

FOREX Box Profit Strategy

Introduction

Welcome and thank you for purchasing the Forex Box Profit system. The Forex box Profit is a complete trading strategy for trading not only the FOREX markets but any stock or commodity. You will learn how to analyze and spot trading set-ups, how to calculate the potential reward and risk and when exactly to enter a trade for maximum performance and most precise trades.

The Forex Box Profit is based on price-action and uses chart analysis to generate its powerful trading signals. In the 'Analysis' chapter you will learn the basics of chart analysis that you will use to identify patterns. Later you will learn how to spot the Box set-up and how to trade it.

We advise to read the entire system before putting it into practice. It is also recommended to gain experience in demo accounts before trading on your own money. If you find that you need further help or have any questions, do not hesitate to contact our technical department at admin@forexbboxprofit.com

Philosophy

Trade Few, Powerful Setups

Our philosophy of trading is very simple: from our experience, it is hard for beginners (and even for professionals) to accurately analyze the markets day by day. The markets have many unknown variables and it is very hard to estimate exactly how each one affects price movements.

However, there are set-ups in which price has a higher chance of moving in a certain direction. These are set-ups that we know and identify well, and have tested their profitability over months and years of trading. These are the patterns we will concentrate on and the ones you will learn to trade. Analyzing the market correctly and profiting without a solid system and rules is hard and requires years of experience and devotion. On the contrary, profiting from one simple set-up you know well requires very little experience and can easily be done by a complete beginner. This is what we aim to deliver in this book:

to give you the system and tools to identify high-probability set-up, and teach you exactly how to extract profits from it.

Price-Action

In order opinion, the best method trade profitable is price-action. If executed correctly, price-action patterns can be highly profitable and generate leading signals, meaning that you enter at a reversal in an attempt to catch the trend from its early beginning.

The advantages of such attitude are several:

1. You enter early, and enjoy higher profits.
2. You trade with a tight stop loss because you enter near a support or resistance level (more info on that in the next chapter).
3. You have very low risk.
4. Price-Action patterns are the only pattern that were proven to work from the early 1900s and until now – they are based on psychology and not by mathematics and therefore are much more reliable.

This is what the Forex Box Profit is all about.

Analysis

In this chapter we will cover the analytical tools needed to trade the Forex Box Profit strategy. You will learn the basics of chart analysis that can be used in other trading strategies as well. These are the foundation stones of chart analysis and are considered one of the most reliable methods of price-action analysis. Learn them well and your trading will improve significantly.

In this chapter you will learn about support and resistance levels and how to identify and trade them.

Horizontal S\R Levels

Support and **Resistance** are psychological levels which price has difficulties to break. Many reversals of trend will occur on these levels.

When a certain level is difficult for price to cross **upwards** – it is called **Resistance**. When a certain level is difficult for price to cross **downwards** – it is called **Support**.

The harder for price to cross a certain level, the stronger it is and the profitability of our trades will increase. **Try to trade on levels that price stopped on at least twice.**

The most basic form of Support and Resistance is **horizontal**. Examples:



Price bounces off horizontal Resistance level at 1.5800



Price bounces off horizontal Resistance level at 1.5845



Strong horizontal Support level at 1.5450



Horizontal Support level at 1.5730

Strong horizontal levels are round levels - 1.1300, 148.0, 130, etc. These levels are usually prone to high activity from buyers and sellers, and therefore usually cause reversals in price.

The more times price stops on a support\resistance level, the stronger it is – and more powerful its breakout will be. Level that was tested for 5 times will be much stronger than a level that was tested only twice – and the breakout will be much powerful and lead to higher profits.

Breakout and Pullback

Our trading decisions will be based on actions that price can perform in relation to trend lines. There are 2 scenarios that price can perform:

- Breakout
- Pullback

I will now explain each scenario and demonstrate in charts.

Breakouts

Breakouts occur when price breaks a support or resistance level. They are usually accompanied with high volume and big movement of price. We will **not** trade these signals.

