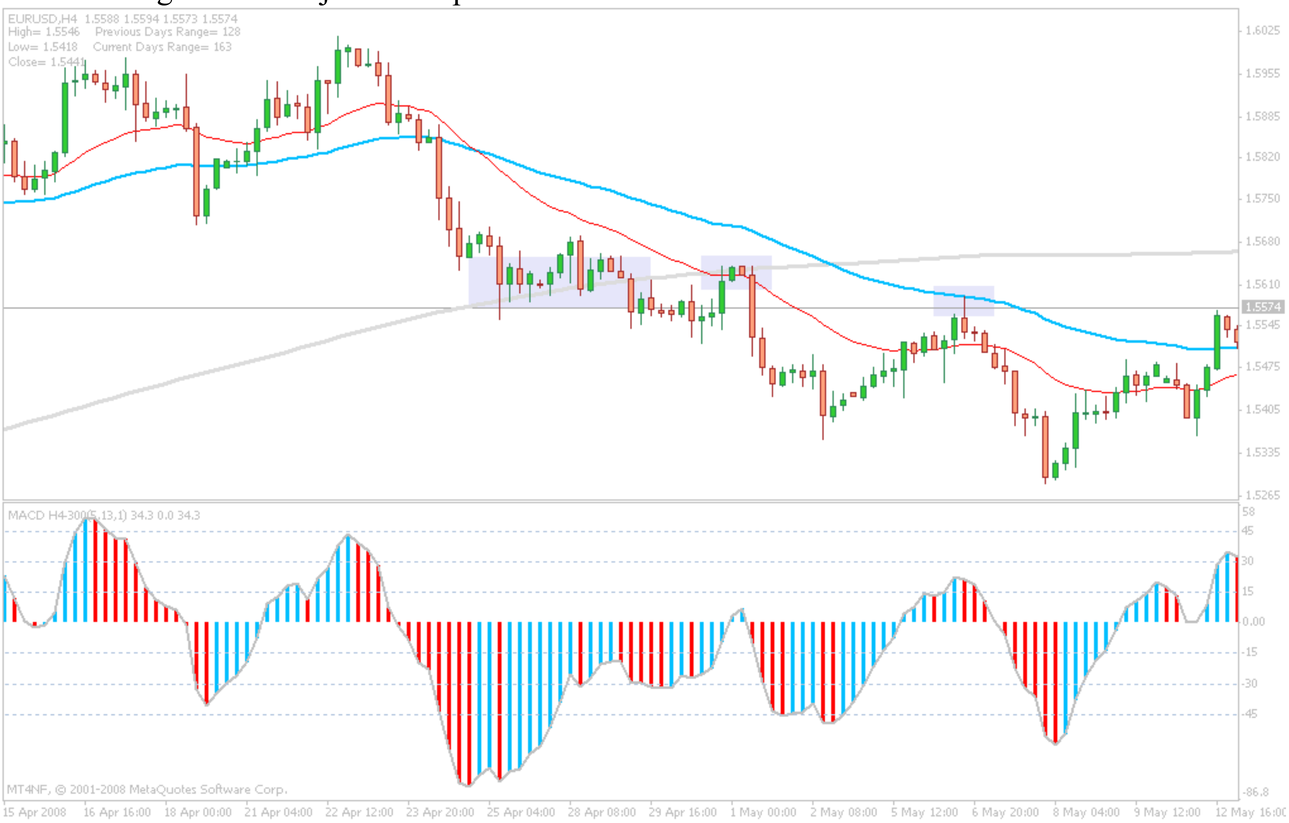
Welcome to my research.

This was begun after Phil asked a question on Friday last about the effects on our trading conditions of the 365 on the 4hr chart.

The only thing I recall about this issue was when I was studying the James16 thread on price action was that he understood that the price didn't stay long at the 365. Therefore was it possible that if the price did stay long it implied ranging or congestion?. I have a lot of James16 files and folders stored and have looked through some of them to find the slight references to the 365 but cannot find it just yet.

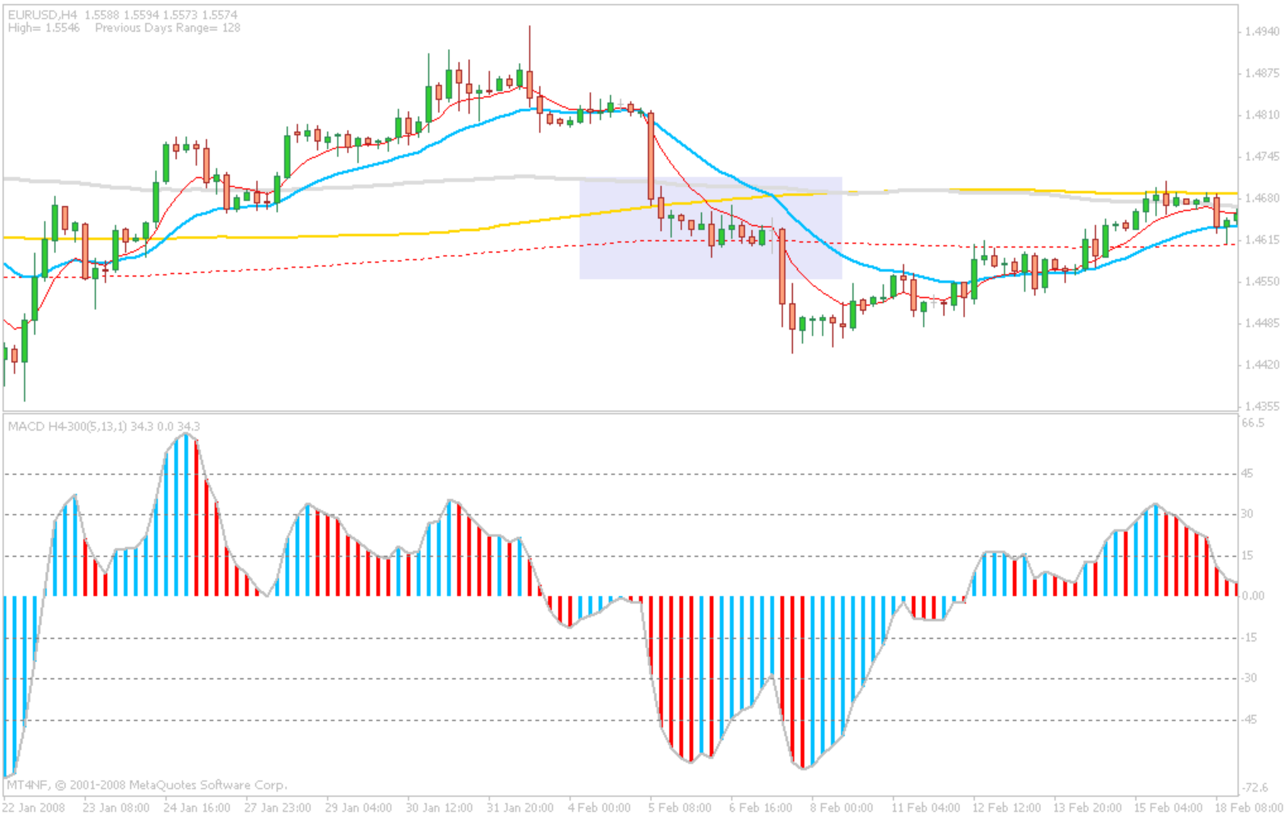
My own investigation began by looking at something I posted awhile ago concerning 12 hour charts. I had come across a Period Converter and was trying it out. I had looked previously at 8 hour charts with it and tried 12 hours for fun. It was clear right away that the price was using moving averages from that time frame and that they were already immediately useful in my understanding of the trading which had just taken place on the 4hr charts.

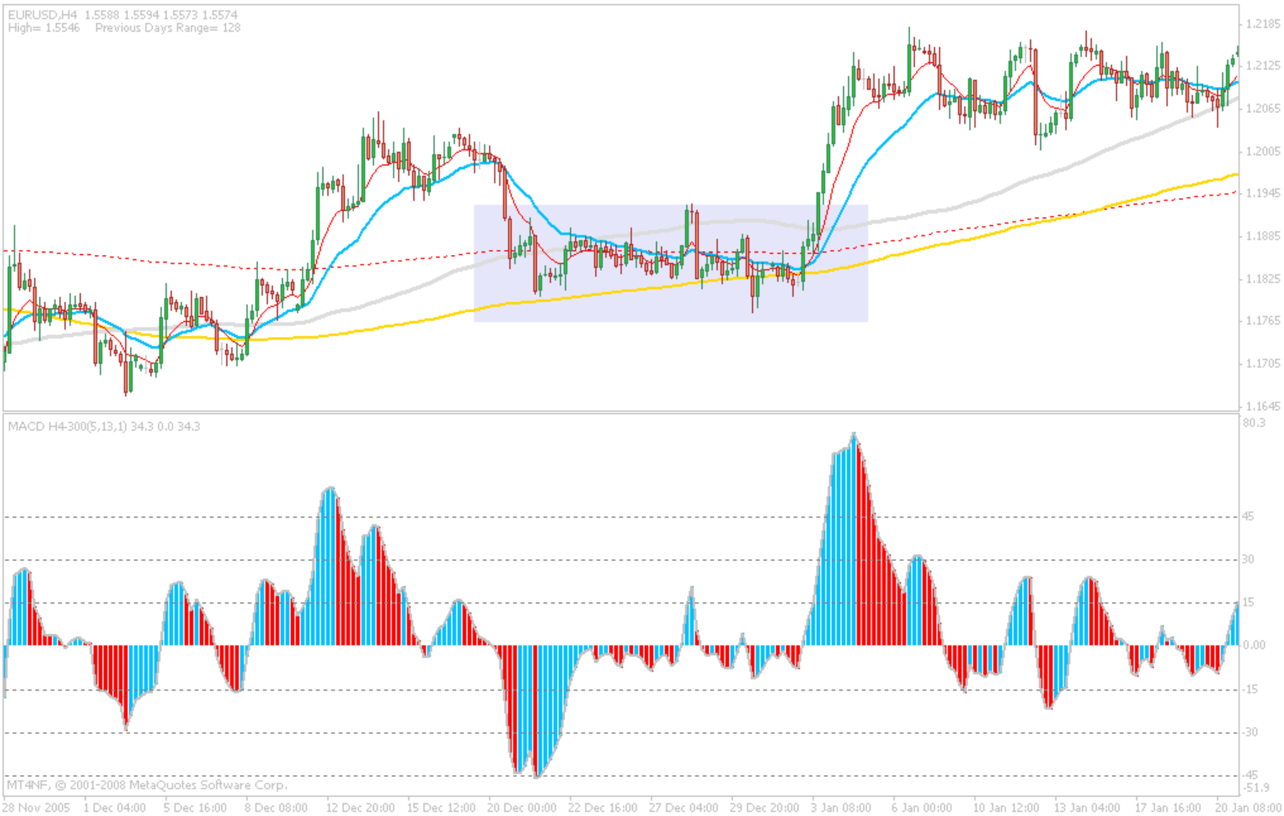


We can see very clearly here, firstly the area where the price met the 89sma and faltered until that was broken, the price came back to it before falling again. When the price had returned to the 89 we can see a four bar high. I think someone took the trade there probably on the second of those bars before the two bar high was evident as a warning, but it was present at the beginning of my trading day, so I was warned off. The reason for the halting of the price was not evident on the 4hr chart in any particular way at that time other than it being a two bar high. Next came the pin on the 21ema, what a peach!. Where was the price going from there..........?

