SRDC

Contents

1 INTRODUCTION

The Support & Resistance Daily Candle system in its basic form is a very simple and effective way of making money in Forex which is used by many professional traders. However, SRDC builds into a very sophisticated, multifaceted trading tool which can be tailored to meet requirements of the most demanding market conditions.

Currently SRDC consists of five methodologies, three of which are described here in this document, which act together to form a coherent system.

Although this document is structured numerically as methods I to III, it is unwise to begin trading in any of the individual methods without an overall appreciation of how they all work together. In particular, it is recommended that traders have some understanding of the channels used in SRDC II. It is not necessary to become proficient in SRDC II to trade SRDC I or III; but there will come a time when a trader will need to know how channels affect the movement of price, especially at the upper and lower boundaries.

2 SRDC I

2.1 The Basic Method

The basic method can be applied on all trading platforms and, because it does not rely on indicators, requires minimal training and experience. All you need to know is how to draw 3 types of line:

- Support
- Resistance
- Trend line

Before the Internet trading era, currencies were traded based on fundamentals and the use of these three lines. Therefore there is no reason why this mechanism is still not applicable.

2.1.1 Observations on the daily chart

Have you studied the daily chart lately? Do you know that many professional traders use daily charts only?

Open a daily candlestick chart on your favorite major pair and study it closely. (Don't read the text below yet) Now what do you notice?

THERE IS NOT A SINGLE BAR THAT IS EQUAL TO THE BAR NEXT TO IT!

Based on this fact, we can safely assume that the highs and lows of daily candles are unique **everyday**.

2.1.2 Preparation

2.1.2.1 Identifying the trade.

Draw S&R (Support and Resistance) on any of the previous candles. Support is the lowest price of the candle and Resistance is the highest price of the candle. Draw horizontal lines through these prices.

Do you see the next candle penetrating the lines?

YES: That's your trade

NO: Don't Trade

Go SHORT when price penetrates the Support line and go LONG when it passes through the Resistance.

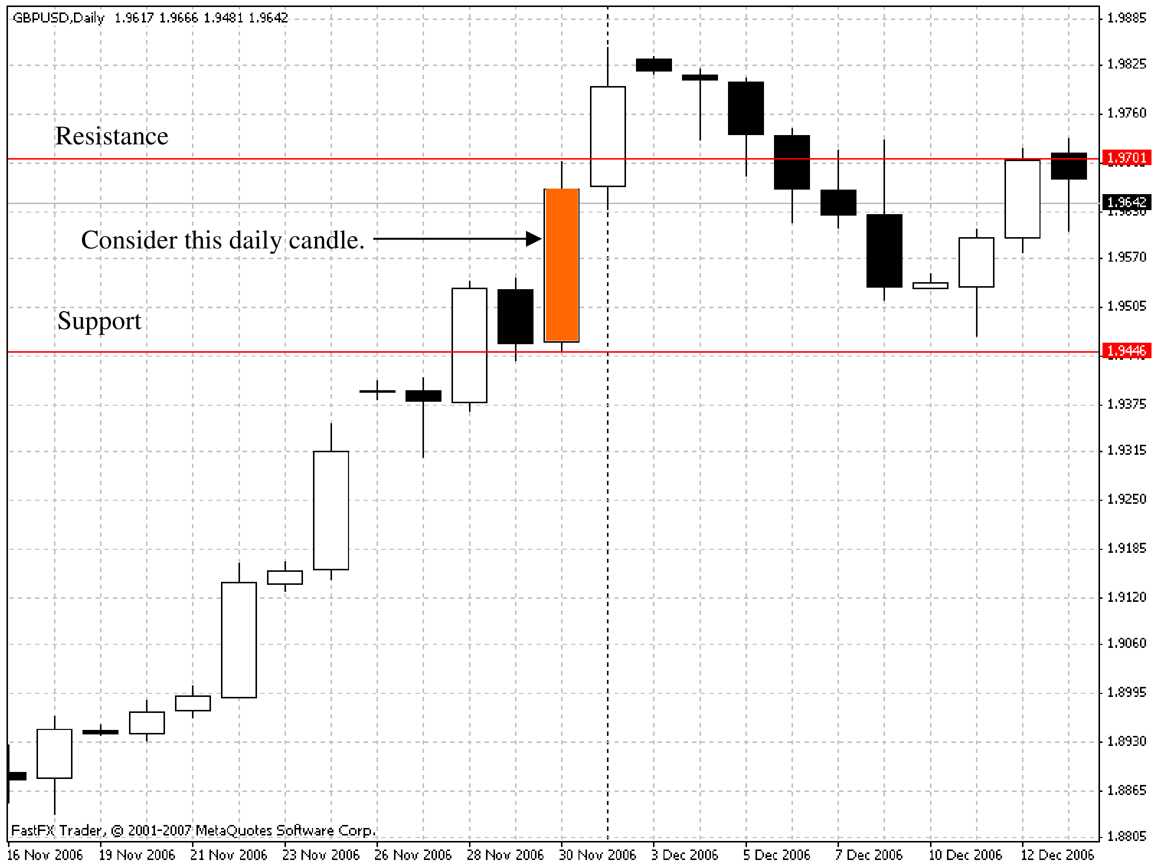


Figure 2-1: Identifying the trade.

Now do this:

Back test on as many candles as you like, minimum 20 candlesticks.

Study the number of pips for every available trade (minus spread).

How many candles give minimum 5pips?

How many candles give more than 10pips?

How many candles give less than 5pips?

Now you have the answer. ARE YOU EXCITED? You should be!

2.1.2.2 Identifying the trend

Upon the start of a new Daily candle (00:00 GMT) draw the S&R on the previous day's candle (yesterdays). See orange candles in figure 1-2 below.

Draw trend lines to determine the trend, this way you can anticipate price movement which will be either towards the Support (bearish) or towards the Resistance (bullish).

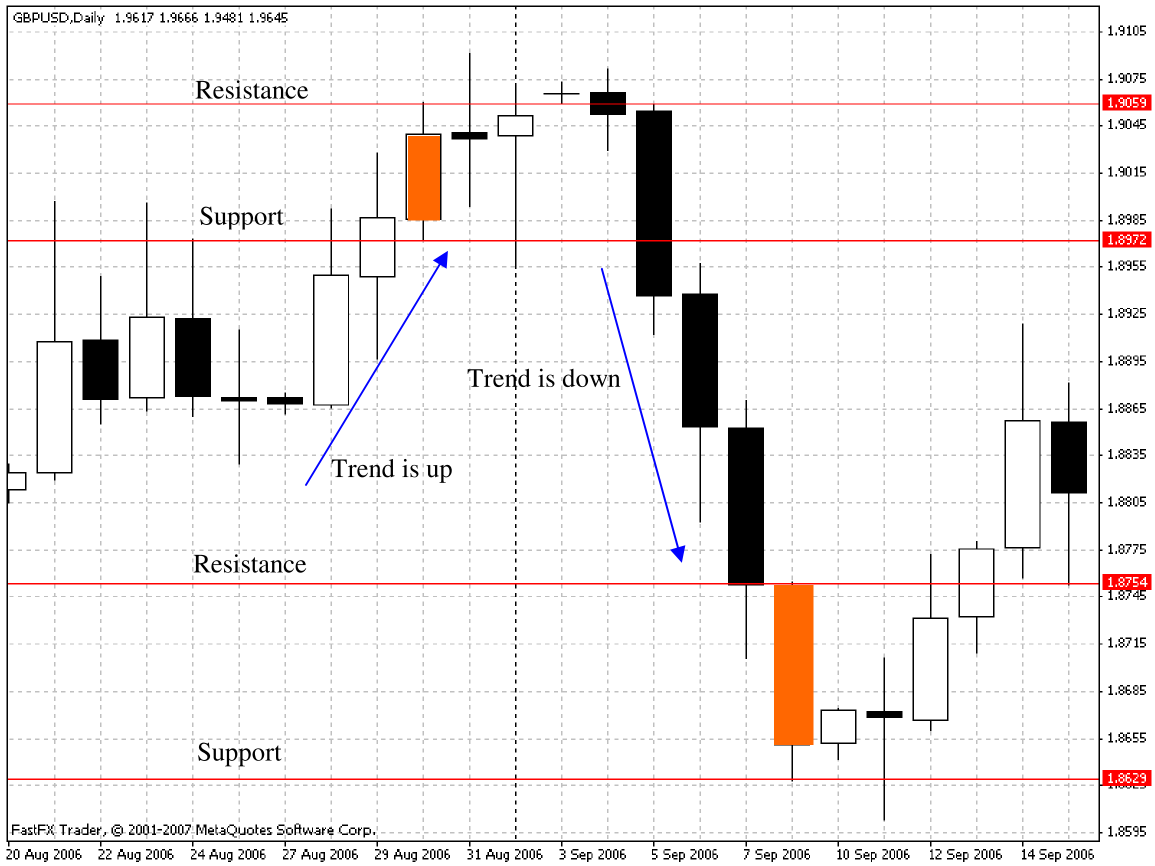


Figure 2-2: Identifying the trend.

2.1.3 Entering the trade

You can either baby-sit the trade or set it up and leave it. Either way, you can still profit from it.

2.1.3.1 Babysitting

Put a pending stop buy or/and stop sell orders. Wait until price penetrates the S&R and move your SL accordingly. Deploy TL when you have to. As a general rule when you see that price is 30 pips away from S&R, it's time to place your orders. We do this because when price penetrates it usually does so very quickly.

2.1.3.2 Ready & leave

Like the above, but with an assigned TP and SL. 5 pips is recommended as a minimum, 10pips maximum. Why? Because some bars only give a maximum of 5 pips. Using this approach you filter out losing trades making them almost non-existent.

Try placing pending orders like this:

BUY @ HIGH + spread + 1pip with a SL of 25

SELL @ LOW - 1pip with a SL of 25

Where HIGH and LOW is the high and low of the daily candle. You don't include the spread when placing a SELL because the spread is paid when buying it back i.e. closing the position.

2.1.4 Things to remember and general recommendations

1) For obvious reasons, pick low spread pairs.
2) Remember – you don't need to trade everyday!
3) Know your entry point well in advance of your trade.
4) When placing pending orders don't forget to include the spread plus 1 or 2 pips as an extra precaution. Because sometimes the force is not with us (we don't want the order to be executed on the line and the price reverse!).
5) Watch out for areas of support or resistance e.g. the monthly / weekly highs and lows. Avoid a trade when it is near to such highs and lows. Around such areas price might reverse before it hits your TP.
6) Don't trade too many pairs, maximum 3 pairs only, GBPUSD EURUSD AUDUSD. Why? Your margin might not allow it.
7) Use a SL of between 20 and 30.
8) After initial penetration, price momentum maybe exhausted so, for the basic method, it is recommended that you do not open another order.

2.2 Advanced Strategy, Level I

After having traded basic SRDC for some time you may begin to notice occasions when your trade reverses and hits your SL long before you get the minimum target of 5 pips. The Advanced Strategy, Level 1, provides a protection against such price moves and almost guarantees 10 out of 10, 5 pip winning trades.

In fact, with this strategy you can harvest more than 5 to 100 pips without worrying too much about your trade being reversed.

The secret lies in the 15 minute chart where the candles are drawn every 15mins, therefore filtering out many bad trades.

2.2.1 SRDC advanced level I rules

The Rules are:

1) Do not enter immediately upon penetration of S&R.
2) Wait until the candle that penetrates the S&R closes.

3) Wait for the next candle to fully form outside the S&R (wicks must also be outside S&R).

   3.1) When this candle forms trade on the next opening.

   3.2) When it doesn't (maybe it partly went back into S&R or touched) then go back to the rule 1.

2.2.2 Example charts

Figure 2-3 shows an example of how to identify a trade using the SRDC Advanced Level 1 method. The orange candle is the first fully formed candle after the initial penetration of S&R. You would trade on the candle shown by the arrows.

Figure 2-4 shows how the penetration of Resistance (top) on the 1 hour chart would be a loss using basic SRDC. But with SRDC Advanced Strategy Level I the trade is avoided because it does not comply with the rules.

Figure 2-3: Trade highlighted candles.

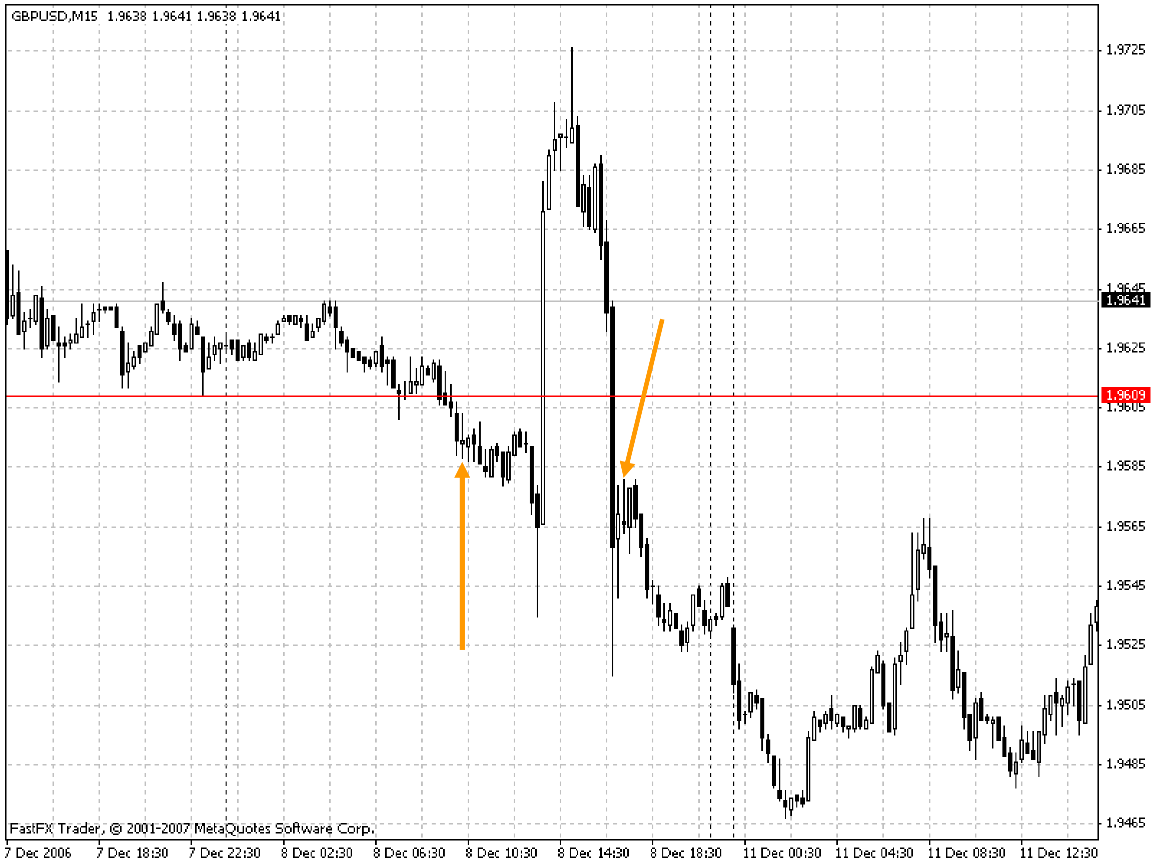


Figure 2-4: Avoiding losses on the hourly chart.

3 SRDC II

As the name implies this is an extension of the SRDC I beginners method. SRDC II is composed of two parts.

3.1 Part 1

In SRDC I entry is upon penetration of S&R. In SRDC II part I entry is far earlier that this and S&R are actually T2 (see appendix for definition of T1, T2 and T3).

The biggest challenge facing the SRDC I method was the need to identify both the long and short term trends. In this level, we greatly improve our trade entry timing by spotting prevailing trends using the FX Sniper's Ergodic CCI Trigger and Channel Trading.

3.1.1 Indicators used

Indicator	Notes
FX Sniper's Ergodic CCI & Trigger	Settings: pq = 2, pr = 10, ps = 1, trigger = 2.
LRC Channel	Linear Regression Channel on both the hourly and daily chart.
Zig Zag	
Daily chart	
One Hour chart	

The FX Sniper's Ergodic CCI & Trigger can be found here:

http://www.forexsrdc.com/srdc/viewtopic.php?t=15&start=0

3.1.2 Basic entry rule

Entry follows the trend shown by CCI.

3.1.3 How to spot the trend

First, enable the period separator to identify the relevant time references. This will draw a vertical dotted line defining a period of 1 month on the daily chart and one week on the hourly chart.

The trend is primarily identified using a combination of CCI and price relative to the LRC.

Reading the CCI: If the blue signal is on top of the red signal, this indicates a Bullish trend. Alternatively, if the red signal is on top of the blue signal, this indicatse a Bearish trend.

The LRC consists of three trend lines: top, median (middle) and bottom, and the behavior of candles within these boundaries are very predictable.

Generally price (represented by the candles) will move in a cyclical fashion from the median to the top or bottom, back to the median and once again back to either top or bottom, until such time as price breaks out of the channel, which can be several days to weeks. Based on this behavior a trader can anticipate which way the candles will travel in the short term.

For example, let's assume that a candle is hitting the top trend line, there is a high probability that price will return to the median. When price is at the median there is a high probability that it will return t the top of the channel or move on to the bottom.

So, using both the FX Sniper's Ergodic CCI & Trigger in conjunction with the LRC channel, it s much easier to identify the prevailing trend.

3.1.4 Stop-Loss

When trading the GBPUSD a safe SL will be 50-60 pips. However, this will vary depending upon your trading experience.

3.1.5 Drawing the LRC

On MT4 platforms this is a standard component and may be found under the menu item **Insert,** submenu **Channels.**

3.1.6 Daily LRC

The Big Boys draw their primary daily channel at the beginning of the month. A new monthly channel will be drawn using the last few candles of the preceding month and will always be drawn to the last fully formed candle.

Within MT4 the LRC is controlled using three points which exists on the median: left, middle, right. Selecting the LRC, i.e. double clicking on it, highlights these points which can then be controlled by selecting them individually. To draw our daily LRC we place the first point, the one of the left, on the monthly divider and use the right point to drag the LRC to the last completed candle. Then everyday we pull the LRC to the new completed candle, once again using the right point.

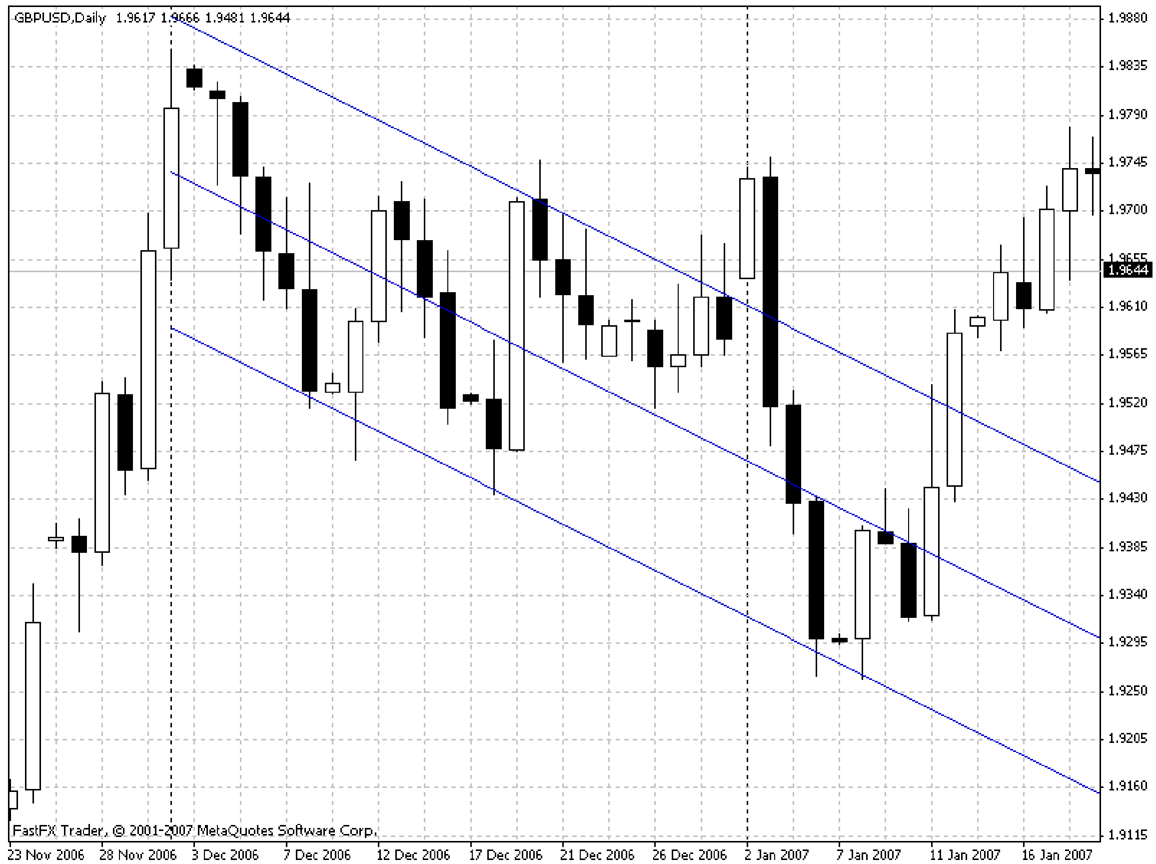


Figure 3-1: Daily LRC.

3.1.7 Hourly LRC

We draw this at the beginning of every week, Monday 00:00 GMT, and move it accordingly every 12 or 24 hours. As on the daily chart, when starting a new week, we generally use the last few candles of the preceding Friday and Sunday.

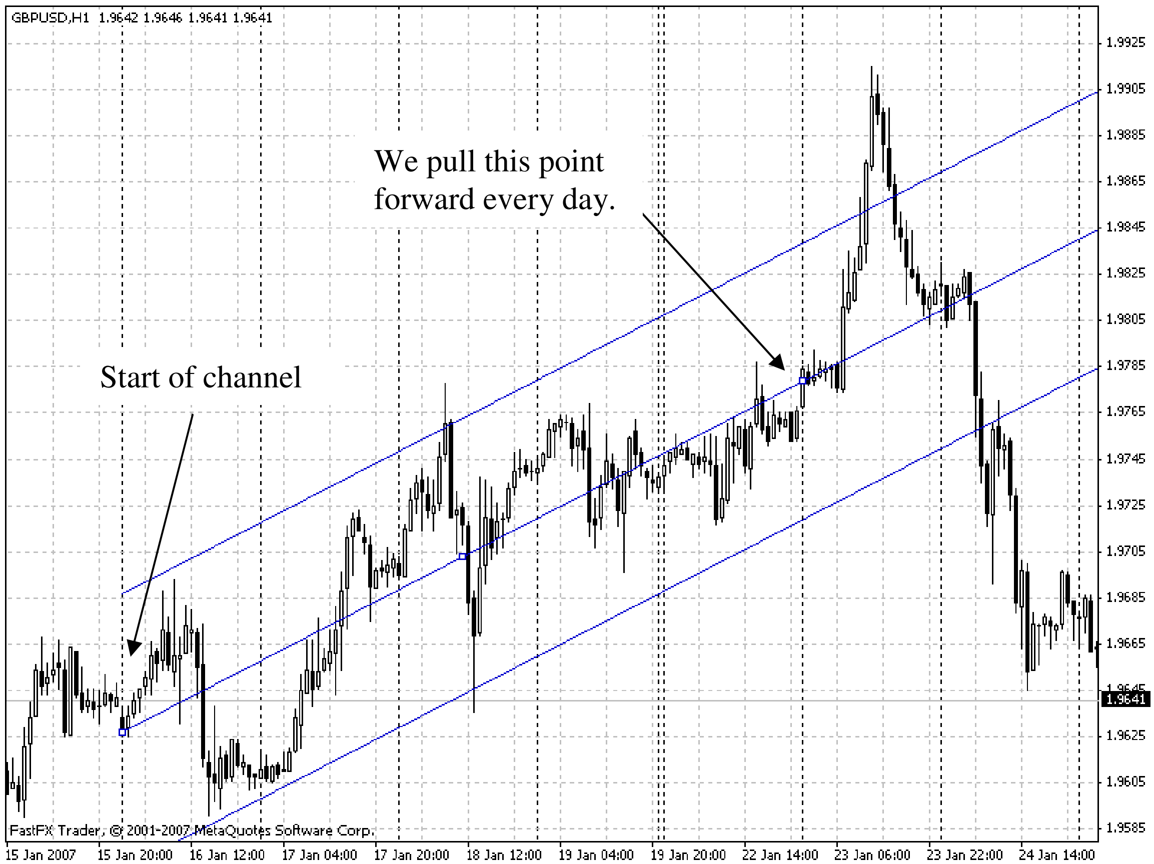


Figure 3-2: Drawing the hourly LRC.

When price is affected by big spikes, e.g. reaction to news, it can go way beyond the channel boundaries. Following such abrupt movements we wait for price to settle again and then we re-draw the channel by pulling the right point of the LRC to the candle that caused the spike. However, it should be noted that in most cases price will eventually return to the channel, this can be several hours later, so we need to use our discretion and consider factors moving price.

Figure 3-3: News spikes and the hourly LRC.

3.1.8 Example SRDC II trades

3.1.8.1 Example 1

The daily candle is currently at the median, which represents decision time for the trend to either continue or reverse. The best way to confirm direction of the trend is to look at the one hour chart which, in this case, shows the one hour candle just below the median. We wait for the next candle to form:

- When it forms under the median, it's a sign that the trend is bearish.
- When it forms above the median, it's a sign that the trend is bullish.
- When it continues to touch the median we must wait for the next candle since there is still indecision.

Figure 3-4: Hourly indecision.

The one hour chart gives you the short term trend movement within the daily channel. The daily shows the real trend.

3.1.8.2 Example 2

The blue channel is a new channel drawn after a few months on the daily chart. The old position of the blue channel is represented by the black dotted line.

Consider the rectangle which starts in the Ergodic CCI window and extends into the candle chart enclosing candles 19 and 20. The black bearish candle, 19th April, is on the edge of the lower channel (black dotted line). Below the black candle CCI shows a bearish trend.

We wait to see where the 20th candle is moving. Checking the one hour we find that it's heading towards the median after a dip, therefore:

1) When the CCI crosses and confirms a trend change (blue on top of red), and
2) The H1 Channel shows the same, confirming a bounce from the low channel.
3) Enter long and assign profit taking in the following manner (see appendix 5.1 for further details):

T1 = Yesterday's Open (70%).

T2 = Yesterday’s High (20%).

T3 = The median of daily channel (10%).

This example gave almost 200 pips and could have given 230 pips, but 30 pips were used for CCI confirmation.

Many have wondered how they can make 300 – 500 pips a day consistently. Well this is one of the methods. It’s not rocket science: we learn what the big boys are thinking and anticipate their moves.

Learn it and soon you will find out it’s no big deal.

Figure 3-5: New Channel?

3.1.8.3 Example 3

The illustration bellow shows EURUSD. Where is the dollar taking the candles? Let’s look at a comprehensive trader’s analysis using both SRDC I and II:

The long entry using SRDC I looks promising, however momentum may be weak, so it will probably touch the top channel, but 5-10 pips look doable.
SRDC I sell entry looks a long way.
So we wait for the Sunday candles and then use SRDC II entry.
Could the dollar strengthen and push the candle to the lower channel?
Here is a potential trading strategy:

- Inverse the Sunday candle
  SL 50pips
- Going long, when Sunday is (black), T1 is 1.9349 (Friday Resistance), T2 1.9366 (H1 Median)
- Going short, when Sunday is (white), T1 is 1.9293 (20pips), T2 1.9239 (mid of T1/T3), T3 1.9186 (daily median)

Should the 50 pip SL get hit, we will reverse the trade.
Allocation of Lots on Exit
- Long T1 (50%), T2 (50%)
- Short T1 (50%), T2 (30%), T3 (20%)

Figure 3-6: Trading SRDC I and II.

3.1.9 SRDC II Part 1, Summary

Remember the true trend is given by the daily chart. The one hour chart shows the daily movement. We use the one hour chart to catch the bounce and dips of the daily trend. Consider figure 3-7, look at the movement of the H1 candle. It's dancing along the upper, lower and median lines just as expected.

Look at the hourly candles always dancing within the trend. You should also note that price settles at the median at the end of almost every day. That's a very powerful piece of information.

Never trade the median, that's TP. Wait until price touches the top or the bottom of the channel, then trade the reverse.

Figure 3-7: Hourly movement within daily trend.

Consider the following chart:

Figure 3-8: Piping the daily chart

The red dot is sell, the blue dot buy and the green dot is TP.

When you know how the Big boys think, its very easy. They've got too much too lose compared to many. So they play by the rules. Breaking the rules will cost them their investor's money and eventually their reputation.

Although, news or fundamentals can and does alter a trend, most of the time trend is more powerful than either of these and price usually returns to it previous course prior to such adjustments. However, when a trend be broken and a new channel is forming, then you know that the really big boys told the big boys, "Hey, we are changing channel, wanna follow?'

The Really Big Boys are the ones who make the ultimate trend:

- Really Big Boys: Banks & Govt
- Big Boys: Big Fund Manage
- Boys
- Freshmen (who got bullied): Newbies who read a few books, run on demo a few years, and opened a mini account and think they know everything!!

Which one do you want to be?

3.2 *Part 2*

3.2.1 Indicators used

For SRDC II part we use two further indicators: **Quadrants** and **Fibonacci** levels.

3.2.2 Using Fibonacci levels

The following chart is an hourly chart with Fibonacci lines. The white spotlights show how the previous week's candles have been bouncing on and over the Fibonacci lines.

Without the Fibonacci lines the price movement might look random at first, but after you apply Fibonacci analysis, suddenly the candle movement becomes very predictable.

Figure 3-9: Fibonacci levels reveal price movement.

3.2.3 Implementing Fibonacci levels

We draw the Fibonacci levels every Monday (blue fibos). These are going to be our weekly levels and we therefore leave them fixed all week.

Following that, we draw a new set of fibs on Tuesday (red fibos) and we move those everyday to the beginning of the new day.

Figure 3-10: Implementing the Fibonacci levels.

Note that in a downward trend the 0% level Fibonacci is at the top of the channel and the 100% at the bottom. This is reversed for an upward trend i.e. we place zero at the bottom of the channel and 100% at the top.

Also, this particular chart shows red parallel lines running between the top and bottom channel lines and the median respectively. These red parallel lines are used to form the Quadrants see section 2.2.5 for further details.

3.2.4 An Example trade using Fibonacci levels

Price penetrates the Fibo level 61.8%.

We enter long at 1.9589

The next candle tests the Fibo 100, but price cannot maintain its momentum and falls back under the Fibo 100%. Therefore, we take some profit here.

Final TP is at 1.9660 at the closing, giving a total profit of 80 pips.

Figure 3-11: Example Fibonacci trade.

Remember a penetration of the channel or Fibo line is only confirmed when the full candle is forming. Simple price penetration is merely a test.

3.2.5 Quadrants

As the name implies, the channel is divided into four distinct regions which are used to enter trades. The following chart shows how to enter trades for a bearish trend.

Figure 3-12: Quadrants in a bearish trend.

In a bullish trend we look to enter trades in the following manner:

Quadrant	Trade
Q4	Buy
Q3	Buy
Q2	Buy or wait until price enters Q3 then Buy.
Q1	Sell

3.3 Part 3

3.3.1 Indicators used

Indicator	Notes
84 SMA	The 84 Smoothed Moving Average

Here we introduce moving averages (MA) into the SRDC II method. With respect to SRDC trading, MAs are basically a form of S&R.

The right period of MA can be a good trendsetter. We use many MAs, but to keep it simple, for now we will consider only the 84 SMA.
The 84 SMA is actually used to draw the channel. The start and the ending of a channel is determined by the position of the opening candle (00:00GMT) with respect to the 84SMA.
Using the 15 minute chart - trend is up when the opening candle forms above the 84SMA and trend is down when the candle forms below it.
A trade can be initiated using this trendsetter. You might lose some good trades, but as you will find out with practice, you will filter out many, many bad trades. Use your discretion and the channel to decide the direction of your trade.
The channel is drawn from the last trend to the current trend. Always include the last trend unless the current trend continues more than 3 days.

Figure 3-13: Using the 84 SMA.

3.4 Using The Zig Zag Indicator

Channel drawing is a tricky business especially for beginners. It actually need lots of practice and won't happen over night. Like everything else, you will make a lot of mistakes, but hopefully you will learn from them.
The **Zig Zag** (ZZ)can help you to draw your channel more accurately. However please be warned that the recommended settings i.e. 15mins chart, extDepth 100, 1 Hour chart extDepth 88, may not be the best settings, but it's a start.

3.4.1 Zig Zag Indicator

The custom indicator provided by MT4 can be located **Navigator Pane**. ZZ draws dip and bounce (at lower settings) and High and low (at higher settings). Price usually reverses when the line is drawn, but it's not guaranteed.
But we are not using ZZ for that purpose here. Since it draws a straight trend line based on highs and lows it helps us to determine the start and end of a channel.
The ZZ line will redraw itself when a trend is changing, so it will guide your channel, and actually help to determine our next entry and exit points.

3.4.2 Channel Drawing Using ZZ

Start your channel from the last bend of the ZZ line until the end of the line. You can pull the LRC starting from this point minus 1 bar. When you include the last bar, your channel will move and it will drive you crazy.
When the ZZ line changes direction, draw another channel and learn the new dance within that channel. The length of the channel will be determined by the length of the last ZZ line.

3.4.3 CCI trend lines

4 SRDC III

To fully utilize this level you must be familiar with SRDC I and SRDC II.

4.1 Box Trading

Box trading is a very profitable method of capturing intraday breakouts and filtering whipsaws and is used by many institutional traders all over the financial market. One of the most famous breakout systems is known as the Big Ben strategy, which is designed to capture the first intraday move which occurs around the London open. Another system, made popular by Rob Booker, which is worth mentioning is called "The New York Box". As the name implies it is a system devised to capture the intraday moves associated with the New York session.

This system is not as powerful as the next Episodes but, nonetheless, it can easily harvest 20pips or more.

4.2 The Basic System

We create a box from 00:00GMT until 08:00GMT. This is done by drawing a horizontal line across the highest and lowest of the eight hour candles. Now, if price breaks out of this box there is a high probability of a good trade. The reason is simple: GPBUSD trades lightly outside of the London trading hours and, following the Frankfurt and London open, the surge in trading gives real direction, moving the candles outside the box and forming a new trend either upwards and downwards.
Here is an example on the 1hr chart GBPUSD:

Figure 4-1: One hour box breakout.

Although the method primarily relies on the hourly chart, entries are executed using the 15 minute chart.

Using the 15 minute chart we get a finer resolution of strong moves, thereby giving us the opportunity to detect breakouts earlier. For example, if we have a sudden move this would show itself as a very long candle on the one hour chart. However, on the 15 minute chart we would see the following:

Figure 4-2: Strong move on the 15 minute chart.

4.3 Entering A Trade

There are many entry styles, but we shall consider one based on price action.

- One

  Trade the direction of the breakout as soon as price penetrates the box.

- Two

  Trade the direction of the breakout at the opening of a new candle after the box is penetrated (provided it's outside the box): the blue arrow in figure 3-3.

- Three
  Wait until a full formation 15mins candle finish forming: the pink arrow in figure 3-3. (A full formation candle is when the low of a candle is greater than the top box or when the high of a candle is less than the bottom box.)
  Then enter at the opening of the next candle, following the direction of the breakout. Just like the SRDC I basic and advance entry rules: the Orange arrow.

Figure 4-3: Trading the box.

4.4 Exiting The Trade

The TP is up to the individual trader. However, based on experience, we recommend the following: 20pips should be achievable everyday; 40pips is not unusual and, every now and then, even 100pips can be had.

Knowing the GBPUSD range will be helpful. You TP can be:
RANGE – BOXSIZE
And traillock can be 2/3 of the above value.
A good exit strategy would also be at 17:00GMT or 16:00GMT, i.e. London close depending on daylight saving.

4.5 Trading Episode III using Episode I (Filter)

On many occasions the box may exceed the S&R as defined by the previous day's High and Low. This may be due to a strong move from the Frankfurt open, which is one hour before the London session opens.
In this case, you can use the previous day's S&R as part of your box. Should the breakout

occur on the S&R, you can initiate 2 trades at once, and this is usually a profitable move. In other words, S&R is more powerful than the SRDC III box.

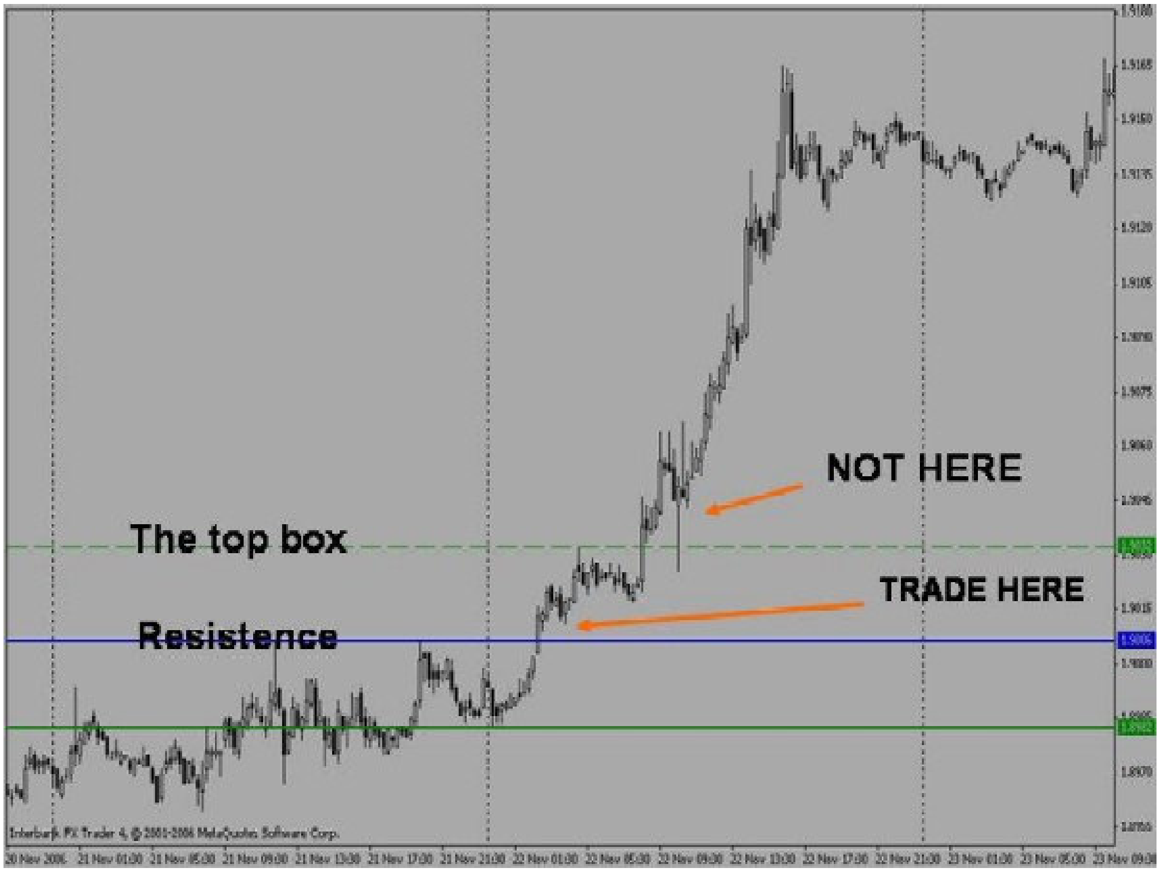


Figure 4-4: SRDC III trade with SRDC I filter.

4.6 Trading Episode III using Episode II (Filter)

The LRC channel can also be used to provide further guidance with respect to the breakout direction. Experience of SRDC II, using the LRC, will be invaluable for this type of trade. Using knowledge of SRDC II channel behavior, it should be easy to establish the most probable breakout direction based on the position of the box inside the channel. See the example below which illustrates numerous examples of SRDC I, II and SRDC III trades here.

It is important to note that TP can also be determined by using the channel! When you have been trading the channel for some time, you will develop an understanding of what this means. The bottom and top channel is your final TP.

Figure 4-5: SRDC III using SRDC II.

4.7 Can you enter a trade in both directions?

Yes, sure you can - but the box better be at the median of the channel. Trades biased in the direction of the 84 SMA trendsetter will be used to take more profit.
Trading the news? From my experience, when I'm in a trade, I always move my SL to breakeven 1min before the announcement. But, when you are not in a trade, just remember this, **"THE CHANNEL IS STRONGER THAN NEWS"**.

4.8 Stop Loss

Well, the 1 million dollar question. Where is the best stoploss?
There are 3 ways to set your SL.

- The box size. This will cover any whipsaw but when box gets too big, it can be daunting.
- 50pips should be safe on GBPUSD.
- The 84 SMA in 15mins or 21 SMA in 1hr chart.

4.9 SRDC III, Summary

We use many other techniques to trade SRDC III. But, the above explanation will be enough for now.

I hope SRDC III will enhance your other SRDC trading methodologies.
I look forward to your success and happiness in Forex trading using the SRDC way.

5 General Considerations

5.1 Markers

A marker is a peculiar candle or a series of candles. It is not necessarily on the 17:00 GMT although, in the example below it is. The most usual candle to act as a marker is the last 6th candle.

In the example some obvious markers have been highlighted in orange and green. You can see this better on 15mins chart to the exact candle. See how the high, pause, low and end of day for this trade was already mapped out.

Please don’t think you can spot this technique today and become an expert. That is naive. It took me many years to master this. Now I can spot it even by a glance.

Therefore when you want to learn and master this, take time hours and hours drawing trend lines, S&R on past charts and see what the market tells you.

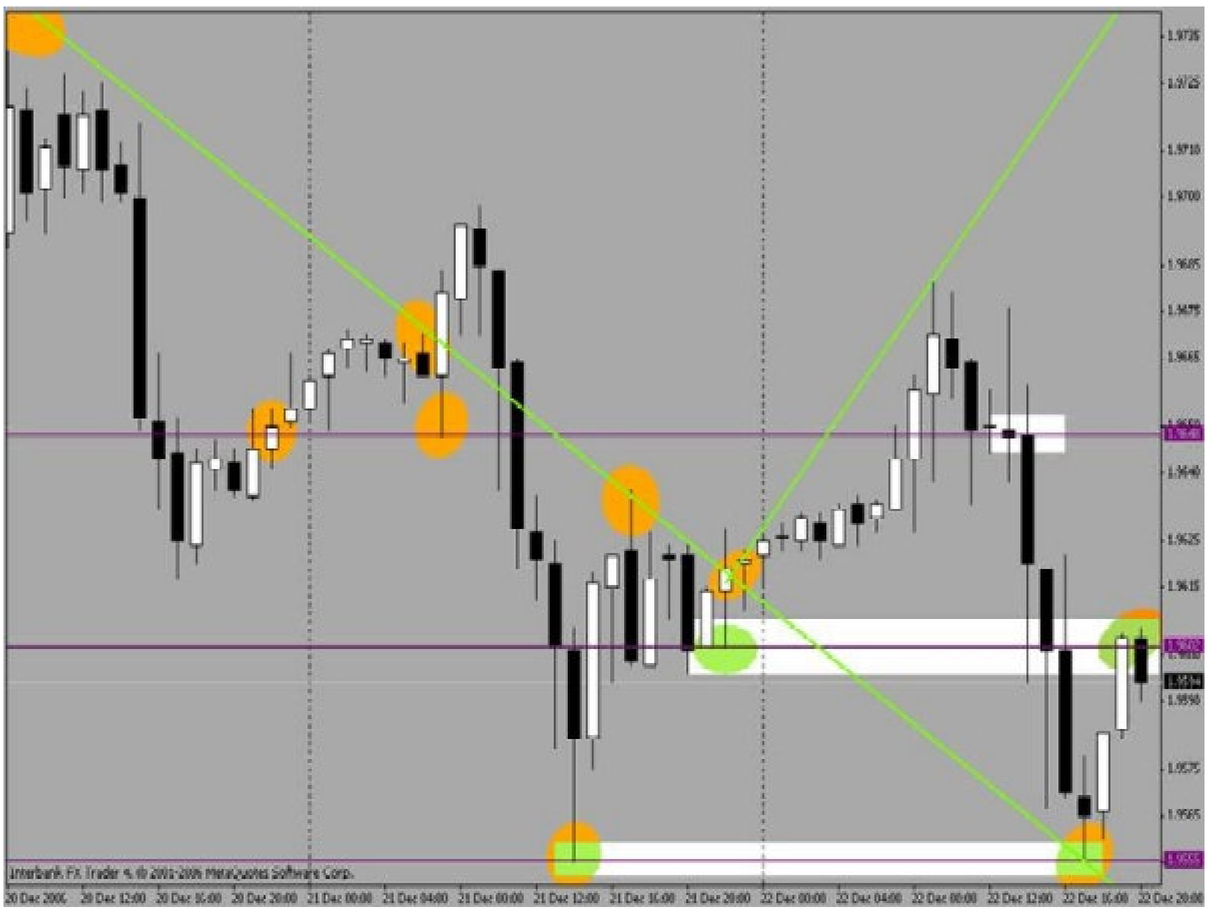


Figure 5-1: Markers

5.2 The 6th Candle

The 6th candle acts as a compass for next day's direction. It is basically a continuation of yesterday's sentiment. A guide for the Big Boys or clues or secrets to where everybody is heading the next day.

The "Sixth Candle" is defined as the sixth candle counting back from 0000 GMT on any particular day (see Fig 5-2 below). On the 15 minute chart, it is the "22:30 GMT" candle. Moving forward from the sixth candle we have the "fifth candle" or the "22:45 GMT" candle and so forth. Ultimately, the "first candle" is the "23:45 GMT" candle or the candle prior to 00:00 GMT.

Figure 5-2: The 6th Candle.

5.2.1 Purpose

The "6th Candle" or "Sixth Candle" is used as a "marker" candle to determine the potential high and low of the following day.

5.2.2 Methodology

How does one determine the potential high and low of the upcoming trading day using the "6th candle"? It is accomplished by drawing a trendline (**with ray on**) which connects **the high or low** of the 6th candle with another marker or significant candle. This other significant candle can be the high or low of the previous day or another candle between the "6th Candle" and 00:00 GMT. The projection of the ray into the upcoming day gives us a support line or resistance line thus defining the high or low of the day.

5.2.3 6th Candle combinations

Here are some possible combinations:

5.2.3.1 High of Previous Day and 6th Candle = Projected Low of Next Trading Day

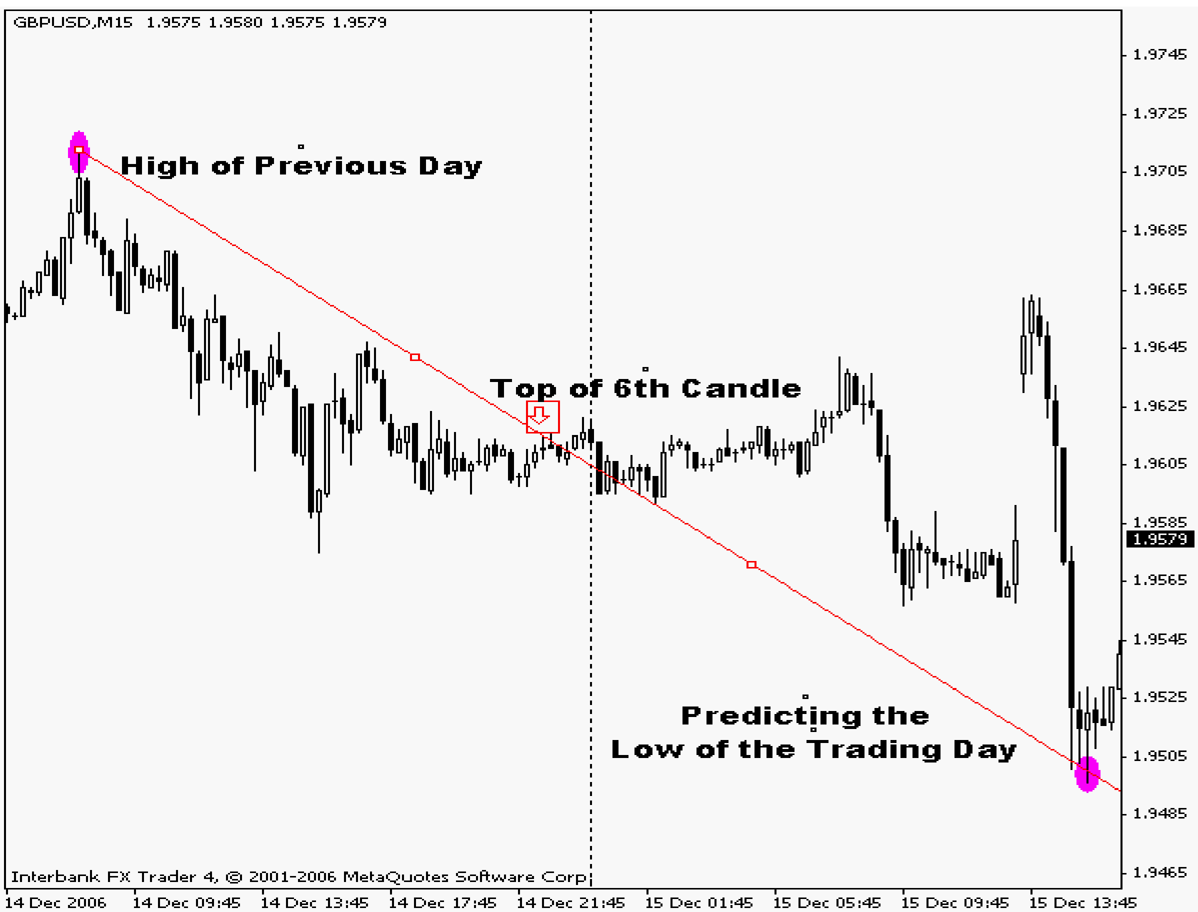


Figure 5-3

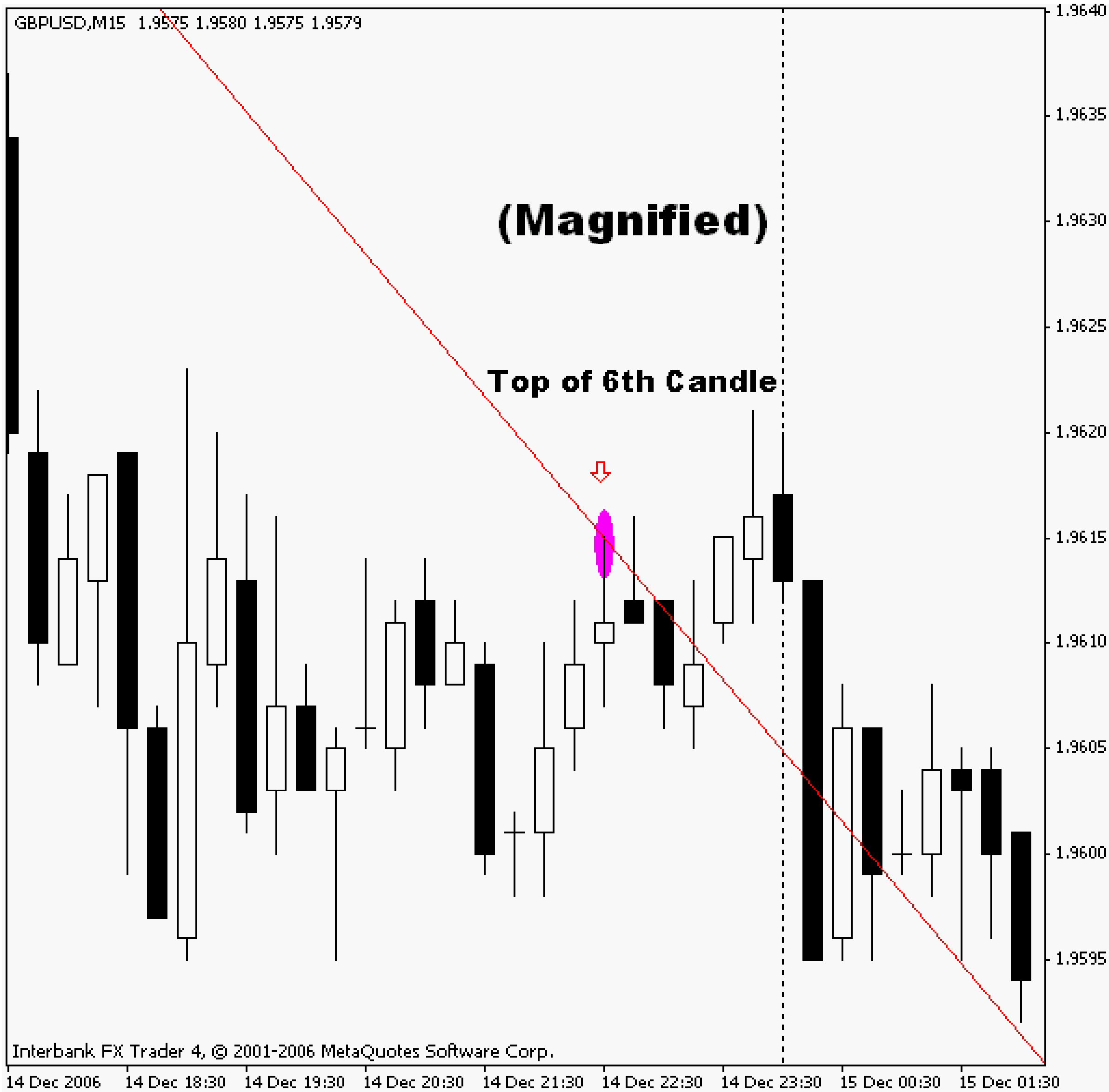


Figure 5-4

Consider figure 5-4. It is obvious that we have a choice when drawing our projection lines through the low or high of the 6th candle. One needs to choose which is most appropriate using a bit of common sense and discretion.

5.2.3.2 Low of Previous Day and 6th Candle = Projected High of Next Trading Day

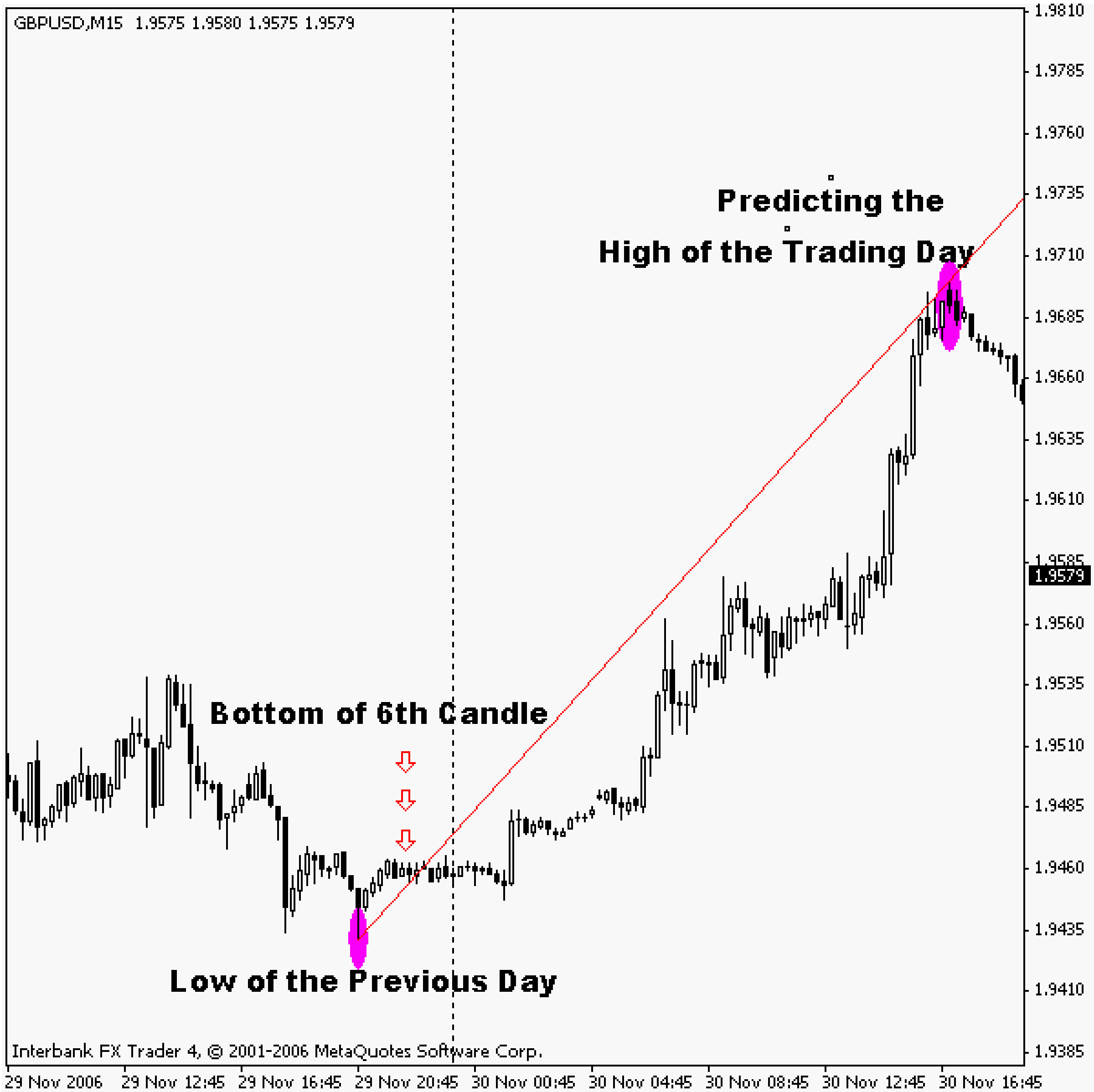


Figure 5-5

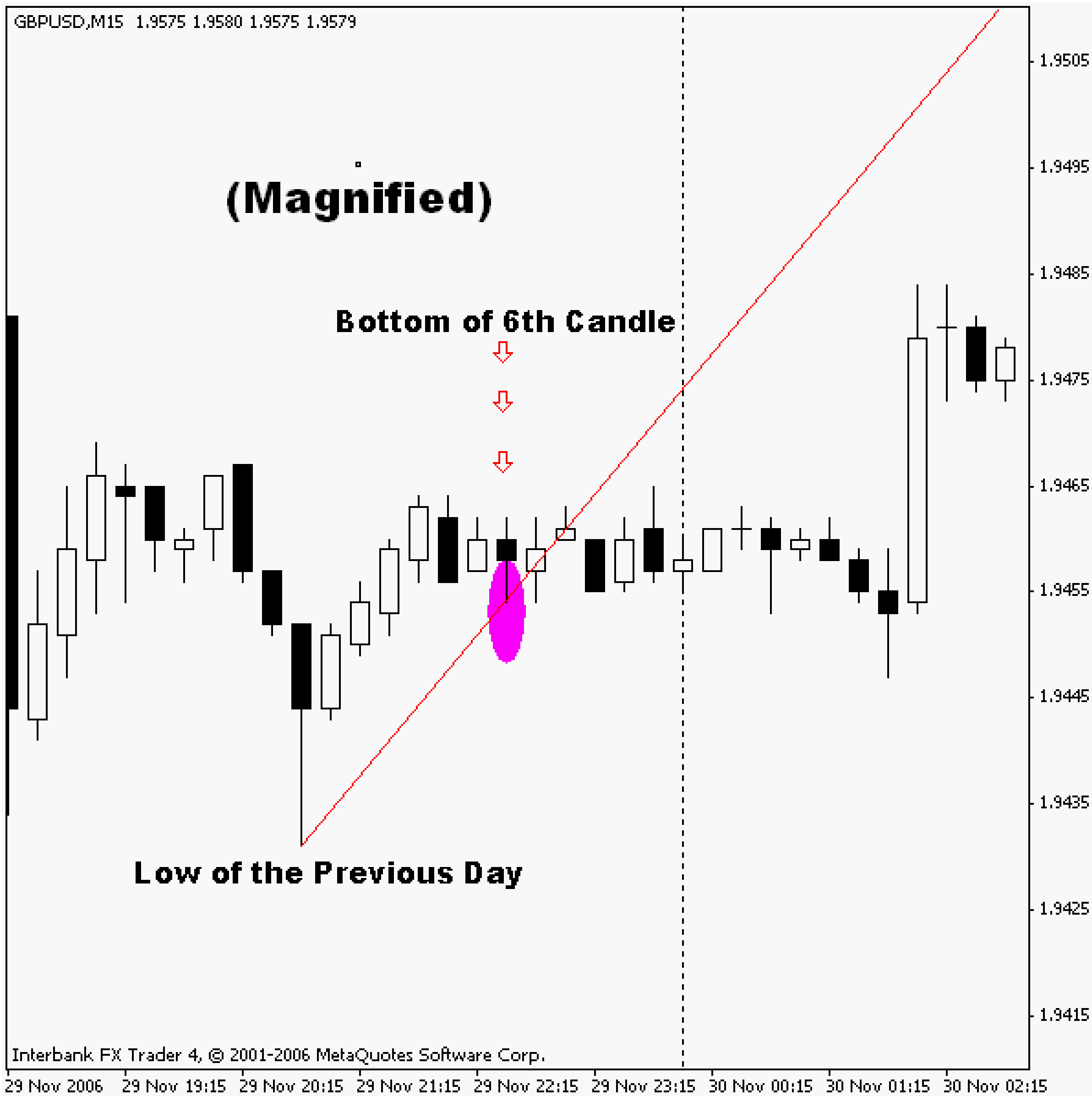


Figure 5-6

We have seen two types of projections using either the high or low of the previous day and the 6th Candle. Now, let's look at combining the 6th Candle with either the 5th, 4th, 3rd, 2nd, or 1st Candle. There is a combination of the high or low of the 6th Candle with the high or low of one of the other 5 candles that will also give us the projected high or low of the next trading day.

(The following charts are off a FXDD platform and the time is 2 hours ahead of GMT)

5.2.3.3 6-1 Combo

Figure 5-7: 6-1 Combo.

It should be noted that backtesting shows that the 6th and 1st Candle combination (6-1 Combo) occurs more frequently than any other 6th Candle combination.


GBPUSD,M15 1.9669 1.9671 1.9668 1.9670
00:00 GMT
6
1
Low of the Day
6
1.8935
1.8925
1.8915
1.8905
1.8895
1.8885
1.8875
1.8865
1.8855
1.8845
1.8835
FXDD - MetaTrader, © 2001-2006 MetaQuotes Software Corp.
15 Nov 2006
15 Nov 18:45
2006.11.16 02:00
02:45
16 Nov 06:45
16 Nov 10:45
16 Nov 14:45
16 Nov 18:45
16 Nov 22:45

Figure 5-8


GBPUSD,M15 1.9670 1.9671 1.9669 1.9670
00:00 GMT
6
1
Low of the Day
00:00 GMT
1
6
FXDD - MetaTrader, © 2001-2006 MetaQuotes Software Corp.
1.9010
1.8995
1.8980
1.8965
1.8950
1.8935
1.8920
1.8905
1.8890
1.8875
1.8860
1.8845
1.8830
1.8815
14 Nov 2006
2006.11.15 02:00
15 Nov 03:30
15 Nov 07:30
15 Nov 11:30
15 Nov 15:30
15 Nov 19:30
2006.11.16 02:00
16 Nov 03:30

Figure 5-9

Figure 5-10 shows three 6-1 combinations in a row.

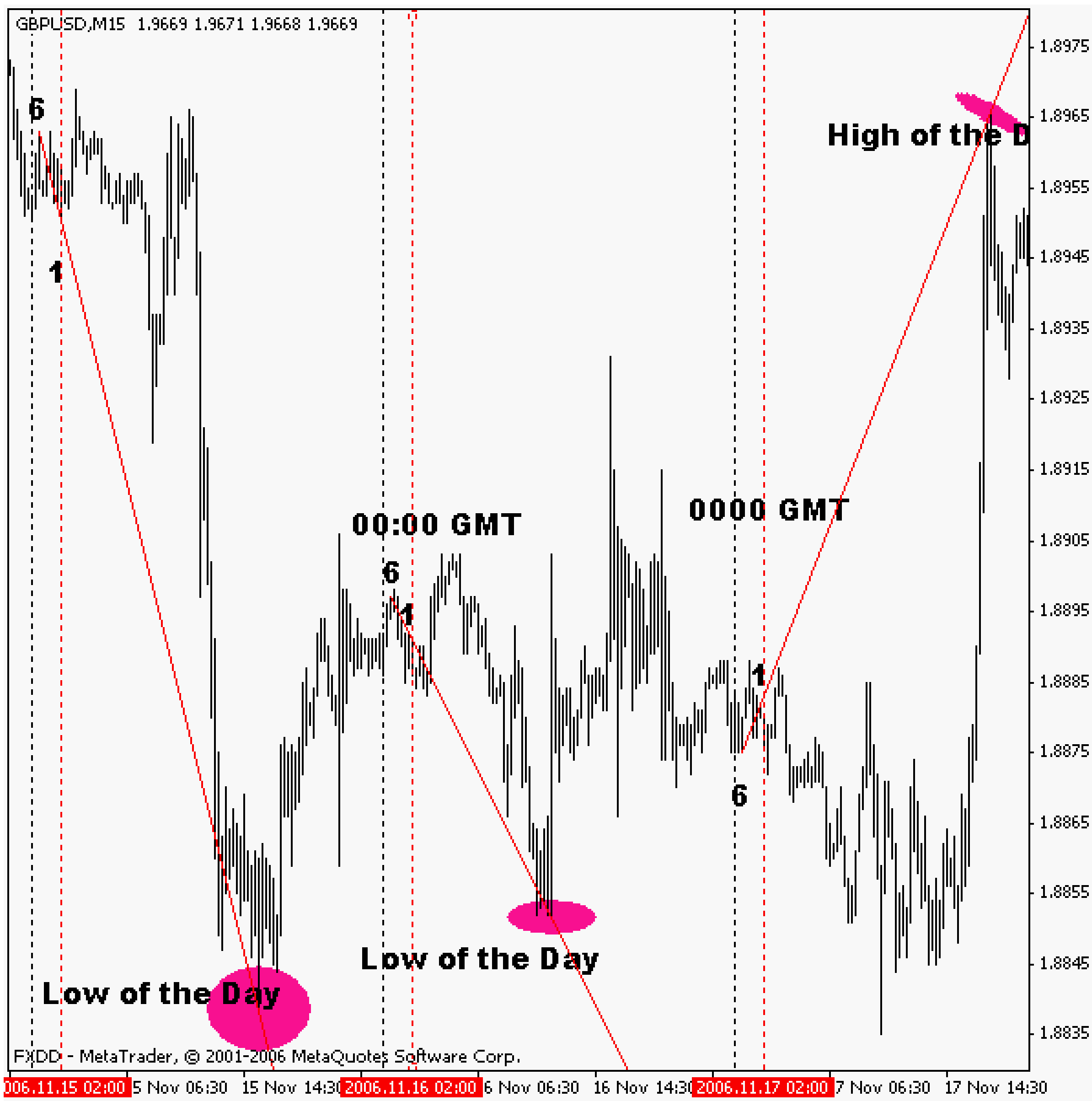


Figure 5-10: Three 6-1 Combos in a row.

5.2.3.4 6-3 Combo:

Figure 5-11: 6-3 Combo.

5.2.3.5 6-5-3-2 combo or 6-5, 6-3, 6-2 combos:

Figure 5-12

Almost all 6 candles line up to show the direction of the move for the day. It's almost yelling at you : DOWN

5.2.3.6 6-5-4-3 combo.

Figure 5-13

5.2.3.7 6-5 combo:

Figure 5-14

5.2.4 General considerations

The 6th Candle is a tool like any other tool and if used properly can show you where price may end up.
Use common sense when drawing the trend/projection lines. We know that the GBPUSD usually ranges from 120 to 160 pips, so we draw our lines to accommodate such a move. The trend/projection lines cannot be too steep or too shallow.

Figure 5-15

5.2.5 The spaghetti factory

At the start of the day, draw several projection lines and wait to see what line the candles follow. (Trendlines are good to have on your chart also) That's another lesson.

Figure 5-16

5.2.6 6th Candle conclusion

One should note that price may not reach the projected high and low of the day. It may fall short or it may exceed it by a small amount of pips. The 6th Candle trend/projection line is a guide to see in what direction price action will take you for the day and give you potential target points for taking profit or exiting a trade. One could also take the bounce off of the line and enter a trade in the opposite direction. Trade Smart, use the 6th Candle in conjunction with the other weapons in your arsenal like the channel, trend lines, the 84 SMA, fibs, SRDC I and III (so far).

5.3 Further observations on drawing channels

This document section shows examples of LRC development through several days where channel and trend breaks take place.
The LRC used is the standard LRC from the MT4 platform. Some people are confused about the differences between the behavior of 1 hour LRC and the 15 minute LRC, I leave it as an exercise to the reader, by simply switching between time periods, to see what difference it makes.

There is also another matter which needs clearing up regarding the 15 minute LRC. A 15 minute LRC is sometimes used to scalp in ranging markets, but this is a different application of the LRC, not to be confused with the primary one shown here. In the scalping case, we generally refer to the LRC as a mini-LRC.

In this section we will only consider the 15 minute LRC.

Start of day is 00:00 GMT.
End of day is 24:00 GMT.

5.3.1 Q&A

Question: How do we know the direction of a trend?

Answer: Easy, just look at the slope of the channel, it will either be up, down or every now and then, almost horizontal. A horizontal channel is symptomatic of a ranging market.

Question: How do we identify a channel break?

Answer: When price goes outside the channel that started at 00:00 GMT i.e. the channel from the start of the day, then we have a break.

Question: How do we know when we have a trend break?

Answer: The trend is defined by the slope of the channel. Therefore, generally, we are either in an uptrend or a down trend.
When we are in an uptrend and price breaks the channel to the upside, we do not have a trend break. However, when price breaks to the downside, we have a trend break.
When we are in a downtrend and price breaks to the downside, we do not have a trend break. However, should price break to the upside, we have a trend break.

Question: When do we redraw our channel?

Answer: There are several things to consider here. But before we go any further explain it is paramount that you understand that we use the same channel to perform TWO independent functions. Firstly, the channel is redrawn every 12 hours to help us with our trading. To redraw it for this function we leave the start where it is and pull the end of the LRC forward every 12 hours.
However, don't forget, we also look for price breaks using the channel from the start of the day with the ray extension on. Although this is effectively the same channel, we do not consider channel and trend breaks until the end of day.
This document will only consider the latter case, i.e. identifying breaks.

When we have a channel break, we must redraw the channel as follows:

> When price breaks the channel **in the direction of the trend** e.g. when trend is up and break is up, we just pull the channel forward.
> When price **breaks the channel in a new direction** e.g. trend is down but break is up, we must start the channel from the day before the break and pull the channel forward to the end of the day in which the break occurred.
>
> Note: in cases where price returns to the channel before the end of day, then the break is valid, but the trend sentiment remains the same.

Question: How wide should a channel be?

Answer: This is a very important question and traders should pay particular attention to the width of their channels. Ideally, a channel should be as wide as the typical day's range for the currency in question. When width exceeds this range by a large margin for a long period, this is a sign that you are probably doing something wrong.

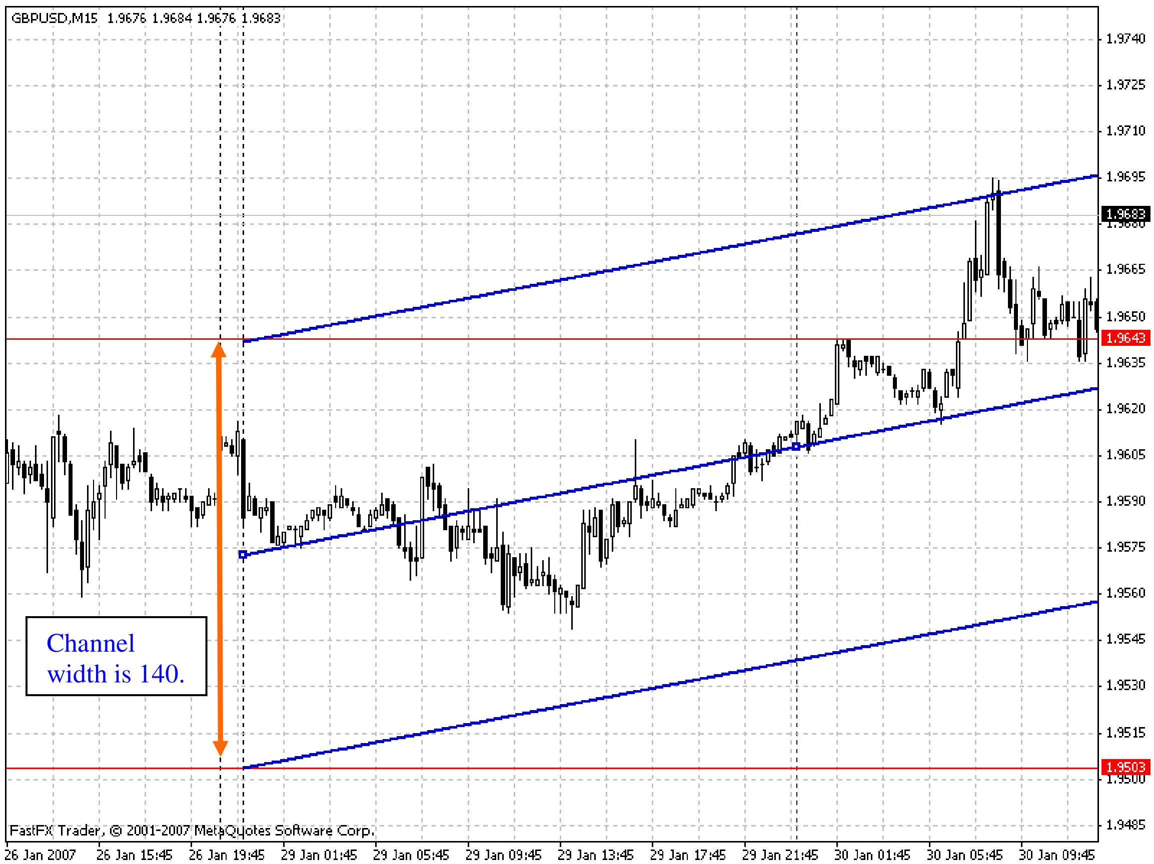


Figure 5-17: Trend 2nd to 5th of January.

In figure 5-17 we consider GBPUSD which has a typical daily range of 120-150, on average 140. The width of the channel, as shown by the orange arrow, is as expected.

5.3.2 January 2nd to the 5th

We start a few days before the 8th January 2007 on the 15 minute chart.

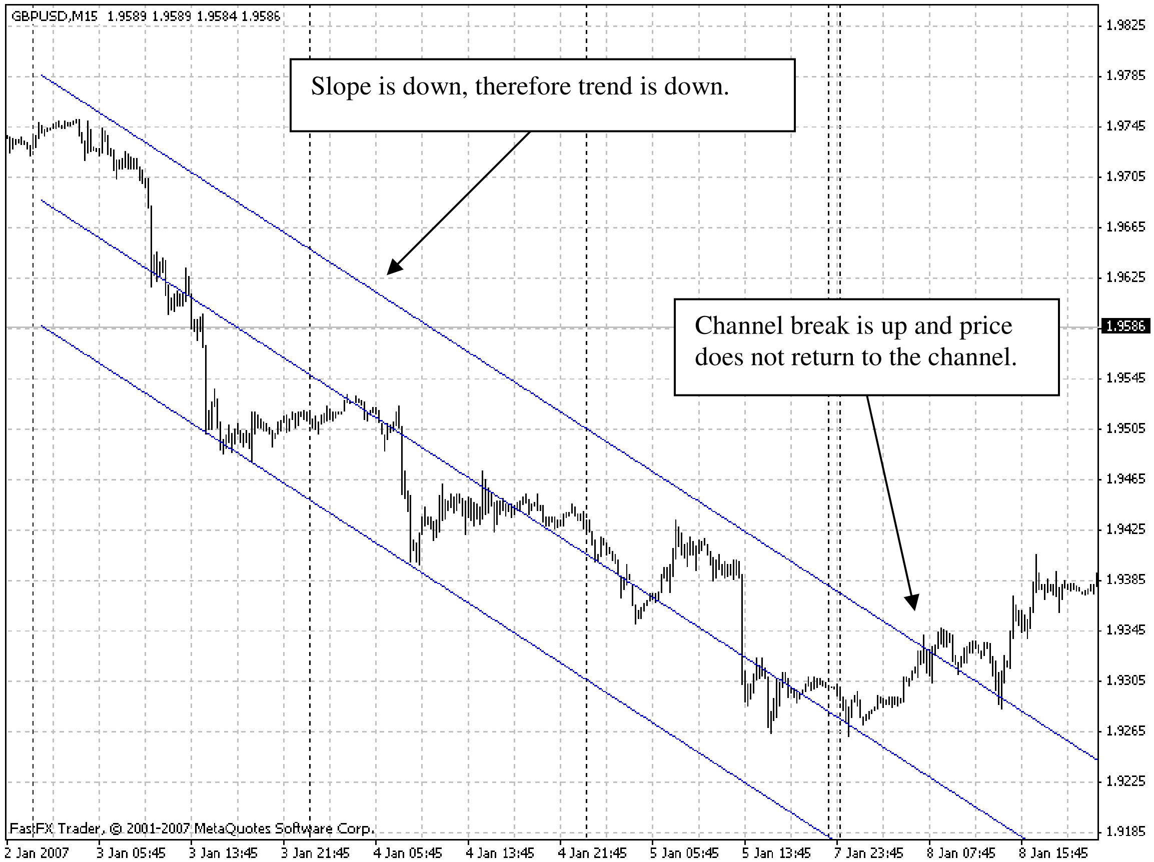


Figure 5-18: Trend 2nd to 5th of January.

We can clearly see here that the previous trend has been down (2nd – 5th January 2007) but on the 8th of January the trend and the channel were broken.

Now, as noted above, when price breaks the channel there are two possible outcomes: Price either breaks the channel **in the direction of the trend** or **price breaks the channel in a new direction** i.e. a new trend develops.

5.3.3 00:00 January 9th, new channel

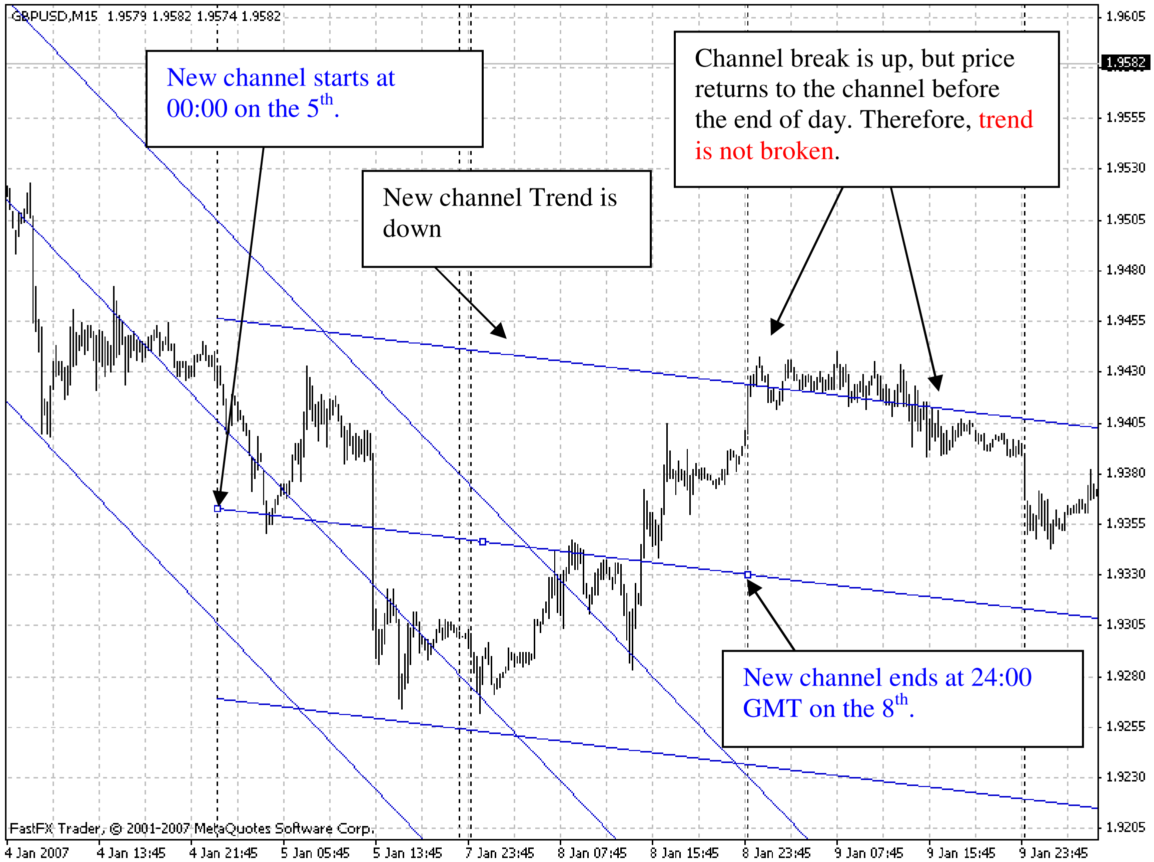


Figure 5-19: New Channel, 8th January.

When price breaks the channel in a new direction, as shown in figure 5-18, we need to draw a new channel beginning from the day before the channel break. (Please note that I show both the new and old channel here). However, in this case the 8th of January was a Monday, so we must go back to Friday the 5th of January to start a new channel. Don't forget we will be drawing this new channel from 24:00 GMT on the 8th, which is also 00:00 on the 9th i.e. the start of the 9th, see figure 5-19.

5.3.4 Extending the channel from the 9th

Figure 5-20: New Channel, 9th January.

The channel was broken during the 9th, however, as we note, price returned to the channel before the end of the day, therefore the trend holds. Remember, although we may have moved the channel to 12 GMT for trading, we use the channel as it stood at 00:00 GMT on the 10th to consider trend breaks. Therefore, at the end of the 9th i.e. 24:00 GMT, we leave the origin of the new channel where it is, and just pull the end of the channel to 24:00 GMT on the 9th. (Please note that this is also 00:00 on the 10th.)

5.3.5 Channel behavior on the 10th

Figure 5-21: Channel break, 10th January.

As can be seen in figure 5-21 trend is up and price broke the channel to the downside, sometime around 20:45, and did not return to the channel before the end of the day. Therefore we have a channel break in a new direction. Now, we must redraw our channel with the origin at 00:00 GMT on the day before the channel break, and the end of the channel on 24:00 GMT on the day of the channel break.

5.3.6 00:00 January 11th, New Channel

Figure 5-22: Channel behavior, 11th January.

Here we see that during the 11th there was a spectacular break of the channel at around 12:00 GMT, in the opposite direction to the trend. So we must redraw the channel, moving the origin to one day before the channel break, and pull the channel forward to the end of day.

5.3.7 00:00 January 12th, new channel

Figure 5-23: New channel, 12th January.

Here we note several things. The trend is up and price breaks the channel in the direction of the trend. So, because the break is in the direction of the trend, we leave the origin of the channel at 00:00 on the 10th and pull the end of the channel forward to 24:00 on the 12th.

If you do this, you will see that, once again, on the 15th, there was a channel break in the direction of the trend at 10:00 GMT. Therefore, the break is in the direction of the trend and all we have to do is pull the end of the channel forward to 24:00 GMT on the 15th.

5.3.8 00:00 January 16th, new channel

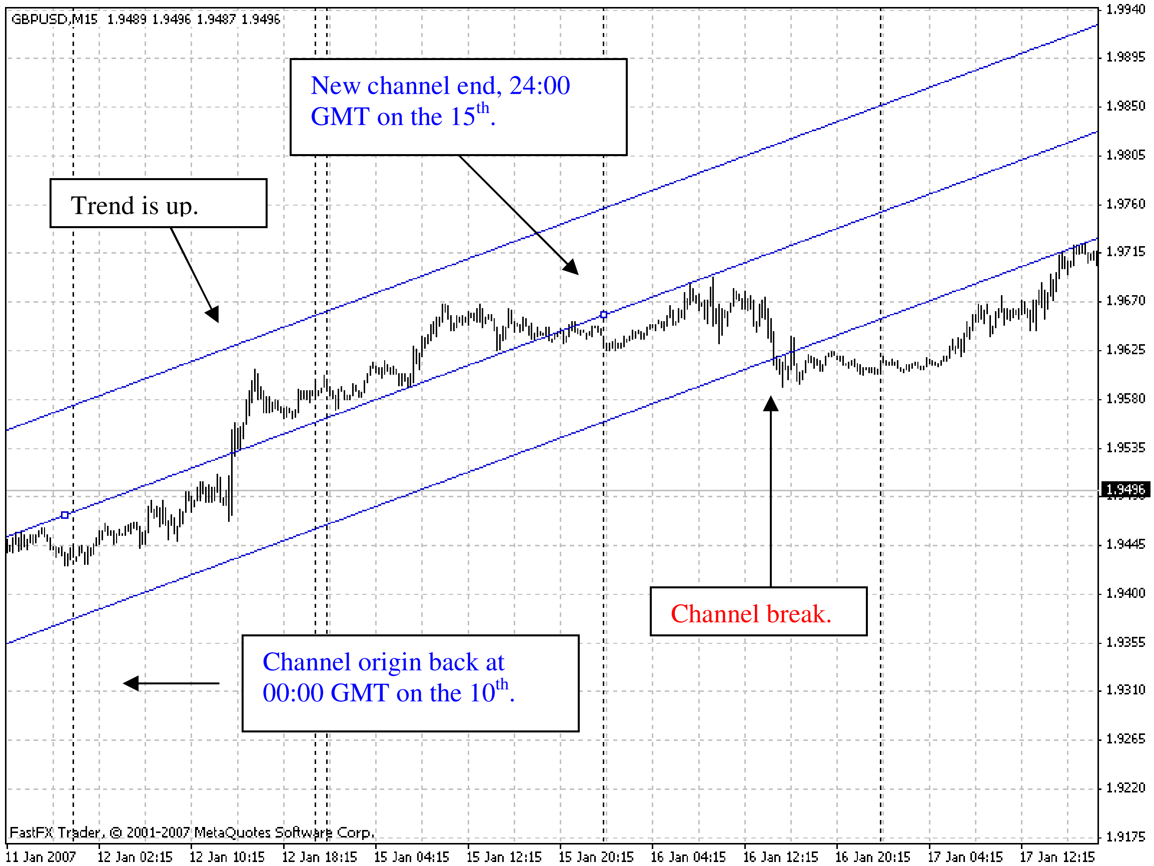


Figure 5-24: New channel, 16th January.

It is left as an exercise to the reader to consider the implications of the channel break shown in figure 5-24, and to draw the channel going into the 17th of January.

5.4 Further commentary on the use of Stoploss.

As a further guide to understanding how to use stoploss, here is a summary from the trading room of OrangeRoshan:

Stoploss has many definitions, and, generally, as the name suggests, it is used to **stop** your **loss**.

However, different methods have different techniques of using stoploss to maximize pip returns. Here are examples and further definitions of Stoploss.

5.4.1 To minimize losses on a losing trade

As professional and as good trader as you can be, there are times when your trade is totally hopeless A stoploss is set to minimize, or moved to a to a new price, to reduce further **loss**.

For example, say you are in a trade with a normal fixed stoploss and the trade is going against you, and fundamentals are not looking very favourable. However, there is still a slim chance that the situation will improve. Rather than exiting a trade, a trader will tighten his stoploss, hoping that a trend change will return in his favour, making the trade a winning one. On the otherhand, should the losing trade continue (most probable), you will exit sooner than scheduled, thus minimising **loss**. This is also called, "Managing loss".

5.4.2 To set a win loss ratio

Many times traders will enter into trades using positive win/loss ratios. Basically the idea is that even when you lose, you still keep positive pips. This is because your winning pips are higher than your losing pips

For example, consider a 3:1 ratio, meaning you incur 3 **losses** for every win. Now say TP is 60, therefore SL is 20. When this trader wins twice and losses 5 times, he will still keep 20pips profits. This is a classic use of stoploss. Many traders think that this is the only right way to enter a trade. I disagree.

5.4.3 To keep a winning trade a winner

In defensive trading, when a trader is in a winning trade, a trader may execute the following:

a) Exit part of the lot, say 50% and move stoploss to breakeven. This way, when the trade turns against you and touches the new stoploss, the trade will be exited and you will harvest some pips with half lot size. The remaining lot (50%) is at breakeven.

b) Similar to 'a' but instead of moving stoploss into breakeven, the trader moves the stoploss a few pips higher than breakeven. The stoploss is now changed to Profit lock. In most platforms the profit lock can trail the moving profits hence the word, Trailock. Should the trade go against you, the remaining 50% will still harvest positive pips rather than breakeven.

5.4.4 To guard a trade against temporary dip or bounce

In this type of trading a stoploss is usually not in good ratio. A losing trade can cost a trader 2 or more winning trades to recover a single losing one. A wide stoploss will be use to catch a trend not proportioned to the winning target pips. A stoploss is used here to guard traders from a massive sudden trend change only. So, in this case a stoploss is positioned to keep a losing trade open until the trade becomes a profitable one. This is usually practiced with proven method systems and very experience traders. A high winning ratio, like you know what.

5.4.5 No stoploss

As crazy as it sounds, there are many professional and significant traders who seldom use a stoploss when entering a trade. There are many reasons for this strategy:

a) Their WINNING method give a very high probability of winning compared to losing. A stoploss will probably get this trader out of a trade before the trade change to a profitable one. However this proves very unpopular and requires a big equity. It is often criticized and not very duplicable. I wouldn't try this at home.

b) In a carry trade, such as buying GBPJPY. It gives a very profitable swaps and the pair moves in a very predictable trend. A stoploss will usually become a nuisance as a trader will make more money in swaps rather than in pips. Keeping the trade open for a considerable amount of time will even guard the trade from negative pips.

Imagine a trader who bought GBPJPY in April 1995 (over 10,000 pips) or Sept 2000 (over 7000 pips). Why would he want to put a stoploss? The swaps alone, accumulated over the years, is worth 10 times of the pips he accumulated!! A day swap is worth more than a couple of pips!

5.4.6 Stoploss conclusion

Now, after that brief explanation, I think it is quiet clear what a stoploss is. Therefore, don't be surprised when you see a trader with a funny TP or funny SL. It all depends on the methods used and level of experience that trader has.

Coming back to SRDC, since we are trading the daily candle, a combination of the many definitions can be utilized to fit our objectives. Mastering Taking profits techniques will definitely be a must when professional trading is part of the goal. Until then, please use a proper stoploss.

6 Acknowledgements

The editor humbly acknowledges Master Orange Roshan as the benefactor of this system and also as the creator of the original documents, which can be found on *forum*.

SRDC Basic Methodology:

forum

SRDC Advanced Strategy Level I:

forum

SRDC II

forum

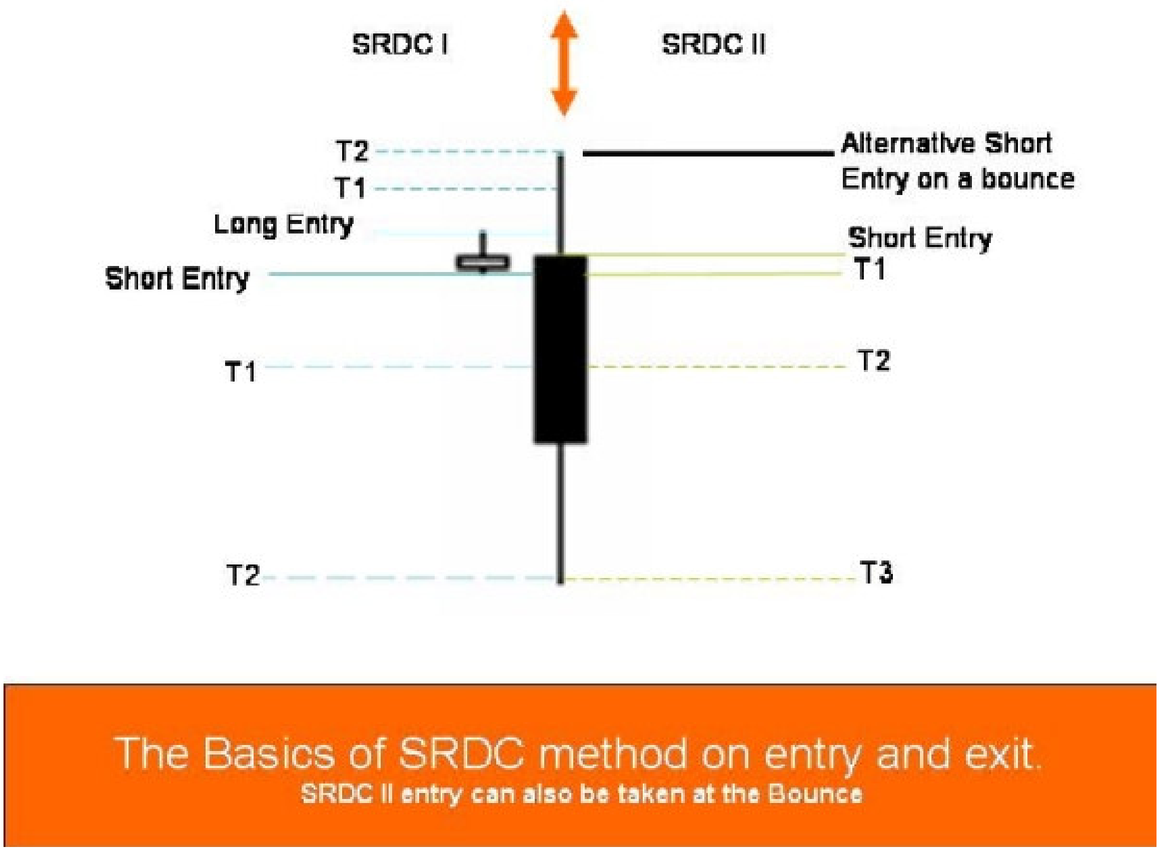
SRDC III

Forum

The editor also wishes to thank Army1 (JC) for his valuable contribution on the "6th Candle", section 5.2.

7 APPENDIX

7.1 *Profit Targets in SRDC I and II*



7.2 SRDC Threads

7.3 Disclaimer

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7.4 Notes

Since the SRDC threads at *forum* are growing very quickly, the information posted to properly understand SRDC is now scattered throughout *forum*, thus making it difficult to put all the pieces together.

Therefore this manual has been compiled, under the supervision of Orange Roshan, as a central repository for the essential information needed to arrive at a comprehensive understanding of the method.

However, the reader should also go through as many of the posts within *forum*, related to SRDC, in order to further complement the information contained within this manual (see appendix for relevant threads). There are many hidden gems within those threads, gems which will greatly increase the reader's understanding of the overall process.

In addition to *forum*, a group dedicated to promoting the implementation and understanding of SRDC, have formed a Teamspeak room which is available to everybody (see appendix).

7.5 Terms and abbreviations

CCI	Commodity Channel Index
Channel Trading	
Ergodic CCI	
Forum	Holding forum for SRDC related threads and general information
Fundamentals	

GMT	Greenwich Mean Time
MA	Moving Average
S&R	Support and resistance
SL	Stop Loss
SMA	Simplified Moving Average
Spread	The difference between the bid and ask price of a financial instrument.
SRDC	Support & Resistance Daily Candle
TL	Trail Lock
TP	Take Profit

8 Revision Details

Date	**Draft**	**Author**	**Details**
18/01/07	Draft 1.0	Orange Roshan	Complied and edited by Exastris. Integrated SRDC I and II
20/01/07	Draft 1.1	Orange Roshan	Addition of SRDC III and some documentation reformatting. Edited by Exastris
25/01/07	Draft 1.1	Orange Roshan	Reformatting and replace new pictures. Exastris
26/02/07	Draft 1.3	Orange Roshan	Integrated 6th candle and LRC documents. Imported Stoploss information. Edited by Exastris.