Intro.

My name is Alan, been trading for donkeys years.

Now specialise in trading Cable only via a very effective but simple method based upon the evidence presented by the market and not what I may think will happen down the track.

I am going to start this thread with the chart setups and then move on to what to look for, timing, targeting, money management etc.. and whatever else I find relevant at the time of writing.

Overview...

If you don't believe Price is always trying to make HH or LL averages then it is pointless for you to continue reading this thread. This can easily be proven as a fact just by way of simple observation of the chart itself.

I would ask all to bear with me until I have completed each section and then ask "Any questions?"

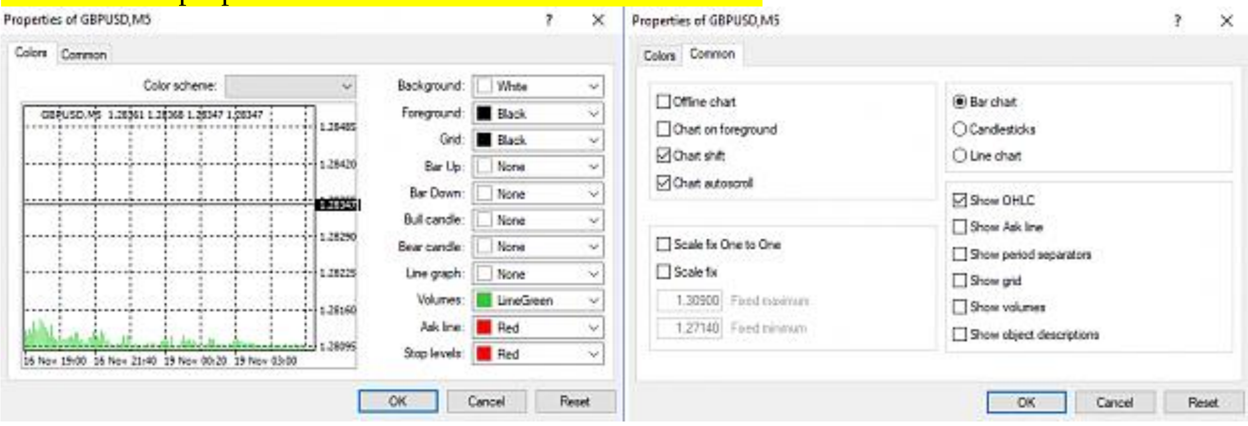
So without further wordage I will begin.

Hope you enjoy the ride.

This is the first of the 5 minute chart setups.

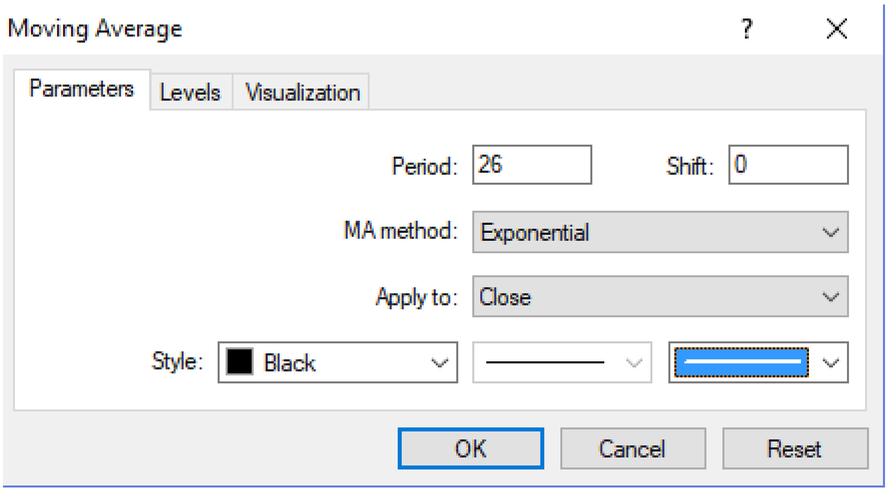
We want a plain old black and white chart because it prints well to make a hard copy record of the events. We can put the date on them and keep them in a folder as a permanent record we can easily access whenever.

So we set the properties of a 5 minute GBP/USD like this...

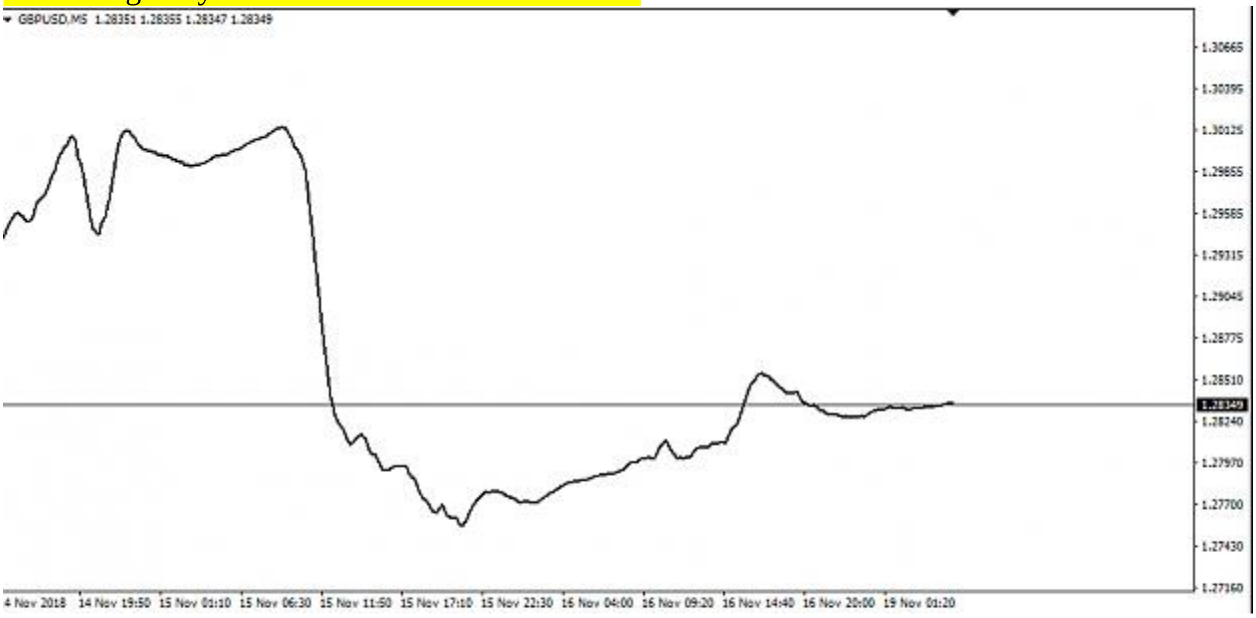


If you have done this correctly you should now have a completely white chart with only the current price line showing.

Next we are going to add the average which is a 26 period EMA as a double thickness black line So open the navigator select Moving Averages and set the parameters like this...



So far so good you should have the same as this...



Now this next bit is not really needed but I find it helps until you get use to watching multiple charts and some people are using small screens such as laptops so this additional info helps see the picture.

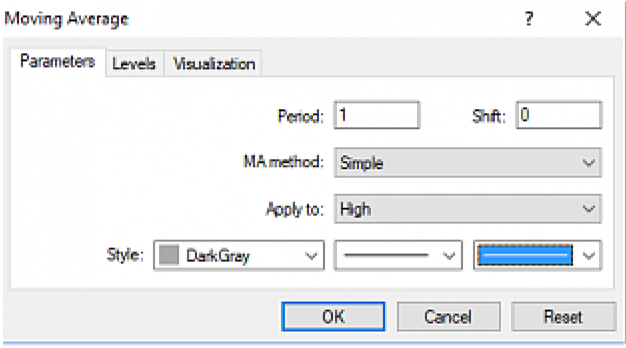
We are going to add both the current high and low prices and put them on a shade or two lighter such as dark grey.

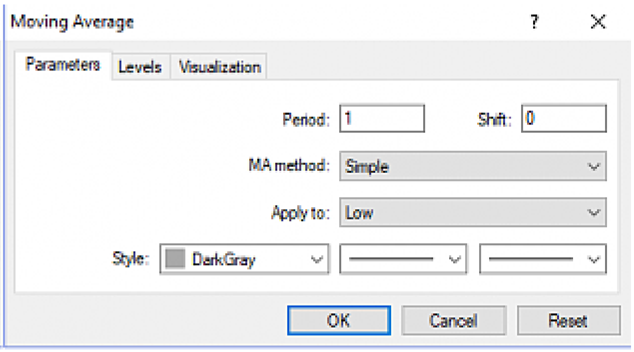
Price itself is an average but it is a 1 period simple moving average (SMA)

Putting two of these on the chart one set to the high and the other set to the low we will get the current distances of the bar movements tops and bottoms.

So set the SMA parameters thus...

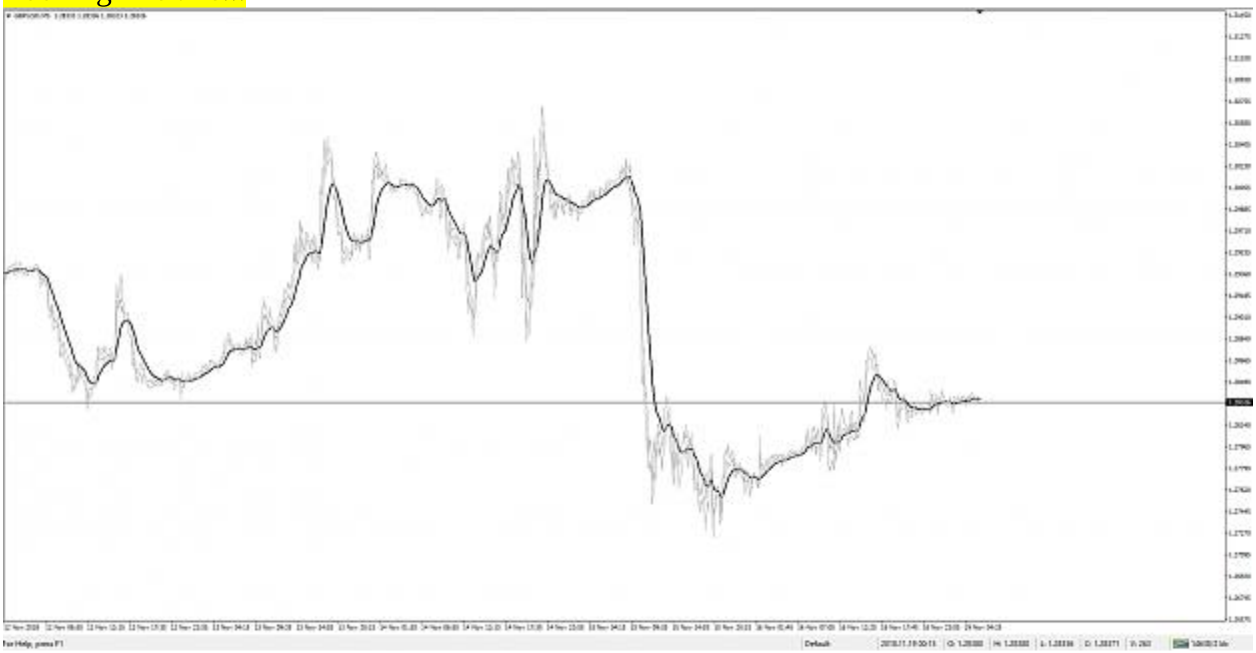
Noting the line thickness is the thinnest and one is set to high and the other is set to low.





That is all we need to do to set up this 5 min chart. It should be nice and clear, free from clutter and instantly easy to read the direction.

Looking like this...



Cool you will find later down the track you can use the Quartile to trade this way and also another type of Quartile which I will also explain.

Ok so yesterday we set up the white background 5 min chart and normally that is all I have on that chart. However I have 4 23 inch monitors so I can spread myself out a bit, I know some use laptops with smaller screens so for now I am going to add a little more to cater for those folks.

This involves the timing of the trade, the approximate time I start work and I call it Bar 108.

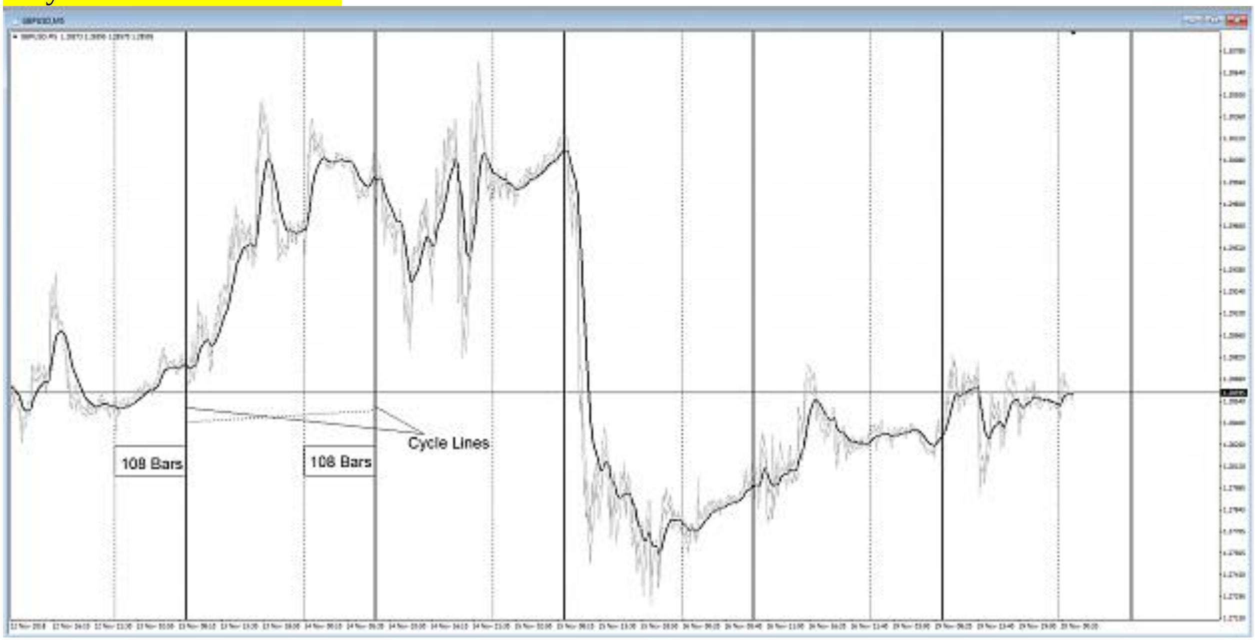
Switch on your Period Separator and measure 108 bars from it with the rectangle tool. Copy the rectangle and place the copy at the next Period Separator.
Now using the Cycle line tool span the two rectangles to give you lines that will continue into the future forever.

On the chart below I have used bold black so you can see them clearly, normally I would have them just as a light coloured (grey) dotted line just like the Period Separator ones.

As you should be able to see, this is a good time to begin trading, approximately.

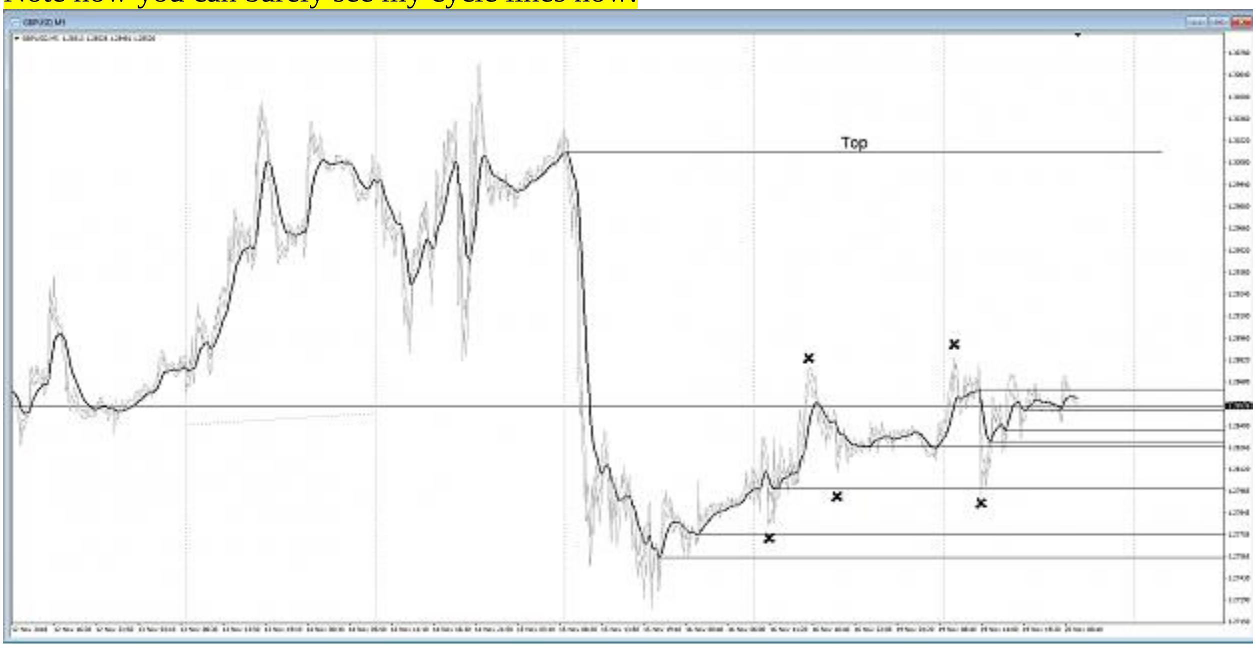
Once done you can turn off the Period Separator Lines as they are no longer required.

So you should have this ...



Now on this chart I mark the swing highs and lows with a line and just for your benefit I have put a few X's where the price exhausted itself. I know you cannot see this exhaustion as yet because we haven't setup the other charts but still you can make some observations even on this chart alone. I will go into detail of these observations later, for now just continue with the setups.

Note how you can barely see my cycle lines now.



Now we are going to add the Wilders wonder tool, the Relative Strength Index (RSI). In fact we are going to use two of them.

A word about comparisons...

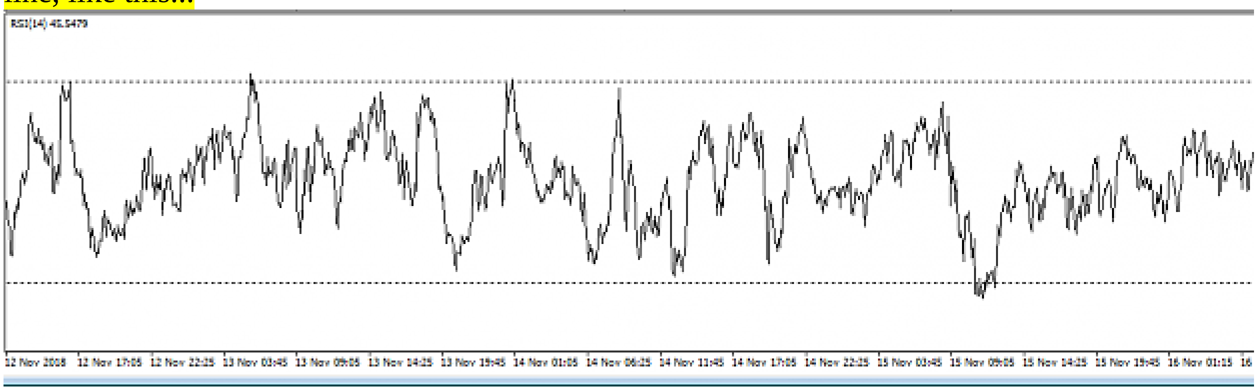
When making comparisons I compare average swing to average swing, never comparing price to average. Zig-zagging an average or bouncing is fairy meaningless because the average is always chasing the price NOT THE OTHER WAY ROUND.

In the same way I compare RSI to RSI as you will later see it gives us a very good insight for the next move of price.

I know this may sound confusing but hang on there it should all become clear and simple to understand.

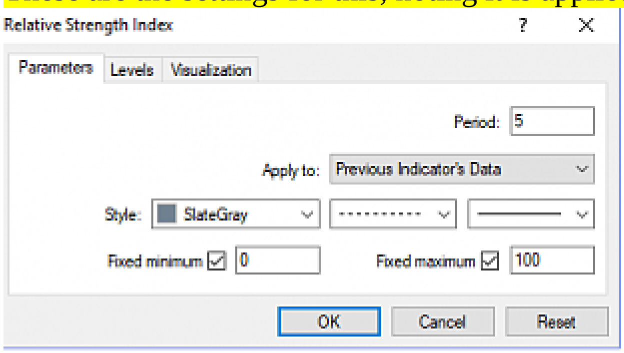
OK back to adding the RSI's again I will put them on this 5 min chart for your benefit, mine are on a separate chart.

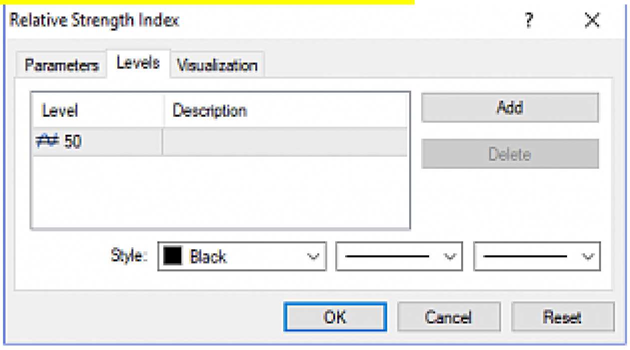
So setup a 14 period RSI with the levels of 80 and 20 only and the colour being a solid black line, like this...



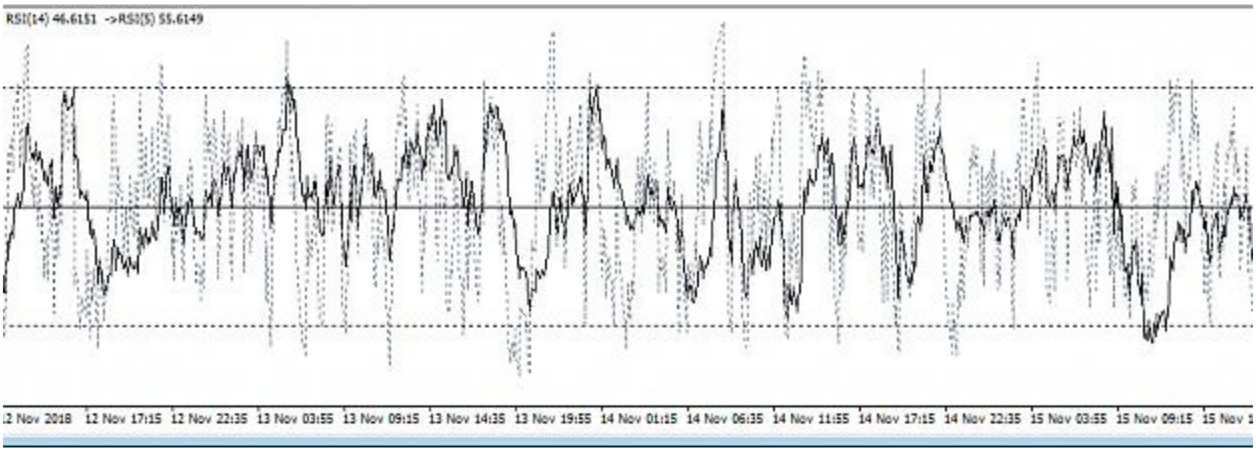
Next we are going to overlay a 5 period Relative Strength Index the 14 period

These are the settings for this, noting it is applied to the Previous Indicators Data





Now you should have what looks like a complete mess when squashed up like this.



