

How to use the 123 Strategy effectively.

Posts of "Paulus" from the thread:- How to use the 123 Strategy effectively. forexfactory.com

You have to keep this type of system clean and simple the 123 pattern is based on the psychological reactions of traders to other traders

Simple explanation..

The 123 long

We have a low at 1 we then have buying to a high at 2 and then a selling off down to 3 **BUT** the 3 makes a higher low than the 1..buyers stepped in and bought before a lower low was created and continued the down trend ..this is your 123 low formation.

The target level of your entry on this type of trading has to be 2 to 3 times the size of your stop

The way I do is simple and conservative take the low at 3 at the entry point this is your risk on the trade...just transpose the level in front of your entry to get 100% 200% 300% etc etc you can go on as long as you like until your stopped

Moving of SL

When you hit 100% move SL to entry..when you hit 200% move SL to 100% level etc etc

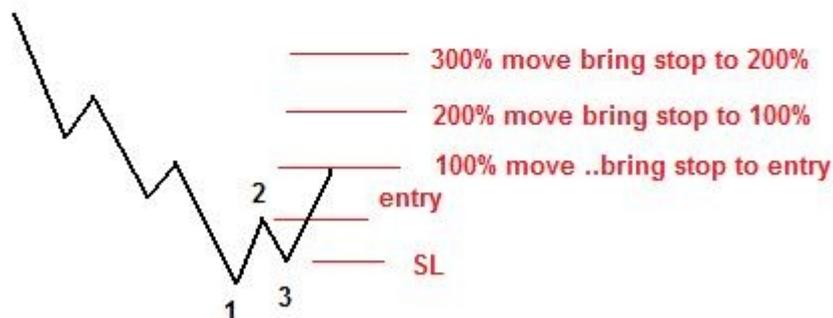
here is example followed by actual chart example the last signals is still live and stop would of been moved to break even 2 hours ago.. 4 signals since beg sept on this 1 swap on a 1 hour chart for a gain of around

1st signal 150 pips RR 7:1

2nd signal 235 pips reversed into short RR 3.5:1

3rd signal lost 42 pips

4 signal still live 100% hit so SL now at break even



I have 2 and 3 in place a break of 2 will see the short open



updated chart fail on the 15min EURUSD for - 27pips,

but in again and looking good





update on entries.. EU 1 hour new count 1 in place
GU 1 hour new count 1 in place



These 2 counts were the only 2 formation on Friday on this swap I have inc the 5 min and the 15 min which both confirm

The bottom charts shows how zig zag can help with the counts





Hi Paulus:

Great to see you contributing to this thread. Can I ask are you actively trading this strategy the way you outline here and if you are, have you been successful. I've talked with Golferguy about how he trades, he's been successful, but has variations that I guess I'm just not smart enough to follow. Was hoping someone was successful just using this system in it's basic form. Thanks for your time.

Yes I trade this for a few good reasons

1. Very good risk reward on winning trades
2. Once point 3 has been identified a lmt buy or sell can be placed and I can walk away or at least relax and do something else
3. The idea behind it is pure supply and demand .. I know why its happening not that a stoch is just OB or OS
4. Can be used on any time frame from 5min up

The most important things I have found is that it has to be used to find reversals and new trends ..not as a continuation pattern to take a long or short in an existing trend. The main reason is that we dont know how long a trend will last ie..we take on long reversal on a 123 pattern and our TP gets hit. If we re enter the trend with another 123 in the same direction it could last 2min then end..

I prefer to enter a new trend nice and early if long and we exit I look for short etc etc..my trades will always go long short long short etc etc

The count is the most important thing here..set up 3 number 1 2 3 and just leave them on your chart in a corner soon as you see a high in an up trend mark it 1 the price moves down makes a bottom and moves up mark the bottom 2..now dont forget 3 has to be lower than 1 for a short...if we get a high which is lower than 1 and price moves down we set a lmt sell at 1pip below 2 ..if price doesn't get triggered and makes a high higher than 3 we remove all numbers and start the count again

Follow that chart from A if you follow this procedure it gives you an excellent chance of spotting 123 reversals on any time frame..the risk on the short was from entry at the broken level of 2 to the high of 3 around 24 pips ...results gave us 2:1 on this trade

never enter on a gap up or down on a monday..ie we have our 123 and looking for level 2 to be broken for a long..we get a gap up open on Monday...do not trade this...its unreliable

To gauge the required pull back or rally to create the 2 point use 61.8 fib I will show this on another chart



The chart you see here is accurate and counts accurate..yellow boxes are exit points the 1st long was reversed into short 123 before any SL was hit



We need a strongish pull back or rally I use 61.8% to gauge this



- (1) Do you find 1-2-3 pattern on all timeframes equally likely to result in winning trades? Or do you find certain timeframe(s) more likely to lead to winning trades?

I have found most time frames reliable apart from the 1min which has too many signals and is difficult to determine where our trend is..

- (2) Please see attached gif file, which is a chart you have uploaded. I have added two lines and a question in the chart.

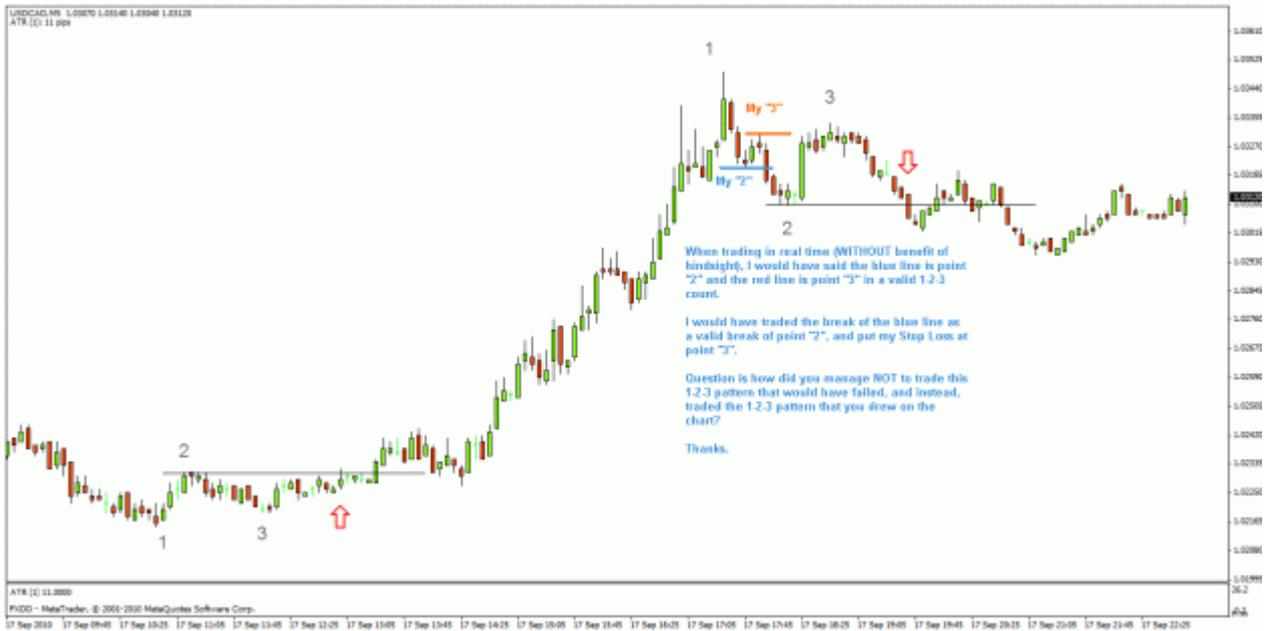
I like more than one green candle from the move 2 to 3 or more than one red candle down to 3 otherwise signals appear all over the place a doji is fine but red green red for a 123 set up is way to fine