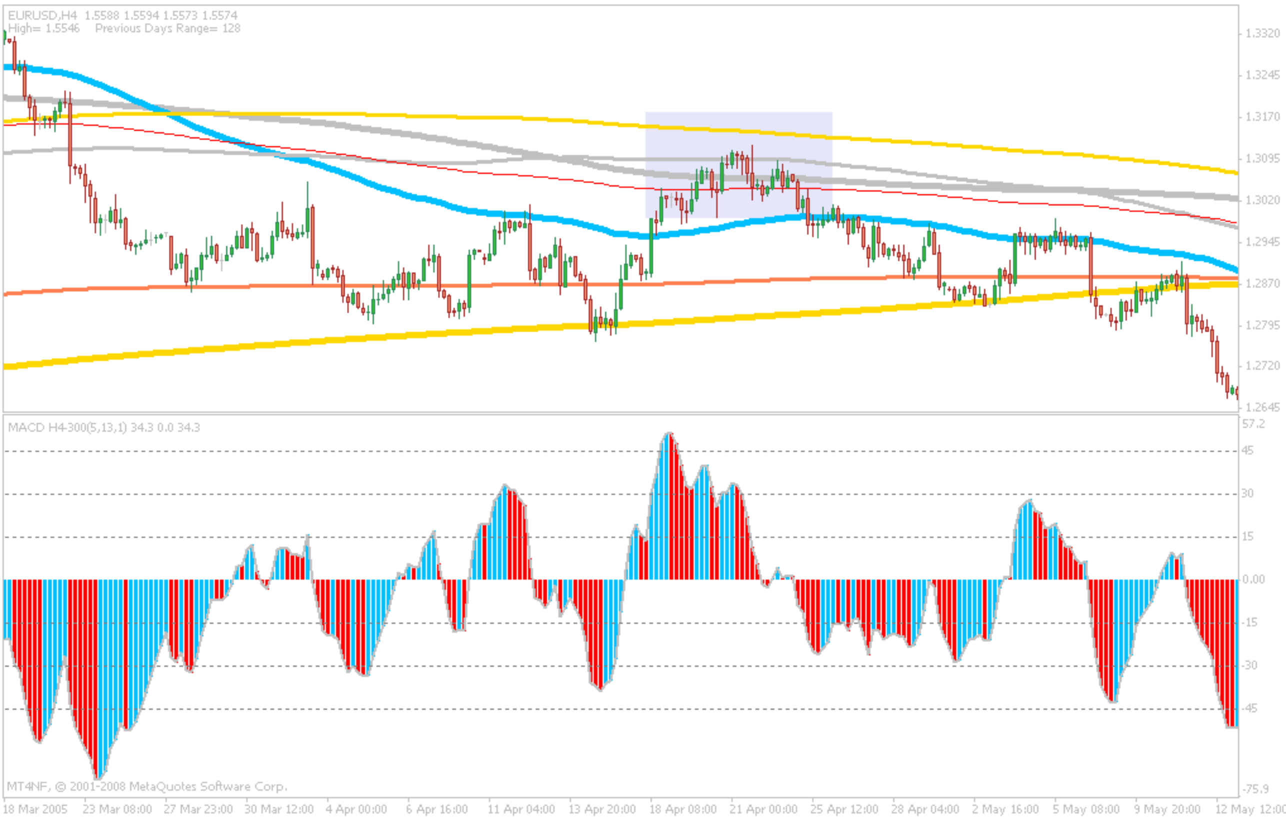
As I said, I had looked at 8 hour charts but this jumped out at me whilst looking at the 12 hour and I decided then to be aware of it since it was clear the price was trading this chart also. As we know the price is being traded over many time frames, from monthly to minutes and we make particular reference to the longer time frame because they put what we do on the 4hr into context. For me the 12 hour was another such context.

My next concern was to find the areas of congestion on the 4rh with the 365 present just to make sure there was such a thing, even though I knew there was, and to make a note of them. Studying firstly the Euro, it was clear to me that ranging or congestion was subject to definition. What was a range etc. There were different answers to this and I included many of the varieties because there was not one answer. Basically any area which interested me where I felt the price was being reasonable held up by the 365. This included smaller two day clusters, price ranging along the 365, and areas where the price seemed to oscillate back and forth across it in a general range. The areas I did not want to include were those where I imagined the price to still be tradeable, by and large. This is of course all subjective and if you wish to study this, chose your own areas of interest. I chose mine and they are included on the template. I left them on throughout my research and didnt really modify them, just added more observations over them. What surprised me in the beginning was how few areas there were. Somewhere around 17 on the Euro on the 7 years of history I have on my MIG platform not including the present one.



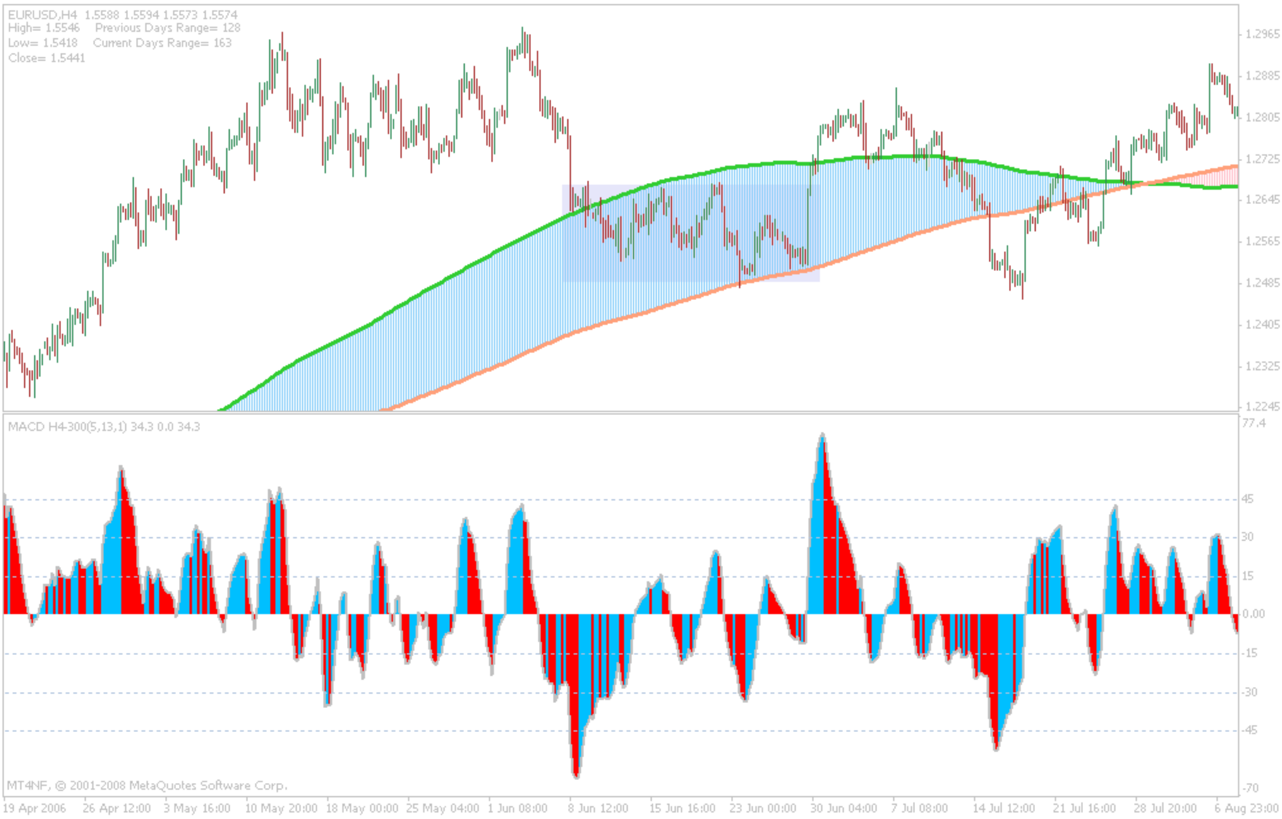


Next I wanted to find if there were any moving averages which affected the congestion or not.It didn't take long for me to establish that the longer moving averages from the daily and 12 hour charts played a significant part here. I tried the 200sma and 89 sma.

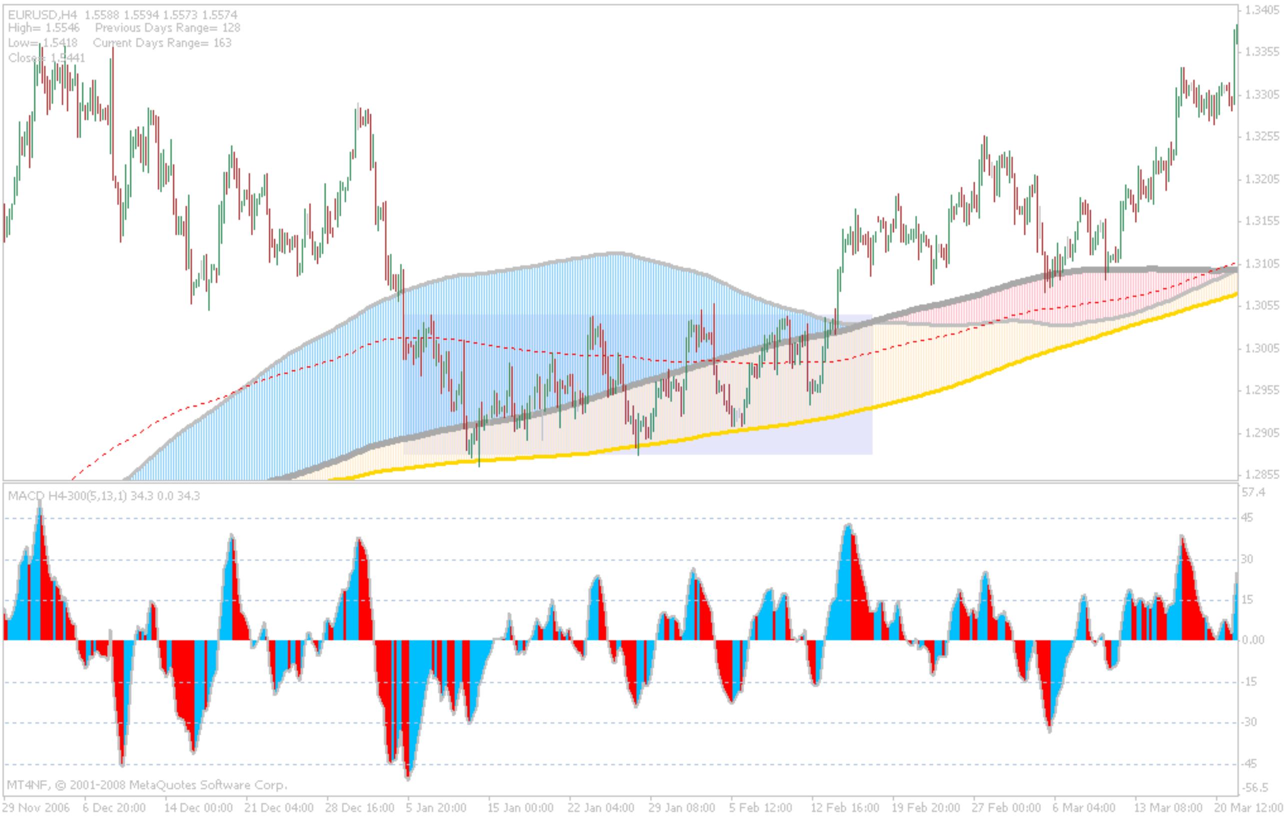


The shortcoming of this is obvious in that there is too much to look at!, the information is not really clear enough, but it was a good start. From here I narrowed the moving averages down to the 89 and

