

*THE*  
*FOREX*  
*EARTHQUAKE*  
*TRADING METHOD*

By Raoul Wayne

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The following book is provided for in entertainment purposes only.

## **The Forex Earthquake Trading Method**

If you are looking for a trading “system” or method that consistently wins (in the neighborhood of 80% of the time) while at the same time allows you to limit your loss exposure on the few losing trades to a negligible few pips, then you’ve found exactly what you are looking for in the Forex Earthquake method.

A word of caution, though. This is not a trading method you can automate using trading software. It requires you to use a little independent thought and logic. But believe me, it’s not complicated in the least, and once you’ve spent just a few minutes studying the charts I’ve included, you’ll be as much of an expert in using this system as anyone else on the planet.

In the past few months, I have jettisoned all my other trading systems in favor of using his one method exclusively. Aside from the amazing consistency it provides, it also involves a particular “chart setup” that occurs as often as 2-3 times per day on virtually every single trading pair.

So if I’m looking to make a lot of trades in a day, this method provides that opportunity. If I’m only looking to make 1-2 trades a day, I can focus on a single pair and wait for the setup to develop, or trade a couple of pairs at one time, bank my profit, and call it a day.

And the best part of using this method is that it works no matter what the market conditions might be: volatile or ranging. The only difference in the two is that volatile times usually allow you to make more pips on a trade, while ranging markets are a bit stingier in giving up pips.

So let’s get into the meat of the matter. Here’s how you are going to become the most successful and profitable Forex trader you know.

To start, open your trading platform and open a 30 minute chart, using a pair of your choice. This system will work well on 1 hour and 4 hour charts as well, but I’ve found the 30 minute charts give me more trading opportunities while at the same time providing me with about 8 winning trades for every 10 I enter.

