



LIGHT BLUE

FOREX TRADING SYSTEM

ULTRA BLUE - MAIN SYSTEM

BY RUSS HORN

FOREX MASONRY

HIGH RISK INVESTMENT

TRADING FOREIGN EXCHANGE ON MARGIN CARRIES A HIGH LEVEL OF RISK, AND MAY NOT BE SUITABLE FOR ALL INVESTORS.

Before deciding to trade 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 adviser if you have any doubts.



My name is Russ Horn, I have been around the Forex world for 20 years and helped thousands of traders become great, self-reliant, and profitable traders. I have seen a lot of traders, and right this minute, traders are worried about their finances.

People are losing their jobs everywhere. Part-time traders now depend on their market skills to trade full-time, but they are finding the complicated systems they use just aren't profitable.

Taking a backwards approach will turn these part-time "hobby traders" into full-time "professional" traders.

The excellent news is that you are exactly where you need to be. Here you get to move beyond the flashy "untested" indicators that flood your inbox, and return to a method that is easy, profitable, and battle-tested.

This simple system has several benefits, but the main ones are:

- Easy to learn and use.
- Frequent and clear trading signals.
- High probability and profitable trades.

Out of all the simple ways to trade, Light Blue has been reduced to its most efficient and profitable version.

Albert Einstein once said:

“ *A thing should be made as simple as possible, but not simpler.* ”

That goes for trading systems especially.

The system we will be using is not under-simplified, but it is as simple as I can make it to be as profitable as any professional system can be. We only want to use the "essential" pieces of a professional system.

We want simple, easy, and extremely functional. Being user friendly also helps.

LIGHT BLUE

THE BASIC ESSENTIALS OF A SIMPLE SYSTEM

1. TREND DIRECTION
2. SETUP
3. SIGNAL
4. STOP LOSS
5. TARGET

The Light Blue system makes excellent use of these simple elements to combine into an incredible trading system. We use simple tools, ones that have proven themselves over time.

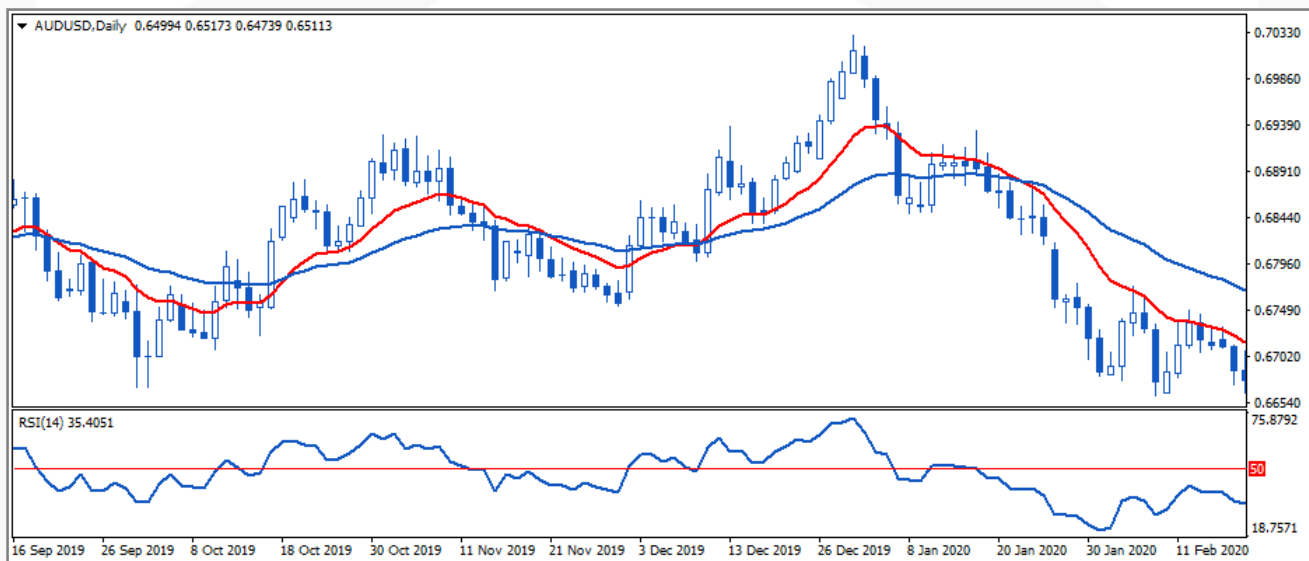
We will also add a trade filter and a method to exit a bad trade early.



WHAT IT LOOKS LIKE ←

The chart below is Light Blue in all its simple glory.

We are taking a backward approach with this method. By eliminating several of the fancy and complicated and conflicting processes, we open up the system to simplicity and profitability and extreme ease of use.



Being a simple system, the rules are easy to follow and there should be no confusion. Signals will be clear and quite easy to see.

All the different aspects will be clear, from the direction we want to trade, to the signal, to how we get out of the trades.

EASY AS 1, 2, 3

WHAT WE USE ←

Light Blue uses 3 basic indicators that you will find on any trading platform. One of the nice features of Light Blue is you can set it up on any platform.

MOVING AVERAGES AND AN RSI

Using moving averages and an RSI, we will get:

TREND DIRECTION:

We know what direction we want to trade.

SETUP:

The requirement that must be met before any trade can be considered.

SIGNAL:

This will be the event that gets us into a trade.

STOP LOSS:

This is the best place to exit the trade if things go terribly wrong.

TAKE PROFIT:

We will know exactly where to exit the trade in profit.

FILTER:

This will keep us out of fake-outs and low quality trades.

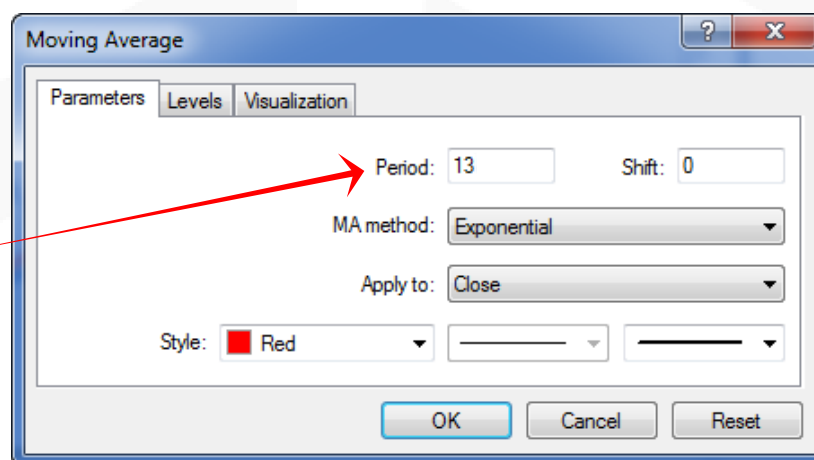
EARLY EXIT:

This will give us the opportunity to exit a bad trade before it gets too bad.

13 EMA

The first indicator is the 13 Exponential Moving Average. This one we make red.

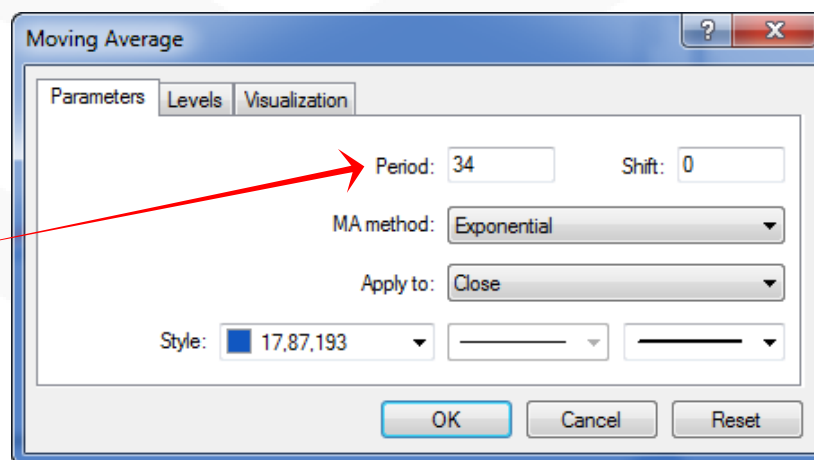
PERIOD SETTING



34 EMA

The second indicator is the 34 Exponential Moving Average. This one we make blue. I used a custom blue to match the Light Blue theme, but any blue will work.

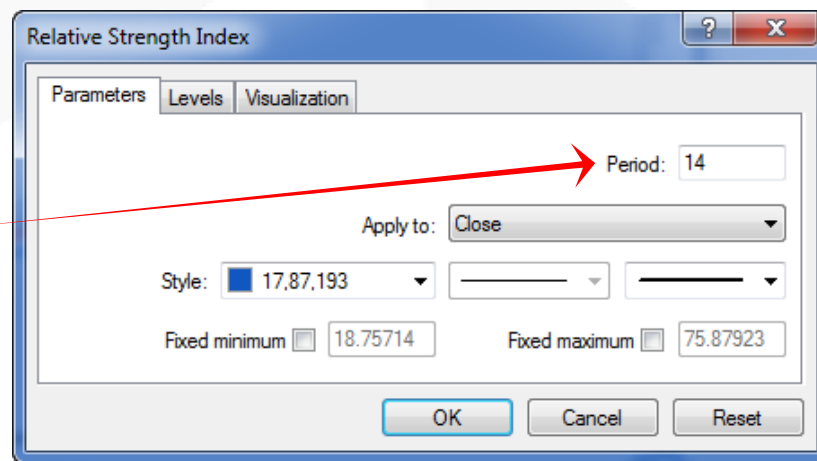
PERIOD SETTING



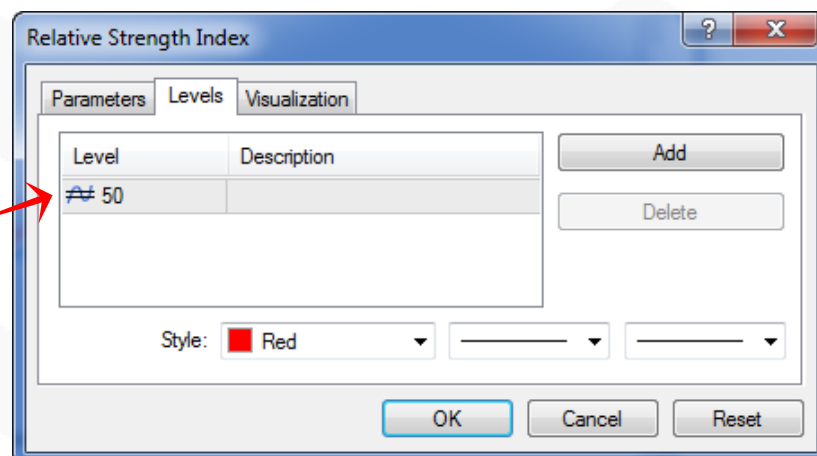
RELATIVE STRENGTH INDEX

The final indicator is the Relative Strength Index, commonly known as the RSI. The setting for this is the default 14 period. This is also a blue color to match the 34 EMA. We add the 50 level in red so we can easily see when the RSI is above or below that level.

