Forex-Science G7 System

Forex trading with professional results

Welcome

Thank you once again for purchasing the Forex Science G7 Trading method E-book. We believe that this is one of the best purchases you will ever make in your Forex Trading career and, together with our live G7 alerts, we hope that this will go a long way to helping you become a profitable Forex trader!

This book is straight to the point. Although we will offer new traders some vital assistance and advice in the opening chapters of the book, the rest of the book focuses on the G7 system and its application, in a detailed and careful description of exactly how the system works and how to apply it in real time in the Forex market.

Once again, if you have any questions or queries, please email us on admin@forex-science.com and we will try to help you as much as we can.

Important: Please remember to email us your Clickbank receipt number and your email address where you want to receive your free G7 Club access until the end of this month.

So, without further ado, we will begin. We hope that you enjoy reading our notes as much as we have enjoyed preparing them for you!

Getting started in Forex

If you are new to Forex trading, there are several key pieces of information you need to know:

- How and where to open a Forex trading account
- Demo trading and when to go "live"
- Essential reading material for your growth as a trader
- Money management and leverage, stop losses and targets
- How to read a candlestick chart

We will go through these items for the benefit of new traders. If you are an experienced trader already, please skip these pages and go straight to the page headed "G7 System"

How and where to open a Forex trading account

This depends a lot on how much capital you have to start with your trading. We highly recommend that all new traders "demo" trade for at least 1-3 months before committing real money to the account. There are now literally 100's of Forex brokers available to the retail trader, but we must warn you that not all of them are "above board" We have had experience with several brokers and can recommend the following: (Please note that our recommendation does not in anyway endorse these brokers, only that we have had good experience with them in the past)

www.oanda.com This broker allows traders with smaller accounts to trade extremely small lot sizes thereby minimizing the risk of losses for beginners. They allow micro-lots which move about $0.10 per pip

www.fxcm.com FXCM is one of the largest brokers and allows mini lots which move about $1.00 per pip.

More information on Forex trading in general can be obtained from the two websites above and from other sites such as www.forexnews.com and www.fxstreet.com

Demo trading and when to go "live"

The brokers above both offer unlimited period demo accounts. These are trading accounts which look and feel exactly like real money accounts, except that the money is not real. Using a demo account will allow you to get the feel for the trading platform, the feel for how the market moves and a feel for how the G7 trade signals work in real time. We highly recommend trading on a demo account for at least 1 month, but probably even longer (3-6 months) Many traders who graduate to real money accounts too soon lose money. This is because the demands of real money trading are so much greater in terms of stress and emotions, and if you have not mastered demo trading before that, the combination of new experiences can be overwhelming.

Essential reading material for your growth as a trader

There are several books which we feel are essential for your growth and learning as a Forex trader. We have listed 5 books in order of importance below. They can all be obtained from www.amazon.com and we would suggest reading one per month over the next 5 months. If you cannot afford to get all the books, start with the first two books and get the other ones when you can a little later on.

Cornelius Luca: **Trading in the Global Currency Markets**
Steve Nison: **Japanese Candlestick Charting Techniques**
Marcel Link: **High probability Trading**
Regina Meani: **Charting – An Australian Investor's Guide**
John Bollinger – **Bollinger on Bollinger Bands**

Money Management and leverage, stop losses and targets

This is one of the most important and most overlooked parts of trading. Many traders take huge risks with their capital in the hope that they will "get rich quickly" or recover previous losses with one good trade. We would like to suggest some simple guidelines for managing your trading account with our G7 system, which will help you to reduce risk and maximize returns.

1. *Never leverage more than 5:1*
    - This means that for every dollar in your account, you should not trade more than 5 dollars per trade positions. For example, if your account size is $5000, you should trade no more than $25000 per position. This is 2.5 mini lots (a mini lot is worth $10,000)
    - We prefer to leverage even lower than 5:1 with 1:1 – 2:1 being optimal.

2. *Never risk more than 2% of your account on 1 trade*.
    - This is easily calculated. If the trade you want to enter requires a 40 pip stop loss for example, the risk to your account if stopped out is 40 pips x leverage/100%. In this case, if your leverage is 5:1 then the risk would be 40x5/100 = 2%. If the stop loss is higher, the leverage would have to be reduced.

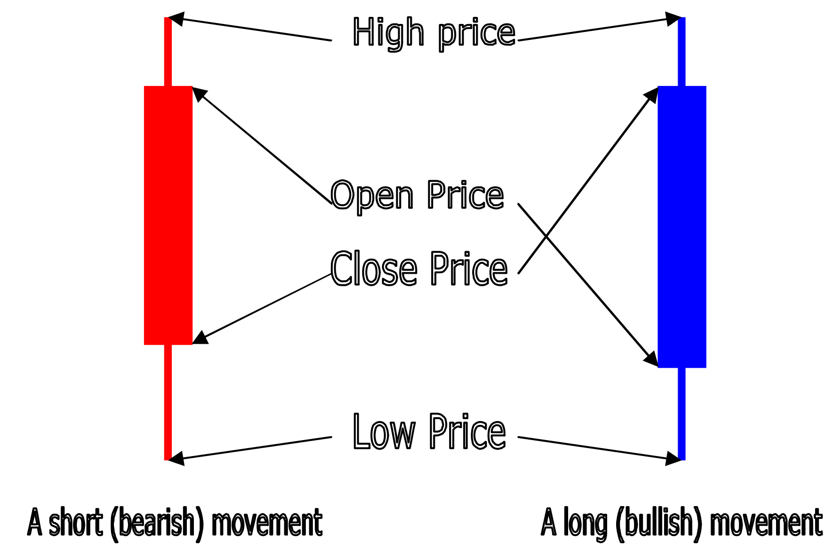
3. *Always aim for a 2:1 reward/risk ratio in your trades.*
    - If you are prepared to risk say 40 pips on a trade, ensure that the potential target for the trade is at least 80 pips. If you are prepared to risk 50 pips, make sure you have a possible target of 100 pips, and so on. Try to always aim for twice as much as you risk.

If you stick to these simple rules, you should be able to weather the storms and have a long lasting and relatively stress free Forex career!

