Spaghetti Series

If used correctly - it will show you:

1. The whole Forex market condition at a glance - with easilly identified risks and opportunitis.
2. What currency pairs to avoid.
3. The best Risk/Reward ratio of potential trades.

Before going into details - let's review the "Currency" issue.

The currency is the pride and joy of every country and its relative government.
The currency can be viewed as the country "Stock" in the stock market.
The currency rate dictates almost every aspect of that country economy.
The globalization also affect each country's currency - a rate change in one currency affect almost all others - the butterfly effect...

The result of the above is that currencies tend to fluctuate between those extremes - both on the short and long run.

Understanding this is important for successfull use of the next tool we are going to introduce to our trading "Arsenal".

Since we are trading a "pair" of currencies - it is good to know if they are reaching the "too high" rate or the "too low" rate - because it is almost certain that the currency rate will "fall" if it's too high or "climb" if it's too low.
...and maybe we will get lucky and find some other currency that is doing the opposite at the same time?

Did we mention "Logic" and "Prediction" somewhere ?!?!

Another thing to watch is "Currency Correlation".
Positive "Currencies Correlation" is when both currencies are going in the same direction most of the time.
That doesn't mean that they have the same rate of changes or that we should not trade them - it means that those trades are more risky.

Next post will be on market overview, what currencies to avoid, what currencies to trade and when to trade them (with one additional indicator).

Spaghetti - here we come !

The indicator shows the 8 major currencies - each currency with a different color.

As usual - we will start with what and when NOT to trade.

1. In the center of the image you can see a congestion area - almost all the currencies loose their momentum and they are flat. Don't trade and ignore all other signals !!

2. Notice the USD (green) and the JPY (yellow) - they are highly correlated and trading them is dangerous.

Now to the "opportunities":
See the CAD and the EUR Overbought/Oversold - they are begging to return...
So lets do them a favour and trade one against the other.

I STRONGLY suggest to **trade currencies that are returning from "too high" or "too low"** (from above or below the dynamic levels) - and not to be a "trigger happy" trader - that MUST trade whatever he sees...

Notice also the "cross" between them - EXIT.
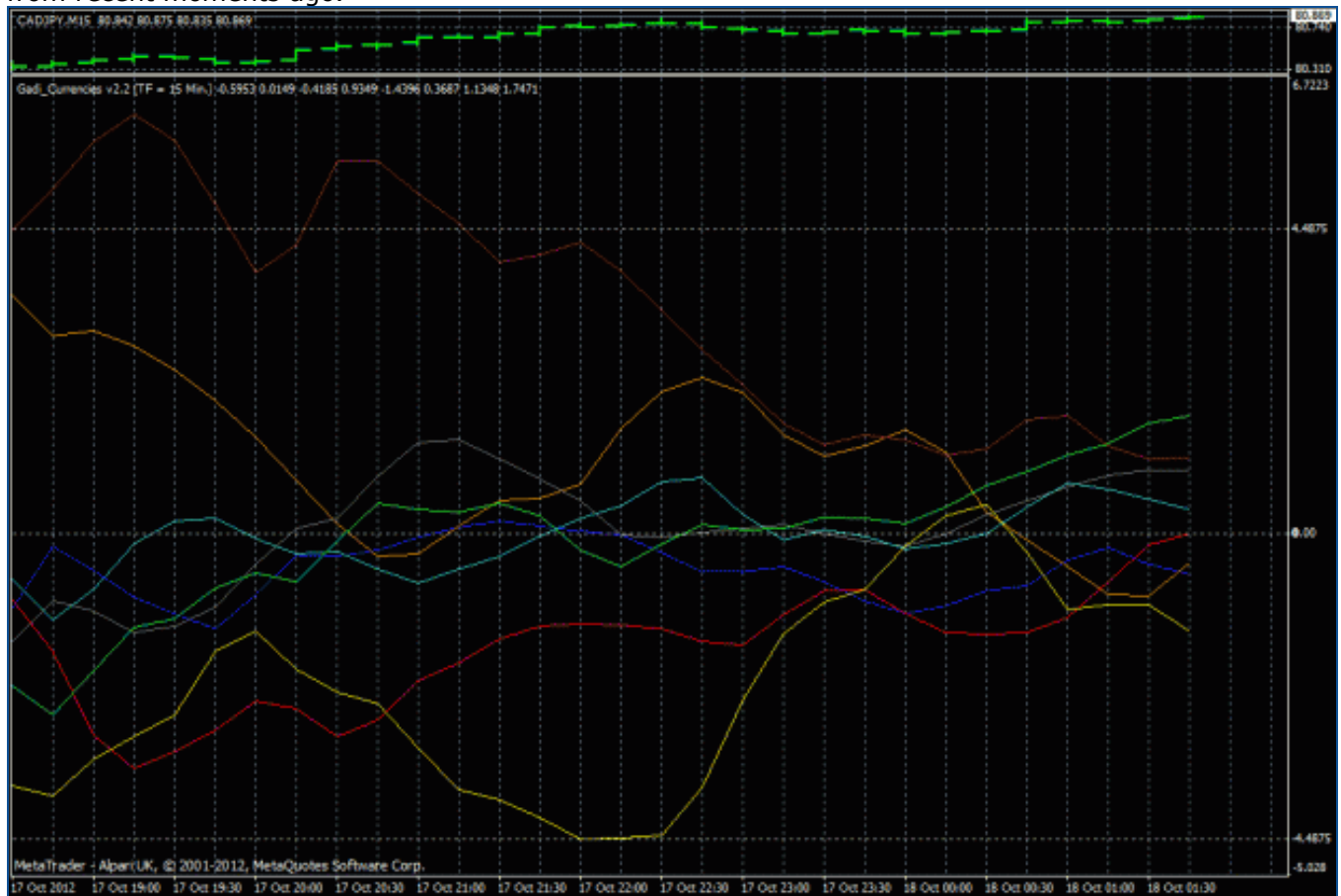

