

# ***THE ESSENTIAL GUIDE***

to Choosing the Best

## ***FOREX TRADING SYSTEM***

Hugh Kimura

# **The Essential Guide to Choosing the Best Forex Trading System**

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# Table of Contents

1. Busted! The 5 Biggest Trading System Myths
2. Get Your Ticket to Ride on the Trading Silodrome
3. 3 Questions to Figure Out Your Trading Personality
4. How to Develop Confidence in a Trading System
5. Leverage Trading System Alchemy
6. Tame Your Monkey Mind
7. Where to Go From Here

# Chapter 1

## Busted! The 5 Biggest Trading System Myths

"I don't have to have faith, I have experience."  
- Joseph Campbell, *The Power of Myth*

**Almost everyone who wants to become a successful trader begins their journey in exactly the *wrong* place.**

Myself included.

Aspiring traders usually choose a trading system based on one of the five myths in this chapter.

There are so many conflicting opinions about what is the best way to trade, that it's almost impossible for the beginning (or even somewhat experienced) trader to figure out what is real and what is *marketing hype*.

So don't be surprised if you think that the material in this book seems a little controversial. It's not meant to be.

**What I'm about to share with you is the result of 10 years of research, personal trading experience and learning from professional traders.**

While I firmly believe that all profitable traders understand the concepts outlined in this book, not all of them are great at teaching them in a way that is easy to understand and implement.

*That is where I believe this book can be of great help on your trading journey.*

But before we get into the specific steps that I have seen work time and time again, I believe that it is vital to understand some of the myths about learning to trade and how they can prevent you from succeeding.

## **Myth #1: You Need to Have the Most Profitable Trading System Available**

You could give 100 traders the exact same trading system, with very specific rules, let them trade it for 6 months, and **every single one of them will have different results.**

*This is because every trader will trade it differently and some traders simply won't be able to follow the rules, usually due to conflicting personal beliefs.*

**So the key to choosing the “best” trading system to find one that fits your unique personality.**

*Let me repeat it again because that is the most important sentence in this entire book...*

You will only succeed in trading when you find a trading method that matches you! Not the guy on YouTube, not your neighbor and not Warren Buffett.

### **YOU!**

The only way to do this is to learn different systems, figure out your **Trading Personality**, test those systems thoroughly, gain confidence in a system you like the best and custom tailor it to your beliefs...all before risking any real money.

*I'll get into how to do that later in this book.*

But I want you to remember that many traders do very well and manage millions of dollars, trading a system that is not the most profitable system in the world.

## **Myth #2: A Trader's Track Record is the Only Thing That Matters When Choosing a Trading Strategy**

Some students will choose a trading course solely based on the track record of the trader teaching the course. This *can* be a good indicator of if a system works or not.

But it's not the only indication of if you should buy a course, follow a free system on the internet or pay for a mentoring program.

I had a soccer coach in high school that played for the Colombian National Team. Even in his 50's he was still a phenomenal player.

However, he could not effectively teach us what he knew. He would always get frustrated because it was easy for him...so why was it so hard for us?

You get my meaning here. I'm sure you have had a similar experience, at some point in your life.

**The best traders aren't necessarily the best teachers. On the flip side, some people are better at teaching than they are at trading.**

If you are interested, you can [read my blog post about it here](#). The bottom line is that a track record shouldn't be your only trading system selection criteria.

## **Myth #3: You Need to Follow the Rules of a Trading System...Exactly**

When you are first learning a trading system, you should follow the rules, as they are written. This is so that you have a good understanding of how the system works and what might need to be changed.

*Hey, it might work for you as-is.*

**However, most of the time, you are going to have to tweak a trading system to make it work for you.** Sticking to all of the rules religiously, when they don't work well for you, is a recipe for disaster.

This book will show you how to tell when you should follow the rules and when you should change them.

*Sometimes you are just one tweak away from profitable trading.*

## **Myth #4: Trading Psychology Doesn't Matter**

You can usually spot a newbie trader from a mile away. They are the ones who are looking for the best trading systems.

More skilled traders are always looking for ways to improve their trading psychology. If you don't believe me, listen to [interviews with professional traders](#).

