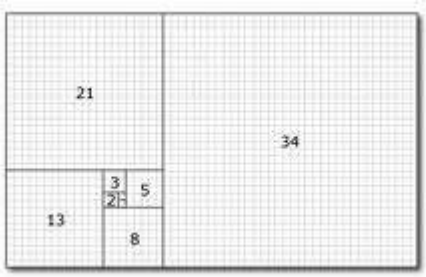
3D

Trading



A no-nonsense, all-encompassing Forex trading plan to WIN!

By

Ruben Topaz

Hello,

I would like to thank you for choosing '3D Trading'. I can assure you that the methods described in this book work.

'3D Trading' is one of a small number of trading books from which one can actually learn a complete trading method as a systematic process from beginning to end.

I tried to make it as straight forward as I can. Each short chapter is a standalone concept and I outline a specific plan of action in the chapter 'Putting it all together'.

I hope that not too many traders will use the entry system described in the last chapter on its own without much analysis. Although, that will still work rather well (as long as money management rules are enforced), the magic of really great results will materialize when all of the described concepts will be put together in a harmonic manner.

If you are a new trader or a trader that is not yet achieving consistent results, you will learn a methodical procedure that when followed in its **entirety** will yield better than average results.

Even if you are an expert trader, I still believe that reading this book will not be a waste of your time; I know that you will learn at least one thing new that you can easily incorporate into your own trading strategy and benefit.

The Forex trading system and approach taught in this book is comprehensive and entire.

I added two supplementing videos to this book. You can watch them at:
www.ecurrencytradinginfo.com/3d-webinar

Ruben Topaz,
February 2012.

Contents:

I.

Basic Strategy

Basic strategy

We search for a correction that is about to end. It makes sense because if we see a trend on a specific time frame than we are likely to be already too late to make an entry. **Our objective is to enter the market at the end of a correction.** Our prime target is the end of waves 2 or B.

We determine the most likely price zones for the end of the correction using our Square of 9, pattern, divergence & Elliott Wave analysis as well as price and time projection.

When price reaches those projected zones, we go to shorter time frames. We look to see if the pattern appears complete. We once again use the same projection techniques that we previously used. We base our analysis on all of our available tools. After we see that the pattern on the short time frame appears to be complete then we look at our oscillators for an entry.

1) We look at the W%R and establish what time frames will signal our entry. We patiently wait for both signals.

2) We enter using the two halves technique meaning that the first half will be exited when we gain as many pips as we risked (usually). At the time of our first half's exit we might move the stop loss of the second half. We will exit the second half based on the higher time frame's W%R.

II.

Elliott Wave & Pattern Analysis

Elliott Wave theory

What are the advantages of using Elliott wave analysis?

- Predict Market Direction
- Identify turning Points
- Provide Guidance for Entering and Exiting Positions
- give us a good indication of where we are wrong.

Goals:

- Recognize in an easy manner if the market is trending or correcting.
- Get a good estimation of the position that the market is at inside the trend or the correction.
- having crucial and helpful information (ahead of time) that serves us while we trade.

Correct pattern identification:

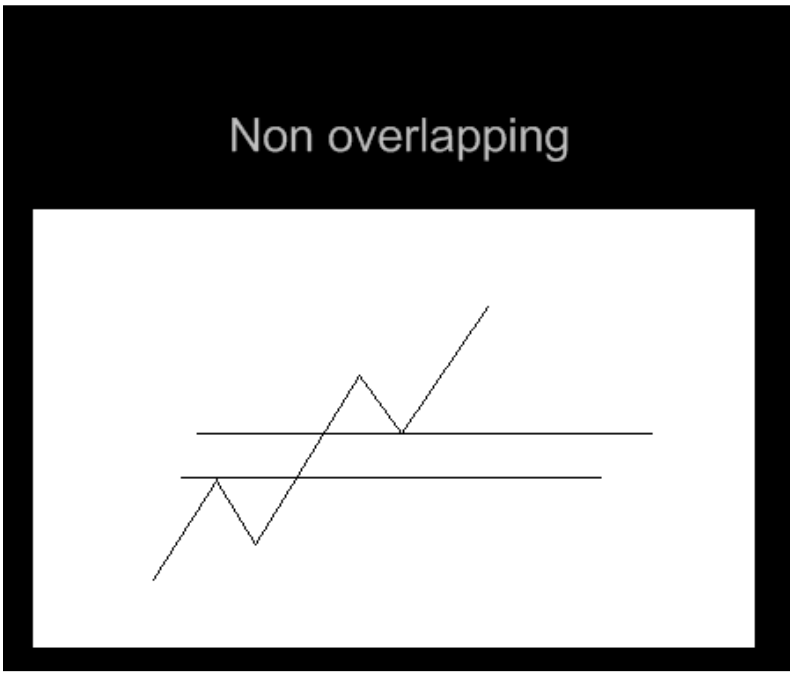
Correct pattern identification can substantially increase the likelihood of our trading success.

The most fundamental information that a trader should obtain is to recognize whether the market is trending or correcting. The reason is simple; the market does two things all of the time. It **trends** and it **corrects**, that's it, nothing else. It does that on all time frames at any given moment.

Every trend is followed by a correction and every correction is followed by a trend. If the market is in a correction than the extreme that was established before the last trend shouldn't be surpassed. After the eventual end of the correction the trend should ultimately continue in the same direction that it was going before the correction had begun; very often it would make a new extreme.

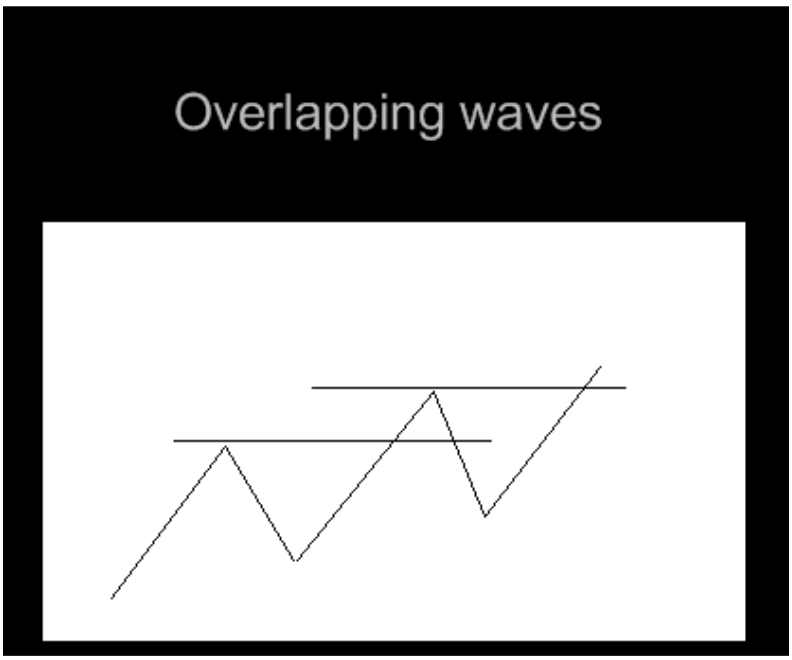
What is a trend?

