THE ROBIN HOOD

Mechanical Forex System

By Daniel Malaby

Version 1.01

Copyright © 2009

For free updates and free video training on the Robin Hood Mechanical Forex Trading System please go to:

http://www.robinhood-fx.com

THE ROBIN HOOD
Mechanical Forex System

RISK DISCLOSURE STATEMENT / DISCLAIMER AGREEMENT

NOTE:

This eBook may only be downloaded from:

http://www.robinhood-fx.com or
http://www.robinhood-fx.net

If you downloaded this eBook from any other website then you have been provided with an illegal copy. If so, please visit one of the above sites for the latest version at **no cost**.

The contents of this eBook are for informational purposes only. No part of this publication is a solicitation or offer to buy or sell any financial market.

Examples are provided for illustration purposes and should not be construed as investment advice or strategy.

No representation is made that any account or trader will or is likely to achieve profits or loses similar to those discussed in this eBook.

The information found in this eBook is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject us to any registration requirement within such jurisdiction or country.

CFTC RULE 4.41 - HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.

THE ROBIN HOOD
Mechanical Forex System

Index

About Me

My career in the trading world started, probably like many other traders, in the stock market. As far back as I can remember, I was always fascinated by the markets. My father was a stock trader and I learned quite a lot from him. I suppose he was a big part of my inspiration.

I am going to say something that will shock a few people out there, but here it goes: more than making money in the markets, I love producing systems that make money in the markets! It is not the money that drives me, it is the thrill of finding what others can't find. It is the “thrill of the chase” - researching intensively and knowing that I “cracked the code”, so to speak.

The challenge is what motivates me!

Don't get me wrong, I live very well from my trading profits and I love hearing the cash register ring but, as I mentioned before, unlike many people out there, my motivation comes from something else :-)

Throughout my many years in the trading business I have been fortunate to meet a lot of traders and have learned a lot of things from them. This is what trading is all about, continuous learning and improving. Many people simply never come to realize that. Anyway, it took a long time before I found out what type of trader I am… what suits my personality… what brings out the best in me! So that you know, I am a day trader - I need to see results quickly. Win or lose. I can't stand the waiting to see how my position will turn out. It makes me a weaker trader when I have to wait.

Listen closely… our biggest enemy in trading is ourselves! Not the market, not the system we use, but ourselves.

I know many people reading this eBook will probably disregard this very relevant observation completely… and that's fine - let them learn the hard way.

Human nature is what causes traders to lose in the market. Greed, emotion, and carelessness are ultimately responsible for a trader's account being depleted. Not the system he uses, not the robot he uses, just his or her character and behavior.

Granted, I learned that the hard way like many others. But unlike many of my counterparts, I implemented what I learned!

Time has taught me this about myself:

- That I am a day trader

- That I NEED to hear the cash register ring often

- That I CAN'T wait long for a position to close

- That I CAN'T risk a lot per trade

- That I NEED time off from trading quite often

- That I am a rule-based systems trader

Ask yourself what you have learned about yourself?

If you are new to trading, what do you **still** have to learn about yourself and, more important, what are you doing in order to achieve that most important objective:

Learning about yourself!

Introduction

Trading the Forex (foreign exchange) spot market provides not just the opportunity to make a healthy living but, for those who are patient and disciplined enough, it provides the opportunity to create true wealth.

I consider trading Forex as one of today's best income opportunities for the small investor because of these 7 important reasons:

1. FAST results: No matter what type of business you start, results are often not seen until 6, 8 or even 12 months after establishment. Not in the Forex trading business! Many times you will be profitable from day one!

2. Minimal time commitment: Well, this would not apply to all trading strategies but it certainly does to a big part of them. Any other business you can think of requires work: 4-7-10 hours of hard work per day. Not that it's a bad thing to work, but wouldn't you rather make more money and work less?

If you have a day job, wouldn't it be nice if you could keep it and still be able to trade to create a secondary income or even create true wealth?

3. No employees, No office, No inventory: I guess I don't even have to elaborate here! It can sometimes be a real pain having to manage a business. Be it a one man operation or a 50 man operation the result is ultimately the same: a lot to deal with, a lot of headaches, sleepless nights, hiring/firing, etc. If you had or have a business you are probably smiling now!

Trading Forex requires a computer, a minimal amount of money to start with, and often no more than one or two hours per week of your time (depending on what type of system you are trading; e.g. swing trading, day trading etc.). No hassles, no headaches and a BETTER income opportunity than any other business!

Using several strategies I personally developed I can trade from my home, office, swimming pool, or any other place you can imagine. Remember, a good trading strategy is not just one that produces profits, but one that also gives you the freedom to enjoy any other activity in life whilst still being able to make money!

4. Minimal investment: You can start trading with as little as $500! Yes, almost every Forex broker I know will let you open an account with $500 and some with even less (some with much less!)

5. Volatility: The Forex market is incredibly volatile resulting in amazing trends which are relatively easy to spot and join for great profits.

6. Liquidity: No other market in the world is as liquid as the Forex market. It is estimated that USD $3 trillion is traded every single day! More than all the world's stock, bond and future markets combined!

7. Profitable: With the right trading system it is possible to create an income of USD $1,000, $5,000, $10,000 per month or more. It actually only depends on how much you want and how much you are willing to do to achieve it.

Being A Successful Trader

There are three general things you must have in order to be a successful Forex trader:

#1 - *You must have a good system!*

The system should be profitable over the long term and must be easy to implement. It should be of a mechanical nature, allowing and requiring little or no discretion or judgment on the trader's part. This is especially important if you are just starting out in trading and it is critical that you follow **mechanical** hard-and-fast rules: if A=B then you do C and D.

The reason for this is simple…

There are a lot of emotions which come into play when trading. If you have a set of rules to follow then you know exactly what to do and no matter what your feelings are telling you, you can ignore them and simply follow the precise rules dictated by your system.

All my trading systems are 100% mechanical - I do not use judgment or discretion. I'm not saying that there are no profitable discretionary systems but, personally, I like mechanical ones.

#2 - *You must have a good set of money management rules.*

Through my career as a trader, I have come to appreciate that success in trading is not only about having a good trading system (of course that is VERY important) but also about having a good set of money management rules and principles. Trading without following these precise money management rules is a sure way to fail.

For those of you that are new to the business of trading, let me explain what I mean by money management. The term refers to the principles and discipline you use in order to control your risk exposure when entering a trade - how much of your total capital you will risk on any individual trade, where you will place your stop loss, where you will place your profit objective, the ratio between your profit objective and your stop loss, etc.

#3 - *You must be able to control your emotions.*

This is a very important rule and something that a trader must learn to master. Whilst trading, you are constantly presented with feelings such as fear, greed, and excessive excitement (for example, as a result of a winning streak).

The reason many traders experience these type of feelings is simple - they don't have a good trading plan. They don't have a good and clear set of rules to follow. They will trade based on emotions rather than on signals issued by a *robust and profitable system*. They will not respect stop losses, profit objectives or any other important parameters essential for profitable trading.

I strongly believe in emotion-free trading. It is essential for success and that is how you will be the best of the best - by following a precise set of rules that are both easy to implement and require absolutely no discretion.

The Forex Broker

One of the biggest advantages of the Forex market is the way the online brokerage industry has evolved with the expansion of the Internet. Not long ago, Forex trading was reserved for banks, corporations, large investors, and the various types of funds. Unfortunately, the small, individual trader had no access to this incredible trading opportunity.

Today, however, things are very different and the small trader – people like you and me - can access this market and trade it exactly the same as those large investors, funds, banks and corporations.

The opportunity exists equally for all.

There are no advantages of size. Small and big, all play by the same rules.

Today, Forex brokers are very efficient in terms of cost and service. Many online brokers provide 24-hour customer service – usually both by telephone and online, via their website. Forex trading is a booming industry and Forex brokers know it. They will do anything and everything in order to attract clients. One of the best outcomes of this fierce competition is the low cost of trading.

