

VEGAS WEALTH BUILDER

PART II

BY

VEGAS

INTRODUCTION

‘For whom the trading gods choose to destroy, first they blind with greed.’

A Vegas truism.

I am assuming that you have read ‘Vegas Wealth Builder’ [VWB] and have a basic understanding of that file. If not, please e-mail me at trafficap@hotmail.com and I will send it to you with its’ two plug-ins. It’s also important that you have MetaTrader 4 up and running as well [hey, it’s free]. If you do not have the S&P 500 Index [spot] on your MetaTrader 4 demo, then you probably downloaded the demo from the MetaTrader 4 website. You need to uninstall this and go to <http://www.strategybuilderfx.com> and download the MetaTrader 4 demo from the “Downloads” page. This demo will never expire and has the end-of-day feeds for a) the S&P 500 Index, b) the Dow Jones 30 Industrials, c) the NASDAQ 100 Index, d) gold, and e) a few popular stocks [IBM, Microsoft, etc.].

Quite a bit of this file was edited out of the original ‘Vegas Wealth Builder’. I ultimately decided that there was just too much material for one file. When you get too much information at one time, there is a strong tendency to lose your focus on important principles. Now that you have had some time to assimilate my ideas, it’s time to move on to executing them properly.

The “marble game” is a hypothetical construct I invented to illustrate what your trades should look like inside your trading method. In the final analysis, it is all you can ever ask from trading. It doesn’t matter how smart you are, how much experience you have, how big your account is, or how hard you study the market. It simply will never get any better than this. In essence, if you trade properly, your trades will simulate the marble game.

I have in my hand four (4) red marbles and one (1) white marble, which are then placed in a small leather bag. The bag is tossed around to assure the marbles are arranged at random. The rules are as follows: you are to pick one (1) marble out of the bag, and if you choose a red marble I will give you \$200, and if you choose a white marble you will pay me \$100. The marble is put back in the bag and we will play as often as you wish because once we start only you can stop the game.

The fact is that you would crawl naked, through 100 miles of desert, to get to Las Vegas and play this game with me. Why? The math says you can't lose. With a big enough bank-roll and a little discipline, the positive mathematical expectation will make you a big winner. When you finally get here, will you impose certain conditions on me in order to play? For example, will you tell me on arrival that you can only play between 3:00 p.m. and 7:00 p.m.? Or, how about we have to stop if two (2) white marbles are picked consecutively? I can think of many others but I'm assuming you get the point. With a positive mathematical expectation, you would be an idiot to stop this game for any reason other than pure physical exhaustion. Nothing should interfere with the playing of this game. NOTHING.

Markets do not offer the rock-solid mathematical probabilities associated with the marble game. But what they lack in terms of pure probability theory, they offer in terms of a working history. Would you underwrite an even money bet that GBP/USD [Cable] will NOT have a 300 pip range [high – low for the day] tomorrow? [Someone is betting Cable will have a 300 pip range, and you are saying it will not. If it doesn't you win his/her dollar.] Of course you would because you know, historically speaking, that this high of a range is not a 50-50 bet. Cable might put in a 300 pip range once every couple of months, but not every other day. This is money in the bank if you took this bet every trading day.

What I have just described in very basic and simplistic terms is the derivatives market. Last time I checked, J.P. Morgan had approximately \$40 TRILLION of forex exposure on their books. They operate on razor-thin margins that make the marble game look as big as the Pacific Ocean. What do they know and understand that you don't?

A forex or S&P trade with a high probability of success is what I live for. If I'm playing, the market plays on my terms. Metaphorically speaking, I always have the home field advantage and I bring my own refs. It's not just that I am identifying market scenarios where a currency pair has entered an overbought or oversold condition. I want more than that. I want it to show me it's exhausted and ready to move [hopefully in a violent fashion] in the opposite direction.

There is a key point here I want to emphasize very strongly. I want small price fluctuations in the market, at these extreme prices based on fib values from the EMA's, to yield information that is MORE VALUABLE than the dollar value of the pips it moves in a relatively short period of time. When this condition is satisfied, your mathematical expectation from trading will be positive. In the long-run, with proper risk management and discipline, you simply cannot lose. Easier said than done, but it is entirely up to you.

What you learned in VWB was how to spot these potential situations in eight (8) currency pairs and the S&P 500 Index. Initiating the trade under optimum conditions is where I am headed next.

CHAPTER 1

BACK TO THE FUTURE

‘So let’s dream like a child in its playing,
Let’s make us a sky and a sea,
Let’s change the things ‘round us by saying
They’re things that we wish them to be ...’

From “The Golden Hour” by James W. Foley

The Chicago Mercantile Exchange [CME] is where currency futures and the e-mini S&P 500 futures contracts are traded. While they still maintain traditional pit trading in these contracts, the volume traded electronically on their GLOBEX trading platform far outpaces what happens in the pits. It is not my intention to turn this file into the Basics of Futures Trading 101. If you are a little fuzzy on the basic principles of futures contracts, how they are priced or their function, then I suggest you spend some time at the CME website <http://www.cme.com>

There are a couple things worth mentioning about the GLOBEX futures contracts. The first is that all the currency pairs and the e-mini S&P contract trade on the March, June, September, December cycle. The second thing to remember is that 1 contract [the minimum] equals the following trade size and value:

125,000 Euro/USD [1 pip = \$12.50],
62,500 GBP/USD [1 pip = \$6.25],
125,000 CHF/USD [1 pip = \$12.50],
12,500,000 JPY/USD [1 pip = \$12.50],
100,000 AUD/USD [1 pip = \$10.00],
100,000 CAD/USD [1 pip = \$10.00],
50 Times Cash S&P 500 Index [1 tick = 0.25 Index Points = \$12.50].