- A trend usually unfolds in a 5 non-overlapping wave pattern.
- A trend usually goes in the same direction of the higher degree trend.



What is a correction?

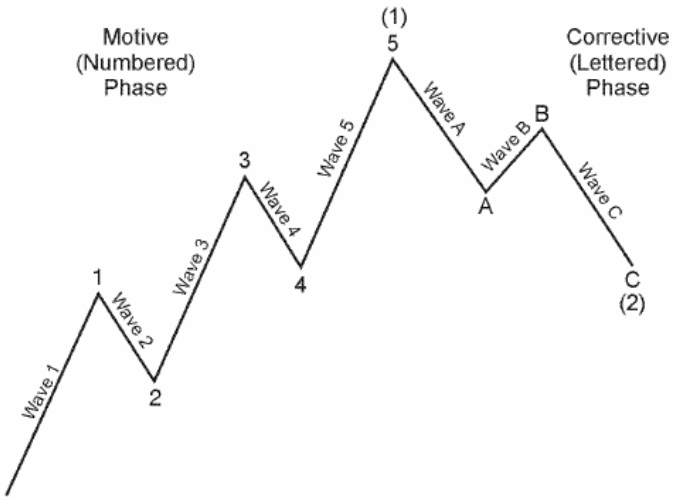
- A correction usually unfolds in an overlapping pattern and goes in the opposite direction of the higher degree trend.



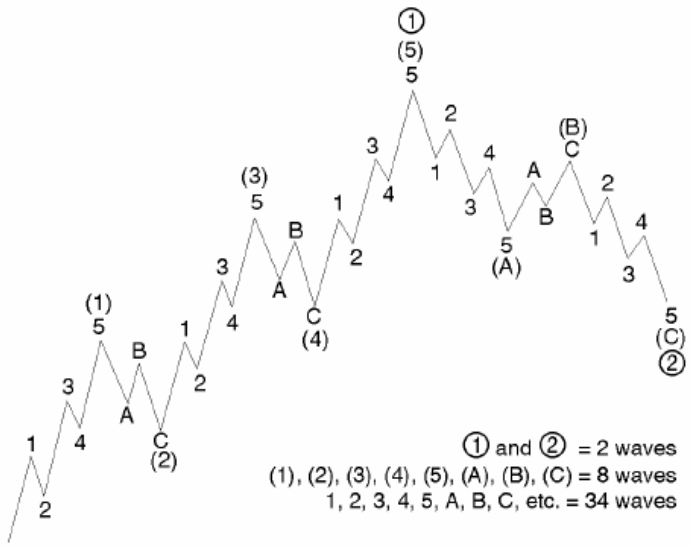
When the market overlaps it is usually a clear signal that a correction is taking place. An overlap is when price makes a low or a high, and then reverses and penetrates that price range of the last wave. When the market overlaps, more often than not it is making a correction.

Elliott Wave - the Basic Pattern

Elliott's pattern consists of "impulsive waves" and "corrective waves." An *impulsive wave* is composed of *five subwaves*. It moves in the *same* direction as the trend of the next larger size; a *corrective wave* is divided into *three subwaves*. It moves *against* the trend of the next larger size.



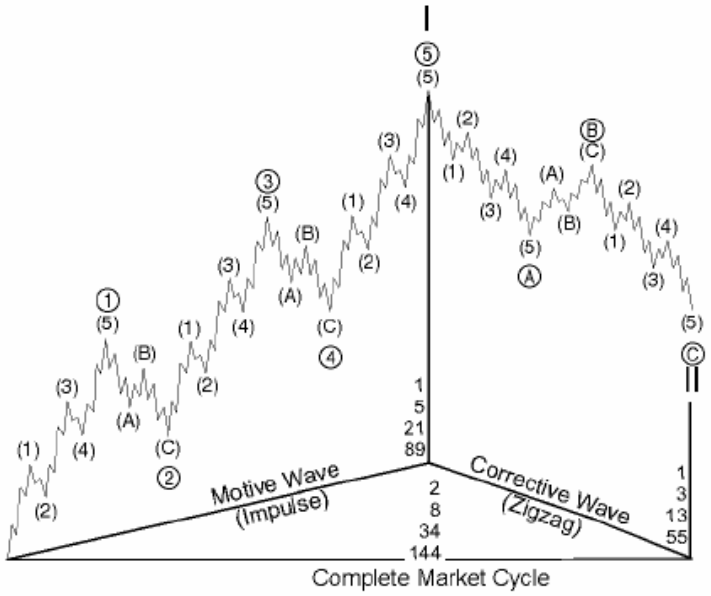
Each wave is further divided into that very same pattern, like so:



In the above illustration, waves 1, 2, 3, 4 and 5 together complete a larger impulsive sequence, labeled wave (1). The impulsive structure of wave (1) tells us that the movement at the next larger degree of trend is also upward. It also warns us to expect a three-wave correction — in this case, a downtrend.
That correction, wave (2), is followed by waves (3), (4) and (5) to complete an impulsive sequence of the next larger degree, labeled as wave 1. At that point, again, a three-wave correction of the same degree occurs, labeled as wave 2.

Note that regardless of the size of the wave, each wave one peak leads to the same result a wave two correction.

Within a corrective wave, subwaves A and C are usually *smaller-degree impulsive waves*. This means they too move in the *same* direction as the next larger trend. (In Figure 2 below, waves A and C are in the same direction as the larger wave (2).) Note that because they are impulsive, they themselves are made up of *five subwaves*. Waves labeled with a B, however, are *corrective* waves; they move in *opposition* to the trend of the next larger degree (in this case, they move *upward* against the *downtrend*). These corrective waves are themselves made up of *three* subwaves.



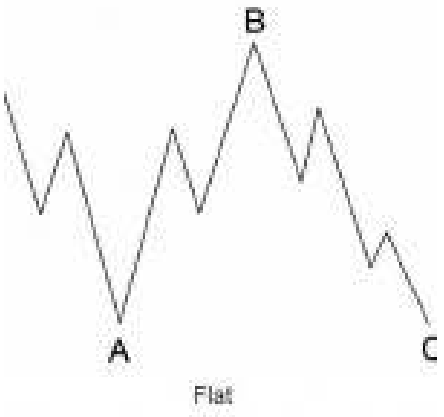
It is important to remember that Elliott Wave is not a method but more a theory and a great way to analyze the market.

- The most common type of correction is a 3 wave correction.
- According to Elliott wave theory a 3 wave correction could be either a Zig-Zag or a flat correction; for simplicity I will refer to all 3 wave correction as an A-B-C correction.
- All other types of corrections will be referred to as complex corrections.

