Day-Trading 2.0 for small traders

01-05-08 12:38 PM

"Trading is just a probability game based on pattern recognition" (taken from italianfx email)

If every potential trade is a probability game, the job for a trader/scalper is not forecast the future but to minimize risk using every available tool to find the best available scenario.

1. The importance of order in the analysis. In mathematics the order of the factors doesnt changes the result (5 x 8 = 40 and 8 x 5 = 40). However, when trading the order of analysis change everything.

a. If you only focus in how to pull the trigger ("timing" i.e LT rainbow, Stoch Crossover, MA Crosses, CCI, etc ,etc ,etc) you can have some results especially in trendy markets, but you are doom to fail in the long run.
b. If you only focus in "direction" you will have 95% hit rate but only in your head 'cause u will end up getting stopped out every single time, full of loses because whipsaws or caught with million doubts every time a S/R or trendline is touch or broken.

But before analysing DIRECTION, TIMING and MOMENTUM...

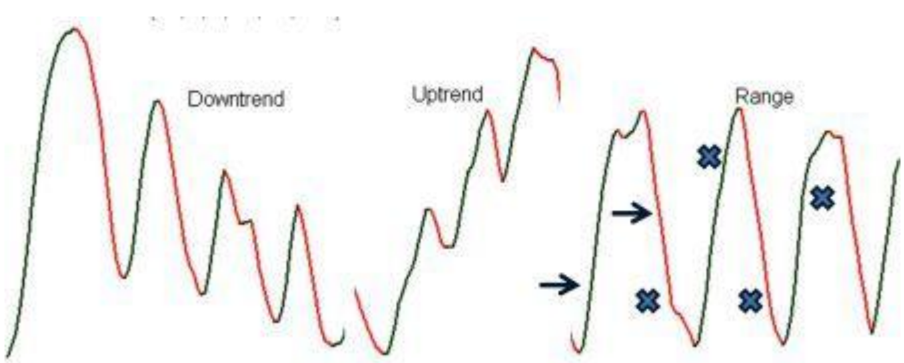
2. Price moves in Waves. Regardless of the instrument and timeframe and despite of the market direction or its condition (in a trend or in a range) markets always move in waves. That's why the Elliott Wave Theory and its followers. But we scalpers are not interested in counting waves or forecasting the next possible move but in minimizing the probabilities of a bad trade.

a.What we don't know about waves:
i.The exact beginning or end of a wave
ii.The potential height of the next wave

b.What we know:
i. Where we have less probabilities for a successful trade regardless of the direction or condition of the market

c. Have u ever wonder why you end up trading the death lows or highs in a trend (in Rainbow terms even if is a clear trend and the spine is align and the flame just broke the last H line…) … Your analysis might be right, the direction, condition and timing might be good but you are playing a low probability trade because you are forecasting that next wave is going to be a lot deeper than the previous one when statistically this is not true.

3. The first factor for a scalper is to understand in which part of a wave is the market. Not using a statistical method but using common sense (sadly the least common of the senses). Before you analyze trend S/R lines, Direction, Timing, Momentum and despite the drawdowns, etc a trader should ask himself in which part of the wave is the market. The only rule of thumb is the later you enter a new wave the less probabilities you will have to be successful. (this a BP example in different timeframes smoothed with a LSMA for explicative purpouses)



4. Look at the EUR/USD daily forex example below. If we have just traded without any further analysis the beginning of a new green wave we would have make millions. On the contrary if you have waited until price breaks resistance you still will have make some pips (because is a big trend) but you are not playing high probability trades… I can post 1 millions of example like this in any timeframe but my point is not that you should focus only on waves but that you, *FIRST have to recognize where not to place a trade even if it follow the direction of the market*.

jjrvat

01-05-08 12:45 PM

<u>"Trading is just a probability game based on pattern recognition"</u>

Forgetting waves in the analysis definitively reduce the probability of good trades but is the analysis of direction where everything gets messed up.

1. Markets are always going in a direction even if your timeframe is showing choppy action. The problem arises because the analysis of direction MUST be consistent with what, where and when are u trading. I used to make the mistake of ploting trendlines in a 5 sec chart that corresponded to 5 min S/R level (without knowing), there are even people that use hourly and even daily trendlines for scalping 5 secs charts. And you wonder why you aren't consistent!!!

2. If you are in this forum is because +/- you consider yourself a scalper. I do not use the traditional LT rainbow for scalping, nevertheless I strongly adhere to LT principles which are usually also forgotten in the analysis in favor of the "technicalities" of the rainbow. A quick reminder of 3 of them:

<u>a. Identify the time and you are done for the day within 30-60min</u>. meaning stop trying to catch every single move during a day, doing that will reduce a lot the probabilities of placing good trades. In terms of direction: we only need to find the direction of these 30 or 60 minutes no more!!!

<u>b. Identify the direction of the current move you see on the screen</u>. For me, that's the most important thing you will ever learn in scalping and sadly was the last thing I paid attention to.

3. If "Trading is just a probability game based on pattern recognition" and you are +/-scalping (= meaning an average of 1 to 6 pips MAX per trade) and not any other type of trading, a trader should recognize two very important but different concepts:

<u>a. The direction for the current time ("macro" direction) and;</u>
<u>b. The direction of the current move ("wave" direction)</u>

I 'll continue later

More than scalping in the direction of a trend is trading in the direction of the current wave... It seems kind of a vague "academic" difference but let my try to explain you in the next posts...

a. The direction for the current time (“macro” direction)

I read this somewhere else but if you can’t “see” the current “macro direction” in the first couple of minutes you see a chart you better turn off your computer and come back later.

1. The importance of establishing the current time direction is not because you are going to trade its signals but because you want to know in which side you will have the best probabilities for a good trade.

2. Therefore a scalper shouldn’t need to overanalyze it, or perfectly understand every single S/R and potential entry or exit in the “macro”. Common sense is the key.

3. If you have experience you should be able to see the general direction at a glance of the price in a naked chart. Otherwise, **simply use visual aids**:

a. The “spine”. In reality you just need a 240 WMA (changing color according to the slope is even better). It doesn’t mean that you only must look for shorts if the slope is going down, it means that in the CURRENT TIME you will have better probabilities if you go short. (**even if the price is really close to the 240 WMA, the important issue is its slope**)

b. Plot Pivot Points (I really like PP). Again you are not going to trade PP and you don’t need to know PP by heart you just looking for factors that help you with your probability analysis. Two simple and easy guides.

i. Look if the price is above or below its PP. If it’s above/below, only means that you would have better probabilities of going long/shorts.

ii. Once you have done that look where the current price is in relation with this next Support pivot (S1, S2, S3) or Resistance pivot (R1,R2,R3). For example if the price crossed above PP and it hasn’t touch next R1, means that you will have A LOT of probabilities if you look for longs (as long as it hasn’t touched or breached).

iii. A scalper is not interested in taking the whole move to the next pivot point, neither is trying to forecast when its going to happen. A scalper is only looking for the “macro” direction in the current time for increasing his probabilities of making a good round of scalps.

c. Of course, the best case scenario (in terms of probabilities) is when the 240 WMA slope is up, price is above PP and it hasn’t touch the next pivot resistance level.

4. Conclusion: Because of waves you know where not to place a trade (low probability trades) and because of the “macro direction” you know that you would have much better probabilities if you trade in its direction.

[b. The direction of the current move ("wave" direction)]

The macro direction is showing that you should look for shorts and u know that price moves in waves, therefore a scalper must establish which exactly the direction on the current move is (only the last few bars).

1. With experience ("screen time") a scalper should be able to recognize the direction of the current move just looking at price, or max using the Horizontal grid (Its amazing how good round numbers H lines work… i.e every 10 pips 1.3440, 13450, 13460, etc)

2. Otherwise, you can always use visual aids:

a. "The flame". In reality you just need price. However, if you want to make the waves look clearer and smoother you just need a fast WMA (i.e 6) (changing color according to its slope will be even better).

b. Look at the deep of the last wave.

c. Basic Price Analysis. Look if the last wave low was lower than the previous, and the opposite with highs. Common sense, if they are making new lows you have more probabilities to trade shorts (or the opposite for longs)

3. Look at today BP scalp again but this time with the 6 WMA. This analysis is still not complete because you need the last two factors: timing and momentum but nevertheless are still valid trades because the probabilities although not the best are in your favor….

a. The "macro direction" was telling that you may have a high probability round of scalps if u trade shorts.(look previous chart)

b. +/-9:12 a new wave starts (1st Blue Arrow). Notice how it coincide with the Middle S2.5 pivot point (Dash green line) and also is exactly match with the break of a round number 2.0450 but its going against our supposedly high probability direction.

c. So you need to wait until the next wave (that you know is going to be in your direction)

d.Because price moves in waves we know that we should try to get in as soon as we realize the formation of the next wave.

e.+/- 9:15 the new wave starts the one you already know you are going to trade. Go Short 2.0464 1 contract only with a predefined TP of 6 ticks which is pretty "healthy" for scalping BP and a SL 1 tick above the previous high (2.0474). (1st Orange Arrow)

f. +/- 9:16 …40 seconds later you target is hit. (2nd Orange Arrow)

g. +/- 9:18 … 3 minutes after a new wave start (moving against your direction) (2nd Blue Arrow). Theoretically we should trade the next wave BUT because BASIC PRICE ANALISIS, the last low (the one we traded) was higher than the one before …. Meaning be careful 'cause the probability of the next wave making a new low is lower.

h. +/- 9:22. A new wave in your direction starts but you already know that previous low was higher than the one before but at this time u also know that the current high is higher than the one before … SO this a NO NO situation for me

i. …but let's say you are stubborn and blind and decide to take the scalp. Short at 2.0467 (3rd orange arrow) … few minutes after your 6 tick target is hit (4th orange arrow) … Done for the day 12 pips 20 minutes…

4. Conclusion: **<u>When scalping, the order of analysis change everything. If you know how to recognize waves and where not to place trades and if you follow the "macro" direction and the current move direction even a mistake like the second scalp can turn out to be good. Why? Because you are trading high probability scenarios…</u>**

jjrvat

01-05-08 04:12 PM

<u>"Execute the basics; master the basics,…When you master and execute the basics, the rest comes naturally"</u>

The last two factors in the analysis are use just to improve the quality of a set of scalps.

<u>1. Momentum.</u> There are many momentum plays, however one that is simple, efficient and with high probabilities of becoming a great set of scalping opportunities will automatically appear if you have properly done your "homework" and have respected the order of analysis of the previous steps. If "macro" direction (240 WMA and Pivot Points) and current move direction (H lines, 6 WMA) are aligned and if you have established the direction of the next wave you will have THE TEXTBOOK DEFINION for a HIGH PROBABILITY SCALP.

2. TIMING. This is where the majority of struggling traders get stuck, confused, lose perspective, start plotting indicators, etc, etc, etc.

a. For me timing is the last factor a scalper should analyze. I am not saying that is not important (if you don't pull the trigger or you do it late you are out) but if you understand the basics of trading and you have follow consistently you analysis of the previous steps, establishing when to pull the trigger is just the final formality.

b. Timing is more important when you are trying to reduce whipsaws

c. If you base your scalping strategy only in this part of the analysis you will lose money. When u have a high probability trade it doesn't matter what do you use for timing (LT Rainbow, Stoch, MACD, MA Crossovers, CCI, BB or any other) because the results are going to be +/- the same . (I will try to demonstrate this in my next post…)

3. Same BP chart as before but a few minutes after.

a. After the stubborn scalp you decide to wait because the waves are making higher highs and higher lows. Until when do u wait? … Obviously until the waves align with the macro direction.

b. +/- 9:36 The height of the waves are very short and barely perceivable until they fail to make higher highs (Blue Arrows and Green Square) which is an ALARM to get ready for a new set of scalps to begin, this time within a high probabilty scenario.

c. By +/- 9:39 a new wave starts pointing at your "macro" direction (1st green arrow). Everything is aligned now except that you are still waiting for the wave to make a new low. So either you wait until a close below the low for extra security, or a cross below the H line, or you can put a limit order 1 tick below the last low or you can be really conservative and wait until a next wave pointing at your macro direction starts (but this time already 100% that it has made lower lows and lower highs).

d. +/- 9:40 If you didn't choose the really conservative entry you get filled either at 2.0471, 2.0470 or 2.0468 (1st orange arrow). This time you trade 2 contracts because is a high probability setup. Both trades have a SL 1 tick above the last high (2.0477…notice is only 6 pips) or you will close the position as soon as you have a close above (a new wave against you) whatever come first. The first has a safe" TP of 6. If hit the SL for the 2nd contract will be automatically trailed to a breakeven, from then on you are in a 0 risk free ride mode. Either you close your 2nd contract on a close above (a new wave) or a close above the last high….

e. 30 seconds after +/- 9:41. You 1st TP is fill for a 6 pips profit… you leave the rest of the position open …

f. +/- 9:44 A new wave is formed so you close the rest of the position for +/- 10 pips for a grand total of 16 pips in 5 mins…

g. +/- 9:47 Everything is still aligned (notice that the next pivot S3 is still far away so you can have a long set of scalps to the short side…). A new wave in you direction is formed, same strategy as before …

h. The rest is self-explanatory … JACKPOT (you can scalp more than 80 high probability pips in the next 20 mins) … enjoy the ride!!!

4. Conclusion: Like people in Spanish say "Una imagen vale más que 100 palabras" "a picture is worth more than thousand words"

jjrvat

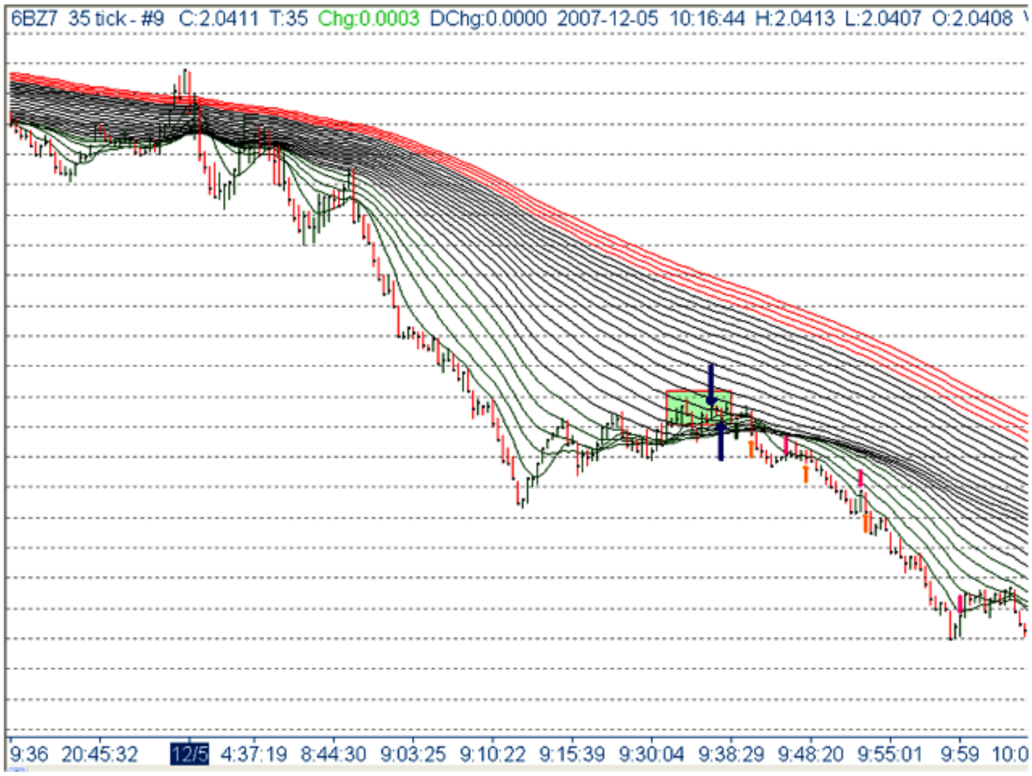
"Trading is just a probability game based on pattern recognition"

01-05-08 04:14 PM

When you have a high probability trade it doesn't matter what u are using for pulling the trigger. I can post at least 101 different ways (in the charts below: classical rainbow, Stochastic crossover, MA crossover, CCI crossing and MACD crosses) in which indicators or any other method would have appeared to be the "holy grail" in trades like the one I post before.

However, if you try to scalp based only in their signals you'll end up losing money because you can't exactly recognize which are high probability setups …

jjrvat


6BZ7 35 tick - #9 C:2.0411 T:35 Chg:0.0003 DChg:0.0000 2007-12-05 10:16:44 H:2.0413 L:2.0407 O:2.0408
9:36 20:45:32 12/5 4:37:19 8:44:30 9:03:25 9:10:22 9:15:39 9:30:04 9:38:29 9:48:20 9:55:01 9:59 10:0


6BZ7 35 tick - #4 C:2.0404 T:35 Chg:0.0002 DChg:0.0000 2007-12-05 10:12:31 H:2.0406 L:2.0401 O:2.0403 V:0 B:0.0000 A:0.
S2
S2.5
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2.0500
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MACD: MACD: 0.000 MA of MACD: 0.000 MACD Diff: 0.000 Line: 0.000 (Las, 12, 26, 9, Wght)
Commod Chan Index: CCI: 54.69 Line1: 0.00 Line2: 0.00 Line3: 0.00 (HLC, 10, 0.015, 0, 0)
200.00
100.00
0.00
-100.00
-200.00
Slow Stochastic: Slow %K: 54.44 Slow %D: 62.96 Line1: 80.00 Line2: 20.00 (14, 3, 3, 80, 20, Smp)
100.00
80.00
60.00
40.00
20.00
4:02 9:17:59 9:25:27 9:31:30 9:36:03 9:40:52 9:44:49 9:50:58 9:54:10 9:56:03 9:58:26 10:00:53 10:03:39 10:07:10 10:12:17

jjrvat:

What is the indicator you are using on the first picture? It's incredible how the "waves" are displayed visually.

01-05-08 06:23 PM

prince-in-jail,

I am not sure which one are u referring:
1. The charts with trade explanations are with a 6 WMA
2. The 1st chart in the last post is the rainbow 10 to 240 WMA (Every 10)
3. If you want to see smooth waves but not necessarily tradable you can plot a LSMA or Hulls MA.
4. In all cases if you use tick or volume (constant vol bars are probably the best) you will make the waves really smooth.

In any case with screen time you dont need them... they are just nice visual aids.

jjrvat

01-05-08 07:32 PM

Momentum II

In my opinion, the importance of MOMENTUM (not its concept!!!) varies according what kind of trade you are looking for. For example, if I am scalping the importance of a momentum play is because I "know" that I will have more probabilities to "steal" my 3 or 6 pips in that particular moment not because how many pips the market will move.

Of course if you are for example swing trading using a longer timeframe the importance of momentum is given by the fact that you are expecting to ride a long set of waves.

If the price stalled around your entry point for maybe a few minutes and then went in your direction would you say that you had good momentum but not so good timing? I am just trying to understand the difference between the two, and how can this help in actual trading. (fxtrdr)

Yes. The theoretical difference is that timing is when exactly you pull the trigger and momentum is how big will be the height of the next wave. In practice and in my opinion identifying momentum plays (any) is more important than how to pull the trigger.

I'm asking because I had the impression that "momentum plays" in the way that you wrote might be like a sort of a setup. (fxtrdr)

Yes it maybe a kind of automatic setup at least when you are scalping (3 to 6 pips) in the meaning that if you do your homework in order you have a lot of probabilities to have a momentum play (at least in scalping terms)

These are two good examples to show how momentum plays usually appear when you follow the right order of analysis.

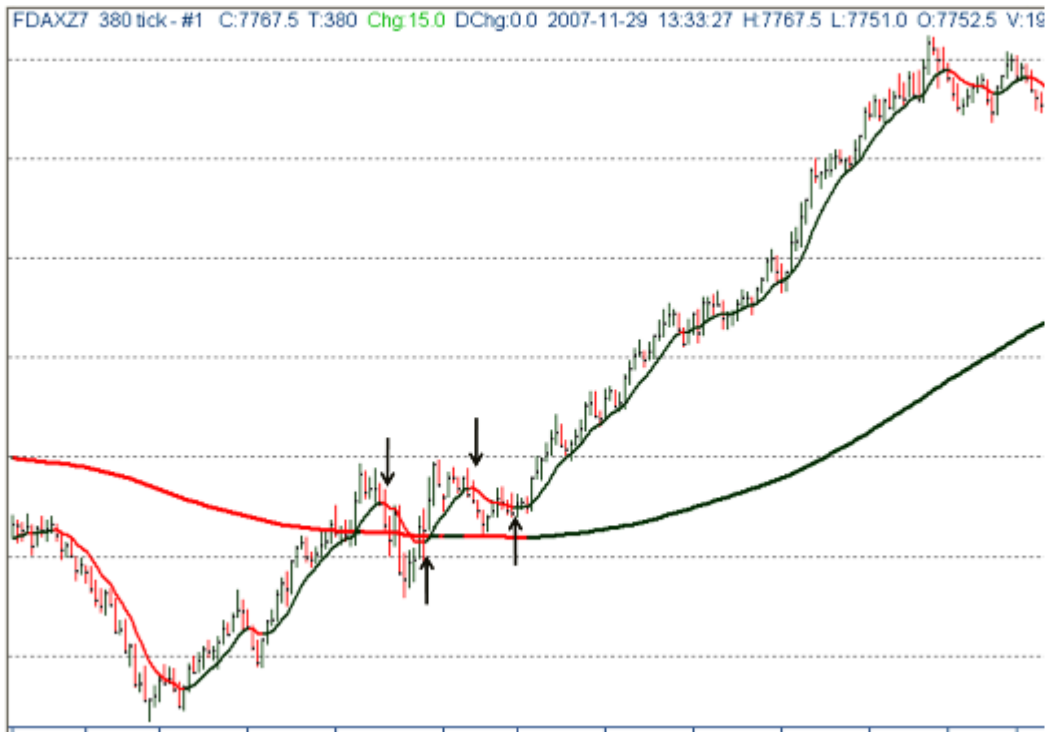
1. The first is swing intraday chart of the FDAX +/-$12300 with only 2 contracts (***Don't try this at home if you don't know what you are doing and if you don't have a big account!!! it's just an example) in which the importance of momentum for the trade is given by the potential height of the next wave. (Black arrows Highs and Lows)

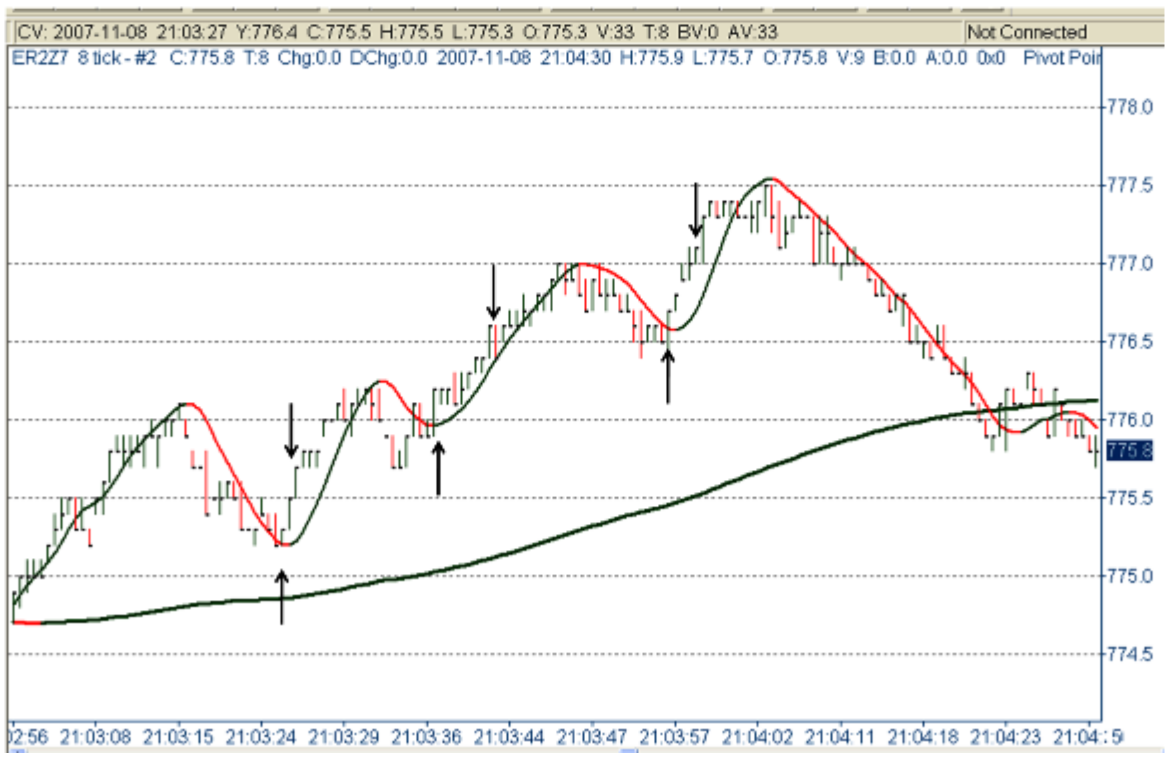
2. The second is normal set of scalps for the E-Mini Russell 2000 (ER2Z7) (8 ticks chart) in which a momentum play is only used to increase the probabilities of taking 5 ticks. (Black arrows entries and exists) *** This is faster than 5 secs charts so a predefined TP and SL is required (15 pips in 1 min = almost imposible to manually take all of them)

In both everything is aligned (macro direction with PP and 240 WMA and current move direction Higher Highs and Higher Lows). What I am trying to show you is that this particular momentum play usually appears regardless of the timeframe. However, what it change is the "timing" to pull the trigger (1st is a 12 WMA the 2nd is a Hulls 25 MA) and more important the approach you are taking for that particular trade (scalping or swing trade), therefore and to be consistent you should understand momentum accordingly.

I hope it helps

jjrvat





01-07-08 08:11 AM

is it possible to this part-time using this methodology/method/scalping? (Hanz)

When scalping, the only differences between a daily chart and 1 tick chart are the height and the frequency of each wave (potential trades). In a daily chart (see Reply #4 daily Eur/USD Forex) you may only have 4 or 5 waves of +400 pips? in one year. On the other hand, an 8 tick chart with a fast instrument can give you 4 or 5 waves of +6 pips in less than 1 minute (see Reply #35 ER2Z7 8 ticks). Thus, basic price analysis should work at any time in any timeframe (I have posted examples from daily charts to less than 1 sec charts) as long as your trading plan is consistent with the time and timeframe you are using.

I can’t tell you which timeframe or time of the day will be the most suitable for you. You should find the **best playing field for you and only FOR YOU according to your time, capital, risk and trading plan.**

Nevertheless, in general and in my experience a small trader will have better probabilities trading both timeframes extremes: Long term "investing" (this by far the best option) and the very short term "scalping":

1. If you have the capital, capital, capital, patience, etc, to trade the dailies I will highly recommend that you forget about any other timeframe below 240 Min (and this is only for fine-tuning your entry). You will have plenty of time to analyze the chart so your 2 or 3 hours a day will be more than enough (You need 15 minutes per day max), the waves are going to be really clear, you may easily recognize the beginning of a new wave (fundamentals or news will be unmistakably reflected on the charts) plus you can aim for big profits.

2. Or on the other side very sharp charts (max 8 ticks and optimum constant volume charts of 1 or 2 for futures depending on the instrument of course) will give you smooth signals, lower time and risk exposure and plenty of opportunities to trade during the day.

Better probabilities don't necessarily mean that these options are feasible in practice (sadly). Why? 'cause in the long term option (i.e daily charts) you need a lot of capital to make it worth plus u +++ risk and time exposure…. In the very short term charts you need a semi-auto trading platform to place the trades for you otherwise good timing is almost impossible (you need perfect timing otherwise you will be gambling) + you increase overtrading risks which in addition to the low profit / loss ratio associated with scalping … you'll end up playing with fire.

…So we are force to find something closer to one of these extremes. If you decide to go to the "scalping" side the only thing I may suggest is that you shouldn't forget two additional important concepts that usually are blurred by the "technicalities" of a scalping system: **Consistency and Efficiency**

For example: If a scalper is trading 5 secs charts in a wild instrument (E/J) for +/-3 hours (US open till noon) he/she will have "hundreds" of waves (potential trades). In my opinion, if a scalper wants to be consistent and efficient (at least) shouldn't:

1. aim for more pips in a trade than then normal distribution for the waves in that particular instrument, timeframe and time even if 1 every 30 waves moves more than 50 pips!!! (meaning 3 to 6 pips no more…depends on the instrument of course)
2. Use a stop away of the normal distribution for that particular instrument, timeframe and time.
3. "… try to catch a big fish with small boat"

Why should a scalper "wait" for the perfect setup in a 5 secs charts using unconsciously S/R of 1 minute with 5 mins stops and profit targets that match a 60 min chart? . **If you are scalping 5 secs charts SCALP them !!!** don't use it to catch moves in a different timeframe. Why should you risk 20 pips for a potential 3 pips when for the same risk you can trade a smother timeframe with a potential of 12 pips, etc, etc. Are you comfortable analyzing a chart and pulling the trigger without hesitation in less than 5 secs?, Do you recognize the cost of placing market orders in fast timeframes with a wild instrument? Slippage? Commissions?.