The contracts for Swiss [CHF], Yen [JPY] and the Loony [CAD] are quoted, and trade, inverted to the cash market. The main reason for this is so the rollover interest charges can be added to the price of the futures contract at delivery. This allows for the seamless trading of the contract from day-to-day without having to charge for interest in another currency.

In the spring of 1981, I leave the MidAmerica Commodity Exchange to trade at the CME. It’s time to leave the mini-contract minor leagues and go trade with the adults. The Euro doesn’t exist yet and the German D-Mark is the most heavily traded contract. Everything that I have experienced up ‘till now is nothing compared to what awaits me when I walk through the doors of the CME and take my place in the Swiss Franc pit. I wish I could take you back in time and let you experience what it was like. Go rent the DVD movie

“TRADING PLACES”, with Dan Akroyd and Eddie Murphy, and the trading scenes from this accurately reflect a NORMAL trading day. When things got nuts it became even wilder.

What’s important for you to remember is that this physical trading pit [about 400 square feet with 3 steps and shaped like a stop sign] was where most of the world traded the Swiss Franc. You simply had no choice because only the biggest corporate and institutional customers could trade through the banks. You literally needed at least \$25 million in cash to get them to even take you seriously. Speculators and small hedge clients had to come to the CME if they wanted to trade any of the dollar currency pairs.

Every business day at exactly 7:20 a.m. [Chicago time] the market opened for trading and at exactly 2:00 p.m. [Chicago time] it closed. If you wanted to do something at 2:30 p.m. you were completely out of luck until the next morning. Remember, this is pre-electronic, pre-internet trading. Computers, as we know them now, did not exist. To trade as a non-member [the trading public], you had to call your broker on the phone and he placed the order through his brokerage house network. A market order could take 60 – 90 seconds to fill if you were lucky. And this was considered high-tech!!

Every trader who took a position home overnight was taking some serious market risk. Whether you were a member or not, there simply was no platform available to trade after day-time trading hours. I used to see guys go home up 50 ticks on 5 or 10 Swiss contracts and they were on top of the world. Next morning the opening call was 120 ticks lower and jumping in Lake Michigan with a lead ball around their feet was suddenly an option worth considering.

In a pit with about 20 – 25 people [brokers, locals, and bank arbitrageurs] we traded about 40,000 contracts per day. Orders flowing from brokers [1 contract to hundreds] every second the market was open. As a local, it was the dream of a lifetime because the whole spec world had to come to you to trade. Everything you could want as a trader was there.

Understanding order flow was critical to your success as a local. For example, in a raging bull market in Swiss [bear market in cash USD/CHF], you had to learn to position yourself long on breaks so that when the shorts covered near the end of the day you could take the other side at these higher prices. How did I know the market would rally near the end of the day? I’ll answer that by asking you the following question: Would you stay short in a bull market knowing that if you went home short you could be in the hole an additional 100 – 150 ticks the next morning on the open? I didn’t think you would.

I’ve spent some time setting up this “local’s paradise” for a reason. I want you to completely understand how important it was for me to grasp the mechanics of trading in the trading environment of that time and place. I hinted in the 1 Hour Tunnel Method that the genesis of tunnel trading came from the floor. To be more specific, it came from understanding the environment of the pit, customer order flow, and the limitations I mentioned above about the market.

Eventually it dawned on me, that it didn't matter if the market was going up or down, every day we had a 100 + tick range [high – low]. All you had to do was look at a simple daily bar chart. It was right there in front of your face. Forget opinions, forget the news, forget everything but price. It's right there staring me in the face, this simple fact that we get these moves each and every business day.

For over 10 years, I traded Swiss and S&P's [trading began in April 1982] using a simple break-out of the opening range. In Swiss, I would wait after the open for the market to establish a 10 – 15 tick range. When it broke the range I would go with it no matter what the circumstance. My stop and reverse was on the other side of the range. I knew from experience the market had a very high probability of making at least a 100 + range for the day. All I had to do was ignore the pit BS, the 5 minute bar-chart technical failures, and stick to my guns. 50 – 100 tick gains per contract soon became the norm.

Well, we certainly don't live in this trading world now. Openings and closings as well as getting stuck overnight are all pretty much things of the past. In essence, everybody that trades now is a local. The key question is: Can we transfer anything from this "Golden Age" [from a local's point of view] era to the present day, that will give us an edge in initiating our trades inside the VWB method? The answer is a loud YES.

CHAPTER 2 **BLESS THE DATA**

‘There are lies, damned lies, and then statistics.’

One of my college Finance professors.

For a myriad of reasons, today's Swiss Franc has lost its volatility luster, and it isn't anything like it used to be. Yes, it can still zip around, but its days putting in multi-hundred pip ranges, each and every day, are gone. In its place is GBP/USD, and it is the currency pair of choice for me. It moves today like Swiss used to 20 years ago.

Is it possible to profitably trade a market and not know anything about its trading characteristics, or personality? I have given this question much thought over the years and the conclusion that I have come to is that it is very possible. But, armed with a little knowledge, it can be a lot more profitable than ignorant bliss.

The following table is for GBP/USD since it is the main pair that I trade. However, I keep this data for all the currency pairs that I trade and the S&P 500. It is very easy to do in Microsoft Excel. Following the table is an explanation of each column. Since I trade futures, the data represents the nearest GBP/USD futures contract. However, if you choose to trade spot GBP/USD the data would be slightly different but not anything significant.