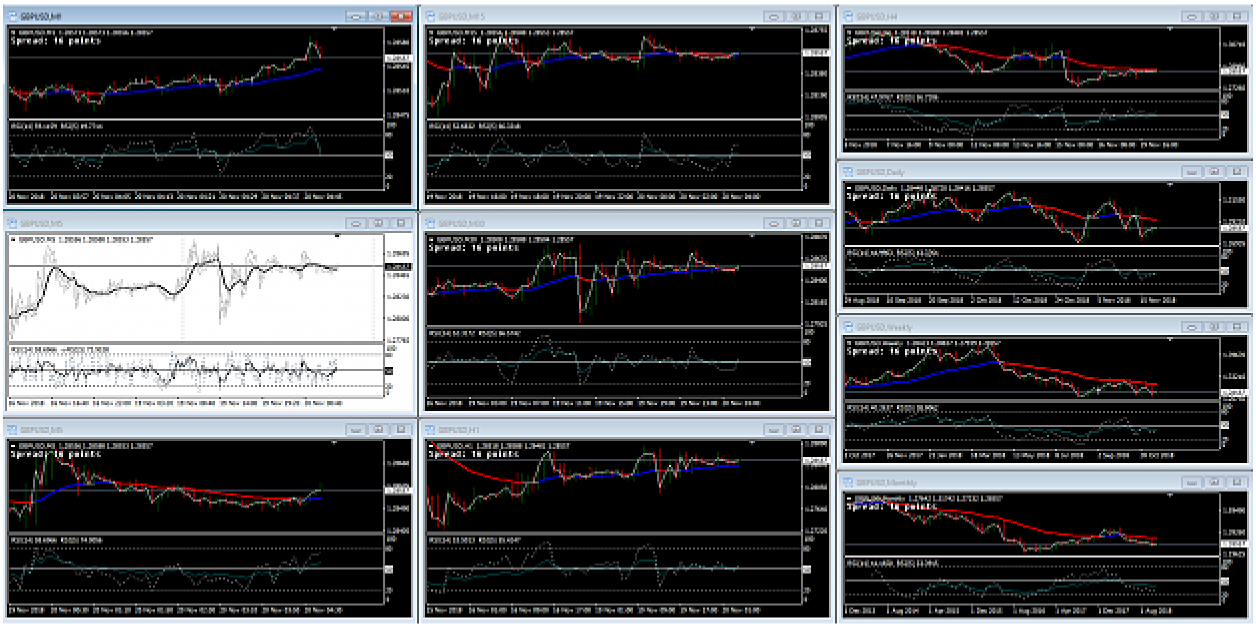
OK lets now get a bit of colour in our lives and setup the other charts and you can make these as pretty as you like but keep them free of clutter, you don't need any additional stuff which may just confuse the issue.

I have all the GBP/USD from the 1 minute through to the 1 month.

We only need to set up one chart and make a template of it to set the additional charts. Give the template a name you can recognise such as Antegentacularcircumgirations or BaBs which is Bull and Bear system.

The same as we used to setup the 5 min but with a background that is not so harsh on the eyes. Notice how I use the bar chart because really I am only interested in tops and bottoms and also note I have a white line chart which is simply a 1 period SMA set to the close. My 26EMA is coloured but it does not have to be so.

This is all the charts squashed onto one screen...



[Quoting Goyatrade]

It may differ from broker to broker, but your 09;00 chart time is 08:00 GMT on my chart on the Bright charts. On the Night charts your 09:00 line is not to be seen! Anyway, i have a feeling something interesting is coming. Would like to hear how you read the ema's on the Bright chart crossing the 30ema and same time RSI crossing Zero?? Am looking forward!! Have a nice day!!

You know what, I have been running webinars internationally for over ten years and one of the biggest headaches is that of time. (Don't get me started on clocks)

Just make sure it is 1 hour before the London open, you don't need it on all the charts, just the bright chart will do.

[Quoting Goyatrade]

Okay, one hour before LO is 08:00 by me, will change it like that and wait for more info, OR change it as we go fwd!! No big worry with me!! I will follow!! I need 10-15 pips to give me 1% and then try to stay away from the computer!! My most difficult part of trading!! Have a feeling i might get it here, thanks!!

Oh no,no,no not 1%. I am going to show you how to make 1K a day with a 1K account i.e. 100%

[Quoting J1mm]

Hello! Thanks for the post 😊Is Only applicable to Cable? Cannot this be traded on other pairs?

No you can trade this way on any pair but why would you want to bother making more work for yourself.

The GBP/USD reliable produces 50+ pips which is all we need.

You have nothing to fear but fear itself.

Numbers are only simple mathematical processes i.e 40 pips x $25 = $1000.

However I will get to the money management in due course.

OK I think that is all the questions answered so far, so today I am going to talk about what to look for on the charts.

It is second nature to me to observe what is going on and I have a bad habit of omitting stuff by crediting people with more that they are perhaps capable of. This is why I ask for questions.

Let's start with the 26EMA.

One can trade with one or more moving averages with whatever periods they choose looking for crossovers or touches and the like. Averages always follow the price action because that is what they are an average of the numbers of periods set. It is also for this reason they are always lagging behind the actual price action. In short this is not a very reliable way to trade and one would need some other device to make sense of the price action to trade it. THIS IS NOT what we are going to do here at all.

Look at the 5 min chart below. Point A is located just where our vertical line is (where we look to trade). Look where point A is on the RSI (fast)

Now do you think even for 1 minute that the average swing at X has any chance at all to drive down to the level of A. Well it could but not yet because this is an oversold situation and it hasn't even broken the swing at S. We could also call this bearish failure. The market will jump on the failure and will begin to test the opposite side... Which it did, level S1.

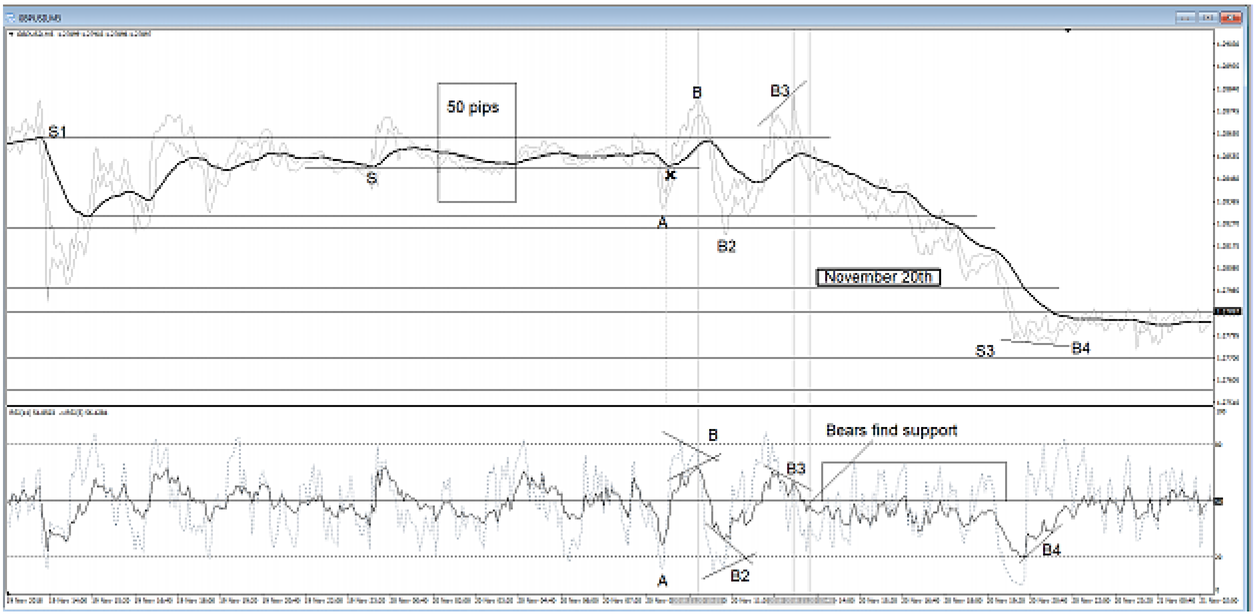
Our targeted distance is from A to B and for the average swing at X to break the level S1 but this didn't happen because look at the RSI there was divergence between the fast and slow RSI and we CANNOT ignore this so we would close this long trade and begin to take a short trade.

Again the we see a divergence on the RSI at B2, way oversold for the average to make the lower low so again a place to exit and look to go long again. However why would you bother because you have made well over your 50 pips in this case.

Let's continue from B2 we run up to again test the opposite side long. This time price runs into a regular divergence at B3 so DON'T ignore it get out and look to trade short from B3.

Note: Divergence will usually send the price back across the EMA to test the opposite side.

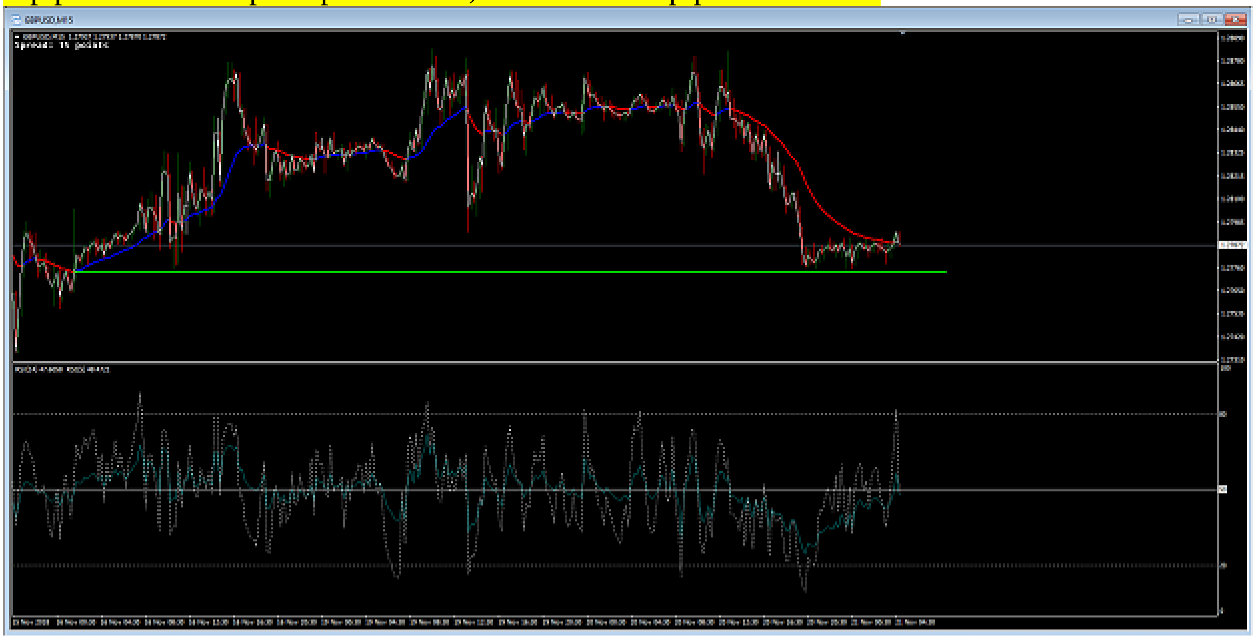
Now this is where it get's a little more interesting. From B3 price crosses the EMA (50 line of the RSI is the same thing) and look at the pivot formed where I say the bears have found support. Note price never gets back to this level and a trend forms taking us down to B4 failing to make S3, over sold and in regular divergence.



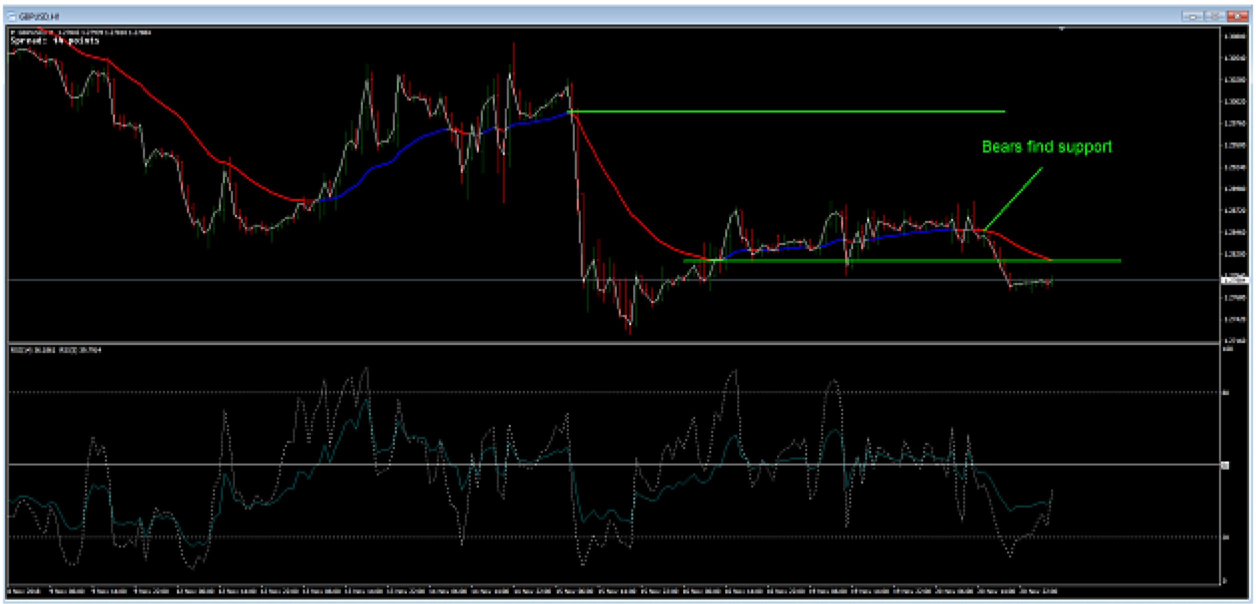
That should take a little digesting but remember there are the other charts to consider in conjunction with this 5 minute one.

For example look at the picture from a 15 minute perspective.. as below.

Pip perfect and heaps of profit made, well over 100 pips in the bank.



And from a 1 hour perspective



So we have looked at the relationships of the EMA, RSI and price signals such as divergence.

There are more but this alone is plenty to make your pips per day.

There is something I call the two bar test, for entries. You don't need to have whacking great lines going back to the dawn of time to get an entry a simple two bar test will do it.

Here on the 1 hour I have an example..

See how the fast RSI was below the slow one in the circle area. It then crosses from below to form a valley where I have put test here. This tells us the bulls have found a bit of energy and are able to hold onto it by not allowing the bears to take them back across. So at this point we place a two bar test line on the price, it closes above so we are good to go long with the stop placed as shown. Remember we are dealing with a divergence here so we should at least make it back across the EMA and as it turned out went a nice 100 pips or so, far more than we need.

All the time we are looking for the Average swings and where they fail to make HH's or LL's.

Look at that last 1 hour chart and the two pushes the fast RSI made above the 80 level. It has no chance to pull the EMA up to make a HH so of course it is always going to be a short at these points. If the average was going to make the HH then the price would have made a huge impulse bar to get up there dragging the average behind it. The word huge is always relative to the level it has to make.

We could study theory until the cows come home, patterns, waves, harmonics or whatever which I have done but wasted a great deal of my time doing so because the reality of the situation is always there in front of you.

Notice how when the EMA is trying for one level the price itself makes it to additional levels. We look for which level it is failing at and decide whether or not to take action
Look what happens round the time (vertical line).

Look at the relationships on the RSI and how they behave

See how in the above chart that on the 1 hour price is at the EMA when on the 5 min we have a divergence on the RSI. The divergence tells us price is going to get back across the EMA on the 5 min..

Quoting Cobra
Nala In your divergence example in post 60 the fast RSI is at the extremes. Is this divergence only valid when the fast RSI is above the slow RSI (for potential down movement) and below the slow Rsi for a potential up movement? Would you consider the fast RSI convergence as a valid one in the picture below as it formed below the slow RSI? (For a potential downward trade) {image}

Very good thinking outside the box and yes.

The fast RSI is already showing weakness because of not crossing the slow and to be in divergence like that adds to the weakness of the bulls. For now I will just refer to them all as divergences.

We want to see these signals on the higher 1 hour chart so we can drop to the lower time frames to look for entries.

There are a couple more things you may observe going on. The more you study these simple little things the better your trading becomes.

Well done...great question

Quoting Goyatrade
GM! When looking at Cable at this moment. 3x divergences has formed in last 2.5hrs om M5. Price ranging in about 25pips. Are the signs there for a downward move once it can break 1.2800? Round number? Only if you have time!

I don't try to predict the future... That is the point, only trade the reality of the situation. There are only 3 possibilities London will take, up, down or sideways.

These divergences can get us in or out or even hedge trades.

Round numbers mean nothing to me.

The signs are in the question 'Are we trading above or below the average, if below we look to short the tops, if above we look to long the bottoms

Quoting DreamwalkeR
Nala, I've marked the swing highs/lows for today, if you don't mind commenting on it if it's missing anything, and how far would you go on the M5 to spot your swing H/L if for example we didn't have the last two swing lows on Nov 15th ? Thank you. {image}

As far back as you can and this is a good question.

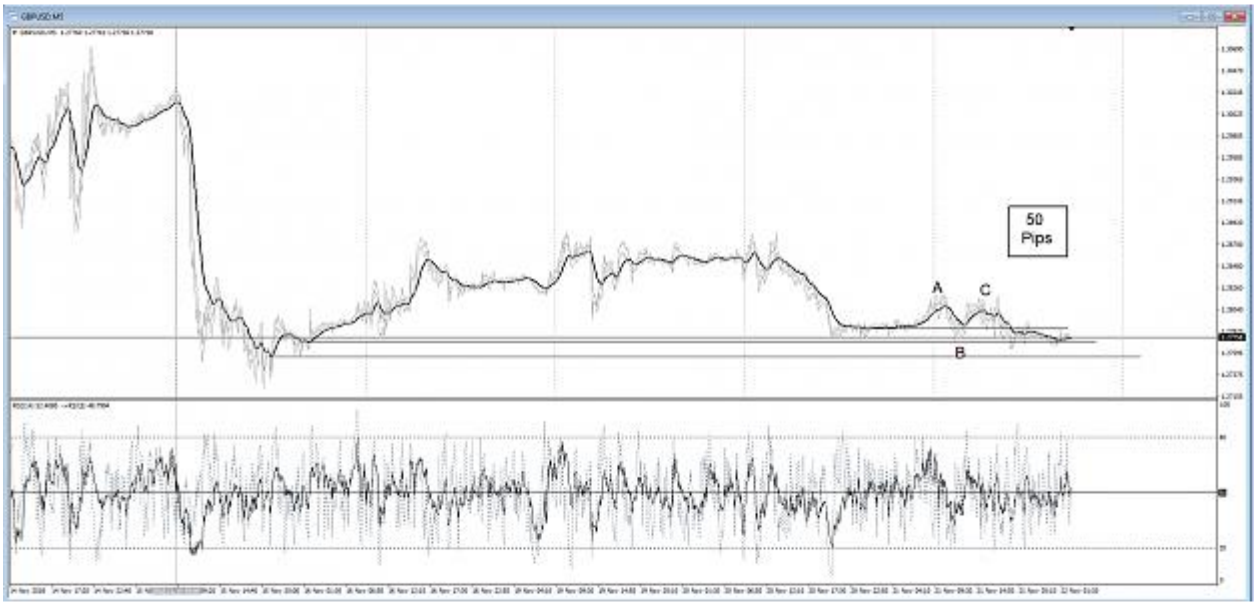
The market has a longer memory than our charts have history for so it is not a bad idea to keep a logbook of the levels that are getting old. In this way you can simply drop a line on the chart when price is in the area

Quoting trader1024
Hi Nala66 , Thanks for the simple system . From the 5 mins , I can see that cable is making HH and HL and bearish divergence forming and price bouncing off the ema and rsi off the 50 mark . Sorry I changed the colors a bit {image}

Cool.. See how the market moved south from the bearish divergence at approximately the time we begin trading. Remember the divergence is going to take price back across the EMA . Then another divergence at the bottom again took price back up across the EMA. So on this particular if we haven't got our 50 pips on the first trade then we could have taken another trade long to make up the difference.

See the chart below and all three, A, B and C are all divergences.

At C the average fails to make the HH so it tests the opposite and makes the LL easily



Quoting Blackeagle
Hi Nala66, How do you draw swing highs / lows? What is your criteria to determine which top / bottom will be swing high / low? And which time frame do you use to draw swing high / low? It is easy to find divergences on RSI, but I believe drawing swing highs / lows would be tricky if you do not have a defined method. Regards, Blackeagle

From the onset I told you price is always trying to break the average swing highs and swing lows so draw you line at these levels

Quoting ozziedave
I see you draw your support and resistance lines on your 5 min chart by using the swing tops and bottoms of the 26 EMA. Does it matter what time frame you use as if you use a different time frame the S & R lines change as the 26 EMA tops and bottoms are typically in a different position.

You are very correct they are at different positions and if you use say the daily you will have a long white beard waiting for the highs and lows of the averages to be broken.

So if we get in on a trade at the say 5 min level we may hold it for the domino effect of seeing a greater target on a higher time from until we get our target. If we see a problem on the 5 min chart we may just hedge to protect our profit. If it completely turns around then what was once a long may turn into a short.

Quoting Blackeagle
Same chart, different swings. Can you say one is more correct than the other? Check the zigzag indi which is used to determine swing highs / lows. When you you change the parameters, swings change. So this is no different. To be on the same page with Nala66, it is good to know how he determines tops and bottoms. Regards, Blackeagle {image} {image}

Using your chart here..(15min)

When price breaks A it is dragging the average to make the LL. To make the average break the lower low price pulls down to B (the next average level) In this case price passes through

B so it is trying to drag the average below B also and price will make the next lower level (not shown)

Now at the 5 min level this mostly happens much sooner so you can get in earlier for the domino effect of stepping up through the time of the charts. If you look at the 1 hour chart of this move price probably stopped on that charts time frame of an average swing.

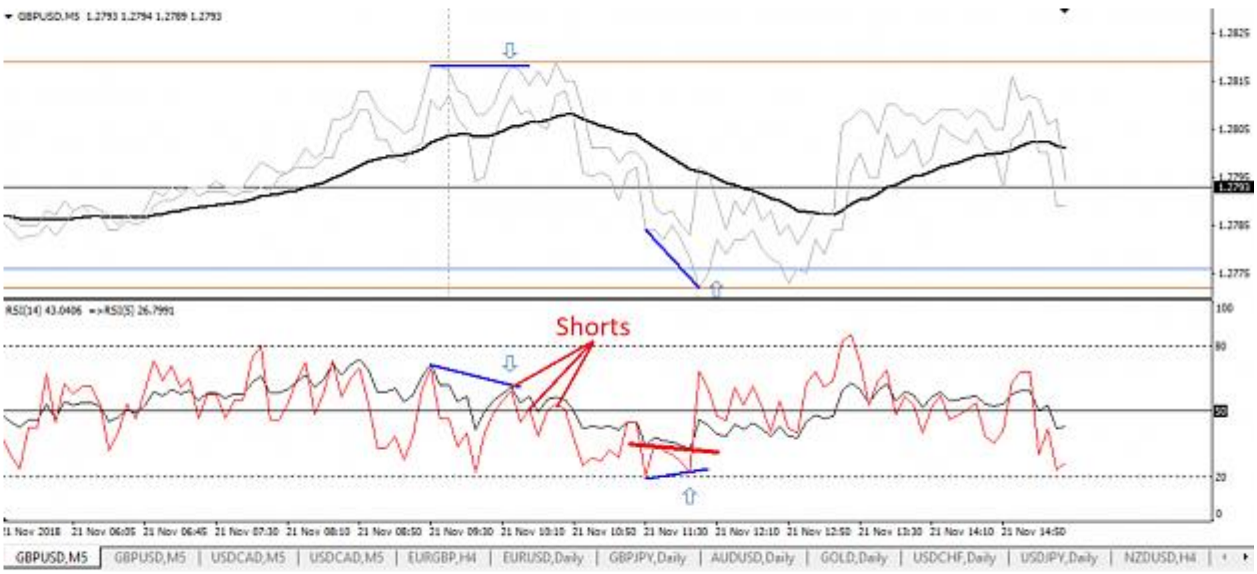
So we use all the time frames and that is why I only trade one pair. If you have the charts side by side like I have you can see clearly what is happening.