Let me explain…

Forex brokers will not charge a commission per trade as do stock and futures brokers. Instead, they profit from what is called the “spread”. Spread is the difference between the bid (selling) and ask (buying) price and is measured in pips (the smallest move of a currency rate - we will expand on the issue of pips later in the course). While 8 or 9 years ago this spread could have been 6-7 pips for the most popular and liquid currency pairs, today, depending on the Forex broker you chose it can be as low as 2-3 pips! This is a huge advantage for us as traders since it represents a much lower cost of trading.

The Demo Account

Every single broker I know of will offer you a free demo account option to test their service. This demo account allows you to trade exactly as you would trade with real money. Same market conditions, same fills, same software, all the same as in a live account.

The demo account option represents an incredible opportunity for every person wanting to profit from the Forex market.

Why?

Simply because you can test any trading system without having to risk one single dollar!

Actually, this is the way I test trading systems when designing them. I create the system, test it on a demo account for about 3-4 months without risking a single dollar, if it works to my satisfaction I keep it and start trading it on a live account.

What other business opportunity allows you to test your idea/product/service without having to risk money? And not only test it, but test it in real market conditions!

Leverage And Compounding For Impressive Returns

One of the true secrets of successful wealth building through Forex trading is leverage and compounding of your profits.

With the help of leverage you can buy much more currency than your actual account balance would allow you to on a 1:1 basis. When you use leverage, your FX broker allows you to increase your purchasing power by as much as 4,000%!

As an example, for every US $1 in your FX account many brokers will allow you to purchase US $400. This is very powerful and can be very profitable. However, you must have an excellent strategy to manage this leverage issue properly so you can take advantage of its maximum potential but at the same time manage your money well for minimum risk exposure.

So, leverage simply allows you to have much greater purchasing power and increases your profit per trade accordingly.

Compounding, in comparison, allows you to formulate a long term strategy with the objective of building wealth from your profits. So, instead of taking money out of the account every time profit accumulates, those profits are used for future trades.

Let's look at an example of how leverage and compounding can dramatically grow a small account over time:

The following is a projection of three scenarios over a three year period:

- The first starting with a US **$500** account
- The second starting with a US **$1,000** account
- The third starting with a US **$3,000** account

Calculations for all three scenarios are based on a 4% weekly net increase in account size. No profits are withdrawn from the accounts: ***<u>they are re-invested in the following week's trades</u>***.

So, in other words, we will see how these three accounts would grow over a periods of three years based on the above criteria.

Example 1:

Starting Account Size – US ***$500***
Weekly increase in account size: 4%
Account growth after 1 year: $4,156
Account growth after 2 years: $29,541
Account growth after 3 years: **$227,075**

Example 2:

Starting Account Size – US ***$1,000***
Weekly increase in account size: 4%
Account growth after 1 year: $7,686
Account growth after 2 years: $59,083
Account growth after 3 years: **$454,151**

Example 3:

Starting Account Size – US ***$3,000***
Weekly increase in account size: 4%
Account growth after 1 year: $23,059
Account growth after 2 years: $177,250
Account growth after 3 years: **$1,362,455**

Can you now see the power of compounding over time? I repeat - this is one of the greatest tools a trader has for building wealth. This is how rich traders got to be rich.

An account of US $500 could grow to **$227,075** in three years using correct money management rules and a good trading system(s). The same goes for an account of $ 1,000 (to **$454,151**) and an account of $ 3,000 (to **$1,362,455**).

Making a million dollars from trading Forex is not some illusion, it can be a reality. Not only can it be a reality, it can be a reality even for the small trader...

...IF he knows how to manage his money well, has patience and follows basic trading rules.

Use a good money management system, a robust trading system, be disciplined and you could be amongst the 5% of traders who live the dream of creating true exponential wealth in the FX market.

The Robin Hood Mechanical Forex System

First, I want to tell you why I called this mechanical system “The Robin Hood System” (RHMFS).

Throughout my many years in the trading business I have seen it all however, the thing that bothered me the most was the fact that it was always the “big dogs” that would profit, day-in and day-out, from the Forex market.

Why?

Because they had the resources (money and time) to research, test and create the best systems.

You could say that these big traders (banks, fund managers, institutions, etc.) would always take the big slice of the pie, so to speak!

Well, the Robin Hood system aims to take from the rich and give to the “poor” :-)

The system is designed to take the average trader and equip him or her with a system that professional traders either wish they had or have spent A LOT of resources to develop.

Ok... let's start digging into the Robin Hood Mechanical System (RHMFS).

The RHMFS takes advantage of a special pattern that occurs in the FX market. Now, if you are a seasoned trader you are probably familiar with some of the market conditions the system is based on.

However, and this is very important, I have taken a different and advanced approach to it which allows me to **quantify** the information and **adapt** the pattern to the specific currency pair which I believe it works best on. This gives the trader the option to trade the pattern using a completely mechanical approach instead of having to do extensive guess work.

Now, I will not be covering elemental areas of Forex trading here such as what is a pip, how a currency trade works, types of orders, etc. You can find this information for free on many websites on the Internet.

If you are a true beginner to Forex trading, I recommend the following sites for basic understanding of the subject:

www.babypips.com

Once you are on the BabyPips site, go to the "School" tab. There you will find all the information you need to understand what Forex is about, types of charts, how a trade works, etc. - a very good site for the beginner.

www.fxstreet.com

This is probably the biggest Forex site on the Internet so there is a chance that you will get lost there! :-) However, once you reach the homepage, click on the "Education" tab and on the left hand side of the education section you will find a lot of useful lessons geared towards new-comers.

Ok, let's move forward...

When you trade Forex (or any financial vehicle) you have 2 approaches:

- ***Universal strategies,* and**
- ***Market specific strategies***

Universal strategies: These are trading methods that apply to, and work, with most markets. Of course there must be some types of broad filters (such as volatile or non-volatile markets) but the idea is that the trading strategy fits a broad range of markets.

Specific strategies: These are trading methods designed for a specific type of market. These strategies are based upon the principle that every market has its own personality and characteristics.

In my opinion, both approaches are valid; it's just a matter of your approach to trading.

Throughout my career, I have used both general and market specific trading strategies. I personally like to explore a market's behavior and adapt a strategy to it but, again, this is very subjective and there is no "right" or "wrong" in this area. In fact, in trading as a whole, there is no "right" or "wrong". There is only "works" and "does not work"!

The RHMFS is a market specific strategy. This means that I have decided that it works best on a certain currency pair and with certain ***unique*** filters that derive from this pair's behavior. The currency pair is EUR/GBP and you will later understand why.

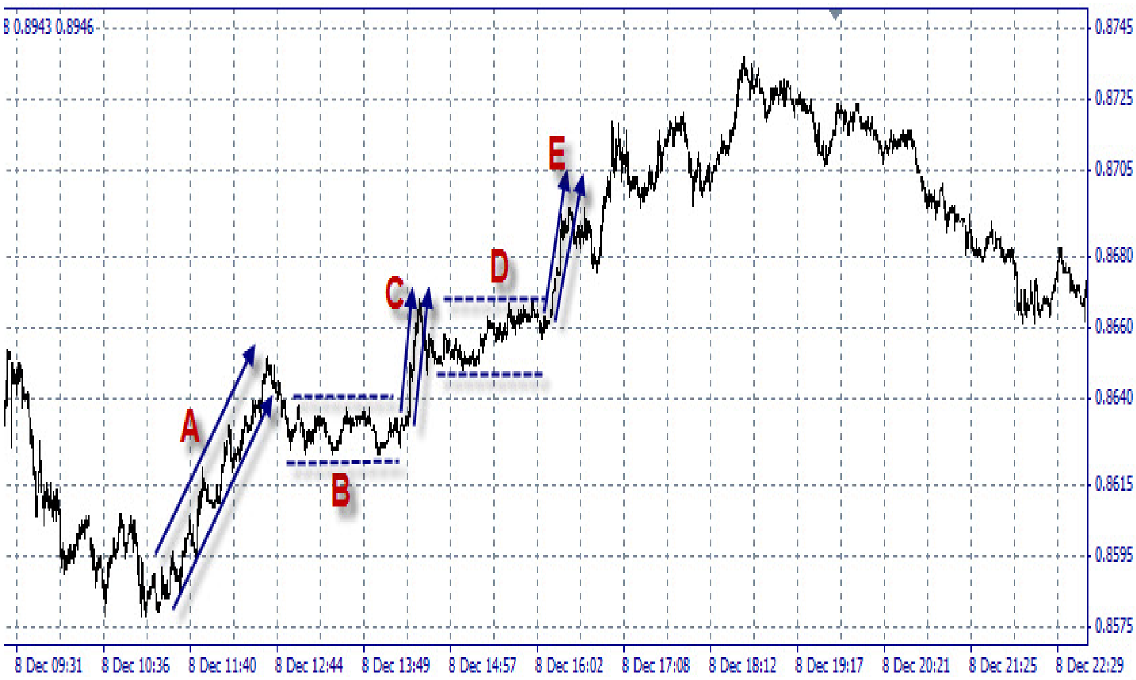
Note: This is not to say that the strategy does not work well on other currency pairs. However, in my opinion and experience, the best pair to implement it on is the EUR/GBP.

