

Drain The Banks: Learn How To Trade Forex Like A Bank Trader

Introduction

Banks and hedge funds dominate the forex market.

Their transactions account for more than 70% of the daily volume. In fact, more than 30% comes from just two different banks.

The banks controlling such a huge share of the market makes studying them and understanding how they operate a big priority for us.

The purpose of this book is to reveal exactly how the large institutions operate in the forex market.

I'll explain how to find where the banks have placed their trades, how to figure out when they are likely to place trades, and why they split their trades up into smaller amounts when they want to cause a reversal.

On top of this, I'll also show you how to determine when the banks have started taking profits off by looking for changes in the price structure, along with the impact different trading sessions have upon the market.

There are lots more which I'll leave you to discover for yourself. Hope you enjoy the book.

The Three Decisions A Trader Can Make

The key to trading forex profitably is knowing how other traders trade. Retail traders have this idea in their heads that the banks and other large institutions trade the markets very differently to how we trade them.

This is wrong.

The banks trade in a very similar way to us, not in terms of strategy, but in the decisions they make. All the decisions we make, are the same as what they make. The big difference is they need certain conditions to be met to make their decisions, whereas we don't.

Here are the three decisions all traders in the market must make.

When to place a trade.

When to close a trade.

When to take profits on a trade.

Let's take a look at what retail traders need to their decisions.

Retail Traders

Placing A Trade

Retail traders place their trades upon seeing some sort of criteria filled based upon technical analysis.

It could be a moving average crossover, a candlestick pattern at support, or any one of the other many methods that technical analysis encompasses.

The fact is, getting into a trade is not a problem for retail traders because their trades are so small.

Closing A Trade

Retail traders close their trades in one of two ways...

The first is the market hitting their stop-loss, which is likely to have been placed based on the maximum amount of money they're willing to lose, rather at a predefined point where they know their reason for entering wrong - the right way to place it.

The second is they close their trade manually.

Traders close their trades manually either because the trade was only going to be held for a small amount of time, and they were present to watch the unfolding price action, or because they never thought to put a stop-loss on their trade and it's turned into a huge loss.

Taking Profits

Most retail traders take profits when they feel like they've made enough money. Sometimes take profit orders will be placed by the trader at a predefined price point and the trade will be closed automatically once it reaches a certain amount of profit.

Now lets look at how institutional traders make their decisions.

Institutional Traders

Placing Trades

The way institutional traders place trades differs greatly from how we place trades.

We never have to think about if there's enough buy or sell orders present in the market to get our trades placed because the size is so small it's easy for it to be matched with an opposing buy or sell order.

Institutional traders, on the other hand, are placing trades many times the size of what we're placing.

The only way they can get these trades placed is if enough opposing orders are available. For example, if a bank trader wanted to buy 100,000 Euro's, he needs other traders (us) to be selling 100,000 Euro's at the same time, otherwise, he can't buy the full amount.

Another way retail traders and institutional traders differ in getting trades placed is what the institutional traders need to make a profit off the trades they plan on placing.

Retail traders never think about how they're going to make money on a trade because they don't know how money gets made and lost in the market.

I talk about this more in my Zero Sum Fun book. For someone to make a profit on a trade, another trader must lose. The more money someone wants to make, the more traders who need to lose as a result.

What this means is the banks only place trades when they know a large number of retail traders will lose as a result. If the banks see that only a small number of traders will lose, they won't even bother to enter and cause a reversal.

Instead, they'll wait until the price has fallen or risen enough for lots of retail traders to have trades open. When enough traders have placed trades in the same direction, the banks will enter and cause a large reversal.

Closing Trades And Taking Profits

Like how banks place trades, closing trades and taking profits can only be achieved when enough orders are present.

If a bank had a large open sell position, the only way they can take profits off is if lots of other traders come into the market and place sell trades.

The reason why is because when a trader wants to take profits off a sell trade, he must buy back some of what he sold at a lower price. That can only be done if other traders are selling because the only way to buy is if someone else is willing to sell to you.

The more profit a bank or trader wishes to take off a trade, the higher the number of traders that must be placing trades in the same direction.

If not enough people are selling, it won't be possible for the trader or bank to take the amount of profit he wants off.

Recap:

- Placing trades, closing trades, and taking profits is not something the banks can do whenever they want. There must be the right amount of buy or sell orders in the market. If there aren't enough orders, the banks can't complete one of the three actions listed.
- When the banks want to place trades, one of the main things they'll look at is if a large number of retail traders are currently long or short. Because the only way they can make money is if other traders lose. If not many people have trades open, the banks won't make much money by causing a reversal. So they always gauge how many will lose before they place their trades.

When Will The Banks Place Their Trades?

In order for a bank to place a trade two conditions must be met:

One they need a lot of traders in open trades who they know will lose money if they enter their own trades and cause a reversal. And two, they need enough orders in to actually get whatever trades they want placed.

By understanding these two conditions, we can come to some conclusions as to when and where the banks might place their trades.

First, we need to figure out when a large number of retail traders have entered trades.

It's only by understanding this, will we be able to determine when the banks are likely to enter trades because the primary condition the banks need in order to place trades is the knowledge that a significant number of retail traders will lose money they cause a reversal.

So essentially, what we need to find out is the one thing that causes a large number of retail traders to enter trades.

And this 'one thing' is a concept you already have knowledge on...

The trend.

Most of my Zero Sum Fun book is based on teaching people why the concept of trend has been made up to cause traders to lose money. The ideas behind the theory of the trend make very little sense in the market, and for the most part, cause people to always enter trades at the point when the trend itself is about to end.

The whole theory of trend is based on the assumption that the longer the market moves in one direction, the higher the probability it'll continue to move in the same direction in the future.

Because all traders are taught to trade with the trend from the very beginning of their careers, it means most of the traders in the market believe in the concept of trend and the idea that the longer the market moves in one direction the more likely it is to continue moving in the same direction rather than reverse.

What this means is the longer price moves in the same direction, the higher the number of traders who place trades in the same direction.

So really, what the banks need to see to enter trades and cause a reversal is a market that has been moving in the same direction for a long time. Because they know if a market has been moving in one direction for a long duration of time, most of the traders in the market are going to be placing trades in the direction it has been moving in, due to the concept of trend.



The image on the previous page is the trend reversal that occurred on USD/JPY a few years ago.

The banks were the ones behind this reversal and they placed their first buy trades back when USD/JPY was in a downtrend.

At this point, USD/JPY had been in a downtrend for almost 5 years, which meant most of the traders in the market were selling, because of their beliefs about the trend. The last thing they expected is a massive reversal to take place because of how long price had been falling.

With so many traders short, the banks know they can make a huge amount of money if they place trades and cause reversal. If price reverses all the traders currently short will close their trades, because price will have moved against them.

But remember: to close a sell trade, you must use a buy order. So when all these traders close their trades, it'll push price up, as a huge influx of buy orders will enter the market from them closing their trades at a loss. That will in turn cause the banks to make a large profit on their own trades, as price will have risen far beyond where they bought.

After the trend reverses, the retracements and consolidations that form offer the bank traders the chance to get more buy trades placed, albeit at a smaller size - due to price not being in a downtrend anymore.

The reason why is because the only way the banks can get a trade placed is if they have enough orders coming in, which are the opposite to the trade they wish to place.

In the example, this means if the banks want to get additional buy trades placed in the direction of the up-trend, they need sell orders to come in.

So they need to make other traders place sell trades to get their buy trades placed. The banks do this by taking some profits off their open buy trades. When they take profits, the buy orders currently coming in from retail traders buying are consumed, and price begins to fall.

When price falls, the retail traders who were long start closing their trades because they're now at a loss. The only way to close a buy trade is to sell. So when they close, a big bunch of sell orders enter the market, which the banks can use to place more buy trades. On top of that, the movement created by them closing has made many traders think a reversal is taking place, causing them to sell and add more sell orders for the banks to use

to place more buy trades.

Both sets of traders are putting sell orders into the market even though they are taking completely different actions. These sell orders are what the banks will use to get more buy trades placed in the up-trend.

Once the banks have placed their buy trades, the sell orders coming in get consumed, causing price to rise and the trend to continue.

Another point to make, which I mentioned earlier, is for the banks to now make a profit on the buy trades they've placed during the retracements and consolidations, they must have a set of traders who they know will lose money once the price rises again.

Because of how retracements and consolidations form, they'll cause lots of traders to place sell trades, as they'll think the market is reversing. The banks know this, so also know that when they place their buy trades, price will rise and all these traders will lose, causing them to make a big profit in the process.

