TRADING STRATEGIES

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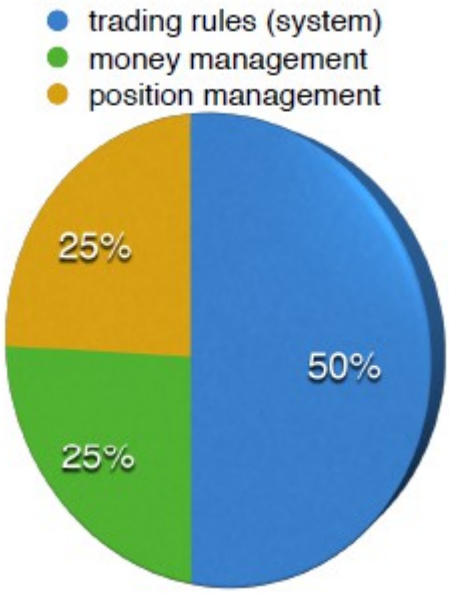
Content

Introduction

Let's clear one thing up. You won't find here complete system which you can follow blindly and make money. It is not because I am hiding some holy grail. Very important part of every trading system is money and position management. Without that, you are lost. On chart, in my opinion, it looks like below:



I have experience with automated trading. There are profitable systems, which you can buy for hundreds or thousands of dollars or build one by yourself. Yes, some of them are profitable now, but markets changes. These systems are synchronized with a current market. Later you end up with a system which is desynchronized (because markets changed) and simply losing money.

This is not the way. The correct way is to select tools and master them. Then you need to get a solid capital so you can use your trading tools. Last but not least, you have to set rules how you manage your money during and after a trade - you want to stay in the game and not lose everything in few weeks.

About author

My name is Simon. I live in Eastern Europe. I worked as a programmer. I got interested in trading 10

years ago. I started to trade stocks and I got hooked. Around the year 2008 I've read about Forex. I opened a small trading account. It was so much harder to trade Forex than stocks. And I blew this small account because I used too big leverage. I got back to stocks, but the crisis started and it was hard to sell stocks. Long story short, I gave Forex another try. This time, I was more careful. I was reading about Forex, asking traders for advice. First years were hard. Sometimes I was profitable, but later I was losing money again. It changed when I learned about Fibonacci, trailing stop and other techniques.

Thanks to Forex I started to make money. Not millions, because it is hard to earn here fast. Still, I was able to earn pretty good money. When my father got really sick and treatment was very expensive, I was able to help him financially. It was a good feeling. Without my profits from Forex, I would not be able to help him.

It was a long way for me to learn how to trade Forex. I think that now I can tell you what works well, and what is overrated. That is why I wrote this guide.

Goal of this publication

The goal of this publication is to show you various trading tools and strategies so you can select the best tools for you and build your own trading strategy. I believe that too many people try to build a strategy based on moving averages and oscillators. It is an easy way to fail. Do not get me wrong - I use them too, but professionals use also Fibonacci, Pivots and they are ahead of rest.

I show you how I use these tools and give you some example trades (some are real, some are made up because I tried to show different examples). In the end, you have to take what you liked most, test it and build your own trading system.

How to read this book

Each section about strategy has shorter or longer introduction about current strategy/tool. Later I show you examples how you can use this strategy in practice. Do not scroll the book. Read through examples, examine charts. I tried to select different situations to show you how to react when they occur.

1. Going in the right direction

The biggest problem with Fibonacci trading system (and any other system) is that sometimes it is hard to choose the right direction. You will be at a situation when ABC Fibo pattern fit in both directions. So should you go long or short?

Of course, we will never be 100% right, but the main goal is to be right that 60 to 70 or more percent.

Still, it should be a decision based on the system, not on a guess (even a lucky one).

There are few ways you can increase your odds. In this chapter, you will learn what works. I cover topics like:

- how to work on few time frames
- which most important averages should you watch
- how to use DEMA
- how to use my custom DEMA indicator as a help
- how to use Ichimoku
- how to use Ichimoku indicator as a help

How to work with few time frames

The first thing you can do to decide about trade direction is to check the situation on higher time frames. This is not a new concept. Alexander Elder in his book Trading for a living form 90's wrote about three window time frames. So to make a trade on a daily chart you also looked at the situation on weekly and monthly. Of course, when you trade Forex or e-minis, there are more time frames, but you can modify this approach.

I believe that trading based on few time frames is the foundation of your success in trading.

First step: you have to decide on which time frame you trade and make decisions.

Sounds obvious, but I can remember many times when I was trading on 5m, but I checked 15m and saw some signal and place an order based on that time frame.

If you are trading on a 5m, then you care mostly about 15m, 30m, 1h and eventually 4h. Daily, weekly or monthly are only to check some long term support/resistance levels.
If you are trading on a 1h, then you care mostly about 4h, daily and eventually weekly.

Second step: check higher time frames

Checklist for higher time frames is as follow:

- What is a relation of price to the 100 and 200 SMAs on higher time frames?
- Where are support/resistance lines?
- Are there important pivot points I should look at?

First, why 100 and 200 SMAs?

In most cases I will pay most attention to the 100 SMA. The reason for that is simple. 100 SMA is closer to the price and price reacts more often with 100 SMA than with 200 SMA. By reacts I mean that average will work as support/resistance. In a strong downtrend, line in the example below, 100 SMA is nearer:

Image 1.1. Price and distance between 100 SMA and 200 SMA

You can see that 200 SMA is much higher in the example above.

What to look for?

OK, so before opening a trade you should check higher time frames to see if there is an SMA nearby.

Main reason:

You want to make sure that trend on higher time frames is in the same direction you plan to open a trade.

On this 15m chart you can spot an ABC pattern:

Image 1.2. Mixed situation on chart, no clear trend

Pirce is trapped between 100 and 200 SMA. Looks like a candidate to go short, but based on this time frame I am unable to say if the main trend is up or down or if there are no important support/resistance nearby.

That is why you check higher time frames.

If a price on higher time frames is above 100 and 200 SMA (like below) I pass. 1-hour timeframe:

Image 1.3. Higher time frame and indication of an uptrend

If a price is below 100 and 200 averages, that means that bears are in charge and I am more likely to take a risk. 1-hour timeframe:

Image 1.4. higher time frame and confirmation of a downtrend

I do not check if there was a cross of 100 and 200 or other averages. I simply check where is a price in relation to the averages and if 100 is above 200 or below.

Where are support/resistance lines?

Higher timeframes let you see easier where important highs and lows are. You also look for triangles,

flags, channels and other symmetry on the chart.

If you were long on GBPUSD based on lower timeframe you know that 1.45-1.46 is a take profit area based on that weekly chart:

Image 1.5. Checking for important levels to select exit points

I simply draw the most important lines and then I switch to the lower time frames to make a trading decision.

Are there important pivot points I should look at?

You should be aware where are daily, weekly and monthly pivot points. When you are daytrading (plan to close trade) on low time frames (1m, 5m, 15m) then you mostly check daily pivot lines. When you trade on 15m or higher and plan to swing trade then you should check the situation at weekly and monthly.

If a price is above the pivot, then it is possible that trend is up. If is below, the situation is bearish. You should also check if pivot lines do not corellate with Fibonacci lines. You will see more of that in the trading example section.

Using DEMA and Ichimoku indicators as a help

In next chapters, you will see how to combine Fibonacci with other tools. There is also a section about Fibonacci + DEMA and Fibonacci + Ichimoku. I created DEMA indicator which will show you situation at all time frames. I also use Ichimoku indicator which will show you similar information. You can read more about these indicators in next chapters.

2. Pivot Points

You can build very good strategy around pivot points. Thanks to them, you are trading with tools used on trading floors. We have few types of pivot points:

- daily
- weekly
- monthly
- and others, based on time frame

Lines comes from mathematic formula which is based on data from previous period. So daily pivot points are based on previous day, weekly are based on previous week etc. If you are interested in the mathematic formula, you can easily search in online. I do not want to go to much into details here. We have in a result few lines:

- pivot line – this is a line in a middle
- below pivot, we have S1, S2, S3... support lines
- above pivot, we have R1, R2, R3... resistance lines

When price is going down, it is possible that it will find support at one of S lines. In most cases it will be S1 or S2. When price is going up, it is possible that it will stop at one of R lines - most often R1 or R2.

Thanks to that we have knowledge about possible support and resistance lines. When a trading day starts, I check position of price: is it above pivot line or below?

When a price is above pivot line, then pivot line should act as support and it is possible that price will go up.
Pivot is a central line so the price will often return to its pivot. When it does, you check how it reacts against pivot. Let's say that price starts day 14 pips above pivot line. It is in a range move, but eventually moved down toward pivot line. We expect price to find some support here. Pivot holds and we saw a move up. We got signal from oscillator to go long and we opened position. R1 and R2 are our targets.

If pivot fails as support then we may expect a move lower to the S1 or S2 line.

It is good to combine this with a signal. It may be a cross of two averages, a signal from oscillator, from price action or other.

Let's move to the examples and check how it works in practice.

EURUSD, 5m chart

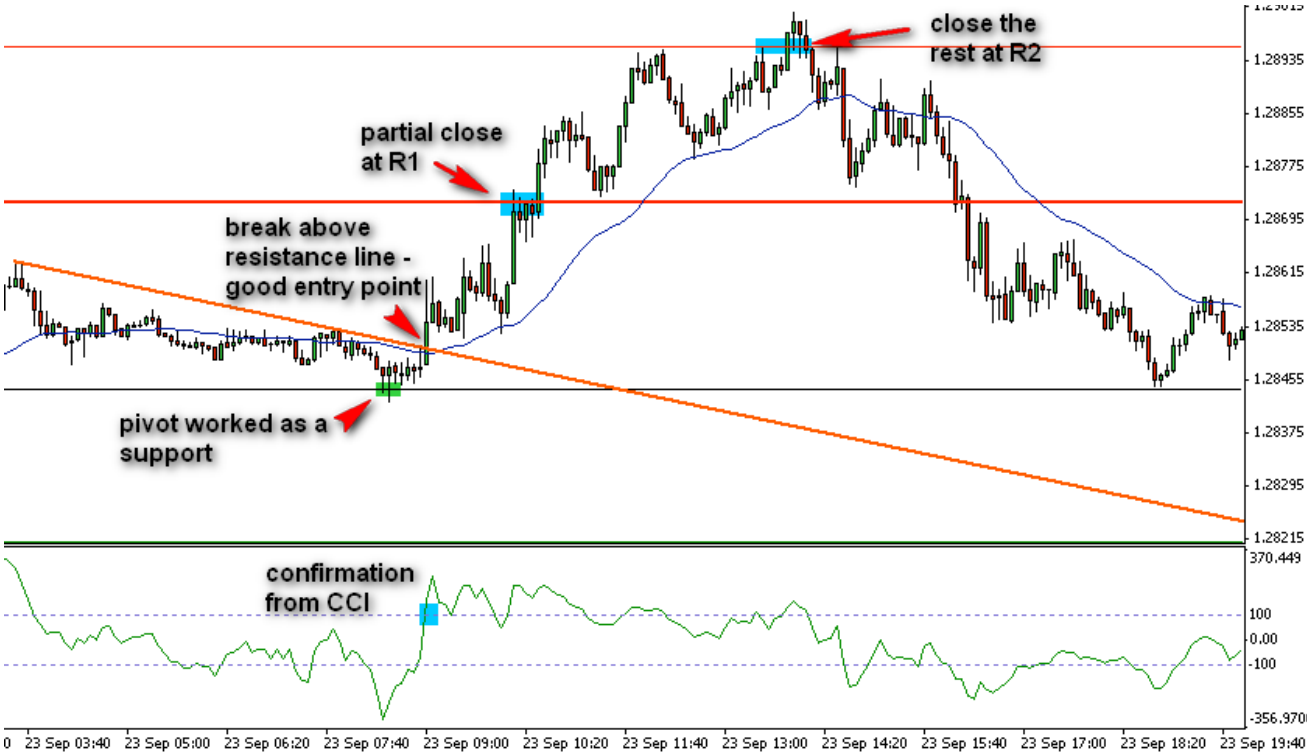


Image 2.1. Long play after break above trend line

In the morning price was holding above pivot line (black line). It acted as support (green rectangle) and later we had a breakout above the trendline. We also had a signal from CCI 33 when it crossed above 100 level (blue rectangle on CCI). Above we have two resistance areas: R1 and R2. For a moment price stopped at R1, but later it moved up to R2. For the first time it missed to touch it by few pips, but later it succeeded. R1 and R2 were our exit points. When I see that move is strong (with tall candles) then I will wait for R2. In many cases I do as follow:

- close part of my position at R1 and take profit
- rise stop loss and set take profit target at R2
- use trailing stop loss in case price will turn around

Remember, on many times drawing a trendline is a good way of trying to open a position in a right direction.

EURUSD, 5m chart

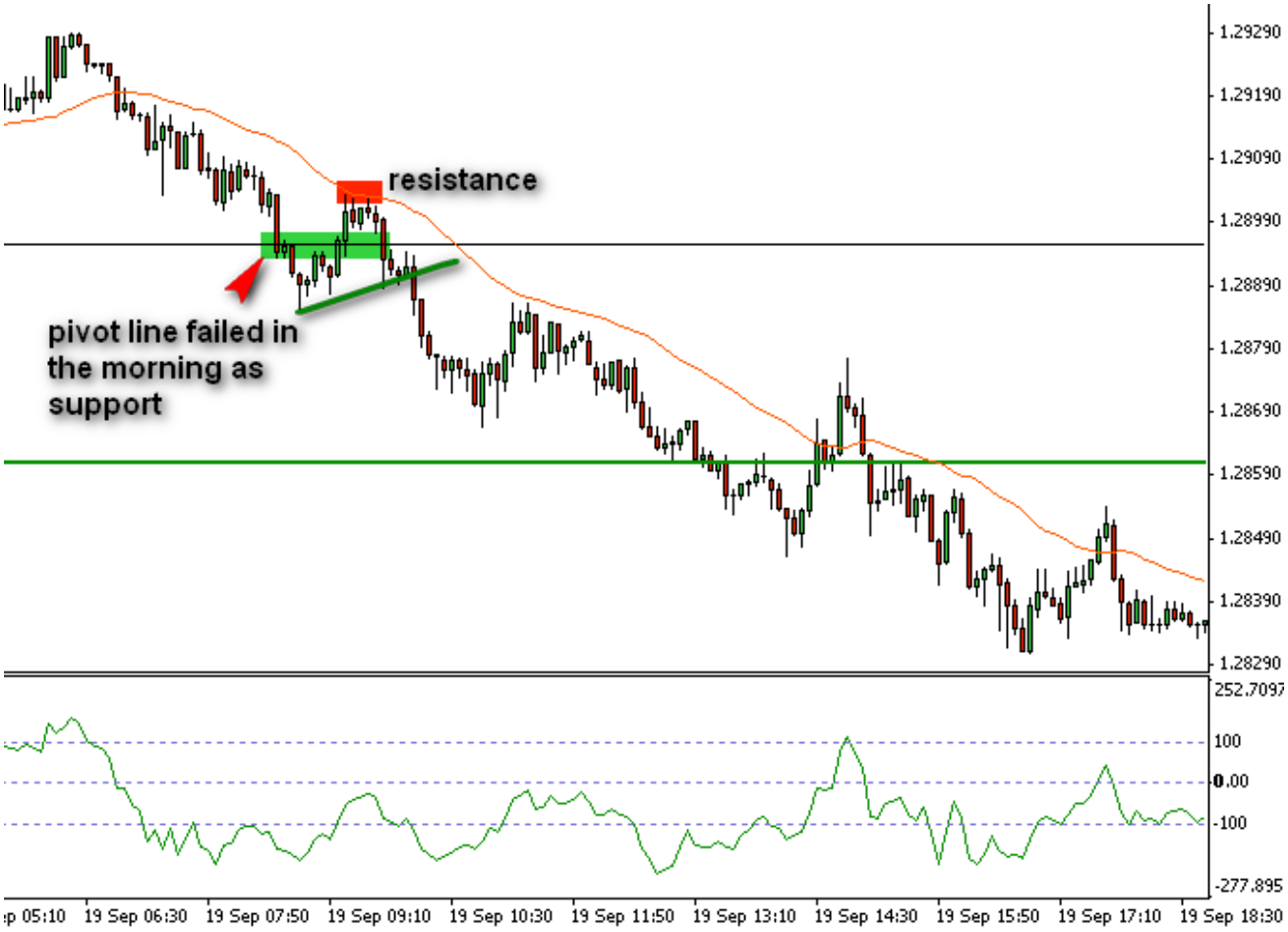


Image 2.2. Pivot failed as support

EURUSD started day below 33 moving average and above pivot line. It also failed to hold above pivot line. Later we saw that moving average is acting as resistance (red rectangle) so this was a signal that downtrend may be stronger. The good entry point was right after that, when price bounced from average and went down below recent low.

Later it stopped only for a moment at S1, then we saw some move down and up, but the trend continued down. This is a good example that price will not always stop exactly at S1, S2 or R1, R2 lines. But does it really matter for us? We executed our trading plan - entered when pivot failed to hold price, closed at S1 and left some position open. We did not get top or bottom, but still ended with profit.

EURUSD, 5m chart

Image 2.3. Beartrap and stron move up

This is a more complicated example. Price was holding above pivot line, but did not make attack to the R1 line. Later we saw a trap for bears. Price reversed and quickly got to the R1 line and then higher. It was a tricky day, you would be probably stopped out or enter a long to late. Just wanted to show you that sometimes you might expect traps around important levels. That is why it is so important to remember about stop losses and right money management.

EURUSD, 5m chart

On some days it is nice and simple. Price was below pivot line for a half of day and failed to move higher. We got a signal from CCI (brake below -100) and brake below a trendline. It rebounced from trend line and we saw a sell-off with a short pause at S1 and end of move at S2. It is rather common that you will see candles like that one at S2.

Image 2.4. Trade from pivot, down to S2

Move from R2 to S2

Theory says that after price reaches S2 line it may move up to the R2 line as in the example above. But it is not always that simple…

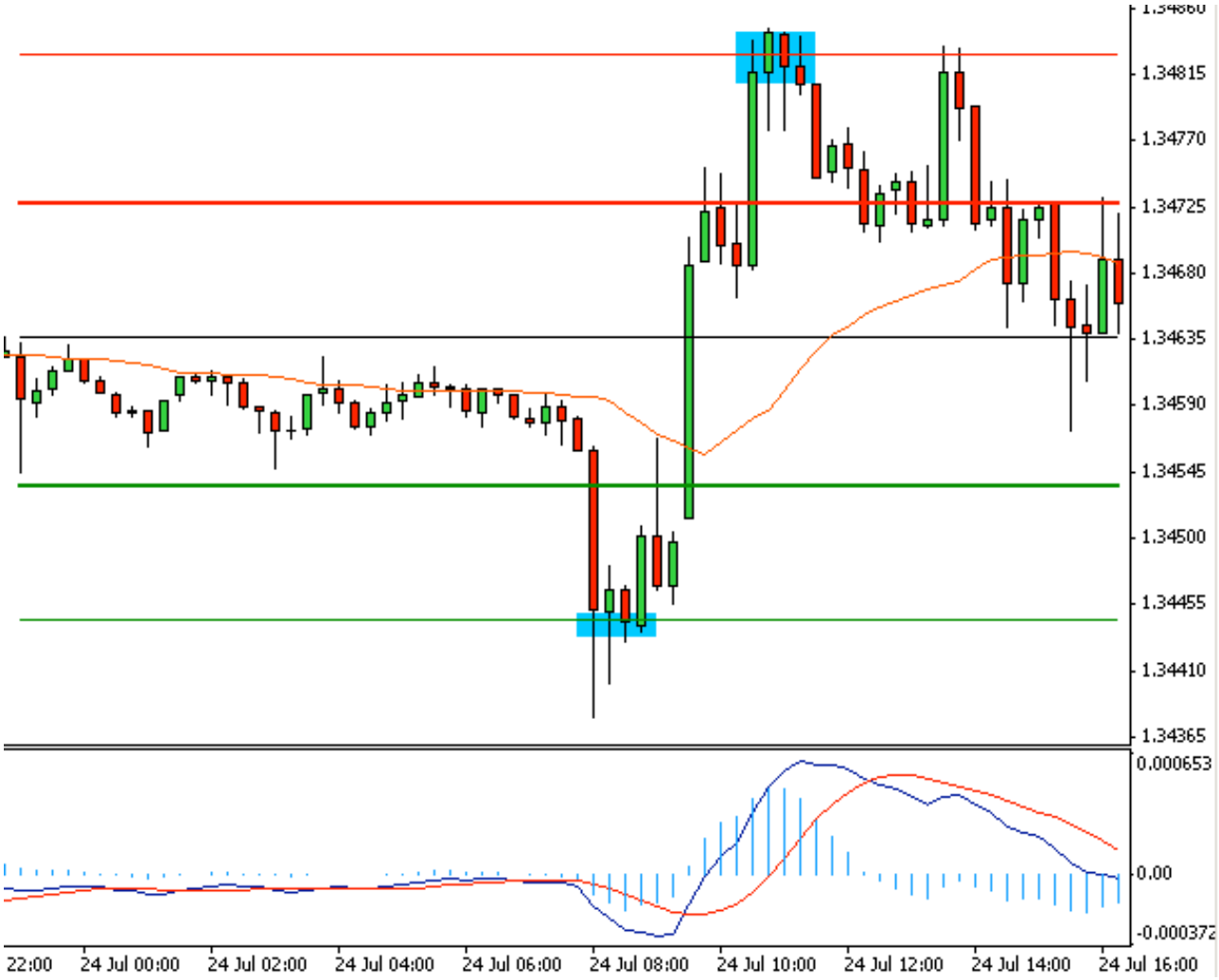


Image 2.5. Move from S2 to R2

EURUSD, 5m chart

Image 2.6. Strong trend and move down to S3

In the morning price was holding above pivot line (black line) and pivot acted as support. R1 was very close (13 pips away from pivot line). You can see how big sell-off started from there. You could enter after signals from CCI (blue rectangle) or after short breakout (when pivot failed as support). This example is interesting because EURUSD managed to get to the S3 line (which happens very rarely). According to trading plan, we would close half of position at S1 and rest at S2. Sometimes when you see that one side is dominating (like bears in that case) it is good to wait it out and see what happens next. Just move your trailing stop loss and wait or switch to a lower time frame and close from there.

Note: sometimes I modify my plan like in this example and do not close at S2 and wait for S3 but I always close at S3 (or R3). I mean, it is very uncommon for price to breakout below S3 line, you may see some false breakouts here and traps. It is better just to close position and call it a day.

EURUSD, 5m chart

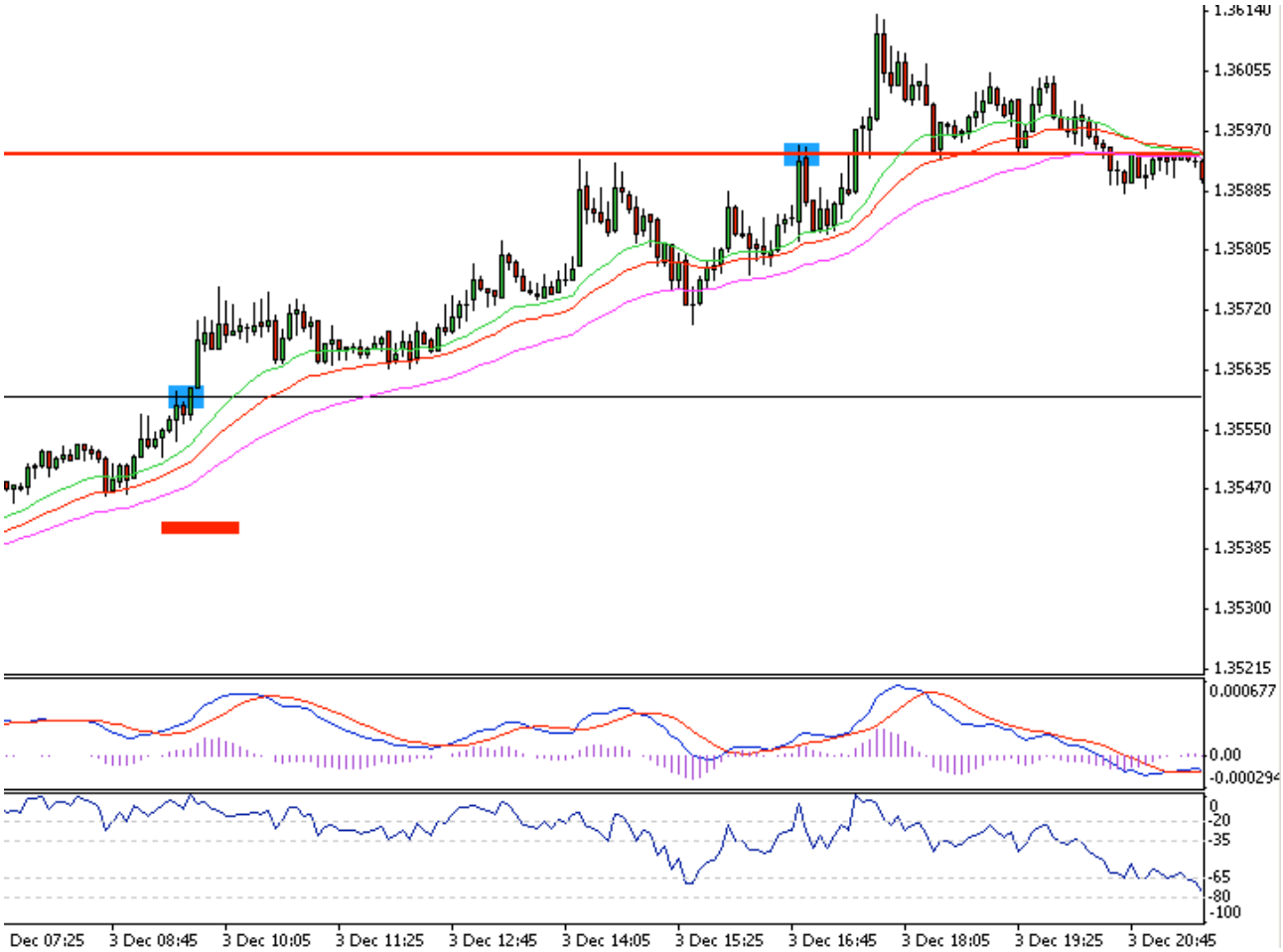


Image 2.7. Nice trend in place, but price failed to move up to the R2 line

This is a simple trade. We can see from trendlines that uptrend is in place. Notice that EURUSD started day below pivot point. It was a good idea to wait and check if it will act as resistance. It did not and EURUSD continued move up. This was our entry point (blue rectangle), stop loss would be placed below recent low (or below 55 average - up to you). Target is R1 and R2. As you can see for first two times price missed R1 for few pips but eventually the first target was hit.

Later we saw a continuation of move towards the R2 line. Look what happened. Price stopped in the middle (probably at Fibo extension) and it reversed. It failed to move to the R2 target. It happens - sometimes it looks like bulls are in control, but bears may come from nowhere. Anyway, in the end of the trading day you should close this trade or be stopped out at trailing stop loss.

EURUSD, 5m chart

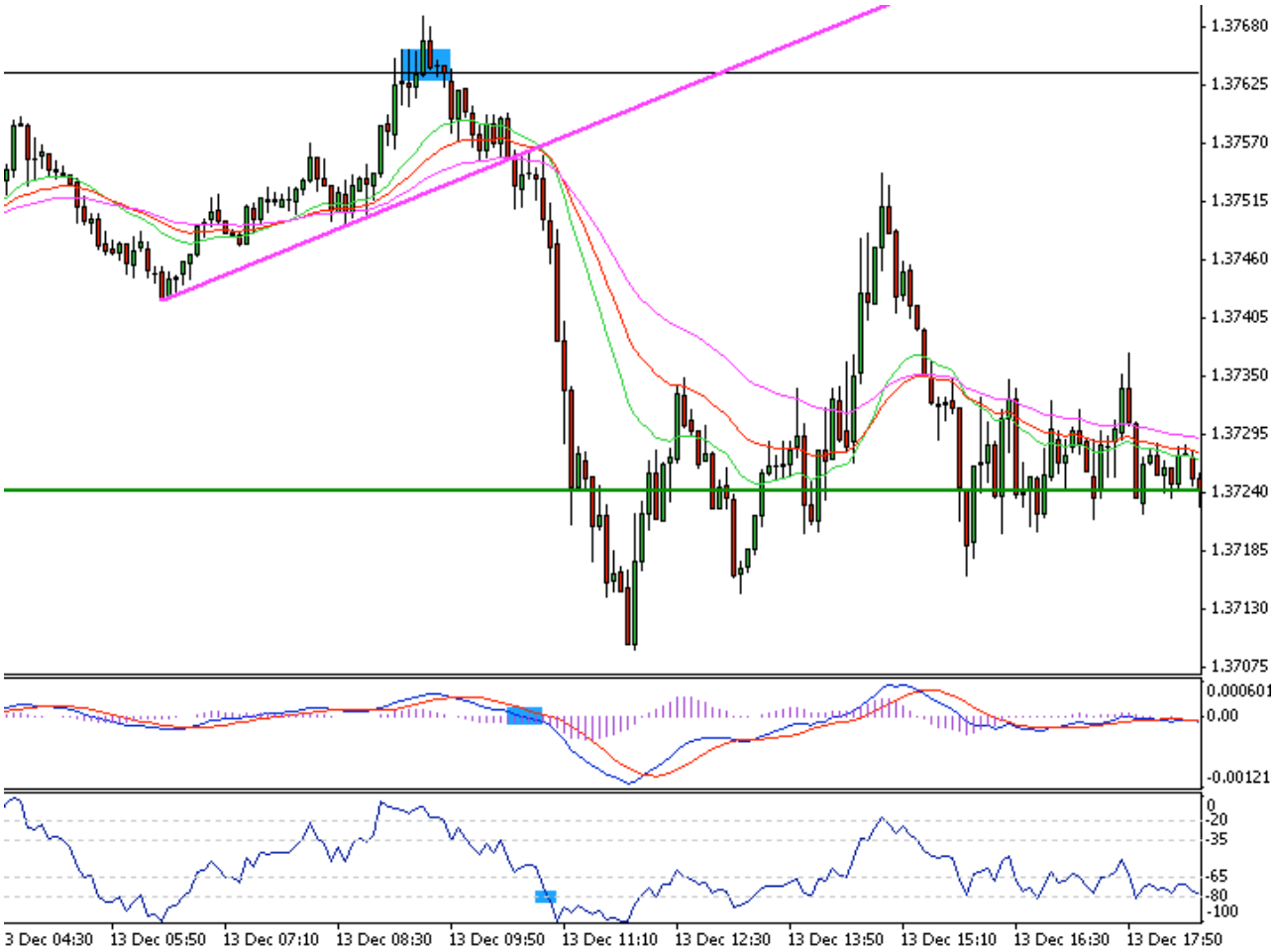


Image 2.8. Failed break above pivot and move down after break below trendline

Day started with an attack on pivot point and breakout which eventually failed (blue rectangle at pivot). Price was still above trendline so we had to wait what is going to happen. Bears were stronger and trendline failed. We had short breakout and sell signals from MACD and Williams %R. First target S1 was hit, later we saw a continuation of move down, but bulls came back to the game. EURUSD failed to move to the second target (S2), just like in example before. This is why it is a good idea to close half position at S1 level and take profit. We would be stopped out from second half, but end day with profit and it is what matters.

Oh, look how noisy it was later. With trading plan and clear targets and entry rules we would stay out of it.

SPX, 5m chart

Image 2.9. Example of reentry a trade in strong trade

Another example that sometimes a price can get to the S3 support line. Let's analyze this example.

The day started with narrow move bellow pivot line and above trendline (lows from left used to draw a trendline are not visible on chart). Then we had a signal from MACD (cross below 0 line, blue rectangle on MACD), and later a short breakout below trendline (blue rectangle). This was our short entry point. Best place for stop loss was above pivot line. Targets were S1 and S2. An S1 line was hit, we closed half of our position here. There were no support at S1 and sp500 moved down to the S2 line - this was our second target and we closed second half here.

We saw some correction to the 55 EMA (violet), but it acted as resistance and bears came back. I like when average act as resistance (or support) because I know that I can set a stop loss on the other side of that average. Ok, but back to bears. They came back but we already had a trendline in place. SP500 broke below that trendline and below S2 line. This was a good place to go short again, with a stop loss above 55 moving average. The target was an S3 line which was hit a little while later.

You can see that there was some short breakout at S3 line, but it failed. I never go short at S3 line (or long at R3 line), because it is possible that this will be a trap.

SPX, 5m chart

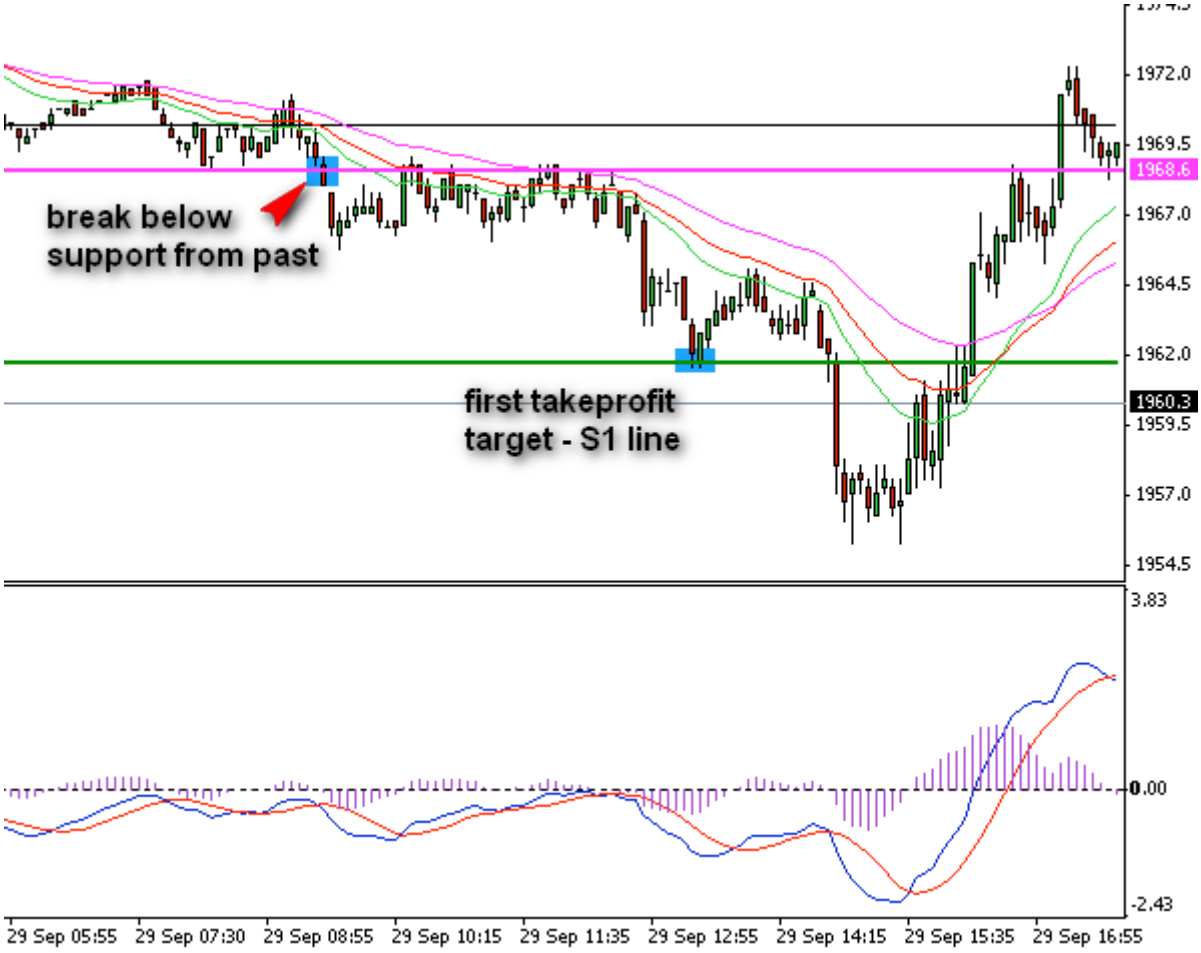


Image 2.10. Trade on SPX. First TP target hit at S1

When we started a day? The price was above and below pivot line (black line). Not sure about a current situation? MACD lines are below 0 line, we had also negative averages (21 below 33, 33 below 55). Even when price was above the pivot, we knew that situation is not clear. Magenta trend line was based on lows from the left side (you can't see them on chart). Around 9 am we saw that something is going on. SPX broke below this trendline. With negative averages and MACD below 0 line, this was a good short entry point. Best place for stop loss was above recent lower high (1972 points), targets as usual S1 and S2. SPX hit S1 line (closed half position here) and move continued. As you saw before, it failed to get to the S2 line. Still, we had profit from S1 line and were stopped out from the second half (also with profit).

SPX, 5m chart

Image 2.11. Pivot failed as support and move down to S2

S&P500 was moving in a range above 1990 points, but later price moved down. We got the signal from MACD (a move below 0 line) and averages (negative), but SP500 was still above pivot line. This was still too risky. After a while, we saw a break below pivot line and strong move down began. First target S1 was hit, support here was very weak. Move down continued towards S2 were we closed second half of position. Nice end of trading day.

Again, you can see some choppy moves later, but with clear targets, we do not lose money when the market is choppy.

SPX, 5m chart

Image 2.12. Rapid moves after data publication

No trade here, just a lesson that sometimes markets are volatile and you will simply fail. It looked that this a start of a strong move down, but at pivot line bulls came back and price reversed and quickly got to the R1 line (because of news). No way to catch this sort of moves, but you can try to avoid that. Simply check if there is no important data published. You can check this on sites like http://forexfactory.com.

SPX, 5m chart

Image 2.13. Stron move up to R3 level

For the first half of day SP500 was between pivot line (below) and S1 line in narrow range. Later bulls decided to attack pivot line and managed to break out. This was a good long entry point with stop loss below recent low (so somewhere below S1 line). R1 line was hit, and later we saw a continuation of move towards S2 where our second targer was hit. Bulls wanted more and move up continued - you could try to catch it with tigh stop loss and close at R3 line. This was a great day for bulls, we saw over 20 points gain on SP500, and still pivot lines worked great.

SPX, 5m chart

Image 2.14. Enter example after move to S1

Day started with range move. For a moment it looked like bulls are winning, if you went long, you should be stopped out. It is normal - sometimes you will open trade in a wrong direction, but you should be able to switch when situation changes. In this case SPX closed below pivot line and trendline - this was a signal to go short. Targets as always - S1 and S2. S1 was hit a little while later (we closed here half of position), then we saw some false breakout. Second half was still open and move continued to the S2 where we closed the rest.

Check the moment after a false short breakout at S1. Price moved up back to the 33 average. Rememeber, we had openen second half of position. For me, the stop loss is always above 55 average, because when trend is strong then it should not get above this average.

USDJPY, 5m chart

Image 2.15. Trades in stron trend

Downtrend, pivot line failed and USDJPY went down to the S1 and S2 lines. Just wanted to show you that when trend is strong (averages are wide separated) then you simply place stop loss on the other side of averages (red rectangle) and you move it together with average. So when you have second half of position around S1 line, then you move stop loss around 109.35, your take profit target is S2 line. It is not always that easy as on chart above, but when markets are trending, then follow simple plan and make money.

