



THE NATURE OF TRENDS

STRATEGIES AND CONCEPTS FOR
SUCCESSFUL INVESTING AND TRADING

RAY BARROS

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The Nature of Trends by Ray Barros is one of the finest introductions to trading I've yet encountered. Clear and concise, Ray lays out the principles for assessing and trading markets, emphasizing congestion ranges, trends, and the interplay of these across time frames. Examples and charts bring the ideas to life, emphasizing practical application of ideas ranging from market profile to wave patterns. This is a book not only to be studied, but savored.

Brett N. Steenbarger, Ph.D.

*Clinical Associate Professor, Psychiatry and Behavioral Sciences
Author, The Psychology of Trading and Enhancing Trader Performance*

After spending over a decade in the financial services industry, particularly focused on technical analysis, I have seen many traders over-complicate what should be a straight forward pursuit. *The Nature of Trends* by Ray Barros will bring you back to the most fundamental (and often forgotten) rules of trading, which is to identify the trend and then trade within it. I would recommend that every serious trader read this book at least once a year as adopting the simple strategies in this book can help you to flow with the market instead of fighting against it.

Mathew Verdouw

*Managing Director
Market Analyst Software*

The Nature of Trends by Ray Barros is a book for serious traders. A trader always searches for information, but the serious ones search for in-depth knowledge which can only be found in Ray's book.

Rickey Cheung

Author, The Trading Edge: How to Trade Like a Winner

In *The Nature of Trends*, the author reveals valuable concepts for profiting from a clearer understanding of market structure and the probable duration of tradable trends. There's no fluff, filler, or old rehashed ideas in this refreshing volume on market dynamics. Novice and advanced trader alike will benefit from this comprehensive and enlightening study.

Don Schellenberg

*Senior Market Strategist
NextView Pte. Ltd.*

Identifying and monitoring trends in the market is a key skill in any successful trading campaign. Ray's in-depth analysis and insights make *The Nature of Trends* a must read for those who are taking trading seriously.

Geoffrey Sawyer

*General Manager
CMC Markets Singapore Pte. Ltd.*

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Do the ideas and tools work in the real-world? This was the question I asked myself when a student and I recently engaged in an experiment to see whether my methods would work in a short-term situation. We participated in the Daniels Trading FX Futures Million Dollar Trading Competition that began in June 2007.

It's important that you understand that trading in a competition is very different than trading for long-term profit and long-term consistency. For this reason, I ran the strategy and my student, Anna Wang, executed it: I determined the trend and position size, Anna identified the zone, entry, and exit strategies.

The day before the last day of trading, we were running in first place with 74.40—see Figure 6.6



FIGURE 6.6 Daniels Interim Trading Result

The last day of the competition produced a small range day, which did not suit any long-term positions. I looked for a day-trade that might assist but I could not see anything to help our position. We ended the competition with 75.29% return on capital—see Figure 6.7. The winner was able to overhaul us on the last day.

The interesting thing is that we achieved the 75% result with a maximum initial exposure of 15%. The broker in charge of the competition told my partner: "No matter who finished with a higher percentage on the date of July 31st, you

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IT WAS AN EXCITING PHOTO FINISH AND WE'LL BE AWARDED R.Z.
THE \$25,000 CASH PRIZE DURING THE WEEK OF AUGUST 6TH.

GET READY FOR ROUND 2, STARTING OCTOBER 1ST, AND THANKS TO ALL WHO PARTICIPATED!

FIGURE 6.7 Daniels Final Trading Result

Source: Graphics used with permission from *Daniels Trading*.

and Ray set the standard for everyone to follow." (James Kaminecki in an email to Anna Wang on Aug. 4, 2007)

Still, it's important to realize that we were lucky. To understand why, I need to provide a little background: I had chosen the ADUS as the instrument to trade for the competition. This is because its volatility suited our capital base and it offered the prospect of a strong directional move in the two months of the competition. Our capital base was large enough to provide adequate protection against risk of ruin.

But in addition to sticking to our internal exposure limit we faced another disadvantage in the competition. When trading against smaller bases—we needed to generate greater profit to bring about the same return on investment. Technical conditions showed the ADUS was preparing for a strong run. It was basing around 0.8400 and I believed that if the ADUS could break out, either up or down, the markets would go for a run. The upside target was 0.8800, a possible 400 point profit, and the downside target was 0.7990, about a 400 point profit. For reasons I won't go into here, I favored the upside.