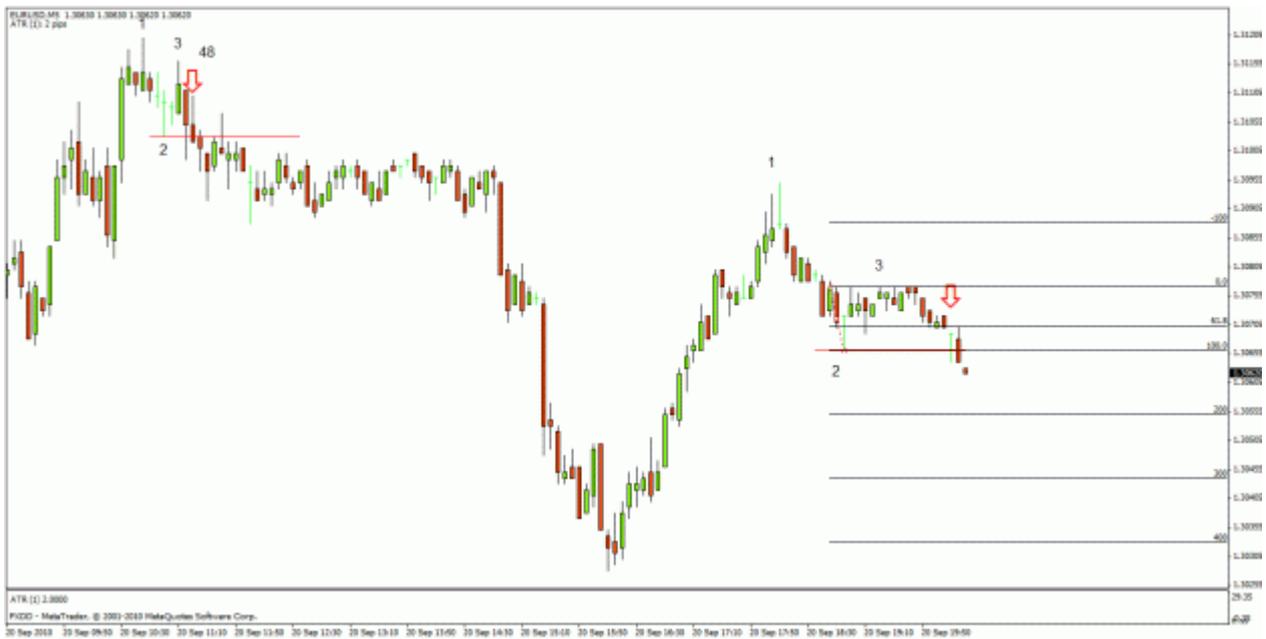
- (3) Do you place importance in the distance between Points 1 and 2? For example, "they must be at least X pips apart"...No as long as it satisfies the simple Fib retracement

- (4) You mentioned "We need a strongish pull back or rally I use 61.8% to gauge this". Does this mean if the distance between Points 2 and 3 is less than 61.8% of the distance between Points 1 and 2, then you do NOT consider this as a valid 1-2-3 setup?..correct it is not valid it may retrace more later

(5) Lastly, do you care about hours of the session when the 1-2-3 setup occurs? Let's say on a 15-Min chart, a setup occurs after US close when trading activity has slowed significantly, do you believe this setup is just as good as one that occurs during London session?

No..any set up that happens within UK open and US close is deemed more reliable purely for the fact there is more volatility ..in low periods of volatility the setup are more current





It looks like Paulus must have made a mistake when marking up that trade. He drew the fib from 2 to 1 instead of 1 to 2. The retracement marked there is in fact 38.2 not 61.8.

correct I set it up wrong but hopefully you get the gist

Hi, just 2 quick questions.

(1) We want to see a minimum retracement of 61.8%. Do you have in mind a "maximum retracement"? For example, if retracement is 85% or even 95% (making the pattern look like a double top/double bottom [DT/DB]), do you give up on this setup and wait for the next 1-2-3 pattern? Or do you actually trade it as DT/DB setup?

(2) Do we apply this "at least 2 up (or down) candles" rule for all timeframes?

I only use the 61.8 fib retracement to gauge the minimum moves required the actual 123 set up requires that point 3 is higher than 1 for a long and lower than point 1 for a short if its level I ignore above below ignore

Yes and I apply it to 1- 2 and 2-3

having good success with this in fact more so than any other system i have used or created in the past..

Its just price action but you need some rules mine are simple

1. I start looking for 123 at 7am uk time on...not before
2. if we are going up in the Asian session I look for a short and visa versa
3. I always take trend reversals not continuation of trends
4. If I take a short 1st thing then the rest of my trades go long short long short etc
5. I must have more than 1 candle in between 1 and 2 and 2 and 3
6. The pull back or rally from 2 to 3 must reach the 61.8% of the 1 to 2 move
7. My stop loss now goes 1pip below or above 1
8. My TP is always the distance from 1 to 2