The Basics

Most of us are familiar with market consolidations. What happens is that, on any given time frame, at some point the market is directionless. This means that there is sideways movement instead of trending market action. The sideways movement can be an indication that the market is catching its breath in order to A) continue the trend, or B) reverse from its original direction.

Let's look at some examples of what market consolidations are and their visual appearance.

Market consolidations on a one minute (1M) bar chart of the Euro versus the Great British Pound (EUR/GBP)



The preceding one-minute bar chart is a perfect example of how price movement can consolidate and trend a few times within a short period of time.

At point **A** we can see that the EUR/GBP trends from 0.8578 to 0.8651 (*73 pips*).

Point **B** illustrates the pair stopping the upward movement and going into a range.

Point **C** shows a continuation of the original up-trend started at point A – the market now moves from 0.8624 to 0.8668 (*44 pips*).

At point **D** the market ranges again then breaks out to continue its original up-trend to point **E**.

The System

As I mentioned earlier, the RHMFS is designed to trade the EUR/GBP pair.

Again, why this pair?

Well, simply because this pair enjoys good volatility, good liquidity AND moves in a very nice “order”. By this I mean that its trends and ranges are frequently “picture perfect” and occur without the high incidences of whipsawing that is evident with many other pairs. Also, (and most important) all these points are the “norm” rather than exceptions to the rule.

Of course, other major currency pairs do have good volatility and liquidity as well, however, they are not as reliable as the EUR/GBP pair when it comes to unnecessary market noise (whipsawing). Perhaps I’m biased but, in my personal opinion, this currency pair is a trader’s dream in all respects.

One other aspect I really like about this pair is that its breakouts are very predictable. This means that when a consolidation occurs you can almost be certain that a nice juicy move is ahead.

Remember I talked earlier about general and market specific strategies? Well, this is exactly what I am referring to now.

When you study the EUR/GBP market you can see that it has its own very specific “personality”. This “personality” is perfect for a system like RHMFS.

Let's now dive into the steps for identifying, entering and exiting a trade. Remember, all these are 100% rule based.

Identifying A Robin Hood Mechanical Forex System Set-Up

The time frame we use for this system is one-minute and we apply it to a bar chart (rather than a candle chart). I have found that this time frame is the best for RHMFS trades. I don't like trading this system on larger time frames simply because much larger stop losses are required. I have always been the type of trader who prefers small, constant profits rather than big, rare ones :-)

I love hearing the cash register ring!

You will only need one indicator on your 1-minute EUR/GBP bar chart – the stochastic indicator.

About 99% of charting services offer this indicator as standard and I will not go into how this indicator is calculated since it is not relevant for our purposes.

The only important thing to know at this point is that the stochastic indicator signals an overbought or oversold market condition.

HOWEVER, **and this is VERY important**, we will not actually use the stochastic indicator as an overbought / oversold indicator. We are actually going to do the opposite! We are going to use it as a trend confirmation indicator.

Why?

Well, basically because whilst this is not known by 99% of traders, the stochastic indicator actually works better as a trend confirmation indicator rather than an overbought / oversold indicator.

Part of the reason for this is that, as with most other indicators, they are used in the “prescribed” way by so many traders that they essentially stop working.

Ok, let's continue...

How sensitive the indicator will be is set by the user.

Let's go over a few examples so that you get yourself acquainted with this indicator.

I am going to use the MetaTrader 4 (MT4) platform to illustrate how to set up the indicator and trade the strategy - details for obtaining MT4 are given later.

For now, you only need to know that MT4 is available completely free of charge, displays live currency rates / charts, and can be used for demo (or live – real money) trading the RHMFS or any other Forex system / method, however, if you wish to download a copy immediately then go here:

http://www.forexmeta.com/bonus

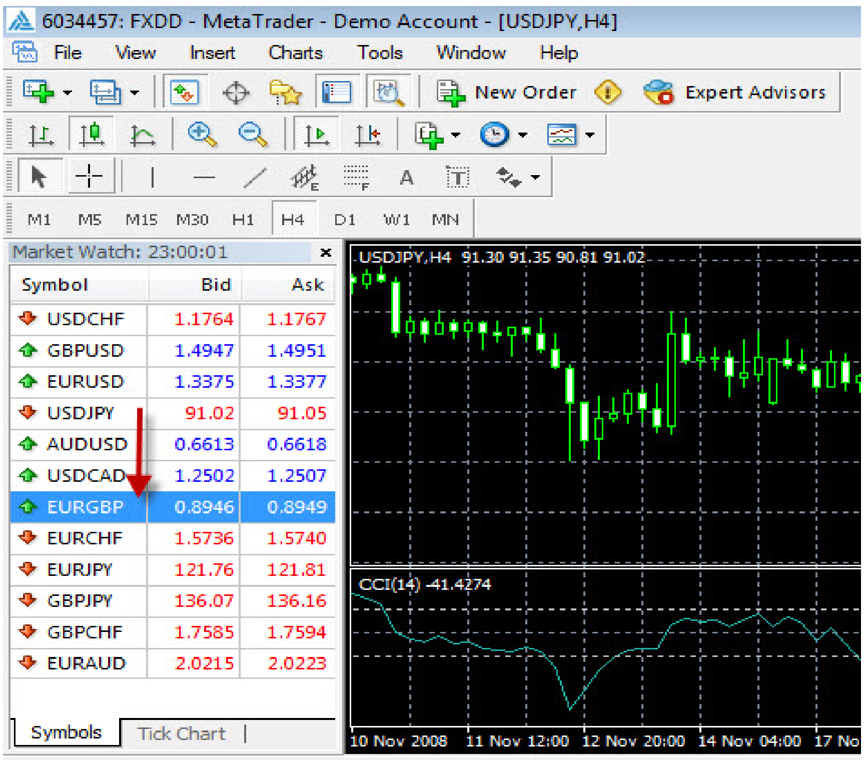
Example #1:

Once your MetaTrader 4 platform is up and running, you will need to open a EUR/GBP 1-minute bar chart.

Please follow these steps:

On the left hand side of the MT4 platform is the "Market Watch" panel where you will see a range of currency pairs – the list shown should include the EUR/GBP pair.

Right-click your mouse where it shows "EURGBP".