This time it's EURJPY.

Another use of the indicator:

If you see a currency going sharply up or down - seach for pairs that contains that currency.

In this example - the JPY group (i.e. USDJPY, AUDJPY, NZDJPY, GBPJPY, etc.) - look for BUY opprtunities.

BTW:
In that example we can see that the USDJPY are "separated" and no longer correlated. Check the chart - it's from recent moments ago.

We already mentioned the **CORRELATION between currencies** in the first and second "spaghetti" posts.

Here is your chance to double your money with almost no risk.

We showed that the USD & the JPY are highly correlated.
Just check the Gadi_Currencies indicator when you trade to confirm that the CORRELATION is still valid.

In our latest trade (GBPJPY - a few minutes ago) the correlation between the USD & JPY is very much valid.

So at the same time that you BUY GBPJPY you can also BUY the GBPUSD.
And on the pullback SELL GBPJPY and also the GBPUSD.

The result is more than double your green pips...

A CORRELATION between currencies is defined by the DIRECTION of movement of each currency and not by the distance between them.

You should start when the pair is at both extremes and end when either one or both start to diverge.

Cross vs. Convergence...

Edit: This one is using the G8 indi suggested by eaglepip.
THIS IS NOT MY INDICATOR - Although convergence vs. cross will show advantage to the convergence in my indi too.

Same chart as post #620 with Gadi_Currencies - convergence.

Please note that this indicator is for recommendation only.
Use the relevant chart indicators for proper confirmations.

Higher TFs
4hrs

D1

Here is a classic one on the EURJPY.
Guess what is going to happen next...
Want to know the turning point in a more accurate way? change the TF to M5.

Explanation of post #693 (the "prediction") & post #699 (results):

See the attached chart.
Aggressive mode:
Vertical line #1 is our entry point (the JPY is in "too high" zone and "falling". The EUR was in the "too low" zone and "climbing").

Conservative mode:
Wait until they cross back from the too high/too low zones.

When trading the USD or the JPY check the recent CORRELATION between the two currencies. That's an opportunity to double (and more) your trade results with very low risk.

The live trades that I presented (in posts #693, #699, #704) are **VERY HIGH risk trades - because they are AGAINST the major trend.**

The aim of that practice was to show that you can **predict a pullback while minimizing the risk**.

Mandatory Exit is either point #1 (conservative - one currency changed strengh) or points 2 & 3 (aggressive - both currencies changed strength).

When trading DAILY chart the trailing-stop should be much higher - ~50% of ATR.

At 03:00 GMT the AUD start to gain strength above all other currencies.
At the same time the JPY turned below 0 and downward.