It is not possible to draw the swings differently, a swing is a swing is a swing.

[Quoting cesar8](#)
Hello Nala66. Can you please check my entries? for today. Thanks for sharing your analysis. {image} {image}

Your first chart looks good, I have added a couple of bits in red. Also you are not putting the horizontal lines on at the swings, you need these to find the fail points.

The second chart is lacking the EMA altogether so how do you know if the price has crossed from being in divergence or whether it has just bounced off it.



What we have is a lousy week for trading but a good week for learning instead. On the RSI we see the strengths are being exhausted long before the bigger moves can take place so it is choppy to say the least, obviously then a scalping period.

So let's crack on and get to money management.

You have probably read as much as I how we should not risk more than 1 or 2% on a trade and that we should let our profitable trades run. Well I take an entirely different approach to this. I look at the profit I wish to make daily and place the appropriate lot sizes to achieve this.

So I am going to use a $1000 daily profit as an example here.

The problems begins straight away because we are all different in various aspects. We may have different leverages, mine is 400:1. We may have different base currencies, mine is AUD. So the only way I can do this is to explain my own and then you can adapt yours according using a similar method.

Now I said previously 50 pips is a very common move for this pair. It can be a heck of a lot more or sometimes a tad less but 50 is the number I work with.

So if 50 is the target and in money terms 1000 is the objective then we just look at the relationship of these two figures.

First off I am going to try to get my trades on within the first 10 pips (Can't always do this but that's trading for you). This leaves me with 40 pips to make my objective. So 1000 divided by 40 = $25 per pip.

Now I am not going to risk $25 for an entry (well not yet anyway) what I want to do is make entries in progressive stages each time adjusting the stop to limit the damage when things go wrong. This can happen and we should never be complacent about this occurrence

Ok $25 for me I need to divide by about 1.46 because I want the 25 in Aussie dollars not US.

This results in 17.12 and I am going to further divide this into 6 six segments = O.29 lots

Now the trades are entered

1st 0.29
2nd 0.58
3rd 0.87
Total = 1.74 lots.

Checking backwards.

1.74 x 40 x 1.46 = AUD$1016

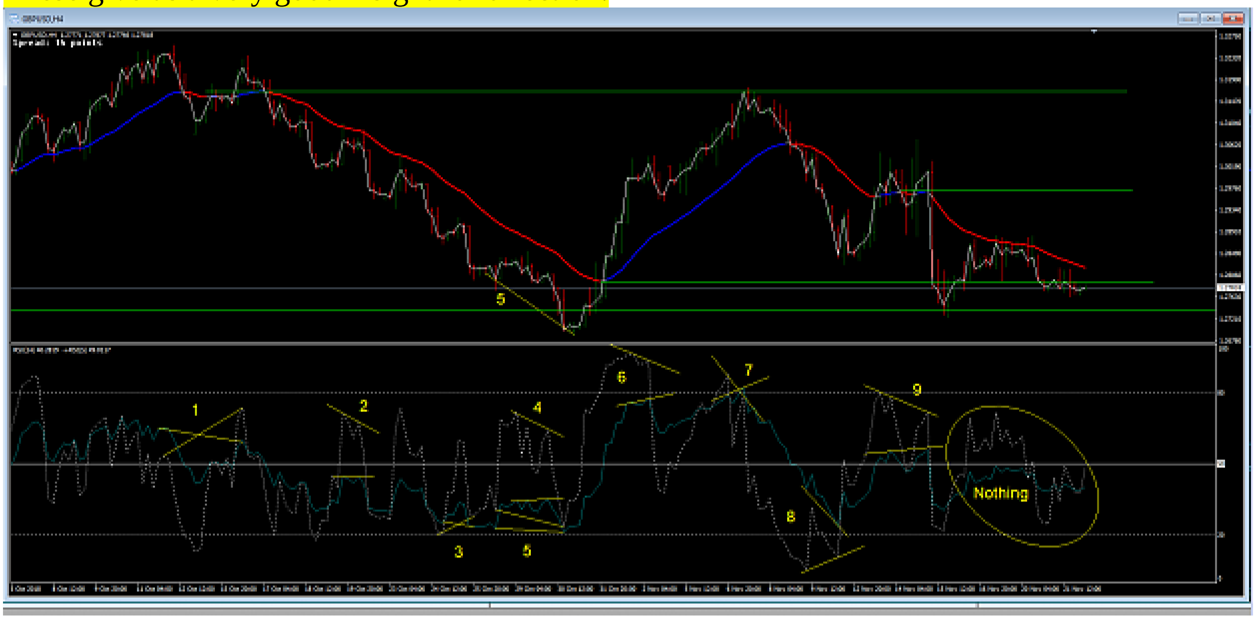
For me 1.74 lots cost me about 800 bucks so I can easily afford this with a 1000 account.

My risk on a trade is usually somewhere around 50 bucks so my risk reward is 50:1000+

The so called divergence we read in text books only accounts for a small portion of what I am referring to.

Look at this 4 hour chart spanning many days, only number 5 was a regular text book one but there were plenty of others.

These give us a very good insight for direction.



[Quoting Jazz1964]
Thanks a lot for all of this. I don't get why, on your H4 chart, divergence 5 is a textbook example. Can you pls explain? I don't see RSI making a Higher Low. Second question, on my picture at 'A' would that be an exit in case you were short? Cannot ignore the divergence?
{image}

Well I would consider A to be a place for a hedge because I am still trading below the average. If the action did change direction I would still be OK and back in the right direction.

I'm sorry I drew the line on the bottom on the price chart it should have been on the top for number 5, what some refer to as a hidden divergence or a continuation in that it doesn't get back across the EMA but pulls further away from it.

Also while on this subject when you see a divergence that does not get back across the EMA it is a good sign the move will continue in the original direction.

Quoting Jazz1964
how to read divergence, on bar close or on price extreme can give different results as shown here Can you pls shine your light on this? {image}

Not everything is a divergence, if it was that simple we would all be rich very quickly.

For example one of the most common moves is the good old AB=CD of the swings. Again on the higher time frame (1Hour) these give us an idea of direction.

Here on the 1 hour chart you can see the latest two..

Recap..

So now I have shown you a couple of ways you can you can get a handle on the direction from the **higher times frames**.

You have seen how mostly the market begins to move from **bar 108.**

You have seen how price pulls the **26EMA** to make a HH or LL or indeed fails the attempt.

You have seen how I make **compounding entries** and how I aim for 40 pips above my last entry to make my money.

You have seen how I **setup the charts** so I can see all these things very clearly.

Now moving onto what I look for as support…

Just as there are many forms of divergence there are equally many forms of Support and Resistance.

I am not really interested in resistance what I am looking for is the fact that one side or the other (bulls or bears) have FOUND support for the current move they are about to make.

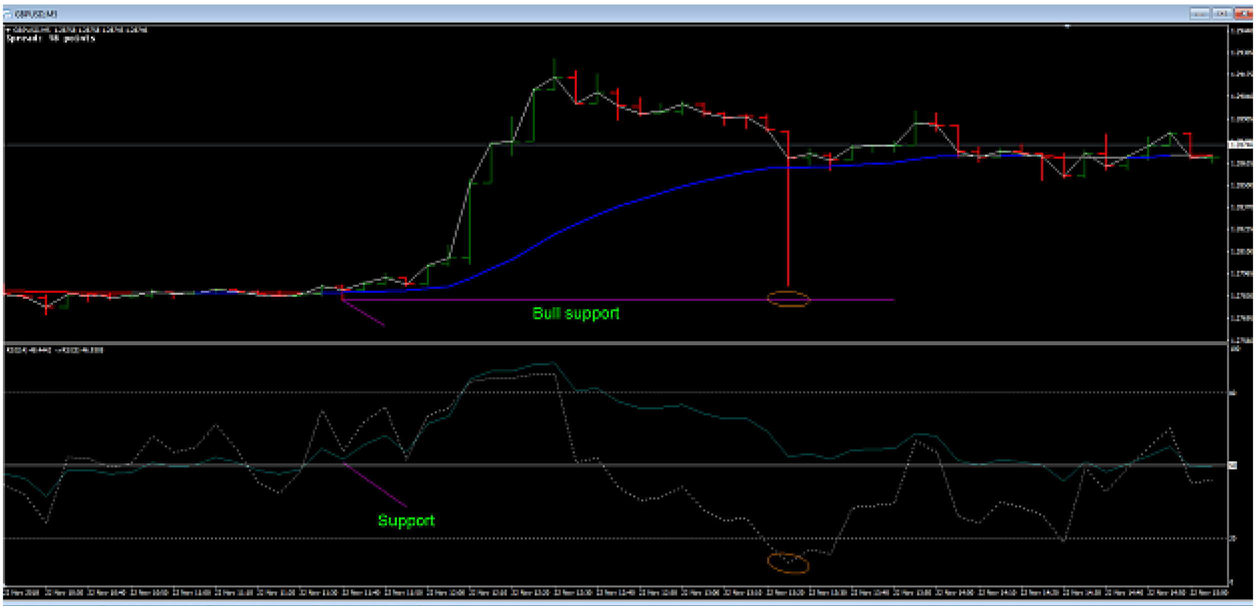
Look at this 5 min chart below to see how these things all come together and then I will explain what I mean by support.

Firstly we should be aware of flattish markets, these are a warning of big things to come and the unwary trying to grab scalps can easily get caught on the wrong side and receive a severe finger burning.

The trouble is we do not know how long these flat spots are going to persist so we have to be very careful and busy plotting the charts for the story that may unfold quicker than we can say SH*T what happened?

We look hard for the signals that something is up and about to happen. You simply do not have time to slip out for a coffee when working, this will have to wait until you get your stops to break even. I am not joking, this is a very busy time where you need a clear head and no distractions.

Using the same section of chart as above and in this case looking at the **bulls finding support**. We see this...



Both price and the RSI have formed a distinct pivot, price above the EMA and RSI above the waterline (50%). Not confirmation as yet but worthy of our my first entry with the stop just below the wick (very tight, low risk).

This happens most of the time on the 5 min chart.

Then we see the bears are failing to recross, the fast RSI gets below the blue but we see failure to cross the EMA. A good reason for my second entry and moving the stop. A two bar test at this point gives me the third and final entry and again moving the stops ASAP until all are at the minimum of break even above the last entry.

Only now can we take a break but as you see from this example the whole thing took less than an hour to make an incredible $3,000 bucks for a very tiny risk.

These moves do not happen every day because of **the setup** and **execution** processes.

Generally we would scalp the setup and trade the execution.
……………………..……………………….

Look what happens next having hit the AB=CD target. The price came all the way back to test the support but look at the RSI. It is a sure bet it is not going to take out the support. Another trade we could have taken long. The fast RSI has bottomed out and the whole thing ends up back above the 26EMA.

Note how the bears never FOUND support for their move down and the whole thing just flattens out again to give us time to count the cash.

Now when we get support we have a valley for the bulls and a peak for the bears but I always draw the line on the appropriate wicks and if these are broken then my stop is hit because that is where I would put it.

Remember I want to risk as little as possible and a warning here is due to NEVER ADD TO A LOSING TRADE. People only do that with good skills, small entries, large accounts. My rationale is completely different, I do the pushing as hard as I can, I don't let the market push me.

See how it works:.

Smallish test entry, second more encouraged entry, even more confident entry.

The potential for making far more money than I risk is foremost in my opinion.

I spend very little time at the PC and relatively not long in a trade, tiny losses versus huge wins.

Sometimes I see nothing so I simply don't trade at all, it is not compulsory it is an option.

(Must keep saving in case of power outages)

How do we find these AB=CD's.

Well for a long time I was using my Quartile tool and my good friend Gentleman Jock (He probably fell off his chair calling him that) uses the Fib very effectively.

However there is a much simpler way in the from of a line drawn from the swing low to the swing high (or vice versa) and the dot in the middle of the line gives me the 50% retrace level where I can start to look for the trade.

These things happen on all time frames so even at the 5 min time we can look for the smaller trades we can take as potential scalps.

A scalp to me is where I only ever get the first trade on. However one can build up a nice pot of money in readiness for the bigger trades.

No doubt I have missed something out but my head is spinning as I attempt to put all this into words so I am going to take a break and await questions.

Quoting jereajali

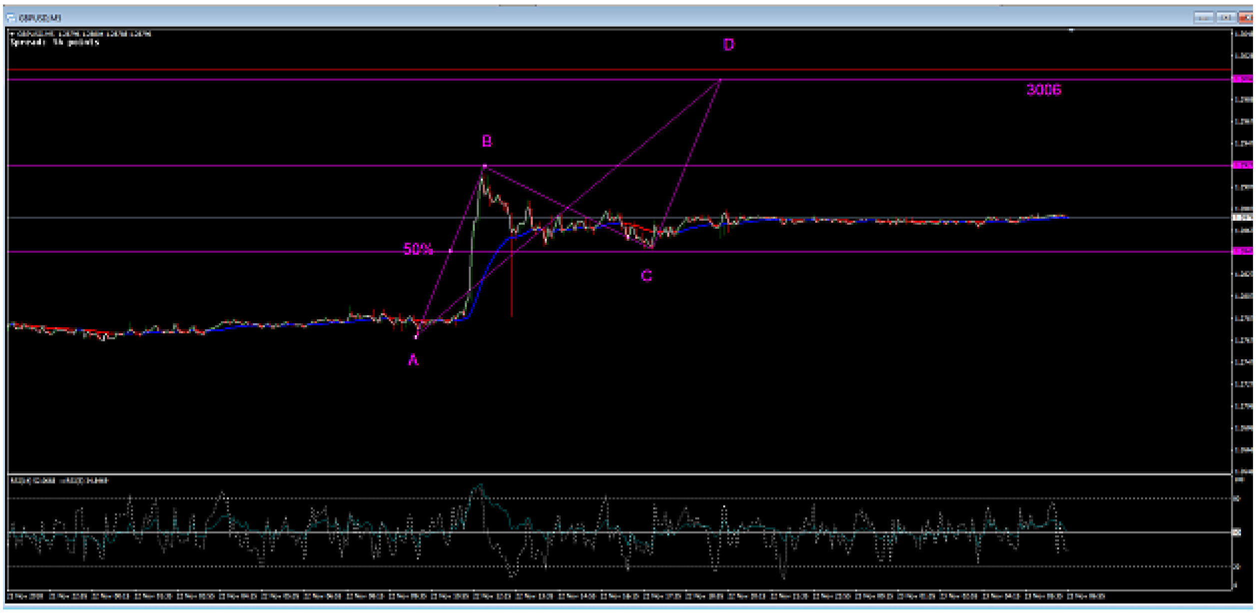
{quote} great work Nala. You read the charts like a map

Thanks...

This is what I am seeing on the 5 min chart at this time.

Now if I was a market maker I would drop in a hurry to somewhere around C to take out all the stops from folks going long. Then I would switch and head for D.

But I don't know what trick they have in mind.



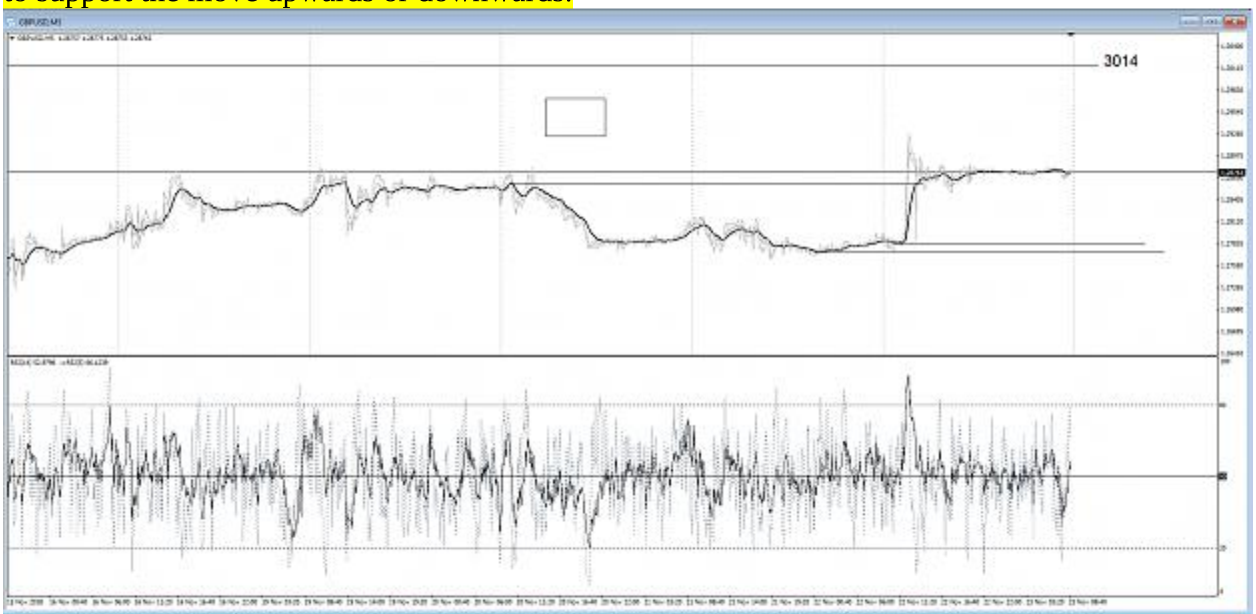
[Quoting aud]

{quote} In this example given that price did not bounce off C and "time wise" has extended well pass D, at what point would you cancel the trade? Edit: Just acknowledging we have not got to bar 108 yet.

You are correct but I am looking at the bounce where it flattened out after the volatility of the previous move. I could well be wrong but the point is to be plotting the potential possibilities of measured moves.

As far as time wise goes it can take as long as it likes until it thinks you have forgotten about it. Who knows the tricks and traps being made.

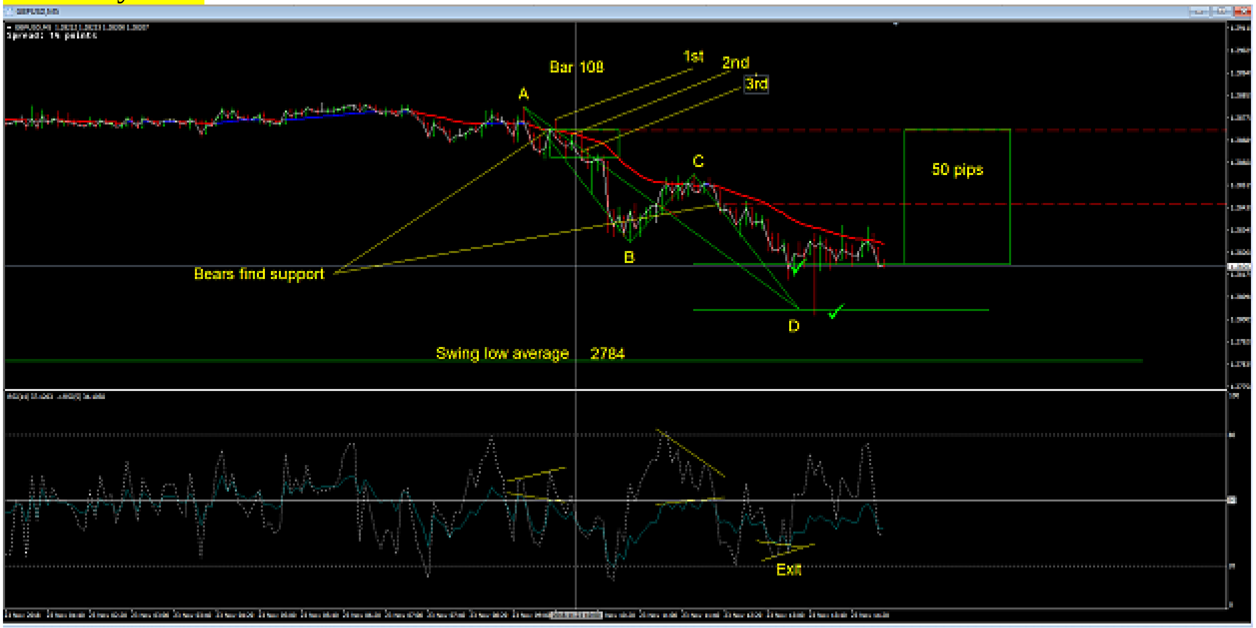
The market hasn't quite been as flat as this in a long time and that is a worry. Looking at the chart below (5min) we see there are no more swings to pass until it gets to 3014 so we may see some fiendish moves today. But That is speculation, I need to see some form of evidence to support the move upwards or downwards.



[Quoting Jazz1964](#)

Trying to get a feel for it 😉Arrows drawn 'live'. I'm not sure if I would have reached the target due to divergence which I would not have ignored. {image}

Very good work Jazz, The divergence came at the target anyway so a nice winning result,,, Here's my chart



So let's look at the trade in the form of a recap of the elements I have described.

1) We begin looking at the chart with a view to starting work at about bar 108 (This happened)

2) The trade often begins with a small RSI divergence. Divergence sends price across the EMA (This happened)

3) Bears find support below the EMA. (This happened)

4) Price ran down but on the RSI it ran into exhaustion so a hedge is attempted to protect profits thus far. (This happened)

5) The hedge ran into divergence so we remove it along with the profits made. (This happened)

6) We measure the pullback in relation to an AB=CD. (This happened)

7) It hit the AB=CD target by which time we had already made our 50 pips. (This happened)

8) All the time watching the action as it is attacking the next average swing low 2784. (This may still happen)

So the trade is completed albeit taking a tad more time than usual. Like detectives we looked for the clues and take the appropriate actions without trying to guess what may or may not happen. So this is not a system as such it is simply paying attention and reacting accordingly

[Quoting ozziedave](#)

{quote} So just to be clear, you are only looking for divergence on the RSI 14 and 5 and you do not need divergence on price at the same time? I would think that divergence on the RSI and price at the same time would give you a stronger signal?

No worries....

Often we do not see a divergence on the price. In my experience the RSI is showing me something that others are unable to see and I see a heck of a lot more on the RSI. I can't do this with other indicators making for me the RSI the best tool for the job.

>>>>>>>>>>>>>>>>>>>>>>>>>>>

As long as we just dip our toes in the water first then add as we become more confident and move the stop to limit damage we should be fine. A stopped out trade is not the end of the world and these trades pay so well that tiny losses just become par for the course. One thing I have noticed over the years is that people put tiny lot sizes on so they can add to the position if it goes against them, well if it going against them then the analysis was wrong and it becomes a wing and prayer situation as hope springs eternal.

This is the trouble with tiny lots, they give a false confidence to the trader that they can always trade out of the situation. Mostly we could do this but it only takes one that we can't fix and we blow heaps of our account defending it. Then people begin to chase losses and the hole just gets deeper.

Maximising our trade in the first place stops any attempt to do this and the rewards are far greater.

Anyway this is the way I trade and it is very profitable.

