

Webinar 21 Feb 2017 (futures.io)

Losing When Good Trade Goes Bad

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How to Trade Forex Price Action – Part Video #54
Brooks Trading Course



Main Points

	Slide
▪ Need rules to avoid big losses	2
▪ All trends eventually disappoint traders	12
▪ If premise changes, change trading style	20
▪ Trapped traders	30

Lose: From Mistakes

An experienced trader sometimes makes mistakes
Losses due to mistakes (**Personal Risk**) are in the
video on “Losing Because of Mistakes”

Most losing trades, even for experts,
are due to mistakes, not bad luck

Experts lose less because they get out quickly and
are not emotionally attached
to an opinion



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This video is about **Market Risk**,
and how to avoid, or at least reduce, the loss

Losing trades where the entry and logic are good,
but market does not do what the trader expected
Bad luck instead of bad trade



Avoid Big Loss: Need Rules

Prevent losses from becoming too big
by always using rules that get you out early

When swing trading, easier to make money
only trading in the direction of the trend

As long as trending, ok to hold onto position,
or to enter in the direction of the trend at any time



Rules: 3 Types of Protection for Every Trade

For every trade, use these 3 types of protection:

1. **Always** have a reasonable protective stop in the market, and trade small if it is far away
2. Exit if reasonable opposite signal (does not have to be perfect or strong)
3. Exit if there is a strong, opposite BO

Wedge HH MTR

Many bear bars

Weak rally so probably bull leg in TR and therefore bear leg likely soon

Good sell signal bar



Most Important Rule: No Mental Stops

Need rules to minimize loss once trend evolves into TR, or reverses into opposite trend

Most important rule is to **always** have a **stop order in the market** to guarantee no more than an acceptable loss



Appropriate Stop: If Wrong, Get out Early

Even a great scalper will lose 10% of time
Prevent losses from becoming too big
by always using rules that get you out early

Always have a stop order in the market
at an appropriate location

If clearly wrong, exit immediately before stop is hit,
like a reversal with consecutive strong bars

Scalper buys close



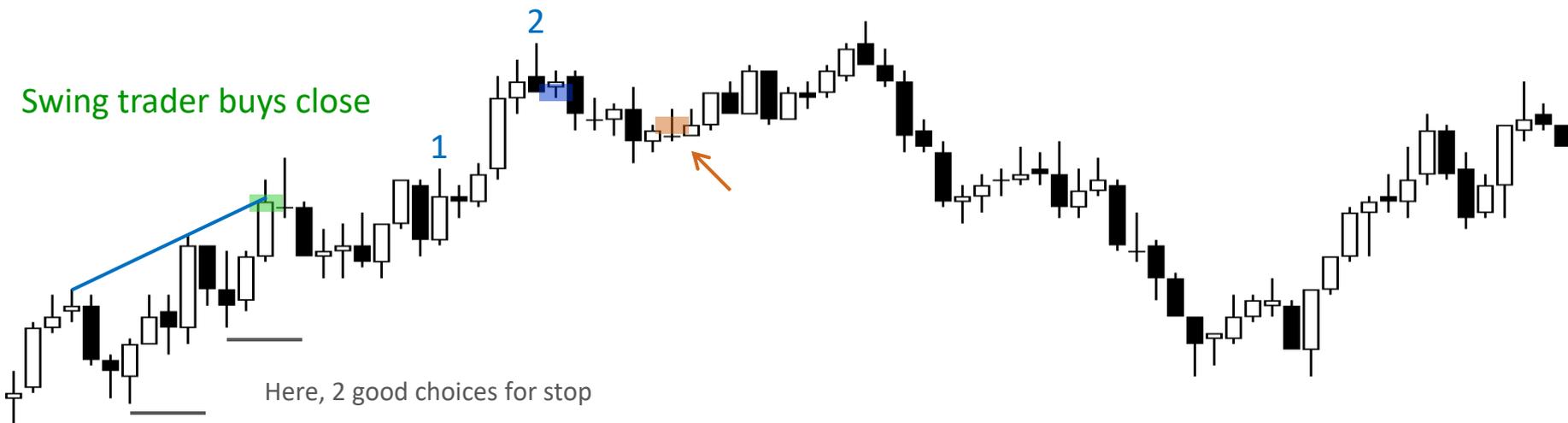
If profit order not filled,
exit on close of reversal bar,
or below its low,
around breakeven