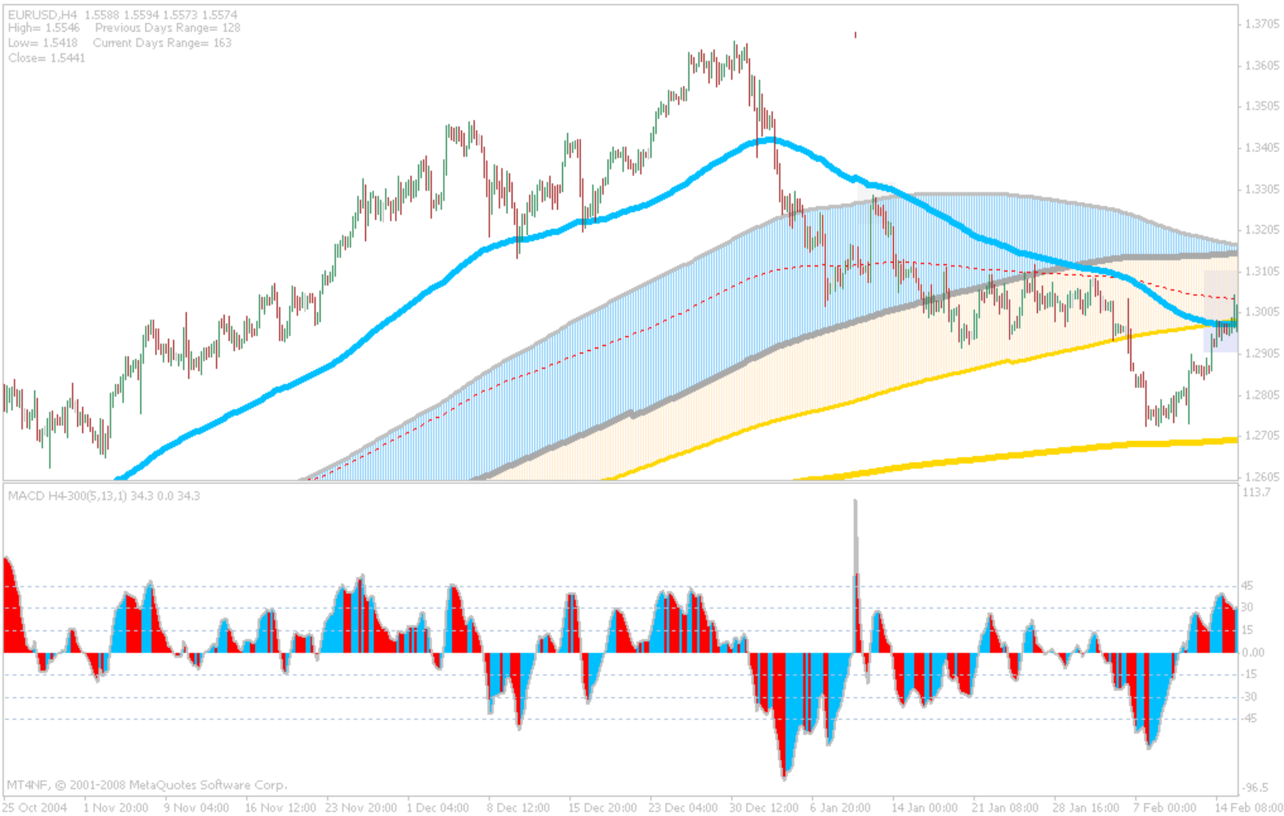
200 sma from the 12 hours and 89 from the daily. I realised that they formed areas or pockets/bubbles on the chart and that these were the mostly like places for congestion ranging to take place. A better way to realise this graphically was to use a indicator I had looked at some years ago which uses a histogram to fill in the area between two moving averages with colour and then another one on top of that to make the lines themselves. This made the chart a lot clearer and it was easier to scoot back and forth checking whether the price did slow inside these pockets. I added the 365 from the 4hr after.



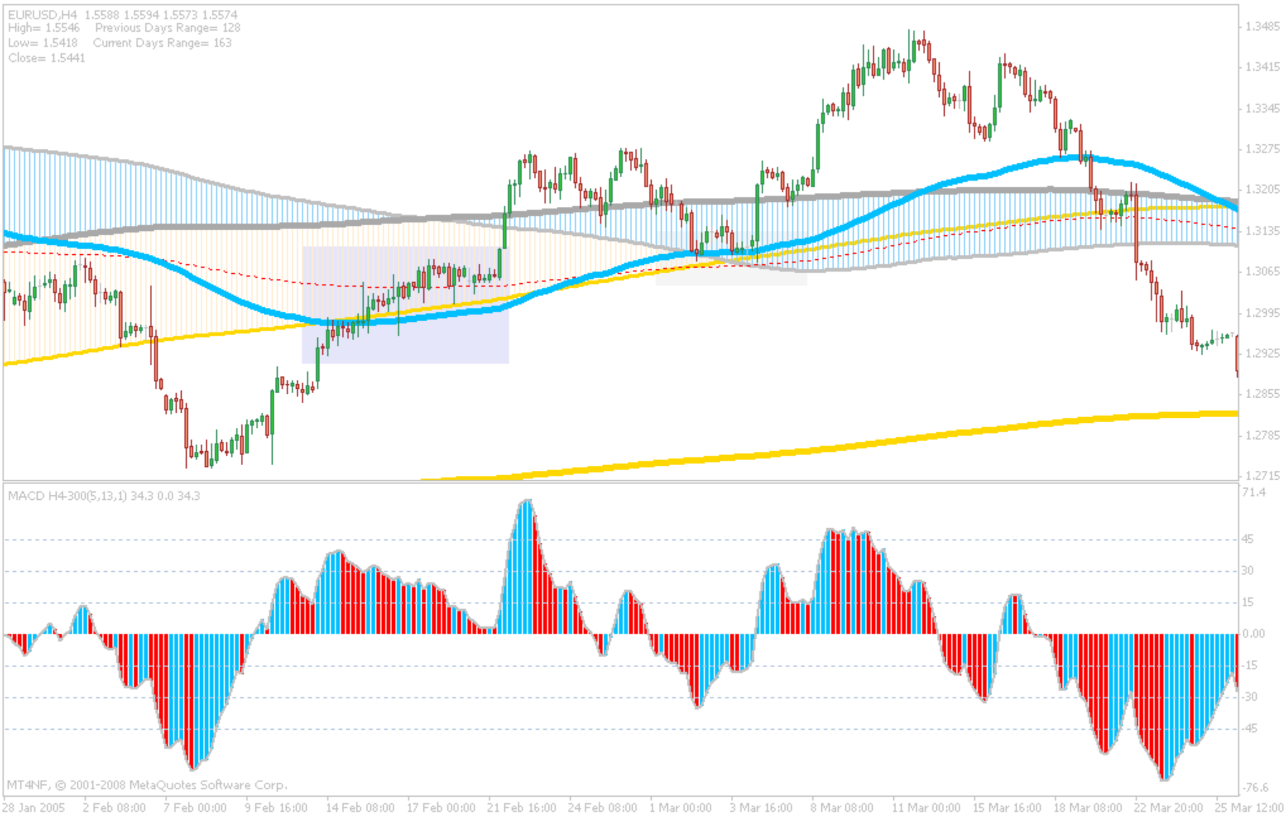
Then I added another indicator showing the 200sma/89sma from the 12hr to create two different pockets on the chart to see which was most effective.

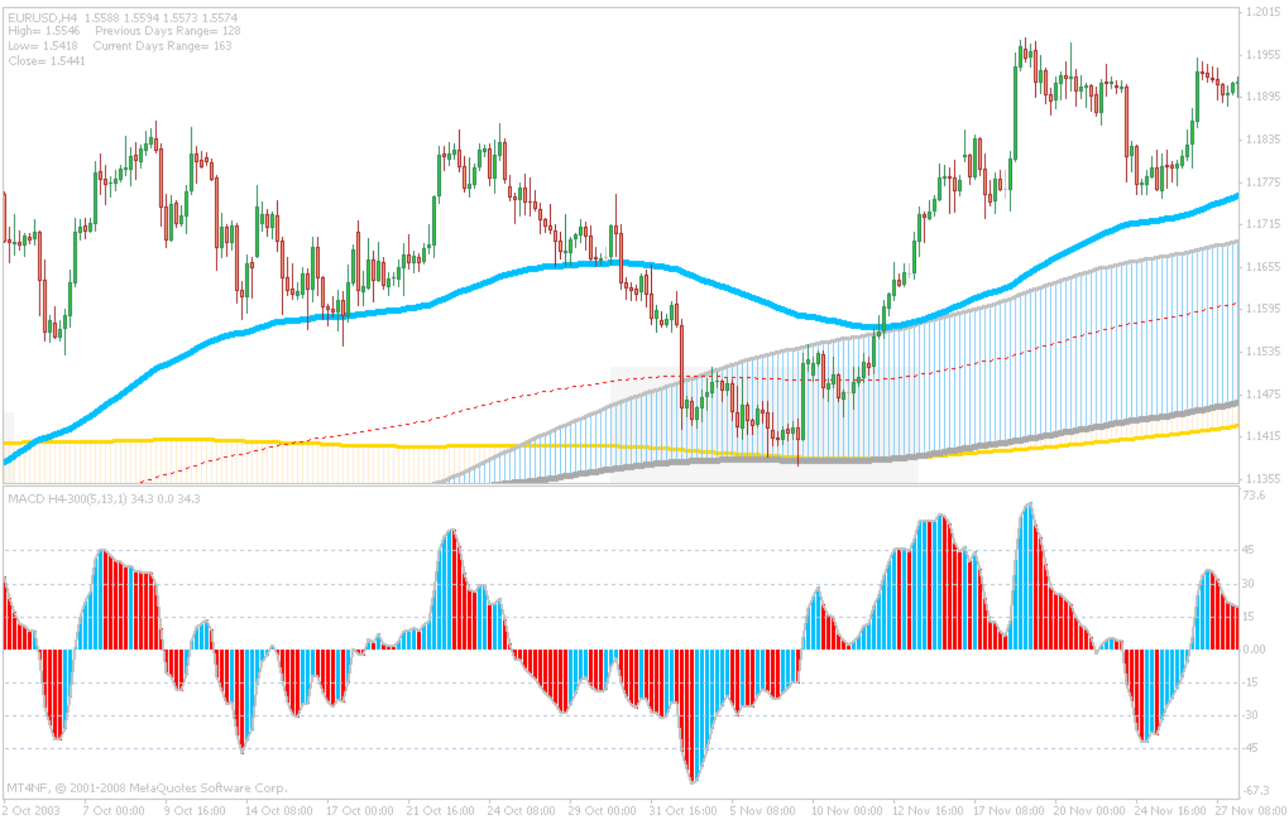


I have been interested in areas of the chart which are not traded or offering pooor trading conditions for all of the time I have studied forex. My assumption early on, particularly with reference to 5 m in. charts, was that if you could remove the poor trading areas it would leave the best ones, or atleast the areas where the trading actually takes place. Simple really.......I am still doing that onmy 5 min charts today, and this was just an extension of that but on a bigger scale. Of course I am not suggesting these areas are untradeable at all, as we can see some remain tradable despite the proximity of the 365, others, like right now, a lot more challenging. I am atempting to define in a simple way where we can expect congestion to take place. Inside these chart pockets is a good place to look. The price will always do one of three things even here. Gun right through the pocket,say short,and later use it as resistance, bounce off it because it is support or simple cut through it and ignore it. It is up to us to decide what the price might do using experience. I might add ,by the by, that the price is still being traded through this areas. One thing apparent to me from the charts is that the price is acting on the moving averages as is passes though the pockets.



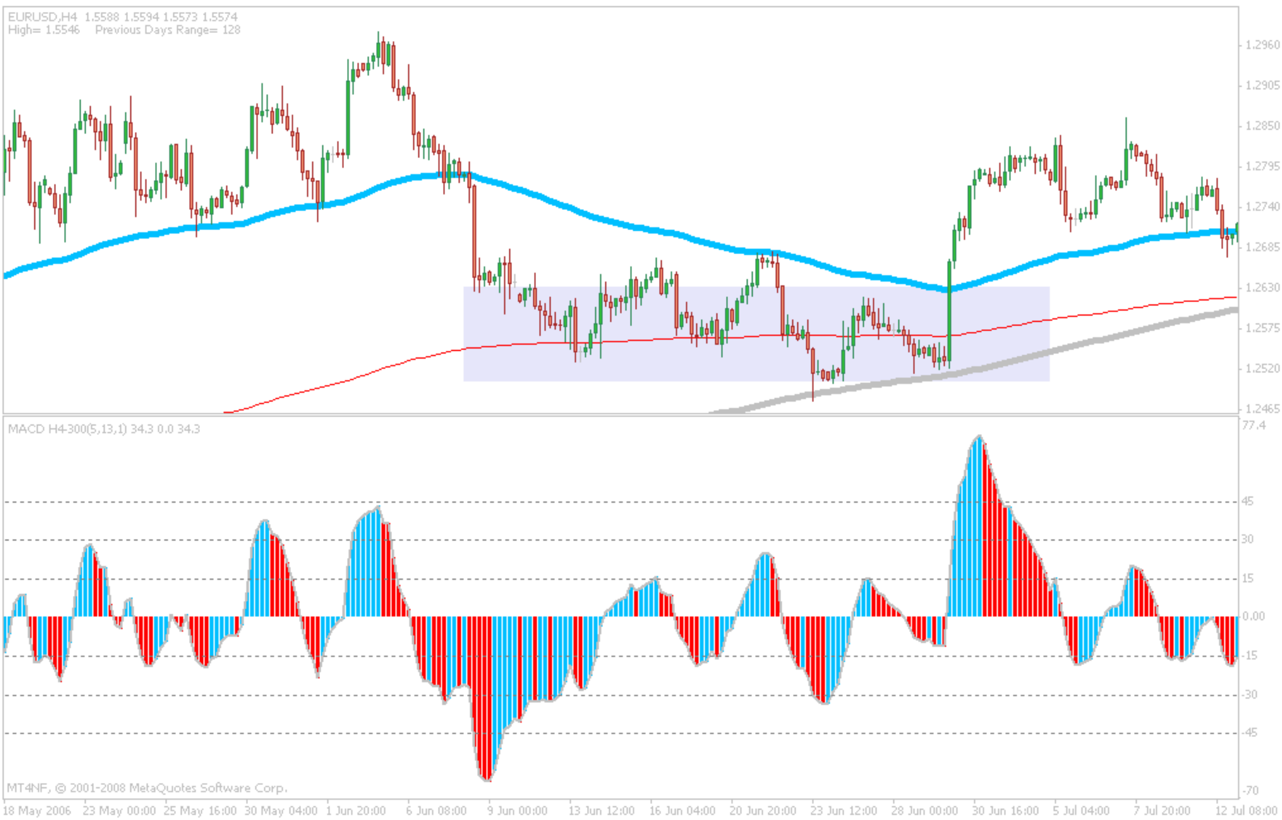
On the templates I also included points of interest to me. Many of those were places where two or more moving averages came together reinforced support or resistance points and I marked these in Smoke White.

