



1 on 1:

Introduction to Channel Trading Vol.1

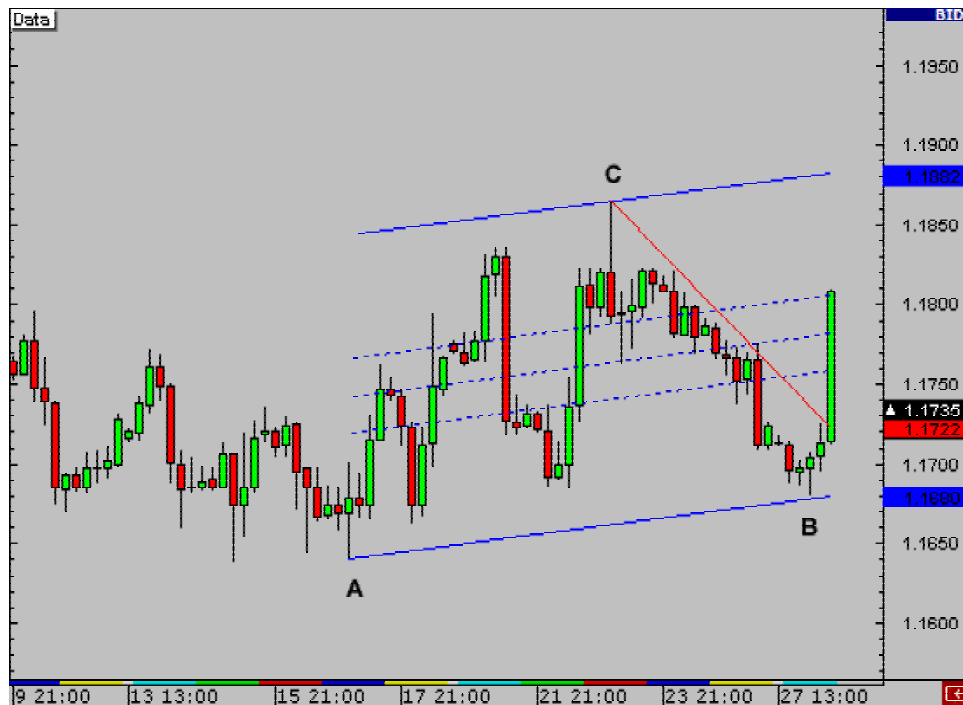
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Introduction to Channel Trading:

I hope that you have gone through all of the Trend Line lessons before looking at the Channel lessons, as we will be building on some of the skills learned from using trend lines alone.

We'll look at the anatomy of a channel first.



You can see that the higher lows from point A to B create a clean trend line. The spike at point C is all that is needed to start a channel. We would like to see TWO touches at the top of the channel – but one spike with a long wick (at “C”) is enough to do the trick.

In this ascending channel, the top of the channel is an ideal profit target. Price will surprisingly often come up to hit the top of a channel like this, even if you only start it with 3 touch points for drawing the channel.

Those middle dotted lines in the channel are Fibonacci retracement values, of the width of the channel, that we call Fibles. This name derives from a mix of Fibonacci & Middle. Not Fido, and Kibbles ‘N Bits. Although, if you master this type of channel trading, you will be rolling in Fibles ‘N Pips.





These Fibbles are the 38.2, 50, and 61.8 percent values of the width of the channel. They are automatically drawn in Xtick charts when you use the channel drawing tool. We'll get to the use of Fibbles in a minute.

Price tends to range and get stuck around these fibble lines.

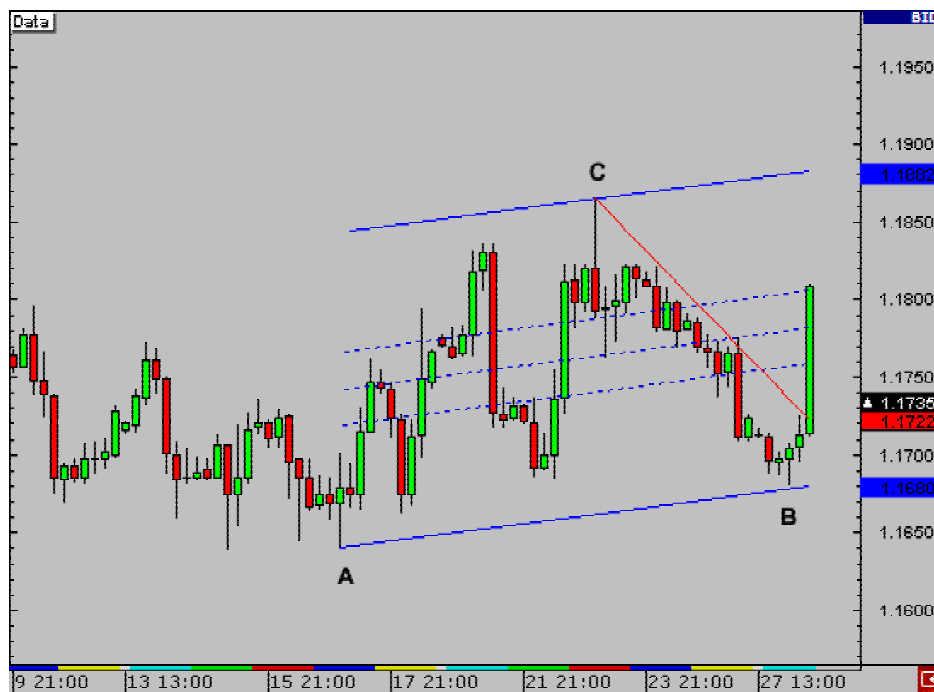
Now, lets move on to the red line. You can obviously use any color trend line that you like, but you will here me use the term red line often.

