

T3 MA Strategy for Forex

By PeterFM

Subtitled 'don't say I didn't warn you'

The basic aim is to allow price action to be coupled with some simple indicators so that I can see what the bars are telling me, rather than relying on MACD, Stochastics, RSI and all the other stuff that gets in my way.

The core of it will be trading the 1-hour chart but watching price action on the Daily chart to determine main trend direction, or possible special points of interest, such as Pin bars, DBHLC etc.

As usual when embarking on an adventure like this, one owes a debt of gratitude to a whole raft of people. I'm sure I'll miss someone out and I can't list everyone who has embedded a grain of an idea in my mind but the first thanks must go to all the members of the public and private forums at Forex Factory.

Each page I've read has added to my education and made me a better trader. I've enjoyed the taking of advice and information and I've tried, where possible, to give something back, even if it's only basic assistance to other newbies like myself.

Next there are the usual suspects, James, Diallist, Vegas, Fijitrader, Eastmaels, Habeeb, Twoblins, Akuma99, Sidus, et al (I wish I hadn't started this 'cos someone's going to feel left out).

And now on to the method. Please bear in mind this is a work in progress and I'm not anal about it, I'm looking for fine-tuning or complete rewriting if you can see any basic, or major, flaws in it.

The Daily Chart

The four indicators are

1. **AutoPivotIndicator** © **Habeeb** set to show only **Weekly Pivot, Support, and Resistance** levels. This gives me possible TP levels or warns of trouble
2. **T3 MA** © 2005, **Nick Bilak** <http://www.forex-tsd.com/> (set to 6 – Colour Yellow). I like the smooth flow of this MA even though I haven't a clue as to how it works, all other MAs seem to zig-zag around on the lower settings
3. **FF Tunnel Slope** © **FfwithFX** again left at default settings. I use this to confirm the basic trend on the Daily chart and is part of Diallist's armoury, I think, or VWB so it must be OK
4. **Parabolic SAR** © 2004, **MetaQuotes Software Corp.** but set at **Step 0.05 – Maximum 0.5**. This indicator will be the allied to the PSAR on the 1-hour chart as the main part of the entry strategy that I will explain in due course. It has no value as an exit strategy in itself.

On the Daily Chart we can see the MA well clear of the bars during the recent strong up-trend, the trend weakens as the bars start to touch the MA. This is confirmed by the decreasing size of the histogram in the FF tunnel slope.



If you understand the action of the PSAR you'll notice the spots closing up as the trend runs out of steam (Price & Time) and then they switch from below the bars to above the bars, further confirmation of a possible major change of trend. On this screenshot price also coincides with hitting the Weekly R1 level.

The FF Tunnel has also gone negative giving further confirmation of the trend-change.

You'll also notice that there is a TBH as well just after the trend-change. This is the sort of special bar formation that I was missing with all the MAs wandering around the screen.