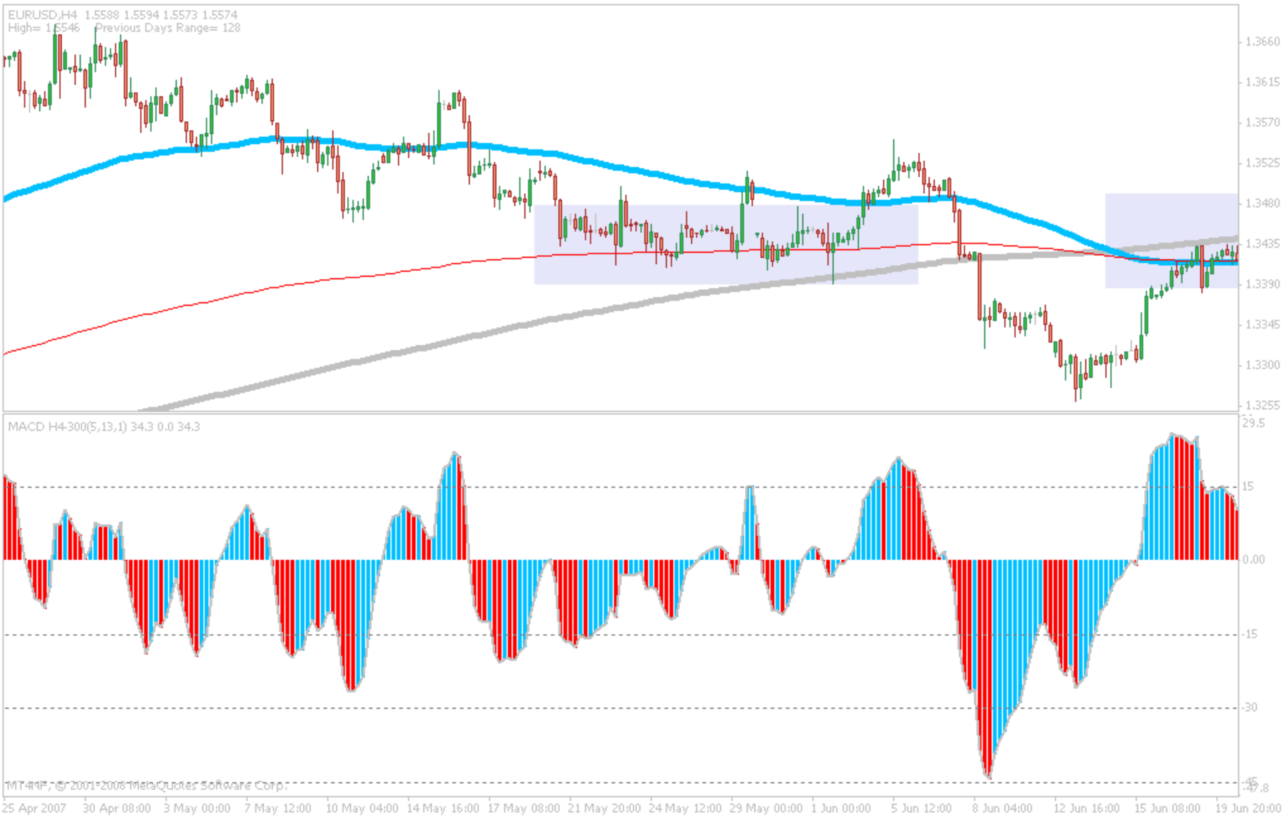




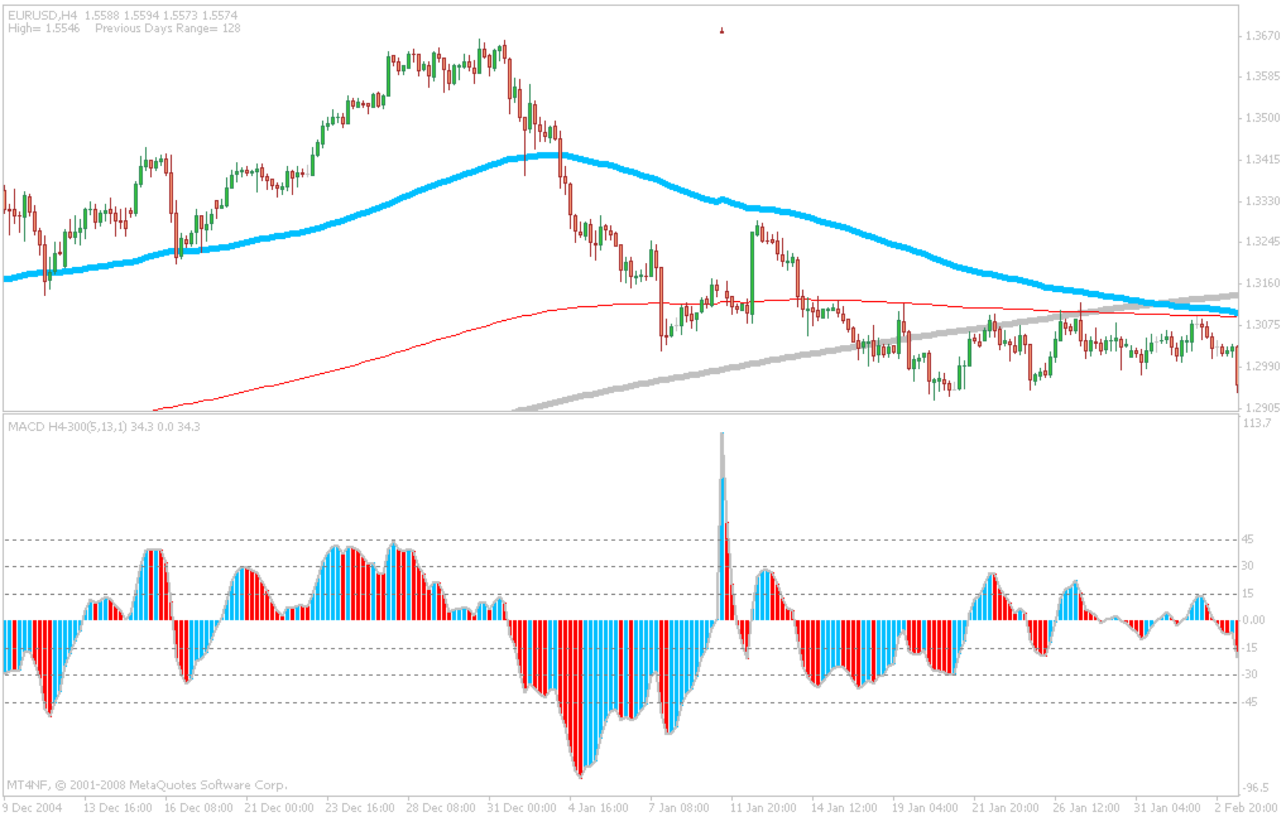
Another thing I notice which was relevant to our present Euro 4hr situation was the repetition of the pattern we have right now, whereby the 21ema and 89sma from the daily chart form the kind of triangle pattern we see.

I would not say this pattern was common was it certainly occurred reasonably often, both on the Euro and the GBP. I guess if you use your imagination you can get a sense of how the price has got itself trapped in this area and is struggling to free itself and thus the action is becoming heated up and emotion builds, or perhaps frustration on the part of the players, before bursting out in which ever direction.