USDJPY, 5m chart

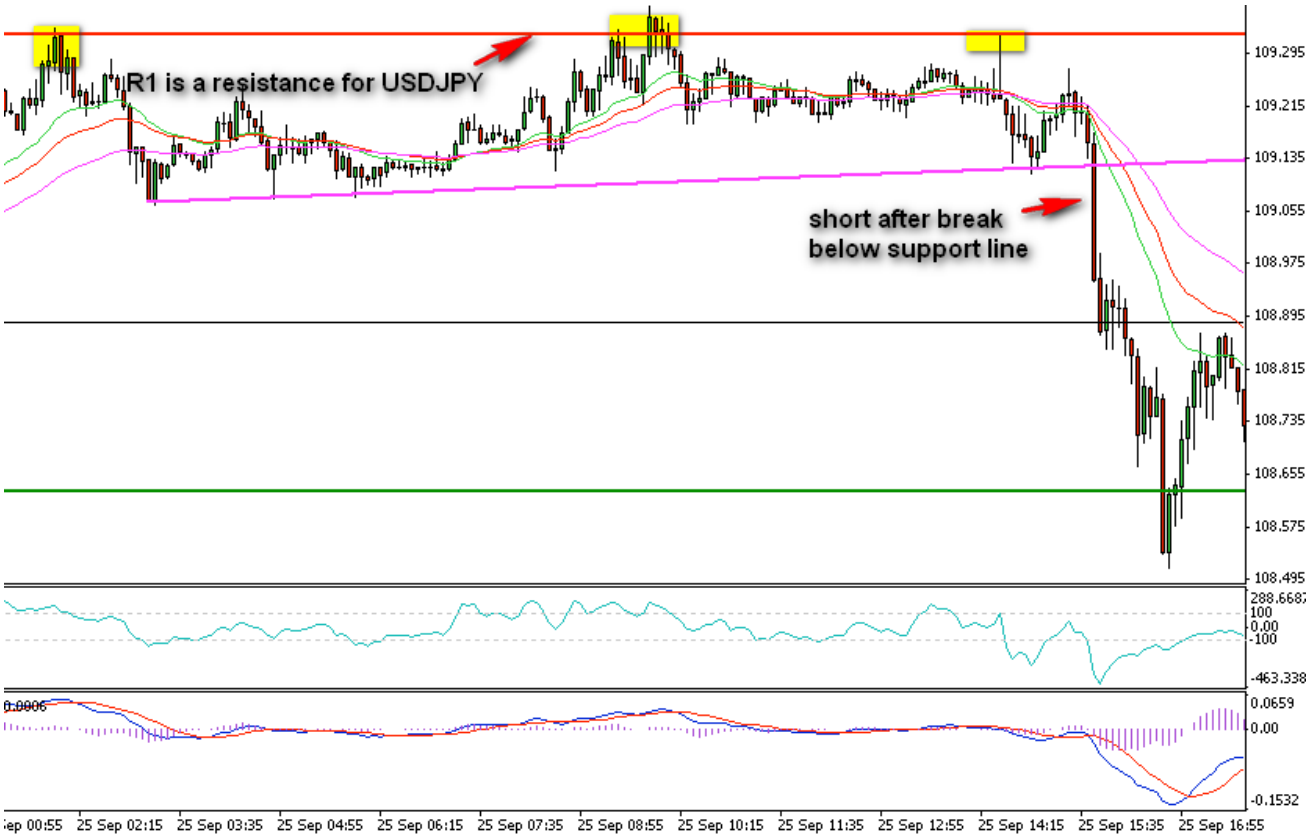


Image 2.16. R1 as a resistance and break below support

In previous examples we waited for price to be at right side of pivot line (so going short when price is below pivot, long when is above pivot). There are days like on chart above, when you may try something different. It was clear that R1 line is a strong resistance. During 12 hours USDJPY failed to force it. By that time we could draw a trendline which eventually failed and we saw a short breakout. Move continued straight down to the S1 line. In this situation stop loss area was clear - above R1 line, so it was a good risk/reward situation.

3. Camarilla pivot points

Similar to normal pivot points, but it is more ready trading system. Created by trader Nick Stott in the end of 80's it still being used by many traders.

We have lines:

- H5 - long breakout target H4 - long breakout
- H3 - Short Pivot
- L3 - Long
- L4 - short breakout
- L5 - short breakout target

So same as with pivot points, there is a middle line - pivot.

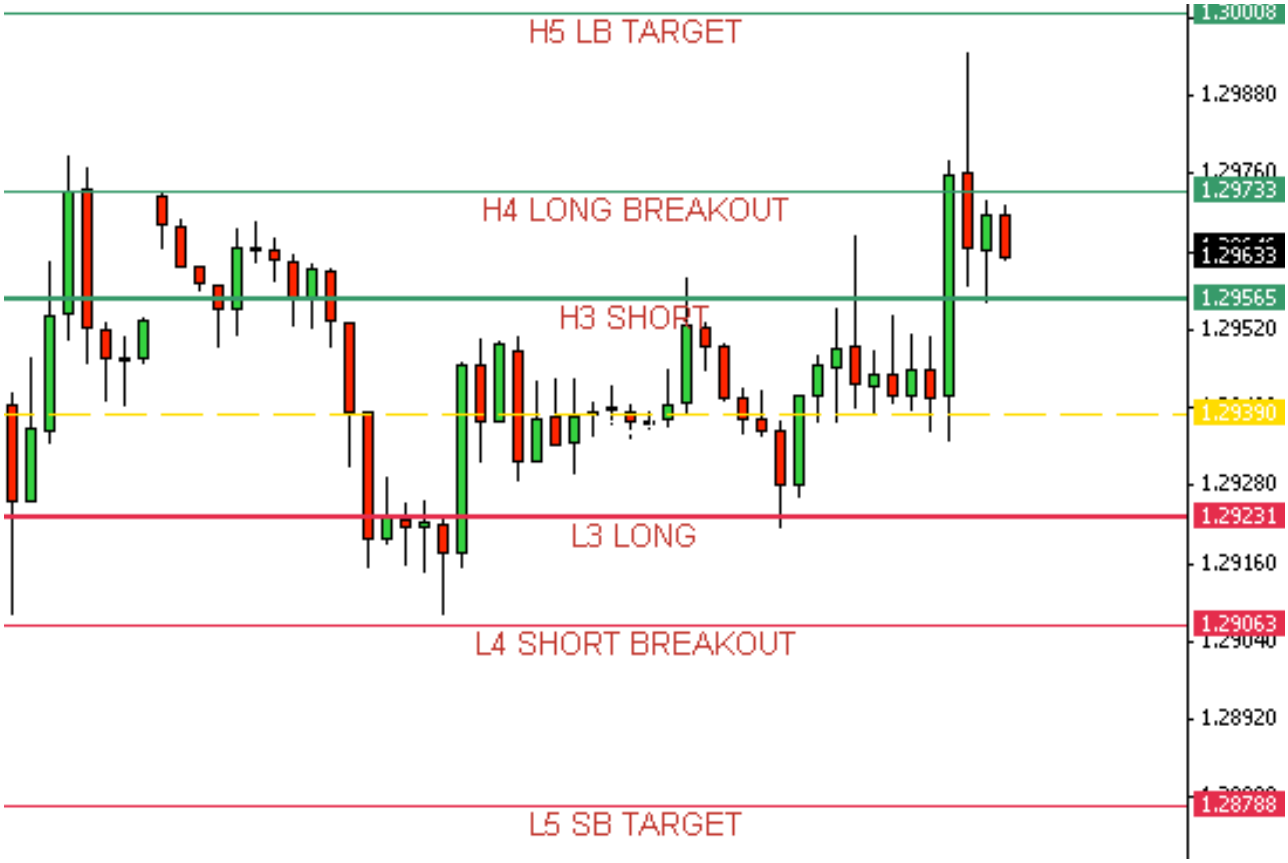


Image 3.1. Camarilla lines

There are few strategies, based on that when a price was in the start of the trading day (London session). Let's take a quick look at example trading rules:

Scenario 1 - price open between H3 and L3 lines

When to go long

Wait until price move below L3 line and move back above it - it is time to go long. Sometimes price bounce from level, then we need another signal to enter (from price action, moving average or oscillator).
Close position at H3 line (or H4/H5 if trend is strong and you have a good trailing system). Stop loss below L4 line.

When to go short

Wait until price move above L3 line and move back below it - it is time to go short. Sometimes price bounce from level, then we need another signal to enter (from price action, moving average or oscillator).
Close position at L3 line (or L4/L5 if trend i strong and you have a good trailing system). Stop loss below H4 line.

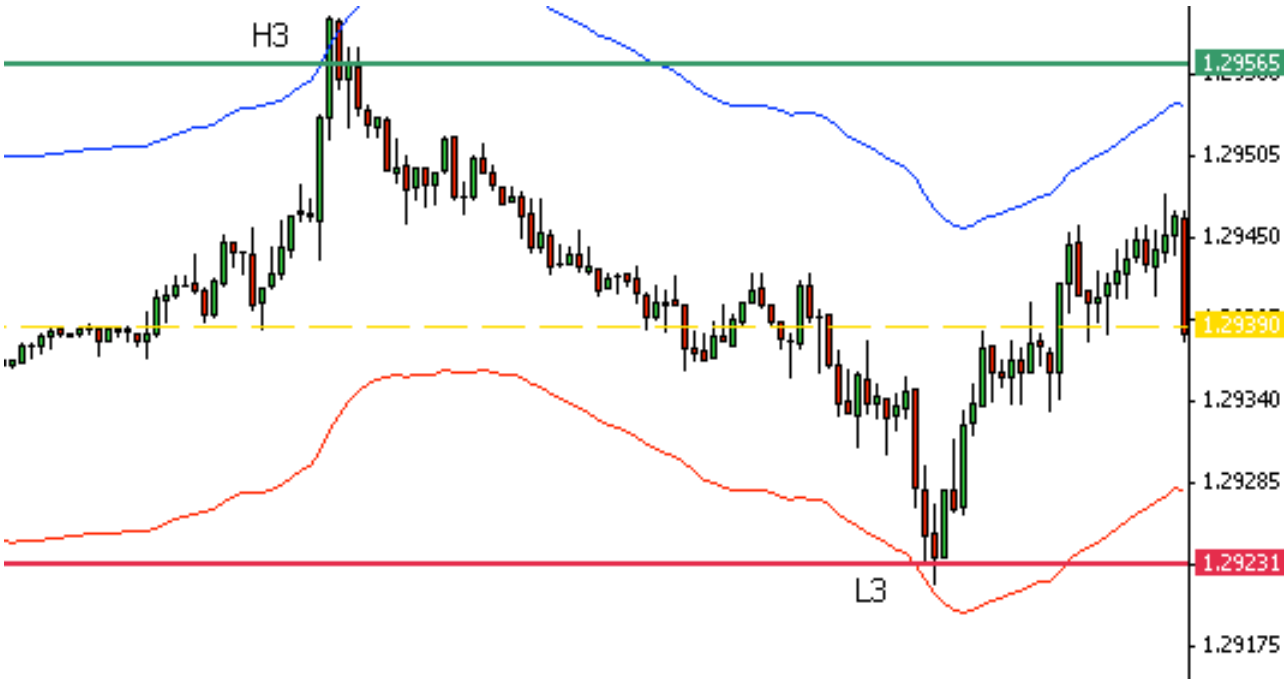


Image 3.2. Price between H3 and L3

Scenario 2 - price open between H3 and H4

Image 3.3. Price open between H3 and H4. Example when there was a long signal at close above H4 (exit at H5)

When to go long:

When price moves above H4 line, we go long.
Target is H5 line.
Stop loss below H3.

When to go short:

When price crosses below H3 line, go short.
Target is L3.
Stop above H4.

Scenario 3 - price open between L3 and L4

When to go long:

When price moves above L3 line, we go long.
Target is H3 line.
Stop loss below L4.

When to go short

When price crosses below L4 line, go short.

Target is L5.

Stop above L3.

Scenario 4 - price open below L4 line or above H4 line.

Wait until it comes back and play according to scenario 1, 2 or 3.

So… how to use it?

This is a great tool, but I can write a separate manual about trading with Camarilla. You do not have to follow rules which I have described above. Check examples below and see how it works.

SPX, 5m chart

Image 3.4. Price open between H3 and H4. Example when there was a long signal at close above H4 (exit at H5)

SPX is under pivot line (yellow). After range move, we can see that bears are up to something. We had sell signals from MACD and CCI, also moving averages were negative (so 21 below 33, and 33 below 55). L3 long did not hold and SPX started to move down. It looked like L4 is not a target and we will have a continuation of move down. But no, things worked out different. It was a false breakout and bulls came back. You can see that they managed to move up to the 1945 points. I wanted to show this example for a reason - there are no 100% sure signals - sometimes it looks like it is all going well and you have signal but price reverse. That is why I use trailing stop loss. In that example after going short, let's say 1933 points, you would lower your stop to place it after each next lower high. This kind of traps happens.

Oil, 15m chart

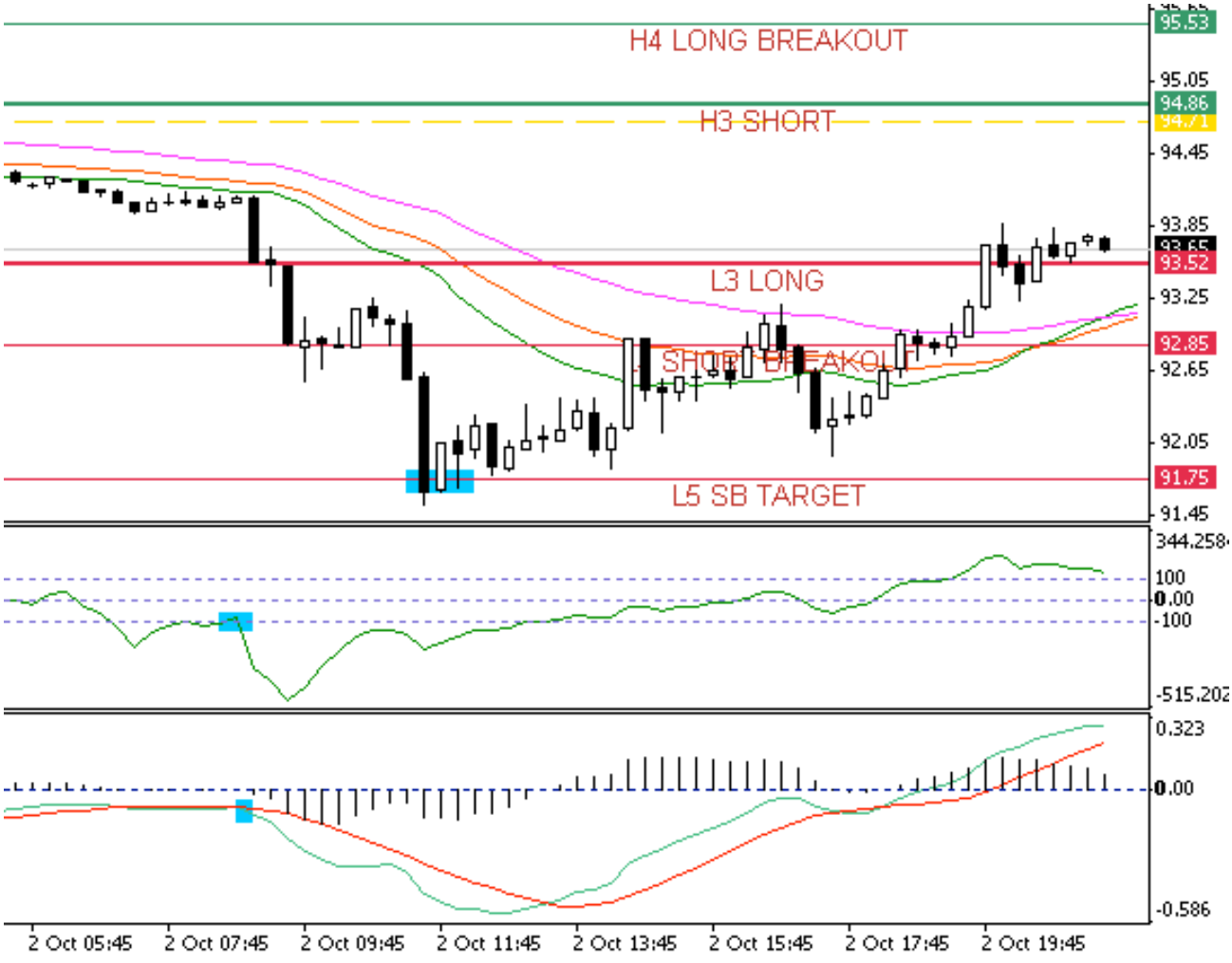


Image 3.5. Short trade from L3 to L5

Here all worked great. Actually, I opened this trade on 5 min chart, but this is clearer on the 15 minute chart. We are below pivot line (yellow), averages are negative. There are signals to go short from MACD and CCI (near L3 line). I shorted at L3, closed at L4, and shorted again when L4 failed and there was a break below L4. It is up to you how you manage your trade. Just wanted to show you that sometimes we have a strong move from L3 to L5 without or with a very short pause at L4 line. If trend is strong then L5 is a target.

EURUSD, 5m chart, part 1

On the 5m EURUSD it looked like we may have a move up from L3 towards L4. There was even a signal from MACD, but as you can see this was a false signal (also averages were negative at that time). After failed move to go long, price reversed and moved down to the L4:

Image 3.6. Move up failed, but...

EURUSD, 15m chart, part 2 of trade

When you checked higher time frame, it was clear that downtrend is still in place and there is no point of taking a long position:

Image 3.7. ... on higher time frame there was still a downtrend

EURUSD, 5m chart

Image 3.8. Short trade after break below pivot line

Right below H3 we have a dotted yellow line which is a pivot line. We got signal from MACD and CCI to go short, but it was good to wait for break below pivot line. On some occasions it may work as support and you will see a bounce from here. In this case we saw that pivot line is not a support and we had a short breakout - this was our entry point. Take profit target was L3 line, which worked nicely.

4. Fibonacci trading

Remember – here you can find a guide how to setup Fibonacci in your MetaTrader.

Short info about Fibonacci trading and we go straight to the examples. You can read more about Fibonacci on my site, where I wrote few guides for beginners. I think that examples in this chapter are well described and you should understand fast what Fibonacci trading is really about.

If you do not know what higher high or lower low is, you will also find that information there.

Let's get straight to the trading. When you trade with Fibonacci levels, you have to:

- find direction of trend
- wait and find ABC move with Fibonacci retracements
- open trade at correction and close at Fibonacci extension line (D point)
- that is why this is called ABCD pattern trading

First one is clear - we want to have better chances so we trade according to the trend from our time frame. I try not to complicate this. I simply look at price action and sequence of highs and lows. I also use moving average - in most cases this will be 33 and 55 expotential/ linear weighted moving average. If price is above, then trend is up, if price is below then trend is down. Remember, you won't be always correct about trend direction, but you need some simple system so you can focus on trades.

OK, we defined trend direction. Now we look for ABC move. There are two scenarios you can execute.

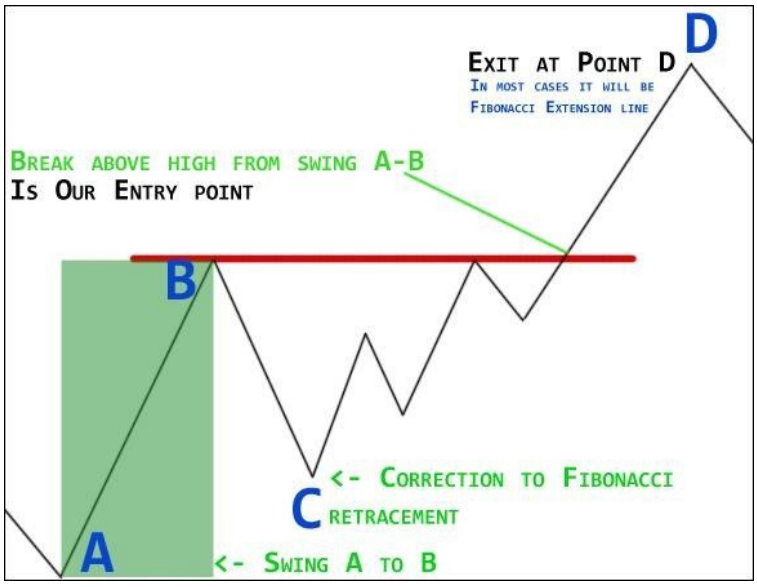


Image 4.1 Fibonacci trading – safer scenario

Scenario 1 - safer

In this scenario we wait for move ABC to finish, but we do not enter a trade. When the move from C to D starts, we are still waiting. Our entry point will be break above high from swing A-B. Minus of this method is that on many times price will move rapidly through this level and it will be hard to open a position. Also, there are many traps here like false breakouts.

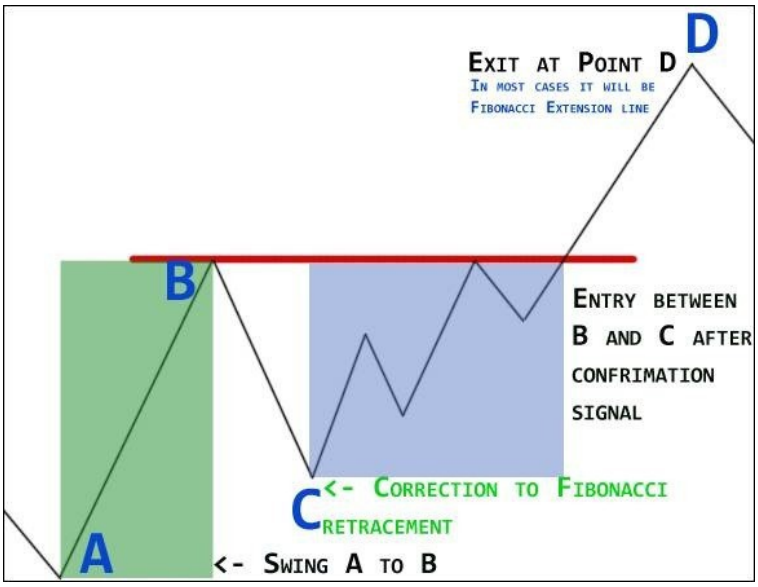


Image 4.2 Fibonacci trading – entry between B and C

Scenario 2 - trying to catch bigger part of move

Entry here is somewhere between B and C AFTER correction ended. Still, you have to use some sort of verification signal.

Some traders play a third scenario which is a trade between C and B. So after correction to fibonacci retracement you open a trade and close it when price reaches near recent high (B).

I most often use scenarion 2. With scenario 1 on many times I was too late in trade. I am willing to risk little more to get more part of move.

With that knowledge, lets check some trade examples.

EURUSD, 30m chart

Price is holding above 33 average, so I was looking for long opportunities. After shallow correction price moved up. We had also a signal from CCI 33, which crossed above 100 level. It was a good place to enter. Move was strong, and my exit target was 161.8% extension line.

Image 4.3. Entry example based on CCI

USDJPY, 5m chart

Image 4.4. ABC move, failed to move above B point

This trade ended with stop loss. It is not always happening fast - AB, correction to C, move to D. Sometimes correction takes some time. Then we can draw trend lines. It looked that correction ended at 61.8% retracement line. Later we had a breakout above first trend line. We also had a signal from 33 CCI (close above 100 level). First it looked nice, but then price reversed and moved down. I put stop loss below 61.8% retracement line. I was stopped out, but loss was not that big. That is why money management is so important.

USDJPY, 15m chart

Image 4.5. Fibonacci trading with multiple averages

Sometimes you can use more than one average to plot resistance and support areas. In this case thanks to MMA (multiple moving averages), it was clear that trend is down. We got also confirmation from 61.8 and 78 retracement lines. In that case, you would go short after a break below green average - before it acted as support to later switch and act as resistance.

USDJPY, 15m chart

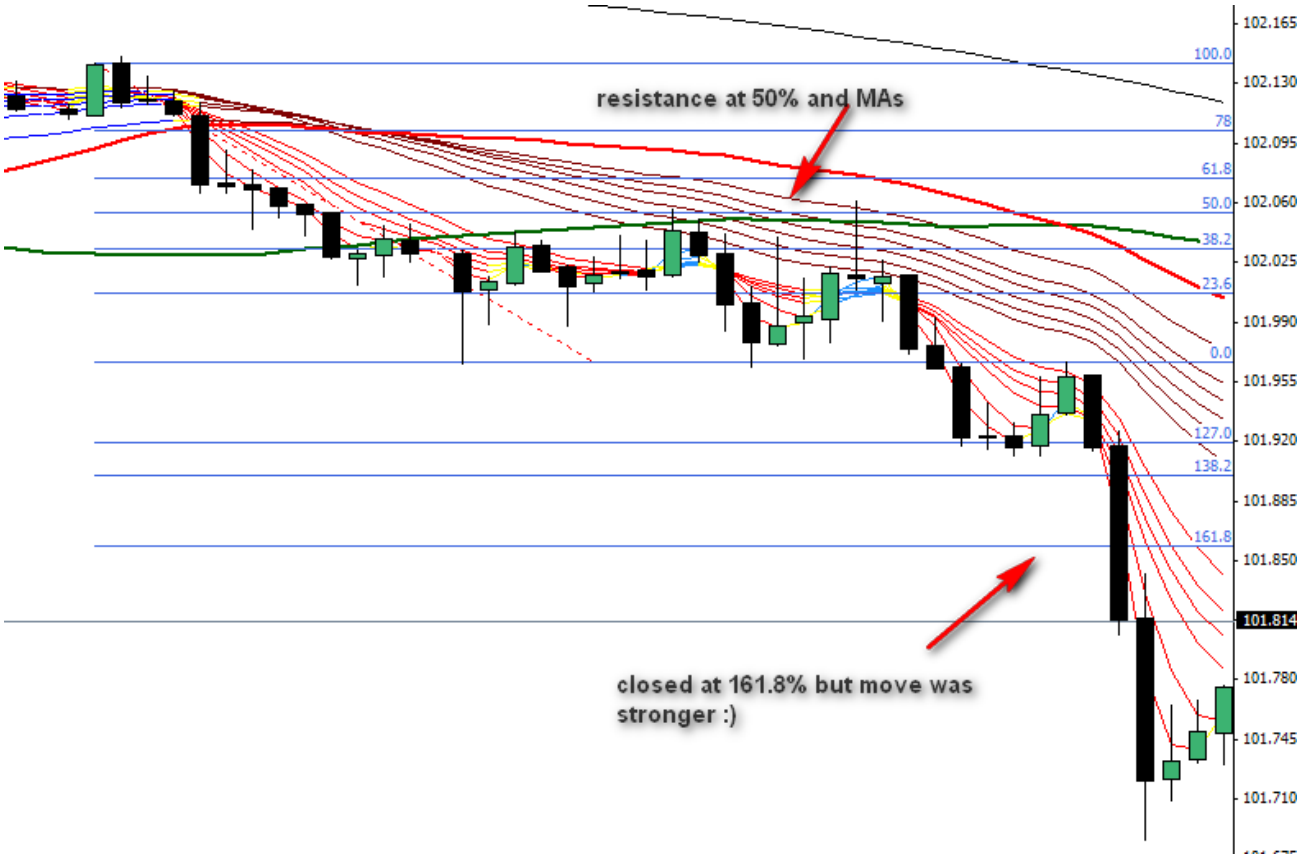


Image 4.6. Example of resistance at retracement line and moving average

Similar example. Thanks to MMAs we have a clear picture of the current trend. Price retraced to 50% and green average, after that the move down continued. As you can see, here you could open a trade at the break below recent low and it worked great.

EURUSD, 1m chart

In the morning there was a great setup – move up, correction down to 61.8% retracement and 55 simple moving average and then move up to the extension line. We got signal from MACD. I like situations like this one because price can find support from two different sources - Fibonacci retracement and moving average.

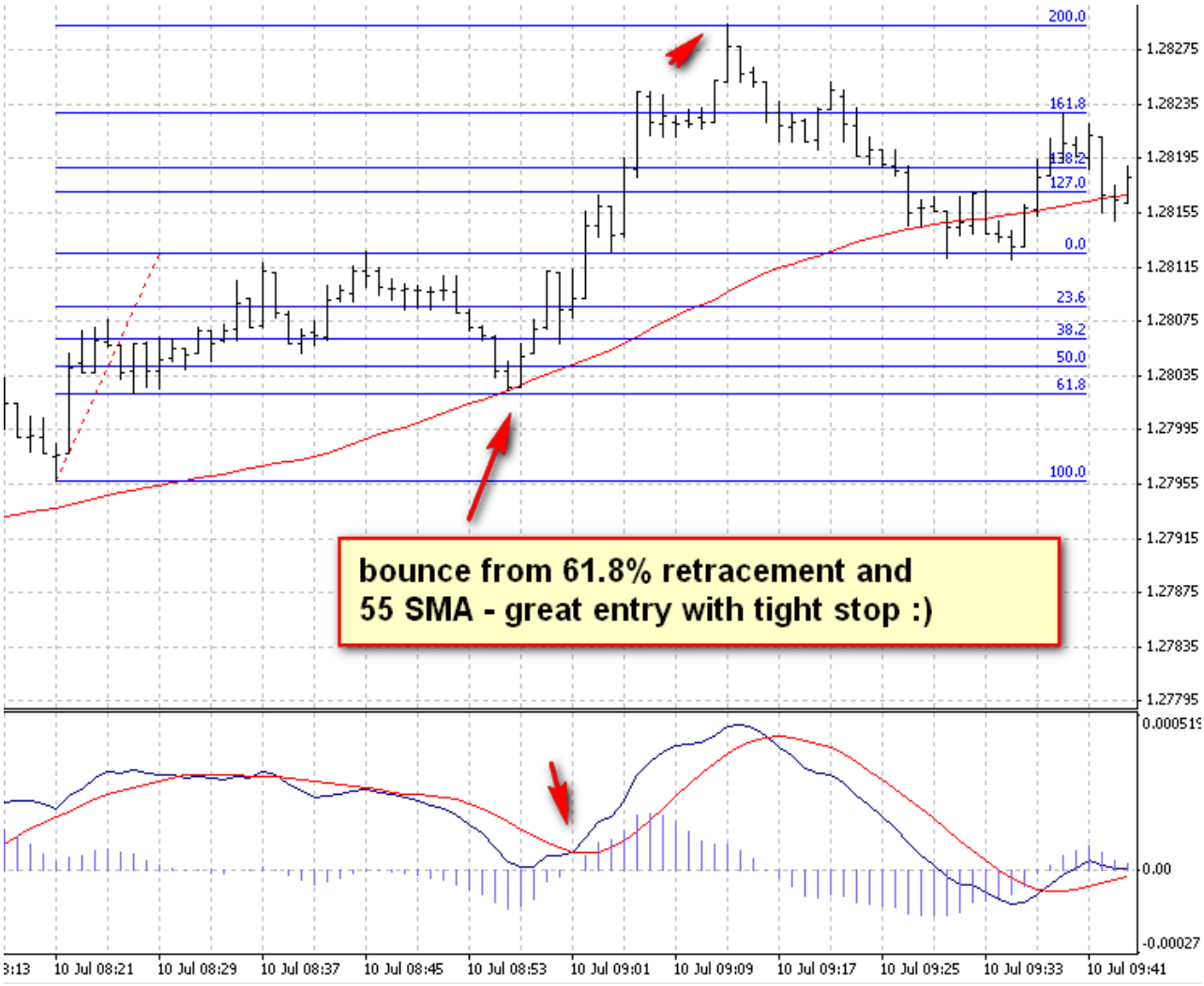


Image 4.7. End of correction at 61.8% and 55 SMA

EURUSD, 1m chart

This trade opportunity was after some sideway movement. Entry point was the close above 0% line (B point). As you can see, this was a pretty strong (a little choppy) move way up to the 261.8% extension line:

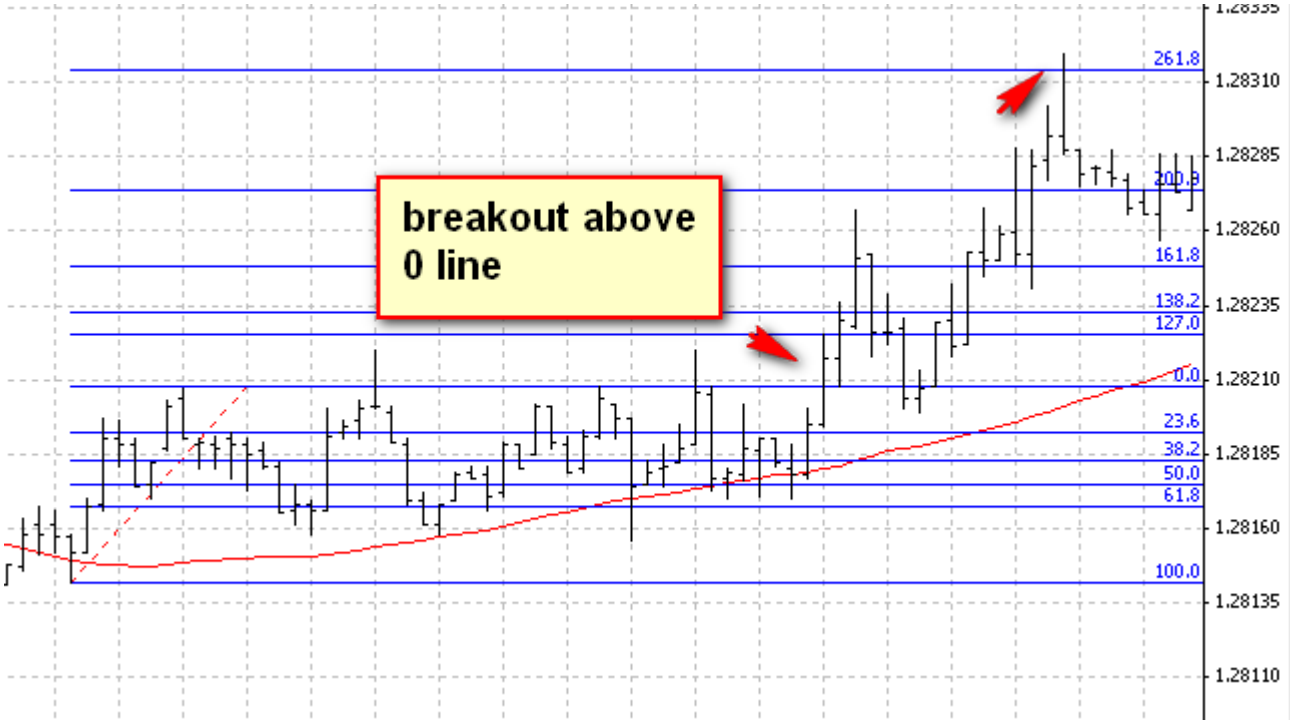


Image 4.7. ABCD move in a choppy market

It was hard here to spot ABC move, but you can see that it worked great and move ended at 261.8% extension.

USDJPY, 5m chart

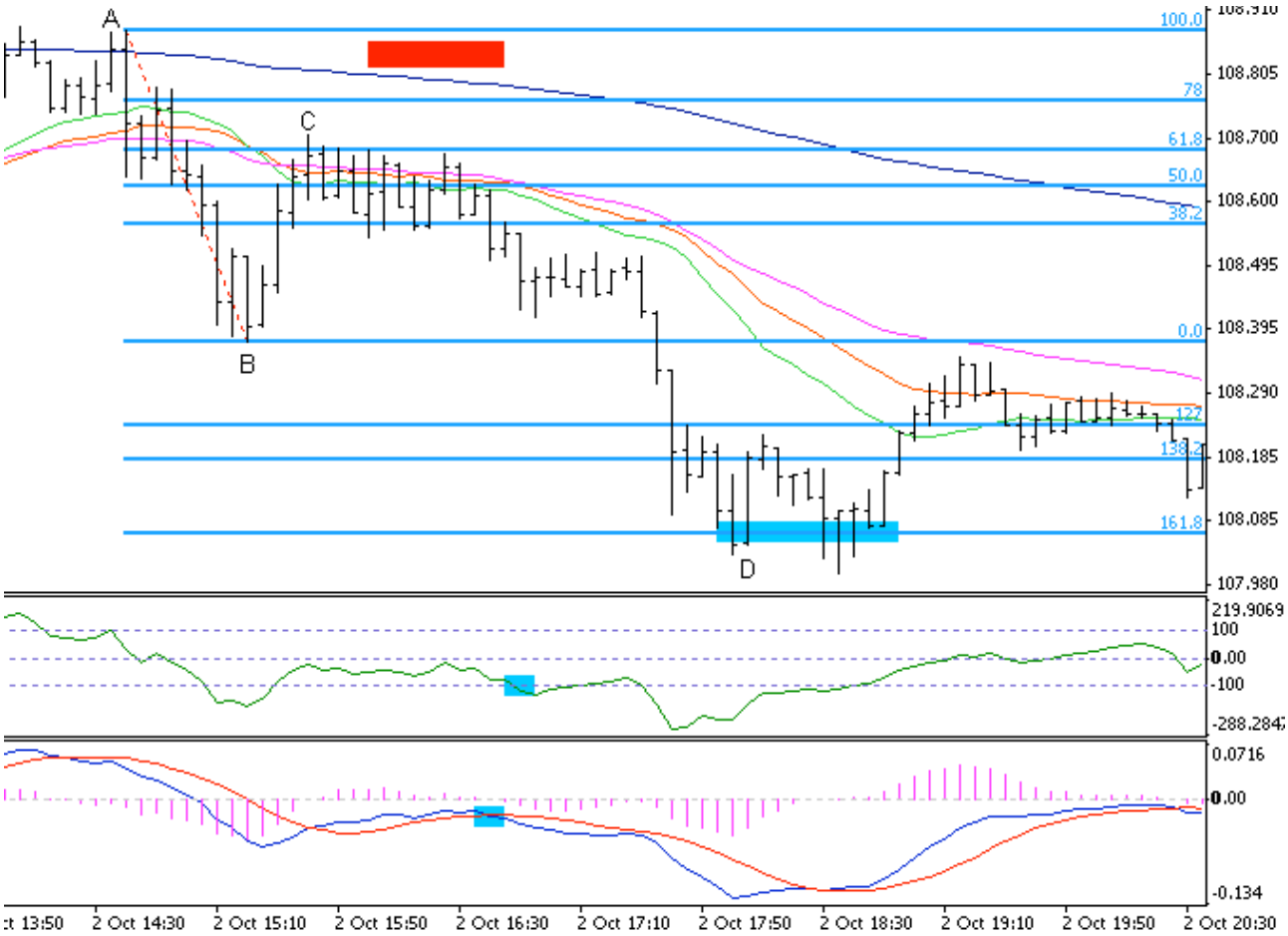


Image 4.8. Short trade which ended at 161.8% extension

Price was under 200 moving average. We could easily spot ABC move. After that, move down slowly developed and we had signals from CCI and MACD. Best place for stop loss was above 200 average and above 78% retracement. Move down was strong, with a short pause at 138.2% extension and final stop at 161.8% extension. As always, half of the position was closed at 138.2%, and rest at 161.8%.