Conclusion: Of course you can trade part-time during your time using a price based methodology but what you have to define is a trading plan and goals and be consistent with them. You can trade a daily chart or scalp a 8 tick chart, each imply a different playing field. A serious trader should recognize their different implications and recognize if those implications are consistent with his/her trading plan.

"Execute the basics; master the basics,…When you master and execute the basics, the rest comes naturally"

jjrvat

01-07-08 05:34 PM

I find that so many approaches to forex or other markets for that matter work in times when the market is moving, but cease to work if the market starts to consolidate--could you offer any advice as to how to determine if a market is moving in/out of consolidation? (pkchilly)

I will go a little bit out of topic because I am not sure in what context are you asking me this question. I would like to post some examples for the discussion as well but can you be more specific because if you are scalping (are you?) tick charts is kind of vague to understand … "work in times when the market is moving, but cease to work if the market starts to consolidate" and "how to determine if a market is moving in/out of consolidation?" Do you mean trendy times vs choppy times?, or "consolidation" after a big trend? or simple a ranging market before a trend begins? Or maybe a high volatility low liquidity times (i.e pre news, pre opening, etc). Let me know in what context are you asking your question so we can start a good discussion.

In any case some random comments:

In a theoretical level: What is a moving market? What is a range? What difference does it make when a market is "moving in/out of consolidation" in a 5 mins timeframe when you are scalping a 5 secs chart? Or the opposite? …

What I am trying to say is that the <u>importance of establishing if a market is moving in/out of consolidation is a dependent variable (NOT INDEPENDENT)</u> … on what? On many factors: type of trading, trading plan, timeframe, Goals, Instruments, Time, etc.

For example, If you are scalping you don't need a 200 pips trend (nor a wild instrument) to "steal" your 2 to 6 pips. Trend analiysis in my opinion is of little value (**if you don't know how to use it**) and I will even dare to say (in my experience) that it is easier to SCALP in NON TRENDING MARKETS (ranging markets, markets in consolidation, etc). *** <u>Not all non trending markets are good for scalping of course</u>

Moreover, "scalping" trends can reduce consistency (even when you are wrong sometimes you can make 1 or 2 pips: <u>THE PERFECT TRAP FOR NEWBIES</u>!!!…but you're doom in the long run). It also might obscure the analysis in the sense that allows all your inner demons to be tempted: Greed, overtrading, fear to miss the train, fear to pull the trigger, etc, etc, etc. You are looking for 4 pips and you see the E/J moving 100 pips in 2 mins …tempting, really tempting, to survive you must have iron discipline ...worse if you try to trade the whole day!!!

At the end you'll lose perspective sooner rather than later (except for very few pros scalpers) and obviously this will be reflected in poor consistency: Scalping wild instruments in 5 secs charts with 1 min charts for "major direction", 5 mins S/R lines, SL that match 15 min charts and with profit targets of 60 mins charts and reading but not understanding news that will fully be reflected in weekly charts …

General "tools" that helped me reduce and establish non trading conditions:

- If you can't establish the current direction in the first minute you see a chart (doesnt mean you are going to trade) just close everything and come back later...
- Tick charts
- Wave analysis (look at last Highs Lows analysis, plus see the height of the last waves)
- Time of the day
- Common Sense

jjrvat

I have had your 240wma, and the rainbow flame set up on a seperate chart to my rainbow charts. There are several patterns I have noticed over the last week that seem to keep happening. (kermut)

Remember that the **<u>240 WMA is just a visual aid and it doesn't override basic analysis</u>.** The only difference between this WMA and a random H line is that the former is based on the fact that the last 240 bars have, in AVERAGE, move the price to one side more than the other. Therefore, a scalper may have statistically more probabilities to trade in that direction as long as basic analysis confirms it.

One of them is that as price starts to mvoe in a direction, and the 240wma starts to slope, price often comes back to the 240wma and then continues in its direction. Is this something that you have seen as well?

Yes, that's why "TA experts" call it smoothed dynamic trendline (smoothed 'cause the Weighted MA). However, I prefer to use it as visual aid and not as a reason to place a trade. (Why? in the next post...)

Although scalpers are not interested in fundamental analysis, I find useful to understand some basic ideas about price dynamics.

1. The macro intraday direction usually changes because of news, open or close of markets (Japan, London, US, etc), important externalities or when price reach a point where can't go any further without a fundamental reason and big investors and traders are not willing to take the opposite side until further confirmation.

2. Among these reasons, the only one which is difficult to establish when it's going to occur is when price reach short term exhaustion areas. That's why I use Pivot Points as visual aids to determine macro direction. (See the chart in the next post)

3. In other words and in general, if any of the reasons mention above is not true, price will usually respect dynamic trendlines.

And do you suggest that an entry can be made on the 240wma rejection, so the entry is being made well above the previous wave peak/bottom?

If the rejection of 240 WMA is in accordance with basic price analysis (current time and move direction) I will take the trade.

In my opinion, the later you place a trade in the current wave the least probabilities you will have to be successful.

I'll continue in the next post…

jjrvat

The second thing I have noticed is that if the slope of the 240wma is quite steep(same as the spine), then the price might pierce the spine, but only by 1-2 pips, and then continues in the spine direction. Would you suggest that this too is a good entry point? Or is it best to trade breaks of peaks/bottoms?

From your comments it seems that you are trading retail forex with time charts (??). If you use tick charts in futures or stocks price action will be smoother because price is given by the market not by your broker…

The first chart I think it captures exactly what you are asking me.

+/- 12:15 (2nd Blue arrow) price fails to make a higher high (1st Blue arrow). If you want to have high probability scalp you need price confirmation so you should stay aside until this happens.

+/- 14:14 sadly this wave was so deep that not only broke the previous low but also broke the 240 WMA and made it change its slope. Now you have a lower low and lower high + price below 240 WMa meaning a NO NO NO situation for longs.

+/- 14:16 (3rd Blue arrow) only here a new wave starts. If you respect the order of analysis you don't have any reason to take this long.

+/- 14: 53 (4th Blue arrow) finally you have everything align again (current time and move direction, new wave with higher highs and lower lows + momentum 'cause of pivot R1+ a clear "timing" to pull the trigger with the Hull MA…) and here is where I should have placed a high probability scalp.

More important than how to place a trade in this example is to understand why the price sometimes continues with the trend even if it broke the 240 WMA.

1. Look at the time of this example: US market opening. Remember during this time, "current time direction" usually changes (or continue).

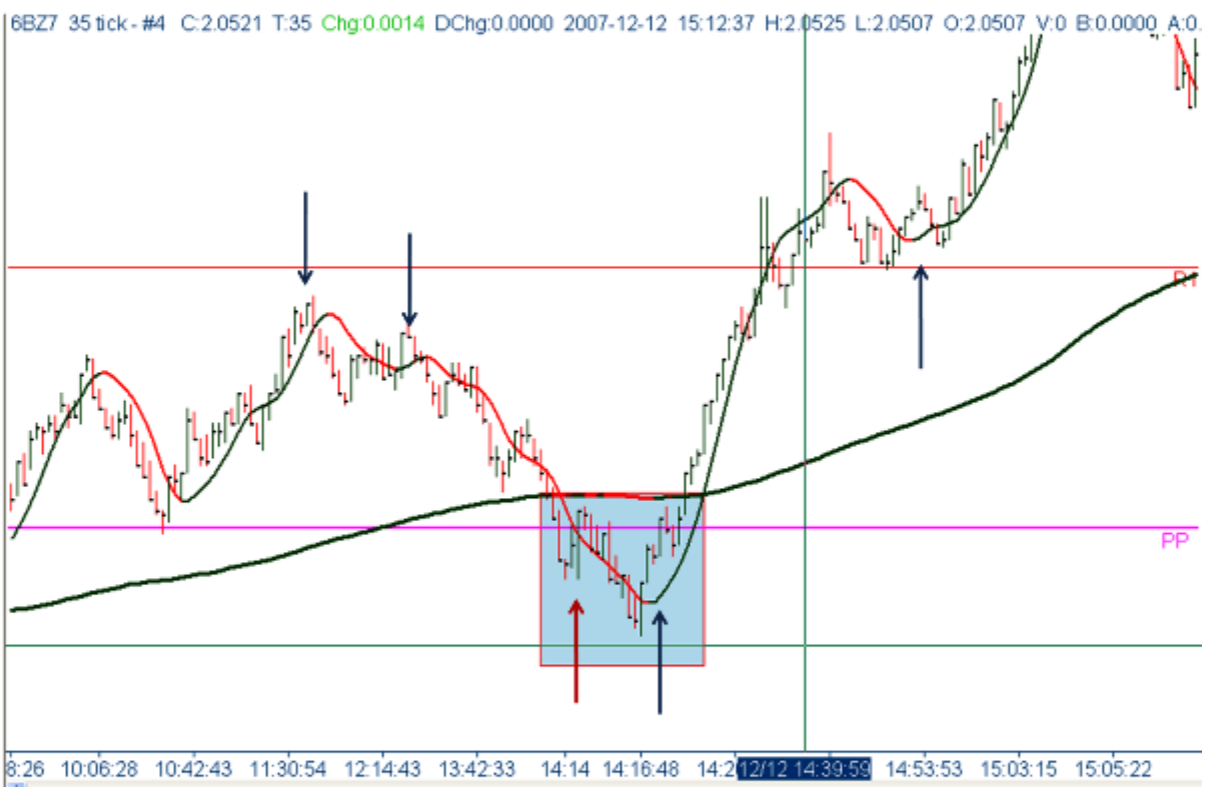
2. And more important look at the Pivot Point (Pink line). I see this happening every single day in every single market. A 240 WMA is just a visual aid and also Pivot Points, however among these two in my experience PP will prevail. Why? Because big traders and investors usually use them as reference.

a. When price breach the PP you have a lot of stops order hit (especially from small and newbie traders), which is exactly what smart and big traders want (probably a false BO on a longer timeframe…???)

b. That's exactly what happened between +/-14:15 and 14:18 (Red arrow)

c. Then new traders (fools?) rush in to catch the supposedly start of a downtrend pushing the market down until the real money gets in buying the "bargain" and forcing the continuation of the uptrend.

3. C**<u>onclusion: Basic analysis always prevails over anything else. Regardless of the previous analysis if u just follow and respect the order of basic analysis you would never have place a trade there (short or long).</u>** The only HP trade is a long at 14:53 (4th Blue arrow) so the breach of the 240 WMA at 14:14 should stay only as a nice theoretical example.



Look now a different chart in which the breach of 240 WMA has different implication not because of the indicator but because of basic analysis.

+/- 13:00 (1st Orange arrow) Price breach the 240 WMA but it doesn't change its slope + there are not news, externalities or open/close markers at this hour meaning there are lower probabilities of a sudden change of current direction (at least until the US market is open …)

+/- 13:08 (1st Blue arrow) although price makes a higher high and higher low this is not a HP trade. Why? Because basic analysis (current time direction). Current time direction is for shorts (price BELOW PP and S1 but way above S2 !!!). However you can take a quick scalp because price is confirming the direction of the next wave. But only a fast and aggressive scalp… there is very low probabilities of a sudden massive change of current direction ….

+/- 13:25 (2nd Orange arrow) If you took the scalp you have enough opportunities to take your 3 to 6 pips aggressive scalp target … NO MORE!!!. As you see by +/13:35 price makes a higher high but also lower low (meaning stay out…)

+/- 14:00 (2nd Blue arrow) US is open (only now current direction may change) plus price make a higher low but still is a lower high. At +/- 14:29 you may have another possible scalp for longs, but again it's only a quick and aggressive one ... until the S1 pivot point is broken you are not going to have HP trades on the long side.

Conclusion: 240 WMA is only a visual aid and it doesn't override basic price analysis….

jjrvat

01-08-08 04:09 PM

Bingoking,

You're welcome

Beautiful setup and perfect textbook example of basic price analysis!!!

Today ES after 16:00 news

jjrvat

Would anyone please explain this chart or point to which posts explain this for this newbie? Thanks

01-10-08 10:52 AM

StillStanding,
Would anyone please explain this chart or point to which posts explain this for this newbie? Thanks

See previous posts (page 2)

In any case, a summary,

1. Macro Direction +/- 15:00:
a. Price is above 240 WMA and its slope is green (+) = Longs
b. Price is above Pivot Point (Pink line) and below next Resistance level (R1) = Longs

2. Wave Direction:

a. Higher Highs: +/- 15:54 high (2nd Red Arrow) is higher than previous high +/- 15:34 (1st red Arrow) = Longs

b. Higher Lows: +/- 16:00 low (2nd Blue Arrow) is higher than previous low +/- 15:40 (1st Blue arrow) = Longs

3.Momentum +/- 16:02

a. Macro direction + Wave direction are pointing longs = Natural Momentum and High probability setup for longs

4.Timing

a. Everything is aligned so IT DOESN'T MATTER WHAT DO YOU USE TO PULL THE TRIGGER. MA crossover, MACD cross, CCI, Stochastics, Candelstick formationsetc, etc ,etc. all will give u valid entry signals….
b. +/- 16:26: This the "natural exit" when price close below the Fast MA = +/- 8 full points (32 ticks) to take profits.

5. Done for the day in 30 mins…

jjrvat

01-13-08 05:14 PM

Quote from ProfitTakgFool:

The futures market chops more than they trend. If you want to trade this market you have to be able to trade both conditions. Last week someone posted "it's impossible" to make money in a choppy market. Well.....no it's not. In fact, that's the best market to make money. When the market chops buy down, sell up and take profits like a fool. I made my goal in less than one hour today.

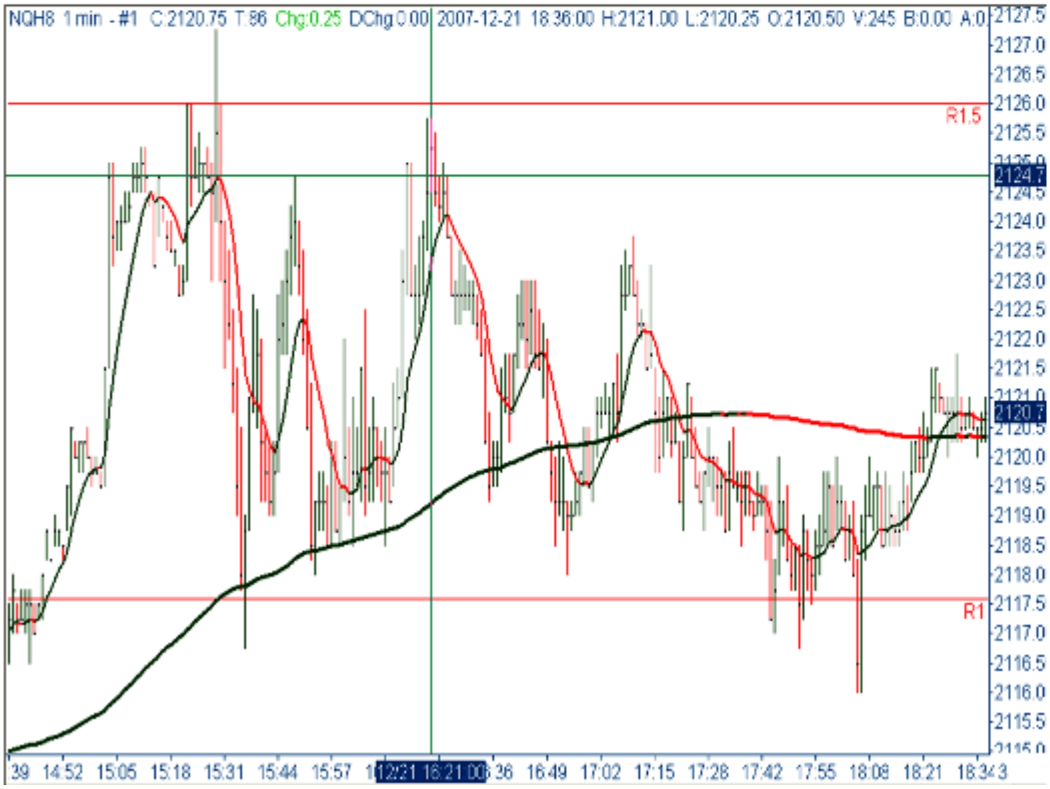
More than trend or choppy markets I prefer to see markets as "tradable" or "non tradable". You can have choppy conditions in a tradable market as you described above or also you can have trending markets that are "non tradable".

At the end everything is about perception!!!

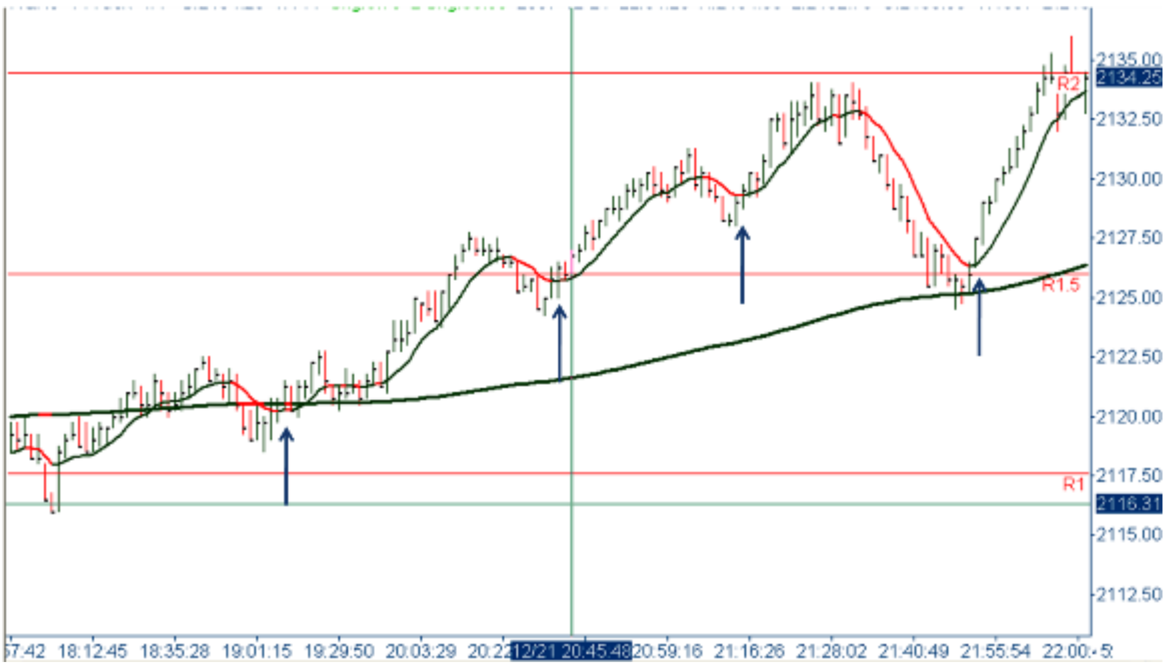
Look at NQ US Morning:

a) 1st Chart 1 min ... = Choppy non tradable
b) 2nd Chart the same but 144 ticks ...= Choppy tradable
c) 3rd Chart US afternoon ... = Trendy Tradable

jjrvat


NQH8 1 min - #1 C:2120.75 T:86 Chg:0.25 DChg:0.00 2007-12-21 18:36:00 H:2121.00 L:2120.25 O:2120.50 V:245 B:0.00 A:0
R1.5
R1


CV: 2007-12-21 17:19:09 Y:2098.87 C:2120.50 H:2121.00 L:2120.00 O:2121.00 V:505 T:144 BV:225 AV:277 DF:1 ST:2
NQH8 144 tick - #1 C:2120.50 T:144 Chg:-0.50 DChg:0.00 2007-12-21 17:19:09 H:2121.00 L:2120.00 O:2121.00 V:505 B:0.00
R2
R1.5
R1
R.5



01-16-08 11:20 AM

Yt,

What tick chart frame do you recommend using for the british pound? I am currently using the 17 and 34 to scalp the pound for a quick 6-10 ticks. Is this too big or too small for my trading stratagy? I was wondering if you find a different tick setting produces more waves and the same or more profit targets.

I strongly believe that each trader must find his/her own timeframe according to his/her own capital, risk, time and trading plan.

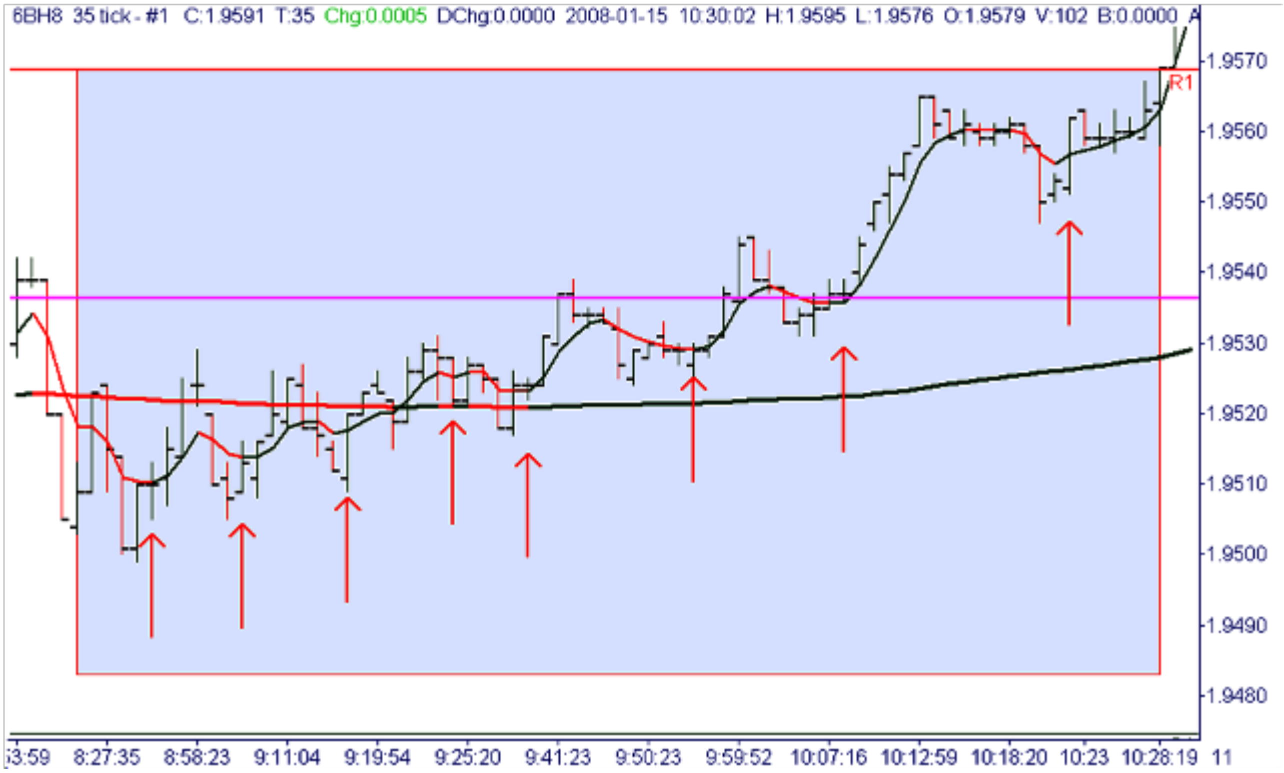
In my opinion, 6 to 10 ticks is a "healthy" target for scalping the BP (if you are trading futures of course) with 17 – 34 tick charts. Of course you can find different tick, volume or constant range bar charts that can produce a lot more waves but more important than that is if those can be manually tradable or show smoother and clearer trades.

Look at the following charts (same time different perspective) / Yesterday European Morning BP.

1) 35 ticks = 8 green waves (red arrows) with potential 6 to 10 ticks trades
2) 1 Range bars = +++20 green waves with potential 6 ticks trades.

These are the 2 extremes in the range you are trading, you can plot and compare with 8 tics, 18 ticks, 25 or 50 vol bars or constant bars of 1 or 2 … Its up to you to decide which one is better, easier, riskier, smoother, etc, etc, etc for YOU and only for YOU.

jjrvat



01-16-08 02:35 PM

Amitman,

You're welcome …

Now i'm trying to apply this method to stocks (Espcially AMZN) using a 240 WMA and pivot points for the macro dircation and a 6 WMA for the micro direction (waves) i apply this on a 150 Tick charts. A few qustions though. First, do you find it better to use tick charts in stock instead of Time charts? in that case, how many ticks per bar for stocks with volume like AMZN CELG CROX BIIB etc.?

Are you scalping? Swing trading? Position trading? Investing?

In my opinion, I don't think "scalping" stocks like the ones you mentioned are the best option (you might need more volatile stocks?) and I guess if you are planning to "scalp" stocks you already have a decent size account (at least more than $25000 to have the minimum required) so it can be worth the risk and profit targets; and you already know what are you doing.

In my limited experience "scalping" stocks I will definitively go for volume charts, you will combine the most important factors for trading stocks: price and volume (try 35000 vol charts in amzn... see chart below). <u>Research, test, experiment and trade until you find the one which is better suited for you (and only for you) and your trading plan.</u>

Does this scalping method do work in stocks and what PF should i use (i guess it depends on the stock's range but i don't know what should be the relations between them).'

Exactly … I can't help you with that; it's your experience and screen time that will give the best answer.

and a third question. does the 240 WMA and 6 Wma are good for stocks or should i try something else or different numbers.

The 6 and 240 WMA ARE JUST VISUAL AIDS that can help with price analysis!!! There are by no means a set of rules or parameters that you should follow as the Holy Grail… Don't tweak them too much, just test which one is the best visual aid for you to understand price.

And a last question, on the charts you gave, what is excactly your entry point is it a tick highr then the bar where the fast WMA changed it's direction or is it something else?

As I said before, timing is just the final formality. Of course it's important to pull the trigger on time but your decision to take that particular scalp is already decided before you wait for your trigger. Look at the following example: AMZN 35000 vol bars / Monday 18:00 – 20:00 (don't aim for more than .30 or max .40 cents per trade)

1. Macro direction. OK
2. Wave Direction. Ok
3. Timing = Trigger … Some basic ideas:

a. Close above the 25 Hull
b. Change of Slope of 25 Wma
c. Candle Formation
d.Horizontal Grid lines
e. MACD cross … yes MACD cross… you already "know" that your are going to take the trades because of price analysis so MACD cross will work …
f.Many others …

<u>**"Execute the basics; master the basics,...When you master and execute the basics, the rest comes naturally"**</u>
I hope it helps

jjrvat

01-18-08 03:23 PM

Don’t confuse timing with price analysis. We traders tend to focus more in the “technicalities” of trading more than the only important thing: PRICE.

TheRumpledOne (btw, thanks 4 posting) has a good point behind his charts: Develop your own strategy to pull the trigger, if you are good are programming, write some code and create your nice trigger, if you are good at candlestick analysis use it, know how to read the DOM great, you love MA crosses do it, etc, etc. Make it yours and only yours. As long as you are consistent with price analysis you will have a good system.

Here is another good example of how IT DOESN’T MATTER what you use to pull the trigger as long as you are consistent with price analysis. Soybeans ZSh8 with simple stochastics (yesterday-today).

You know the analyis: Macro Direction ok (240 WMa and PP), Wave direction ok (Lower low, lower high), Trigger in this case simple stochastics cross!!!! Why it works perfectly in this case? because of price analyisis not because of the indicator

jjrvat

01-29-08 10:29 AM

billdobson1972, timokrates,

You're welcome

Entries, Exists and consistency

There is a strong interrelation between entries, exits and consistency and once again the order of analysis will be decisive for a good or bad trade. If you are not consistent with price analysis, you can have a perfect automatic algorithm as an entry and exit and you still will lose money sooner rather than later. Moreover, and probably more important, if you entries and exists are not consistent with your trading plan (i.e instrument, timeframe, time, risk and capital) you are doom in the long run.