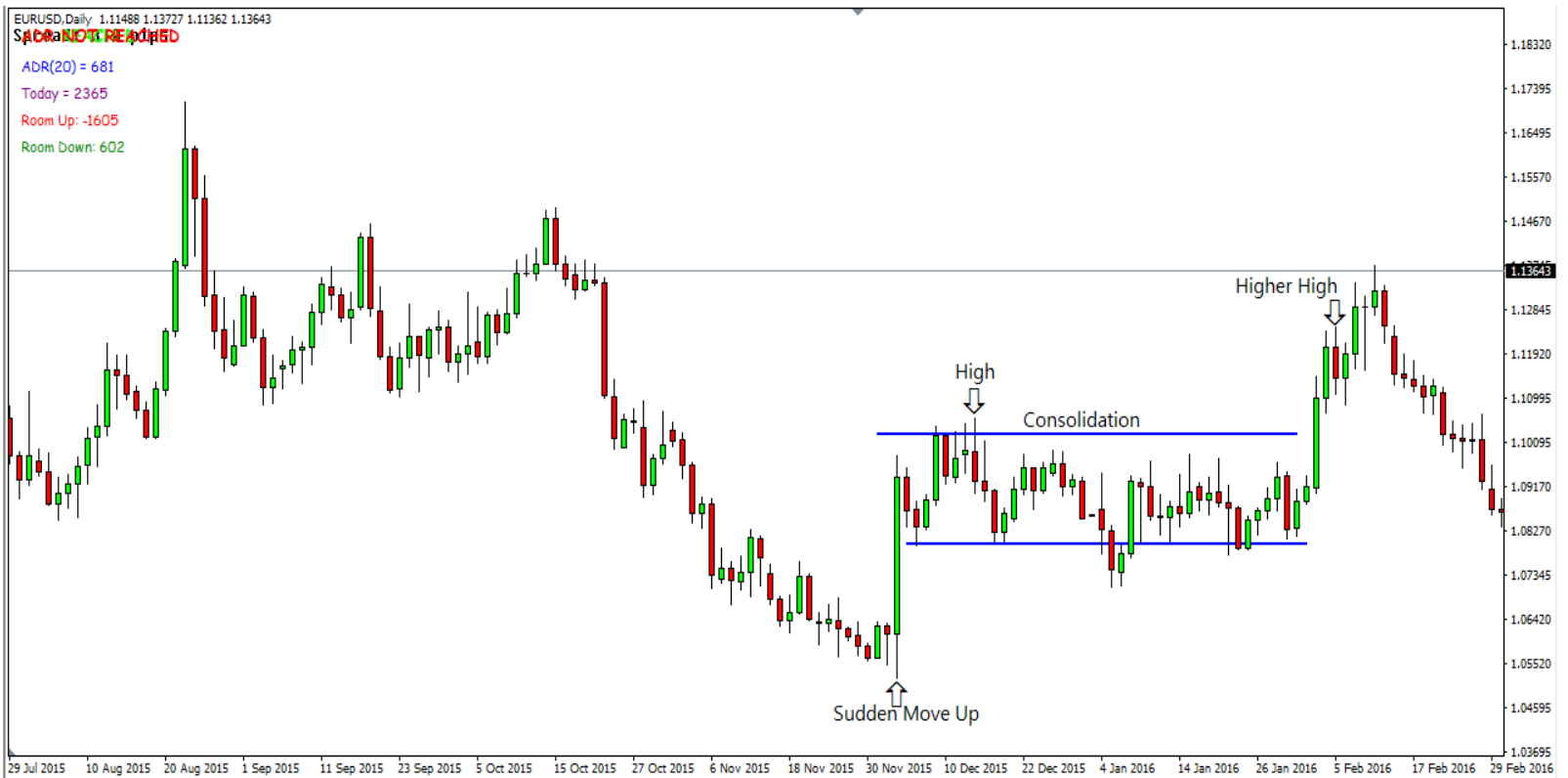
Locating Where The Banks Have Placed Their Trades

So far, you've learned the banks will only place trades if they know a large number of traders are going to lose money. What I want to show you now is how to find out where the banks have placed their trades.

We know the one thing that causes a large percentage of traders to enter trades is a trend. Therefore all we need to do to figure out when the banks will enter the market is look for a currency that has been in a trend for a long time.

We can't know exactly when the banks will enter their trades, because determining if a market has been in a long trend depends on the timeframe being observed and on information we don't have access to.

However, at least we have a guideline on when they are likely to enter their trades, i.e. after the market has been moving in one direction for a significant length of time.



Even though we can't predict exactly when the banks will enter trades, we can see when they've entered by looking for changes in the price action.

Take a look at the image above of a reversal I found on the daily chart of EUR/USD.

This is an example of finding out where the banks have entered their trades by understanding the changes in price structure.

To begin with, EUR/USD had made a sudden move up after it had been moving lower for around a month. A sudden move up can only mean one thing...

Someone has come into the market and placed buy trades.

We know it can't be retail traders as they don't trade at a size that would have a large effect on the market price. Therefore the up-move must have been caused by bank traders placing buy trades.

When the move up comes to an end, we see the market enter a consolidation. Eventually, the consolidation ends, and another up-move takes place, which breaks far past the highs made during the consolidation.

This up-move tells us the banks have placed buy trades somewhere inside the consolidation.

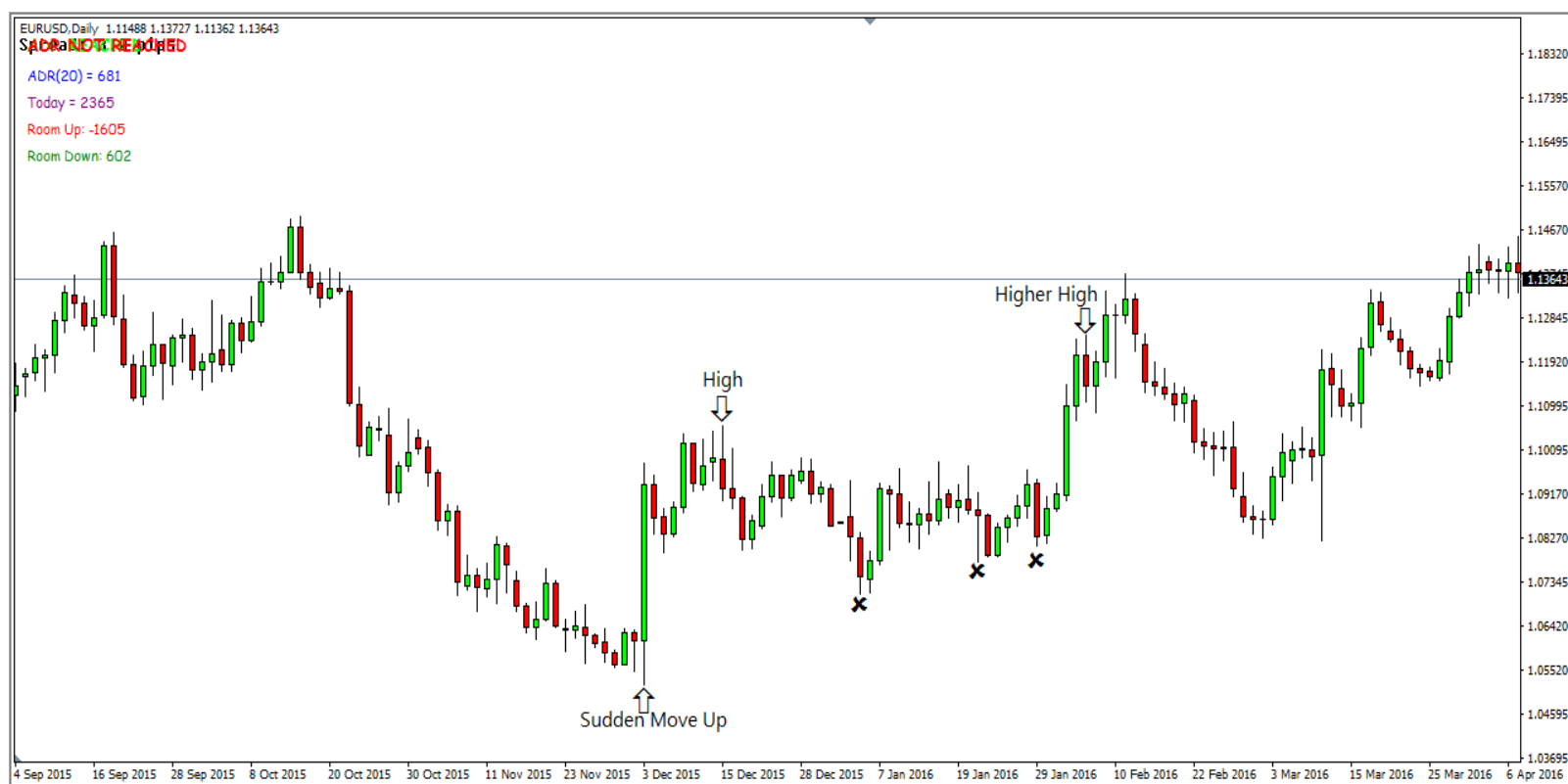
The question is where?

To figure this out, we must come back to what I said at the beginning of the book, about how bank traders enter the market.

The banks can only enter when enough orders are available. The orders they need must be the opposite to the trades they want to place e.g they need sell orders to place buy trades.

In the example, we saw price move up because the banks placed buy trades. The only way they were able to get these trades placed is if a significant number of other traders were placing sell trades at the same time.

So for us to find the exact point where the banks placed their buy trades, all we need to do is find where lots of traders would have been entering sell trades, as the banks will have used those orders to get their trades placed.



I've marked where the banks placed buy trades with X's in the image.

You can see each X is at a swing low.

The banks can only place trades when price is moving in the opposite direction they want it to move. In the example, the banks wanted to place buy trades, which means they need

people to be selling. The only time people were selling in large amounts during the consolidations was on the swing lows, which is how I know that's where the banks placed their trades.

Now we know where the banks placed their buy trades and the reason why they placed them here rather than at some other point, what we can do is watch for the market to come back into the region where they were buying in case they want to buy again in the future.

The way you do this is by marking a zone around the points where they bought. This zone isn't a demand zone, but a location where the banks may buy again in the future if price falls.



Why the market may return to the zone is because the banks might not have been able to get all of their buy trades placed when was consolidating.

The reason for this is because the banks rarely have enough orders coming into the market to get all of their trades placed at a single price. This means they have to manipulate the market to get people to buy or sell to generate orders for them to use to get the rest of their trades placed (more on this later).

So, in our example, the banks might still have buy trades they need to get placed before the main reversal occurs. For them to get these remaining trades placed, they must make the market move lower. The banks do this by taking some profits off the buy trades they placed when price was consolidating.

They take just enough profit to ensure the buy orders coming in the market are consumed so that price moves lower. When the price falls back into the region where the banks placed their other buy trades in the consolidation, they buy again, using the sell orders generated from people selling on the move lower.

When their remaining buy trades are placed, price moves up again, creating a higher swing low which I've marked in the image.

6 days after this swing low forms, the NFP news comes out.

The news turns out to be negative for EUR, and the price ends up dropping back into the zone created by the banks placing buy trades.

Most traders who saw the NFP come out likely believed price was going to continue falling, as the size of the drop it caused was huge.

When the market rises or drops by a considerable amount in a short space of time, many traders will enter trades in the direction of the drop or rise because it makes them feel like the market is certain to keep falling or rising. The bigger the rise or drop is, the larger the number of traders who will be entering trades.

With so many traders going short because of the drop, the banks now have a huge amount of sell orders at their disposal that they can use to get the rest of their buy trades placed.

When price drops into the zone where we know the banks have placed buy trades on 4 previous occasions, they buy again.

This causes all of the sell orders coming into the market from traders selling to get consumed, which makes price rise. That then causes all the people who sold on the move down to close their trades at a loss, as the market is now moving against their position.

The only way to close a sell trade is to buy back what you sold at a worse price than what you brought it for. This means when the traders who sold on the move down caused by the NFP close their trades, vast quantities of buy orders come into the market, which pushes

price higher and causes the banks to make a big profit on their trades.

