10

FOREX STRATEGY TEN

Rob Booker

Strategy: 10

Rob Booker


Hey Master! I made 10 pips today!
Lose how many did you today?
500.

About the Author

Rob Booker is a trader, author, and speaker. He has spoken to thousands of traders around the world, and is the author of books about the currency markets, and the creator of the web site RobBooker.com, where he shares thoughts about the market, trading stratagies, and more. Most of what he offers is free. Rob is also a (pending as of June 2010) Commodities Trading Advisor, registered with the National Futures Association, and manages money in the currency markets. His account statements are generally made public on a regular basis, and you can see them at:

http://RobBooker.com

Somewhat Defective Table of Contents

It’s very possible that this table of contents doesn’t work in the Kindle edition. That’s because I’m a currency trader, not a Kindle programmer, and after an hour of hand-to-hand combat with text editors, HTML file importers, and .mobi extensions, I nearly through –

UGH. I mean ***threw***

my computer (and myself) out the window. So if this table of contents is just a list of unclickable items, then I want to be the first to tell you: so what. The ebook isn’t that long, and it’s fun to read. So get going!

Introduction

Strategy: 10 is the first e-book I ever wrote. And it's still the most popular, and has been downloaded over 500,000 times - I lost count after that number. It's now available in Japanese, Persian, Italian, and even something called "Canadian," though I'm not sure that's a language. I wrote this ebook it because I was worried that people just starting out in the business of trading currency (forex) were going to do what I did when I started: look only for the big win. And in only looking for the big win, they'd set themselves up for disappointment. In the year 2000, when I started, I missed out on hundreds and hundreds of profitable trades because my focus was in the wrong place. I could have been making money, banking it, making money, banking it, repeatedly: but instead, I was holding out for the lottery ticket-style win, the big trade, the one that I could brag about.

All that changed after I lost my first account, and I changed my perspective. This litte book is a guide to thinking differently about the currency markets, about trading, and for that matter, about life.

I'm very grateful for your time and attention. Enjoy!

Part One: Where I Talk to the Currency Market Like It's a Person

When I first started trading, 10 years ago, I had a conversation with a stock broker in San Francisco:

> **ME**: I am thinking of doing some trading in the markets.
>
> **BROKER**: Well, you should stay away from the currency markets. That's some crazy sh**.
>
> **ME**: Thanks for the advice.

And then I promptly went out and opened a trading account with a forex broker.

I looked first at the US Dollar against the Japanese Yen (USD/JPY). The charts were ridiculous! The currency pair was moving all over the place. On closer inspection, I realized that it was moving hundreds of points (called "pips") in just a day sometimes. Obviously, my broker friend didn't know what he was talking about. This currency market stuff was perfect for me. It had all the first-class qualities that I looked for in an opportunity:

1. Preposterously volatile.

2. Huge opportunity to make massive profits in short periods of time.

3. Easy to start with a small investment.

Of course, you what happened next: I opened a trading account, and went for the big moves. If the USD/JPY was going to fly up or down 100-300 pips in one day, I was going to catch the full move. I would not be satisfied with anything less. When reading about trading online, I latched onto the people who posted the most often in brand new discussion boards - and they all said the same thing: your profit target has to be bigger than your stop loss. Meaning, every time I took a trade, my goal for profit had to be larger than my limit for the loss on the trade. That way, I could "survive longer" in the markets, I could endure a string of losses before I had a win, and I'd be obeying the sacred "Risk to Reward" ratio rules, which basically said that I should always risk less than I stood to gain on a trade.

How reasonable! What impeccable logic! Immediately I started a conversation in my head with the market:

> **ME**: Hello, currency market. It's me, Rob Booker. I'm ready for my untold wealth and riches.
>
> **CURRENCY MARKET**: I don't know you. I am going to eat you for lunch.

I didn't listen.

The defining characteristic of my strategy was to have the best Risk to Reward Ratio (you should play some sort of somber religious theme music when you read that phrase in this little book). The best way to do that was to take a trade - and then, set no profit target at all. What I wanted to do was have the market go 1,000 pips in my direction. I'd seen what the currency market could do. And if it moved 1,000 pips in my direction, then my winners would always be larger than my losses. What a genius idea, right?