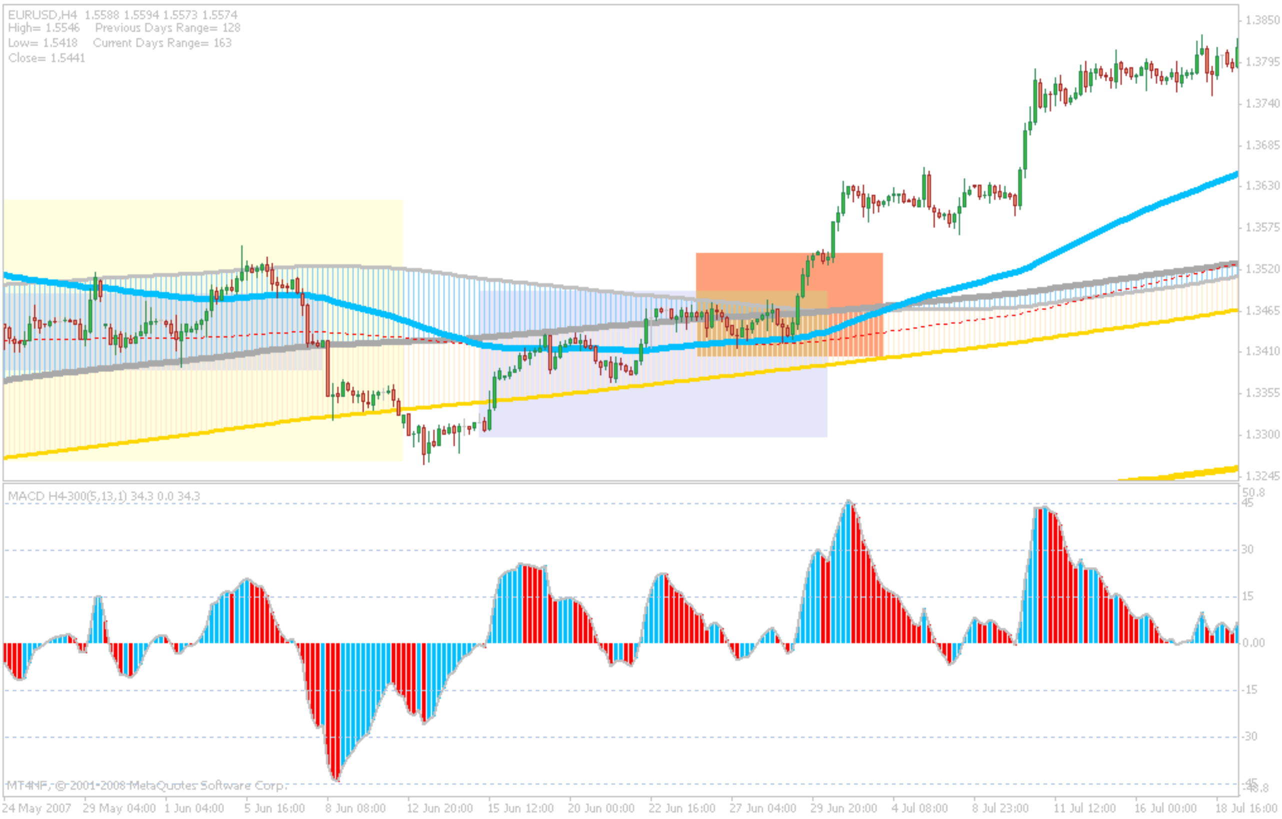


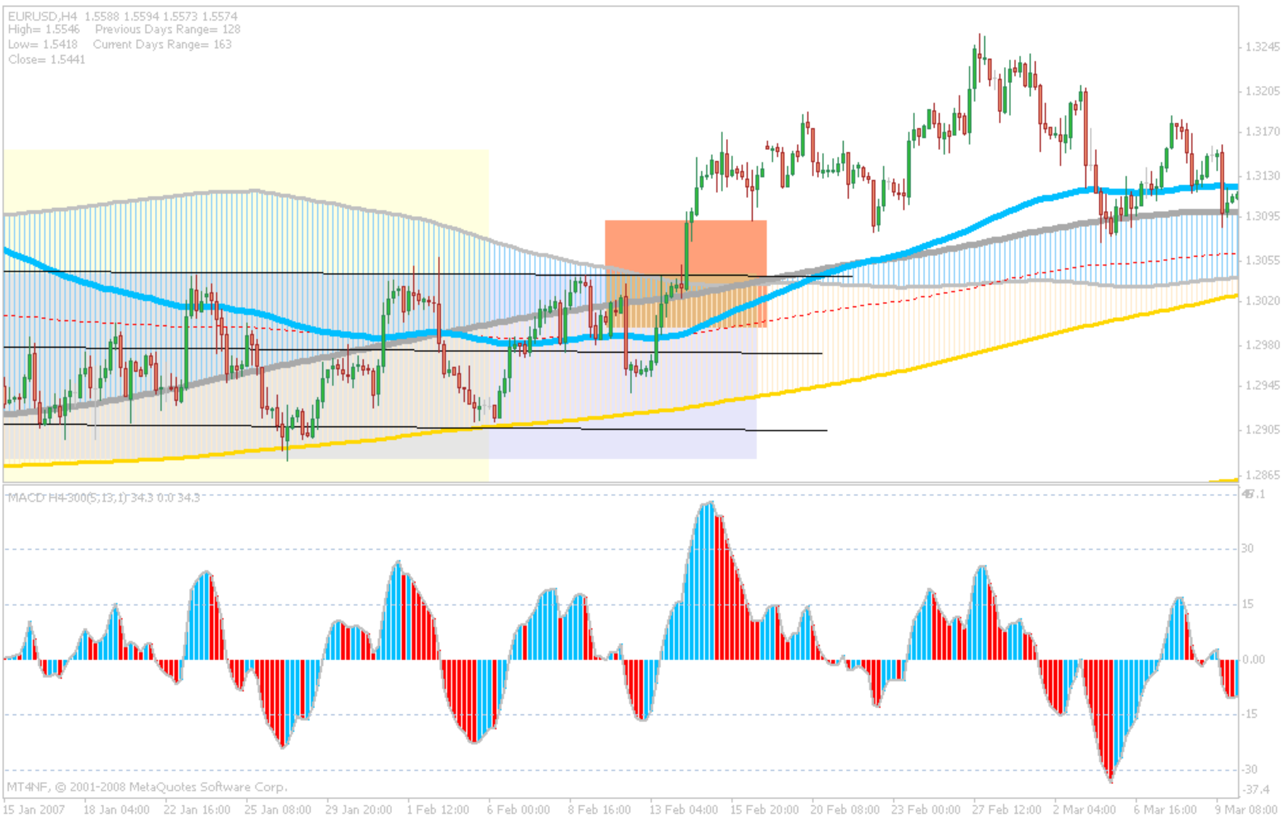


As you can see some of these areas are going to be more tradeable than others, however, this daily set up does not always lead to congestion.

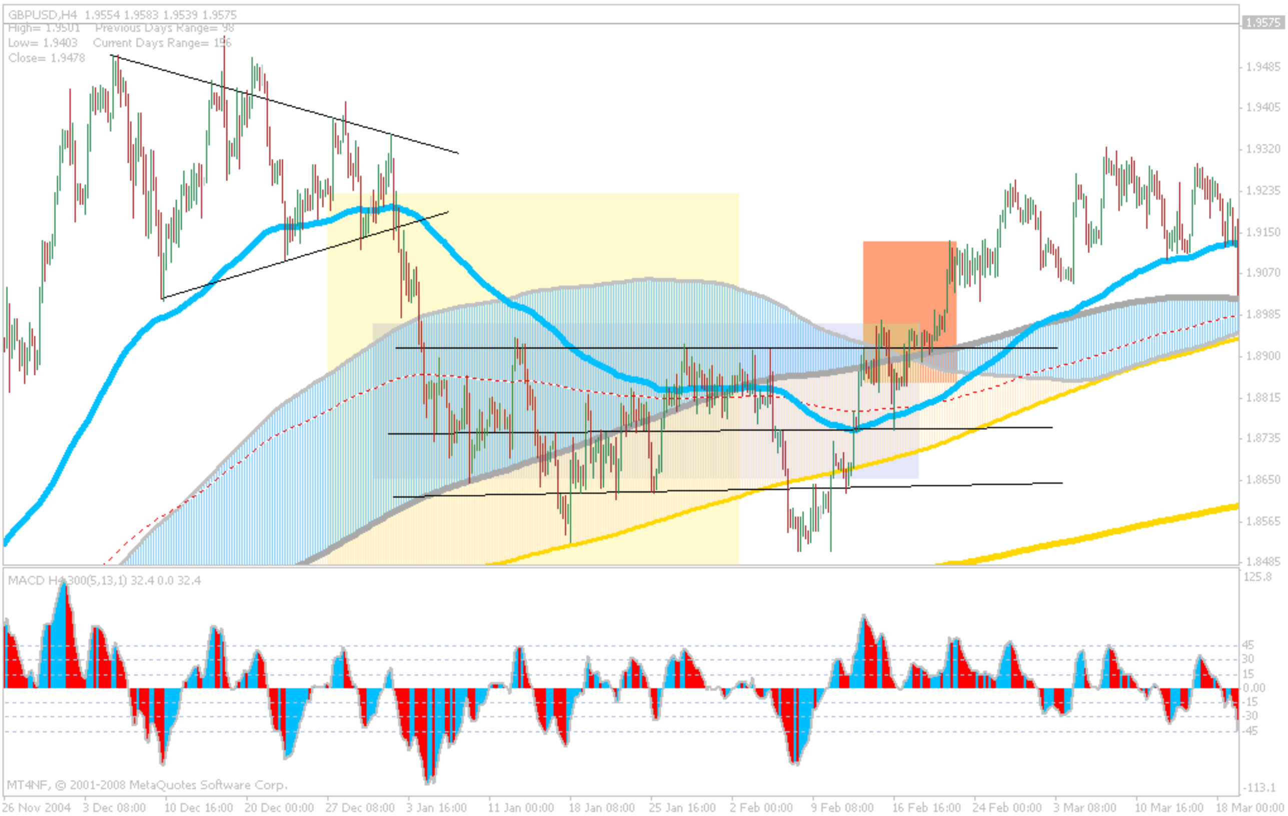


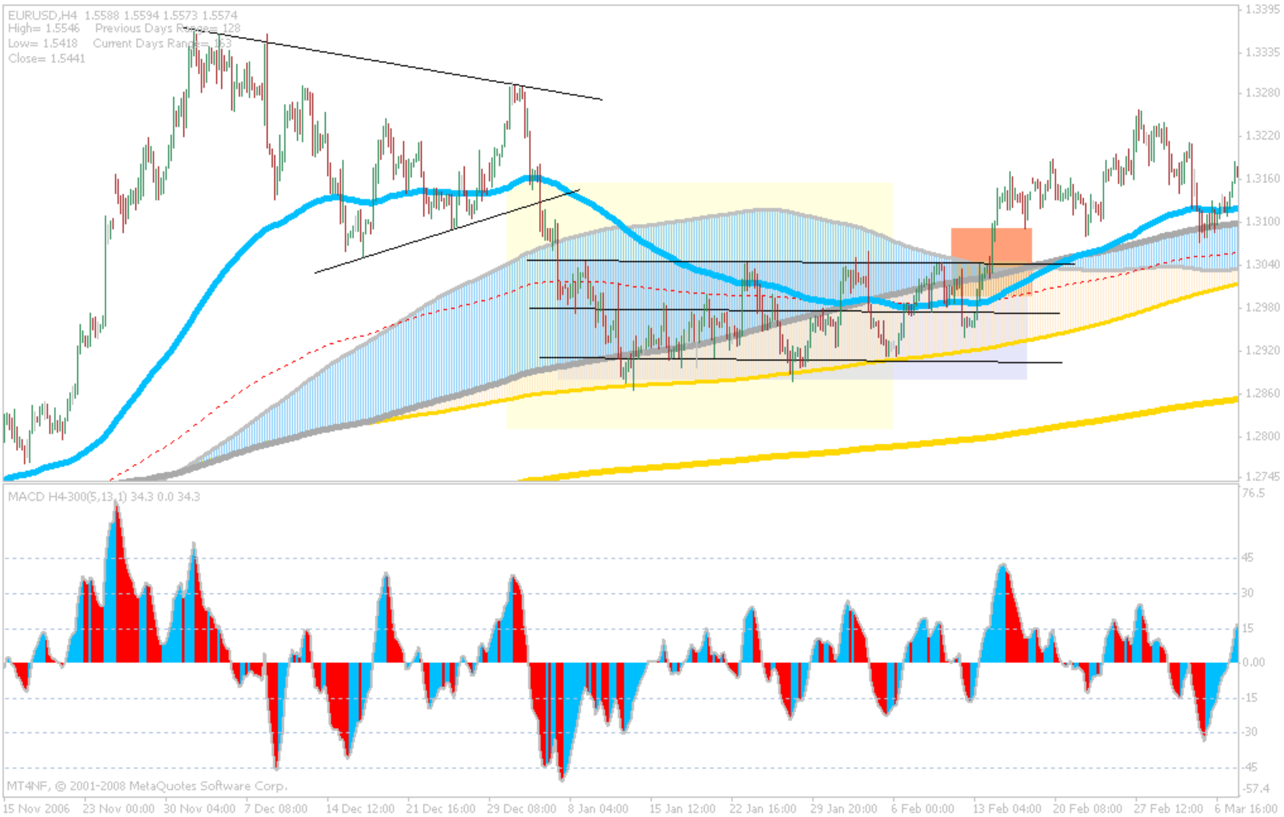
So, now there are two pockets on the chart, overlapping, and also the 21ema from the daily. I coloured in pale yellow rectangles those days with the 21/89 pattern and also another observation shown in red rectangles. The red areas were where a breakout occurred where the daily and 12 hour 89sma seemed to cross or was at least very close. It is not entirely exact but near enough to make it a valid and useful observation.





It was whilst I was looking at this that I found a set up on both the GBP and the Euro which I posted on the thread. These next two charts show this and they appear at first glance to be identical, and in many ways they are, even down to the trendlines to the upper left. Yet these are two different currencies two years apart. The Euro from Jan/Feb.2007, and the GBP jan/Feb 2005.





Interestingly not only were the trendlines very similar but the breakout occurred from a trading range at the point where the 89smas crossed to the right of the chart.

I have posted the coloured area indicators and templates on the thread and the last template includes my observations on the Euro, GBP and USDJPY.

That is about it for the moment. If I have more to add I will up date this document and post it. This is my take on the reason for the congestion we find on the 4hr because of the 365 ema. The two best situations for us really, one is when the price floats away into an open chart, the other is when congestion offers a large tradeable range to work with. I have been interested in these areas of the chart for some years and they are clear to see on this template and I hope some of you may find this useful.

How could be forewarned by this?.........Well, the usual thing really, being aware of the possibility of larger time frame moving averages on a daily basis as part of our chart preparation. Hopefully this may be another part of that analysis. It is by no means any prediction of what could happen but might offer clues as to likely outcomes from impending price action.

I have included charts from the GBP and USDJPY with more observations including some trendlines on the USDJPY and showing more of the red rectangles where the price breaks out from the 89sma cross.

