5/13/62

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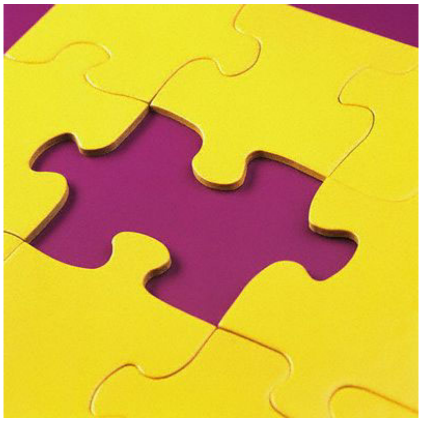

The Problem

Since the dawn of time man has sought ways to more easily provide for himself and his family. And women too, of course! Evolution has always been an equal-opportunity extinction machine.

Somewhere along the way, humankind overcomplicated the struggle for survival. We invented jobs, and bosses, and weekly paychecks. Worse yet, we invented meetings, annual reviews, copy machines, bookkeeping, cubicles, and voice mail.

Then we invented Prosac and Lipitor and Viagra because, somewhere along the way, our bodies decided that if we didn't give them a rest they would start shutting down essential functions.

This ebook is my attempt to teach you that you don't have to take a pill in order to be a great trader. You just need to focus on some simple tools.

But first we need to talk about something totally separate from trading.

Her name was Carrie.

She was the first girl I thought I liked, or loved, or whatever. She sat next to me in a 7th grade class. I don't remember much about the class, mostly because I was spending so much time concentrating on Carrie. Most of the time, she was my friend. Except when we were outside of class.

Outside of class, she paid no attention to me. She ignored me. If she ever talked to me, she made fun of me, refused to spend time with me (or even admit I existed). Of course this only made matters worse. All of this only made me want her more. Carrie moved away after the 7th grade.

5 years later I found myself standing behind her at the market. Every feeling I'd ever had for her returned instantly.

I was so entranced that I watched her as she left the drugstore, got into her car, and pulled out of the parking lot. Just when I thought that she neither remembered me, or even noticed me, she turned around, rolled down her window, and blew me a kiss. My heart jumped into my throat and I felt weak.

I never saw Carrie again.

This is a pip:

You know what a pip is already. For purposes of this booklet, we're drawing it as a yellow cube. Do you know that most forex traders spend their careers chasing after pips in the same way I chased after Carrie's attention? She never gave it to me, unless (at the end) it was to blow me a teasing goodbye kiss. She had received all the benefit from my attention and never gave anything back except a blow to my self-esteem. Gosh, that sounds a lot like when I first traded currency – and the pips teased me until they simply moved away in the end, with a good-bye kiss.

Have you ever watched the market and wondered why the harder you tried, the more quickly the pips distanced themselves from you? I remember when I first started trading that the market would move away from me and I would begin to think: it's moving. Why is it moving away from me? Couldn't it just as easily move in my direction?

For a while, I made money on gut decisions. I'd make some progress, a few pips or more a day, but never really understand the signals. For instance, I'd make a profit just barely, and watch in horror / relief as the market swung the opposite way right after I exited the trade. Or I'd enter a trade, lose a bunch of pips, and then exit the position at a loss – only to watch the market swing back in my favor. Only, of course, the position was closed and all I could do was sit there and watch, just like I had stood in the parking lot of the drugstore, watching Carrie blow that goodbye kiss.

What I learned

Until you're no longer impressed with pips – no longer frightened by them, nor infatuated by them, not in love with them, no longer simply hating them – they won't give you the time of day. The acquisition of pips is your only goal in the currency market. But pips are fickle and if you pursue them full of emotion, you're going to get burned.

I learned in the drugstore that day 20 years ago that Carrie would have paid attention to me if I had simply ignored her every once in a while. If I had been able to get my feelings under control. If I'd been able to act cool instead of like a freak. If I'd been able to calmly make a plan, stick to it. But I could do none of those things. My emotions took hold of me and turned me into an idiot.

It's the same for pips. We all want them. We all want as many of them as we can get. But some of us are willing to risk everything for just a few of them. We'll chase after them like a 12-year old boy. And you know what? They don't give a damn about you and me.

This ebook will present a plan for learning about pips, where they're going, what they're about to do, and then arm you with a strategy that once implemented, can take a lot of the emotion out of trading. Your goal will be to:

1. Enter positions as soon as a particular signal is given.
2. Exit the position as soon as a particular signal is given.

The payoff will be:

1. The emotion should be gone from the trading. You will enter and exit trades with discipline and focus.

2. You'll get about 20 pips on the good trades. There will be many more good trades than bad ones.

Attitude is 99% of Trading

Developing the right attitude about your trading is most of the work. Once you get your attitude (your discipline) under control, you're going to have more pips than you know what to do with. So much has been written about this that you'd think that you've already heard enough about it. I've written about it elsewhere, too[1], but I've got to stress that no technique or strategy is worth more than the discipline you have to implement it.