PERIOD SETTING

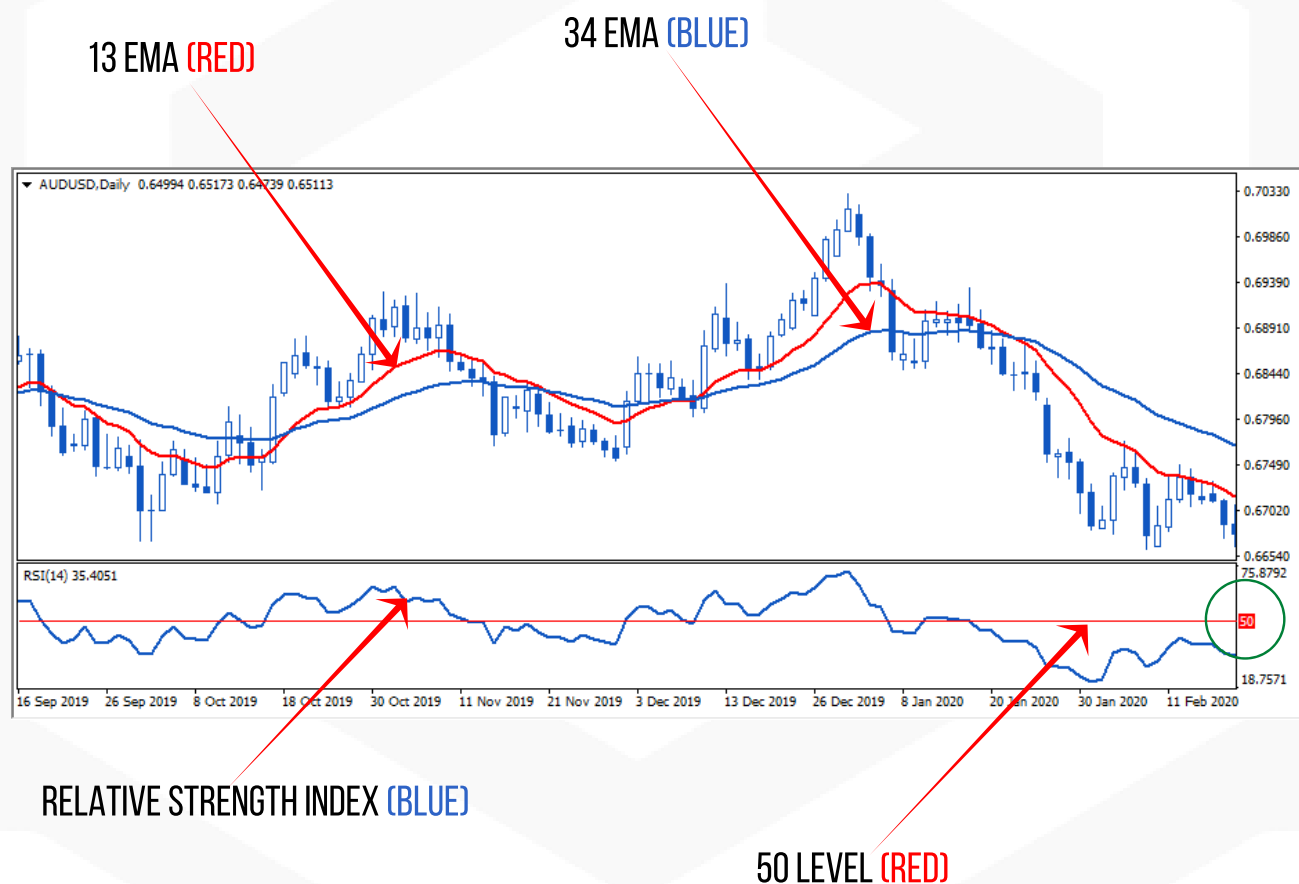


LEVELS SETTING



PUT TOGETHER ON A CHART

When all the indicators come together, we get a nice clean chart that will give us clear and precise signals.



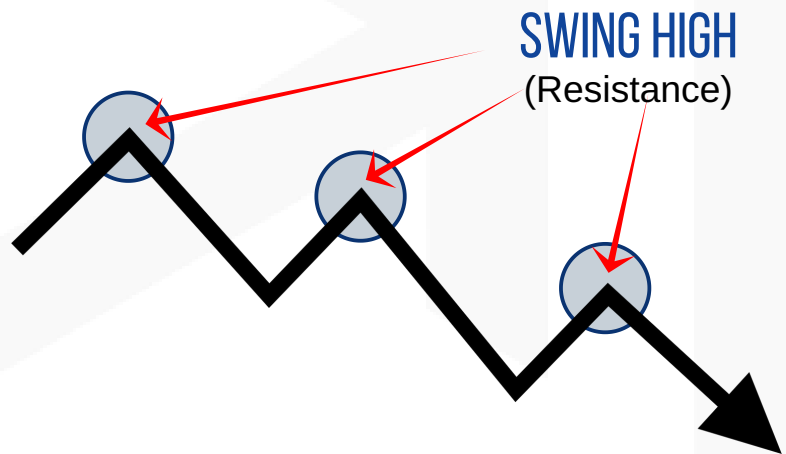
SWING HIGHS AND LOWS

Before we get into the trading system itself, we need to be able to identify market swing highs and swing lows.

Another description for these highs and lows are "areas of support and resistance". We need to know about them because we will be using them to get our entry signal and to place our stop loss.

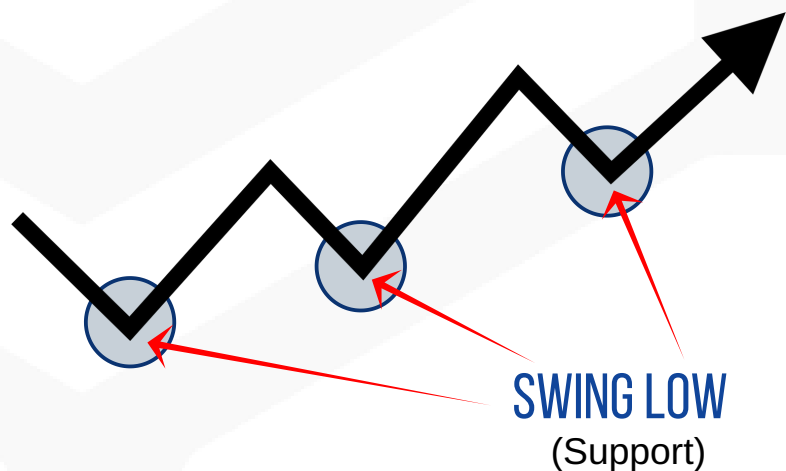
SWING HIGH / RESISTANCE

Price makes a move up and then back down. The top of that movement is a swing high, also known as resistance.



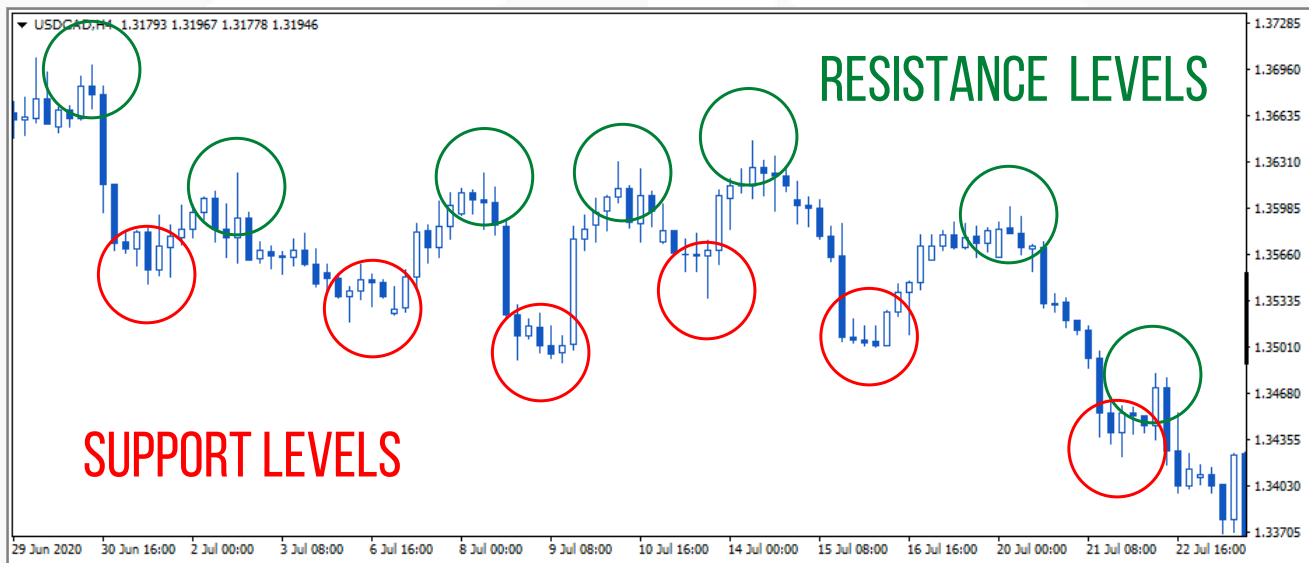
SWING LOW / SUPPORT

Price makes a move down and then back up. The bottom of that movement is a swing low, also known as support.



SWING HIGHS AND LOWS

Below are swing highs and lows on a chart. The areas of resistance are circled in green and the areas of resistance are circled in red.



Below is the same chart as above, but I have marked the same levels with support and resistance lines.

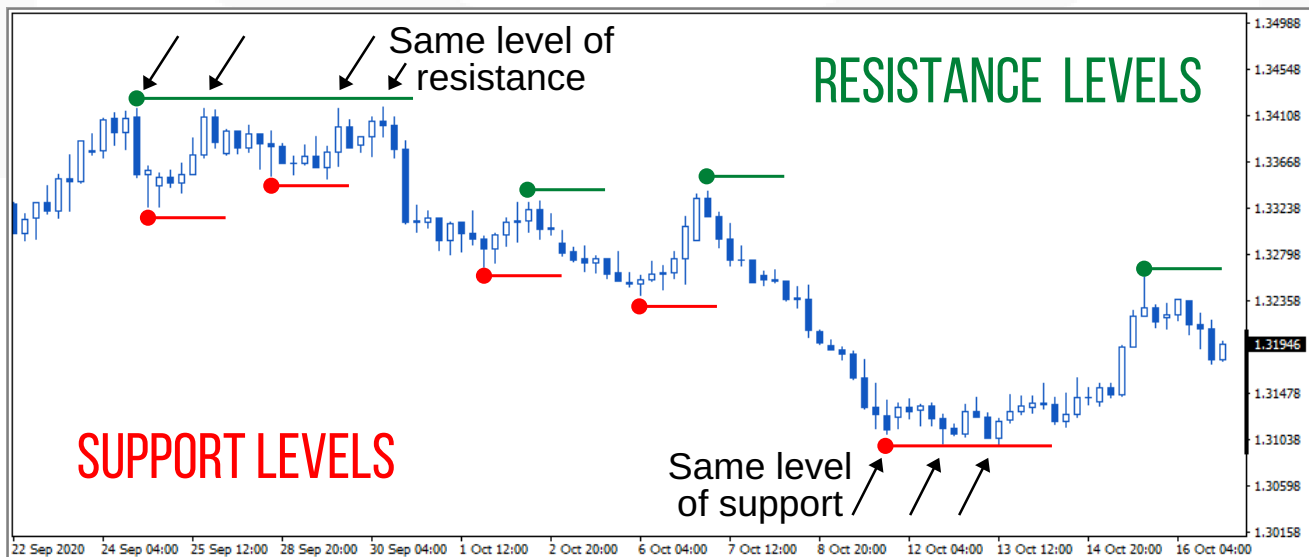


SWING HIGHS AND LOWS

Below is a second chart with swing highs and lows that aren't as obvious as in the first example. *If you are in doubt if it's a high or low, then assume it isn't.*



Below is the same chart as above with the levels marked as support and resistance lines. You will see a few examples where price shares the same area of resistance and then again with support, this is a common occurrence.



TREND

To identify the trend direction, we look at the moving averages as a pair. The 13 EMA and the 34 EMA work together to determine the trend direction.

WHEN THE 13 EMA IS ABOVE THE 34 EMA, WE HAVE AN UPTREND.

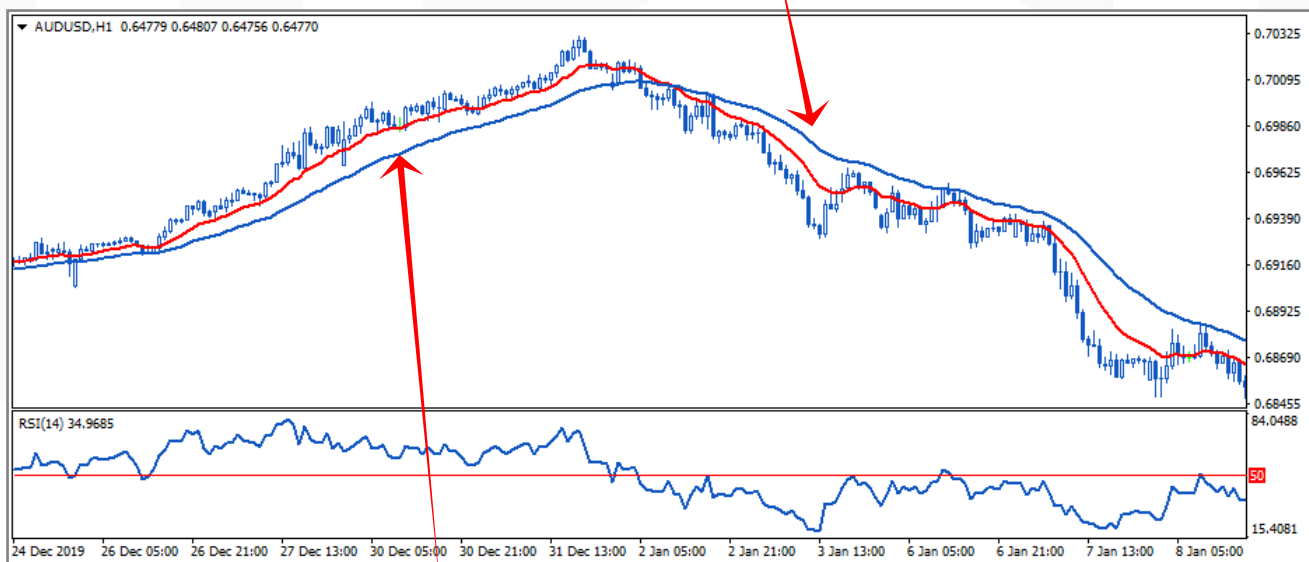
We will be looking to take only long trades (buy trades).