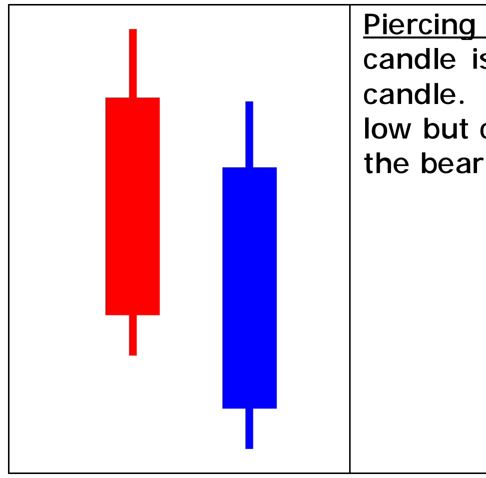
How to read a candlestick chart

This section is a brief introduction to Japanese candlestick charting methods. If you are a new trader, please read through these carefully, and try to spot the patterns on your live Forex charts. If you are familiar with candlestick charting, skip this section and go straight to the G7 trading system.

Interpretation of candlestick charts is based on patterns. Currency traders use primarily the relationship of the highs and lows of the candlesticks over a given time period. However, some patterns can be identified to anticipate price movements. There are two types of candles: the *bullish* pattern candle and the *bearish* pattern candle.



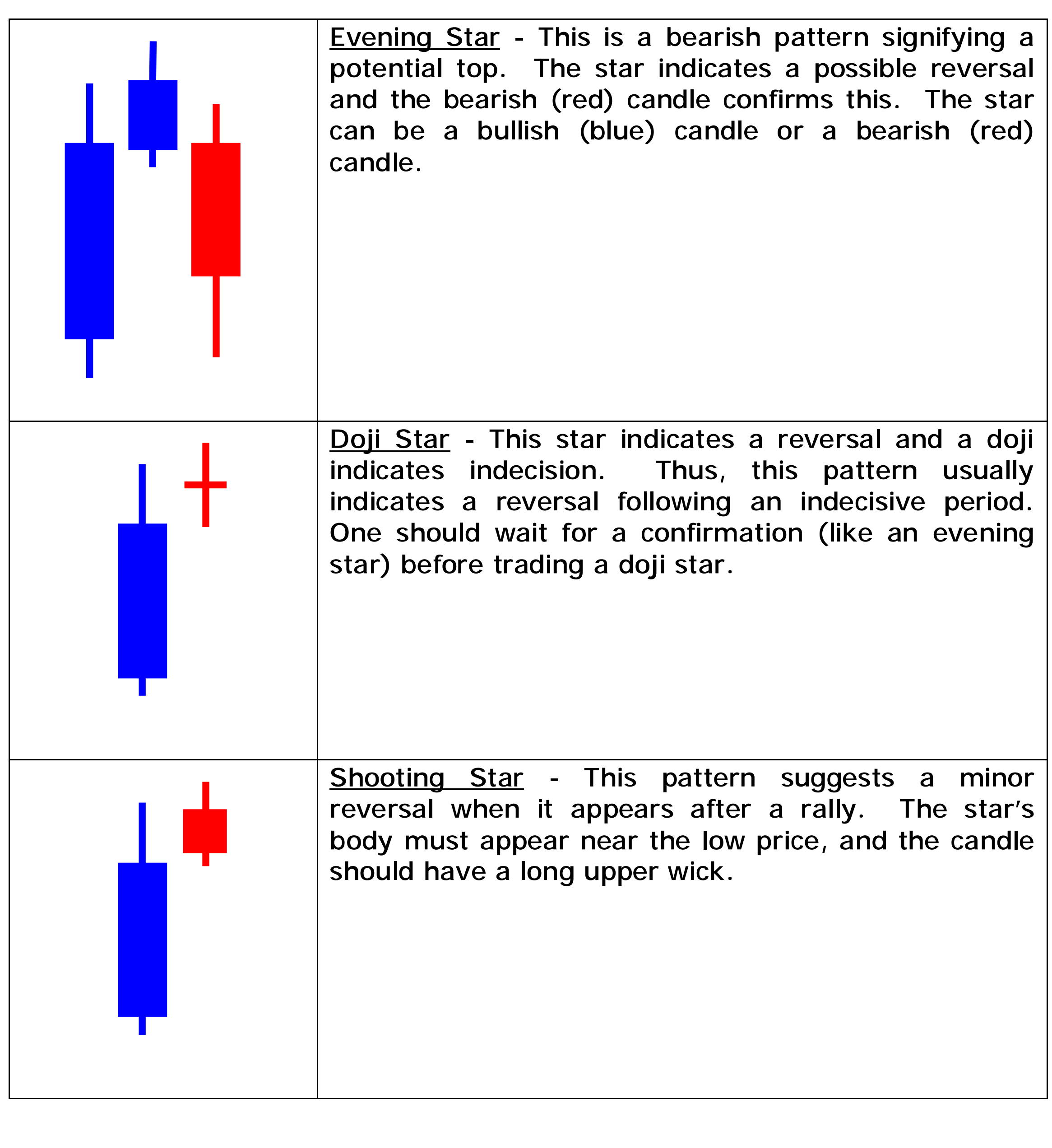
Bullish Candlestick Formations

	Piercing Line - This is a bullish pattern. The first candle is a long bear candle followed by a long bull candle. The bull candle opens lower than the bear's low but closes more than halfway above the middle of the bear candle's body.

	Hammer - The hammer is a bullish pattern if it occurs after a significant downtrend. If the line occurs after a significant uptrend, it is called a hanging man. A small body and a long wick identify a hammer. The body can be clear or filled in.
	Morning Star - This is a bullish pattern signifying a potential bottom. The star indicates a possible reversal and the bullish (blue) candle confirms this. The star can be a bullish (blue) or a bearish (red) candle.
	Bullish Engulfing Lines - This pattern is strongly bullish if it occurs after a significant downtrend (it may serve as a reversal pattern). It occurs when a small bearish (red) candle is engulfed by a large bullish (blue) candle.
	Bullish Doji Star - This star indicates a reversal and a doji indicates indecision. Thus, this pattern usually indicates a reversal following an indecisive period. You should wait for a confirmation before trading a doji star.

