

ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, a recording or otherwise without the prior written permission of the publisher and the author.

Disclaimer

Forex trading has large potential rewards, but also large potential risk. You must be aware of the risks and be willing to accept them in order to invest in the Forex market. Do not trade with money you cannot afford to lose. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed in this book. The past performance of any trading system or methodology is not necessarily indicative of future results.

NOT FOR SALE

This e-Book is not currently for sale nor will/has it ever been for sale. This e-Book is completely free, if anybody has sold this book to you please email me at nick@forex4noobs.com.

Chapter 1:

Master Candles not Magic Candles

Let's Clear Things Up

The first thing I need to make very clear is that this is not a method in itself, and, it is not a magic candle pattern that works 100% of the time. This is something that should be used in conjunction with the NickB method; like scalp lines and normal candle patterns. This is just another tool in your arsenal. It is not special in any way.

So what does that mean?

It means all the same rules apply. So for example, imagine a master candle forms and 20 pips above the resistance level we see a strong scalp level. If the master candle resistance breaks you do not go long on that break. You obviously wait for the price to break the scalp line.

Remember that master candles are just another part of the NickB method The same rules and common sense applies to them.

My trading method consists of three main concepts:

1. Support and resistance lines
2. Candlestick patterns
3. Price action

Under 'Support and resistance lines' you have your normal S+R lines and scalp lines. Under candles you have general reversal candles, long wicked patterns (LWP's), grouping patterns and now master candles.

Hopefully that puts into perspective the role of master candles in my method.

Use Them Together

Another important point is that master candles should be used together with S+R lines, scalp lines and the other candle patterns, in the NickB method. They only work well when used together, as part of the method. You can't just blindly follow master candles and expect to make hundreds of pips per week.

Just like every other part of the NickB method, master candles need to be used in conjunction with other forms of analysis to work properly.

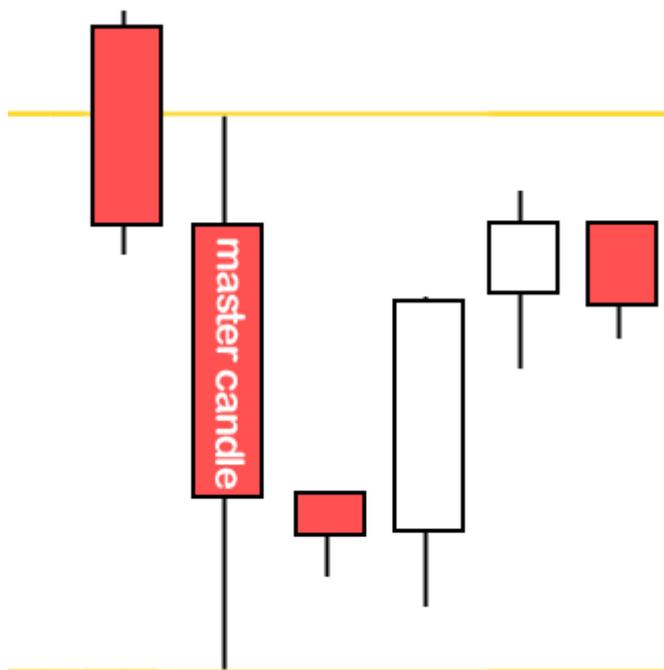
Chapter 2:

Introduction to Master Candles

What is a Master Candle?

Master candles were first introduced to me by Furious Angel. They're very simple and fit in well with my trading method.

A master candle forms when a large candle makes a recent high and low that engulfs the following four or more candles. Take a look at the example below:



The minimum number of candles the master candle needs to engulf is four, but the more the better. When a master candle forms it is an area of support and resistance being set. If you're familiar with my method, you could think of master candles as mini scalp lines. Just because they're mini it doesn't mean they do not work though. These lines can work very well.

Why Are They Useful and What Do They Mean?

I find it is easiest to think of master candles as mini scalp lines. The high and low of the master candle represent recent areas of support and resistance. As candles form within the boundaries of the master candle the areas of support and resistance grow stronger.

So trading master candles is like trading scalp lines or range breaks. The market falls into a range that is dictated by the high and low of the master candle. Once that high or low is broken the market should rally. The more time before the break the stronger those boundaries become.

Think about a master candle as a cross between support + resistance lines and candle patterns. They can be useful in catching early breakouts and making pips in a slow moving market.

How Accurate are They?

Like any form of technical analysis, if you trade it alone and you blindly jump in without thinking you will lose. These patterns only work if the trader using them has a brain and is willing to use some discretion. If you know about me you know I hate the idea of mechanical, no-thinking-required trading methods.

A trading method only works if a real trader is trading it.

So master candles can be as accurate as giving you 8 wins in every 10 trades using them. However, this will only be true if you use them in conjunction with other forms of analysis, common sense, and your brain.

