

THE DAILY FORECASTER

The Daily Forecaster provides daily forecasts for the anticipated movement in 8 currency pairs:
USDJPY EURUSD USDCHF GBPUSD AUDUSD USDCAD EURJPY GBPJPY

My analysis is different. I do not apologize for that. In fact the way I do things differently helps provide the higher percentage of accurate support & resistance levels which my long term subscribers make consistent profit. While this document is long I hope it will help you understand how to look for the trades that the most profitable subscribers look for.

However, while my analysis style is complicated identifying trades is quite simple and applying strict, but simple rules will provide you with clear entry levels and normally take profit levels. In addition trades confirmed at my support and resistance have a high percentage chance of profit.

Basically, as my support and resistance are approached you will be able to look for simple, recognizable patterns that confirm a trade. This will filter out the majority of bad trades and provide you with a high number of winning trades.

Please read on to discover how simple this is.

INTRODUCTION TO THE ANALYSIS STYLE

Many appear confused that I provide both bullish and bearish analysis. Some say that I'm hedging my bets or don't know which way it's going. In fact that isn't true. I have spent many years studying price. Price is the **only** way to forecast accurately. It **does** develop in structures that when recognized do provide excellent indications of not only **where** it's going but also when the underlying assumption is proven **wrong**.

It is vital that you view the daily bias with neutral eyes. Only wanting to trade with the bias will limit your potential profit by missing possible trades.

I do highlight the levels I feel have the greatest chance of seeing a profitable trade but you need not limit your trading activity to only those highlighted levels. You can observe price reaction at each and every one of them

There are countless potential variations that could fit into the different structures. After a movement in one direction has completed will price retrace by 23.6% or possibly 50%, or even 61.8%? It can retrace 100%! It would be no sense in advising traders to buy/sell at the 61.8% retracement as it may stall at 50% in which case the opportunity is lost. It could retrace 100% which will trigger the stop loss.

Most subscribers highlight the support and resistance levels I provide are some of the most consistently accurate levels in the market. This is due to my adapted form of Elliott Wave together with the derivatives of Fibonacci and harmonic ratios I use. I like to think that I can forecast what how far price will extend in a trend or in a correction. I hope the ratio of success is high. However, there are times where the market becomes bogged down in range trading which complicates the structures that can occur.

Even if I do get the forecast wrong, what I can point to is the high percentage ratio of reactions at those support or resistance. *This either means a sizeable reversal or sizable follow through. I should say that this is opposed to a small reversal and follow-through – or a small follow through and then reversal – where it would be easy to have your money management stop triggered.*

In other words it means a good profit potential and we need to be alert to the patterns around these areas.

What is vital is to confirm the support/resistance areas I highlight as being high risk levels that could stall a correction through the use of trade set ups. These can be quite simple such as a Stochastics crossover but always in conjunction with a local price pattern. Most of the time you may only need to confirm these patterns in shorter time frame chart such as 5 minutes or 10 minutes. However, at times it is also useful to also consider a longer time frame chart such as the hourly chart.

ORDER TYPES

You should be aware that there are two entry order types:

- Limit Entry
 - You will sell at a higher price than the current price
 - You will buy at a lower price than the current price
- Stop Entry
 - You will buy at a higher price than current price
 - You will sell at a lower price than current price

It may seem strange to think of buying at a higher price. Why not just buy now? Normally you hear traders say "Buy low and sell high." Well, stop entries work on the principle that you "Buy high and sell higher" or "Sell low and buy lower."

The basic intention of waiting for a higher price to buy (or lower to sell) is that sometimes it is better to ensure that price is breaking out of a range which indicates a larger movement will occur. In fact, just about all the set ups will be based on this concept.

Why not buy at support or sell at resistance?

Well, unless you have a strong view or other reasons to trade this way the risk you face is that maybe price doesn't stop at the stated levels. It's an easy and also very quick way of losing money! It can be if the trend is going to extend further than I had expected that it sails straight through. By waiting and having a reversal pattern develop you can achieve a high percentage of winning trades...

In fact, if you watch closely enough and a continuation pattern develops ahead of my stated resistance levels with a price target beyond that resistance you can make a trade against my suggestion. Think of it this way. When I make a statement that a certain support level is important for an uptrend to resume then a break very clearly breaks the assumption of the uptrend and this means that the risk of quite strong losses is high. If you spot a bearish continuation pattern at my support level then selling on the break of the continuation pattern could provide you with a very profitable trade...