Zig Zag - made of 3 waves; A - B - C.
Wave A divides into 5 sub waves, wave B divides into 3 sub waves and wave C divides into 5 sub waves.

- Wave B is usually 38.2% or 50% of wave A.
- Wave C is usually 100% or 161.8% of wave A.

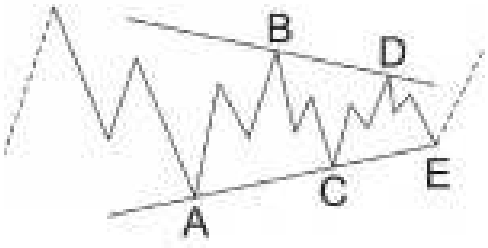
A-B-C Guidelines:
1. Wave C should go beyond the extreme of wave A.
2. We begin to assume that wave C is over, once price turns and goes back into the range of wave A; at that point the bare minimum conditions for a correction are complete.
3. Once price surpasses the extreme of wave B, we assume that the correction is over.



Flat

Flat - made of 3 waves; A - B - C.
Wave A divides into 3 sub waves, wave B divides into 3 sub waves and wave C divides into 5 sub waves.

There are 2 kinds of Flat corrections, Normal and Expanded (like in the photo) flat. In the expanded flat, wave B exceeds the beginning of wave A and wave C goes beyond the end of A. In a normal flat, wave B does not exceed the origin of wave A.

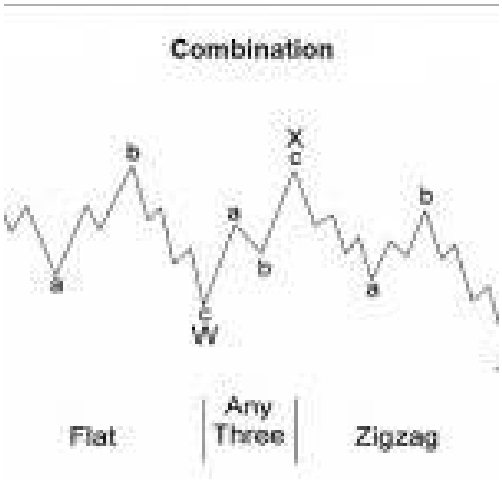


Triangle

Triangle is made of 5 waves; A-B-C-D-E.
Each wave divides into 3 sub waves.

A triangle usually occurs in wave 4.

At the end of wave E, price will shoot up (or down) in a thrust.



Combination - A combination correction is made of any two of the prior waves connected by an X wave. Rather difficult pattern to recognize in real time.

I try to avoid this pattern. It is usually quite difficult to recognize in real time.

Elliott wave theory rules:
1. Wave 2 cannot exceed the beginning of wave 1.
2. Wave 3 can never be the shortest out of waves 1, 3, and 5 and is usually the longest.
3. Wave 4 cannot overlap the range of Wave-1. Although this is an Elliott wave rule, I found several instances where wave 4 penetrates the range of wave 1 by a little bit especially in intraday charts. Use your judgment if you see a slight violation of this rule.

For our purposes, waves 5 and C are the most important waves to recognize. The reason for this is that usually these waves signal the end of the current trend. Remember that after every trend comes a correction and after every correction comes a trend. By recognizing wave 5 and wave C and by being able to project their end, the trader can successfully project high probability turns in the market.

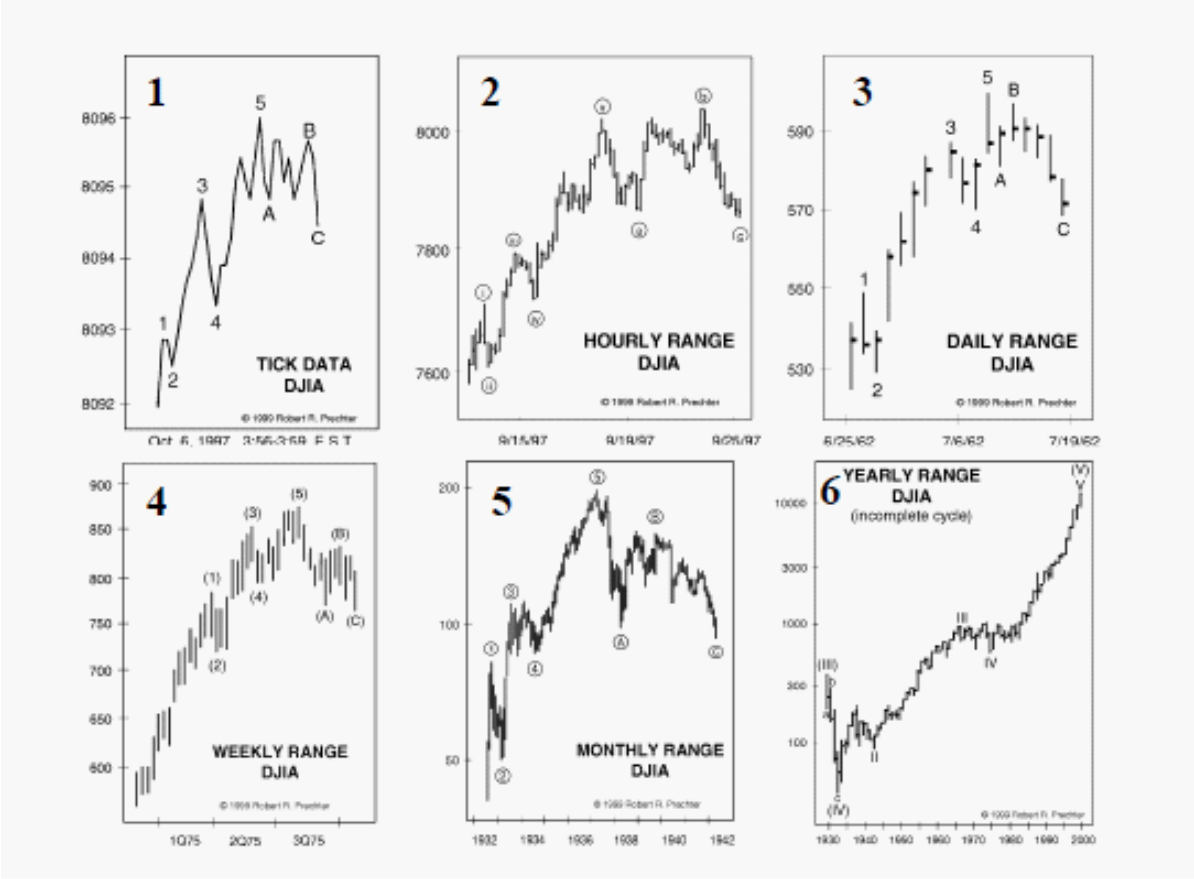
Remember - a major part of our analysis is based on Elliott Wave theory but our entry method is mechanical and objective.