Table 1

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1	GBP - AVERAGE RANGE													
2					20 DAY	NOT		DIFF	DIFF	RANGE				
3	DATE	HIGH	LOW	RANGE	MEDIAN	IN USE	OPEN	H OR L	AMOUNT	HIT (5)				RANGE MISS
4														
5	9/19/2005	1.8037	1.7944	93		BP25 *	1.801	H	36			36		
6	9/20/2005	1.8059	1.7955	104		*	1.7992	L	37			37		
7	9/21/2005	1.8105	1.7935	170		*	1.7963	L	28					
8	9/22/2005	1.8125	1.7856	269		*	1.8091	H	34			34		
9	9/23/2005	1.7906	1.7727	179		*	1.7885	H	21					
10	9/26/2005	1.7775	1.7681	94		*	1.77	L	19					
11	9/27/2005	1.7769	1.7617	152		*	1.7765	H	4					
12	9/28/2005	1.7698	1.7585	113		*	1.7651	H	47			47		
13	9/29/2005	1.7883	1.7574	109		*	1.7659	H	24					
14	9/30/2005	1.7713	1.7548	165		*	1.7694	L	46			46		
15	10/3/2005	1.7619	1.7502	117		*	1.76	H	19					
16	10/4/2005	1.7605	1.7497	108		*	1.7528	L	31			31		
17	10/5/2005	1.7645	1.7558	87		*	1.7577	L	19					
18	10/6/2005	1.7797	1.763	167		*	1.765	L	20					
19	10/7/2005	1.7776	1.7561	215		*	1.7776	H	0					
20	10/11/2005	1.7544	1.7428	116		*	1.7543	H	1					
21	10/12/2005	1.7535	1.7377	158		*	1.7441	L	64			64	64	
22	10/13/2005	1.7563	1.7431	132		*	1.7512	L	51			51	51	
23	10/14/2005	1.7698	1.7471	227		*	1.755	L	79			79	79	
24	10/17/2005	1.7717	1.7514	203		*	1.7667	H	50			50	50	
25	10/18/2005	1.7525	1.741	115	142	*	1.7525	H	0	N				27
26	10/19/2005	1.7657	1.7416	241	142	*	1.7488	L	72	Y		72	72	
27	10/20/2005	1.774	1.7584	156	155	*	1.7643	L	59	Y		59	59	
28	10/21/2005	1.7789	1.7627	162	154	*	1.7728	H	61	Y		61	61	
29	10/24/2005	1.7722	1.7636	86	154	*	1.7655	L	19	N				68
30	10/25/2005	1.786	1.7621	239	142	*	1.7687	L	66	Y		66	66	

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GBP - RANGE AVERAGE

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
31	10/26/2005	1.7854	1.7704	150	154	*	1.783	H	24	Y				
32	10/27/2005	1.7854	1.7728	166	157	*	1.7739	L	11	Y				
33	10/28/2005	1.785	1.7722	128	157	*	1.7817	H	23	N				29
34	10/31/2005	1.7815	1.7663	152	154	*	1.7729	L	66	Y		66	66	
35	11/1/2005	1.7716	1.76	116	154	*	1.7675	H	41	N		41		38
36	11/2/2005	1.7766	1.7616	150	154	*	1.766	L	44	Y		44		
37	11/3/2005	1.7788	1.7688	100	154	*	1.7759	H	29	N				54
38	11/4/2005	1.7703	1.7451	252	154	*	1.7899	H	4	Y				
39	11/7/2005	1.751	1.7382	128	151	*	1.7475	H	35	N		35		23
40	11/8/2005	1.7436	1.7321	115	151	*	1.7419	H	17	N				36
41	11/9/2005	1.7453	1.7356	97	150	*	1.7429	H	24	N				53
42	11/10/2005	1.7511	1.7392	119	150	*	1.7432	L	40	N		40		31
43	11/14/2005	1.749	1.7338	154	150	*	1.7414	H	76	Y		76	76	
44	11/15/2005	1.7393	1.7298	95	139	*	1.7373	H	20	N				44
45	11/16/2005	1.7364	1.7133	231	150	*	1.7338	H	26	Y				
46	11/17/2005	1.7221	1.7145	76	139	*	1.7171	L	26	N				63
47	11/18/2005	1.7223	1.7094	129	128.5	*	1.7186	H	37	Y		37		
48	11/21/2005	1.724	1.7138	104	128	*	1.7166	L	30	N				24
49	11/22/2005	1.7219	1.706	159	128.5	*	1.7151	H	68	Y		68	68	
50	11/23/2005	1.7256	1.7173	83	128	*	1.7226	H	30	N				45
51	11/25/2005	1.7228	1.712	108	123.5	*	1.7218	H	10	N				16
52	11/28/2005	1.734	1.7046	288	123.5	*	1.7125	L	79	Y		79	79	
53	11/29/2005	1.7291	1.7141	150	123.5	*	1.7289	H	2	Y				
54	11/30/2005	1.7346	1.7159	187	123.5	*	1.7166	L	7	Y				
55	12/1/2005	1.7342	1.7259	83	123.5	*	1.7289	L	30	N				40
56	12/2/2005	1.7377	1.7246	131	123.5	*	1.7315	H	62	Y		62	62	
57	12/5/2005	1.7443	1.7271	172	128.5	*	1.7319	L	48	Y		48	48	
58	12/6/2005	1.7453	1.7311	142	128.5	*	1.7415	H	38	Y		38		
59	12/7/2005	1.7421	1.7289	132	130	BPH6*	1.7401	H	20	Y				
60	12/8/2005	1.7556	1.7331	225	131.5	*	1.7332	L	1	Y				