Since it's an **Asian session** and **both** the **AUD & JPY are most active in that session** - we can look for a potential trade - **buy AUDJPY**.

Checking the AUDPY at that time reveals that all indicators are confirming this trade and the trade in in the trend direction.

At this writing the trade is in +31 pips.

During the Asian session (lower volumes) to **trade the dominate currencies (i.e. AUDJPY, NZDJPY).**

Once we understand the filtering, correlation, and the currencies strength from Gadi_Currencies concept - Let's get more confirmation and SQUEEZE a few more pips out of it.

We can use the MTF capabilities of an indicator to **validate if higher TF signal is still valid on a lower TF**.
Point #1 occured 5 hrs. ago on a H1 chart.
We can find that same point on an M5 chart TF1/TF2*5hrs=60 grid points away.

The exact CURRENT situation is at points #0.
In this example we can see the signal to buy EURJPY on H1 - and on M5 it already "crossed".
Please note that point #1 on the M5 indicator DOES NOT correlate to the MAIN chart.
It is a "magnified" view of point #1 on the H1 indicator.

We can use divergence on Gadi_Currencies_Diff indi as early warning that something might happen soon :-)

An indicator to draw it automatically (divergence indie) before posting this feature...

Just another proof that Gadi_currencies is a predictive tool.
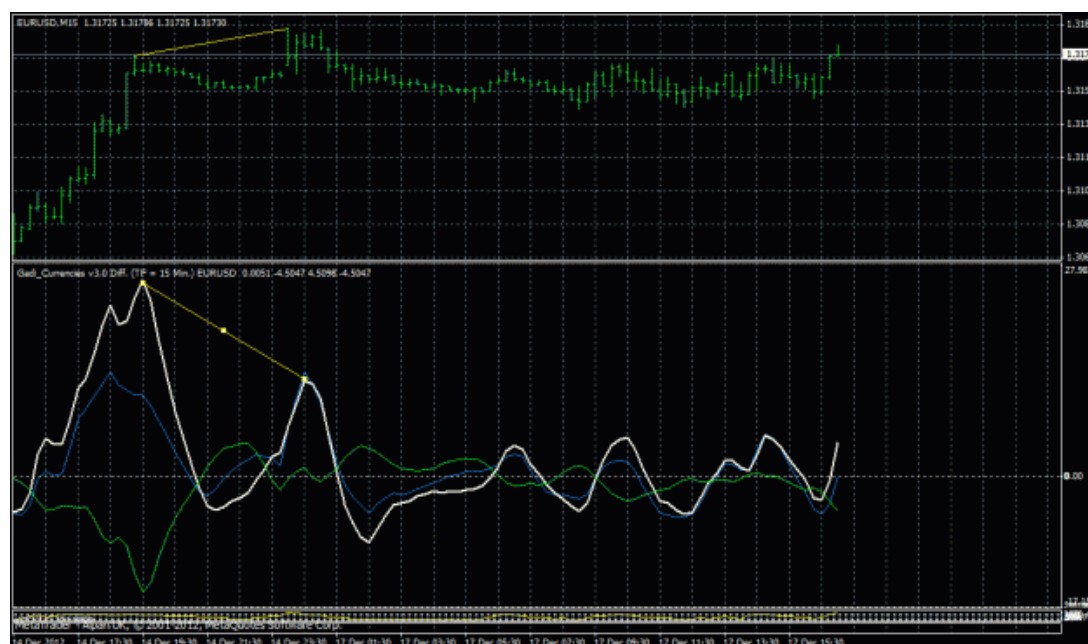
In Conclusion:

At 13:30 we got an early warning about potential opportunity coming up.
Both EUR & JPY broke the Dynamic Levels on the M15 chart (our MAIN filtering chart).
At 14:15 we got a signal that the direction have changed - and we can BUY (EURJPY & EURUSD).

However, we can use the the M5 chart AFTER the the first signal from the M15 (@13:30) and start watching the M5 chart.
The M5 chart gives both confirmation of the opposite move and an entry signal at 13:50. That's a 25 Minutes earlier than the M15 chart signal.

Use this technique with with the higher TF as a leading chart and the lower TF as a confirmation and accurate entry.

The "dangerous" method:

see attached chart - look for an area of mild activity (i.e. prolonged currencies action is less than 50% of top/bottom activity, draw lines at max/min).

