

# 2e Trading System

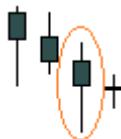


Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts.

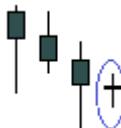
The 2e trading system is designed to take a huge bite out of a trending market *on the four hour charts*.

The basic theory behind the system is that a trending market will often pause, and this pause is identified by the inside candle formation. The inside candle formation is a naked trading pattern with two candles.

The mother candle is the larger of the two candles in the formation.



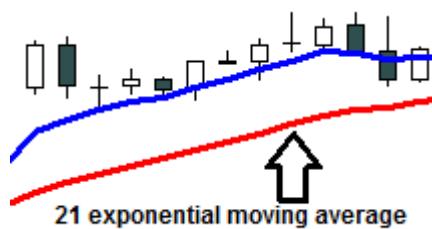
**Figure 1.** The **mother candle** (circled above in orange) is defined as the candle that has a higher high and a lower low than the *inside candle*.



**Figure 2.** The **inside candle** (circled above in blue) is defined as the candle that has a lower high and a higher low -- that is to say that it is completely “inside of” the mother candle.

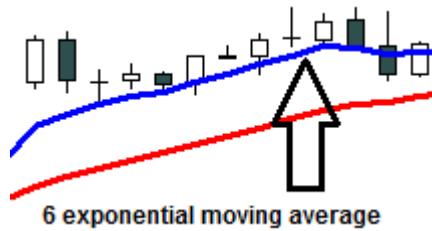
This formation is the foundation of the 2e trading system. But it is not the only piece. The market must be in a *trending* phase, which is generally only 15-30% of the time.

A trend for the 2e system is defined by two moving averages, the **6 exponential moving average** and the **21 exponential moving average** (both averages are calculated on the *closing price*, which is the default setting for moving averages).



**Figure 3.** The 21 exponential moving average is the **red line** in the chart above.

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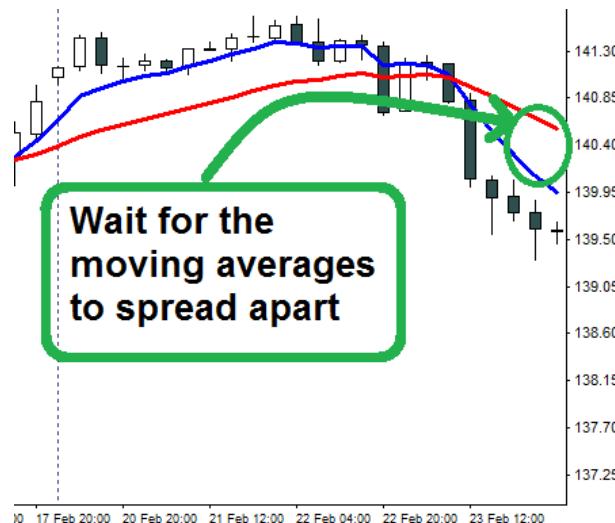
**Figure 4.** The 6 exponential moving average is the blue line in the chart above.

The 2e identifies a trend once the moving averages begin to separate.

Two things must happen to signal a 2e trade setup.

### 1. The moving averages must separate.

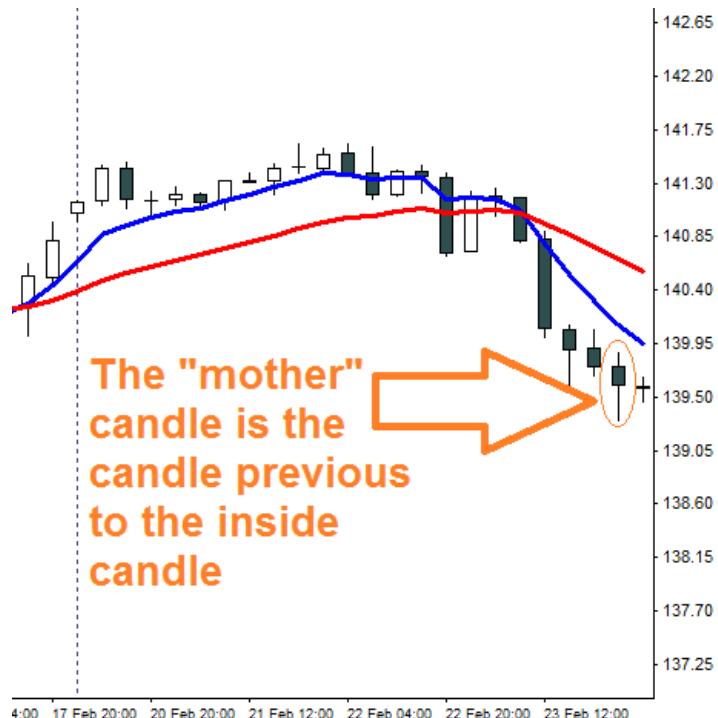
### 2. The inside candle formation must print.