USDJPY, 5m chart

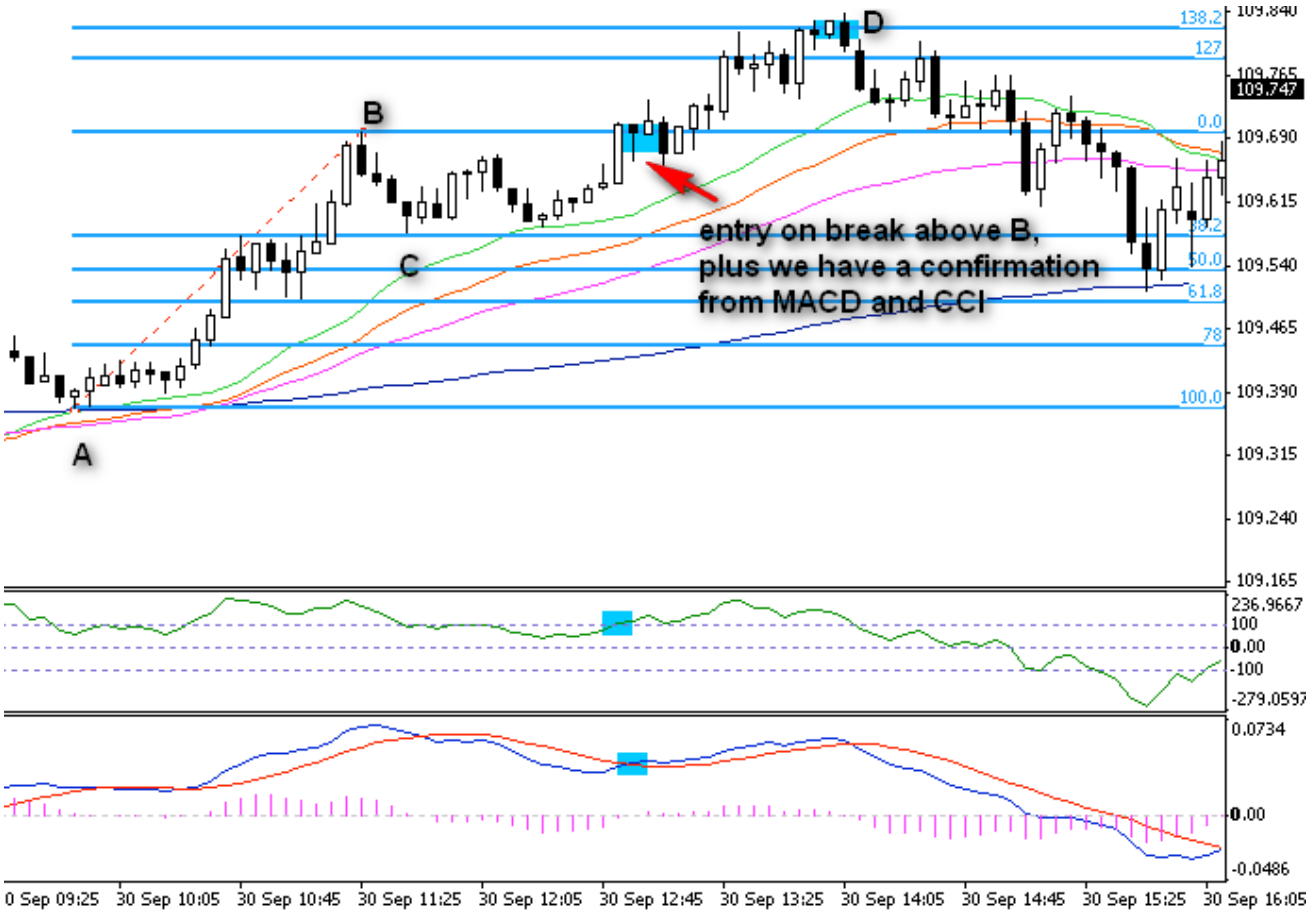


Image 4.9. Short trade which ended at 161.8% extension

USDJPY is above 200 moving average, and we have an uptrend in place (looking at 21, 33 and 55 averages). After a small correction to the 38.2% retracement line move continue up and we had signals from MACD and CCI. Half of position is closed at 138.2% extension, and we move stop loss on the other half. Where? To the entry level, that way if we are stopped out, we only scratch that position. Later we got stopped out on second half of position without a loss.

USDJPY, 5m chart

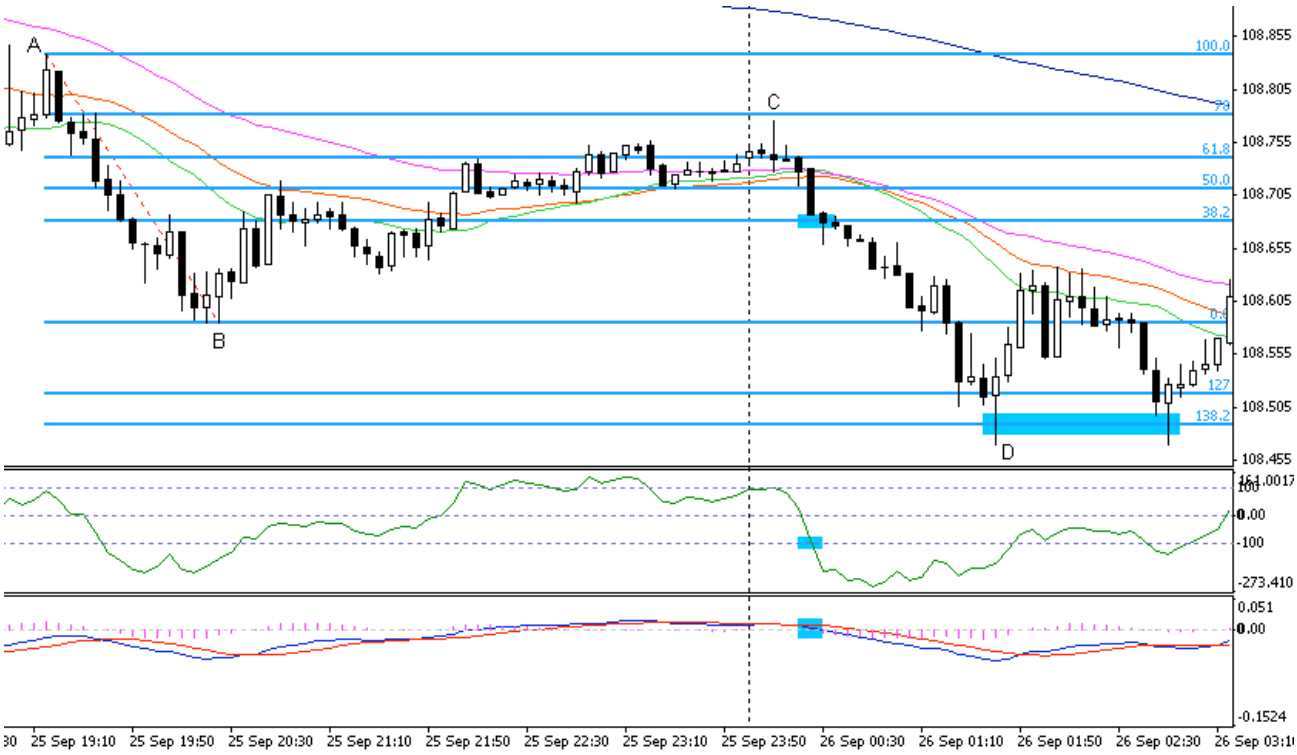


Image 4.10. Short trade which ended at 161.8% extension

We have here a downtrend on 5 minutes USDJPY and correction to the 61.8% retracement line. After that we have a move down and signals from MACD and CCI. Best place for stop loss is above 78% retracement line. Price moves down to the D point which is 138.2% extension line. We have a double bottom here and move down ends.

EURJPY, 1h chart

Image 4.11. Short trade which ended at 161.8% extension

You can use this technique on other time frames. In this example, we have 1-hour chart of EURJPY. Price is below 200 moving average, and we have a downtrend. It all should look familiar to you. After a move down we've got signals from CCI and MACD. There was a pause at 161.8% extension line, but eventually, price moved down to the 200% extension. The timeframe is different, but all the rules are the same.

Oil, 15m chart

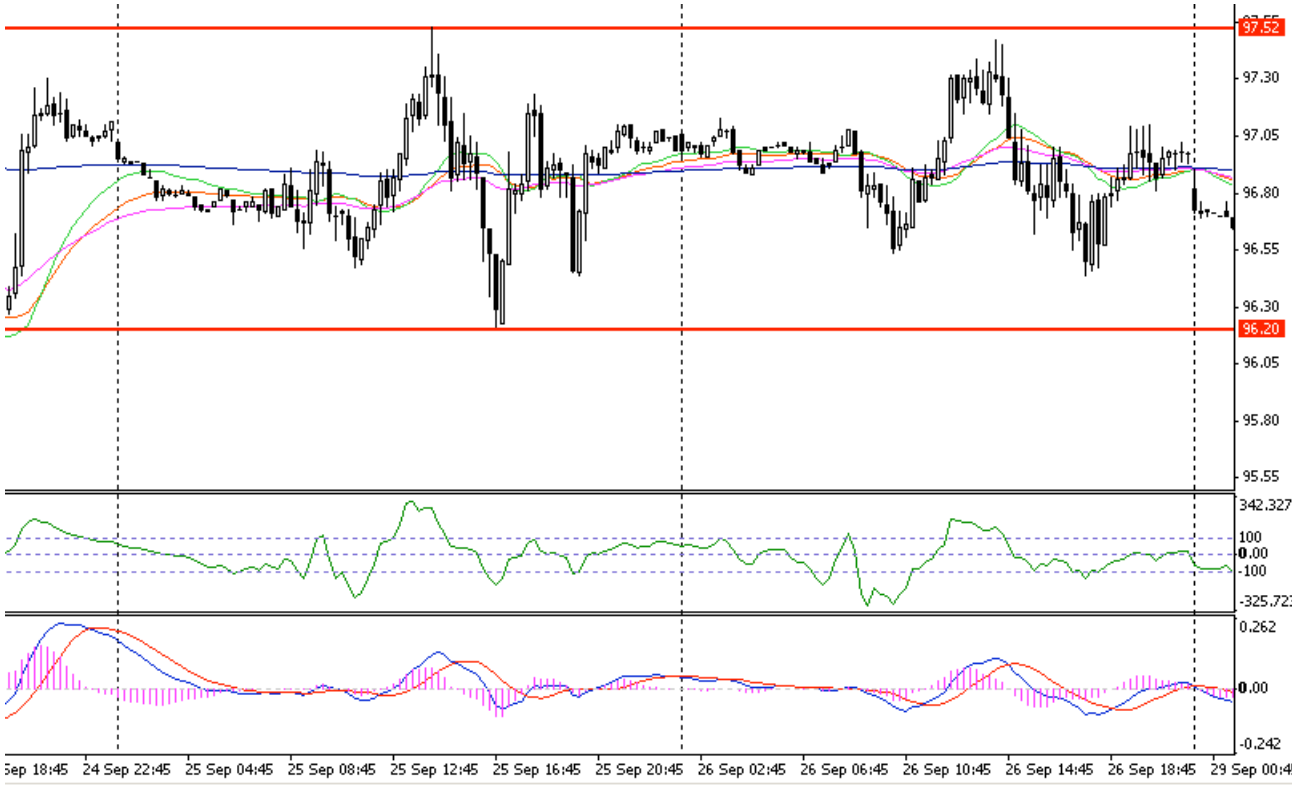


Image 4.12. Flat market example – no Fibonacci trade here

Sometimes there is simply no trade and no setup. In this case, oil was moving in a narrow range. You could try to find ABC moves, but in which direction? When I see a situation like this, I draw support and resistance lines (on chart) and wait for a break up or down. In markets like this, you can lose a lot so it is great to learn that is wise to wait it out.

Oil, 15m chart

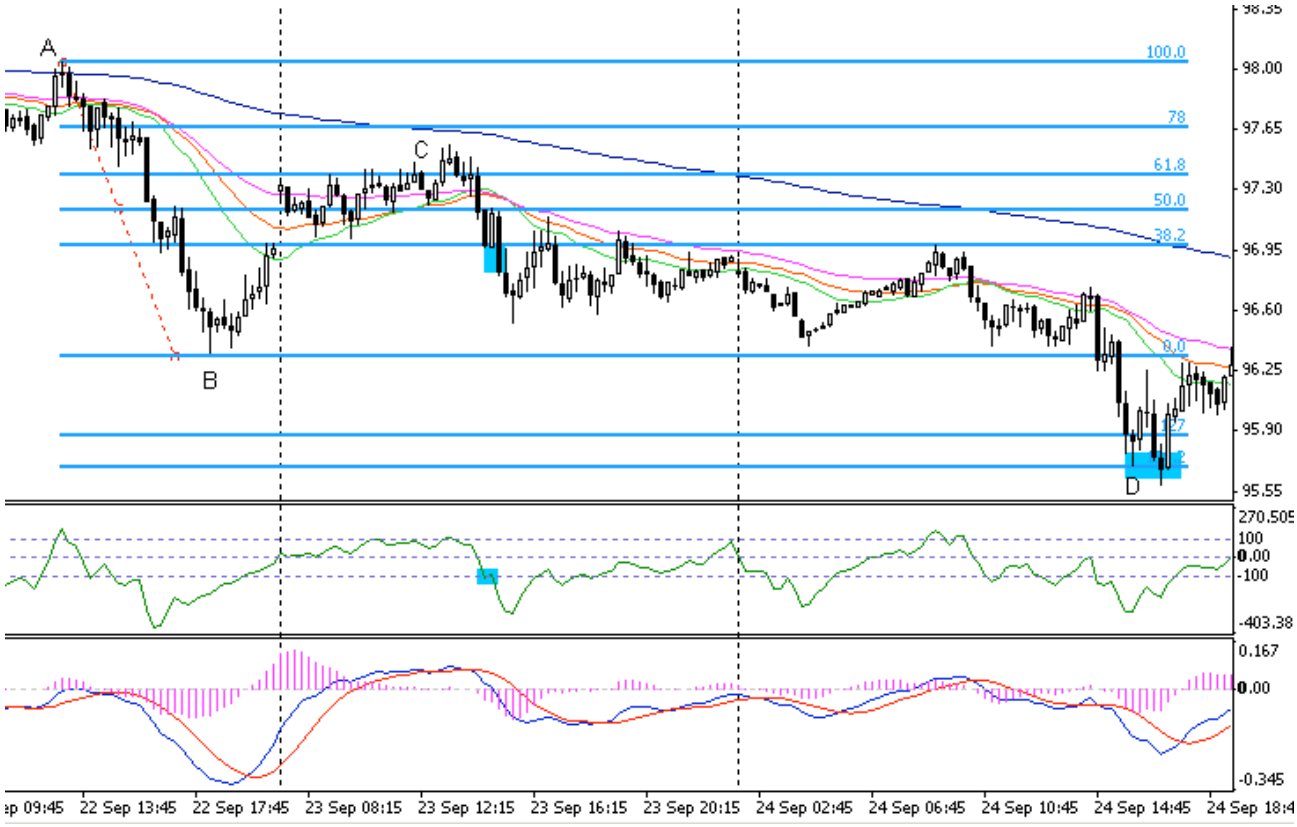


Image 4.14. Short opened between B and C

Another example of short trade on oil (15 min chart). We have clear downtrend and we are below 200 average. We have a signal from CCI and we go short. Move ended at 138.2% extension. Look how fast price moved down after break below 0% line. That is why I try to open position between 0% and 61.8%. This way I can set stop loss not so far, and be in the game when the strong move occurs.

EURUSD, 1h chart

Image 4.15. Short opened between B and C

Trading with Fibonacci works great on any time frame. You can use it on higher time frames to trade less and catch bigger moves. On EURUSD we had a strong down trend. On some trading days, you have to simply wait and execute the plan. Just like on 1-hour chart above.

I wanted to show you that easy setup, when price broke below support, was enough. One thing is interesting. Move down was strong, but stopped at 200% extension line (what is very common when 161.8% fails as support).

SPX, 5m chart

Image 4.16. 5 EMA (red) as simple trailing stop level

Sometimes you may not know if the best place to close is 127% or 138.2% extension? Or maybe wait it out to the 161.8%? You can try to add 5 expotential/linear moving average (red on chart) and close first half when there is a price close above that average. When there will be strong move right to the 161.8% extension or even 200% you have a good chance to catch most of that move. It takes some practice to use that technique. I simply stick to the 138.2% and 161.8% extensions as targets, but when move is rapid, I go for 5 MA.

USDJPY, 1h chart

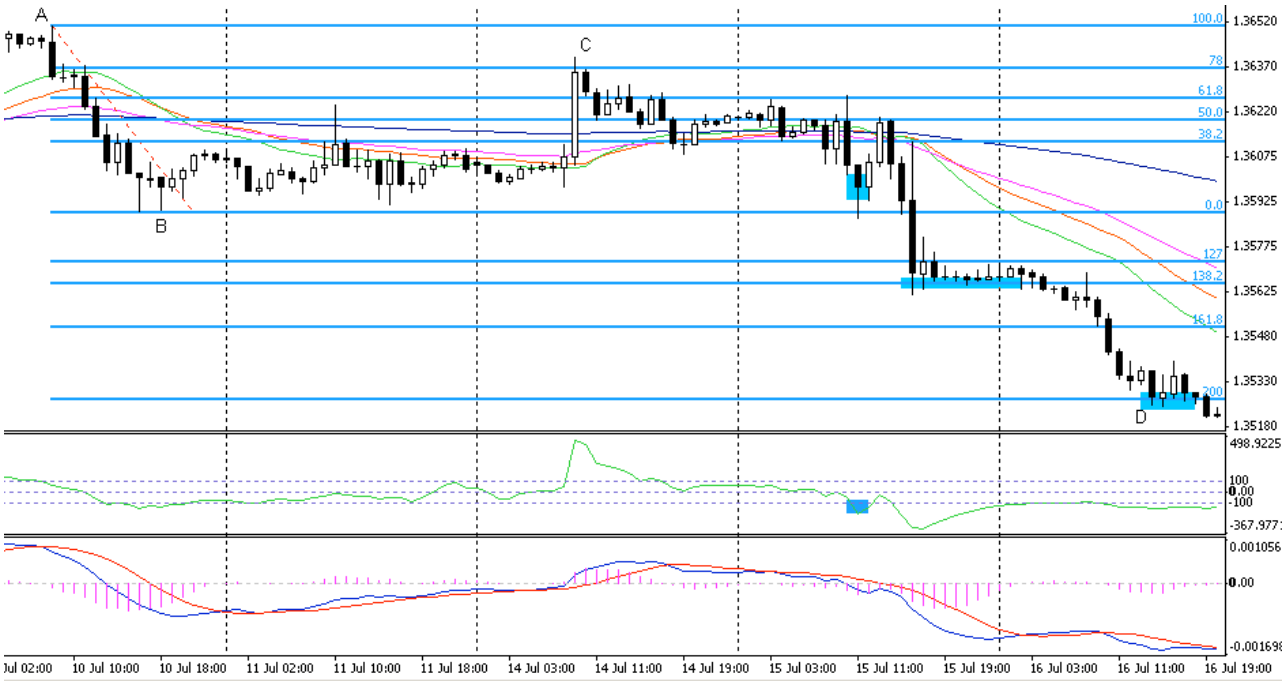


Image 4.17. Strong move down to the 200% extension

Sometimes when you do not expect this, 200% works as a target like in this example. There was a stop at 138.2% extension, but after that price moved down to the 200% extension. It is a good idea to test different techniques to catch these kinds of moves. For example, you may try to add 5 moving average as I wrote before. You may also try to use trailing stop loss so you can be in trade as long as possible. You can read about trailing stop loss later.

Fibonacci trading on higher timeframes

Fibonacci can be very accurate on 1-minute or 5-minute charts, but also on longer time frames it works great. Basically, you can use it almost the same way as on lower time frames. The plan is simple, you can know it already:

- spot ABC move
- wait for correction to retracement line
- when correction ends, go long (when there is a signal)
- close position at extension line

Pros and cons are:

- you can close position before sell-off, and take nice profit from the table
- sometimes trend is stronger than you thought, you close position at extension line, but there is another strong move (wave)

It depends from you - which system are you looking for and how good will you master it. I use this strategy all the time (not exclusive, I mix it with other strategies - depends from the chart).

It looks like this - I scan charts every week looking for good trades. When there is a correction, I draw Fibonacci retracement and leave it on the chart. Next week I check if there is a signal. That's it. When there is a signal, I open a position and set take profit target (usually 138.2% or 161.8%) and stop loss (bellow 78% retracement line). I leave this transaction and only do a check up every week.

In most cases price will stop at 138.2% or 161.8% extension line. Stop, that does not mean that it won't go further. But for this system it is ok - you can set clearly exit points. The problem is with entry. You have to have a good entry system. I have best results with a combination of Fibo retracement lines and resistance/support lines.

UTX stocks, monthly chart

This example should be clear to you by now. Move A - B, correction to C (78% retracement line). Bulls are not quite strong to start a rally so triangle is formed. Finally, bulls managed to breakout from triangle and rally started. At 161.8% extension line price stopped and there was small correction. Not for long, bulls came back and attacked 200% extension line at 120$ - this is our D point. Once again, when 161.8% did not stop price, then it is possible that it will stop at 200% extension (if not, the next one is 238.2%).

You can clearly see that drawing resistance and support lines gave as a good entry point. Stop loss would be placed below support line.

Image 4.18. Strong move after break from triangle

Microsoft stocks, weekly chart

This is a nice setup. Green line is a trend line. From move AB we draw retracement and extension lines. Price moves back to 50%, from failed breakout we can draw resistance line. Finally, price managed to breakout above two red lines and rally continue. Price stopped at 161.8% extension and there is some sell-off, but bulls returned. What I like most about this setup is that when we have strong trend (green line), then our chances are good to catch next waves.

Image 4.19. Example of correction which edned at trendline

Adobe stocks, weekly chart

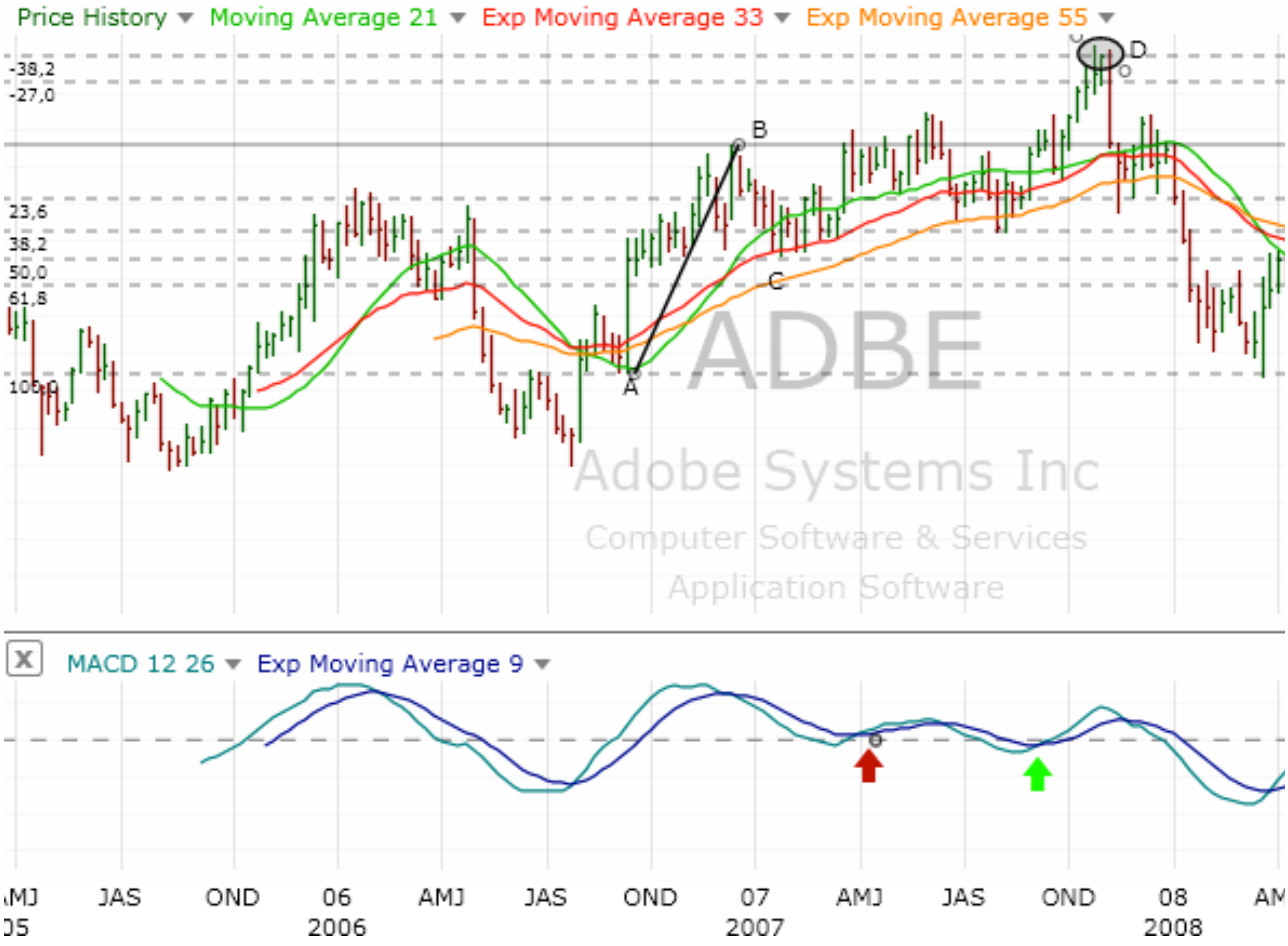


Image 4.20. Adobe trade on weekly chart with Fibonacci and MACD

Not always entry signals will be correct. In this case, first signal from MACD to go long was false. There was a breakout attempt, but it failed. Later there was another signal and it was a move to the 138.2% extension line. In reality, after first signal, we would go long and set stop loss below 61.8% retracement line. There is no 100% correct signals and some trades will be wrong. But sometimes it is good not to overtrade it and follow a plan.

LVS stocks, monthly chart

Image 4.21. ABC move is not always easy to spot

A good example that you can look for Fibo trades on a monthly charts. When you look first at the chart, AB move is hard to spot, because trend is down. Later averages crossed and we saw a positive order (21 above 33, 33 above 55). We also had a signal from MACD. In this moment ABC made sense and we could try to go long. This was a nice move up to the 161.8% extension line.

Microsoft stocks, monthly chart

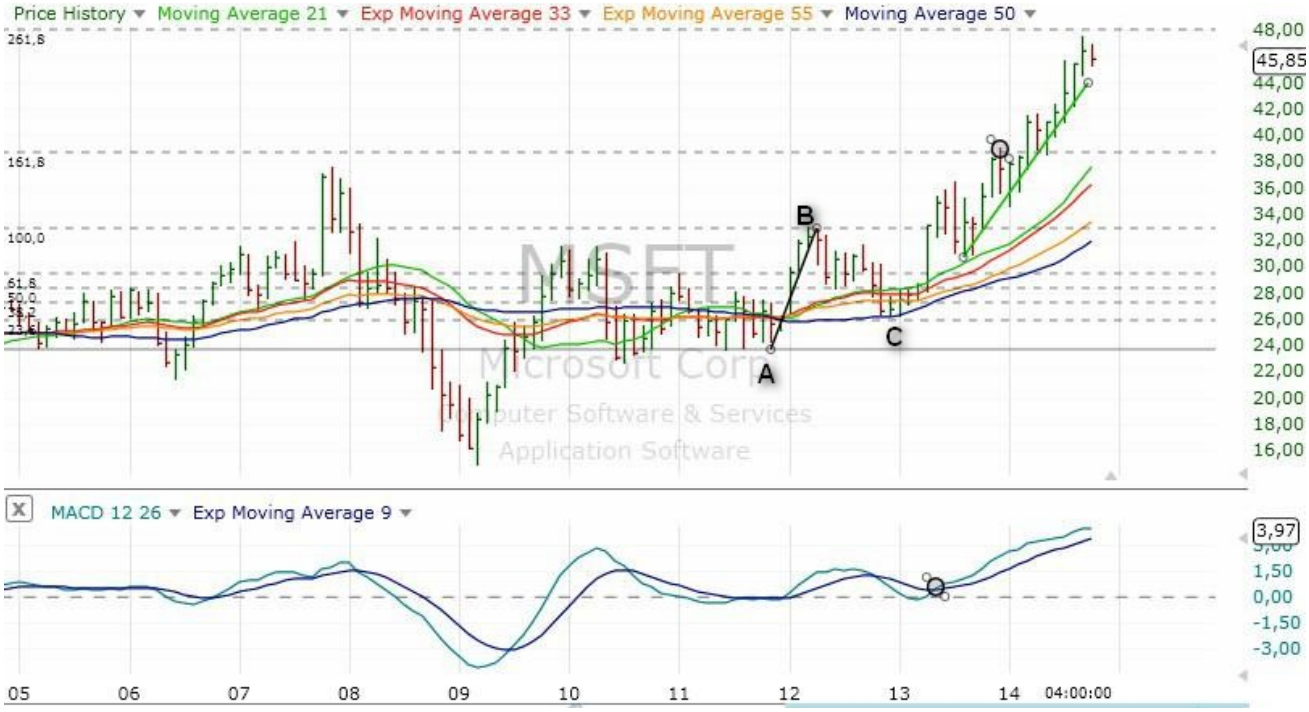


Image 4.22. Strong move from small AB leg

Sometimes we have strong moves from small vawes. On this monthly Microsoft chart we waited for situation to clarify. Eventually averages crossed and were positivie, we also had a signal from MACD. You can see that price only stopped for a short time at 161.8% extension, and later it continued to move up.

Pepsi stocks, monthly chart

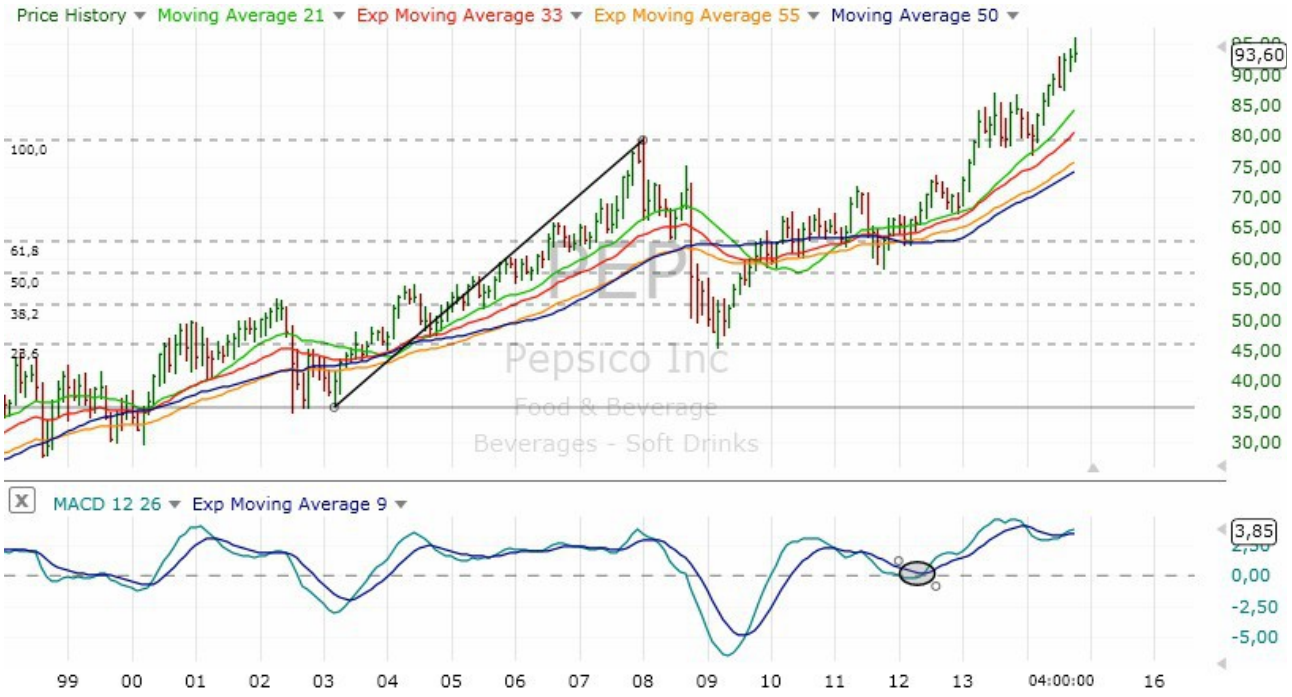


Image 4.23. Strong move from small AB leg

It is possible to invest in very long term. On this Pepsi chart move AB started in 2003 and ended in 2008. Then we saw a correction move to 78% retracement line below 50$ (retracement on chart are flipped over). Bulls came back here and we saw a signal from MACD around 65$. Pepsi is still going up with possible exit places at extensions such as 138.2% and 161.8%.

It is important to train your eye to spot things like this one.

LLTC stocks, weekly chart

Image 4.24. Move up to the 200% extension

With positive averages it is clear that trend is up. We can easily spot some ABC moves. After signal from MACD to go long LLTC went up to the 161.8% extension. This was not an end and there was another move up to the 200% extension line.

You never know in advance where the move will end. You can:

- use lower time frame to try to exit
- use trailing stop loss
- define another exit signal (like in next examples)

MDT stocks, weekly chart

Image 4.25. Averages asstop level during a strong move

It did not expect such a strong move up. We saw an ABC move with correction to the 61.8% retracement. Later there was a signal from MACD. Ok, with previous scenarios we would like to close at 161.8% extension or eventually at next one extension. But this move is so strong that we are leaving a lot of money on the table in that case. You can build your trading plan such as:

- entry point - after ABC move is completed, after signal from MACD
- stop loss below previous low
- exit when price closes below 33 expotential moving average

Sometimes it will work great, and sometimes not. It is up to you to test that in practice and depends strongly from price behaviour.

PCLN stocks, weekly chart

Image 4.26. Average is away from price. It is better in this case to exit at extension

When you see that moving average is far away from price then it might be better to simply exit at the extension line. In this case, 21 average was almost 100$ away. It was better to exti at extension or add shorter average.

YUM stocks, weekly chart

Image 4.27. ATR trailing stop loss as an exit point

You can also use volatility stop loss (sometimes called ATR trailing stop loss). So your trading plan would be like:

- entry point - after ABC move is completed, after signal from MACD
- stop loss below previous low
- exit when price closes below volatility stop loss line

Some traders use volatility stop with good results. It is important to calibrate this with chart. I use rather moving averages and trend lines, but you can experiment with volatility stop.

Apple stocks, weekly chart

Image 4.27. Example how ATR let us to control exit level during a strong move

On this Apple chart, after buy signal from MACD, move up is strong. With volatility stop, we would be still in the trade. We never know where move will end, so this is a good alternative to try to stay as long as it is possible.

Coca-Cola stocks, weekly chart, part 1

Image 4.28. Range move on weekly timeframe

One more thing about long term investing. Even on longer time frames it maybe hard to find ABC moves and recognize current situation. Like this weekly Coca-Cola chart. Looks like uptrend, but later it is in range. Is it a good idea to go long? If you are not sure, check other time frames.

Check the next chart:

Coca-Cola stocks, monthly chart, part 2

Image 4.29. When we check the same stock from 4.28 on monthly chart, we can find an ABC move

When we check the same stock, but on monthly chart, we have a better picture.This is a long ABC pattern, with signal to go long from MACD and nice long breakout.

Even when you decide to trade let's say on weekly charts, check other time frames.

5. Pivots and Fibonacci

On many times (actually, most of the time) I use Fibonacci with pivot points. This helps me to decide if there is a potential to move to the 161.8% or not. Lets look at some examples and it will be clear to you.

EURUSD, 5m chart

Image 5.1. Example when Fibonacci extension is in the same level as pivot line

After AB move there was a correction to the 78% retracement line. Price moved higher from here and we've got signal from CCI to enter. OK, we are long, set stop loss below 78% retracement, what about our take profit target? It looks that 127% extension line is almost exactly where pivot line. Price is below Pivot line so it may act as resistance. I decided that chances for eur/usd to go up to 168.2% extension line are small. As you can see the blue rectangle, price stopped at pivot and 127% but eventually moved to 138.2% extension line. This move was to weak to go higher above pivot line.

EURUSD, 5m chart

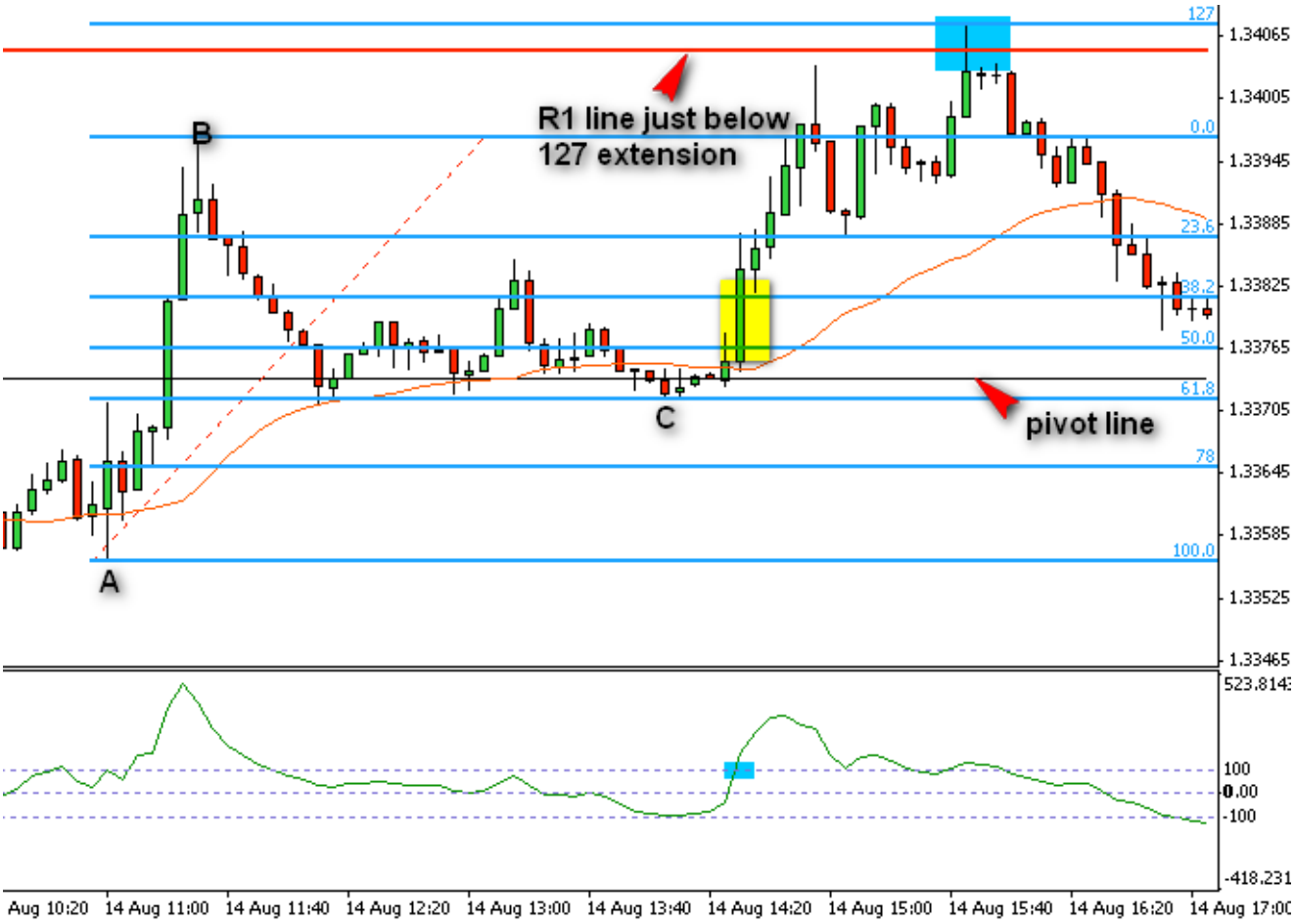


Image 5.2. 127% extension just above R1 line.

Another eur/usd 5 min example. Black line is pivot, red line is R1 resistance. We had a nice AB move and correction to pivot and 61.8% retracement line. Later we got signal from CCI and went long. What about our target? 127% extension line is right behind R1 resistance. It may be a strong resistance area, so it is a good idea to close trade at a place like this.