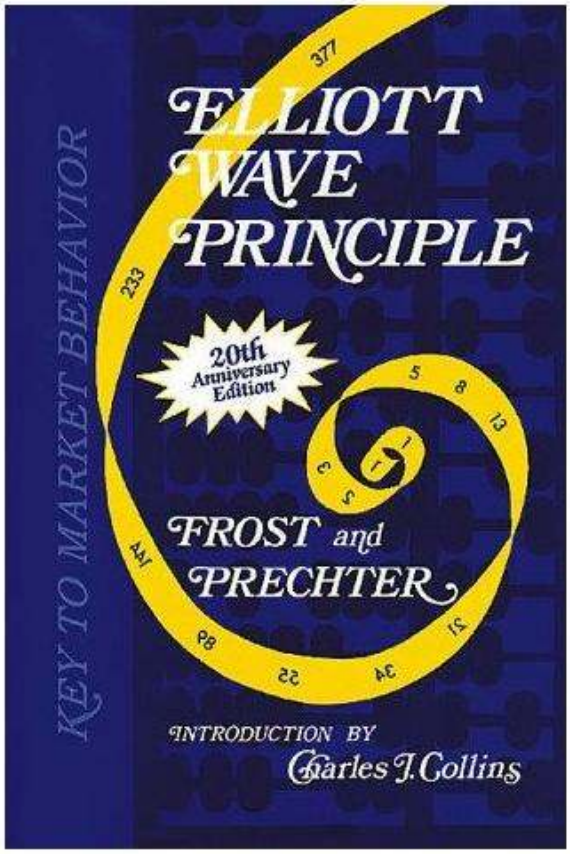
Examples of Elliott Wave pattern on different time frames:

The following charts are real charts of the Dow Jones Industrial Average. Please notice that each chart represents a different ‘time frame’, cycle.

Chart number 1 is a cycle that lasted for about 3 minutes; chart number 2 lasted for about 10 days; chart number 3 lasted for about 24 days; chart number 4 lasted for about 9 months; chart number 5 lasted for about 10 years; chart number 6 lasted for about 70 years.

Our basic pattern can be seen on all of them.





** All 8 Elliott Wave photos were taken from the book “Elliott Wave Principle” by Frost and Prechter.

This book is really the 'Authority' on the subject of Elliott wave theory. I highly recommend reading this book for a more thorough understanding of the subject. I merely scratched the surface.

Understanding Elliott Wave theory will give you a great advantage.

Elliott Wave International (owned by Bob Prechter himself) has an extremely useful Elliott Wave Tutorial for free online. You can get started at: www.ecurrencytradinginfo.com/free/elliottwave.php

It’s broken up into 10 lessons across 50 pages, so it’s easy to read and review at your leisure.

III.

Price & Time Projections

Price projections:

(based on Fibonacci ratios)

Fibonacci internal retracement:

- The ratios used for internal retracements are 38.2%, 50.0%, 61.8%, and 78.6%.
- Most common retracements end at or around the 61.8% and 78.6% retracements.
- The 38.2% retracement usually acts a temporary support or resistance instead of ending the correction.

Price stopped right at the 78.6% Fibonacci retracement. Notice the 38.2% serving as support.

Fibonacci price expansions:

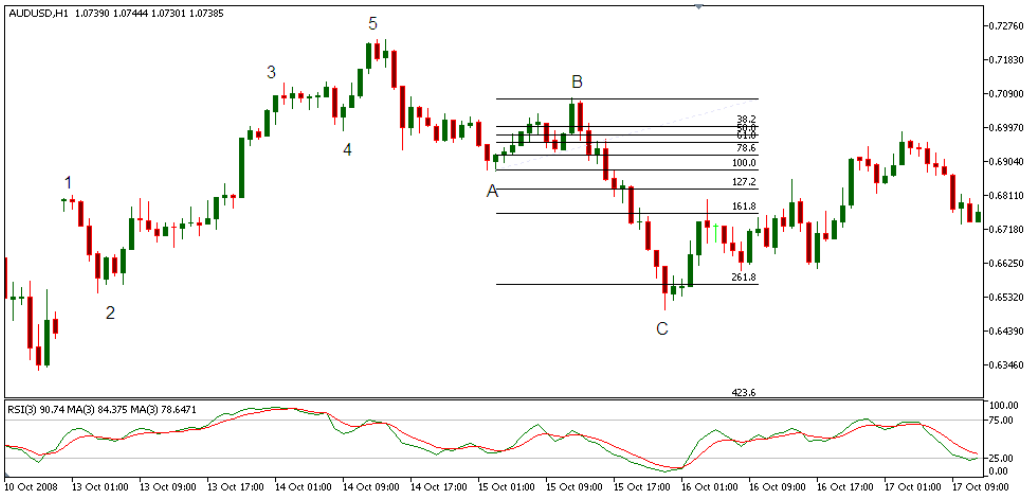
- The price expansions that are normally used for corrective sections are: 61.8%, 100%, and 161.8%.
- The price expansions that are normally used for Trend sections are: 38.2%, 61.8%, and 100%
- By far, the 100% price expansion is the most commonly found price expansion in a corrective structure. When a correction reaches a zone that includes one of the key internal retracements and the 100% price expansion pay close attention.
- Corrective sections hardly ever go beyond the 161.8% price expansion.

Wave C equals exactly 161.8% of wave A.

- In regards to a trend, the 38.2% and 61.8% price expansions are mostly used to calculate approximately the end of wave 5 based on waves 1 and 3, from the wave 4 high or low.

Fibonacci external retracements:

- The ratios that are typically used for external retracements are 127%, 162%, and 262%
- External retracements are helpful in recognizing the end section of a trend or countertrend.
- External retracements are not used on their own for price targets, but only to confirm a price expansion and/or an internal retracement.

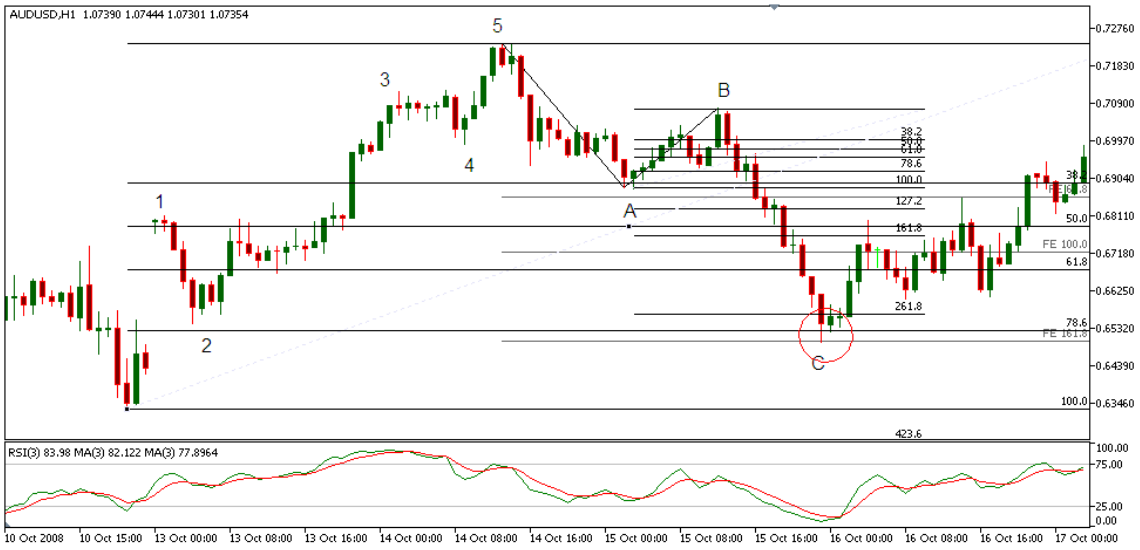


A 261.8% external retracement of wave B (just about).