Stopped Out: Re-enter If Trend Resumes

Exit if reasonable signal in opposite direction
If reversal fails, can always put position back on

Exit below bear reversal bar
2nd Leg Up after Failed Wedge Top

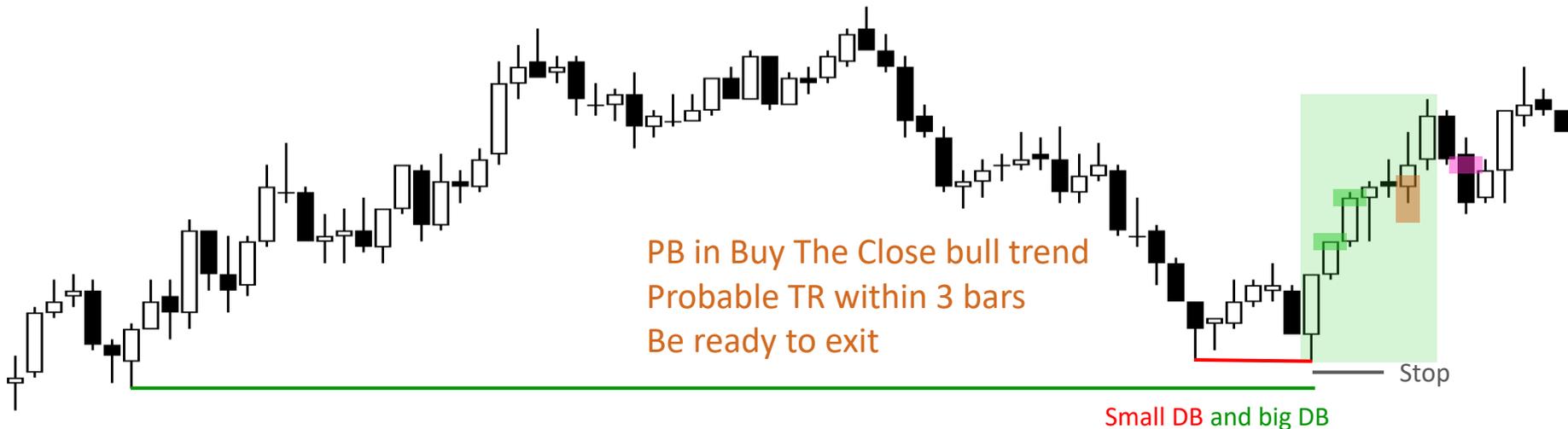
Buy above bull bar closing on high
Wedge Bull Flag (High 3)
HL, still Always In Long



End of Session: Get out Faster

When near end of the session, get out faster
Reversal might not come back to your entry today,
to let you avoid loss

Buy The Close bull trend in final hour
Exit below strong bear bar,
even though still Always In Long
Risk can happen fast at end of session



If No Reversal Signal: Exit If Strong opposite Momentum

One big trend bar

If using wide stop,
do not wait for it to be hit

Exit short
on close of big bull bar,
or as bar is forming

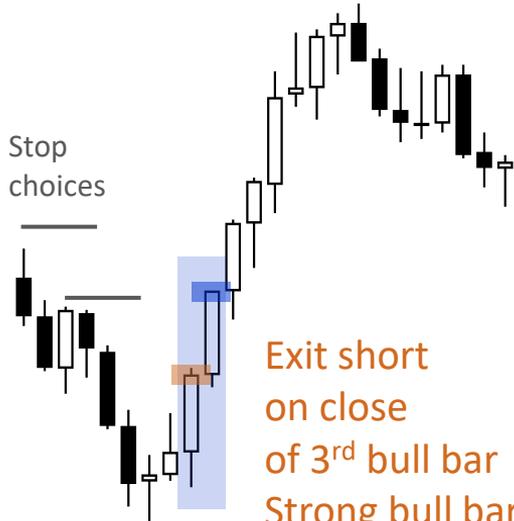
Stop
choices



2 – 3 medium size trend bars,
especially if close on high,
and no overlap

Stop
choices

Exit short
on close
of 3rd bull bar
Strong bull bar



3 – 5 small trend bars

Exit long on close of
3rd or 4th small bear bar
closing below midpoint

Stop

Bulls giving up
(Give-up bars)
Big bear BO



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Strong Trends: Eventual Disappointment

Buy The Close bull trends and
Sell The Close bear trends are common

Each eventually has a disappointing bar or two
that can lead to at least a minor reversal,
and a possible TR or major reversal