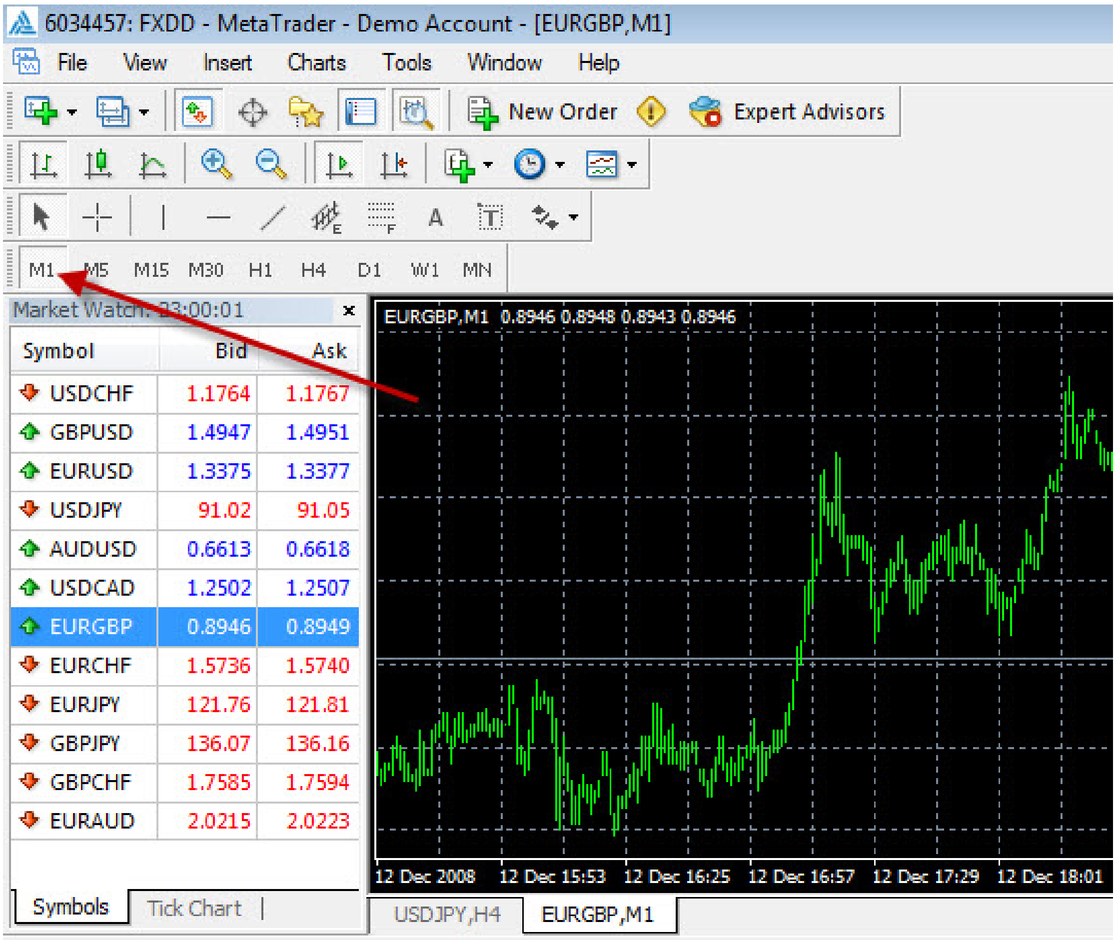


Once you have right-clicked the currency pair, you will see the following menu appear:

From this menu, select “Chart Window” and a new EUR/GBP chart will instantly appear.

By default, the chart will show the "H1" (1-hour) bar chart. Since we need a 1-minute bar chart (M1) we will need to change it.

If you look above the chart area, you will see a time frame menu:



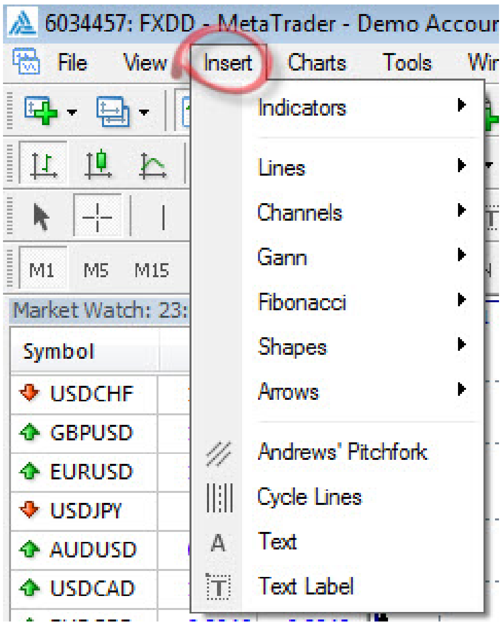
Click on "M1" and the chart will immediately change to a 1-minute bar chart as you can see above.

Applying The Stochastic Indicator

Now that we have an active EUR/GBP 1-minute bar chart, we need to apply the stochastic indicator to it.

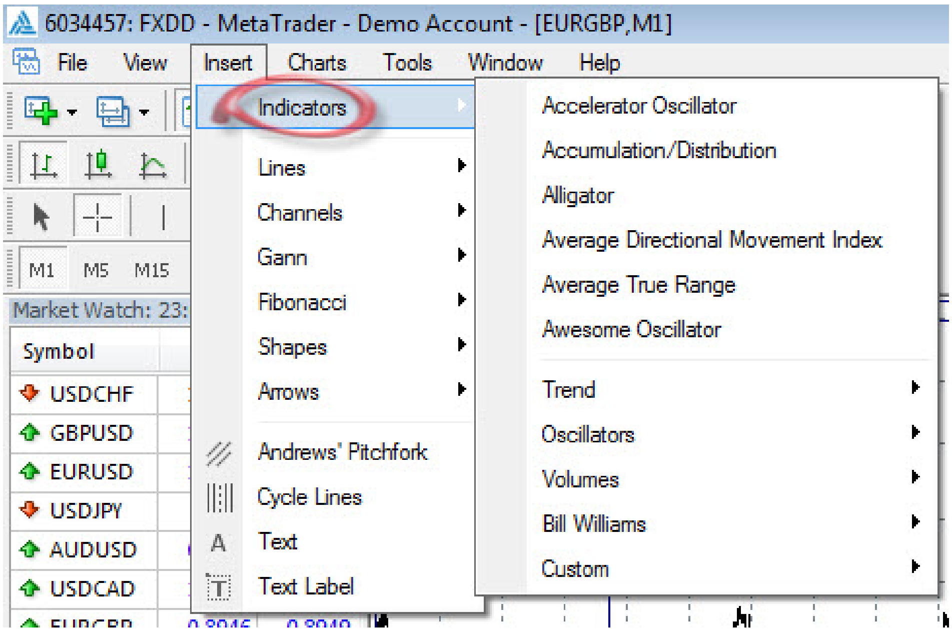
Follow these steps:

Click on the “Insert” menu which is located in the top left-hand portion of the MT4 application window:



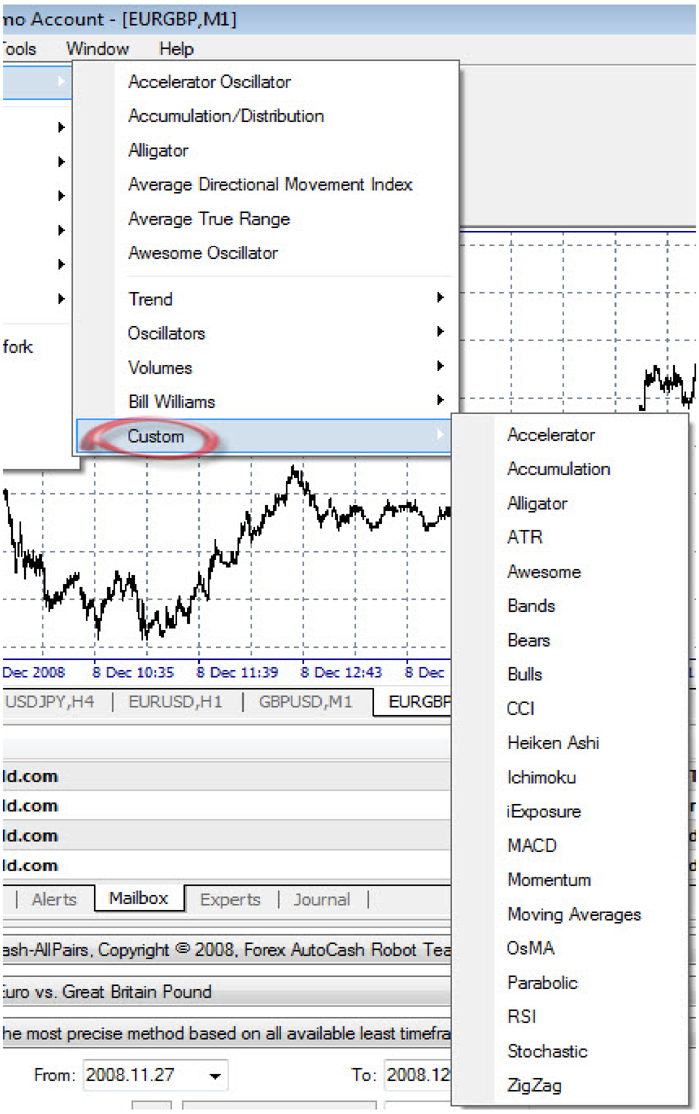
As you can see, after the “Insert” menu option was clicked, a drop-down menu appears.