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GBP - RANGE AVERAGE

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
61	12/9/2005	1.7563	1.7461	102	131.5	*	1.7524	H	39	N		39		29
62	12/12/2005	1.7769	1.7502	267	137	*	1.7507	L	5	Y				
63	12/13/2005	1.778	1.7653	127	131.5	*	1.7759	H	21	Y				
64	12/14/2005	1.7806	1.7684	122	131.5	*	1.7691	L	7	N				9
65	12/15/2005	1.7767	1.761	157	131.5	*	1.7725	H	42	Y		42		
66	12/16/2005	1.7739	1.7624	115	131.5	*	1.7644	L	20	N				16
67	12/19/2005	1.7731	1.7588	143	137	*	1.7691	H	40	Y		40		
68	12/20/2005	1.7881	1.7524	157	142.5	*	1.7824	H	57	Y		57	57	
69	12/21/2005	1.759	1.7378	212	142.5	*	1.7541	H	49	Y		49	49	
70	12/22/2005	1.745	1.7337	113	142.5	*	1.7447	H	3	N				29
71	12/23/2005	1.7399	1.7303	96	142.5	*	1.7363	H	36	N		36		46
72	12/27/2005	1.7382	1.7262	120	137	*	1.733	H	52	N		52	52	17
73	12/28/2005	1.7408	1.7128	280	137	*	1.7265	L	137	Y		137	137	
74	12/29/2005	1.7279	1.7166	113	131.5	*	1.7175	L	9	N				18
75	12/30/2005	1.7293	1.7164	129	131.5	*	1.7244	H	49	Y		49	49	
76	1/3/2006	1.7464	1.7188	278	137	*	1.7188	L	2	Y				
77	1/4/2006	1.7618	1.746	158	137	*	1.7462	L	2	Y				
78	1/5/2006	1.7591	1.7485	106	130.5	*	1.7566	H	25	N				24
79	1/6/2006	1.7723	1.7513	210	136	*	1.7543	L	30	Y				
80	1/9/2006	1.7726	1.7626	100	128	*	1.768	H	46	N		46		28
81	1/10/2006	1.77	1.7619	81	128	*	1.7653	L	34	N		34		47
82	1/11/2006	1.7671	1.7521	150	128	*	1.7639	H	32	Y		32		
83	1/12/2006	1.7728	1.7579	149	136	*	1.7659	H	69	Y		69	69	
84	1/13/2006	1.7782	1.7594	188	146	*	1.7605	L	11	Y				
85	1/17/2006	1.7703	1.7587	116	136	*	1.7673	H	30	N				20
86	1/18/2006	1.7707	1.7586	121	136	*	1.7682	H	25	N				15
87	1/19/2006	1.7646	1.7527	119	125	*	1.7631	H	15	N				6
88	1/20/2006	1.7725	1.7535	190	125	*	1.7575	L	40	Y		40		
89	1/23/2006	1.7882	1.7714	168	125	*	1.772	L	6	Y				
90	1/24/2006	1.7899	1.7807	92	125	*	1.787	H	25	N				33

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
82	1/11/2006	1.7671	1.7521	150	128		1.7639	H	32	Y		32		
83	1/12/2006	1.7728	1.7579	149	136		1.7659	H	69	Y		69	69	
84	1/13/2006	1.7782	1.7594	188	148		1.7805	L	11	Y				
85	1/17/2006	1.7703	1.7587	116	136		1.7673	H	30	N				20
86	1/18/2006	1.7707	1.7596	121	136		1.7682	H	25	N				15
87	1/19/2006	1.7646	1.7527	119	125		1.7631	H	15	N				6
88	1/20/2006	1.7725	1.7535	190	125		1.7676	L	40	Y		40		
89	1/23/2006	1.7882	1.7714	168	125		1.772	L	8	Y				
90	1/24/2006	1.7899	1.7807	92	125		1.787	H	29	N				33
91	1/25/2006	1.7938	1.7818	120	125		1.7836	L	18	Y				
92	1/26/2006	1.7892	1.7778	114	125		1.7834	L	55	N				11
93	1/27/2006	1.7881	1.7667	214	125		1.7797	H	84	Y				
94	1/30/2006	1.7718	1.7837	181	139		1.7895	H	23	Y				
95	1/31/2006	1.786	1.7667	193	149.5		1.769	L	23	Y				
96	2/1/2006	1.7815	1.7729	86	135		1.7785	H	30	N				49
97	2/2/2006	1.7818	1.7713	105	120.5		1.775	L	37	N		37		15
98	2/3/2006	1.7811	1.7594	217	135		1.7802	H	9	Y				
99														
100														
101														
102										42 Y (5) 32 N (5)		OVER 30	OVER 47	MEDIAN RANGE MISS 29
103														
104														
105														
106														
107														
108														
109														
110														
111														

Column A is the date.

Column B is the high of the day in the lead month futures contract.

Column C is the low of the day in the lead month futures contract.

Column D is the range for the day [high-low] in the lead month futures contract.

Column E is the 20 day moving MEDIAN [not average] of the range. This number means that 50% of the last 20 day ranges are above and 50% of the last 20 day ranges are below.