What are the implications (in terms of entries and exists) of trading 1000 volume NQ chart or a 8 tick ER2? What is the difference between a 90% win rate in a BP 10 constant range bar and a 60% win rate in a daily JNJ (Johnson & Johnson) chart? … Is a 3 Bar reversal entry consistent with a 12500 ZN volume chart or is a valid exist for a daily QM chart when the entry was made based on the weekly charts, and therefore you believe is consistent with your trading plan? ... If you don't know the answer for these questions (for the instruments you are trading of course) I would suggest that you seriously consider having a break from your trading platform and think about the implication of your trading plan.

My point is that if a small trader has a consistent trading plan based on price analysis, timing for entries and exits will follow naturally. I am not implying that pulling the trigger is easy, of course it requires a lot of effort and screen time but in order for a small trader to be successful he/she should find their own strategy for entries and exits.

In any case, I'll try to organize some ideas that helped me to develop my entries and exits; maybe you can find them useful and helpful to develop your own strategy… I'll post them later.

billdobson1972, I'll try to address you questions in the next posts.

Timokrates, I'll try to address your other questions in the next posts

Do you think that time & sales could be helpful to spot momentum - or even the change of direction? Or is this in regards to very fast tick charts not necessary or even disturbing in your opinion?

NO. I don't use time & sales so I cant give you any constructive comments. When scalping I find that price analysis is enough for spotting momentum and change of direction.

jjrvat

01-30-08 02:01 PM

Entries, Exists and consistency #2

The idea of having a price based approach is not to maximize profits but to minimize risk and reduce the probabilities of bad trades. Therefore not only price analysis has to be consistent with these goals (in fact by default it is) but also entries and exits (including stops) should aim to achieving these same objectives.

Lets assume that price analysis is clear (macro direction and wave analysis HH,HL,LL,LH). Now in order to establish consistent entries and exits a small trader should build upon some logic and general parameters that already given by price:

1. The natural stop and the limit for entries

The first two clear conditions are given before even you place a trade. In the chart, point A (+/- 19:00) and B show Higher Highs (+/-19:25), point 1 (+/-19:10) is the last low (btw is also higher low but for the sake of the explanation…)

As soon as point B is plot (you can clearly see this point seconds after when the fast MA change slope to RED, you already know that you are going to go long in the next wave up. The only condition not to go long in the next wave is if price break last low (horizontal blue line at 1705.25 on the chart). Thus, this point becomes the **limit for entries** that at least allow us to set the maximum condition for placing a trade.

Nonetheless, this point (1705.25) is also the natural stop. The next few minutes after the last high point B (+/-19:25) until the next wave is formed (the one you are going to trade) is the zone where you are going to pull the trigger. Despite of the trigger you use (a cross above 100 CCI, a stoch, MACD cross, candlestick analysis, etc, etc) you natural stop HAS TO BE at least placed at 1705.00 (one tick below the last low), because evidently if your stop is hit at that level you know that you are going against price analysis.

2. The obvious entry, the common sense exit and the first warning stop

You already know too that your fast MA is tracking almost flawlessly price (i.e. waves), therefore and in order to be consistent with what you are using in your chart you can build upon this information. Thus, the obvious entry signal will be of course a close above the Fast MA (+/- 19:32 at 1718.75). This is a good valid entry and it's consistent with price analysis, plus it reduces drawdowns. Of course this is just the first step developing your own entry strategy.

Using common sense you can use the reason for your entry as reason for your exit (btw … this is not necessarily valid when scalping!!! but this chart is a 1000 volume) so at +/- 19:38 at 1722.75 you have a close below the MA and you take your 4 full points profit…

Moreover if only a couple of bars after your entry you have a close below the MA you can either take it as a warning signal or close the trade BE or with a small loss, if it just a whipsaw you are only one commission away to pull the trigger again, if not you have save a potential big lost… Thus, minimizing risk and reducing the probabilities of a bad trade. You can follow the rest of the chart, the next entries "scarily" validate this analysis.

These are only the foundation for consistent entries and exits; I'll try to round it up in the next posts introducing the other variables (timeframe, time and risk)

jjrvat

PS: I am not trading this afternoon… it appears to be one of this random, wild low volume US mornings before the interest rate statement.

02-04-08 10:19 AM

i had tried to impliment this wma theory but no success yet...problem is this look gr8 after the fact.

billdobson1972,

I completely understand the "this look gr8 after the fact" part, but it's maybe <u>because you are paying too much attention on the "technicalities" of a particular way to pull the trigger and missing the key issue which is price analysis</u>. Only after that you will be able to develop your own timing strategy based on whatever you find useful, easy and good for you and consistent with your instrument, timeframe, risk and trading plan.

1. An "ex post" chart will always look easy to trader. The difference between a successful day trader and the rest is exactly recognizing a trade while a chart is being plotted ("ex ante")

2. In order to "overcome" the "ex ante" vs "ex post" problem, in my opinion a trader need to trust his/her analysis and be convinced that even if you placed a bad trade (either because of a mistake or simply because the market made a "random" move) your strategy is still consistent, adaptable and sustainable in time.

3. Perception is a key issue when day trading and that's why a small trader need to find an instrument, timeframe and time where he/she feels "comfortable" with.

4. The 240 WMA is a visual aid and it's only a reference that tells us where we should have less probabilities of placing a bad trade. The fast MA is the visual reference to recognize waves (theoretically with screen time and experience you won't need it) and it must be adapted to the specific conditions of each instrument and timeframe.

at the time when the graph is plotted you want be able to decide much..u need more info... i have recorded todays session will see what i see on replay

Be aware that if you are using a very fast non smooth timeframe with a fast instrument you can easily get "lost in translation". By the time you "analyze" price and decide to pull the trigger in a live fast chart, the market maybe have already moved 2 or 3 mini waves completely changing the circumstances from which you decided to place the trade.

You don't need more info. A tip: Do this exercise, plot a 240 WMA as reference and a smooth but not sensitive MA let say a 20 LSMA or a HULL 20 changing color according to slope. This will give you very but very clear waves (it will only show you the "real moves"). Every time a new wave is formed decide (you can demo trade if you want) if in the NEXT wave you are going to go long, short or stay aside (forget even about macro direction for the exercise). Go long if there is a consecutive HH and HL, short if LL, LH, else step aside.

Forget also about timing, just go long or short in the next candle reversal and set a PT of 3 ticks and SL 1 tick below the last low or high (it just for the exercise!!!). The objective of this is to develop trust in an "ex ante" chart and count how many times your price analysis was right or wrong not how much you can earn or lose. After you can introduce macro direction analysis and see how dramatically your trades improve.

If you master price analysis and trust and "ex ante" chart, you can start dealing with timing, entries, exits and better stops.

I hope it helps…

jjrvat

02-06-08 01:01 PM

The importance of Macro Direction

I am posting again some comments on Macro Direction with a today real trade mistake ***(thanks pkchilly for the very good idea to improve the content of this thread)

1. The importance of establishing the current time direction is not because you are going to trade its signals but because **you want to know in which side you will have the best probabilities for a good trade. Therefore, it doesn't override price analysis. It's a very important complement that helps to limit the playing field.**

2. Therefore a scalper shouldn't need to overanalyze it, or perfectly understand every single S/R and potential entry or exit in the "macro". Common sense is the key.

3. If you have experience you should be able to see the general direction at a glance of the price in a naked chart. Otherwise, simply use visual aids:

a. You just need a 240 WMA (changing color according to the slope is even better). **It doesn't mean that you only must look for shorts if the slope is going down, it means that in the CURRENT TIME you will have better probabilities if you go short.**

b. Plot Pivot Points (I really like PP). Again you are not going to trade PP and you don't need to know PP by heart you are just looking for factors that help you with your probability analysis. Two simple and easy guides.

i. Look if the price is above or below its PP. If it's above/below, only means that you would have better probabilities of going long/shorts.

ii. Once you have done that look where the current price is in relation with this next Support pivot (S1, S2, S3) or Resistance pivot (R1,R2,R3). For example if the price crossed above PP and it hasn't touch next R1, means that you will have A LOT of probabilities if you look for longs (as long as it hasn't touched or breached).

iii. A scalper is not interested in taking the whole move to the next pivot point, neither is trying to forecast when its going to happen. A scalper is only looking for the "macro" direction in the current time for increasing his probabilities of making a good round of scalps.

c. Of course, the best case scenario (in terms of probabilities) is when the 240 WMA slope is up, price is above PP and it hasn't touch the next pivot resistance level.

4. The macro intraday direction usually changes because of news, open or close of markets (Japan, London, US, etc), important externalities or when price reach a point where can't go any further without a fundamental reason and big investors and traders are not willing to take the opposite side until further confirmation.

5. Among these reasons, the only one which is difficult to establish when it's going to occur is when price reach short term exhaustion areas. That's why I use Pivot Points as visual aids to determine macro direction.

jjrvat

Mistake #1

The purpose of this post is not to overanalyze mistakes or bad trades. While mistakes can be reduced a lot with experience (not all because we are human beings, no matter what we do we will always have some "stupid" trades), bad trades will always be part of the cost of doing business. WE CAN'T TAME the market however we can always aim to reduce risk.

Today Yen Futures (6JH8)

1. Yen opened above Pivot and keep going up during Tokyo giving 2 clear longs of more than 20 ticks.

2. +/- 8:46:22 (GMT+1) price make a new low that was higher than the previous

3. +/- 8:54:38 price make a new higher high.
4. Macro direction is perfect. Price above 240 WMA and slope going up and price above R1.

5. +/- 9:06:32 makes again a higher low and 9:14:18 a Higher High

6. I decide to go long in the next wave

7. With everything aligned +/ - 9:19. I pull the trigger at 9429. A Close above Hull plus a close above R1 … a theoretical perfect entry…

Is this a mistake or a bad trade (market didn't respect price analysis) ?

I'll continue in the next post

jjrvat

PS: mktman, 240 WMA in a daily chart will be far away from the action. For volatile stocks try max a 50 WMA

02-06-08 02:33 PM

I can find many excuses for why this trade failed:

1. Price hit next Pivot R1.5 twice plus and it couldn't break it and already retrace to R1
2. By mistake I used a chart template without middle pivots (I use this when pivot are very close together)
3. Big guys running stops at the pivot
4. Bad luck,
5. Etc, etc, etc, I can continue forever but its worthless

This is not bad trade but a mistake not because of the previous reasons but because I was overconfident and I didn't respect 2 basic principles:

1. The previous low (+/- 9:06:32) was at 4927. The last 3 bars before I pulled the trigger ALREADY broke this point (4925, 4925 and 4922) but because the R1 was there I decided to "oversee" this fact and instead of trading price I traded pivot points !!!.

2. I neither respected macro direction analysis where direction may change: London opening coinciding with price reaching pivot point…

3. It was so clearly wrong, that my natural stop (the previous low) was above the current price!!! (nevertheless I stubbornly place the trade) … At least I minimized the error closing the trade when price closed below Hull again at 9424 with a loss of 5 pips in 2 contracts ….

<u>**Sometimes is better to miss the train because of few pips than getting run by it.**</u>

jjrvat

ItalianFX

With All respect I don't think was only a mistake, I prefer to call it a bad trade.
As TRO said "anything can happen" , in this case price went down and you got stopped but if price went up it was a good trade or a mistake turned good?
Look at the next long signal after you got stopped, price stopped right on the 250 wma and the last most important low and went up, for me was another nice long entry but we can never know if it will be good or bad.
This is why I like to remember myself of some sentences took from trading in the zone:
1 Anything can happen
2 You don't need to know what will happen next to make money
3 there is a casual distribution between your winning and losing trades given by your trading system
4 Each moment in the market is unique

So our job as traders is to objectively see if our condition are met and execute our trades

PS. any comments are welcome

02-06-08 05:14 PM

ItalianFx,

Thanks for the comments, thats exactly the point I wanted to raise with this trade. Yes the next trade went up (the 240 WMA provided support), but you are missing a key issue: Consistency with your analyisis!!!.

The mistake (is a mistake because it breaks price analysis not because the loss) and the next trade was not consistent with price analysis (but is a valid trade if you are trading moving averages not price).

If you start making exceptions because a trade without support of price analysis went good (there are millions) you will pay back later in consistency. In the long run you will have thousand of doubts everytime you see waves (maybe you will wait for price to reach the WMA or pivots, stochastics, MACD crossing or something like that instead of following price).

You don't need to know what will happen next but you need to be consistent with your analyis (trust on me on that one) and of course is a casual distribution between your winning and losing trades given by your trading system but both the winners and the losser should be evaluated according to your system not to other possible entries.

Your last comment explain perfectly my argument ... ***So our job as traders is to objectively see if our condition are met and execute our trades*** ...Did the mistake I posted objectivily met the conditions to execute a trade ???

Btw, I am not implying that you should keep a fix set of rules when trading, even more a system need to be flexible, adaptable and sustainable in time, however the **basic principle of price analysis in my opinion is unmovable**.

jjrvat

03-23-08 03:20 PM

Sorry for the delay, I have been out of office for a few weeks…

What is the importance and relationship of wave height with these rules and principles of trading? (mktman)

If price analysis is the key for successful trading, **the relationship of wave height is the key stone to develop a sustainable trading plan**. Why? Because waves are dependent variables of the timeframe, risk, time and the instrument you have in your trading plan and they will determine your entries and exits (and obviously the size of your winners or losers). Consequently, waves will establish the playing field in which you will apply price analysis.

Understanding price analysis is one thing, developing your own trading plan based on this is a different issue.

(tnttrader)
Is this methodology more appropriate for the currencies?
I've tested this methodology on charts ranging from 8t, 21t, 89t, 144t, 2500v, 1 min, and 5 min…

(amitman)
Does any of you use JJvrat method to scalp stocks?
if so, which stocks you find best to scalp and what bars do you use (volume,range,tick,time)?

In my opinion price analysis will work with any instrument in any timeframe. What may fail is the trading plan a trader is using.

(tnttrader)
Which time frame have you found the best for incorporating risk with profit potential. I really don't like going for more on a trade than I risk…
If you don't like going for more on a trade than you risk I may only recommend you to move as far as possible from the "scalping" side. The longer the timeframe the best risk/reward you will have.
(amitman)
what is you're entry method? I'm currntly using a 25HMA cross, the problem though is that i wait for a cross and then put a stop above the high of the bar that crossed (for a long trade) but using a stop order causes me to either get a very bad price or somtimes not succeding to put the order before the stock is already making it's way up and it's too late to enter.
On the other hand entering without a stop order can cause many loosing trades as many times the stock cross the 25HMA but then immidietly return back.
what do you use to enter in terms of trigger and orders?
4) when do you exit? do you scale out or do you have a fixed targets? [/color] [/b]

I read your example posts and I do agree with rdhtci, "*If you're getting 5 winners out of 7 trades and losing money it says two things...":*

1. 5 winners out of 7 says the method you are using works (**Price analysis is excellent**)
2. Losing money on that performance ratio says the math is wrong (**Trading plan is not consistent**)

In any case, I received many emails and PMs with the same subject so for those who are still following this thread or use a similar price analysis approach I am posting the next set of posts so we can have a productive discussion on this issue.

jjrvat

03-23-08 06:59 PM

Developing a price based trading plan #1

There are many variables in a consistent and sustainable price based trading plan (PBP): the most important are timeframe, time, risk, instrument and capital. All of them have their unique implications, yet they all are mutually interdependent. The success or the failure of a trading plan is given by how consistent these unique implications and their interrelations are in your own trading plan. Finding the equilibrium between these macro interrelations is the key for a successful PBP.

However, these interrelations must never interfere or blur basic price analysis; on the contrary they are adaptive variables that have to be used to facilitate trading. Again the order of analysis is the key to develop your own trading plan. Thus, you have to manage your adaptive variables building upon pure price analysis not the other way around.

The first variable in a price based trading plan (PBP) is the timeframe:

a. The timeframe will define the time between waves meaning how much time you have to make a trading decision. The longer the easier.
b. Longer timeframes are smoother because fundamentals will clearly reflect on a chart.
c. The longer the timeframe the shortest the time and screen time required to trade
d. Shorter timeframes will require more “technology”: auto or semi auto trading, perfect feeds, a good broker, etc
e. Longer timeframes will obviously lead to larger profit targets, however not necessarily viable for a small trader who is wishing to make a living (waiting 4 months for a potential 25% return in 12 months investing $5000 trading in a stock is not consistent or efficient)
f. And the obvious relations between risk, capital and timeframe. Longer timeframes requires more capital to make them worth which lead to an increase in risk.

Nevertheless, there are also other important micro interrelations between timeframe and perspective (the way you plot a chart: volume, tick, constant range bars, etc), the way you pull the trigger (timing), profit targets, stops and exits, the time of the day you are trading and the amount of time a small trader have for the market.

Look at the following stocks charts (BSC - BEAR STEARNS COS THE (NYSE) the infamous one weekly chart … we could have make millions [especially on the friday close before the sunday news] with just price analysis and the daily BRKR - BRUKER CORPORATION (Nasdaq) amazing bull in a bear market). More than the implications of price analysis the important issues here are to understand why the simple 25 Hull MA works flawlessly in these charts for entries and exits (either a close above/below or a change of slope) and what are the unique implications for each trader in terms of time, risk and capital required to trade in this case stocks with longer timeframes.

I’ll continue later …

jjrvat


BSC-NYSE/BSC Weekly - #1 C:5.96 2008-03-21 0:00:00 H:8.50 L:2.84 O:3.19 V:458672896 OI:0 B:0.00 A:0.00 0x0 Moving Average-Weighted
180.00
170.00
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20.00
Nov 20 Dec 2007 22 Feb 20 Mar 19 Apr May Jun 18 Jul 16 Aug 20 Sep Oct 15 Nov 19 Dec 2008 Feb 18 Mar 17 Apr 15


BRKR-NASDAQ/BRKR Daily - #2 C:15.000 Chg:0.000 2008-03-21 0:00:00 H:15.000 L:15.000 O:15.000 V:0 OI:0 B:0.000 A:0.000 0x0 DR:0 Moving Average-Weigh
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27 Sep 7 12 18 24 Oct 5 10 16 22 26 Nov 7 12 16 22 Dec 7 12 18 24 2008 7 10 16 22 28 Feb 7 12 18 22 Mar 7 12 18 7

03-25-08 12:10 PM

Amitman,

Your comments raise a very relevant issue related to my previous post: Why a particular trigger works or not in longer timeframes (in this case a Hull MA)? but before that let my answer to your comments with two charts.

The second arrow is a failing trade since the traget the stock reached was way lower the the risk involved in this trade and the third arrow is also not a valid entry since the waves are making Lower lowes thus not following the overall trend...

The second trade is a 100% valid trade

- Nov 30 close and a new wave started marking a new lower (Wave Low 1) in this chart I will mark the Low only when HULL changes its slope to Green (+).

- Dec 12 there is a close below the HULL marking the potential end of the last wave and the beginning of a new one. By Dec 18th Hull changed its slope to Red (-) confirming the formation of a new wave.

- Dec 21 a close above the HULL marking the formation of a new wave. Dec 24 Hull close changed its slope confirming the Higher Highs and Higher Lows. **A clear and objective entry!!!**

The second trade is 100% valid trade (not necessarily with a great profit).

If you'll insist and say that you allow yourself to enter even if the waves are making lower lowes then the real entry in the third arrow is a few days earlier (on about the 7'th to Feb) and in that case it is also a failing trade since you get stopped put later on (on the 18th to Feb)

The third arrow is less clear at first glance. But let me explain you with the same chart first (using the Hull Ma for wave analysis) an after with a zoom in chart with just price analysis.

- By JAN 4th you clearly have the previous high (Wave High 3) 'cause price below HULL + slope is Red.

- On Jan 17 and Feb 4 you have closes above Hull but not changing the slope *****(These are the key issues but I will explain later ….Why a particular trigger works or not in longer timeframes? and trading indicators or trading price analysis?).**

- On Feb 7 a new close above HULL (this is the entry you are talking about) but this time price continue to close above until February 13 when Hull changed the slope to Green (+) marking the end of the last wave and the beginning of a new one. Then and only then you can plot the low (Wave low 3) which obviously is a Lower Low.

- Feb 15 and Feb 18 mark the end of the last wave (price below and change of slope to RED). Now you have a Wave High 4 which is also a lower High.

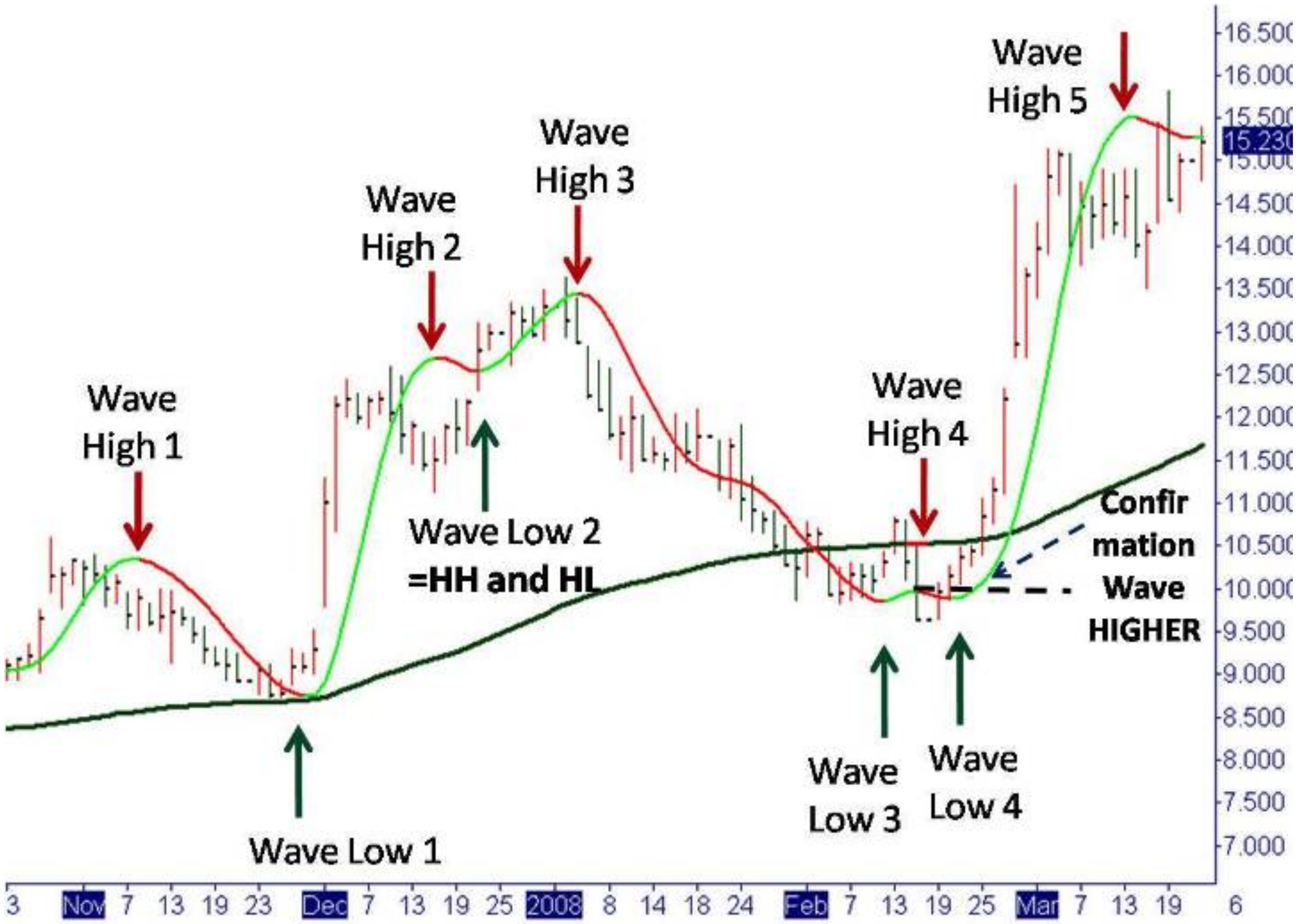
The next bar again closes above but the most important bar is the one on the close of Feb 21 because it made the slope change to green again (+) marking the Wave Low 4. Wave Low 4 is now higher than Wave low 3 (I know this LL is based on waves given by HULL. The actual price make a lower low but that's the key issue … I'll explain in detail with the next chart).

You still need a wave Higher High to go long. On the close of the Feb 22 (Horizontal Black line) the wave break the previous high meaning you ARE 100% that the next WAVE is going to make a HH, you may wait for a very conservative entry after the HH and a new LL is confirmed but why?

This doesn't mean you expect or you have a confirmation for a big wave (like the one it happened) or that if you have a new wave against you, you don't have to close the trade with maybe a loss. **The only important thing here is that you have a valid objective long signal given by HH and HL.**

Let me show this last trade with price analyis in a zoom in chart ... I'll continue in the next post

jjrvat



03-25-08 01:10 PM

Amitman,

This chart is just price:

- Jan 31 price make a new low (PL2) which is a LL and Feb 4 price make a new high (PH2) which is a LH. You have a LL and LH meaning no Longs.

- Feb 6 price make a new low (PL3) again a LL. Feb 13 a new high but this time is Higher High (+/- 0.10 cents higher). You have LL and HH.

- Feb 15 price a new low (PL4) again a LL but this time price continue to go up. Feb 25 price close ABOVE last high meaning that you ARE 100% that the next WAVE is going to make a HH and that's when you should have entered.

From a strictly academic point of view even if price is set to make 2nd Higher High you still need the confirmation of a Higher Low to have perfect high probability trade if it is in accordance with macro direction. Moreover I do agree with you, in practice it is a valid option not to take this long until price makes a new low.

Why would you trade this long?. The reasons lay down on my previous post: "Finding the equilibrium between the macro interrelations is key for a successful PBP…"

Look, this is DAILY CHART. You only have a few tradable waves per year. If this chart would have been a 18 tick chart I probably wont take the trade (you have hundreds of tradable waves per day) Macro direction is pointing up. Don't get confused about the slow WMA its just a visual aid. In the previous chart is a 144 WMA (is usually better for longer timeframes) this one is the default 240 WMA and it seems better for this stock. This indicator it's just a visual reference not a predefine rule or a exact support or resistance level (as I explained before http://www.elitetrader.com/vb/showt...=6&pagenumber=5)

If macro direction is OK and price make a new high right after touching the 240 WMA (2nd chart) or breaching the 144 WMA (1st chart) it's a very good indication.

A double Higher High (which take place well above the slow WMA) with macro direction pointing up are good indication for a good trade (not a perfect entry of course).

When price break the last high observe the distance between price and the HMA (the slope). HH and LL are supported by wave analysis bases on the "fast" Hull MA. The very low sensitive Hull MA helps a lot in this long term charts and that's when indicators are valuable. In this particular case because the low sensitivity of the MA allow us to reduce whipsaws (that's why they make higher lows). Of course if you use it in a fast timeframe with a wild instrument its weaknesses may prevail over its benefits (lagging entries). This doesn't mean that you are going to base your trading on the HULL !!!

Either you wait for +/- 1 month until price confirmed the new LL for a perfect entry or you balance your adaptive variables in your trading plan (timeframe, time, risk, instrument, capital, etc) to have a realistic, consistent and sustainable trading plan and evaluate if the conditions and probabilities for taking this trade (Macro direction ok with price making HH and waves making HH and HL) compensate the risk of placing an order. In any case, if you take the trade the only rule is to close the trade if price close below HULL (not when it change slope) Why? because it is not a perfect entry…

In conclusion if you are trading weekly or daily chart you will need a lot of patience and you'll require a lot of time to find a Perfect Price Analysis Setup (btw, very rewarding), the key for me is to be consistent with your trading plan and in your analysis.

jjrvat

03-25-08 11:32 PM

Amitman,

Don't get me wrong but in your chart it seem that half of the time you tried to outsmart the market and the market outguessed you and in the other half the market outsmart you and you didn't realize it.

In general I can't "read" your trades. Sometimes you respect triggers and not waves. I can see why your trigger in the 1st, 3rd, 5th and 6th trades but where are the confirming wave lows/highs? Either they never made it inside the trigger zone or they confirmed way after you pull the trigger. Only the 3rd trade made a confirmed High but only with your trigger (17 HMA) not with 25 WMA!!!. **You got in too early because apparently you are trading the indicator and not waves.** It seems that you are analyzing highs/ lows only with price (you should consider discarding the 25 HMA it's worthless according to your chart) which is perfect but you will need a lot more screen time and worse with such a bouncy chart.

The main problem with pure price for Hi/Low analysis without a visual aid is, as it appears in your chart, is not recognizing the previous Highs or Lows (that's clear) but recognizing in-situ which bar just made a high or a low so you can recognize when a wave ends or starts. That's the reason you plot a HMA (or any other indicator) to have the "most" objective (it's not 100% but at least it gives you a concrete reference for price) visual aid to analyze price.