They will almost always emphasize psychology over systems. The truth is that, with the right psychology, you can probably trade several different systems very well. But without the right psychology, you won't succeed with even the most robust trading system.

## **Myth #5: Anyone Who Charges Money to Learn Their Trading System Must be a Scam**

*This one blows my mind.*

You pay a lot of money for college to learn how to get a good job. You pay for online courses to learn how to do computer programming. You pay a good coach to learn how to play golf.

So why do people think that learning how to trade is any different?

**One of the most common questions I get from people learning to trade is:** if a trader is making so much money trading, then why do they have to teach too?

Well, as everyone who has ever traded knows, there are ups and downs in trading. It's like any other business, there will be good times and challenging times.

**Therefore, anyone who owns a business will want to create as many cashflow sources as possible.** So when one source is not doing well, the other ones will take up the slack.



When traders want to smooth out their income, an education business is a great option. Other traders invest in real estate, buy brick and mortar businesses and trade collectables. Why should an education business be any different than those other investments? The reality is that it makes a lot of business sense for traders to teach too.

Now that we've dispelled some of the myths about trading systems, let's take a quick look at what can happen when you don't follow the guidelines in this book.

# Chapter 2

## Get Your Ticket to Ride on the Trading Silodrome



“The Wall of Death, motordrome, silodrome or Well of Death is a carnival sideshow featuring a silo- or barrel-shaped wooden cylinder, typically ranging from 20 to 36 feet (6.1 to 11.0 m) in diameter and made of wooden planks, inside which motorcyclists, or the drivers of miniature automobiles, travel along the vertical wall and perform stunts, held in place by friction and centrifugal force.”

- Wikipedia

The **Trading Silodrome** is fun in the beginning.

You hop from trading system to trading system, looking for the “holy grail.” You feel like you are making progress because you are always learning something new.

As I mentioned before, you need to do a certain degree of exploring, if you are going to find the right trading system for you. But if you don't understand **what you should be looking** for in these trading systems, then you will probably waste years of your life, *going around in circles*.

**The Trading Silodrome usually goes like this:**

- Learn a new trading system
- Dream about the Ferrari you are going to buy
- Trade the system in a demo account for two weeks and make money
- Trade it in a live account and lose money
- You conclude that it doesn't work and look for a new trading system
- Rinse and repeat

*Many traders literally keep going through this vicious cycle until they lose all their money, or give up out of frustration.*

**I want to help you avoid this terrible fate.**

So in the next chapter, I will give you three simple questions that you have to ask yourself, every time you learn a new trading system. This will help you understand which trading methods you need to learn more about and which ones you should avoid.

*If I knew these three questions when I first started trading, it would have saved me years of frustration and headache.*

# Chapter 3

## 3 Questions to Figure Out Your Trading Personality

"He who asks a question is a fool for five minutes; he who does not ask a question remains a fool forever." - Chinese proverb

Now that you understand that the “best” trading system is one that matches your personality, how do you figure out which trading systems will fit you?

**That’s where these three questions are so valuable.**

Yes, you will need to try out a few trading systems before you can understand which ones are a good match for you and which ones have no chance of ever working.

**So as you try out different trading systems, ask yourself these questions:**

1. What is the best timeframe for you to trade on? Is it intraday, swing trading or long-term position trading?
2. Are you more of a technical trader or a fundamental trader? If you are more of a technical trader, are you better at trading with the trend, against the trend or trading breakouts?
3. How much are you really comfortable risking on each trade?

Let’s take a look at each of these questions individually and why they are so important...

What is the best timeframe for you to trade on?

**The primary timeframe you trade on is going to play a big role in determining if you are going to succeed in trading or not.**

People are generally predisposed to be better at trading one timeframe, at least in the beginning. You could be good at multiple timeframes, but the key is to pick the **ONE** timeframe that you have the best chance of success with. Once you master it, then you can move on to others.