It took me three weeks to blow up that first account. Two thousand five hundred dollars down the drain. And it really wasn't even three weeks. It was actually two and a half weeks of making money, and then BOOM: in three days, I lost the account. How did I do it? It was easy:

1. I took a trade on the USD/JPY.

2. I set no profit target. Over the course of the first day in the trade, the trade was positive 40, 50, even maybe 60 pips. That's a fine win. But I didn't take it.

3. The pair then moved against me, and fell, and fell, and fell, and I didn't close it. It had never fallen that far before!

4. It then fell further than I'd ever seen it go in my illustrious three week trading career. So far, in fact, that the losses overwhelmed my account balance, and the broker automatically closed my trade in what is called a "Margin Call."

You're smarter than me, so you already know what the lesson is: if you have a reasonable gain on a trade that's open, there isn't any shame in closing it. It's easier for the market to move 10, 20, 30 pips in the direction of your trade (and make you money) than it is for the market to move 100, 200, or 300 points in your direction. Huge trends do happen in the currency markets. But they can hurt you as much as they can help you.

Please bear with me while I repeat the above in a different way: there are not many 100-pip trades just waiting for you. If it were easyt to take 100-pip trades, or 1,000 pip trades, we'd all be at a party in the Hollywood Hills with Ashton Kutcher and Demi Moore right now, instead of sitting around looking at charts.

When I realized that many traders were looking for huge wins, but ending up with huge losses, I turned my strategy around. I stopped looking for the big score.

I simply looked for 10-pip trades. Getting in and out of the trade after 10 pips was a lot easier than looking for the big winner. It was less stressful. And I was able to find far more methods for grabbing 10 pips than I was for getting 100. In fact, I could change my methods around and be flexible, and the market was, well, more cooperative.

Over the years I have altered the strategy to fit different market conditions and different currency pairs. For example, it's not just about getting 10 pips. That's a good start. But it's not just about that. You can do more than that, you can actually do way more than that. But if you start with a modest goal in mind, you might find that you are much happier. And when you've banked 10 pips - and your account balance has made a slight bounce in the upward direction - then you have choices. Choices are good. Once you have 10 pips, you can:

1. Set a stop loss on your trade to exit the trade if the pair moves 10 pips against you, and you'll just get out with zero gained, zero lost. But if it goes farther in your favor, you can make more than 10 pips. Then you can keep moving your stop loss as the pair moves in your favor, to lock in more profit. That's called a trailing stop loss.

2. Take the 10 pips. Bank them. They are now yours.

3. Dance. Just dance.

If you do this when you’re first starting out, you’re going to get a good mix of 10-pip winners, 15- to 30-pip losers, break-evens, and 20- to 100-pip winners. Yes, you're going to be able to capture some of those big moves.

But where do you set your stop? How do you know when to take your profit? I can hear the wheels spinning in your brain. So let’s get down to business.

We’ll start with a story.

Part Two: What Bears and Hikers Can Teach Us About Trading

A bear was chasing two hikers. During the chase, one hiker stopped to put on running shoes. As he was changing out of his hiking books, his companion looked at him in horror and yelled, “What in the world are you doing? You’ll never outrun the bear if you stop now!” Calmly, the other hiker replied, “I don’t have to outrun the bear. I just have to outrun you.” Then he winked and raced off.

Here is an image depicting the two hikers above:

It's taken from the Japanese version of the book you're reading right now. I love how the scared hiker is screaming, "Holy gosh! I'm going to be eaten." I don't know why that makes me laugh. But it does, every time.

Currency trading can be like running from a bear. Trading offers more opportunity for fast financial success — and financial ruin — than almost any other profession. The get-rich crowd has always been attracted to it. This group includes speculators, trading novices, me when I started trading, retirees, and professionals looking for a way to get out of debt, increase the excitement in their lives, or to pay for plastic surgery.