Column F is just a dummy column with a star in it so that we can easily keep track of 20 days without actually having to count back every single day. This allows my secretary to do the Excel calculation quickly. The BPZ5 indicates that the December futures contract of GBP is the lead month and the data is for this contract. BPH6 indicates March 2006 contract data.

Column G is the open for the day in the lead month futures contract.

Column H is whether the open is nearer the high [H] or the low [L] of the day in the lead month futures contract.

Column I is the difference in ticks [or pips] from the open to the nearer of the high [H] or low [L] of the day in the lead month futures contract.

Column J is either yes [Y] or no [N] the days range of the lead month futures contract equaled [or surpassed] the 20 day moving median within 5 ticks in Column E. Note: In Row 101 and 102 the totals are listed for the dates shown in the table. There are 74 dates, and 42 of them hit the 20 day moving median within 5 ticks while 32 did not. This is a hit ratio of 57%.

Column K [Row 103] is the median number of ticks, of all 74 dates listed, of Column I. The number 30 means that 50% of all the dates had a high [H] or low [L] under 30 ticks from the open and 50% were higher.

Column L lists the number of pips for all the days that the futures contract high [H] or low [L] was greater than 30 pips from the open. Row 103 gives the median value of all of these which is 47. This means that, of the times when the market is farther than 30 pips, 50% of the time it's between 31 and 46 and the other 50% of the time it's greater than 47 pips.

Column M lists the number of pips for all the days that the futures contract high [H] or low [L] was greater than 47 pips from the open. Row 103 gives the median value of all of these which is 63. This means that, of the times when the market is farther than 47 pips, 50% of the time it's between 48 and 63 and the other 50% of the time it's greater than 63 pips.

Column N lists the number of pips of the days when the market's range does not come within 5 pips of the 20 day moving median. Row 103 is the value of the median misses, which equals 29. What this means is that when the market's range does not hit the 20 day moving median, 50% of the time it will miss by less than 29 pips, and 50% of the time it will miss by more than 29 pips.

So, what does all this data mean?

Well, here comes a shocker.

THIS DATA IS THE BASIS FOR A DAY-TRADING MODEL.

Yes, that's right, a day-trading model, because when the market gets to the outer fib numbers, you have to have a plan for the exhaustion reversal day that sets up your entry into the trade.

It's important that you see how I interpret this data and integrate it into the VWB game-plan, but I fully expect some of you to run with this and set up your own day-trading model. After all, you should be able to trade a market that, day-in and day-out, has a range of 130 + pips. You also know that half of all days have the open under 30 pips from the high or low of the day. From here, the data tells us it's a move up or down to the

range. You also know that when the market misses the range it does so by 29 pips 50% of the time. I could go on, but this is not a file for day-traders.

Let's assume that GBP/USD is trading at a lower fib line and we are looking for that reversal day to initiate a long position. The market opens, goes down 25 pips and makes a new low for the move, and then starts to rally. What can we learn from the past [Table 1] to help us right now in setting up this trade? Well, the first thing is, can the market trade up past 30 pips from the open? Can it go past 47 pips from the open? Because, if it can, it then has a low probability, for the day, of reversing and going lower [anybody remember the marble game?].

CHAPTER 3 **TATOOING YOUR EYELIDS**

'And men still grope t' anticipate
The cabinet designs of Fate;
Apply to wizards to foresee
What shall and what shall never be.'

From the "Hudibras", part iii, canto 3.

I don't pay much attention to technical indicators [RSI, MACD, Moving Averages, etc.], especially in shorter time frames under the 1 hour candle [or bar]. They are notoriously unpredictable and from my years of experience lead many people down the wrong path. Now that all of us trade online, the banks and large hedge-funds "gun" these indicators practically every single day. As many of you have found out: Is it as easy as going to Border's and buying a technical analysis book, opening an account somewhere, start to trade, quit your day job, and hire accountants to count the money you've made?

There are three (3) concepts in initiating a position in the VWB model that are of extreme importance. They are the criteria upon which I base my entry into a position. If I could, I would permanently place them under your eyelids so that you would always have to see them, and by default could never forget them. They are all equally important, and they should be used in conjunction with each other when determining optimal entry.

Trading is NEVER an exact science. By its very nature it can never be this because if it were somebody would have all the money in the world within 5 years. I could write another 500 pages and include 1,000 examples of different market scenarios where one time the first concept was obvious but the other two weren't. Next time all three concepts show up and the trade is a slam dunk. Then, you get a situation where a little bit of the three are there but not as strong as in the last sentence. Then ... You get the idea.

All of the examples I use are from GBP/USD, but you should realize that the same situation will materialize in the e-mini S&P futures contract and your other favorite currency pairs.

1. New Highs and New Lows

One of the most important things the market can do during a trading day is to continue along the path of hitting either new highs or new lows for the day [they almost never continue doing both during the same day]. Table 1 has so much data worth interpreting, I could write an entire 300 page book just talking about it, but what I want to emphasize here is the size of the range, the value of the 20 day moving median of the range, and the median of the open from either the high or low.

Table 1 goes back to the start of the Dec. 05 GBP/USD futures contract, when it became the front month after the expiring Sep. 05 contract. I have this data back to about the start of 2000, and when you look at the values for these other periods they are very close to what I have presented in Table 1.

It's very clear from the data that you can make the following conclusions:

- A) Excluding pre-holiday trading, the range for the day has a 90% + probability of being 100 pips, about a 70% probability of being 120 pips, and about a 50% probability of being 135 pips.
- B) There is approximately a 75% probability that once the market moves farther than about 45 pips from the open, it isn't coming back.
- C) There is a 50% probability that when the market goes past 30 pips from the open it isn't coming back.

