

# HOW TO DEVELOP A CHECKLIST TO FIND HIGH-PROBABILITY, LOW-RISK TARGET TRADES

DEVELOPING A TARGET TRADING CHECKLIST



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Welcome to the ProAct Traders Target Trading Checklist!

This document is structured into 2 parts:

1. Preliminary Analysis and Checklist #1: Used to quickly screen the currency pairs and determine which merit further consideration with Checklist #2.
2. Part 2 is checklist #2 for further consideration of the currencies you have chosen. A few of the concepts are further explained below.

Many new Forex traders, including those new to the ProAct Forex Target Trading methodology, need a checklist to insure they learn correctly from the outset. **Rest assured, you do not need a 30+ page checklist to properly analyze trading opportunities!**

## THE TWO-PART CHECKLIST

### PRELIMINARY ANALYSIS AND CHECKLIST #1

Your first task is to determine which currency pairs currently present a trading opportunity. You do this by performing a preliminary analysis using the initial checklist below. When completed, you will have created a short list which identifies the currency pairs meriting additional analysis using checklist #2. Completing step one is described below.

**Important:** You must have spent sufficient time *paper trading*\* in the past to have gained the ability to “see” what the charts are telling you. This is called having “reticular cognition” which means your brain “sees” it.

**Reticular** – forming a network    **Cognition** – conscious understanding. learning and remembering

*\*Paper trading is NOT demo trading! Paper trading is studying a currency pair’s past history on candlestick charts, looking for one element per study. Elements studied include things such as trends, pullbacks and retracements, patterns, etc.*

Let's look at an example of a pair you'd want to analyze further, and explain the reasons this is the case.



- ) Trading in a range, but potentially trending out of the range
- ) 2 trending waves and 2 corrective waves already in place
- ) A Wide Open Space (WOS) in the direction of the current trend (the first red arrow above)
- ) This gives you 3 reasons to add this to your screened list for consideration in checklist #2 because it may present a low-risk, high probability opportunity

Instantly, you can see this is a currency pair you should continue to analyze.

Now let's look at a pair you would not be interested in continuing to analyze on part 2 of the checklist:



- ) Although trending out of the range, you are at the top of a 5<sup>th</sup> Elliott Wave
- ) There is no room to the target (day chart top – pink line)
- ) The pair is nearing a reversal point, which means check divergence as the end is near

**Instantly you can see this is a currency pair you should not consider for Checklist #2.**

If you identified all of the above factors, great! If you did not identify all of the factors noted, you need more time **paper trading** the past to develop “Reticular Cognition”. **This is critical.** Without reticular cognition you’ll waste your time analyzing currency pairs which lack the high-probability, low-risk potential you need to trade successfully.

**Your goal is to recognize the daily structure as exhibited by the pair, using TFPD to put the lines on the chart. Structure can change on a daily, and even intra-daily, basis.**

**What is TFPD?** TFPD is a word mnemonic used to help you define and remember what you look for each day on the charts. A mnemonic is an easily remembered phrase, the first letter of which represents one of the things you look for (on the charts).

**T.F.P.D = Trade For Pips Daily**

It stands for:

**T**- Trend

**F**- Fibs

**P**= PSR's - Previous Support and/or Resistance

**D**= Divergence or the end is **near** but might **not be here quite yet**

We also use two more abbreviations:

**WOS** – Wide Open Space(s)- an area in which there are very few barriers in route to your target

**REOTD** – Real Estate of the Day (the part of the chart you are working in this session)

## CHECKLIST 1: INITIAL PRE-MARKET ANALYSIS CHECKLIST- THE 2 MINUTE DRILL

Date/time: \_\_\_\_\_

Currency pair: \_\_\_\_\_

- Is the **structure** of the currency pair easily read on the 240 minute chart?
- Does the 60-minute chart REOTD confirm the 240-minute chart structure?
- Is there a **wide open space (or spaces)** in the potential trade direction?
- Are there **barriers** to the target and if so, how strong are they? \*
- What is the **Average True Range (ATR)** of this currency pair? \_\_\_\_\_ Pips used so far: \_\_\_\_\_
- What direction is the USDX going (important for \$ based currencies)?  
(circle one)      Up   Down   Sideways

\* *Fibonacci ratios, previous support /resistance, psychological numbers (even numbers like 135.00 or 135.50), channel lines, trend lines etc.*

\*\**ProAct Traders charts only*

Remember: **Keep It Super Simple (KISS)** – This should be a 2-minute task, not hours long! In the beginning it will take a little longer , but the more you do it the less time it takes. Later on, if it takes longer than 2 minutes per currency pair, you are **over-complicating it!** There are usually only 1-3 REAL opportunities per session. It is best to make a separate checklist for each pair so you can make notes regarding your analysis process on each pair.

