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M15 System - Explanations to Drawing Trendlines

Hi folks.. Today I will continue to briefly explain how I generally draw trendlines while trading the M15 chart for EURUSD.. (The idea can be applied to any instrument though).

Below I shared 3 different trading days in a row. My trading day generally begins with London Opening and that hour is marked with a vertical line on these charts. I picked a random date from an area around 2015.. Doesn't matter at all. What matters are the important facts that I will explain below. I hope you can study the charts and grasp more information from them.

Because everything is expressed as a whole on charts, it can be confusing to just look at the charts alone. I recommend you read my comments and check the chart again and again for each paragraph that I am talking about. Meaning: Read one paragraph of my post and then go check chart. Then read next paragraph and check chart. And so on and so forth. Let's get started:

DAY (Chart) 1

For any new day we don't need to know what happened the day before or where are all the important S/R levels on higher timeframes etc. are located. Those can help yes but they are really not necessary. Our job will be to check specific signs first which I have listed below:

The first thing I always check is: Where are the candles opening or positioned based on the GREEN MA LINE (60 Linear Weighted Moving Average, Shifted: 3). (You can also use the 55 LWMA Shifted: 5 as your settings. These settings will never be 100% perfect. It is only a guiding line to see the overall trend as quick as it gets).

My second check is the slope of the LWMA: If the slope is flat I know that it could require some time until a breakout or that I can expect the market to go sideways for a while. But it doesn't preclude me from opening a trade once a breakout occurs. I am simply waiting for the perfect moment because I know that market probably arrived at a decision zone.

Third check is London Opening Price: In our example right after London opening, new candles close higher. Therefore I would keep my previous long if any. But as soon as two red candles drop back below previous Higher Close (HC) Level, I would get suspicious and look to a place to close my long trade. It would be a cautious close for this case only. But because that the day right after London Opening started with a higher close I would still have a bullish bias,

4th check is closing or let running trade from previous day: Since I had a long trade already open here I would close it after a breakout from ascending blue trendline. The red trendline would be a too early breakout signal. I generally ignore red trendlines (steepest trendlines). I will explain soon why. Keep reading.

So now that I stated that I would have a bullish bias I would expect trend continuation. So with a breakout to below I would first close my long temporarily at the price I circled in red. (Yes I know I am giving back some of my profits but this case is really rare. Important is to stick to the system no matter what. Later we can improve these kind of situations with trailing SL, but overall it is really not important. In the longer run we always will get better profits.)

Drawing Descending Trendlines for Bullish Breakout

After I closed my long and started waiting on sidelines I am checking if I can start drawing a descending Trendline. So this part is the main reason why I prepared this post in the first place. Let's assume I am drawing lines from all potential highest swing high to lower swing highs. On chart 1 that way I could draw 6 different descending trendlines. Which one is the one we should refer to? All of them could be the potential real trendline? How will we know where the best breakout price is?

Here is the answer:

1. The RED Trendline, marked with number 1: This is a steep line and often I ignore the red trendlines. Those will cause you to cut profits early. Ignore!
2. The ORANGE Trendline, marked with number 2: For this line I look when it happened. This retracement happened after a Lower Close!!!! Don't start drawing descending trendlines in a bearish trend when you still have a lower close. So orange line is ignored as well.
3. The BLUE Trendline, marked with number 3: That retracement could not print a new lower close. Now we can start drawing our first trendline. That level could give us a correct angle. But it is not the only one. Next trendline also has such a function.
4. The GREEN Trendline, marked with number 4: If you check market prints a new lower close first. Then it makes a little swing high. That level is already below the blue so we ignore. But then it makes a new low with the shadow but can't close lower. Then it makes a swing high and therefore that level also can be counted as a proper place to draw the trendline. I did these two trendlines are both legit. (I put them into gray boxes on chart).
5. The PURPLE (Numbered 5) and BLACK (Numbered 6) Trendlines: I just put them because we can still draw more trendlines for every swing high. But these just make no sense anymore. So ignore them. But check out their breakout levels. Those levels are already similar to 3 and 4 and therefore we don't need them. We must focus on number 3 and 4 type of trendlines.
6. Now you understand why I also didn't use the red trendline to close long trade from previous day.

Okay, so since I have a bullish bias and I was waiting for a bullish breakout. Once that breakout occurs through BLUE trendline (Nr. 3) or GREEN Trendline (Nr. 4) I immediately open a long trade at one of these levels. And start watching what happens next.

1. I keep watching the candles and I notice that there comes no more candle close below the day's lowest close (or shadow) and I feel confident. I also notice that I opened my long just below London Opening price so I know that could buy low in this case which is what you hear a lot from pro traders: buy low.. sell high.. this is how you can do it.. Without a proper system like this nobody would feel like buying below London Opening.. but that is the trick. Buying low requires us to buy at weird places. You must learn to buy at zones that are out of your comfort zone. Feels weird but it is the only way to get a chance later to run away with minor loss if things go against you.