So do read my comments and understand what I'm looking for and also what happens if my expectations are not met. Indeed, **that** is the reasoning behind giving you both bullish and bearish analysis...

UNDERSTANDING PRICE IS THE MOST IMPORTANT FACTOR IN TRADING

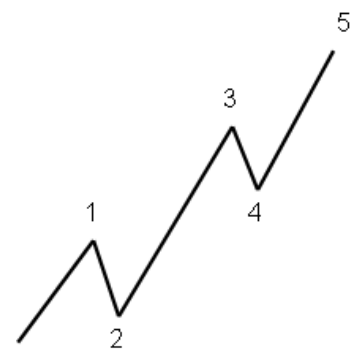
Let me attempt to describe what I mean by this and how my most profitable subscribers make their profit...

I use cycles to identify the overall direction. Is the main trend up or is it down? Conveniently I can utilize the terms "weekly cycles" and "daily cycles" but in fact they all integrate into one large structure of cyclic pressures which affect price.

I use Elliott Wave as my main tool for understanding how price should move within the underlying direction. Elliott Wave provides structure, the manner in which price should develop and when complemented by Fibonacci and harmonic ratios it is possible to identify likely stalling areas in both trend projections and corrective retracements.

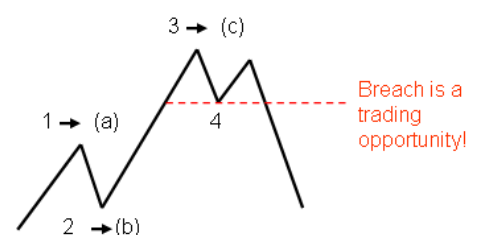
Take a simple 5 wave move. This represents a trending move (or part of a counter trend.)

Without going deeply into Elliott Wave, each wave has guidelines that will provide common areas of when they will stall, how far they will correct or extend. In addition each wave should also develop in a particular way that should be in accordance with that particular type/position of wave. In particular Wave 4 has common retracement levels which may be used to take advantage of the extension in Wave 5.



Now let's look at a 3 wave move. This represents a corrective structure.

Well, it maybe that due to a move becoming more complicated than I have anticipated that the underlying analysis is incorrect and the expected trending move doesn't follow-through higher. This will mean that Wave 1 was actually a Wave (a), Wave 2 was Wave (b) and Wave 3 was actually Wave (c). Thus a larger correction is due.



Breach of the key support area that breaks the upward structure can be a great trading opportunity!

Do you really want to be without the potentially profit-making knowledge of what will happen if a support or resistance area breaks?

HOW DO YOU KNOW WHICH SUPPORT OR RESISTANCE WILL PROVIDE THE TRADE?

It is impossible to be 100% correct in forecasting markets. Therefore we need tools to strengthen the odds in our favor. Which support will hold in an uptrend? Which projection will price move to in a trend.

I like to be correct 100% of the time. This is the way I measure the success of my analysis. However, pride doesn't always make profit. ***It is therefore imperative that you do your own due diligence.***

This is where a news release can have a larger impact in extending a trend or even suggest a price reversal. So what can you do to protect yourself at these times? My key support/resistance levels are recognized as providing high percentage trade opportunities. The key is to filter the choices by other techniques.

SELECTING A PATTERN STYLE

I have mentioned there are two types of trade entry order, limit entry orders and stop entry orders.

For limit orders we are expecting to see price stall at that support or resistance and reverse direction. For stop orders we are looking for price to continue in the same direction after break. Clearly we need to look at different price patterns for these.