Once you have this part figured out look at the higher probability pairs for confirmation. You now know the following things on each pair just analyzed: **You are looking to create a short list that is the highest probability to the lowest and focus only on the higher probability opportunities.**

- ) The structure of today's market on the currency pair
- ) The Real Estate of the Day (REOTD) on the currency pair
- ) The location and size of the Wide Open Space(s) (WOS)
- ) Anything that you have identified in the path of the expected movement is a barrier to the target area. What barriers are in the way to the targets, and what is the probability they can be broken?
- ) Today's Average True Range (ATR), to determine how long the trade may take to reach the target(s) Note: Some of the ATR will have already been used – how much is left?
- ) Make a list of all the pairs and decide **YES** it meets criteria to continue to step 2 research, or **NO** it doesn't meet the criteria.

**Remember at this stage you are not looking for a trade – you are simply identifying structure which will define the higher probability setups.**

## LET'S BREAK THIS DOWN

Let's take a moment to understand what you are looking for and why.

**STRUCTURE:** The sum total of the 240 minute (or larger) chart elements, including but not limited to: trend lines, 240 minute Fibs, wave structure, trend heart lines, previous support and/or resistance etc. Knowing this will help you determine if this is a currency pair to continue analyzing in part 2 of the checklist. **Trading without the appropriate structure in place escalates and increases your risk.**

**THE REOTD:** When you move from the 240-minute chart to the 60-minute chart, you are now **confirming what you see in the structure.** What patterns are being printed? How strong are the previous supports or resistances (PSRs) on this chart? Are particular prices respected multiple times, even if they are not PSRs? Is there any price point outside PSRs (such as the USDCHF level where they unpegged from the EUR) which you need to be watching? Is there a 0.500 Fibonacci number close to your current price? If so, it is a potential bounce point so you may need to avoid it.

**THE SIZE OF THE WIDE OPEN SPACE(S):** This will tell you if the Big Boys (Tier 1 and 2 Bankers hedge funds etc.) are aware of this opportunity. Big Boys are looking for a minimum 1:3 risk for reward opportunity and a WOS gives them that. Answer this: How tempting is it for the bigger players to take advantage of this WOS? **This is important because the bigger the WOS, the more likely you are to see follow-through, which is where profits are achieved.**

**ARE THERE BARRIERS TO THE TARGET AND IF SO, HOW STRONG ARE THEY?** If a barrier is 30 pips away and it is at the beginning of the session, there is a higher probability of it being broken to accomplish the next move. Conversely, at the end of the session it has a higher chance of being respected and broken in a later session.

**THE IMPACT OF THE ATR IN THIS SESSION/ON THIS TRADE:** The ATR stands for [Average True Range](#) of the currency pair. We use a 14-day average to get the broader picture of how far the pair has been moving on a daily basis. It tells you what the currency pair has been **averaging** over 14 days from 5 PM ET until 5 PM ET the following day. If a currency pair has an ATR of 90 pips and the currency pair has only moved 24 in the previous session, probability is higher for a movement in the current session. However, if it only has 25 pips left it has a higher probability of NOT making a move in the current session, even though you are in the start of a WOS. Target traders can still trade this as long as they are aware that this trade may take longer to fulfill.

Once you have narrowed down your currencies to just a few to concentrate on in this session, you move on to part 2 of the analysis. Your goal is to look at the lower time frame chart, the 60 minute, to get in sync with what the chart is saying. **Don't go looking for a trade!** Your job is to determine whether it is probable for a trade setup to materialize in this session or a future session. **Do NOT to look for a trade just for the sake of trading!**

It is more important to find which currency pair  
NOT to trade than it is to find one that you CAN  
trade.