Examples for breakouts:



Breakout of horizontal Support level



Breakout of Resistance trendline



Powerful breakout of Resistance trendline

Breakout signals attract many inexperienced traders that mistakenly think that the breakout is a profitable signal because of the strong momentum of price.

Breakout is usually an unreliable signal whose continuation is doubtful. Price may appear to break a certain level but will close below it – this is known as 'Fakeout'. This happens a lot, especially when trading in small time-frames (Day Trading). When trading stocks, you can trade breakouts, though you will suffer from the same drawback these signals have.

This drawback is the inability of placing a stop loss at a logical location. When entering on a breakout, we don't know where to place the stop loss, as price can retrace, touch our stop loss order (closing our trade) and continue in the original direction. In order to place a stop loss it must be far from price – thus decreasing our profitability.

We will now describe the main signal we will trade, one with highest power and reliability.

Pullbacks

Pullbacks occur when price re-touches a Support\Resistance previously broken. This is one of the highest quality signals and we will trade them in many chart patterns.

Examples for pullbacks:



Price broke Support trendline, then re-touched it – and continued down



Pullback after breakout of Support. Note the strength of the movement and the precise reversal signal.



Precise pullback after breakout of Resistance trendline

Note that pullbacks should occur at few bars after the breakout. If the pullback doesn't occur quickly we will discard it as a potential trade. This is because psychological levels tend

to lose their reliability as they became older. Always aim to trade newest trend lines and discard the old ones.

The pullback is an extremely strong trading signal, which results in frequent winning trades. This is empowered by the fact that when trading pullbacks, we are actually trading with the prevailing trend! The breakout that came before the pullback confirmed the strength of the trend – and enhances the quality of our signal.

When to time trades: Trade timing occurs when price makes a single candle towards our direction, after pulling back to test the level. If price has broken a support trend line and has pulled back to it from below, we will wait for a bearish candle to *close* before entering a short trade. If price has broken a resistance trend line and has pulled back to it from above, we will wait for a bullish candle to *close* before entering a short trade.

The Profit 'Box'

After you know how to identify support and resistance levels, we can proceed to teaching you the primary set-up we will trade – the box.

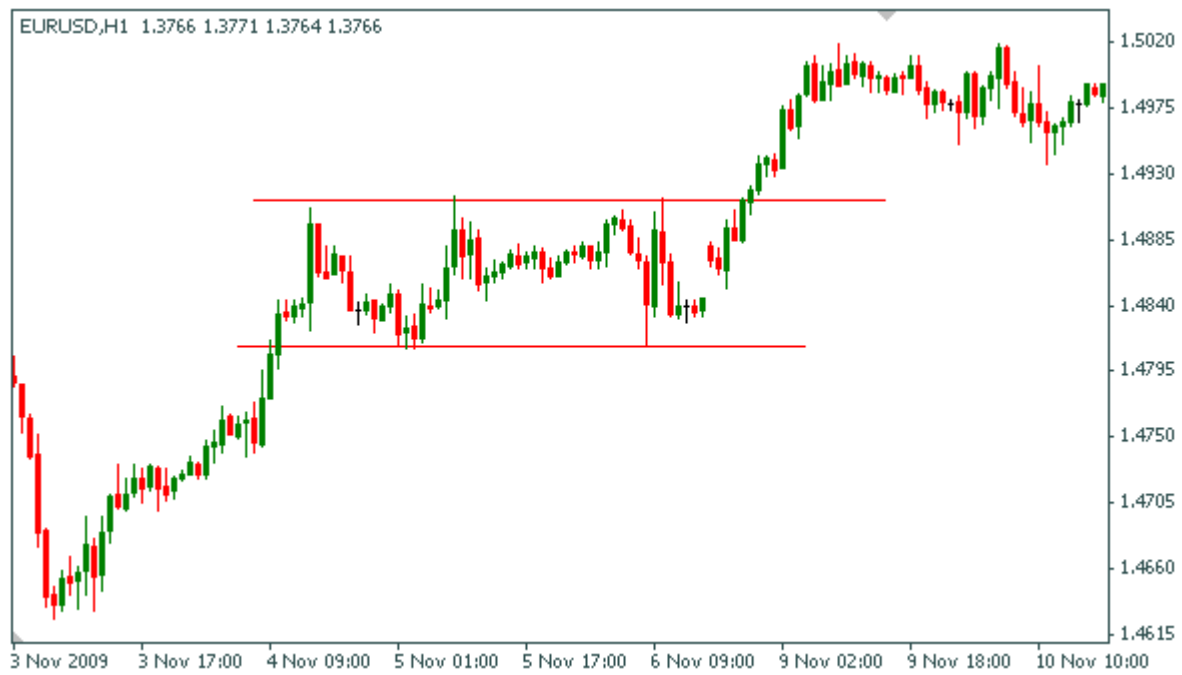
The box occurs when price is 'trapped' inside two parallel support and resistance levels. Make sure both levels were tested at least twice before declaring a box set-up. The psychology behind the pattern is a battle between the bulls and bears. It is a period in which no side of the market is stronger and the market is in equilibrium. Such periods must end eventually – by a breakout to one side, signaling the victory of one of the sides of the market.