A couple of things to keep in mind:

- **What is your daily schedule like?** If you have a day job, you should consider swing trading or position trading. If you find out that you are best at day trading, then you can setup a schedule to trade for a certain amount of time, before or after work.
- **You may think that you are better suited to one timeframe, when in reality, you should be trading another timeframe.** This is usually related to a feeling that you need to take more trades. You can almost always find a way to get more trades on any timeframe, either by trading more pairs or learning more setups. You may find that certain timeframes bring out the best or worst in your trading.

Are you more of a technical trader or a fundamental trader? If you are more of a technical trader, are you better at trading with the trend, against the trend or trading breakouts?

Alright, you got me. That's actually two questions.

But they need to be asked together. **Like with trading timeframes, people generally lean towards technical or fundamental analysis.**

You can use both at the same time, but it is important to understand which one you are more comfortable with. Even if you use a technical approach, you might use 90% technicals and 10% fundamentals.

Don't get too caught up in the exact mix. Just understand which one you will rely on more.

If you are a better technical trader, figure out if you are more comfortable with **breakout trading**, **trend trading** or **counter trend trading**. Again, you might be good at more than one.

*But master one, before you move on to others.*

How much are you really comfortable risking on each trade?

**Your risk on each trade can make or break a trading system.** You should consider this question carefully because a trading system might otherwise be a perfect fit for you, but if you are taught to risk 2%, and you are only comfortable risking 0.5% per trade, then you will probably freak out when you lose.

Ultimately, this stress will get to you and you will give up on what could otherwise be your ideal trading system.

In reality, you might simply have to adjust how much you risk per trade, to be able to trade the system successfully. This may seem too simple, but it really works.

*A word of warning here...*

**Trading in a demo account might not give you a realistic feel for the amount of risk that is right for you.** So if that is the case, before you put your entire trading account at risk, first try opening a very small account at a broker that allows you to trade [nano lots](#).

This will allow you to test different risk levels and figure out which one you are most comfortable with. Obviously, it is up to you to decide how much is a “small amount” and if you should be risking real money at all. I would say that the minimum for this type of account is \$100, but it’s your call. You can still risk 1% or less with a nano lot broker and a \$100 account.

Here are some common risk levels that traders use:

- 0.25%
- 0.50%

- 1%
- 2%

Those are good levels to start testing. Also set a limit on the total risk that you can have at any time. For me, that's 2%. Since I risk 1% per trade, that means I can only have two positions open at the same time, or I can lower my risk to 0.5% per trade, if I want to take more than two trades.

**Now that you know what questions to ask, you still have to go through the process of trying out several trading systems.** This is the only way that you can properly answer the questions in this chapter.

Once you have answered these questions and have chosen a system to become an expert at, the next chapter will show you how to test, optimize and develop confidence in that trading system.

# Chapter 4

## How to Develop Confidence in a Trading System

“Confidence is preparation. Everything else is beyond your control.”  
– Richard Kline

Once you have a prospective trading system that fits your Trading Personality, then you need to figure out a few things about that trading strategy:

- Would the trading system have made money in the past?
- Does the system have a win rate that you can live with?
- Is the system still working in current market conditions?
- What is the drawdown of the system and can you handle it?

Contrary to what some people on the internet might say, there is a way to figure out all of these things.

It is deceptively simple:

**Backtest > Forward Test > Go Live**

At each step in the process, you have to review your results and see if they meet your expectations...**before you move on to the next step.**

### Backtesting

This step usually works best with technical trading systems. However, if you can get historical fundamental data, you can possibly Backtest a fundamental trading system too.



**Backtesting is the process of testing a trading system with historical data to see if the trading strategy would have made money in the past.**

Although past performance does not guarantee future results, it is usually a very good indicator of if a trading system has an edge in the markets. Trading methods that do well over long periods of time and very different market conditions, have a great chance of continuing to work in the future.

The tool that I find indispensable for backtesting is [Forex Tester](#). In my experience, it has helped more traders go pro, than any other tool that I have ever seen.

*Yes, it's that valuable.*

Just ask [this fund manager and pro trader](#).

Forex Tester allows you to “play back” historical charts and set how fast the candles print on the chart. It's like changing the speed of a YouTube video to 2X...or more.