WHEN THE 13 EMA IS BELOW THE 34 EMA, WE HAVE A DOWNTREND.

We will be looking to take only short trades (sell trades).

TREND IS DOWN

The red 13 EMA is below the blue 34 EMA.



TREND IS UP

The red 13 EMA is above the blue 34 EMA.

RSI FILTER

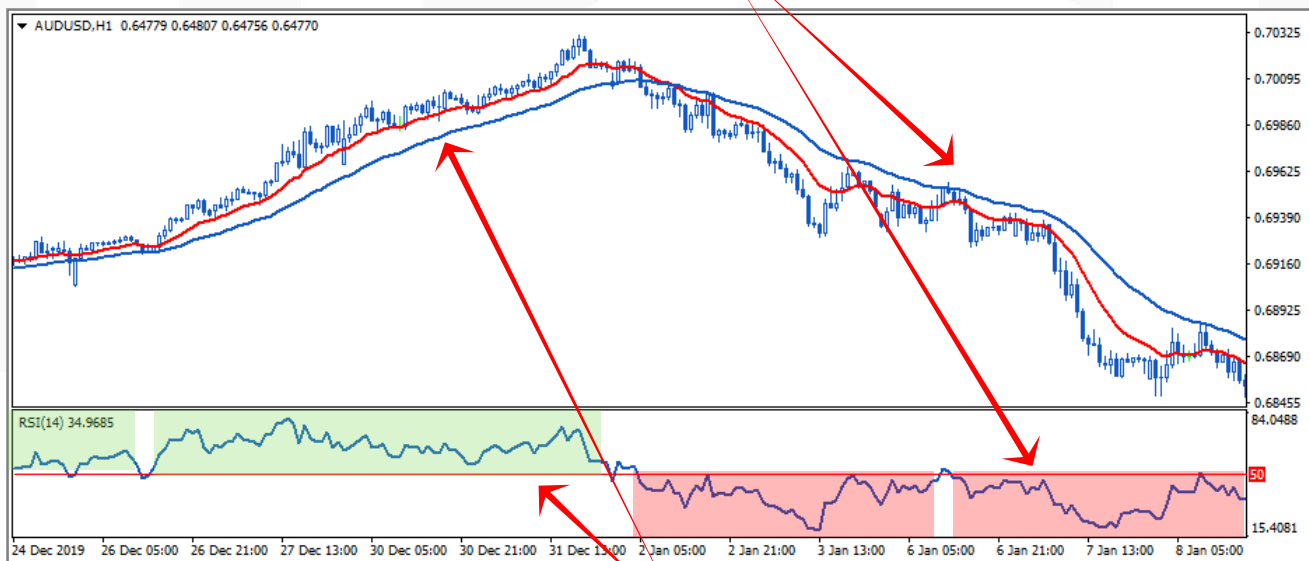
At times, the market can get very sideways and choppy. Because we are using 2 moving averages, they will always tell us that we are in a trend of some kind as they will always be either up or down. Even though the moving averages will tell us the market is in a trend, we want a way to confirm, or verify, that the trend is one that will produce a good trade.

WE USE THE RSI TO FILTER THE TREND.

We want the moving averages and the RSI to tell us the same thing. If the moving averages are up, then we want the RSI to be above the red 50 level. If the moving averages are down, we want the RSI to be below the red 50 level.

RSI CONFIRMS TREND IS DOWN

The 13 EMA is below the 34 EMA and the RSI is below the 50 level in the red shaded areas.



RSI CONFIRMS TREND IS UP

The 13 EMA is above the 34 EMA and the RSI is above the 50 level in the green shaded areas.

SETUP - BUY

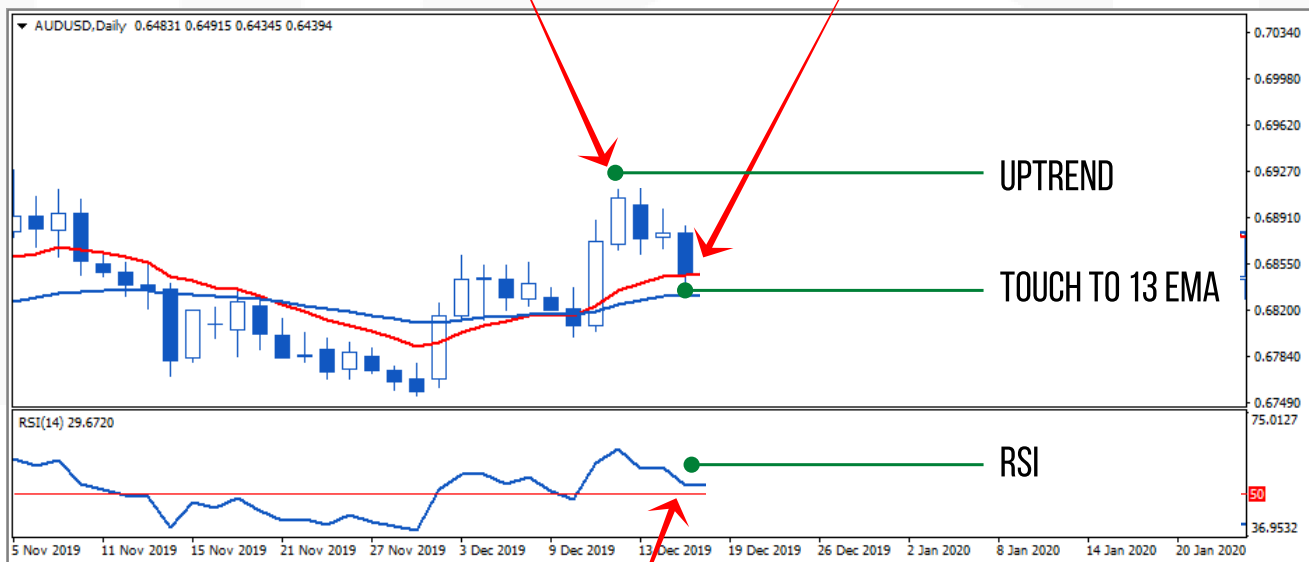
Now that we have identified that the trend is up, we need the setup. The setup occurs when the market pulls back and touches the red 13 EMA.

SETUP TO BUY:

1. The market is above the 13 EMA and the 13 EMA is above the 34 EMA.
2. The RSI is above the 50 level.
3. The price pulls back to touch the 13 EMA.

1 MARKET ABOVE 13 EMA,
13 EMA ABOVE 34 EMA

3 PRICE PULLS BACK TO
TOUCH 13 EMA



2 RSI ABOVE RED 50 LEVEL

SETUP TO SELL:

- # 1 MARKET BELOW 13 EMA, 13 EMA BELOW 34 EMA

- ### 3 PRICE PULLS BACK TO TOUCH 13 EMA



SIGNAL - BUY

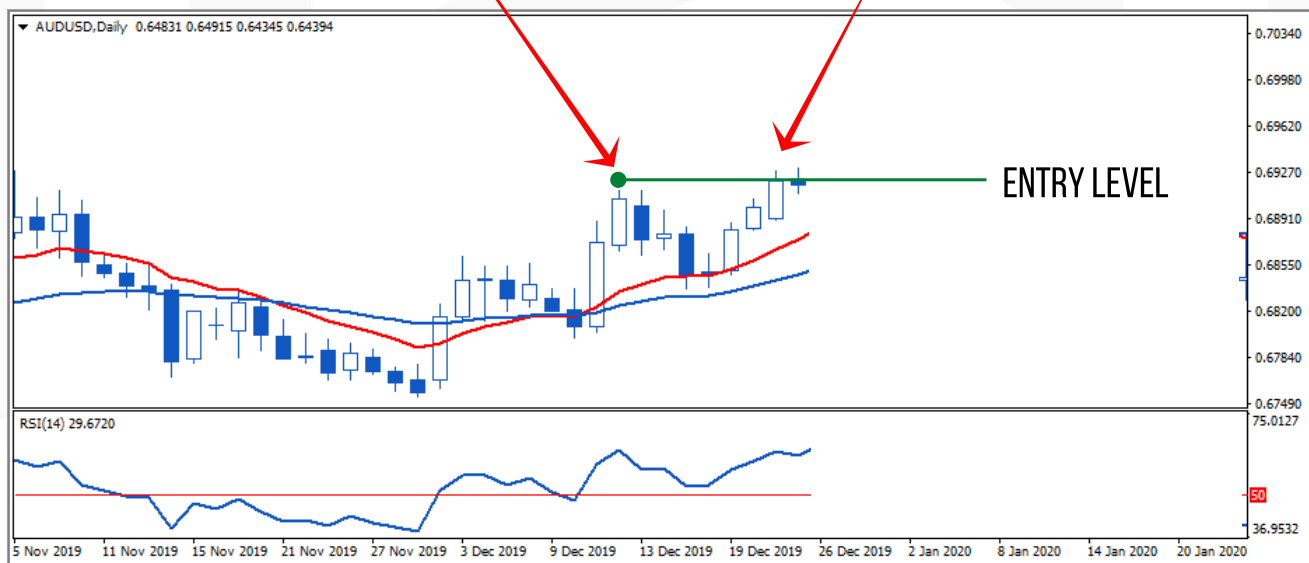
After the buy setup happens, we wait for the signal to get into the long trade.

SIGNAL TO BUY:

1. Identify the most recent swing high.
2. Enter trade when price moves 1 pip above the swing high.

1 IDENTIFY THE RECENT SWING HIGH

2 ENTER BUY TRADE WHEN PRICE MOVES 1 PIP ABOVE SWING HIGH



SIGNAL - SELL

After the sell setup occurs, we wait for the signal to trigger the short trade.

SIGNAL TO SELL:

1. Identify the most recent swing low.
2. Enter trade when price moves 1 pip below the swing low.



1 IDENTIFY THE RECENT SWING LOW

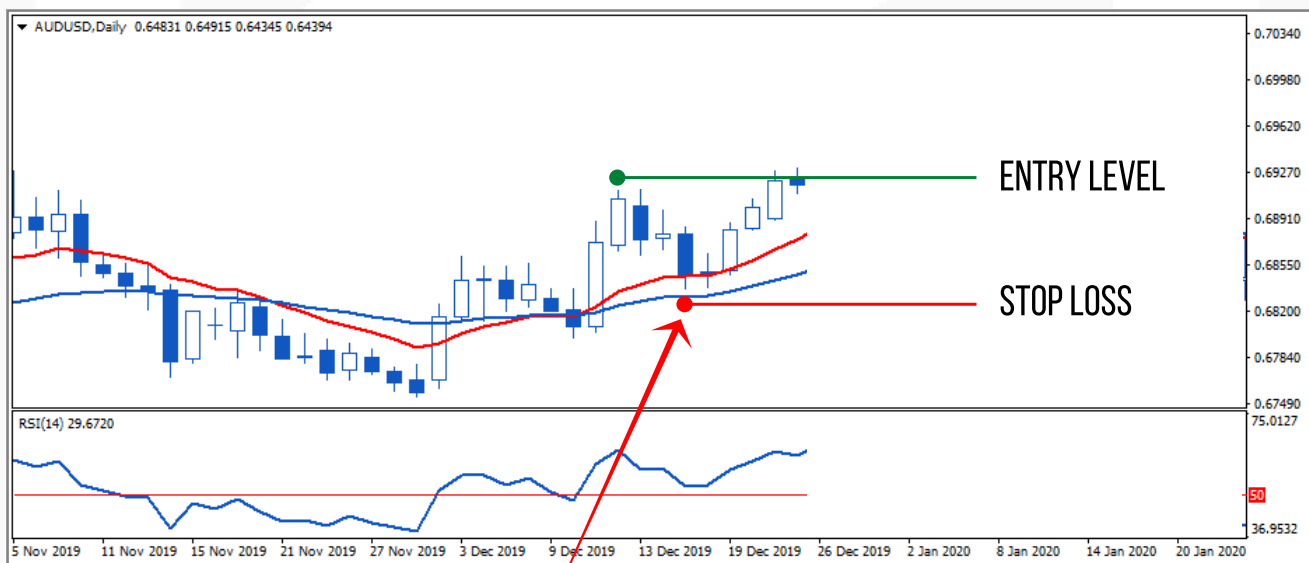
2 ENTER SELL TRADE WHEN PRICE MOVES 1 PIP BELOW SWING LOW

STOP LOSS - BUY ←

This is also called the "Initial Stop Loss". When we place a trade, this will be the first place our stop loss goes and it will be the farthest from the entry it will ever be.