My trades today so far 19+37+57 Im now counting 1 again and looking for longs

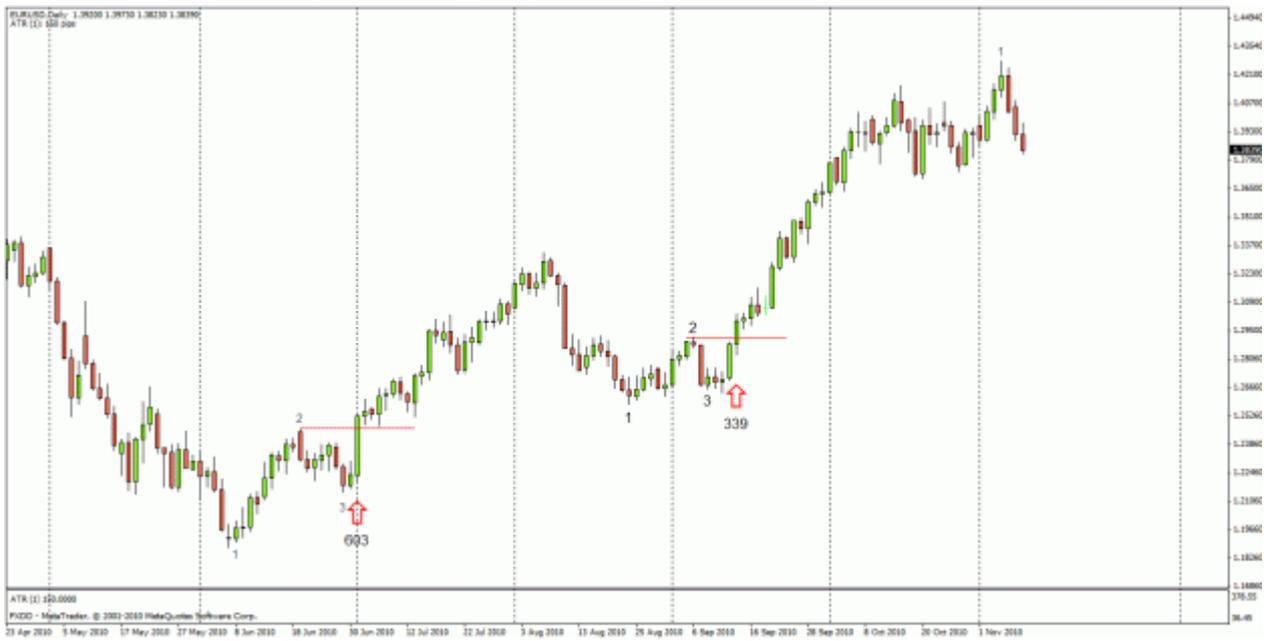


Monday



Daily

1 in place



1hour

1 and 2 in place



3 signals today

$$+29-34+37 = +32$$

currently looking for a short number 1 in place



You *CAN* take 123 patterns in the direction of the trend, but there are some nice juicy 123 patterns that are trend reversals.

I only take reversals not trend continuation 123 set ups so Im hoping to cash in on the initial move in a new trend.

Also because I take only reversals my SL at 1 rather than 2 respects the last swing high in the old trend direction so from a technical point of view is very strong

Also I do think 123 reversals are the safer stronger pattern..agreed if a currency moves up all day you can see loads of 123's in the direction of the trend..but I do prefer the reversals as it gives 2-3 good signals each day.

having good success with this system I must admit here is my latest daily signal up 470 pips

Then we have the 1hour which im still looking to long but no valid 123 count yet..all I keep doing is moving the 1 count down

And the 5min with 1 signal today so far



we now have a 1-2 in place on the 5min...

we need the low to hit the 61.8% line with more than 1 candle in between the 2 and 3 count for it to be valid ..we then take the break of the 2 level with a long,,TP is set at the 200 level which is just the distance from 1 to 2 projected forward

Our SL is at 1 so RR is 1:1



we now have 3

there is more than 1 candle between 2 and 3 in this case 3 candles and its hit the 61.8% level
The count will be valid unless the low goes below the low at 1 in which case we start the count again

Tripper point is 1 pip above the 2 level



Its a powerful pattern but you need rules to trade it effectively

I got the 25 pips also..now on count 1 for a short



1 and 2 in place for the short just had the pull back to 61.8% and the gap between 2 and potential 3 is more than 1 candle

We go short 1 pip below 2 as long as the high of 1 is not broken ...

If it does we start the count to go short again



ok 3 was fixed in place as the high did not go higher than the high at 1

Now short from break of low at 2 TP has been labeled and SL at 1



3rd TP hit so not a bad walk and talk through



Great that you have the filter using Fib. I wonder there would have been 2 other valid trades (I highlight in red) on the chart you posted. May I ask why you didn't take them?



I always trade counter trend with 123 not with the trend..this i find cuts down on the false signal so my trading will always be long short long short etc or short long short long etc

If I get the trade right then Im in at the strt of a potential new trend..dont forget if we are trending up then we need a high (1) a low (2) and then a lower high (3) the buyers cannot force the new high at 3 so it stalls...if the selling power is strong it breaks 2 and all the longs no want short and thats where we go in.

So the 1st answer is I never take 2 longs back to back..also if you look at the chart from the hi of 2 to the lo of 3 there is only 1 candle in the case of the 1st signal no candle..

I must have at least 2 candles between counts 1 to 2 and 2 to 3 again it cuts out loads of false signals.

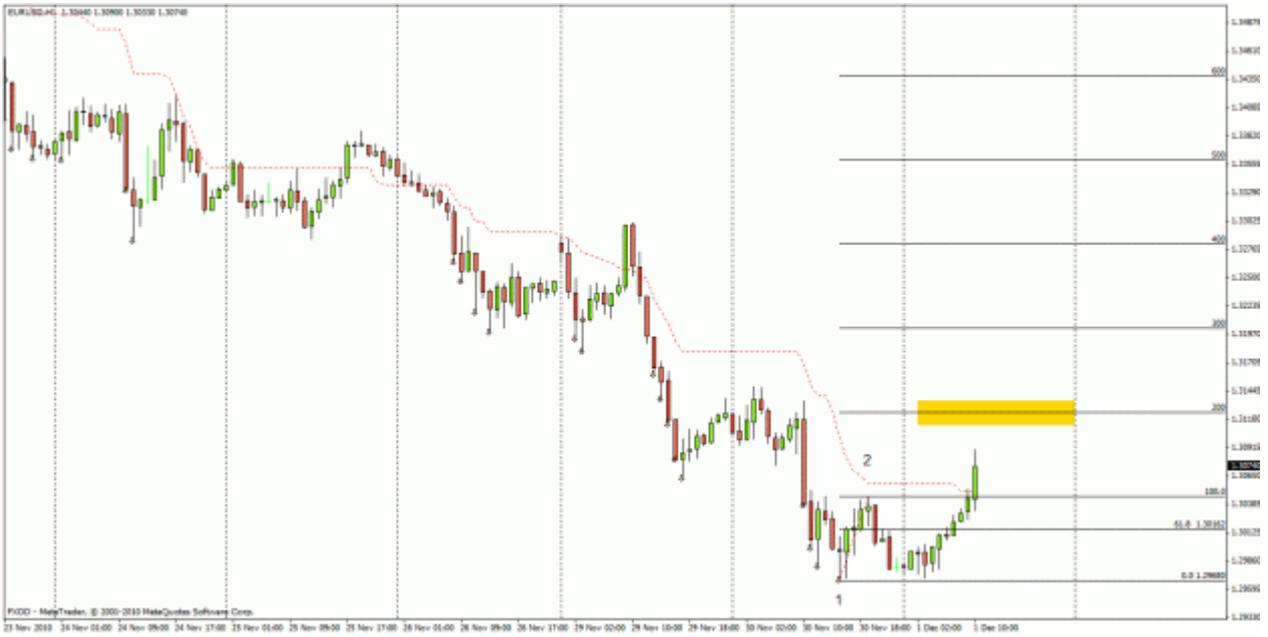
these are my rules and they have been posted earlier I will try and find them