For me, master candles have been working quite well. To be fair I am new to using them so I cannot give a accurate win/loss ratio. I can say that over the past few months I have seen a number of master candles formed and traded them a few times. In that time, they have proven to be extremely accurate when used in conjunction with support + resistance lines, other candle patterns and price action.

Chapter 3:

Using Master Candles

The Basics

Pair: GBP/JPY, You can try and use other pairs but I have used them only on this pair.

Time frame: 1hr chart

Type of trading: Breakout trading. If the master candle high or low is broken and a trade is taken the other side of the master candle becomes invalid.

Spotting a Master Candle

Can you see the master candle in the 1hr GBP/JPY chart below?



Well here's a little help. There are three master candles on this chart. The first is marked by the blue lines and it engulfs four candles. The second is marked by the orange line and it engulfs 12 candles. The third is marked by green lines and engulfs 16 candles. Unfortunately the green one did not work out but nothing works 100% of the time!

If you look closely, you will notice a master candle marked in purple inside the master candle marked with orange. Now most of the time I do not trade master candles that form inside other master candles. This is because there are usually too few pips between the high/low of the internal master candle and the external one. However there are times that you will have such a big external master candle that a master candle that forms inside has room for a proper breakout. If this is the case, I will

use the internal master candle. Just be careful though, you will find that these trades are usually riskier.



I could drone on for pages talking about how to spot Master Candles but do I have to? It literally is so easy a child could do it. You look for a candle on the 1hr chart that engulfs at least a minimum of the next 4 candles.

So let's move on to more important things like judging the strength of a master candle.

What Makes a Strong Master Candle?

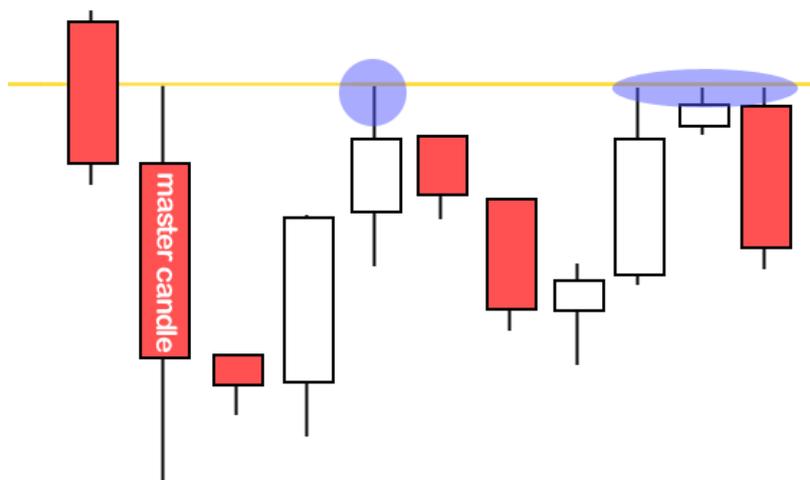
As with any form of analysis, some signals can be stronger than others. For example, when trading scalp lines a scalp line that has had three very strong, recent bounces is stronger than a scalp line with one weak bounce. Let's look at some of the things that make a master candle stronger:

1. Line Bounces

If you are familiar with my trading method, you know that the more bounces a scalp or support + resistance line has the stronger the line becomes. This is simply because every time the price bounces away from that level it shows us that the level is a strong barrier. The more it bounces the stronger that barrier becomes. So when the price manages to eventually break that barrier it makes for a much better trade.

If the candles within the master candle bounce off of the high or low of the master candle it makes

that high or low stronger. Therefore, a break of that high or low should make for a better trade, as the price should have a stronger than normal rally. Take a look at this example below:



Looking at the picture above you can see what I mean. The candles trapped within the boundaries of the master candle keep on testing the resistance lines. The more times the price rejects that line the stronger the line becomes.

2. Scalp or Support + Resistance Lines

If the master candle's high or low happens to form on a pre-existing scalp or support/resistance line, then that line becomes stronger. I do not need to explain this one. It becomes stronger because more than one form of analysis points to the same line being an area of support or resistance.

3. Psychological Levels

Same as above, if the master candle's high or low happens to form on a strong psychological level, I would consider the line stronger.

4. Time

The longer the master candle holds out, the stronger it becomes. However, if it holds for too long, I might consider it invalid. I give it about 24 hours to break. If it cannot break in 24 hours, I scrap the master candle.

As always, there are some exceptions as one rule cannot fit all possible scenarios. The 24hr rule is actually more of a guideline; it should be used most of the times but exceptions can be made. For example, if during the 24 hours the candles engulfed by the master candle continually bounce from the highs or lows, I will likely still consider the master candle valid.