STOP LOSS FOR A BUY:

1. Place the stop loss just below the most recent swing low.



- 1 PLACE THE STOP LOSS JUST BELOW THE RECENT SWING LOW.

STOP LOSS - SELL

Being the initial stop loss, this is the first placement of the stop loss and it will be the farthest from the entry it will ever be.

STOP LOSS FOR A SELL:

1. Place the Stop Loss just above the most recent swing high.

1 PLACE THE STOP LOSS JUST ABOVE THE RECENT SWING HIGH.



QUICK STOP - BONUS

Naturally, the best place to put a stop loss is above the recent swing high or the recent swing low. We want to take advantage of the rhythm of the market and position our stops where the market tells us is the best place.

With that being said, we won't always be present when the trade occurs, especially since the entry on the Light Blue trades can happen any time. With other trade types, we enter at the close of a candle, and this gives us the exact time to be present. When the market passes through support or resistance, there is no way to determine when that will happen.

A way around this is to use the Quick Stop method of placing a stop loss.

***This was going to be part of the paid version only, but it's so important that traders know about this that I made sure it was included in the free version.**

The best feature of the Quick Stop is all we need is the setup to make use of it. Once we have the setup, we will be able to place the trade and walk away from the charts.

The setup is when the price touches the 13 EMA provided the MAs and the RSI are in order.

We will be using the 13 EMA itself to place the stop loss.

When the price touches the 13 EMA to give us the setup, we already know where the entry level will be. We know it will be above the recent swing high in a buy trade or below the swing low in a sell trade.

We will place the stop loss at the 13 EMA that corresponds with this swing high or low. After we know where the stop goes, we can place the entry and the target as well. Once these levels are placed, the trade can happen without us being present.

QUICK STOP - BUY

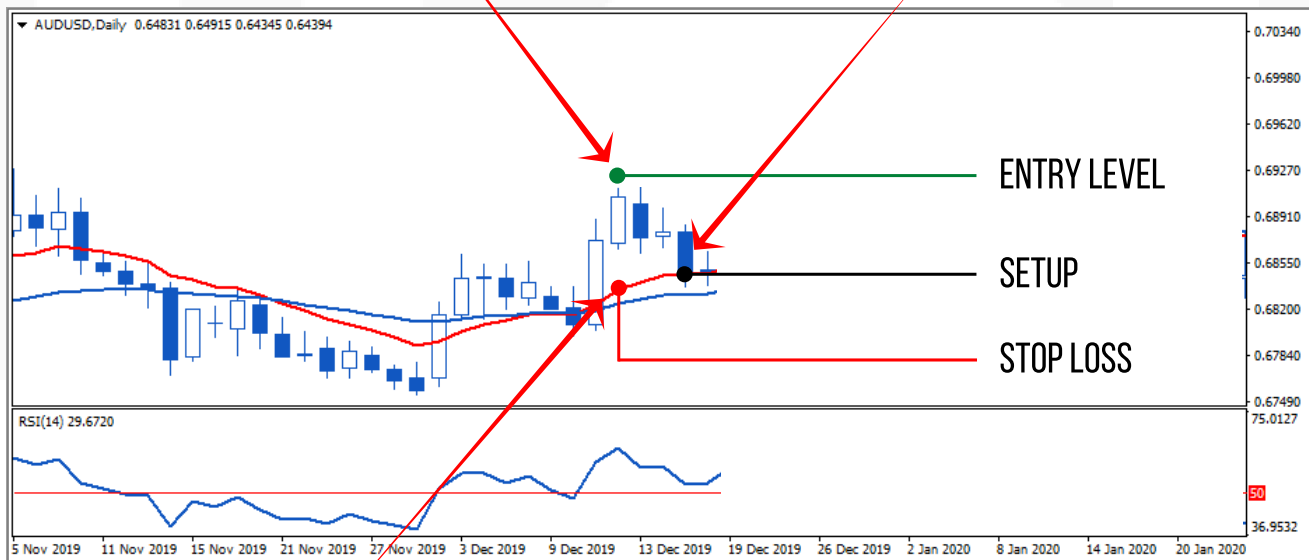
Oviously, the bast place to put a stop loss in above the recent swing high or the recent swing low. we want to take advantage of the rhythm of the market

QUICK STOP FOR A BUY:

1. The market is in a technical uptrend. Price above the 13 EMA, the 13 EMA above the 34 EMA, and the RSI above the 50 level.
2. Price pulls back to touch the 13 EMA to give us the setup.
3. Stop loss will be positioned just under the 13 EMA of the candle that made the swing high.

1 PRICE IS IN AN UPTREND

2 PRICE PULLS BACK TO TOUCH THE 13 EMA



3 STOP LOSS IS PLACED JUST BELOW THE 13 EMA OF THE SWING HIGH

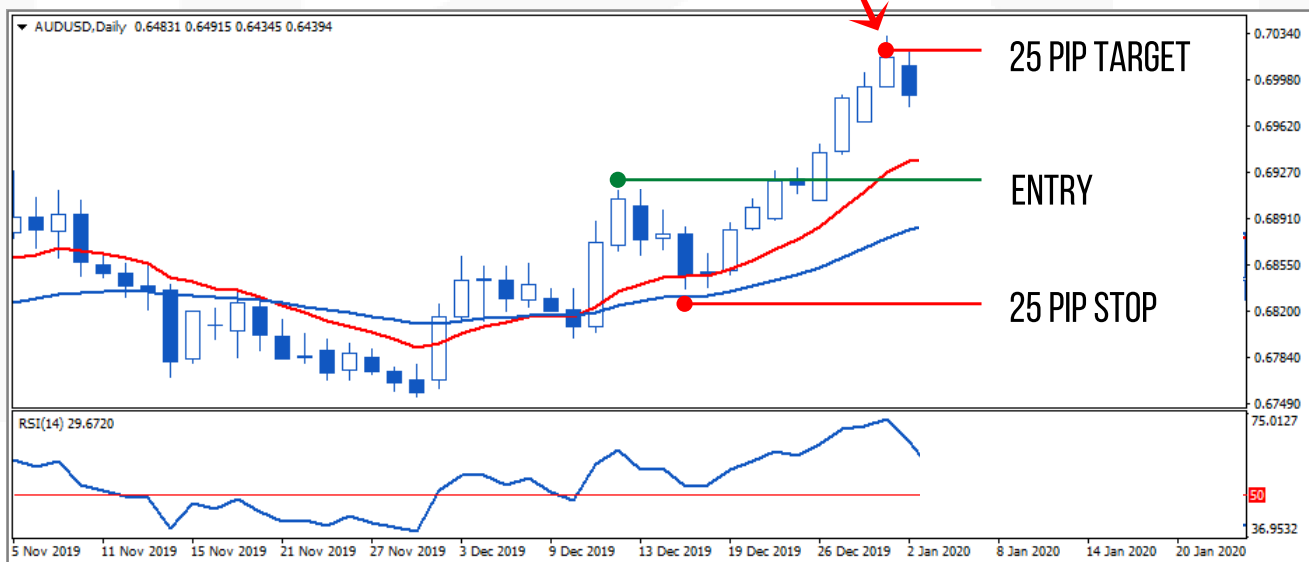
TARGET - BUY ←

The target for a buy trade is going to be a "hard target", meaning there is defined exit price.

TARGET FOR A BUY:

We will use a hard target that is based on the size of the stop loss. We will use a 1:1 reward to risk ratio, this means the target will be the same number of pips as the stop loss. If the stop loss is 25 pips, the target will also be 25 pips.

PLACE THE TARGET THE SAME NUMBER OF PIPS AS THE STOP LOSS.



TARGET - SELL

The target for a sell trade is going to be determined by the stop loss and we will exit the trade at an exact price, this is known as a "hard target".

TARGET FOR A SELL:

We will use a hard target that is based on the size of the stop loss. We will use a 1:1 reward to risk ratio, this means the target will be the same number of pips as the stop loss. If the stop is 35 pips, the target will also be 35 pips.



PLACE THE TARGET THE SAME
NUMBER OF PIPS AS THE STOP LOSS.

STEP BY STEP ←

By now, we know the rules and how the system works, so in this section we will simply put everything together into a single trade. It will be broken down into steps, we will do a play-by-play.

SELL TRADE

STEP 1: IDENTIFY THE TREND

The price is under the 13 EMA, the 13 EMA is under the 34 EMA, and the RSI is below the 50 level.

STEP 2: SETUP

Price moves up to touch the 13 EMA and the RSI remains under the 50 level.

STEP 3: SIGNAL

Enter the trade when the price moves below the most recent swing low.

STEP 4: STOP LOSS

The stop loss is placed just above the most recent swing high.

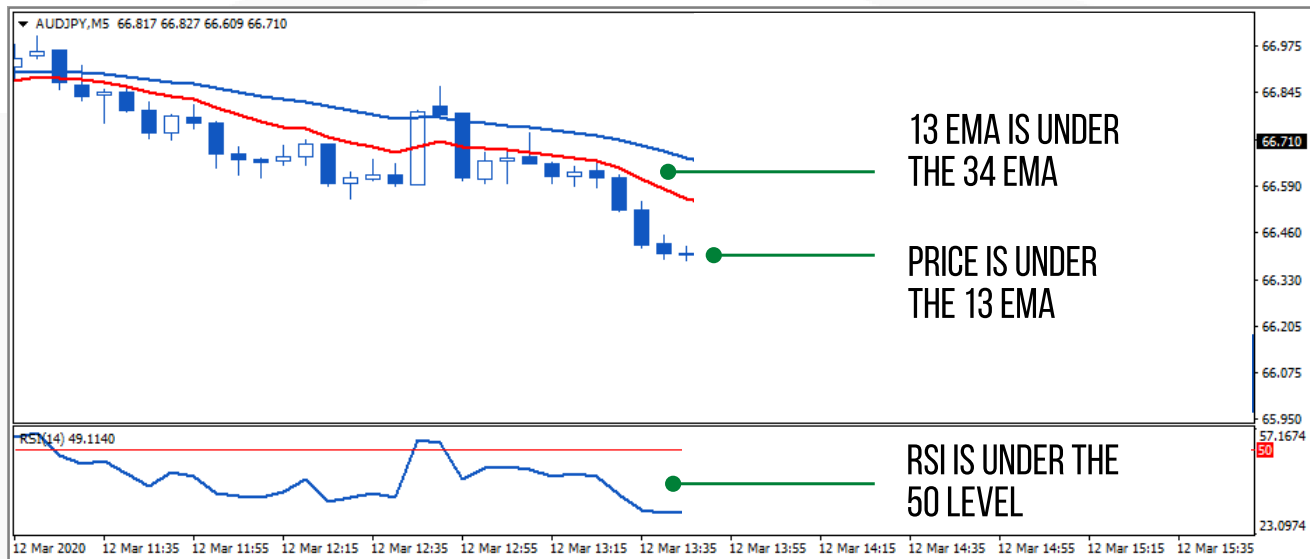
STEP 5: TARGET

The take profit level is placed the same number of pips as the stop loss.