Bearish Candlestick Formations

	Long Bearish Candle - A long bearish candle occurs when prices open near the high and close lower near the low.
	Dark Cloud Cover - This is a bearish pattern. The pattern is more significant if the second candle's body is below the center of the previous candle's body.
	Bearish Engulfing Lines - This pattern is strongly bearish if it occurs after a significant uptrend (it may serve as a reversal pattern). It occurs when a small bullish (blue) candle is engulfed by a large bearish (red) candle.
	Hanging Man - This pattern is bearish if it occurs after a significant uptrend. If this pattern occurs after a significant downtrend, it is called a hammer. A hanging man is identified by small candle bodies and a long wick below the bodies (can be either blue or red).



	Evening Star - This is a bearish pattern signifying a potential top. The star indicates a possible reversal and the bearish (red) candle confirms this. The star can be a bullish (blue) candle or a bearish (red) candle.
	Doji Star - This star indicates a reversal and a doji indicates indecision. Thus, this pattern usually indicates a reversal following an indecisive period. One should wait for a confirmation (like an evening star) before trading a doji star.
	Shooting Star - This pattern suggests a minor reversal when it appears after a rally. The star's body must appear near the low price, and the candle should have a long upper wick.

Neutral Candlestick Formations

	Spinning Tops - This is a neutral pattern that occurs when the distance between the high and low, and the distance between the open and close, are relatively small.
	Doji - This candle implies indecision. The open and close are the same.
	Double Doji - This candle (two adjacent doji candles) implies that a forceful move will follow a breakout from the current indecision.
	Harami - This pattern indicates a decrease in momentum. It occurs when a candle with a small body falls within the area of a larger body. This example a bullish (blue) candle with a large body is followed by a small bearish (red) candle. This implies a decrease in the bullish momentum.

Reversal Candlestick Formations

	Long-legged Doji - This candle often signifies a turning point. It occurs when the open and close are the same, and the range between the high and the low is relatively large.
	Dragonfly Doji - This candle also signifies a turning point. It occurs when the open and close are the same, and the low is significantly lower than the open, high and closing prices.
	Gravestone Doji - This candle also signifies a turning point. It occurs when the open, close and low prices are the same, and the high is significantly higher than the open, close and low prices.
	Stars - Stars indicate reversals. A star is a candle with a small real body that occurs after a candle with a much larger real body, where the real bodies do not overlap (the wicks may overlap).

The G7 Trading system

Now we will try to take you through the system as clearly as possible, detailing everything from the chart set-up to the trade entry signals.

Currencies traded

There are a large number of currency pairs available for trading on most retail Forex trading platforms, most offering between 12-24 different pairs for trading. Of those pairs, only 4 pairs are considered "The Majors" namely the EUR/USD, the GBP/USD, the USD/JPY and the USD/CHF. Due to their nature, the majors tend to experience much greater volumes than the other pairs and are therefore more technical in nature and they tend to trend more than other pairs. Trending behaviour is required for more consistent profits with the G7 model and therefore we only recommend trading the majors. Other pairs can be traded with the system and experienced traders may want to apply the system to other pairs.

We focus on the Euro, Pound and the Yen, although the Swiss Franc (USD/CHF) can easily be traded as well. Remember, though, the more pairs traded, the more capital is committed in the market, and the higher the effective leverage, exposure and risk is.

We also recommend trading 1-2 currencies from the three most of the time, choosing the best 1-2 from the three by selecting the clearest G7 system trade setups.

As a rule of thumb, we prefer to trade Euro, Pound and then Yen in that order, and if there is any doubt, we will go for the first two in preference to the Yen.

Charts needed

A good charting package is essential. We have had experience with three charting services, all of which can provide the essential tools for the G7 system

www.fxtrek.com (Intellichart Desktop service)
www.forexnews.com
www.esignal.com

These chat services cost money, but they are well worth it. There are other charting services available which can provide what you need, and even some free services (check out the charts link at www.fxcm.com) However, it is important that your charts are stable, can be arranged suitably on the screen, can be saved with the set-ups and provide good visual displays.

Chart screen setup

The G7 system uses two time periods for each currency, namely weekly charts and hourly charts. You should now set up your chart screen to display 2 charts for each currency – hourly and weekly, making a total of 6 charts on the screen. The charts should be set to display candlesticks rather than lines or bars. The following screenshot shows our set-up with the Euro on the left, the Pound in the middle and the Yen on the right. The hourly chart in each case is at the top of the screen and the weekly chart at the bottom.

File Layout View Tools Lines Chart Options Research Scanner Customer Support Symbols Trade Window Help
eurusd.ach
(EUR A0-FX - Euro Composite,60) Dynamic,0:00-24:00
pound.ach
(GBP A0-FX - British Pound Sterling Composite,60) Dynamic,0:00-24:00
jpy.ach
(JPY A0-FX - Japan Yen Composite,60) Dynamic,0:00-24:00
Stochastic(14(7),3)
06/14
06/15
eurweek.ach
(EUR A0-FX - Euro Composite,W) Dynamic,0:00-24:00
gbpweek.ach
(GBP A0-FX - British Pound Sterling Composite,W) Dynamic,0:00-24:00
jpyweek.ach
(JPY A0-FX - Japan Yen Composite,W) Dynamic,0:00-24:00
Equities
Other Intervals
Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun
2006

Chart indicator setup

The next step is to place the various indicators which the G7 system uses on the charts. There are actually very few indicators required as the system is not primarily indicator driven.

Set up each hourly chart as below:

1. 100 hour Bollinger band
2. 200 hour Bollinger Band
3. 200 period SMA (simple moving average)
4. 14/7/3 Slow Stochastic.

Although these are very standard indicators, if you have any doubt about what these indicators are or how to place them on your charts, please browse through the information presented at some of the sites we mentioned above in the "getting started" and "charts needed" paragraphs. Most of the information can be obtained there.

Try reading up on some of the excellent information found at http://www.fxtrek.com/universityEN/default.asp

More detail can be found in the recommended books.