Channel Trade Type 1:

I like to draw trend lines on moves that range from the top of the channel all the way to the bottom (or vice versa).

In an Ascending channel we have a preference to buy.

In a Descending channel we have a preference to sell.

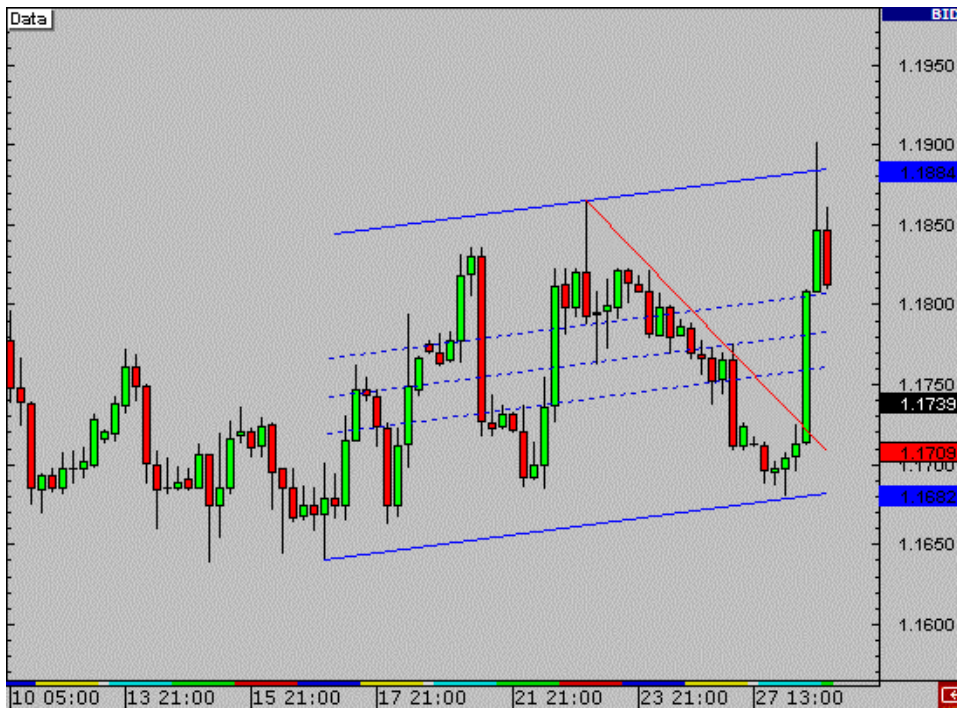


Go long above the high of the candle that closes above the red line. In this case, the stop can go below Stop goes below the lower boundary of the channel. If trading in the direction of the Channel (i.e. buying in an ascending channel, or selling in a descending channel), then you can profit the opposite extreme of the channel. So in this chart, we would have a limit of the top of the channel.

If you are trading against the direction of the channel, then it is often best to use the nearest Fibble as a profit target. This is to limit your exposure while trading against the near term trend.



This red line type of trade will often get you into a trade near to the boundary of a channel after a bounce. In this example however the breaking candle is huge so we will be trading long in the upper portion of the channel. That is still ok.



And you can see here that we got to the top of the channel. Ain't nothin' like the smell of fresh Pips in the morning!