In the other trades you respect waves but your triggers are not efficient with your indicator, there are 0.20 cents away (2nd and 4th trade you pull the trigger too late). Your trigger for these trades is worthless if you are going to give up your entire potential target waiting for confirmation.

Your chart look really complicate to trade not because the instrument but 'cause the way is plotted:

1. At first glance you can see that is a messy chart (bars going up and down. Have a glance at the 2nd chart posted above (timokrates) and compare in which one is easier to recognize waves (sorry 4

the comparison ;)). My point is not saying that you should change the instrument but to improve the way you look at thinks. ***Perspective is a key issue for successful trading!!!***

2. What is the average true range of your 30 sec chart 0.20, 0.12, 0.07, etc ??. Is that consistent with you stops, targets and whipsaws in your chart?

3. Did you know that you were trading the news? Your first two trades are minutes before and after News (Consumer Confidence Report) that for your bad luck the really bad news went first (that's another reason your 1st trade failed) and minutes after the revision was positive (that's another reason why your second trade failed … that long bar that you went short on the close). In my opinion trading a 30 sec chart during important news is a suicide (you need 8 to 18 ticks or 5 to 10 secs charts… but that's another topic).

4. Did you know that all of your trades except the 3rd were placed on the pivots? (Middle points … I'll highly recommend you to plot them, they are really helpful). Not only that, but also you placed the trades exactly in the opposite side from where they got clearly rejected.

I leave you with a SPY chart (0.1 constant range bars) quickly smoothed without distorting too much your timeframe and simple wave HL analysis.

jjrvat

03-26-08 09:31 AM

Amitman,

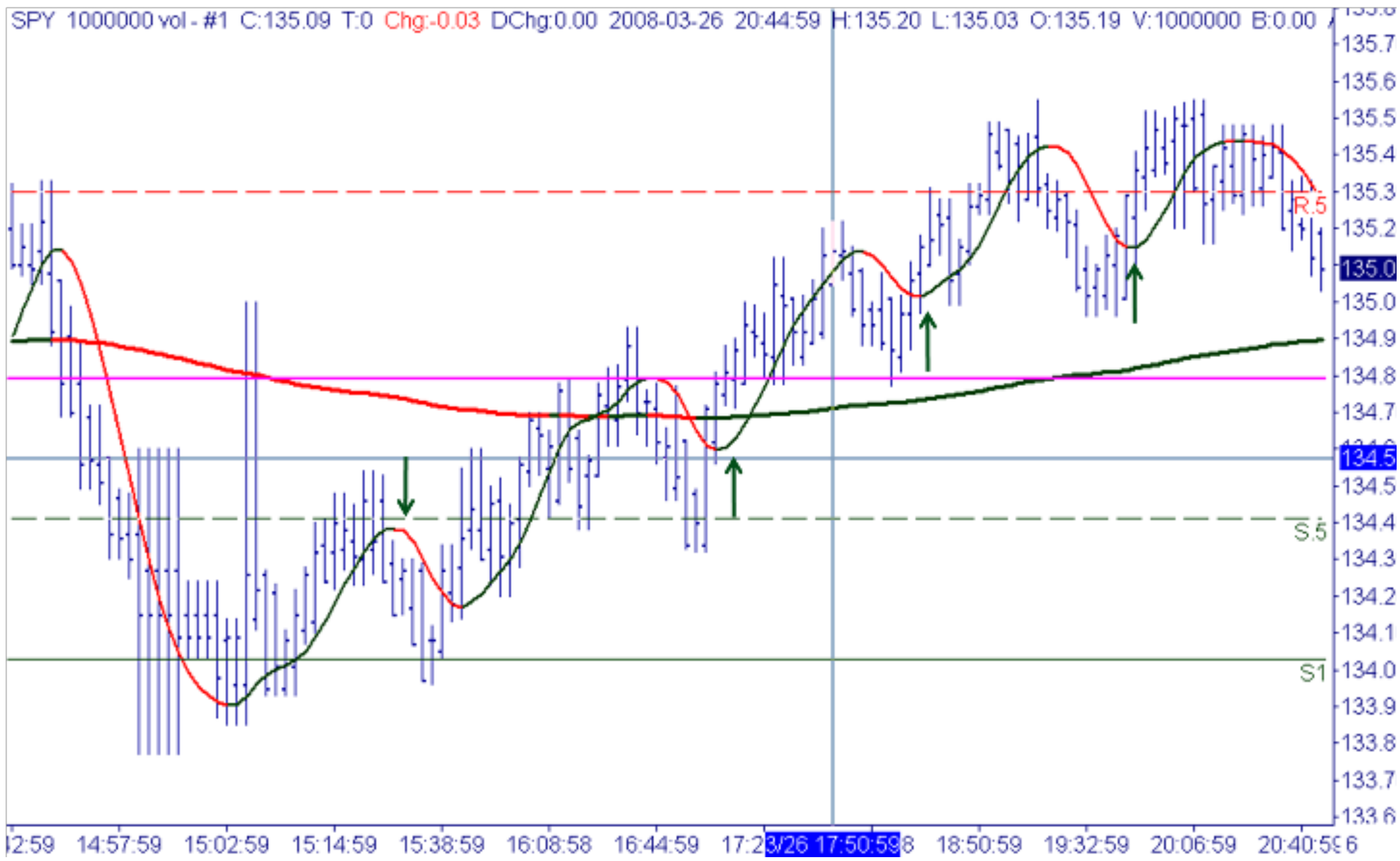
Maybe I didn't make myself clear before. My point is that you are not going to find a successful trigger if you don't analyze price properly. My chart had the intention to make you think that if you don't see waves properly you are wasting your time tweaking your entries. **The order of analysis**

changes everything. Plot your charts in perspective and master the basic the rest come naturally, that's why my first point on the post "developing your on trading system #1" was about choosing the right timeframe.

The same yesterday SPY chart from a different perspective (volume 1000000). (Only HULL 25). Green arrows are perfect entries (macro direction ok / price analysis ok / trigger the same HMA with double confirmation a close above/below and change of slope +/-.

Why the trigger works in this case? That's the question you should try to understand.

jjrvat



03-26-08 09:06 PM

Pk,

Does this type of major scalping pan out in the long run? I've traded with the jpy like this for about 3 months and post consistent profits… the win ratio becomes manageable. I'm usually at about 8 wins, 1 b/e, and 1 loss out of 10 trades.

It's difficult to say something about your analysis if you have been posting consistent profits for 3 months, your win ratio seems outstanding and your last post shows a flawlessly price analysis with the natural complexities and distortions of entries and exits in a very "advanced" chart with a no so easy timeframe.

I know you have been trading very fast charts for a while and also it seems that you move on and build upon from the rainbow setup (…finally … lol…not just joking) why u still using V lines with ticks charts (It doesn't change anything if use them or not it just an idea to have cleaner charts).

There are undeniable advantages of trading really fast charts: tight stops, quick profits, millions of potential trades, price in the purest form, what u see in a 1 tick chart is what is happening and where market is going regardless of any S/R line, Pivot, Fibonacci retrace, etc. Moreover, you reduce anxiety to exit early and if you have a bad trade it just hit your stop in secs before you even have time or the temptation to move it up or down.

However, the perfection and concentration required to trade charts like that can be exhausting and confusing if you aren't 150% focus. But the only serious concern on your 1 tick charts is **regarding manual execution**. You are moving from forex to futures and planning to move from the sim to live trading (your data has 15 min delay …you are demo trading right?) so you should be extremely aware that you may not get the fills you are getting on the sim. In the sim you get filled as soon as your order is hit (if you use limit order for entries or exits) in real live is not always like that.

I like a lot the 6Jxx (is "slow" but smooth most of the time)and in my opinion it's an excellent option for your 1 or 2 tick charts because each bar is relatively slow (+/-from 1 sec to 1 min) to allow you to read, analyze and pull the trigger. However, when you have a trading range of only 5 ticks not only your analysis must be flawless but your execution has to be perfect. In reality let's assume you entry with markets orders, if you entry with a perfect click you may (usually) have a fill 1 tick above (not because of the market or your broker but because the time required for the information to pass), the same for an exit. You end up with +/- 3 tick range in a perfect trade… you should count at least -2 ticks when you go live. If you use limit orders in such fast conditions (price stay at your entry only a few secs) you may not get filled at all. And all that assuming only 1 contract …

The long term problem of this (a part of losing money in the short term) is that you may start with the vicious circle of looking for very big rides in small charts (read the endless posts of 90% of struggling LT rainbow traders … not the very few that "made it")

My only recommendation is to consider this issue before you go live.

As to wma's as triggers, I have used them b4, but I find the consistency to be limited to time frame and analysis of price action.. Crazy consistent, but what about tomorrow?

"*Long run is a misleading guide to current affairs. In the long run we are all dead*" John Maynard Keynes

Finally an economist quotation that make sense in trading !!!

I was more referring to how you figure which one is going to be a better guide for direction changeovers. I look forward to your expanded conversation on developing triggers consistent with price action--that's where the money lies.

I'll develop on this in the next posts

jjrvat

03-27-08 12:53 PM

Developing a price based trading plan (PBP) #2

Indicators

Price action is definitively the key for successful trading. You can hear from "unbeaten" investors, pro traders and scalpers that price (and/or fundamentals) is the only thing you need. You read that indicators are bad, lagging, distort trading, blur analysis, etc ,etc ,etc. There is in general a "satanization" for the use of indicators, nevertheless it's almost impossible to find a trader that don't use them in one way or another and just spending a few minutes online and you can see hundreds of thousands web pages, forums, fortune tellers and software developers offering you the last and most advanced unique indicator for beating the markets.

I do agree that price analysis is essential but indicators can be useful to facilitate trading if used properly. The negative remarks on indicators are usually true but the crucial issue is not in the indicators themselves but in how and why do you use them. There is an expression in Latin that can be used to reveal the full potential of indicators in the context of a PBP: **cui bono? , commonly used as what is the good of it?** *** (Merriam-Webster Dictionary. Latin: to whose advantage? D: usefulness or utility as a principle in estimating the value of an act or policy)

Moving down to a more practical level, the first important aspect when analyzing the cui bono of indicators is establishing the different kind of indicators in a PBP:

1. Direction Indicators (Macro direction):**PRICE**, Pivot points, macro S/R lines, daily HLC, multiple MAs, etc.
2. Price Analysis Indicators (Wave analysis and current direction): **PRICE**, MAs, MACD, Candlesticks, CCI, Ichimoku Cloud, Zig Zag, etc.
3. Indicators for triggers, exits and failures (Timing): **PRICE**, MAs, Stochastics, A/O Histogram, Williams %R, RSI, DMI/ADX, CCI, Ichi Kinko Hyo, Horizontal lines, etc.

Again the order of analysis is very relevant. Why? If so far you have a consistent timeframe, you accurately know macro direction and wave analysis the indicators for the 3rd category will be easier to find and tweak (for quick examples see the SPY charts above).

The next step is testing the best options for your trading plan but without forgetting that every time you introduce an indicator you have to ask: what is the good of it? (cui bono?). It sounds like a dull obvious theoretical question but behind the answer is, in my opinion, the key to keep your chart and indicators simpler, cleaner and easier to trade.

I'll continue later with real charts…

jjrvat

03-27-08 08:13 PM

Developing a price based trading plan (PBP) #3

Indicators #3
I just read a post about shorting the EUR/USD because is topping… so why not use it as an example for the discussion on indicators.
The first chart should be always based on pure price and only after if necessary (a chart is difficult to read, lack of screen time, etc, etc) introducing indicators as visual aids, triggers or/and for potential failures on timing.

1st Chart:

Direction Indicators (Macro direction):
1. Price
How to use it? Common sense. Plot a good range of bars. Take the first bars on the right of the screen and compared the last bars on the left. Bars on the right lower/macro direction up, higher/down, not sure/stay aside.
2. S/R lines and Channels based on "clear" highs or lows
What is the good of it? To visualize if the market is going to keep moving in one direction or its going to change and also predefining maximum profit targets.
How? Basic charting tools. Lines connecting price.

Price Analysis Indicators (Wave analysis and current direction):
1. PRICE
How to use it? Common sense. For example 3 consecutive higher/lower bars close for defining high/lows (Green dots/Red dots in the chart)

Indicators for triggers, exits and failures (Timing)
1. Random line
What is the good of it? To have a clear and predefined trigger and stop loss
How to use it? plot an horizontal line wherever you want in the range of the chart of course. If PRICE closing above/below trigger. To make it a little "more technical" I'll plot horizontal lines every 0.050 as a trigger

None of the indicators help us managing a winning trade (that's another topic for discussion…) so for the sake of the example, half of the position can be close at 100 ticks PT and the other at R lines with a trailing stop of 50 ticks (this # is random).

Summary

Green arrows = perfect entries. The tick profit ranges for each winner were >300 / >500 and > 400
Red arrows = some examples of valid HH/LL with potential triggers but in the wrong macro direction
? marks = entry points according to the trigger but not with price analysis (HH/LL)
(X) = failed trade (whipsaw). Only one long on 1.3033 next day stop hit at the H line 1.2999 (-34 ticks)

The system seems to be working fine. Obviously you can argue that this an ex post chart so it's easy to plot lines and mark good trades but look at the same chart today updated until few minutes ago (same explanation for arrows and marks). 1 missed trade and 2 winners including the current (>300 ticks and so far >1000 ticks the last one!!!)

Can we trade live just with this system (why not?) so far there are HH and HL …

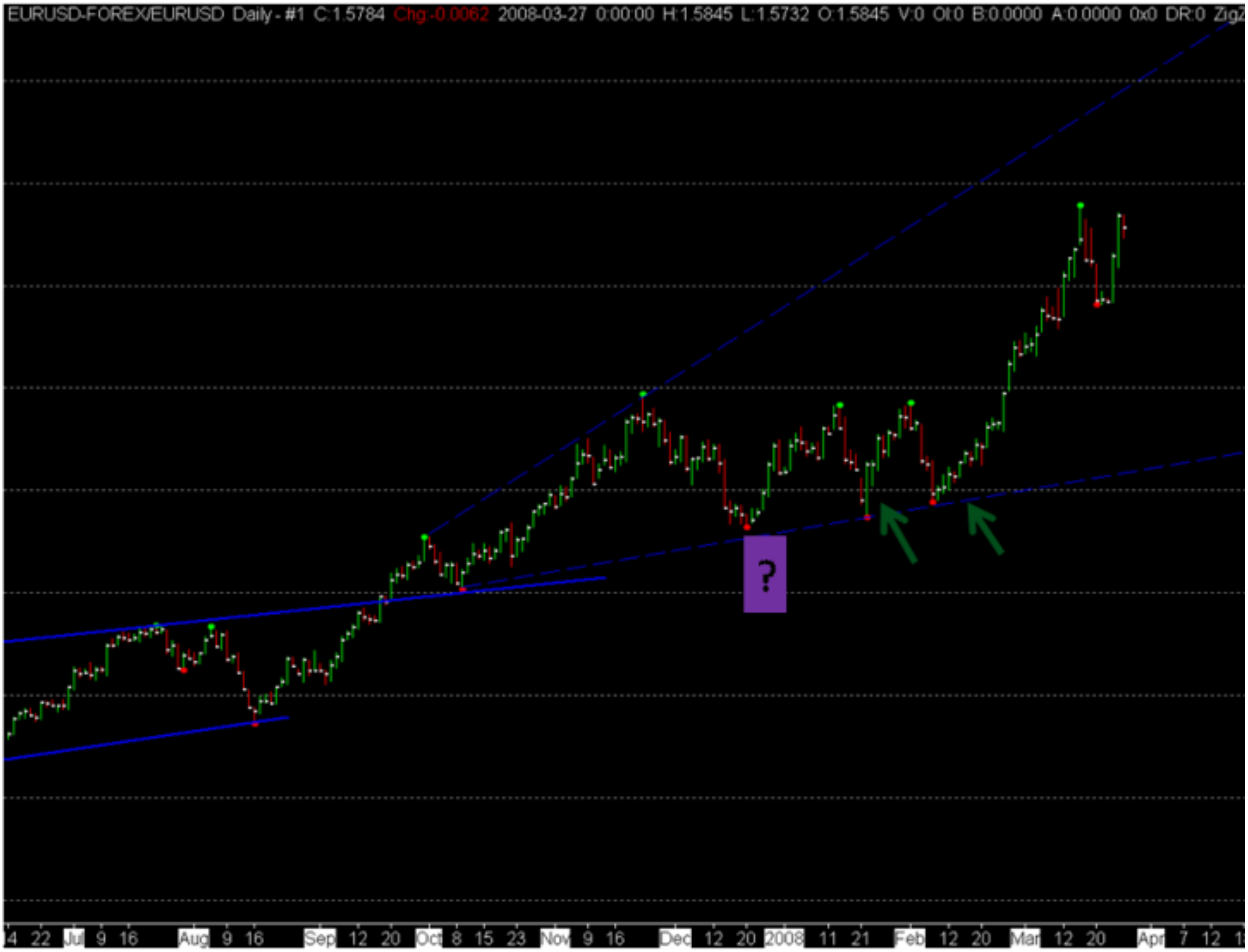
But the important issue here is do you need to introduce indicators? What will be the cui bono?

Apparently, the weakest issue is not trading some valid trigger signals 'cause lack of price analysis (so what?). Entries are very clear and apparently very effective, stop losses are at the minimum (low risk), P/L ratio seems more than perfect and we even have time to read the potential news and fundamentals that can affect price… SO?

I'll continue later …

jjrvat

PS: Timokrates before I go in detail I understand the 3 trades in the middle but are the 1st and the last one longs?



03-31-08 10:38 AM

You think that this whole approach is to discretionary (Timokrates)

<u>No !!!</u>

Price analysis is not discretionary. You trade or you base your trades in what you see even if you have a bad trade (that's the cost of doing business). Your trigger might be flexible, however the less discretionary is you trigger the best results you'll have not in necessarily in terms of money but in making your trading plan consistent, adaptable and sustainable in time.

In my opinion the <u>only issues that can be discretionary in a PBP</u> are those related to not placing a trade (overriding price analysis and staying aside) because specific circumstances that will affect price outside of its "normal" range: important news, opening or close of markets, etc.

what do you do to create a basic toolbox in regards to have the right perspective? Do you have 3 or 4 setups for a contract and the mood it is in - or even you? Timokrates

Despite the "technical" issues, there are other important issues in a trading plan. Are you trading 24/7?, do you trade for a living?, How many instruments you follow? Are you trading stocks, futures, forex, etc?
Those are questions that you and only you have to examine according to your trading plan. For now,

I’ll continue with the Developing a price based trading plan (PBP) posts and I will try to open the discussion on multiple setups later. (…send me a PM if you want to discuss more specific issues related to your trading plan …)

In my opinion is better to focus in having a right perspective in one setup first because it can blur the essential issue on a trading plan: Price…. You may end up blaming timeframes instead of failures in price analysis.

"Execute the basics; master the basics,...When you master and execute the basics, the rest comes naturally”

hi jjvrat still waiting your aswers about how to avoid chopy times and about what to do when the slope change and we enter a trade and then immdielty change back.
thanks/ (amitman)

Why don’t you post a chart so we can have a discussion based on a real example?. Did you check my previous posts http://www.elitetrader.com/vb/showt...=6&pagenumber=5

I do agree with timokrates, “*you will never know that before, but an indication for coiling action or possible chop are conflicting swings, means Lower High and Higher Low ….”* Despite these “technical” explanations it seems to me that you are having problems with time (not timeframe). If your chart is directionless and making very fast, consecutive and random high lows (is that your case? Or maybe your timeframe and trading styles are not adequate for the time you are trading?) don’t make it complicate. STAY ASIDE !!!. **THIS is and will be the only 100% clear signal the market will give you … DONT TRADE !!!..**

...Don't ask me about triggers or strategies in general, as mentioned, I'm practicing and for me, it's a process, this is my perspective and understanding at the moment. Timokrates

Your chart is a perfect visual rendering of the essence in price analysis. You should save it for future reference, you may need it to regain perspective if you have a losing strike or even if you move on from a price based system and start trading indicators, it contains invaluable information on trading.

jjrvat

04-05-08 07:25 PM

Developing a price based trading plan (PBP) #4
Indicators #4

I finished my last post on indicators (http://www.elitetrader.com/vb/showt...6&pagenumber=49) with the questions do you need to introduce indicators? What will be the cui bono?.

Curiously the live chart I used (EUR/USD daily) has given a very good and relevant case on price analysis and whether or not indicators are useful (plus is a key example for the discussion on entries, exits and risk/reward ratio amitman was pointing out before… btw, I’ll use the SPY chart in the next posts)

As a summary: macro direction was given by price and a basic S/R line, “wave” analysis was established using also price (for example 3 consecutive lows or highs) and the trigger was a “random” line every 0.050. Since 2008 2 valid entries (the first 2 >300 ticks and so far >1000 ticks the 2nd one) and a third valid entry that trigger last week (3rd green arrow March 25 at 1.5649 = a close above the trigger line 1.5600 with everything aligned) which coincided with the supposedly top of the pair according to a thread here on ET.

Since 2006 there have been 11 perfect valid trades without bending any rule in this PBP and 4 additional potential long profitable entries that missed the higher/low confirmation meaning they weren’t valid according to this basic PBP. From the 11 perfect entries 10 were winners (all made at least +200 tick potential profit range and a couple of them more than 800 ticks) and 1 was a valid trade at the end but it "triggered" the stop (-34 ticks) meaning it was 1 whipsaw in the system. Is this the Holy Grail ??? Not at all this is just a real case of a textbook example of a consistent trading plan with rigid price analysis.

It's not easy to find and even more difficult to forecast an instrument that it's going to have such a clear and obvious direction.(6 years uptrend!!!). In reality if you are a day trader or a small "scalper" with very fast charts **the concept of a trend is so feeble that using basic price tools for analysis may appear not valid because it can be plagued of small visual distortions.**

While determining a wave low retracement in a daily chart with support of S/R lines (that have worked for years) is almost "exact" (Why? Because there are trillions of $$$ there, from mini forex traders to central banks so the implications of a whipsaw a "few" ticks below are immense…), establishing a "exact" mini wave retracement in your 21 tick YMxx chart it can be as difficult as unrealistic is to turn $1000 in a million in one year of trading.

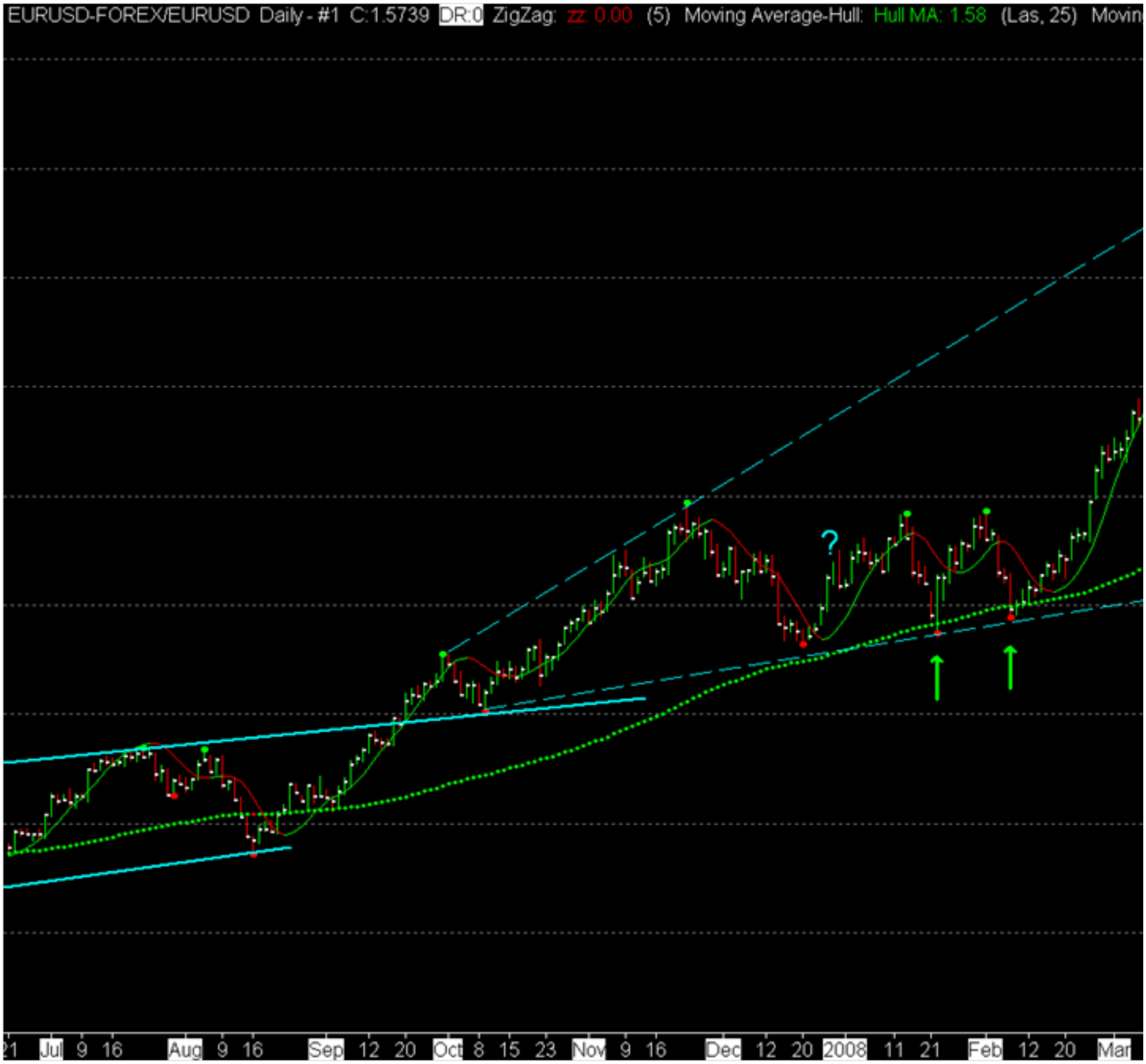
There is when we start introducing indicators and that's when exactly the problems start. This basic price based system should have worked amazingly and almost without flaws with this instrument and in this timeframe. The entries are predefined and clear (there is not space for interpretation) and everything is consistent with price. The obvious and probably the only serious failure will appear when there is a change of macro direction but by that time it happens (we don't know when and we don't care, you trade what your see …) you already made a lot of money and if your exits are consistent you could have a small lose (if).

For the sake of the argument I will introduce some indicators (they are going to be worthless according to the chart) for one particular issue that for me is very important to understand in a PBP:

The tradeoff between indicators/efficiency and price analysis/consistency

In this chart is a 144 WMA and 25 HMA I'll continue later with the potential consequences of introducing this indicators.

jjrvat



04-06-08 03:24 PM

Developing a price based trading plan (PBP)

Indicators #5

As long as indicators are used only as visual aids, they are not going to cause distortions (and there is not a trade off). In the case of the example:

Direction Indicators (Macro direction)

144 WMA

If instead of using fix S/R as a reference you introduce a “dynamic” line like a 144 WMA (in the case of a daily chart) you’ll have the same results. Look how the green dot line pointed at the same supports as the fix S line.

How to use it?:
Price above/ below "shows" at a glance where is the market going.
What is the good of it?:
In this particular case nothing special, the fix support line is so clear that the 144 WMA only show the same. But in general it avoids drawing macro S/R lines, its dynamic so it adjust to current circumstances.
What are the potential shortcomings?
None as long as you use it only as a visual aid for macro direction.

Price Analysis Indicators (Wave analysis and current direction):

25 HMA
Here is where the problem starts 'cause the reasons behind why and how you use this indicator will have considerable influence in the outcome of your trading plan.

How to use it?:
Option 1: As a visual aid. Just to have a quick visual aid for waves and +/- to recognize where the market is in that particular moment (Current direction).
Option 2: To establish wave Highs/Lows = your decision to take a trade will be based on this analysis. Change of "slope" green/red will define Wave Highs and Lows

What is the good of it?:
Option 1: You don't gain a lot but you can have nice quick visual reference of the current direction.
Option 2: You may reduce whipsaws on sudden price spikes that can point to "false" lows/highs especially in fast timeframes or less liquid instruments. (For an example http://www.elitetrader.com/vb/showt...6&pagenumber=45)

What are the potential shortcomings?
Option 1: None as long as you use it only as a visual aid.
Option 2: If you are not carful you can misinterpret price and take a trade based only on the indicator and not on price analysis + you may not take a valid trade because of the indicator. In the case of the example the second arrow won't be a valid entry anymore because is a lower high (when on reality price made a higher high (H1=1.4918 < H2=1.4929)

As you can see this is one of the tradeoffs I was talking about. You introduce an indicator to improve efficiency and you end up losing consistency. There are millions of cases that the opposite will happen; the indicator will get you in without exact confirmation of price HH/LL but the key issue here is to recognize that every time you introduce an indicator you will have to deal with this tradeoff. Moreover, it's very important to recognize the exponential implications of this in your trading plan. This a daily chart where waves are naturally smoother but look at the potential implication of introducing a 25 HMA in a 8 tick chart where you can have 100 waves in 1 hour multiply that by the implications of 2 or 3 indicators you may decide to use, you may end up in a net of conflicting signals that will certainly be reflected in bad trading decisions.