Your hourly charts should all look something like the example in the chart below:

(EUR A0-FX - Euro Composite,60) Dynamic,0:00-24:00
200 hour Bollinger
200 hour SMA
100 hour Bollinger
100 hour Bollinger
200 hour Bollinger
Copyright © 2005 eSignal.
Stochastic(14(7),3)
Slow stochastic 14/7/3
06/08
06/09
06/11
06/12
06/13
06/14
06/15
Published by eSignal (www.esignal.com)

Next, set up each weekly chart as below:

1. A 10 week SMA (simple moving average)

No other indicators are required on the weekly charts. Your weekly chart should look something like the example in the picture below:

Once you have all the charts set up correctly and on display on the screen as above, you are ready to begin analysis for your first trades using the G7 trading system. Remember, all charts should display price movement in candlesticks and there should be 6 charts on your screen – one hourly and one weekly chart for each currency pair.

The G7 trading logic process

This process is the heart of the G7 system. It is a logical series of steps designed to assist you to get into and out of a trade with optimal probability of winning. Remember that there is no sure thing in trading and we never really know which way the market will move next. That is why money management is absolutely vital – always prepare for the possibility of a losing trade, no matter how confident you are about winning!

What we can determine, however, is a level of probability for a move in one direction or another from a certain position or price level. We are only trying to win a certain percentage of our trades (anything above 60% is good) and we are trying to make sure that when we lose a trade, the loss is smaller than the gains we make with winning trades. This is very important and is covered in more detail in the early paragraphs of this book (money management)

The series of logic steps we must always follow is:

- Determine the trading direction for the week. We always view the market in weekly chunks of time, and we also try to make certain weekly goals in terms of profits. The trading direction for the week will remain unchanged unless the price moves outside the boundaries (reversal levels) we determine for that week.
- Determine the boundaries where we will change our mind on the weekly direction – the reversal level.
- Once the direction and reversal levels are established, we need to determine where we want to enter the market. If we are bullish, we will only buy on retracements (dips) and if we are bearish we will only sell on retracements (rallies).
- Once we have determined where we are willing to enter the market, we need to establish what will give us the "buy" or "sell" signal.
- When we have entered a trade, we need to know when to get out of the trade – either for a profit in case the market goes in our direction, or for a loss if the market goes against our direction.

If we can follow this series of steps each time we take a trade, and have confidence that the G7 system gives us a good probability of winning, we are on our way to a winning trading career!

Determining direction on a weekly basis

Often the toughest part of trading is to determine the direction that the market might move in for the day or the week you are considering. The G7 system makes this step relatively easy.

We use the weekly charts to decide on the direction for the week, and where the reversal levels are. The weekly candle will be completed on Friday when the markets close, and can be viewed any time after that, over the weekend.

The retail brokers open on a Sunday around 2-5PM Eastern time (US) and each weekend before the markets open the direction and reversal point for the coming week can be determined from the previous week's candle. There are several very simple rules for doing this:

We compare the week which has just finished to the previous week and determine whether we have a bullish scenario or a bearish scenario.

A bullish scenario can be assumed when

1. The weekly candle has a higher high and/or a higher low compared to the week before
2. The candle has formed a "spike low" after a long period of declines (4-8 weeks)

Let's examine each one of these points and break them down into clear and simple rules:

Bullish Scenario 1 - The weekly candle has a higher high and/or a higher low compared to the week before.

This one is easy. If this week's candle has a higher high and a higher low than the previous week, we have a bullish scenario. This means we want to buy or trade long on the currency going into the new week from Sunday afternoon.

<u>A higher high</u> means that the candle's highest point for the week is higher than the previous week's highest level shown on the candle.

<u>The same for a higher low</u> – meaning the lowest point of this week's candle is higher than the lowest point of the previous week's candle. The chart in the next pictures shows a candle with a higher high and a higher low than the previous week.

Bullish Scenario 2 – A higher high, but not a higher low

Sometimes, a candle can have a higher high, without having a higher low, or the other way around. An example can be seen in the next chart. The candle pointed out has a higher high than the previous week, *but also a lower low*.

However, this is also considered a bullish scenario, and we would consider buying in the new week.

Bullish Scenario 3 - The candle has formed a "spike low" after a long period of declines (4-8 weeks)

This is slightly more difficult to spot, however, with practice, you will begin to spot these patterns with ease. Please read up on candlestick charting in the notes in the early part of the book.

The candles labeled *"Doji's" "Hammers" "Dragonfly Doji's", "Long legged Doji's" and "Hanging man"* are all examples of "spike low" patterns which occur at reversal points after a long trend downwards.

The simple rules for spotting these are to look for 6-12 week periods where the price movement has been predominantly downwards, followed by one of the "spike low" reversal candles mentioned. These can also be regarded as a bullish scenario, even though we may not have a higher high or higher low.

As we said, these become much easier to spot with a little practice! 3 good examples are shown in the chart below:

A bearish scenario can be assumed when

1. The candle has a lower high and/or a lower low compared to the week before
2. The candle has formed a "spike high" after a long period of rallying (4-8 weeks)

Let's examine each one of these points and break them down into clear and simple rules:

Bearish Scenario 1 - The candle has a lower high and/or a lower low compared to the week before.

This one is easy. If this week's candle has a lower high and a lower low than the previous week, we have a bearish scenario. This means we want to sell or trade short on the currency going into the new week from Sunday afternoon. A lower high means that the candle's highest point for the week is lower than the previous week's highest level shown on the candle. The same for a lower low – meaning the lowest point of this week's candle is lower than the lowest point of the previous week's candle. The chart in the next picture shows candles with lower highs and lower lows than the previous weeks.

Bearish Scenario 2 - Sometimes, a candle can have a lower low, but not a lower high, or the other way around.

An example can be seen in the next chart. The candle pointed out has a lower low than the previous week, *but also a higher high*.

However, this is also considered a bearish scenario, and we would consider selling in the new week.

Bearish Scenario 3 - The candle has formed a "spike high" after a long period of rallying (6-12 weeks)

This is slightly more difficult to spot, however, with practice, you will begin to spot them with ease. Please read up on candlestick charting in the notes in the early part of the book.