Most traders can avoid a loss
if they manage their trades well

I discuss management in the videos on
“Entering Late in Trends” and
will briefly discuss it again here



Buy The Close: Always Has Final Trend Bar

Once bull believe it is a Buy The Close bull trend,
he buys one or more closes

If the bar following his buy is a strong bear bar,
he suspects that he just bought the
final bull trend bar



Easiest Acceptable Management: Just Rely on Stop

Easiest approach is to rely on stop

As long as premise is still valid and stop not hit,
trader holds onto his position

For example, bull buys the close,
but the next bar is bear bar and the next 2 – 3 bars
did not allow him to get out breakeven

If disappointed by the strength of the selloff,
just get out breakeven on a test of the entry price
(the highest close)

Common cause of DT (or DB)



Scale In: Increments Based on Size of Smallest Scalp

Some bulls will scale in 1 – 3 times,
with each one based on size of the smallest scalp

Some scale in below low of prior bar,
as long as each entry is at least the
size of a scalp below the last buy

Trade small enough so that if stop is hit,
loss is no more than with any other trade



Disappointment: Exit to Avoid Loss, Not to Make Profit

If disappointed by the strength of the selloff,
just get out breakeven on 1st buy and
with a profit on the lower buys



Scale in to increase probability of profit,
or chance of avoiding loss

Only for experts because have to manage well
One mistake can quickly undo 10 good trades

Disappointed, but No PB: Get out Breakeven

Some bulls will buy one time

They wait for a PB that is at least 2 – 3 times bigger than a minimum scalp

They then buy above the high of a bull reversal bar

They only buy if the distance from the 1st entry is at least 2 – 3 times the size of a minimum scalp (not here)

If the PB does not go deep enough, they will just hold their original position

If disappointed by the selling, they will exit breakeven



Possible Bad Trade, but Premise Still Valid: Rely on Stop

When trader believes bear BO is strong enough so that PB will be sold, he sells the close of the BO bar or the follow-through bar



As long as no clear reason to exit, waits for PB that allows him to sell more on reversal below bear reversal bar

Reversal up did not give clear reason to exit
Ok to rely on stop,
even though rallied above entry price

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If Premise Changes: Ok to Exit

Ok to exit once TTR

Here, might get out with small loss

Is this a good trade that went bad?

Not yet, so do not have to take loss

Even though 2nd sell signal,
was not at least 2 – 3x size of scalp above,
context was good for 2nd Leg Down



Strong BO: 1st PB Will Be Bought

When trader believes bull BO is strong enough so that PB will be bought, he buys the close of the BO bar or the follow-through bar



