SHADOWTRADERPRO FX TRADER USERS GUIDE

How to get maximum value from your **ShadowTraderPro FX Trader** subscription.

ShadowTraderPro FX Trader delivers value to its subscribers on multiple levels. The newsletter stands alone as either a purely informational vehicle for those who like to find and trade their own currency ideas, or as a daily resource for high probability trade setups, which are listed as *FX Trader Live Calls* and confirmed via email alerts. Following is an explanation of each specific section of the report and how to utilize it. The newsletter is sent out daily and each morning's edition arrives approximately 9pm EST the evening before, assuring that users have ample time in the morning (no matter HOW early they get up) to digest the information.

DOLLARS & SENSE:

Every F/X Trader starts with Dollars & Sense. Dollars & Sense analyzes technical events in one or more currency pairs happening at the time and gives a full commentary on it, including fully annotated charts. Commentary often includes notes on Fibonacci retracements, trendlines, and basic support and resistance areas in the pairs being discussed.

MAJOR PAIR SCOOP:

As there is an inordinate amount of news that can affect foreign currency markets, ShadowTraderPro does the legwork for you, sifting through large amounts of news items nightly and presenting only the most relevant stories that affect the major pairs (EUR/USD, USD/CHF, USD/CAD, GBP/USD & USD/JPY).

FX ECONOMIC CALENDAR:

In this section, F/X Trader lists all up and coming domestic and international economic data relative to f/x markets may have impact. The items are listed in easy to read chronological order according to time of release. Both forecasted and prior numbers are included, as well as an "importance" rating so that users can anticipate how much impact a report will have on the market.

FX TRADER LIVE CALLS:

This is where currency traders go for long and short trade ideas every day. F/X Trader seeks to present 1-2 trade setups per day (on average) with defined entry and stop, along with a very brief description of what we feel is putting the pair into play. Currency setups in this section are often discussed in greater detail in the Dollars & Sense section as well. Trades listed in this section are considered "live" if prices move through their entry points at any time. Once a trigger price is hit, the play will be actively managed and listed in the F/X Trader Portfolio section which is at the bottom of the daily report.

As currency markets are open around the clock, some action in plays can and will occur outside of U.S. trading hours. Please note that emails are only sent to clients between the hours of 9:00am EST to 6:00pm EST, Monday through Friday. Any trade action happening outside of these hours will be confirmed in an email the following morning**.**

On all FX Trader newsletters, except for Monday's edition, any trade listed is considered active from the moment the advisory is published, meaning sent out via email. If it is in Live Trades, it is a "live trade" only until the next day at 5:00 pm Eastern. If price has not traded through the trigger by 5pm EST, then the trade is considered invalid and the call is cancelled. The advisory that is dated with Monday's date may be sent out earlier over the weekend but trades will not be considered "live" (active) until 5:00 pm Eastern on Sunday evening or when the advisory is published, whichever is later.

Please keep in mind, most dealers stop forex trading and orders at 4:00 pm Eastern on Friday. If your trade is not canceled before then, your dealer may not allow you to cancel the trade at 5:00 pm. Make sure you cancel any trade that isn't a "good for the day" trade with an automatic cancellation at end of day roll over. All trades are price sensitive and it is up to your discretion as to whether you will enter a trade if it has moved beyond the trigger price.

All currency pair trades in FX Trader use mini-lots. A mini-lot is $10,000 worth of the foreign currency, and a full size lot is $100,000 worth of that currency. As currency products are highly leveraged instruments, we encourage users to stay within well defined risk parameters according to their account size and tolerance. Margin requirements for common currency pair trades for 1 mini lot are calculated as follows:

When USD is the base or numerator (first), then the margin required to trade 1 mini-lot = $100
When USD is in the quote or denominator (second), then the margin required to trade 1 mini-lot = the current value of the pair X $100. If other currencies are the quote then the pip value will be equivalent to the exchange rate of the other currency converted into USD.

For example, 1 mini-lot USD/CAD would require $100 in margin but one mini-lot of EUR/USD would require (1.3655 X $100) or $136.55.