Indicators for triggers, exits and failures (Timing)

25 HMA as a trigger instead of the random line

How to use it?:
Either you can trade a close above/below the HMA as a trigger or you can wait for a conservative change of "slope" green/red for confirmation
What is the good of it?:
It can give you an objective entry point, reduce drawdowns and identify warnings that the trade is going to be bad and/or clear exit signals
What are the potential shortcomings?
Late entries and exits

As you can see in the chart the 1st and 3rd trades would have been triggered +/-130 ticks and +/-170 ticks above the original trigger based on the random line. (Either if you entry on the close above or if you waited for change of slope).Even worse are the exits both trades would have been losses (+/-100 ticks and +/- 200 ticks) if you have traded only the indicator signals. Again that's not the key point, there are many cases in which the opposite would have happened, **the crucial issue is to recognize why, how and the cui bono of your indicators? If you don't know this and you pretend to find a holy grail that overrides all the tradeoffs between indicators/efficiency and price analysis/consistency you are doom to fail in the long run.**

It sounds nice in theory but how to you do this in a real small day trader chart?; I'll continue later with a SPY intraday 0.1 constant range chart.

jjrvat

PS: TheRumpledOne, thanks for posting these additional self-explanatory real live examples of the power of pure price analysis.

04-06-08 07:57 PM

Actually, I do NOT see that?!?!?
What is the actual trigger in this example according to your method? What is the actual trigger in this example according to your method (TheRumpledOne)

These are not the valid entries according to the original price trading plan (http://www.elitetrader.com/vb/showt...6&pagenumber=49). I only introduced the indicators to show the potential influence of them in the outcomes of your trading plan.

Before the indicators the entries were at 1.4629 and 1.5648 **as soon as you had a close above your horizontal line trigger** every 0.050 (in these cases the 1.4500 and 1.5500) but if you would have traded **according to a 25 HMA** for wave analysis and trigger your entries would have been (depending if your trigger is a close above the HMA or after the change of "slope") at: for the 1st trade 1.4755 or 1.4783 and for the 3rd at 1.5846 (both a close above the 25 HMA and change of slope)

I hope is clear now.

jjrvat
PS: I edited the exact values for entries

04-08-08 02:27 PM

Mistake or failure#2 ?

Amitman posted a SPY 0.1 rng in which he highlighted a real example of timing failures in which price analysis was ok but the trigger and exits were not very consistent. I think this example can be very useful in the context of indicators.

A brief summary (amitman correct me if I got something wrong):
Direction Indicators (Macro direction): 144 WMA
Price Analysis Indicators (Wave analysis and current direction): 17 HMA "…the HMA17 is also my H/L waves analysis…"
Indicators for triggers, exits and failures (Timing): 17 HMA and predefined targets "…my trigger is when the I have a green bar that close above the HMA and at least Most of it is ABOVE the HMA…" and "…my exit and stops are based on fixed prices which is 20c for profit and 15 cent for the stop…"

The problem:
As you can see in the chart this was a bad trade according to his PBP 'cause he got stopped out. What it was even worse is that after a few bars price confirmed that it was a valid trade but when that happened the indicators for wave analysis were not pointing out longs (LL and LH)… so what was the problem? Price failure?

It’s easy to analyze a chart ex post and blame the indicator. The 17 HMA was not good enough in this particular trade!!!. Look what happen if you have used a 25 HMA as wave and trigger indicator… A perfect entry with curiously (or maybe not) at a better price (9 cents cheaper) than the faster 17HMA (why?)

Of course claiming that a 25 HMA is better than a 17 HMA is very relative and I do understand why you used a faster HMA, SPY in a 0.1 rng chart is fast, and many times a change of slope (or even a close) above/below a 25 HMA can give you very but very late signals.
For example the last two trades before your example would have been winners with a 17 HMA and losers with a 25 HMA but the two trades after would have been almost perfect with the 25 HMA and not with the 17 HMA.

This exactly exemplifies the tradeoff between indicators/efficiency and price analysis/consistency. All of these trades (including your example) have something in common: they all are consistent with price analysis. You were right taking that long; it was valid long but your indicators were not pointing at that, even if you saw and knew that price was going up. Indicators blur analysis!!! …

Again nice in theory but sadly in reality we can't take trades if we don't have and objective trigger and without stops that are consistent with risk. So how can a small trader solve or find the right balance between efficiency and consistency?

I'll continue later, but a good tip is: **if basic price analysis tools explain and have better and more objective triggers than the ones given by your indicator… your indicator is either not good enough for your PBP or you are not using it properly**… again the cui bono

jjrvat

PS: TheRumpledOne, yes zigzag is a very good visual aid for lasts Highs/Low. As always, use it but no abuse it.

04-13-08 12:01 PM

let's say i have an indicator that goes ahead of the HMA (stochastic for example) meaning the signal to enter long comes before the HMA changes it slope back up and let's say price analysis is ok (meaning Macro ok and the waves just made a HH and a LH before that)
do you consider it an invalid indicator because we enter a trade before we know a new wave had started? (amitman)

From my first post:

"2. Price moves in Waves. Regardless of the instrument and timeframe and despite of the market direction or its condition (in a trend or in a range) markets always move in waves …"

a.What we don't know about waves:
i.The exact beginning or end of a wave
ii.The potential height of the next wave

b.What we know:
i. Where we have less probabilities for a successful trade regardless of the direction or condition of the market

If price analysis is ok (macro ok and waves HH and LH) any indicator will be valid as a trigger. The real problem is that we don't know the exact beginning or end of a wave so if you use price for wave analysis you have to be good really good to recognize mini bottoms and tops, not necessarily to place an entry in the exact reversal bar but to identify waves Highs/lows.

You said that waves made HH and LH before …I guess you are using price for wave analysis, aren't you?. If that's the case a stochastic is a valid fast option as a trigger and it is a valid indicator. If you are using a "normal" stochastic for wave analysis that's a very different issue. Moreover, if you are trading before you know a new wave have started means that you are trading indicator signals not price.

if yes, does this mean the the entry must come AFTER the slope changed and a new wave had started in the dircetion of the trade?

Waves are always given by price. Using a HMA can be useful (but not a mandatory requirement) to visualize waves because it's not always easy to recognize the exact beginning or end of a wave. From a theoretical point of view when a lagging HMA slope changes (or any other indicator) this "new wave" already started way before this happens.

if it is a valid indicator, and since we can't define the low as a HL because the new wave hadn't started yet how do we determine our stop? do we put it under last low? which can be very very far? do we wait for our indicator to make a reverse signal (e.g. a crossover against our direction in a stoch or MACD) and then we go out? do we use fixed stops?

Yes, I do understand that there are indicators (like fast stochastics) that can give you "early signals" for the end/start of a new wave and as I said in my first post ***"…the later you enter a new wave the less probabilities you will have to be successful…."***

However, the tradeoff between indicators/efficiency and price analysis/consistency is crucial to find a consistent and sustainable balance. If you are using stochastics for wave analysis, they will give many early valid signals but it will get really confusing to see the last low or high not in the stochastic chart but in the price chart meaning your stops will be hanging on air (especially in a trendy market). On the other hand, if you use a slower indicator as the HMA you may have some late entries but you will know where your stops should be placed.

In terms of entries and exits, the shortcomings of fast stochastic or slower indicators (HMA) for entries become virtues for exits and vice versa. For stops I will post something later when I finish the last post on indicators.

In any case, there are not perfect indicators. <u>The longer it takes to accept this fact the longer it will be for a trader to be successful</u>. In my opinion only when a trader starts trusting price and accepting that he/she will have losers regardless of the technical tweaks, he/she will pass to the next level in trading.

jjrvat

04-13-08 05:52 PM

jjrvat, that's an excellent post.

The point about using pure price for wave analysis making it difficult to avoid mini bottoms and tops is a 'heart of the matter' observation.

However, whilst it might be true to say that "If price analysis is ok (macro ok and waves HH and LH) any indicator will be valid as a trigger.", I feel the issue of entries is more critical.

Let's say we have all price analysis correct, the macro and the wave analysis are in the right direction and confirming, and we have a new higher low representing a new up move and a valid long trade opportunity. We need a pivot low to mark the beginning of that move and we know there will be a pivot high some unknown time and distance away which marks the end of the up move.

The stop is going to be beneath the pivot low because it represents the only logical point at which price analysis is broken. The further into the move our entry occurs, the larger the distance back to the stop and the smaller the distance left to wherever our exit will occur. So the entry has a crucial effect on R:R. We know that over a large number of trades, R:R will assert itself and, if it is in the wrong proportion, our net result will be unfavorable even if we have a high proportion of winning trades.

So, assuming a valid signal in terms of macro direction and price/wave analysis, could we discuss the pros and cons of various entries based on price action?

I'd be interested to hear what process you have gone through in rejecting/accepting entry methods.

Here's a couple of entry examples. Entry (1): Say you are watching descending bars in a down move, waiting for a HL which, if it occurs, you know in advance will give a valid long trade opportunity. The first bar where a new low is not made will define the pivot low. A valid price-based entry would be above the high of that bar once it closes. However, that bar can, and frequently does, move a long way from the pivot low -- a valid entry but with the possibility of a large stop and a large chunk gone out of the eventual move -- potentially poor R:R.

So, Entry (2), you could place an order above the high of each descending bar, and cancel the order if the last bar low showed the the overall down move was going to be a LL. It is possible for the order to be triggered and the bar to go on to form a lower low than the previous bar, which would stop you out and show in hindsight that you entered before a new wave started. This, of course, will be an outside bar. But in the larger proportion of those trades, a bar with a higher high will also have a higher low and will thus mark the pivot low. And you have got an early jump on the move with a small stop, which compensates for the slightly higher failure rate.

everyone talks about risk as if it were a single-issue entity but, of course, it actually has two components -- the risk in terms of dollar amount and the risk in terms of probability. The above entry (2), compared to entry (1) lowers the dollar risk compoment but raises the probability risk.

It's finding the balance between those two components, measured against potential profit which holds the key to success over a large number of trades.

Rob

04-13-08 08:14 PM

Rob,

Thank you for your post, it contains a lot of highly relevant information and I will elaborate an argument in detail on some of your comments so we can have a constructive discussion but for now:

Everyone talks about risk as if it were a single-issue entity but, of course, it actually has two components -- the risk in terms of dollar amount and the risk in terms of probability. The above entry (2), compared to entry (1) lowers the dollar risk compoment but raises the probability risk.

It's finding the balance between those two components, measured against potential profit which holds the key to success over a large number of trades.

Excellent, I do agree with you 100%. That's exactly what I was trying to imply with "the tradeoff between indicators/efficiency and price analysis/consistency" but you went one level below in the analysis and put it in a better and clearer argument.

However, whilst it might be true to say that "If price analysis is ok (macro ok and waves HH and LH) any indicator will be valid as a trigger.", I feel the issue of entries is more critical.

In my opinion the importance of entries is only critical when you understand price analysis. If a trader focus only in this part (like most of small struggling traders) the results are always catastrophic. That's why always insist that the order of analysis is key for developing a profitable trading plan.

In any case, I will continue later with the discussion on pros and cons of various entries based on price action

jjrvat

05-03-08 01:07 PM

maninjapan

….as far as the HH Hl / LH LL then price is almighty, the MA, whichever it may be is only a visual tool to help you see things a bit clearer …

Yes.

The importance of H/L analysis is also given by the fact that you are **delimiting your trading field**. There are thousands of different setups for trading but if you don't limit your boundaries to something objective, consistent and sustainable in time you will be lost in the market.

IronFist

Say price is under the WMA240 so you're going to be going short.
Are you only supposed to be shorting when WMA240 is sloping DOWN, or can you still short if

WMA240 is sloping up but the price happens to still be below it?

First the long WMA is just a visual aid for macro direction so yes you can take a trade against it but with the tradeoff of losing consistency and as maninjapan pointed out "reducing your % of winning".

Second, your 240 wma is not right. There is a problem (very common with OEC) with your chart (the pre opening data (12hours before) is distorting your 240 WMA. From 10 AM your chart time the 240 wma should have been red …

When you guys are identifying HH, HL, LL, and LH, are you referring to the PRICE making HHs and HLs or are you referring to the HMA making the HHs and HLs? I've seen both on the examples posted here, and sometimes the HL for example refers to the reading of the HMA, despite the fact that the PRICE actually went lower than before.

Usually price, but if you are "scalping" fast chart and instruments you may use a smoothed MA for extra security. With experience and screen time you can only use price.

Here's a real example of what I'm talking about …

First, did you know that there was a pivot point at 1970.75?

Second, your chart is a really "risky" trade according to price analysis because is not respecting macro direction (way below 240 WMA plus is below S1 pivot point …meaning SHORTS). That's why not taking into account macro direction reduce consistency and increase risk…. Btw that was a valid trade if you were trading pivot points and using H/L waves for price analysis but not exactly the best trade in a consistent PBP.

In the next post I am going to use yesterday NQ example and IronFist trading trigger (as posted in his thread) to restart the discussion on this thread

jjvrat

05-03-08 02:28 PM

Ironfist NQ example

This is a good example on the implications of price analysis, indicators and perspective in a simple trading system. I will only focus on the factors that are relevant to this thread…

The original system

"The only indicator I'm using is a 60EMA. Go long when the price goes above it, go short when the price goes below it." IronFist

A PBP example based on this trigger

Timeframe

1. 500 Volume Bars. The original post was 1 min chart but for obvious reasons, volume charts will reduce a lot of whipsaws when trading a moving average as a trigger.

Direction Indicators (Macro direction):
1. 240 WMA: As a visual aid for macro direction. Price and slope above/ below
2. Daily Pivot Points: To visualize if the market is going to keep moving in one direction or its going to change and also for potential profit/stop targets

Price Analysis Indicators (Wave analysis and current direction):
1. PRICE: For wave analysis. Blue/Brown dots indicates if price made highs or lows in the last 5 bars

Indicators for triggers, exits and failures (Timing)

1. A 55 WMA: Go long when the slope goes up; go short when the slope goes down. I did that to further reduce unnecessary whipsaws. For the sake of the analysis bars are colored according to this condition.

Summary yesterday US MORNING

Blue arrows: 3 perfect entries all winners = Macro direction ok (red 240 WMA slope) and Wave analysis OK (HH/LL)

1st Trade: Max profit range 66 ticks / Drawdown to the max profit range 1 tick / max time in the market +/- 24 mins
2nd Trade: Max profit range 10 ticks / Drawdown to the max profit range 1 tick / time in the market +/- 2 mins 30 secs
3rd Trade: Max profit range 18 ticks / Drawdown to the max profit range 2 ticks / time in the market +/- 27 mins

Orange arrows = 9 valid potential trades but not according to the trigger. All of them had at least 4 ticks max profit range

Red arrows = Reversals but very advanced trades. Observe the first 2 highlighted circles both at pivot points and how the red bars after the reversal green bar failed to break the pivot and make lower lows and compare with the last highlighted circle (also at the pivot) in which this didn't happen (and therefore the downtrend continued).

I leave you with the chart and I'll post my comments on it later.

jjrvat

05-04-08 04:09 AM

This is one of the best, if not the best, post on trading I have seen(referring to above post).

The way jjrvat laid out the system is simple yet elegant. It contains all one needs and nothing more.

My hat off to you, jjrvat!!

TheRumpledOne

05-05-08 10:01 PM

Floyd Roberts

How do you determine what moving average to use along with the 240WMA? I trade the NQ and look at either the 110 Tick or 30 Tick chart. The 6 WMA seems to crowd the bars too much and is extremely sensitive (whipsaws) especially on the 30 Tick chart. Do you have any suggestions on what moving average to use to replace the 6WMA? I don't like the idea of large stops so I'm a little leary about using a 55 WMA. Thanks for your help.

Are you talking about indicators for triggers or wave analysis?

If you need a visual aid for wave analysis I would recommend any smooth average, hull is a nice option but not too short 21 to 25 HMA will do the trick.

If you are talking about triggers that is a different issue. If you have been following this thread you can find some examples of triggers from random lines to stochastics (and also Hull and WMA as triggers). So far I have discussed under "developing your own PBP" posts some essential ideas about price analysis, choosing the right timeframe and analyzing the benefit of using indicators in your trading plan.
I can't recommend you a specific trigger because you need to find it yourself according to your trading plan. However If you follow a rigid price analysis approach, have chosen the right timeframe and know the "cui bono" of your indicators (Direction and Price Analysis Indicators) finding a trigger will be a much easier task because you will have limited your trading field (for an example look my last chart).

Of course there are still other topics that haven't been covered yet especially time, risk, stops, money management and psychology but I will open these topics for discussion later.

As I always say the order of analysis is crucial for developing a consistent PBP.

In any case if you want to discuss some specific issues about your trading plan send me a PM to avoid misleading people who are reading and contributing to this thread, I am always happy to exchange trading ideas.

TheRumpledOne, Dr.N, greddy

Thank you very much for your kind words

Evolution

How do you calculate your Pivots? I calculated the PP for the NQ on May 2 as follows:

(H 1985.75 + L 1921.50 + C 1983.25) / 3 = PP 1963.50

In your chart it appears that you arrived at your PP of 1980.50 by using 1971.50 as the previous day's low, or are you using another calculation for Pivot Points?

Thanks for the great thread.

Great observation!!! Most people didn't even notice …

First, I usually use daily bars for pivots:
(PP) = (Yesterday's High + Yesterday's Low + Yesterday's Close) / 3
(R1) = (PivotPoint * 2) - Yesterday's Low
(R2) = PivotPoint + (Yesterday's High - Yesterday's Low)
(R3) = 2 * PivotPoint + (Yesterday's High - (2 * Yesterday's Low))
(R3) = 3 * PivotPoint + (Yesterday's High - (3 * Yesterday's Low))
(S1) = (PivotPoint * 2) - Yesterday's High
(S2) = PivotPoint - (Yesterday's High - Yesterday's Low)
(S3) = (2 * PivotPoint) - ((2 * Yesterday's High) - Yesterday's Low)
(S4) = (3 * PivotPoint) - ((3 * Yesterday's High) - Yesterday's Low)

For reference on other pivots check
...sierrachart.com/index.php?file=doc_TechnicalStudiesReference.html

Second, yes you are right the daily PP is 1963.50 not 1980. This is not a hidden trick or a new fancy indicator I am going to sell later. Just use a little of imagination and common sense (the less common of the senses) . Btw, you already have found the answer, yes 1971.50 was used as a previous day's low I will explain this later but I don't want to mislead people thinking that I found the Holy Grail for pivot points and I forgot about price….

Meanwhile I apologize for my “involuntary mistake” …

jjrvat,

mktman

Are you using previous day chart to determine support and resistance, like low of day, high of day, midpoint, close. open?
See answer above

IronFist

what timezone are you in? I can't get my chart to look like yours.

Europe GMT +1

jjrvat

05-08-08 09:51 PM

Ok here's my performance on the YM today.

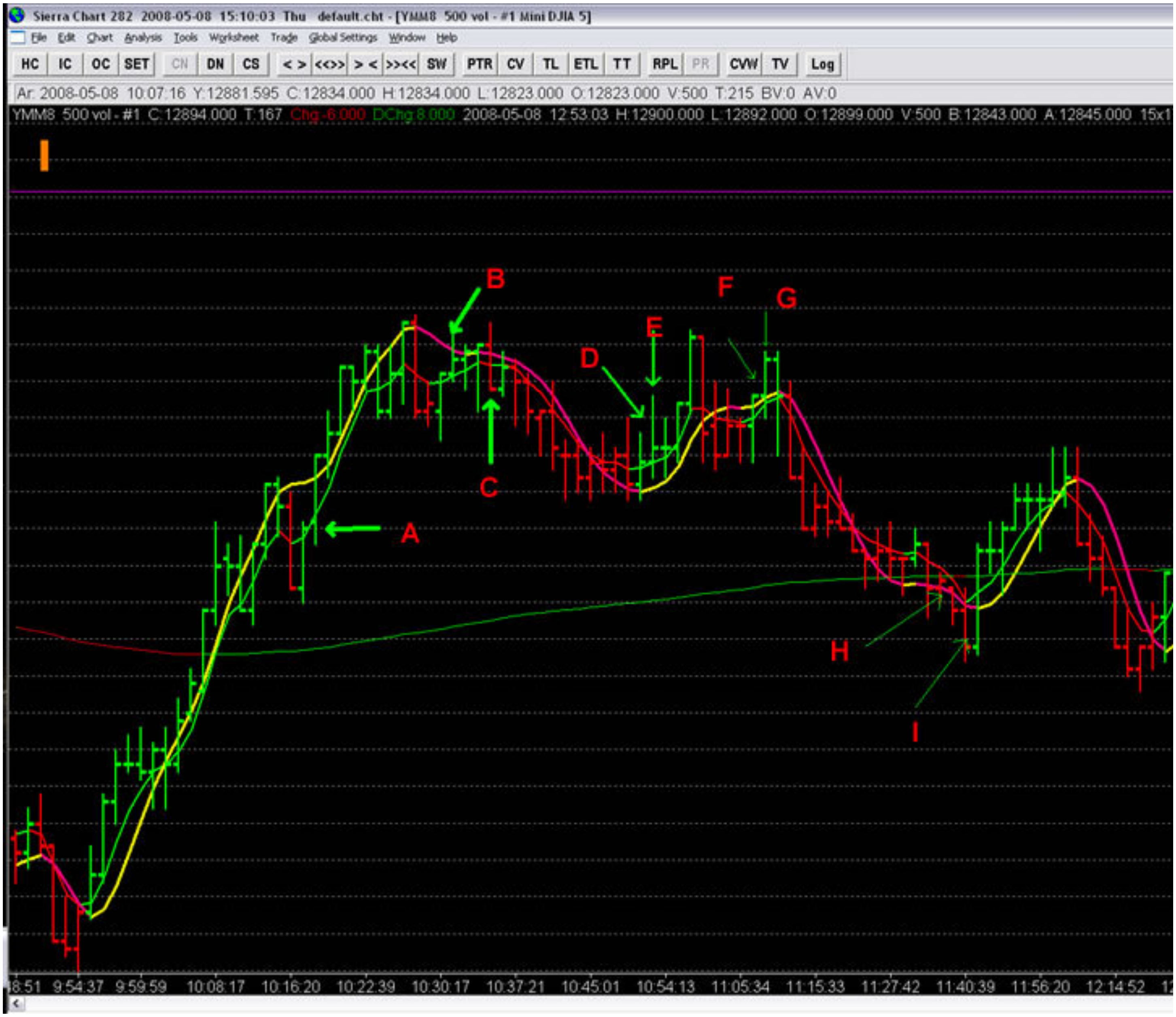
Chart:
YMM8
500 constant volume OHLC bars
Slow MA = 240WMA colored according to slope
Fast MA = 6WMA colored according to slope
(there's also a 17HMA colored according to slope, purple = down and yellow = up).

Trades placed according to the 6WMA. OHLC bars are also color coded according to the slope of the 6WMA. So green bar = 6WMA sloping up, and red bar = 6WMA sloping down.

Entry criteria = after a higher high and higher low, I enter on the completion of the first green candle (and therefore a sloping up 6WMA since that's how the candles are colored). And vice versa for shorts.

Exit criteria = A few ticks profit or stoploss set 1 tick under previous low (or 1 tick over previous high for short positions)

FIRST HALF OF DAY:



A
Slow MA sloping up, price above.
Fast MA sloped down for one candle and made a new, higher low, and then resume up. I entered at the start of the second green candle (first green candle was confirmation of uptrend)
Buy= 12845
I exited a few ticks later at 12849. I'm not used to scalping *at all* so I wasn't sure how long to wait.
+4 ticks

B
A new lower low was just made. I entered at the beginning of the first candle after the first green candle (got a little slippage tho).
Buy = 12869

C
Sell = 12862 (when the first red candle completed; short term trend no longer up)
- 7 ticks

D
Thinking that maybe I need to use a bigger scale, I entered here at 12858 after the 6WMA started to slope up again. I was considering the previous group of red candles to be the "higher low" following

the red candles at the beginning of my chart.
Buy = 12858

E
Exit after a few ticks profit, trying to scalp.
Sell = 12861
+3

F
The preceding red candles were a higher low, so I entered when Fast MA sloped back up.
Buy = 12865

G
Exit after a few ticks (luckily at the top!)
Sell = 12867
+ 2

H
Price is now below Slow MA. A lower high was formed by one candle right above the Slow MA. I entered at H as soon as the Fast MA turned down again.
Short = 12836

I
Trying to scalp a few ticks (lucky exit at the bottom)
Cover = 12829
+ 7

J
Price above slow MA, higher low formed, enter at J on after completion of first upward sloping Fast MA candle.
Buy = 12871

K
Scalping for a few ticks. Had no idea this was going to be a HUGE uptrend. Missed getting stopped out by 2 ticks.
Sell = 12876
+5

SECOND HALF OF DAY

L
Higher low, enter when new green candle is formed.
Buy = 12898

M
Stop hit at 1 tick under previous low.
Sell = 12886
-12

N
Lower high (previous green candle), enter short on completion of red candle.
Sell = 12831

O
Stop hit at 1 tick above previous high.
Cover = 12844
- 13

P
Looking at my chart I'm not sure why I entered here. In fact, I shouldn't have, because the previous

high was a higher high. Oops.
Sell = 12834

Q
Covering the position I'm not even sure why I entered.
Cover = 12828

+3 (but this shouldn't count cuz I shouldn't have entered this trade)

R
Lower high (one green candle before). Enter at completion of new red candle (downward fast MA)
Sell = 12811

S
Stopped out at 1 tick above previous high
Cover = 12828
-17

T
Thinking maybe that previous lower high (the one green candle) wasn't correct, I considered that the last time the price was above the 240WMA to be the last "hight" and then the run of green candles that just formed to be the "real" "lower high." This is obvious if you look at the chart. Sell short at completion of first red candle (downtrend resuming)
Sell = 18262

U
Stopped out 1 tick above prevoius high
Cover = 18245
- 19

Total for day = -44 ticks

Thoughts: Using 1 tick above the previous high resulted in catastrophic failure when my stops were hit on my short positions. Without a 90% win rate I will need to come up with a better stoploss plan.

05-08-08 11:22 PM

IronFist,

Your same chart 240 WMA and Hull 17 Today YM US morning

10 Trades, 9 winners more that 144 ticks potential range 6 tick max drawdown. 1 losser 8 ticks.

No further comments

jjrvat

05-09-08 03:30 PM

Hi JJvrat,
Thank again for a great post a few comments though hope you'll answer them:
1) The second trade (the loser) could have been easily avoided by entering only one tick below the low of the bar that changd the slope, this is how I trade to avoid whipsaws. But I do notice that this entry method might have turned the 5th trade into a loser. What do you find better? entering right on the close or waitnig for a new low?
2) Talking about the 5th trade, where exactly is your entry point? I guess it's not in the long red bar since you have to wait for it to close in order to know a new wave had started, so if you entered only after the long bar closed how do you know this trade was a winner? Because from what I see the trade had merley made a few tick (2-3) before going back up.
3) As someone else mentioned before the 8th and the 9th trade are not valid longs as price makes

LL, LH, moreover, I would have entered a short trade right after you made trade 8, which would have been a winner.
4) And one last question, what R/R ratio, from your exprience, one should aim in the PBP method? my current risk/reward is 2/1 (usually 18-21c stop for 11c profit) and I'm doing good since my success rates are pretty high (more then 80%) but I still feel this is a poor ratio and that in tougher days to trade I will get banged, my problem is I can't enter earlier since I'm already entering pretty early and entering more early will produce too many whipsaws, and I can't tighten the stops since I place them in a very logical postion (one tick above/below last high/low),
I'm thinking of scaling out but problem is that too many times the second half will go out B/E thus making the scaling out less profitable then the fixed targets in the overall trading...
Trading SPY BTW.

Thank you again.