So.. for day 1 you now can study and try to understand why I am using only closing or opening prices of candles. Think of candle wicks as jumps of a kid for an apple that hangs on a branch of a tree. He can not grab the apple but he can touch it. So wicks give traders little confidence but they are not enough. But just like the little kid would grab the apple and pull it down is same to the candle close. The grabbing moment of the hand to the apple is same as the closing price of candle. The kid is more confident to try to jump to higher apples. So is the market to try closing higher. Every new higher close than previous wick is most important for trend continuation.

So this was a long post for chart 1... I will continue explaining chart (day) 2 with next post.. coming soon..

Image A. <https://www.forexfactory.com/attachment.php?attachmentid=2906151&d=1532195593>

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M15 System - Explanation to Drawing Trendlines - Day 2

The following day since we are still running a long trade, new London Opening price sets the high of the day but we don't know that of course. So we keep our buy trade. And we also have no ascending trendline prepared yet. So we wait. and mark the highest candle close.

So I do again check 1: Candles are still above 60 LWMA so my bias is still bullish.

Check 2: Slope is not that steep. I notice that slope of green line doesn't want to follow the trend. That is first suspicion. But I still stick to the bull trend here.

Check 3: London Opening price is now far above while candle keep dropping. That keeps me alerted that trend is maybe losing steam or dying.

Check 4: I want to let my trade run but I see that all the inside candles now form an inner bullish trend so I stay with the trend hoping it will go up again.

1. First swing high is a higher close from previous inner swing high. All good here.
2. Next swing highs can't close above the line I marked as highest wick. So I feel like trend is really dying maybe. But I begin to draw my ascending trendlines.
3. First trendline and second trendline are useless as we discussed on earlier post so I draw the third line (it is the blue and I take it as the valid one. Once price breaks out to the downside I close my long trade.
4. The more time passes my bias has switched to bearish because I have not seen bull power even hours after London Opening.
5. 2, 3 and 4 numbered trendlines are still all good places to try a short on day 2.. These candles open below LO.. That gives me confidence.
6. This time to be able to buy high I get prepared to buy at breakout level of TL 3 or TL 4... doesn't matter much.. Once I do I notice that I went short while candles were above 60 LWMA.. You see? That is the weird feeling again. Inner voice will tell me no don't do it. But it is the only way to sell high.
7. Once I went short at 1.3625 or maybe at 1.3622 based on the example chart, I begin to watch price and candle openings. They still continue to open below breakout level. And we are also still below London Open (LO).. therefore all good.. we stay in the trade and then I also call it a day and leave trade open for next day.

This was day 2.. I hope it gives more clues why I use closing price of candles.. Next post will be Day 3 and it will complete these series.. coming soon..

Image B. <https://www.forexfactory.com/attachment.php?attachmentid=2906196&d=1532200465>

Post 29,627

M15 System - Explanation to Drawing Trendlines - Day 3

The last example is where we have now entered a short the day before and SL hunters come to bite us. But we keep our trade running.

Check 1: Candles are now below 60 LWMA and we feel a little confident about the trade.

Check 2: Slope is not that steep yet so that part doesn't give us additional confidence. Is well though.

Check 3: As soon as London opens price tries to bite us one more time and then goes back lower quickly and creates a new lower close (LC) and little later another lower close. We are now very confident.

1. While we have 2 LC candles we don't need to draw trendlines as I mentioned earlier. So first two trendlines will be ignored. But then price comes back for another shark attack. Even goes above the green LWMA line and scares us. Does it??? No not at all. Our stops would be still at the safe SL area I stated as gray text on chart and we would just wait to see a higher close but that never happens.
2. Then price starts dropping again and very quicker compared to before. Since we have a very flat BLUE trendline we can assume a reset is necessary and start from scratch to draw descending trendlines.
3. With every new Lower Close (LC) we don't do anything except letting shorts run. and Trailing SL..
4. On chart below I still have created the red and orange trendlines just to show that they mean nothing. We ignore them.
5. But the blue or green or purple or black Trendlines have been drawn because I had not seen any Lower Close anymore. Because inside that day's Asian session vola was so low that I decided to keep my short trade.
6. SL would be put above the Gray text level that marks the previous swing high. Or maybe one before that and I would just go to sleep after setting a real SL at those previous LC breakout levels.

On the next day (Day 4), Just before London Opening and even before Frankfurt Opening the 60 LWMA line was touched. It was also same level as the tiny breakouts during Asian session and it means we could add one more sell to our previous short right at this price level.

The rest of the day would be watching if we have more and more lower closings. That way we would trail SL until we get stopped out.

So.. this is my thinking process while trading and while drawing the M15 trendlines. No magic here and no rocket science. As you can see I simplified as much as I can. The longer you try to trade this way the better you will understand it.