EURUSD, 5m chart

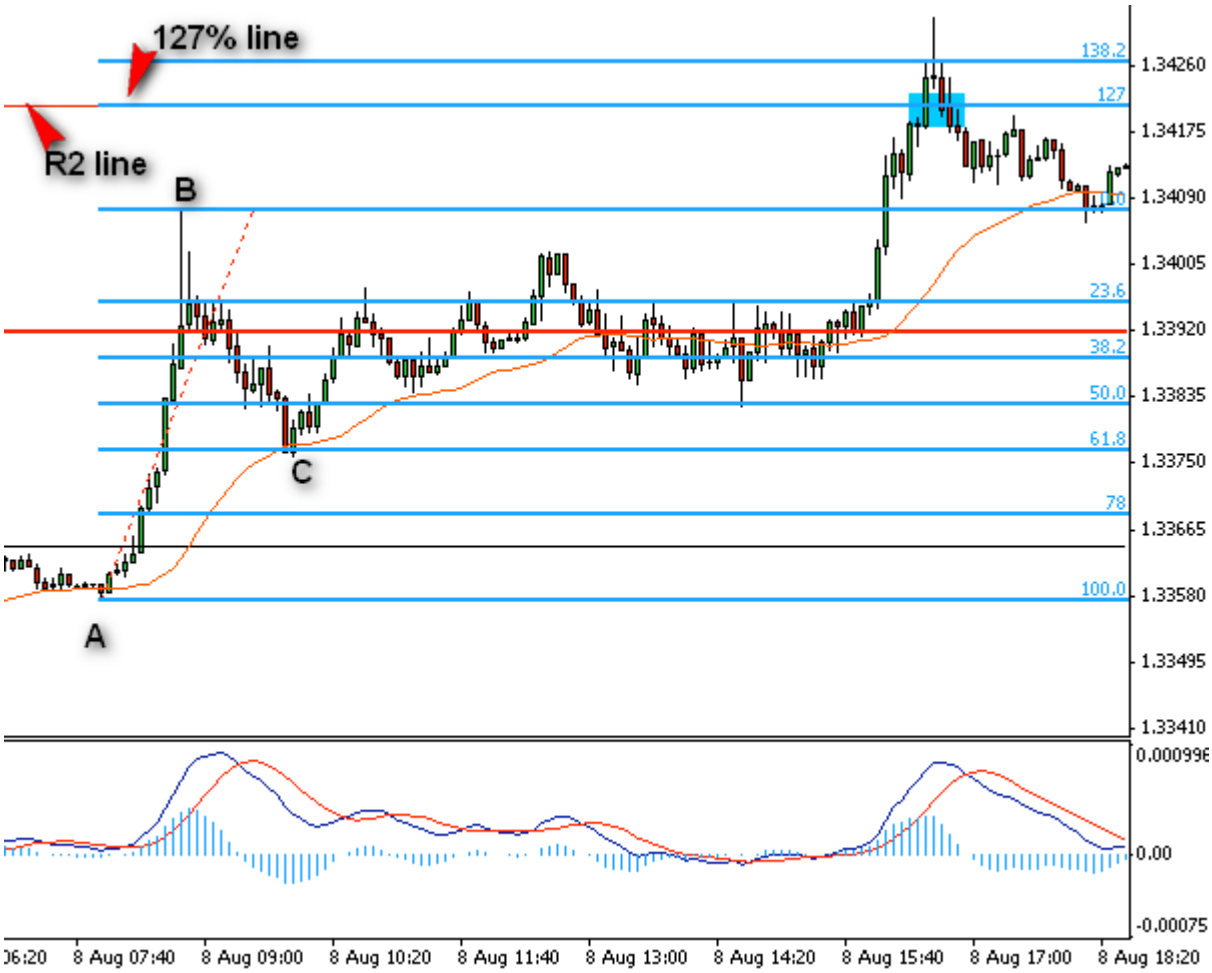


Image 5.3. 127% extension at the same level as R2

On this chart move AB ended aroud R1 line and price moved sideways. Finally bulls attacked resistance and price moved up above recent high. Is there a chance to get to the 161.8% extension line? Along way we have 127% extension line at almost the same place as R2 line. This makes this area a strong resistance. Price managed to get to the 138.2% extension, but failed to move higher.

EURUSD, 5m chart

Image 5.4. 161.8% extension near R1 – good place for close

From 15 minute chart we knew that uptrend is in place. We saw an ABC move with a deep correction to the 78% retracement line. After that we had a range move and eur/usd managed to hold above pivot line (black line). Finally, we got signals from MACD and CCI. What was the best target for position? We were already above pivot line and 161.8% extension was very near R1 line. It was the best take profit target and as you can see it worked great. Stop loss would be placed below C.

EURUSD, 5m chart

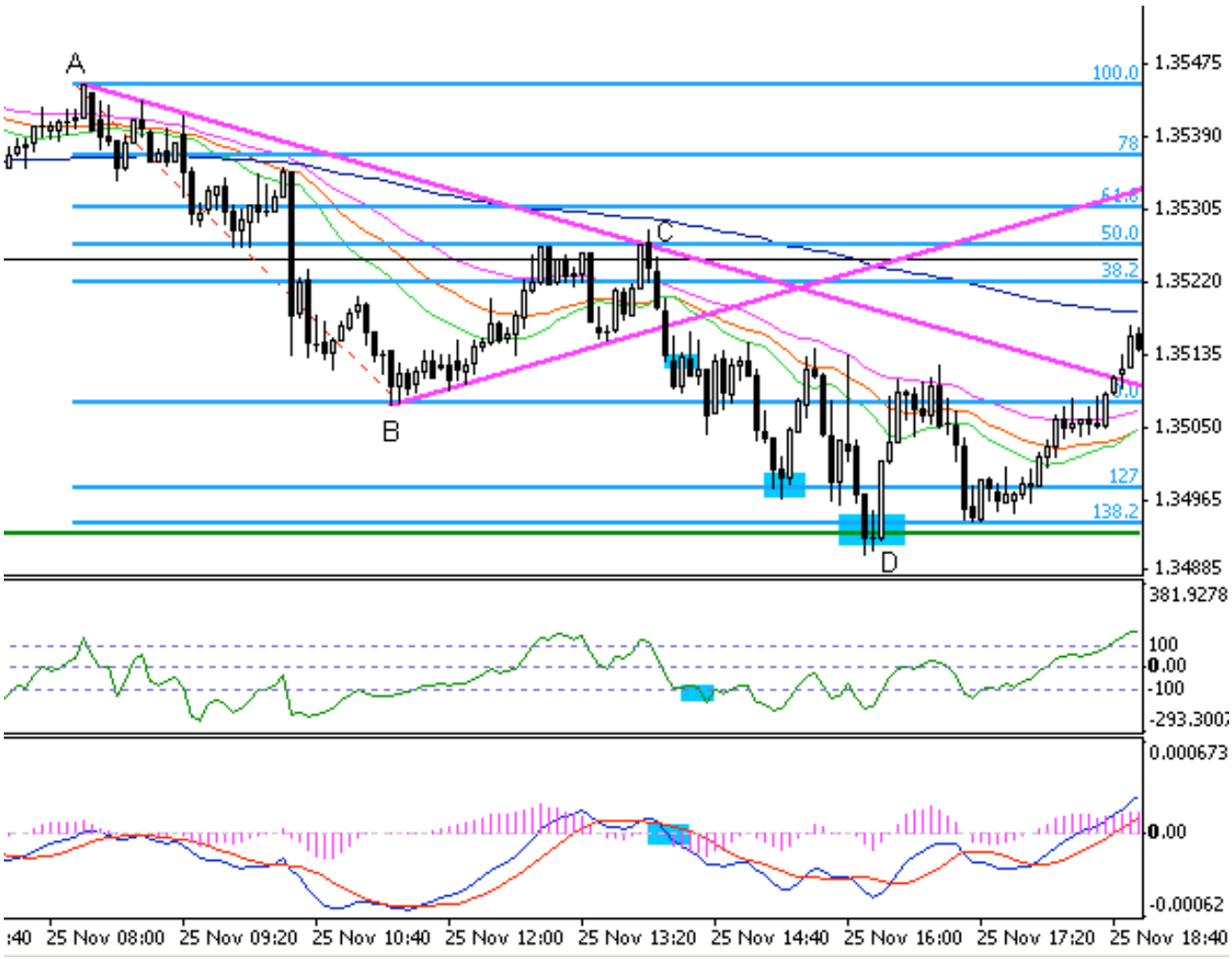


Image 5.5. Take a look how close 138.2 and S1 levels are

We confirmed a dowtrend. This ABC move was easier to spot on 15 min. chart (sometimes when I am not sure where are best AB points, I go to the higher time frame - less noise and better picture of current situation). Correction ended at 50% retracement, around pivot line. We could use some trendlines, but signal occured later. Stop loss would go above 200 average. Where to set take profit target? We can see that 138.2% extension is very near to the S1 line so this was the best TP target. There was some stop and bounce from 127% extension but in the end EURUSD moved down to the 138.2% and S1 line.

EURUSD, 5m chart

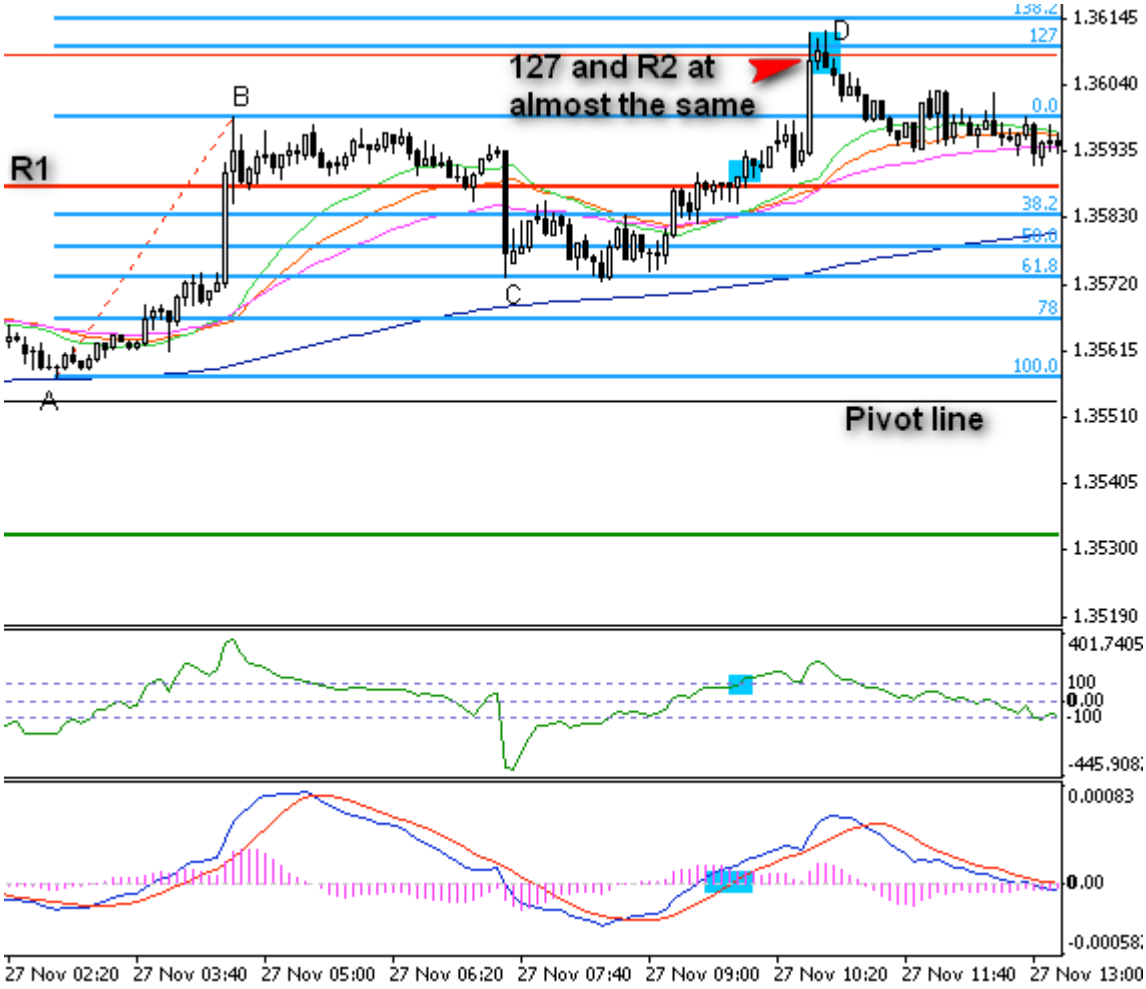


Image 5.6. 127 and R2 as target place

This is an important example, because point A is below R1 line and point B is above that line. Lets look at current situation. eur/usd is above pivot line (black) and above 200 moving average. We are looking for opportunity to go long. There was an ABC move with correction to the 61.8% retracement line. After that, we got signals from MACD and CCI, but this was not the place to go long. Pirce was still below R1 line which might be a resistance. The best option here was to wait for close above R1 line. When that happend (blue rectangle) we went long. 127% extension was very near R2 line so this was the safest exit point for us. 138.2% extension was too far from R2 which as you already know, is strong resistance.

EURUSD, 5m chart

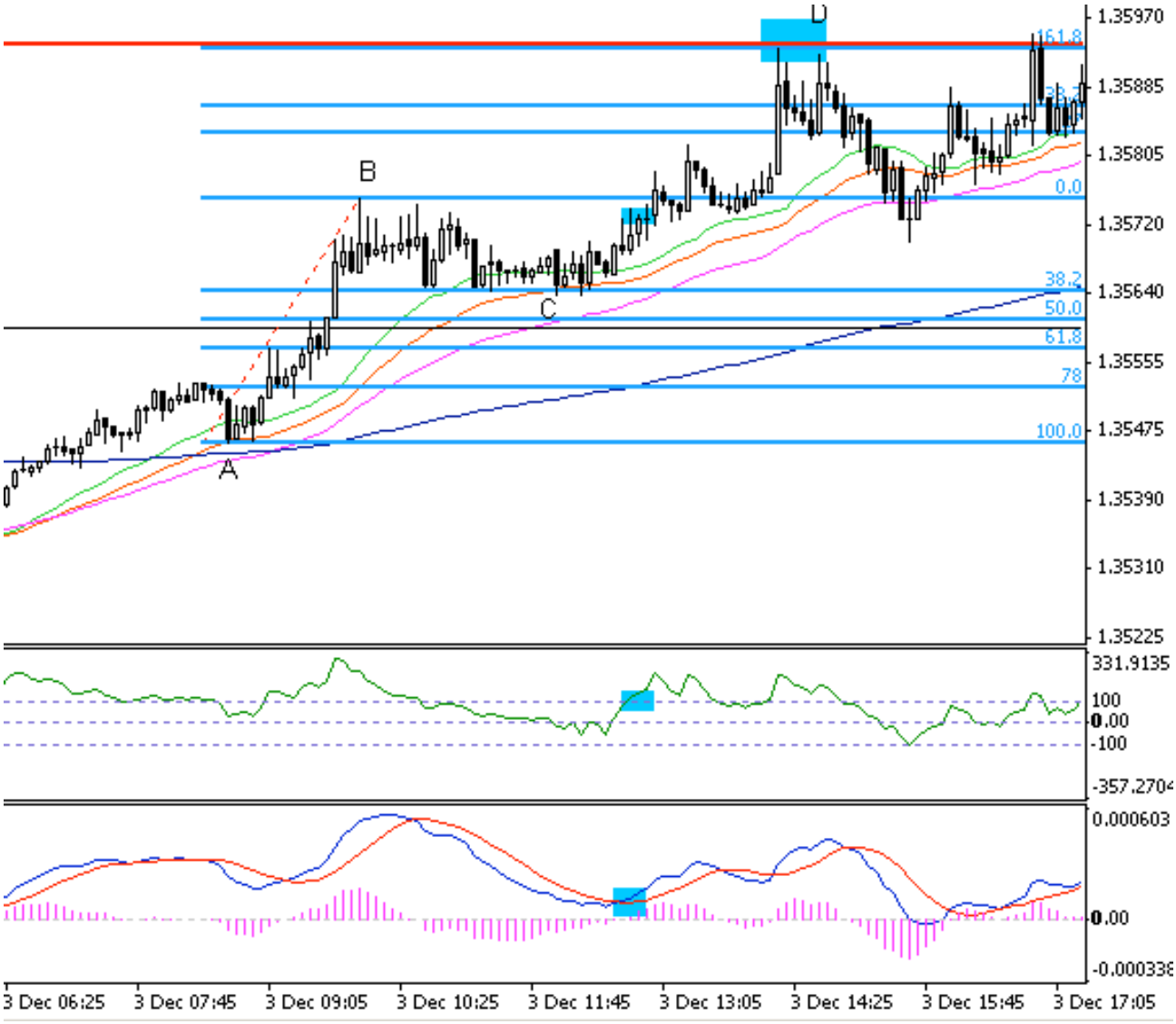


Image 5.7. R1 and 161.8 at the same place – stron resistance and good exit point

Uptrend in place, when we went long after signals from CCI and MACD. EURUSD was above pivot. 161.8% was right at R1 line so this was a great take profit target. You could try to close some position at 138.2% extension, but when it looks so nice it is good to take a little risk and go for target at 161.8%.

EURUSD, 5m chart

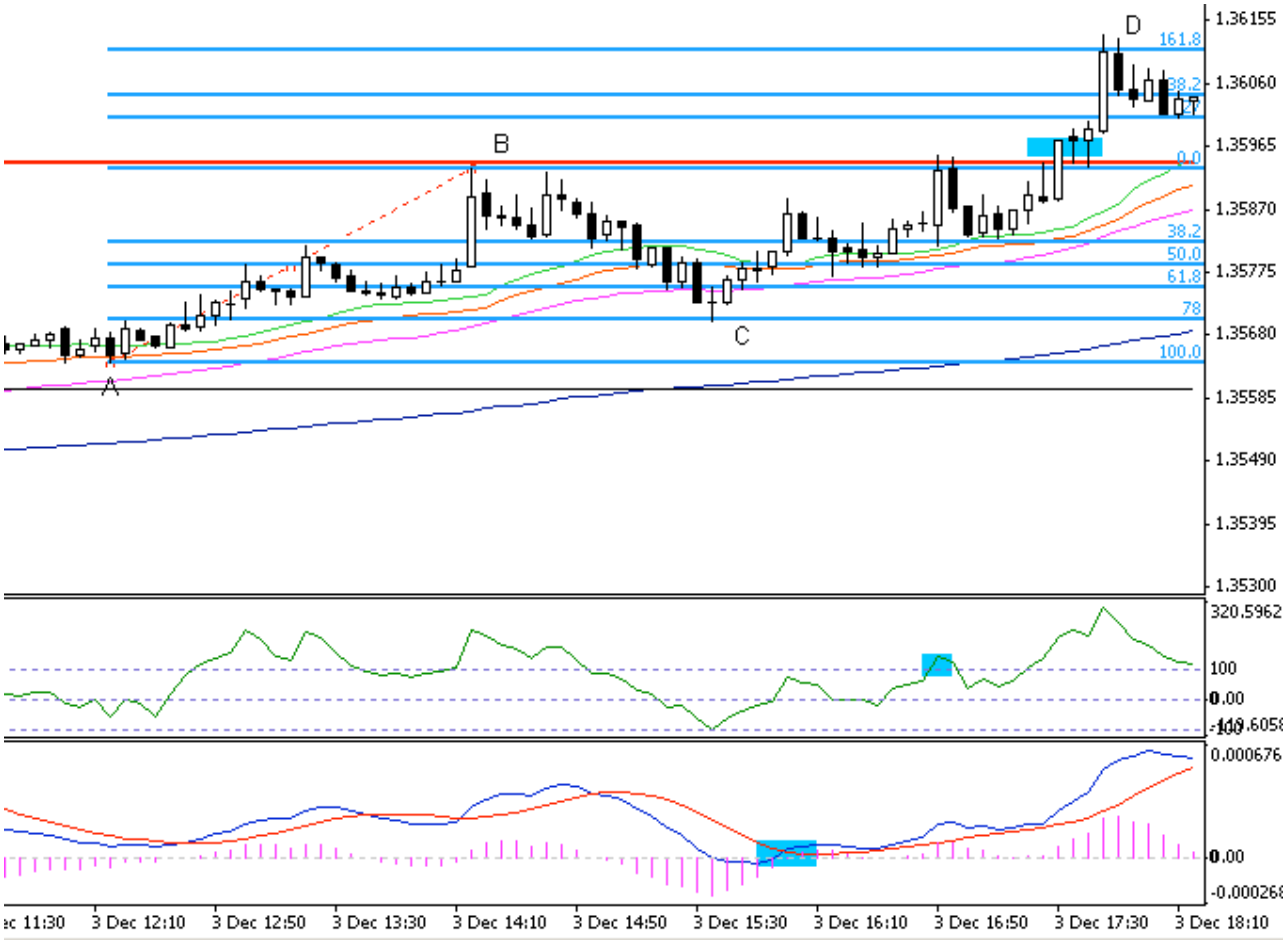


Image 5.8. B point at the same level as R1 – it is good to wait for close above R1 to enter

This one is also important. We have here an uptrend ad we saw an ABC move. Great, but 0% line (B point) is right at R1 line. We had signals from MACD and CCI to go long, but this was below R1 line which might be a resistance. In cases like this, the best option is to wait until close above R1 line and enter there. We take away some profit because of late entry, but it was safer for us. Move ended at 161.8% extension.

EURUSD, 5m chart

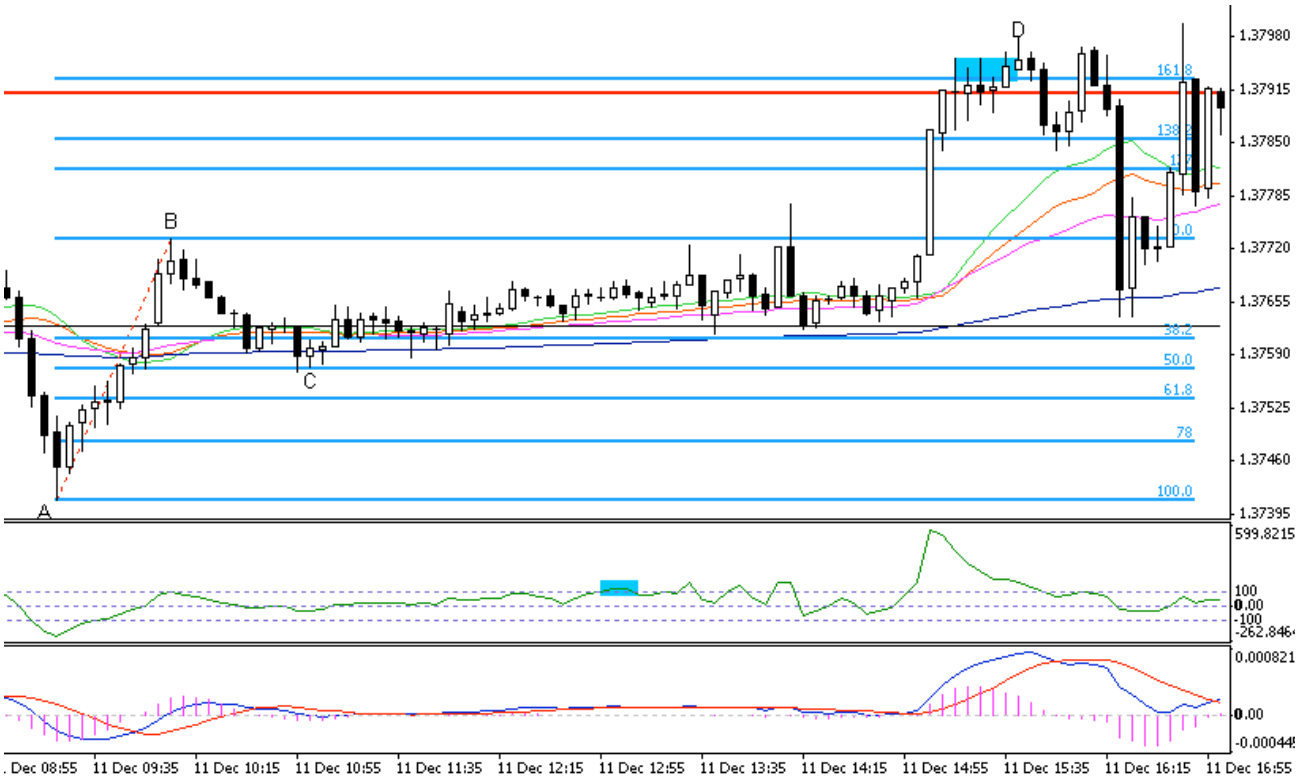


Image 5.9. Another situation where 161.8% was near R1 line

Trend here is not that clear but from higher time frames we knew it was rather bullish. After ABC move there was a long and boring range move. We had signal to go long and little bit later price exploded higher. 161.8% extension was just above R1 line so this area was a good place to take profit and close position.

Oil, 15m chart

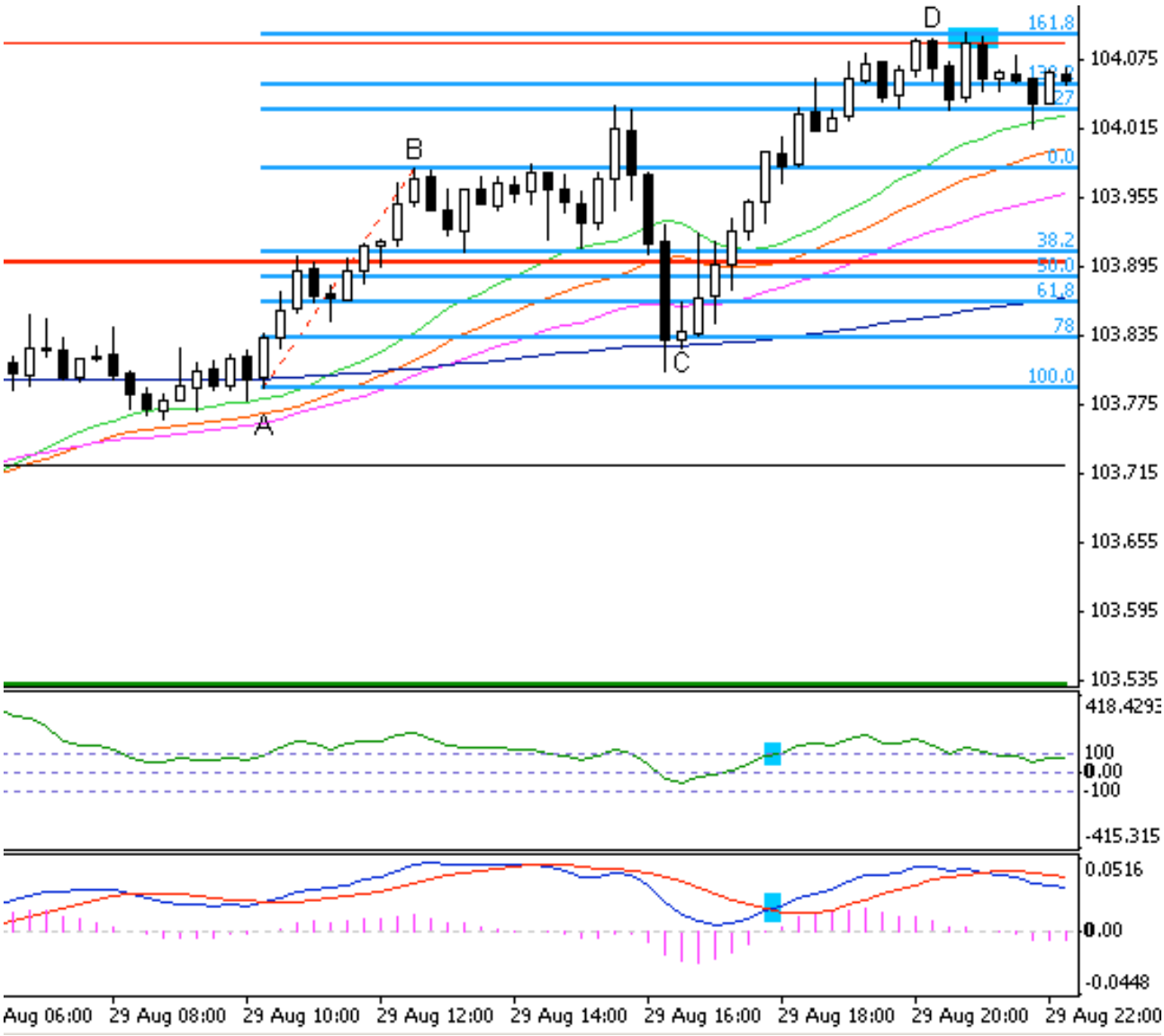


Image 5.10. We can observe this kind of behaviour not only in Forex, but also on other instuments

Oil is above pivot line. It is also above 200 expotential moving average (which later serves as support at point C). We have positive averages (21 above 33, 33 above 55) so this is all good for bulls. After signal to go long move ended at 161.8% extension, near R2 line. Wha is interesting about this case is AB move. You can see that first we had correction to the 38.2% retracement, and later there was a move to the 127% extension (if you went here long, you probably would be stopped out around recent low so 103.90). Later price went down to the 78% retracement and 200 average. Notice, we did not change A-B points. That is because that move was not over. Later we saw a move up to the 161.8% extension.

Oil, 15m chart

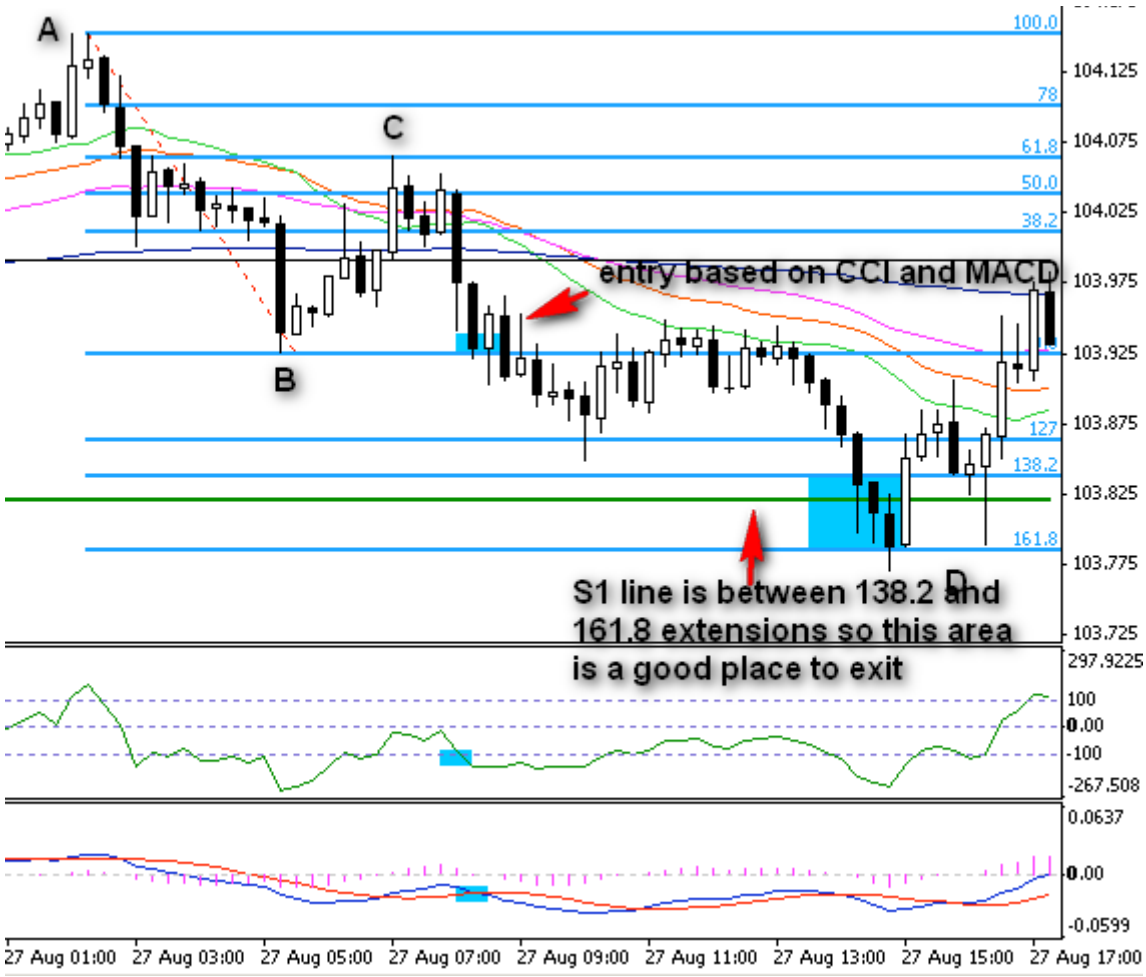


Image 5.11. S1 line between 138.2 and 161.8 extensions

Before that ABCD move, we had some movement up. Later pivot line failed as support. Next - correction to 61.8% retracement and move down with signals from CCI and MACD. Stop loss would be placed above 78% retracement. Look at extension lines. 127% extension worked, but it was temporary and we saw that 138.2% and 161.8% were near to the S1 line. So which one was best? Hard to tell. I went with 138.2%, but you can see that price went down to the 161.8% extension. Still, it was a good call not to close at 127% extension. Sometimes situation is not that clear as you can see and you have to choose.

EURJPY, 5m chart

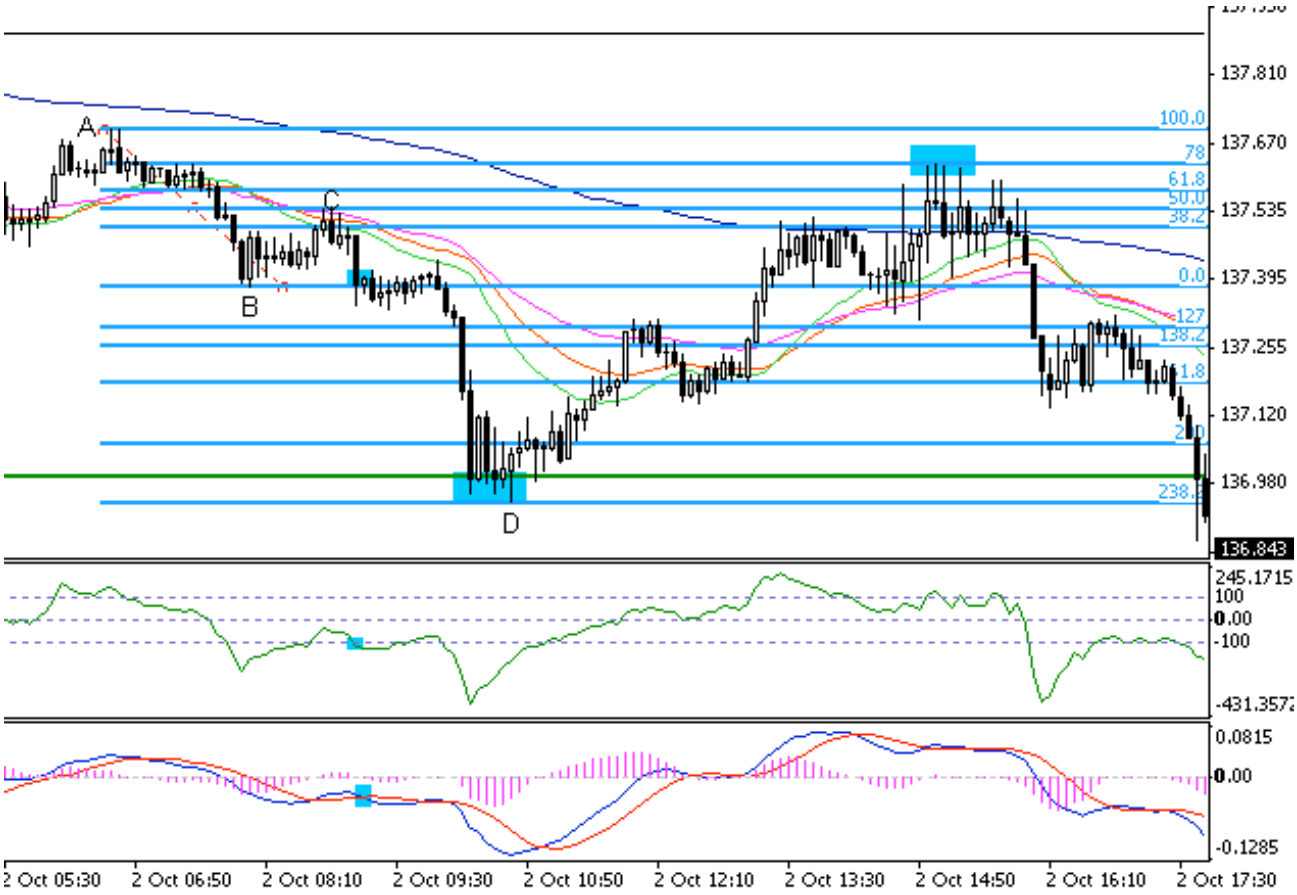


Image 5.12. Take a look how 78 retracement acted as resistance

EURJPY was under 200 moving average and under pivot line. It looked like there is a potential to move down to the S1. We saw an ABC move and entered after signals from MACD and CCI. But check where S1 is. It is near 238.2% extension… little far. It was worth the shot, but I closed half of the position at the 161.8% extension, for safety to book profit. Of course on the rest stop loss was moved lower and take profit set to the 238.2% extension. This is rather rare case, but as you cas see even in that conditions it all works great when you have Fibo in place.

Check the blue rectangle at 78% retracement. We kept Fibo lines on chart and they worked as resistance. How cool is that? Right after that move we had another opportunity marked with red:

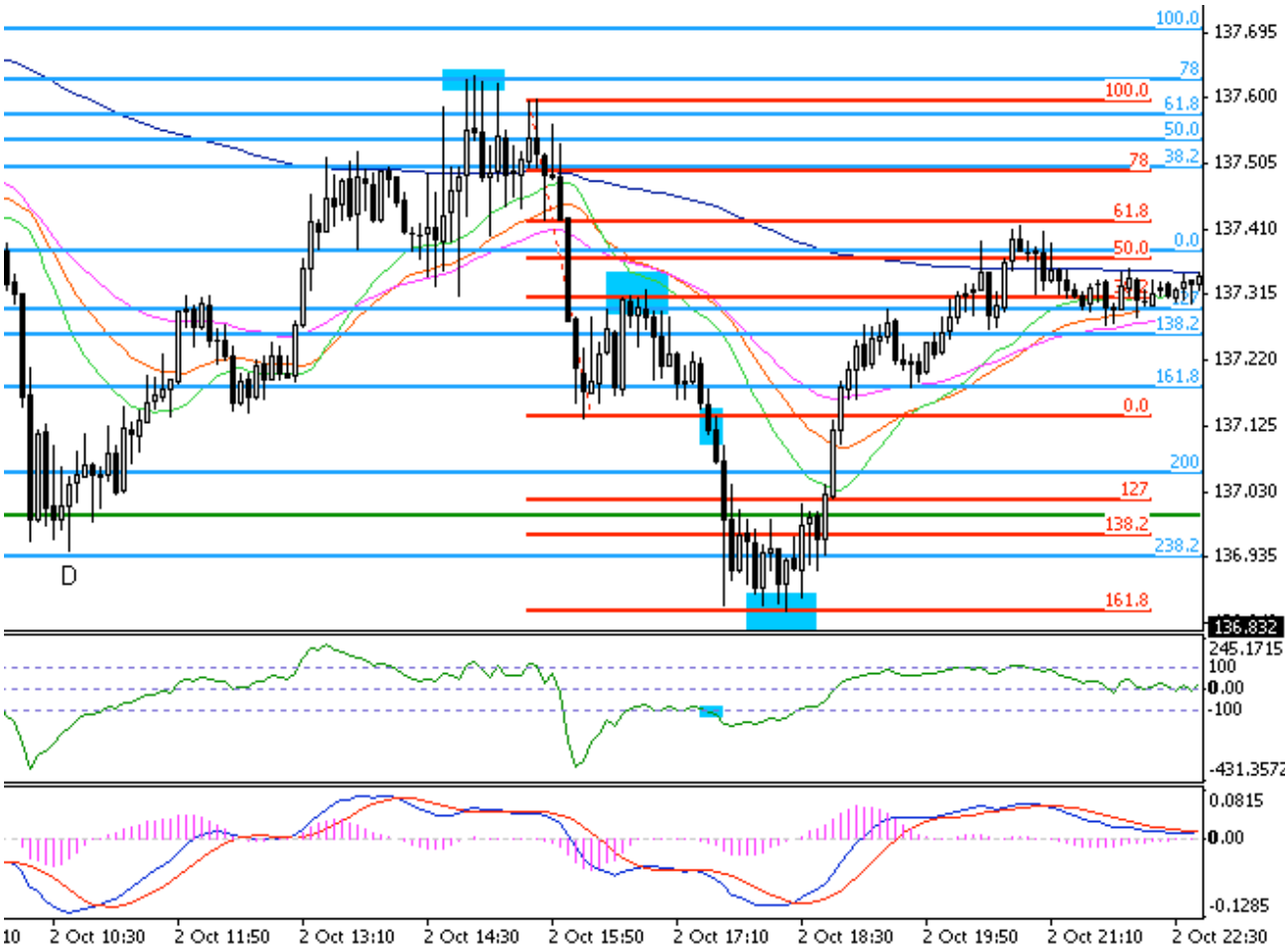


Image 5.13. Continuation of move from 5.12.