LIMIT ENTRIES require ***price reversal*** patterns

STOP ENTRIES require ***price continuation*** patterns

In general we can categorize these as:

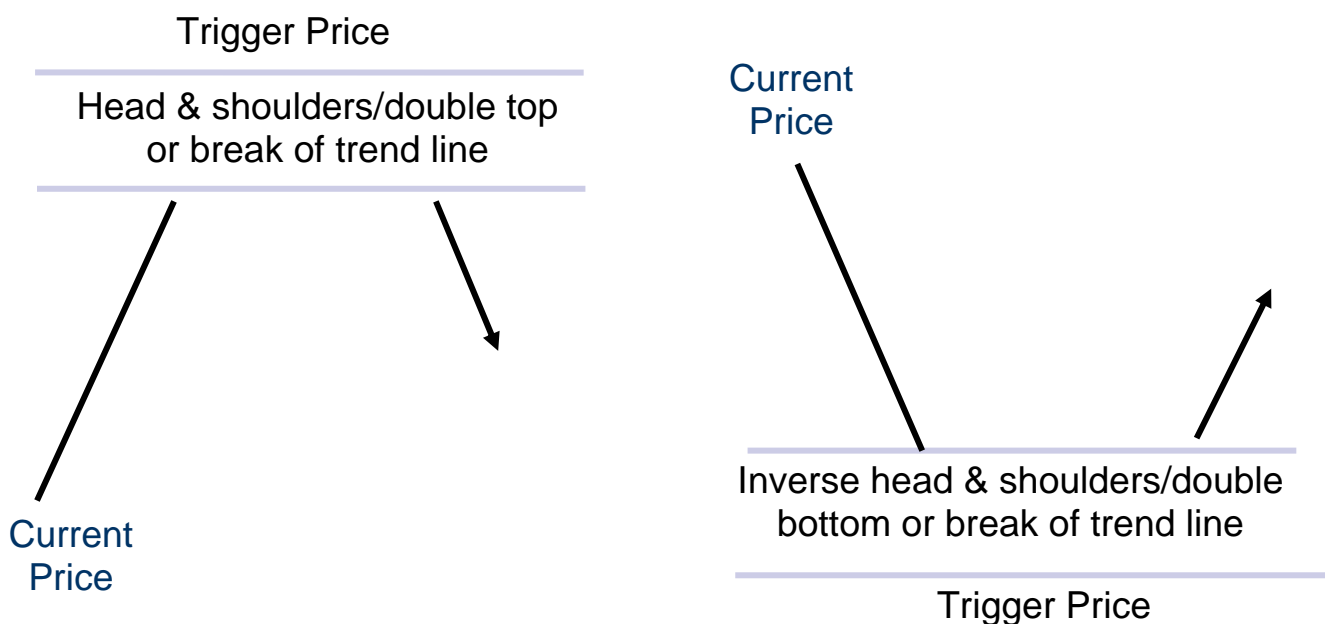
PRICE REVERSAL

Head & shoulders
Double tops/bottoms
Trend line breaks
Key reversal days

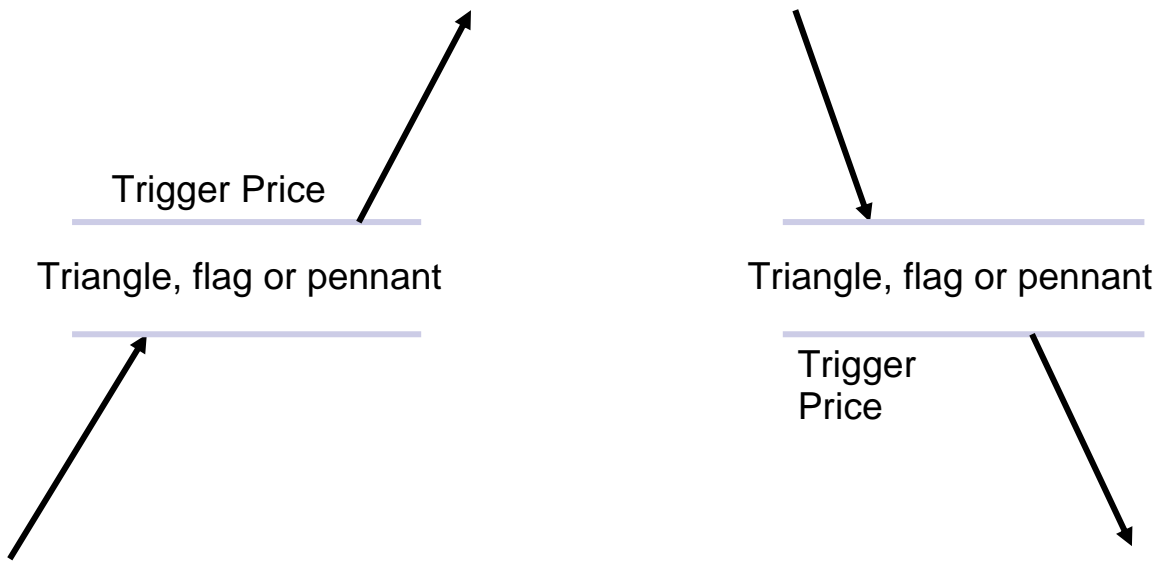
PRICE CONTINUATION

Triangles
Flags & pennants

Confirmation of reversal patterns



Confirmation of continuation patterns



Now let us look at how to apply this to the analysis:

TRADE SET-UPS

Very simple techniques using price patterns in conjunction with simple indicators can be used to try and identify when a reversal in a correction is about to allow the underlying trend to resume, or maybe even break. I maintain a record of the prior day's trade set ups on <http://www.fx-forecaster.com/DailyForecast.html> which will provide you with a guideline on how to approach using price patterns.

It is vital to be very strict with these patterns to make sure they are clear, that you have an easy stop loss applied and also a take profit. If any of these don't exist then it is best not to trade. Sometimes this means missing out on a profitable trade. However, it also filters out many bad trades...

Let's take an example of a Limit Order set up.

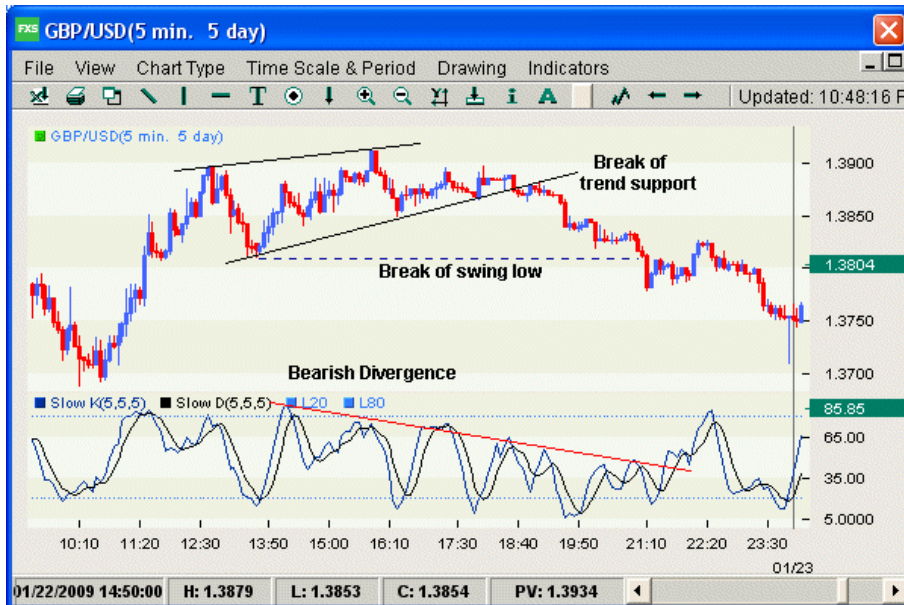
On the 21st January I noted in my analysis for GBPUSD:

Bias: *While 1.4016-51 caps I still feel the downside has further to go - target at 1.3730*

Bullish Analysis: *Break of 1.4075 & 1.40 have seen the downside accelerate and there should be further to go. However, the first move today should be higher and this has already started. There is minor resistance at 1.3967 and stronger between 1.4016-1.4051. **This higher resistance should cap.** Thus only a break back above 1.4055 would suggest extension to 1.4130-40 at least. Note the next higher resistance at 1.4293 and then 1.4394...*

Well, will it be safe to just assume that the 1.4012-50 area will cap? Indeed, will the high come at 1.4012 or close to 1.4050?

Let's have a look at the 5 minute chart for that day.



I have placed on this chart a simple slow stochastic. The Pound rose to 1.4016 and the Stochastic has developed a bearish divergence. Well, it's not always safe to just assume a reversal when a [divergence](#) has formed. Normally it is better to confirm break of a support or of a pattern.

In this case we see breach of a supporting [trend line](#). This adds weight to the possibility that we have probably seen the peak. Remember also that I had been indicating that the weekly [cycles](#) were very bearish and the downside was very vulnerable.

