

The inside day. Many of you are aware of this candle. Many of you may trade this candle. We are going to show you the easiest and most profitable way to trade the inside day.

The inside day is a trend reversal pattern. This pattern shows an exhaustion of a trend. The key characteristic of an inside day: a candle that is completely engulfed by the previous candle. Below are a couple of examples of inside days. Notice the third candle in each example totally engulfs the fourth candle. One signaling an upturn, one signaling a downturn. Of course this is currency trading, nothing is so simple, or is it?



We are going to show you a simple yet deadly way to trade the inside day candle. We like to call it Inside Out.

INSIDE OUT-The Inside Day Trade:

Take a look at the chart below.



One, two, three. We begin by counting. Looking at the chart above we see that the first example actually has four red candles preceding the inside day. More is better. We are looking for a minimum of three candles with lower lows and lower highs (first trade above) or minimum three candles with higher highs and higher lows (second trade above).

Can we all see the inside day? Good, now what to do with it? Using the first trade example, upon close of the inside day candle we draw a line off the high of the inside candle. When next candle passes through the high of the inside day candle we buy. Initial stop loss is set at the low of the inside day candle.

Trade #2, we count. One, two, three candles with higher highs and lower lows, fourth candle is an inside day candle. Upon close of this candle draw line from daily low. When next candle passes through daily low we sell. Initial stop loss is the daily high of the inside day candle.

Trade #3, we count. This example actually has five blue candles. The more the better. Sell when the candle after the inside day crosses through the low of the inside day. Set initial stop loss at the high of the inside day candle. If you follow this trade out you will see another inside day candle, it says No Trade! Why is that? You approach this situation just like all the other examples. We count, we draw our lines, and if the candle had passed

through the daily high of the inside day candle we would have bought. As it turned out it came close but never passed through. Trade #3 would have been closed if a trade had materialized. In reality trade #3 stayed open and piled up some nice pips.

That is all there is to it. This is a simple method that takes the guess work out reversals and does a very good job of keeping you out of false reversals. Below is a summarization of the inside out trade set-up.

Summary:

- Open daily chart. Look for at least three consecutive candles that have higher highs and higher lows, or lower highs and lower lows.
- Monitor any currencies that have the above criteria, checking back daily to see if there is a chance for an inside candle.
- Upon the close of an inside day candle, draw your lines from daily high and daily low (our preference, easier to "see" trade).
- When the daily candle after the inside day crosses through line buy/sell and set initial stop loss as in examples above.
- Determine your target points and stop loss strategy.

When using the inside day method we are looking for a reversal. If our three (or more) candles are red(lower highs, lower lows) we are looking to buy. If the candles are blue (higher highs, higher lows) we are looking to sell. Set initial stop loss at the opposite end of the inside day. If you are buying, set stop loss at inside day low. If your are selling, set stop loss at inside day high.

As you can see in the chart above, there is potential for some very big moves using this method. The next question is how to deal with stop loss and target points. Although it is ultimately up to the individual trader, here are a few guidelines that we use in every module.

#1. 2 lots. Close one lot at +35 and move s/l to break even. At close of each days candle move stop loss to preceding days high/low (never below b/e). Allow the market to close you out. Very little monitoring involved with this method. This is the least risky method Downside- you will miss out on a lot of pips.

#2. 2 lots. Close one lot at the close of the first trading day and move stop/loss to break even. At close of each days candle move stop loss to preceding days high/low (never below b/e) . Allow the market to close you out. A little riskier than method #1 but more apt to catch the bigger moves.

#3. Use set stop loss and target points. Ex: Buy 2 lots GBP/USD @ 1.9988 s/l 1.9943 t/p#1 2.0035 t/p#2 2.0125. Allow the market to close trade.

As you can see there are many ways to address stop loss and target points. Resistance and support, trend lines. etc can and should be utilized as reference when determining stop loss and target points. It is up to the trader to determine his/her trading style. Many trader prefer one of these methods, others will use average daily ranges, and some will use trailing stops and try to squeeze every pip out of each trade. Which way is better? There is only one answer to this question, which ever way you are comfortable.

This is a simple yet very profitable trading method. By using the three strike rule you will eliminate many false trades. Will you win them all? No, as with any method there will be an occasional loss (no such thing as a bad trade if your are following the rules). Inside out can be used on any currency pair. Some of our traders even lower the timeframe and have reported good success. We leave that entirely up to the individual although we do encourage all our traders to explore different uses for our methods, we must implore that the trader first become proficient in using this on the daily charts before attempting other time frames.