Up until now, this group might have also included you. But from now on, instead of being a member of this crowd, you'll helping these people by telling them what you've learned. You won't be taking money away from these people (that's not how the market works) but you certainly won't be experiencing the same kind of horrific losses like they do. Remember: they are the people who will be eaten by the bear. You don't have to outrun the bear (the entire market). In fact, that's impossible. You can't beat the entire market, but you can trade defensively, and by so doing, position yourself to profit consistently.

First we need to look at the four groups of currency traders, and find out which group you're in.

The Four Groups

There are four types of participants in currency trading: the novice traders, the dealers, the institutional traders, and the advanced retail traders. This is a ridiculous simplification of the players in the world of forex - but these are the only groups we care about right now.

Novice traders. The novice traders are the greenies, the ones who try to outrun the bear and lose, every time. We all start here.

Dealers. In all trading, the dealers are the most powerful, and they make the market by setting prices and putting together deals for you. A dealer is not the final resting spot for your trade - the dealer might pass it on to an institution (see below) but as far as you're concerned, the dealer is where the trade starts and stops. A "no dealing desk" dealer is a dealer who claims that you're not trading with the dealer, but they are actually simply acting as the middleman in your trade, as they match you with another trader or a bank. If you lose on your trade with a "no dealing desk" broker, the broker gets a transaction fee (a rebate) for matching up the order, but the person or institution on the other side of the trade gets the money from your loss. A "dealing desk" broker is one that may or may not offset the trade in this manner - they might simply hold onto the trade you took, betting that you are going to lose. If you lose on your trade with a "dealing desk" broker, the broker gets the money. There is a lot of debate in the retail forex world about the differences between "dealing desk" and "no dealing desk" brokers, but it's really a semantic debate, and matters a whole lot less than people think it does.

Institutions. Although institutional traders move more money around than dealers, you need to remember that your dealer is still the one who either accepts or rejects your orders each time you trade. An example of an institutional trader is a major Wall Street bank - and they have rows of desks where traders pick up the phone and take orders for currency from major companies. Your retail currency broker has an account with several institutions - and these institutions give them a line of credit, or an account, and allow your retail broker to trade with you and thousands of other people - and then in turn the broker trades with the institution.

These institutions people trade huge amounts of money at a time, and the size of their trades gives them enormous power. Some of these traders are moving $1 billion in currency — or more — per hour. Some of these people are trading tens of billions of dollars every minute in the most active times in the market.

Advanced retail forex traders . This group is comprised of people from all across the world, sitting in smaller investment firms, offices, or even their homes. Eventually you want to be a part of this group.

In some cases, the advanced traders are the smartest group, trade for trade, than any other group, because they don’t move a lot of money on each trade. Of course, they don’t have as much power as the institutional players. And because their trades are brokered by the dealers, they’ll never have absolute price-setting power.

But that doesn't matter. Trade for trade - and I have seen millions of trades placed by thousands of retail forex traders - these "non professional" traders can place extremely profitable trades, over and over again.

> [Note: For a short time, I was the Chief Market Strategist for a major retail currency dealer in the United States. I had access to see every trade placed in every account, twenty-four hours per day. One amazing trend that I noticed was that retail currency traders, on the whole, made excellent decisions about the direction of the market, but did a horrible job of managing their risk: they would place trades that could easily get 10, 20, or 30 pips, but they would let them turn into losses. They had the direction of the market right but, wow! They were losing money anyway.]

Don't feel bad about the fact that as you make money, there are lots of other people out there losing money. Someone’s going to take your money along the way, too, and it’s going to teach you — very quickly — lessons that can only be learned through failure.

So every time you take money from a novice trader, just remember: You’re teaching him or her a valuable lesson. After a while, you might even enjoy watching your hiking companion being eaten by the bear. Well, you might not enjoy it, but you’ll deserve every pip you earn.

That came out all wrong. I can't believe I presumed you would be interested in seeing a person eaten by a bear. I take it back. Okay, not really. I don't take it back at all. All I care about is that you don't get eaten by the bear. There, I said it.