We just needed to spot another ABC move. Notice that point A is not at the old top (78% retracement) but little lower. That is because this is the place where move down started. the rest should look familiar. Retracement to 38.2% (C) and signal from CCI and break below 0 line. In this trade, I would go for exit at 138.2% extension, but you can see that it ended at 161.8% extension.

GBPUSD, 5m chart

Image 5.14. GBPUSD example

This is a tricky example of move hard to catch. We had a strong move to the R1 and then price reversed. We got some correction move but it did not touch the retracement line. Sometimes it happens. Later we saw that 138.2% extension worked just fine. In this case, after signal to go short, stop loss would be placed above pivot line and 38.2% retracement line.

6. DEMA and Fibonacci

Every trader is familiar with basic moving averages such as:

- Simple Moving Average (SMA)
- Expotential Moving Average (EMA)
- Linear Weighted Moving Average (LWMA)
- Smoothed Moving Average (SMMA)

SMA and EMA are the most popular one. They work nicely in a stock market, but in faster markets (or lower time frames) they tend to lag. That is why traders kept on improving averages and that is why we can use other types of averages. DEMA is one of them.

The double exponential moving average (DEMA) was developed by Patrick Mulloy to reduce the lag time. It was first described in 1994, in the Technical Analysis of Stocks & Commodities magazine in Mulloy's article "Smoothing Data with Faster Moving Averages".

DEMA can also be used in indicators which are based on moving averages (MACD, Bollinger Bands, others).

Differences between DEMA and other averages

Let's take popular pair of 21 and 55 expotential averages:

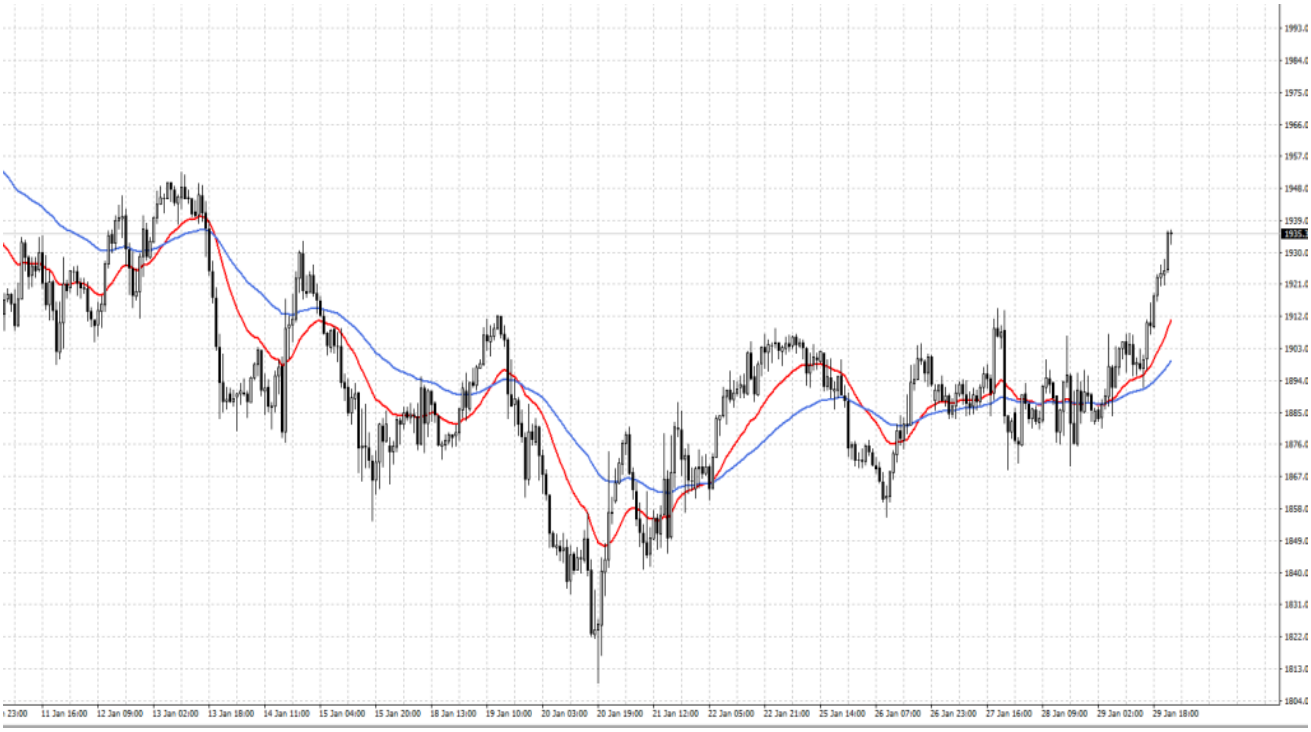


Image 6.1. 21 and 55 EMAs

And pair of 21 and 55 double expotential moving averages:

Image 6.2. 21 and 55 DEMAs

You can see that DEMA averages follow price more closely.

What is great about DEMA is that it gives better signals. I use mostly 13 and 55 DEMA averages and 100 SMA. Cross of 13 and 55 is a signal to enter a trade. In my opinion, that combination works best on 30m and 1h timeframes.

GBPJPY, 1h chart

Image 6.3. Short position opened after DEMAs cross

There was a confirmation on higher timeframes that the trend is down. We spotted an ABC pattern. Take a look how 100 SMA worked as a resistance. It was easy to expect that if there will be a continuation of move down, we might see a correction to retracements near 100 SMA.

Later there was a cross of 33 DEMA and 55 DEMA – a signal to go short. Move down lasted to the 200 extension line.

GBPJPY, 1h chart

Of course it is not always that clear and easy. There will be situations that you will open position based on signal, but there will be no move down, only sideways. Like in the example below:

Image 6.4. Example of false breakouts

You can see that the whole action took place below 100 SMA. OK, trend was down, but after signal from 13 and 55 DEMA to go short, we saw many false breakouts. You are not able to predict these things. The most important thing is to have a plan and do not overtrade. The worst thing you can do here is to open short, close, open on another signal, close with loss, open again... You open a position once, set stop loss and wait how this will play out. In that case my stop loss would be above C point. Later, if a price would close for longer above 100 SMA I would probably close trade there.

So, to sum up. Sometimes you will have false signals because of sideway move.

It is important to not overtrade. Place trade, set stop loss, wait and observe. Do not overreact.

EURUSD, 1h chart

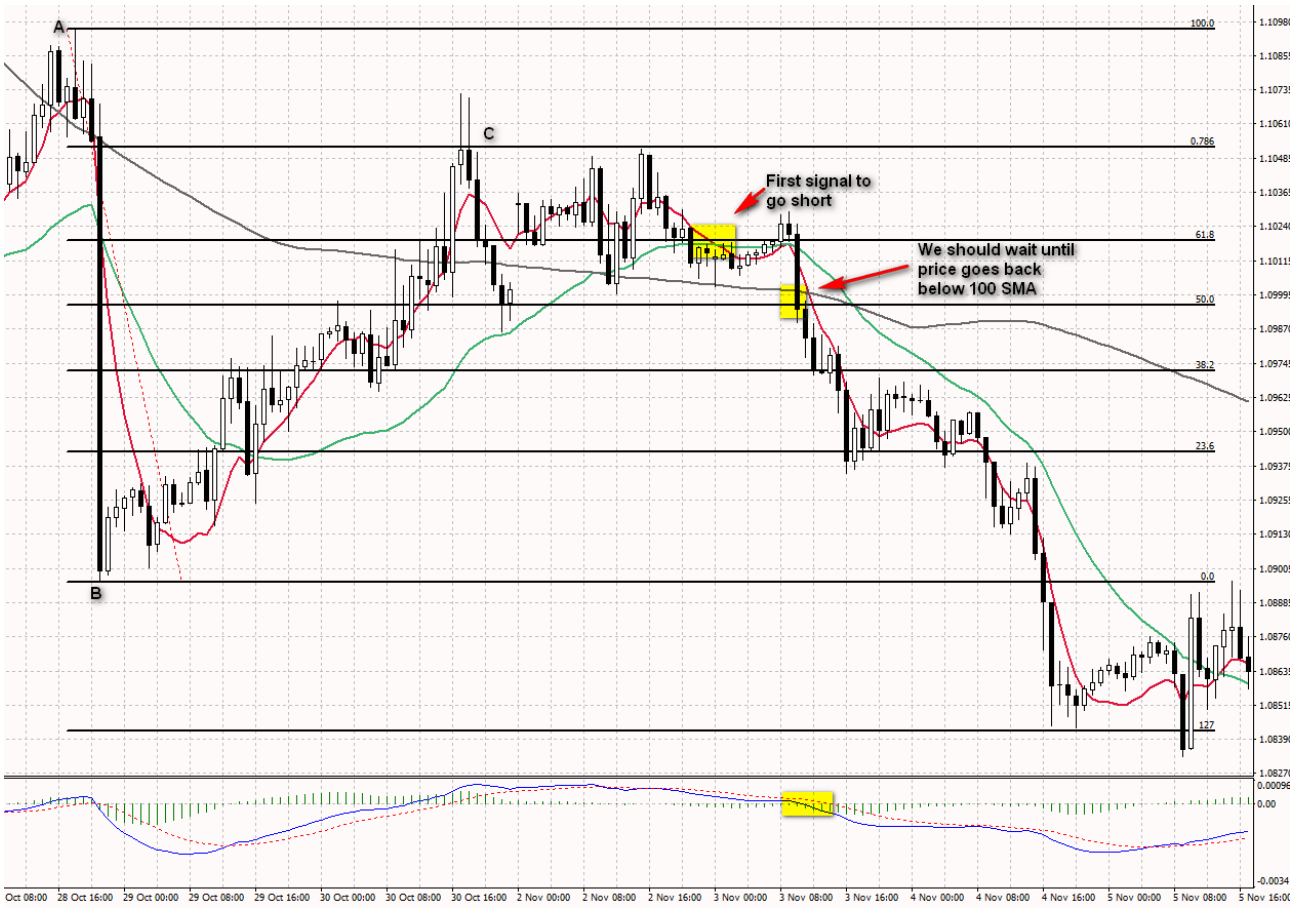


Image 6.5. 100 SMA as a part of trading system

In this example during correction up rice went above 100 SMA. There was a signal to go short from 13 and 55 DEMAa, but you should wait until it breaks back below 100 SMA.

Remember that also, in that case, we have a confirmation from higher timeframes that trend is down.

EURUSD, 1h chart

Image 6.6. Late signal example

Sometimes (but rarely) you may see that signal is lagging. Like in the example above. If you are sure about your ABC pattern, then you can open a position based on break above/below 0 line (so simply breakout from ABC).

You can use shorter periods of DEMAs if you think signal is too late. For example, you may switch to 10 and 21.

EURUSD, 1h chart

Here, after AB move, we saw a correction to C. It ended above 100 SMA and 38.2% retracement worked as a support. Later we saw a cross of 13 and 55 DEMA – a signal to go long. The first signal was false, but we stayed in a position with a stop below 50% retracement.

Few hours later there was another signal and then price went up.

I mentioned it before – it is important not to overtrade. You open position, set stop and observe.

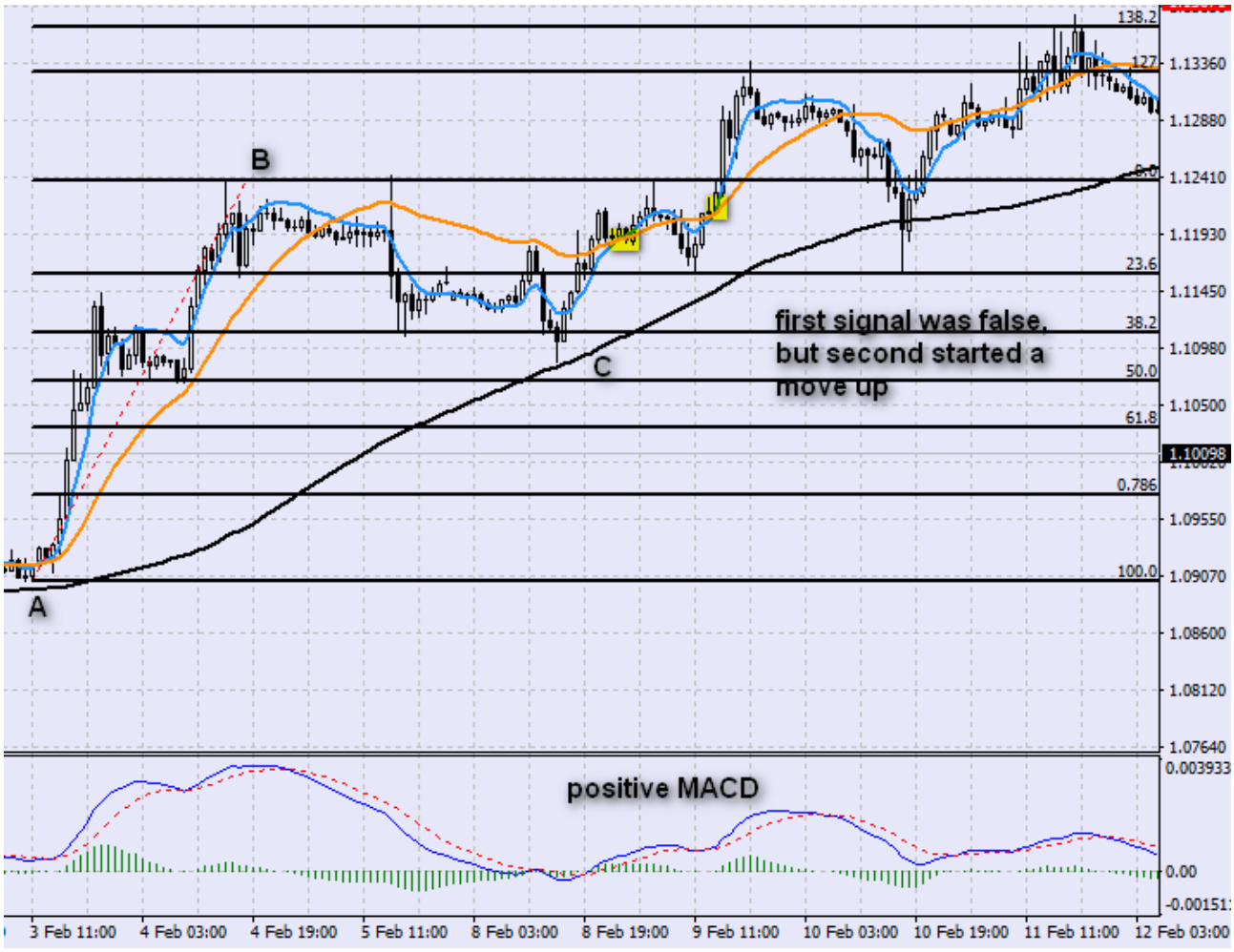


Image 6.7. EURUSD trade example

EURUSD, 1h chart

You can't follow signals blindly. In this case, we saw a cross of 13 and 55 DEMA below 100 SMA. It was a signal to go long (from 13 and 55) but MACD was still negative in that time, also price was below 100 SMA. If you are not sure about signal, it is ok to wait and look for another confirmation. In this case MACD turned positive and price went back above 100 SMA.

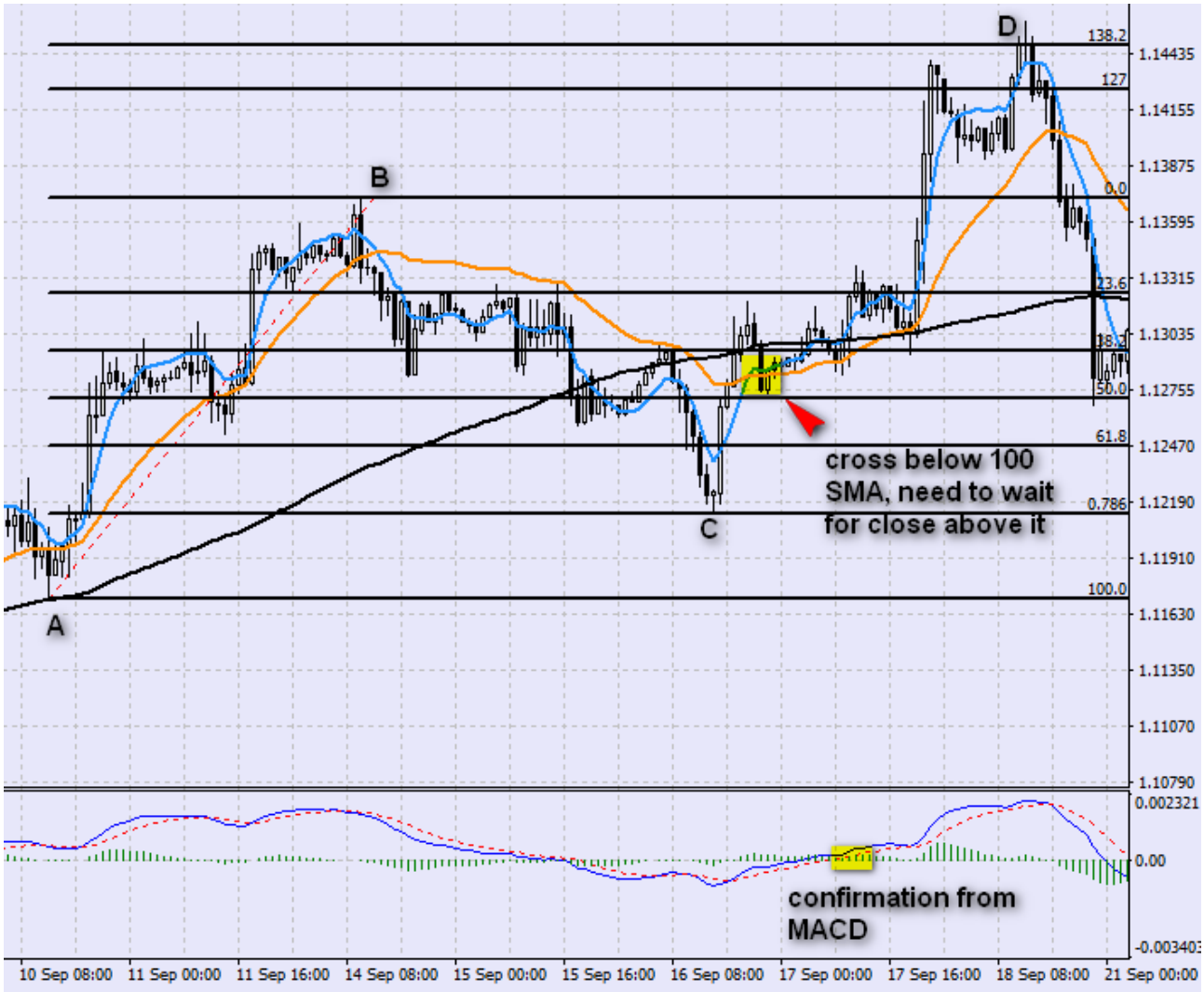


Image 6.8. Another example when it was best to wait for confirmation from 100 SMA

SPX, 15m chart

One more example when it was best to look for signal confirmation. The first signal to sell from DEMA lines was false – there was no confirmation from MACD.
Few hours later there was another signal from DEMA cross and there was a confirmation from MACD. It was a good entry point.

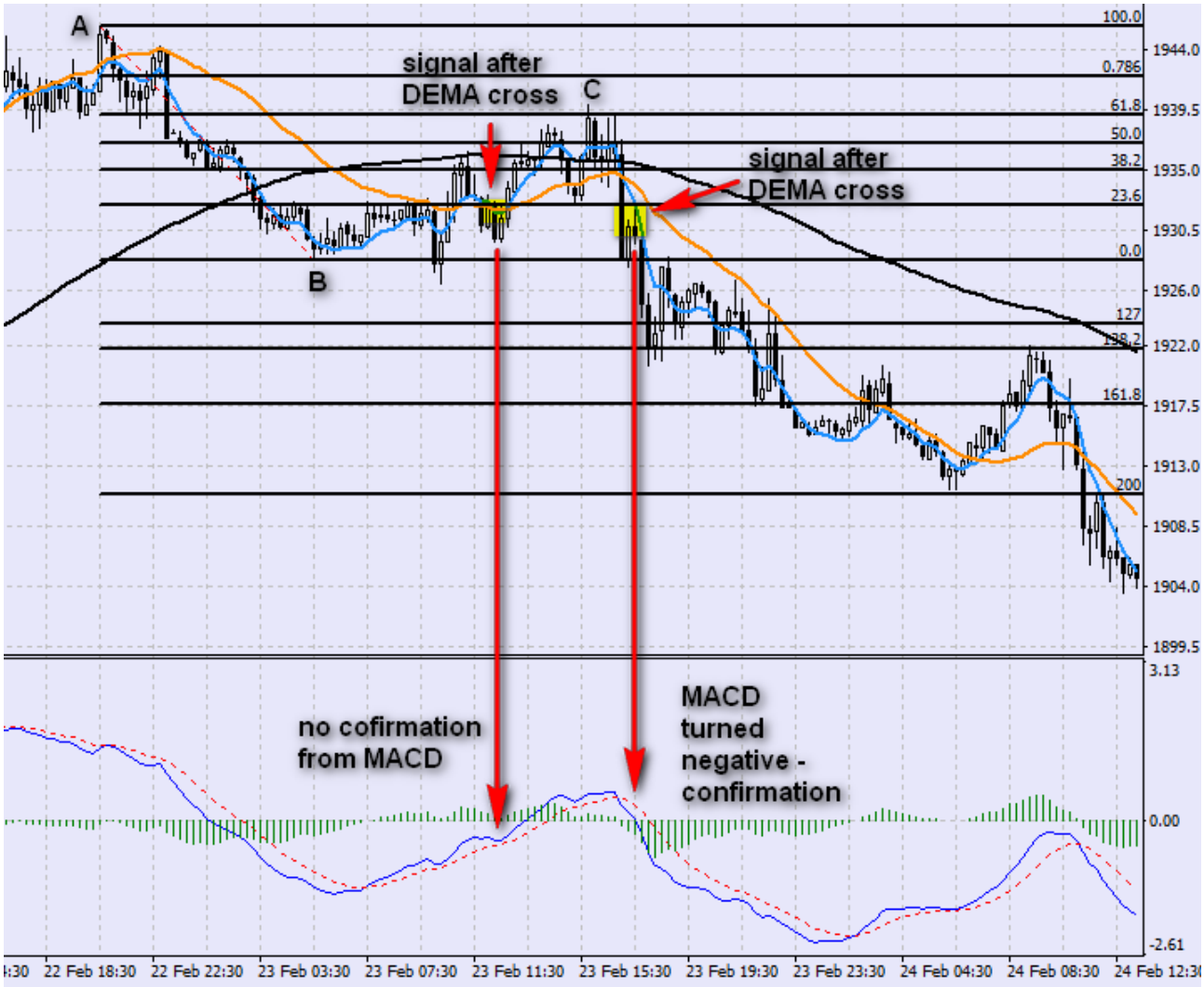


Image 6.9. Confirmation from MACD

Using Dema indicator

You remember from chapter Going in the right direction that you should always check other timeframes to have a clear situation what is going on. Only sometimes it is hard to switch between timeframes when you scan more than few forex pairs or other instruments. That is why I wrote a simple DEMA indicator. It shows situation on other time frames. You can see two columns: DEMA and Trend:

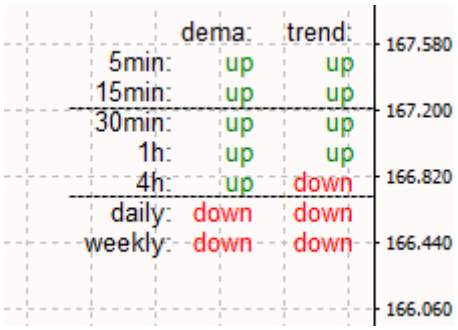


Image 6.10. DEMA indicator

DEMA column indicates if 13 is higher than 55. If is higher you can see Up sign. If 13 is below 55 DEMA than the sign says down.

Trend column show results for 13 DEMA and 100 SMA. If 13 DEMA is above 100 SMA, trend is up. If is below, trend is down. Why 13 DEMA and 100 SMA? As I wrote before, I put high weight on 100 SMA as a support/resistance and trend indicator. 13 DEMA stick close to the price so if 13 DEMA is above 100 SMA then it is an uptrend. Of course, you can have your own definition of an uptrend. I was looking for something simple to implement and I am happy with that choice.

You can see now that it is enough to have a quick look at indicator to see if trend is up or down. It is very helpful with scanning. Remember that it doesn't mean that you don't have to check other time frames. The goal of this indicator is to help you chose the best candidates. When you narrow your list, you have to manually check other time frames.

Let's look at some examples.

GBPJPY, 30m

Image 6.11. DEMA indicator in practice

After a correction to 38.2% price turned up and 13 DEMA crossed with 55 DEMA. We are on 30m chart, situation here looks bullish. What about other time frames? You can see on indicator that from 5m to 4h there is an uptrend. So it should be ok to go long.

EURUSD, 15m:

In this example we can see that on daily and weekly trend is up, but we are looking for a trade on 15m chart. As we check other timeframes, it is clear that current trend is down.
With that knowledge, we can look for a short opportunity. And there it is. After ABC move, EUR/USD stays below 100 SMA. First signal to sell was false, but second one started bigger selloff.
As marked on chart, best place for stop loss would be above red resistance line or eventually above 78.6% retracement.

It is not possible to find perfect trade condition every time (so the whole board in one color). Still, if on nearest time frames we can see the same trend, then we should be good to go.

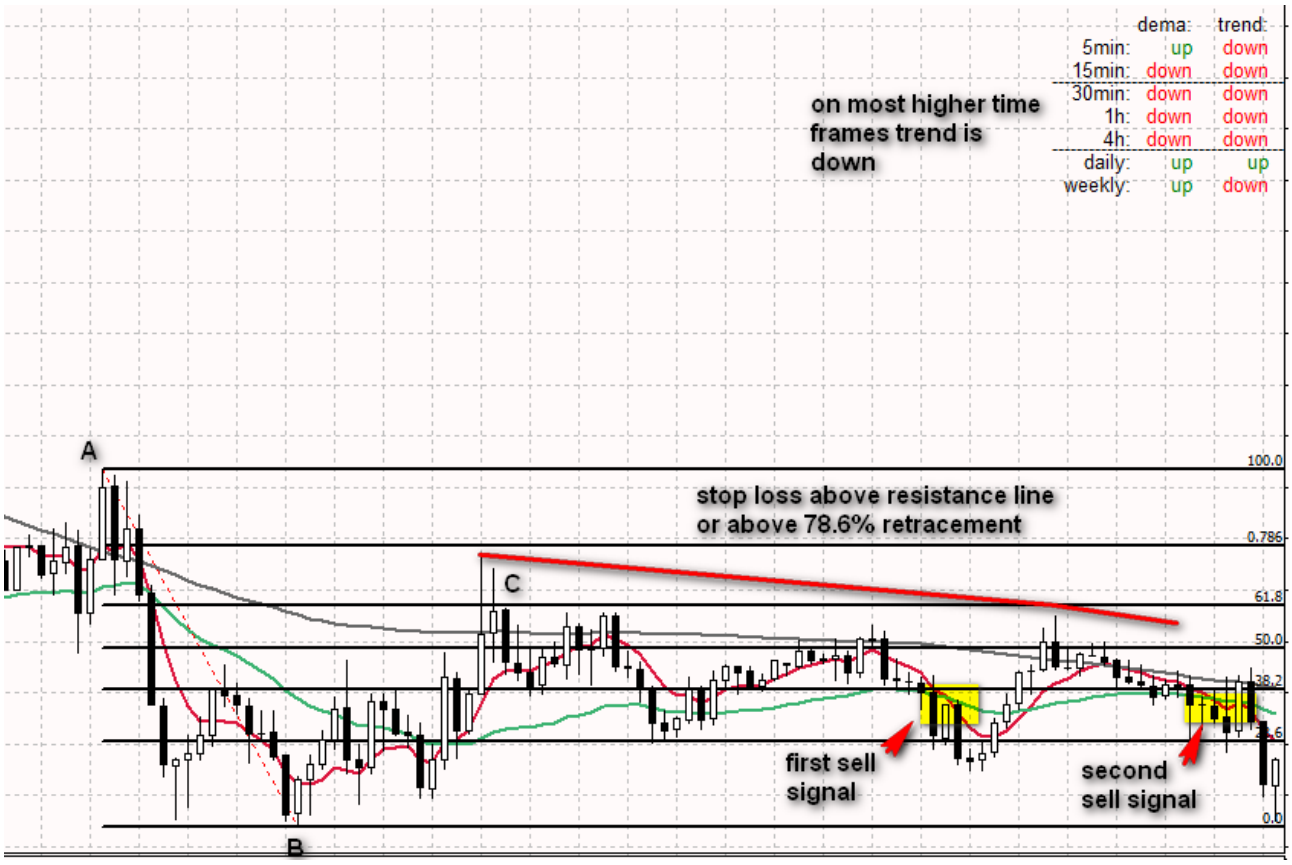


Image 6.12. DEMA indicator shows us a situation on other time frames

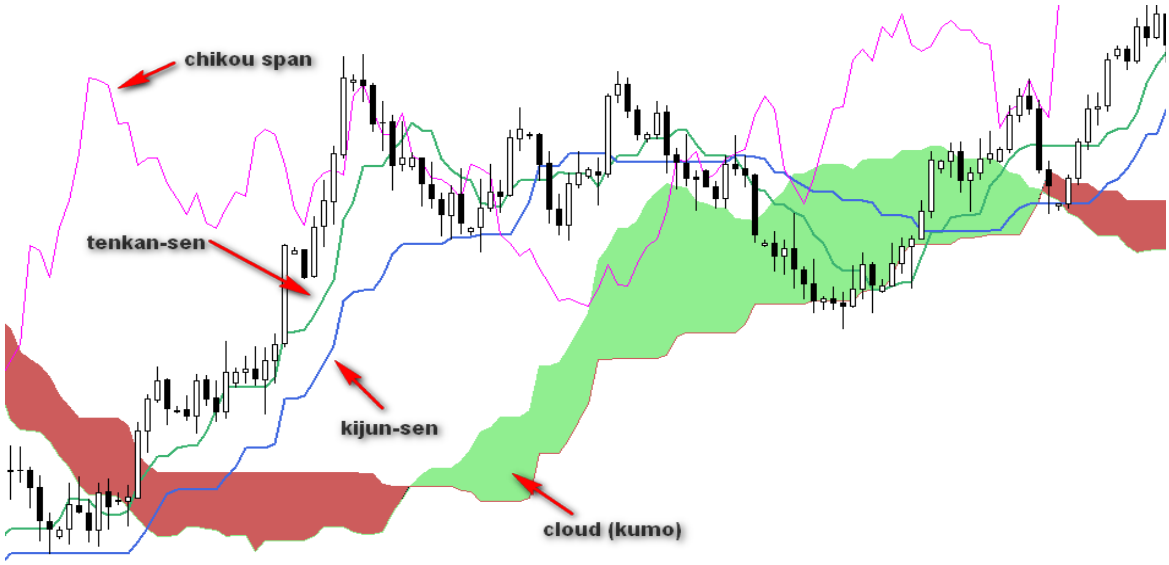
7. Ichimoku Kinko Hyo

Ichimoku Kinko Hyo is a Japanese investing technique. It provides all – trading signals, resistance and support levels. It is very different from normal western techniques such as trading with moving averages, but after a while you should understand it easily. It was created around 50 years ago by Japanese journalist Goichi Hosoda. He started to work on Ichimoku before World War II. To the West, this technique is known from 90s, just like candles it was unknown for many decades.
First, let's see how Ichimoku is build. Later we will check how it can be used in trading stocks and Forex.

Ichimoku components
Ichimoku Kinko Hyo is build from 5 averages (notice – these are different averages than standard moving average that you know):

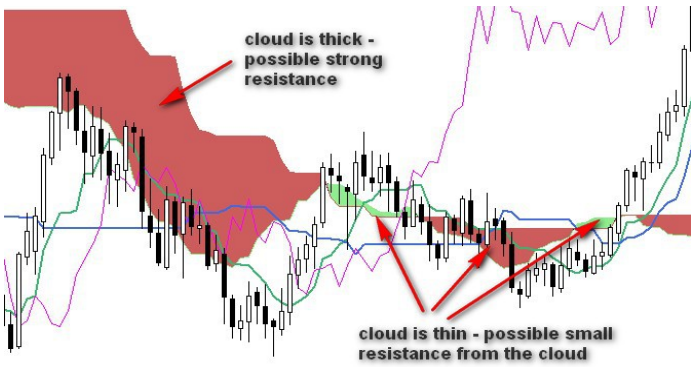
- Senkou Span A and Senkou Span B – area between them is called Kumo, or simply just
- Ichimoku cloud. This is a resistance and support area
- Kijun-Sen – longer signal average
- Tenkan-Sen – shorter signal average
- Chikou Span – this average is shifted back by 26 periods

So when we put this together, we've got a ready investing system:

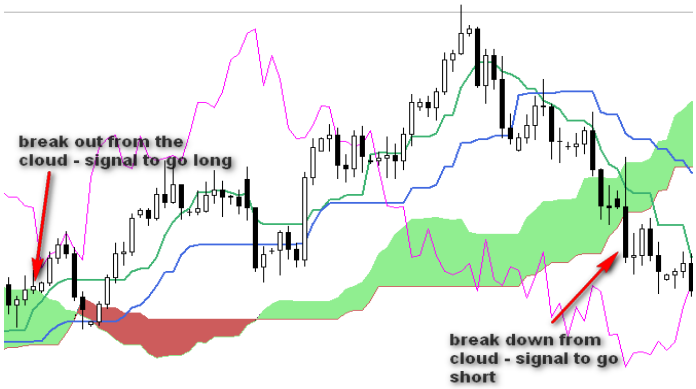


Time to learn more about each component.

Kumo (Ichimoku cloud)

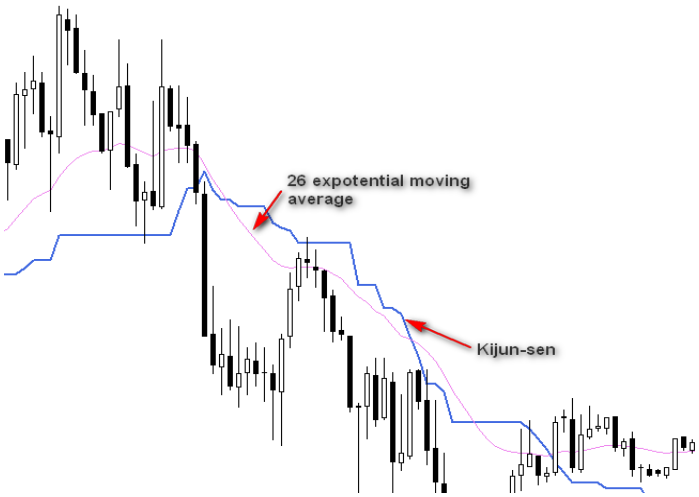


Usually, we look for support or resistance right at moving average or support line. Ichimoku cloud is different – it is area of possible resistance or support. The thicker cloud is, the stronger resistance or support should be at this place. If cloud is thin, than possible support/resistance should be weak.



When price manage to break out or break down from cloud, then this is a strong signal to take position, because it happens rarely.

Kijun-Sen

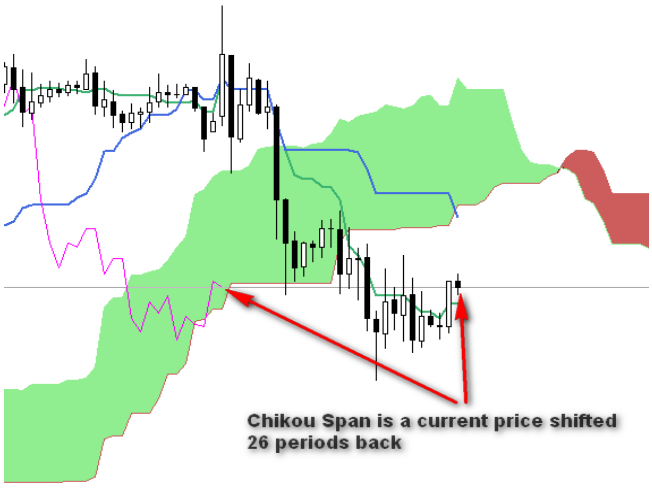


It is longer average, based on 26 periods. Let's compare Kijun Sen and 26 moving average. As you can see, it acts different.
From my experience, I can say that Kijun Sen itself is a good resistance/support level.
On the left you can compare Kijun-Sen with normal moving average.

Tenkan-Sen

It is shorter average. Based with Kijun Sen it gives signals to buy and sell (more on that later). When trend is strong, it can also act as support/resistance.

Chikou-Span



The main idea behind Chikou Span is that it helps to compare current price with price from 26 periods before. The end of Chikou Span is the current price close. Based on that we know if the current sentiment is bullish (Chikou Span above price) or bearish (Chikou Span below price).

Ichimoku trading signals

We have few types of trading signals from Ichimoku based on Tenkan-Sen and Kijun-Sen cross. There are also signals to open a trade when price break from the cloud. You will see all that in the examples and it should be clear.

Ichimoku trades examples

First, to get more comfortable with Ichimoku, let's start from higher time frames, which are easier to read and trade.

I like to invest with Ichimoku in longer time frames. It is great when you look for entry point, not so great when it comes to exit, but we will also deal with that.

What I look on chart is mostly breakout from cloud. For me this is the best signal from all you get from Ichimoku. I check history, few years back, to see how price reacted around cloud. Were there many good signals after cloud breakout? Sometimes price action for current stock is so specific that this does not work so well. Then I move to another stock. When history confirms that price works well with cloud, I make decision or not. I place stop usually below cloud.

Sometimes price is already above cloud and trend is getting stronger. Then I look at Kijun Sen and Tenkan Sen. If Tenkan Sen is above Kijun Sen, I have a confirmation of uptrend. Then I like to look for breakout from resistance. Drawing resistance and support lines is very important here. Remember - it is weekly chart so if there is a resistence line, say, from top from six months before, there is a big chance that price will respect that resistance. If it manages to breakout, then it is a good signal to go long. So in that case Ichimoku is like a background, but important one.

Adobe stocks, monthly chart

I do not follow signals blindly. So when there is a breakout from cloud, I check other things. Most important for me are trend lines. Monthly chart of Adobe is a good example. We had two breakouts from cloud which failed because of resistance lines. Finally price managed to breakout from cloud and resistance lines - this was a perfect moment to go long.

Image 7.1. Long trade on break above cloud and resistance lines

If trend is strong, then price is above Kijun Sen. This is my stop loss. I do not wait for Tenkan Sen and Kijun Sen cross to close position because this signal comes on most cases too late. Other technique you can use is to set stop loss below recent low. This will be your exit point.

City stocks, weekly chart

Image 7.2. Break from the cloud

This is a little to perfect example of trade. I use very often breakout from cloud as signal to enter. In this example we saw a long breakout and price went up above 50$. Exit place was when price closed below Kijun Sen. It is not always that easy but it is rather a good example of potential this signal has.