**Figure 5.** When the moving averages begin to spread apart a trend is signalled.

The moving averages will always spread apart during a strong trend. The key is to wait for the inside candle formation (**mother candle** and *inside candle*) to print on the chart.

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**Figure 6.** For a 2e trade signal, the mother candle and inside candle must print after the moving averages have separated.

Once the inside candle formation has printed, the stop loss placement and the trade entry price are defined by the mother candle.

The sell order is placed 5 pips below the mother candle for a 2e sell trade signal (obviously, for a 2e buy trade signal, the buy order is placed 5 pips *plus the spread* above the high of the mother candle).

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**Figure 7.** For a sell trade, the stop loss is placed above the high of the mother candle and the sell order is placed 5 pips below the low of the inside candle.



**Figure 8.** The entry price for a 2e trade is 5 pips below the low of the mother candle.

There are two exits for the 2e trade. So each trade signal is split into two separate positions. The first position has a profit target that is a 1:1 reward to risk ratio.

So, for example, if the trade has 80 pips of risk, the profit target will be 80 pips from the entry price.

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**Figure 9.** The first position has a profit target with a 1:1 reward to risk ratio – the stop loss and the profit target are the same distance from the entry price.

If the market continues in the direction of the trend, it will usually achieve the profit target eventually. (NOTE: not all trades are winners, some will lose, like any trading system, there are some winners and there are some losers).



**Figure 10.** The first position achieves the profit target for this 2e trade.

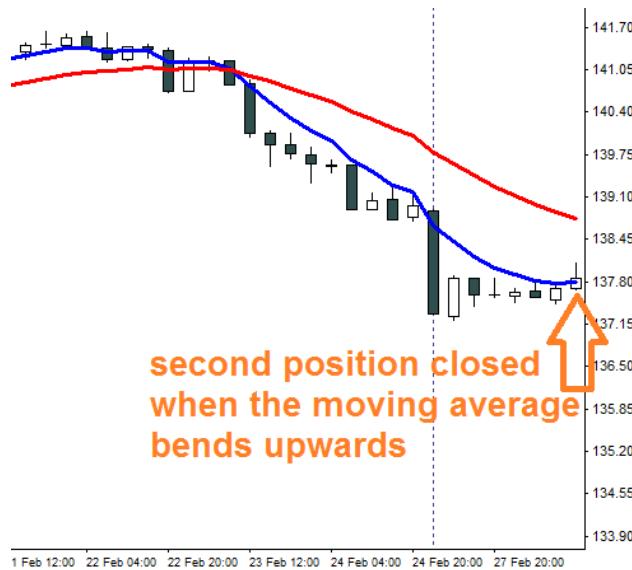
Once the first target is achieved, the stop loss is moved to break even on the remaining open position reduce the risk on the trade.

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**Figure 11.** The stop loss is moved to breakeven after the first profit target is achieved.

The second position will remain open, with the stop loss at the entry price, and ride the trend. The position is closed once the **6 moving average** starts to slope upwards. When the candle closes, the trade is closed out.



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## **Important Things To Remember**

1. Not all trades are winners, many will lose as well.
2. Once in a while you will capture a huge winner using the trailing exit on the second position.
3. Taking trades *right after the moving averages cross* is a poor strategy.
4. The key to this system is to not take every signal.
5. The best signals are during a strong trend, with the moving averages separated.
6. Pullbacks during a strong trend can be ideal places for an inside candle to print.
7. This system has been tested and traded on the 4 hour chart (it may or may not work on other timeframes).
8. The most important thing to do is to *test the system* in a simulator like [Forex Tester](#).

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