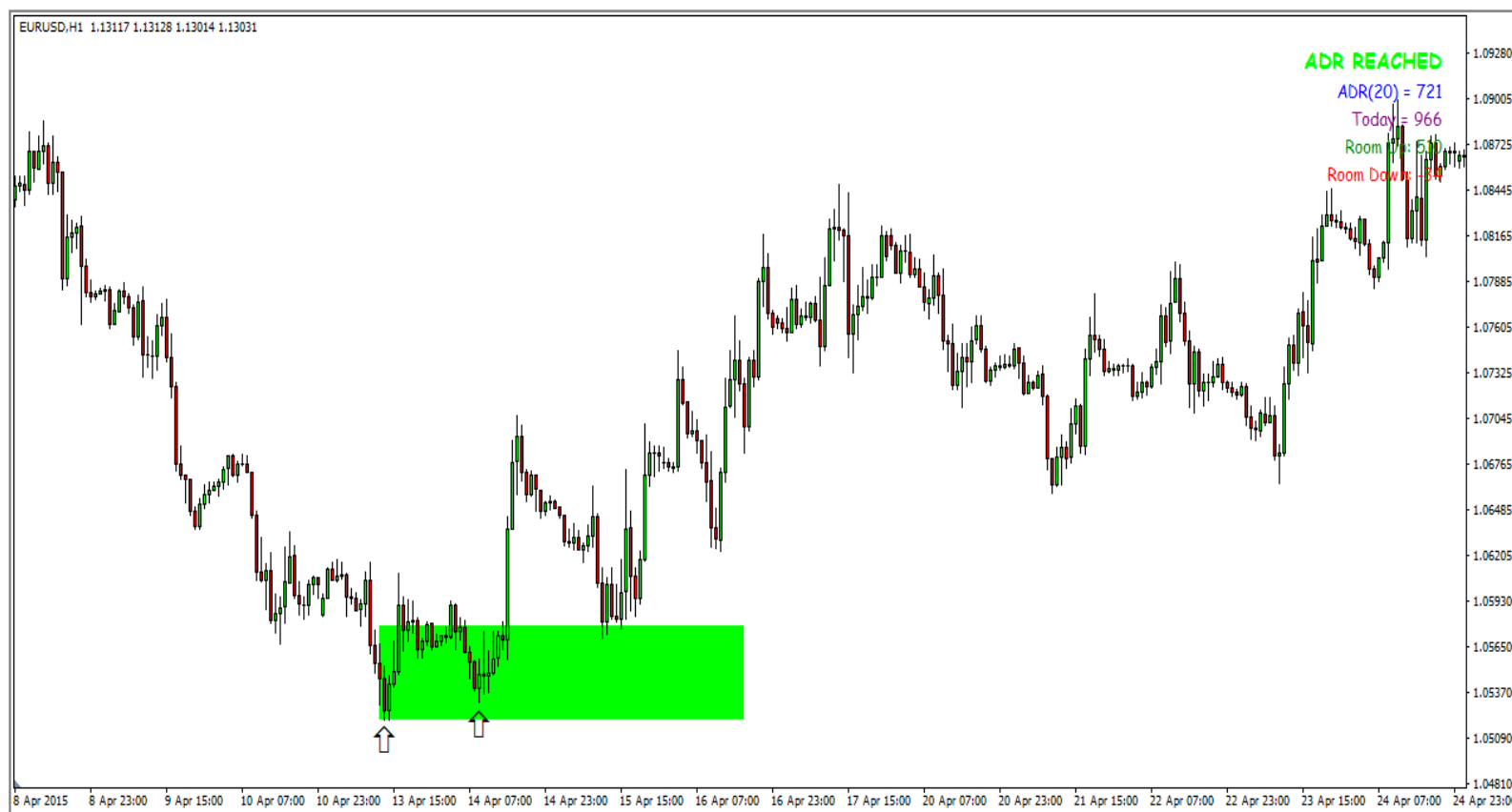
I hope it's obvious from this example just how powerful it is to know where the banks have placed their trades. Traders seem to think it's extremely difficult to find out where the banks have placed their trades, yet as you can see, with just a little bit of understanding, it's actually quite simple.

The process described above of how the market will return to the points where the banks have placed their trades will only occur if they didn't have enough orders available to get all of their trades placed.

If the banks have been able to place all their trades, the market will NOT revisit the point where any previous trades were placed.

This only tends to occur when they're placing trades onto retracements in the trend. Usually, when they are setting up a trend reversal, the banks will not have enough orders to get all their trades placed, and you will see the price come back to the point where they've placed their trades before the reversal gets underway.

I'm going to go through one last example now of finding where the banks have placed their trades.



Here's a reversal that took place on the 1-hour chart of EUR/USD.

The two arrows denominate the points where the banks placed buy trades. We wouldn't know this until the market had moved up and made a new high. Once the move up occurs, we can begin waiting to see if price drops back into the area, because we know the banks may not have been able to get all of their buy trades placed, due to not having enough sell orders available.

You can see I've marked this area a little differently to the one in the previous example.

The other area I marked to encompass the three swing lows the bank had placed their buy trades. But with this area, I've marked the area up to the point where the large move higher originated from.

The reason I've done this is because a lot of the time when the banks want to make a reversal occur, they'll be forced to enter trades they weren't able to get placed at a slightly higher (or lower if it's an up-trend to downtrend reversal) price than what the other trades were placed at.

This is due to the way the market structure will change once the banks have got some of their trades placed. It doesn't happen as often as the typical reversal when all of the bank's trades will be placed at similar prices, but it happens enough that it should be taken into account when drawing areas based off where the banks have placed their trades.

If you see the banks have placed their trades and caused a large up or down movement to occur, make sure you draw the area to encompass the point where the up or down movement originated from, as I have in the previous image.

A day after the big move occurs, price drops back into the zone, and the banks enter the remaining buy trades they weren't able to place.

Recap:

Here are the main points I want you to take away from this chapter...

- To find where the banks have placed their trade, you just look for where a move up or a move down originated from.
- The banks can only place trades when the price is moving in the opposite direction to

which they want to get trades placed eg, if price is climbing higher, the banks can only place sell trades. If it's moving lower, only buy trades can be placed.

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- When the banks have only been able to place a few of their trades they'll take profits to make the price return to the price region where their previous trades have been placed. They do this to generate enough buy or sell orders to get their remaining trades placed.
- You'll most often see price return to where the banks have placed trades when they're trying to cause a reversal to take place.

How To Identify Where The Banks Are Taking Profits

Taking profits something the banks must do frequently due to the size of the trades they've placed.

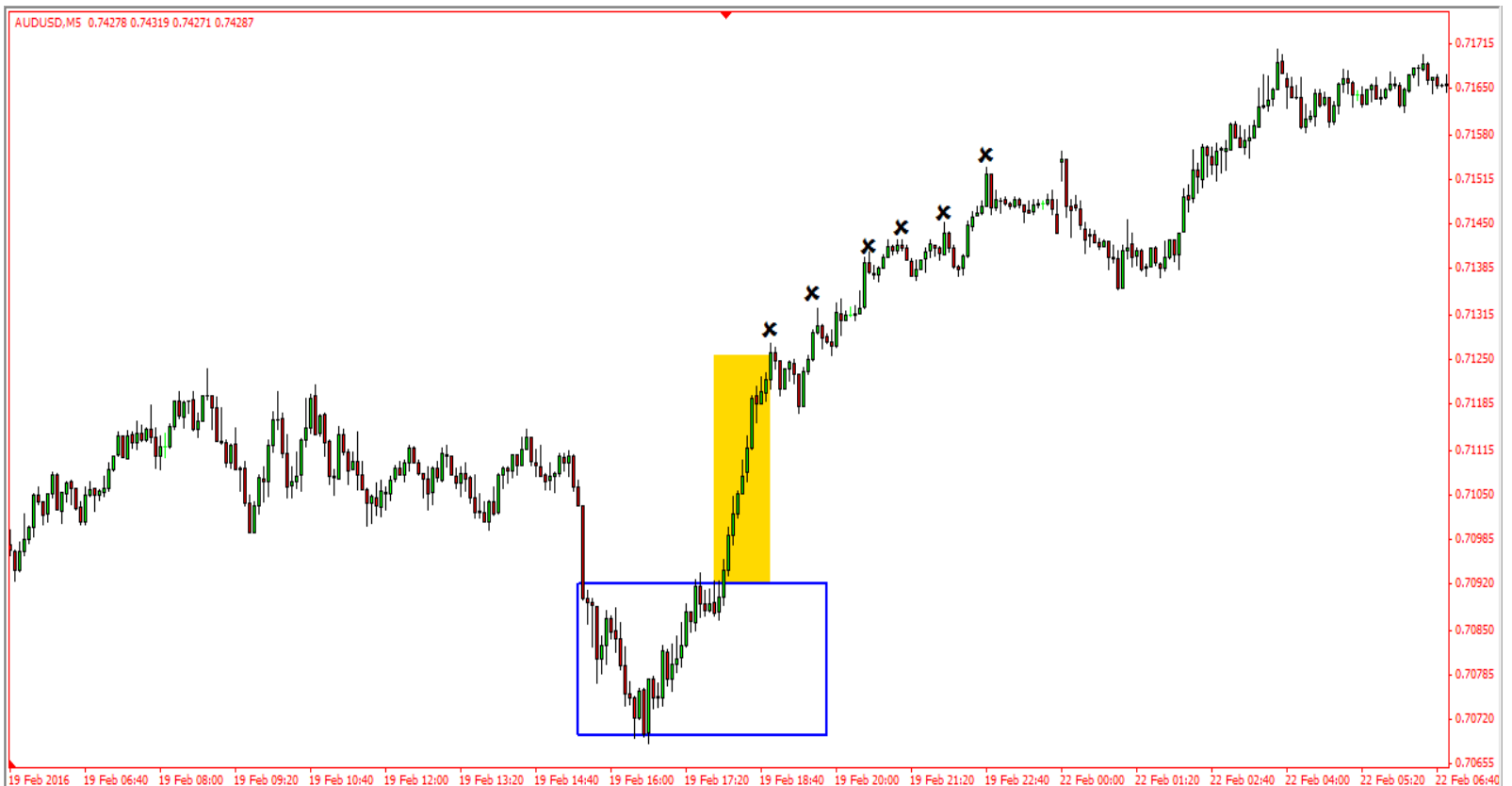
Like how the banks place their trades, taking profits can only be done when the banks have enough orders coming into the market.