**This will allow you to gain trading experience much faster, compared to if you had to sit around in the live market and wait for trades to setup.** If you haven't tried Forex Tester yet, I would highly recommend using it.

If you want a discount, [here's a coupon](#) that you can use.

To learn the complete Trading Heroes system for selecting, testing and optimizing the best trading strategy for your personality, sign up for the [Forex Trading Strategy Development Program](#).

After you find something that works in backtesting, it's time to test it current market conditions...

## Forward Testing

Here's where you really put the system to the test. **Reminder: You should NOT be risking real money at this point.** Sign up for a demo account

and use that to test your system. All reputable Forex brokers will have a demo account available.

**Even though the system looks good in Backtesting, there may be unforeseen issues that you did not account for.** For example, maybe you are taking trades in Backtesting during the times when you would ordinarily be sleeping.

There are at least a dozen other such conditions that you may not have considered, so Forward Testing helps you flush out those issues.

Test at least 100 trades before you even consider going live. If you have any doubts, go beyond 100, until you are confident in the trading system.

Keep in mind that at this stage, you might discover that a trading strategy that you thought was perfect for you, is not a good fit.

That's great!

The reason that we are going through this process is to figure out things like this, *before* you ever risk real money. **Keep going through this process until you figure out something that works.**

If you need help with this process, be sure to join the [Forex Trading Strategy Development Program](#). It is a private education community dedicated to helping you with everything I talk about in this book.

## Go Live

After your trading system passes the Forward Testing stage, now it's time to go live. **I cannot tell you when is the right time for you to start trading real money.**

That is entirely up to you. However, I do have a quick tip that will save you a lot of heartache later.

**Start with a small amount of money.**

If you have only been trading in demo, you probably still have to work out a few bugs, before you put all of your risk capital into your main trading account. Trading with real money is psychologically different from trading with play money.

# Chapter 5

## Leverage Trading System Alchemy

“It's the possibility of having a dream come true that makes life interesting.”  
— Paulo Coelho, *The Alchemist*

Once you have a trading system that works well, now it's time to really step on the gas!

**At this point, your goal is to learn as many *similar* trading strategies as possible.**

For example, if you discover that you are best at swing trading, trending systems on the 4-hour chart, then seek out more of those types of systems.

**Test each method thoroughly and see if there are elements that you can use in your **Personal Trading Playbook**.** Maybe one system has a good exit strategy. Another trading method might have an excellent aggressive entry.

When you can filter out 90% of the trading systems that you see in forums and online ads, and just focus on what fits you, then I'm confident that you will progress much, much faster.

This is what I call **Trading System Alchemy**.

But your work is far from over. Our Monkey Mind has a tendency to throw a wrench into even our best laid plans.

*So let's figure out how to stop it before it does some real damage.*

# Chapter 6

## Tame Your Monkey Mind



“Just ‘cause you got the monkey off your back, doesn’t mean the circus has left town.”

- George Carlin

**Your mindset is going to be the most important factor in determining if you are going to be successful in trading or not.**

But how do you “improve your mindset?” It’s a very fuzzy goal, at best.

*The key is to nail down specific ways that your mindset is lacking and work on fixing them.*

Luckily, there are some great tools that you can use to help you fix each issue that you uncover.

Now these strategies may seem like voodoo, but I invite you to keep an open mind. I’m not a doctor, so consult a doctor, if you have any doubts. But in my experience, the worst that can happen after using these techniques is that you will be in exactly the same place as before.

**The best thing that can happen however, is that you life will be forever changed for the better.**

*It's your choice.*

## Issues With Success

**If you didn't grow up rich, chances are pretty good that you have some issues with being successful.** Heck, even if you did grow up wealthy, you probably still have some mental blocks.

The best way that I know of to solve this problem is to hang out with successful people, that you get along with. The common misconception is that rich people are all assholes.

That's a limiting belief. Actually, being broke is usually what makes people nasty. Most rich people got that way by being honest, establishing real friendships and working hard.

If you don't have any ultra-successful friends, not to worry, you can still "hang out" with very successful people, even if it's just for a few hours. This is where books come in, especially audio books.

