points in hopes that the market will come back in their favor.

Discipline/Trading Plan

- Be sure that you have a trading plan in place before you enter a trade. The plan must include your stop loss and profit target. You analysis and trading plan must encompass the expected down side risk and loss as well as the expected upside projected profits.

Do not chase losses

- Do not take more trades in a losing position in the hopes that the market will turn in your favor. It will only accelerate your losses!

• • • Detachment/ Forget about the money

- Concentrate on the technical aspects of your trade rather than the money. If your trades are technically correct, the profits will follow.



Patience

- Wait for the right time to enter in the market before trading. There are times when it is not wise to enter a trade. It is better to say on the sidelines and observe than to trade in times of market uncertainty.

FOCUS

- It is important to keep your trading strategies simple. Focus on your own analysis and do not be influenced by others opinions and too much fundamentals. Focus on long term trends and time frames. The most profitable trades are riding in long term trends.

Statistical Indicators

- Simple Moving Averages (only use on trending markets)
- Slow Stochastic
- Bollinger Bands (Range Trading)
- RSI
- MACD

Simple Moving Averages

- Moving Averages are lines that average the last X number of bars. They are continually plotted as lines on the chart and are entered by the system as the charts are drawn. The lines will follow (or lag) behind the price so that when it changes, it will act as a limit for pull backs. When the price is rising, the MA is lower or left behind by the price. When the price is falling the MA is left behind and is higher than the price. When the prices come back to the MA then it becomes a good opportunity to take a trade.

Simple Moving Averages

- What happens in the market is that traders will enter trades from the MA and so it acts as a limit or pull back. These become positions to take a trade. As the price pulls back it will stop at the MA and turn around and go in the direction of the MA. This method is the most fundamental indicator of trading currency. The market continually responds to MA's. This indicator is a trend following sys. But it does not help in ranging markets.

Slow Stochastic

- The slow Stochastic provides similar data to the fast stochastic, with the difference being, the slow stochastic includes a smoothing variable. This smoothing variable is a further simple moving average. Generally, the larger the variable the smoother the chart.

Bollinger Bands

- Bollinger Bands consist of a centerline and two price channels, one above the centerline and one below. The centerline is an exponential moving average, and the price channels are standard deviations of the currency. The bands will expand and contract as the price action of an issue becomes volatile (expansion), or becomes bound into a tight trading pattern (contraction).

RSI

- Relative Strength Index compares upward movements in closing price to downward movements over a selected period.

MACD

- The MACD is calculated by subtracting a 26-day moving average of a currency price from a 12-day moving average of its price. The result is an indicator that oscillates above and below zero. When the MACD is above zero, it means the 12-day moving average is higher than the 26-day moving average. This is bullish as it shows that current expectations (i.e., the 12-day moving average) are more bullish than previous expectations (i.e., the 26-day average). This implies a bullish, or upward, shift in the supply/demand lines. When the MACD falls below zero, it means that the 12-day moving average is less than the 26-day moving average, implying a bearish shift in the supply/demand lines.

Leading versus lagging indicators

- Moving averages and the MACD are examples of trend following, or "lagging," indicators. These indicators are superb when prices move in relatively long trends. They don't warn you of upcoming changes in prices, they simply tell you what prices are doing (i.e., rising or falling) so that you can invest accordingly. Trend following indicators have you buy and sell late and, in exchange for missing the early opportunities, they greatly reduce your risk by keeping you on the right side of the market.

Strategy trading (Weekly)

- Analyze weekly charts once a week at start of week.
- Look for long term support and resistance levels only. These will be defined by Fibo levels, horizontal lines, Bollinger, and trend lines.
- Define a rough weekly strategy
- Save the charts and make note of any of these important levels which are less than 500 pips away from market price.