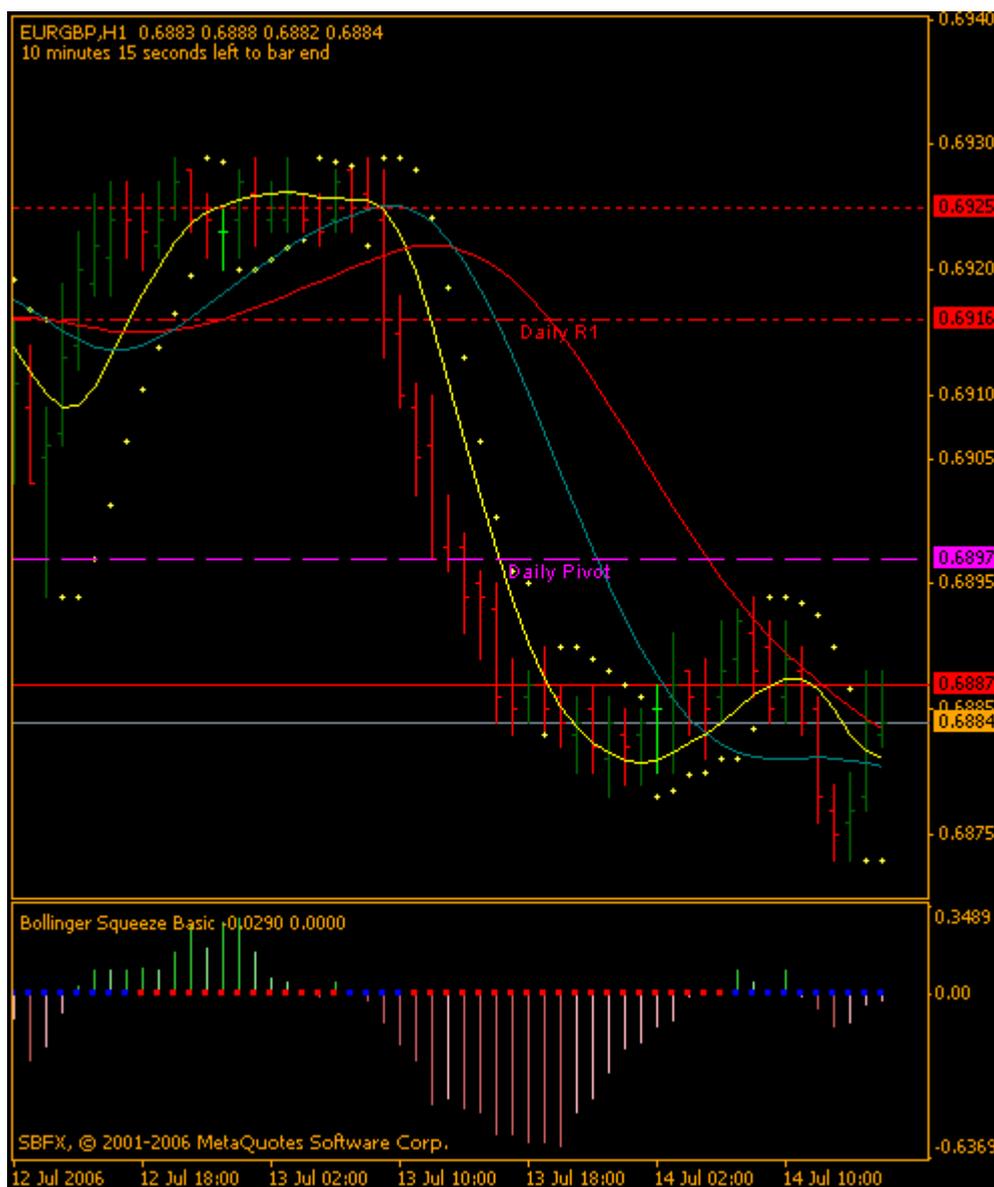
My game plan is to only look for long trades during uptrends and short trades during downtrends as defined by the Daily chart (pretty obvious I know, but this is mainly to give me a more disciplined approach to my trading).

The Hourly Chart

The five indicators are:

1. **AutoPivotIndicator** © **Habeeb** set to show only **Daily Pivot, Support, and Resistance** levels. This gives me possible TP levels or warns of trouble

2. **T3 MA © 2005, Nick Bilak** <http://www.forex-tsd.com/>
(set to 6 – Colour Yellow). Comments as above
3. **T3 MA © 2005, Nick Bilak** <http://www.forex-tsd.com/>
(set to 13 – Colour Teal)
4. **T3 MA © 2005, Nick Bilak** <http://www.forex-tsd.com/>
(set to 21 – Colour Red)
5. **BollingerSqueeze © 2005, Nick Bilak** Check out the **Not So Squeezy** thread on Forex Forum. This is the Basic version.
6. **Parabolic SAR © 2004, MetaQuotes Software Corp.** also set at **Step 0.05 – Maximum 0.5**. This indicator will be the allied to the PSAR on the Daily chart as the main part of the entry strategy that I will explain in due course. It has no value as an exit strategy in itself.



Please note The MA settings are arbitrary and open to change. You'll need to read through the **Not So Squeezy** thread to understand the workings of the BBSqueeze but essentially it utilises the Bollinger Squeeze technique without cluttering the screen with Bollinger and Keltner Bands. The blue dots (on the zero line) indicate the squeeze, where those who use this method for trading ready themselves for breakout strategy trading.

The way I'm using the longer T3 MAs (13 & 21) is as an indication of the strength of the hourly trend and using the change of slope of the T3 MA (6) to time both exits and entries.

On the chart above you can see my entry (red-dotted line) at 0.6925 and the logic was as follows.

1. **PSAR steadily above price bars – matching PSAR spots on the Daily**. This will be a major filter for me. I won't trade unless the PSAR spots are on the same side of the bars on both the hourly and the daily. The few times I've just jumped in because the 6 MAs are heading in the same direction on both Hourly and Daily charts, but the PSARs didn't coincide, resulted in a loss or one of those sweaty waits when you hope price turns round and gets you out of jail. I realise that I'm going to miss some counter trends trades when price is retracing, but I'm not skilled enough, yet, to judge when it's a GOOD retracement or a BAD one.
2. **The 6 MA has crossed the 13 MA**. This is probably the riskier option as it should be safer to wait for the 6 MA and the 13 MA to cross the 21 MA before trading. I think though that the PSAR gives me a safety net as long as the spots have appeared before the first MA cross. This is where testing and discretion comes in, I suppose.
3. **The Squeeze had flattened out and shaded to the short side at the same time as the blue Squeeze indicators were in play**. The expectation was a substantial move when it came, with a tightish stop around the 0.6935 - 40 price area. I generally use the PSAR as a guide to initial stop position and will trail any good moves using the PSAR spot two positions away from the current bar. This gives some breathing space for movement, but you do whatever you're comfortable with.
4. **Exit on this trade was 6 MA slope change**. I expect this will be the norm until I am skilled enough to set TP targets before pulling the trigger. I ignore the PSAR during a trade other than monitoring it for stop position and for compression. You'll note above that as the short trade starts to run out of steam the PSAR spots close up dramatically. This is the time to look for the exit, but discretion can be used. Keep in mind this was a perfect trade and easy to monitor, I don't suppose they'll all be like this!!
5. **Re-entries**. To be honest I've only been working this for a few days, did re-enter this trade around the 0.6890 area, and grabbed a few more pips, but only because the PSAR spots had gone above the price bars again. Do your own thing on re-entries and retracements, based on the usual technicals such as Support and Resistance etc. Although I've taken them off the screen I should advise that I also used trend-lines and Fibs on this to aid the re-entry.