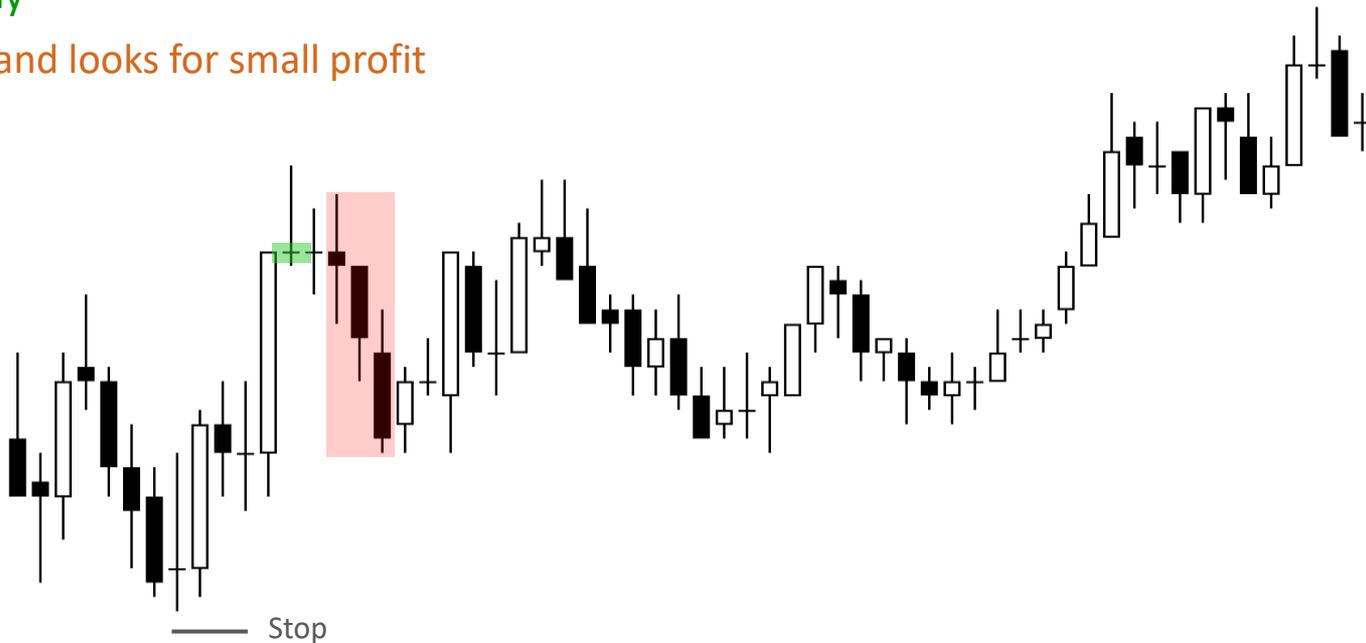
Deep PB: TR Likely So Exit near Top

Deep PB so TR more likely than bull trend

Selloff was strong enough so that
trader believes no longer good bull trend trade

Now, TR more likely

Switches strategy and looks for small profit

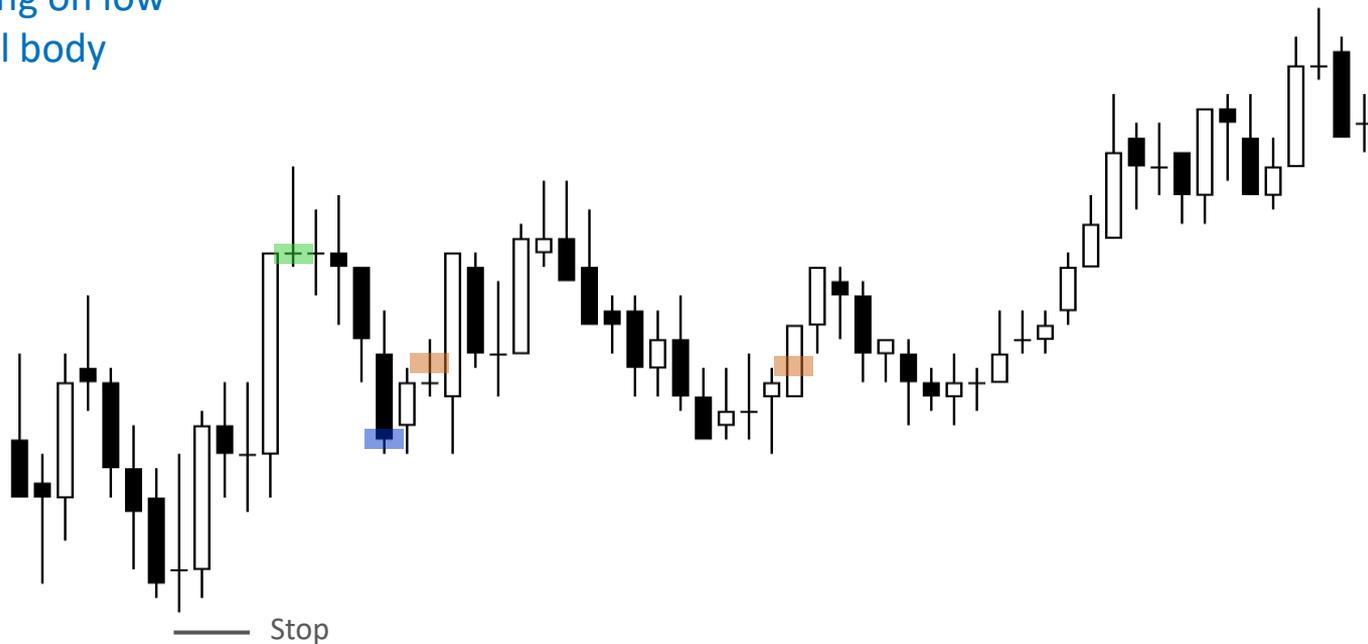


Buy above Bull Bar: Since Scale In Bulls Will Buy There

If strong enough selloff, there is possible trend reversal, so ok to exit

Exit long on close of consecutive big bear bars closing on low
5 bars without bull body