Part Three: Can You Live Off 10 Pips Per Trade?

In the currency market, you can trade standard lots, mini lots, or micro lots.

One standard lot is equal to $100,000 in currency, and it generally costs you about $1,000 in margin (down payment, if you will) to place that trade. For every 1pip the market moves in one direction, you gain or lose $10.

One mini lot is equal to $10,000 in currency, and will set you back $100 to take the trade. As the market moves 1 pip for or against you, you make or lose $1.

A micro lot is a perfect way to start trading. It's equal to $1,000 in currency, costs you just $10 in margin to open the trade, and you gain or lose just 10 cents as trades move in your favor or against you.

If you eventually work up to the point where you are trading $1,000,000 worth of currency, which is 10 standard lots, each movement would be equal to $100. So if you bought the Euro against the US Dollar (EUR/USD) at 1.1445 and sold at 1.1545, you would make 100 pips.

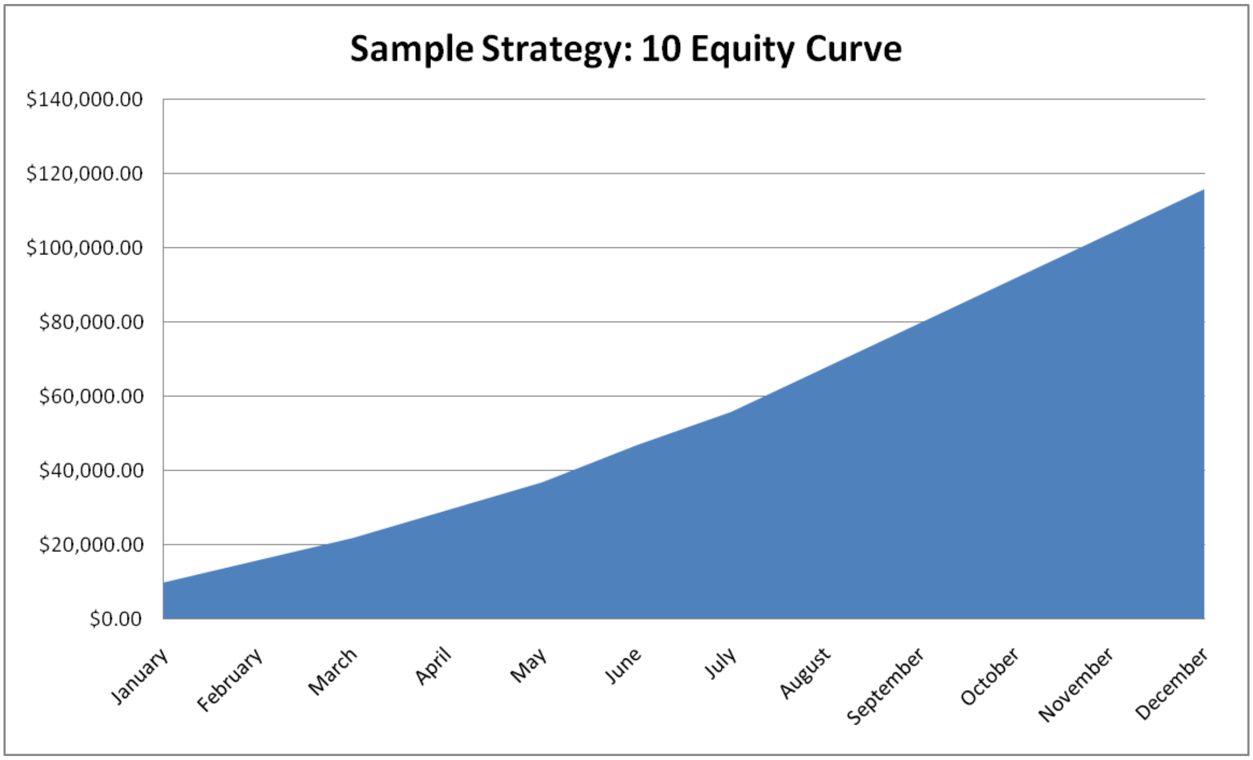
100 pips multiplied by $100 equals $10,000. Now, I don’t know about you, but I could live off that much.