The candles labeled *"Doji's" "Hammers" "Dragonfly Doji's", "Long legged Doji's" and "Shooting star"* are all examples of "spike high" patterns which occur at reversal points after a long trend upwards.

The simple rules for spotting these are to look for 6-12 week periods where the price movement has been predominantly upwards, followed by one of the weekly "spike high" reversal candles mentioned. These can also be regarded as a bearish scenario, even though we may not have a lower high or lower low.

As we said, these become much easier to spot with a little practice! 2 good examples are shown in the chart below:

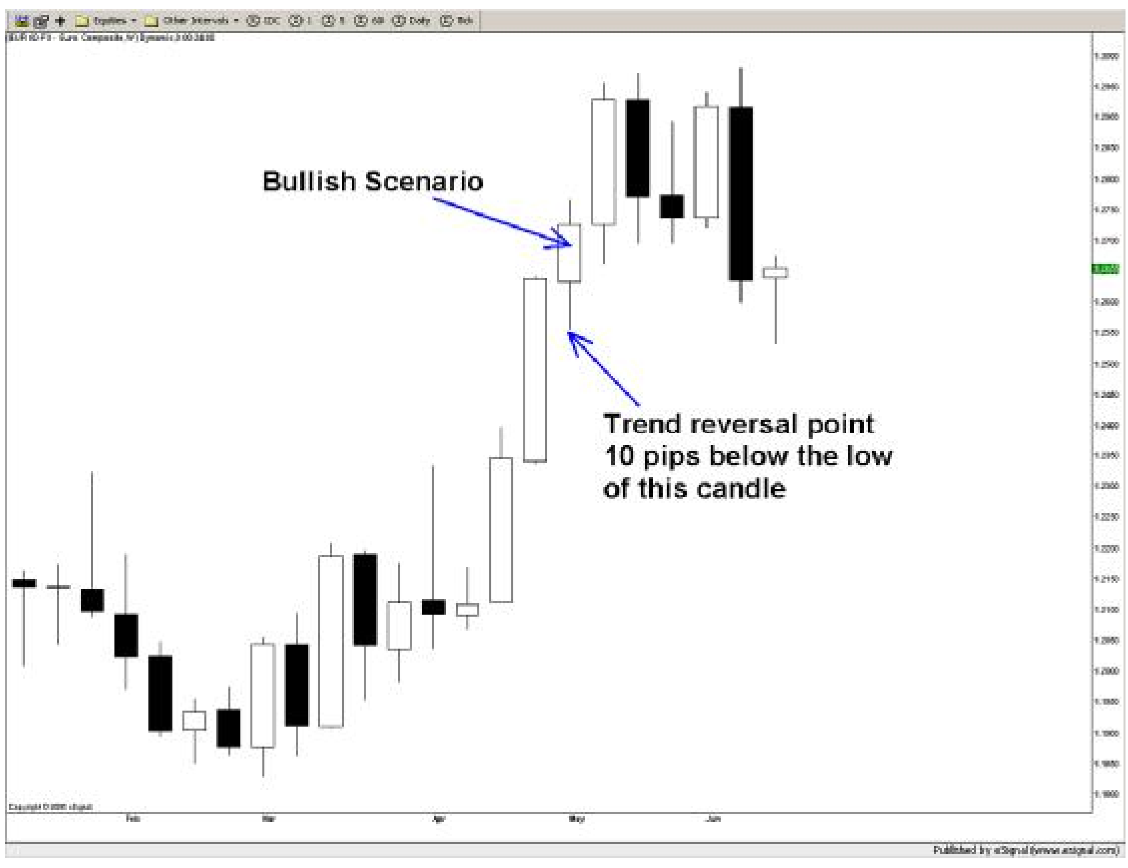
Determining when direction may be wrong – weekly reversals

Recap: compare the past week's candle to the previous week and determine if we have a bullish or bearish scenario. Look out for reversal candles (spikes) at the end of trends. We have now determined the direction for the week.

The next thing we need to do is to determine at what price the weekly direction is likely to be wrong and where we must change our view of the direction.

Once again, this is a simple determination. We simple place our reversal level beyond the extremity of the closed week's candlestick.

For example, if we are bullish, the reversal level is 10 pips below the lowest point of the closed week's candlestick. If we are bearish, the reversal level is 10 pips above the highest point of the closed week's candlestick. The chart shows an example:



Important: The reversal level is not a stop and reverse level. Please be aware of that! The reversal level is simply a price level where we assume we were wrong about the week's direction and stop trading in the original direction. It does not mean we automatically reverse our trade.

Determining entry points

Recap: We have determined the direction we want to trade in for the week. We have also determined the price level at which we assume that direction was wrong. We also know that if we our direction is bullish (long) we want to wait for dips (declines) to buy into, and if our direction is bearish (short) we want to wait for rally's to sell into.

Now to determine where those entry points are**!**

There are 6 rules which should be used to determine entry points, and the conditions for each rule must be in place before a trade can be initiated:

We need to go to the hourly chart for the rules.

Entry point rule #1

Wait for an hourly close.

No trade positions should be considered until the hour rollover. You will notice that about 5-10 minutes before the "top of the hour" or hour rollover (8AM, 9AM, 10AM etc) there is a lot of activity in the market and the price action becomes much more volatile. This is due to traders watching the hour rollover for clues about the next move and traders jostling for advantage before the hourly close to try and sway market sentiment. The same thing happens on both shorter and longer timeframes. For example you may notice the same thing at the end of each 4 hour period or each 15 minute period.

Traders must wait for the hour to close before taking the trade. This allows the market to close the hour and for the hourly candlestick to complete – which will give good information to traders using the system about whether a top or bottom may/may not be formed. This is so important, as we use the shape of the hourly candlestick to give us signals to enter the trade, once all the other rule conditions have been met.

In the hourly chart below, each candle represents one hour of price movement. Wait for the candle to "close" before taking any trade position. When the candle closes, it will "rollover" to the next candle on the hour. As soon as this has occurred, a decision can be made to either enter the trade or to wait another hour. If you decide to wait, the next trade decision may only be made one hour later at the next rollover.