End of wave C price target projections (in order of importance)**:**

- Fibonacci retracements of preceding trend: 38.2%, 50.0%, 61.8% and 78.6%; most likely zone is between 50.0% and 78.6%;
- Price expansion of Wave-A: 61.8%, 100% and 162%;
- External Retracements of wave B: 127%, 162% and 262%

** The odds of a wave C target projection increase if a cluster of projections is formed. The odds increase even further if the cluster includes one projection from each of the above sets.



End of wave 5 price target projections (in order of importance)**:**

- 38.2%, 61.8% price expansions of waves 1 to 3 from the end of Wave 4.
- 100% price expansion of wave 1 from the end of wave 4.
- 127%, 162% external retracement of wave 4.

** Naturally the odds of the projection increase if we get one projection from each of above 3 sets.

Time projections:

(Time projections work in the same way as the price projections only in price units.)

Fibonacci time retracement:

- The majority of A-B-C corrections are complete in the 61.8% to 100.0% time retracement zone.
- It is not unusual for a complex correction to reach a 161.8% time retracement.

Fibonacci time expansion:

- Works in the same way that price expansion work.
- The 61.8%, 100.0% and 161.8% ratios are used.

Fibonacci fan:

A great tool that is somewhat underused yet works really well in the Forex market is the Fibonacci fan.

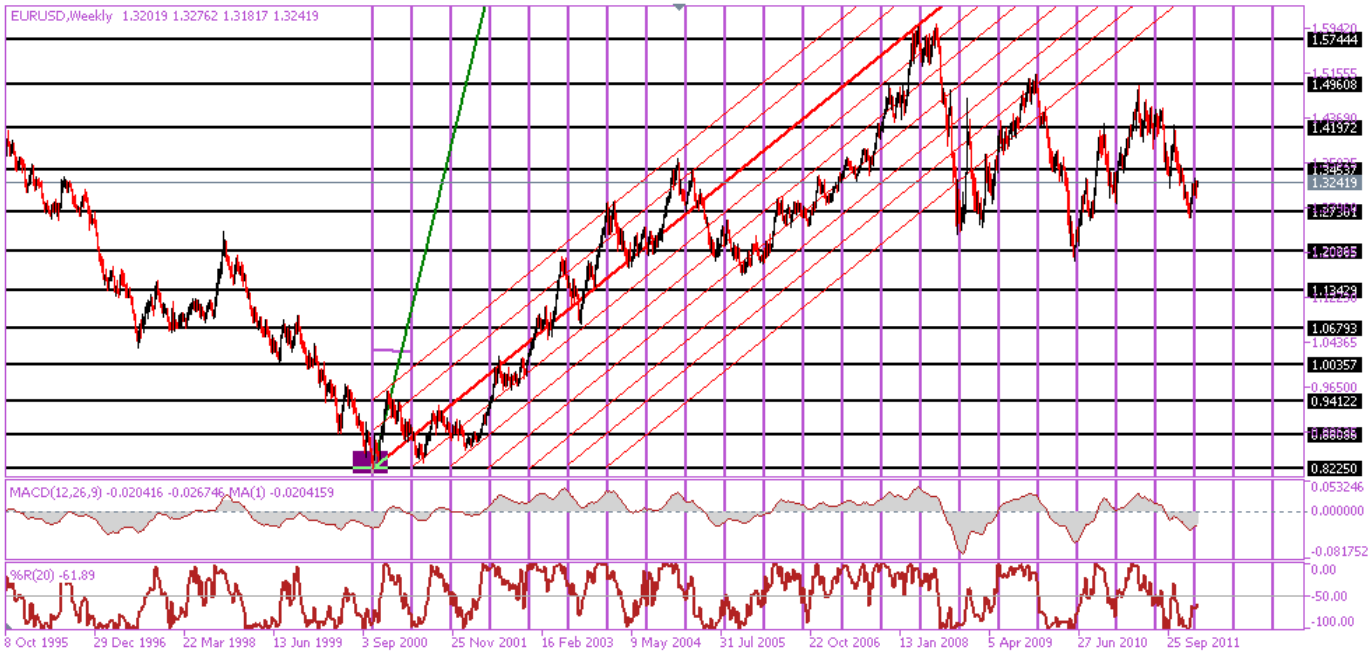
- The ratios used are the 61.8%, 78.6% and 88.5%

***Appendix 1 has all of the settings for the different Fibo tools (MT5 and MT4)*

***Please stop reading and watch the 'Price and Time projection' video at http://www.ecurrencytradinginfo.com/3d-webinar*

IV.

Square of 9 (SQ9)



The Square Root Theory

According to the theory the prices of financial instruments move over the long and short term in a square root relationship. As an example, on the October 26th, 2000 (marked by the purple square) the EUR USD reached an all time low of 0.82250.

On Jan 5th, 2001 it reached a major swing high of 0.95990. This is within a few percentage points of the square of the sum of the square root of the low price + 2.

On Dec 30th, 2004 it reached a major high of 1.36680. This is within a few percentage points of the square of the sum of the square root of the low price + 8 .

On July 13th, 2008 it reached a record high of 1.60380. This is within a few percentage points of the square of the sum of the square root of the low price + 11.

All of the horizontal lines that were drawn on the chart are different degrees of the square root of the price from Oct 26th, 2000. Look at how price respected those levels again and again.

The magic of the Square of 9 (SQ9) does not end there…

Do you see the vertical lines?

They are equally spread out 29 weeks apart (28.6792 rounded).

If you observe very closely, you will see that the major red trend line (the only one that's fat) begins at the 0.82250 price and goes through the point where it is one unit of price increase and one unit of time (29 weeks).

The rest of the red trend lines are parallels.

Isn't it amazing?

Do you see the green trend line?

It begins at the 0.82250 price and goes through the point where it is one unit of price increase and one unit of time based on 29 **days** instead of 29 **weeks**.

In the words of W.D Gann: "When price and time square change is inevitable".

Gann was a mathematician, a man of science. 'Inevitable' is a really obligating word for such a person.