Now click "Indicators":



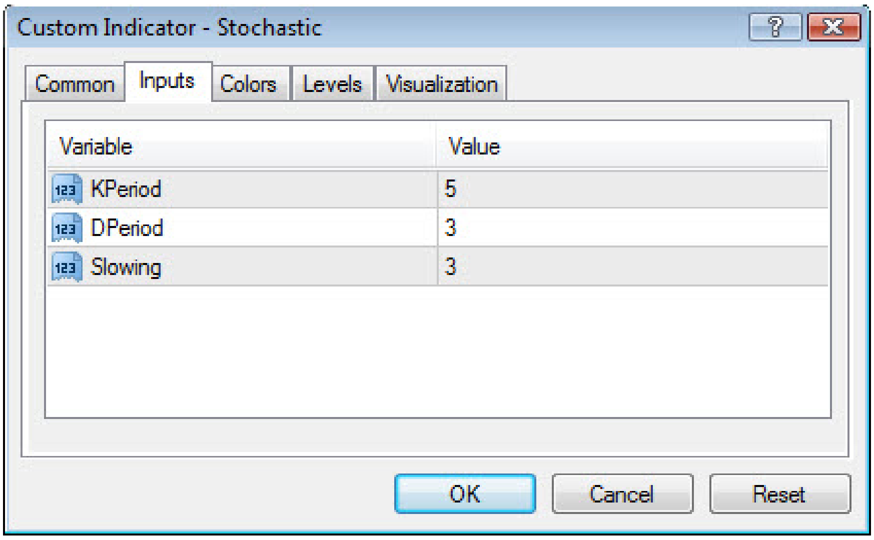
After clicking the "Indicators" option, as you can see from the screenshot above, a sub-menu displaying a list of common indicators and further sub-menus (which group a wide selection of indicators by type) will appear.

Select "Custom":



You can now see the specific indicators that are in the "Custom" group.

Click on “Stochastic” and the following window will appear:



You have 5 tabs on this window. However, none of them are of any real interest to you except the “Inputs” (which is the one that normally displays automatically) and “Levels” tabs – if your system displays a different tab then simply click the “Inputs” tab to switch to it.

Now, you can see 3 parameters on the “Inputs” tab:

KPeriod, DPeriod and Slowing

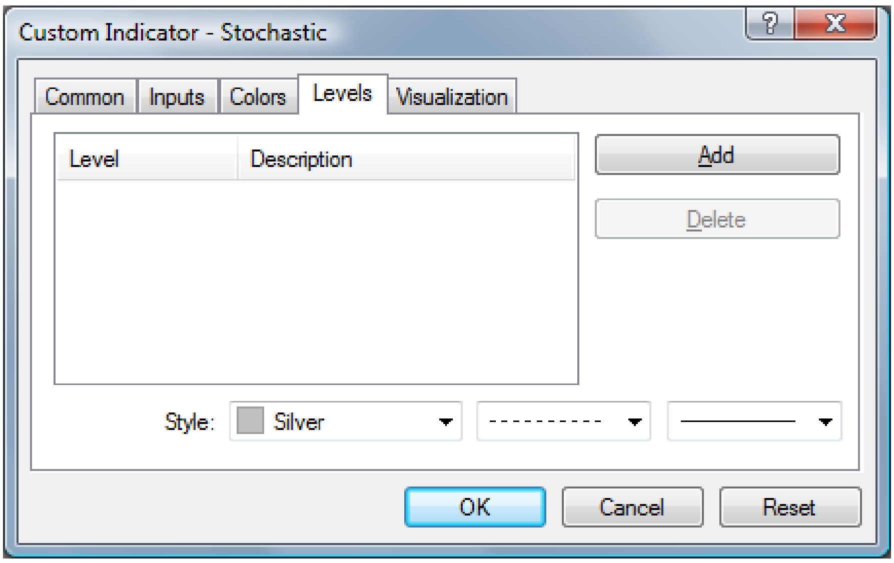
For the RHMFS, the only parameter we will need to change is **KPeriod**. Always leave the other two as they are (i.e. 3 and 3).

Important: The higher the KPeriod value is, the less sensitive the Stochastic indicator will be.

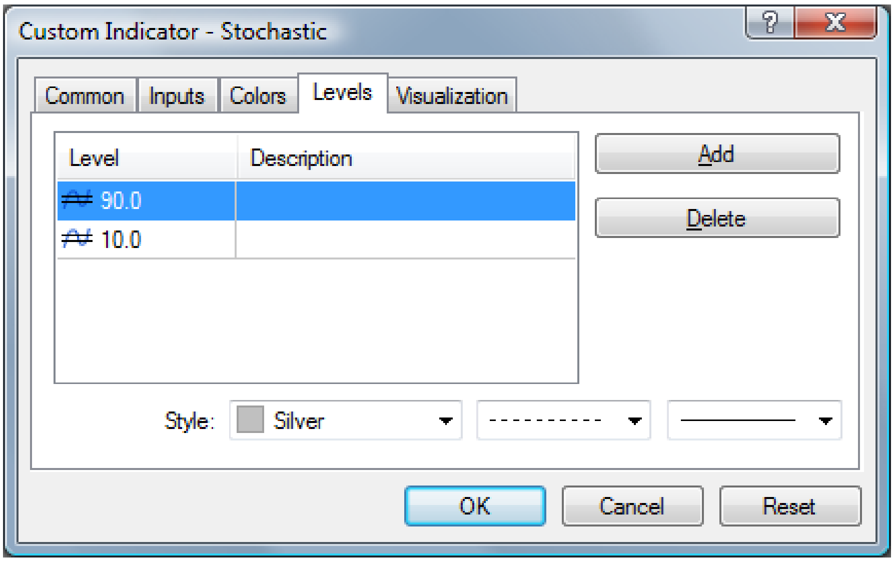
We will be using two Stochastic indicators on the same 1-minute chart. The first stochastic will be a less sensitive “slow” stochastic (Stochastic #1) and the other will be a more sensitive “fast” stochastic (Stochastic #2).

So, on the Inputs panel we need to replace the initial KPeriod value of 5 with **120**.

Next, you may wish to include this **optional** part of the setup. If so, click the “Levels” tab to display the Levels information:



Use the “Add” button to add the two levels required for Stochastic #1: **90** and **10**.



Now click the “OK” button.

This will result in the stochastic indicator being attached to the M1 EUR/GBP chart, as shown on the next page.

As you can see, we have the 1-minute (M1) chart...

...with the 120 KPeriod Stochastic #1 and levels set.

Ok... now we need to attach the second Stochastic indicator to the same chart.

Simply follow the steps you went through to attach the first Stochastic indicator to the chart (starting with the "Insert" option in the main application menu).

This time, set the new Stochastic indicator as follows:

Inputs tab
KPeriod: 15

Levels tab
Level 1: 95
Level 2: 70
Level 3: 40
Level 4: 5

You should now have 2 Stochastic indicators on the same chart as shown on the next page.

As before, we have the 1-minute (M1) chart but...

...now with Stochastics #1 and #2 and all levels set.

Although the addition of the various levels will make the minimum and maximum values a little difficult to read, if you look closely you will see that the scale for each of the indicators runs from a minimum value of 0 up to a maximum value of 100.

The closer the stochastic is to 0, the more the market is oversold.

The closer the stochastic is to 100, the more the market is overbought.

There is nothing difficult to understand here – no need for difficult interpretation:

- a high value means that the market is currently overbought and should start to move down

- a low value means that the market is currently oversold and should start to move up

Of course, there is no guarantee that price will actually move as we expect – that is why the various chart studies such as Stochastics are called "Indicators" rather than "Guarantors" – they simply suggest a probable direction for future price based upon earlier price movement.

<u>System Rules</u>

Have you ever heard the saying "*Keep It Stupidly Simple (KISS)*"?