Entry point rule # 2

The 14/7/3 Stochastic must be oversold if buying, or overbought if selling.

This is extremely important. We already know the direction in which we want to trade, and now this tool is used to help us pick entry points.

The rule of thumb is:

If we want to buy, we only do it on dips (after the price has dropped somewhat), and when the hourly chart is oversold.

If we want to sell, we only do it on rallies (after the price has risen somewhat), and when the hourly chart is overbought.

This rule helps to swing the probabilities in our favour and to increase the winning percentage considerably.

<u>We use the Stochastic</u> to determine the overbought or oversold status of the charts.

If the Stochastic is above 80, then we consider the hourly chart to be overbought.

If the Stochastic is below 20, then we consider the hourly chart to be oversold.

Simply put – do not even consider a trade unless the Stochastic is either above 80 (for selling) or below 20 (for buying)

The chart below shows occasions where the Stochastic is overbought (blue arrows) and where it is oversold (green arrows) Depending on the direction we have decided to trade in for the week, we would consider entering the market in the vicinity of the arrows, provided that all the rules have been met.

Entry point rule # 3

The market generally works within bands of statistical probability. Our research has shown that

a) In an up-trending market, the price tends to range between the 200 hour moving average and the top 200 hour Bollinger band,

b) In a down-trending market, the price tends to range between the 200 hour moving average and the lower 200 hour Bollinger band,

c) In a ranging market, the price tends to range between the upper and lower 200 hour Bollinger bands.

Furthermore, the 100 hour Bollinger bands tend to create an additional, tighter trading band for the price action in a strong trending market.

What does this mean and how can we apply it to real trading?

Rule number three says: We don't enter the market unless a) the price is touching or beyond the 100 hour Bollinger, or b) touching or very close to the 200 hour Moving average, or c) touching or beyond the 200 hour Bollinger band.

This gives us three "zones of probability" where a trade may be taken. Outside these zones is "no-mans land" and trades may not be taken. This may sound a little bit complicated, but the chart below will probably clear it up for you right away:

The chart is labeled to show the top and bottom Bollinger bands and the 200 hour simple moving average (SMA) The green arrows show places where a trade may be taken from either the top or bottom 200 hour Bollinger. The blue arrows show places where a trade may be taken from the top or bottom 100 hour Bollinger, and the red arrows show places where a trade may be taken from the 200 hour SMA.

Remember, these are places where trades ***MAY*** be taken, but only in the weekly direction and only if all 6 of the rules in this chapter are met. Notice on this chart how the Stochastic oversold and overbought condition often coincides with the candles touching or piercing the Bollinger bands.

(EUR A0-FX - Euro Composite,60) Dynamic,0:00-24:00
200 hour
TOP Bollinger
100 hour
TOP Bollinger
100 hour
BOTTOM Bollinger
200 hour SMA
200 hour
BOTTOM Bollinger
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Stochastic(14(7),3)
Published by eSignal (www.esignal.com)

Rule 3 might seem complicated at first, but we can summarise it into the following:

Only consider a trade if and when the price is touching or beyond either the 100 or 200 hour Bollinger bands or touching or near the 200 hour SMA. Any other position on the chart is considered "no man's land" and the probabilities are not suited to trading.

We will be putting all of the rules together in several examples at the end of this section, so don't worry if you feel a little lost at this time.

Entry point rule # 4

This rule relates to Fibonacci retracements, trend lines and horizontal support and resistance lines. We want to keep this as simple as possible, and not focus too much on the details.

Essentially rule number 4 says try to look for areas where the market might logically retrace to, such as Fibs, Trend lines or support/resistance lines (SR lines)

Remember, we have decided on a direction (for example UP) At this stage we know that the following conditions must be met before considering a trade:

1. We need to wait for the price to *retrace downwards*
2. We know that we need to wait for the *hour rollover*
3. We know that the *Stochastic must be oversold* (below 20)
4. We know that the price must be *touching or below* either the lower 100 or lower 200 hour Bollinger band or the 200 SMA.

And now, we also know that we should look for logical points that the price will drop down to to help us with the timing of the trade. For example, the price may have dropped to a trend line, or a horizontal support line, or a previous horizontal resistance line, or a Fibonacci retracement level (we work with 38.2%, 50%, 61.8% and 78.6%)

Rule 4 is simply there to help with timing the entry and to add confidence to the other rules of the G7 system If you are not familiar with basic technicals such as trend lines, SR lines and Fibonacci retracements, you should read up on them in the books we recommended early in the book. This is important! However, it is not essential to be an expert, and the other rules will carry you through the system by themselves.

Entry point rule # 5

OK lets go through a hypothetical scenario step by step to guide us up to rule # 5.

1. Lets imagine that we have studied the weekly direction using the weekly candlesticks and have decided to trade long (buy, bullish).
2. We know that we need to wait for retracements downwards, or dips, before we consider buying.
3. We know that the dips need to create an oversold Stochastic, below 20
4. We know that the dips must touch the 200 hour SMA (or come close to it) or touch or pierce through the either lower 100 or 200 period Bollinger band, or both
5. We have seen some logical levels where the price might retrace towards from (for example) a simple trend line and the Fibonacci retracements.
6. The price has moved lower to meet all of the above conditions.
7. The hour has just rolled over at (for example) 9.00AM

An example of just this sort of setup is shown in the chart below. As you can see, the Stochastic is oversold, the price has pierced the 100 hour and just touched the 200 hour Bollinger band (they happen to be close to each other in this example, but it is not required to pierce or touch both together – one will do):

So what next?

Should we enter the trade? What's the trigger? If we enter, where should we place the stop loss? What target are we aiming for? All of these questions should be answered in rules 5 and 6!

If all of the conditions for the G7 system setup are in place, we need a trigger (or a green traffic light) to tell us that we can hit the button.

Rule number 5 simply says: Given that all the other conditions are in place, we can enter the trade if we get an hourly reversal candle.

Simple as that!

We have briefly studied candlesticks early on in this book, and we will summarise the 5 key patterns shortly. However, we highly recommend that all traders get a copy of the Steve Nison book on candlestick trading. This book will assist you in all of your trading, and not only for the G7 system

A reversal candle is a candle which, after the hourly close, has a certain shape indicating that the market is trying to change direction.