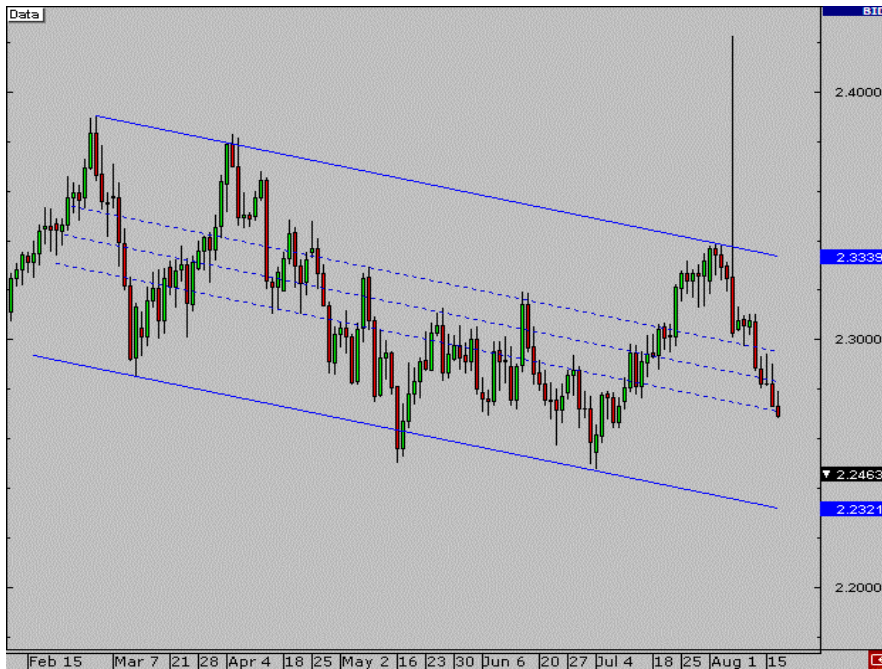
Let's move on to the next example!



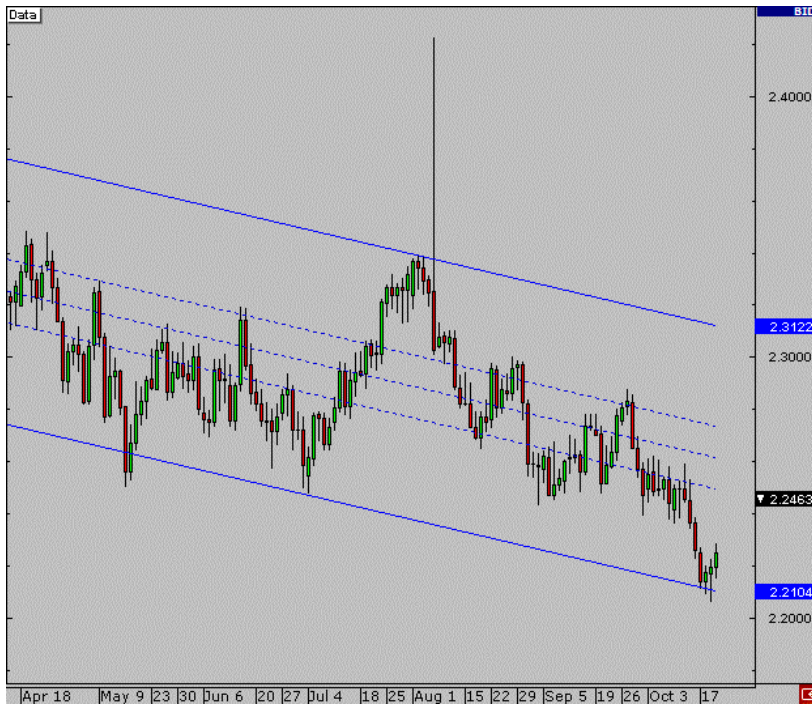
Channel Trade Type 2:

In an Ascending channel, we can trade long on a candle close above the top fibble targeting the top of the channel.

In a Descending channel, we can trade short on a candle close below the lower fibble, targeting the lower boundary of the channel.



Here we have a close below the fibble. Set entry a few pips below the low of the candle. Stop goes above the top fibble. Profit Target is the bottom of the channel.



Boom Shaka Laka! This is why we like selling in a down trend. The profit target keeps moving further away as your position is collecting more pips.

Let's continue and consider the third type of channel trading.