This should have been enough to sell on the retest of trend line. There would have been additional support for the expected decline on the break of the previous swing low...

Let's take a second example of a Limit Order set up.

On the 27th February I wrote in the bullish comments for USDCHF:

The gains I suspected yesterday didn't occur and instead price drifted lower. It does leave the situation rather mixed but overall I can't really see a strongly bullish structure now although I can't rule out - and maybe favor - a third attempt at the prior support line. A break above 1.1675-80 would assist and as long as this generated a push above 1.1718 I can see the risk then being for a follow-through to the 1.1754-76 area. I'd like this to cap but do keep an eye out on the trend line. Only above 1.1800 provokes 1.1883 & 1.1972.

I provided a guide selling area at 1.1775

First let us take a look at that "prior support line" in the 8 hour chart:

You can see this trend line. Following the 1.1883 high price broke sharply lower in what was a bearish key reversal. Following that day's low we had seen price mark out a rather messy pullback but on each attempt at the trend line it fell back.

On that day it seemed like the wave structure and momentum suggested another push higher – hence my comments.

Next we can look at the 5 minute chart:



On that day price actually reached the low end of the 1.1754-76 area I had pointed out in the analysis. In fact, it tried that level three times. Between the two first attempts it formed a trough and we know that on a break of this trough a double top is confirmed.

When the break came we could see that Stochastics were pointing lower and ADX, while below 30 due to the long sideways ranging, was just beginning to push higher which showed that at least there was some directional movement. After breach we still saw the neckline retested a few times but held on each occasion. Price then declined to reach the pattern target to reap 50 points profit.



And for a final example of a Limit Order set up:

On the 3rd March I wrote in the bullish comments for GBPJPY:

Losses developed as expected and dipped nicely to the 135.69 support - and just 12 points more. I can't point to a bullish divergence but then the pullback from 141.77 has not been a clean trend. I therefore feel that the greater risk is turning back higher. We shall need a break above this morning's 137.18 high and once seen look for the upside to return and force gains above 137.75 & 138.67 to reach the 139.40-57 area. Take care here as this should cause a pullback. Only a break above 139.70 would imply a move back towards the 141.77 high.

So I had been expecting the 125.69 support to hold from the 2nd March and this occurred. This day I expected a move back higher. These developed but not too strongly to lead to the next day's comments:

*While gains were seen as expected these were not as strong as I had wanted to see. If there is to be any further strength **we're going to need the 137.26 level support and for gains to push back above 138.66 which if seen should be enough to extend gains above 139.50 and to the 140.57-91 area.** I would then expect a pullback from there. Once complete there does seem to be a stronger chance we shall retest the 141.77 high once again.*

On the approach to the 138.75 level we see a triangle develop. However, even before that we can see an inverse head & shoulders. Now both these patterns are triggered at the same time. At this point Stochastics is just about to turn higher but we can be fairly confident that a break higher will ensure there is a cross higher. Price stalls at the triangle target and just beyond the apex. Therefore there is a risk that we could get a reaction here.



While the inverse head & shoulders targets offers potential for more profit it would be prudent to protect half the position by taking profit at the triangle target. The rest can be run by keeping stops just below the last swing low. We were still assured a profit overall even if stopped out.

Now what I have described are situations where the advice I give is correct. We also need to be able to identify when **not** to make such a trade...

On the 19th March 2009 for AUDUSD had a mixed bias but wrote:

*The upside was much more aggressive than expected and changes the overall perception of the wave structure. It is possible we reached a high at 0.6815 with stronger resistance at 0.6836 - just below the 0.6847 high... The pullback this morning has been deep and to return this to the upside we're going to need a break back above the 0.6760 pivot area. **If seen it will raise the chances that we could see a second attempt at the 0.6815-36 area. At this point I feel it will hold below 0.6847 for a correction lower.***

I noted potential for a bearish sell set up at 0.6815-36.

This was a day when I had expected limited losses for the Dollar and for a correction to develop.

We can see that to the left of the 15 minute chart the Aussie had rallied to just above 0.6800 and then went through a sideways consolidation. It was perhaps possible that we would see a double top or head and shoulders pattern.