Practicing over a couple of weeks should give the confidence to have a go

Quoting Bydyke
I am happy to notice that you have now started your thread. By now your readers must have learnt about Bull Support, Bear Support, Average Swing Low and Average Swing High. These are new terms that you have introduced into the World of Forex. With your system, the possibility of making losses is very remote. In fact, once an entry is made the chances of making pips are phenomenally high. Your system eliminates practically all the fears of picking the false ups and bottoms. Another high point of your Strategy is your Stop Loss management. It is one...

Thank you very much, that is quite an awesome accolade

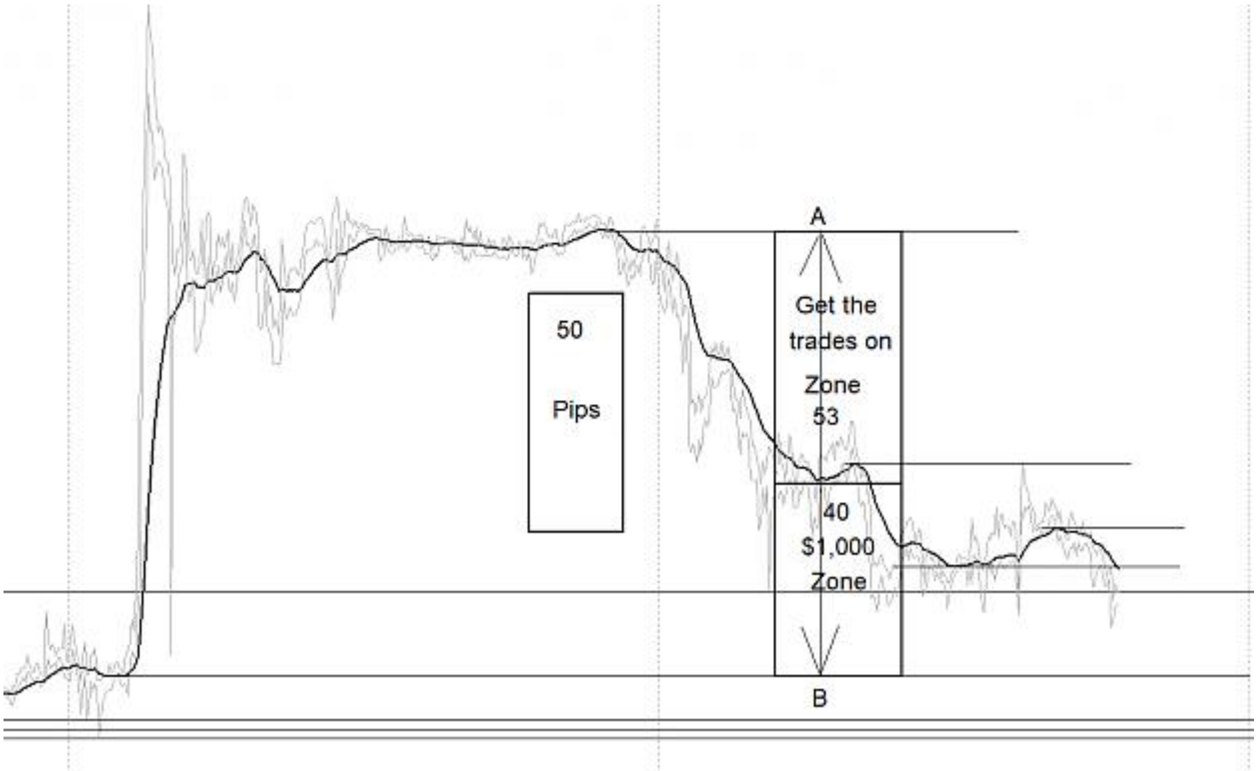
I believe I have explained the why, what , when and how I trade well enough in the explanations I have given.

I always expect people to express dissent but unless they show me a better way, or even a method of improvement on my practices, then I simply take such notions with a piece of salt and move on.

Some people seem to be having trouble with stops. I am simply saying keep them as tight as possible at 'the trade has failed level'

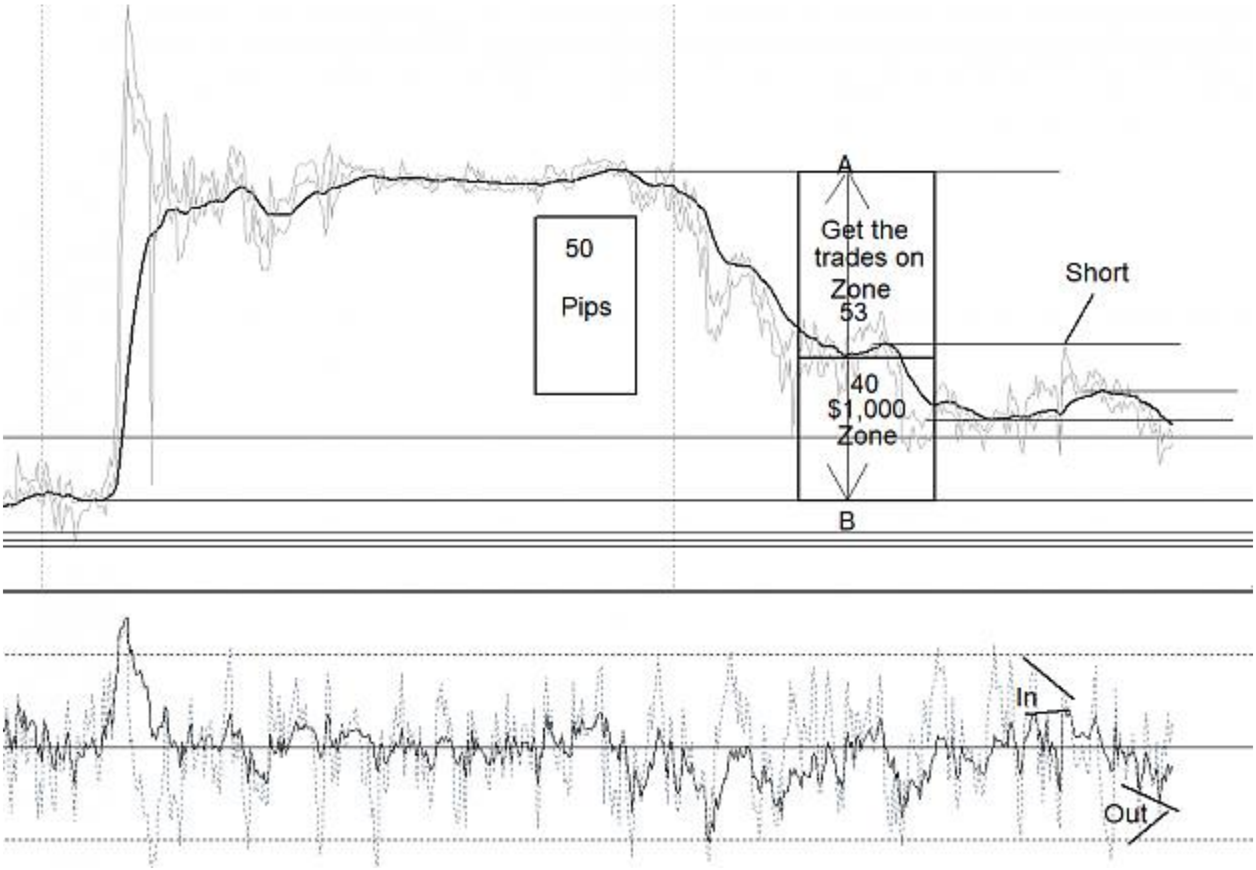
Really we have much more time to get the trades on but I like to get them on ASAP so I can get my profit ASAP also.

Look at the 5 min chart here where we are expecting price to run from A to B. We had a 53 pip movement to get our trades on and still have the 40 left to complete the task. Once we see the bears have FOUND support and we see the 1 minute chart making those lower low average swings we have heaps of time to add to our position



The signals are very clear. Apart from those already described Look at this latest 5 min signal 34 pips of pure profit via RSI divergence.

We can see price fails to break the average, it is in divergence suggesting a cross of the EMA and the average failing to make the HH attempts to make a LL.



[Quoting 4xu2](#)
{quote} NALA66, This quote alone may be the most important quote (in my eyes) in forex knowledge I have seen. Although my job does not allow me to trade your system. This quote has opened my eyes that it also works with my 36LWMA. I trade W-D-H4 TF. Price Always returns to average. Leaving a road map when there are forks in the road. Thank you for your knowledge and i look foreward to reading more.

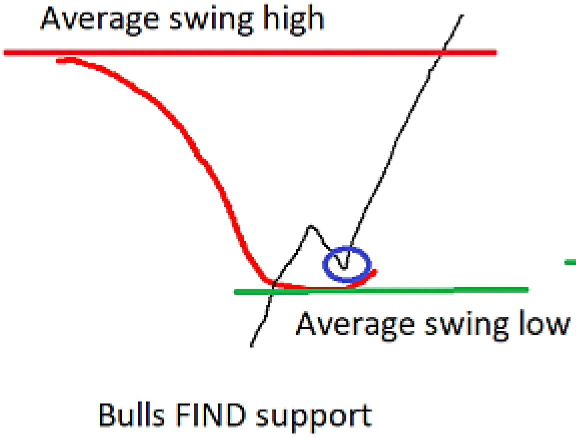
Thanks...

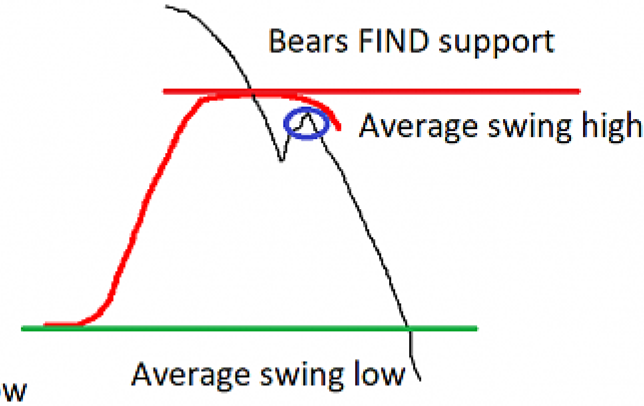
I wouldn't actually say price always returns to an average. It is the average of prices so the average is always chasing the price not the other way round and at some point the average will catch up to price.

This is why I compare average to average so for me the swings become the price destination levels (Resistance levels if you like)

[Quoting Jungleman](#)
{quote} What are bull support and bear support... Average swing low and average swing high..... On which thread are they defined.

For me it is very import the bulls or bears FIND support for their respective moves and the moves are from average swing to average swing like this..





Ok I think that is all the questions so lets take a look at yesterdays moves...

The chart on the right is the 1 hour so I begin by taking inference from it that price is going up. There was divergence at the bottom inferring price is going to cross the EMA so the level at A (average swing low) is going to fail so we should see the bulls try to make the HH at 2. This happened.

Now when we drop to the 5 min chart we see a whole pile of possible entries cause by RSI divergences.

So price going up we are long on the signals and the pull back signals are hedges until we reach the top where we close all the longs and begin to short. The same process happens we are going down so take the signals short and the signals for the pull backs are hedges until we reach 3.

Note when a hedge signal crops ups another signal tells when to remove it. It is a good idea to take these hedges because they are risk free and add to your 40 pip count. As you see the score here was many more pips than you need to make the $1,000 indeed 2 or even 3k was on the table to be taken.

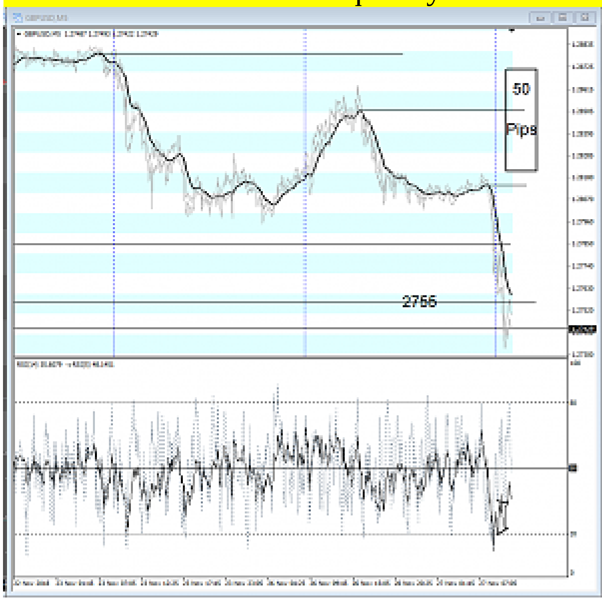
[Quoting haris1211]
Thank you for starting this thread it is helping me a lot. I've few questions to ask. 1: What is 2 bar or 3 bar test? 2: How do you choose the range to trade in just like you select 50 pip range everyday, how do you determine that? 3: My RSI values are bit different than yours, i think your RSI chart is more volatile than mine. Am i doing something wrong, i'm using same 5 Period RSI (on previous indicator data) on top of 14 period RSI.

1) A two bar test is exactly that. Ideally done in the direction of the trend for example below the EMA we test by drawing a line on the bottom of the two bars to see if the next bar closes below the test line for a short.

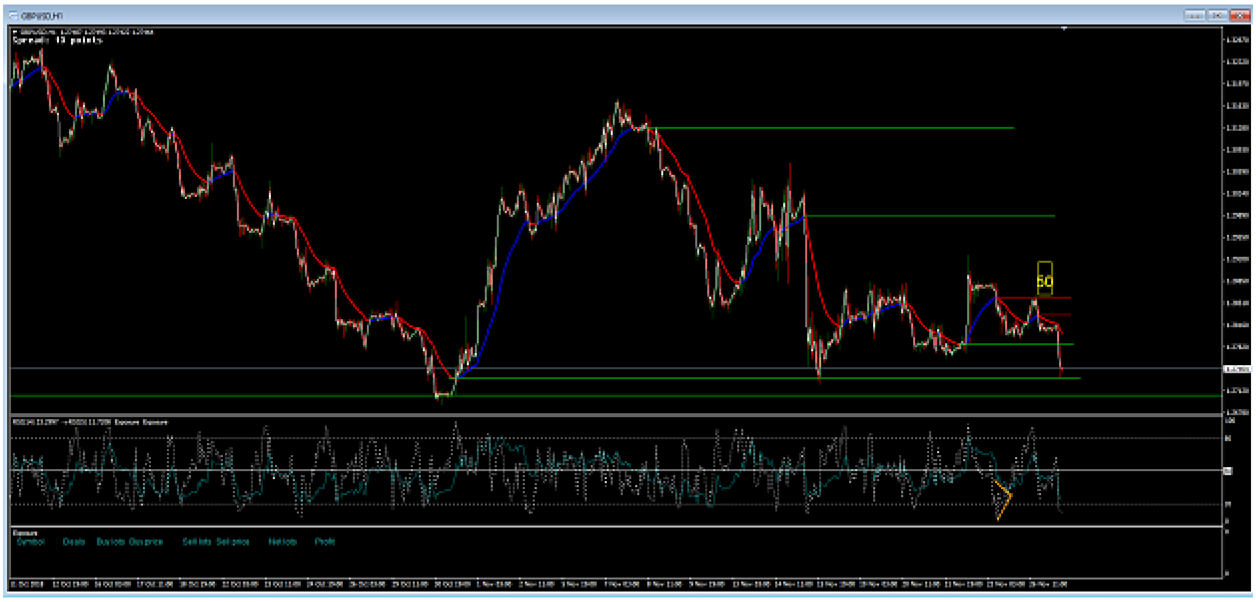
2) The market is generally going to move more than 50 pips in either direction so if I can see an average swing high or low covering this distance on the hour chart then I am going to look for signals to take me there.

3) I can't explain why you are getting a difference, you certainly shouldn't be because the RSI is a mathematical expression of the price

Well that is how I like it... quickly done and dusted



That was the night and bright 5 min charts now look at the 1 hour where the inference comes from



Quoting KyBakka
{quote} That impressive Nala, can you explain more about your entry. Thank you.

Actually the entry is simple.

Price crosses the EMA from above and the bears find support in that the bulls fail to take it back across the EMA to the long side.

Now this can happen and that is why we have a stop and that the 1st entry is just dipping our toes in.

We then add entries as our confidence grows and all this happens about the time of the 108 bar.

We can also see that on the 1 hr chart we are trading below the average so that also means shorts are on the table.

Quoting KyBakka
{quote} Thank you Nala, just one more question, do you hedge when RSI go below 20 zone ? and when do you remove the hedge ?

I didn't actually get a chance to hedge today. I hedge when I get a divergence and remove the hedge also on the opposite divergence. Like this

I didn't take this because I am done for the day

Normally a trade has three parts...

1) Starts with divergence.

2) Bulls or bears FIND support.

3) Divergences prompts a close or a hedge.

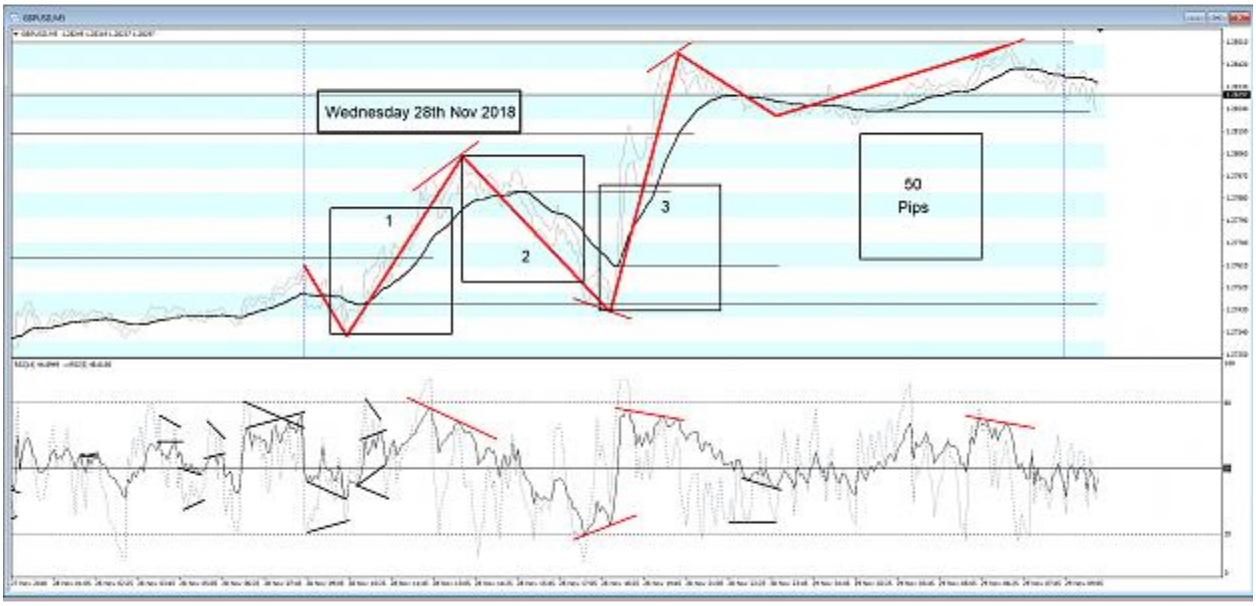
Yesterdays was a little different from the norm because the divergence was held over from the previous day (Monday) and held all through the Asian session.

Below on the 5 min chart we see...

A) Was the divergence
B) Bears FOUND support
C) Prompted the hedge or close.

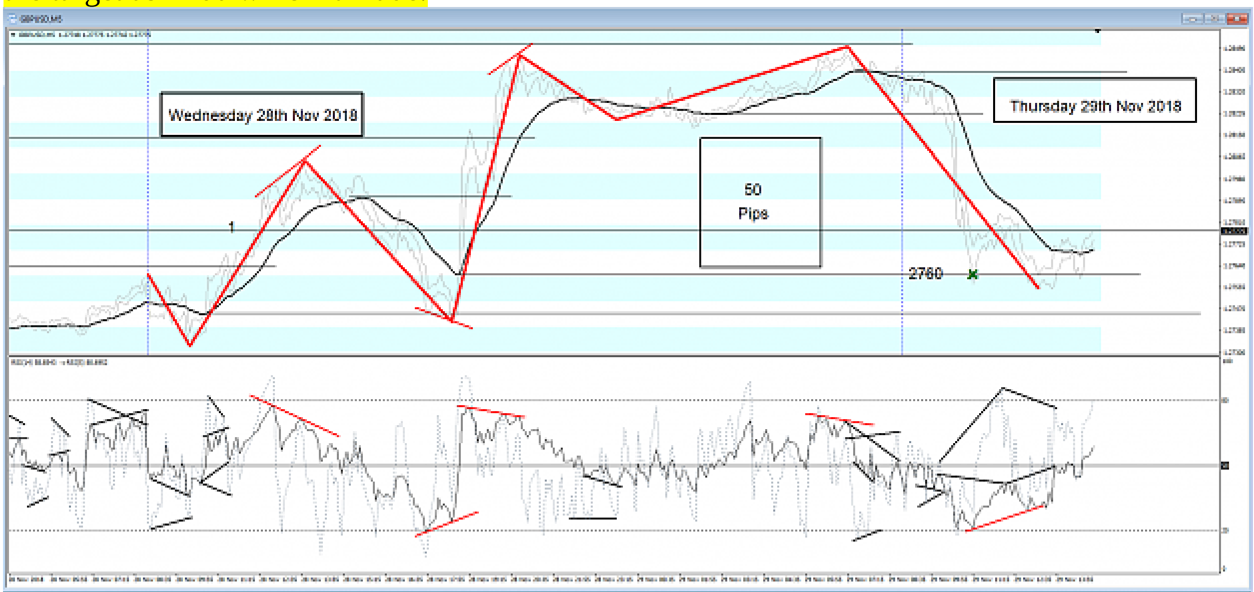
This is one of the stop outs because I failed to hedge I lost $50 (5 min chart)

Looking at the chart from yesterday I see there were three opportunities in one day to make the 50 pips.



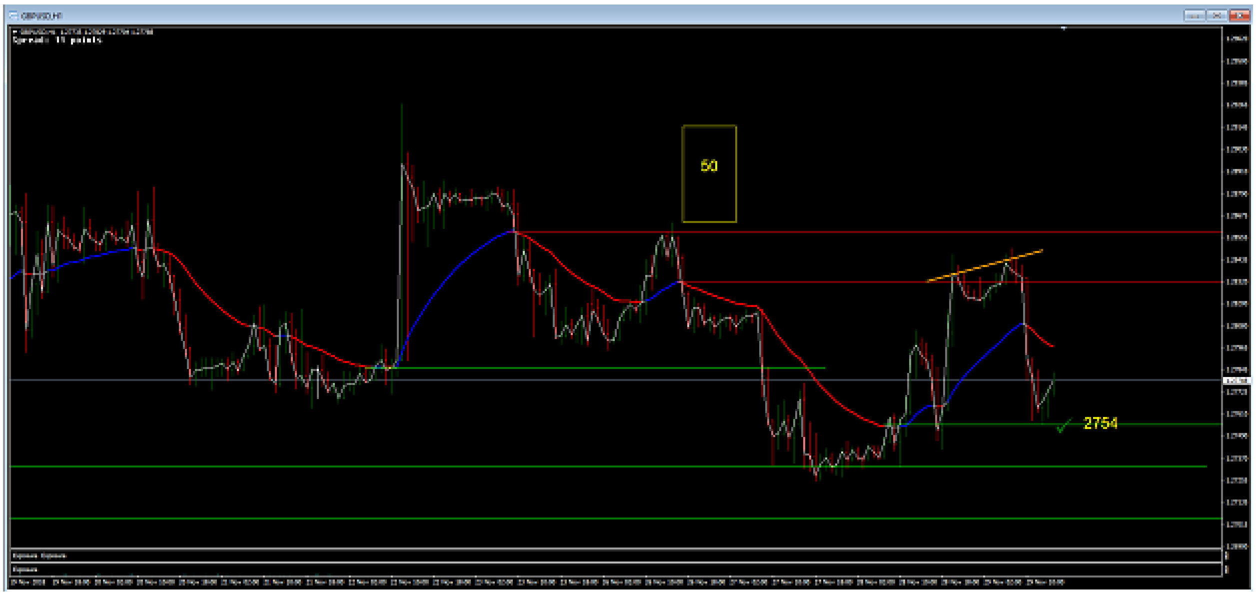
Quoting Goyatrade
{quote} I was bit confused with the conflicting divergences, so i went bullish first and then lost 12 pips with the turn around, but then took a sell at the break of 1.2824. The 40 pip target of original signal was around 1.2807 ?? If i read it correctly, but i went for the full nr, so got 24pips back!! Should have styaed, but am taking a break and wait for next signal!! Still new at this and learning!!