SELL TRADE

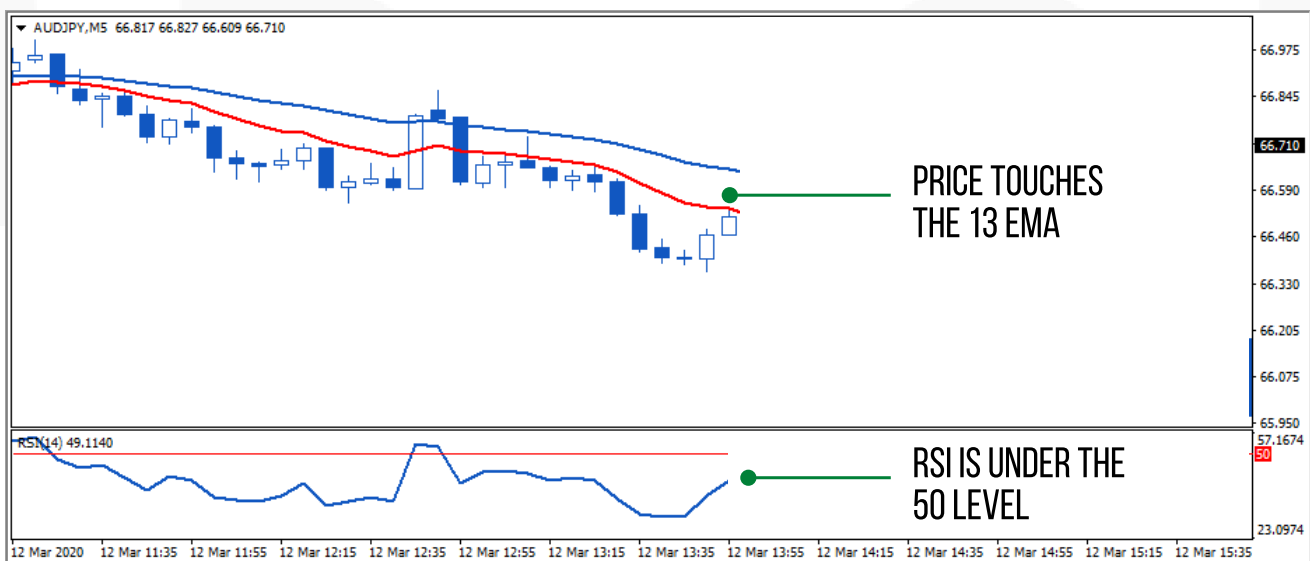
STEP 1: IDENTIFY THE TREND

The price is under the 13 EMA, the 13 EMA is under the 34 EMA, and the RSI is below the 50 level.



STEP 2: SETUP

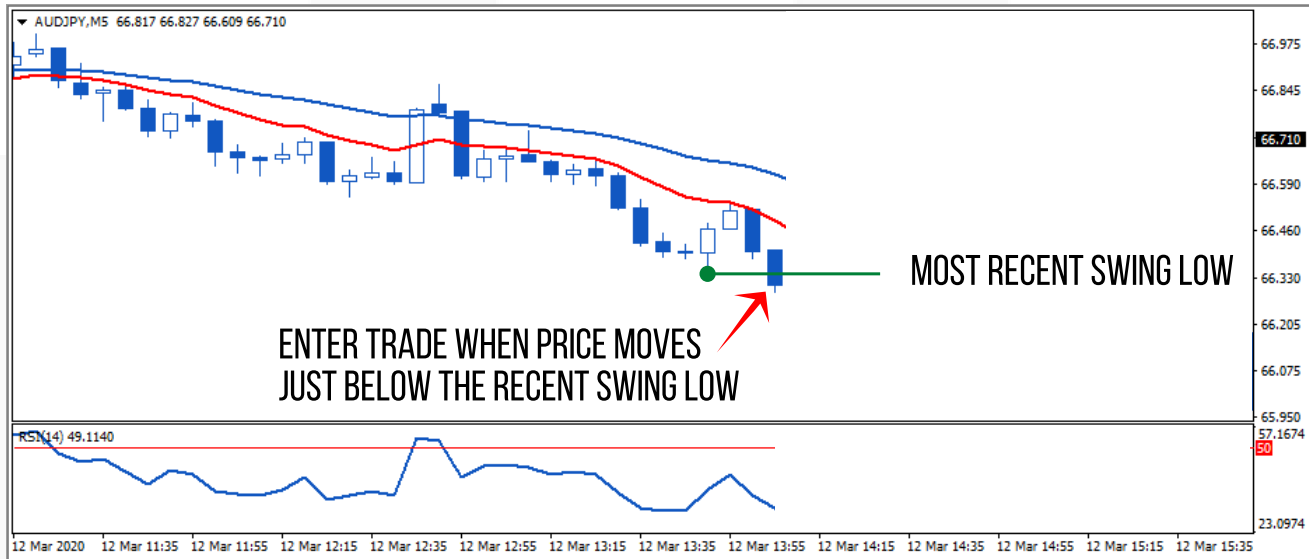
Price moves up to touch the 13 EMA, the RSI remains under the 50 level.



SELL TRADE

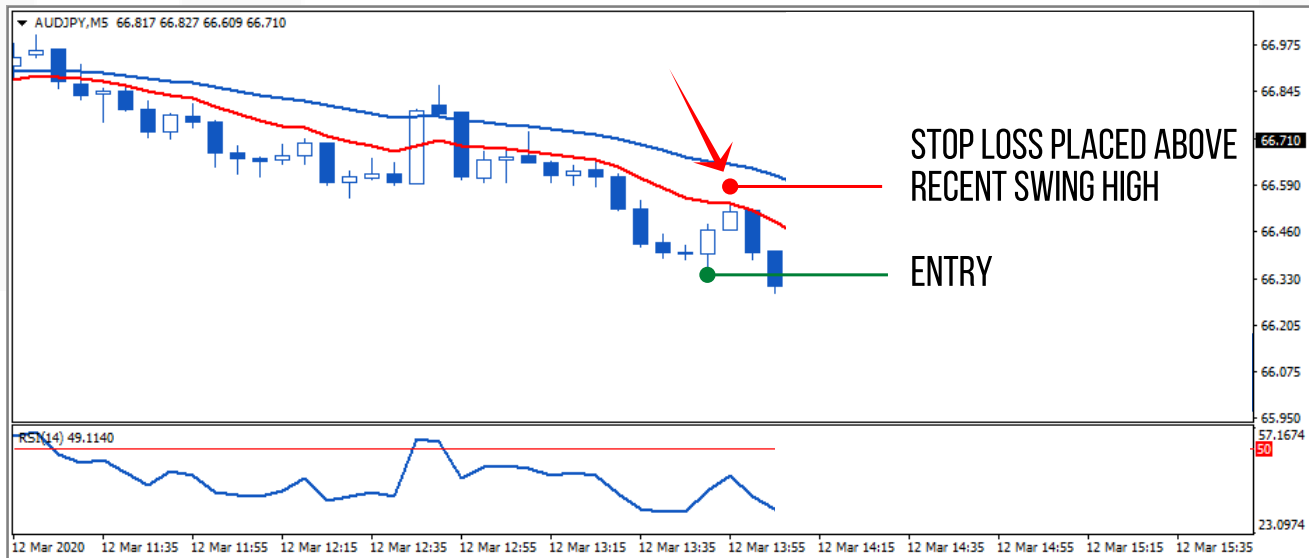
STEP 3: SIGNAL

Enter the trade when the price moves below the most recent swing low.



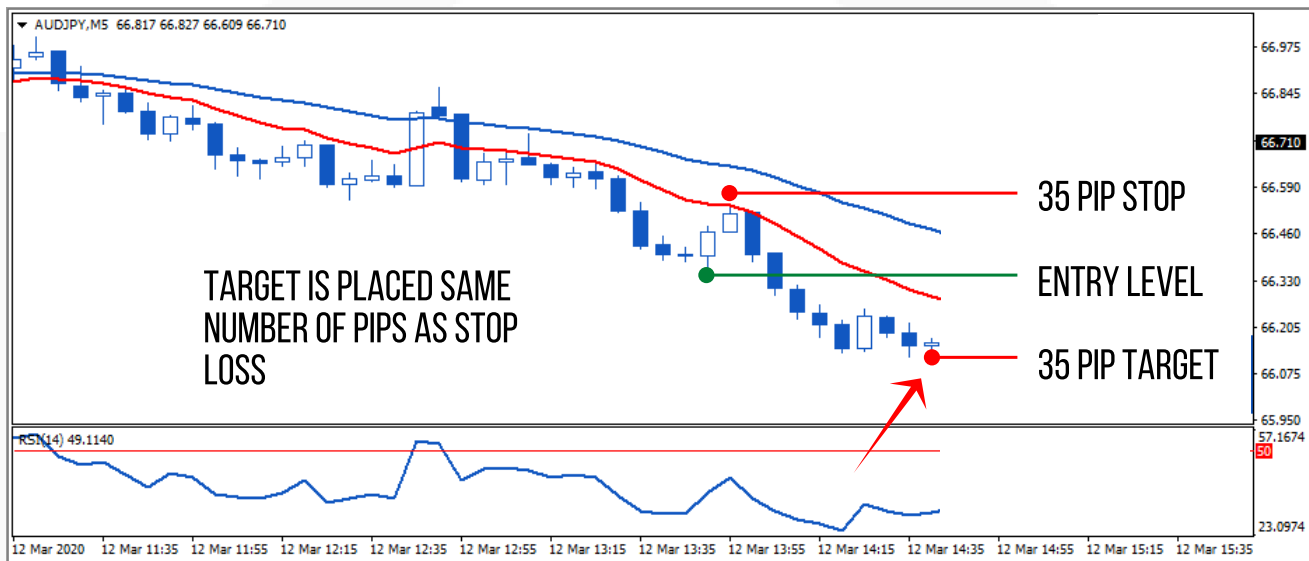
STEP 4: STOP LOSS

The stop loss is placed just above the most recent swing high.



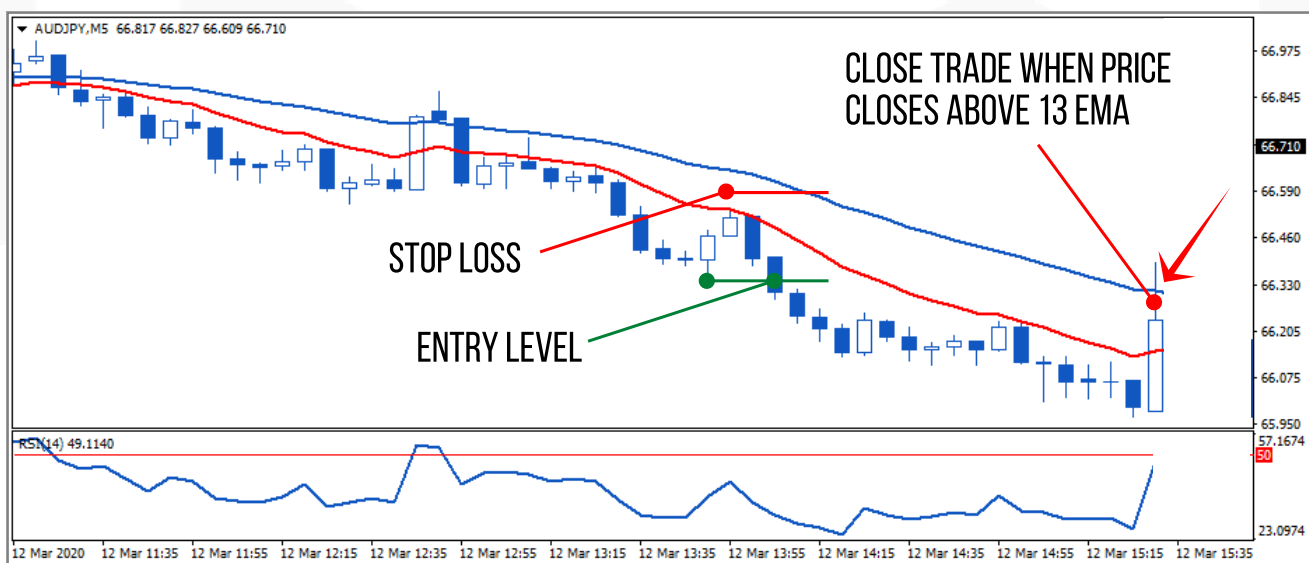
STEP 5: TARGET

The take profit level is placed the same number of pips as the stop loss.



BONUS EXIT OPTION

To close a trade early or to let a trade run, you can choose to close the trade once the price closes above the 13 EMA.



STEP BY STEP ←

The buy trades will be the same as the sell trades, just in the opposite direction.

BUY TRADE

STEP 1: IDENTIFY THE TREND

The price is above the 13 EMA, the 13 EMA is above the 34 EMA, and the RSI is above the 50 level.

STEP 2: SETUP

Price moves down to touch the 13 EMA, the RSI remains above the 50 level.

STEP 3: SIGNAL

Enter the trade when the price moves above the most recent swing high.