Refering to your remark - That's can be done and programmed in an EA.

You can see the breaout of the JPY and the falling of GBP. You can also see the results in the next chart.

This is considered "dangerous" move because the currency might return back immediatly after entering a position.

Knowing the JPY latest behavior (as already explained in this forum/thread) - I took that risk.
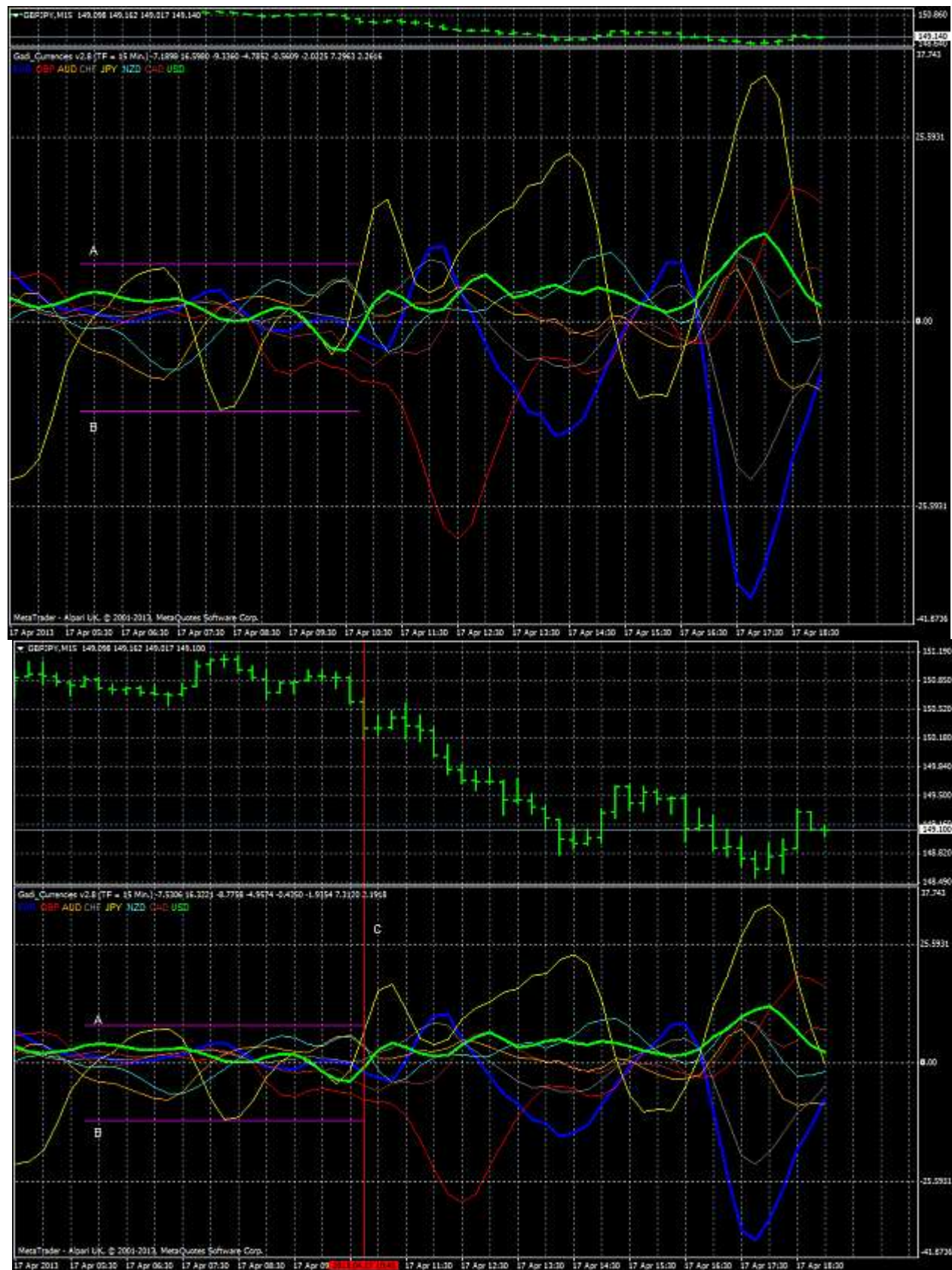
The "conservative" entry:

Since we know and established the fact that a currency eventually "returns" to the spaghetti group, here are two more trades - the "conservative" way - returning from top boundries.