V.

Williams' Percent Range

Williams % R a magical indicator

There is really nothing magical about W%R; however, used effectively it can do miracles to your trading account. The W%R is a basic indicator that compares the current price with the last X number of days and displays the current price's position in percentage, I use the 20 setting (X=20).

Objectives of using the W%R:

Effective use of W%R helps me resolve the following **most critical** issue:

Determining which time frame/s will serve me best in viewing the market most effectively. **I specifically want to know which time frame will give me a definite and dependable signal for the end of the current move** (also the beginning of the possible new trend).

The nature of the W%R

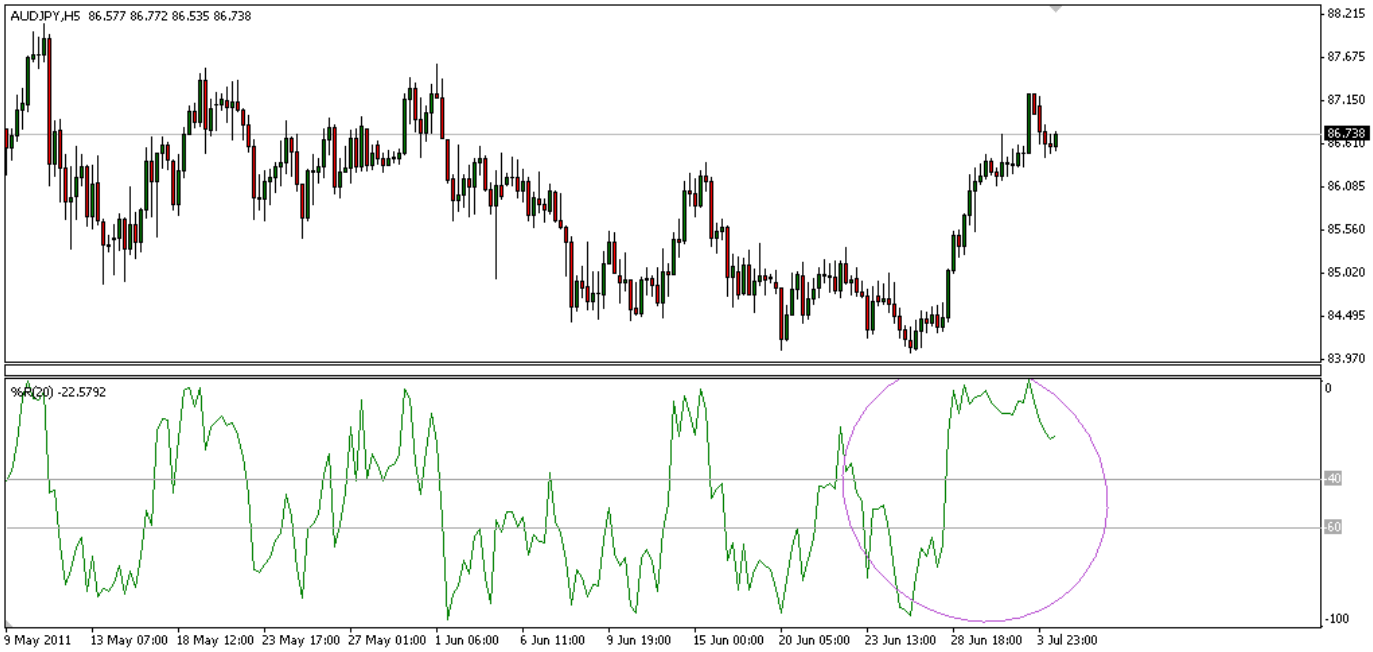
Because of its simple formula, the W%R just about always makes a very sharp move on the first wave. It is logical because a first wave is (just about always) a trend (fast price movement). Wave one (the first wave in a series of waves that make up a trend) always follows a correction (slow price movement).

As far as the W%R is sketched, the first wave usually dictates the rhythm. What I mean is that during the first wave, when price moves fast and makes new highs (or lows), the W%R reflects that.

Because the first wave comes after a correction where price had moved relatively slowly, the W%R has to move sharply from one extreme to the other; in fact it must eventually (but rather quickly) reach the new extreme. As the trend continues, the W%R usually stays around the upper extreme (above -40) during an uptrend and around the lower extreme (below -60) during a downtrend. Price remains in that zone until the trend is over; then it will once again move swiftly in the opposite direction, to the opposite extreme.

In simple words, the W%R creates a unique pattern (when observed on the 'correct' time frame) for as long as the trend is in motion.

Here is an example of the current AUD JPY trend (July 4th, 2011). This is the H5 time frame which I selected as the 'correct' higher time frame. (When I will get a signal from the W%R on this time frame, I will get out of my open long trades):



The real value of this approach is that I get to know well in advance which time frame will be of value to my trading efforts. At the moment, I know for a fact that either the H5 or H6 will show me the end of the current wave/trend. A mere correction is not likely to get the W%R under the -60.

Here is an example of a very recent finished trend on the 'correct' time frame, the AUD USD on the H8. We clearly see that we would of known way in advance that this time frame is almost certain to give us the signal that this trend is over. In fact we can see that each vertical line is a signal/confirmation that the last trend is over.

So, this specific use of the W%R takes care of the major dilemma of selecting the most effective time frame to observe. Did you know that speculate means observe in Latin?

<u>So, once again, how do we do it?</u>

We focus on the first wave of the trend as it is reflected on the W%R. We want to see the first wave as a swift move from one extreme to the other (just like it is on the above screenshot). When we locate the time frame that displays that (in real time), than we can confidently assume that this time frame is likely to show us the end of the current move. As time progresses and as more information becomes available to us, we might change our choice of the 'correct' time frame.

***Please stop reading and watch the 'William's Percent Range' video at www.ecurrencytradinginfo.com/3d-webinar*

VI.

MACD

MACD

The MACD is an oscillator. Many people use it for a variety of tasks. I used it to show me divergence, nothing else.

What is divergence?

A divergence occurs when the MACD indicates a move in one direction while price is moving in the other; when price for example makes higher highs yet the oscillator makes lower lows.

Let me give you a real life example of what divergence is. Let's take for an example the real estate market. Let's suppose that prices have been dropping for about 2 years. At some point prices will still go down yet the number of potential buyers will begin to rise.

This is a divergence; prices go down in the first place because of lack of buyers. If you see that at some point there are more interested buyers in the market than this might serve you as an early warning of a change of trend.

Obviously there are many more factors to the above example, but I just wanted you to get the point.

Back to MACD. I found this indicator to give excellent divergence signals. In fact, I believe that a divergence has to happen when looked at on the 'correct' time frame.

I will not go into how exactly the MACD works; briefly, it plots the difference the between two different Exponential Moving Averages.

Here is an example of a divergence:

As you can see, while on the price chart the A high is lower than the C high, on the MACD the C point is lower than the A point.