Well, I am not sure how well that approach works in other situations... but it certainly works in trading :-)

In fact, some of the most profitable trading systems I have seen in my life are so simple to implement and understand that you would be amazed.

The problem is that people are sold on the idea that in order for a trading system to be very profitable and accurate, it has to be complex. There are certainly some very complex systems which are truly great but, many of the best ones out there are actually KISS types!

Ok, let's go over the systems rules step by step - first for long trades and later for short trades.

Note: As I mentioned in the section on adding the Stochastic indicators to the chart, setting the various indicator levels is <u>optional</u> – I personally prefer to keep the indicator window "clean" and read the exact value by placing my mouse over the indicator line as I go. For that reason, the following charts have no levels displayed. I suggest you try both approaches and see which you prefer.

Long Trades

Entry for long trades:

Criteria #1: Stochastic #1 must be 85 or above.

Criteria #2: Stochastic #2 must be 40 or below.

Implementation: You wait for Stochastic #1 to reach 85 or above. Once it reaches that level it means that the market is in a strong up-trend. At this point you would want to enter the market long but you want to enter in a very good risk/reward area. Stochastic # 2 helps you achieve this objective.

You wait for Stochastic #2 to reach 40 and you enter a long trade at that exact moment.

Exit rules for long trade:

Stop loss: SL placed 35 pips from entry price

Profit objective: Either 50 pips or Stochastic #2 reaches the 95 level, whichever occurs first

Long trade example from start to finish:

Entry:

A – Stochastic #1 reaches 90 so we immediately look to Stochastic #2 and wait for it to reach 40

B – Stochastic #2 reaches 40

C – At the exact moment that Stochastic #2 reaches 40, the price of EUR/GBP is 0.8963

We opened a long position at that exact price and are now in the trade.

Exit:

A – Our stop loss is placed 35 pips from entry

B – The market keeps moving - our stop loss of 35 pips (at 0.8928) is active but is not reached

C – Stochastic #2 reaches the 95 level

D – We exit the market at the exact price the pair is at when Stochastic #2 reaches 95, i.e. 0.8979

Trade result:

In Pips: profit of **12 pips** (16 pips minus 4 pips for the spread)

In US $: profit of **$173.88** per 1 full lot traded ($14.49 per pip)

Note*: The "per pip" value of the EUR/GBP pair varies based on the current price of the pair – knowing the actual value is not important but it is worth remembering that it is usually much higher than the standard $10 / pip that applies to many of the major currency pairs such as GBP/USD and EUR/USD.*

Important:

After a long (buy) trade, regardless of whether it is a loser or a winner, the next trade will be a short trade, and vice versa.

In other words, when looking for the next trade, we always look to trade in the opposite direction to the previous trade. For example, if trade #1 was long, trade # 2 will be a short, trade #3 a long, trade #4 a short, and so on.

Short Trades

Entry for short trades:

Criteria #1: Stochastic #1 must be 10 or less

Criteria #2: Stochastic #2 must be 70 or more

Implementation: You wait for Stochastic #1 to reach 10 or less. Once it reaches 10 or below it means that the market is in a strong down-trend. At this point you would want to enter the market short but you want to enter in a very good risk/reward area, just as with the long trade covered earlier. Stochastic #2 helps you achieve this objective.

You wait for Stochastic #2 to reach 70 and you enter a short trade at that exact moment.

Exit rules for short trade:

Stop loss: SL placed 35 pips from entry price

Profit objective: Either 50 pips or Stochastic #2 reaches the 5 level, whichever occurs first

Short trade example from start to finish:

Entry:

A – Stochastic #1 reaches 10 so we immediately look at Stochastic #2 and wait for it to reach 70

B – Stochastic #2 reaches 70

C – At the exact moment that Stochastic #2 reaches 70, the price of EUR/GBP is 0.8964

We opened a short position at that exact price and are now in the trade.

Exit:

A – Our stop loss is placed 35 pips from entry

B – The market keeps moving - our stop loss of 35 pips (at 0.8999) is active but is not reached

C – Stochastic #2 reaches the 5 level

D – We exit the market at the exact price the pair is at when Stochastic #2 reaches 5, i.e. 0.8941

Trade result:

In Pips: profit of **19 pips** (23 pips minus 4 pips for the spread)

In US $: profit of **$275.31** per 1 full lot traded ($14.49 per pip)

Note*: The "per pip" value of the EUR/GBP pair varies based on the current price of the pair – knowing the actual value is not important but it is worth remembering that it is usually much higher than the standard $10 / pip that applies to many of the major currency pairs such as GBP/USD and EUR/USD.*

Important:

After a long (buy) trade, regardless of whether it is a loser or a winner, the next trade will be a short trade, and vice versa.

In other words, when looking for the next trade, we always look to trade in the opposite direction to the previous trade. For example, if trade #1 was long, trade # 2 will be a short, trade #3 a long, trade #4 a short, and so on.

Let's take the short trade we covered above as an example.

If the stop loss or profit objective had been reached, we would automatically be looking for a long trade according to the systems parameters.

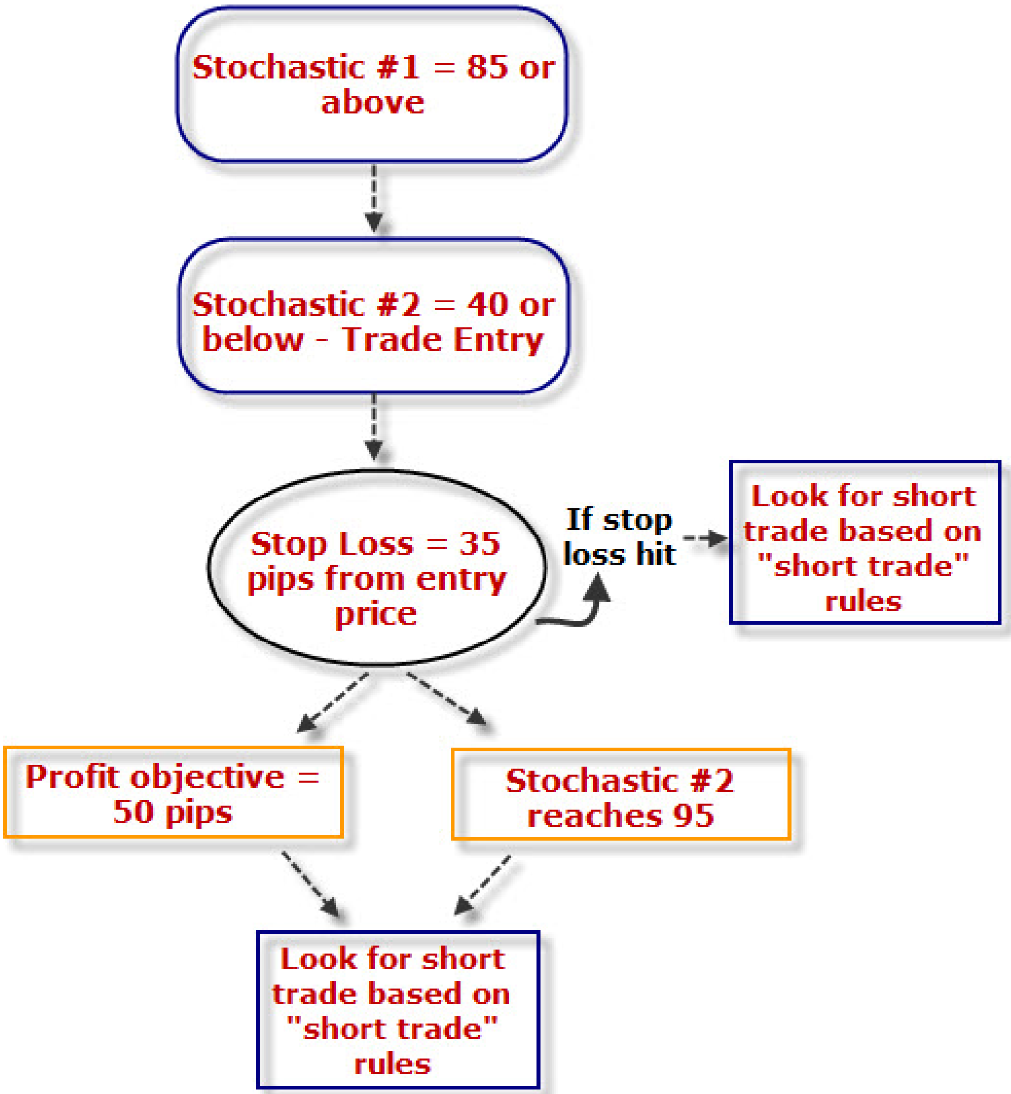
<u>Note for advanced traders</u>:
If the stop loss was hit due to an unexpected price spike, etc. and you feel that the market will resume the previous direction then you can always re-enter a trade.