4. New highs or lows

If the high or low of a master candle doubles as a new daily, weekly, monthly, yearly, or all-time high or low, it obviously makes the master candle stronger. Here is an example:

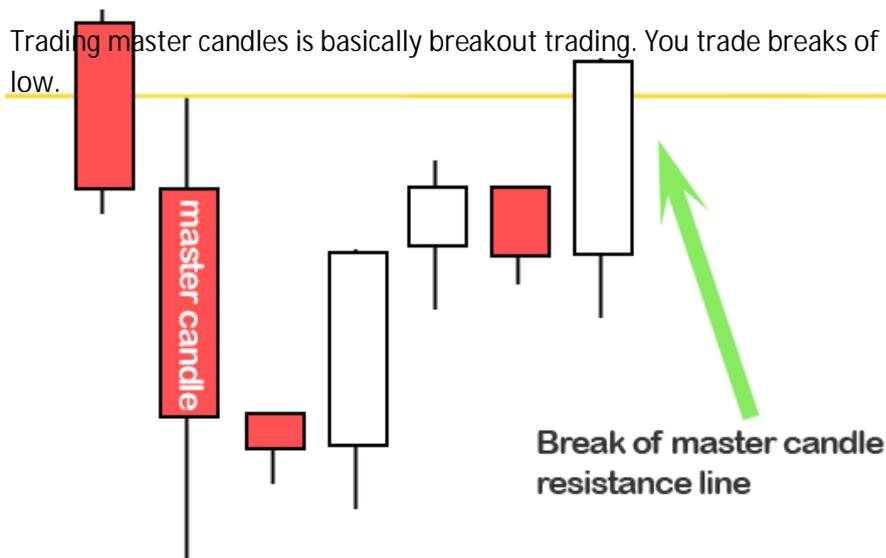


As you can see the master candle that formed on the 5th of December formed a new yearly low. I would consider that line stronger than the line up top. This is just common sense.

So depending on how and where they form some master candles can be stronger than others.

Trading Master Candles

Trading master candles is basically breakout trading. You trade breaks of the master candles high or low.



This is so straight forward I do not know if it can be explained any more. The master candle forms a high and a low. When that high or low is broken the entry is triggered.

However, as usual this breakout trading is a little different than most types of breakout trading. I like to use my brain when entering a breakout trade. I do not robotically enter the moment the line is broken. There are several factors that dictate whether or not I get into a trade, and if I get into the trade, when I get in.

These factors are covered in my previous free e-Book which discusses my method. I won't bother writing it again. If you haven't read my previous e-Book it is essential you do. As I have said before, master candles should be used in conjunction with the NickB method, not alone.

You can download the free NickB Method e-Book from the Forex4Noobs.com forum. The section about entries can be found on page 22 under the heading 'When to Enter S+R Line Trades'.

Targets and Stops

Master candles are very subjective. Targets depend on where/when they form, market conditions, and line strength. Obviously if the master candles low forms on top of a strong support + resistance line the target on the break will be larger.

If you know how to trade my method you should have a general idea of what to target on a master candle break. I would consider a normal master candle to be the same as scalp lines as far as targets and stops go. So that is a 50 pip target and a 50 pip stop.

The more candles that are engulfed by the master candle the more confident I am that a break of the support or resistance will make me pips. So usually if there are 7+ candles engulfed I will raise my target to 60 pips. If there are 10 or more candles engulfed I might raise my target to 70 pips with a 70 pip stop. If the candle forms on top of a pre existing support + resistance line I might target 70 pips.

Once you spend a little time trading the NickB method you should be able to figure targets and stops out for yourself. However, I will give you a general stop and target of 50 pips. Please remember that targets and stops change with market conditions. For example, in a slow moving market you may want to target 30 pips instead of 50. In a fast moving market, you may want to target 70 pips. You should read the original, free NickB method e-Book for a better idea on stops and targets.

Chapter 4:

The NickB Method

Learn More

If this is the first e-Book of mine you have read and you want to learn more about my method please download the first NickB method e-Book, its free! Copy and paste the link below to get it:

<http://www.forex4noobs.com/forums/talking-forex/1924-nickb-method-free-e-book-download-here.html>

If you want to learn even more about the NickB method checkout the NickB method video course. It is an in depth 4hr long video course breakdown of my method! Copy and paste the link below to learn more:

<http://www.forex4noobs.com/videocourse.php>

Chapter 5: The End

Summary

That pretty much sums up master candles. I know this is a short e-Book but it doesn't need to be long. I have said everything that needs to be said without babbling on with useless information. I hope you enjoyed this book and learnt something new.

Please remember that this is not a method in itself. This is to be used in conjunction with the current NickB method. When I update the free NickB method e-Book and the video course I will be adding information about master candles. This is just a temporary e-book so you can get this information now and begin using it to make pips.

Questions

Please guys do not private message or email me questions on master candles. Ask in the forum and I will try my best to answer. If you email me questions I will not answer. I do not think it's fair to give one on one help. If you ask the question in the forum my answer can benefit everyone who sees it. If you ask me privately it benefits only you. So don't be greedy, if you have a question start a thread in the forum.