The 5/13/62 strategy requires discipline. This is the most powerful personal characteristic you can acquire. Period. It will earn you more money and success than any other attitude or personality trait. If you're low on discipline, please take the time to consider what I'm saying:

In trading, discipline simply means two things:

1. **Enter a position as soon as a particular signal is given.**
2. **Exit the position as soon as a particular signal is given.**

If you do not acquire discipline, this system will not work for you. No trading system will work for you. But this isn't a book about discipline. In fact, this book assumes that you have discipline, or you're willing to acquire in order to implement a profitable trading system.

So, for the purpose of this discussion, and for the testing of this strategy, please be disciplined – even as you practice.

[1] I write about discipline in The Miracle of Discipline. I believe that self-discipline is the great separator; it is the secret ingredient in successful lives, and it is the missing ingredient in failures. You can get The Miracle of Discipline free by sending an email to me at: discipline@robbooker.com.

EMAs are the core of the 5/13/62 Strategy

Exponential Moving Averages (described in more detail below) are at the core of tis strategy. From the beginning you should understand that I didn't invent the 5/13/62 strategy. At least I don't think I did. There are some extras that I add in, but essentially, all of this information is available elsewhere. That said, I believe that most of the people that write about forex have a way of putting you and I to sleep. So maybe this is the first time you've heard about it, but in any event, I'll try to keep it interesting.

Here's where we start. With a chart:

If the chart above doesn't make any sense to you, even with the legend, then here's a brief explanation:

1. The candles are easy to read. Green ones are ones that closed lower. White ones closed higher.
2. The EMA lines are crossing at the left. The 5 (red) crosses below the 13 (the yellow) and both the 5 and 13 are crossing the 62 (the blue one).
3. You can see that in this chart, the British Pound fell about 110 pips in less than a day.

That's the chart. What can we learn immediately?

1. When the 5 crosses below the 13, and both of them cross below the 62, it's possibly a good sell signal.
2. Inversely, we can assume that the opposite is true: when the 5 crosses above the 13, and both cross above the 62, it's a buy signal.

What is the EMA?

Moving averages are the average value of the price of a currency pair, over a certain period of time. A 5-day moving average for the EUR/USD would be the average price of the EUR/USD over a 5 day period. You can base the average on the closing, opening, or other price. Each time the MA is calculated, the earliest period is dropped and the latest period is added. In this way, the average price fluctuates according to the fixed time period.

The exponential moving average (EMA) puts the emphasis on the most recent prices, and less emphasis on the older prices. Sometimes you won't see much difference between the EMA and the Simple Moving Average, which does not weigh any price more than another.

Is that it? Do I just look for the crosses?

I have backtested (and so have many, many others) simply buying when the signals cross above and selling when the signals cross below. There are even companies that build trading robots that will automatically buy and sell when these signals are given. But, as much as I'd like to say differently, it's not that easy.

There are all types of false signals (crosses that happen but that don't turn profitable).

Here are some other principles of this strategy, divided in three sections: entering the trade, staying in the trade, exiting the trade. The principles of each section will help you maximize your gains and minimize your losses.

But first, a quick look at the tools you'll need.

Charting software

You can use the free charting software that comes with your account – but I've not been impressed with anyone's offerings. Some dealers don't allow you to show more than 2 EMAs on a single screen. Some do, but the process of charting them is difficult or unreliable.

I suggest that you invest some money into a charting package. Early on in my career, I chose the cheapest data provider and charting package I could find, out of necessity. I still use them. Here are some providers:

xtick: charting software, data feed. http://www.xtick.com
eSignal: charting software, data feed. http://www.esignal.com
Tradestation: charting software, data feed. http://www.tradestation.com.
DailyFX: data feed (also a dealer). http://www.dailyfx.com
Oanda: Free charts, trading, data: http://www.oanda.com

There are many more data providers and charting programs. That's just a start.

The 30 minute chart

I have used the 15 minute, 30 minute, 1hr, 4hr, daily … even the weekly chart. You can really use anything longer than 15 minutes. I recommend starting with the 15 minute or the 30 minute, so you will see more opportunities in a shorter period of time.

The 5 and the 13 alone

Chart the 5, the 13, and the 62 period Exponential Moving Averages.

Part I: Making the Trade

Below you'll find the principles behind making good trades. And avoiding the bad ones. These are guidelines. Good trades based on these guidelines are the result of applying them enough times that you begin to get a feel for the market.

I want to emphasize that you can change these rules. You can manipulate them. You will be most successful when you make this "your own," by adjusting so that you feel most comfortable.

Holidays and other bad days

Try not to trade on holidays, especially U.S. holidays. It's best to stay out of the market on those days and catch up on time with your family, see a movie, adjust the metal rod that was placed in your back, insert a metal rod in your back, or fire up the barbie-q and roast some weenies. Or you can back test your strategies. It's also best to never, ever, ever, enter a trade past 14:00 GMT on a Friday.