For example, if a bank placed a buy trade on EUR/USD, to take some profits off, they would need other traders to buy. How many buy orders come into the market from other traders buying dictates how much profit the banks can take off their own buy trades.

Knowing when and where the banks take profits is quite simple. All we need to do is think about when we would take profits off our own trades and then combine that with our understanding of what the banks need to take profits off their trades i.e. orders coming into the market.

Like us, the banks will want to take profits when the market makes a large move in the direction they want. If you placed a buy trade and the market advanced 100 pips, the first thing you would want to do is secure some of the profit.

This is the same as what the banks do. The only difference is we can take profits whenever we want. The banks can't until they have enough orders available.



Here's a sharp rise on Eur/Usd.

Look at the square I've marked in the image with the blue lines. When the market was in this square, the banks were primarily getting buy trades placed. The bulk of their buy trades were placed at the swing low, as this was the point where most traders were selling.

It's important to note, lots of retail traders are still selling as price moves up to the top of the square.

The reason why is because the price action seen as the market moves up is still relatively bearish; lots of bull candles have wicks on them, and a few bearish candles are forming. Anyone that sees this still believes price could fall, so will place sell trades accordingly.

The banks can see lots of traders are selling and begin placing tiny buy trades onto each little drop lower as price rises.

The banks know that by buying up all the sell orders, they will eventually push the price higher, putting the traders who are placing sell trades at a loss, and in turn, forcing them to close their trades.

Cast your attention to the up-move I've marked in yellow.

If we compare the price structure seen in the square, and the structure marked in yellow, we can see there is a clear difference.

In the square, lots of signs of selling were still appearing even though price was rising. But in the yellow box, there were no signs of selling. A few bullish candles have tiny wicks on them, but apart from that nothing.

What's caused this up-move is the banks placing buy trades back when the market was in the square.

There comes a point in the square when the banks have used up all of the sell orders coming in from retail traders selling. When these orders are consumed, price shoots up. Now all the people who went short in the square get put at a loss on their trades.

Some traders probably sold near the bottom of the square and have been at a loss even before the price shot up. These traders are the first to close because they're the ones put at the biggest loss when the price rises.

These traders closing losing sell trades is what causes most of the movement seen in the yellow box.

When a trader wants to close a sell trade he must use a buy order because he has to buy back what he sold at a worse price than what he sold it for.

So because loads of traders who placed sell trades are now closing their trades at a loss, it means thousands of buy orders are coming into the market, which is pushing the price higher and higher.

Of course, the move higher means the buy trades placed by the banks are now in a significant amount of profit. If the banks now want to take some this profit off, they need other traders to come into the market and place buy trades.

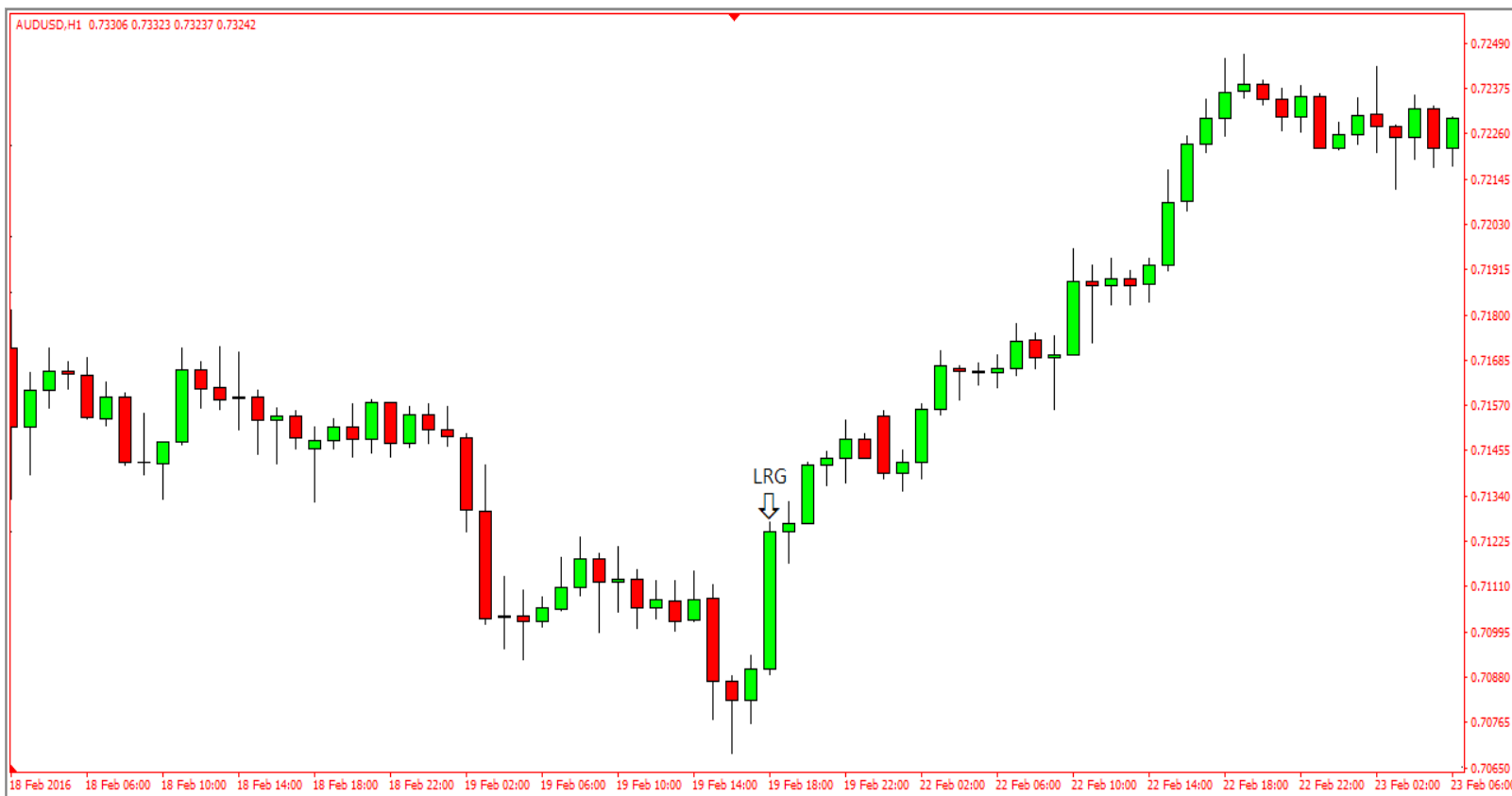
The only way other traders are going to do this is if they believe price is going to rise for a long time.

Because the up-move is heavily bullish and price keeps going up and up with no retracements or consolidations taking place in between, it lures traders into thinking the price will continue rising at the same rate.

The further price rises, the more traders who start buying, because of the concept of trend

tells them the longer price moves in one direction, the more likely it is to continue moving in the same direction.

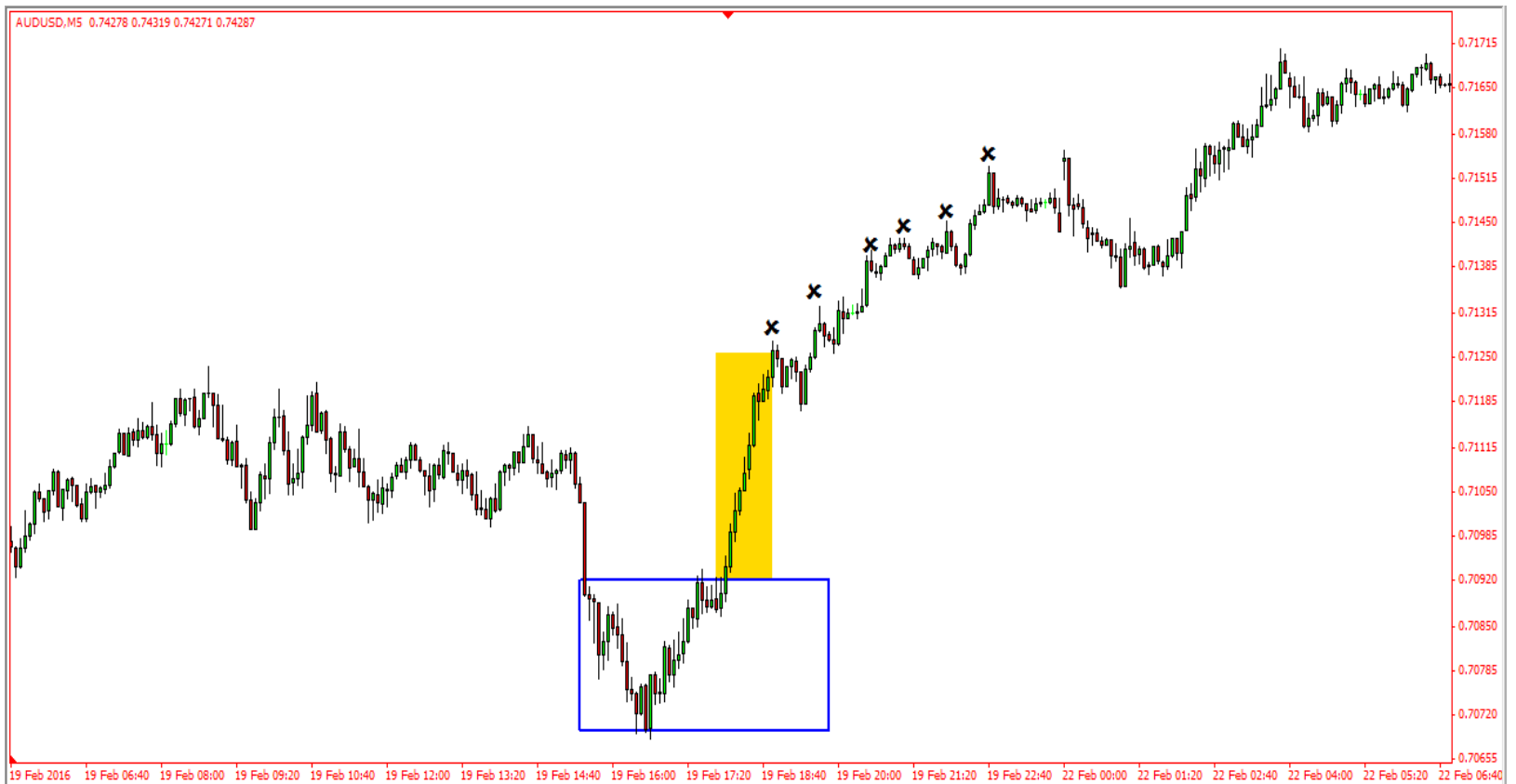
The traders who start entering long trades are not exclusive to the 5-minute time-frame either. There are traders on 15 minute, 30 minute, and 1-hour time-frames as well because they also see an up-move taking place.