That’s not saying, however, that you can make $10,000 per day. Of course it’s possible, but there are a lot of factors that make it considerably difficult at the start, and easier over time as you learn more about trading. But let's just say that 10 pips a day is not an unreasonable goal, and can mulitply over time very quickly.

Is it reasonable to think you can make 100 pips a day? Probably not. Most people try to do that, and most people get eaten by the bear.

But what about 10 pips? Could you do that? Some gains, some losses? Compounding gains is the greatest financial invention in the history of the world. Richard Russell, who writes the Dow Theory Letter, said that a long time ago, and I've never forgotten it.

If you traded 1 standard lot, and made 10 pips a day, and had a $10,000 trading account, and increased your trading size over time, here is what the growth would look like:



That looks good enough for me. Of course, you're going to go through some rough times: you are not going to make 10 pips every single day, and I've mentioned if before (and I will again) - some days you're going to lose money. But taken as a whole, you can probably average 10 pips a day if you put the time and effort into learning how to do it.

For a spreadsheet on how all of this is calculated, just email me at rob@robbooker.com, and put "10 pip spreadsheet" in the subject line.

You might ask yourself these questions before trading:

When should I get in a trade?

Where should I place my stop-loss?

What happens if something goes wrong?

Even more importantly, can you deal with the emotions of forex trading? The psychology of trading is more difficult to master than anything else - more that the charts, more than the money management, more than the economics.

Greed

Most traders in the forex market try to make a zillion dollars on every trade. They're greedy. This leads them to stay in a good trade, hoping to get more money out of it. Staying in a trade too long because of greed can lead to disaster — the trade can move against them, and they get creamed. This happens all the time, and it still happens to me from time to time. Greed is the single greatest threat in trading.

But you can already understand why that's probably true. So how does one overcome greed while trading? We'll talk about that in just a moment.

Revenge

This is the other big one. A lot of traders flush some pips down the toilet and then want to strike back. So they double their last order and go for broke. This is like, well … it's like reaching down into your toilet. That's gross. And it does not make you any richer.

The impulse to get revenge is natural, and I still deal with this emotion often. Don't underestimate this emotion. Many traders have not only reached into the toilet of revenge, they have dived into it head-first. Every time you are tempted to jump into the market and "grab back" what you just lost, imagine a colorful, movie-sized screen in your mind, depicting you diving headfirst into a messy toilet. That ought to do the trick.

Remember, the market is not your friend. The market is so much more powerful than you are. You cannot "get back at" the market. Trading when angry or vengeful will be a total disaster. If you take a big loss, then stop, take a deep breath, and talk to a mentor or your mirror, or your favorite stuffed animal. Reread the charts. Take a break. Chew on your toe if you have to. Even if you think you see the best opportunity in the world after you get blasted, make sure you take a deep breath and pause before you do anything.

> **ME**: Dear currency market, why do you do terrible things to me?
>
> **CURRENCY MARKET**: That's what I do.
>
> **ME**: Oooohhhh, you make me so angry!
>
> **CURRENCY MARKET**: That's what I do. Why don't you come and get me if you're so mad?
>
> **ME**: Nah, it's okay. You're kind of like a messy toilet.
>
> **CURRENCY MARKET**: [perplexed look]

A Defensive Approach

It's as simple as this: When I'm day-trading, I don't try to make a ton of money on each trade, and I never try to get revenge. Instead, I set up trades that meet certain criteria, and then I shoot for 10 pips as an initial target — just 10 pips. That's it. I don't let myself lose a lot of money. I only try to get 10 pips at first, and if that's all I get, then I'm out for the day. We'll talk about how I try for more than 10 pips in a moment (and we already mentioned it above).

For now, let’s just say it’s easy to get 10 pips, and if that’s all you can get, it’s OK to get out. When you know that you can turn $10,000 into $130,000 in one year, on 10 pips a day, it’s no longer important to strike back at the market or get greedy on one day of trading.