Dear IronFist, I'll try to contribute my 2 cents:
1) As I tols you WMA's are simply not good just look what would have happned if you only used the 17HMA for entering, you would have had, 7 trades, 6 of them winners.
2) Even if you'll still enter by the 6WMA there are still at least 2 winning trades that for some reason you didn't take...
3) Another comment about waves. In my trading I want to see a retracement wave of at least 2-3 bars in order to enter, for example if the direction is long and I want to enter I'm waiting for at least s 2-3 bars down wave before I enter. This thing alone can help you avoid many whipsaws (although it might, sometimes, avoid winners also), just look in your first half of the day with the 17HMA, by doing what I've told you would have had 3 trades, all winners, each of them at least 12 ticks.
4) Your R/R ratio is simply poor (about 1:4 if i'm now mistaken), in this ratio even a 90% of success won't make you profitable. You might comsider either tightening your stops (not recommanded) or exiting when a new wave against you direction had started and not waiting for your stop to be hit. But what I'll recommand is findind a faster indicator that will use you for enteries (but not for waves analysis), this could be a faster HMA, a stoch, a candle formation etc. This might give you more losess, due to the early entry, but they will be much smaller and your winners will be much bigger.

Good luck!

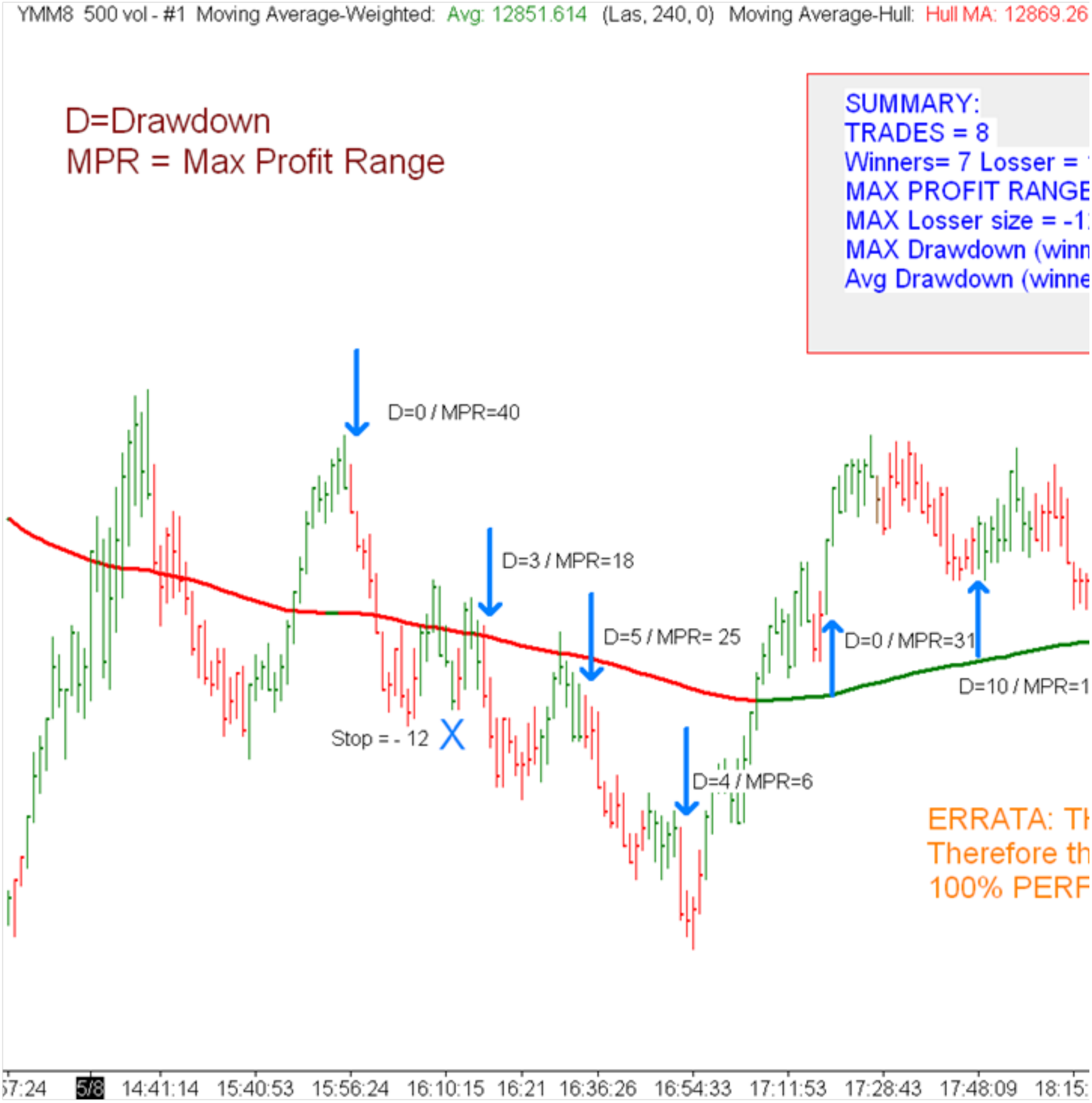
05-10-08 12:12 PM

ERRATA

Before I answer your questions I would like to post a correction in my last chart, **winners 7 and 8 ARE NOT PERFECT SETUPS !!!**

I didn't want to mislead anybody here and I am sorry for the mistake. It was 12:30 AM and I post this chart after reading Ironfist post which I perceived (or misperceived) as a post with sarcasm of somebody that was trying to imply that the info in this thread is ambiguous with the purpose of taking a commercial advantage in the future or something else … (Ironfist if this was not the case I apologize). In any case this is the correct chart.

jjrvat



05-10-08 12:41 PM

Floyd
Why did you enter a short at the first arrow on your chart when price was above the 240 WMA?
Thank you.

<u>Look at the slope</u> of the 240 WMA is red. This is the key.

triplepack

On your previous post arrows 7 + 8 appear to be going against price action as described. 7 appears to be triggering long of a lower low 8 also appears to be triggering long of a lower low . Price action for this swing shows a downtrend but you are taking longs. Is it that the 240wma in an uptrend is *overidng the price action and you are therefore taking longs ?*

Thank you for your comments

You are right. See the new chart . A WMA will never override price action in a 100% price analysis trade.

Amitman

The second trade (the loser) could have been easily avoided by entering only one tick below the low of the bar that changd the slope, this is how I trade to avoid whipsaws. But I do notice that this entry method might have turned the 5th trade into a loser. What do you find better? entering right on the close or waitnig for a new low?

You can use as trigger a break of the last low/high but **first** you will require a sharper mechanism for establishing high/lows which can be very difficult and it will require a lot of screen time. **Second**, in my opinion it will only work efficiently in trendy markets. **Third**, you will need an extra indicator or extra effort in the analysis to "establish" which wave will be big enough to enter a wave that late. **Fourth**, look at chart as whole, does it make any sense to correct this failure on the trigger (cost of doing business) when you have 7 winners with a 157 ticks max profit range with a very low drawdown for getting rid of 1 loser of only 12 ticks?

Talking about the 5th trade, where exactly is your entry point? I guess it's not in the long red bar since you have to wait for it to close in order to know a new wave had started, so if you entered only after the long bar closed how do you know this trade was a winner? Because from what I see the trade had merley made a few tick (2-3) before going back up.

Yes the entry is the red long bar (especially if you have pivots, was a perfect retracement to the pivot after it was broken a few bars ago). A winner for example What about a 10 contracts scalp 5 ticks first target half position and stop move to B/E if target is hit … This chart was 6 tick profit range … if you wait for the close to enter the trade you could have been filled at least 1 tick above the close of that long bar so …

As someone else mentioned before the 8th and the 9th trade are not valid longs as price makes LL, LH, moreover, I would have entered a short trade right after you made trade 8, which would have been a winner.

I corrected the mistake. Yes true was a potential short but not a 100% perfect setup ‛cause the 240 WMA slope was green.

I will address your last question in the next set of developing a PBP posts…

IronFist

I see some differences now. In your chart you are taking trades in the direction of the 240WMA regardless of if price is above or below it at the time.
At your 7th arrow, why did you go long here? It was preceded by a lower low. I thought a higher low was required to go long. Or does this rule change because of crossing the 240WMA or the 240WMA changing color?

See my last chart I corrected this mistake and yes slope of the long WMA is a better visual aid than price above / below but there are only divergences when you have a change of macro direction.

Looking at your chart I see a few entries with more than 6 ticks drawdown to the stoploss,

NO. Only 1 winner trade has a drawdown of -10 ticks. The average drawdown for winners was -3.71 ticks

However I'm more concerned right now with why my chart, which I've set with the same settings as you, is looking slightly different.
You have two red bars here (thus triggering an entry when they change back to green) and I don't.

I have a green bar in surrounded by red bars and you don't
I have a random red bar in here surrounded by greens and you don't.
Your green bars don't start until the 240WMA is crossed and mine start before.

The problem is your data feed. My charts are with my live data feed.

jjrvat

05-12-08 12:32 AM

Hi all,
I think JJvrat misunderstood my last question about entries what led me to post a bit wider post about entries.

I'll use his last chart to better demonstrate what I mean.

You can see I added lines with letters besides them. I'll explain Immdietly.
Let's say you know a new wave had started and your trigger to enter is a change of slope (17 HMA in this chart) when does it mean you enter? right on the change of slope? not necceserily.
In the last months I encounterd lot of traders that used different methods to enter. Through this chart I hope do demonstrate each type of entry and what are it's upsided and downsides. Each letter next to a line represents a type of entry:
Entry A : On the close of the bar where the slope changed
Entry B : One tick below the low of the bar where the slope changed.
Entry C : One tick below last low.
Look on the chart to see what I mean. and now for the explantion.
Entry A : This is, if I understand correctly, the type of entry JJvrat uses (at least in his examples) and a lot of other traders I saw.
Why use it:
you know a new wave had started so just jump in.
The entry it with limit order (at least on a more slower charts) what assures you'll get a good fill

with a good price thus making your R/R better.
Why not use it:
sometimes a new wave seems to be starting but then immdietly retraces, like what we have in trade two (the X mark) so just jumping in isn't always so wise.
Also, since you enter above last low, the price might just stop on the next support level and you won't make it to your profit target.
Entry B : This is what i usually use and some others traders I know.
Why use it:
Entering only one tick below the bar that changed the slope is a sort of "double confirmation" that assures us that not only a new wave had started but it is going to continue (although, of course, we never know for how long), this, in my experience can avoid many whipsaws (again, like the one we have in trade 2).
Why not use it:
Entering in that points might be too late (like trade 5) as somtimes the close is a bit far from the low of the bar and this few ticks might be crucial.
The entry is usually with a stop-limit order what might give you some slippage or in worst cases you order won't be filled at all.
We also have the same problem of entry A of the price stopping in the next support level.

As for me, a problem like trade 5 I solve by just not entering a trade when the bar that changed the slope is very big because after a fast sudden big move a retracement must come and I don't want to be inside a trade when this happenes, so I usually wait for a little retracement before I enter or I just not enter at all. To the problem with the stop limit, well I have no solution for this yet but I guess that's the price you pay for avoiding whipsaws.

Entry C : The entry JJvrat thought I was asking him about, which as I explaind I didn't (I've asked him about entry B). Also I've seen a lot of traders using this kind of entry also called "break-out play".
Why use it:
Entering only on the break of the last low assures us we have a continuation of the trend (since we are making new lows) also we broke the last support so price is supposedly free to continue in our direction.
Why not use it: waiting for the break of the last low might be a really late entry (see trade 4) thus making a bad R/R ratio for the trade.
Also we have the problem again of entering with a stop-limit order.

Well that's it. As for me I don't recommand entry C at all, espcially in the PBP method. the only traders who should use this are swing traders that aim for at least a 2:1 reward/risk ratio.
In my experience entry B is recommanded in order to avoid many whipsaws but if you're scalping a very fast charts this sort of entry won't be practical.
Anyways I've represented the types of entries now it's your choice how to enter.

Any comment are welcomed

05-15-08 10:17 PM
From TRO;

Trading Psychology - Double Your Discipline in Three Simple Steps

Thursday, May 15th, 2008

Peruse any book on trading and you'll find that discipline is an absolutely critical factor in profitable trading. This particular aspect of trading is also one of the biggest challenges for most traders, even sometimes for those that have been trading the markets for years.

What you'll find here are three simple steps to double your discipline in very short order. Don't dismiss this method. Even though it won't solve every discipline problem you may run into, it will take you in the right direction and you really can double your discipline very quickly.

Step 1: Be aware while you're in the moment. During the moment when you find yourself tempted to deviate from your trading plan, pose yourself this simple question: "Am I thinking about doing this out of emotion here or would this be in alignment with my better judgment?" Being aware of how you're feeling - at the time - is what is critical, and then asking yourself the question. Often, the mistake happens because we simply are getting caught up in our emotions and the simple act of staying alert to the emotional surge will help to keep things in perspective. Awareness is only the first step though.

Step 2: Understand where the real problem is coming from. Usually the urge to deviate from your better judgment is coming from a fear. Here are a couple examples.

* Getting into or staying in a trade when you know that you shouldn't often comes from the fear of missing out on an chance to profit. What is often erroneously attributed to greed is often a scarcity mindset coming into play. The fear of saying "No" demonstrates the fear that there "isn't another bus coming soon". When you don't have the firm belief that there are numerous profitable opportunties to be capitalized on and that you have the know-how to take advantage of them, then the fear arises in the moment.

* Failing to pull the trigger is usually the fear of making a mistake more so than the fear of loss. Superficially it feels like the fear of loss, but the risk on any given trade is easily forseeable. This one is an issue of self-doubt due to past mistakes.

When reading the examples above, you may have noticed a common underlying factor. There is a way to counter fear, and the 3rd step is to address this specifically.

Step three: the most effective way to counter fear is through growing your confidence. Your daily life is full of risk and yet you can function will amidst this risk without any fear all. Why? Because you have the confidence to deal with it effectively. When you drive your car, go out in public, walk down a flight of stairs, you have no fear. You have developed the skills to do these things and do them well and without getting hurt. The potential for harm is there, but you have the confidence to handle these situations.

Trading is a relatively simple activity compared with other professions, particularly with the tools available in today's world. It is certainly within your abilities, and as you educate yourself on and build your skills, you'll find that your fears subside as your confidence grows. The challenge then becomes how to properly go about building your confidence - real confidence, not just courage.

True confidence comes from awareness, education, competence, practice, measurement of results and feedback for continuous improvement. Trading involves a significant body of knowledge and a respectable skill set to be developed to trade confidently. Unfortunately, many traders are not given the information when they start out to even know what they need to work on to become that successful trader that they envisioned at the start of their trading career.

Failing to stick to your system is but one of the many mistakes traders make that create losses and anguish. By knowing the root of the mistakes and having specific actions to take to avoid them, you are empowered to be a more consistent and profitable trader. There are numerous trading mistakes listed in the book, "The Subtle Trap of Trading" along with particular actions you can take to keep from making them. When you see where mistakes originate, you will find that your trading is both more profitable and lower in stress.

Discover the confidence-building and psychology of trading resources for traders at
http://insideouttrading.com

05-17-08 12:20 PM

amitman,
Nice posts on entry types. All of them are valid and as I always say (Order of Analysis) and as u pointed out it will depend on the instrument and timeframe you are using. The decision to choose a particular trigger is dependent on the other factors of your PBP not the other way around.

IronFist,

I'm confused how you arrived at your drawdown values for each trade. Can you please explain that?
The entries on that chart were the close of a green/red bar according to valid price analysis. So the drawdown is the # of ticks price moved above/below that bar before hitting the max profit range.

If you can stomach that initial drop of 19 ticks ($95 per YM contract) (meanwhile the fastMA is staying positive) you will eventually be rewarded with a profit.In this situation is it better to just let yourself be stopped out and then reenter when the price comes back up to the level of the open of the second green candle?
In my opinion, your problem is not in the trigger but in other factors on your PBP (timeframe, instrument, time, etc). It seems that you are <u>subordinating your trading plan to a particular trigger</u> which in my experience is a recipe for disaster.

TheRumpledOne,
Thanks for sharing that article on Trading Psychology,

Floyd Roberts,
Busy… but I will post the next set of developing a PBP posts within the following few days…

jjrvat

05-17-08 03:06 PM

Developing a price based trading plan (PBP) #5

<u>TIME – The Forgotten</u>

From the 1st developing a PBP post: (http://www.elitetrader.com/vb/showt...lan#post1849757)

"*There are many variables in a consistent and sustainable price based trading plan (PBP): the most important are timeframe, time, risk, instrument and capital. All of them have their unique implications, yet they all are mutually interdependent. The success or the failure of a trading plan is given by how consistent these unique implications and their interrelations are in your own trading plan. Finding the equilibrium between these macro interrelations is the key for a successful PBP. However, these interrelations must never interfere or blur basic price analysis; on the contrary they are adaptive variables that have to be used to facilitate trading….*"[/u][/color]

Time is one of the most important macro variables in a PBP and still is usually forgotten in the analysis. Time is less important in very long timeframes but if you are day trading or "scalping" **I will dare to say that choosing the right time to trade is as important as price analysis itself.**Why time is so important? Because it may affect almost all of your PBP variables (risk, instrument, capital, etc) and also your triggers, stops, profit targets, etc, etc.

What is the difference for your PBP of trading the Swiss Franc during TOKIO lunch time or at peak European morning times minutes after Swiss Consumer Climate news or during the last 2 hours of US trading?
Why your drawdowns are very small with the ES during the European hours or the FesX, Fdax after European peak hours in comparison with "normal" times?
Are the GGC, QM or FGBL trading ranges the same during different trading hours? … stops, time exits, profit targets, etc? What about stocks in European or US markets?

As any other variable in a PBP, a<u> small trader should find his/her own trading time</u>. Aiming for 5 ticks a day scalping the YM with a very fast timeframe when you have 4 major news coming and a possible change of interest rate that the whole world is watching it's not going to give you any edge. There is exactly where psychology interrelates with the time variable. Greed and lack of discipline usually tempt small traders to go for a fast instrument in a fast timeframe in a very wild and fast time for trading.

I'll continue in my next post

jjrvat

05-18-08 01:58 PM

TIME – The Forgotten #2

I am going to use TheRumpledOne GBPJPY example to show the implications of Time in a PBP. Keep in mind that I am only focusing on time and not necessarily on the particular or potential trades.

Instrument = GBPJPY
Timeframe = 144 ticks
Direction Indicators (Macro direction) = NONE (just for the sake of the example)
Price Analysis Indicators (Wave analysis and current direction) = Price with the visual aid of a 25 HMA (colored bars according to slope)
Indicators for triggers, exits and failures (Timing):
Triggers = If candle is green and price is moving up to the 00/50 line, go long on close or the opposite
Profit Target = 5 ticks
Hard Stops = Bar changing color if PT hasn't been hit.

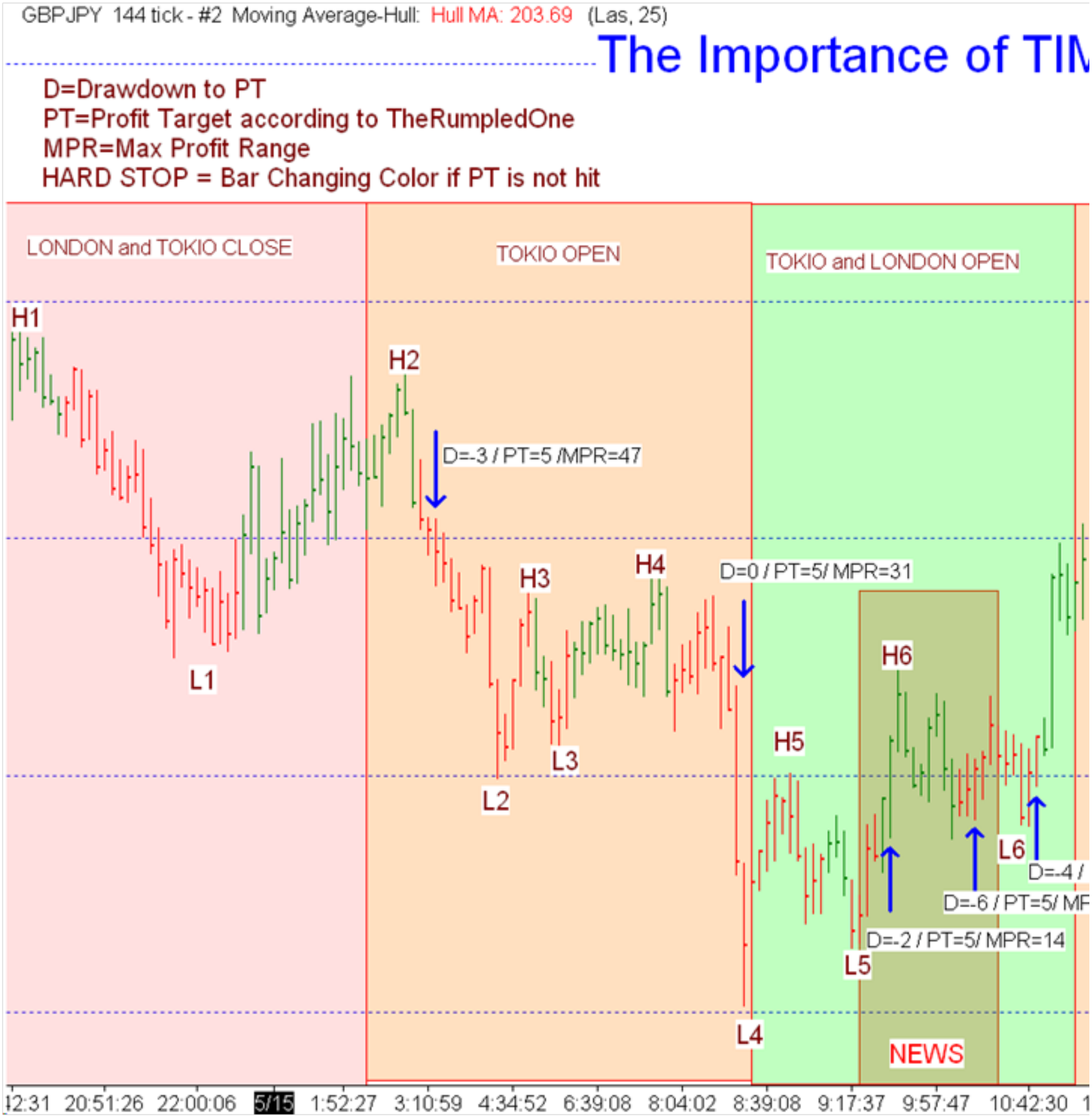
I leave you with the chart for your analysis (whipsaws? Risk? Targets? Time in the market? Stops?). There aren't many valid trades because of the particular trigger (which is not a problem but a plus) and all the trades marked on the chart are winners (5 ticks) (some with very poor risk/reward ratio) however the important issue here is looking at the impact of time on your PBP. When is the best time to apply this PBP?

jjrvat

PS: Floyd, I think your question has been answered. In any case and I am sorry to disappoint you,, I don't use indicators for triggers

amitman, I have been compiling in a pdf the important posts in this thread with a few extras. I will make it available as soon as I finish the last sets on developing a PBP posts

*** The MPR of the 5th TRADE is > 42 ticks



05-18-08 10:04 PM

forexfox

First thanks for your kind words.

Short term scenario this trading method is more suitable for - 1to5 min charts or fast intraday tick/volume charts. The overnight data in certain continuously traded instruments should be avoided. For example, futures like ES, ER and NQ are very thin and mostly untradable during the night.

I don't completely agree with you on this one:

It’s true that in certain instruments overnight data should be avoided and they are untradeable given the low liquidity (ER for example), but have you traded the “sedated” ES during European hours?. Just try a 35 ticks chart (with a lot of patience) and let me know if you can steal your 10 ticks a day in a couple of trades. Of course don’t expect massive waves in seconds … which in my opinion is even better.

IMHO in cases of these futures one should not use the night data and only use RTH data for charting. The same goes for calclulating pivot points - overnight data should be avoided even if it made daily HH or LL during those hours.

Depends. By default I use full data. From a strictly economic point of view the Highs, Lows or any other price during those hours are valid and in a 24/7 globalized financial markets for example IBM stocks are traded in Frankfurt Stock Exchange, London Stock Exchange, Brussels Stock Exchange Euronext Amsterdam, Swiss Exchange among others during this time reflecting a real price set by the market than definitively will be taken into consideration (Dow) later when the US market opens.

From your comment, the only explanation I may find to avoid overnight data is because you think your indicators (Moving Averages, Pivots) are been distorted by this data?. This may be true if you are trying to tweak pivot points as visual aids but is not necessarily true for effectively trading these instruments. Can you expand (better with an example) on this ‘cause I don’t quite understand what you want to discuss?

On a days when most important US reports come out 1 hour before RTH and market could run very far in the direction opposite to main trend, one should exersize patience and do not start scalping as soon as RTH begins and wait for trend to stabilize for HH/HL or LH/LL. In my opinion this scalping method shouldn't be used during highly volatile times times of reports or highly illiquid time of overnight trading in ES, NQ, Er and similar futures. For forex interbank it is the opposite as it is traded continuously around the clock with high liquidity.

That’s excellent for discipline and consistency (not necessarily good for all traders). Yes during illiquid times any instrument is bad for daytrading, however one should recognize the difference between calm water and empty water … I prefer to fish in calm waters.

How about currency futures on CME? I never traded them but heard the volume is very low during the night but it is still tradable. Would you include or not overnight data?

If you are trading the 6Jxx YOU CANT wipe TOKYO from the equation!!!!

2. You trade very fast charts for example, and your 240WMA is going down and you are taking scalps in short direction below it BUT markets have made HH/HL for the past three days BUT these three days is a correction and the market has come down in the past 2 weeks, and so on... I came to the conclusion that you have to ignore the trend direction on higher time frames as it will only confuse you, in other words, your 240WMA is the last "authority" on trend direction.

Conflicting timeframes and paralysis in the analysis are common shortcomings when using multiple timeframes. However, multiple timeframes are not necessarily bad if used properly and making an indicator (240 WMA) untouchable is a big mistake in my opinion (remember that the long WMA is a VISUAL AID only).

I briefly mention the use of DOUBLE WAVES you can check somewhere in the thread (TheRumpledOne has been posting multiple timeframes in his charts too). I will expand on this later because I think for now it can only distort the discussion on developing a consistent PBP. In general it is just another option for visualizing macro direction.

When you introduced the method, you said that one can only take the trades in the direction of 240wma when the price is above it for long and below it for short, then later on page 72 you had few examples where you pointed to valid trades where the price was on the wrong side of the 240wma, you went short when price was above falling 240wma and long when price was below rising 240wma and you replied to floyd: "Look at the slope of the 240 WMA is red. This is the key." Could you please clarify this point as it is very confusing and contradictory.

The important issue is not the side but the slope. There will be divergences only when macro direction is about to change.
Check my post. Pay particular attention to the 2nd chart where the long WMA is not aligned and that's why it is only a small target scalp. http://www.elitetrader.com/vb/showt...=6&pagenumber=5

If you are **new with wave analysis and want to develop consistency and discipline in your PBP you should only stick to 100% perfect setups (you won't regret**…btw, 85% of my trades are perfect setups), meaning the long WMA slope (macro direction) has to be aligned with wave analysis. Forget about the rest until you master this.

4. jjrvat, could you please explain more clearly how do you EXACTLY enter? You have mentioned that there are multiple ways to do it but you never elaborated on how YOU DO IT IN DETAIL. You are the one that have tested this method most thorougly and I believe by trail and error you have the best entry/exit technique. This would help people who would try your method enourmously. TheRumpledOne said it is by you "buying a tick above/below the first green/red cande after 6WMA changes color in your price analysis direction". Is that correct? On your later charts I don't see 6WMA, you changed it to colored bars.

For obvious reasons I am not going to post my PBP and I will recommend you to do the same if you have one. Look if you have been following this thread I think you will have enough information to develop your own triggers.

The purpose of the ORDER of ANALYSIS when developing a PBP is to point out the importance of delimiting your trading field so any trader can find his/her own trading system that is unique and only valid for his/her particular circumstances.

5. jjrvat, I understand that trading is the ever developing and testing new things process. In this case it would apply to tweaking the small things and adapting the speed of WMA's to different instruments. But your "core price analysis" must stay the same as they say: don't fix what ain't broken. How long have you traded this method profitably with your "core price analysis" intact?.

I don't like talking about this in forums and I won't lie or show off about my PBP. I can only tell you that it was a long way until I got some results even after I "understood" by heart the core principles of my trading plan. In any case some of the concepts I am sharing in this thread come from the very first day I started trading, some others were there and I didn't rationally notice until I sat down and learn from my mistake but the only important issue is that **PRICE ANALYSIS is unmovable**.

jjrvat

05-21-08 12:20 PM

womblevader
Thanks for all the posters ... This thread has really helped me out with setting stops ...