However, as price began to rally to the 0.6815-36 area we could see that price highs and lows were rising. This is in line with an uptrend. What is more, Stochastics were very high and on each swing around the 80 (overbought) level its lows were rising also. As price reached 0.6836 even ADX was rising above 30 indicating a trend.



Very clearly we weren't seeing any reversal pattern. It may well develop afterwards, but on the approach there were no indications that a slowing in the rally was being seen and thus we could not sell into this resistance area. Hence a loss was avoided.

You can see that by strictly observing the need for a reversal pattern to develop at, or close to, the trigger level I suggest we can validate its impact and therefore avoid an unnecessary loss.

This method of validation can bring a high percentage of winning trades which, when adopted with strict take profit/stop loss ratios can provide and overall very healthy and profitable trades...

Stop Order Set Ups

Let's take an example of a Stop Order set up.

On the 4th March 2009 I had a mixed bias for GBPJPY and wrote:

*While gains were seen as expected these were not as strong as I had wanted to see. If there is to be any further strength **we're going to need the 137.26 level support and for gains to push back above 138.66 which if seen should be enough to extend gains above 139.50 and to the 140.57-91 area.** I would then expect a pullback from there. Once complete there does seem to be a stronger chance we shall retest the 141.77 high once again.*

My guideline level to watch suggested a bullish set up at 138.75.



This was the best set up of the day.

On the approach to the 138.75 level we see a triangle develop. Even before that we can see an inverse head & shoulders. The only concern I have about the inverse head & shoulders is that it was in a correction and not the end of a down trend. The difference is in the emotional representation that the pattern reflects in a trend as versus that in a correction.

While such patterns can work after a correction a lot of care needs to be exercised in confirming such a trade.

Now both these patterns are triggered at the same time. At this point Stochastics is just about to turn higher but we can be fairly confident that a break higher will ensure there is a cross higher since a break of such a line should be accompanied by a momentum thrust.

Indeed, price pushes straight through to reach the triangle target. We have to make a decision whether to follow the triangle target or the inverse head & shoulders. One thing we should note is that the peak in the rally occurred just beyond the apex of the triangle which is normally a rough timing indication of when the thrust should stall.

Therefore we should definitely take profit of at least half the position and perhaps allow the rest to run with a trailing stop.

Let's take a second example of a Stop Order set up.

On the 24th February I wrote:

The pullback from the 1.4660 high has been shallow and this concerns me. We really need a break below the 1.4450 support reached this morning. Only if seen would it cause losses to extend to 1.4405 minimum and I suspect to 1.4333 which does seem strong enough to cause a correction. Only below there opens stronger losses for 1.4174-1.4226 at least

I suggested the 1.4445 area to consider a bearish trade set up.

We had seen a strong move lower in GBPUSD at the end of North American trading. It was a sustained move lower with very few corrective bars and this should put us on alert for a possible flag formation.

The Pound dropped to just above 1.4445 and saw 6 corrective bars higher and then a fall to the trigger level which caused ADX to rise to almost reach 30. There is therefore the risk that a trend will develop.

Stochastics were just turning lower although on bar just before break FastD% had not quite crossed below SlowD%.

However, this does look like a strong chance that we'll see the flag formation complete and thus suggest follow-through to both time and price targets. If you have any concerns it can also be useful to consult a longer time-frame chart. Here we are looking at the 5 minute chart and perhaps we should look at the hourly chart.





In the hourly chart there doesn't appear to be any pattern we can identify but what has occurred is a bearish [Stochastics Kiss](#) pattern which suggests a swift continuation of a downward move.

Thus, backed by an alternative signal it would be possible to enter this trade.

What we should also remember is that flags should see rapid follow-through. Here, after breaking below 1.4445 we see 4 sideways bars. This will concern since we want to see strong losses. Thus it would be prudent to bring the stop loss down to break even or possibly to just above the low seen on the first decline.

As it happened the downward move continued for the same number of bars and to a level that was equal to the first decline measured from the top of the intervening correction.

Let's take a final example of a Stop Order set up.

On 5th March I wrote for GBPJPY:

Bias: We require the 139.12-25 area to support to retain a bullish stance...

The break back above 138.66 indeed provided the lift for a test of the 140.57-91 area. Here we have seen a small pullback but while this remains above 139.12-25 (and may already be complete at 139.99) I feel the next move will be a push above 140.84 to extend the upside to the 141.77 high and I feel that while this may provide temporary resistance the larger risk is for a move through to 142.08. Take care here as this could cause a pullback. Next larger resistance is not until 144.60...