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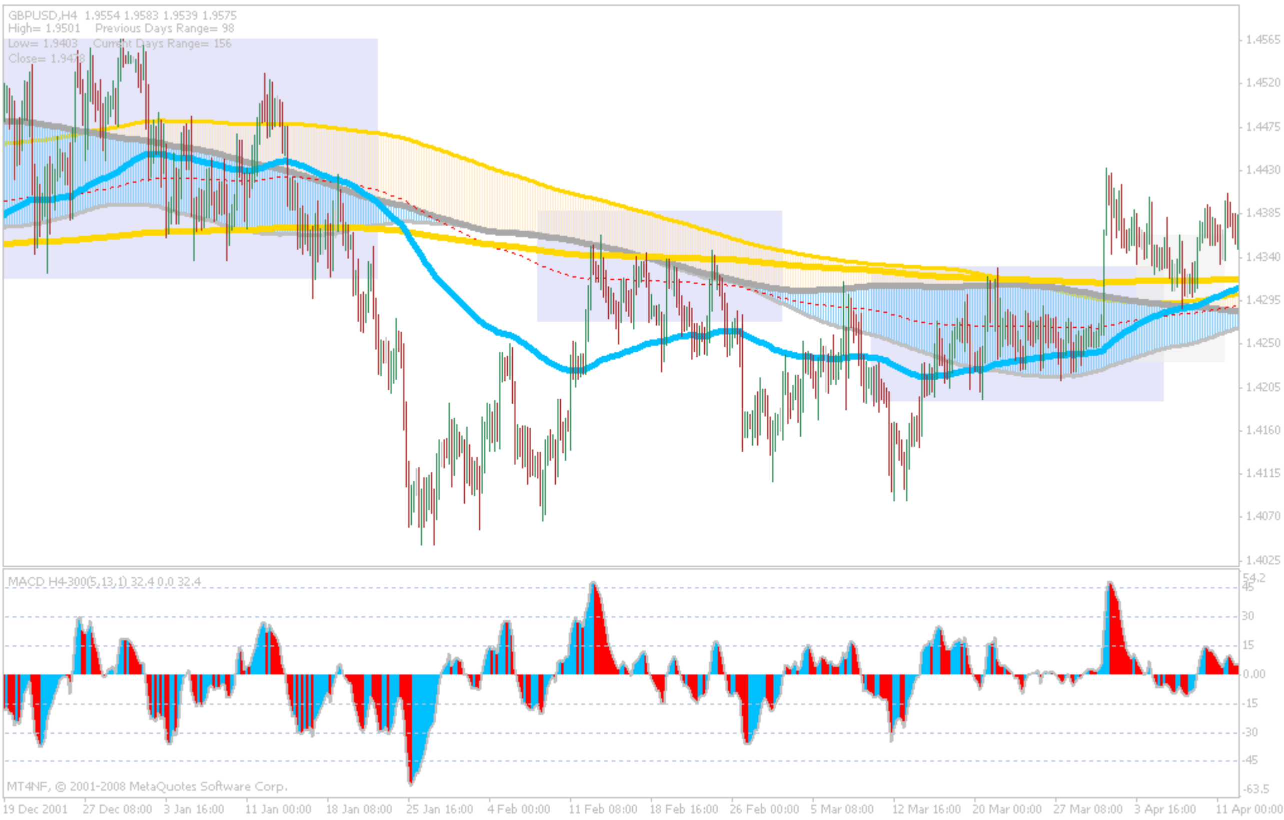

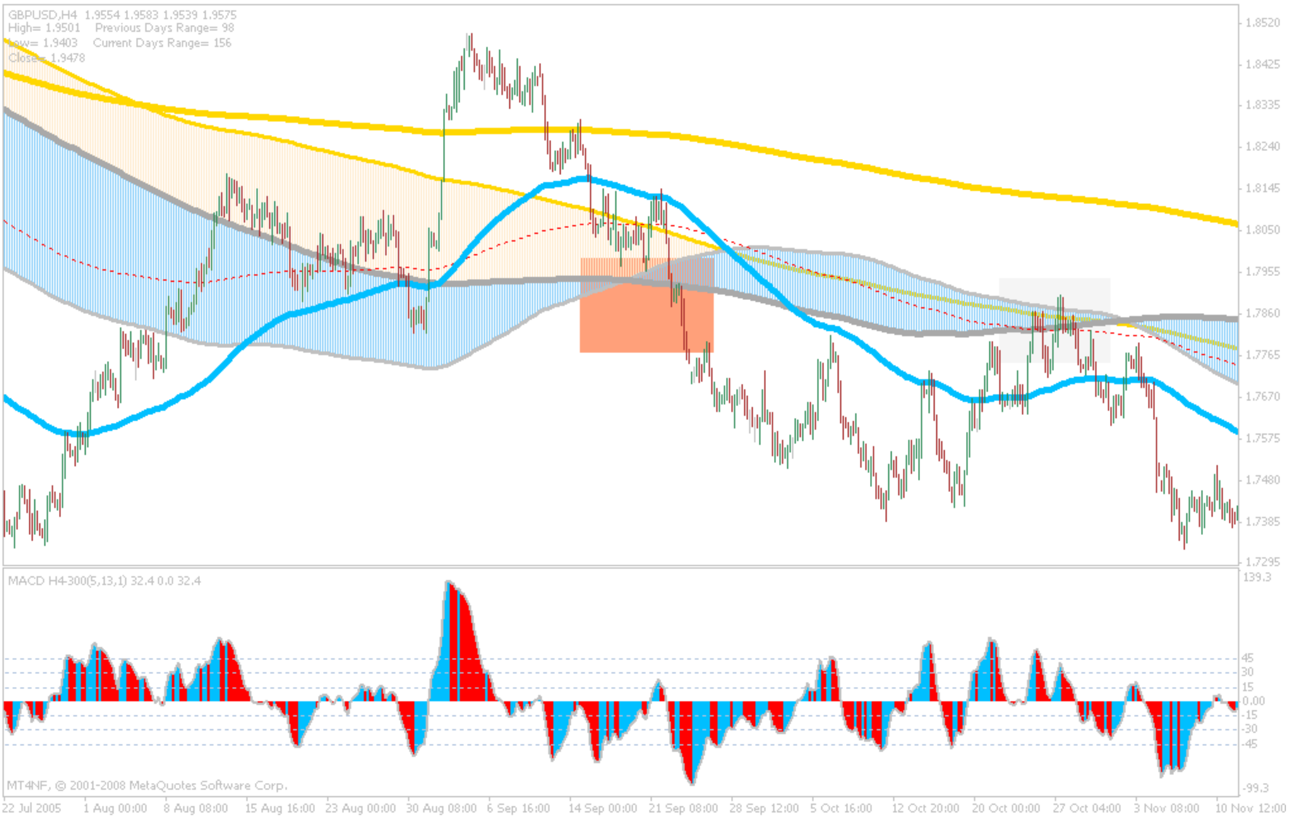
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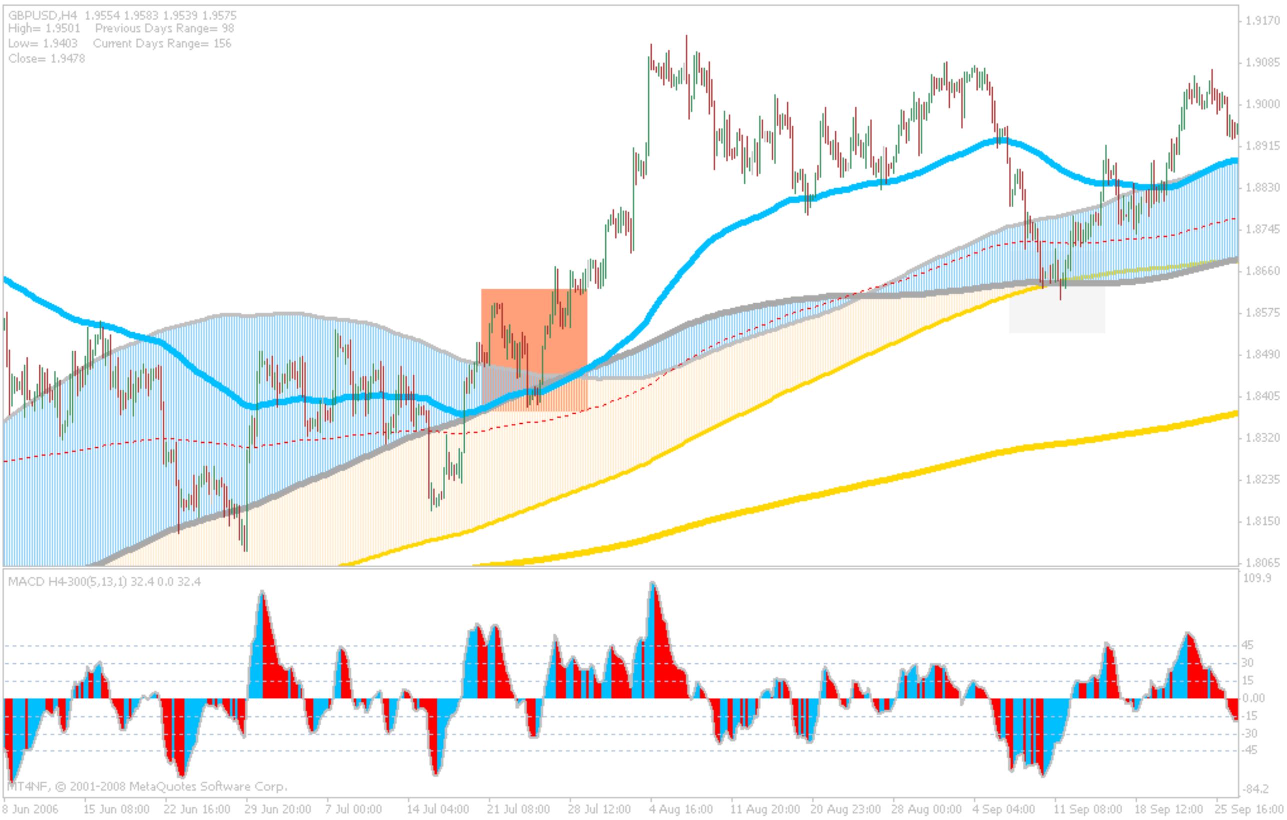
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GBPUSD,H4 1.9554 1.9583 1.9539 1.9575
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USDJPY,H4 103.90 104.20 103.85 104.05
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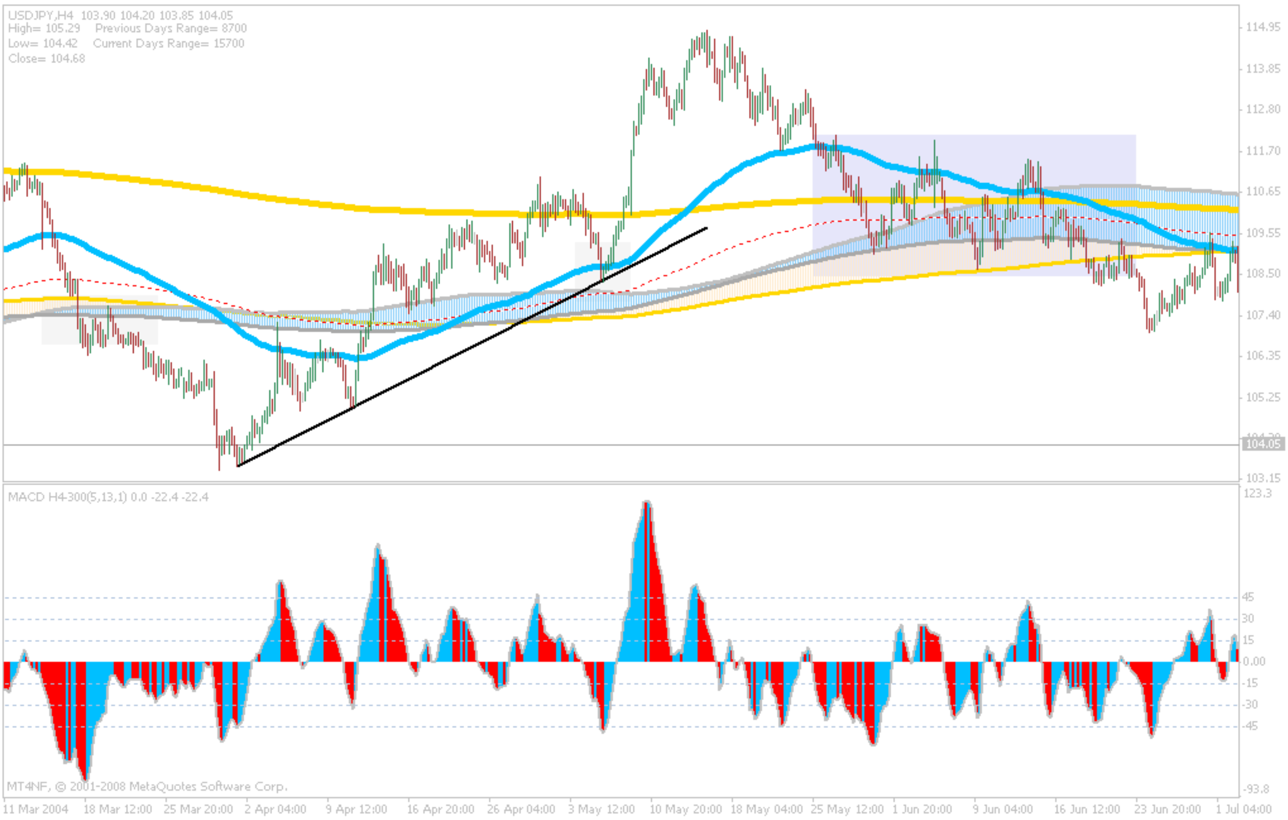