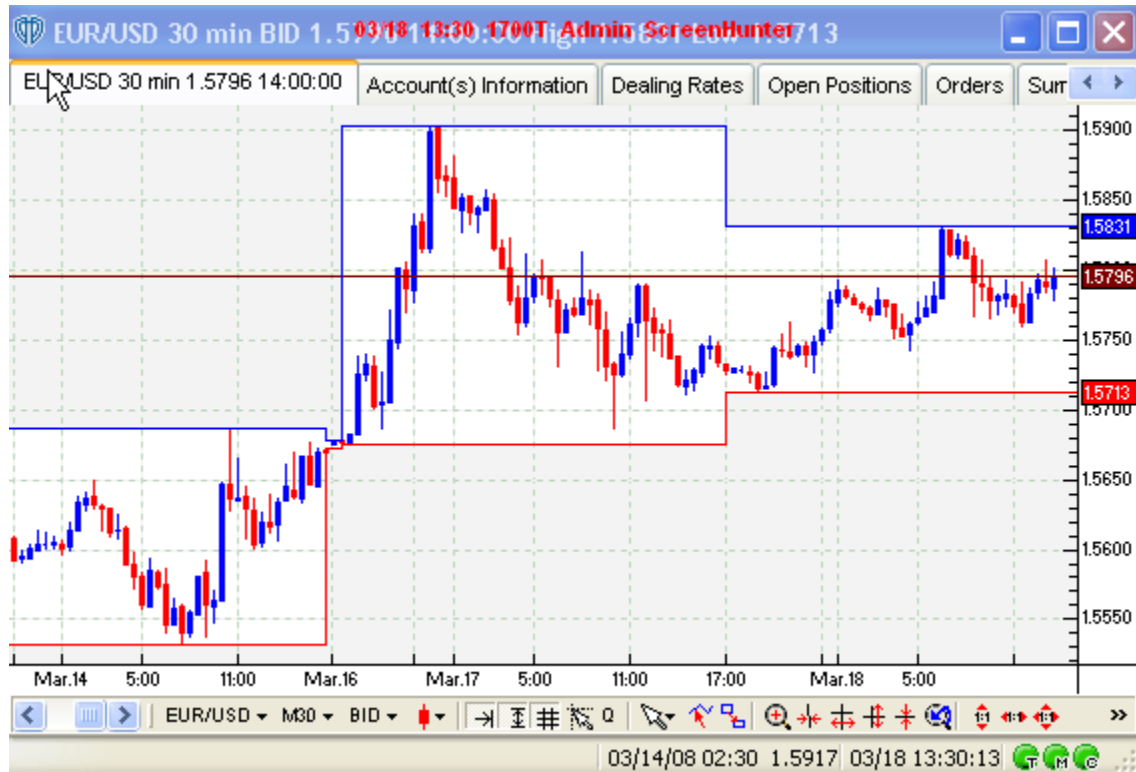
### **STEP ONE—SUPPORT AND RESISTANCE**

It’s not really a big secret that every successful trader incorporates the ideas of Support and Resistance (S & R) into their trading. But so many people new to trading think S & R is some mystical incantation that we mere mortals will never be able to grasp.

Not true. In fact, S & R is one of the easiest concepts to understand, and also one of the easiest “indicators” to spot on a set of charts.

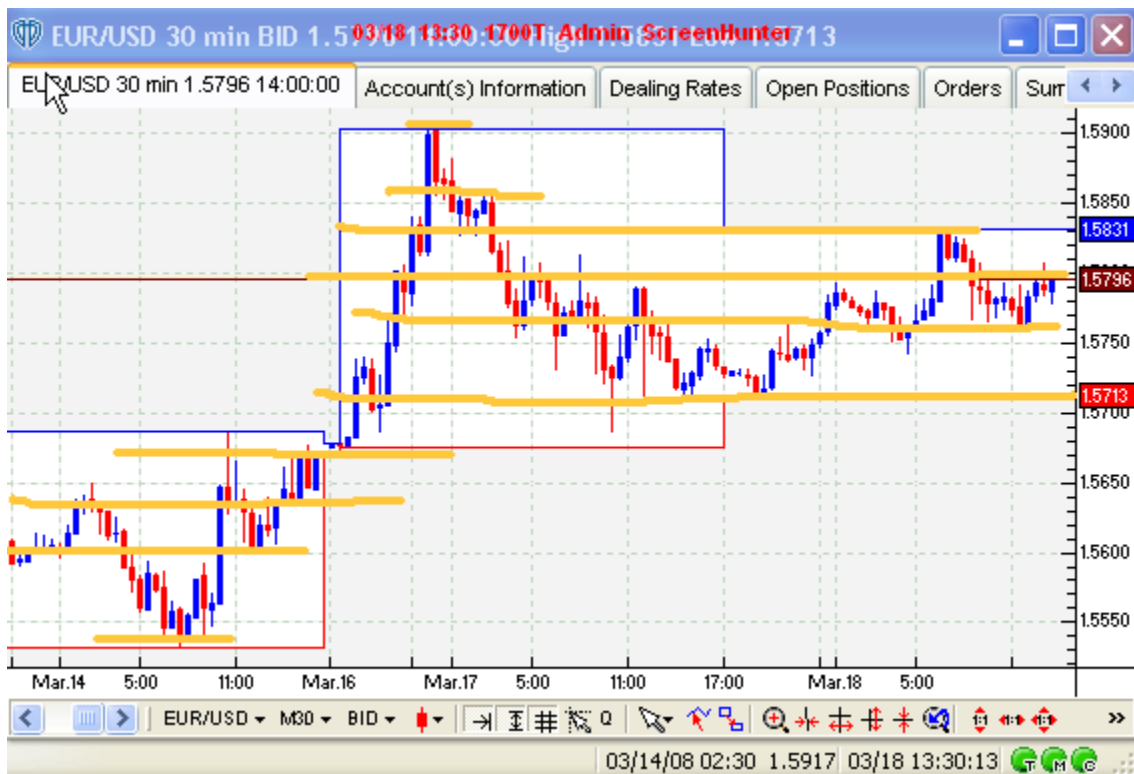
Now let me prove that last statement to you.