Looking at the 1-hour, we can see how the up-move on the 5 minute creates a bullish large range candle.

If you've already read my Zero Sum Fun book you'll know large range candles make a significant number of traders place trades in the direction of the candle.

So lots of trader on 1 hour also buy and contribute orders to the rise, because the rise on the 5 min creates a large range candle, which makes many think a rise is now about to begin.



Eventually, the up-move marked in yellow comes to an end, and we see a small drop take place. This small drop is the first sign of profit-taking we've had from the banks who bought in the yellow box.

The reason the banks start taking profits here instead of at the beginning or middle of the up-move is that by the time the price has moved up this far, enough traders have come into the market and placed buy trades for them to be able to take profits off.

They couldn't take profits before because not enough traders were long. The price must increase to the point where lots and lots of traders believe it's set to continue higher.

When this point is reached, lots of retail traders will enter the market at the same time and the banks will suddenly have a lot more orders available to use to take profits off.

Look at how the structure of the market changes after the move up in the yellow box is over. The price continues to rise, but there's a lot more selling going on in.

Every swing high is followed by a retracement, and the price is unable to close far beyond each new swing that gets made.

The selling we can see is the bank traders taking more profits off the trades they placed back in the square. As the price moves higher, more and more traders begin buying because they believe in the concept of trend:

“If the market has been moving in one direction for a long time, it has a higher chance of continuing in the same direction rather than reversing.”

This is why the number of retail traders placing buy trades increases the further price rises. The banks need the number of traders placing buy trades to increase because the profits on their buy trades also increase as price rises.

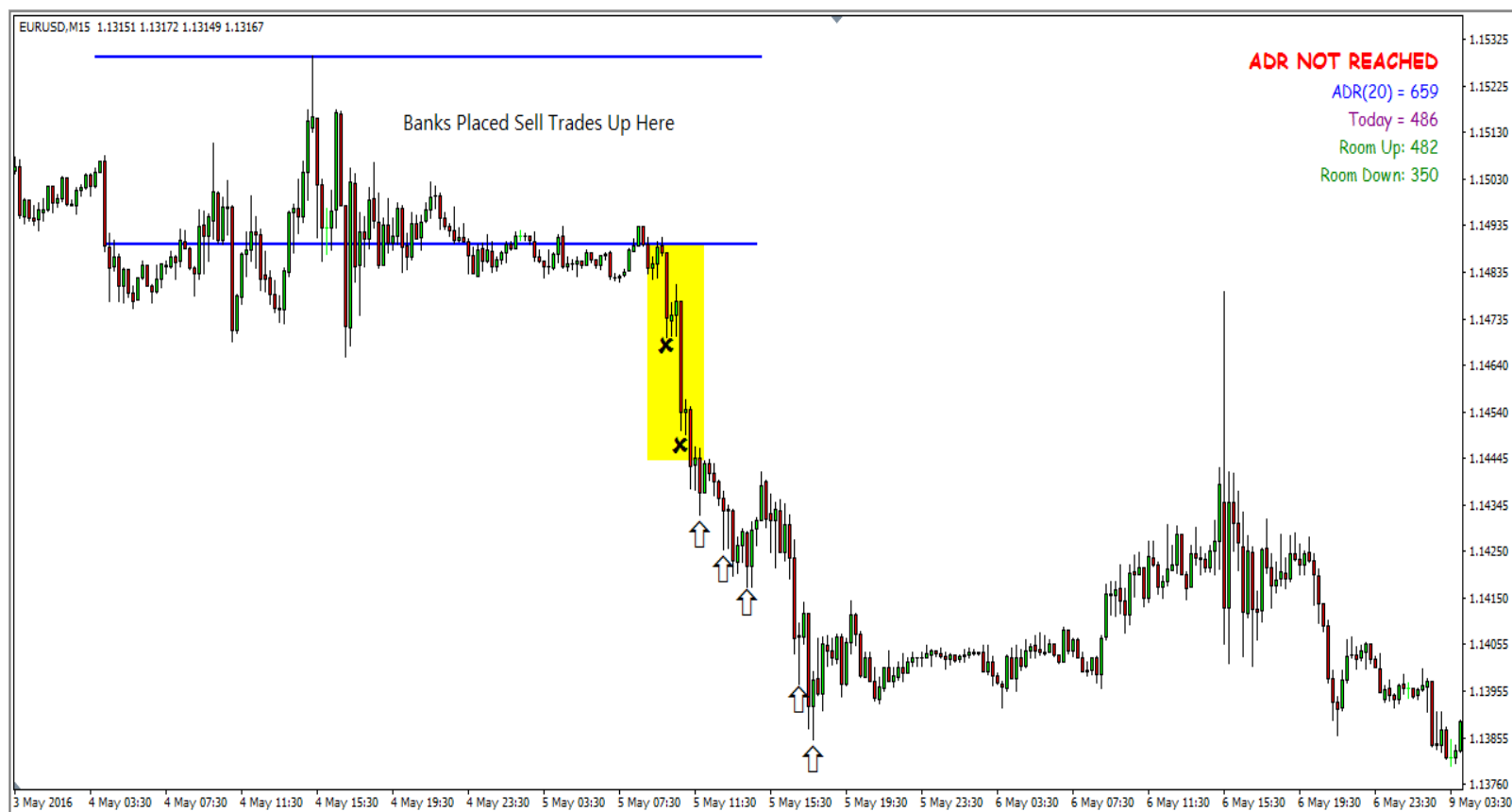
The bigger their profit becomes, the higher the number of opposing orders they need to take some of that profit off.

So it's essential for the banks to have other trades to come into the market and place buy trades the further price rises because if they don't, the banks won't be able to take the amount of profit they want off their trades.



Eventually, price has risen to a point where enough traders are placing buy trades for the banks to take a much, much bigger amount of profit off their trades.

This bout of profit-taking will show up on your charts in the form of a retracement, which is much bigger than the retracements seen previously in the swing.



Here's a down-move seen on the 15-minute chart of EUR/USD.

To begin with, we had the banks placing sell trades inside the area marked between the blue lines.

When the sell orders from the banks sell trades consume the buy orders from the traders buying, the price drops lower. Now all of the retail traders who bought start closing their trades at a loss, which puts sell orders into the market and causes most of the down-movement seen in the yellow box.

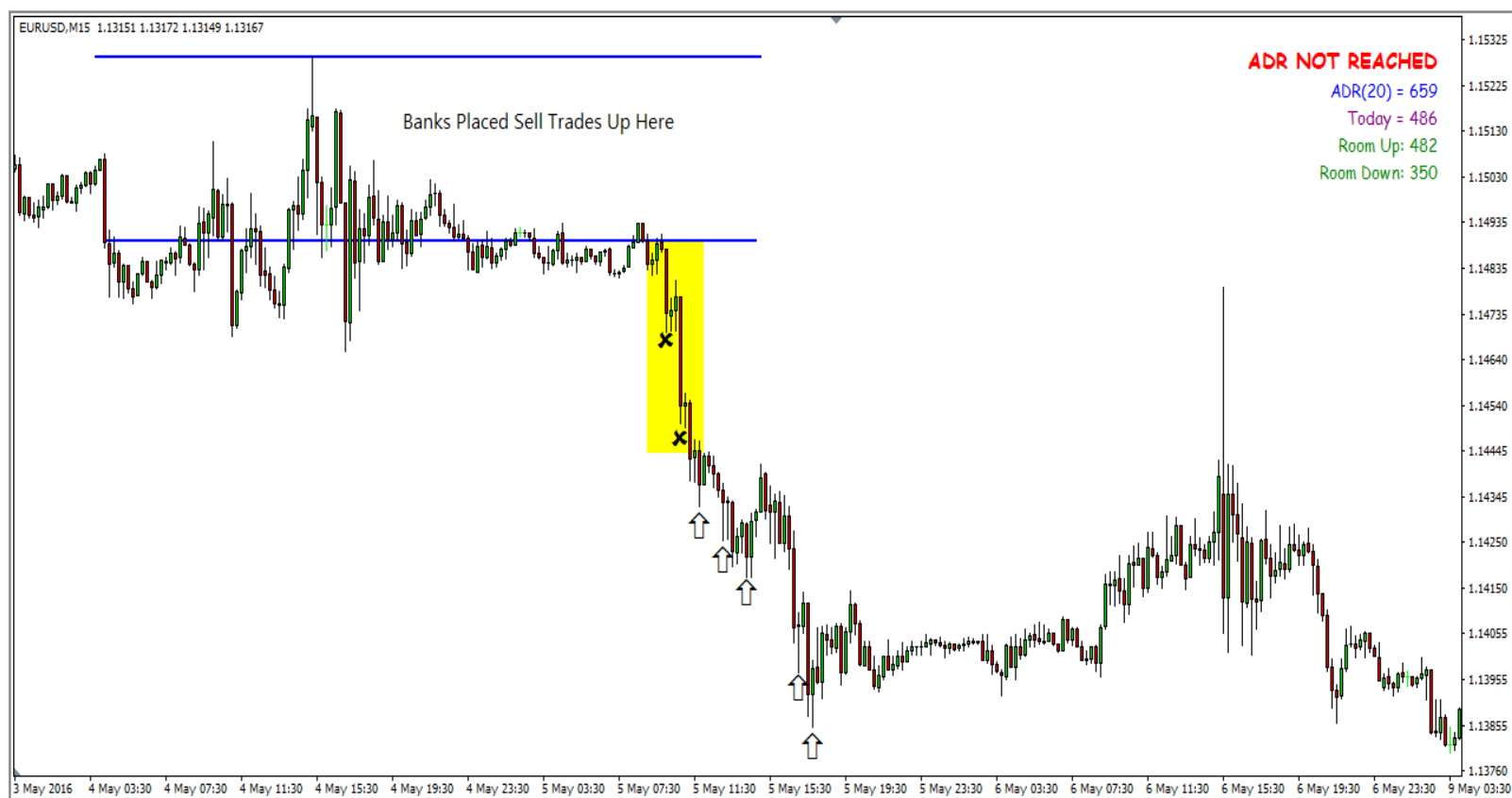
When the market is falling, only a small amount of sell orders are available for the banks to take profits off with.