For example, if our 35 pip stop loss had been reached during the short trade explained earlier, the trade would have been exited at the current market price. If the price had moved back to the original entry level then we could have re-entered the trade.

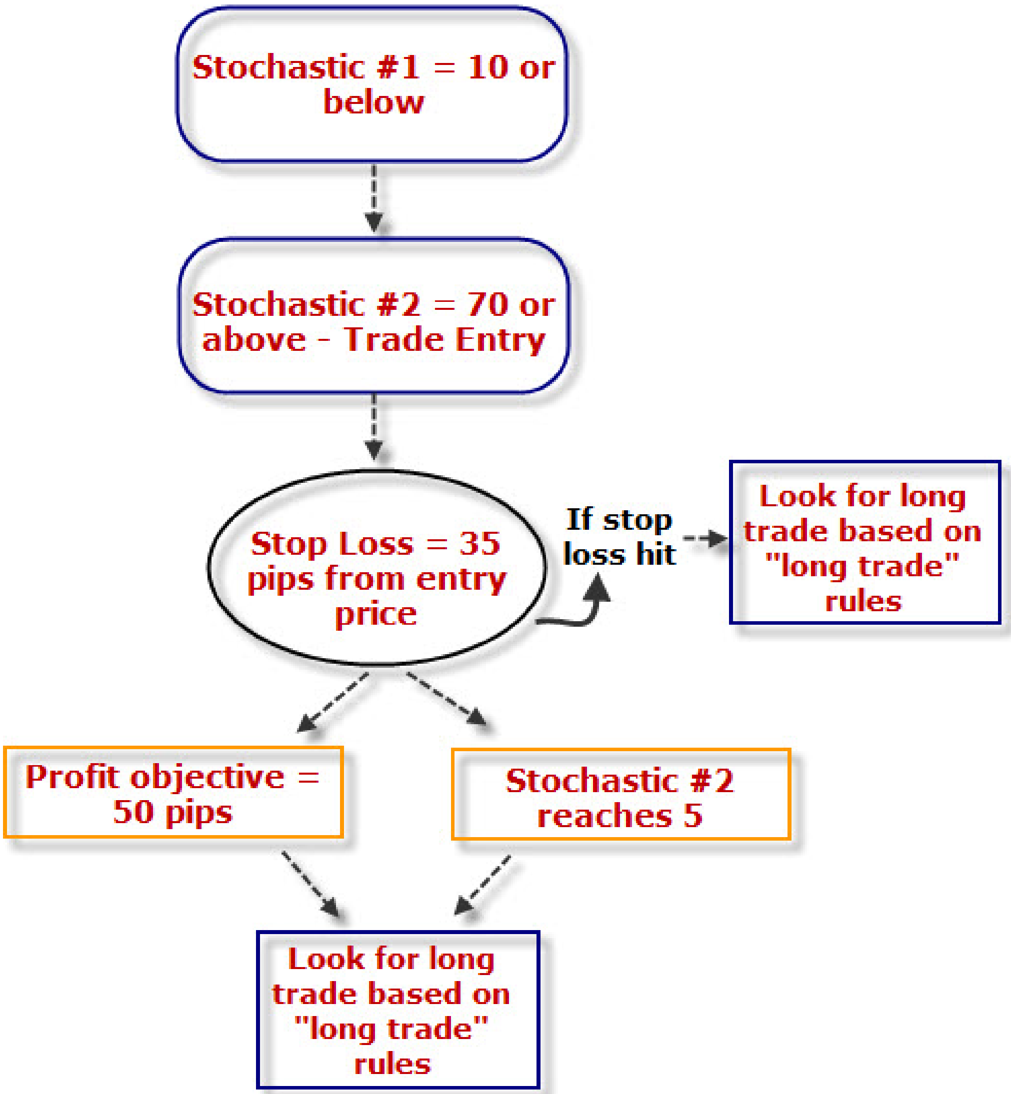
The same approach applies to long trades.

Note: Please do not re-enter more than once. The reasoning for the "one re-entry" limit is that the market may be in a range and you will simply get whipsawed.

RHMFS Long Trade Blueprint



RHMFS Short Trade Blueprint



Conclusion

As with any other system out there, the RHMFS has its pros and cons. The pros are that it's easy to implement and, as your learning curve and experience with it increases, it can certainly yield very nice profits. Actually, I believe that with the right discipline and money management rules, you can profit almost every day with this system.

Forex trading is easy and hard. It is hard when you do not have a plan and a good system to work with. It is easy when you do. The most profitable traders in the world, no matter what market they trade, always have a plan and precise rules they stick to, no matter what.

During my many years in this industry, I have seen traders rise and fall. I can tell you that the #1 reason traders fall is a lack of discipline and commitment. The #1 reason they rise is because they look at trading as a long term activity and treat it with discipline.

I will say this one thousand times if I have to: money management is the key to success. Yes, I know you have probably heard it 200 times or more but it is the plain truth of the matter. Risking too much is gambling, not trading. You gamble in the casino (and have more fun doing it!), not in the markets.

Always control your risk per trade. If you cannot cope with a high level of risk then never bet more than 2% of your account on any single trade. If you are a very aggressive trader, you can go as high as 5%-8% but never above.

Frequently Asked Questions

Q: What broker should I use to open a demo account?

A: Well, the list is quite long but I personally like ForexMeta. Spread is competitive, they have good liquidity, slippage is reasonable compared to other brokers and they are not a "fly by night" operation like a number of other brokers.

You can request a free demo / practice account here:

http://www.forexmeta.com/bonus

Other brokers I like: IBFX, FXCM and FX-Pro

Q: What account size do I need to start trading the strategy?

A: There is no straight answer to that. It is a personal question related to your specific financial situation and is something that I am not allowed to advise on.

The nice thing is that there are brokers able to cater to almost any level of investment, from well over $1m right down to the smallest live account I have ever seen: $1!

At that level, you are trading 1/1000 of a cent per pip but it is still a live account trading real money!

Q: What are the best times to trade the system?

A: The system works well 24 hours per day, however, better opportunities exist during the European and US sessions. The Asian session is less volatile so, whilst you will get more stable results, your profitability will be lower. I would be inclined to recommend the Asian session to people who are new to Forex trading.

Q: Should I trade every day?

A: No. It is always good to give yourself (and your mind!) a proper rest. NEVER over-trade - it is the easiest way to lose money, even if you have a profitable system.

I personally trade just 4 days per week, sometimes only 3.

Q: Can I trade the system with pairs other than the EUR/GBP?

A: Yes - you can, but you must understand that the more volatile a pair is, the more times you will get stopped out.

Of course, you will also have more winning trades and make more from each one but many traders simply cannot cope with the correspondingly larger drawdown.

In contrast, with a “quieter” currency pair you will have much less volatility than with EUR/GBP, hence fewer opportunities.

Overall, I am confident that the EUR/GBP pair provides the right balance in terms of volatility and spread.

Q: Can I trade the system on larger time frames (not only 1-minute time frame)?

A: Yes - you can, but you will have to make use of larger stop losses. I like trading with small stop losses, even if that means less profit. It comes down to an individual trader’s personality so there is no right or wrong answer here.

Q: Do I need MetaTrader to trade the system?

A: No. You can use literally any trading platform, however, MetaTrader 4 is a great example and I do recommend you make an effort to learn it.

Whichever platform you finally decide to use, ensure that you can display 2 separate Stochastics at the same time as in MT4.