Look at the chart below. See if you can locate the areas where the price of the currency ran into some difficulty in moving up (or down).



How many places on the chart did you find?

I found 10. I've marked them in the next chart.



What you've just done is received your Master's Degree in Support and Resistance. If you can locate price levels on a chart where the item's price is having some difficulty moving up or down, you've located the price points where the market is demonstrating Support and/or Resistance.

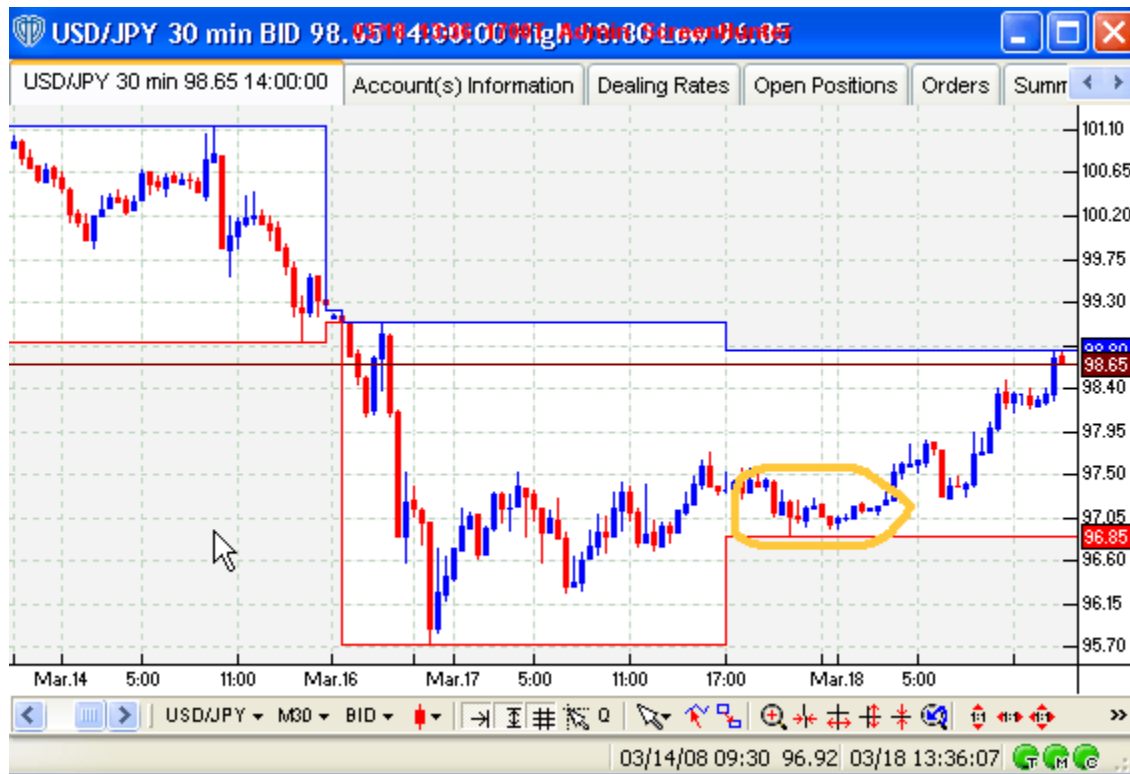
And to clear up any confusion you might have over which is which, Support is the price level that provides a "floor" for the market price, supporting the price much like a floor supports your weight and keeps you from falling into the basement. So if a price is moving downward and hits a price level where the downward movement stalls out, it has reached a Level of Support.

The opposite of Support is Resistance, and Resistance works under the identical theory, but for prices moving in the opposite direction. If the price of an item is moving upwards, but reaches a price level where that upward movement stalls out, it has reached a point of Resistance.

There are two more things you need to understand about S & R, and once you have these concepts mastered, you are ready to move on.