Electronic Arts stocks, monthly chart

Image 7.3. Adding oscillators to help decide if breakout is valid

Problem with breakouts from cloud is that you may see some false breakouts. In the chart above the first long breakout was false, the second one was correct and trade should be closed above Kijun Sen.

You can try to add another condition to the breakouts from cloud. In this example, we used Williams %R to filter breakouts. The conditon is simple - %R should be in oversold or overbought area to enter trade.

On the right side we can see that it looks like another trade opportunity, with breakout from cloud and %R in oversold area.

EMR stocks, monthly chart

Image 7.4. Example of different breakouts

This trade worked great - long at cloud breakout and close below Kijun Sen, but… You can see on the left and right side that there were some breakouts, which did not bring strong trend. I would not call all of them false. Some worked out, but with smaller range of moves. That is why it is so important to manage wisely your stop losses.

ROST stocks, monthly chart

Image 7.5. Signal to go long (break from cloud), stop loss would be below cloud

When cloud is thin, I place stop loss below cloud. In this case we took the first long breakout and set stop loss below cloud. Move up did not start rigth away, but ROST hold above cloud and is going up strong.

COP stocks, weekly chart

Image 7.6. Open and close position based on Tenkan and Kijun lines

Sometimes the trend is strong and price will be far away from cloud, so no signals from cloud breakout. When you see a situation like that, you may use breakout below or above Kijun Sen as a signal.

First trade - after correction price returned above Kijun Sen (black). We got signal to go long. An exit was here below Tenkan Sen because we spotted that price is most of the time above Tenkan and Kijun is far away.

Second trade - same scenario. A long breakout above Kijun Sen and close below Tenkan Sen (because Kijun Sen was too far).

8. Ichimoku and Fibonacci

I hope that after chapter 7 you understand Ichimoku pretty well. I like to join Ichimoku with Fibonacci lines. Why? Ichimoku gives me a look at current situation. It can also give us a signal to take positions. So in short:

- I open position based on Ichimoku and Fibonacci retracement lines
- I exit position based on Fibonacci extension lines

I prepared some examples and it should be clear how to join these tools.

USDJPY, 1-hour. Correction to the cloud and break from cloud

This is an example you will see many times. Move from A to B, then correction which goes inside a cloud.
Break from the cloud is a good Ichimoku signal. If price breaks out above the cloud, then it is a buy signal. If it breaks below cloud, it is sell signa.

In this case, after correction to C – 61.8% (inside cloud) we saw a break down from a cloud – a signal to sell. Also, there was a break below Kijun line – another bearish signal.
This was a start of a stronger move down.

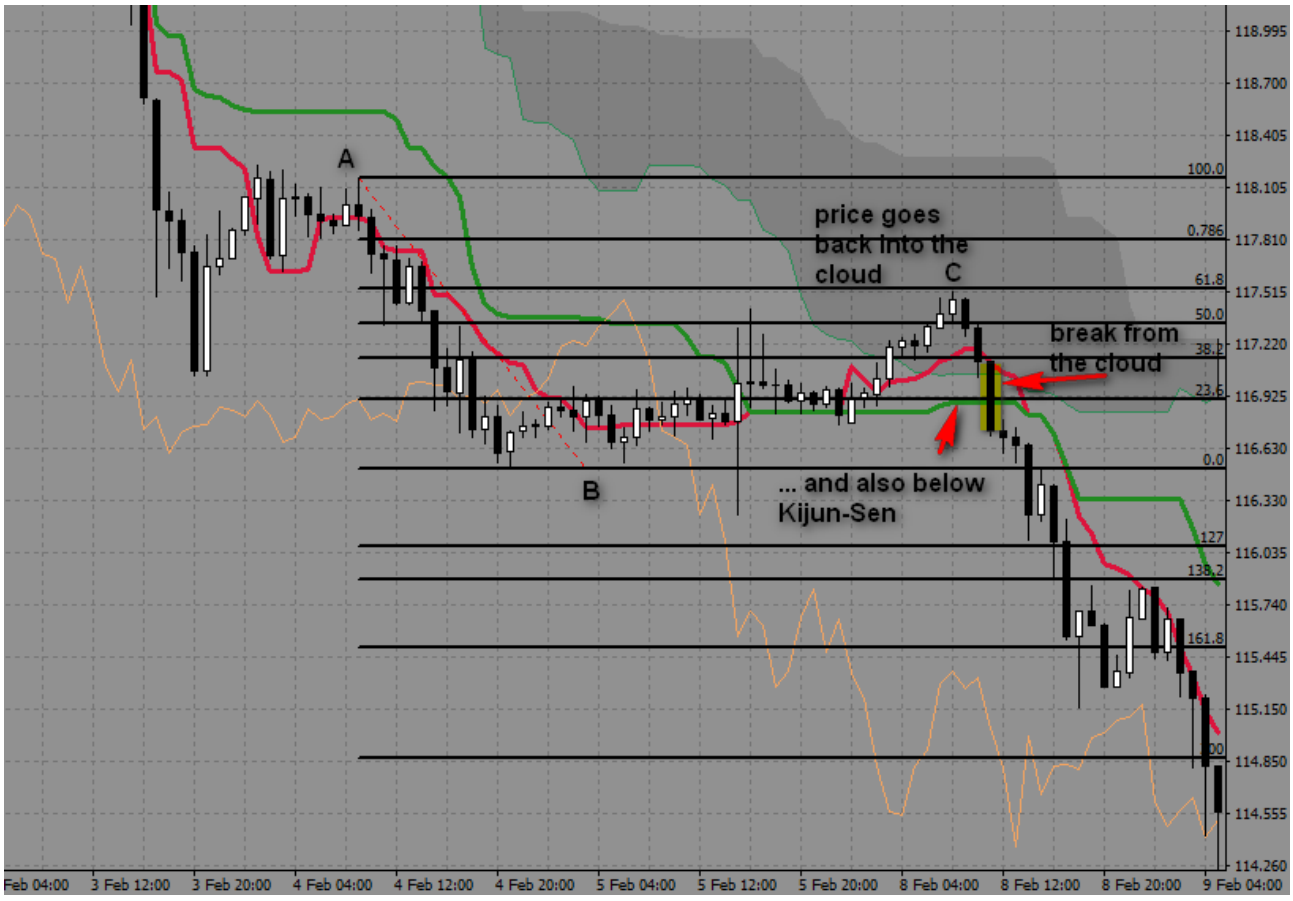


Image 8.1. Break from the cloud as a trading signal

USDJPY, 1-hour

Another example when there is a correction to the cloud and after that a break from the cloud and signal to sell.

If it is not a range move then this signal works pretty well.

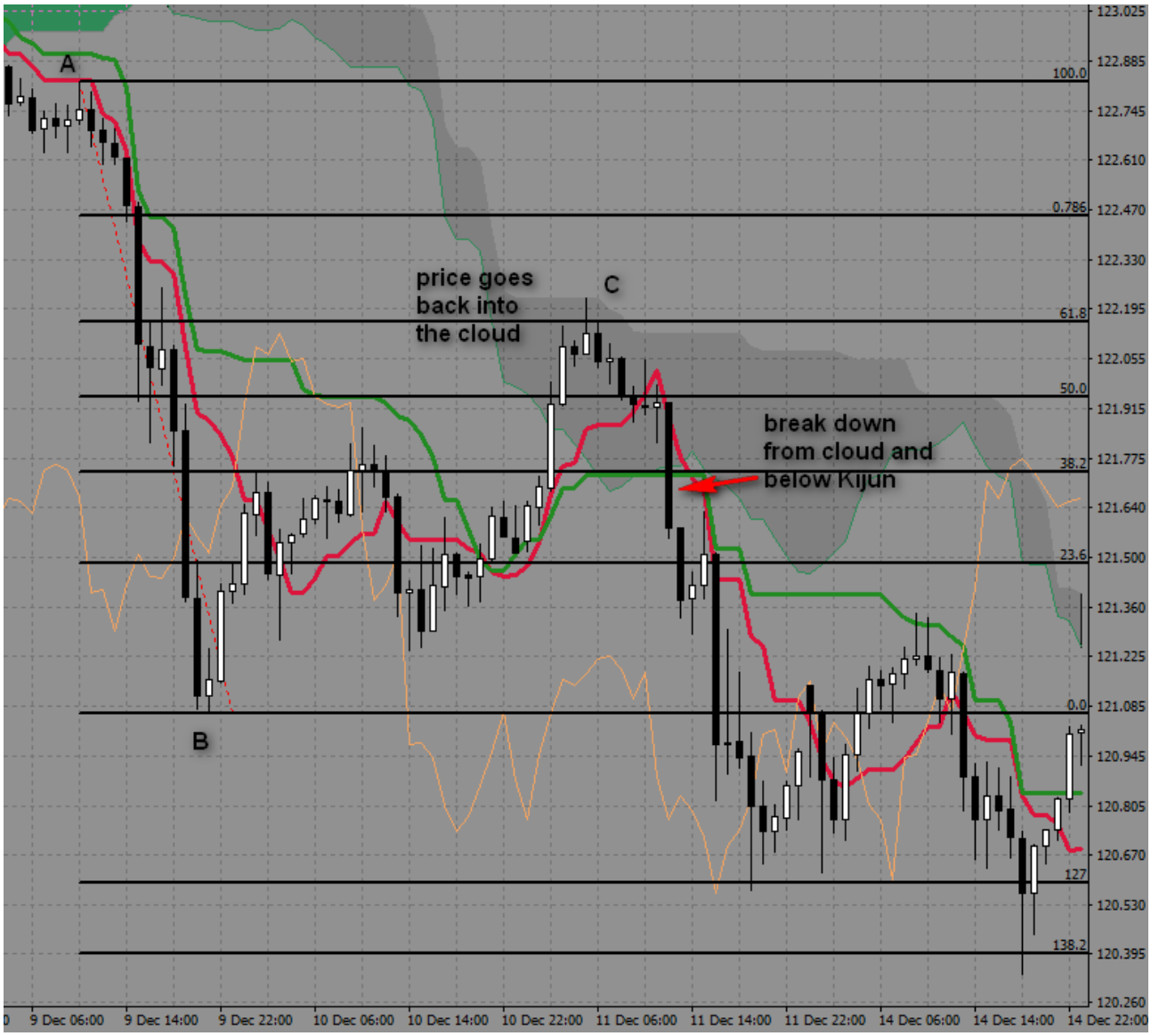


Image 8.2. Ichimoku and Fibonacci - example

GBPJPY, 4-hour

Sometimes the cloud is far away from price. In the example below, we can see that C (61.8%) was away from the cloud.

After cloud, our next indicator of possible next move is a break through Kijun line (green).

OK, so we didn't have a break from the cloud, but there was a break below Kijun-Sen.

Again. When a market is not in a range, this is a good indicator od possible price move. Indeed, in this case, it was. After a break below Kijun, we saw a strong move down.

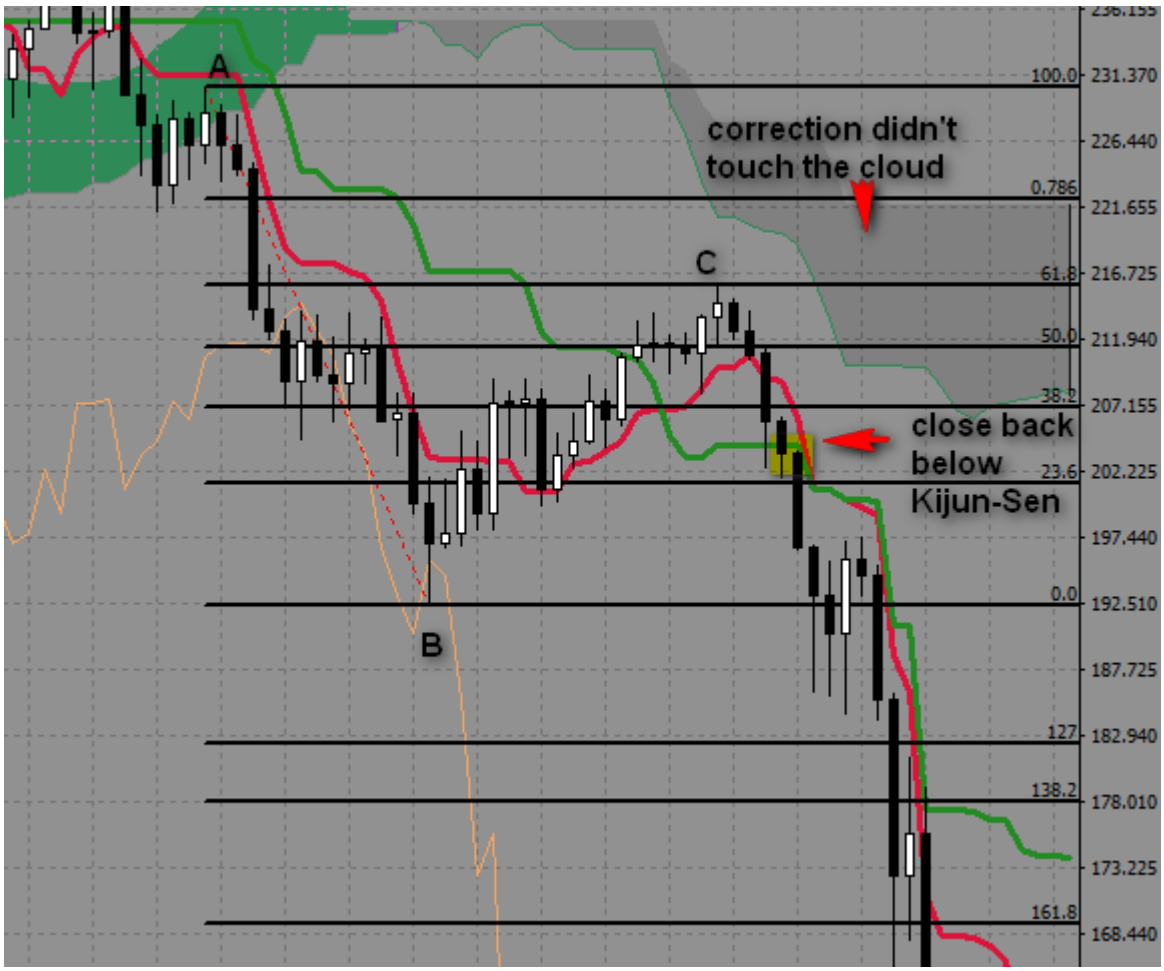


Image 8.3. Use of Kijun-Sen as an entry signal

GBPJPY, 1h, part-1. Kijun-Sen as trailing stop

Kijun-Sen is a great indicator even left alone. We will see that in this 2-part example.

Let's start from entry.

ABC move. C was at 50% retracement. We saw some range move below 50%. Price entered a cloud and later there was a break down from a cloud – a signal to go short.
Of course, in this case, we could wait for a break below the green trendline.

This was a good entry, with help of break from cloud which I described before.

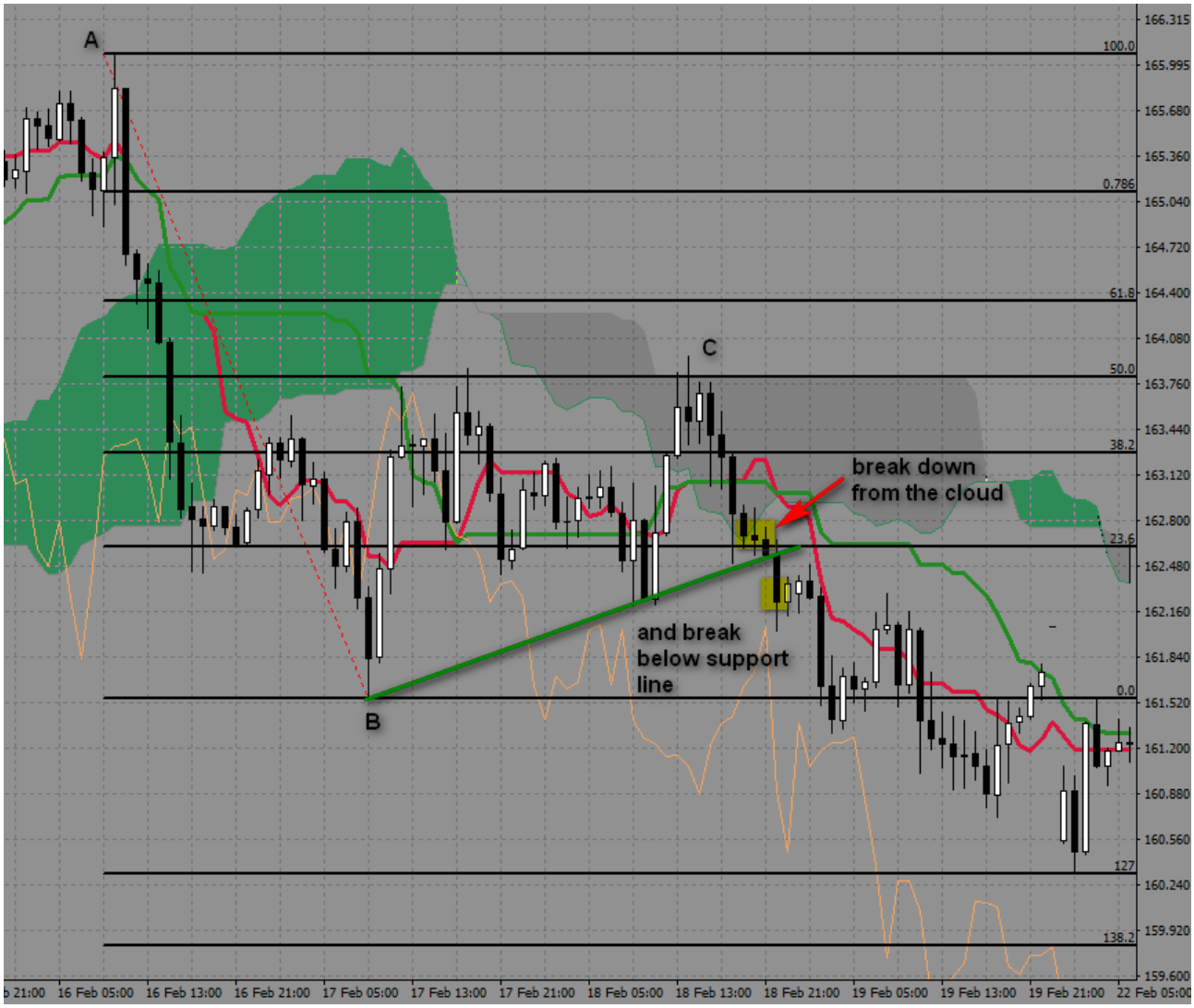


Image 8.4. Part 1 – short position after break from the cloud

GBPJPY, 1h, part-2. Kijun-Sen as trailing stop

Now we have an open trade which is profitable and there is one question. Where to exit?

I wrote later that I like to close my trades in parts. Sometimes you see so strong trend that you start to wonder – close at extension or wait?

Image 8.5. Part 2 – Kijun-Sen as trailing stop

I always close part of my trade at 161.8%. This is very popular level were many traders do the same. Still, if a trend is strong you can use Kijun-Sen as a help. Kijun often works as a resistance. In this example, we saw that during a correction Kijun acted as a resistance. A clear signal to place trailing stop loss above Kijun. Thanks to that single Ichimoku line we could catch a hefty portion of a move.

TD stocks, weekly chart

On weekly chart, we can spot easily ABC move. Correction stopped at 50% retracement and we saw some activity from bulls. When to enter? I left Ichimoku on chart. On higher time frames price rarely crosses with Kijun-sen. When it managed to close higher than Kijun-sen, it was a good entry point. Later there was a nice, strong move up to the 161,8% extension line. Does it mean that this move ends here? We do not know that. We only know that this is a good place to close position.

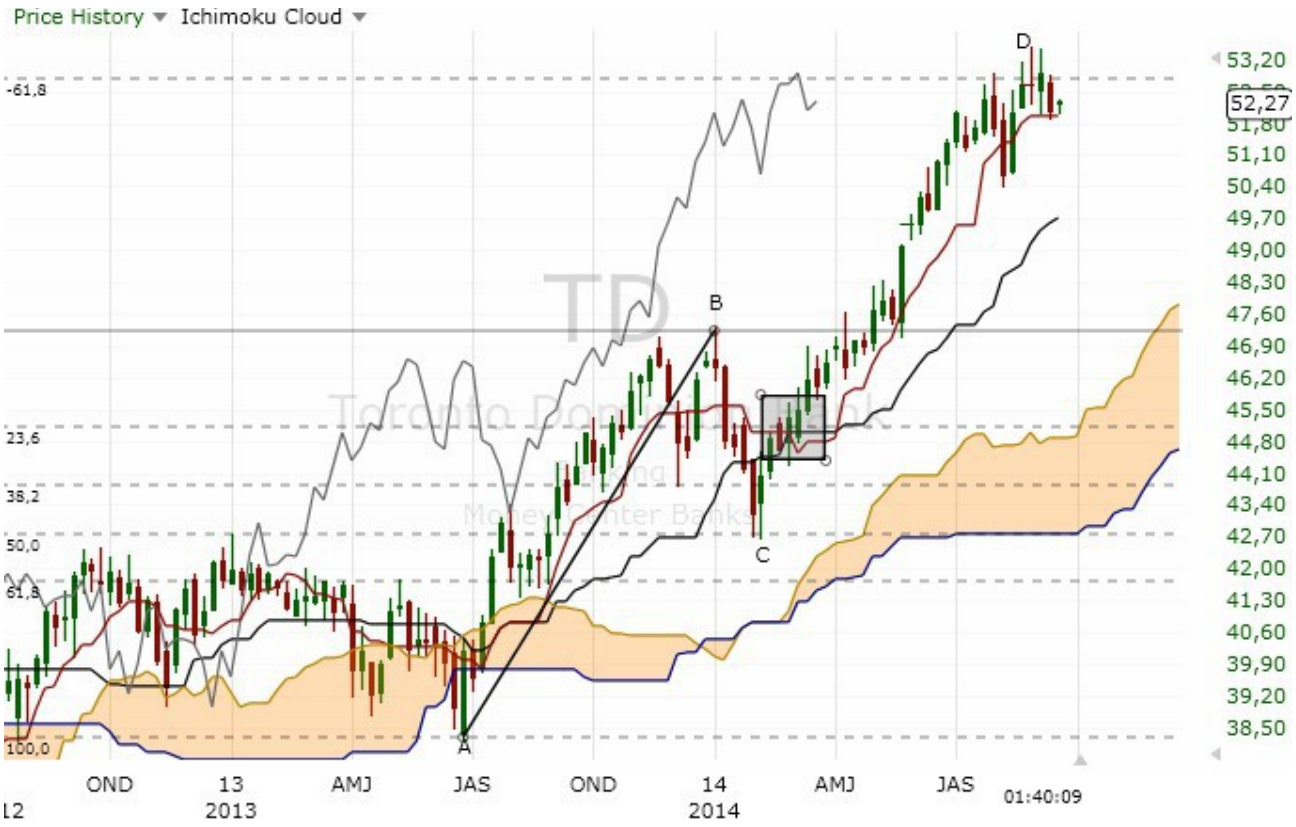


Image 8.6. Strong move down to the 200% extension

Remember - it is a weekly chart and still we can pinpoint exit point with good precicion.

Using Ichimoku Kinko Hyo Monitor

Ichimoku is great in long term trading, but you can also use it in short term trading. The problem is that Ichimoku is rather complex (we have signals from Kijun, cloud etc.). Add to that fact that we have to check the situation on other time frames. It may be tough for someone new in Ichimoku. Even for me, it is not easy when I scan many pairs.

I included to my trading with Ichimoku an indicator called ichi360 Monitor. It is not written by me. Few years back there was a very good blog ichi360.com about trading with Ichimoku. The blog is not around anymore, but author (who was also a programmer) shared some indicators on his site. To this day, you can find them on various FX forums.

Ichi360 Monitor is very cool little indi. It looks like that:

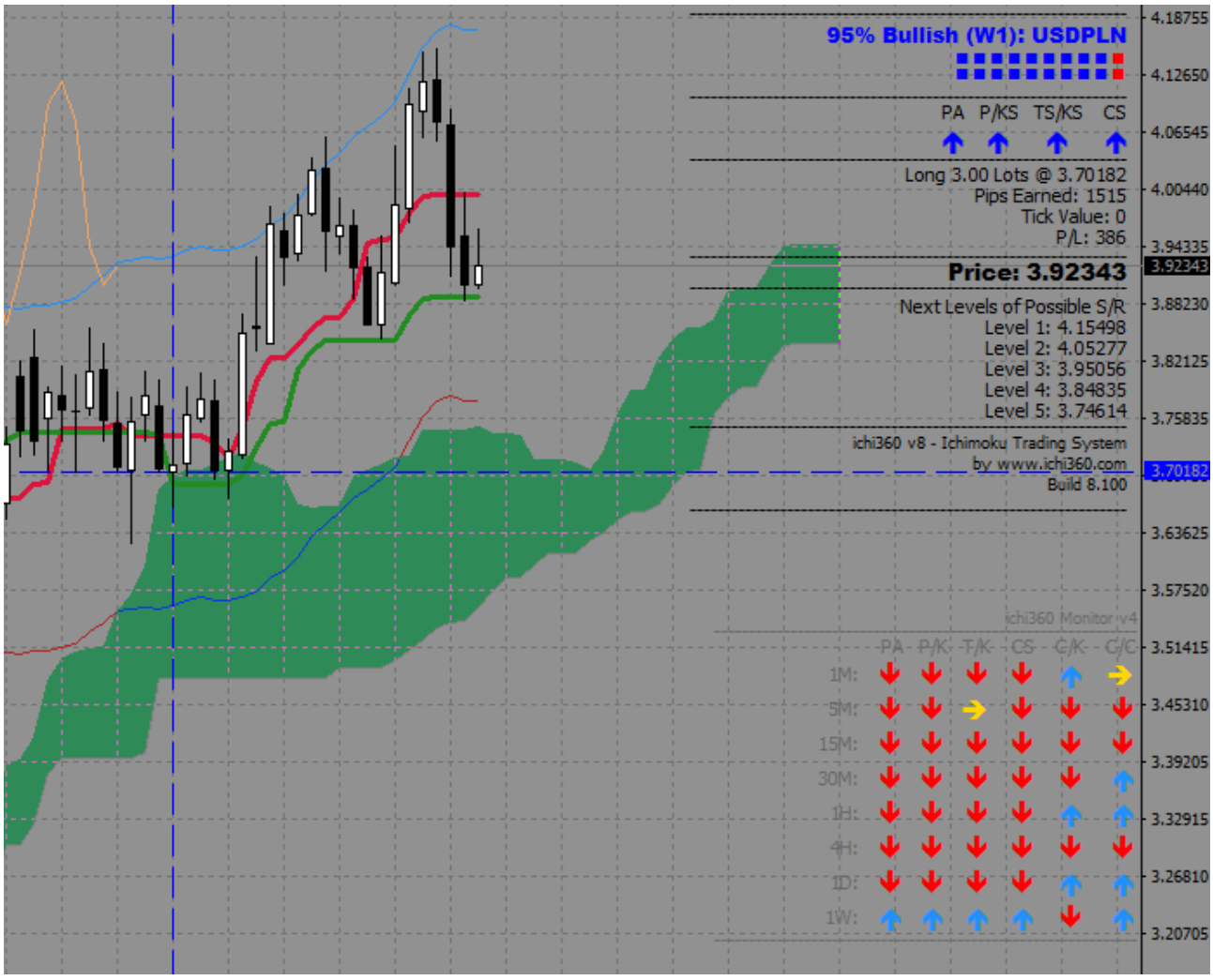


Image 8.7. ichi360 Monitor on chart

We are interested in the lower part:

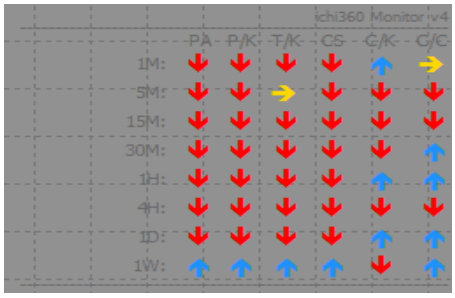


Image 8.8. Situation on all timeframes

We can see situation on all time frames from 1m to weekly. The shortcus are:

- PA – price action, is price going up or down
- P/K – price to Kijun-Sen
- T/K – Tenkan-Sen to Kijun-Sen
- CS – Chikou-Span
- C/K – Cloud vs Kijun-Sen
- C/C – Cloud vs Chikou-Span

Bund, 4-hour

Take a look at this 4-hour Bund chart. Thanks to the ichi360 we know that on all time frames situation is bullish. Also, we had a buy signal from Ichimoku and, of course, a nice looking ABC Fibonacci pattern. It looks good and should be a good long trade.

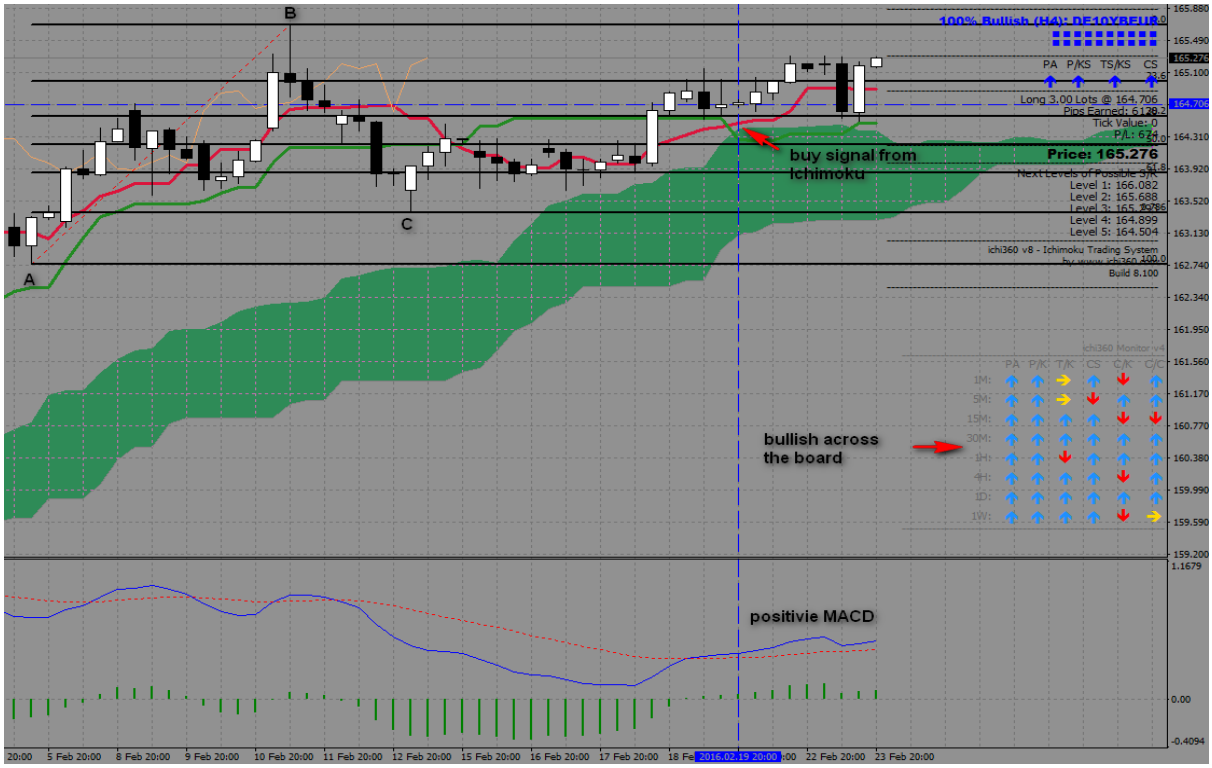


Image 8.9. Long trade with help from ichi360 Monitor

NZDJPY, 4-hour

Let's take a look at more complicated example. NZDJPY on 4-hour chart was in a range move, but it was clear that ABC pattern is in place. Also, there was a resistance from cloud and resistance line. From ichi360 we knew that situation is bearish. If we would enter in that moment then we should wait for a break below temporary support line marked on the chart.

Stop loss would go above the cloud.

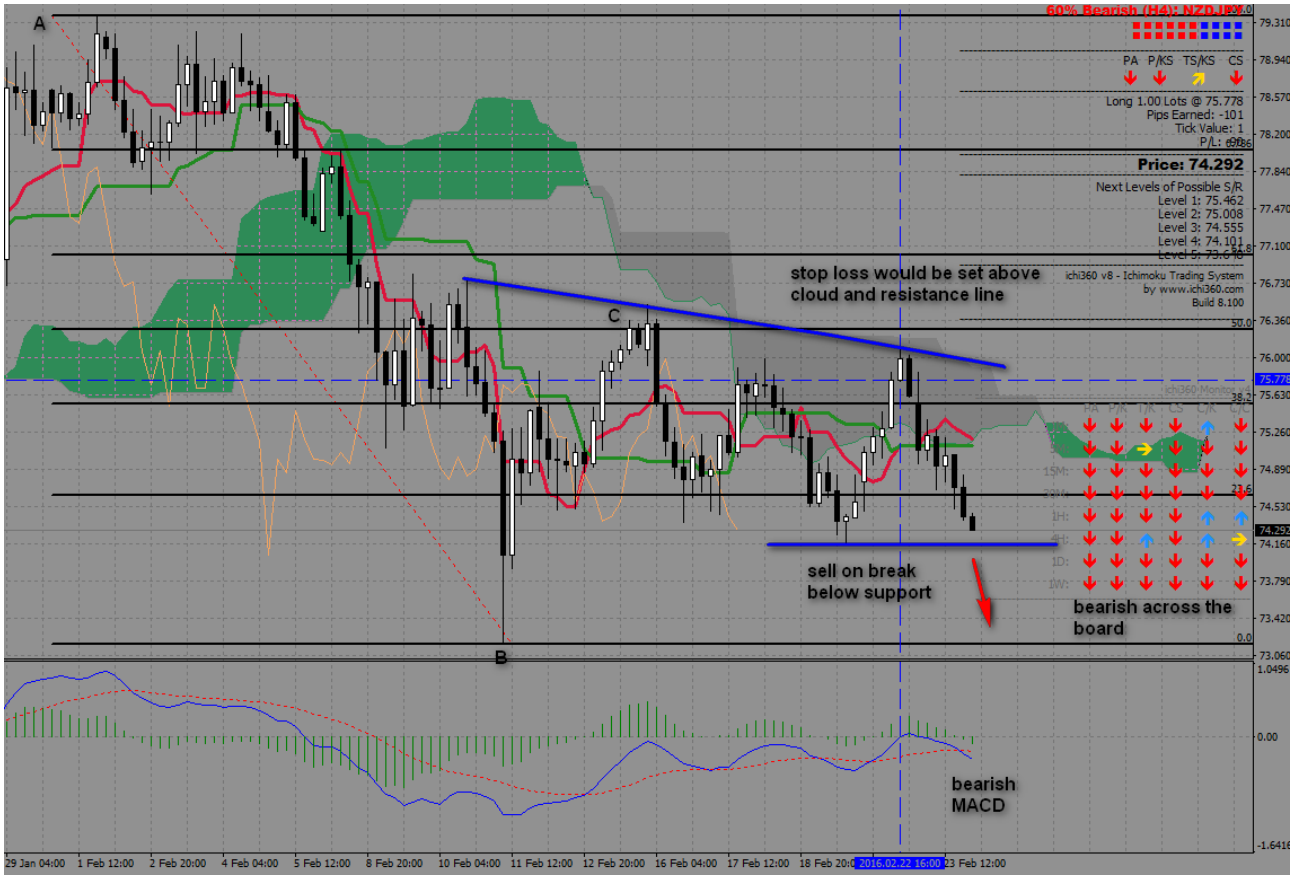


Image 8.10. Short trade. Ichi360 Monitor shows bearish situation on other timeframes

AUDUSD, 15m

The situation is not clear on all time frames, but we are on 15m and it is a downtrend. Also, 30m and 1h are down. After correction to 78.6% price started to move down. There was a sell signal from ichi 360 and moment later a confirmation from MACD. A good entry point.

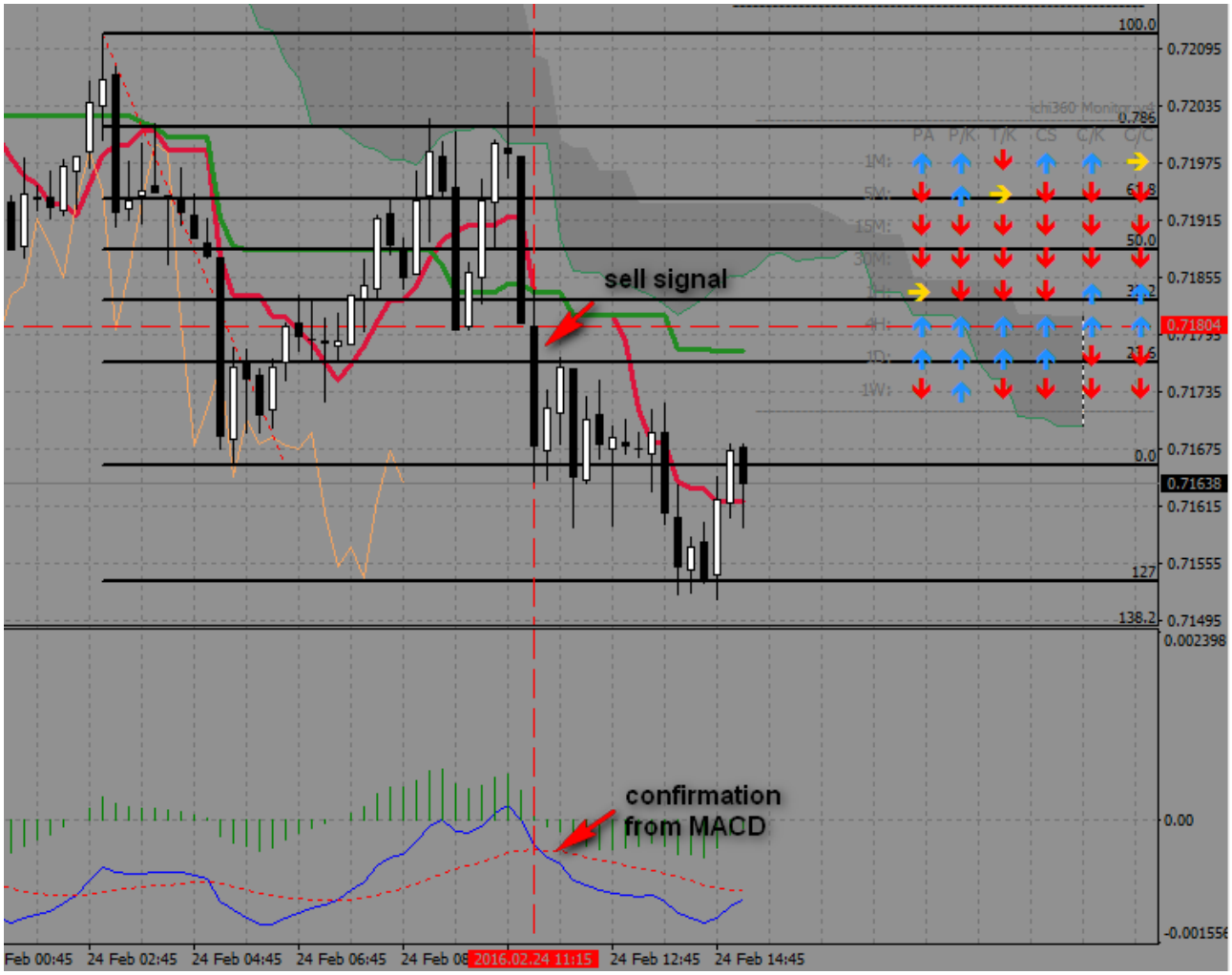


Image 8.11. Mixed situation, but downtrend is also on higher time frame

USDJPY, 30m

We had a signal from ichi360, but price was above a recent low. We should wait for close below that level (green support line) and then enter short.