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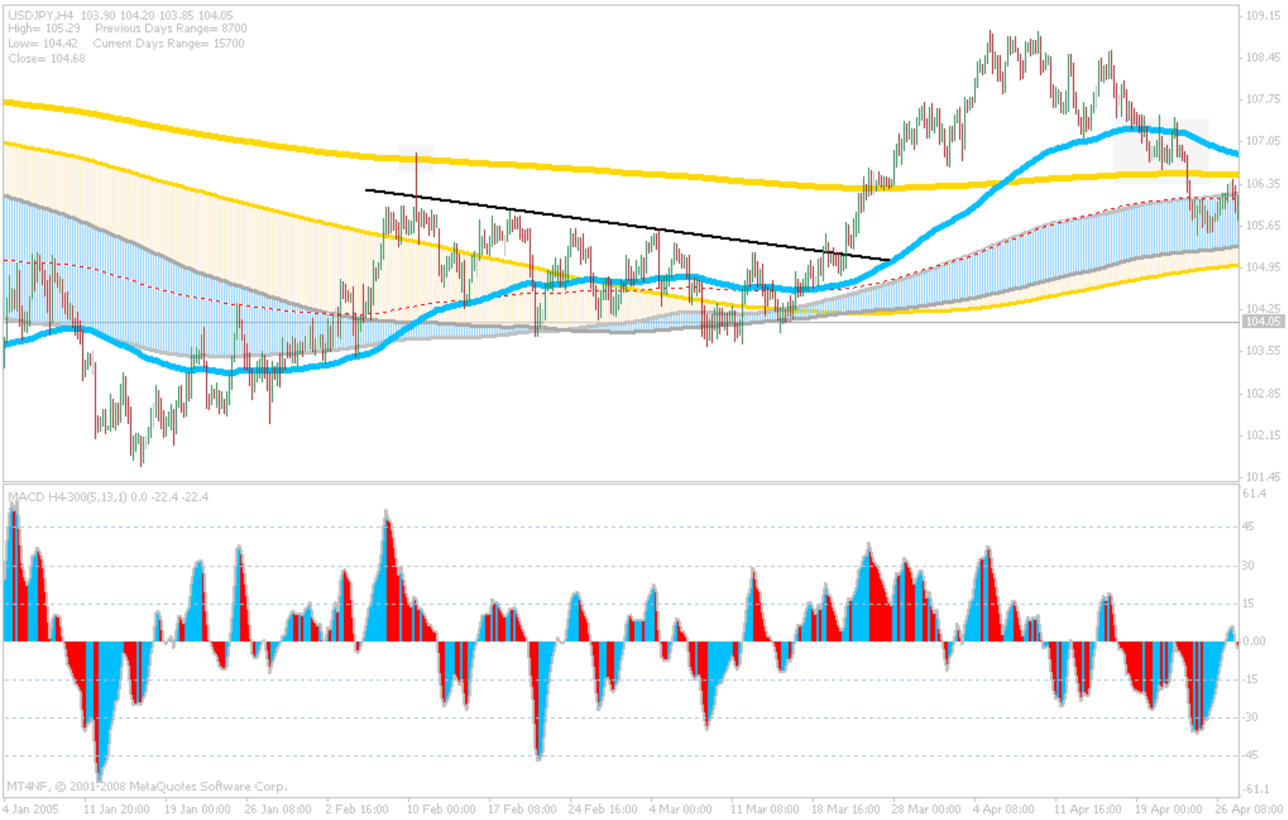
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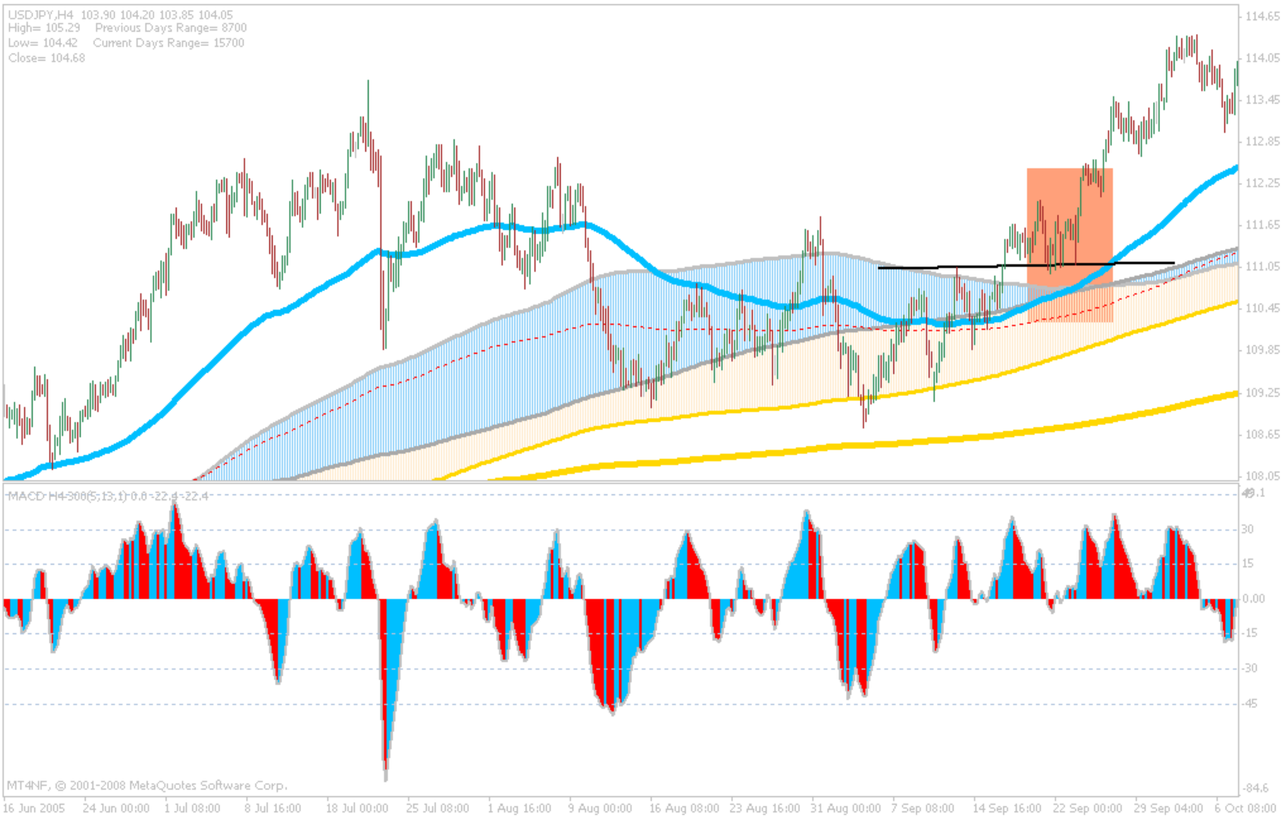
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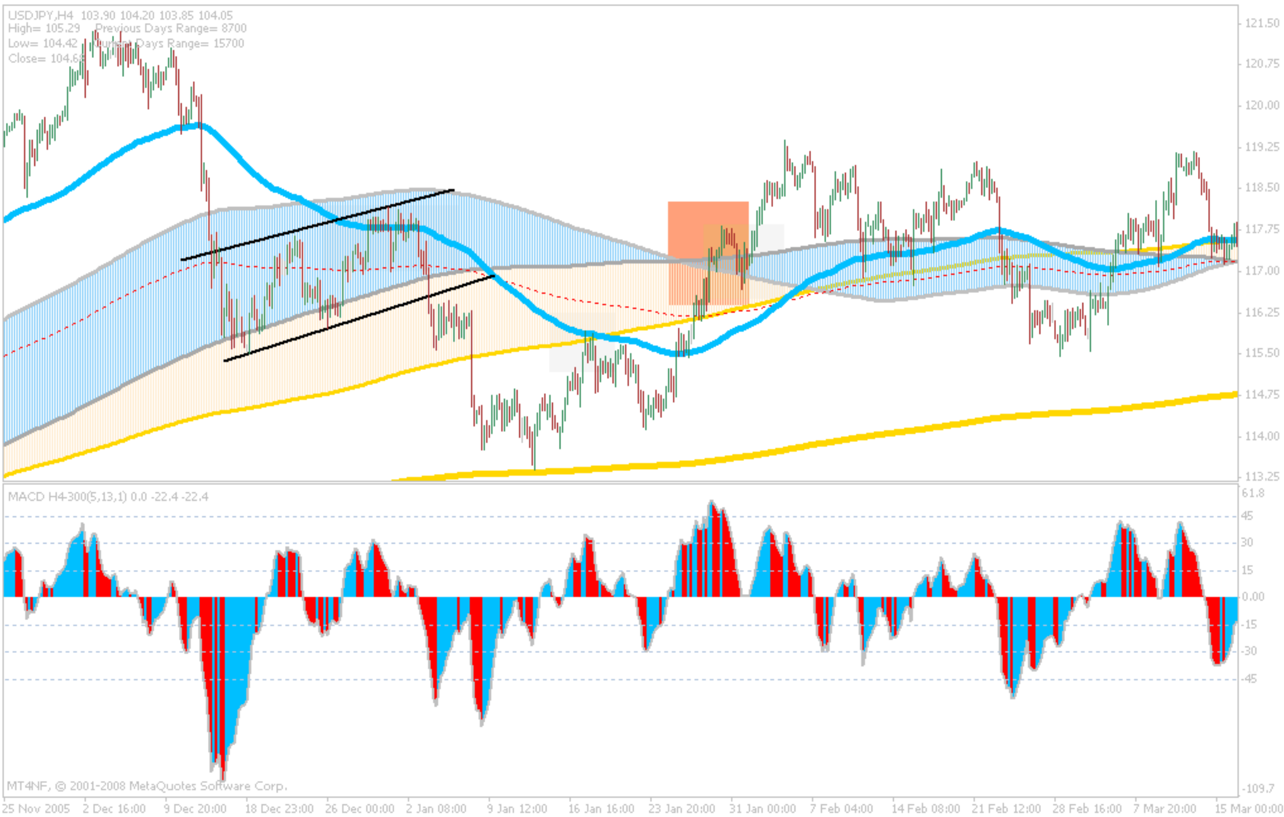
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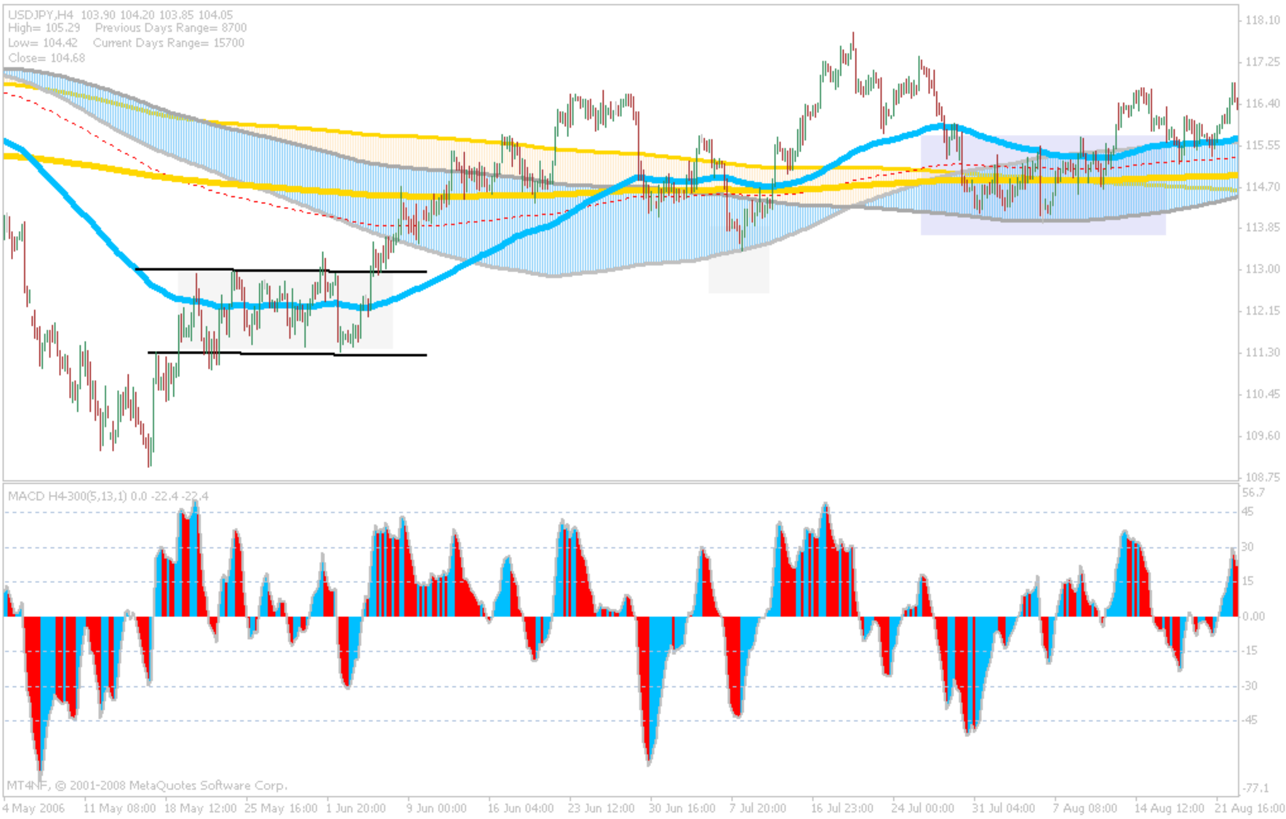
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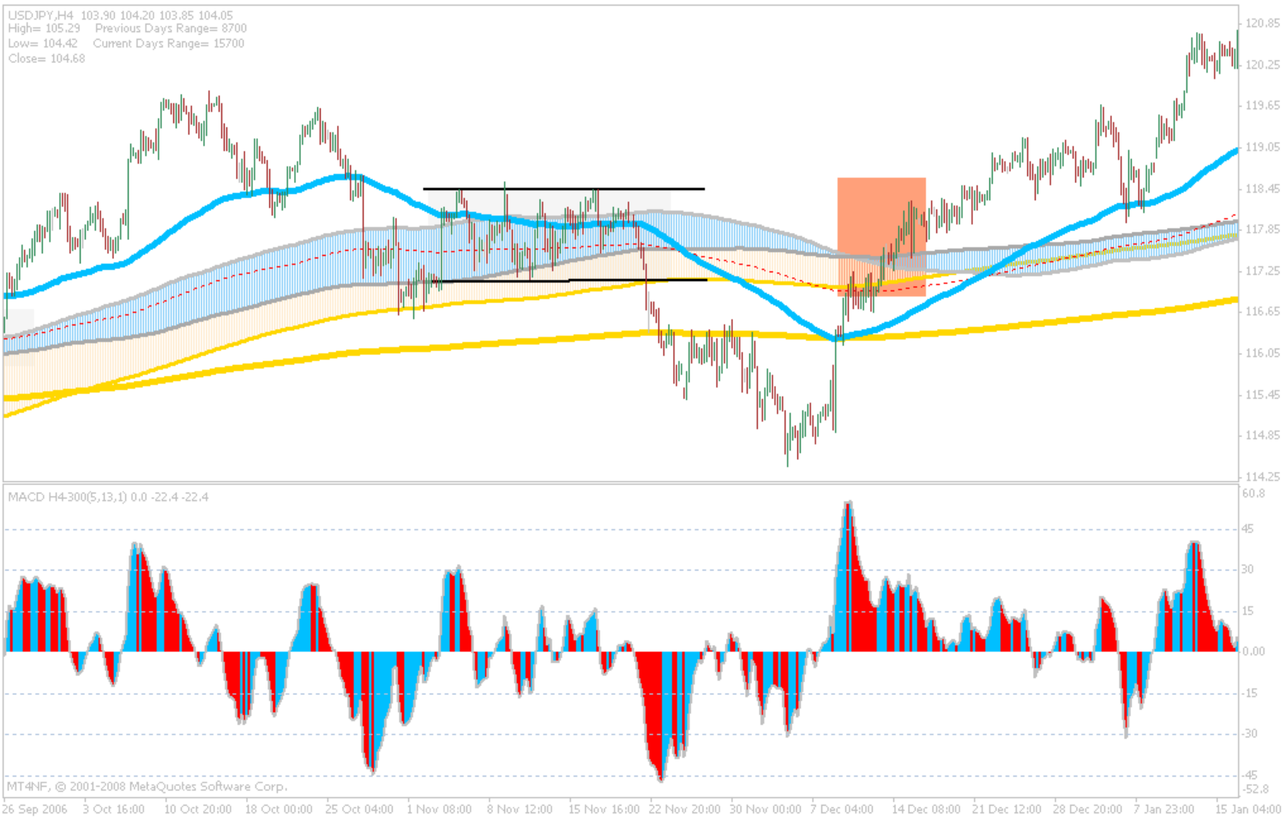