SYSTEMS VS DISCRETIONARY TRADES

When looking at the Live Calls section of the newsletter you will notice that there is a "Trade Type" column. In this column is either the word "Discretionary" or "System". System means that the trade signal is coming from one of our trading systems. Our resident FX specialist, Blake Young, has devised a number of proprietary trading systems for Forex. We implement, manage, and adjust these systems continually. When one of them gives us a signal, ShadowTraderPro FX Trader passes that signal along to you the subscriber with a defined entry, stop, and target. By design, the systems trades have smaller stops and targets and are more active than the discretionary. The duration of these trades is generally shorter than the discretionary ones, often lasting only 1-2 days. Average risk for a systems trade is usually between 75-175 pips.

Discretionary means trades taken at our discretion, and are not part of any system. These are setups that we have found by applying various methods of technical analysis to the FX charts, including but not limited to: trendlines, support & resistance levels, Fibonacci retracements, candlestick patterns, multi-day chart patterns, and breakouts/breakdowns. Discretionary trades have larger stops and larger targets and often have a longer term outlook, with durations of 3-5 days or longer. Risk on discretionary trades is usually between 150-400 pips.

ORDER TYPES USED IN THE EMAIL TRADE ALERTS/CONFIRMATIONS:

When a trade from Live Calls is triggered, an posting is made to MyTrade to confirm that the trade is live and we have entered. Below is a sample advisory posting:

ShadowTraderPro FX Trader Advisory -Sold to Open AUD/CAD

September 27, 2010

Pair: AUD/CAD
Action: Sold to Open
Lots: 1
Price: 0.9880
Stop: 0.9980
Target: 0.9600
Trade Explanation: We are now short this pair and looking to add another position if the pair moves higher.

ShadowTraderPro FX Trader

Please note: All emails are price sensitive. All recommendations are good unless they are updated, changed or canceled via email notification.

*****Trading securities, options and foreign exchange involve risk and are not suitable for all investors.******

There are eight different types of trade alerts/confirmations that can come to you via email.

Bought to open – This is a confirmation email of a FX Trader Live Call listed in that day's newsletter which has triggered long. This is an announcement of a new entry where the pair has already been bought and entered long. The email shows you what price we were filled at and how many lots were purchased and also where the current stop and target are set. Remember, in FX you will want to set your stops and targets as live orders.

Sold to open – This is a confirmation email of a FX Trader Live Call listed in that day's newsletter which has triggered short. This is an announcement of a new entry where the pair has already been sold and entered short. The email shows you what price we were filled at and how many lots were purchased and also where the current stop and target are set. Remember, in FX you will want to set your stops and targets as live orders.

Bought to close – This is a confirmation email that a stop or target on a short position has been hit. In this case the FX Trader was short a currency pair which was either closed for profit at a target or stopped out for a loss at a stop.

Sold to close – This is a confirmation email that a stop or target on a long position has been hit. In this case the FX Trader was long a currency pair which was either closed for a profit at a target or stopped out for a loss at a stop.

Buy to close – This is a live, real-time alert where the trader has chosen to close a short position ahead of a stop or target. The email has been sent immediately upon execution by our trader and subscribers should look to exit their short position immediately upon receipt of the email at their best possible price. These alerts are relatively rare as we prefer to exit at preset stops and targets, however they do occur.

Sell to close – This is a live, real-time alert where the trader has chosen to close a long position ahead of a stop or target. The email has been sent immediately upon execution by our trader and subscribers should look to exit their long position immediately upon receipt of the email at their best possible price. These alerts are relatively rare as we prefer to exit at preset stops and targets, however they do occur.

Moving stop – This is a live, real-time alert where the trader has chosen to move the stop on the pair. This is common where according to price action, once we enter the pair we try to tighten stops as quickly as possible for optimum money management. Subscribers should adjust their stop orders on their own positions accordingly immediately upon receipt of the email.

Moving target – This is a live, real-time alert where the trader has chosen to move the target on the pair. This is common where according to price action, the trader may opt to tighten a target closer to current price or move a target away if the pair is acting well. Subscribers should adjust their target orders on their own positions accordingly immediately upon receipt of the email.

RISK PARAMETERS OF THE FX TRADER PORTFOLIO

The ShadowTraderPro FX Trader Portfolio which contains all FX Trader Live Calls is based on a hypothetical starting balance of $20,000. Regardless of lot size, every position is structured in such a way that no one trade can ever lose more than 2% of this total portfolio size. In many situations we try to keep this closer to 1%. Given the $20,000 starting balance, this maximum loss amount would be $400 per trade. This would be an absolute maximum of 400 pips when using mini-lots. The goal of the ShadowTraderPro FX Trader is to always adjust lot size and stops and targets continuously on each trade so as to almost never have a trade go into a maximum loss scenario. For this reason, trades are “legged into” and also “scaled out” of. This means that lots are often added after the initial entry and then are taken off piecemeal as the pair moves into profitability. Once partial positions are closed for profits, we look to move our stops as close to break-even as possible to take the risk out of the trade as soon as possible. An average trade will usually have between one and four mini lots of exposure.