Not sure where you got your target of 2807. Look at my chart below and clearly you should the target as 2760 which it made.

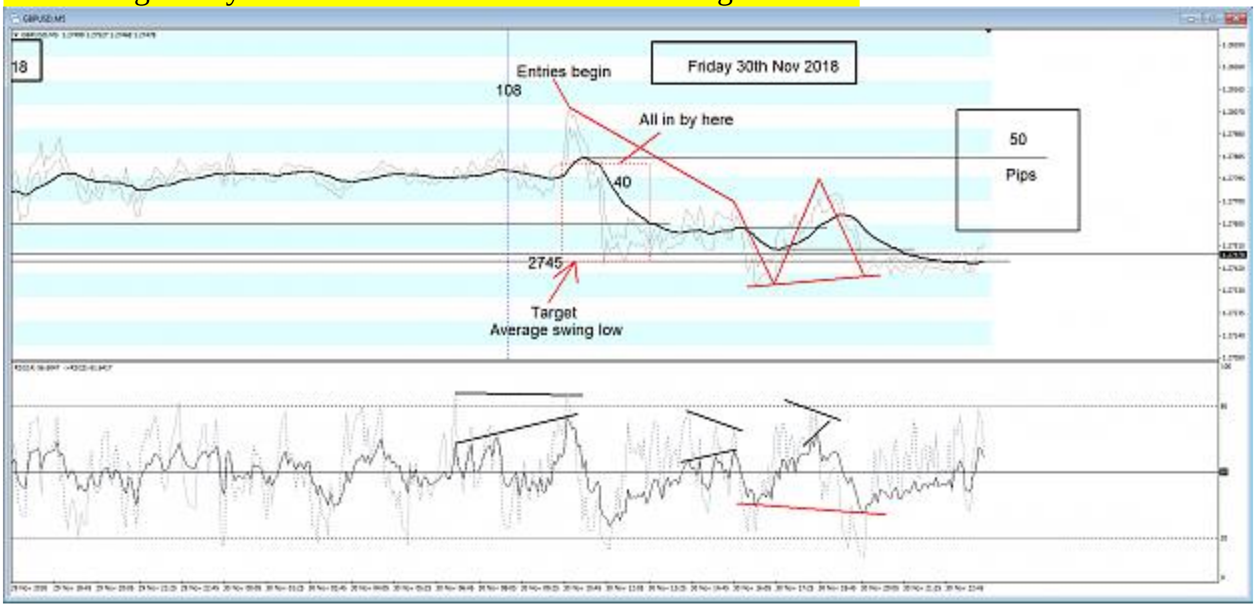


Note how the average failed to make the HH so it turns to attempt a LL

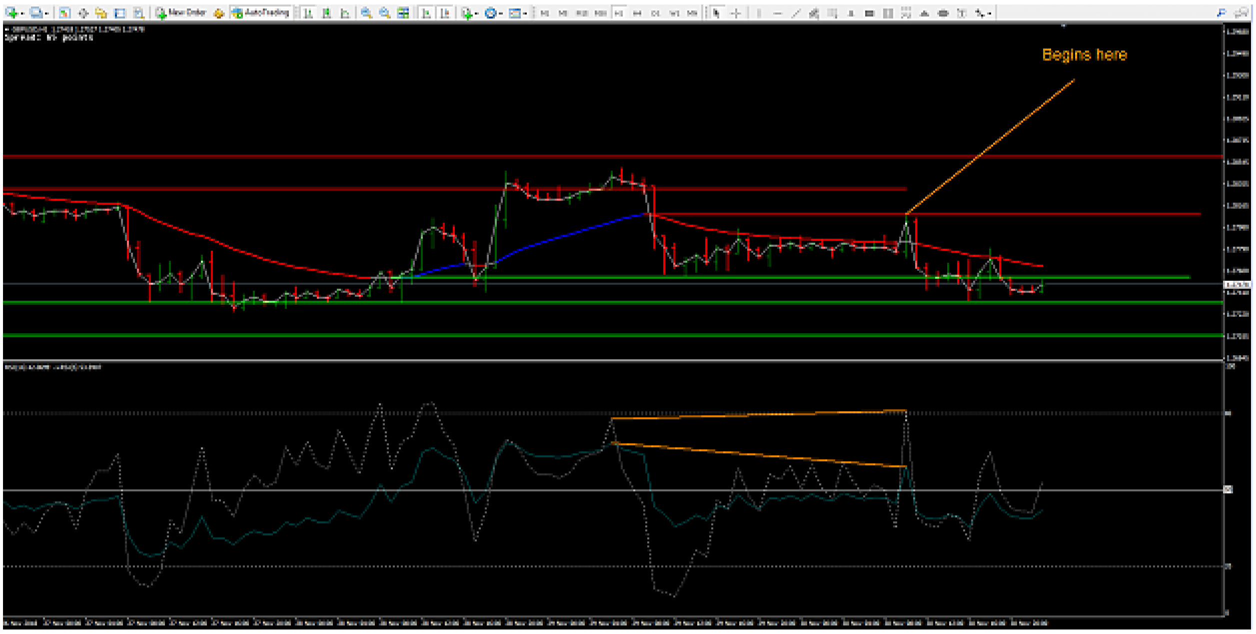
And this on the 1 hour ...



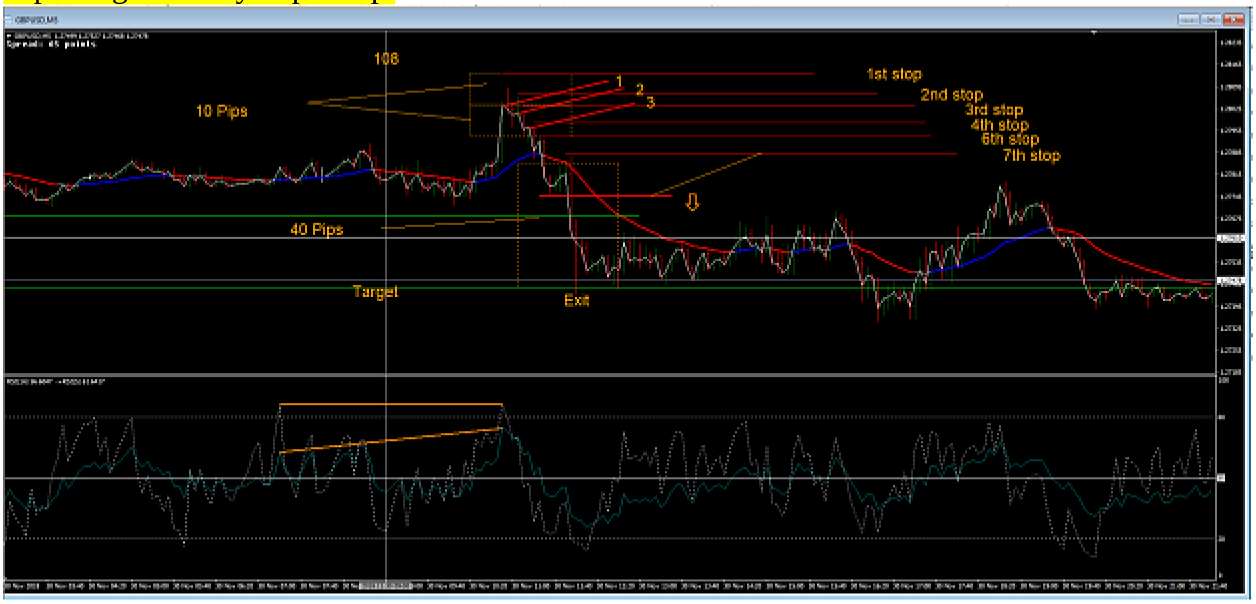
So tracking Fridays 5 min chart it should look something like this..



It begins on the 1 hour chart as we see price is banging its head on the swing high average in RSI divergence



So we take a look at the 5 min chart and see there we are also in divergence. Now we expect to cross the EMA so we take our first entry with a ten pip stop. Bar 108 has past so we are expecting volatility to pick up.



We can see we have plenty of time to get our 2nd and 3rd trade on each time moving the stops before we even cross the EMA in this case well in the 10 pips I like to try for.

Price does cross the EMA and the bulls find support so this trade looks all good. Price is dragging down the EMA to make the average swing LL, In doing this the price reaches the target and in this case we have well over our 40 pip profit distance and close the trade.

The trade performs like this day after day with the exception that the RSI goes into the extreme high or low positions where we then see a divergence indicating a pull back (a hedge trade). This is where we may see an AB = CD and take advantage of the additional profits made by the pull back.

If the trade is wrong and things are not panning out then the stops will protect us from any serious loss.

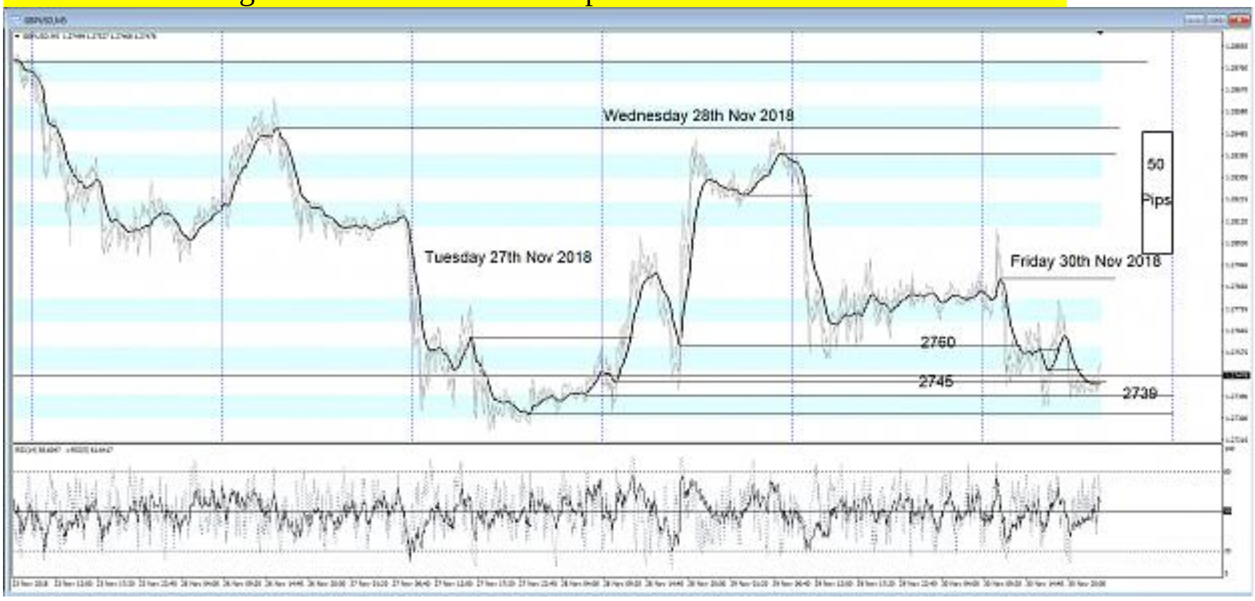
So we have..
1) The time of day.
2) The 1 hour inference
3) The initial 5 min signal to take us over the EMA
4) Bear support
5) The target price is wide enough to aim for our 40 pip quota.

Quoting aud

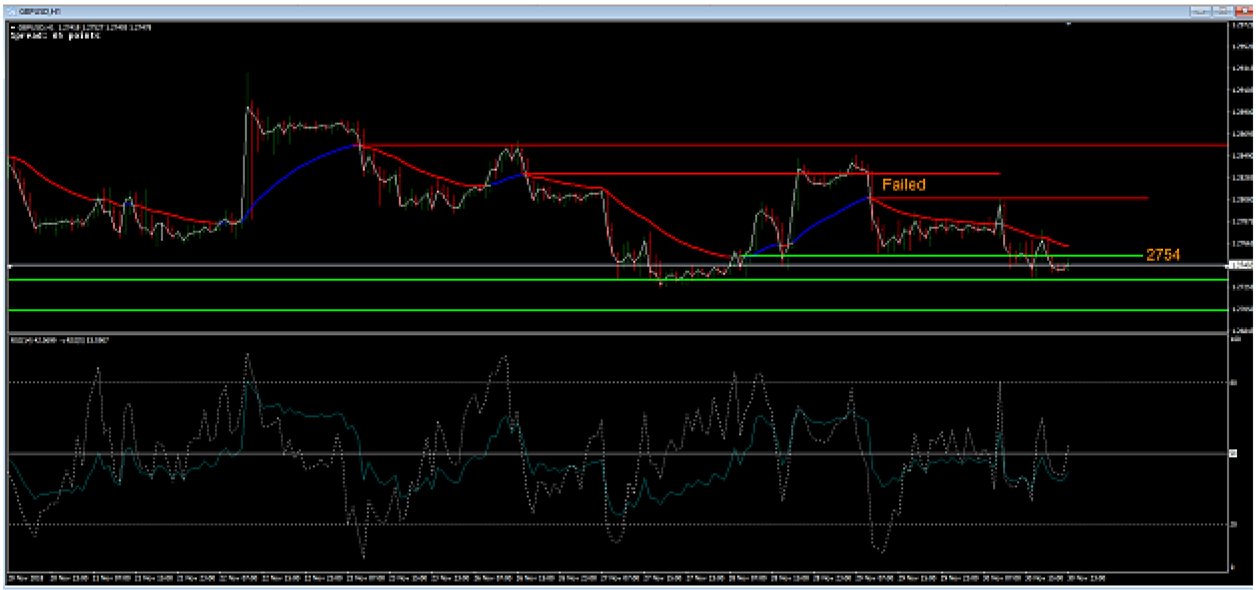
{quote} Do you mind saying how you selected the average swing low target of 2745? There are m5 swing targets either side of this one. The2745 target looks good on the h1 chart.

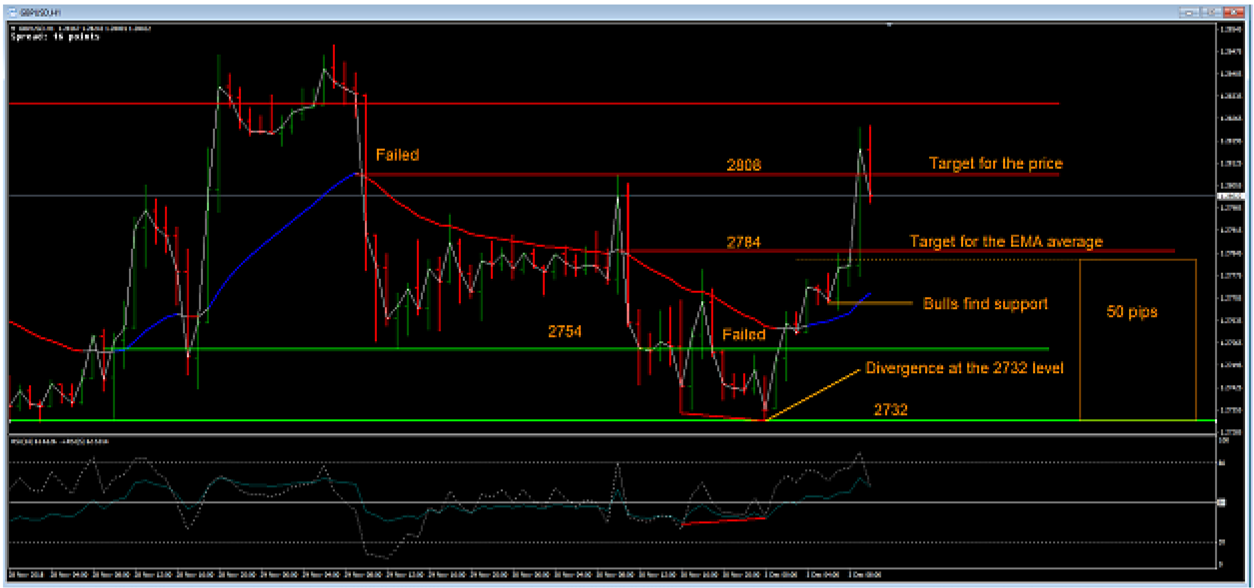
On the 5 min chart the 2760 average was the one be broken. To break this level price itself makes it to the next level which was 2745 which is enough to easily make the 50 pips required.

Then for the average to break this 2745 level price moves on to the next level 2739



The 1 hour chart has not yet finished because the EMA is trying to break the average swing at 2754





Quoting KyBakka
{quote} Hi Nala, the trade happen so soon before Bar 108, how we should deal with this ?

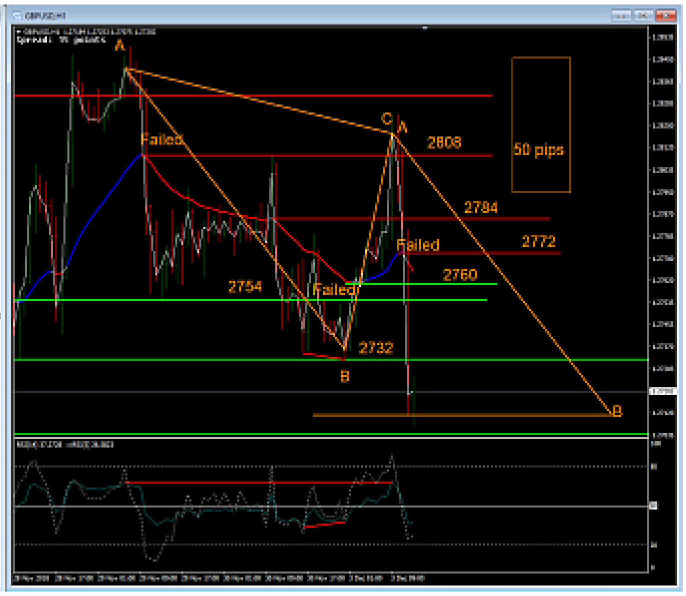
We can't catch every trade.

Well on the weekend I said the bears on the 1 hour had not yet finished but they were close enough to keep an eye on them from the open of the week. That would have presented the whole trade to you.

However from about bar 108 there was also bullish divergence on the 5 min but not enough of a target left to get the full 50 pips.

Then shortly after the bar 108 gave us a bearish divergence, the price target has been hit so this is a good likely short and as we watch the 1 hour we see the average again fails to make the HH so it is once again going to try for the LL

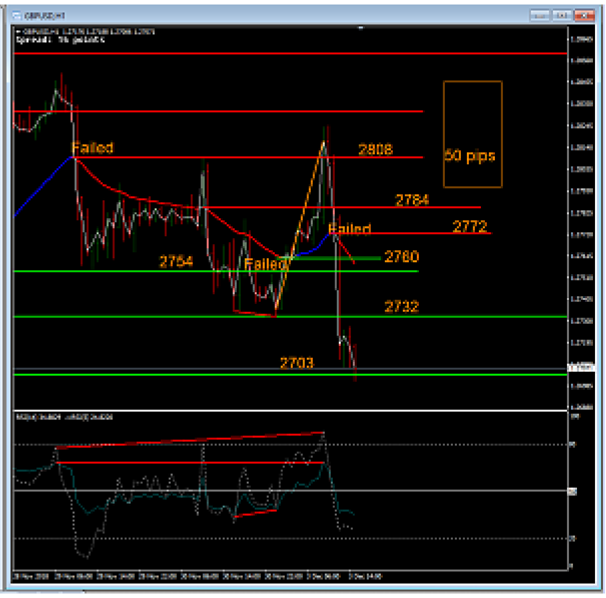
My charts look like this at the present



Don't worry about the ABC triangle you see here that is a whole different study than what I have presented.

We just hit the 2703 which is the lowest level I have on my charts. Still waiting for the EMA to make the LL, which it just did while I was typing Now is the EMA going to attack the 2732?

Doesn't matter now because I am off to bed.



Handling rejection via those infernal stops.

When we place a trade we also set the stop to limit the damages done by being wrong. Once the trade gets under way it is important to tease the stop into a breakeven situation and it is this stop that gets hit the most. This is all par for the course in trading if possible we lose nothing by covering our risk.

This can be a pain or rather a nuisance because we spend time looking, plotting and all for naught.

Look at this piece of chart where there was a bearish divergence in 4 different positions indicating a turn is on the cards. Taking a trade at each of them would have resulted in three break even stop outs to get to the fourth which paid us a few bob.

The reason for this is that only the 5 min chart is being used here, there is no inference from a higher time frame indicating a short is on offer.

Changing the time frame to a 1 hour (Shown as inset) you would see that the div at 4 was on the EMA, precisely the position we should be looking for a scalping entry.

I know know there are RSI divs on the underside

[Quoting KyBakka]

50 pips go up in one minute, so crazy

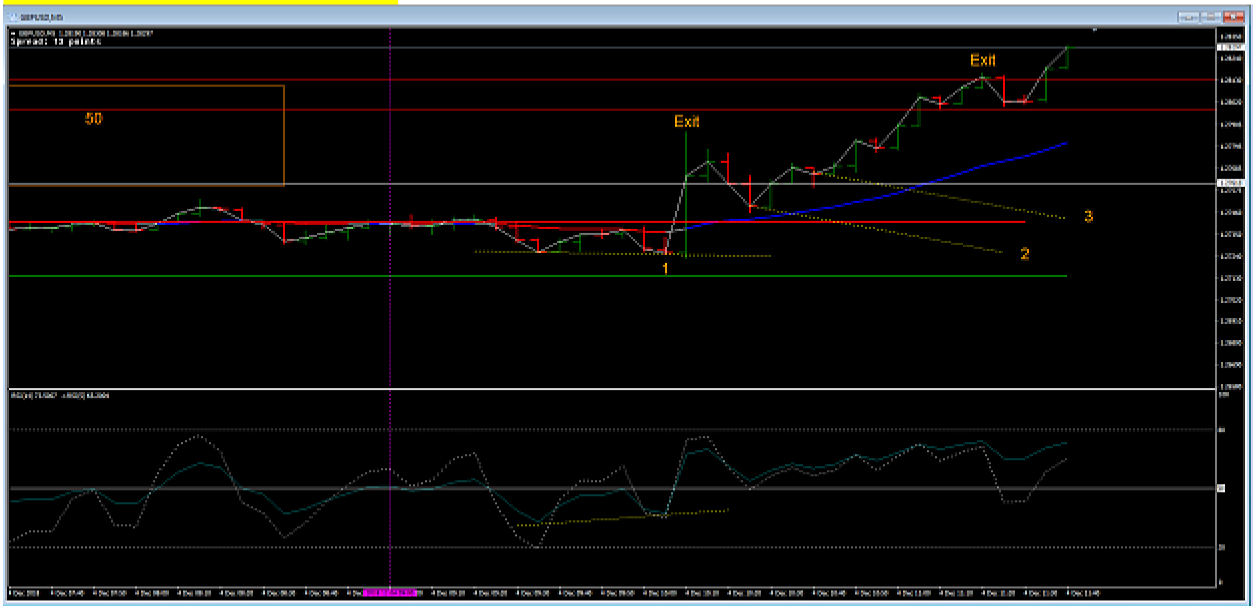
Yep I could only get one trade on.