- I start looking for 123 at 7am uk time on...not before
- if we are going up in the Asian session I look for a short and visa versa
- I always take trend reversals not continuation of trends
- If I take a short 1st thing then the rest of my trades go long short long short etc
- I must have more than 1 candle in between 1 and 2 and 2 and 3
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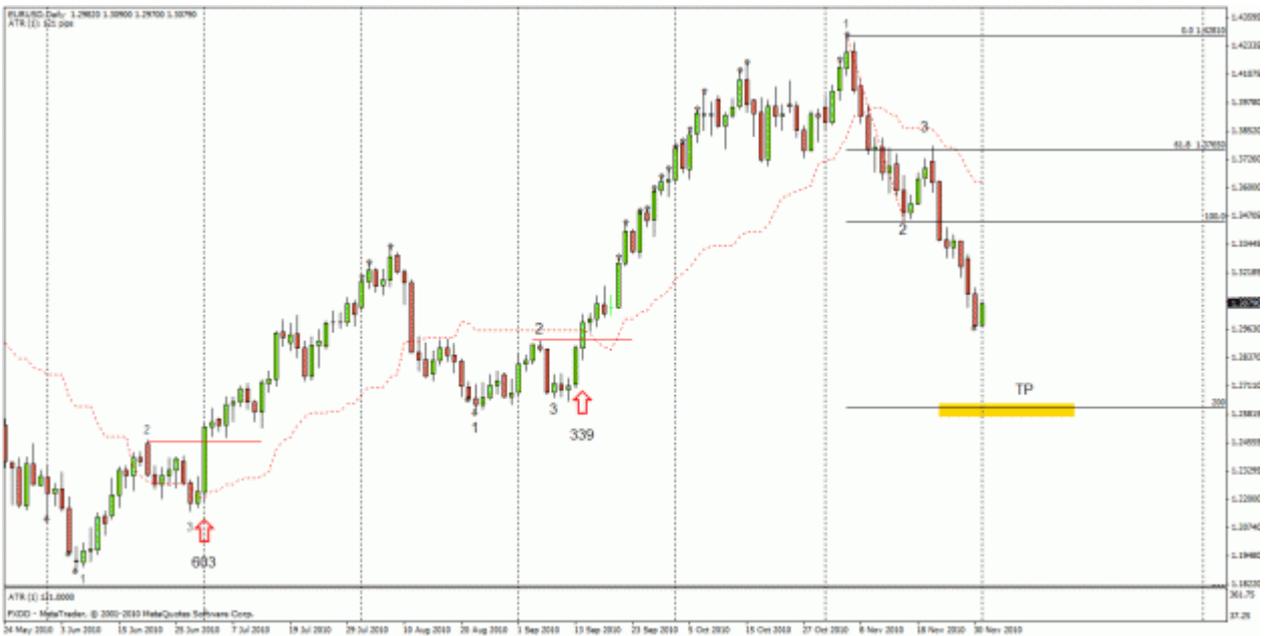
1 hour triggered from our count yest 1pip above the 2 count

On the 1hour we trade 24 hour apart from our sleep time

TP is the line at the yellow box



daily still looks good..it needs to rally perhaps today ready for punch down again 'perhaps'



Had a loser on the 5min today 27 pips...dont forget money management dont just trade 1 contract or 2 contracts because you feel lucky today work it out properly

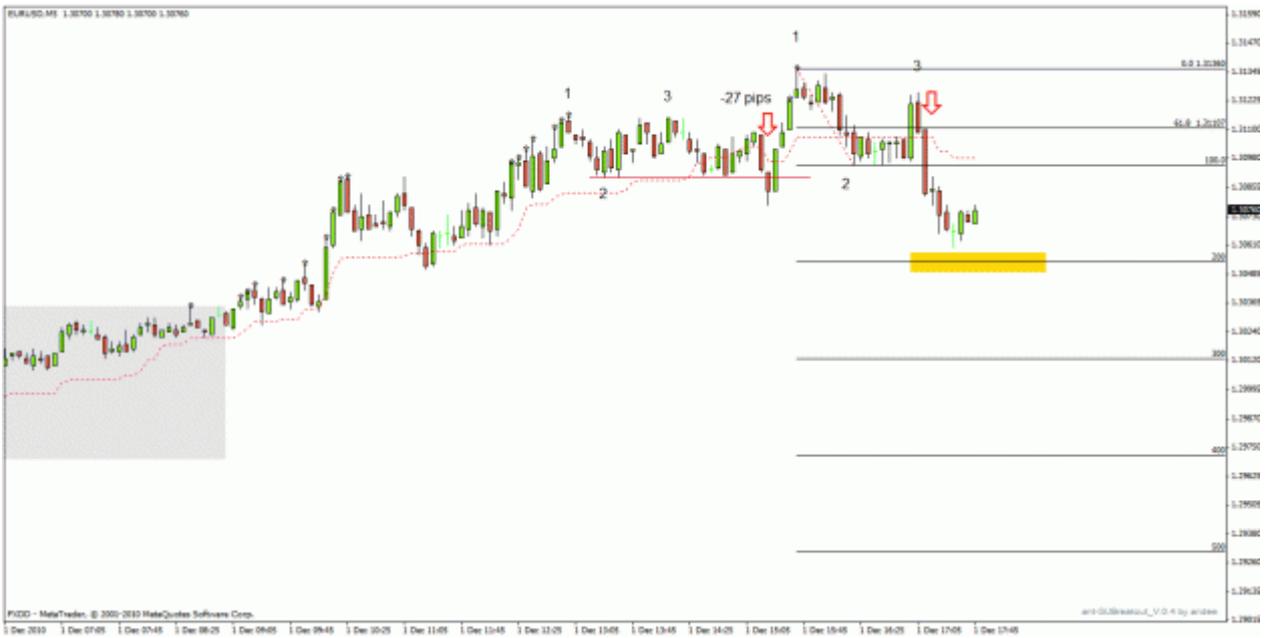
but we have had a 1hour win for 75 pips



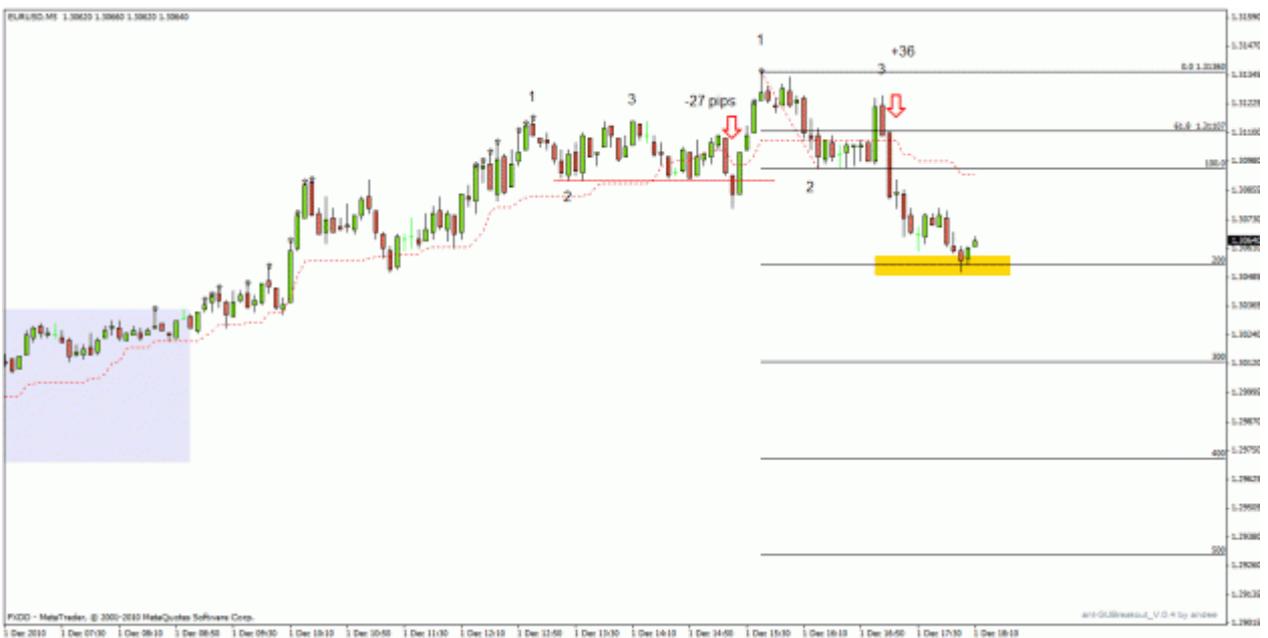
..if, after a losing trade, do you still alternate the direction bias, or are you now looking for another 5min 123 short?