Knowing this will prevent you from trying to pick tops and bottoms and getting hurt. For example, GBP/USD is at the upper fib levels and I am watching it closely. The market opens and starts to go higher still. If it passes 30 and then 47 pips from the open, trying to sell it has a good chance [75%] of leading to a loss. And it doesn't stop there because it still has a range to put in, and if you're stubbornly short, your loss is going to get worse. Any bets you cover near the high?

2. Speed and Momentum

If I had to pick one thing that tells me when the market has hit the high or low for the day, it is the SPEED [OR MOMENTUM] FROM WHICH IT MOVES AWAY FROM A NEW HIGH OR NEW LOW [either immediate or within a few candles or bars]. This speed, of course, should be fast relative to the days' trading action.

Here are some examples:

Chart 1



This is the hourly candle of GBP/USD [spot] from December 14, 2005. The market is at extreme fib levels [a hair from 377] and I am looking to sell. As you can see the market races to a new high and then falls out of bed. This was the high of the move and was the start of a 600 pip drop.

Chart 2



This is the hourly candle of GBP/USD [spot] from November 28, 2005. The market is at extreme fib levels [a hair from 377] and I am looking to buy. As you can see the market races off the low and starts to rally smartly. This was the low of the move and was the start of a 700 pip rally

3. The 50% Retracement rule.

Of all the trading rules I have adopted over the years, this one is right near the top. I have used this since I was a local in the Swiss Franc pit at the CME. It is crucial for a day-trading method, and it fits nicely into optimal entry for VWB.

AFTER THE OPEN [3:00 p.m. Chicago time], WHENEVER THE MARKET SURPASSES A 60 PIP RANGE, IF IT THEN RETRACES MORE THAN 50% OF THE DAYS RANGE [FROM THE HIGH OR LOW, WHICHEVER CAME MOST RECENTLY] , THE PROBABILITY OF IT THEN CONTINUING TO HIT ANOTHER NEW HIGH OR LOW [WHICHEVER CAME MOST RECENTLY] IS LOW DURING THE TRADING DAY.

Let's say it's about 2 or 3 hours into the European trading session and for the day GBP/USD has a high of 1.7731 and a low of 1.7643. So the range is 88 pips. Also, an hour ago it hit the high and is currently trading at 1.7711. What I'm saying in this hypothetical is that if the market goes below 1.7687 [50% of the days range] it has a very

low probability of making a new high on the day during this particular trading day. Odds are it isn't going to happen. Now that doesn't mean it then has a high probability of making a new low [a reversal day]. It just means the buying power on the day is likely over.

Two things need to be pointed out here. First, the faster [and more violent] the 50% area is taken out, the better the chance of a reversal day. Second, the higher the range, the greater the probability the move is over if the 50% area is taken out. Since we are looking for a reversal day in our VWB method, these two concepts take on added importance. When I see them, especially if they come in the US session [last part of the day] I will initiate a partial position in anticipation of a candle reversal on the close. If I am wrong, I exit the position and treat it as a day-trade.

Chart 3



This is the hourly candle of GBP/USD [spot] for January 25, 26, 27, 2006. This is a classic example of the 50% retracement rule and how I trade it with the other two concepts. On the 25th, not only did the market move quickly off the high [concept #2], it then violated the 50% rule. As many of you at forexfactory.com know, I initiated a short position at that time. Not much happened on the 26th, but on the 27th, after making a new low, the market raced to new highs [concept #1]. I covered a partial portion of my short position at 1.7829 [In essence I am “dancing” around my position]. After the market raced up to the 1.7880 area, it quickly started backing off. I knew that if two things

happened, this stuff was toast. First, if it came back below the old high at 1.7831 quickly it was in trouble [to the downside], and second, if it violated 1.7813 it was in greater trouble [to the downside]. What I did was place the partial buys [at 1.7829] with a stop at 1.7819. The market tanked, and I basically have my initial position minus a 10 pip loss on a day-trade. Was that 10 pip loss worth more or less than the information it gave me [please refer to the 2nd to last paragraph of the Introduction]?

Chart 4



This is the hourly candle of GBP/USD [spot] for July 20, 2005. The market is past the 4th fib line [377]. I am obviously looking to get long. Here [again] is another classic combination of concepts. It's got speed off the low quickly followed by a violation of the 50% retracement rule. This was the start of a 700 pip move in the next 20 days.

There are times the market puts in a reversal day on the daily charts [usually a spinning top], and none of these three (3) concepts are in evidence. Consider the following example:

Chart 5



This is the hourly candle of GBP/USD [spot] for January 24, 2006. The day of the 24th is approximately between the black vertical lines. On the daily chart, the market has put in a down day from the fib line. Although it doesn't fit the description I set forth in VWB [the candle reversal formations], is it nonetheless good enough for a sell signal? After all, it did hit a new high for the move and strictly speaking it did reverse lower, so what's wrong with selling here?

I received some emails and some forexfactory.com posts from some people either telling me I wasn't following my own rules, or wondering why I didn't sell. By now, you should know why. Although the 50% retracement rule came into play, the range was very tight and the action off both the high and low was not very inspiring. In short, there was NO speed and NO range [meaning the 50% retracement rule is less effective]; hence no action on my part.

I'll give another example along this train of thought. It's important that you see that the three (3) concepts are key in correctly identifying optimal trading opportunities.