[Quoting Bydyke]
{quote} Thanks. Meanwhile we can say we now have Bull Support on M5 at 2746 {image}

Yep exactly I placed a stage 2 trade there and a stage 3 a little ways up and now I am done for the day.

I got about 55 pips from the earlier stage 1 trade.

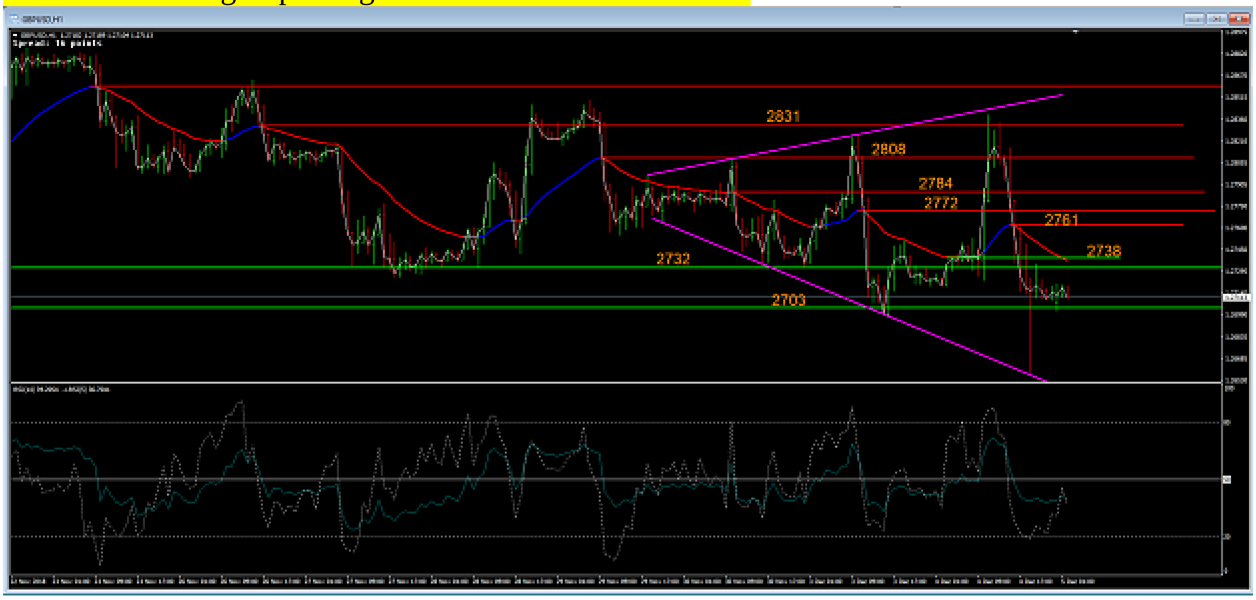
So the trades looked like this...



[Quoting Bydyke]
{quote} Alan's system doesn't border with news. Once your set-up is right, the news makes it easier to make the pips

That is correct, by the time we hear the news it is history, let alone analyse the consequences of it. Our stops are there to take care of business should something happen to threaten us. I don't even look at the news events, I am far too busy trading the factual signals we see, remember we should avoid distractions when trading and that includes not being in any forums viewing the banter of others, including me. Let the charts alone do the talking for you.

Here is something of passing interest on the 1 hour chart...



The averages continue to make LH's and LL's but the price is forming a trumpet pattern as the price swings get larger and larger.

We can see the average is poised to make yet another LL.

Quoting mickmack5

Hi Alan, First of all, I want to thank you for sharing such a wonderful method. I need to ask you about the current trade on the m5; are you suppose to close the trade and open an opposite trade (hedge) when you see a divergence against you, as explained in the chart. Thank You.
{image}

You know what... I didn't actually see that, I was looking for continuation moves. You are correct I should have hedged there, then the hedge would have been stopped out a little later as the journey continued.

Glad to see you are developing a good eye for the details.

[Quoting Zelias]
{quote} Hi Nala, First of all, thanks for a great thread - I'm trying to grasp it and hopefully put it to good use in the coming days/weeks. Who knows, perhaps I would be able to help with the improvement 😊However, today's entries left me a bit unsure if I'm doing things right. Hope you dont mind me drawing over your chart to show you what I mean. In yellow I've noted what I thought the entries should've been. My questions (in order of the entries) are: - Do we trade before 7am, as I thought we only look for signals by that time? - My 1st...

I have never said you cannot trade before the 108 bar, what I am saying is that is where we would expect an increase in price activity. I am in the fortunate position of being in Australia so I have the advantage of being awake long before the 108 bar which is about tea time for me. It depends on what I have on for the day as to when I can get to the PC to trade. I would expect to at least get there by 108. I am spending a tad more time at the PC than normal because I am thinking about the stuff to put in this thread.

Nor do you have to get your three trades on specifically within ten pips, this is what I try to do but cannot always manage it. In fact sometimes I can only get the stage 1 trade on. We have to have a degree of flexibility, the market is not a rigid construction, it is always going to chuck variables at us. The trade is structured in such a way as to manage these variables responsibly for the best outcome we can expect to achieve.

If we continue to take small losses for the potentially much larger winning ones then we are very much putting the mathematics in our favour.

When I place my stage one trade I have no idea if the trade will work out or not and the same goes for stage 2 and 3 entries, what I do know from pure experience is that I have a very high probability of being correct and a very high return for risk as a result.

The simple thing to do is to practice with very small lot sizes such as 10c, 20c and 30c entries and then letting the 30c entry run for 40 pips. If you trade like this with real money you are forced to be honest with yourself because the results will show in your bottom line. Log the trade and comment on what you did correctly or wrongly and how the trades turn out. Don't just take my word for it, you have to prove it for yourself.

Good stuff keep, up the pace.

Quoting Paullum

{quote} My charts are different as well. I think it has to do with the opening time of the Mt4 provider. A different opening time will change the candles. I use axitrader.

That is strange I use Axitrader also...

On this 5 min chart I have put verticals so you can check the chart time.

Do you see divergence on the RSI at these two locations.

I just plotted the moves on the 15 min chart and they looked like this...

It took a long time today to reach the target

[Quoting mickmack5]
{quote} Hi Jazz1964 , thank you for the offer; I guess the issue is due to different openiings of the market as I am using Oanda. Seems like some of the guys are also having this issue of a slight difference in their charts. 😊

I don't think it makes that much difference at all as long as you follow the signals on your charts. However if you up the time frame to say the 15 min instead of the 5 min then the differences should be even less.

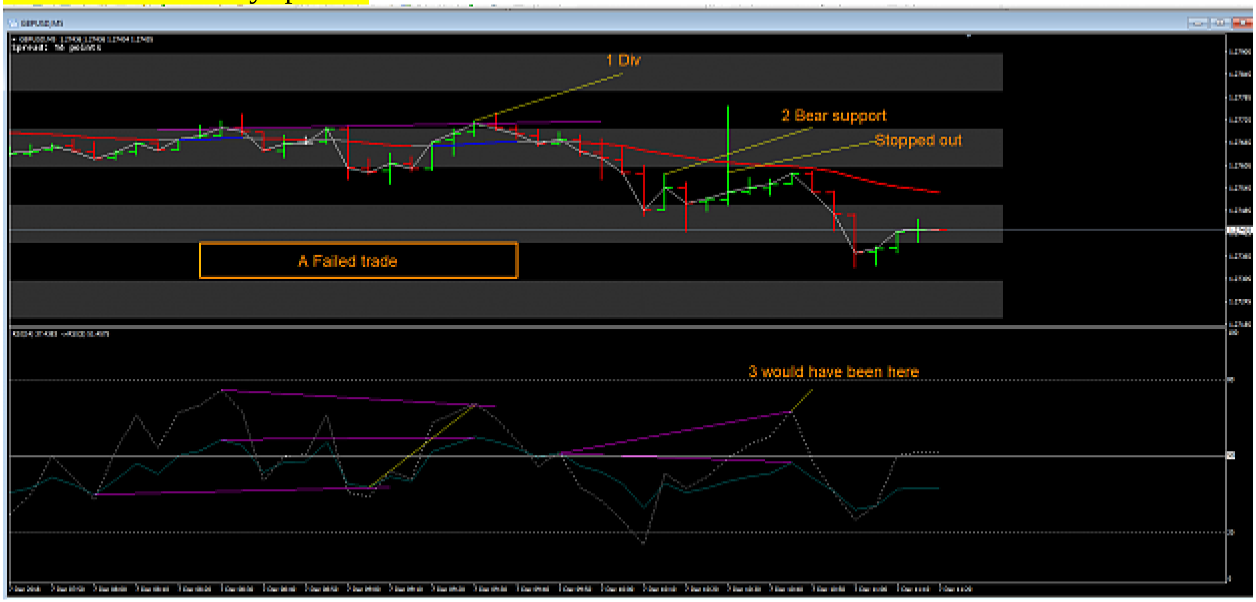
Here are my 15 min signals for you to compare with.

Whoops I still had a test line on that here is the correction...

Well not a good day today...

I managed a short on the div followed by a stage 2 on the bear support and that spike stopped that trade out for a small loss. I shorted again and got my money back and closed.

Sometimes it just doesn't work the way we want it to BUT we are not deterred and look forwards to Mondays profits.



Note how I simply quit for the day now. I don't like to spend more time at the PC once I have failed the entry and got my money back

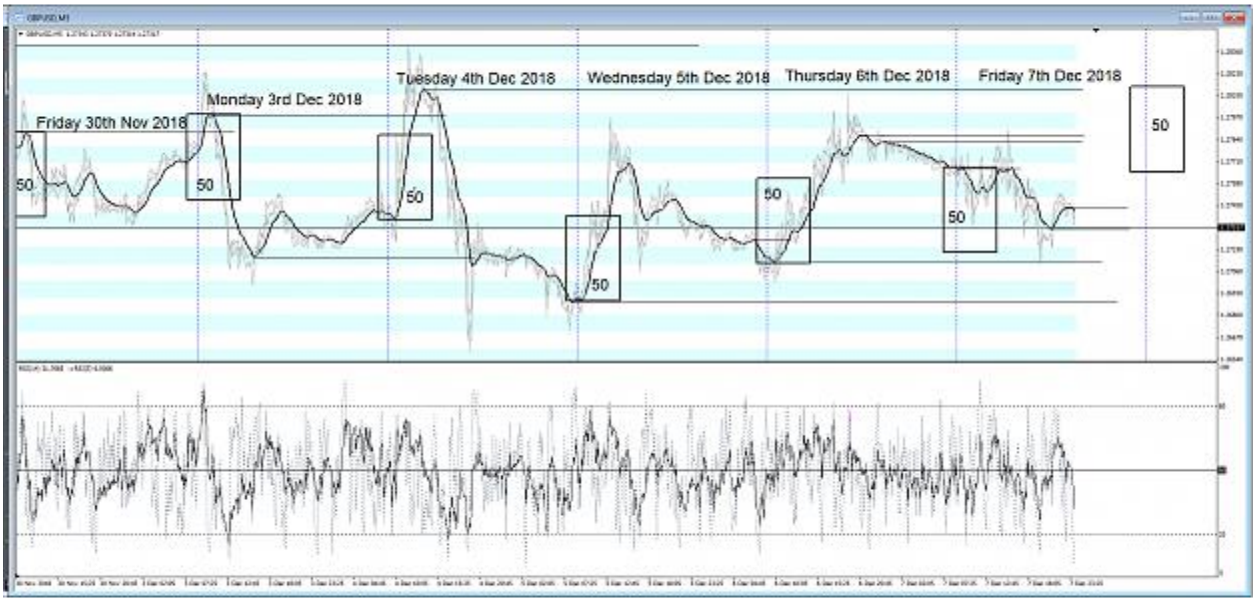
Quoting obiwandax

{quote} Your comment about "sometimes it just doesnt work the way we want" is as much a part of trading as entry/exits. If the market wrong-foots you, walking away for another day is a valid strategy, as hammering at a market that you are out of synch with can lead to further bad trades. I like your sanguine "quit for the day", knowing tomorrow is another chance to do well. Hope you had a good weeks trading.

Yep, I think self control plays a big part in trading. Looking for stuff that just isn't there leads down the road of errors.

Now with the benefit of hindsight I can look back at yesterday and see just how bad it was compared to previous Attachment 3124672

The market would just not settle on a sustained direction which was probably due to expectations of the NFP. Trading I find is a tiring event having to concentrate with such intensity to what one is doing, what the market is doing and what one is going to do in response. It is nice to just walk away and rest up for another time with a fresh attitude. This process makes good money so we can well afford to take a day off whenever we like.



Quoting haris1211

Hello Alan, I've few questions 1: Can you please elaborate about two bar test in detail, and what timeframe you look into for a two bar test. 2: My stoploss is getting hit very often before the trades goes into my direction, may be because i'm just referring to only 15m and 5m for my trades, **i don't usually look at 1 hour chart**. Do you always look for divergence at 1 hour chart before moving to shorter timeframes for Entering or you just enter at all divergence at smaller timeframes i.e 5m and 15m? Usually when i look at...

I simply cannot understand this, I have repeatedly spoken of looking for the inference from the 1 hour chart. In your chart above the RSI is inferring an overbought position then and only then do you drop to a 5 min chart and look for a signal there. I would bet a pound to a penny there was.

Divergence on the 1 hour is just another inference we should look at dropping to the 5 min chart.

Then we have to consider the averages. Has there been a failure of a HH on one side leading to a success of a LL on the other and vice versa. On your chart you can clearly see on the next day that the average failed to make a LL the bulls pushed up above the EMA and found support and then the thing went like a rocket to make an EMA HH. The move started with a bullish divergence, then a bullish support and this was just on the hour chart. Had you taken these to be inferences and then traded at the 5 min signals there would have been plenty to take you long on that day. So on both days there was enough evidence to make the 50 pip target.

Now a two bar test is just another way of finding an inference on the 1 hour chart again the entry signal would then be given on the 5 min chart is some form. Sometimes there is nothing there so we have no trade to have a stab at. You want to be testing in the direction of the EMA but sometimes we can test towards the EMA for the pullbacks. These trades would just be scalps unless they are forming at the primary time for our one major trade of the day.

Quoting cuchuflito

{quote} Hi Nala awsome thread thanks a million. Question: your hedge is probably without a stop loss right?... I figure you are "locked in" which ever way it goes till you close either one.

That is correct up to a point.

The stop is not applied until the hedge takes effect at which time the stop is placed at its BE so that if the original trade continues the hedge will be taken out of the game. If the hedge itself runs into a signal for the continuation of the original trade then the hedge is closed for any profit it has made and the TP for the primary trade can be shortened by the profit amount.

I have no idea why we have got onto the subject of compound interest or risk percentages versus profits.

The whole process I have outlined here is to maximise the profit potential whilst limiting the risk as much as possible.

If we get into the subject of % risk V's % reward then the whole structure of the trade changes significantly and I am not going down that road because I know it doesn't work for many reasons which I am not going to get into.

I have outlined a daily target of 1k a day with a 1k start up by compounding the trade to its maximum, controlling the risk to its minimum and rinsing and repeating the exercise repeatedly, that is all there is to it. If we cannot do this everyday then so what, who cares? The point is to keep pushing forwards and accept that some trades are going to be duds but the bigger picture is positive.

We could apply any numbers we like based on the IF variable to produce any outcome we desire but that is pure speculation. For example IF 5% of road accidents are caused by drink drivers then 95% must be caused by those sober jokers so we should all be drunk when driving for safety reasons. Duh!!!!

IF we manage to make our first 1K on day one then the next day the risk % has already halved and if we continue then the risk becomes less but it will always exist to some degree no matter how many times we win the day. At some point you may feel like lifting your game to aim for 2K instead of 1K and depending on whether your account can take it then there is nothing wrong with that at all. I say stay away from IF statements and concentrate on the game in hand by taking the opportunities as they arise and making the most out of them.

IF won't pay the bills, it is our proactive methodology and attitude to taking high probability trades that will ultimately win through and we should not even be considering forecasting our accounts, the actual outcome is the reality

Look at the 1 hour and five minute charts and read what we see at the open of todays proceedings.

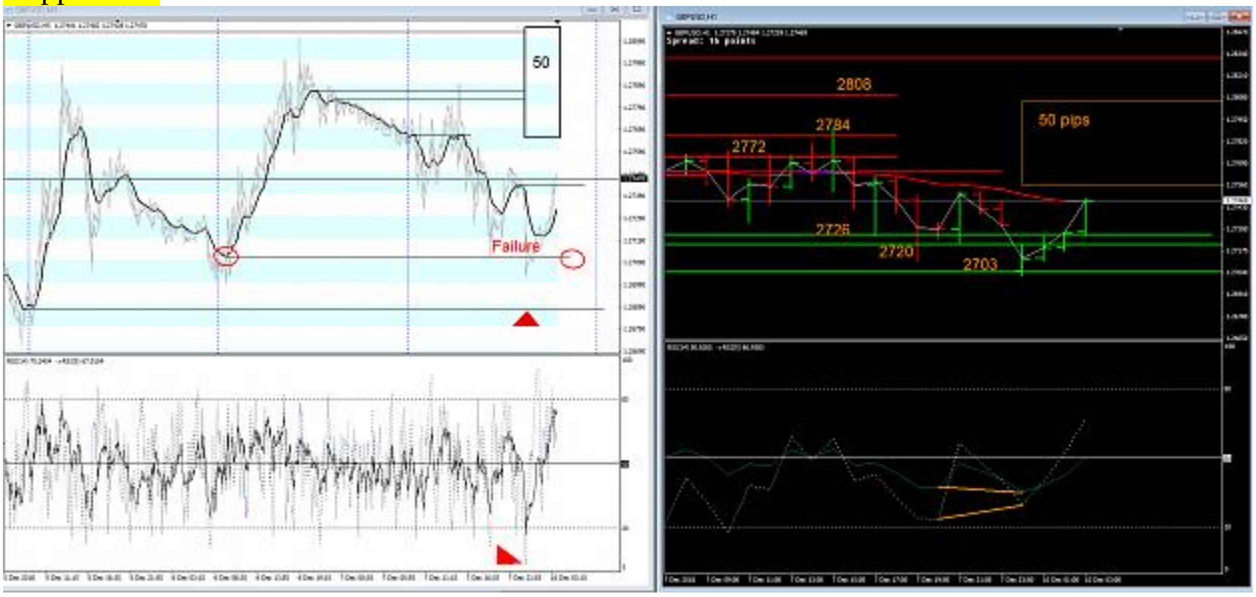
The 1 hour had an RSI div at a average swing low level. HEADS UP!!!!!!!

The 5 min was also at and average swing low and way down in the basement of the RSI.

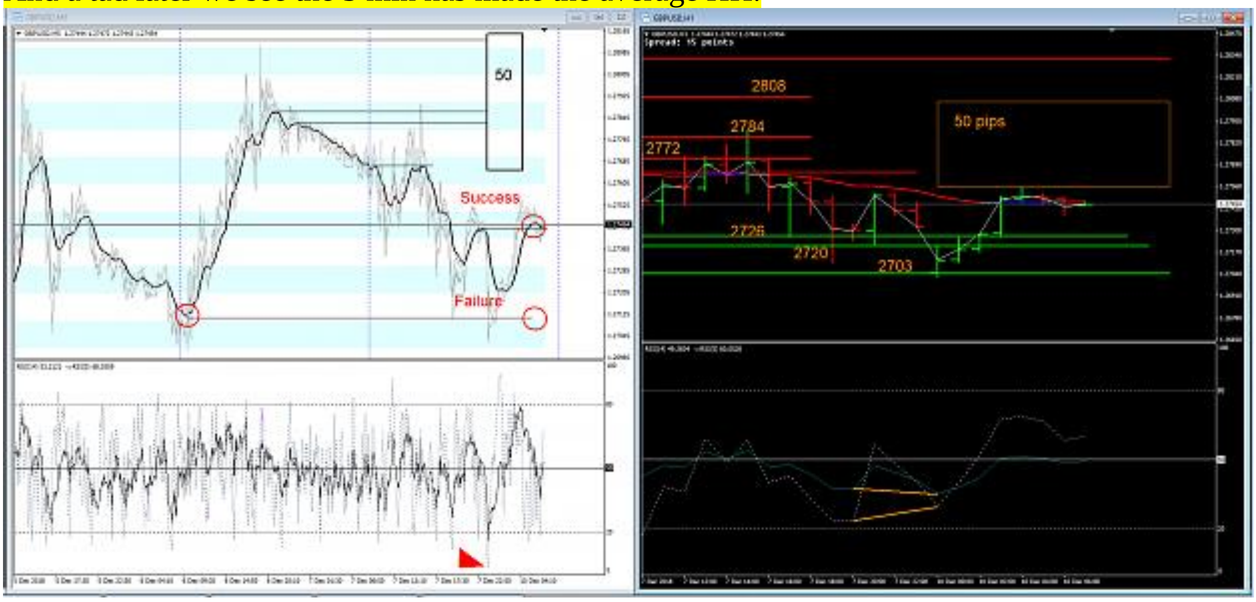
OK from what I have told you the Div should return the price to the average or beyond. Look how many pips that is on the 1 hour.

What does this equate to on the 5 min. = A failure of the average to make a LL so it is going to try to make a an average HH. Note there was no divergence on the 5 min, nor does there have to be. The inference is taken from the 1 hour chart (Div at the level) The trade is taken on the 5 min because the RSI is at its extreme low. In all we expect bearish failure so we should be expecting bullish success.

I know this is not our trading time it is just by way of an example of chart reading, putting 2 and 2 together to give us a high probability trade. Can it fail... Of course it can and we get stopped out.



And a tad later we see the 5 min has made the average HH.



If we insist on trying to getting started on a 5 min chart without referencing the potential opportunity on the 1 hour we are not going to get very far at all.

Look at the 1 hour chart below....

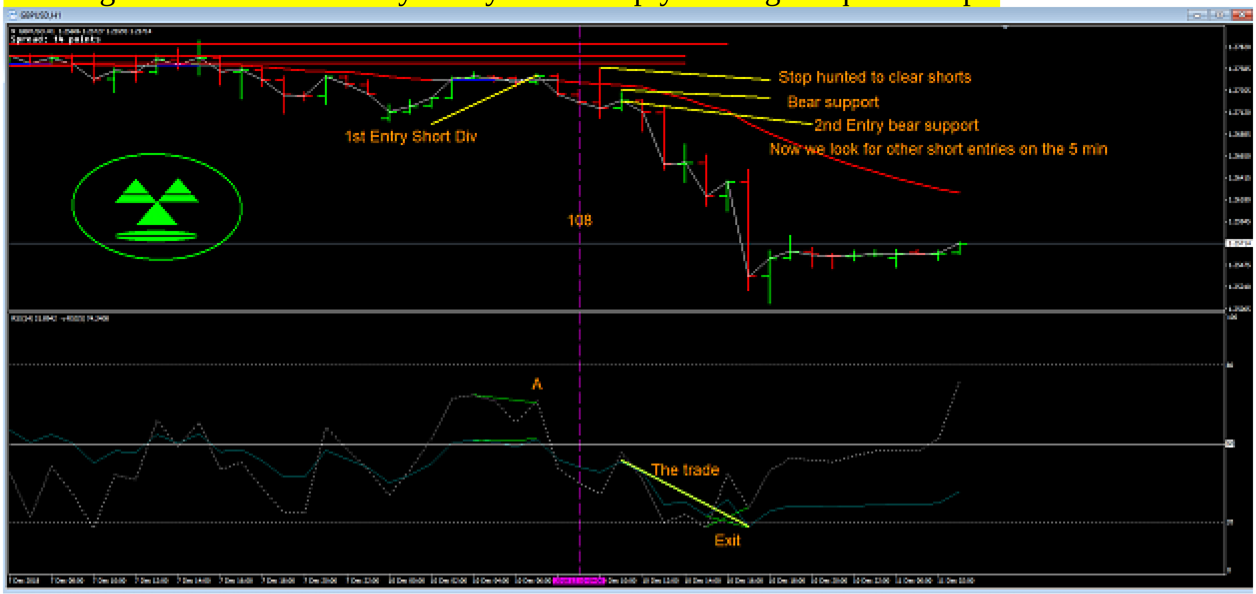
There was a bearish divergence at A.