This is why there are only two instances of profit-taking on the down-move inside the box. The banks probably want to take more profits off their trades but are unable to as they need more traders to come in and place sell trades.

There comes a point where the market structure changes considerably, and we start to see more evidence of the banks taking profits.

When price moves out of the area marked in the box, we can see more buying enter the market. This bit of buying is the banks taking profits. By this point, the price has fallen enough to make a significant number of traders think price is likely to continue moving lower. This causes them to place sell trades to capture what they believe is a continuation of the down-move.

The banks now have enough sell orders to take small bits of profit off the sell trades placed back when the market was in between the two lines. The arrow seen immediately after the yellow box is the first sign we have of the banks beginning to take a larger amount of profit off.



The two arrows seen after this, give us more signs the banks are taking profits.

Notice how the retracement located above the third arrow is much bigger than the tiny retracements above the first two arrows?

The size of this retracement tells us the banks have taken a bigger amount of profit off their trades. The only way they can do this is if they have more sell orders coming into the market than what they had previously.

After another drop lower, the market stops falling and begins consolidating. A news event then comes out (I think it was the NFP, but I'm not sure) and the price shoots back into the zone where the banks placed their sell trades.

They then use the buy orders generated by the NFP to place more sell trades, causing price to fall lower over the next few days.

Recap:

- A change in market structure signals when the banks are beginning to take profits off their trades.
- The banks need other traders to come into the market and place trades in the same direction to be able to take profits off their own trades. As price moves in the direction the banks have got trades placed, the profit on their positions increases, as does the amount of opposing orders needed to take profits.
- Because most traders believe the longer the price has moved in one direction the higher the chance it has of continuing to move in the same direction, it means more and more traders enter trades as the market falls or rises, giving the banks traders the orders they need to take profits off their trades.
- There comes a point in every upswing or downswing where a large number of traders suddenly enter traders, and the banks decide to take a much bigger amount of profit off. You can see this on your charts as a retracement bigger than any previous retracements or pauses seen in the swing.

How Do The Banks Place Their Trades?

Now we're going to look at what I believe is the most important chapter in this book.

Earlier I showed you where the banks place their trades and how they take profits off. But now I'm going to show you how they actually place their trades when they want a reversal to take place.

Usually, when the banks want to cause a reversal, they can't get all of their trades placed in one go.

The reason why is because they never have enough orders available. You've got to remember, for the market to reverse, a huge amount of orders are needed. Because the banks always want to make as much money as possible, it means they have to split their trades up into more manageable amounts so they can get all of them placed before the reversal gets underway.

If they didn't split them up and only placed one trade which was their entire position, all the orders coming in would get consumed. This means part of their trade would get placed at one price, then the other part would get placed at a worse price, because of the rise or fall created by their first part being placed.

Example:

Let's say the banks wanted to cause a trend reversal on EUR/USD. For the sake of the example, let's assume the market was in a downtrend.

At the current time, 10,000 sell orders are coming into the market from retail traders selling. The total size of the buy trades the banks want to place is 100,000 buy orders. So if they were to place their entire position now, only 10,000 of those orders would get executed, because only 10,000 sell orders are available.

Once they're placed, price will begin rising, as more sellers need to be found for the remaining 90,000 to get executed.

How far up price will move depends on how many orders are left to be placed. The bigger

the orders left, the further up the price will move.

The problem this causes for the banks is it means all their trades get placed at different prices. 10,000 get placed using the 10,000 sell orders coming in, then price rises a bit, so more sell orders enter (let's say 5000), meaning another 5000 of the bank's trades get placed. Then it rises again, and more come in, let's say giving them another 20,000 to use, and so on...

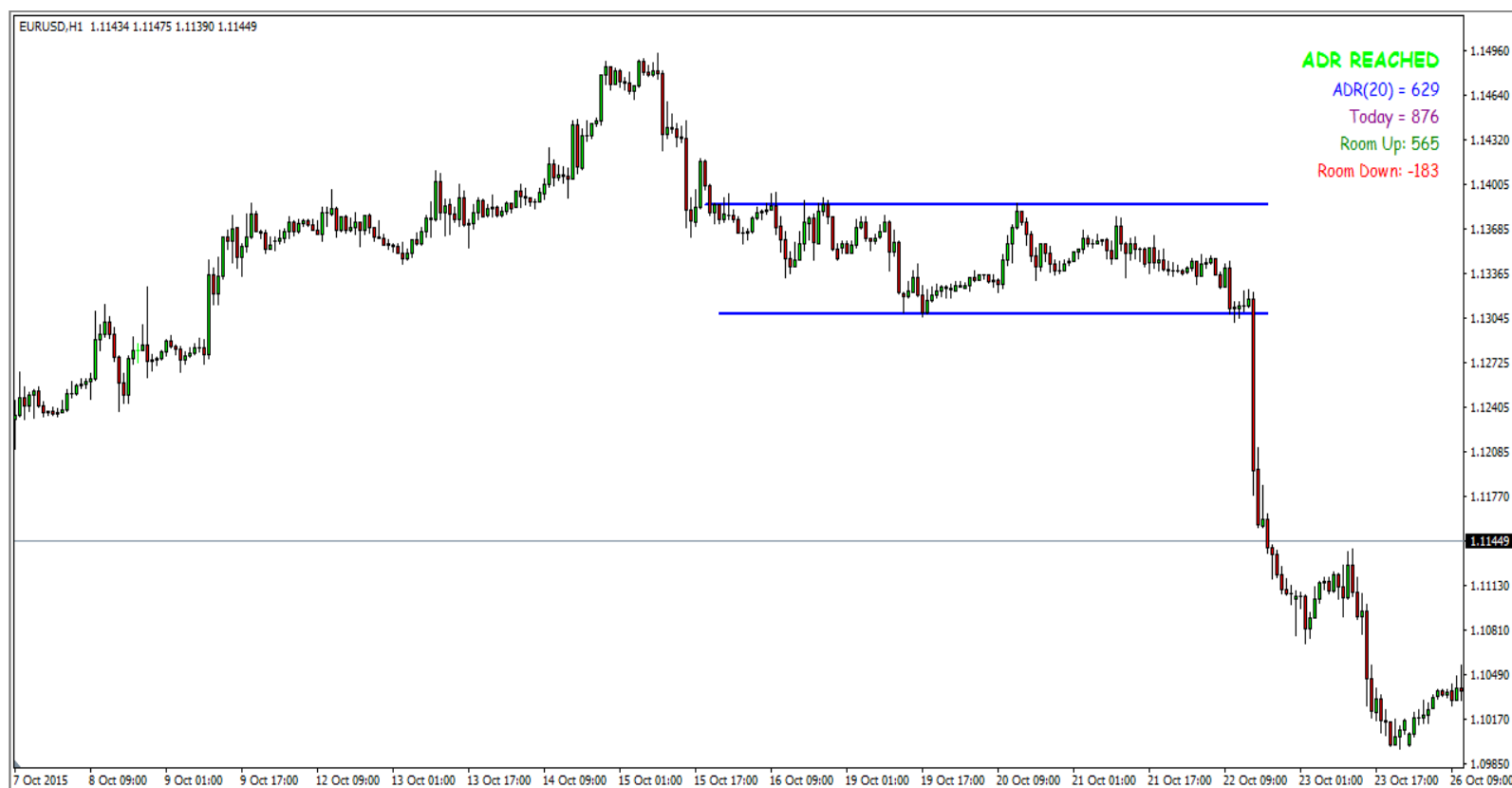
So by the time the entire 100,000 positions have been placed, the banks have a bunch of trades placed at increasingly worse prices, causing them to make less money.

This is why the banks need to split their trades up into smaller sizes and try to get them placed as close together as possible.

By splitting their trades up, they reduce the risk of not being able to get all their trades placed at the price they want, as I explained in the example. Placing them at similar prices allows them to make a similar amount of profit on each trade, rather than make a smaller and smaller amount like they would if they were to enter the market with one huge trade when not enough orders are available.

The Banks Always Place Their Biggest Trade First

Now you know why it's essential for the banks to split their trades up, what I want to show you next is why when they're placing their trades, they always place the biggest trade first followed by smaller trades.



The image above shows a reversal that occurred on the 1-hour chart of EUR/USD. You can see this reversal occurred in stages.