Chart 6



This is an hourly candle of GBP/USD [spot] from July 4, 5, 6, 2005. The daily chart shows the market at the 5th fib line [610]. This is in deeply oversold territory and I am looking to buy. On the charts, it looks possible there may be a spinning top on the 5th. But look at the hourly above. The 4th, 5th, and 6th are between the black vertical lines. I ask you; do you see anything between these lines that even come close to the three (3) concepts I have put forth? It's nothing but indecisive stop-hunting three (3) days in a row. I will not buy in this.

You will filter out a lot of potential losing trades by making sure that two (2) or all three (3) of these concepts are present at the fib lines. Just because GBP/USD [or any currency pair or the S&P for that matter] is at the 3rd fib line doesn't mean it can't go to the 4th or 5th or even higher. I know from your emails and forum posts that many of you have this compulsive itch to trade. You like pushing the buttons, and waiting for the market to show itself is like not being able to scratch the itch. You have to have the patience and discipline to wait.

One more thing needs to be said. Not every candle reversal pattern will yield a turn in the market. However, just about every market top or bottom of any significance has a reversal formation before it turns. If we position ourselves correctly, then we have achieved the "Holy Grail" of trading. **THE POSITIONS WE CARRY ARE ALWAYS WINNERS.** From this trading advantage point, we can pursue an infinite number of profit objectives that reflect our own personal trading style and objectives. The marble game in spades.

My trading philosophy is not to seek action; it is to make money. If you want action, then come to Las Vegas, take me out to dinner, and then go gamble a little. After you lose, at least you had sparkling dinner conversation and the casino will give you free drinks. The market won't even send a thank you note.

CHAPTER 4

VEGAS SHILLS FOR CAPITALISM

‘Greed is good.’

Gordon Gecko, from the movie “Wall Street”.

From the volume of emails that I get, many of you would like to know, in real-time, what I'm doing in the currency pairs and the S&P e-mini futures contract. I have always resisted doing this, not because I was unwilling to share, but because of legal restrictions.

I would like to introduce you to a most innovative and wonderful website. One that allows me to share my opinions in real time, and most importantly, avoid the legal hassles of giving advice to a single person. Please take some time [after you read this file of course!] and visit <http://www.collective2.com>

The following is from the collective2 website:

.....
There are thousands of trading newsletters and systems. How do you find one that fits your style? How do you verify historical results? How can you trust small companies to bill your credit card properly?

Collective2 has the world's fastest-growing database of trading systems. Every time a trading system publishes a new "trading signal," we watch how that piece of trading advice fares in the real world by tracking it against real-time market prices.

We keep a record of every trade - when it was recommended, how it performed, when it was closed.

We track the margin and/or capital required to hold a position. This allows you to understand how a system would fare in real life.

Plus, we have trading systems that trade all sorts of things: stocks, stock options, futures - even Forex. Now you don't have to take the vendors' word for it. We'll tell you how systems *really* perform.
.....

Becoming a member of collective2 is easy and it is also free. Just register and you have access to thousands of systems, their results and methodologies.

I have listed the following “system” with collective2: PAP (Passionate About Profits) Trader. I actually listed this in October 2005, and we have been experimenting with the trading interface since then. With the release of this file, I am comfortable enough with collective2 to be absolutely assured that what I recommend will get to a subscriber almost instantaneously. Every time I make a recommendation collective 2 immediately sends either an email or a text message [to your cell phone]. They can even do the following:

[From the collective2 website]

Trade any Collective2 system in your Real-Life Broker Account

Once you subscribe to a trading system, you can have the trades placed **automatically** in a compatible broker account. Any trading system listed on Collective2 can be AutoTraded. You can even tell our AutoTrade software to place only a small percentage of each trade (so, for example, if a system recommends buying 9000 shares of stock, you might buy only 90). To learn more about Collective2's AutoTrade, [click here](#).

PAP (Passionate About Profits) Trader will strictly follow ‘Vegas Wealth Builder’ and ‘Vegas Wealth Builder Part II’ in initiating trading signals, stops, and exiting trades. Collective2 assumes a starting account size of 100K for all systems listed. Since the EURO and CHF are highly correlated with GBP, there will be no trading signals for these two dollar pairs. I will trade Globex futures for GBP/USD, JPY/USD, AUD/USD, and CAD/USD. If you wish to trade spot, please remember that for JPY and CAD, when I go long futures, you have to be short cash and vice versa because futures trade inverted to spot. When I initiate a trade it will ALWAYS be done with three (3) contracts. If you trade spot that means:

GBP/USD = 3 contracts = 187,500 spot; JPY/USD = 3 contracts = 37,500,000 = approximately 318,000 spot USD/JPY; AUD/USD = 3 contracts = 300,000 spot; CAD/USD = 3 contracts = 300,000 = approximately 258,000 spot USD/CAD

For the non-dollar crosses, I will be trading the EUR/JPY [spot], and EUR/GBP [spot]. The trade size here will ALWAYS be 300,000.

For the e-mini S&P futures contract, I will be trading the front month contract. The trade size here will ALWAYS be two (2) contracts [\$100 per S&P 500 Index point].

The subscription price is \$150/month, with a 30-day free trial. Just so you know, collective2 takes 1/3 of this for providing all the services. I simply do nothing but enter the trades and they take care of everything else.

I want everyone who reads this file to know that it is OK to share a subscription with anyone or everyone. If you have a group of friends [say 2, 3, 5, whatever] and want to split a subscription, that is perfectly fine with me. Just remember that whoever signs up is the only one who gets the message from collective2. It is the responsibility of that person to make sure you get the signals immediately. Don't try and hold me responsible for any screw-up they may make. This is your deal with your friends.

