

Know Your Competitors

Forex has been described as a zero sum game; that means each time you lose a trade, someone just picks your losses as gains. So who are your competitors? Learn more...

"I've been trading for more than 5 years and what I've experienced is that any indicator based system eventually fails. All technical indicators *lag*, which means that when it gives you a buy signal, the major players (Banks and Institutional Traders) are already in that trade. By the time you or other retail traders enter that trade, it is already too late and Bank traders already start to liquidate their positions. Money from your account flows right into their account and you end up cursing the market for cheating you out of that trade.

So how come these Bank traders get in early. Well, first of all they don't use indicators for trade signals. They use *price action* based systems, which simply rely on price movements. Second, they get *internal reports* on where retail traders are sitting and where they have their Stop Loss and Take Profit set up. Hence, they are able to get in first and by the time retail trades get in they are ready to get out and take your money away. They do this day in and day out and make tons of money for banks and hedge funds.

You may then ask how all the popular websites and broker's internal studies consist of indicators like MACD, RSI, Moving Averages, etc. The way a retail trader would look at it is to know how these indicators would help generating new signals, but the way professional traders use them is different. They use these indicators to *confirm* their entries for trades that they are already in. This again puts them in front and retail traders keep thinking why market reverses as soon they enter a trade.

To put this into perspective, let me give you an example. Let's say you use RSI and noticed that GBP/USD has reached oversold area in your preferred time frame and you start to look for long trade. But as you all know that a pair can stay in oversold or overbought area for a period of time, so you decide to wait until it starts to go up. At this stage you may think about another indicator, say MACD, to tell you if the price will keep going up. You wait for the MACD to cross above 0 and then enter long trade. When you bought GBP/USD, guess who sold it to you – the Bank traders who were pushing the prices up in the first place.

After getting stopped out for few times, you may think that you need a filter that may help you from entering such trades. So you add Moving Averages and wait for their crossover, entering even further late into the rally. You may as well flip the coin and it would have similar probability of a profitable trade.

Your indicator based system would only work if majority of the market participants are looking at the same indicators with same settings and same time frame. Remember that indicators don't predict prices; they only tell you what *has already happened*. How can you then rely on any indicator to enter trades?

Next thing you may ask is do I know all this. Well I never worked for Bank or a Hedge Fund. But what I've done is to study the Price Action for years for more than 12 hours a day. This gave me an understanding of how price moves and when to expect certain movements that are incredibly profitable. On the top, I've read more than 110 books on Technical and Fundamental Analysis and Trading Psychology.

The way I trade is by letting the price tell me what it wants to do. On the days when market is moving sideways I stay out. When it starts to trend in either direction of longer trend, I look for trades and enter in that direction. I wait for price to tell me which direction it wants to go, then wait for pullback to take place. I can pinpoint where the price would pull back to, and then enter my trades there. Ever heard of "Buy on Dips and Sell on Rallies"? Well the old cliché is true."

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