We will then 'join' the winners by taking trades in the direction of the breakout. However, it is important to note that we will not trade the breakout of the 'box' itself, but the pullback to the box. As we have mentioned above, the breakout is not reliable enough for us to trade.

This pattern is highly reliable and results in at least 80% hit rate. Master its identification and trading and your trading profits will explode. This is not another indicator that generates lagging signals – this pattern shows you exactly in which way the market is going to advance and plots *exact* stop loss and take profit levels!

Examples of Profit Box:









Entering Trades

The Box set-up is not a new chart-pattern. It was known for some time now and there's even a chance you have read about it... however most people trade it in a very weak method without a real chance of generating profits. They enter trades when the range is broken, trying to catch the profits of the breakout itself. This is a very weak trading method because it is: 1. Lagging 2. Require big stop loss. Instead, we have a more powerful method that produces both leading signals with small stop loss, and has a much higher win rate.

We enter trades when price breaks the box to one side, and then returns to 'retest' the level it has broken, thus creating a pullback. If you do not fully understand how pullbacks are traded we recommend going back to the previous chapters to see how pullback entry signals are generated.

Examples of trade entry:









The most important idea in trading the 'Box' is that **we don't try to predict which way the market is going to break!** It is impossible to do and will lead your trading account to destruction. Instead, we wait for one of the sides to show its strength in the form of a breakout, and then join it precisely on the reversal zone (via pullback).

Stop Loss

Stop Loss is calculated by price-action variables and does not depend on your account size or the amount you risk in any trade. We give you sound rules for placing stop loss and you should not break them:

- **For Long Trades**, place stop loss 5 pips below the lowest low of last 4 bars.
- **For Short Trades**, place stop loss 5 pips above the highest high of last 4 bars.

This stop loss technique makes sure we put the stop loss in a logical place, right next to a **support and resistance level**. The idea behind logical stop loss is the following: if price touches the stop loss, the idea behind the trade has failed and we have no further reason to stay at the trade.

This tight stop loss leads to trades with very minimal risk and potential great yield.

Examples for stop losses in trades:







Take Profit

The take profit is calculated using the famous 'measure rule':

1. Calculate the distance between the resistance and the support level. This is the size of the box.
2. Deduct this distance from the support level (for short trades), or add this distance to the resistance level (for long trades).
3. This is the profit target for your trade.

Examples:









Risk : Reward Filter

Risk is a part of trading. Every trade carries a certain level of risk. Every trader must know the amount of risk that is being assumed on each trade. Knowing the amount of risk on each trade is one way to limit it and to protect your trading account. The best way to know your risk is to determine the risk-reward ratio. It is one of the most effective risk management tools used in trading.

Risk:Reward is the ratio between how much you risk and how much you gain in any trade. It is calculated by dividing the take profit size in the stop loss size. We will require that in each trade we gain at least twice the amount we risk, so the Risk:Reward ratio should be at least 2. The higher the ratio, the better the trade is and the higher your trading performance will be.