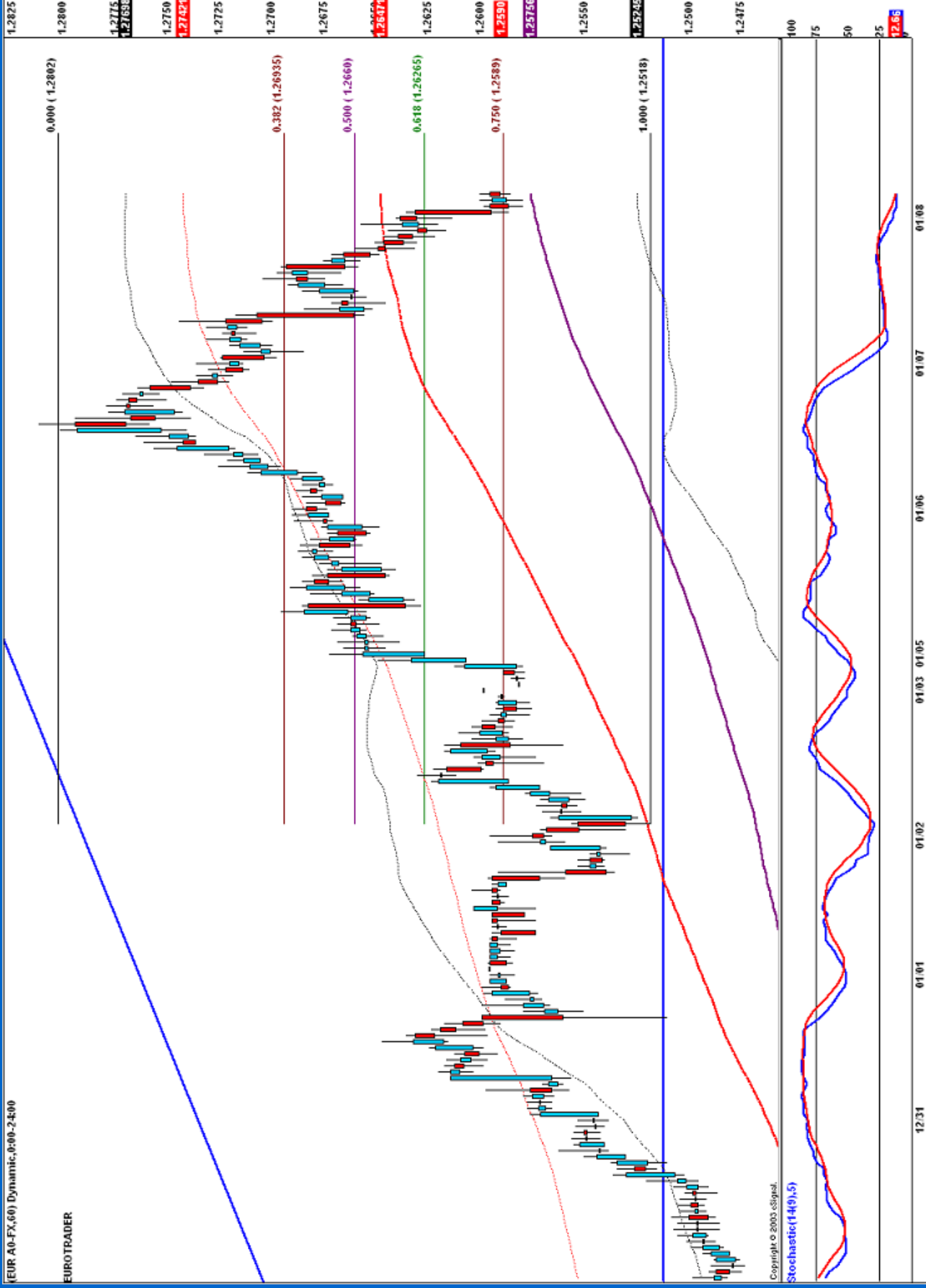
Strategy trading (Daily)

- Analyze daily at start of day.
- Note the status of RSI and stochastic (are they overbought/sold?)
- Note immediate trend defined by 10 SMA
- Note potential reversal candles off important technical levels.
- Use the day chart to define direction of trade and entry levels, keeping within the weekly rough strategy

Chart Setup

Indicator	Weekly	Daily	Hourly
Fibonacci	Long term move (months/years)	Medium term move (months/weeks)	Short term move (weeks/days)
Horizontal	Major (months/years)	Major (months/years)	Minor (hours/days)
Trend line	As above	As above	As above
Bollinger	20	20	120/480
Moving average 1	-	5 simple	5 simple
Moving average 2	-	10 simple	120 simple
Moving average 3	-	200 simple	240 simple
Stochastic	-	14/9/5	14/9/5
Macd	12/25/9	12/25/9	12/25/9
RSI	-	14	14
Candles (all charts)	Look for reversal candles such as Doji's, spikes, hammers etc	Look for reversal candles such as Doji's, spikes, hammers etc	Look for reversal candles such as Doji's, spikes, hammers etc