1) So what does a divergence do? Answer it takes price across the EMA.
If it doesn't then watch out the market would be strongly bullish.
Now in this case the shorts were stop hunted to clear them out. So at this stage we too are stopped out for no loss if the stop has been moved correctly.

2) Why does price cross the EMA? Answer in this case to find bearish support for a down move.
Do the bears find support? Answer yes... So we are short trading below the average.
This is the stage 2 entry

3) Can we now find additional entries to the short side on the 5 min chart or even the 15 min chart? Answer Gazillions of them.

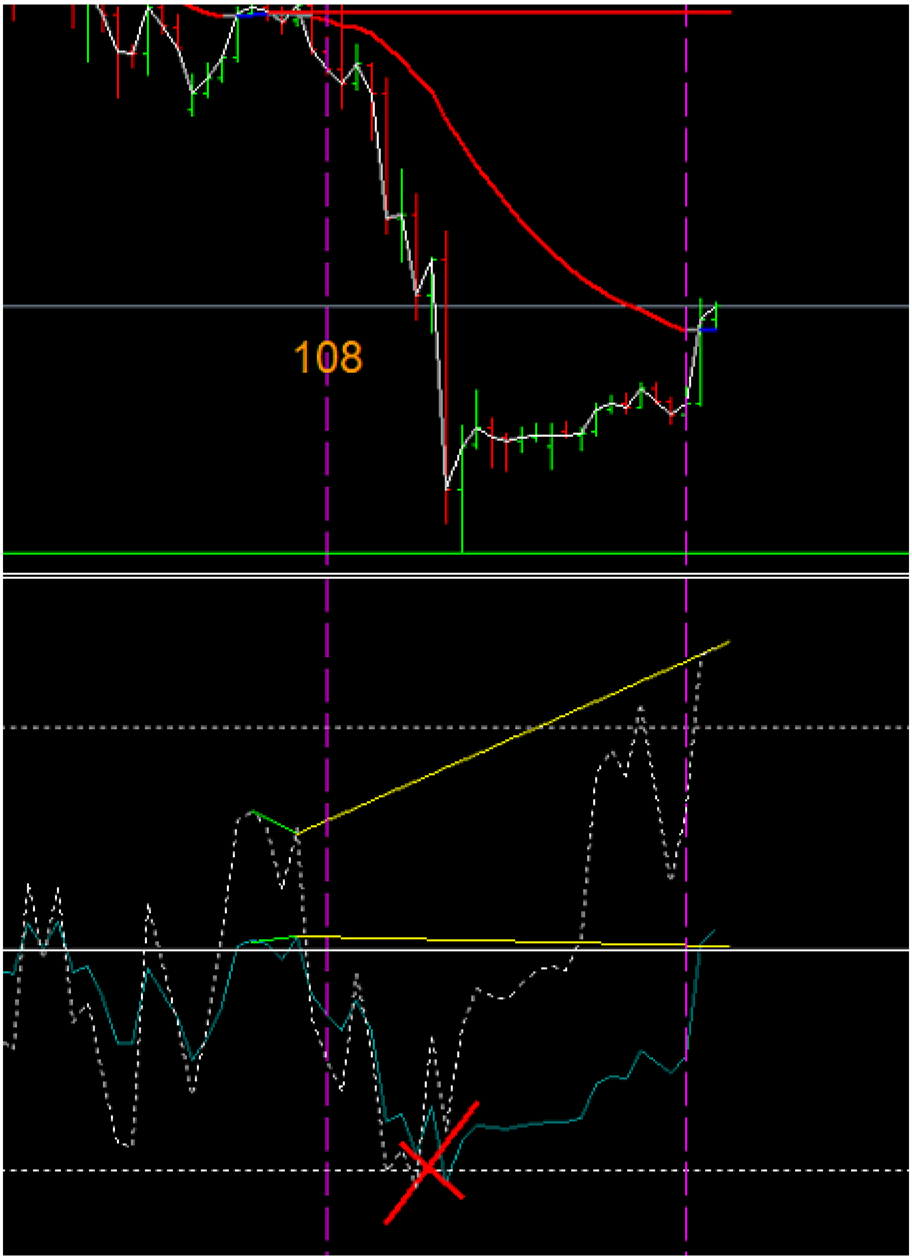
Stop this fixation with the 5 min chart without taking your cues from the 1 hour chart. By just referring to the 5 min chart only then you are simply looking for quick scalps.



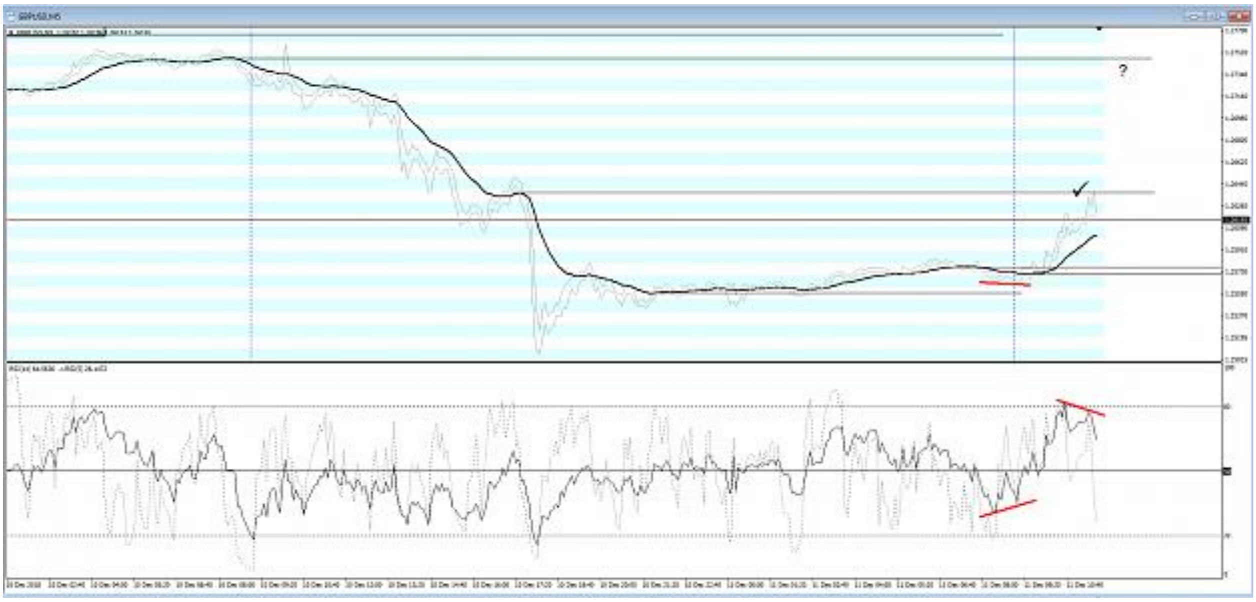
[Quoting Riaanvw]()
Thanks Alan, I need to be a bit more nimble on my entries. Div on the 1hr? I don't see it yet?

The bulls are trying to pull up out of it and no signal on the 5 min

Yellow lines



5 min has hit its target a break of this to drag up the EMA behind it would result in a large bull move so maybe the bears don't like that.



[Quoting hocius](#)
Good morning all, Thanks for your answers Alan. How do you identify that bears have found support? Is by that red circle in the RSI? {image}

Ha actually that red circle was not for the bear support but that is exactly where it was.

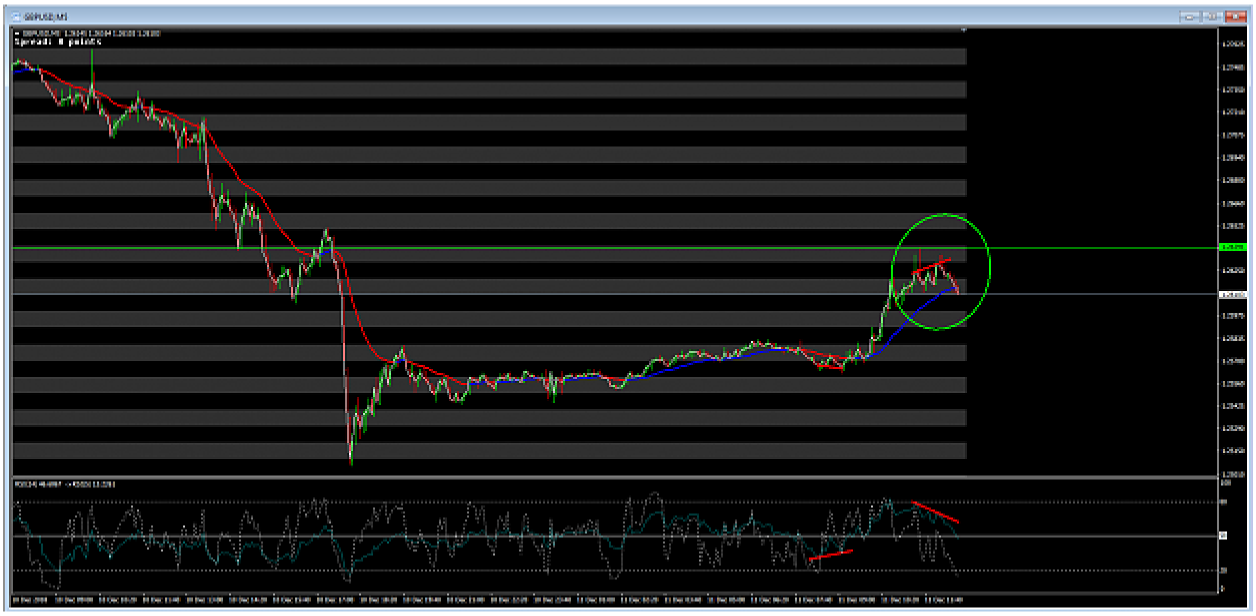
Bear support... Bears push from above the EMA to cross it and the bulls fail to take it back = Bears FIND support.

Bull support... Bulls push up from below the EMA to cross it and the bears fail to take it back Bull FIND support

So if we have a divergence price should cross the EMA and then we look for the support to continue the move.

Here on the 5 min chart we have a bearish divergence taking price back across the EMA.

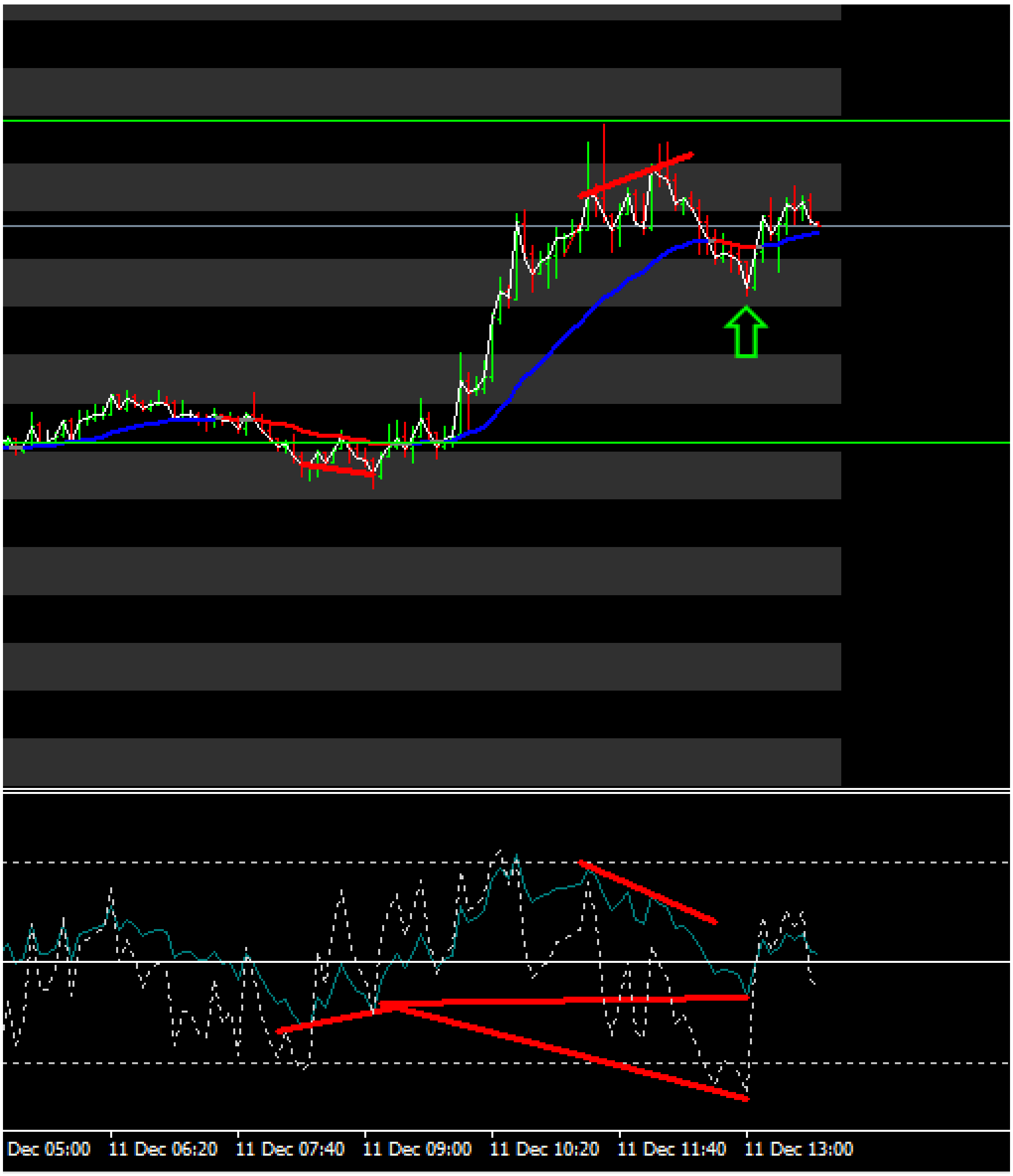
Note how it was in divergence at the average swing level we use as a target



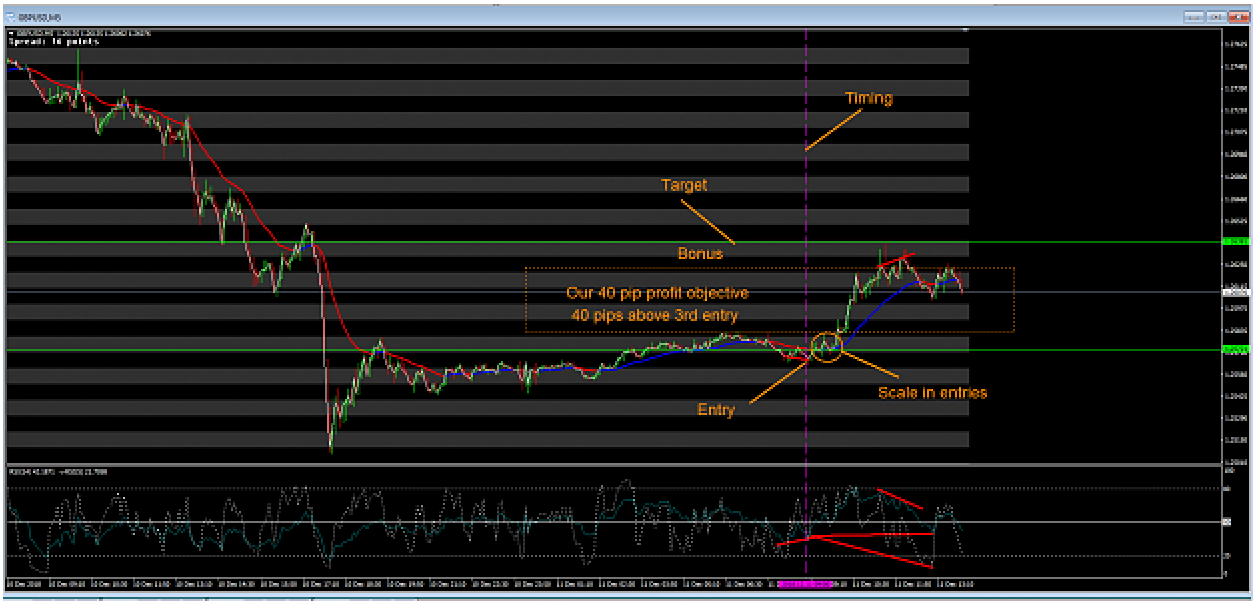
Quoting mikeeating
Alan thanks for your time your putting in to this, certainly great reading and learning so much. The more I follow this with my own charts the more clear it all becomes.

No worries, I can't always put in this much time, just do what I can.

I didn't take this last long entry on the RSI div but see how it paid 20 just for a scalp. (that's a ten pip grid on the price chart.



So here is the whole thing I have been describing and the trade is just about the same each day. We just keep rinsing and repeating getting the odd one wrong for a tiny loss but in the main scoring our 1K a day with little problem. It doesn't take too much time out of your day to achieve this result.



[Quoting Rfs199](#)
Hey Alan, quick question. I tried looking for the answer but I couldn't find it (I know it was asked though). Are you looking for something in particular when placing your 3rd entry?

I suppose the best way I can answer that is to say experience brings confidence. Remember we are not risking very much here because we are moving the stops in spite of the fact we can get stopped out. So if we are confident the trade is behaving as it should we also know this very early and take the plunge with the 3rd entry.

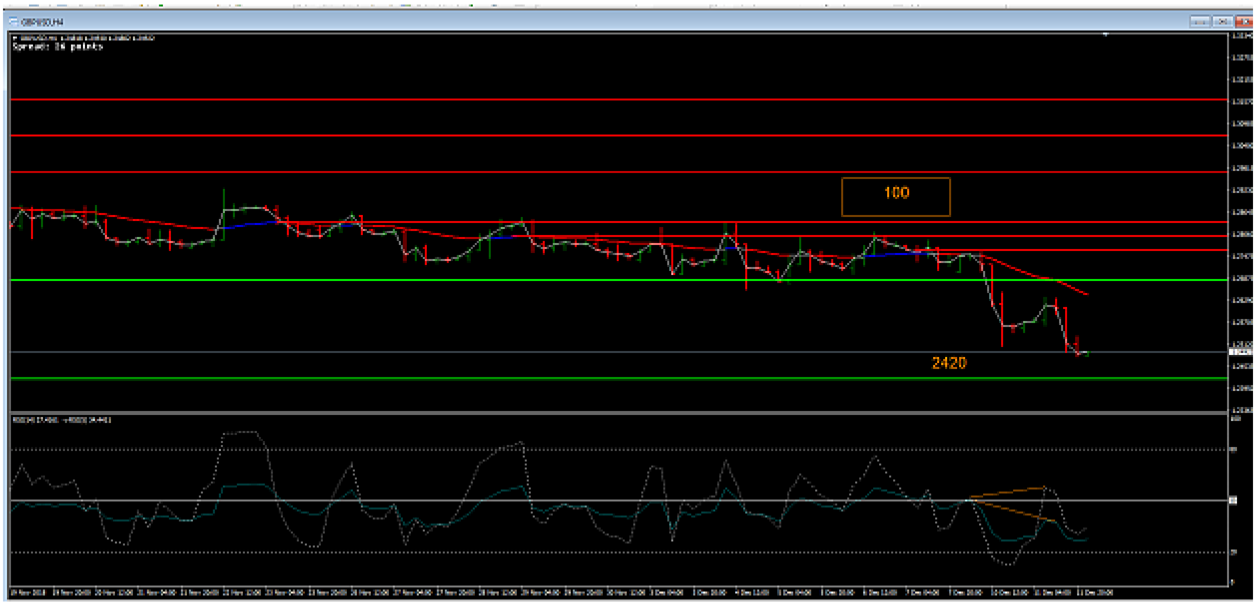
Remember we can measure the expected distance the price is likely to move so as long as the 3rd entry is made whilst there are still 40 pips left in the trade we are fine. If we can get that 3rd trade in a tad earlier than the 40 pips left then we are in for a couple of pips bonus. Don't stress too much at not managing this third entry even with the two on you are making good money at half a K+.

I am not too upset at not getting the full potential of the trade, as with yesterday I just took a 50 pip scalp followed by another 6 pip loss followed by an 18 pip win resulting in 62 pips for the evening at AUD$14 a pip. Not quite the 1k but I think you'll agree bot bad just for scalping.

Keep looking for those at those higher time frames to get a good notion of what price is trying to do, this adds to your confidence that you are doing the right thing in the right direction increasing your probability of success.

It is the people who don't trade by a method based on sound signals but merely on whimsical thoughts who lose money. Don't go down the road of trading theories stick to what you see as factual evidence and respond to it accordingly.

So what sparked yesterdays move while I was in bed... Look at this 4 hour chart.



[Quoting Bydyke](#)
Alan's Divergence on H4. Is the bear brohaha about to end? {image}

Well now look what we have on the 4hr

Quoting Jazz1964
What i wrote about wanting to see something in the yesterday's low area, that's a bit of my 'problem', wanting to see the market doing what I think it is going to do. Instead, I have to wait and see whatever the market brings, and take action on that.

Golden words...

The post you made a little earlier was far too complicated. You only need the inference from a higher time frame to trade it at a lower one.

It doesn't matter what happened yesterday, last week or last month even an hour ago can make a difference. Reaction to the price action you are currently witnessing is far more beneficial.

Once again look what happened here.