I hope it answers some of the questions that were directed at me. If new questions arise feel free to ask..

Image C. <https://www.forexfactory.com/attachment.php?attachmentid=2906199&d=1532202113>

Post 29,642

Nice Ata, thank you. So, from a high / low point, don't draw trend lines until the rules of "lower lows (if down trend)" or "higher highs (if up trend)" is broken. If a trend line is broken and switch positions from short to long or long to short, do you only do so at the close of a candle, or immediately if the price crosses the TL?

Yes I manually quit only when candle closes. In extreme cases where market can go crazy suddenly and then one candle closes 100 pips above our trendline would not hurt us at all because we would be already stopped out with 20 to 30 pips which is generally the initial SL on every trade we would put on M15.

Long story short, closings of candles is everything inside this system. Wicks/Shadows are only important when it is the lowest or highest wick of the day (or of the inner trend/inside bar) depending on trend direction.

One more thing: The highest candle wick in an uptrend scenario becomes a main target level that needs to be broken for trend continuation. But on my system, to break such wick level we MUST have a HIGHER CLOSE (HC) above it. Not a higher high!!! That is important.

For bearish scenario flip the story: Lowest wick of the day (or of the inner trend/inside bar) will be marked as a level that needs to be broken. Only a Lower Close (LC) can be taken serious. Any swing lows that go below lowest wick but then comes back and closes above it will be ignored (or better said: can be seen as sign of weakness). We need to focus to closing prices only in all sorts of breakouts.

Post 29,666

Great work you did, Ata. I have gone through the huge work you did over the weekend and I'll go over it many times more to get a fuller grasp. To me, it's a very simple (doesn't mean easy) way of trading real-time.

A little observation: in the second update I guess you wanted to say 'sell high' but you wrote "buy high". I hope you take a look at it.

Thanks again for the priceless information you gave out for free

Good catch.. my bad.. based on logic of course it should be always "sell high".. why would you want to buy high right? It already screams something is wrong there.

I finally started to try and learn your system as you described a few weeks ago. Now there's one thing I do not understand clearly. In 1st day you state in the answer at point 3: *The BLUE Trendline, marked with number 3: That retracement could not print a new lower close. Now we can start drawing our first trendline. That level could give us a correct angle. But it is not the only one. Next trendline also has such a function.* However I see that bar has a lower close than the previous one.. Can you pls explain? Thanks...

I was expecting this question will come because it is the most important part of my trading style that allows us to catch the best point for a valid trendline. Image below should explain this.

On a sidenote: Ask yourself first why are we so desperately try to draw that RED trendline in a bear trend? It is a bearish trend and price drops. Why is that sort of a trendline necessary? Many will answer: *To quickly see if bulls can break it or violate it. Then we can quickly close our short trade and not give back some of our hard gained profit!* Classic answer! And SO WRONG in my thinking. Let me correct this bad habit.

We draw the RED TL for one reason: TO HAVE A VALID REFERENCE PRICE FOR OUR SL THAT CAN'T EASILY STOPPED OUT SO THAT WE CAN STAY IN THE BEAR TRADE AS LONG AS WE CAN! PERIOD!

So where will I put my SL? Nowhere! We will close manually when any candle CLOSES ABOVE that RED Trendline. If you have to set a SL then at least put it somewhere above the RED TL yes but that's not the point. That's what we do only when we have to go to sleep or have external errands to run and can't check the markets from time to time anymore. On your working hours you NEVER set a REAL SOLID SL... For a "worst case scenario" protection you still can set a real SL 50 or 100 pips away. Nothing wrong with that. But during work hours your job is to check every new candle close every hour or every 4 hours or every day after market close etc.. Don't sit and watch! Just keep checking.

So.. back to the real deal: The RED TL can have many different angles when you draw it with every new swing high. Which one is the real valid one? That's why I have shared the image below. You don't need a RED TL as long as you have new LOWER CLOSINGS.. why would I be scared that market will go fully up when it keeps printing new lower closings? Why???? So... we wait until market can't print new lower closings anymore. That would mean it wants to go either sideways for a while or is preparing to go up. Now I will start looking for a place to draw my RED TL. But when? When market is done with swing highs and starts to print a new lower close or at least if we feel like it will print a new lower close. That will be your gut feeling. Somehow after all these years I just know it. And don't worry, if you drew your TL a little early it will still give you a better breakout level than any line you would draw earlier. The later you draw the better. But once you realized that you draw your TL early then as soon as you can see better angle fix it. Keep your RED TL as updated as you can.

So I hope you got the logic of the RED TL. Flip the story for the BLUE TL and Bob is your uncle.. I hope it clarifies your question.

Image D. <https://www.forexfactory.com/attachment.php?attachmentid=2929703&d=1533543293>