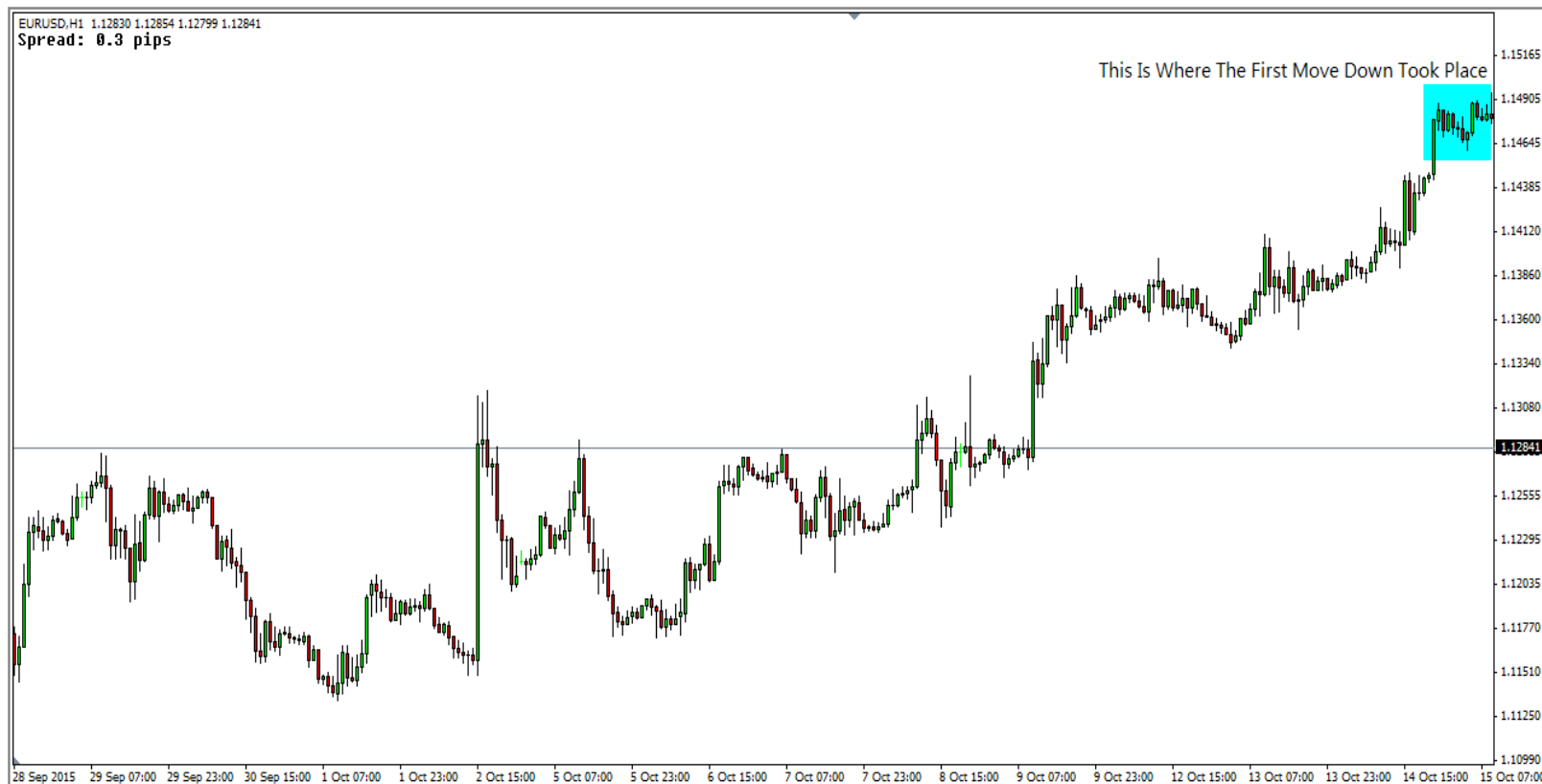
First, the market fell after making a new high. Then a consolidation took place before the main down-move got underway.

There were two locations where the banks placed sell trades to cause this reversal.

Their biggest sell trade was placed first, which is what caused the first move down against the up-trend. The rest of their sell trades, that were much smaller in size, got placed on the swing highs that formed when price was consolidating.

The reason why the banks placed their biggest sell trade first was because of how many

buy orders were coming into the market when price was moving higher.



Here's what the market looked like just before the first down-move took place.

Notice how bullish it looks?

Any retail trader that looks at this thinks price is going to keep rising.

The fact price has risen for what many people consider a long time coupled with the gradient of the move getting steeper, means the majority of retail traders will have been placing buy trades at the point I've marked in blue.

The banks know that once they place their first sell trades price will fall, and lots of retail traders will begin selling. If the market was at any point to make a move higher after the drop caused by the banks placing their first sell trades, there isn't going to be as many traders going long as there were before the drop took place, because the drop changes their perception of the market. They think it's got a better chance of moving lower now rather than higher.

To make this example easier to follow, let's assume the banks need to place 100,000 sell orders into the market before the reversal gets underway.



At the green box marked in the image, 40,000 buy orders are coming into the market, which means the banks can only get 40,000 of their 100,000 sell orders placed.

When they place their 40,000 sell orders, price moves down because all the buy orders from traders buying get consumed.

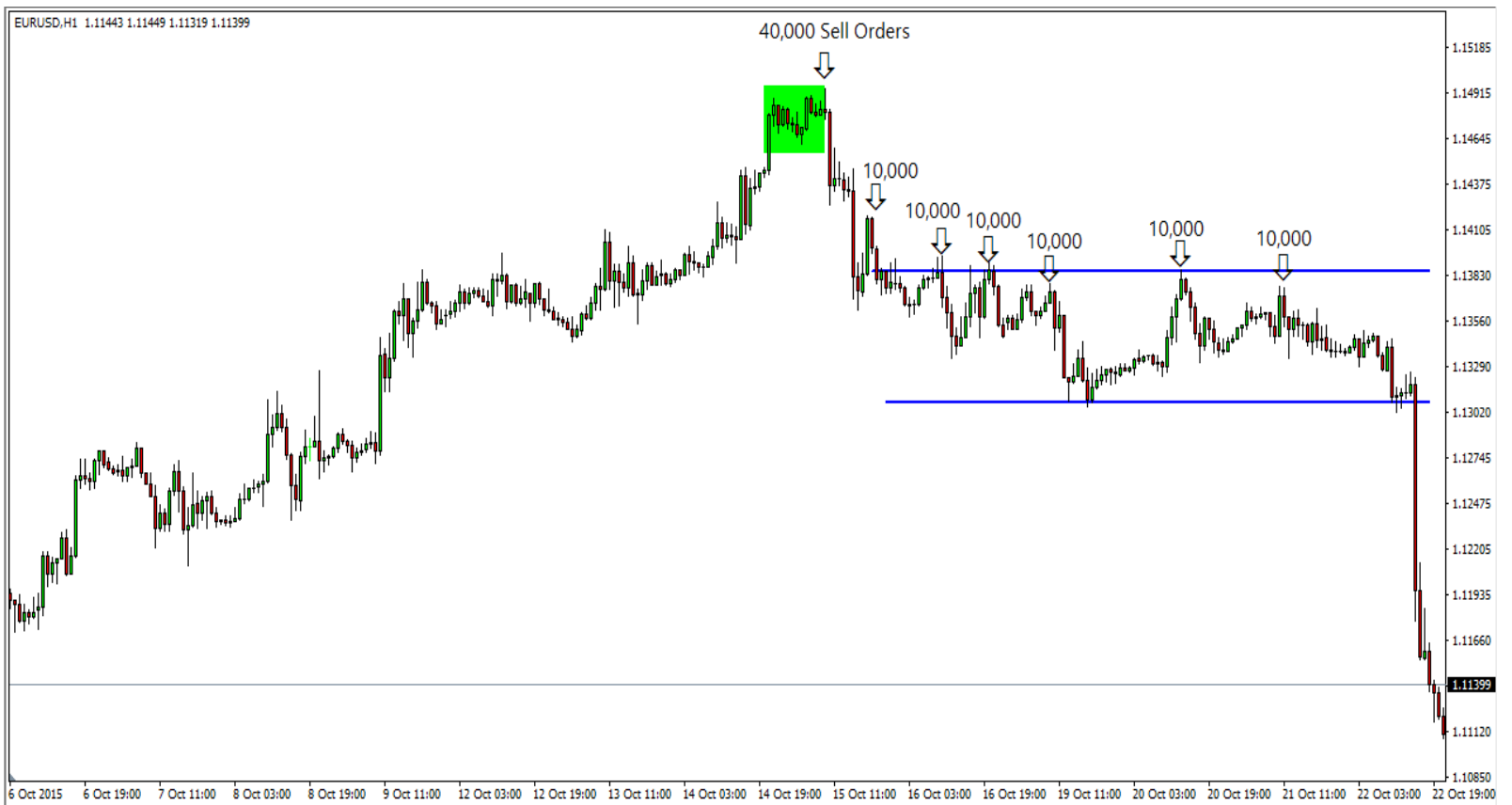
Important Note:

Part of the analysis the banks do when they want to cause a reversal is “are there lots of other traders who will lose money in the event of a reversal”?

If there aren't enough traders who'll lose, the banks won't place any trades and a reversal won't occur. In our example, lots of retail traders are going long because they've seen the market rise for quite a while.

The banks know if they place sell trades, it'll push price down, and all of the retail traders in long positions will be forced to close their trades at a loss. That'll cause price to fall and increase the profits on the sell trades placed by the banks.

Now, the banks still have 60,000 sell orders left they need to get in the market before the main reversal begins.



In the image above, I've marked the points where the banks place their remaining 60,000 sell orders into the market.

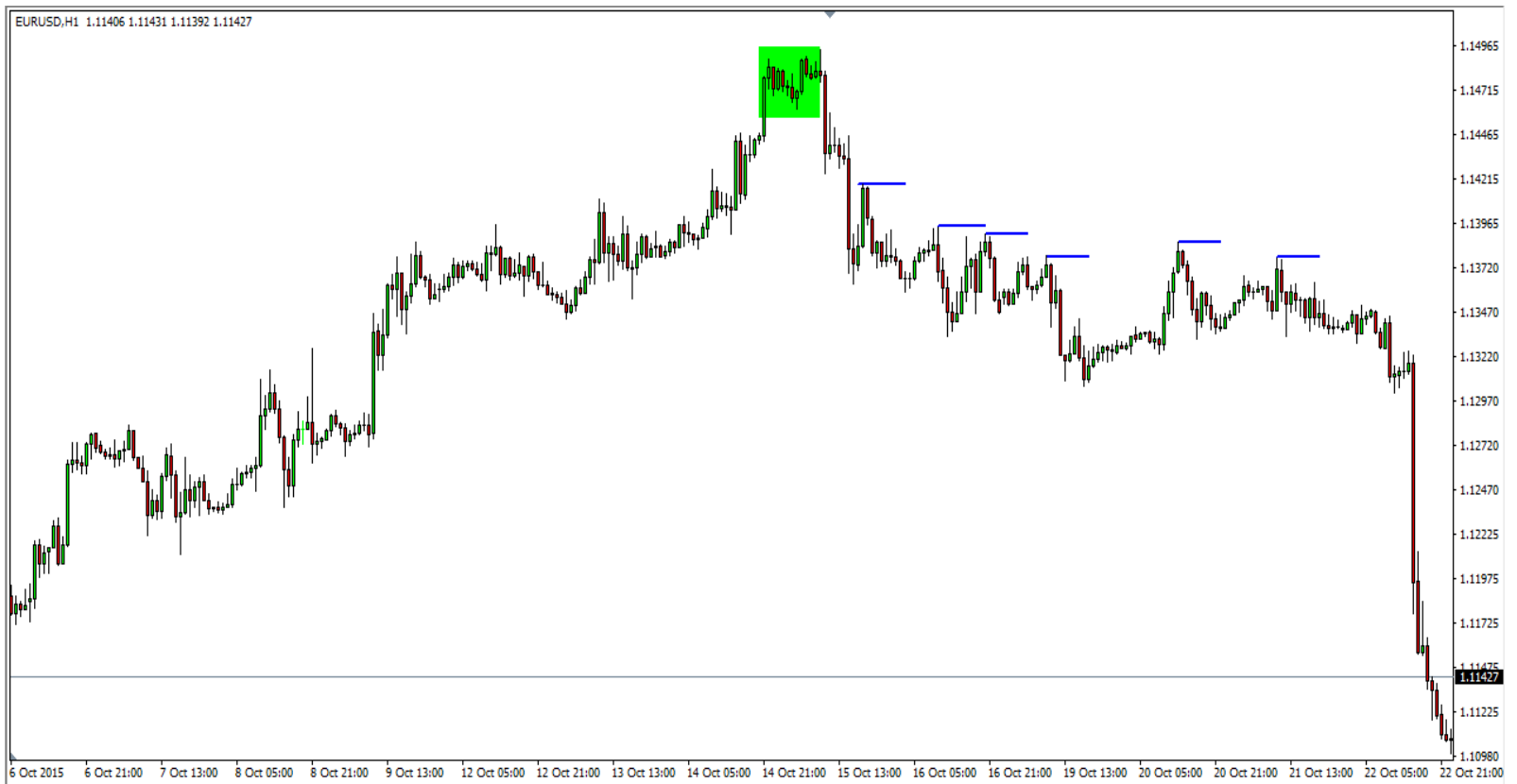
One important thing to remember about how the banks place their trades is they'll always be placed when the market is moving counter to the direction to what they want the price to move in.