I also have no problem with groups or businesses using a single subscription that they then make available to their subscribers or members. You can use it as a marketing tool if you wish, or you can simply make it available to your members. However you use it, you have my permission.

The purpose of PAP (Passionate About Profits) Trader on collective2 is not to make money. I'm not doing this to make money. I am doing this because there are many traders who fall into the following categories:

- 1) Traders who do not trade full-time and therefore are not watching the markets every day. They have jobs and lives and are removed from the market.
- 2) Newbies who need to develop confidence in their trading.
- 3) Traders, who have lost a lot of money and still want to trade, but need some ideas for trades.
- 4) Traders who want to know what I'm doing and compare their trades to mine.

Even if you never subscribe to PAP (Passionate About Profits) Trader, you should become a member of collective2 [hey, it's free]. You will always be able to follow my closed trades.

To take a look at PAP (Passionate About Profits) Trader at collective2, go to the collective2 website. On the right side of the webpage under, "Looking for a proven trading system?", click on "Other cool searches". Under the colored boxes there is a button for "Advanced Searches". Click this. Under "Find a trading system", type in PAP (Passionate About Profits) Trader [type in EXACTLY as I have printed it]. Hit the search button. At the bottom of the page it will appear. To get a detailed look, click on the little magnifying glass next to the left hand margin. A detailed look at the method is then displayed with all kind of stats, method description, and closed trades.

All the trades you see in the history should be ignored. They are just test demos that we initiated for varying reasons over time. They don't mean anything.

STARTING FEBRUARY 5, 2006 WE WILL GO LIVE. ALL SIGNALS WILL BE ENTERED STARTING AS OF THIS DATE.

Now before some of you go off the deep-end thinking I'm just trying to get my fingers in your wallet, please consider the following:

- 1) I have given you the complete 'Vegas Wealth Builder' and 'Vegas Wealth Builder Part II 'TO IMPLEMENT ON YOUR OWN.
- 2) There are people who want to know what I'm doing for whatever the reason.

So, how are the legal obstacles overcome? From the collective2 website is the following:

.....

Do I need to register with the CFTC or the SEC in order to sell my trading advice? Do I need some kind of license to start a trading system?" If you are an American citizen, the short answer is: No, you do not need to register with any government agency, or pass any kind of test, or have a license in order to publish trading advice.

However, you must be aware of certain restrictions. The most important restriction is this. You cannot provide individualized advice to clients. That is, you cannot offer different advice to different clients based on their individual financial situations.

Here's an example.

Allowed: "Attention all subscribers to my trading system: Buy IBM because I believe it is going up!"

Not allowed: "Dear John Doe: based on our conversation earlier today, in which you told me you were nearing retirement, I think you should buy IBM, because it will appreciate in value!"

The other important restriction is that you cannot manage clients' trading accounts on their behalf. You can't have access to their money, or issue trading instructions to their brokers. Otherwise you cross the line from publishing, which is allowed, to asset-management, which requires registration.

You must simply restrict your activity to publishing non-personalized advice which your clients can choose to act upon or not. (Note that using Collective2 to disseminate your trading advice via a Web site and email is considered *publishing*.) Remember that our right to publish and say what we like is protected by the First Amendment, a right that our citizens fight for, to this day. No small matter, that.

If you are not an American citizen, then I have no idea what kind of constraints your government places upon you. Please check with a local attorney.

"Are there legal restrictions on my providing trading advice through Collective2? Do I need to register with the SEC or the CFTC?"

(The information that follows is meant for U.S. citizens. The laws of your country may vary.)

We are asked this question often. The short answer is that you are not required to register as a CTA or Investment Advisor, and you are free to provide trading advice on Collective2, so long as you meet the following conditions:

- (1) You do not actually manage subscribers' money or trading accounts, and
- (2) You do not provide customized advice for individual subscribers based on what you know about each subscriber's *personal* situation.

Let me explain number 2, above. Publishing trading signals - whether by newsletter or computer web site - is protected by the First Amendment. You can publish trading signals here on Collective2, but you must not customize this advice on a client-by-client basis, based on what you know about a client's needs.

So, for example, you should not write an email to (or have a phone conversation with) a subscriber saying: "Frank, you ought to buy Silver Futures (or IBM, or whatever) now, because I know you plan to retire in one year." That's a no-no.

But it is perfectly fine to send an email to all clients of your trading system which says, "Attention, all clients: buy Silver now because I believe it is going up!" Again, the key is that the trading advice you are distributing is not tailored to each client's individual financial needs.

.....

CHAPTER 5 **CONCLUSION**

‘Toto, I don’t think we’re in Kansas anymore.’

Dorothy, from the movie “Wizard of Oz”.

One loose end I would like to address. I get asked often which method I trade the most and which I like the best; the 1 hour, the 4 hour, or VWB.

The answer depends on volatility. When the implied volatility of a market is high, I trade the 1 hour. For example, if GBP/USD suddenly starts trading with 300 – 500 pip ranges per day, I would switch to the 1 hour. The last time Cable was like this was in the Feb. – April 2004 time period. Most of the time I stick to VWB. I like all the methods equally, and it isn’t a matter of liking something. It’s a matter of which is going to make me the most money.

As always, I appreciate your comments and suggestions. I am always available by email at trafficap@hotmail.com

I hope that you can improve your trading with these ideas. Best of trading everyone.

-Vegas

-END-