In general these candles are spikes (Doji's, hanging man, hammer), engulfing candles and tweezer formations. There are many other more complex patterns, but they are not important for a basic grasp of the system and can be studied later. OK, lets go back to our chart setup from the chart above. The next chart (below) shows the same setup as the previous chart, only one hour later. As you can see, we now have a bullish engulfing candle formation, which is the trigger to enter the trade – given that all the other rules are in place.

And then the next chart (below) shows the result. Notice how there was another chance to enter the same trade about 22 hours later with an almost identical setup!

In order to assist you with identifying the reversal candles on the hourly chart, the next 6 charts show setups with triggers from the reversal candle patterns. Once again, if you are worried about "getting the hang" of reversal candle patterns, don't worry. Will provide plenty of examples in the following pages, plus we will send you plenty of assistance through our G7 Club. By the end of that time you will be accomplished at spotting these basic patterns! Remember, after your free Club trial, you can also continue receiving our daily G7 Club service for as long as you want to, if you decide to stay on as a member of the Club.

Spike high through both top Bollingers

Spike low through both lower Bollingers

Bullish engulfing candles off the lower Bollingers

Spike low off the 200 SMA

Bearish engulfing candle off the top 200 hour Bollinger

Numerous reversal candles in same area at the lower Bollingers

Entry point rule number 6

a) Always place the trade stop loss 5-10 pips below the reversal candle pattern which you used as the trigger for the trade.

b) The stop loss should never be less than 20 pips and never be more than 60 pips.

c) The profit target should always be at least double the size of the stop loss.

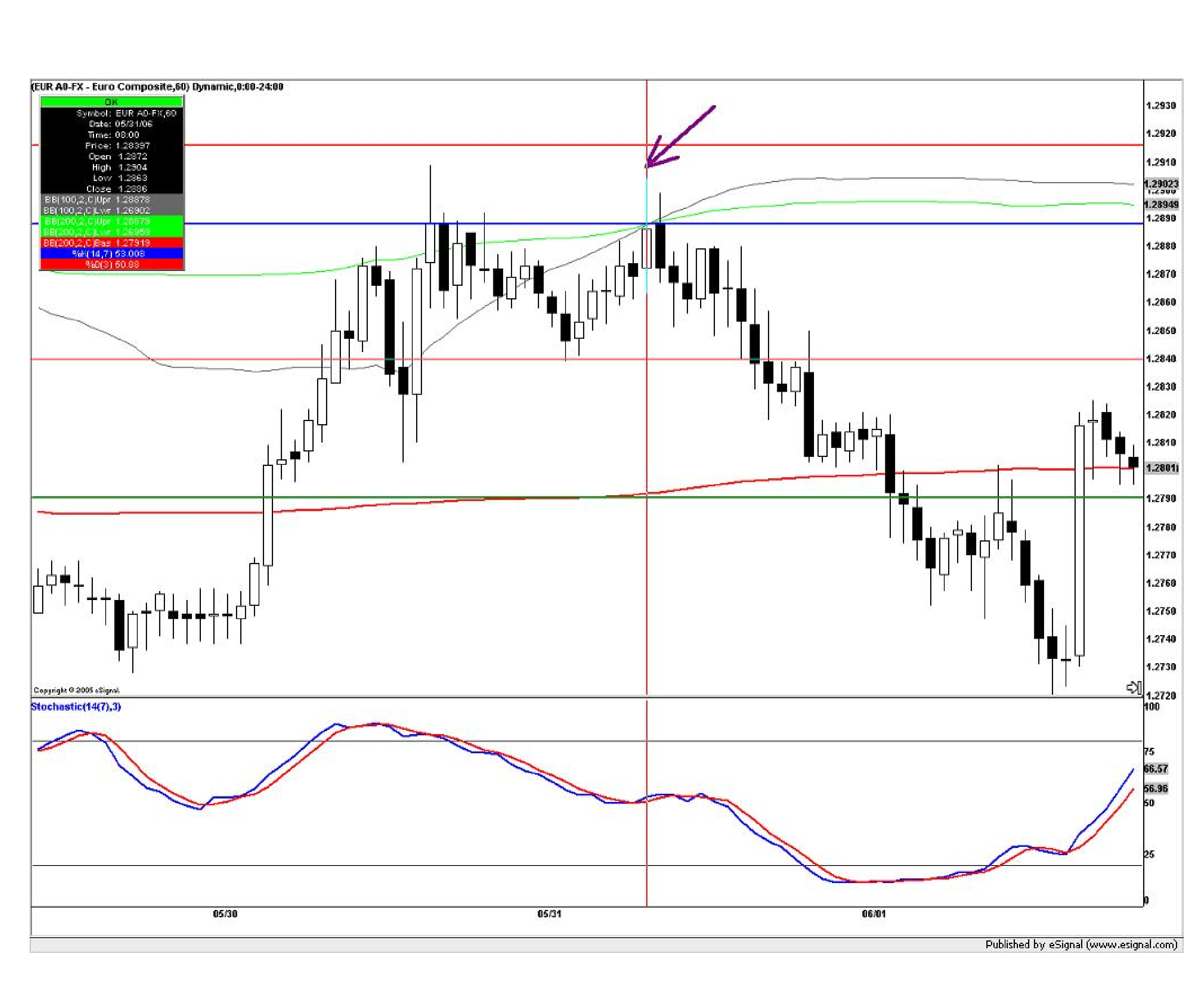
Lets look an example.

In the chart below, we can see a trade entered at the hour candle pointed out by the purple arrow. The trade was only entered when the hour closed, which was at the level of the blue line at 1.2886 (note the "spike high" candle which was the trigger)

The stop loss should be 5-10 pips above the trigger candle, which is at 1.2904. Remember that for short trades (selling) you must add your broker's spread to the stop loss. Assuming a spread of 4 pips, the stop should be 5-10 pips above 1.2908.