Because FX is a highly leveraged instrument, it does not take anywhere near $20,000 to trade the positions presented in the advisory. Each mini-lot traded will roughly take up between $100 and $200 of FX buying power on average. Those with larger accounts and a greater tolerance for risk can consider trading full-sized lots if they choose.

TRADING THE ADVISORY USING MICRO LOTS

ThinkorSwim offers a micro lot size which is 1/10th of a mini lot. This would allow a 200 pips stop loss worth $200 in a mini lot position to be worth $20, allowing for more refined risk management for those with smaller account sizes. It is advisable for traders following the newsletter to adjust their percentage of their account at risk to mirror the percentage risk taken by our model portfolio. This means if we have a $20,000 account with a 400 stop loss or $400 at risk, this is 2% at risk. If the trader has a $4,000 account, 200 pips in a mini account would be 10% of the account. To bring the risk in line with the model portfolio, the trader could risk 200 pips (200 X $0.10) in 4 micros for a total risk of $80, to bring himself in line with the 2% risk of the account. The micro account can also allow traders to money manage much more precisely than minis or full size lots.

SOME NOTES ON RISK/REWARD IN F/X LIVE CALLS

ShadowTraderPro F/X Trader will from time to time initiate trade calls that have less than 2:1 risk reward. In some cases less than 1:1 risk reward. A short explanation follows:

Most FX instructors will advocate a risk to reward ratio of at least 3 to 1. The concept is a 3 to 1 risk to reward allows a trader to only be right 1 out of 4 times and still break even. While we cannot argue the math here, be aware that it will only work IF you are going to hit your original target every single time. Most trades simply will not work out this way. You may find yourself setting up the original trade and within hours you may have a completely different risk profile than the one that was set up. ShadowTraderPro FX Trader does not trade that way. We adjust stops, we take profits, we watch for early exit warnings and we avoid taking the original stop. If we never or rarely hit our original stop, what is the real risk to reward then? Think about that, look back at your trades and see your average loss versus your average gain, this is a more accurate view of your risk profile than initial entries.

Probability of success also needs to come into play. We have often seen many traders fall into the following trap. Assume the recent support is 50 pips away and the trader decides to set a stop loss 60 pips away. Let's also assume that the next strong resistance area is 50 pips away. With a target of 50 pips and a stop loss of 60 pips, the risk to reward is less than 1 to 1. We have seen many traders set their limit at two times their risk or 120 pips. What is the probability of hitting that limit? Does that target have anything to do with price action or history? In most cases no, it just meets the 2 to 1 risk to reward profile they desired. In this scenario, the pair will more than likely run to resistance and fail from there. Remember that the market does not know or care about your risk reward scenario.

As traders, we must ask ourselves the following questions, "How many times have I been stopped out before the trade went the direction I thought it would?" and "How many times did I miss my target by a few pips only to watch it crash back down and hit my stop loss?" If either of these questions indicates any amount of frequency, your risk to reward is reducing your probability of success. This means a great risk to reward will not save your account from the losses due to low success.

One more view, assume the following 2 to 1 ratio:
20 trades
9 winners at 200 pips and 11 winners at 100 pips
Net gains 700 pips or 35 pips per trade

Now assume you increased your stop loss to 130 pips (30% increase of stop loss and a 1.5 to 1 ratio) but you are now right just 2 more times out of 20 or "10% more right." Let's look at the scenario again from this new perspective:

20 trades
11 winners at 200 pips and 9 losers at 130 pips
Net gain 1030 pips or 51.5 pips per trade
A profit increase of 47% to the bottom line by risking more to have a higher probability.

FX TRADER PORTFOLIO:

Any trade ideas from F/X Trader Live Calls that are confirmed as entered via email are tracked in this section. Any and all changes to a play, be it a closing of a position or adjustment to a stop that happened since the last report are listed here. Once per week, action in this section is cleared out and posted into our performance page .pdf which is hotlinked at the bottom of the section.