And you can learn to turn $10,000 into $130,000 in one year on just 10 pips a day. I’m not promising that you can do that; I’m just saying it’s possible, and I’ve taught traders who have done it.

If you started with $10,000 on Jan. 1, and earned 10 pips per day, and only traded 17 days of the month, then you could end the year 2,000 pips up, with about $140,000. (For a spreadsheet that details the progression in gains up to $130,000, go to my web site at RobBooker.com, and click on "contact" and write me, with the words “10-pip spreadsheet” in the subject line.)

Why is this innovative, different, or revolutionary? Because you're doing what most people cannot do: make money from trading.

Advanced traders want big money. They didn’t spend years learning to trade so they could only make $10 or $100 a day at the start. They want big returns. And they want them right from the start, every day, and more. They have no patience, no long term view, no vision. They go for 40, 50, 100 pips at a minimum. And they do it over and over again, all day long. And they're generally insane.

Advanced traders are conservative with their trading capital because the market can take huge swings against them when they’re waiting for 100+ pips.

Some advanced traders will think you’re nuts for getting out of a trade at 10 pips. What if it goes to 100 pips? Or 200? Won’t I be upset that I missed out? Not at all. I’ll show you later how I can still make 40, 50, 100+ pips on these trades. But I’m never displeased. Let me repeat that: I’m never displeased with 10 pips of profit.

You should be grateful for any profit the market gives you. Don’t spend any time crying about how you didn’t get the maximum profit, or how you could have gotten so much more profit if you had only stayed in the trade longer.

If you want to do something about it, then stay in the damn trade longer next time. If it's so important to you, that is.

And we'll talk about doing that right now.

Getting More Than 10 Pips

Let’s suppose I find a great opportunity to go for 10 pips on a trade. I submit a market order to buy the EUR/USD at 1.2900. I set a stop at 1.2880 (20 pips), and I don’t set a limit order. I’m now long (because I bought) the EUR/USD at 1.2900.

When the price I can sell at reaches 1.2910, I’ve earned 10 pips. I can either exit the trade with my profit, or stay in the trade longer. Here is how I stay in the trade: I move my stop to break even. If my initial stop were 20 pips (or on this trade, at 1.2880), then I'd move my stop to 1.2900. That means if the price falls back to 1.2900, my trade automatically closes, and I've lost nothing. I have gained nothing. I've traded defensively.

But if the trade goes to 1.2920, and 1.2930 — and beyond, I'm prepared to get more money. I can lose nothing. I'm in a 100 percent, risk-free trade. Now I can let my profit run, and I don't have to worry about anything.

Many traders ask me why I would do something like that. Why would I accept a break-even trade? My answer is a question: Out of 10 trades, would you accept five break-even trades, two losers of 20 pips, and two winners of 50 each? I would. That's trading defensively, and it's what I want you to do.

How do you know when to just get out with 10 pips? I say get out with 10 pips anytime you want. It's OK to just take 10 pips. How can you make money if your stop-loss is at 20 or 30 pips and your gain is only 10 pips?

You're not going to take 10 pips every time. This isn't going to be your only trading strategy. This is one part of your trading toolbox. Of course you can have different tools in your trading toolbox - other types of trades that you'll plan that have different targets. Or maybe you'll just be happy with 10. Maybe for you, 10 is Zen and you'll never think of another profit target ever again. I've taught traders who have learned to trade for 10 pips of profit more than 90 percent of the time. They've made a lot of money going for small gains.

If you earned 10 pips every day for the next 12 months, and you had $10,000 in your trading account, you're going to be on your way to trading for a living. Listen, we're not talking about rocket science here. Some people, over the years, have criticized these theories as too simplistic. Or that it doesn't make enough money, fast enough. And my answer always is: well, how much money are you making right now? What alternative do you like better? I never said that I was going to teach anyone anything complex (I don't care for complexity, long meetings, or sharks). And please, remember that everything I say here is open to debate and interpretation. I'd love to have more people talking about what works better - all that matters, in the end, is that you start making money. And that you keep it. And that you trade for a living. It's the only reason I've written this little book.