The risk-reward ratio is a parameter that helps a trader to determine the level of risk in a trade. It shows how much a trader is risking versus the potential reward (or profit) on a trade. While this may seem simplistic, many traders neglect taking this step and often find that their losses are very large.

Risk:Reward is the best way to ensure your survival in FOREX trading, so we advise you to demand a Risk:Reward of at least 1.5-2 in all your trading strategies and robots. Note that most robots are immediately filtered as losing, once you employ this filter on them.

For more information about Risk:Reward we recommend reading this article:

The Importance of Risk:Reward Ratio

<http://www.actionforex.com/articles-library/money-management-articles/the-importance-of-the-risk:reward-ratio-2007111231670/>

Money Management

"Successful traders have a larger edge and better money management than unsuccessful traders. Unlike popular belief however, this study shows that the smaller edge of successful traders is not the cause of their failure. Traders' failures can be explained almost exclusively by their poor money management practices."

"The Secrets of Successful Trading", Fernando Diaz

Money management is another part of the system that is here to protect your capital and reduce your drawdowns. We will now present you several money management rules you should employ. Do not deviate from these rules at any cost:

1. **Never risk more than 1-3% of your capital in any single trade** – Never risk more than this amount in any trade you enter. Risking more than 5-10% in any trade will lead you to great risk, and very few losing trades would kill your account, preventing you from trading and recovering from your losses.
2. **Never change your Stop Loss** – Never change your stop loss due to your capital and equity. We have presented you with solid stop loss rules you should use to calculate your stop loss point. This point has nothing to do with your capital and should not be affected by it. You should change the trade size (lots) to fit the amount you are willing to risk. For example: your stop loss is 10 pips and your equity is 10,000\$. You wish to risk 2% of your equity in this trade, so you enter trade with 2 lots – so your risk is 200\$, or 2%.

For traders interested in learning more about money management we recommend entering this great mini-site:

<http://www.turtletrader.com/money.html>

Mindset

This is the final concept we will explain before teaching you the trading setups. However, it is still important no matter how or what you trade.

It also derives from the first conclusion regarding the hit rate: any trade sometimes has losing trades. No matter how good your trading system is, it may have losing trades. In any system or strategy, you may also face streaks of 4-5 losses in a row. This is the reality of trading and you have to face it.

However, professional traders know that these streaks have nothing with their trading proficiency or abilities. They are simply the result of temporary bad luck. What most novices do in such situations is starting to question themselves: they think about changing their trading strategy, adding indicators or confirmations, or completely changing their system. They do not understand that their system is fine – and these losses are a part of trading reality. They alter their system after any loss, aiming to achieve 100% hit rate. **100% hit rate is not achievable**, as in any time one bank can take a trade against you and drop the market 50 pips in a second. There is no way you can anticipate such moves, so please stop trying.

What you need to understand here is simply: **always stick to the strategy**. Do not change it no matter how much you lose. Don't worry, if you trade this strategy, your winning will be 3, even 4 times the losses. Again, do not change the system. It has proven itself for a hundred years and will continue forever, so enjoy your knowledge and trade the system as mechanically as you can.

For more information about trading mindset, we recommend the great book, *Trading in the Zone* by Mark Douglas.

Conclusion

That's it! You have covered and learned the Forex Box Profit strategy. We encourage you to start and check the past performance of this pattern by looking for example for the 'Box' in your charts. You'll be surprised how high the win-rate it!

You now know the theory behind successful trading: trading one high-probability set-up, very very well. You don't need to trade another pattern in your life, if you focus only on the 'Box' patterns and trade on several pairs and commodities, your profits will increase in a very short time.

Recommended: It is very recommended that you begin by trading in DEMO account, until you gain experience and become more skilled in timing trades successfully and calculating Risk:Reward and profit targets.

We hope you will generate big profits from this strategy, and if you have any questions regarding ANY part of it, do not hesitate to mail us at admin@forexbboxprofit.com

To Your Trading Success!

The ForexBoxProfit Team