STEP 4: STOP LOSS

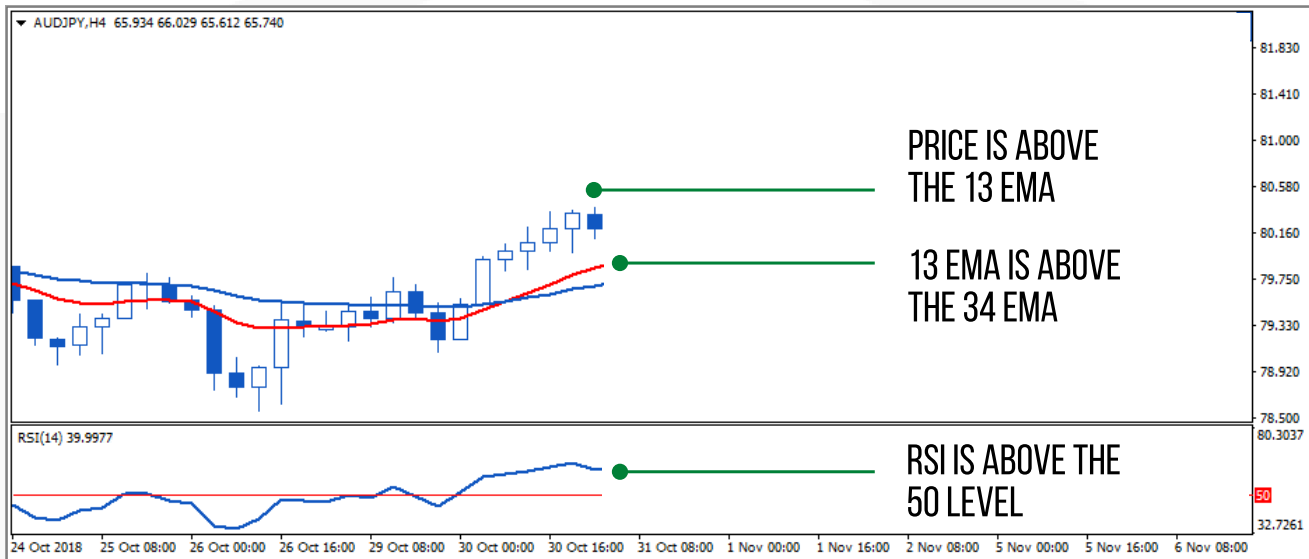
The stop loss is placed just below the most recent swing low.

STEP 5: TARGET

The take profit level is placed the same number of pips as the stop loss.

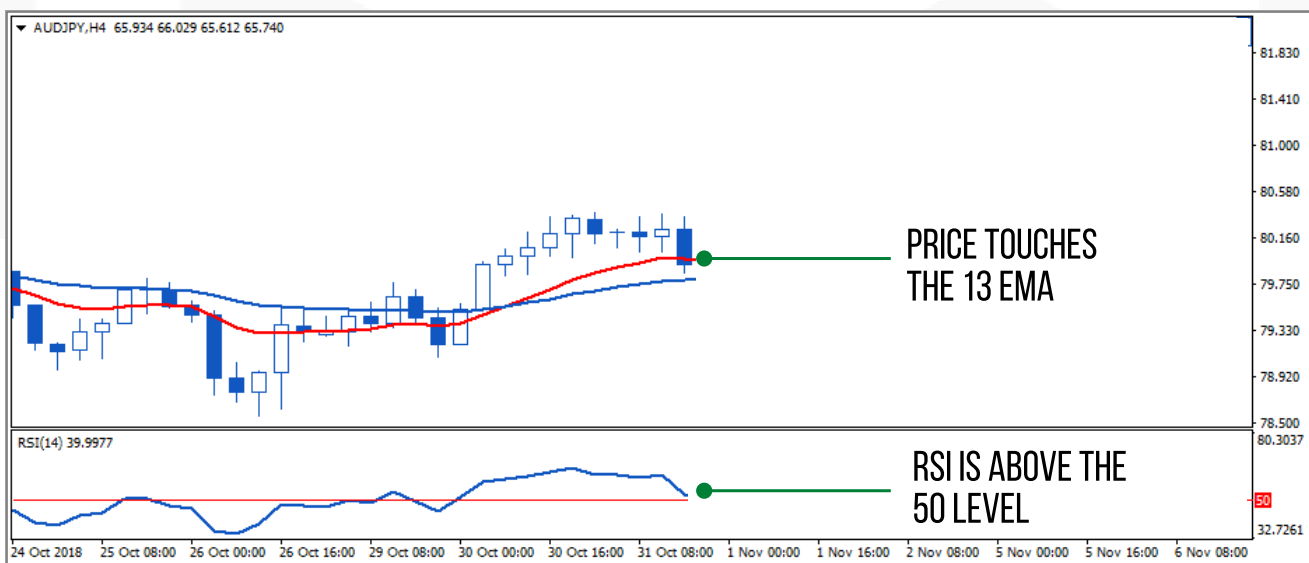
STEP 1: IDENTIFY THE TREND

The price is above the 13 EMA, the 13 EMA is above the 34 EMA, and the RSI is above the 50 level.



STEP 2: SETUP

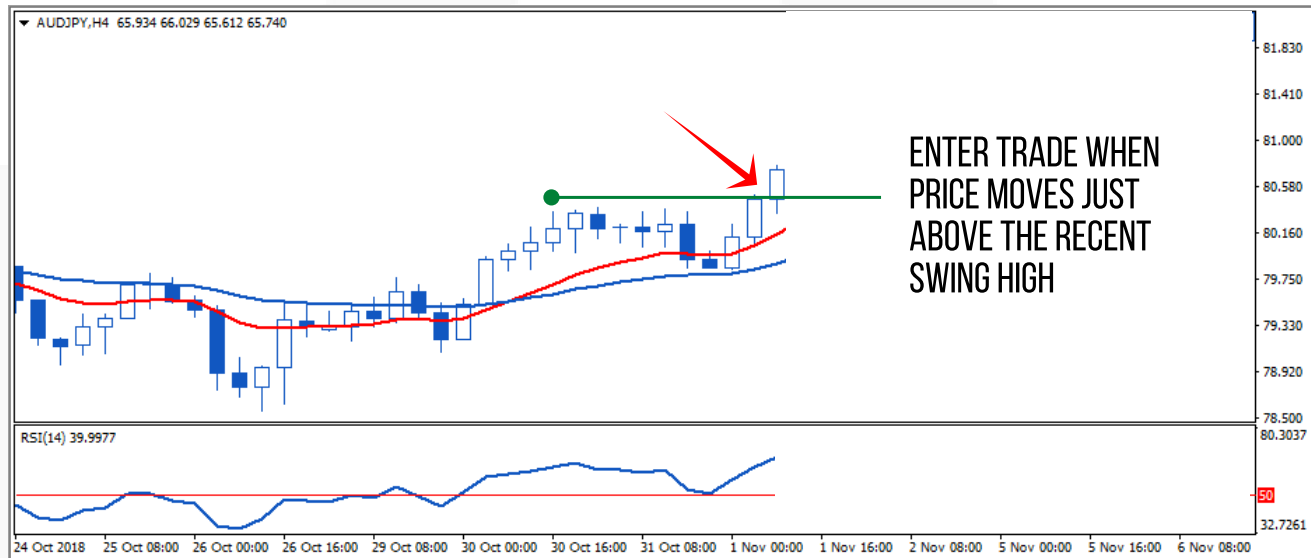
Price moves down to touch the 13 EMA, the RSI remains above the 50 level.



BUY TRADE

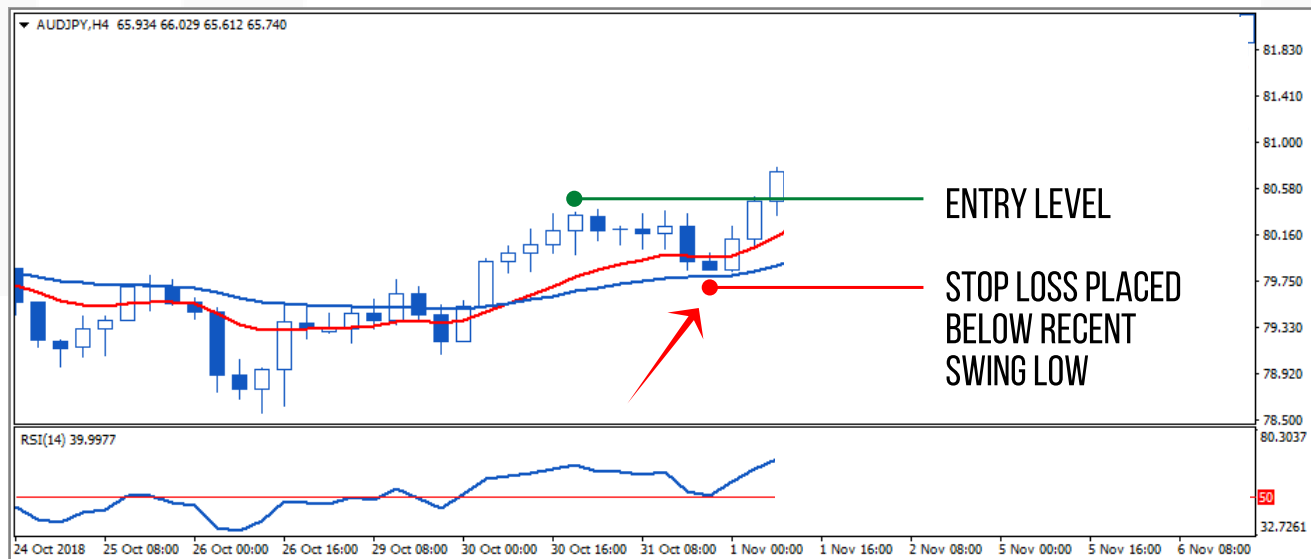
STEP 3: SIGNAL

Enter the trade when the price moves above the most recent swing high.



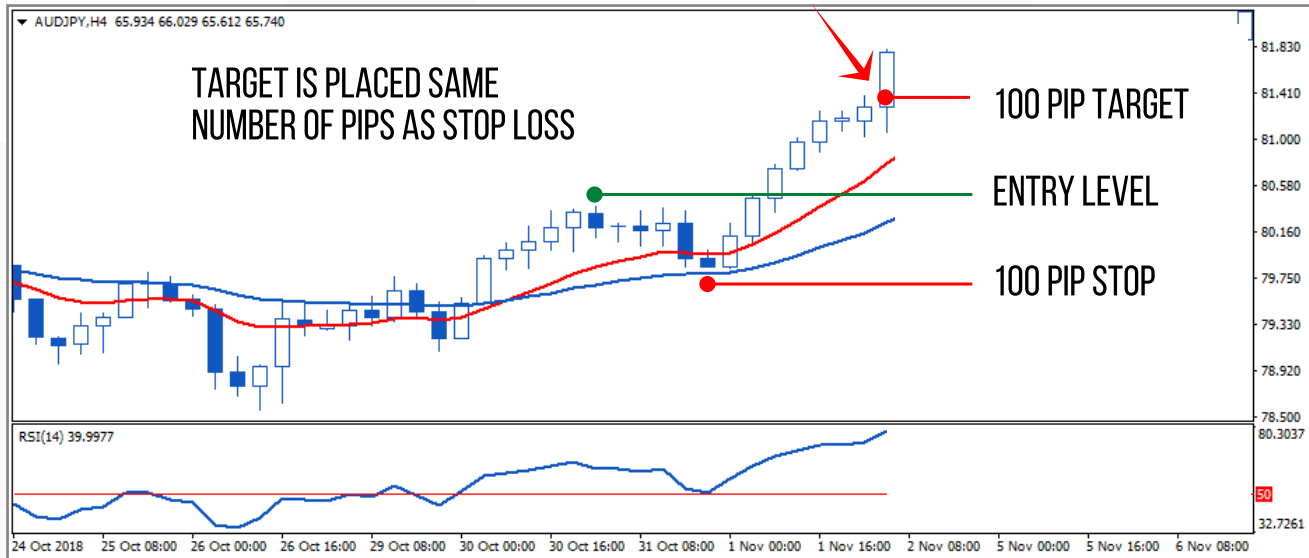
STEP 4: STOP LOSS

The stop loss is placed just below the most recent swing low.