The Basic Rules

1. **Bull and bear trends on the Daily chart**. In strong trends decision-making is easier, for obvious reasons. Where discretion comes into play will be in those situations where you find a bearish bar during a bull market and a bullish bar in a bear market. These are the options for how I may play these situations.
 - Move to a different currency pair and look for better set-ups (preferred choice)
 - Take smaller trades (on the 1-hr chart) in the direction of the main trend shown by TS MA and Tunnel Slope indicators on the Daily (probably riskier and potentially less profitable). This may be a valid option on those pairs with greater volatility and bigger daily ranges. Fine for experienced traders, but I'd suggest new traders should avoid this tactic. Most Daily bars, even if appearing to move counter to the overall trend, will have periods when they reflect the general trend (see 2nd bullish bar after slope change on the Daily chart above). Therefore, there will always be opportunities; as a trader it will be down to you to decide which of these two options suits you best (i.e.

Aggressive or Conservative). Don't forget that you can't **lose** money by not trading a risky set-up.

2. **T3 6MA Slope changes on the Hourly chart.** The 6 period MA has a smoother path, in my opinion, compared to other MAs I've used. By combining this smoothness, and using it in combination with the position of the PSAR spots, I expect to reduce the whipsaws that often caught me out in the past. So, the main rules on the Hourly chart are:
 - Slope must change in the direction of the Daily bar overall trend **and**
 - PSAR spot must move above the current bar for short trades or below the current bar for long trades
 - Longer MAs should be travelling in the direction of the main Daily bar trend for re-entries, or very close to crossing for tops and bottoms in major trend changes.
 - If you feel happier waiting for the other MAs to cross in the required direction as well that's fine, it will make for a stronger signal and reduce the number of trades you make in choppy markets. For new traders, this might be the best option while learning how to master price action.
3. **Bollinger Squeeze Indicator.** This gives you an overall view of how the hourly market is moving, but I don't use it as I would have used the usual oscillators such as MACD or Stochastics. One thing I do watch out for are the blue dots on the zero line. These indicate a tightening of price action; this will sometimes be obvious from the closeness of the MAs on the hourly chart, and at other times, because of the smoother action of the MAs, it won't be so clear. Look at your price bars and you'll see the tightening up of the bars. The one thing that will normally happen after price squeezes (blue dots) is a substantial move in the market and I will tend to look to place my order in the direction of the 6MA slope as long as that, and the PSAR spots, coincide with my trading plan.
4. **Trailing and market entries.** This will be a judgement call by each trader. I will start using trailing entries as a more regular part of my methodology. This is mainly to make me take the time to study the charts and consider what **I think I should be doing**, rather than just reacting to what **I think is happening**. The positioning of a trailing entry is subjective and will develop based on experience and the strength of the Daily trend, I feel. I have included an example below, but as this is a new area for me I can't give you any hard and fast rules on where to place them. It should prevent some false entries in those situations where the market doesn't re-act rationally to the obvious.



5. **Stop Loss positioning.** This is one of the hardest things I've had to learn and even experienced traders (from what I've read in the Forum) sometimes get it wrong. I will state here that although the SAR (Stop and Reverse) part of the P(arabolic) SAR is designed to aid in stop placement I don't follow it religiously. I prefer to trail the stop at least one or more stop-spots higher or lower than the stop-spot indicated by the indicator. If I'm sure about the direction of my trade I prefer to give it room to breathe and watch the price action.
6. **Exit Strategies.** My exit will be based on a combination of price action and slope change or price action exclusively. As with most MAs, there is a lag and if I wait purely for the 6MA to change slope I am going to lose pips (*and pips mean money*) or if the trade doesn't actually develop as I'd planned there is a danger of losing money. Therefore, price action will be key to initial exit decisions. The pivot and support and resistance levels shown by the PivotCalculator will also come into the equation.

Well that's about it, I don't think I've forgotten anything, so fire away and let's get this working.

Good luck and good trading

PeterFM