You can clearly see that both EUR and CHF is moving in opposite to the "returning" JPY - so you can take both positions.
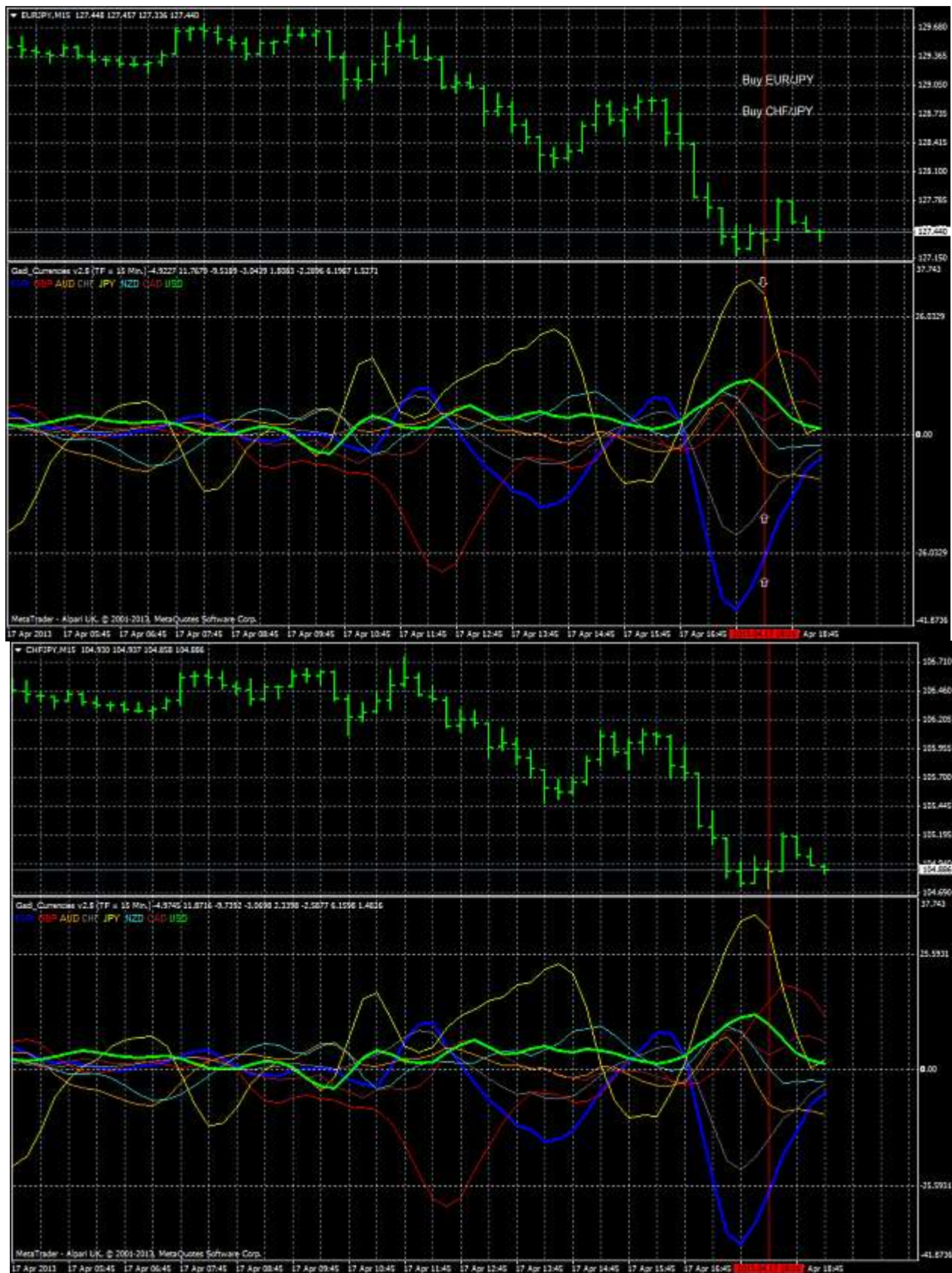
More Examples
Easy pips (**within minutes)** on Gadi_Currencies - on **M5 -**

Sell CADJPY
Sell EURJPY
Sell CHFJPY

And here is an easy
Sell GBPAUD