Here is the weekly time frame with another divergence. In fact, there are at least 3, can you spot them?

VII.

Money Management

Money management, capital preservation or position sizing:

From a practical point of view, this all means the same.

Protecting your trading account is **absolutely essential** for long term Forex trading success; a trader simply cannot succeed without being aware of vital money management concepts.

Consider the following truth:

If a trader sustains a 25% loss to his account's equity, he will need to make a 33% gain in order to break even, a 50% loss will require a 100% gain in order to break even and lastly, a 75% loss calls for an incredible 400% increase simply to break even!

It takes so much to balance out a major loss. The logical thing to say is: "so don't do it", wouldn't you agree?

Here is how, simply use the following common sense rules and prosper:

- Risk 1% to 3% of you account's equity per trade;
- Risk no more than 6% of your account's equity at any given moment on any combination of open trades;
- If you lose 10% for any given 30 days, take a break and reflect.

There is no need to complicate things with endless rules. Follow these 3 simple rules and you will never be in harm's way.

We have the risk calculator which we use right on the MT4 charting software. This makes our lives extremely easy. The calculator does everything for us. Since different pairs have different pip value, sometimes it gets a bit annoying; with the calculator all we have to do is move the horizontal line that represents the stop loss and we're done.

VIII.

Two Halves Strategy

The two halves buying strategy:

This strategy is not anything new; many traders use it all of the time.

This is how the strategy goes. When you make an entry, instead of opening 1 lot, for example, open two 0.5 lots totaling 1 lot.

As an example, let's suppose that you trade the EUR /USD and you place your initial stop loss 100 pips away from your entry. Furthermore, your account's equity is $10,000.

If you choose to risk 2% on this particular trade (between 1% and 3% on any single trade) than your total position will be 0.2 standard lots.

According to the two halves buying strategy you will open 2 positions each one for 0.1 standard lot totaling 0.2 lots.

The logic behind this strategy is that each half a position will have a different profit target and will be treated differently.

The first 0.1 lot will be our quick profit trade and the second 0.1 lot will be our longer term trade aimed at capturing a bigger profit.

By employing this simple strategic move we secure profits from the majority of the trades that we enter and get ourselves into risk free trades for the second half of the position very early on. After closing the first half of the position, even if the trade does not go as expected, we are already in profit and cannot lose on the second half which is in reality the reason for executing the trade in the first place.

The second half of the trade is intended to capture real and significant profits while the first half is intended to catch more secure yet smaller profits.

IX.

Putting It All 2gether

In order to consistently recognize and maximize high probability setups, a trader must fully **understand** the Forex terrain and the relationship of price and time as it is seen on the different time frames (cycles).

Before you consider a trade, conduct pattern, divergence & Elliott Wave analysis as well as price and time projections. Afterwards, please answer the following questions. Doing so, will guarantee that you have a good idea of where you are as well as what possibilities you might expect.

- What is the market environment: corrective or impulsive?

- Can you identify whether the next move is likely to be a continuation or a reversal?

- What is the expected direction and magnitude of the next move?

- Can a pattern be recognized?

- If we are in a correction (optimal), is it likely to end soon?

- Are we in wave C?

- Is it likely to end soon?

**Naturally, theses questions should be asked and answered for at least two key time frames.

We ask ourselves, what is the most likely time frame to show us the end of the current wave using W%R. we pay special attention to this time frame and wait patiently for the signal.

When the signal happens we determine which shorter time frame will best show us the individual waves within the next trend. This is our trigger time frame.

**although we start out with one 'correct' time frame, as time progresses, we might choose to change to a different time frame.

Rules and conditions for pulling the trigger:

Conditions:

1. We must have confirmation from the higher time frame.
2. We always trade in the direction of the higher time frame.
3. In order to open a new position, we must either not have any position open with this pair, or, if we do have one or several open positions with this pair than our last entry must be profitable.

Entry: As long as all three conditions are met, we pull the trigger every time the shorter time frame's W%R makes a 'swift' move from one extreme to the other in the direction dictated by the higher time frame.

Exception: it is enough for the W%R to only crosses the -50 if we are dealing with a correction that had retraced more than 61.8% (just like in the coming example).

Trade management and exit: Trade management includes taking profit as well as moving stop loss in order to protect profits.

I exit the first half of the position after price reaches 100% of the number of pips risked. This gives me a 1:1 risk / reward ratio on that half of the position.

Exception: Sometimes I get out of the first half of the position even if it did not gain the number of pips risked if I see that price has reached difficulties at a certain important support/resistance level (based on SQ9 grid).

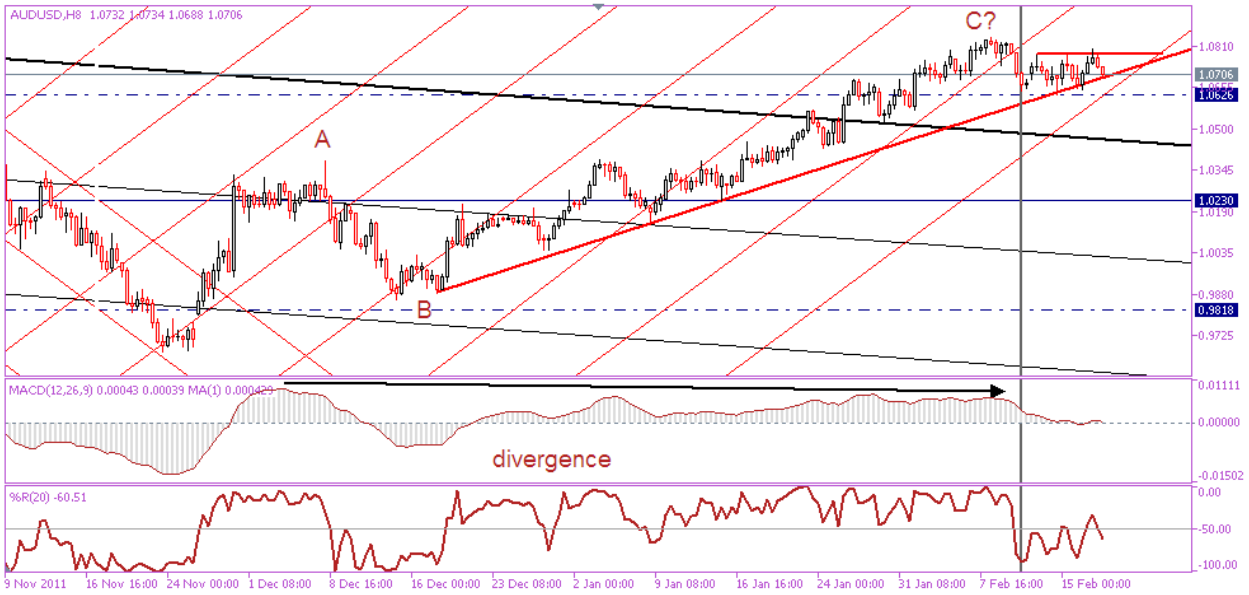
I might also move my stop-loss for the second half of the position closer to the break even level. I will exit my position (both halves) if the W%R changes direction on the higher time frame upon a closed candle.