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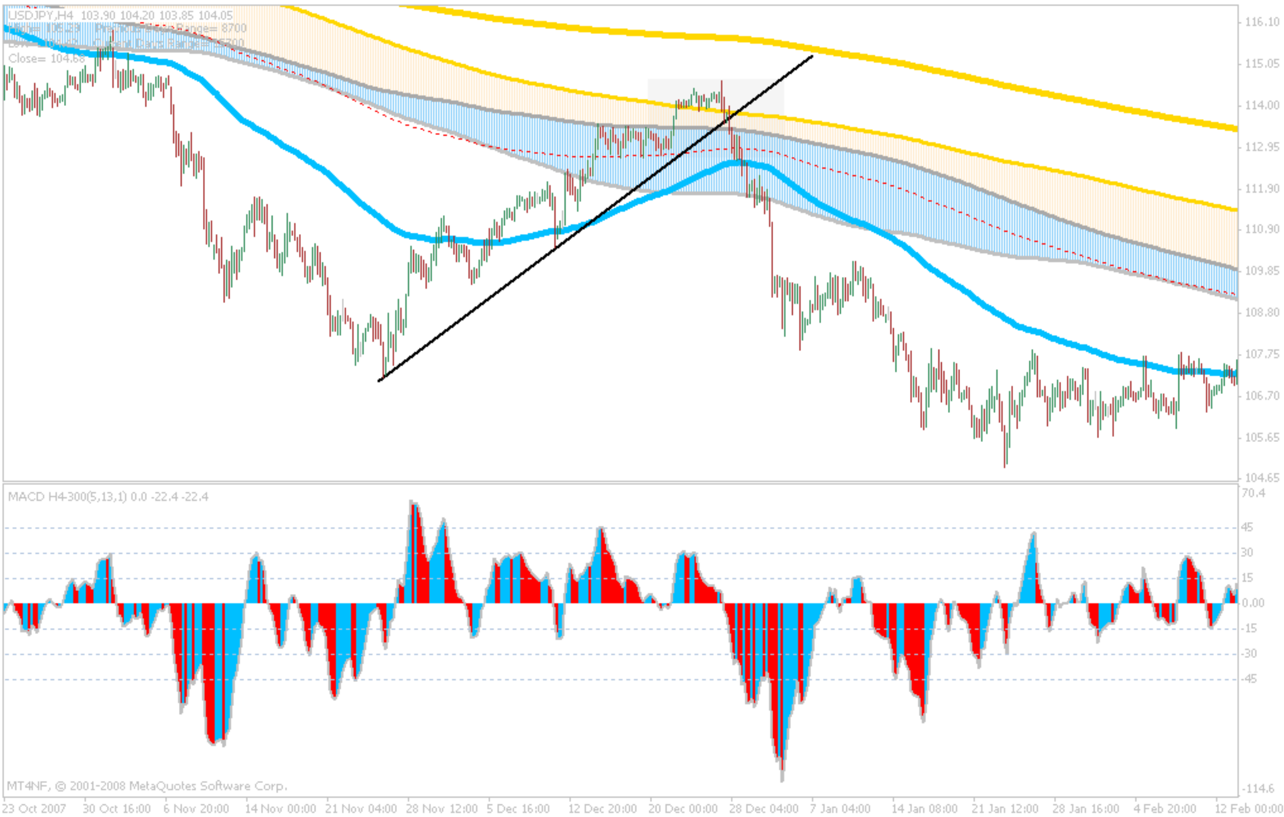
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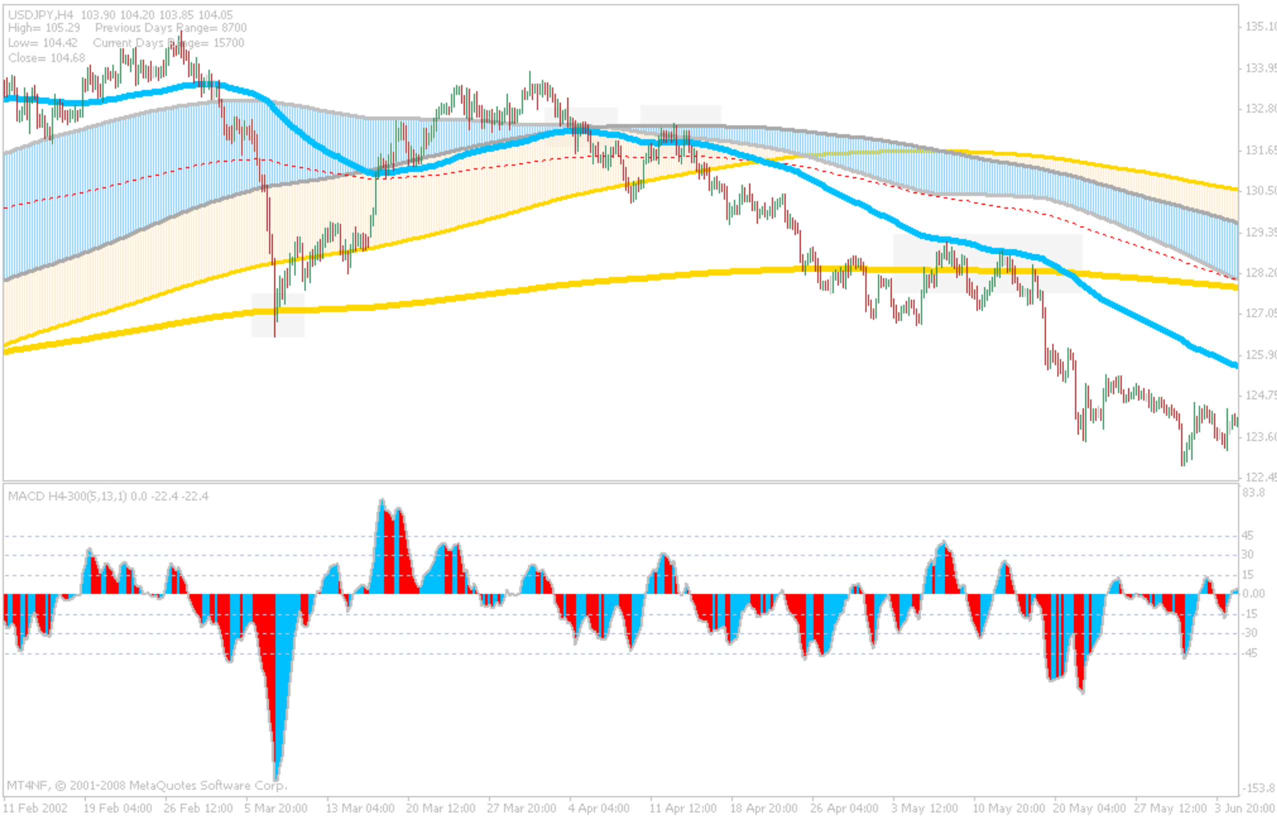

USDJPY,H4 103.90 104.20 103.85 104.05
High= 105.29 Previous Days Range= 8700
Low= 104.42 Current Days Range= 15700
Close= 104.68
MACD H4-300(5,13,1) 0.0 -22.4 -22.4
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