yes looking for a 5min short as my SL was hit which means we have had a higher high than my original number 1 count..which means the trend continued up...so we look for the short again

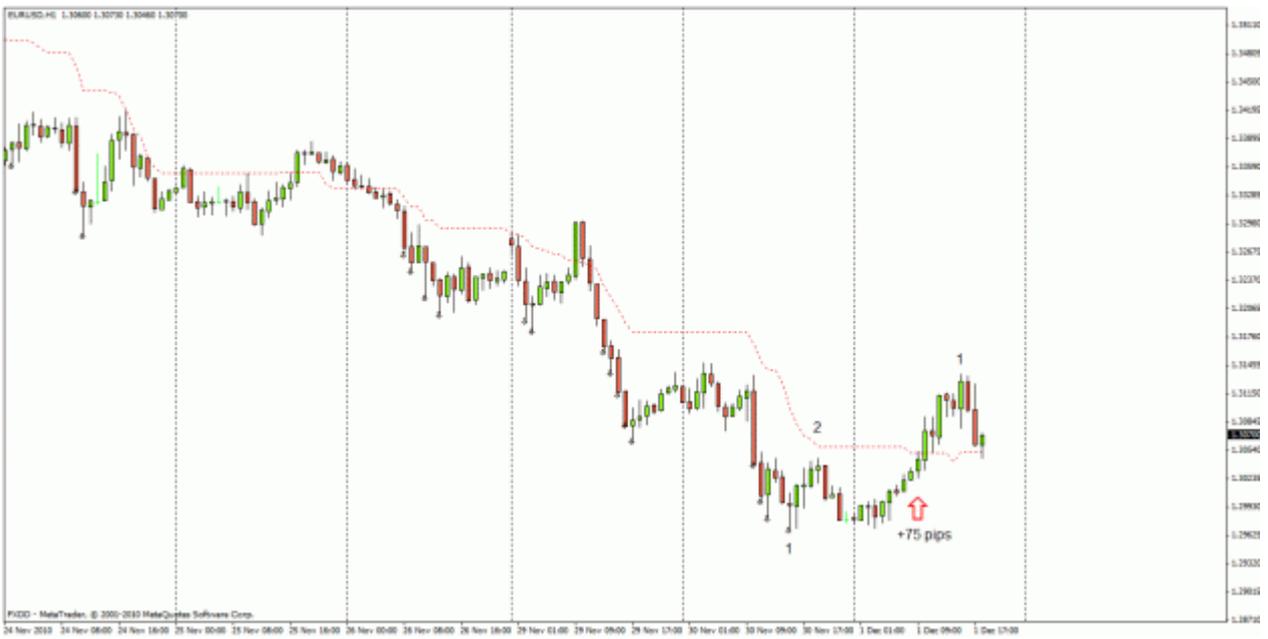
yes another short here ...not that I go on such things but a better looking 123 shape...more reasonable amount of pips between high of 1 and 3



Nice wd we have our tp now with 36 pips which was nice



1 in place on 1 hour and 5min



using the same principle here is an advanced way of entry..advanced being another word for riskier .. but maybe more production in pips

We wait until our 3 count has gone in..this is determined by

1. Being more than 1 candle from the 2 count
1. The low of the prospective 3 count is higher than the low of the 1 count

All above is normal with the 123 set up

So once our 3 count has gone in we draw a line along the highs of the candles as shown in the piccy below.When we get a candle that closes above the line ..not breaks it but closes above it we go long

In the case of the 1st example we get 5 extra pips as our TP will be the same .In the 2nd example we get 7 extra pips

On the 1hour trade today an extra 45 pips

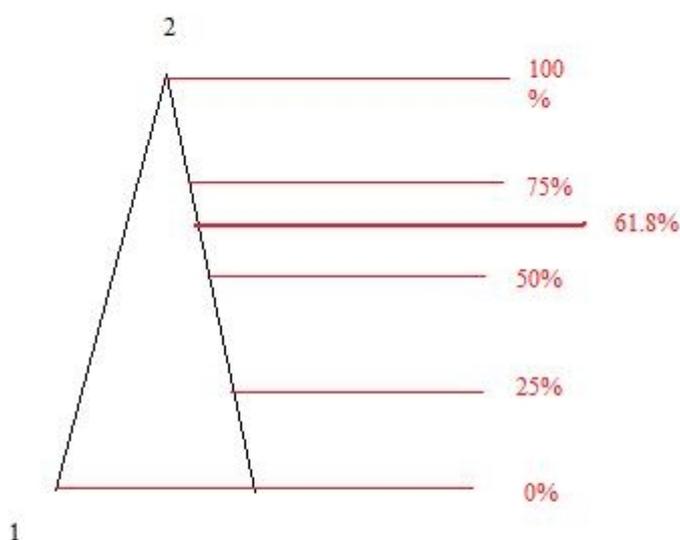


just need to clear this up in my head. We had the successful short, so we're then looking for the long...the fib you pulled seems to be for shorts?

We draw from 1 to 2...2 is the level we need to break to go long

if at 1 is 0% and 2 is 100%

Then 61.8% should be in the upper half as price has to pull back from 2 down to the 61.8% level



When i 1st started this I set my fib projections to 100 200 300 400 etc etc

For a short when price hit 200 bring stop to 100 when price hits 300 bring price to 200 etc etc

This is letting your profits run..which may be fine on daily trades but on 5min we still get allot of noise and whip saw..

I seem to make more money closing the whole lot out at my static TP rather than closing half etc etc

Also around holiday times..summer Christmas etc volatility is down so long trends seem to happen less.

Today 1st trade is a classic example Im out with 38 pips if you eneter on the riskier advanced entry you would of got 44 pips

But using the fibs of 200 300 400 etc with the price at 300 as per the chart your sliding SL would be at 200 if the price reaches 400 then move your sl to 300 etc etc

the only problem with this is that if price reaches 200 (where I close) the person using sliding SL will go to break even at 100 level (the 2 count where we enter)

Now...if price retraces they will be taken out at break even where as I am out with a profit



2 nice trades this morning for +13 and +38

1st point if im in a trade and news is coming out I stay in the trade I never close out prematurely.

Over the years with any type of trading Ive done Ive never really gained or lost because of news.

if your long you only look for the short once the long has closed out

Dont swap long short long short without a TP or SL ever being hit

Once in a trade we have only 2 out comes we win we lose....we never never reverse



After the 2nd win I was looking for a short which is my normal sequence

The number '1' in red were potential 1 counts that were then removed due to a higher high being made

We currently have a completed count with a short hopefully being triggered at 1.3362

If you took the risky entry you would be live at A at 1.3366



One question I have is the rule of only taking Long after short and short after long trades.....I don't quite get the reasoning behind that.

This just helps me stay away from the signals taken with the trend.