First, once a level of Support or Resistance is reached by the market, one of two things will happen. Either the price will break through that barrier and continue moving in that same direction or the price will reverse and begin moving in the opposite direction. This might occur within a few seconds (or minutes), or it might take several hours to happen.

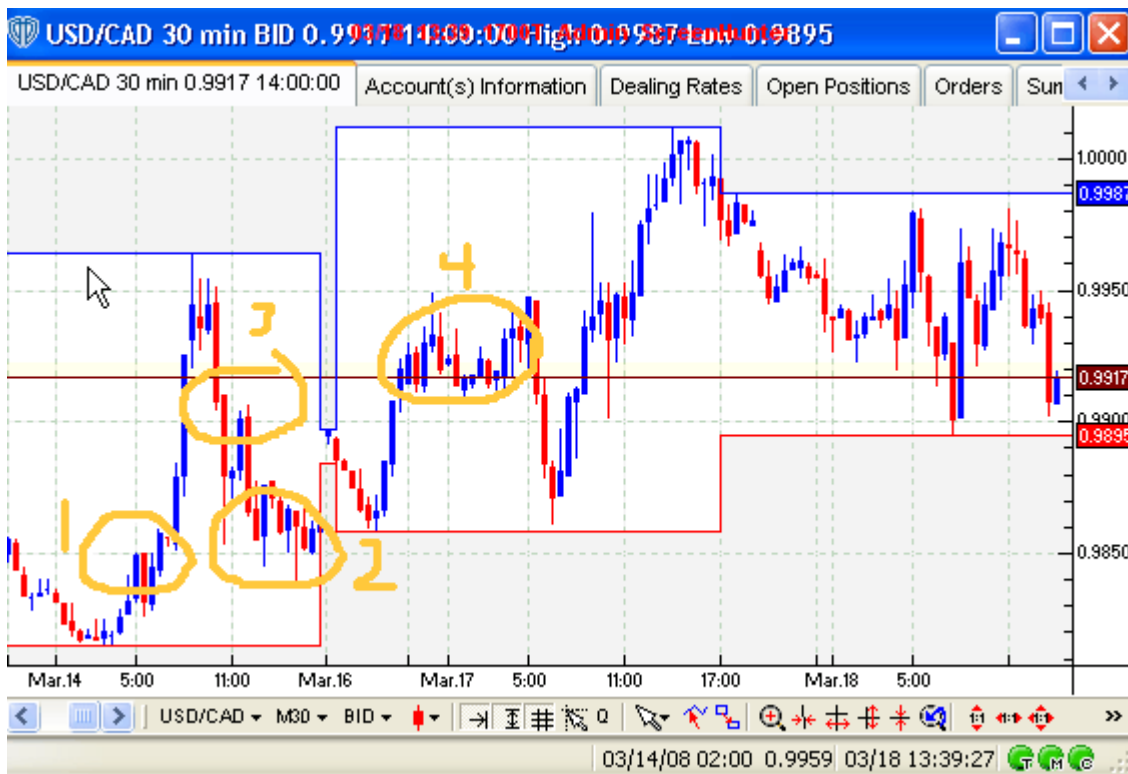
But the price will not remain butted up against the S or R line forever. Eventually it will begin to move again.



*After 24 hours in which the USD/JPY ranged over 400 pips, things settled down a bit and the pair ranged within a 45 pip channel for about 12 hours before breaking out.*

Secondly, a line you have identified as Support (meaning the downward movement of market price stalled at this price level) can change into a level of Resistance once the line of Support is broken and the price continues moving downward. The same is true of Resistance lines which are breached by market price. They then become lines of price Support.

So if your price breaks through a level of Support at noon and continues moving downwards for a while, when the price direction reverses at 3 p.m. and moves back up, it will normally find some difficulty in breaking past that old level of Support and moving up any further. In other words, that old level of Support is now a new level of Resistance.