Thanks for your comments. You are the first person in this thread to acknowledge the key relation between price analysis (a consistent PBP) and better stops. Most of the time, stops are analyzed as a predefined rule that are only dependant on money management. However in my opinion, ***stops are not only dependent on MM, they are integral multifaceted variables that go beyond pure capital risk.*** A stop has to come "natural" (it doesn't mean a subjective variable) and it will reflect the validity, efficiency, consistency and sustainability of a PBP.

I don't want to go in details now but I will continue when I write the next post on developing a PBP.

05-25-08 02:08 PM

Developing a price based trading plan (PBP) #6

PUTTING EVERYTHING TOGEHETER: "MAPPING A TRADE", STOPS AND COMMON SENSE

It has been some time since I started this thread and I think is time to put all the concepts together in a real PBP example. I will start this post following the same structure I used in my first posts but this time including and detailing all the concepts that have been discussed so far. Thus I will start with the very basic concepts and I will conclude with more specific issues such as stops. For people following this thread since the beginning I would appreciate if you can reread the first 2 pages and "compare" with the following posts so I can correct/explain any missing comments or unclear arguments.

"Trading is just a probability game based on pattern recognition" (taken from italianfx email)

If every potential trade is a probability game, the job for a trader/scalper is not forecast the future but to minimize risk using every available tool to find the best available scenario.

This was my first comment and it's (was) the essence of all my other arguments. In order to try to bring back these abstract concepts down to earth I followed a "pseudo" rational approach in which I built upon general macro notions to construct (or try to) a consistent and sustainable PBP. Following this approach I used implicitly or explicitly two general principles in almost all of my post:

1. The importance of order in the analysis: in multiplication (somebody complained about using the word mathematics…) the order of the factors doesn't changes the result (5 x 8 = 40 and 8 x 5 = 40). However, when trading the order of analysis change everything. I have tried to show how if a trader first focus in how to pull the trigger or stops or current direction, etc he/she can have some results especially in trendy markets, but will be doom in the long run if he/she doesn't follow a coherent order of analysis.

2. Delimiting your Trading Field: It's amazing how many struggling small daytraders in forums doesn't realize how unrealistic and damaging is trying to trade every single move in the market. It took me years even after I recognize this problem to accept and implement this simple concept in my PBP. *Like in trading, simple doesn't mean easy*….

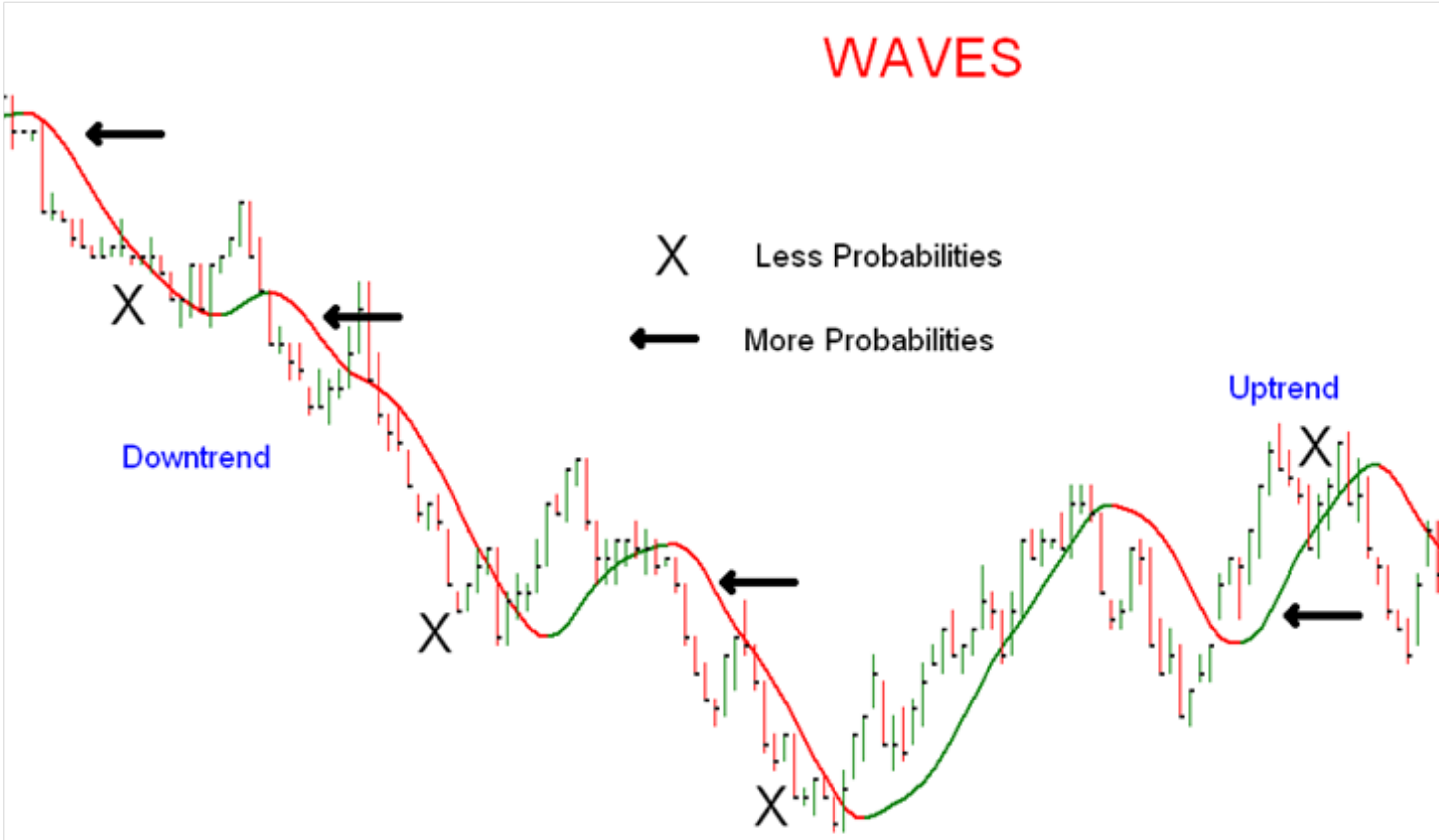
For example, these are also the reasons I havent posted anything specific on stops or triggers because if you follow a coherent order of analysis and delimit your trading field you will dramatically improve your entries and exits without changing the specific trigger/stops but only adapting the playing field and circumstances of your PBP.

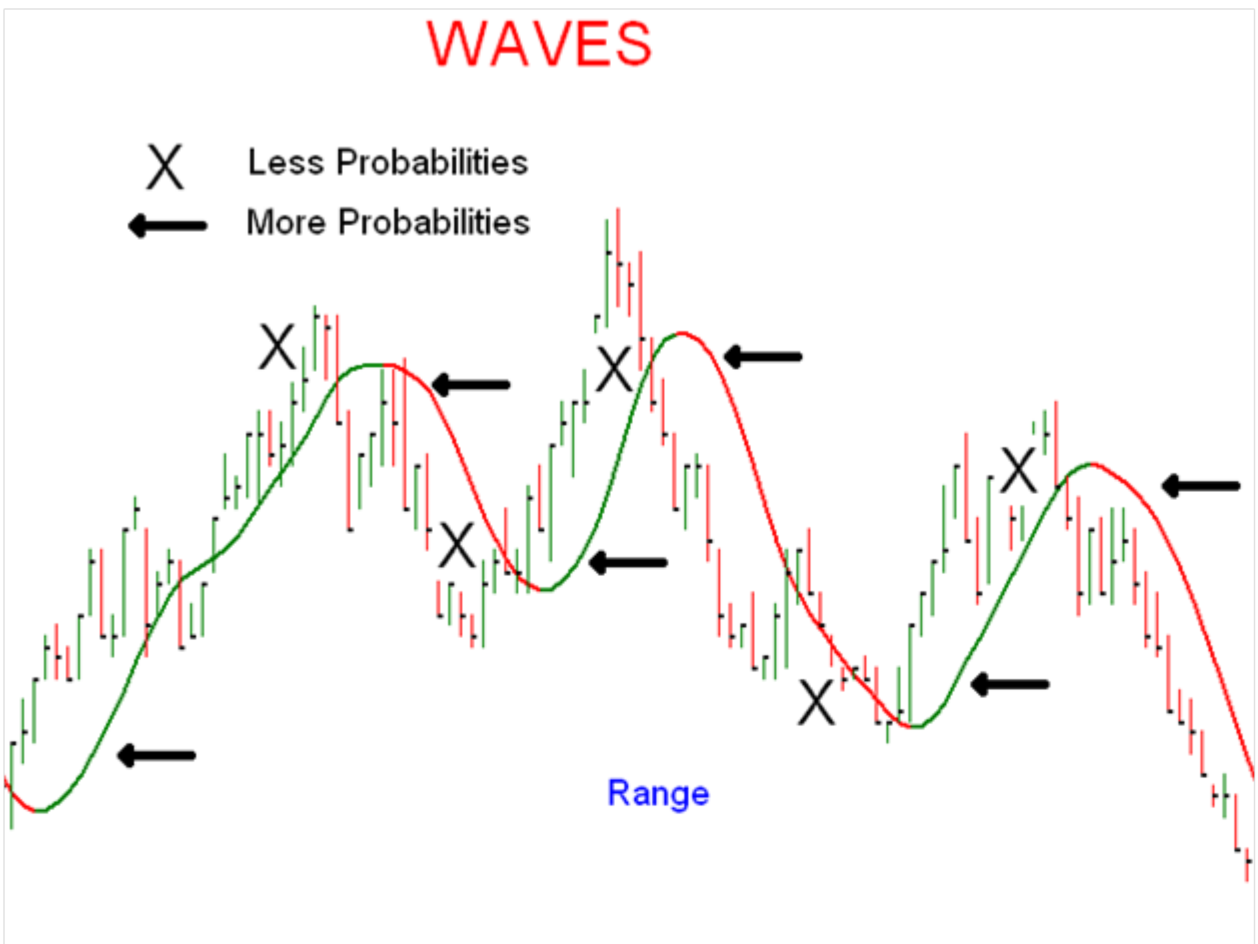
If the abovementioned concepts are (were) the soul of my comments, price analysis (WAVES) is the heart of a PBP (This is again my exact first post):

3. Price moves in Waves: Regardless of the instrument and timeframe and despite of the market direction or its condition (in a trend or in a range) markets always move in waves. That's why the Elliott Wave Theory and its followers. But we "scalpers" are not interested in counting waves or forecasting the next possible move but in minimizing the probabilities of a bad trade.

1. What we don't know about waves:
a. The exact beginning or end of a wave
b. The potential height of the next wave

2. What we do know:
a.Where we have less probabilities for a successful trade regardless of the direction or condition of the market





Therefore, the first issue to delimit your trading field is to understand in which part of a wave is the market. Not using a statistical method but using common sense and recognizing waves. The only rule of thumb is **the later you enter a new wave the fewer probabilities you will have to be**

successful.

As you can see in the miNY Crude Oil QM future charts above and regardless of HH/LL analysis just understanding and implementing this very basic and simple concept will allow us to reduce a lot the size of our trading field (Dont pay attention to triggers!!!). This step is indispensable before choosing the timeframe and time for this QM PBP. I'll continue with this in the next post

jjrvat

05-25-08 07:58 PM

PUTTING EVERYTHING TOGEHETER: "MAPPING A TRADE", STOPS AND COMMON SENSE #2

The first variable in the QM PBP) is timeframe. Remember that among other things the timeframe will:

a. define the time between waves meaning how much time you have to make a trading decision.
b. longer timeframes are smoother because fundamentals will clearly reflect on the chart.
c. the longer the timeframe the shortest the time and screen time required to trade
d. shorter timeframes will require more "technology": auto or semi auto trading, perfect feeds, a good broker, etc
e. longer timeframes will obviously lead to larger profit targets, however not necessarily viable for a small trader who is wishing to make a living
f. define the relations between risk, capital and timeframe. Longer timeframes requires more capital to make them worth which lead to an increase in risk.
g. define perspective in your chart
h. influence triggers, profit targets, stops and exits, and the amount of time and capital required to trade.

So before I choose a timeframe, I am posting these 3 charts to show a good range of options (Daily chart, 610 Constant Volume and 18 ticks) for the QM PBP and to expose the importance and implications of selecting a good timeframe. (The only extra in the chart is a HULL to visualize waves…).

I'll continue later

jjrvat

QM# Daily - #4 Moving Average-Hull: Hull MA: 130.98 (Las, 21)
H3 ???
H2
H1
L3
L2
H0
L1
L0

QMN8 610 vol - #3 Moving Averages: (Las, 240, 9, 15, 0, Wght) Moving Average-Hull: Hull MA: 132.77 (Las, 21)
H0
H1
H2
H3
H4 ???
L0
L0
L0

05-26-08 09:45 PM

PUTTING EVERYTHING TOGEHETER: "MAPPING A TRADE", STOPS AND COMMON SENSE #3

If a trader has done a proper analysis he/she would have "discovered" how "easy" and "efficient" is to trade longer timeframes and why investors and big pro traders make fun of small traders and all their "sophisticate" indicators and technicalities (see daily chart). Also, a small trader would have realized how tempting is to trade very fast timeframes …"*if I only write a piece of code to create an auto trading system, etc, etc, etc*" (see 18 tick chart). Maybe the most surprising finding will be discover that with only price analysis and the appropriate timeframe (see 610 vol chart) you don't need a crystal ball to "call" the macro direction of OIL in a trading session (of course not the exact trades but who cares "*everybody think that you have a natural gift*") and how attractive is to forget about trading an open a service/web page/blog/thread etc and start selling your holy grail market "signals" to newbie's and struggling traders.

In any case after an extensive research and testing you realistically decide that a 55 ticks QM chart is the best option for the QM PBP: ***** this is just an example!!!**

1. Waves are smooth and their frequency is good enough to achieve your first goal of 10 to 15 ticks a day until you master price analysis
2. The chart is slow enough to think and place a trade and fast enough for a couple of trades during your trading hours (volatility).
3. Your broker offer decent commission on energy futures and the DOM bracket order will be more than enough to execute the trades and get filled on time (technology and liquidity)
4. Your research on the 55 the timeframe tell you that the max drawdown to the potential profits, stops, time in the market, etc, etc respect and are consistent with your capital and risk aversion/tolerance (among others)
5. It appears very clear that a simple HMA gives you a lot of perspective to analyze waves and even it seems to be efficient for triggers and stops

*** BTW, I do agree with NOTToday only testing and experience will give you the "right" timeframe for your PBP. TIP: Use "typical" ideas in creative ways … Try Fibonacci numbers …this is not really original but in general most of the time the solution only requires common sense and a little of imagination.

At this point the QM trading idea is moving from a rough draft to a more substantial PBP Why? Because it has been consistent with the fundamental principles: The importance of order in the analysis and delimiting your Trading Field. So what?

1. **Defining your timeframe has also allowed to define the potential TIME of the day to trade** (depending on what you want for your PBP it can be where the waves are smoother or volatility is higher/lower/ or whipsaws are minimum or profits are bigger, or simply when you have time to trade) . In this particular case I will choose the "atypical" US LUNCH time for the PBP. Why? Why not…. During this time the research on timeframe has tell you that waves are smaller, small chances for a change of macro direction, no news (except for unexpected externalities) and the big money is having lunch but there is enough liquidity and volatility to grab the initial goal of +/- 10 to 15 ticks (this is not fix just a general objective) a day with 1 or 2 contracts.

2. From thousands of potential trades in a day, choosing a 55 tick chart will limit the trading field to only hundred trades but trading only during +/- 2 hours US LUNCH time will further reduce the potential to only a dozen at most. But not only that, if a trader is consistent with price analysis (HH/LL) the trading field will be limited to only few.

3. Reducing the number of potential trades is not important per se but the implications for risk, triggers, stops and negative psychological issues have significantly been reduced which obviously increase discipline and it will be reflected in a more consistent and efficient trading plan.

4. Without further analysis and with a simple HMA for wave analysis and as trigger, the PBP is tested in a demo account. Thursday May 22, 2008 US LUNCH TIME:

Summary: (All trades: Contract = 1 / Profit Target = 8 ticks / Stop Loss = HMA changing slope)
# Trades = 4
Win = 3 (Blue arrows and 1st red arrow) = 24 ticks
Loss = 1 (3rd red arrow) = - 6 ticks

Although it seems like a very good day (18 ticks) there are some details that are not fully convincing in the PBP. The first trade (1st red arrow) is a clear HH/HL but it didn't follow the way you will expect in such a clear scenario why? and the 3rd trade was it a failure? was there any option to avoid this trade?

This QM PBP may need some extra visual aids especially for macro direction…

I'll continue later

jjrvat

05-27-08 10:06 PM

<u>PUTTING EVERYTHING TOGEHETER: "MAPPING A TRADE", STOPS AND COMMON SENSE #4</u>

Triplepack, exactly!!!

iluv2trade, I do agree with you (especially the observation on the pivot). Moreover, your comment on the 3rd trade is a perfect example on how an indicator (although very smooth) imperceptibly can distort price analysis.

<u>Mapping a Trade</u>

Even if you don't a trade OIL, you know that it is going up so simple logic tell us that we should follow the obvious direction and try to look for longs (or the very bad option of trying to outsmart the market and "call" the top). However, and as you know, a 55 tick QM PBP is not necessarily aligned with this monthly/weekly and daily uptrend so this bullish sentiment is of little interest in your 2 hours US lunch time trading. The only important variable for a PBP is establishing the current time direction that is only valid for you and your timeframe.

"The importance of establishing the current time direction is not because you are going to trade its signals but because you want to know in which side you will have the best probabilities for a good trade"

There are 2 basic but very powerful visual aids that can be introduced in this PBP as Direction Indicators (Macro direction): *****because they are only visual aids, it's not important the technicalities behind the indicators**

1. The simplest and clearest is a long moving average (i.e. 240 WMA). If price and slope is going down you will have more probabilities for shorts and the opposite for longs. When divergences (sometimes price chopping around the WMA) the current time direction is about to change.

2. The second is pivot points. If price is below the daily PP you will have more probabilities for shorts and the opposite for longs especially if the next pivot hasn't been touched.

The importance of introducing these visual aids is because they allow to "MAP" the potential zones where your PBP will have better probabilities… *"the job for a trader/scalper is not forecast the future but to minimize risk using every available tool to find the best available scenario."*

Observe how helpful they are:

1. The first trade (1st red arrow) although a winner it wasn't a perfect setup because "macro" direction was pointing at shorts

2. The second trade (1st blue arrow) was obviously a perfect setup. Also, observe the "zone" where the trade is trigger, is the next pivot S.5 a good place to take profits? Of course… that's an extra aid of pivots (Remember that this PBP is not about trading pivots they are just a good visual aid)

3. The third trade (2nd Red arrow) it's not only important because it was the only loss but because this trade didn't respect a theoretical perfect setup. 3 important observations:

a. The long WMA gives you additional information. The greater the distance between price and the WMA the less probabilities that the next wave is going to move deeper. Does this mean that you are not going to trade a clear signal? NO! or you should try to trade a potential reversal? NO WAY!, it just means that you will have **more risk** in your trades. BTW, that's why I hate sharp trends when daytrading

b. Look how the pivot S.5 provided support, especially the bar before the second red box that couldn't break the pivot

c. **But the most important issue in this trade is PRICE**. One of the shortcomings of using indicators (in this case the bars colored according to the HMA) is that they can obscure price action at a micro level. If you pay attention to detail, you will notice that the entry, although valid according to the trigger, it didn't reflect exactly what was going on. WHY? The previous green bar closed below the pivot and in a fraction of a second later the market rejected that break and closed again (our entry) above the pivot given two clear warnings to NOT take that trade. First, the bar close of the trigger was above the previous close (Thats a very bad signal in a short) and 2 consecutive rejection of a pivot that hasnt been broken (as iluv2trade pointed out) .

4. Finally the 4th trade (2nd blue arrow) can raise some comments but it's up to you to take it or not. For me a 240 WMA is just a visual aid. In any case, compare this trade with the first one. It took 1 extra bar after the trigger for the 240 WMA slope to change (validating the theoretical perfect entry) however it was possible to take that trade in the blue arrow because it broke the 240 WMA, the last high and the pivot point all at the same time.

Now the PBP is in a much better shape without even analyzing, tweaking and suffering about trigger or stops. Why adjusting triggers if all the winners have a healthy range over the PBP profit targets and there weren't any failed trades because of bad triggers? Or why tweaking stops if the only bad trade has a "very good" – 6 ticks loss and it was triggered way before the natural stop (last swing high or low) and it can be avoided with experience?. … Of course this is only a 1 day of trading so again it needs, testing more testing and even more live testing before even considering tweaking the triggers or stops

jjrvat

06-01-08 03:27 PM

Ironfist,

I am not going to micro details in your post because I think 90% of the problems you mentioned in your posts are related to the macro picture. IMHO, **either you are diminishing the importance of the basic premises (minimizing risk, order or analysis, delimiting your Trading Field and price analysis) or you are overseeing these factors in favor of the technicalities of your PBP (indicators, triggers, stops, drawdowns, etc). In any case, some very concise**

comments:

1. On Thursday 29th May you post "*I've been more profitable over the past 2 weeks of paper trading than ever before*" so I am going to assume that your last posts referred only to the "problems" of your PBP and not how to squeeze more profits from your good trades ("greed")

2. Timeframe: It appears to me that you don't fully comprehend the dimension of the 500 VOL YM chart. You complained that there are some trades that don't respect HH/LL and they move a lot and there are other "perfect setups" that miserably fail without even 1 tick in your favor. What is the average true range of the waves in a 500 VOL YM chart? What about in a "perfect setup" WAVE? In what % of these ranges are your targets? Stops?. What are the probabilities (in your experience) of having a good trade when you respect your PBP? And when you don't? what about drawdowns?

3. Time: *"I have not found a certain time of day to be more profitable than others, so I try to take every trading opportunity that presents itself"* In my opinion this is a big mistake at the beginning. If you try to trade every single move during a day you are only increasing the risk of losing money and perspective, you will be doom in the long run if you don't master every move in every circumstance which is almost impossible to achieve if you haven't been trading and consistently profitable for a long, very long time.

4. In other words, you are not delimiting you trading field properly and you are looking for "reasons" to explain why this or any other trading plan doesn't work in every single scenario. For example (see chart below) you post that on Wednesday 28th you took 20 trades with a loss of -28 ticks (-48 including commissions) and when I check this chart I was surprise to find there were only 14 round waves (H and L) during the whole day **meaning that you not only trade every single wave but you took 6 trades over that simple limit (overtrading).**

5. **Moreover, from the 14 waves available there were ONLY 8 trades that respected price analysis**. 6 blue arrow winners with few ticks drawdown and 2 bad brown arrow trades with 12 ticks loss (each). The first brown arrow was a real failure because it broke the "natural stop" and the second was a whipsaw because it never broke the last swing low and it was confirmed a few bars after. Discussing how to "avoid" (or how to accept the cost of doing business) it's not the main issue here, the point is that you took 12 trades above this second basic limit.

6. In my opinion, the obvious result of failing to comprehend the basic premises in a PBP (minimizing risk, order or analysis, delimiting your Trading Field and price analysis) is having thousand of doubts and poor consistency and efficiency. Since the 9th of May until the 30th you took +/- 245 trades with 113 tick profit meaning: **1. Your broker made more money than you!!! 2. You average a +/- 2 tick per trade which is inefficient and totally inconsistent with a 500 VOL Chart.** 3. You get **overconfident** in trending days (that's easy) but lose a lot of money in non trading days 16th 28th and 30th of May which is a dangerous symptom and show how bad is not respecting or overseeing these basic premises in your PBP when only following an amateurish and basic 1 to 1 R/R of 10 ticks will have put you in profits every single day (+25 ticks on the 28th) (I haven't double check the exact numbers for the other days ...) with at least less than a third of trades.

7. My only advice is that before you go crazy tweaking, changing and inventing better triggers and indicators, just try to analysis these macro issues first, only when you fully understand these premises in your PBP you will be able to "improve" the real problems, otherwise you are only delaying the failure of your PBP.

I hope it helps

jjrvat

06-03-08 02:51 AM

Hi all
As I've promised an example chart to show how powerful a slower tick charts are. This is today trading in the ES.
8 trades 7 winners 1 loser, all of them are 100% valid according to PBP.
I've only made trades 2-4 (3 trades) because I had to leave early, so only winners for me today.

***Big gap between postings because IMO a lot of stuff posted that did not seem relevant enough to include.**

07-03-08 07:24 PM

A POINT OF ORDER

It's amazing how often we small traders tend to lose perspective during a discussion on trading. During the past few years I have found that most of the forums arguments end up dealing with the same issues "the technicalities of trading" which in my opinion obviously reflects one of the key problems that stop day traders to pass to the next level: **PERSPECTIVE.**

I read the last few pages, there are some very good comments that I will try to comment later and some other that are out of context and I will ignore, but in general I think the thread is losing north for the same reason mentioned above LACK OF PERSPECTIVE.

As a point of order and to try to regain focus for a more constructive discussion I will go, once again, to what is for me one of the basic principles in daytrading:

It "doesn't matter" how do you pull the trigger as long as you apply consistent price analysis, "know" where do you have more probabilities for a successful trade and you are

willing to accept without hesitation the cost of doing business. In other words, the order of analysis will change the end result and it's impossible to run a business without accepting the cost need it to make it profitable (sure you could aim to reduce "costs" but it's impossible to completely evade them).

To avoid repetition with previous posts I will use 2 charts this time based purely on entries.

1. A typical Holy Grail system that looks amazing at first glance:

INDICATORS FOR ENTRIES:
50 WMA
12 EMA
Slow Stochastic with SMA (10,3,3)
Momentum 7
Standard Deviation Bands Top (HIGHS) Bottom (LOWS), (25 Smoothed Mov Avg, multiplication factor 1.780
MACD Linear Regression (11,18,8)

RULES:
Shorts when: 50 WMA>12EMA, MACD diff RED and below 0, Stochastic moving from overbought and change slope to red below 70, Momentum < 100, Std Bands on the bottom half but with a gap big enough to the lower band.
Longs when: the opposite

PERSPECTIVE: NONE. Who cares this is a valid trade !!!

2. The most basic system that looks as good as the previous one

Indicators for entries:
21 WMA

Rules:

For shorts: Slope is RED + a close below the WMA when price has close above but hasn't change slope.

Perspective: Not much but at least you know when you are in long or short mode.

Which entry is better? The results are the same regardless of the trigger, so what is the point of indicators?....

The answer is very easy **a valid trade is a valid trade no matter how hard we try to "tweak" or improve or indicators to tell us that there is a trade where is not.** Therefore, the key for successful trading is not "how" but "when" we have more probabilities for a good trade. That is why the whole wave analysis and macro direction and not the specific details on the technicalities of trading.

The problems arise when overtrading, leverage, psychological fears, lack of discipline, capital, wrong timeframe for risk and time of trading, etc, etc, etc lead a small trader to the endless vicious circle of tweaking indicators for potential solutions for sometimes contradictory goals: "perfect" entries and exits with minimum drawdown, huge profits in short timeframes, small profits in long timeframes, low risk with high profit, etc, etc. The end result is always the same, after a couple of weeks a trader end up trading indicators and not price with more doubts than solutions.

…I'll continue later

jjrvat

07-07-08 06:08 AM

A trade management idea from bilbod

I like the following Trade Management strategy. It is not suitable for everybody but depends on taking trades at S/R (either breakouts or reversals)

Enter with 3 units. Initial catastrophic stop is 4-6 ticks based on volatility. Goal: never let the catastrophic stop get hit, exit based on price action if prices do not do what is expected within a reasonable period of time. 1st profit target is usually 4-8 ticks based on volatility. If 1st target is achieved, remove 1 unit and move stop on remaining 2 units to BE+1. 2nd target is closest S/*R(this could either be a daily pivot line or a S/R line you drew from higher timeframes or most often a level where price very recently reacted)*. If 2nd target is achieved remove 1 unit and trail stop on last unit. If at any time Price Action indicates the trade is not working out exit immediately.

The advantages of using this strategy are:

Very low initial risk, with experience, losses will usually be no more than 1 or 2 ticks.

Very low market risk because if 1st target is not achieved within a few minutes of entry, the trade is closed, and once 1st target is hit it becomes a "free trade."

Low risk means you can trade more volume (means higher profits).

Less psychological stress.

Once "free trade" status is achieved, trading software can help manage the trade so entering and managing more than 1 trade at a time is possible.

Bilbod

07-07-08 03:36 PM

Quote from IronFist:

^ and if that strategy goes against you, your losses are 3x greater! You better have a very high winning percentage if you're going to scale out of winners but not out of losers.