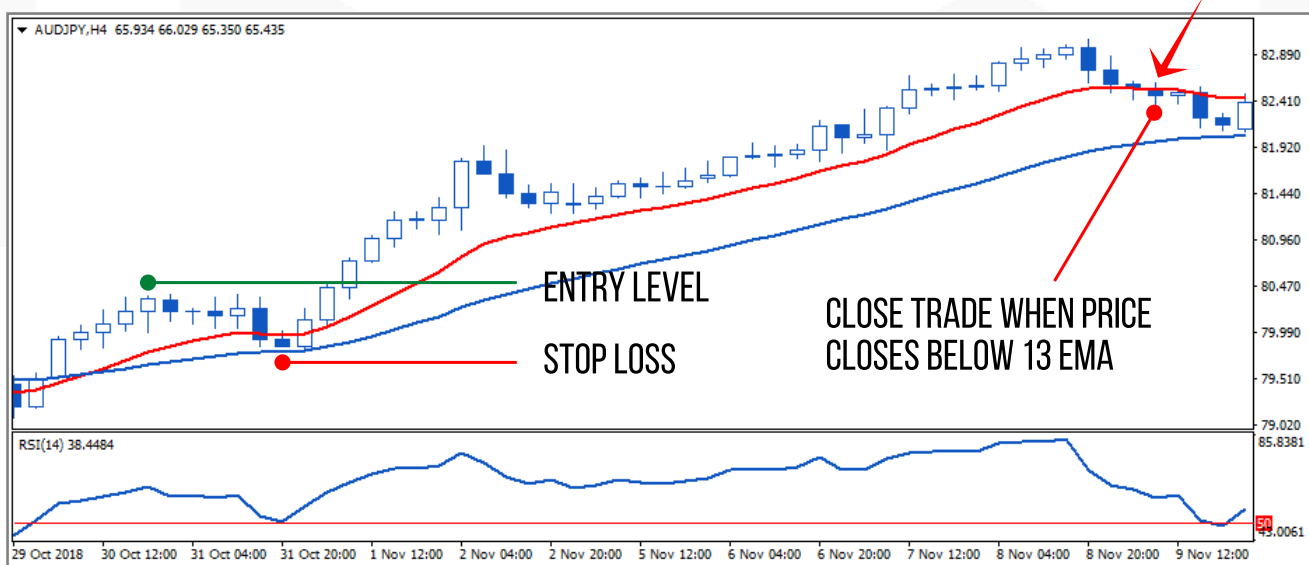
STEP 5: TARGET

The take profit level is placed the same number of pips as the stop loss.



BONUS EXIT OPTION

To close a trade early or to let a trade run, you can choose to close the trade once the price closes below the 13 EMA.



ADJUSTING THE ENTRY

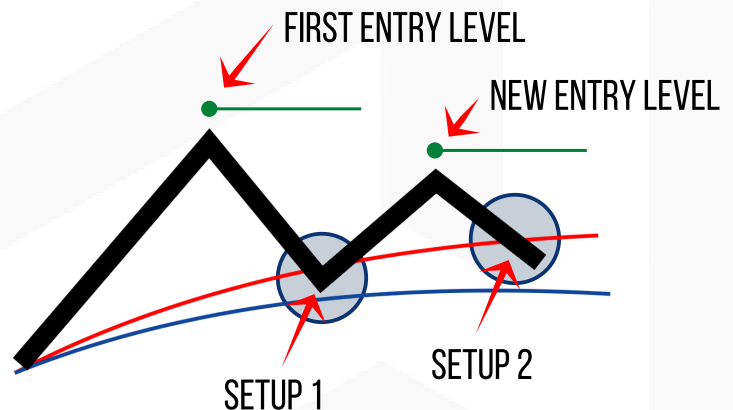
Not every trade we set will be triggered right away. Sometimes the market will continue the pullback, but in doing so, create a new swing high or low.

In a long setup, a lower swing high can be formed.
In a short setup, a higher swing low can be formed.

When this happens, we can make an adjustment to the entry level to accommodate the new swing high or low.

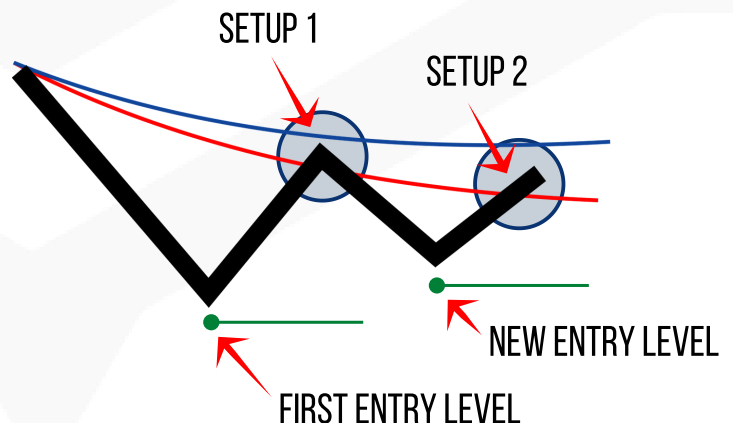
ADJUSTING A LONG ENTRY

The first entry level is the initial long entry level, but a second setup happens with a lower swing high. We move the entry order to the lower swing high at the new entry level.



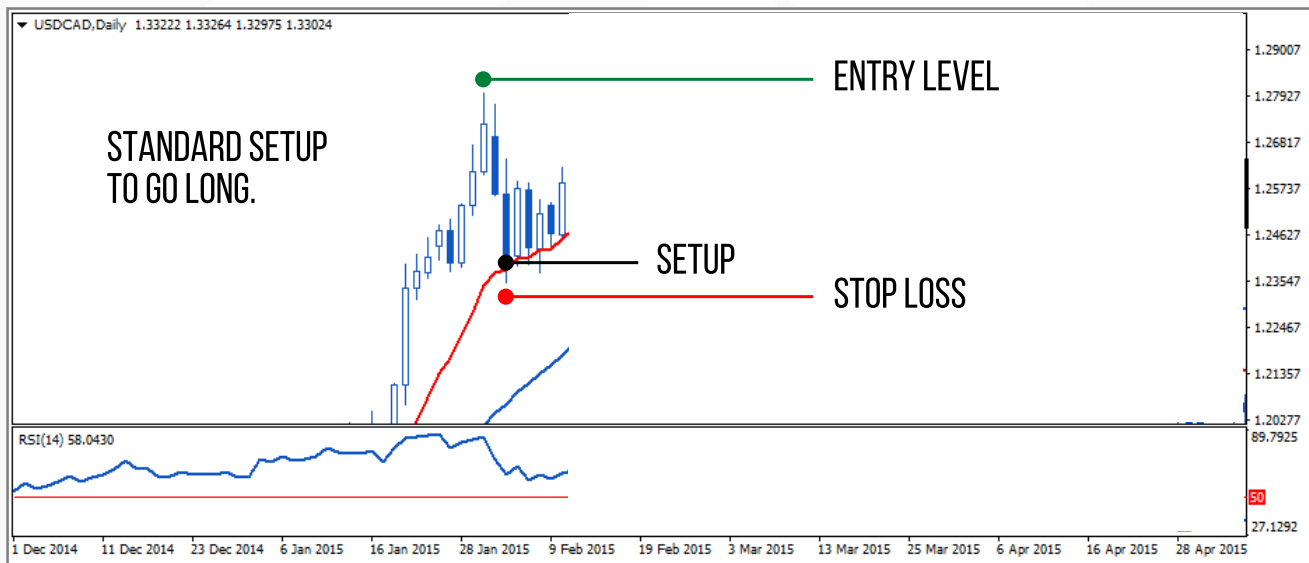
ADJUSTING A SHORT ENTRY

The first entry level is the initial short entry level, but a second setup happens with a higher swing low. We move the entry order to the higher swing low at the new entry level.

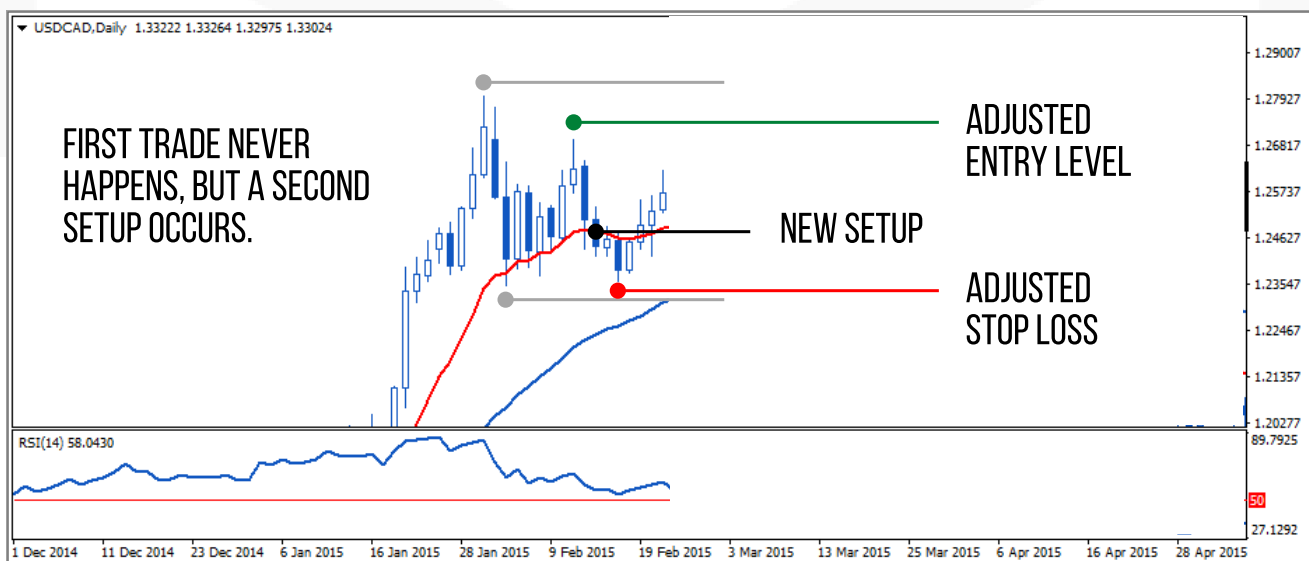


ADJUSTING THE LONG ENTRY

Part 1: The initial short setup occurs. The price touches the 13 EMA, the entry level is under the most recent swing low.

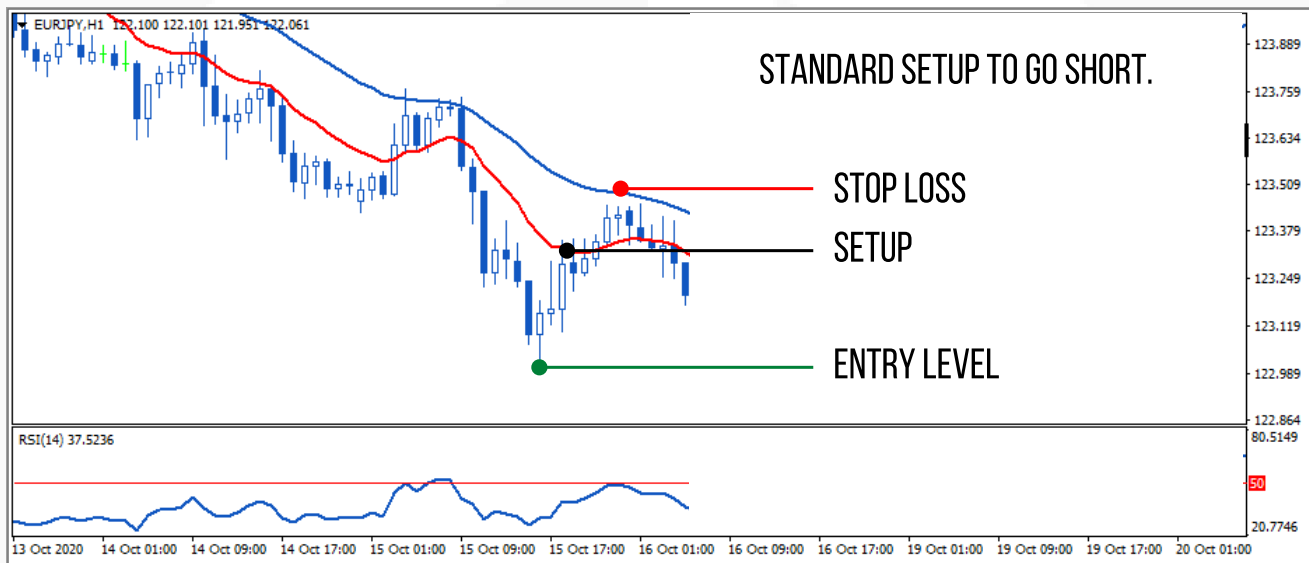


Part 2: Original trade doesn't get triggered, instead, a lower swing high forms and a new setup occurs when price touches the 13 EMA. A new entry can be placed under the lower swing high.