Looking at the image on the previous page, you can see the remainder of their sell orders were placed whenever a swing up occurred. The reason for this is because the swings up are the only times when lots of people are buying.

The banks can't place sell trades when price is falling because there aren't any buy orders for their sell trades to be matched with.

If you think back to the beginning of this chapter, you'll remember I said one of the reasons the banks split their position up into smaller trades is to avoid moving the market against themselves and having their trades placed at increasingly worse prices.

I also said when they split their trades up they'll try and get all of them placed at a relatively similar price to maximize the profit potential of each trade.



Here's the same image we looked at a minute ago, only I've used lines to mark the swing highs where the banks placed their sell trades.

It's obvious the banks place their trades at similar prices. Each trade placed was never far away from where the previous trade was placed.

The only sell trade which not placed at a similar price is the first trade the banks placed, which as it happens, is also the biggest trade they ended up placing.

This trade will make more money than the others due to it being placed at a higher price, thus giving it a higher risk to reward ratio than the others.

When the main reversal gets underway, all the sell trades the banks have placed on the up-swings in the consolidation go into a similar amount of profit. One advantage this has is it makes it easier for the banks to calculate how many additional sell orders they'll need to take profits off.

If the banks had loads of sell trades placed at prices that were far away from each other, it would mean every sell trade would require a different amount of sell orders to take profits off. the market for the banks to take profits off their trades.

By having them placed at roughly the same price, they avoid this, because they know each of their trades will require a similar amount of sell orders to come into the market.

Let's take a look at another example of how the banks place trades into the market.

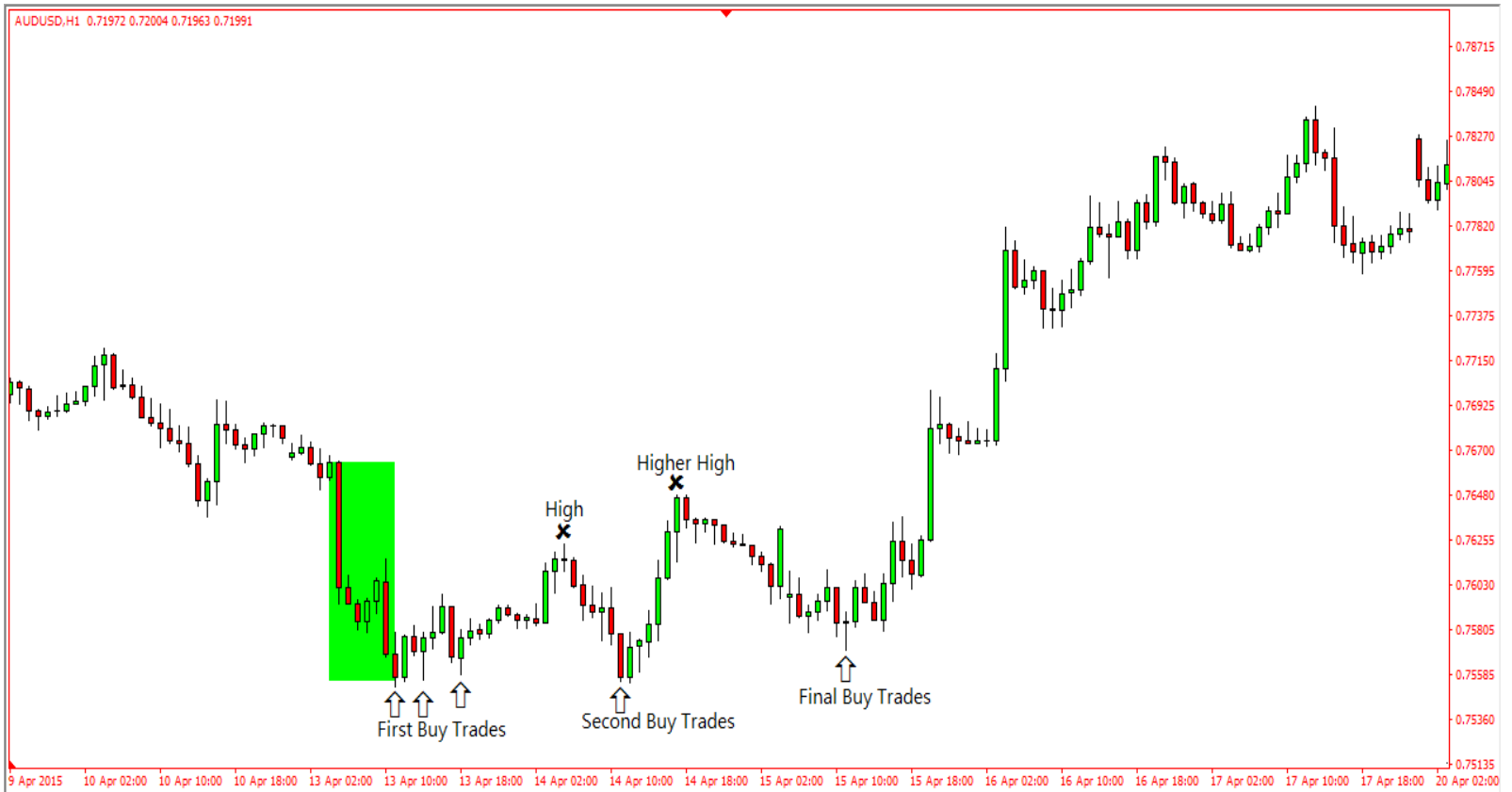


The image on the previous page shows a reversal on the 1-hour chart of AUD/USD.

The way this reversal is structured shows how the banks split their trades up and enter them at different points in the market.

At the beginning of the reversal, the market was falling, as evidenced by the price action marked in the green box. Now even though price hadn't been falling for a long time, there was still a significant number of traders entering short due to the size of the bearish candles.

The banks see a lot of traders going short and decide to cause a reversal to make these traders lose money and make themselves a profit.



The problem the banks have is the buy trades they want to place are too big. Not enough sell orders are coming in for them to get their whole position placed. This means they must split their trades up and place them at different times when enough sell orders are available.

Now the banks know they must place their biggest buy trade first because most retail traders at that time selling. The banks understand that when their first buy trade is placed, price will rise and cause the retail trader's outlook on the market to change. This means from this point onwards in the reversal, there will never be as many sell orders coming in as there is now.

When the banks place their first buy trade price climbs higher, which causes the retail traders who had gone short late into the down-move to close their trades at a loss. When these traders close their trades, buy orders are put into the market, which causes price to rise even more.

The next step for the banks is to make the price drop, because they still have more buy trades left to place. To get these remaining trades placed, they need people to sell, as this will put sell orders in the market they can use to match with their buy trades.

To make price drop, they take some profits off the buy trades they placed to cause the rise. This consumes all of the buy orders now coming in from traders buying because they

see the price moving up, and the traders who are closing losing sell trades from before the first rise took place.

When the price drops, the retail traders who were buying on the move up now start closing their buy trades at a loss, which puts sell orders into the market. Additionally, lots of traders will place sell trades simply because they see the price falling. When enough sell orders are in the market, the banks place their second buy trade, and the price begins rising again.

This second move up manages to break the high made on the first move up. The break of the high is significant because it's the first signal retail traders have had that the market may be getting ready to move higher.

This is important because it means even fewer people will be selling if another move lower takes place, which tells us the last trade placed by the banks must be the smallest of the three, due to not many people selling.

The banks now carry out the same process they took on the previous move up.

They take a little bit of profit off to make price fall and cause any retail traders who brought during the move up to close their buy trades at a loss. That gives them enough sell orders to place their third and final batch of trades.

With enough sell orders in the market, the banks place their last buy trade, and price ends up advancing for the next two days.

Recap:

- When the banks want to cause a reversal, 90% of the time there won't be enough orders available to get their trades placed. This means they must make the price fluctuate up and down to get people to place buy or sell trades (depending on the reversal) to enable them to get the rest of their trades placed.
- The banks always place their biggest trade first because that's when the largest amount of buy or sell orders are coming into the market.
- To get their second, third, and fourth trades placed, the banks must make the price move in the opposite direction to which they want the reversal to occur. The way they do this is by taking profits off the trades they've already got placed.

Summary

Well, we've finally come to the end. I hope this book has given you a greater understanding of how the large institutions participate in the forex market.

My real goal with this book was to show you how the banks depend on us to make all of their decisions.

They need to make lots of retail traders do the wrong thing at the wrong time so they can complete an action in the market, whether it be placing trades, closing trades, or taking profits. They need us to make money.

The trading method the banks use isn't based on technical analysis or chart patterns, it's based on how retail traders think and make decisions.

They know a large movement causes lots of retail traders to enter trades in the direction of the movement. They then use this knowledge for their own purposes.

Additionally, the banks promote the concept of following the trend, as the only way they can make more and more profits off their trades is if an increasingly higher number of people come into the market and place trades in the same direction.

If you have any questions about the concepts discussed in this book, feel free to contact me at this email address:

liampriceactionninja@outlook.com