Can always buy again if reverses back up



Disappointing Follow-Through: Watch next 2 – 3 Bars

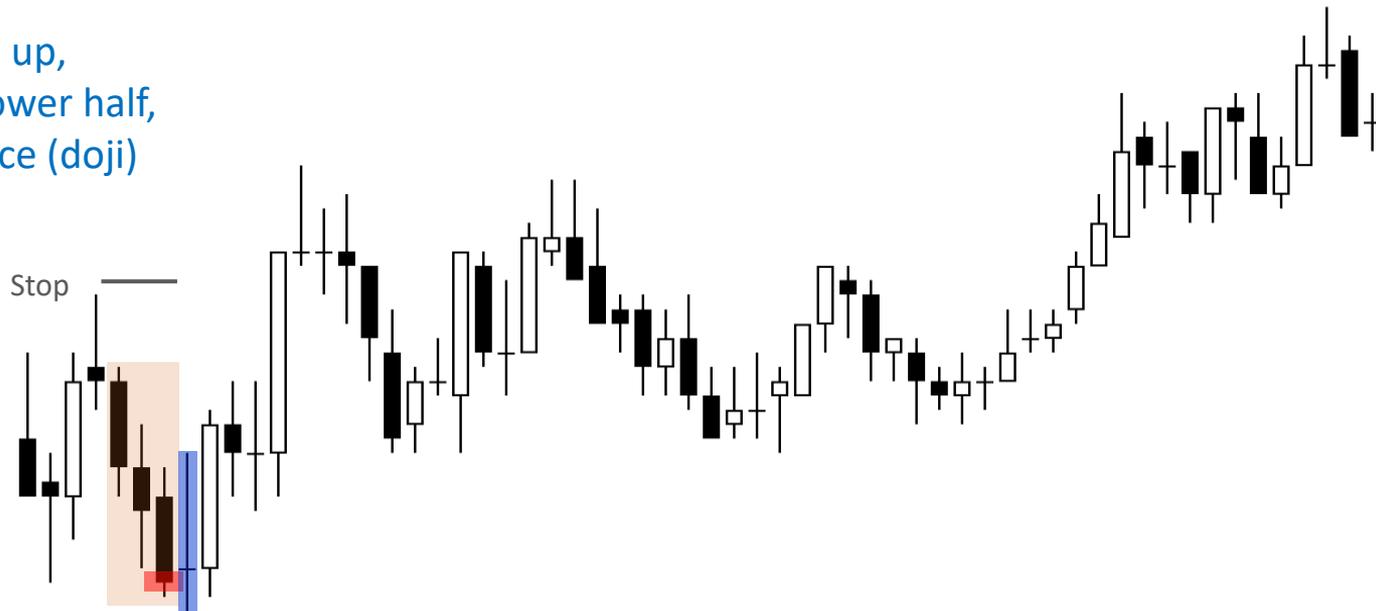
3 consecutive strong bear bars

New low

Possible early Sell The Close bear trend

Bear sells close

Next bar reversed up,
but closed in its lower half,
near sell entry price (doji)



Disappointing Follow-Through: Scale In to Exit without Loss

Quick thinking bears scaled in higher
at the size of a scalp above
Believed bear BO was strong enough
so that 1st reversal up would fail



Bought back both at original entry price
Breakeven on 1st sell and
scalper's profit on 2nd