On holidays and late on Fridays, the market is unpredictable and might not move enough to give you any profit. Or it might move 50 points in one direction just for the heck of it, and then move back. Of course it might move a zillion pips, but that's the exception rather than the rule. Then you're stuck in what might become a losing position, but meanwhile, you're losing money to premiums/interest paid to your broker. This is a good time to shove a metal rod into your spine.

Please take my advice and just stay out of the market, with this system, at these times. You may lose some opportunities, but you will lose (also) the chance of getting trapped in a motionless or unpredictable market.

Other systems, long term systems in particular, can work okay late on Fridays and on holidays. But that is the subject of another ebook. One, incidentally, that I have not written yet.

Trading on the 5 and the 13

You should be prepared to buy anytime the 5 crosses above the 13. You should also be prepared to sell anytime the 5 crosses below the 13. You should be prepared to do this **even if they do not simultaneously cross the 62.**

This does not mean that you take the trade immediately. It means that you are aware that a trade might be coming.

Is the currency pair in a DNA Spiral?

Often, a currency pair will find itself in the middle of what I call a DNA Spiral. It's when the pair doesn't know what to do – it just sits in a very, very tight range, like this:

As you can see, the red (5) is crossing above and below the 13 (yellow), but the signal is false – you wouldn't make any money on these trades because, as soon as the cross occurs, it corrects itself in the opposite direction. It's obviously best to stay out of the market on these occasions. So, if you walk up to your PC and see these DNA Spirals, make trades cautiously. If you enter the trade, then stay close to the computer and prepare to get out if the market really swings the other way.

Is the 13 crossing the 62?

The next part of the system is to watch for the 13 to cross the 62. Whether above or below (long or short positions), you're in good territory. At these times, it might be a very, very good opportunity.

An example of what the chart looks like when this happens is pictured on the next page.

As you can see in the pink box in the chart below, the 5 (red) is crossing below the 13 (yellow) at the same time the 13 is crossing below the 62 (blue). This can be very powerful.

I want you to also focus on the fact that the pair, after this crossover occurs at the pink circle, return to hit the 62 EMA again – and this is an excellent time to sell the pair all over again. This means that if you miss the original trade, it's totally acceptable to enter the trade when the pair rises up and hits the 62.

You can see an example of this in the blue box on the chart below.

This works for long and short trades – the 62 EMA will act as a dynamic level of support and resistance.

Stops and limits

Last of all, do the following:

1. **Set a stop-loss at 20 pips beyond the 62 EMA.**

2. **Trail the trade by 20 pips (using a trailing stop loss), or:**

3. **Set a profit target at a recent high or low (something that creates a double top or double bottom).**

Part II: During the Trade

Lots can happen during the trade. Here are some things to consider and remember during the trade.

Set it and forget it?

believe that anyone that tells you to "Set it and forget it" is appealing to your desire for quick, easy profits without any work.

Right now, I would like to appeal to your desire for quick and easy profits without any work. I will do this by telling you that if you choose a recent high/low as your profit target, or a trailing stop, then you can walk away.

Walking away gives you time to spend with your family, work on your computer, take out the trash, wash the dog, or start a rock band named "The PipMeisters," with me playing the drums and this guy with really long hair at lead vocals, who smokes so his voice can be really raspy, but has family problems and sometimes has to spend the night in jail, which eventually breaks up the band and leaves us 10 years later looking a photos and saying, "Those were the days when we could rock soooo hard."

If this disappoints you, or if you don't know if a rock band is right for you, then feel free to watch the trade while it's open. That's ok too. Although many traders have experienced problems with peeing in their pants while trades are open.

Of course that's not a problem for you. Or me. Definitely not me.

Initial volatility

At the beginning of the trade, you might see some initial volatility. This means that after the candle closes, you might see the next candle go opposite from where you want it to be. Don't get overly concerned about this. You need at least 20 pips of free room to let the trade gather momentum.

And remember what I said (not about the rock band): the pair might rise up or fall down and hit the 62 EMA. This is just another opportunity to get in the trade if you did not already (or add to your position).

Part III: Exiting the Trade

We already covered this, because you set the limit at a recent high or low, or you set a 20 pip trailing stop.

Let the system exit the trade for you, based on your stops and limits. Most forex dealers will guarantee stops and limits, so you've got little to worry about.

That's it!

Conclusion

You can learn to trade currency. Profitably.

As a day trader, you can be paid more handsomely than doctors, lawyers, and just about everyone else. This will not make you look better, but it will make you feel better. If you want to be a member of the elite class of highly successful forex traders, then you have to put the time in. You can't expect profits to come easily.

The 5/13/62 strategy isn't designed to drop money into your wallet without requiring a great deal of practice, patience, and discipline.

But you can do it. Please write me at rob@robboker.com and let me know how you're doing. I always answer every email I receive. It may take me a few days, but I will respond.

Rob Boker