*At 5 a.m. on March 15, the USD/CAD found resistance at around .9850 (1). After breaking through that resistance, the pair retraced and found Support at .9850 (2). Around .9900, the pair found a bit of resistance (3) which later turned into support (4).*

So far in my trading experience, I haven't found a 100% foolproof way of figuring out in advance if the market is going to break through an S or R line or reverse course. You just have to watch your charts and react according to what the market does. But don't worry about that right now. For now, all you need to do is open your charts to your favorite pair and see how many levels of S & R you can spot. The more you practice, the better you will get at locating these levels.

## STEP TWO—ADD S & R LINES TO YOUR CHARTS

Now that you know everything there is to know about S & R, use your chart tools to add lines on your chart to identify levels of S & R. I've done this on one of my charts to give you an example to work with.



*Arguably, there are a few other levels of S&R to be found on this chart, but I chose to only highlight those which were both obvious and which demonstrated numerous attempts by the pair to break through.*

You'll notice I've made my S & R lines rather thick, and they are Yellow. This helps them stand out on the chart to my failing eyesight. You can make your lines any color or thickness you desire, as long as you can differentiate between normal graph lines on your chart and your S & R lines. So don't make them thin and black.

As time goes by and you become more comfortable with S & R, you'll probably find that you no longer plot these lines on your chart, as you can just glance at a chart and instantly plot the S & R lines in your mind.

### STEP THREE—LOCATE AND PLOT POTENTIAL BREAKOUTS

"Breakouts?" you're probably thinking. "How am I supposed to even KNOW what a breakout is, much less locate one?"

Relax. It's so simple, even a cavem...(remainder deleted for copyright violation avoidance purposes).

Remember a short while ago when I told you that once a price reaches a level of support or resistance, it will eventually either break through the Resistance and keep moving up, or break through the Support and keep moving down?



This is what we're looking for. Areas on the chart where the price of the pair has consolidated into a very tight range and is trading right on a line of Support or Resistance. And while consolidating, the recent highs of the pair have dropped closer to the level of Support, and the recent lows of the pair have risen closer to the level of Resistance. Here's a picture of what we're looking for:



Notice how the price movement has created a sort of Pennant design on the charts?



*This is a classic Pennant formation. You could also use the candles at 5 a.m. to form your 1<sup>st</sup> Pennant instead, and had a nice 50+ pip upwards breakout, then used the candles between 10 am and 4 p.m. to form a second pennant that would have captured the downward breakout that took place around 5 p.m. This is why I say there are several trading opportunities per pair each day.*

We're looking for these Pennant setups to find our trades. I'll give you all the step-by-step details in a minute. First, I want you to understand why this particular chart formation is so powerful and why it results in us winning the vast majority of our trades.

Charts are nothing more than a visual representation of the activities of buyers and sellers in a particular market. When there are more buyers for a pair than there are sellers, the sellers have the advantage and can charge more for their product (currency) as the demand is greater than the supply. When there are more sellers than there are buyers, then the supply of the product (currency) is greater than the demand, and sellers are forced to reduce their price in order to entice buyers to buy.

What we are looking for are those times where over the course of several hours, the buyers and the sellers have forced the market into a position where the difference

between what the sellers are willing to sell for and what the buyers are willing to pay is negligible, such as shown below.



*Between 11 a.m. and 4 p.m. the price of the EUR/CHF ranged between 1.5550 and 1.5525, a 25 pip spread that followed 24 hours of trading with a 250 pip spread. That is an enormous compression which is going to build up pressure to break out of that tight channel in one direction or the other.*

We're looking for these spots because they represent a sort of financial Earthquake Fault (and now the name of this book doesn't seem *quite* as lame as before, does it!). Sellers are pressing the price up and buyers are forcing the price back down, building up pressure similar to that which occurs underground when tectonic plates are trying to move against each other.

And what happens when the pressure created by these opposite forces is finally released?

You get significant movement. In the case of an earthquake, you might get a 3.0 shaker that rattles the dishes in your cabinet, or you might get an 8.0 devastator that levels tall buildings and creates tsunamis that kill thousands of people.