You can see in the right top corner that situation was bearish on all time frames. Good trading conditions for short.

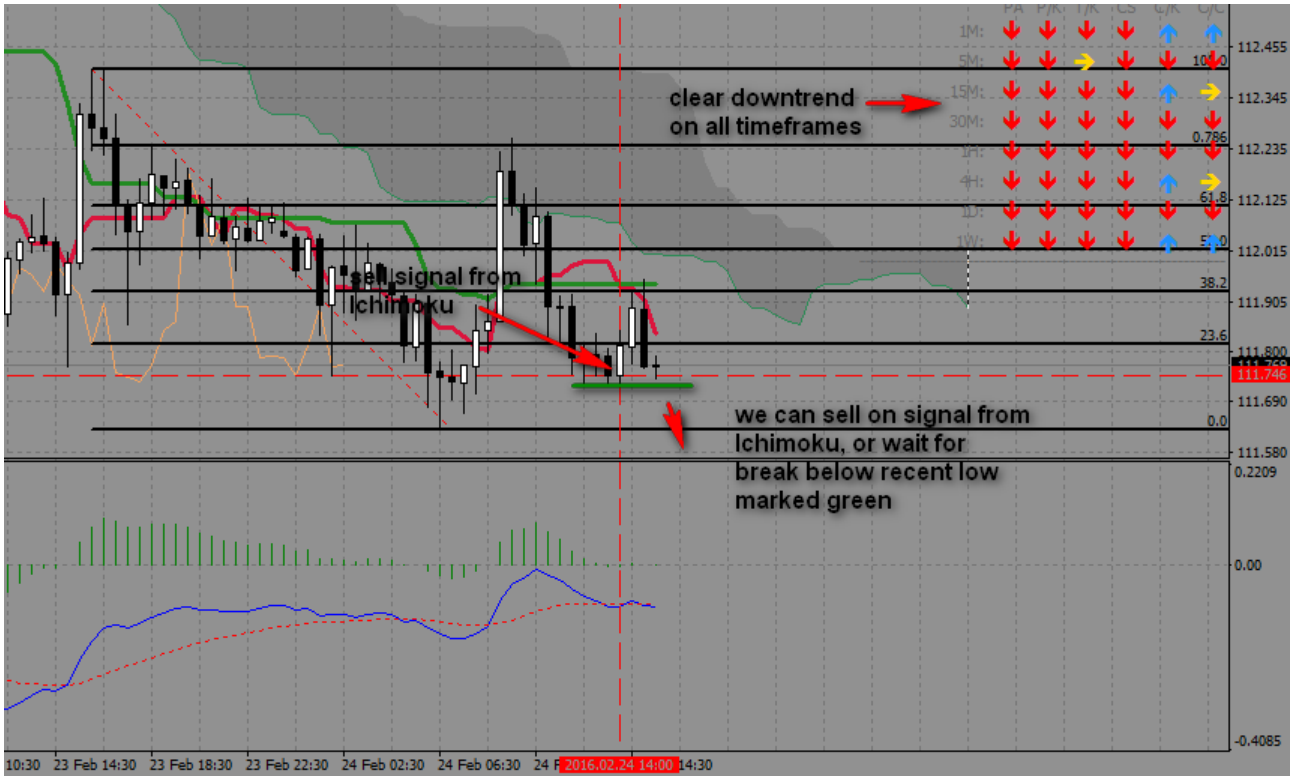


Image 8.12. Sell signal from Ichimoku

9. GMMA

I like GMMA for it simplicity and possibilities it gives. It was created by an Australian trader. Name stands for Guppy Multiple Moving Averages. It is basically two sets of moving averages:

- 5, 8, 10, 12, 15
- 30, 35, 40, 45, 50, 60

I use expotential averages, I also add to this set 100 and 200 averages. You can join it with other indicators. I like to use it with trend lines and, surprise, with Fibonacci.

Lets jump to the examples and check how we can use it in long term trading.

It is always good to draw trend lines. This can be very helpful in opening trades like on weekly chart below:

Image 9.1. GMMA in practice

We saw a signal on MACD but price was below resistance line. After it breakout above resistance we saw that it started to work as support and buyers came in. This was the best place to enter long.

On weekly chart below we can clearly see that for over a year price was trapped below resistance line and above 100 and 200 averages. Finally, bulls managed to breakout above resistance line and nice uptrend began. Check also how blue and red averages reacted. They started to get wider and in a trend there is a bigger distance between blue and red averages.

Image 9.2. Strong move up after break above trendline

On many times during a correction longer averages (so the red ones) will work as support. In this example we have a support from red averages and resistance from trendline.

Image 9.3. GMMA as a support for price

GMMA works great combined with Fibonacci. We have a good picture of trend and current situation. It is easier to spot ABC moves. One thing - sometimes at first move AB will not look so great or even correct. Remember, you can always wait. In example below we saw that later blue averages went over a red ones and that during corrections red averages worked as support. You could enter on breakout above B line or after signal from MACD. Move ended little above 138.2% extension line.

Image 9.4. GMMA and Fibonacci

Range markets are, as always, hard to trade. Look at blue and red averages. They are very thin. When you see or suspect range market, draw a support and resistance line and wait. In the example below range move lasted for few years, but eventually price broke above resistance and this was a start of bigger move.

Image 9.5. Range market and thin averages

On monthly chart below you can see that price was trapped below resistance line and above red averages (which were a support). Later in 2012 there was a long breakout and price started to move higher up to 600$.

Image 9.6. Longterm group as support

It is good to observe how price reacts with averages. Lets start from left side of chart below. After range move there was a long breakout which was a start of very strong uptrend. Notice that during move up blue 30 average always worked as support. When it failed to do so around 158$, this was a signal to exit. We could reenter long trade when price forced resistance at 168$. Trading does not have to be always complicated, sometimes you just have to observe what price is doing.

Image 9.7. Blue group as trailing stop during a move up

10. Renko

Renko is another kind of candles. The most popular are candlestick charts, but there are many others types of charts created in Japan. There is for example Kagi, Three Line Break or Renko chart. Lets focus on Renko.

How Renko chart is built?

Chart is constructed by placing a brick once price surpasses the top or bottom of the previous brick by a predefined amount. Renko chart is time and volume independent – if there is no condition to draw another brick then chart may stay the same for days (until condition to draw another brick is created). White brick means the move is up, black the move is down. With Renko it is easier to spot trends and avoid trading when market is flat.

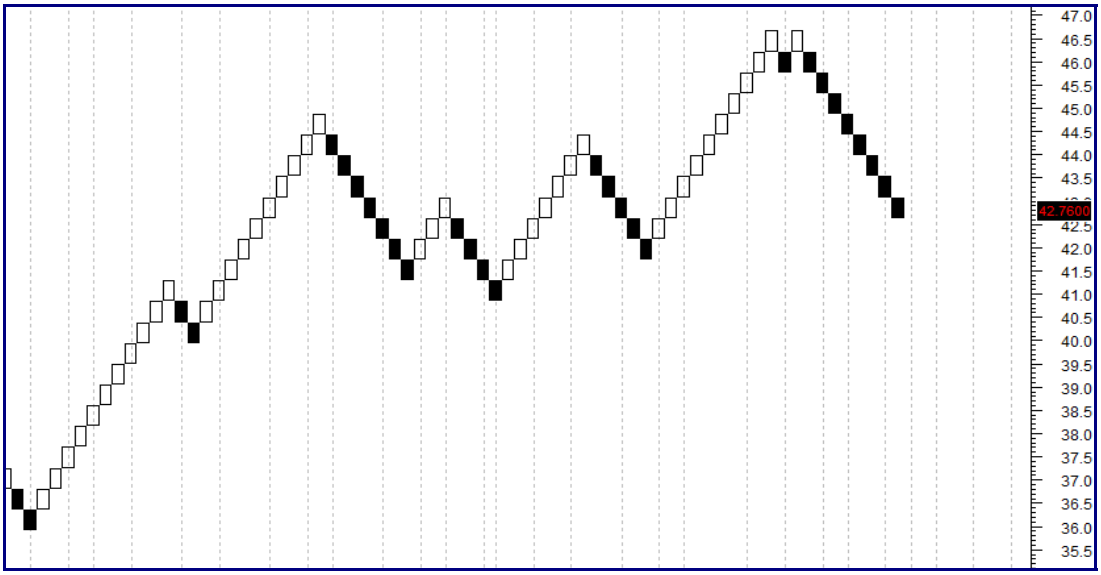


Image 10.1. Renko bricks

Renko software

Problem is that not every trading software has it build in. If you are using Metastock, you have it build in. If you trade Forex and you are using MetaTrader4, that is another story. I tried some Renko plugins for MT4 and did not found any good one.

Thankfully, there is a solution for Forex traders. Its online charting software http://www.tradingview.com. It is not free. If you want to use intraday Renko, there is a monthly subscription of 15$. I think it is a good price, because you get a whole charting software with Renko included.

Problem with box size

The main problem with Renko is that you have to set box size. You can do that with ATR or set box size manually.
ATR is ok on stock market, but on Forex pairs I prefer to set box size manually. Problem is, there is no golden rule to set correct box size.
With very small box size you will see several boxes appear at once. This makes trading very hard and you can easily get confused. For example, you set box size to 3 pips. The trend is down, you see leg of red boxes. Suddenly price hit reversal and moves 30 pips up and you get 10 green boxes at once. For most traders, this settings are too sensitive.
With bigger box size, let's say 15 pips, you will see only two boxes and you can see better market picture. It is hard to show you on screens, but you will know that when you see it on live chart.

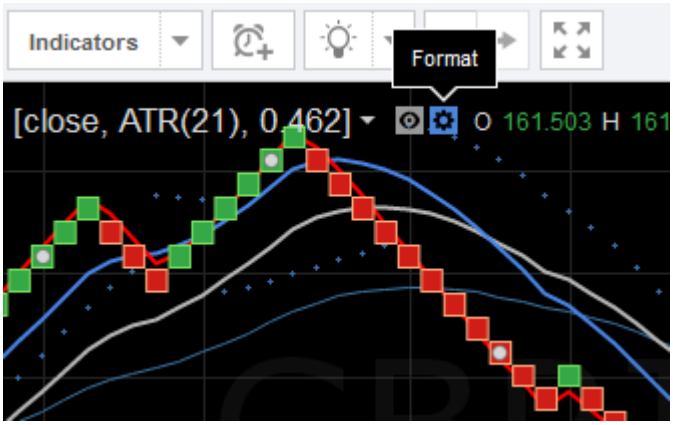
The safer way for new traders is to use larger box size or boxsize based on ATR. Thanks to that you will not overtrade and you will catch bigger trends.

So how to set proper box size?

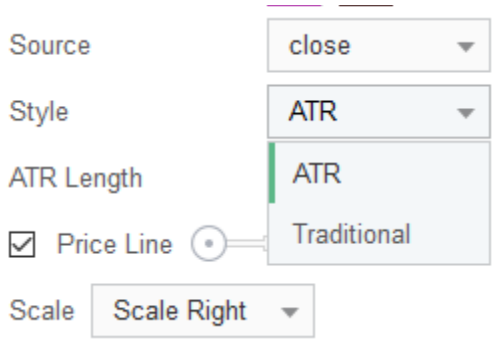
Decide if you are trading short term or long term (1 day or longer). It is up to you. I prefer bigger box sizes because with them I can catch bigger moves. I knwo that there is a group of traders, who use Renko even for scalping. You have to decide what is best for you.

I will show you some example sizes which I use in TradingView. Remember, it is not like there is only one correct box size. You may use different size.

First, where to change box size. You click Format icon:



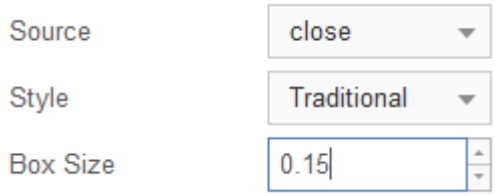
And you can set box size to be based on ATR or traditional (manual) method:



ATR set often very large box size. When I write this, based on ATR 14 I have box sizes such as:

GBPJPY 33 pips
EURJPY 24 pips
EURUSD 18 pips

As I wrote before, my favorite method is traditional style.When you select that method, you can set box size:

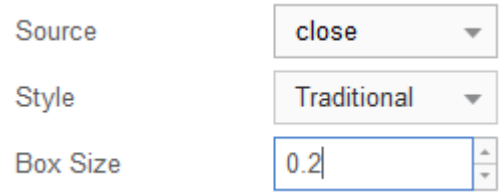


Below are box sizes I use on popular FX pairs. Sometimes I change it, it is not written in the stone. If I see that market is moving slower than usual than I will lower box size. It comes with the practice.

Manual box size - yen pairs

First I open normal candlestick chart and observe price action in a history. You can easily see that GBPJPY is strong trending. It is not unusual for that pair to move more than 500 pips in few days.

That is why I set box size for GBPJPY around 20 pips so in tradingview format: 0.2:



Box size for EURJPY : 15 pips (0.15)
Box size for EURUSD : 10 pips (0.001)
Box size for GBPUSD : 25 pips (0.0025)

If you are not sure, which box size will be ok, start with size based on ATR. In a corner you will see what is the current box size based on ATR. In this example it is 29 pips:

Later, if you decide that you want bigger or smaller box, you can switch to manual.

Renko as noise filter

I like Renko, because it filters the noise from the price. Reality is that every year we see more and more robots trading markets. Forex is great for them because it is 24 hour market with good liquidity. For us it is bad because it creates so much mess. That is the main reason why I do not trade 1m or 5m and switched to higher time frames.

How to trade with renko

There are many ways you can use it in your trading system. Same way you use normal candlesticks and put indicator on it, you can trade same way with renko.

In general, you can build your strategy around one of these methods:

- trading breakouts with Renko

- trading patterns
- trading with other indicators
- other

Trading renko – breakouts

As name states, you hunt for breakouts. Just like in normal trading with bars or candlesticks. The difference is that with Renko it is easier to spot breakouts.

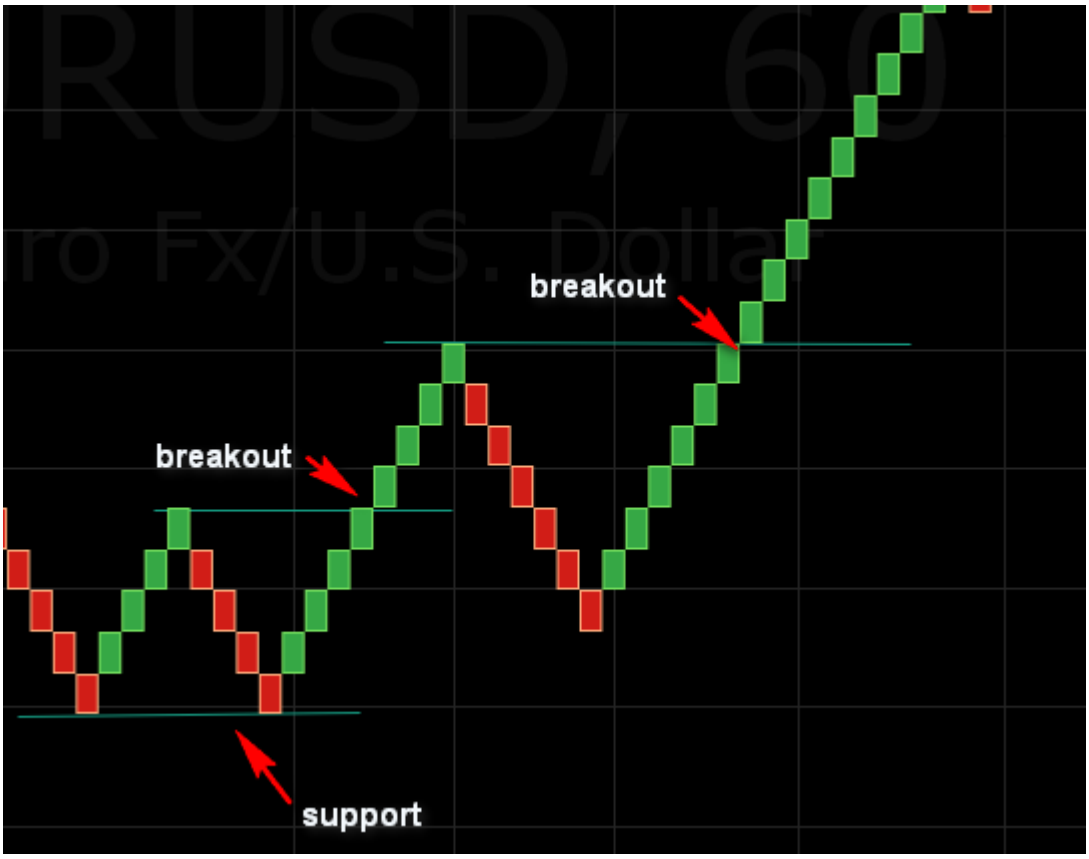


Image 10.2. Renko and breakouts

Of course, you may see false breakouts. It is good to use that approach with other tools, to be sure that you are trading in the same direction as the main trend.
You will see more of that in practice in examples.

Trading renko – patterns

Again, normal hunting for patterns as you would hunt on candlestick or bar chart. So you look for double top, double bottom, head and shoulders etc.

Trading renko – indicators

My favorite way of trading with Renko is to combine it with indicators. If you already have a working system or set of good indicators, test them with Renko. Thanks to noise reduction you should get better signals.

Dangerous ranges

Even with the best box size you can see that market will move sideways. Flat markets are hard to trade because there is no clear trend and you can easily overtrade and take many losses.
Thankfully, with Renko you can easily mark top and bottoms. If you see a correction, it is a good practice to mark top and bottom with support and resistance line. That way you will remember that there is a risk of range move unless price break up or below. More of that in examples.

My trading strategy for Renko

I based my strategy on DEMA averages. You can experiment with another kind of averages, but I like Dema most. So, nothing fancy here. We have two groups.

Long term group (trend):
21 DEMA
33 DEMA

Short term group (signal):
5 DEMA
10 DEMA

On chart it looks like that:

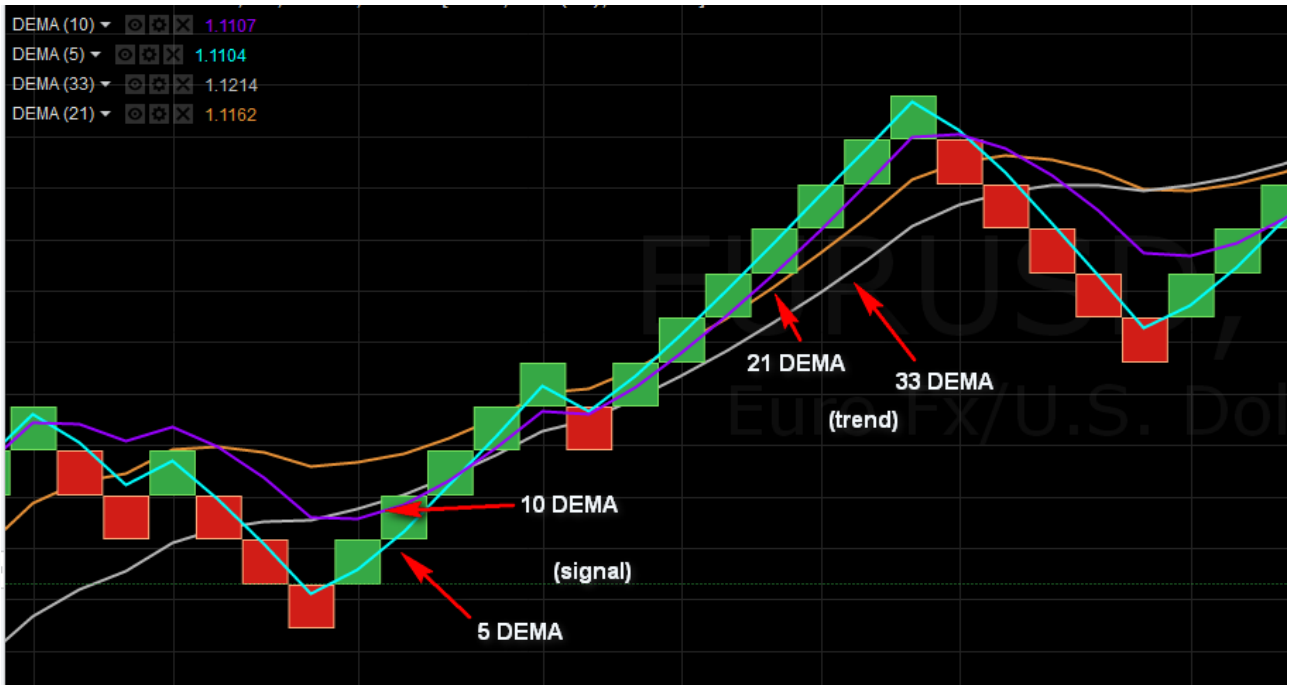


Image 10.3. Renko and moving averages

How I use averages?

First I check if 21 is above 33 – then it is an uptrend. Otherwise, trend is down.

Signal lines are on the chart to give me an idea where current move is going. Sometimes I take cross, but not always. On many times, I close position based on RSI and open based on breakout. That is because averages are lagging. I mean, they are updated when new box is closed. Still, it is a good indicator of what is going on and I hope you will understand more when you see examples.

It is not all. I also use indicators. Mostly a pair of MACD and CCI or MACD and RSI with settings:
MACD – standard settings 12, 26, 9
RSI – 14
CCI – 21 or 33

Image 10.4. Renko, averages and indicators (RSI, MACD)

Trade examples

GBPJPY, box size 0.2

Let's start with an easy one. We have here a correction in a clear downtrend and we are looking to enter a short position. We do not look for a long position because 21 DEMA (orange) is below 33 DEMA (white). Also, MACD is below 0 line.
There are few signals which we can take to enter short. First we saw a cross of 5 and 10 DEMA. A good place to take short.
If we wanted better signal, then we have to wait to break below recent low (green support line).
In the same time there was a signal from RSI.

Image 10.5. Short position based on breakout and confirmation from indicators

Same trade, the trend is strong. Eventually, there is a green box and the best exit position, in this case, is after the first box. We have two signals to do so.

1) cross of 5 and 10 DEMAs
2) green box is above 21 (orange) trend line (before it was below that trend line)

We could also wait, but later there was another signal to close, when thord green box closed above 33 DEMA.

Image 10.6. Signals to close a trade

Close based on a trend line

On many times, I do not wait for a cross of 5 and 10 but I watch the position of box against trend lines. You have to observe situation to decide which one will be more important.

In the example above we saw that boxes were always below 21 DEMA, so it was logical to close when there was green box above that line:

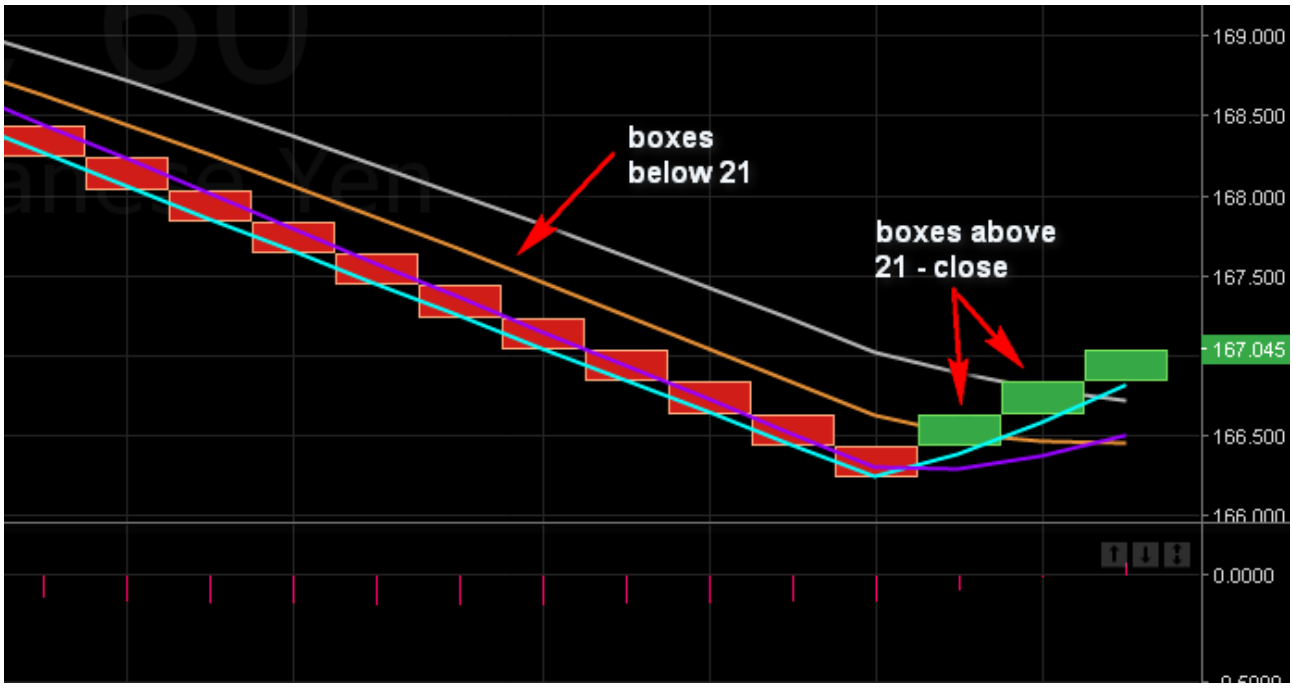


Image 10.7. Position closed based on a trendline

In other conditions, you may see a situation when 31 DEMA will be more important. Consider an example below:

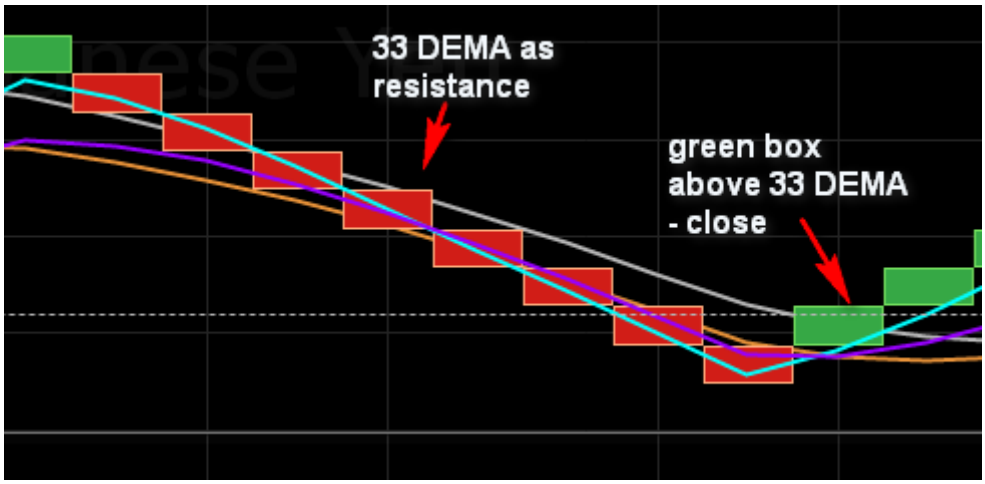


Image 10.8. Position close after green boc above 33 DEMA

Clearly 33 DEMA is a resistance here, 21 is not respected. That's why we see green box above 33 DEMA, it is time to close short.

Corrections and number of boxes

If you trade long enough with Renko, you will notice that in strong trends you will have correction of 1, 2 or 3 boxes (or other numbers, depends on box size). If you think that trend is strong (because of some news or break below or above important level) then it is ok to include in your trading plan that you keep position open during corrections. Like in GBP/JPY, you will see many 1,2,3 box corrections:

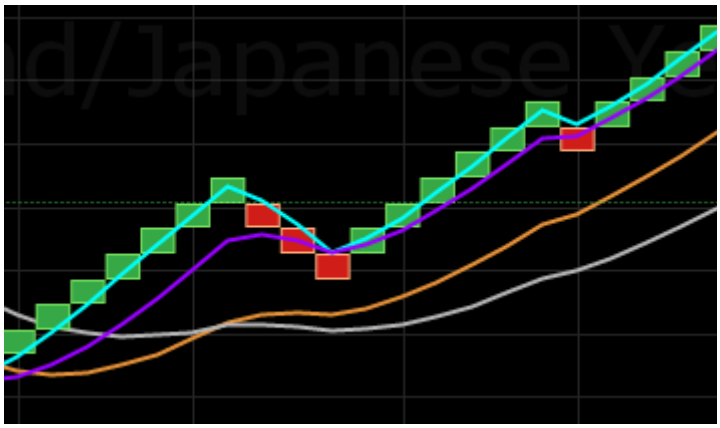


Image 10.9. Correction example

or

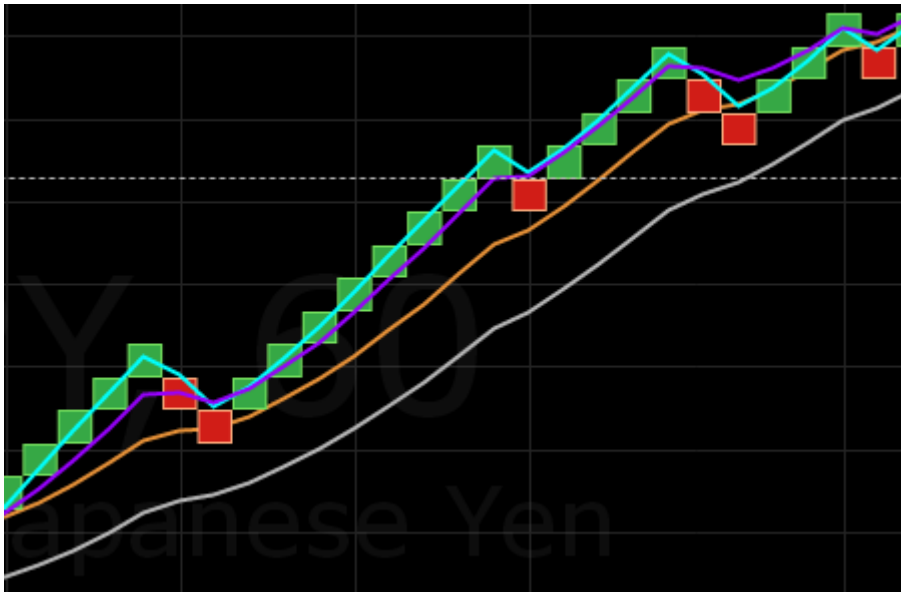


Image 10.10. Correction example

If my play on trade is to hold as long as possible then I will keep trade open.
In my case, I do that only for smaller corrections. When I see more signals to close like stronger correction (with more than 3 boxes) I exit:

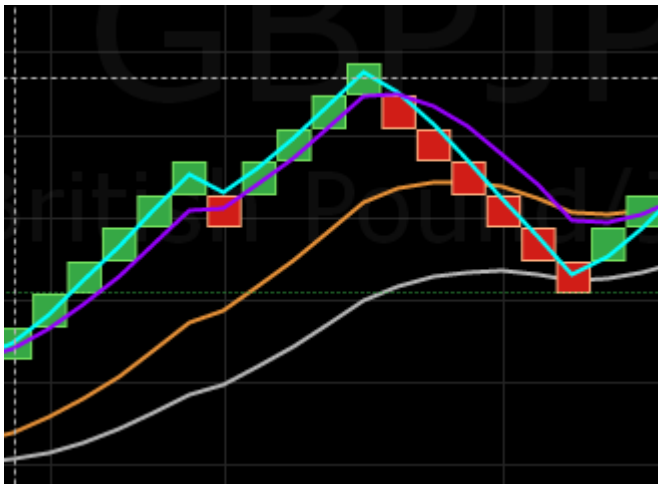


Image 10.11. Stronger correction, box below 33 DEMA – time to exit

It is up to you. If you want to play safe, then you can always exit on cross/other signal and reenter trade.

Divergence from RSI

Divergence – when price makes new high but indicator does not confirm that, work pretty nice with Renko. Thanks to the filtered price action, you can see clearly where divergence takes place.
It is not that clear on MACD, but when you check RSI, you see it right away:

Image 10.12. Divergence on RSI

Another example:

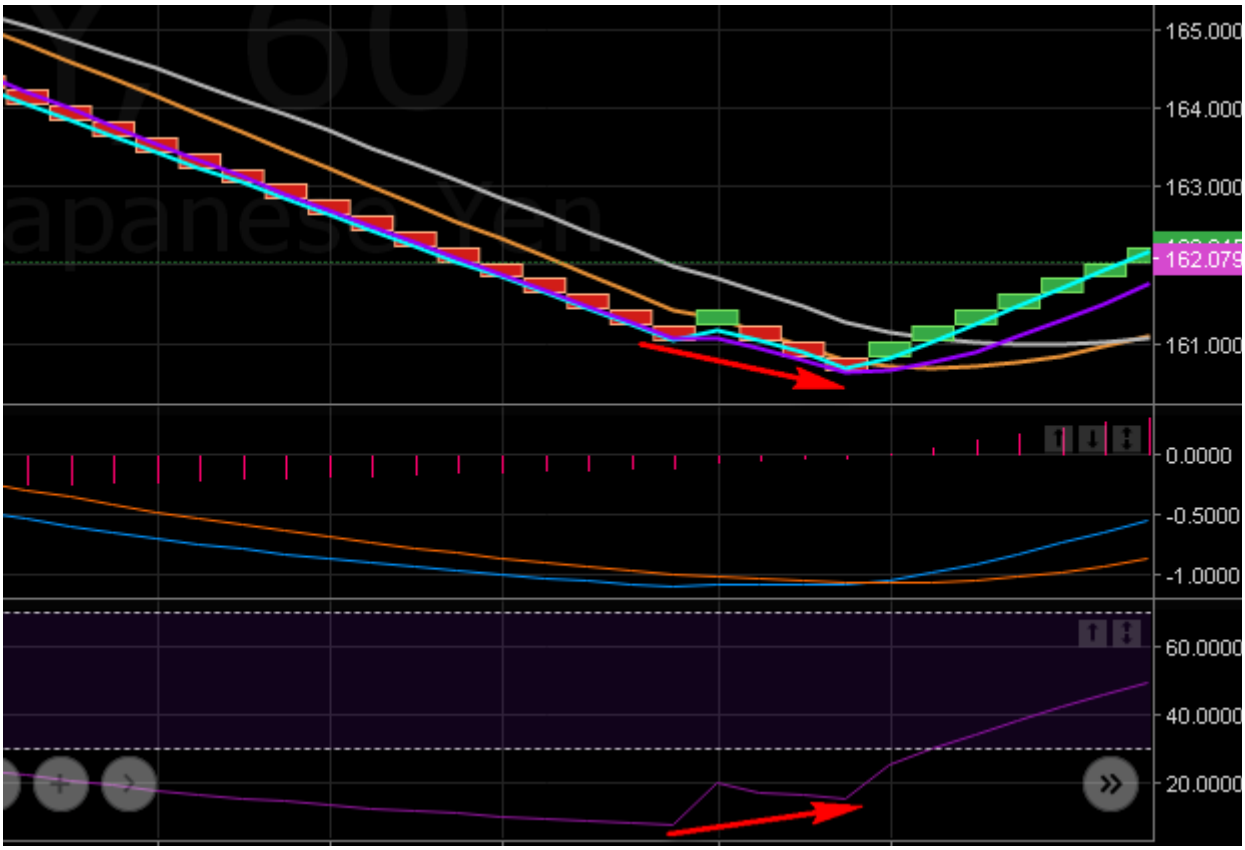


Image 10.13. Divergence on RSI

And example from EURUSD:

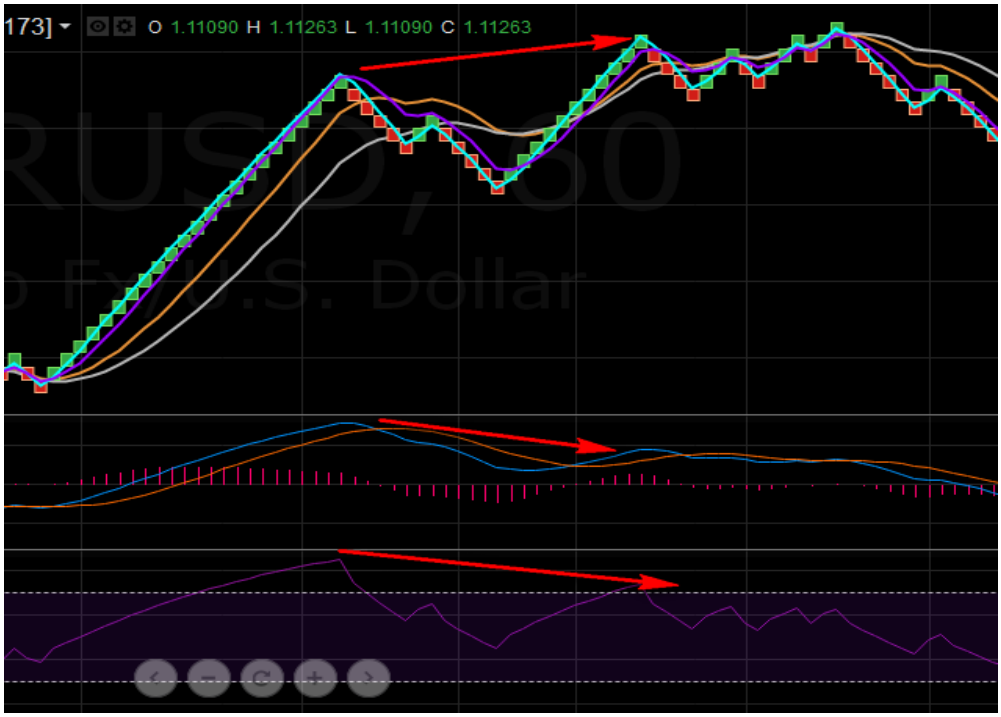


Image 10.14. Divergence on RSI and MACD

It is very powerfull signal and it is much easier to spot than on normal candlestick chart.

EURJPY, box size 20

Sometimes after strong move you will see longer correction which may give you many mixed signals. Like on the chart below. You can see that for a moment 21 was above 33 DEMA, we saw signals to go log and short:

Image 10.15. Mixed signals, part 1

That is why during a correction it is smart to mark low and high like I did with green horizontal lines:

Image 10.16. Mixed signals, part 2. We added horizontal lines

Notice that we had few signs that going up is not a good choice:

- it was a range move
- MACD was bellow 0 line all the time
- RSI was below 50 line

Finally, there was a break below lower support and a good entry point for short position.

AUDNZD, box size 16

It is important, not only with Renko but overall, to be disciplined about money and position management. You will not catch a strong 200 pips move with every signal. It is normal in trading that sometimes signal will be false and market will move against you.

It is important to close position when market is going against you.

This AUDNZD chart is a good example. Trend is down. Trade #1 was nice and easy. First we saw a cross of 5 and 10 and it was a good place to go short. Later, there was another cross with 5 above 10. Time to close and take profit.

Trade #2 looked good at first. We could reenter short position at cross of 5 and 10 or on break below recent low. As you can see, this was a false break and price started to move up. First we saw a cross of 5 and 10 and green box above trend lines. This was first place where we could close position. Second one was later, when price broke above resistance marked with red line (based on recent lower high)

Image 10.17. AUDNZD two trades

You can see that later there was a strong move up. It was a good idea to close this position quick, with a small loss.

I closed position here above that red line. I simply thought that there will be some return for a moment and continuation down. It is a hard part – to decide when to close trade when something goes wrong.

You may and you will see many similar situations when everything is going well and suddenly price turns around. There is no 100% sure trading system. Money management is more than 50% of success.

AUD/NZD, box size 16

Let's continue with the same pair and correction in an uptrend. You spot a correction, later price has found support and started to move up again. You could enter long right after break above red

resistance line or on a cross of 5 and 10. But it is not over...