Q: In one breath you say that the Stochastic displays overbought and oversold conditions and that the market will probably start moving in the opposite direction rather than continuing in the current direction then, you confuse the issue since you mention using the Stochastic as a trend confirmation indicator rather than a trend reversal indicator.

A: Theory states that the market will reverse at high or low stochastic readings, however, I do not know of any trader who makes money trading by using the indicators in the traditional way :-) If you want to win at trading then you must do what others do not... and you must take onboard the fact that what most of the "others" do doesn't work! That is exactly why I prefer to use the Stochastic indicator in an unconventional manner – a high reading means the trend will continue, a low reading means the trend will continue.

Q: Can I use a larger stop loss?

A: Yes, of course you can, but I do not recommend it. You are trading on a 1-minute chart and your stop loss needs to be relative to your profit objective.

The sizes of profit objectives and stop losses are a function of the time frame you are trading. The larger the time frame, the larger the stop loss and the profit objective should be.

Make certain that you understand the concept.

Q: Should I trade during news releases?

A: That depends on the news release in question. On days when the US Non-Farm Payroll (NFP) is released, I do not like to trade. The market is too volatile after the report is issued and too flat beforehand.

Most other economic reports do not affect the market as much as NFP, however, at times they can affect the market quite dramatically and this can be seen as a price spike after the report is issued.

Ultimately, if you see that the market has been strongly affected by a certain report, the best approach is to simply take the day off.

Q: Can I re-enter a trade more than once?

A: Of course you can, though I personally do not think it is the logical thing to do. My reasoning is that the market tells **us** what it is going to do - we are not in a position to tell **it**.

Do not try to become the currency market equivalent of King Kanute! The market, like the sea, is going to continue in the direction that it wants to go.

If the market has already gone against your position twice then it is telling you politely to remember who is in charge.

Q: I have watched the videos and read the eBook. Please clarify one point for me - using the rules for a long trade entry, Stochastic #1 reaches 85 then, watching Stochastic #2, it hits 40 triggering the entry point but, by then Stochastic #1 is below 85. Does that negate the trade or is the entry still valid?

A: No, this does not negate the trade. Once Stochastic #2 has reached 40, a trade is entered regardless of where Stochastic #1 is at that point in time.

Q: The trade examples on video #2 show a long that triggered around 10 AM and a short that concludes around 6 PM. That's a long time (8 hours) to be watching one minute charts just to get 2 scalping trades! Is this frequency typical?

A: The Forex market changes personality on an almost weekly basis. There is no such thing as one week being similar to the other week. Yes, one week you might have trades that take much longer to close and in the other week you might get much more frequent trades. That being said, intra-day trading can be very profitable but does require monitoring time.

Q: What is the win percentage you have experienced trading this system?

A: I trade it with close to 68% winners - a higher number of winners can be achieved though discretion needs to be applied.

Q: What is the average size of winners and losers in pips? Even though your SL of 35 and TP of 50 are defined, since the trades can alternatively be exited using the Stochastic #2 reading being hit, am I correct in thinking that the average size winner or loser could be considerably different or less than the SL or TP?

A: Average winners are about 28 pips and losers about 35 pips.

Q: How does my order get closed if price moves 35 pips against me or reaches the 50 pip target – can this be done automatically?

A: Yes – when you place the new order, there are options to set the Stop Loss and Take Profit levels. You should at least enter the Stop Loss level just in case your internet connection fails. You will probably need to adjust the actual levels once the order has been opened due to slight variations in price i.e. slippage, but this is easily done from the "Trade" tab by right-clicking the order line and setting the distance for each in points. That will allow you to exit your trade manually if the Stochastic #2 exit level is reached and will close the trade automatically if the Stop Loss or Take Profit levels are reached.

Q: The Stochastic indicator has TWO lines – which should we use?

A: You need to use the "Fast" stochastic line – this is the blue line by default on MetaTrader 4.

Q: What is to be done if 2 long (or short) setups occur consecutively?

A: The manual explains that point quite clearly. Once you are stopped out or your profit objective is reached, you look for a trade in the other direction.

Q: What would you say the average time for a trade to close out would be?

A: I am really not sure what the average time is but it certainly does vary considerably from day to day and from trade to trade. Some trades can be over in about 2 minutes and others can last for a few hours. This is a part of day trading… the unknown part.

Q: Would it not be easier to automate your system? That way one would not need to sit staring at a screen, waiting for the lines to diverge or converge!

A: I am working on automating the system and will inform all my subscribers once this is done.

Q: Do you open/close the trade as soon as the stochastic reaches the target or only at the close of the bar e.g. if the trade is a sell and I'm waiting for Stochastic #2 to reach 5 before closing the trade, do I close the trade as soon as the Stochastic #2 reaches 5 or only if it's 5 or below at the close of the bar?

A: Bar closes are not relevant with this strategy – everything is done immediately so you are simply waiting for the relevant stochastic to reach the trigger or target level i.e. as soon as Stochastic #1 reaches a trigger level, you begin monitoring Stochastic #2. In your example, you would close the trade as soon as Stochastic #2 reaches 5.

Q: When a signal is given on the Stochastic #1 - for example, it reaches 85, how long should one wait to get the confirmation on Stochastic #2 and what if Stochastic #1 changes to a sell signal i.e. less than 10 before Stochastic #2 fell to 40?

A: There is no time limit for a confirmation from Stochastic #2. Regarding second part of the question, Stochastic # 2 (with its specific settings) is much faster than Stochastic #1 so the scenario you describe cannot happen.

Q: If, for instance, a long trade has not reached either the stop loss or take profit levels, while waiting, do you still look for the next short trade?

A: No, you wait until either SL or PO has been reached before considering the next entry.

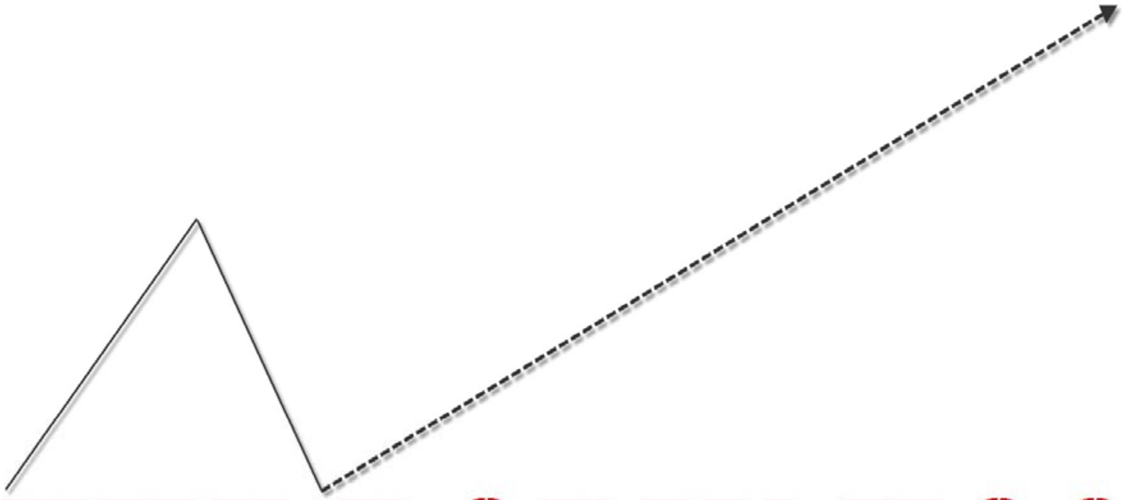
Q: Is setting a stop loss at less than 35 pips wise?

A: Not very since you want to give the market room to breathe. The smaller the stop loss the more your trade will be affected by market noise.

Q: When going over the chart, I find that the instructions you gave appear to work the opposite way. I find that when Stochastic #1 goes above 90 and Stochastic #2 is at 40, the market frequently heads down, not up. What little movement there is doesn't seem worth trading.

A: Some of the time that would be correct, but I find that over 60% of the time the trend continues to move in the correct direction on the 1-minute chart.

THE ROBIN HOOD
Mechanical Forex System



THE ROBIN HOOD Mechanical Forex System

By Daniel Malaby

For free updates and free video training on the Robin Hood Mechanical Forex Trading System please go to:

http://www.robinhood-fx.com