I only want 1 signal per trend and thats at the start...because the odds are in my favour with a 123 set up because of the higher low or lower high depending on if its a short or long.

once a trend is established no one but no one knows when it will end or fail or run out of steam...no good picking a trendy day in hind sight and saying the trend is your friend because on the 5 min time frame Ive found its better to be selective

In an ideal world Id love to use a sliding stop loss our RR could go as far as 4;1 on any one trade giving us great returns for a 51.4% hit rate.

But heres the rub..we can do that but we will have days of zero pips..Friday for example gave me +13+38..

Using my sliding stop as outlined earlier in the thread we get 0+0 not a loss agreed but no win doing this for last week gave us

Normal rules

+23+21.. +21+27..+35+25+24..-27..+38..+13+38 = 238

Sliding stop

+168+27 ..+0+0+38..-27 ..+38..+0+0 = 244

understandably the reason we cannot catch the trend sis noise 5min time frame although gives us 2-3 signals a day also has up down movement which takes out stop

when the 1st tp is hit and we normally close instead of bringing your SL to break even bring is to +50% of break even as the price often comes back to the 2 or break out level for a re test and there doing takes out our break even stop

For last week we get

+168+27..-17-17+38..-27-18..+38..-7+100 = +295

losers increase but gain in pips in increased with MM perhaps this is the way forward..

perhaps the SL should be at 3 not 1 as I originally traded ..

I will have to look over your screen prints and work out the figures..its all down to noise on the 5min time frame

there is an answer to this but for the life of me I havnt found it yet !

im now looking at an extension of 161.8 as a fib TP from entry

This should give 3;1 risk reward using count 3 as SL and 1.6: 1 RR using count 1 as SL

Of course we need to get to the TP !

But if we use MM and have a 3:1 RR its nice know that 3 losers will be = to 1 winner

my 1st 5min trade..trying new tgt of 161.8 of the move from 1 - 2 for better RR

1hour UC and 1hour EU also open





now we have it



Ive had 2 nice trades this morning on EU and GU +34 and +31

I now have 1 in place for the reversal



GU hit its TP so closed at 24 pips and a count of 1 in place for the short

EU still open atm

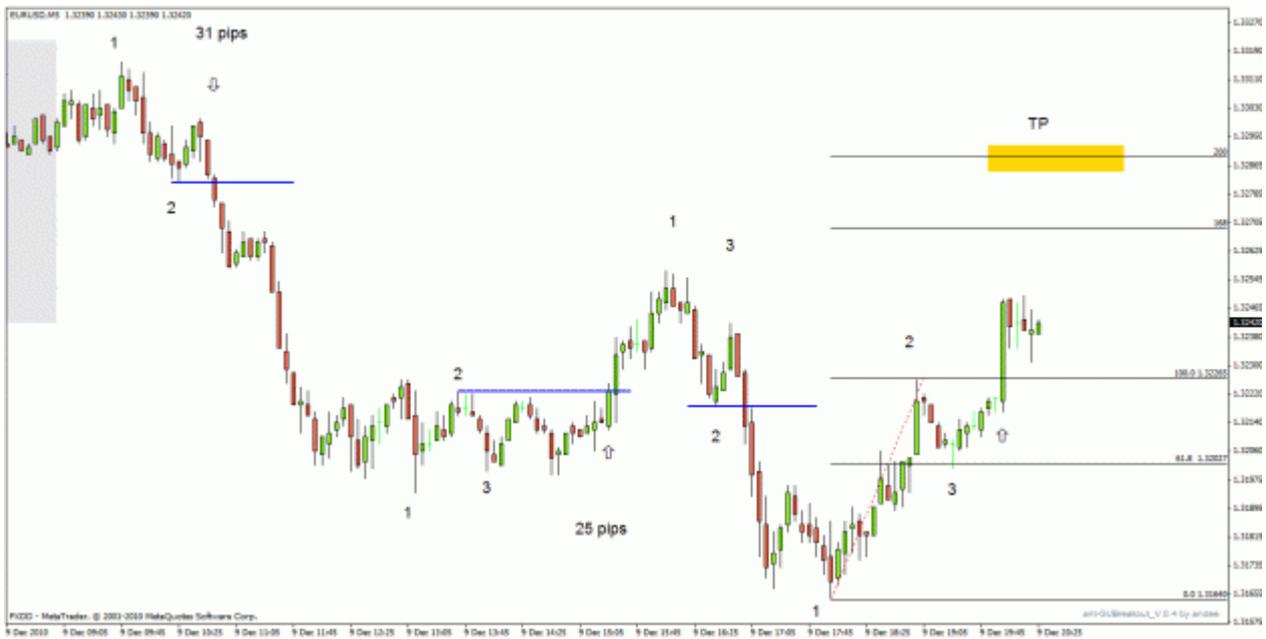


ok were there



out with 28 on gu and in a long with eu





So, you see your HL or LH, you open the trade and set your targets. However, unknown to you it is a ranging day - how do you know when to exit? Do you wait for your sl to be hit or do you use another signal?

Once im in a trade I never close out early or carry out analysis on my chart..my trading has to be black and white and rules based

I have only 2 options once im in a trade I lose when my fixed SL is hit I win when my fixed TP is hit

On a short my sl is 1 pip above 1 my TP is the distance from this to 2...projected down giving RR of 1:1

Visa versa for longs

I have no time limit I start my normal time if I go long 1min after and the day ranges I will stay in that trade all day as long as my TP and SL is not hit I never reverse...too subjective.

When US closes if Im in profit i often close

I now have a 2 in place on bothjust..but for a 3 I need a pull back to the 61.8 level and more than 1 candle in between 2 and 3 count



What about this 123?
(no good because only one bar between 2 and 3?)



Yes thats right..you can take them but if you do you end up taking loads of trades.. we need 3 definite candles the 1 2 and 3 count if we just add 1 candle in between each then that gives us 5 candles for a formation that use 3 !

way to tight..

I need at least 2 candles in between each count and the rally or pull back to the 61.8 level