In the case of the Forex markets, you get a sudden and significant change in price. Sometimes it's only a few pips, and other times it can create a movement that lasts for hundreds of pips.

So that's what we're looking for: Those times when the buyers and sellers have given us all the ingredients necessary for one of these Financial Earthquakes to occur. All we

need to do is watch for the first sign of a breakout to occur, then we ride her as far as she'll take us, banking pips the entire way.

So specifically, what you want to see is price movement where there are lower highs and higher lows being charted over the course of several hours. We are looking for three “lower highs” and three “higher lows” so that when we draw Pennant lines on our charts, we can more or less see a classic Pennant formation on our charts.



Using chart tools, draw two lines on your chart using at least three high points and three low points as guides. Your chart should look something like this:



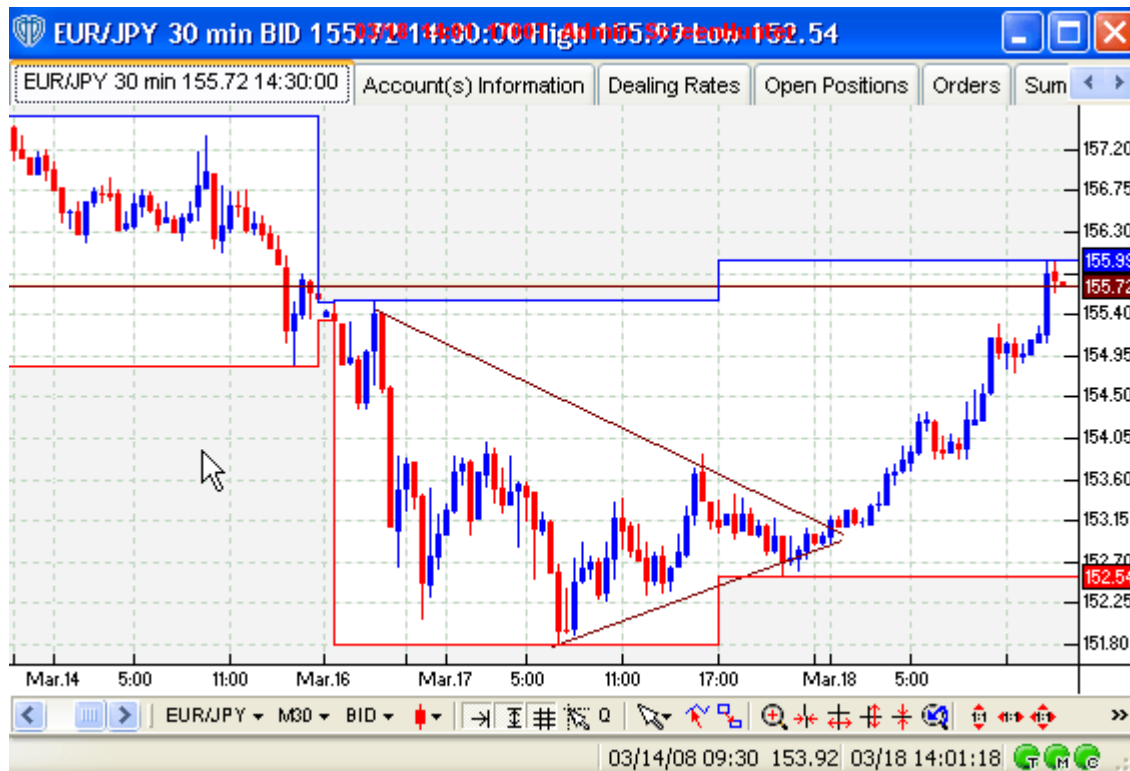
*My line drawing isn't 100% accurate (and probably never will be) but since we are just trying to find spots in the market where pressure is building between buyers and sellers, 100% micro-accuracy isn't vital to your success. Just getting it close is almost always good enough.*

Once you have your lines in place, it's now a waiting game. What you're waiting for, exactly, is for your price to break through one of the two Pennant lines you've drawn on your charts. The rule of thumb I use is to wait for the candle to consistently maintain a 5-10 pip breakout before I place my trade. And the closer we get to the end of the 30 minute period (and the start of a new candle) the better.