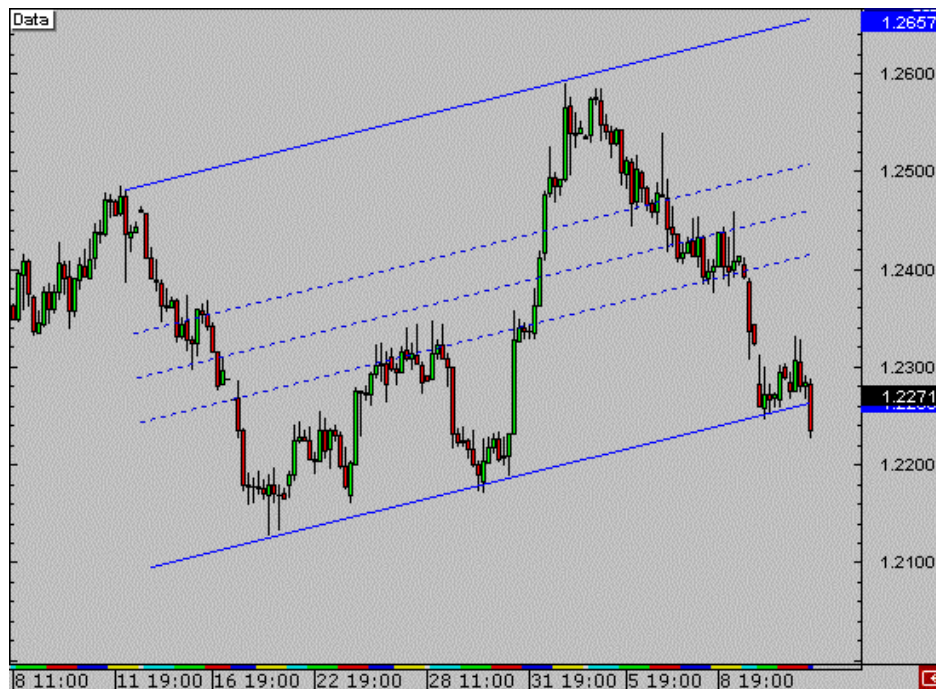


Channel Trade Type 3:

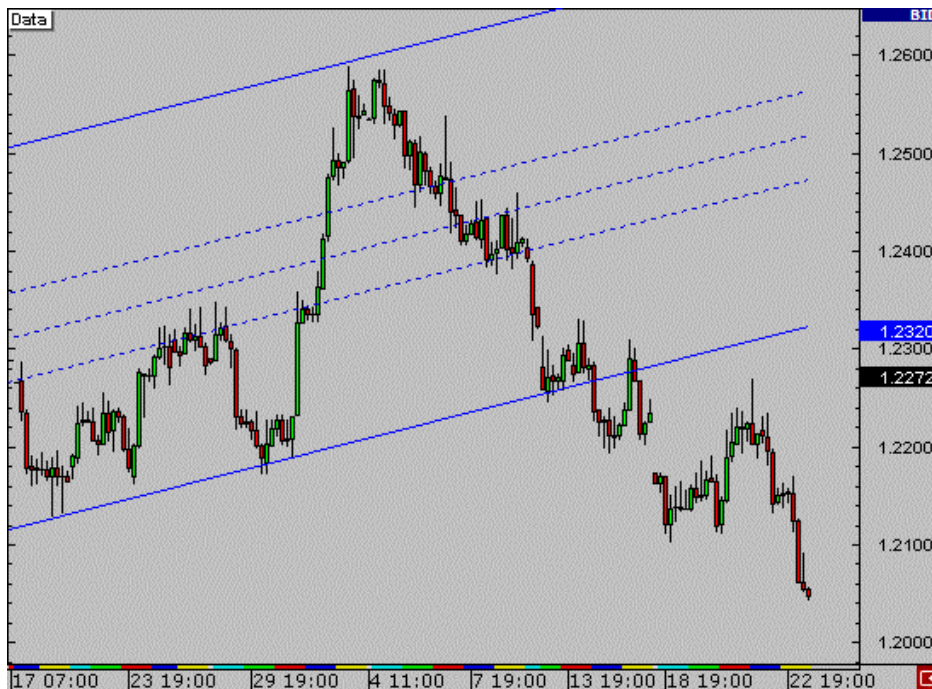
While in an ascending channel we have a bias for buying, the break of the bottom of the ascending channel is a sell signal. The inverse is true in a descending channel. Again:

In Ascending Channel - Break of lower boundary of channel is a bearish signal.

In Descending Channel – Break of upper boundary of channel is a bullish signal.



Short below the ascending channel.



Nice trade! Would anybody like some Pips Ahoy?! Cookies as a prize for a trade well done?

This pattern is a perfect “Winnipeg Special.”

Remember this term, because it will be the focus of the next installment of **Introduction to Channel Trading.**



Turn to the next page, and we’ll review what we learned. Please don’t spill any crumbs on the channels.



Channel Basics Hot Sheet:

- **Fibbles – Fibonacci percentage levels of the width of the channel**
- **Bias short in descending channels**
- **Bias long in ascending channels**
- **Long above Top Fibble in Ascending channel**
- **Short Below Lower Fibble in Descending channel**
- **Long above descending redline inside of channel**
- **Short below ascending redline inside of channel**
- **Long Above Descending channel**
- **Short below Ascending channel**