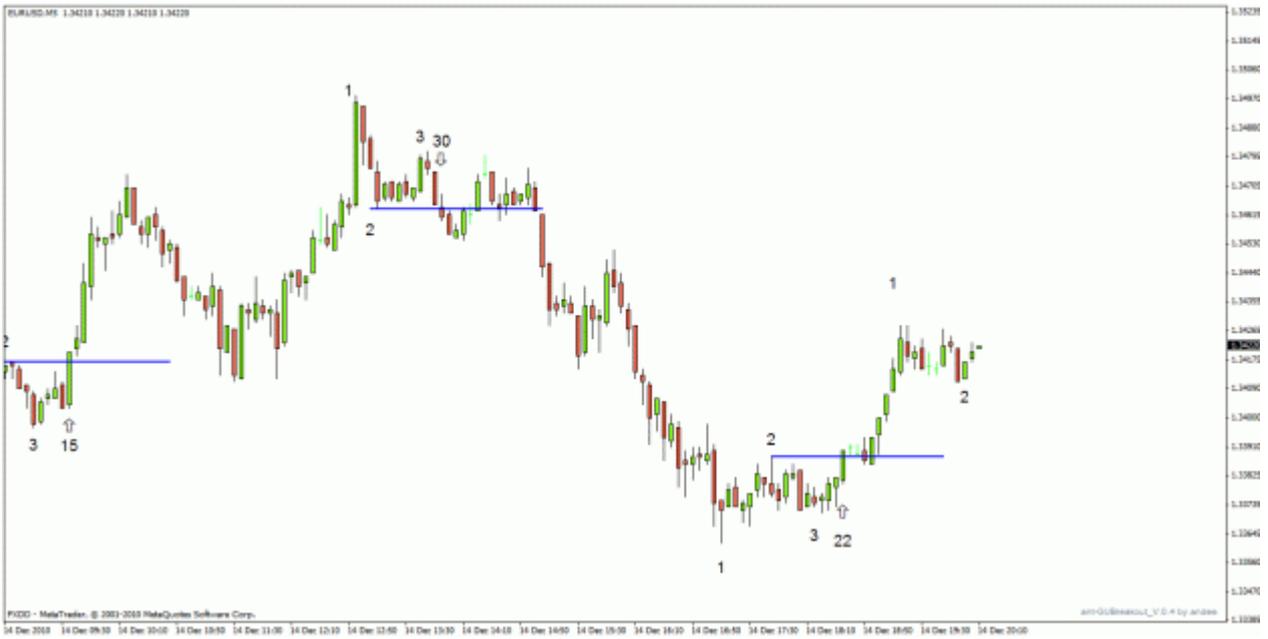
I closed the GU long that triggered 5mins before mkt closed for +17



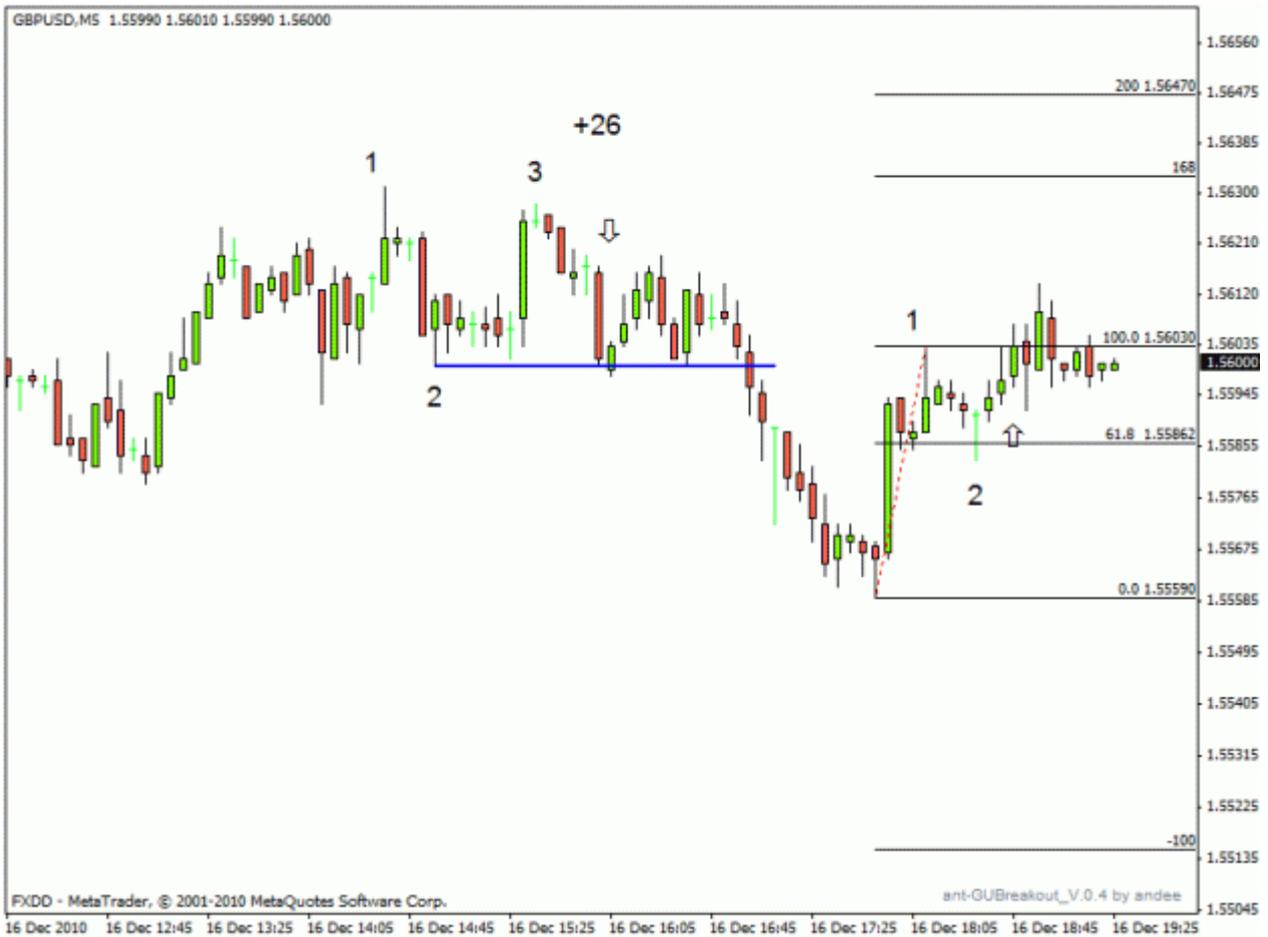
Hopefully we have the 123 count all that is happening here is the following

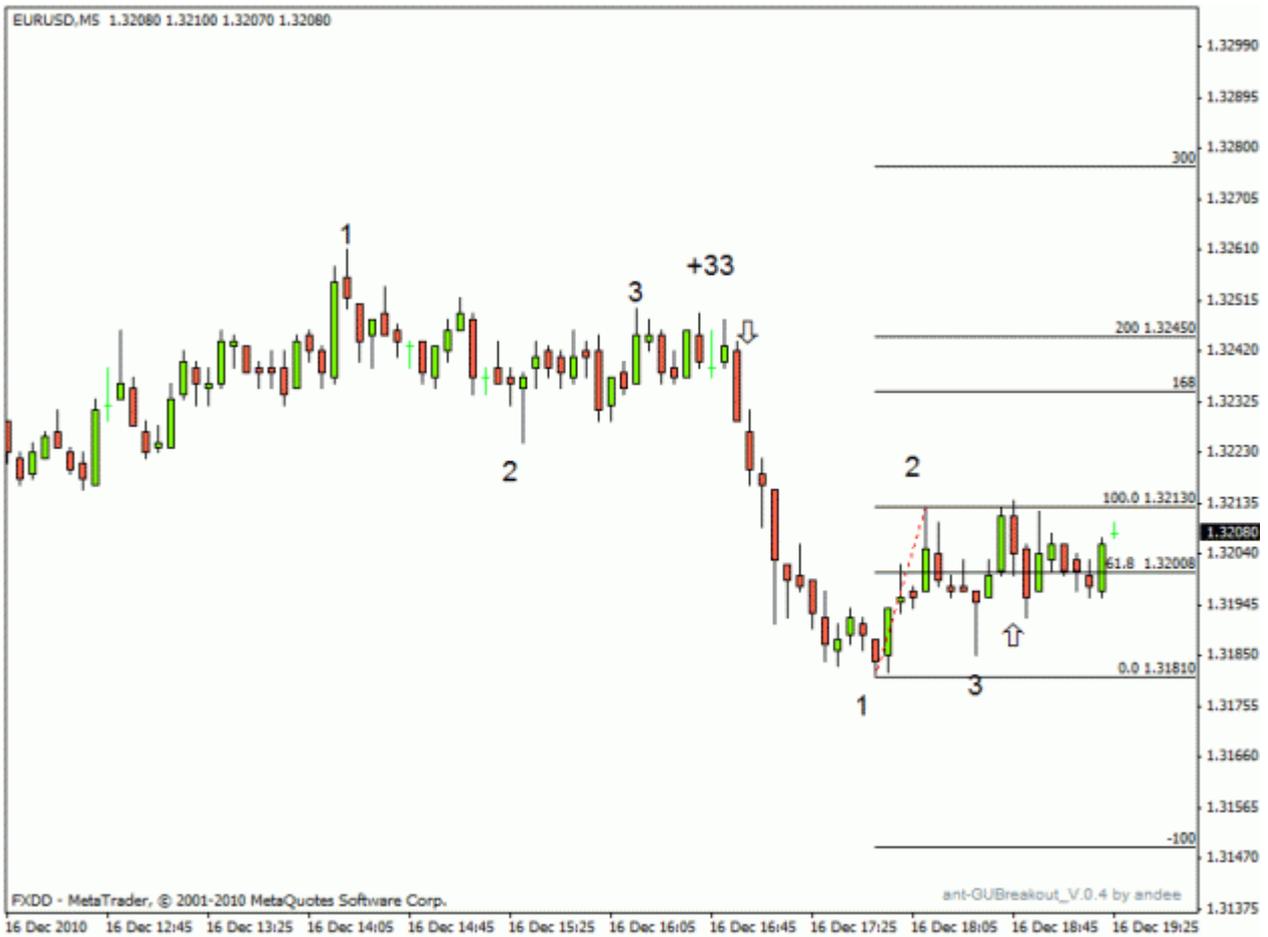
1. The price is up trending which means more buyers than sellers
2. The price pulls back as people take profits and gives us a 1 at the top
3. Others buy in now at this lower level and it rallies this gives us our 2
4. But the buying cannot make a new high and it stalls this gives us our 3
5. the buyers see this and all look to the 2 level to see if a lower low goes in
6. It does and the old buyers now become sellers and push the price down
7. This gives us our entry

Now couple that with the fact that in a down trend people often look to the rally at 61.8% level to sell more(our 3 level) and we now have more sellers pushing the price down to break the 2 level (our entry) we now have 2 powerful price driven events which hopefully we take advantage of.

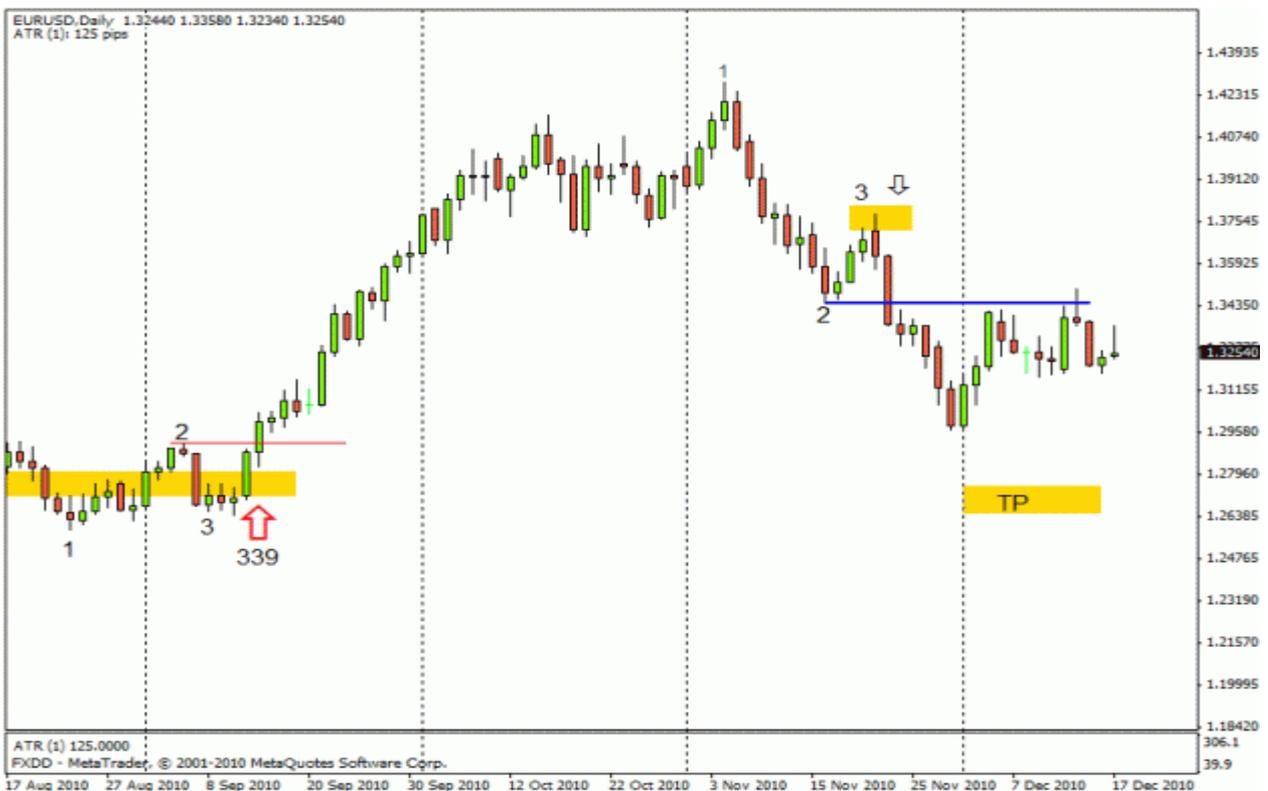


I am now long both EU and GU





my daily trade on EU still looks ok ..
 Went to +480 pips in 5 days pulled back tested old break of 2 level and now sitting at around 185 pips



the longer the time frame the larger the potential TP ...that's the theory we are always told any way..

All I know is longer the time frame less noise.... The blips that take you out of a trade on a 5min chart are not seen on a 15 min chart the blips that take you out on a 15min chart are not seen on a 1hr chart etc etc..

So your scaling out waiting on bigger Tp's is possible on a longer time frame chart .. just be wary days like this that rally and keep going up or drop and keep going are rare and are usually followed by 2-3 days of correction also known as chop side ways move etc etc then your scaled exit out will struggle.

1st TP may hit move 2 others to break even .. they get taken out you made 20 pips but risked 3 x 20 (60 pips) pips getting it.If you closed out all 3 at 20 pips you gained 60 pips for 60pips risk a better RR

Just an observation hope you dont mind me saying so

Well done today on the positive pips Iv only had 1 trade but Im long past beating myself up when seeing big moves pass me by... I can sit all day without a trade doesnt matter to me I havnt lost and that the secret I believe in the trading business ...cut down on senseless losers.. but increase contracts so on winners you win bigger by the number of contracts you trade not the number of pips you get