Here we see a triangle pattern develop ahead of the trigger level. The break of the triangle occurred around 140.55 and thus some 35 points below the actual trigger level.

What we need to assess here is that the minimum target for the triangle is above the trigger level.

We could wait for the trigger level and enter a trade there. However, it does seem a tremendous waste of pips and thus as long as the indicators support that break higher it would be much better to trade at the breakout level.

In this situation, just before the break out at the last triangle low we see a bullish [Stochastics Kiss](#) pattern which suggests a swift continuation of an upward move. We can see a second bullish [Stochastics Kiss](#) pattern just after the break as price retested the triangle top and this would have provided us with some confirmation of the pattern.

Indeed, once the rally continued it pushed straight through the trigger level to reach target. The pattern is strong and gives us a target area for our take profit which is really helpful when assessing the take profit/stop loss ratio.



Finally, as I did with the Limit Entry orders let's look at one that fails so we understand when **not** to trade...

On the 10th March I had a mixed bias and wrote:

Price simply refuses to break below the 1.1460 low... and this remains the clear route to lower levels. Today I see potential to 1.1531 and it is break here that would open up the risk of follow-through to the 1.1453-60 area again. Take care if the break lower is seen and only a move through this support would provoke a stronger follow-through to 1.1400 and 1.1357. This level is likely to force a correction higher. Next supports are then found at 1.1311 and 1.1262-80.



I suggested looking for a bearish set up at 1.1450

What we have to look for here is a continuation pattern. Price declined to 1.1474 just before the actual test of 1.1450 and the question we have to ask is whether the pullback from 1.1474 formed a flag formation.

Firstly, it is rather deep for a flag formation and secondly the period of sideways consolidation following the 1.1681 peak isn't what you'd expect in the trending part of the flag.

What is more ADX begins to decline just before the end of the upward correction and this

shouldn't be seen in a flag. Thus there is no set up.

Is there any way we should trade on this formation? Well, during the decline from the break of the corrective upward channel (which is where a trade should have been considered anyway) ADX began to rise again. Does it mean the trend is resuming? It's possible but our entry rate is so far away from the channel break that this is a very high risk trade. The sharpness of this first bar is not similar to the first leg lower from 1.1681 and again this would rule against a flag formation. It's just too much of a risk and even if it may mean we can't take advantage of a potentially profitable trade it should be ignored. We want trades which have better risk ratings and better patterns to support the move.

TRADING AGAINST THE SUGGESTED TRADE SET UP

Early in this guide I wrote:

It is vital that you view the daily bias with neutral eyes. Only wanting to trade with the bias will limit your potential profit by missing possible trades.

Well, let's see just what this means and how by reading the analysis and being aware of what patterns develop how you can actually make a trade against my suggested trade set up.

On the 19th March I wrote for USDCHF:

Bias: *I suspect a pullback and a decline to 1.1343 at a minimum but also keep in mind the 1.1280-11 area*

The breach of 1.1675 signaled the end to the upside and generated an aggressive decline that has reached 1.1374 so far. I can't say the wave structure is that clear with such a strong decline but I suspect we shall see an intermediate low soon. While price holds below 1.1498 I feel there is still risk of a final move down to 1.1343. Take care here as this could be the low so look for a bullish reversal pattern. If broken then shift attention to the 1.1280-11 zone - beyond there to 1.1199-1.1238.

I suggested looking for a Buy Trade Set up at 1.1370 to look for a correction first.

This is what happened:

As you can see we almost got a bullish double bottom at 1.1370 but price never rallied above the intervening peak to confirm the pattern.

Instead a triangle like pattern developed towards the end of the consolidation.

The break below 1.1370 provided a 110 pip take profit target. Two bars before penetration a bearish [Stochastics Kiss](#) developed and thus with ADX beginning to rise again indicating potential resumption of the downtrend this would have been a good sell.

Note that the move lower ended at the triangle apex but this could have provided a nice 110+ pip profit.

Although this was not given as a potential trade the fact that a support level was broken and that I had warned of a possible deeper loss it does open up the consideration of a trade in the opposite direction, supported by the indicator and price patterns.

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