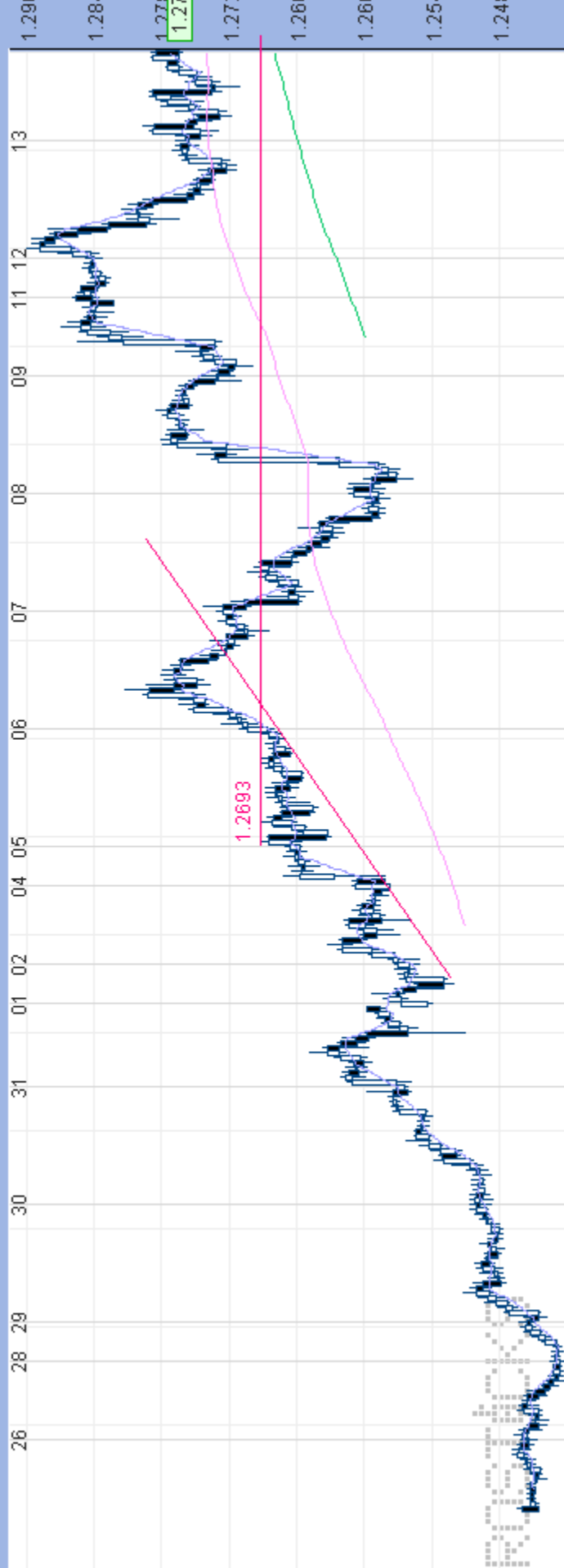
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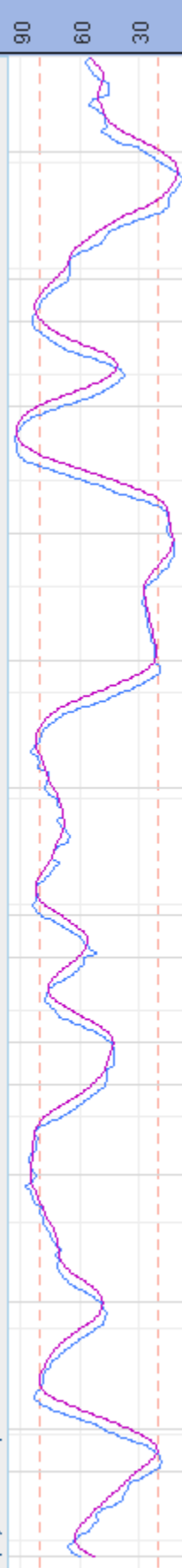
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Stochastic(14,9,5)

(5): 1.2766 (120): 1.2601 (240): 0 (0): 0



Chastics (14, 9, 5) 79.4049, 81.8471



(SMA) (14, 0, 0) 71.2871, 0, 0