Can you do this? Can you trade for a living, with an initial focus on a small profit target? Absolutely. Can you do this today? Maybe not. But the chances automatically improve when you stack the odds in your favor with incremental, simple, achievable goals.

How Do You Find 10-Pip Trades?

When you trade based on principles, rather than concrete rules, you're going to do better. Once again, it's a simple concept: principles are flexible, rules are not. The market is fluid and changes over time.

That's why principles serve you better. A trading principle is a concept that stays true over time. It guides your thinking and encourages you to adjust your behavior to changing conditions.

Here are ten principles of 10-pip trading:

Principle 1: Use Support and Resistance to plan your trades.

Support and resistance trading is the basis for everything that I do. It can be applied to short term and long term trading, and any currency pair, or any market for that matter. Support refers to a place in the market where a currency pair reaches a temporary bottom - and struggles to go farther down. Resistance refers to a place in the market where a currency pair struggles to go higher. There are so many free lessons on the internet about support and resistance that it's just impossible to list them all. But here are two extraordinarily good places to start:

http://www.investopedia.com

http://stockcharts.com

Each web site has a search box near the top (or nearby) on the home page. Just type in "support and resistance," and you're going to get some fantastic material. You don't ever need to buy anything to learn about this kind of trading - there are lessons all over the web to help you get started, and excel. I also produced a (not expensive) DVD about the subject that you can find here:

http://robbooker.com/DVD

You can use support and resistance principles to plan an entry to your trade and also plan the stop loss on your trades.

Principle 2: Forget about $1 million.

Stop trying to make $8 million on every trade. And don't worry about when you are going to be able to retire from your job and just trade. You're going to be happier - and way more successful - if you just focus on the trade in front of you, and the 10 pips you are trying to make now, rather than the $1 million that you need in order to quit working a day job. And don't forget: trading is a job, too, and it's work.

Principle 3: Go ahead and set a 10 pip profit target.

Set a 10-pip limit only. This is your profit target to start. Don't worry about trying to extend it further than that right from the start. You can remove the profit target after the trade is open (if you have time) but to start with, just plan on exiting the trade at 10.

Principle 4: Set a stop loss of 10-20 pips, and maybe more.

Don't worry about the risk to reward ratio just yet. When you plan your trades, look for a level of support or resistance beyond which you can set a stop loss - the maximum you agree to lose on the trade. This might be a 10 pip stop loss, something really close to where you got into the trade in the first place. It might be more than that. Remember, you are going to lose more than 10 pips sometimes. You're going to gain more than 10 pips sometimes. But the one thing you cannot do at the very start of your trading is remove the stop loss all together. That's not a wise idea. You can blow your account up in a hurry by doing that. You do need to have a cutoff point, a level by which you no longer want to be in the trade. It's okay to take a loss. Everyone loses sometimes. No one can profit on every trade.

Principle 5: If the market jumps in your favor, protect the gain.

Sometimes, before you can remember to set a profit target in your trading platform of 10 pips, the market jumps in your favor. If you earn more than 10 pips on a trade because the trade moves quickly in your direction, you can move your stop loss to protect a 10 pip gain, and then try for more. Once again, this is where support and resistance principles come into play: you can look for a natural stopping place for your trades, and set a new profit target. These situations don't happen very often.

Principle 6: Set a daily limit on losses.

Here is what I tell myself when I start trading for the day: there is no 'makeup' strategy. If I take a loss, then I'm just trying to end up with a 10-pip gain for the day. If I can't get it, then I don't try for 20 the next day, or whatever. I can keep trying for the 10-pip gain, as long as I haven't lost more than 5 percent of my capital.

Principle 7: Set a time limit on your trading for the day.

Time: I can trade for a set number of hours per day, meaning, I can have the trading platforms open and sit at my computer for a max of say, 5 hours per day. If I can't earn my 10 pips during that time, then I can set my stops and limits and walk away, but I can't actively watch the market any longer.

Principle 8: Trade a low-spread currency pair.