You can get an education in success, during your daily commute to the office. If you need some new books to read (or listen to), [here's my list of favorite books](#).

When you hang out with people you want to be like, their success usually rubs off on you.

## Negative Beliefs About Yourself

**Negative beliefs that you have picked up over the years are going to be your biggest enemies on your path to success.** But how can you overcome them if you don't know what they are?

In my opinion, one of the best tools for uncovering and banishing your negative beliefs is a method called the **Emotional Freedom Technique (EFT)**. [You can learn all about it here](#).

The brief summary of EFT is that you tap certain key acupuncture points, while thinking about one of your negative beliefs, memories or traumatic experiences. The tapping interrupts the negative emotions attached to those events and helps you get rid of the emotional baggage.

**But don't take my word for it, do your own research.** There have been many cases of lifelong phobias and other mental roadblocks, that have been cured in a matter of a few minutes, with this technique.

Not all conditions can be solved this quickly, but letting go of the emotional attachment to certain events can help you peel back the layers of the “onion” and ultimately get you closer to the root cause of a problem.

Obviously, there is more to it than that, so you should go through the website. There is a complete course available for free, so there is no excuse not to try it out.

**This method has helped me immensely and is very simple. I cannot recommend it enough.**

## Calm Your Overactive Mind

Finally, our minds can be stretched in so many directions at once, that it can be hard to focus on what's important. That is where meditation can be an amazing tool.

**It does take practice to start getting the benefits of meditation.** The first few tries are probably going to be difficult because you will try very hard to “quiet” the noise in your mind.

“What should I have for lunch?”

“Did I remember to lock the front door?”

...stuff like that jumps around in your head.

If you have tried it, you know what I mean. But if you let those thoughts come and go, with no resistance, you will soon notice that it becomes much easier to finally reach a state of “peace.”

**You will know when you are there.**

When you can get into that mental state several times a week, you will find that your focus in your everyday life becomes amazing and you can achieve more than you ever thought possible.

So I would highly recommend sticking with it. To learn tips on how to do effective meditation, [read this blog post](#).

Once you learn how to calm your mind, you will find that you will be able to get “into the zone” much more frequently.

*...and that's where the best trading happens.*



# Chapter 7

## Where to Go From Here

“The first step is you have to say you can.”  
- Will Smith

**I'll admit, that probably wasn't what you were expecting, when it comes to choosing the best Forex trading system.**

Most of the advice on the internet tells you to simply follow this trading system, or that trading system, and you will make money.

*I hope now you understand that there is much more to it than that.*

## Action Plan

Before I end this book, I'm going to leave you with a summarized plan of action for you to follow, if you are interested in finally making progress in your trading.

1. **Learn several different trading strategies from free or paid sources and figure out your:** ideal trading timeframe, if you are more technical or fundamental and your ideal risk per trade. If you are more of a technical trader, figure out which you like best: trend trading, countertrend trading or breakout trading. This is your **Trading Personality**.
2. Once you have an idea of your Trading Personality, then choose **ONE** trading system that matches your personality and focus on **ONE** timeframe. Backtest this for just **ONE** currency pair.
3. When you have a backtesting result that you are satisfied with, you can move into Forward Testing. Trade 100 trades in a demo account and see if they match up with your Backtesting results.

4. Only you know when it's the right time to go live with your system, but your Backtesting and Forward Testing will help you understand when you are ready.
5. While you do all of this, constantly work on improving your mindset and hang out with people who inspire you. Go have fun too and cross items off your [Heroic List](#).

I hope that you enjoyed this book and have learned a lot. What I have outlined in this book has helped many of the best traders I know, go from knowing zero, to professional trading.

**So if you are serious about learning to trade, I hope that you are one of the few people who takes action on this information. Learning to trade is not easy.**

*But then again, nothing worthwhile in life is ever easy.*

If you have any questions about the material in this book, feel free to contact me via the [contact page](#) on my website.

Trade Well,

A handwritten signature in black ink that reads "Hugh!". The signature is stylized with a large, sweeping 'H' and a cursive 'ugh!'.

Hugh Kimura  
Founder of Trading Heroes