If you are ultra conservative, you can wait until the first breakout candle closes and the next candle opens before placing your trade. You'll lose a few pips by waiting, but you'll also limit your loss potential even further.

Once price "breaks through" your Pennant, there is about an 80% chance it is going to keep moving in that direction. So if the price is moving up through your Pennant, then you would want to Buy that pair and follow along with the current trend. If the price breaks through the lower Pennant line, then there is about an 80% chance the price will continue in that direction and you would want to Sell and follow the downward trend.

Here are a few examples:





## STEP FOUR—SET STOPS AND LIMITS

Once you're in a trade, the number one worry you have is "When do I get out, preferably with a profit?"

Remember those S & R lines I had you chart a little while ago?

That is your basic answer.

Assuming this is one of the 80% trades moving in your direction, you just wait for the price to reach the first point of support or resistance on your charts. You can pre-set a Limit Order with your broker so that when the price approaches that S or R level, an order closing out your trade is automatically executed and your profit is moved into your account.

Or, you can just watch your charts. If Support or Resistance holds and the price begins to reverse, you can manually submit an order closing out your trade and banking your profit. But if Support or Resistance crumbles and your price continues to move in the same direction, you can just wait until price reaches the next level of S or R before you decide to stay in or get out of your trade.

But let's assume this is one of those trades that give you a head fake, starting out in one direction just long enough to get you into a trade, then reversing course. When do you decide enough is enough and close the loser out?

There are various ways you can set a stop-loss, and each has their pros and cons.

My personal favorite (if you can even use the word "favorite" when talking about tools to use in losing trades) is to plot a line where the candlestick closest to the tip of the pennant last touched one of my pennant lines. This is actually a point of support or resistance, as it helps form the Pennant line.

So if price breaks out one side of the Pennant and then reverses course after I'm in a trade, I'll get out if it breaks the other side of the pennant and past the level of the 3<sup>rd</sup> (or closest) candlestick that makes up the pennant line. In normal circumstances, we're usually talking about a swing of 20-30 pips tops. So the overall risk of loss is more than reasonable when we're looking at a trade where 80% of the time we're going to make 40 or more pips.





## STEP FIVE—ADD A FILTER

This is actually an optional step, but it's one that helps me decide whether to set fixed Limit and Stop-Loss orders and walk away, or sit and watch for a while. I add a 200 Simple Moving Average to my charts to give me a longer term view of overall market direction. Most charts only display 50-60 candles at a time and trying to determine overall market direction is sometimes difficult. A 200 SMA removes that difficulty and gives me a visual idea of where the market is generally trending.

This is important, because if a Pennant breakout occurs in the direction that is **OPPOSITE** of the overall trend, more often than not, it is going to be a short breakout, and may not even reach the first level of support or resistance before reversing and rejoining the trend.

In fact, if the breakout occurs opposite the overall trend, and the first level of support or resistance is less than 20 pips away, I'll pass on the trade simply because there is a greater degree of risk of loss, and not enough of a reward to make that risk reasonable.

On the other hand, if the Pennant breakout occurs in the same direction as the overall trend, I have a fairly high degree of certainty that the trade is going to be a profitable one, and I will stick around and watch as the current price approaches the first level of S or R. These are the trades where 100, 200, even 300 or more pips can sometimes be up for grabs.

You don't have to add a 200 SMA to your charts to effectively use the Forex Earthquake method, but it will ultimately enhance your trading if you decide to add it to your charts.



Here, we see that the breakout was indeed in the direction of the 200 SMA, and was worth about 100 pips before reversing course and moving against the overall trend (a 300 pip move, I must admit. We couldn't forecast that one, but there are plenty of others that we will. Be happy with making 100 pips in about 8 hours and move on).