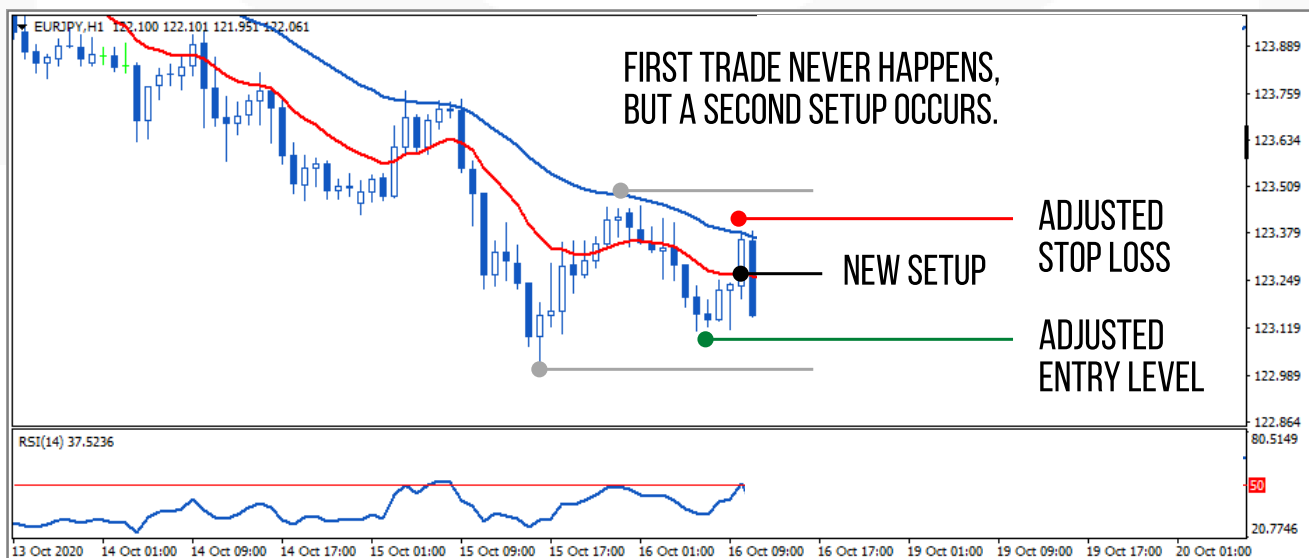


ADJUSTING THE SHORT ENTRY

Part 1: The initial short setup occurs. The price touches the 13 EMA, the entry level is under the most recent swing low.



Part 2: Original trade doesn't get triggered, instead, a higher swing low forms and a new setup occurs when price touches the 13 EMA. A new entry can be placed under the higher swing low.



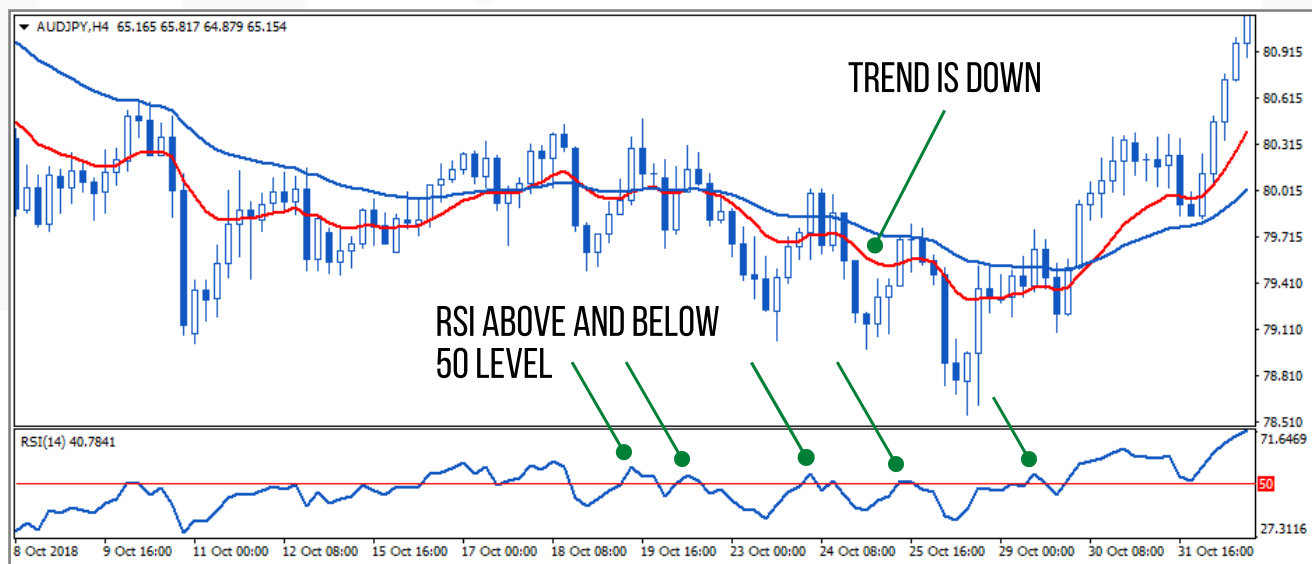
IDENTIFY RANGING MARKETS

The RSI can be used as a filter to help us better identify when to stay out of a trade. It will let us know when the markets are ranging in such a way that a trade would be in danger of not following through.

The moving averages tell us the trend direction. The RSI can also do that, but when the market goes sideways, the moving averages make it difficult to tell as they can remain in one direction for a longer period of time. The RSI is much better at determining a sideways market by using the 50 level.

RANGE-BOUND MARKET

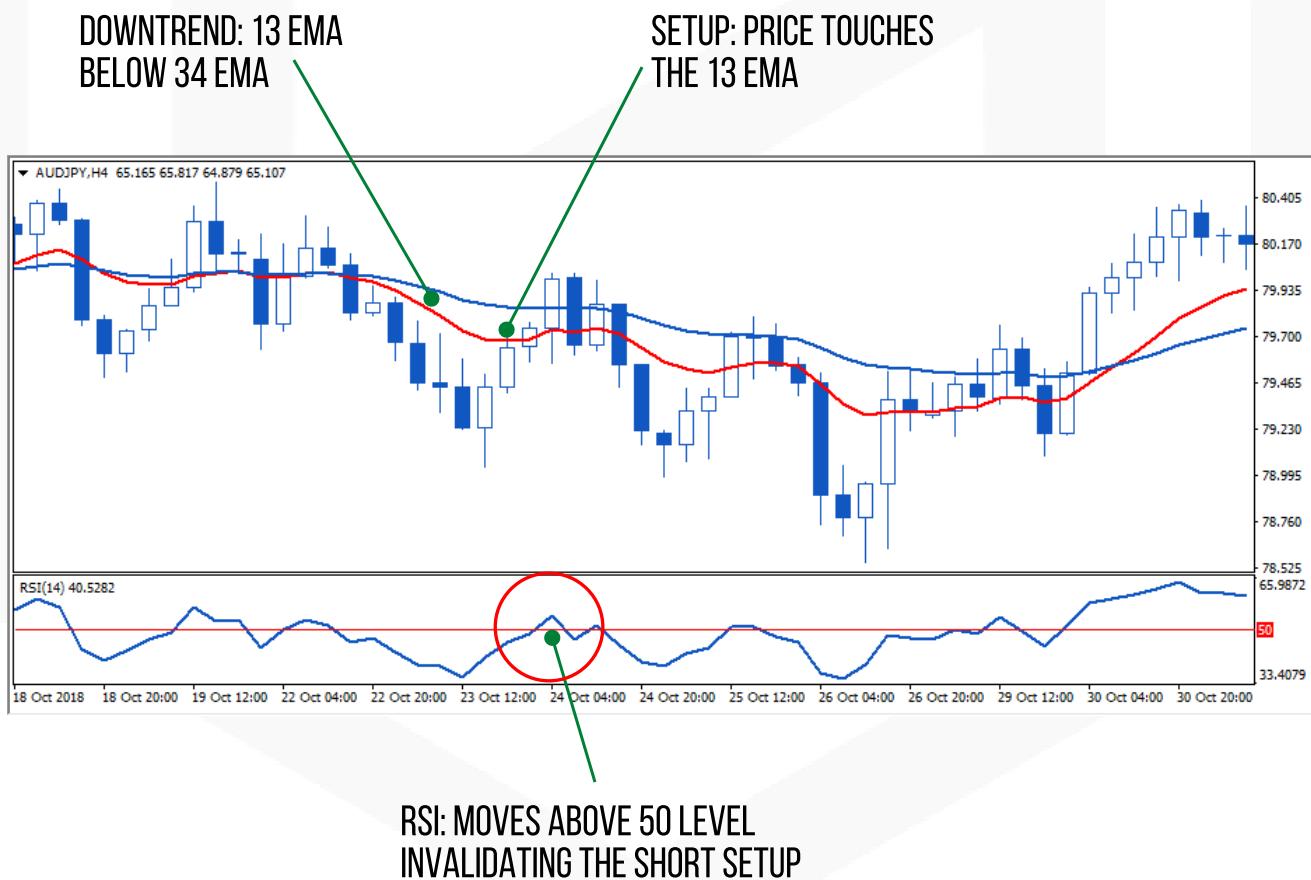
In the example below, the trend is down because the 13 EMA is below the 34 EMA, but during this period of time, the RSI is moving above and below the 50 level showing us the market is ranging and dangerous to trade.



INVALIDATING A SETUP

Once the trend has been established with the moving averages, we want the RSI to maintain the same trend direction as the moving averages.

For example, if the moving averages are bearish, the 13 EMA is under the 34 EMA, we want the RSI to REMAIN below the 50 level the entire time during the setup process. Once the RSI moves above the 50 level, the setup is no longer valid and the trade will not happen.



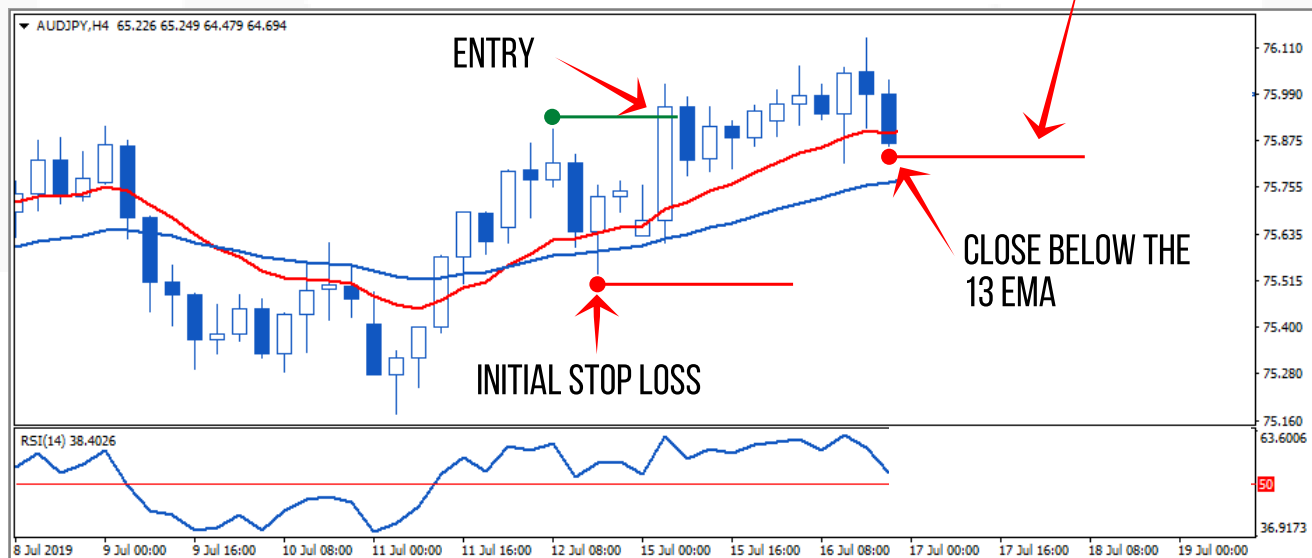
TRADE MANAGEMENT

Something I am not a big fan of is the set-it-and-forget-it attitude towards trading. Placing a trade and allowing it to either win or lose isn't my idea of the best-case scenario. Of course it can be done, but we have a better way to increase the edge in our favor.

The Light Blue system can reduce the loss on any given trade by closing the trade when the market closes on the opposite side of the 13 EMA. This can reduce the loss of a trade substantially.

The example below is a long trade that never hits the target, but the trade is closed with a much smaller loss than it would have been if it hit the stop loss.

THE TRADE LOSES ONLY 10 PIPS INSTEAD OF THE 100 PIPS AS SET BY THE INITIAL STOP LOSS



WRAPPING IT UP ←

The Light Blue trading system is a trend-following system that takes advantage of the market movement itself. It's a simple system, but it is an effective system.

Like any great system, it follows a certain series of steps, each one just as important as the next.

The Light Blue system integrates 2 additional steps on top of the 5 basic steps.

5 BASICS:

Trend
Setup
Signal
Stop Loss
Target

2 ADDITIONAL:

Filter
Management

You are now equipped to make trading a wonderful and profitable experience!

Best wishes to you and your trading!

Russ Horn