That's correct. That's why trade selection, a smallish 1st target, and the ability to read price action is critical to the method's success.

You need about 75% winners for the strategy to work well. Also about 30% of the time, the market will hand you a big win which is where you make most of your money. The rest of the time (25% losses, 45% winners) you get small profits and losses.

Bilbod

07-08-08 05:25 PM

Quote from ammo:

sounds good except for the 1 -2 tick loss,seems a little tight,you'll take a 2 tick loss and then the trade goes your way

---

If you let your greed get the best of you, you will keep widening your stops so as not to miss any moves.

The above strategy is a very low risk strategy for entering trades. What you are looking for are trades that quickly move in the expected direction. If prices do not quickly move in the expected direction, just exit the trade for a small gain or loss and wait for the next trade set up.

Let me give an example. Let's say there is strong overhead resistance and prices have been trending up for a while so a lot of the buying energy has been used up. If prices stall in the resistance area, I will place a limit order to short 1 tick below the high it just made in the resistance area. When filled, I place a stop 4-6 ticks above entry price (it's above the resistance area and recall that it is a catastrophic stop that I never expect to get hit).

This is a high probability setup. Most of the time it will bounce off S/R and quickly give me my 1st profit target. If prices start to go against me, I exit as close to BE as possible. If prices just go sideways too long, I reduce my profit target to 1 or 2 ticks to try to get something out of the trade.

Here is a quote from Mike Reed's "10 Steps To Professional Day Trading":

"Practice exiting trades at break-even, using a one-tick target, a two or three tick soft stop (mental stop) and a 1.5 point hard stop. Never *allow* the market to hit your hard stop. Exit by moving your target toward your hard stop, not by moving your hard stop towards your target. With time, all of this must become a reflex. You won't always be able to keep your losses down to 2 ticks, but only on rare occasions should you find yourself letting the market hit your hard stop. ("Rarely" means only about once every 50-100 trades after you get the hang of it.)"

Bilbod

07-13-08 09:01 AM

Hi IF,

I understand what appeals to you about trading mechanical systems. They are simple, you don't have to think, just follow the rules. It takes the pressure off when trading.

The problem is that they do not 'work' really well. What that means is they have big drawdowns because they are inflexible and markets are not, i.e., markets change character over time.

From what I know, system traders use 3 methods to improve system performance.

1. Trade the Equity Curve (trade when the EC is trending up, don't trade when it is trending down).
2. Trade multiple, uncorrelated systems.
3. Modify system parameters frequently to accommodate changes in the market.

Simple mechanical moving average systems usually don't fare very well.

A moving average is a digital filter, when you choose its look back period you are tuning it to a specific cycle. You can use it to profitable trade when the dominant cycle in the market is approximately equal to the tuned period and longer because it is a low pass filter (i.e., it filters out high frequencies). When the dominant market cycle has a short period (congestion or chop) the MA system becomes unprofitable.

The dominant cycle in the market varies (albeit slowly) over time. There are in fact many dominant cycles present in the market and the bar sizes you use determine which ones you will see. If you recall, a couple of times people posted charts that did not 'work' with jjrvat's system. What did jjrvat do? He changed the bar size until the chart 'formed up' (BTW, this practice is not uncommon among discretionary traders) and the system 'worked' again. What he did was adjust the dominant cycle until it was in tune with the indicators.

Also recall that one of jjrvat's rules is only trade 30-60 minutes per day. Why is that rule important? Because in light of the market fractal being traded and the other trading rules, the dominant market cycle is not likely to change enough in such a short time period to adversely affect the system.

Support and Resistance are 2 very important trading concepts that you seem to ignore. I am not talking about calculated numbers like Floor Trader Pivots or Fibonacci retracements but previous Pivot points, previous areas of Congestion and previous Gaps.

Prices are attracted to these price areas like a magnet. Prices tend to stall and/or reverse at these price zones. It is very important to know where those price zones are so you are prepared to deal with their effects.

Bill

07-25-08 01:54 PM

etfswingtrade, ammo, ddoonie, Bingoking, bilbod, toucan, BlowFish, umitd

Thanks for your comments

bilbod

Excellent post !!!
(http://www.elitetrader.com/vb/showt...&pagenumber=129)

What are your views on time charts? I am use to the 5min chart, and is why i use it for my entries. I see that you all use tick/volume charts, which makes sense to me. I'm watching a 4000 tick chart, secondary confirmation i guess..(ddoonie)

Time charts have a unique feature over all other form of charts: the obvious **control of time**. Controlling the frequency in which each bar is formed it is very helpful, it allows to have a time reference to make decisions, it tells a trader when to watch the screen, when it’s too late to entry and when to get ready to pull the trigger among other things.

These characteristics are especially important if you are “scalping” or trading fast timeframes. However and as you probably know, there is always a tradeoff when trading: in this case, bouncy charts, more whipsaws, lots of choppy (because of the nature of time charts, bars are plotted regardless of volume size or # trades) and missing some trades (most of them if you are using a bad time chart for your instrument) because of the size of the trigger bar can make a very bad entry.

In my opinion, the higher the timeframe the less impact these bad factors your trading plan will have. Again, the “fundamentalist” (long term traders) and investors are right and that’s why, “ceteris paribus”, trading daily, weekly or monthly charts are by far the best option.

Sometimes time charts can be poor for trading analysis but good enough as 2nd timeframe trigger when using multiple timeframes in slow charts. In general as a rough reference (it depends on the instrument) the chart below summarize my opinion on time charts.

TIP: As you have noticed Heiken-ashi will help a lot smoothing time charts, but don't forget to set the parameters of the current candle to the real price (and not HA candle formula), otherwise you are not going to get valid information to pull the trigger

Ironfist,

I have been reading your comments the last few weeks. IMHO, your wave analysis has improved a lot which is really good, but you seem to be stuck in that level of analysis. Among others, you are not paying attention to **time, price and macro direction**, your **entries and exits are too rigid** for the instrument you are using, and as I mentioned before you do not fully comprehend the **extend of your timeframe** (as ddoonie pointed out 10 tick drawdown is peanuts if you are intending to catch all 100 ticks).

Bingoking has a very good idea (Have you ever tried "no indicator?") trading naked. I propose you an idea that may help you and can improve the content of this thread: A live analysis exercise. Pick an instrument and timeframe slow enough to post live charts and comments but fast enough to have intraday position. I'll post a live chart based on that for the discussion and we will try to build upon to find some answer for your concerns. Of course the idea is everybody can comment or lurk and that you and only you find the "right" option for your PBP. Let me know if you want so I can think about details.

jjrvat

07-29-08 06:20 AM

Hi IF,

Before I answer your questions let me make a few comments. Nobody KNOWS what the market will do next, but with experience you can know that under some circumstances the market is likely to behave a certain way and that gives you a trading edge.

What trading is mostly about is risk management. You only enter a trade when market conditions favor a profitable outcome. For me, every trade starts as a scalp, I use a stop loss and scale out of positions as risk management tools. You need to find risk management tools that work for your trading style.

As far as the 4 possible trades I listed, I have no idea if I would have taken any of them in real time. Why? While they look like perfect setups on your chart, I would take entry on a smaller fractal (like 40 tick). Maybe I would not like the PA on the 40t, maybe my limit order would not get hit, maybe prices would reverse too fast and I wouldn't be able to enter an order until it is too late.

I can tell you how I like to enter trades. I like to enter at S/R levels anticipating a reversal. What I look for is for prices to stall a little in the S/R area and I place a limit order 1 tick off the extreme of the stall. BTW when I talk about S/R, I don't mean floor trader pivots, Fibonacci levels, Gann levels, PTT, or any other calculated levels; I do mean places where prices have reversed or congested in the past.

>>How? I'm entering short after LLs and LHs and entering long after HHs and HLs.<<

PA isn't just LLs,LHs,HHs and HLs. That is just the starting point. Everything prices do is part of price action. For example, when I look to take a trade at S/R, I want to see prices decelerate into the S/R area. When I am considering fading the trend, I want to see something that indicates trend exhaustion so we are due for a correction.

>>My goal isn't to capture a 100 tick move every time, but sometimes I'll be down 20 or 30 ticks but the slope doesn't change so I keep my position open and then it turns into a 100 tick move.<<

If the market moves that much against you, your entries are poor. Analyze your MAE and enter on retracements after the ma gets broken.

>>The reason I don't "take what the market gives me" is because when I backtested with 2, 3, 5, 8, 10, and 15 point profit targets, I ended with a net loss at the end.<<

That's not 'take what the market gives you' means. Prices move between S/R levels. The most likely profit the market will give you is to the nearest S/R level.

>>The only way I was able to have positive expectancy was to hold every trade until the market stopped me out (fast slope changing). The conclusion I drew was that the occasional huge winners are required in order to have positive expectancy and therefore I don't close trades early.<<

What you mean is 'the only way so far'. Any system that depends on the occasional large win to be profitable is not robust enough to safely trade because the probability of ruin is too high.

If you improve your trade selection and trade entry you will dramatically improve your bottom line.

>>How in the world do you know it's a LH until price has moved away from it/ It would've been a wonderful short entry, I agree, but I had no idea it was a LH until the new downtrend was established. You could say the LH was an upside-down hammer (forgot what that's called) but those only signal tops sometimes. So how would you have known to enter here when that was the hard right edge of the chart?<<

It is a PB early in a trend at a S/R level. That is a high probability trade for at least a scalp.

>>Are you saying it's not a good place to go short because it was the 4th wave?<<

After 3 waves you should expect a bigger correction than you got.

>>As for "trading into support," new waves start all the time at around the previous support level and end up being profitable waves. Look at the previous wave. It was confirmed at around 11611 and the previous LL was at 11600. Wouldn't that be "trading into support?" It went on to a low of 11581 or so." <<

"Confirmed" by whose standards? There are several ways to view that entry. 1st is enter at 630 where minor resistance exists (successful entry at this level would have been highly unlikely because it looks like prices blipped up there and dropped right back down, in and of itself a signal that prices were reversing). 2nd is enter on a breakout of the low of the high reversal bar at 620. 3rd that is a pin bar setup, entry on a breakout of the low of the bar to the right of the reversal bar at 614. 4th your confirmed entry based on your ma at 611.

The most significant difference between any of those trades and your loser is there was a minimum of 11 ticks of profit before S/R, enough to take a scalp and move your stop to BE. Your losing trade entry was around 561, S/R was 558. 3 ticks is too small to scalp out a profit and there is no assurance prices will reach 561 at that.

BTW, that was not one of the 4 trades I mentioned because a PA based downtrend had not been confirmed.

>>Again, how did you know it was a double bottom when it was the hard right edge of the chart? (same way how did you know that first LH was a good short entry... how did you know it was the LH?)<<

You never know for sure but the smaller than expected correction after a 3rd wave means a retest of the low (double bottom) is more likely than a 4th wave down. BTW, Alan Farley calls that a 2B reversal pattern (a double bottom where the second bottom is slightly lower than the 1st).

>>Now this is very interesting to me. I never have a way of predicting what the profit target will be (and it seems neither does anyone else) and everyone computes their Risk/Reward after the fact.<<

Nobody is predicting anything and I did not mention R/R. Its market tendencies. Prices move between S/R levels. Prices are attracted to these levels like a magnet. If prices are moving toward a nearby S/R level, odds are good they will get there, that is how I make profit projections; however, at all times you readjust your expectations based on current price action.

>>In all my (demo account) experiences using stop losses, they always have to be HUGE (at least 1 ATR if not bigger) because price action is never smooth and always full of noise. And on that chart I attached, 1 ATR is >10, which doesn't seem like a "tight" stop to me.<<

Your problem isn't noise its late entries. Sometimes your entries are so far from the pivot you are trading off of that the market starts to correct as soon as you enter. The solution isn't wider stops but better entries or skip the trade if the stop is too large.

You have to recognize what you are doing. You are trading a wave that began at the most recent pivot point. The later you enter the wave, the less profit you are likely to get before a correction and if it is the 3rd wave, a bigger than normal correction or trend reversal is likely. See how you can set yourself up for a big drawdown or losing trade.

>>So use the same interval of MA on the smaller chart? So if I'm using an HMA(21) on the 233 tick chart then I should use the same HMA(21)on the 40-50 tick chart to set up entries and enter when that slope changes?<<

You can try that but you may have to experiment to see what works best.

>>What is the stop then? When the slope changes on the 40-50 tick chart or when it changes on the 233 tick chart?<<

The stop is on the other side of the pivot point you are trading off. You only use the 40t for entry, use the 233t to manage the trade.

>>I was taking trades only when the MAs lined up and only after appropriate LL/LH/HH/HLs.<<

Your ignoring other price action. S/R, how many waves have occurred, how far prices are from the pivot when you enter.

Bill

07-29-08 04:14 PM

Quote from IronFist:

Ok. Tomorrow I'll trade (from a demo account) with no indicators trying to use only price action as discussed in this thread

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I would not even demo trade the first few days but would just watch. Maybe just watch for a week or even longer. And have a DOM pulled up alongside the chart and watch the action over there as well. Watch the immediate RANGE that price is trading in on the DOM. Then watch how the range EXPANDS as the day moves on. Watch how many times price certain levels and how it behaves when it touches those levels. After a while you will start to see the normal "push and pull" of price action on the DOM. One can sell the "highs" and buy the "lows" for quick in-and-out, low expectation trades. They pile up after a while. Say you only did one 3-tick trade in the ES once every 15 minutes. Do the math for what that means in a 6 hour day. A market like the ES coughs up 2 and 3 tick trades all day long.

Bingoking

08-07-08 09:46 AM

IronFist,

Don't get me wrong but during the last few months I really have enjoyed the mental trading process you have passed, at least from what I can deduce from your post in this thread. IMHO, you seem to have improved a lot since your 50 EMA crossover idea but you need to move to the next level. You are **overanalyzing and trying to rationalize every detail which usually works in other professional fields** (I am an economist and I can tell you that was/is for me one of the most difficult parts in daytrading) **but sadly will be your deadly mortifying crux in trading**.

How many templates you have saved in the last months? Which study collection you haven't try in the last month? How many combination of tick, volume, time charts have you used to "see" and "understand" the right trade for the same instrument?, How many ideas you have tried to implement to improve your PBP, volume, S/R, larger stops, smaller targets, etc ? etc, etc, etc. A good symptom that you are moving to the next level is when you try to post an example chart in a forum and you struggle to find where to click to add an indicator and modify its settings. **Your trading setup should be simple, boring, mechanical but EXTREMELY DYNAMIC .** In your case, Open sierrachart/file/open chartbook/ and it should be the same chart with the same studies (if any) you have traded the last months (even with the few no sense trend or S/R lines you drew 6 weeks ago and doesn't make any sense anymore). You should master the valid trades in your PBP under the circumstance established in that particular chartbook and **not look for explanation of every single trade using different tools because the only thing you will achieve is a broader and more confusing trading perspective in a theoretical level.** Of course if you want to sell a trading book, system, service, tutoring plan or want to become a fortune teller you will impress many people with your unrealistic "vast trading knowledge". **It's a waste of time and money to try to rationalize or tame the market, there is better value mastering and disciplining your setups for your PBP !!!.**

You should not only chew the sometimes brilliant tips people have given you in this thread and the knowledge you have gained through your trading experience but should digest all the information and put in the right perspective. I offered you a live trading exercise and I am still waiting for you to choose the instrument and timeframe, let me know so we can work something out of that.

Make everything as simple as possible, but not simpler. Albert Einstein

jjrvat

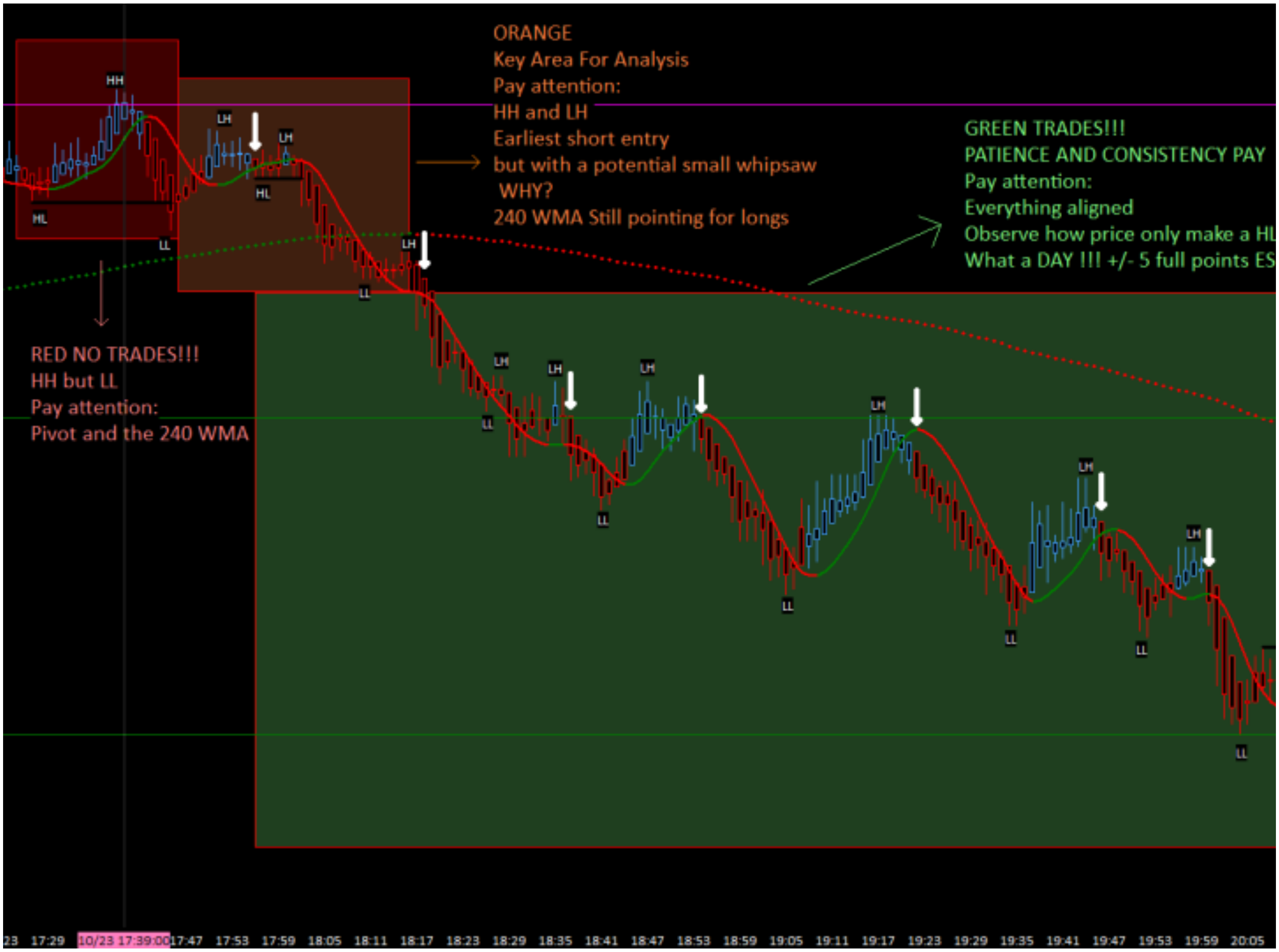
10-23-08 10:45 PM

Today US afternoon.

I couldn't resist posting this chart today.
Who can believe you can trade +/- 35 full ES points in less than 3 hours with a 1 min chart (Given the current conditions on the markets the usual "noisy" 1 min chart is efficient) …

Enjoy this real live textbook chart of **how discipline and consistency pay off.**

jjrvat



12-09-08 10:09 PM

JavaBen

- with respect to Buy Long 2: Which is the sell point? I've identified two, but I'm not clear which would be the correct sell point (keeping in mind I wouldn't know the future).

It's not a long in my book LL and LH

- with respect to Buy Long 4: Is this the correct point?

I don't see an entry there. Although the previous waves were HH and HL you are taking an entry at the end of that massive wave up. So in the worst case scenario that was a very but very late entry and a few ticks before a massive resistance R2 !!!

- Does it appear that I'm assigning the buy and sell points correctly?

No. Only your sell longs 1 and 3 look good for me

I know is easier to call an ex post chart but I would recommend you to divide the process in 2 parts: macro analysis and triggers.

Because you have the advantage of trading slower timeframes and time charts **you have the luxury of time** (it sound stupid and repetitive but is key). Don't get lost in translation, spend 95% of your screen time (you have plenty with 5 min chart) analyzing if waves made HH/LL, look at the distance to the next pivots or major r/s lines if you want etc.

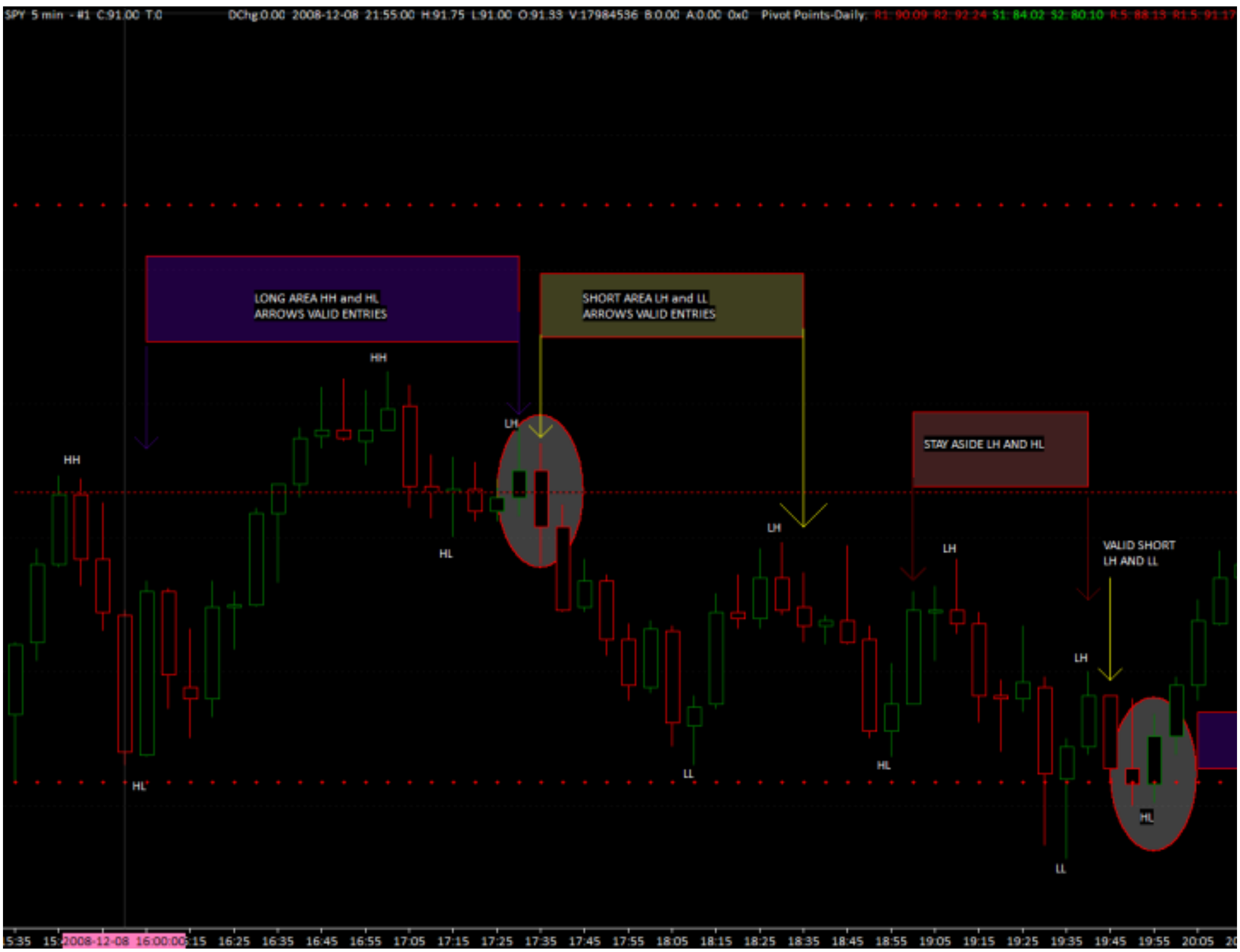
When you define that you have a valid potential area for a trade, start looking for at least a quantifiable pullback (for example look at the second chart I used a 21 HMA as a visual aid, a pullback that at least break the hull or even better that change its slope) and only then use the rest of your screen time for triggers, either using price alone or indicators.

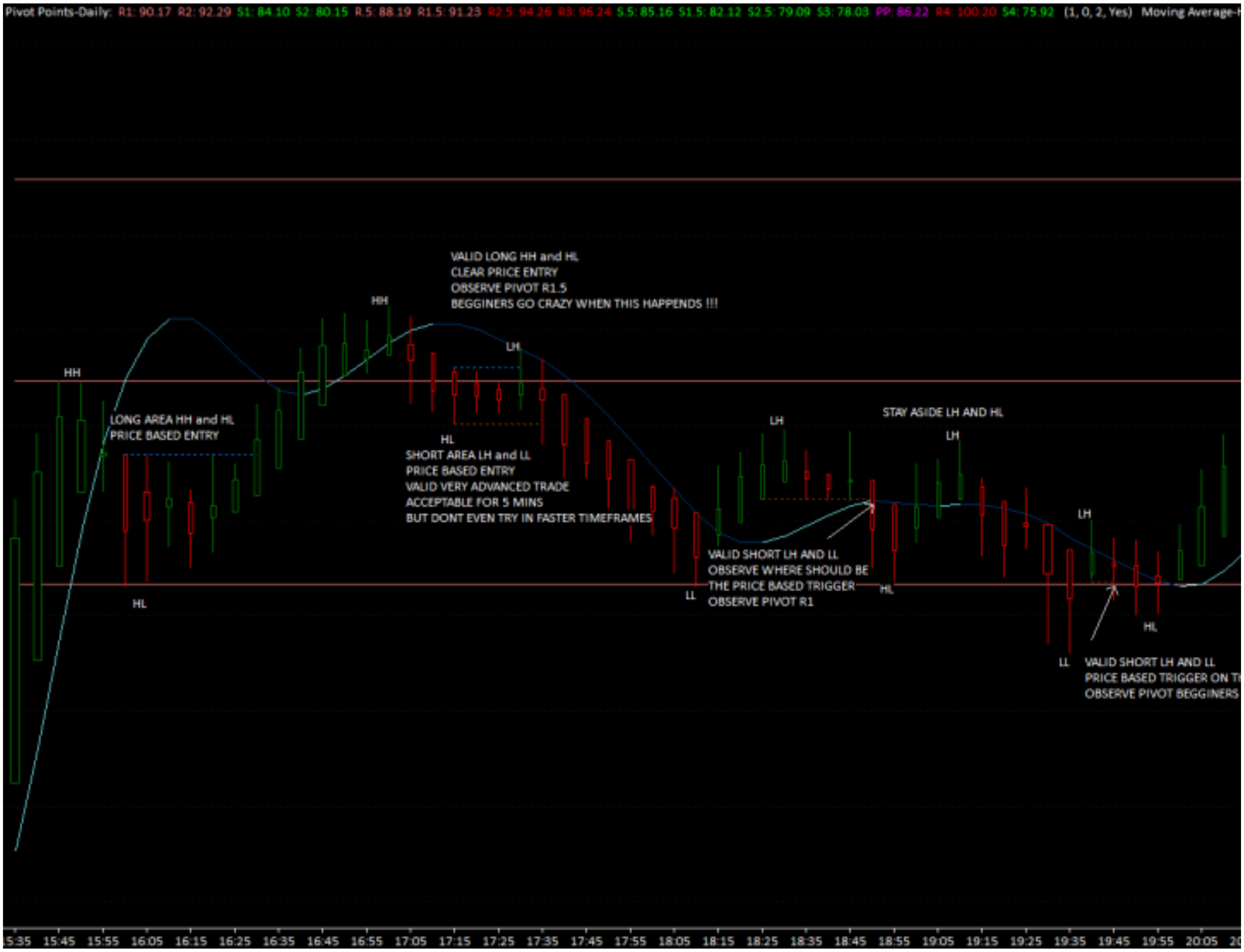
If you can't easily recognize macro direction you are doom, so no matter what you do or what you use for triggers, you will have more probabilities of losing money. Don't worry, if **you have to use indicators to give you visual aids for macro analysis, use them but don't get stuck in the technicalities**.

As an example on this, look at the 2nd chart, it's exactly the same 5 min chart but with a few visual aids for smoothing the macro analysis (the different bars width is beacuse there are candle Price Volume Bars)

I hope it helps

jjrvat





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