Here, the breakout occurred against the overall trend, and eventually would hit our stop loss. But the trade setup was a classic Pennant, with Lower Highs and Higher Lows, which normally leads to a solid breakout in one direction or another. But like I said before, we're going to lose an occasional trade. The secret is to bail out when our stop-loss is hit and not dwell on the loss. Another winner is lurking somewhere on your charts. Go find it and make some real money.

### Summary

1. Open a 30 minute chart.
2. Plot Support and Resistance lines.
3. Find a Pennant formation in the chart with at least 3 points of contact on your trendlines.
4. Enter a trade when the current candle breaks through the Pennant trendline.
5. Set your stops where the nearest candle on the opposite side of the breakout touches the opposite side trendline; set your Limit (profit) order at the next line of Support or Resistance. Or simply watch the trade develop and set a moving stop-loss to lock in part of your profits once the trade starts developing.
6. (Optional) Add a 200 Simple Moving Average line to your chart to give you a visual reminder of the overall market trend.

## FINAL THOUGHTS

Utmost Precision and timing are required in occupations such as brain surgeon and bomb dismantler.

In Forex trading, not so much.

If you have a classic Pennant pattern developing, but find one of your points of contact is 3 or 4 pips away from making actual contact with your trendline, you can still use that as one of your 3 points of contact. All you are really looking for are spots on your charts where Lower Highs and Higher Lows are forcing the current price into a very tight range from which it will ultimately break out.

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I've given you the steps for finding the classic Pennant pattern. There is a slight variation on that pattern that works just as well, and you should look for this one while looking for Pennants.

This variation occurs when you make a series of Lower Highs, but your Lows remain more or less constant, or vice versa (Higher Lows but the Highs stay within a range of just a few pips). Chart #1 (EUR/GBP) on Page 14 above perfectly illustrates this point.

This chart formation can be even more powerful than the classic Pennant, simply because the "flat" side of this formation represents a very powerful level of Support or Resistance. Future prices can still go either way with this formation, so don't assume that the current strong level of S or R will hold once a breakout occurs.

But don't dismiss a potential trade simply because one side of your Pennant is flat, rather than angled.

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In deciding to invest in this trading method, you probably read a statement I made along the lines that this system can give you upwards of 10 or more trading opportunities in a single day. Maybe you believed me on this point, and maybe you chose to ignore it or write the entire statement off as sales puffery.

When I finished writing this e-book, I turned on one of my trading platforms to search my charts for examples I could use to illustrate the various points made throughout. By design, I tried to avoid using the same chart for each illustration, choosing to use charts from as many pairs as I could to show the universal applicability of the Pennant trade.

I ended up using charts for 9 different pairs.

Look at the very bottom right corner of each chart, next to the three green balls. Those are the date and times each chart picture was captured.

Do you see where I am going with this?

Without having to go back any further in time than what was portrayed on my current charts, I found 9 trade setups (and frankly, on those charts, there are plenty of smaller Pennants which could have been marked and traded as well. I just plotted the large ones to make it easier for you to visualize what to look for.

Just ball-parking the figures, 8 of the trades were winners. Had you not set fixed stop loss and limit orders, but rather let the trades run their course, you could have banked around 1,200 pips in winning trades, and lost around 40 pips on the one trade (EUR/CAD) which didn't work out as planned.

All in about 36 hours, more or less.

This is not some pie in the sky, bass-ackwards analysis. This is applying a little economic common sense about supply and demand to a situation where the rules of supply and demand control every minute of every trading day.

And while every day won't bring 1200 pips in profit, 3-400 pip days are so common they become ordinary. And with those kinds of pips available for the taking, simply using conservative money management rules you can soon find yourself making more money from a day's trading than the majority of people on earth earn in an entire year.

And that's the whole point, isn't it?

So don't waste another day dreaming about the kind of lifestyle you could be enjoying as a professional Forex trader. Take some action. Open a real money account and start putting some of your new found knowledge to use. If you'll just follow the simple steps outlined in this book, you cannot help but make money, serious money, as a Forex Trader.