A currency you don't trade (due to higher risk) means that you will not lose on that trade. There is risk in every trade so minimizing your risk is your number one objective!

(Intentionally left blank)

## PART 2 - INITIAL TRADE ANALYSIS CHECKLIST

Date/time: \_\_\_\_\_

Currency pair: \_\_\_\_\_ % to Risk on this trade \_\_\_\_\_%

- Trend Direction (circle one): Up Down
- How many pips are in the WOS? \_\_\_\_\_ If more than one exists, how many pips in the next WOS?  
WOS#2 \_\_\_\_\_, WOS#3 \_\_\_\_\_
- What is the ATR? \_\_\_\_\_ How much is potentially left in the ATR by session end? \_\_\_\_\_
- What is the First Target? \_\_\_\_\_ Second Target? \_\_\_\_\_ Third Target? \_\_\_\_\_
- Where will you take additional positions on this trade as it progresses\*?  
1) \_\_\_\_\_ 2) \_\_\_\_\_ 3) \_\_\_\_\_
- What is the optimum entry\*\*? \_\_\_\_\_ Comment: \_\_\_\_\_
- What potential trade concerns could affect this currency pair?  
\_\_\_\_\_  
\_\_\_\_\_
- Is there a Fundamental announcement that will affect this pair in this or the next session?  
Time: \_\_\_\_\_ Announcement: \_\_\_\_\_
- Do you have more buyers than sellers today? Buyers \_\_\_\_\_ Sellers \_\_\_\_\_

\*Fib value, Break of a PSR, Pullback etc.

\*\*The decision to actually take a trade is based on the risk-to-reward ratio. A risk-to-reward ratio of 1:1 is a marginal trade, a 1:2 is better and 1:3 or more is great. There are times when a currency pair has a small initial WOS, with a second and/or third WOS ahead. In those cases, include the additional reward in your risk-to-reward calculation. A series of WOS may make the move tradeable.

**Don't make a newbie mistake and risk 30 pips to make 5-8 pips.  
That is a recipe for disaster.**

**The minimum acceptable trading risk-to-reward is 1:1!**

You now have a short list so start with the **highest reward for the lowest risk** currency pair. You only need to find a few! Grade them 1-10 with ten being the lowest probability for reward for risk and 1 being the highest.

## SUMMARY

In this brief guide you looked at the major components potentially affecting a currency pair on any given day. Any day there could be even more factors, but these 2 checklists give you a solid foundation to decide on a potential trade setup. On any given day or session, there could be additional factors, such as speeches which are not fundamental announcements but have major impact on the pairs, or geopolitical events. However, these 2 checklists give you a solid foundation for decision-making regarding potential trading opportunities.

**Is this currency pair a good opportunity?** This checklist is designed to take you through the process of answering specific questions about the currency **BEFORE** you make a trade.

At ProAct Traders we have 3 questions we ask every day to assess possible trading opportunities. Make sure you answer these questions **BEFORE** making a trade.

1. **WHAT ARE THEY DOING TODAY AND WHY?** Structure - (from the 240-minute chart)
2. **WHAT MOVES ARE PROBABLE?** Probability - remember there are lots of possibilities **but only 1-2 probabilities**. REOTD gives you this answer – the stronger the REOTD, the greater the probability that your trade will present itself.
3. **WHAT IS MY RISK?** Margin Management – In the words of Dr. Andrew Menaker, a psychologist and trading coach, *"What am I willing to risk to find out if I am right?"*

**Remember: Every trade requires a PRE-PLANNED Entry and Exit strategy, a place in the expected move to at least add one or more positions en route to the target. This means you can ONLY trade if there is an initial WOS/s.**

**You should create your own form in a document or spreadsheet program.** Once it is complete, print it out and make it a part of your daily trading ritual and your trading journal (which of course you diligently work on). You can add this to a before and after screenshot of your trade to compare your analysis and what the trade actually did. This is a great way to see how you are progressing.

Ultimately, you want to commit this process to memory so that it becomes second nature to you. **It takes 21 days to establish a new habit - start today!** It may seem like a daunting task, but you can do it!

Happy trading to you!

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