What about the second half of the position?

I close all of my open positions when the higher time frame's W%R changes direction.

Real-time Example:

As a result of our analysis we concluded that it is highly likely that the current uptrend is part of a bullish ABC correction that will soon come to an end. We concluded that the time frame that will best signal the end of the current uptrend and the beginning of the new downtrend is the H8 time frame.



We also determined that the wave down (that caused the W%R to drop) is best seen on the H1 time frame:

This is not the only possible count; another possibility is that this is a triangle (A,B,C,D,E), where the current 4 is A, 5 is B, etc. either way it is only a different description of wave II. Either way, same outcome.

The gray vertical line on the H1 chart is the same gray vertical line as the one on the H8 chart. It is where we got the W%R's confirmation on the H8 time frame to start finding short entries on the H1 time frame. As long as the W%R on the H8 remains bearish we will look for short entries only, on the H1 time frame.

Once everything appears like a high probability setup, we wait for the W%R (on the H8 time frame), to show us that the supposed wave C is over and a new downtrend hopefully begins.

Remember that what we are really interested in taking is short positions. The reason always remained the same - the H8 time frame; the H1 is only the trigger.

As you can see, I placed a short trade at 1.0735 it is marked by the green horizontal line. The candle of entry is marked by the green vertical line.

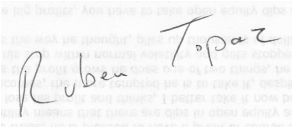
I placed the trade because all 3 conditions were met and I pulled the trigger after the W%R crossed the -50 on its way down. I did not wait for the W%R to reach the extreme, because this pattern appeared like a correction that retraced almost 78.6%.

My objective as a trader is the following:

I realize that I will not win every trade that I participate in. I am not extremely interested in entering all the way at the bottom (for a long) and exiting all the way at the top. Although it would be nice, it is extremely difficult to consistently achieve.

What I really try to consistently accomplish is merely identify a systematic procedure that will improve my odds. In other words give me a healthy 'edge' and make my gains bigger than my losses as well as reduce the number of losses that happen.

Ruben Topaz,



Appendix

Appendix 1

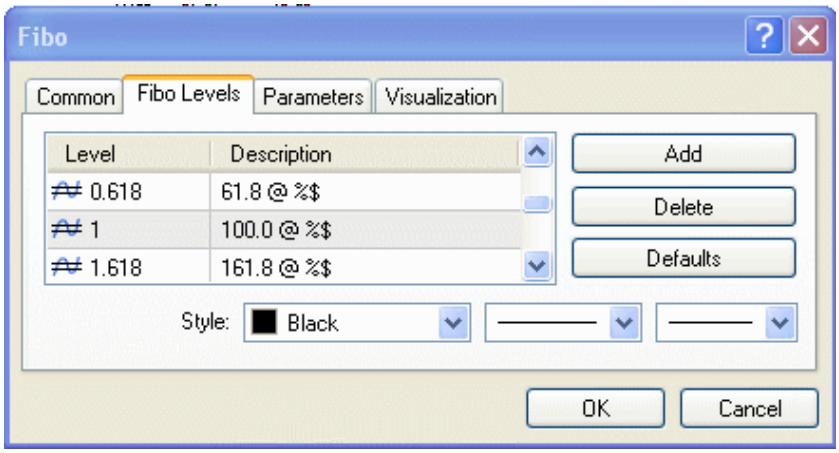
Settings for Meta Trader's Fibo tools.

Fibonacci retracement tool

Levels:

0, 38.2, 50.0, 61.8, 78.6, 100.0, 127.2, 161.8, 261.8

This is what it looks like on the window:

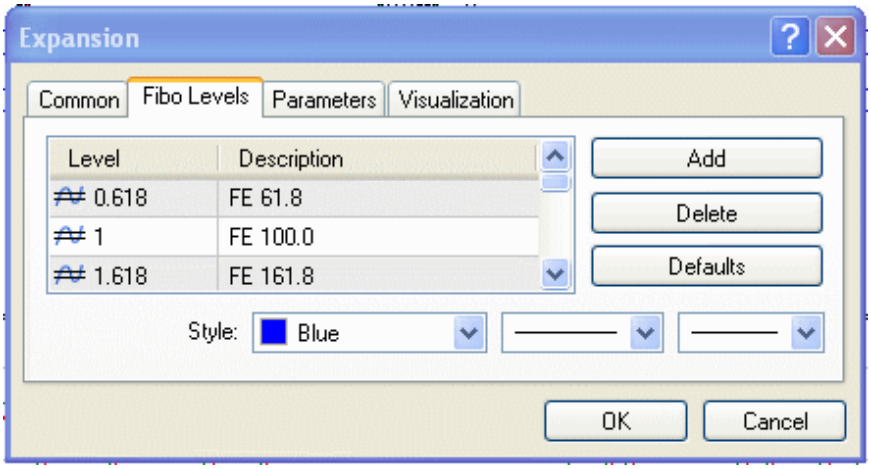


Fibonacci expansion tool

Levels:

38.2, 61.8, 100.0, 127.2, 161.8, 261.8

This is what it looks like on the window:

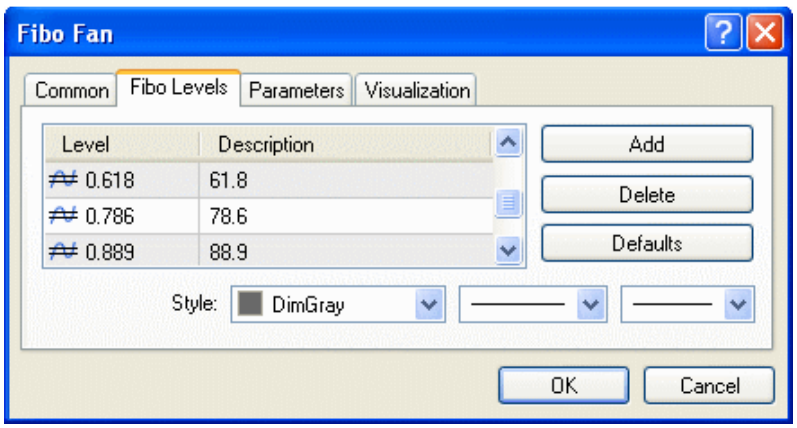


Fibonacci fan tool

Levels:

38.2, 50.0, 61.8, 78.6, 88.9

This is what it looks like on the window:



Fibonacci time zone tool

Levels: 0, 1, 61.8, 100.0, 161.8, 261.8

Notice (as you will see on the photo below) that 61.8 is really 161.8, 100.0 is really 2, 161.8 is really 2.618 and 261.8 is really 3.618

This is what it looks like on the window: