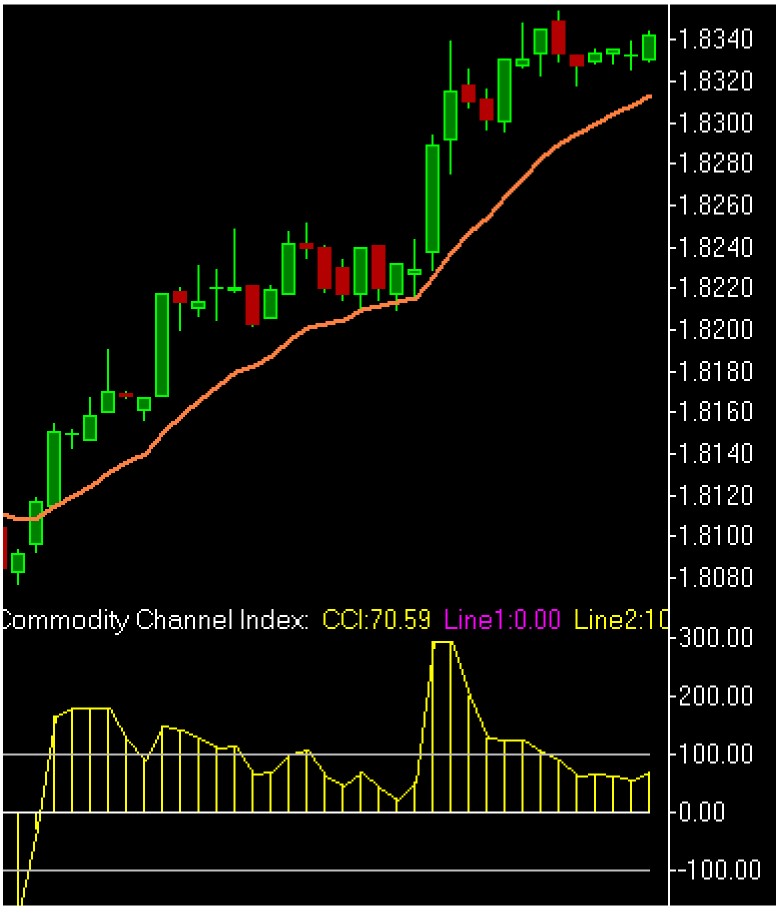
Woodies CCI system is particularly popular with futures traders, but can it work with forex? We look at what the system is, and how it can be applied in the currency markets.

What Is Woodies CCI?

"Woodie" is a day trader of 25+ years experience, and is well known among traders of index futures such as the EMini S&P 500 and the EMini Nasdaq 100. His system is based on a number of patterns made by the Commodity Channel Index (CCI) indicator. It's a little different to most indicator-based systems, and traders tend to either swear *by* it or swear *at* it, but there is no doubt that its creator trades very successfully with it day in day out.

The CCI itself is a momentum indicator. Such indicators all work in the same basic fashion - they plot the difference between a "fast" measure of price and a "slow" measure. The MACD for example, measures the difference between a fast and slow moving average. In the case of the CCI, the "fast" measure is the price itself, and the "slow" measure is a moving average. Thus when we look at the CCI, what we are actually seeing is measurement of the deviation of price from its moving average, normalised to fit on a scale of roughly -250 to +250. A chart example will make this clearer:



Here we have plotted a 14 period Exponential Moving Average (EMA) - the orange line - and a 14 period CCI - the lower graph. In simple terms, the "0" line on the CCI section of the chart can be thought of as representing the EMA, and the CCI line itself (the yellow line) as representing the price.

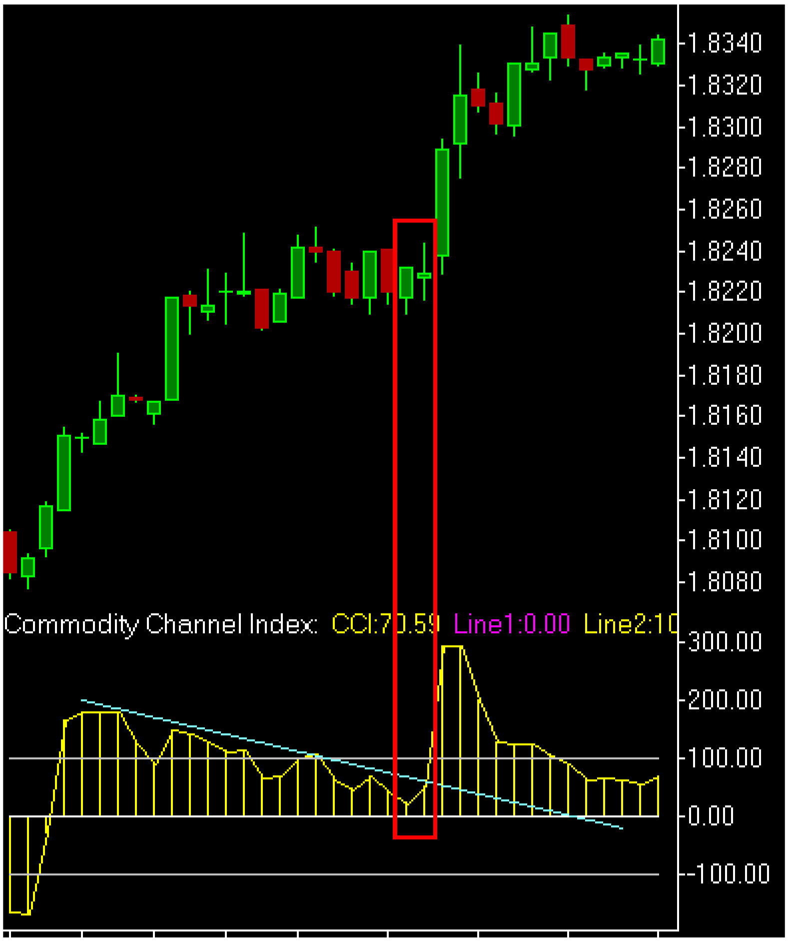
Thus we can see that at the extreme left of the chart, as the price accelerates through its EMA, so the CCI crosses above the zero-line. When the price consolidates and the EMA catches up with it, so the CCI starts to fall back towards the zero-line. The price rises again, but this time not by as great a magnitude as the previous move, and this is seen on the CCI graph by the CCI rising but not reaching it's previous high.

This "divergence" between the price making a new high and the CCI failing to do so is a signal that momentum in the up move is slowing, and that the move may be over, at least for the time being. This is essentially how all momentum indicators work.

"Woodies CCI" system then, outlines a number of tradable patterns made by the CCI. His chart setup is simple enough, at its most basic he uses a 14-period CCI, and that's it. Some followers of Woodie even take the price of their chart, preferring to trade from the indicator patterns alone - although we don't recommend this. The Woodie patterns fall into two main categories, trend following and counter trend.

Trading Woodies CCI On Forex

One of the most commonly traded Woodie CCI patterns is the "zero line reject" - the CCI bouncing from its zero line. Given what we know about what the CCI is telling us, we can see that a zero line reject is actually the price bouncing from it's Moving Average. But the CCI can provide additional confirmation for the trade. Here is the same chart as above, which is in fact the GBP/USD pair, with a trend line drawn in. However the trend is not drawn on the price as you might expect, but on the indicator:



The highlighted area shows the CCI bouncing from the zero-line, but there are two other indications given by the CCI that confirm this trade:

1 - The CCI has been above the zero line for more than six consecutive bars. This is a signal that the overall trend is upwards, and hence we are looking for Long trades. If you think back to what the CCI measures, this is common sense because it means the price is staying above its moving average.

2 - The CCI trend line that starts several bars back has been broken to the upside. This break can be used to confirm the zero-bounce. Notice that the break of the CCI trend line actually occurs *before* the price breaks upwards - hence the CCI often being referred to as a leading indicator. This is where the CCI really helps us by clearly showing what wouldn't be obvious by looking at the price/MA combination alone.

Thus we have three indications in total that the price is potentially going to rise. The trend line break would be the final confirmation for entry, and as we have said, would get us into the Long, before the price explodes upwards.

That takes us in, but what about getting out? Woodies CCI has the answer for that too. There are two possible exits, depending on how cautiously we want to trade.

1 - Hook down from extreme. A reading of greater than +200 or less than -200 on the CCI is considered an extreme reading, and when the indicator turns back from beyond these values, it suggests the price will at least consolidate, and possibly fall back. The first and most conservative exit then, is the first red candle after entry, when the CCI turns back from around +300 - a very extreme reading.

2 - Crossing 100 line. If we wanted to try and run the trade for longer, then waiting until the CCI crosses back below the +100 line is the way to go. This implies momentum has fallen away and the price will follow. Using this second method here would have yielded a few additional pips.

Typically, traders of Woodies system trade very short timescales - 3 or 5 minute charts being common. For forex we recommend a slower chart is used to maximise returns and take advantage of the relatively wider swings that the currency markets provide. The Cable example above is a 30 minute chart, and the trade yielded around 80 pips in no more than a couple of hours. This is trading only one simple with-the-trend setup, and there are further tools in Woodies trading toolkit that add up to even more opportunities each day.

The forex angels say: Woodies CCI system is slated as working on any market, and we believe it's certainly well suited to forex - but use the longer timeframes to get the best out of it. As with any system, it takes some learning and a lot of practise, but the relative simplicity and the number of setups available make it attractive to those who like to trade with discretion.