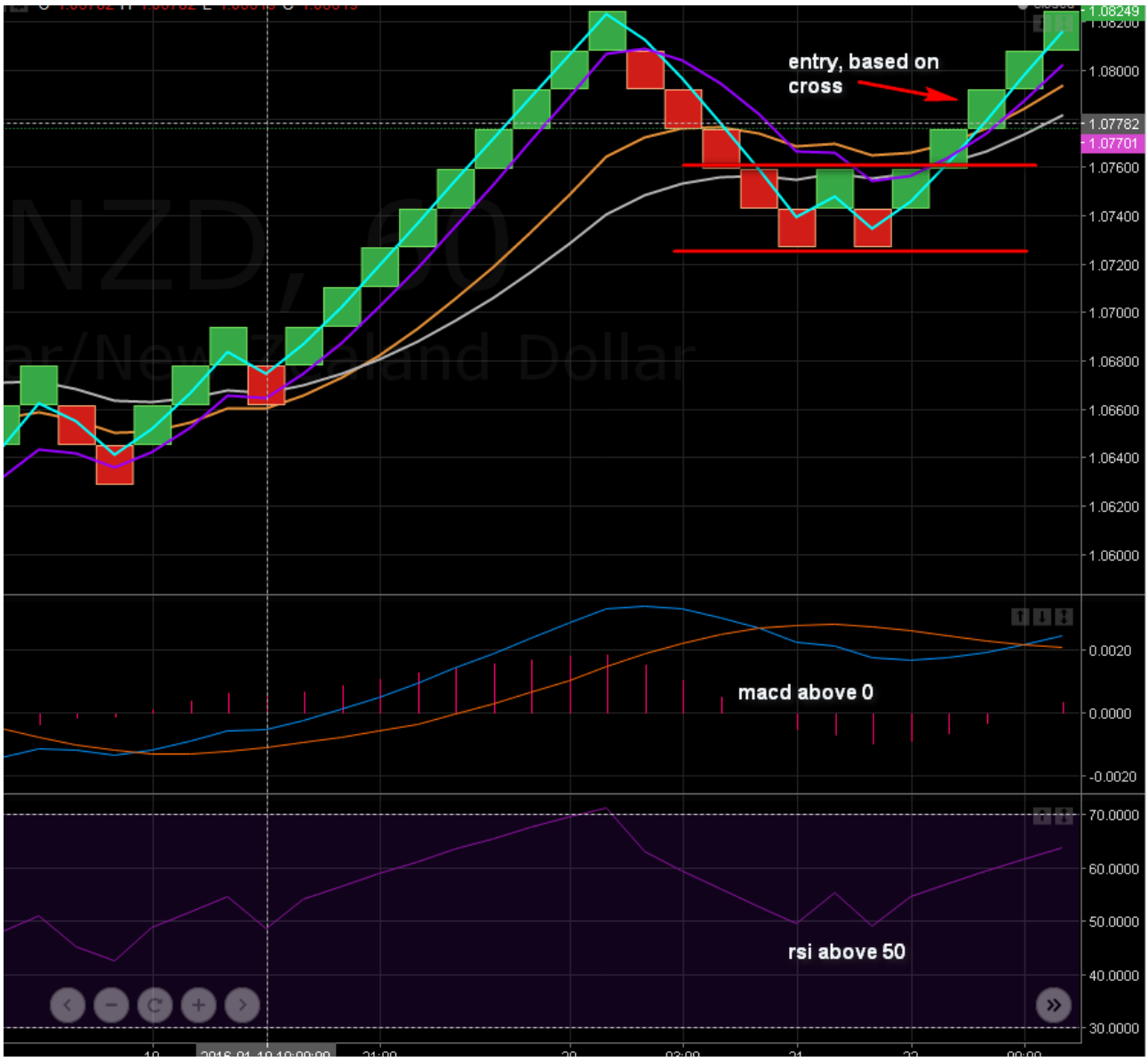


Image 10.18. AUDNZD trade base on cross, part 1

Price did not manage to break above recent high and 5 closed below 10. It does not look good. Question is, should you close long position or wait?

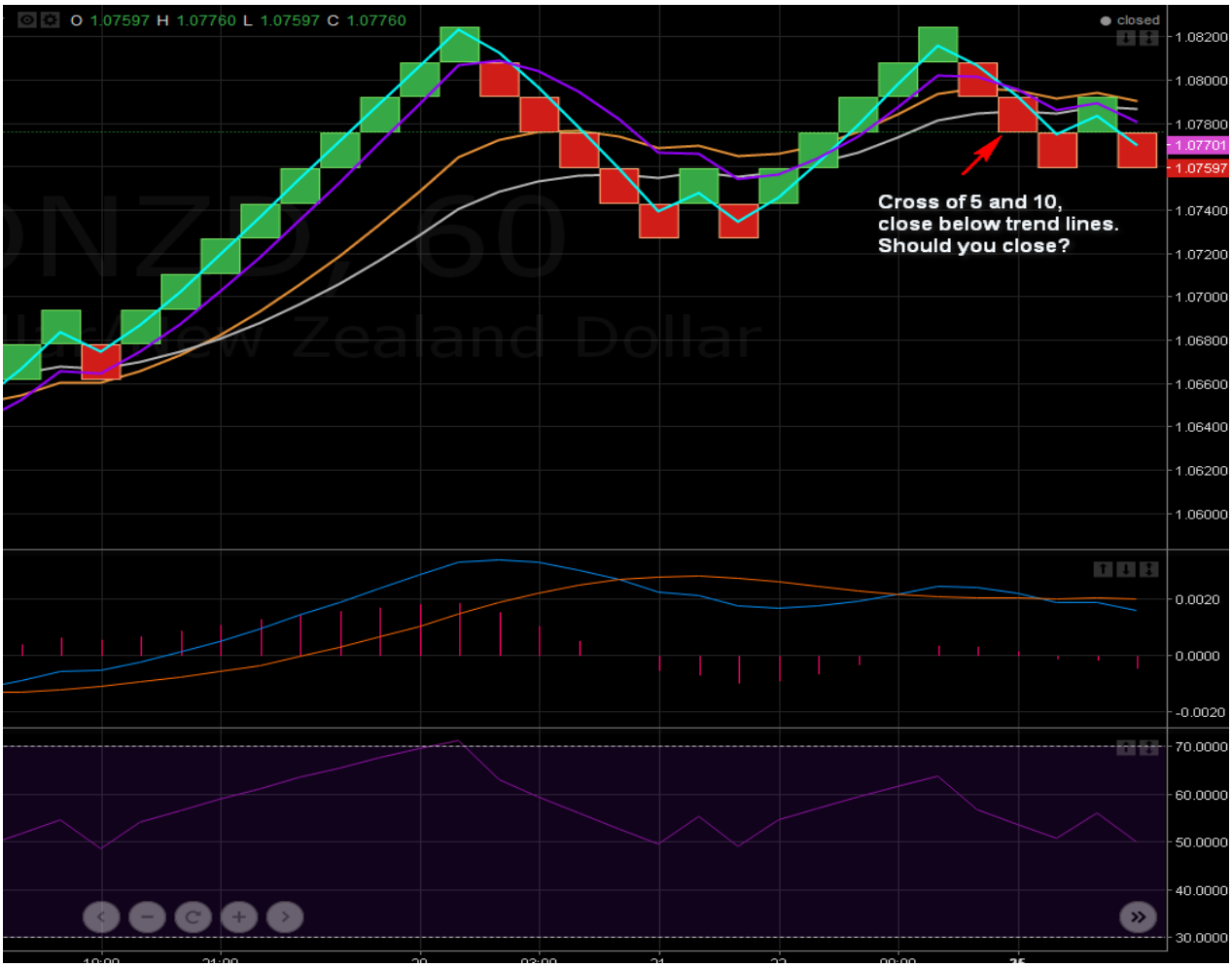


Image 10.18. AUDNZD, part 2

Take a look again. Remember the range (red lines) from first chart? If price has found support there, it is best to place stop loss below that range. In that case, you should wait it out, knowing that you have a stop loss in place.

Also, MACD and RSI are still positive.

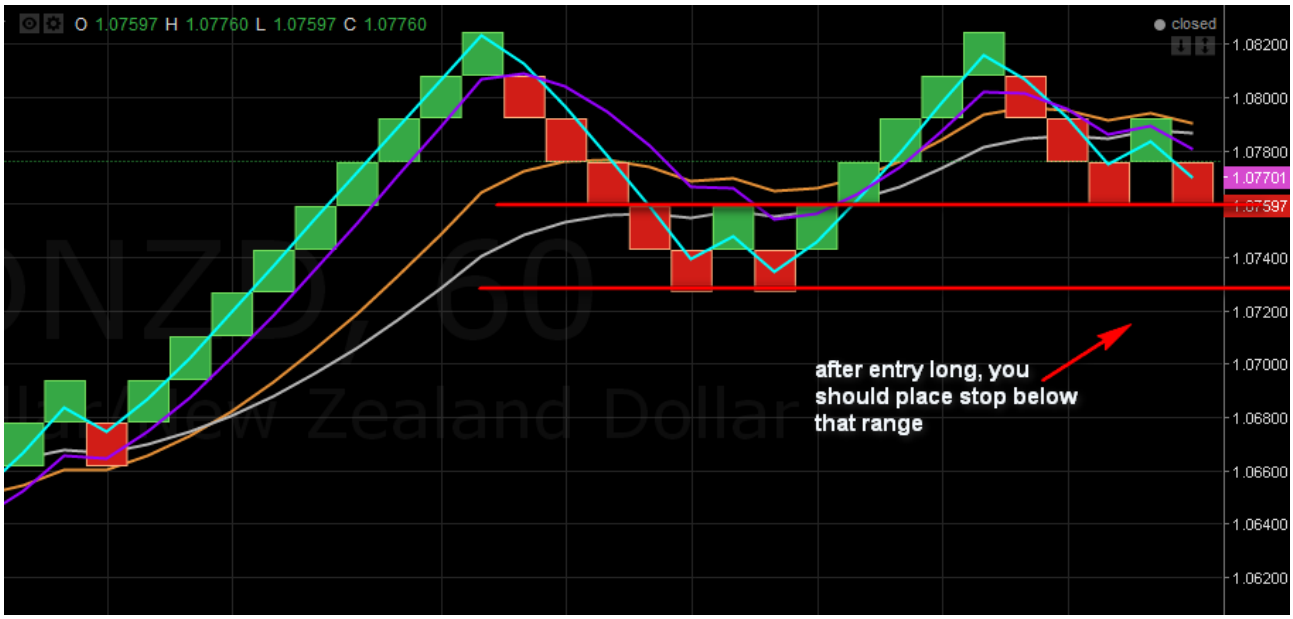


Image 10.18. AUDNZD, part 3

In this case, correction ended here and price went up:

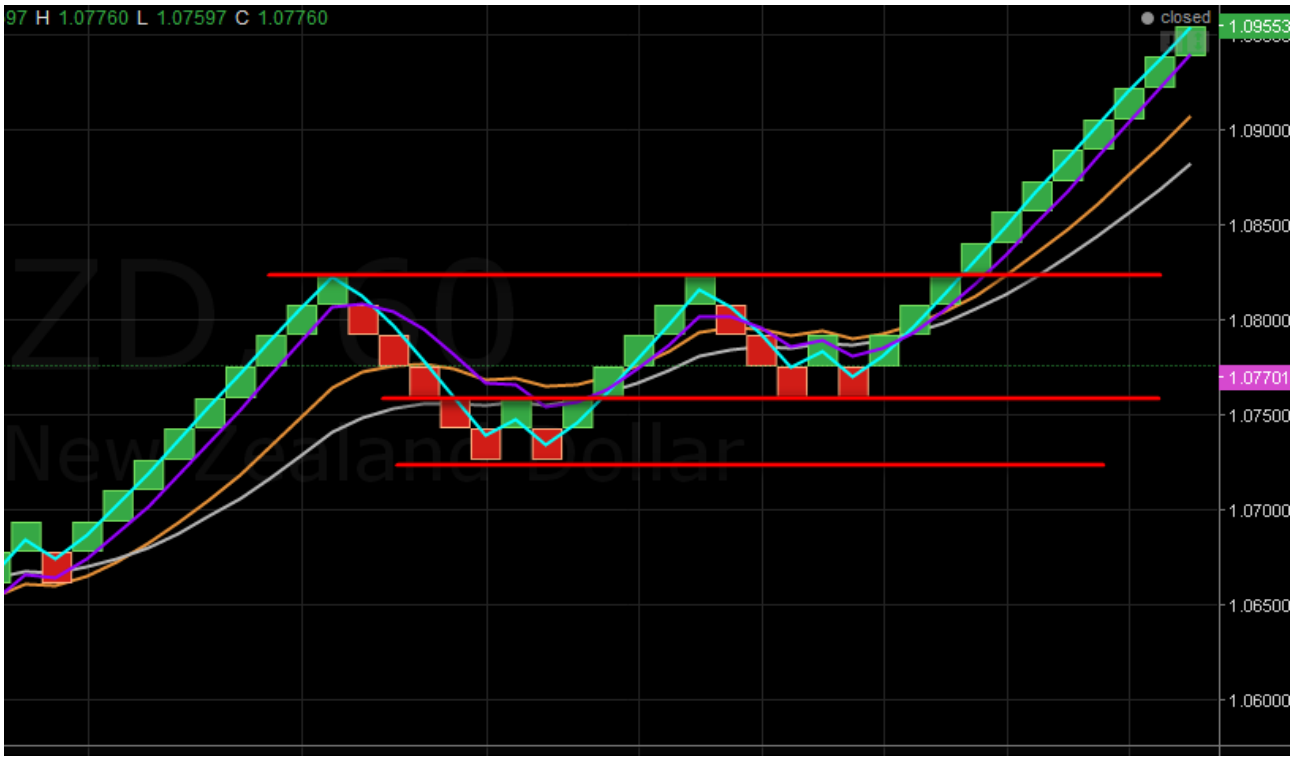


Image 10.18. AUDNZD, part 4

I should add, that if not that range, I would close it at first place, after that 5 and 10 cross.
This is a very good example because it shows you that if you see lows or ranges or other important support/resistance areas, you should use it.

Bund, 18 points box size

One thing about crosses. As I wrote before, I do not always use them as the main signal to enter a trade. There are cases when trend will be so strong and correction so shallow that cross of 5 and 10 will lag. Like in this example. What to do with that? Use different set of averages or trade simply based on breakouts.

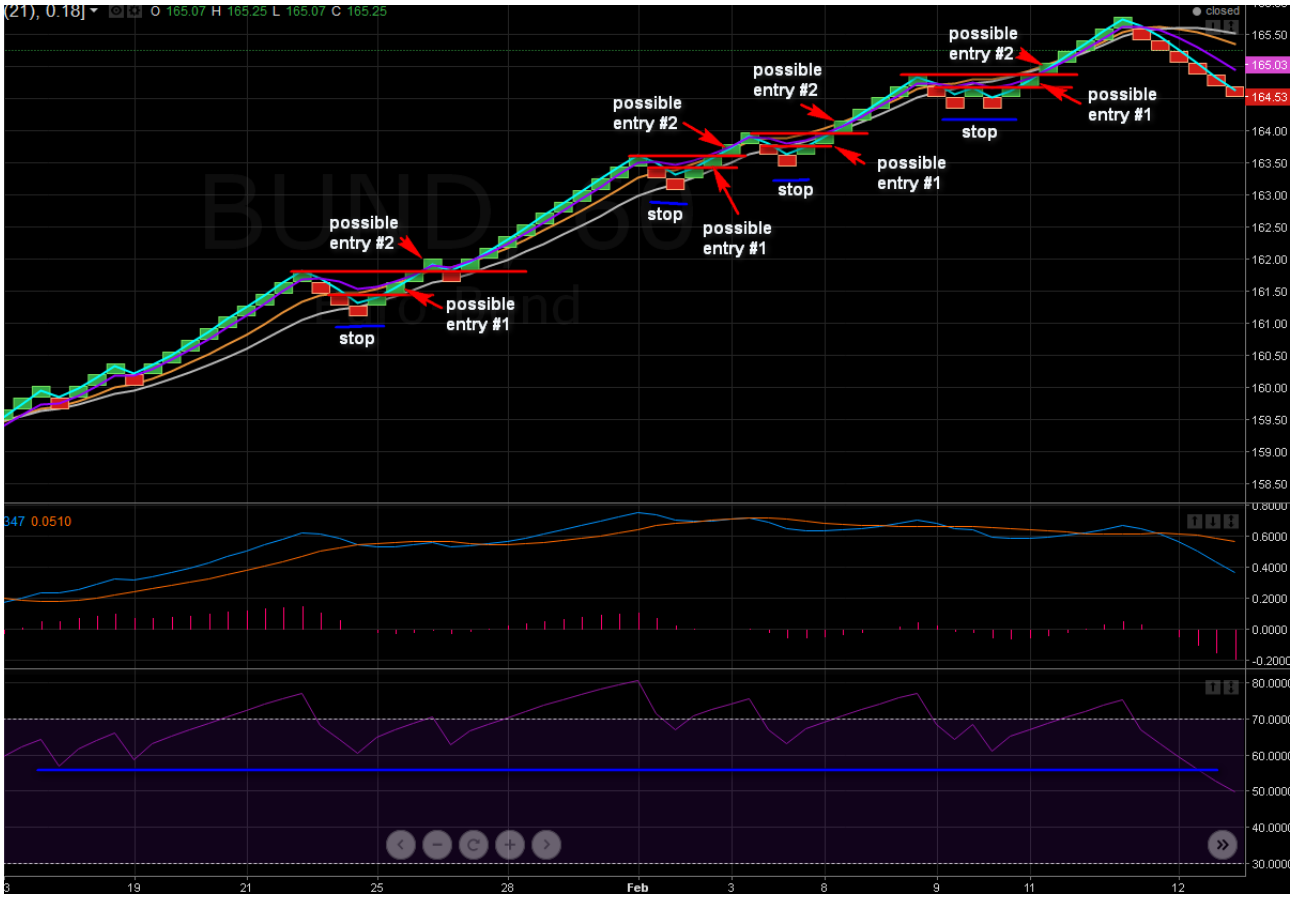


Image 10.19. Long opportunities during a strong trend and stop loss levels

Where did possible entry #1 come from? Take a closer look. It is a second green box.
Possible entry #2 was more sure signal to enter.

And when to exit? Take a look at RSI. For all the time of move up, it was holding above that blue support line. When it broke below it, it was clear that trend is not that strong anymore.

11. ATR Trailing Stop Loss

Trailing Stop Loss

There are few indicators for MT4 which draw trailing stop line. I prefer to use Chandelier Stops.

I believe that with good money management this is one of the best tools to follow a trend.

Why it is good to use ATR trailing stop loss

First of all, when you catch trend you can profit from most of the move.
The good thing about ATR is that you have a stop loss level in place. When there is a close on the other side of ATR, it is a signal to close. No second guessing.

Best time frame

I strongly recommend time frames such as 30m or larger. On lower time frames like 5m there is too much algo trading. I trade with ATR on 1h or 4h charts.

Parameters

Depends on pair or instrument. In most cases standard parameters will be fine. If I change anything then it is usually a Kv parameter. Standard is 3.5 and I tend to make it bigger like 3.7 or 4.0. In most cases it is around 3.7:

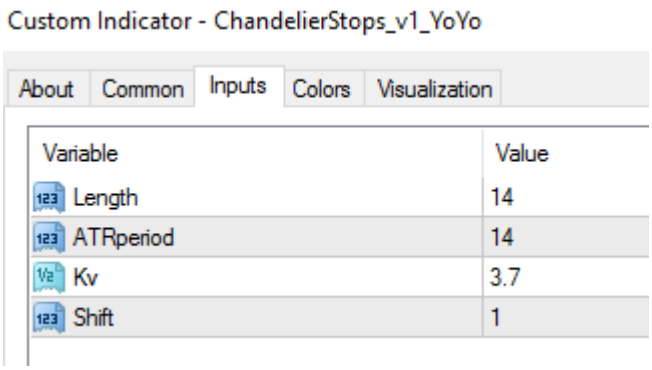


Image 11.1. Example of Trailing stop parameters in MT4

Remember, it depends from pair and current situation in the market. You should experiment with few settings and check it on historical price action if they are ok.

Trailing stop loss and other indicators

Some traders use only trailing stop loss line, others add to that one or two indicators. In my trading I join ATR with my favorite indicators, which are:

- GMMA
- 100, 200 SMA
- RSI 14
- MACD 21, 33, 12

You will succeed with ATR trailing stop loss if you trade with the trend. That is why it is good to combine it with other indicators which may help with that.

Best pairs to trade with ATR trailing stop loss

Trailing stop loss works best in trending markets. That is why you should check pair if it tends to move strong or to move in range. It is not the secret that yen pairs line to move strongly. If you are looking for solid trends, you can't go wrong with GBPJPY or EURJPY.

Trade examples

EURJPY, 1h

Let's start with a simple example. 1-hour chart, there is a confirmation from higher time frames that trend is up. You enter long when ATR changes from red to green and exit when it changes to negative. MACD and RSI were positive during that time.

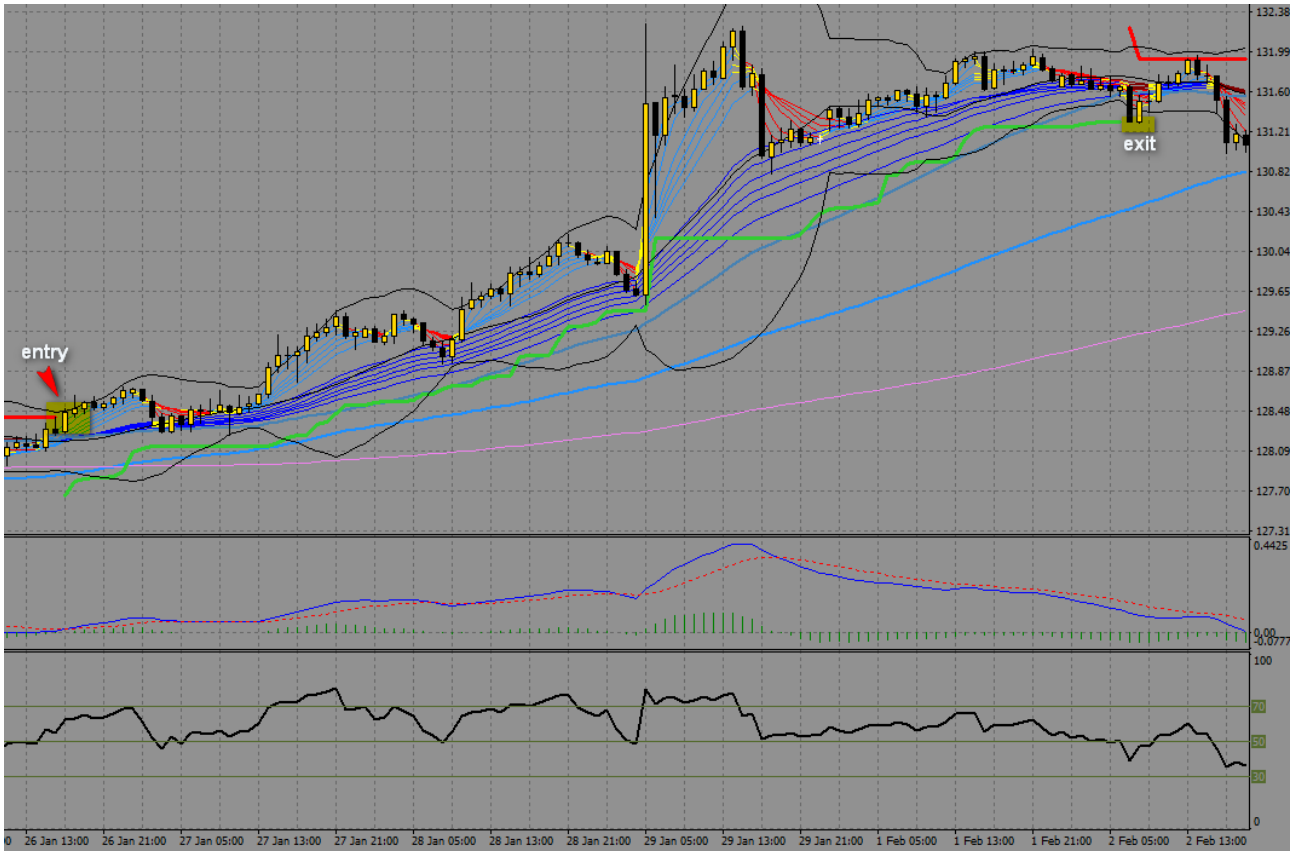


Image 11.2. Over 300 pips in profit thanks to ATR stop

GBPJPY, 1h

This is a situation you will see rather often. After strong move, there is a possible change in trend direction. We saw a signal from ATR to go short, but it was tot early. The price was still above 100 SMA and 200 SMA. In that situations, I wait for break below 100 SMA (blue). You can see that first it acted as support and we could draw a support line based on recent low. When the price went below that level, it was clear that 100 SMA did not hold. It was a good place to go short.
Also, it was ok to wait for MACD to turn negative (below 0).

Image 11.3. Sometimes it is good to wait for confirmation

GBPJPY, 1h

The main problem with ATR is when price moves in a range. This is a problem with any trading system or method. It is very important not to overtrade during range moves. If you are in doubt, check situation higher time frames.

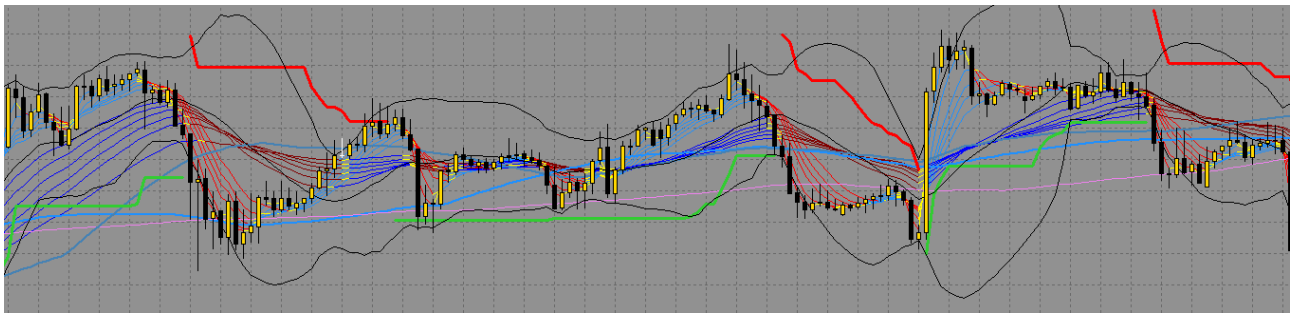


Image 11.4. Mxed signal in a range move

In this case over time it is clear that move is in range:

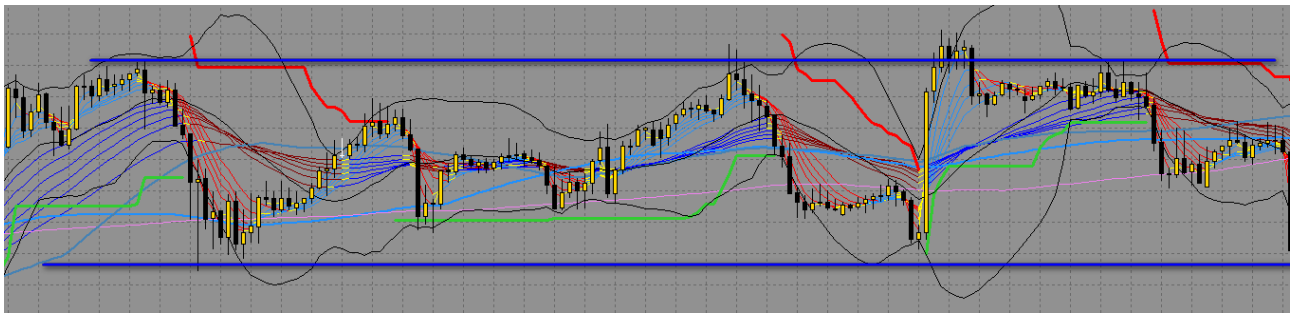


Image 11.5. Range move marked with horizontal lines

You do not have to use GMMA. Some traders prefer to have a clear chart. That is fine. My good friend uses ATR with good results. He has on chart 100 SMA, Bollinger Bands, 21 DEMA and 55 DEMA. Let's see some examples based on this setup.

SPX, 1-hour

This is a very good example of joining ATR with other signals. We are sure that trend is down (checked on higher time frames, also the price is below 100 SMA, MACD and RSI are negative). There was a signal from ATR to go short and we took it.

It was rather a strong move down. We had two possible ways of closing it. First was with ATR. So when ATR changed from red to green it was time to close (close #2 on chart). You can see that it was a little late.
If you have already a profitable position and want to protect your profit, you can exit earlier. In this case, there was a cross of DEMA averages. RSI closed above 50 line. As you can see, we saved few good pips.

The aim of this example is to show you that you can mix signals to enter and exit positions.

Notice that we did not open long position. There was a signal from ATR, but it was below 100 SMA.

Image 11.6. We can enter and exit position not only based on signals from ATR

GBPJPY, 1-hour

On many times, when you are hunting for bigger trend move, it is ok to stick with ATR stop. On the chart below you can see that you were able to catch the whole move of almost 1400 pips. When you check DEMA, RSI or MACD you can see signals to go out. That is your decision:

- play it safe and close when you have signal from MACD/RSI/other. Later reenter trend
- play it for a long move – you want to catch as big move as possible

Image 11.7. With ATR you can catch very strong moves

Settings for catching bigger trends

The last scenario shows a conflict. So far we were looking at examples of ATR and DEMA averages. We were hunting for a trend, but when something went wrong we were closing position.

If you want to catch bigger trends, my advice is to keep things simple. Switch DEMA to SMA. Why? DEMA is very responsive and works great when you want to react fast for a possible trend change. SMA is slower, but it is a good indicator of support and resistance and during strong moves you want to watch these levels. So my suggestion is:

- 55 SMA
- 100 SMA
- 200 SMA

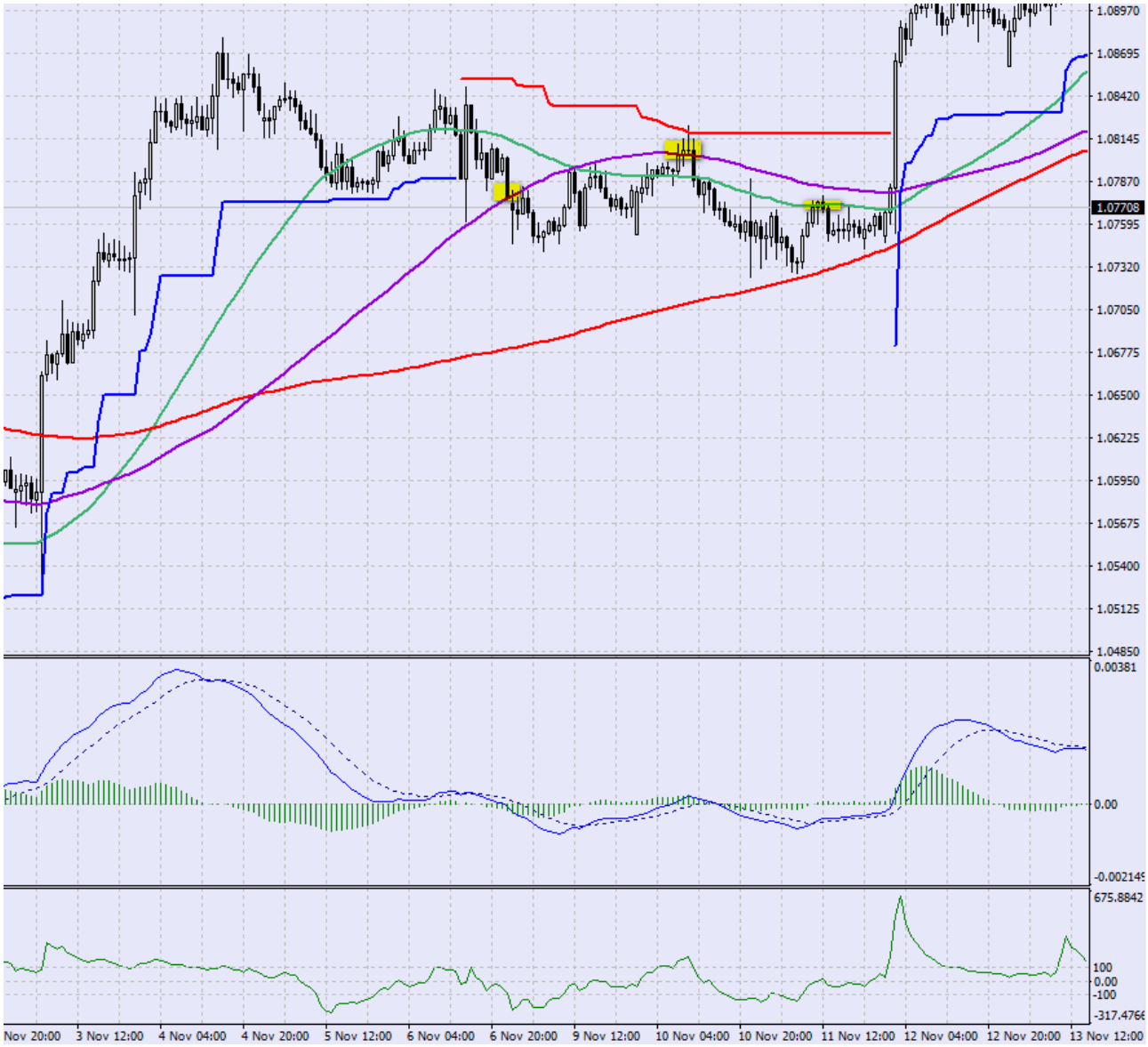


Image 11.8. ATR and SMA averages as support/resistance

GBPAUD, 1-hour, when 100 and 200 SMA are close to each other

On the chart below you can see that sometimes it is ok to wait for another confirmation. We had a signal to go short from ATR, but the price was still above averages. You can see that 200 SMA was a support here. In this case, the best option was to wait for close below 200 SMA. You can see that there was such a close and this was the best place to go short.

Image 11.9. Short trade with ATR and averages

WTI OIL, 1-hour, when there is a distance between 100 and 200 SMA

Another example that this is good to watch averages. There was a signal from ATR to go short, but it was still above 100 SMA and 200 SMA. The question is – go short on close below 100 SMA or 200 SMA like in the example above? It depends from distance between 100 and 200 SMA. In last example, we saw a case, when 100 and 200 were very near each other. It was best to wait for close below 200.

Here you can see that there is a rather large distance between 100 and 200. Also, after braking below 100 SMA, we can see that MACD turned negative. It was the best idea to go short after close below 100 SMA, with a tighter stop. Going short above 200 SMA isn't that great idea, but in some situations, when we know that on higher timeframes trend is down, it is ok to take some risk.

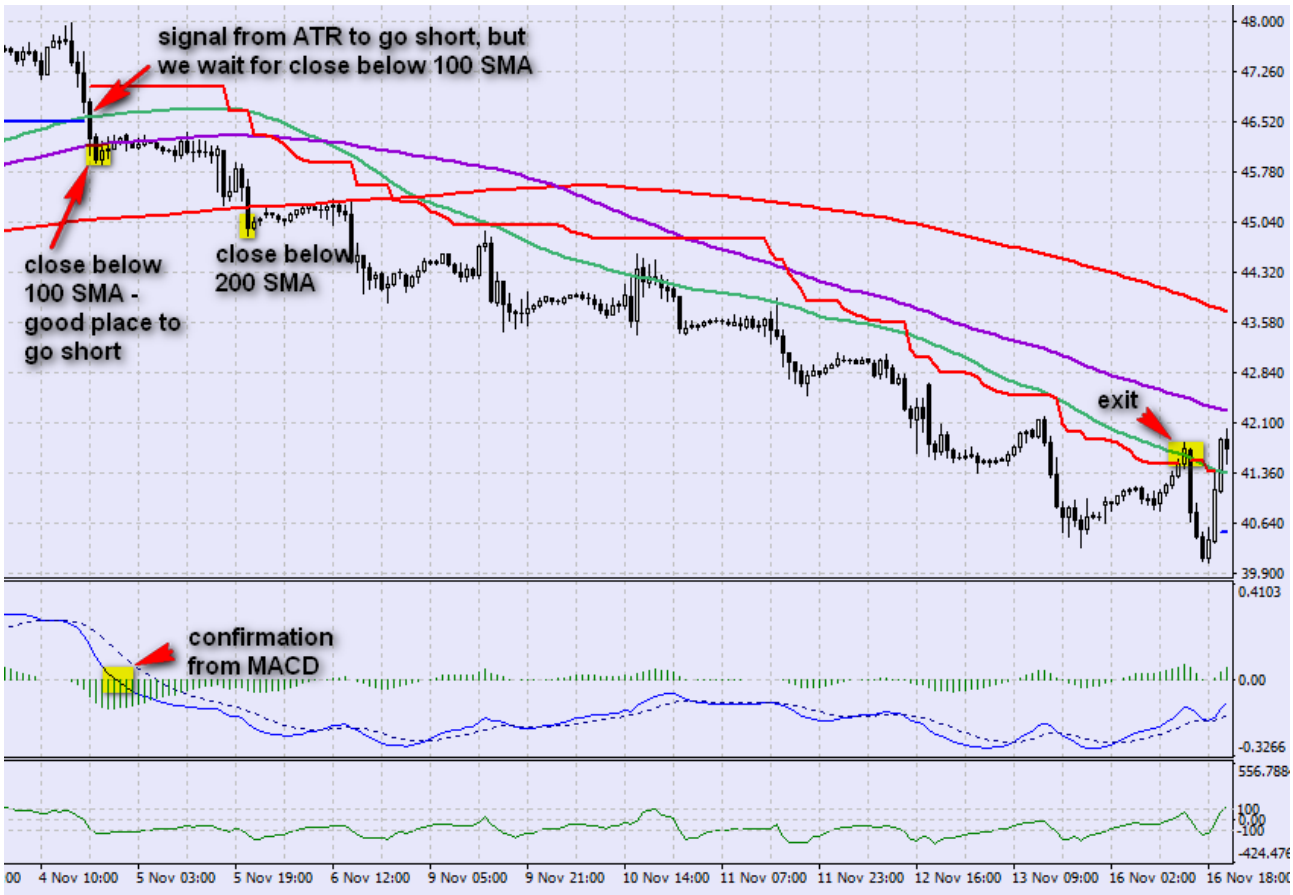


Image 11.10. Example of trade when there is a space between 100 and 200 SMA

GBPJPY, when ATR is far away from price

Not always everything goes according to a plan. Take a look at this example. We had a signal to go short and we took it. After a while, there was a pullback.

Take a look where ATR stop is.

It is rather far away. In most cases we would wait for a close above that line to exit with a loss. In this case, we have more information from 100 and 200 averages. After we went short, price pulled beck above 100 and 200. Also, MACD turned positive. It was better to take a smaller loss here than to wait for a close above ATR line.

It is impossible to show you each possible scenario. My point is, you can also take other signals than ATR to make decision about staying in the trade/closing the trade.

Image 11.11. Example when ATR is far away from entry point. We can exit based on other signal

What is next?

Trading is not easy. You have to practice, practice, practice. I really hope that methods and examples described in this ebook showed you how you can invest with different tools.

I love trading because you have to learn day after day. It is not possible to stick to one method for years. For example Fibonacci. I wrote a lot about that technique. When you master using ABCD patterns, you can learn more about Gartley Patterns - this is so great way to trade (but you have to master Fibo). Another thing is price action - also very powerful way to trade. Formations - lets do not forget about them.

What about money management?

As you can see, there is still so much to learn. Trading is not easy, but it can be fun when you start to see results on your trading account. Good luck in your trading, I hope that I helped you to understand better how you can trade profitable.