Before deciding on a stop, glancing to the left of the chart, you will see another "spike high" with a high at 1.2909. Logically, we should place the stop beyond the reach of this high as well, plus the 4 pip spread. 1.2909 plus 4 pips is 1.2913, and if we add the 5-10 pips for the G7 stop loss rule, we get 1.2918 – 1.2923. This would give us a potential loss of 32-37 pips. In this example, we placed the stop at 1.2918 (top red line) which gave us a potential loss of 32 pips – well within the 20-60 pip rule.

The profit target should be at least double the stop loss, which would be 32x2 = 64 pips. In this case, we set the target at 100 pips and took profit at the green line 1.2786.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Date: 05/31/06
Time: 08:00
Price: 1.28397
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High 1.2904
Low 1.2863
Close 1.2886
BB(100,2,C)Upr 1.28878
BB(100,2,C)Lwr 1.26902
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%K(14,7) 53.008
%D(3) 50.88
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1.2910
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Copyright © 2005 eSignal.
Stochastic(14(7),3)
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66.57
56.96
50
25
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05/30
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06/01
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So those are the 6 entry point rules of the G7 Forex trading system!

Putting it all together – full example

1. Determine direction from the weekly chart

The chart below shows the closed weekly candle for the week ending May 26 2006. As can be seen, the candle is bearish (lower high and lower low) and therefore we set the direction for the next week to be short.

2. Determine the weekly reversal level

The high for the candle is 1.8887. If we add 10 pips to that price we get 1.8897, which becomes our weekly reversal level. Any moves above here will change our bearish view and force us to stop trading in the short direction.

Now we move into the 6 entry point rules and switch to the hourly chart. The chart below shows the next week with Monday seeing a price rise up towards 1.8870:

The arrow shows where the first entry conditions were reached. The price formed several reversal candles in the vicinity of the top 100 hour Bollinger. Let's go through the 6 rules:

Rule 1. Wait for an hourly close before entering – there were several hours where we could have entered the short trade.

Rule 2. The Stochastic became overbought just about when the price touched the top Bollinger

Rule 3. Top 100 hour Bollinger was pierced, but not the 200 hour Bollinger. This is good enough.

Rule 4. The price had rallied to just above the 61.8% Fibonacci level of the move down from 1.9025 (see next chart below)

Rule 5. Several opportunities to trade occurred. The first green arrow in the next chart shows the bearish engulfing candle and the second green arrow points to a group of small spike high and tweezer candles. Entry would be on the hourly close of any one of them.

Rule 6. Stops above the high at 1.8880 (40-50 pips depending on where you entered) and target would be 80-100 pips based on the stop. The top chart shows that this was easily achieved about 20 hours later!

Depending on your goals, and your experience, some trades can be left to run for longer than 100 pips or so, and the use of a trailing stop loss can be employed to incrementally lock in profits. We suggest that only experienced traders use this system.

We hope that example gave you an idea of how simple the system is. As you practice and follow our G7 system, it will eventually become second nature.

Here are some additional hints which might be useful:

What happens if the weekly reversal level is reached before or after a trade has been stopped out?

The weekly reversal levels are there to act as a sort of medium term stop loss. If the market is bullish, for example, long trades can continue to be placed, even after being stopped out one or more times, as long as the price level does not drop below the weekly low reversal level. Once that occurs, trading in the long direction must stop for the week until more clarity is seen either during the week, if the price again trades higher, or the following week, when a new assessment should be made, starting with a completely new analysis using the system.

What about the only indicator on the weekly chart – the 10 week moving average. You have not mentioned that yet?

The 10 week moving average acts as a good medium term guide to market direction. More experienced traders can use it to assist with longer term decisions. It is not required for the G7 system, except that often weekly spike high and low reversals take place near the 10 week average.

How many currencies to enter at the same time?

It will happen that of the three currencies traded, 2 or even 3 will give a trade signal at the same time. There are several ways that this can be treated: Either the trader could enter one or 2 currencies only and hold back on the other 1-2 or he could enter every currency every time there is a trade signal. We recommend trading 1-2 currencies most of the time, and keeping another in reserve in case the initial trades are stopped out. Rather be too cautious than bullish!

What time of day should the system be traded?

The system can be traded at any time during the 24 hour Forex trading market. However, we recommend that trading and analysis is done during the European and/or NY markets only. The best 12 hour period is the time from about 6AM GMT to 6PM GMT, which covers both the European and NY market opening periods – when most of the volume and price movement occurs. The Asian market session can also be traded, but market volume tends to be thinner and price movement more random, making trading more difficult.

What about news announcements?

There is no problem trading during news announcements – which often set up the candle patterns needed to trigger trades. However, trading should not take place during the U.S Non-Farm Payrolls (NFP) announcement, which takes place at 0830 Eastern Time on the first Friday of each month. Many brokers will not guarantee stop losses during the NFP, and as price action can be extremely volatile, trading is therefore risky.

What are the weekly/monthly targets for the system?

This depends very much on your skills, your goals, how many currencies you trade and your leverage employed. We aim for 50-100 pips per week (200-400 per month) using the system and this is an achievable, yet conservative target. Drawdowns should not exceed 500 pips, but this must be allowed for.

What about the G7 Club?

Please ensure that you send us your email address and your Clickbank receipt number, and we will immediately place you on the mailing list for the Forex-Science G7 Club service.

We will send you daily reports, weekly video reviews, regular training sessions and extra help until the end of this month, including a copy of the daily charts, suggested entry levels, stop loss and profit targets, and comments on why we are suggesting the strategy. This information will be absolutely invaluable to you as you learn the system and will help you get a feel for the rhythm of the system in real market situations. It will also help you to begin to spot the setups yourself, and give you confidence in your own analysis. We should eventually be seeing the same setups as you!

After this month is completed, many traders choose to continue with the Club service. If you would like to remin a member of the G7 club after this month is completed, you can subscribe to the service for a monthly subscription fee of only $37. This small cost should be covered many times over by the profits you make as you trade the G7 system with us. More details can be found at www.forex-science.com/club.htm

We hope that you have thoroughly enjoyed studying this E-book as much as we enjoyed preparing it for you. Please continue to practice the system until you have perfected it, and watch for your G7 alerts in your email inbox.

If you have any questions at all please email us on admin@forex-science.com

Good luck and good trading!