The "spread" is the difference between the price at which you can buy a currency pair and sell it. It represents the markup on the price of a currency pair that the broker sets, so that the broker can make money on the transaction. It usually replaces any commission on trades - that's why you generally do not see any commission fees from brokers in forex.

When you trade the EUR/USD these days, you probably can get a spread of 2 pips, or sometimes even less than that. The lower the spread, the easier it is to make 10 pips on a trade. The USD/JPY, the AUD/USD, and now even the GBP/USD all can have reasonably low spreads. But the best is the EUR/USD - it's the most heavily traded currency pair on the planet, and so the spreads are lower.

Principle 9: Do a lot of testing before you trade.

We haven't spent much time talking about testing - but if you know me, you know that I'm a back tester first, and a trader second. In my interview for the book Millionaire Traders: How Everyday People are Beating Wall Street at its Own Game, I mentioned that I spend more time testing my theories than trading them. Why? Because my ability to actually produce 10 pips (or more) per day comes from my confidence in my methodology for trading. How do I gain that confidence? I go back in time on my charts, then play them forward, step by step, take a trade, record the results, and then think about the results. And then I repeat the process over and over again.

It's easy these days to do your testing: you can get a copy of a program like Forex Tester (www.ForexTester.com) for around $150 (or less) and test your brains out. The program allows you to load historical data (free) on just about any currency pair. And then it will move the market forward as slowly or as quickly as you want, and right inside the program you can buy, sell, stop out, take profit - everything - as if the market were live. You can test out whether your theories about the market work, long before you ever have to commit money to those theories.

Principle 10: Keep a regular daily schedule.

Routine and process are important elements of your trading - and because the currency market is open for 24 hours a day, for about 6 days a week, you're going to be tempted to stay up into all hours of the night. That's not a great idea. You don't trade better when you are exhausted. At least I don't. That's when I make stupid mistakes.

Think realistically about your schedule. Can you spend a few hours per day on testing, and then an hour on trading? Or less, or more?

So, what kind of daily routine does it take to be a 10-pip trader? Here's one example - it's a daily routine that I've used in the Strategy:10 system. Some of the most successful months of my trading career happened when I followed this plan.

— Up at 3 a.m. Eastern U.S. Time (when the market is most active - during the "European" session of the market, when the Europeans are up, and just getting to the trading desks in London). Check the charts. Ask the following questions:

— Where did the USD close (5 p.m. EST) yesterday against the majors?

— What effect will today's economic reports have, if any, on the forex market?

— Are we at an all-time high (or low) on any currency pair?

— What one pair am I going to focus on today?

— Where are the major areas of support and resistance on this pair?

— What are some good breakout entries? What are some good entries when a pair fails to break out?

Following this set of questions won't ensure that you'll earn 10 pips every trade, but it will certainly help you. The most important question you can ask is this:

What is the major trend on the 1 hour and 4 hour charts in the currency pair that I am watching? If you trade with the trend, you're more likely to be able to find some 10-pip trading opportunities.

Now, I want to be clear and open: I no longer get up at 3 o'clock in the morning. I enjoy my sleep, and I now realize that I don't have to get up that early to get trades. But I will say that if you can spend a month or two watching the market during this super-active time of the day, you'll pack a lot of learning into a short period of time.

Final Thoughts and a Challenge

There are no guarantees in trading or in life. When we involve ourselves in the currency market's we're engaging in one of the highest-risk activities in the financial world. But you can't avoid risk in life. And if you want to learn to deal with risk effectively, the currency markets are going to give you more opportunities than just about any other career. Moment for moment, it's the most rewarding job I've ever had.

I hope you'll let me know how you're doing. Here are some things you can do anytime:

1. **Email me**. You can reach me at rob@robbooker.com. Let me know how your trading is going, how you got started, what you're struggling with, and anything else that's on your mind.

2. **Visit my web site for more free stuff**. I have loads of free ebooks, spreadsheets, videos, presentations, and more at my site. Here's the link:

   http://robbooker.com

Happy Trading!

Rob Booker