Disappointing Follow-Through: Bears Try to Exit Breakeven

4 consecutive strong bear bars

New low

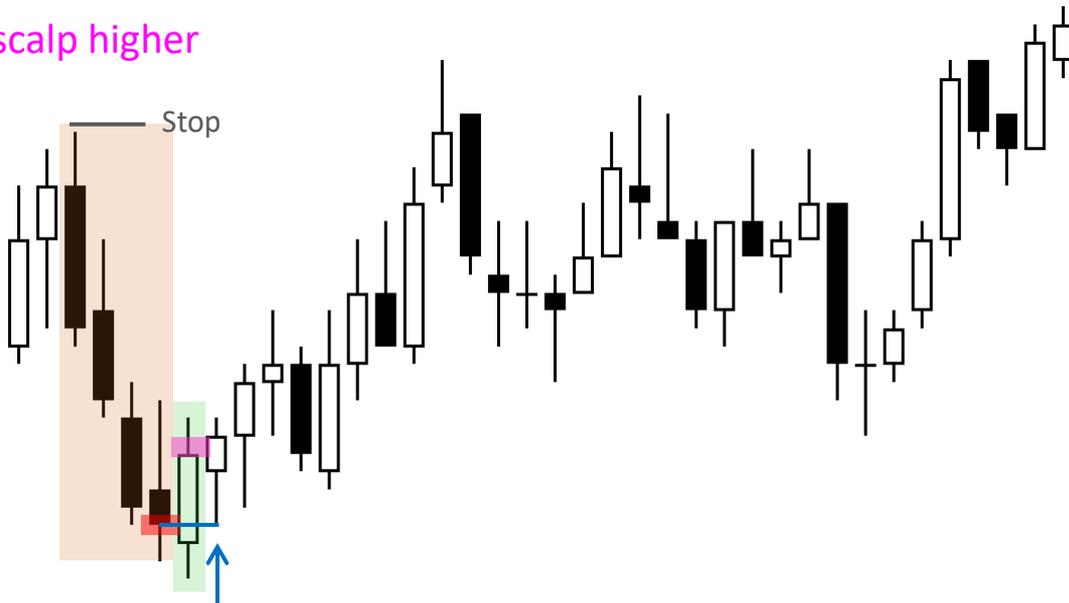
Sell The Close bear trend

Bear sells closes

Bears scale in, at least the size of a scalp higher

Disappointed that scale in bar closed on its high, creating a big bull bar

Bears place limit order to buy at the low close
Now want to get out breakeven on 1st entry
and with scalp profit on 2nd entry



Bears Cannot Get out Breakeven: Will Buy Higher

Fell to limit order, but not below

Most bears unable to buy back shorts

Getting worried about possible loss

Raised limit order slightly, even though will

then have only small net profit

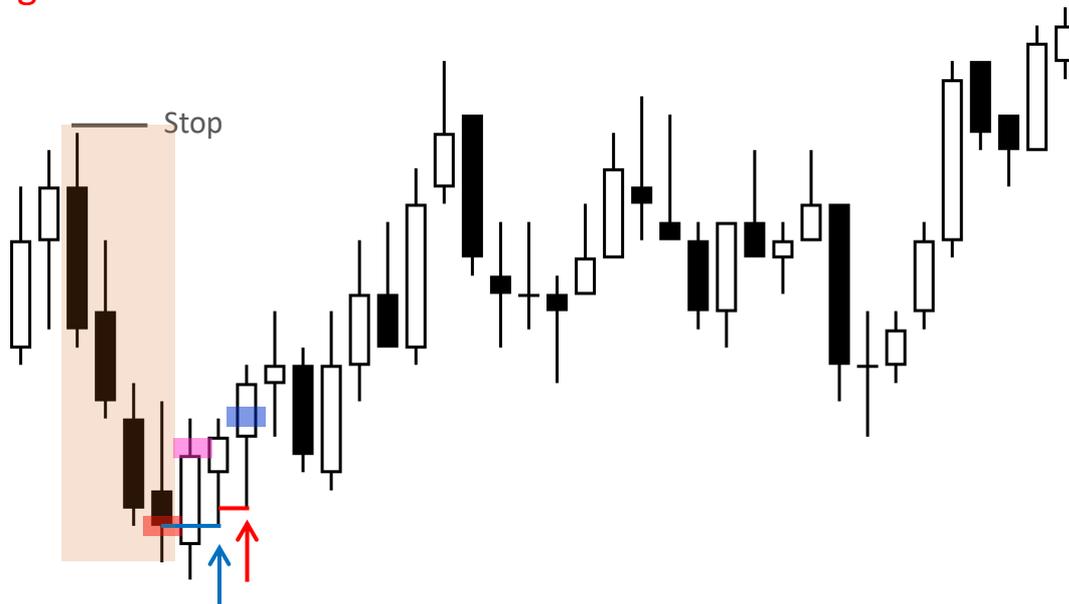
Hit new limit order,

but again not filled

Bears are **trapped**

Bears start buying back at market

and above 2 bull buy signal bars



Do Not Let Losses Grow: Can Always Buy Again Later

If bought the high close and reverses down strongly, you missed a topping pattern and a sell signal

Even if you still do not see it, get out because the market is telling you that you are wrong and are trapped

Do not get paralyzed by a need to see what you missed

Just exit with a loss before it grows big

When bulls are trapped and give up, odds favor at swing down and probably Ten Bars, Two Legs (TBTL)

Can always buy again if immediately reverses back up



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