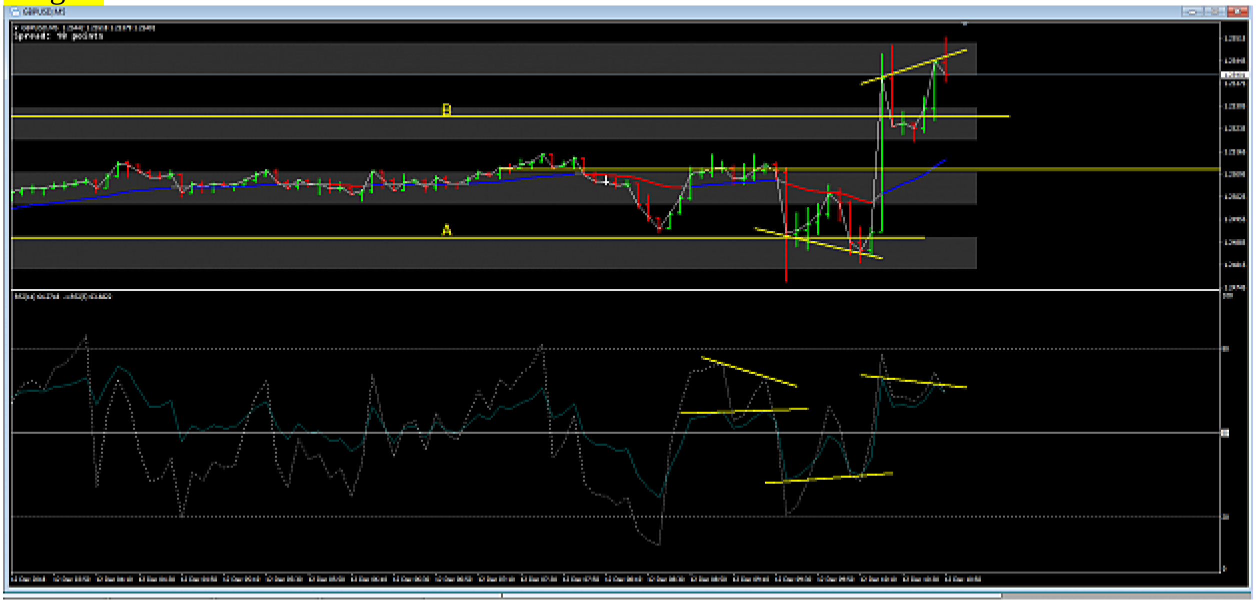
We saw the bearish div on the hour sending price short also with a div on the 5 sending it short.

So the average on the 5 min is going to fail the HH (all this said before)

So price now pushes down to the swing A on the chart below.

But it runs into divergence there which is going to send price back above the EMA and try to make the HH (C middle yellow line) (IT just did that) and may well try to take the next one B which would be our minimum price target.

These moves are small for this pair but we react to the action and should now be closed or hedged.

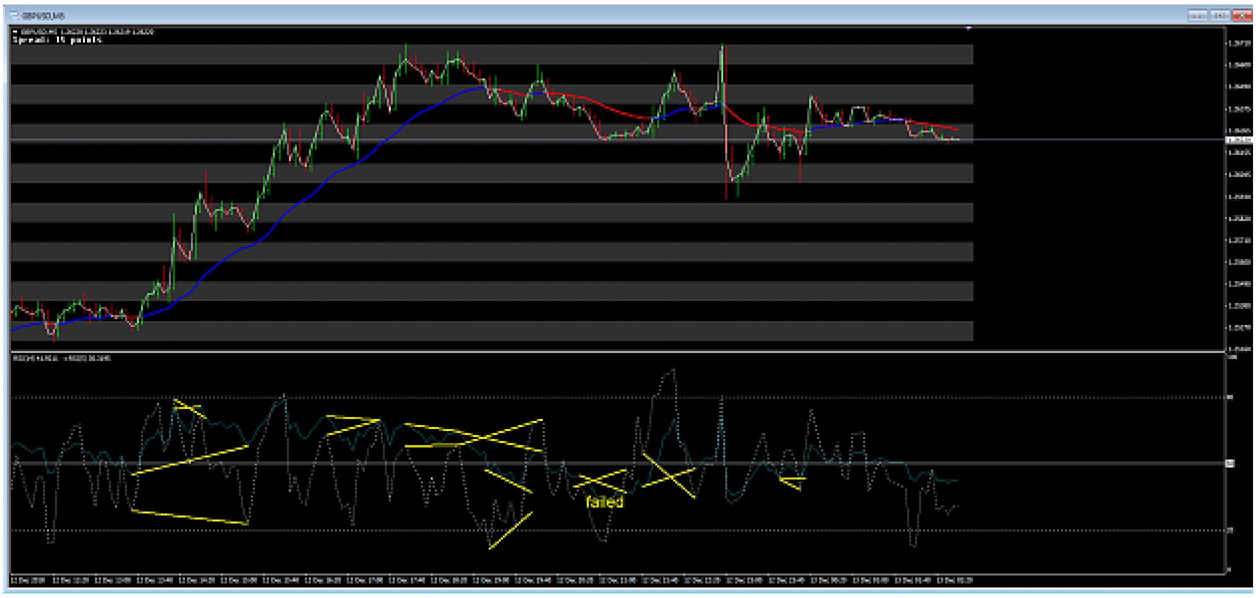


When the moves are relatively small like this. That is to say the EMA swings are not far apart, we just scalp because it would be difficult to get more trades on in such short time periods.

See how this type of divergence is not so reliable as it was in div several times before it kicked in to cross the EMA,

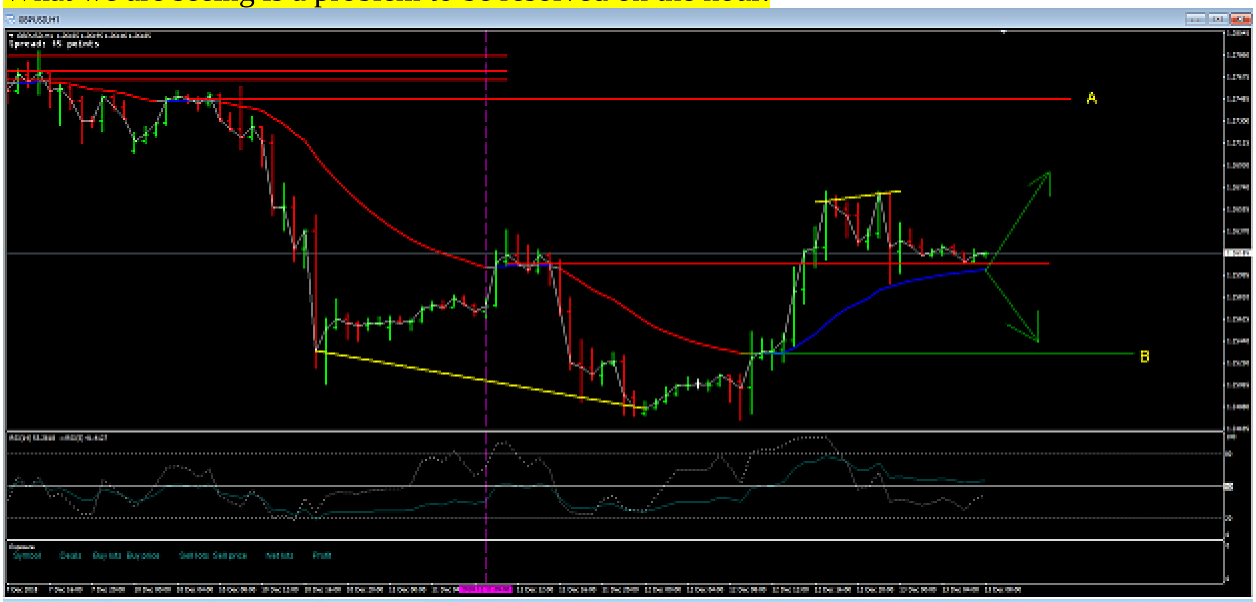
Just look how many signals there were on the RSI, here I show some of them however which way is the higher time frame telling us to trade. Should we be buying, selling or hedging. Where does it appear we are heading for, have we got there yet, does it look like a failure is on the cards.

Just taking divergence from the 5 min chart is only a part of the process of analysis.



[Quoting pakeha]
Are you guys seeing a positive divergence on the H1 currently?

What we are seeing is a problem to be resolved on the hour.



The bear div has not sent price back across the EMA (yet) So the bulls could still be in control?

Are the bulls going to make a HH with the EMA?

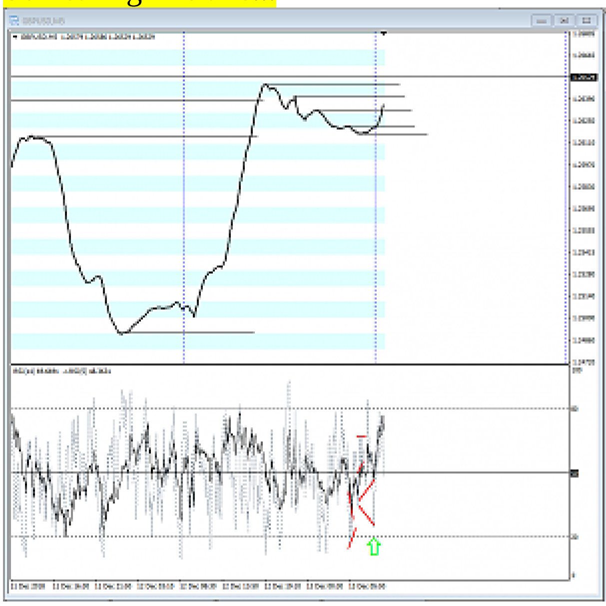
[Quoting Riaanvw]
Thanks Alan, so if entry 1 was not taken at all, then entry 2 or 3 would be a valid 1st entry then correct?

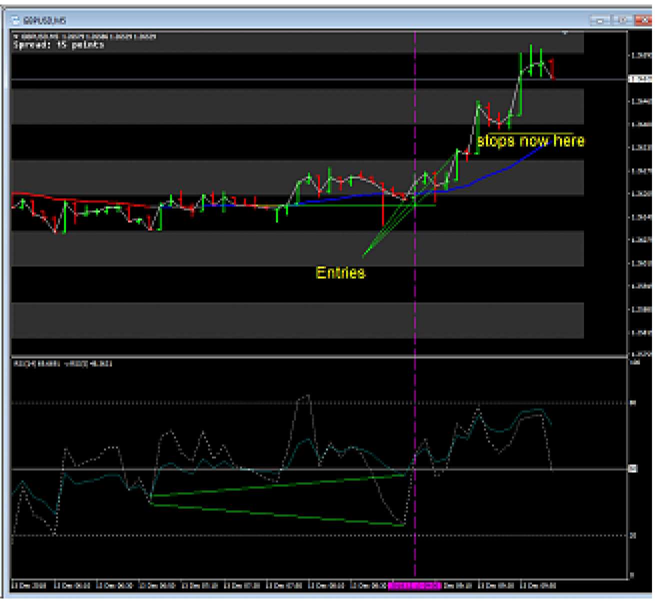
Well we probably would have taken that first entry so the question is a mute one anyway.

Hope we are all long at the moment 40+ so far, just inching up the stops.

Lets see if the 1 hour can reach the average level above

Something like this...





[Quoting Riaanvw]()
The 100 & 200 ma's are also significant ma's and getting the 5min div at the hourly 200 made me short it there with 5 a pip stop

This is entirely what I am saying not to do.

Do not compare price to an average, the average is always chasing price and will always meet with it at some point.

Look at the 5 min the average has made the HH, that is all it is required to do, this trade is over and the profit is made.. From here on in new trades setup.

Who cares what will happen next it has nothing to do with the trade I have shown you to have a very high probability of returning a very good return for the smallest risk possible in the quickest of time.

The only reason we may consider another trade from here is if we have not yet made our profit but the probability is that these trades will not go very far.

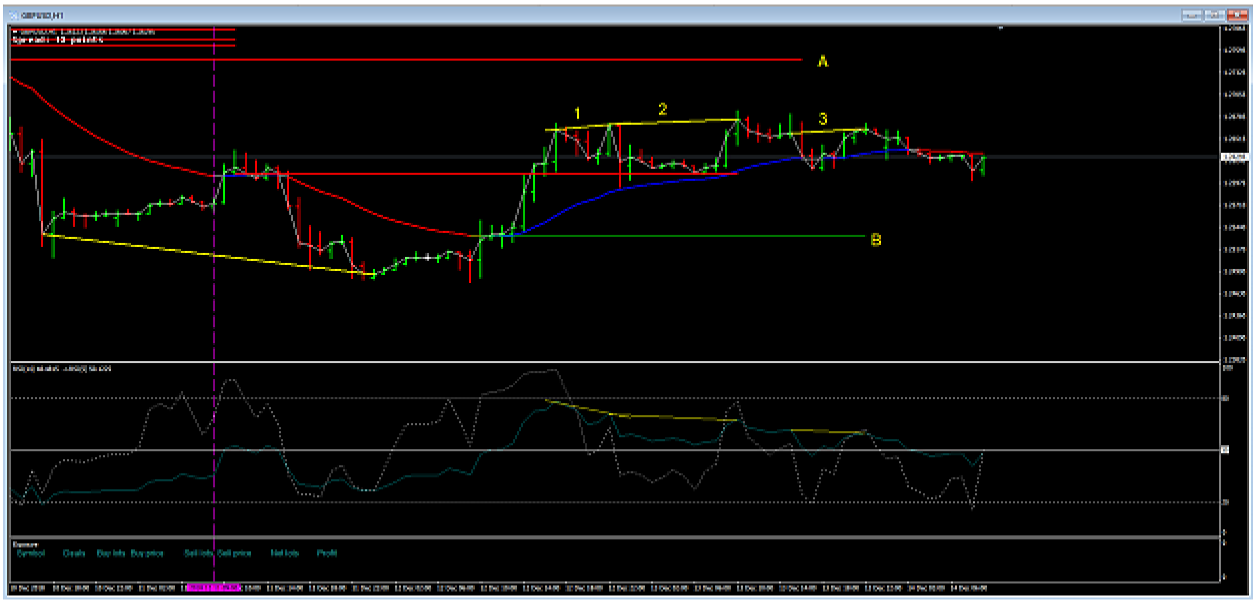
While we are waiting let's take a look at some aspects of divergence.

This is the 1 hour chart displaying 3 bearish divergencies.

Look at number 1. It is supposed to cross the EMA but it didn't, it bounced off it... This is a heads up that price is going for a HH which it did.

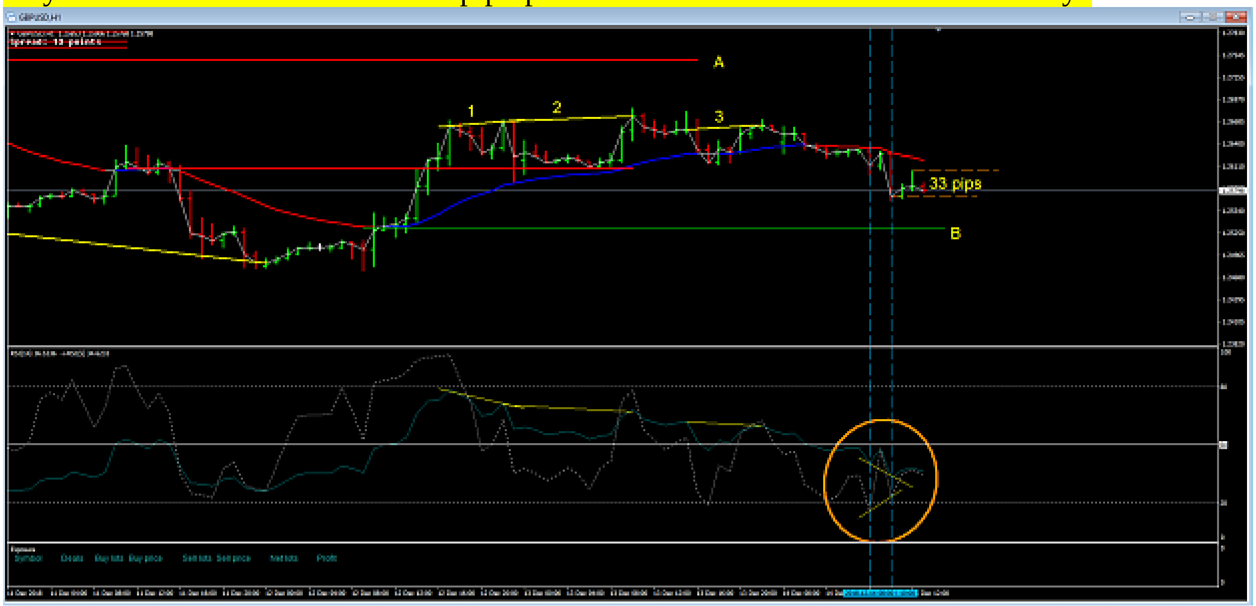
Number 2 was straight forward and made the crossing as did number 3.

What this tells us is that we can measure from the point of divergence to the EMA and guesstimate the number of pips we could make as a scalp and then if they find support we could turn the scalp into a trade aiming for the average swing low (In this case)



At this point in time the bulls are testing this bear support.

Anyone catch some or all of the 33 pip up move on the 1 hour div while I was away?

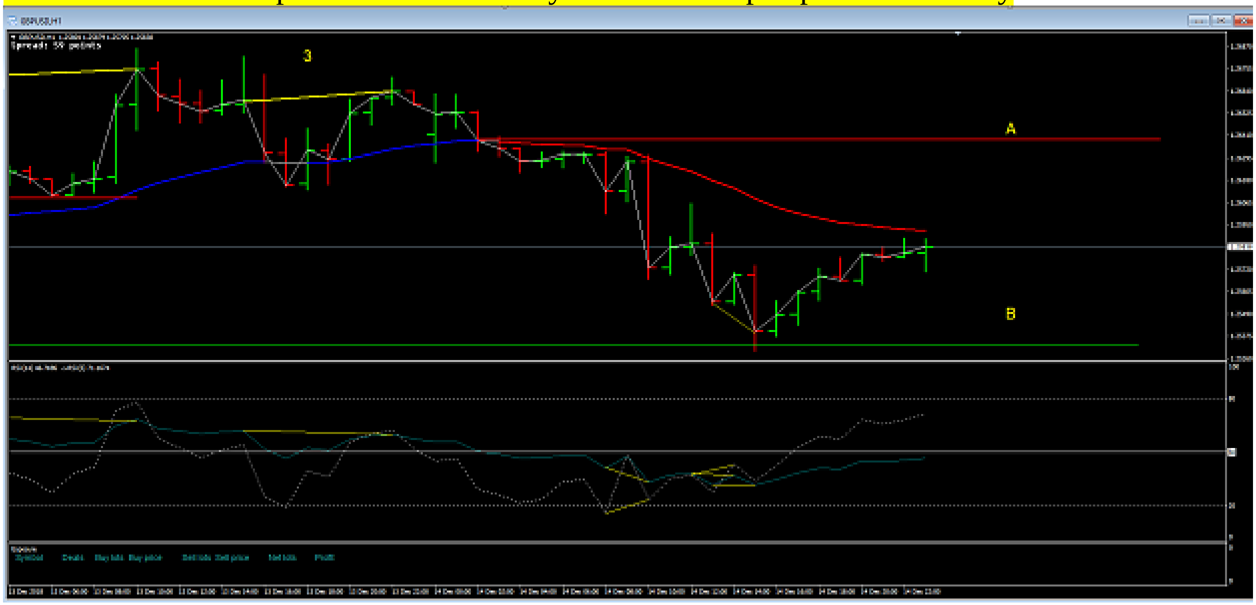


OK as I awake and look back at the hourly chart I see price **did make the B target price and it did so in divergence so back to the EMA it goes**

So now I hope your are getting the idea that the swings of the averages are the **resistance levels** price is always trying to overcome and **a support** is a break of the average with a failure to get back across the average. Neither of these has anything to with tops and bottoms of price action.

So what are we expecting now?

Well a bounce off B with a div sends the price back upwards to test the EMA. If it breaks it then needs to find support to tackle the new A level. If it does break then we can expect a new LL below B. Either option will be sorted by the time Europe opens on Monday



[Quoting Riaanvw]

{quote} Look for the two bar test in the Valley area. Here was a 3 bar test but with an inside bar to long on the break above from see notes on chart. {image}

One could see it like this, however I see it a tad differently.

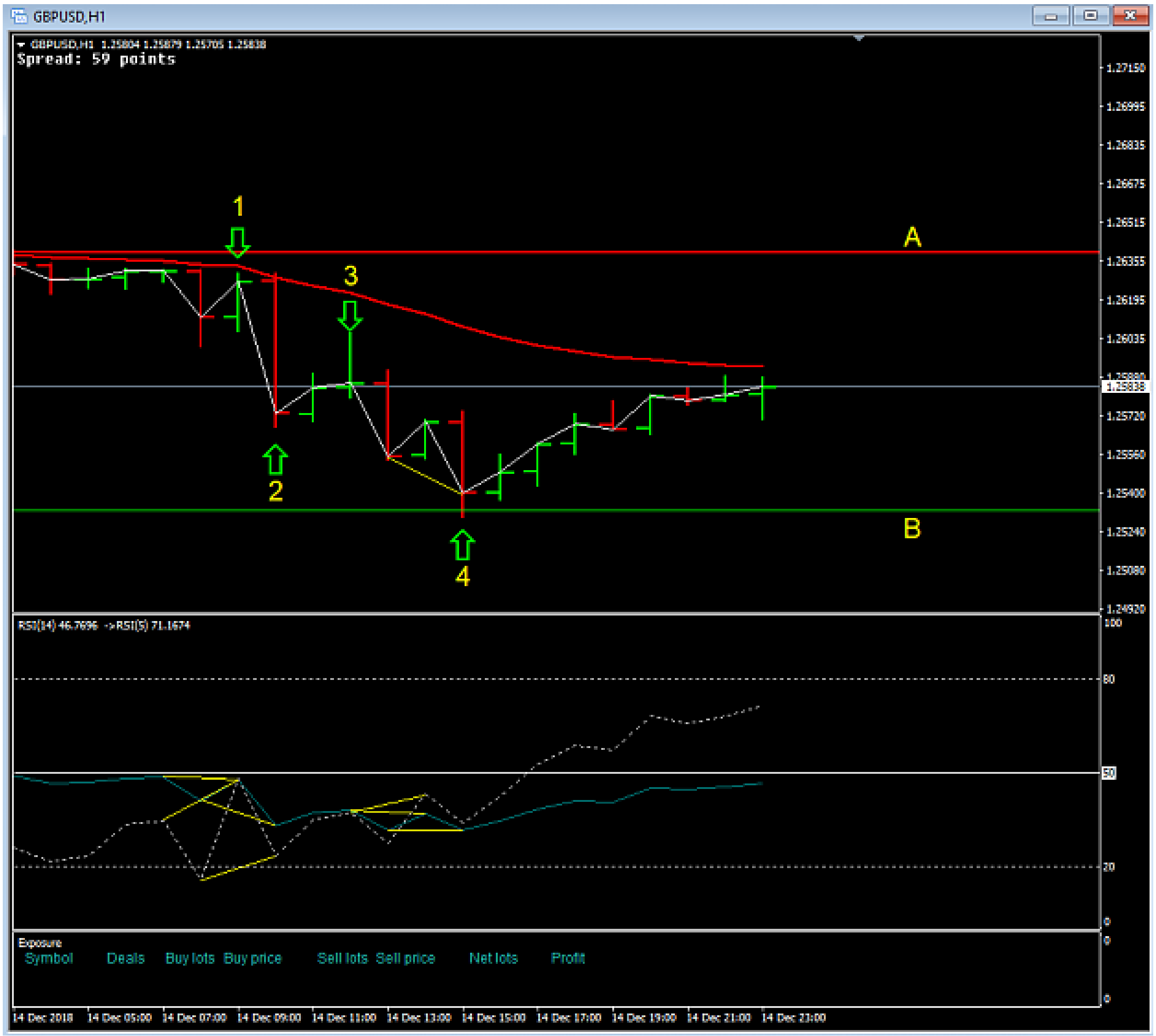
What Riaan has here is a regular bullish divergence but look more carefully and you will see there were three of these possibilities, two prior to the one shown. In other words the 1 hour bar was still on its way down. On the close of the 1 hour the 5 min was still in divergence both with the regular one and the RSI shown on my chart as number 2.

This caused the price to cross the EMA but then it ran into div again, number 3. This sends it back across the EMA once more until it runs into yet another div at the 1 hour B level, number 4. This too was a regular bullish divergence of which there were 2 possibilities however the 1 hour was still on its way down only to close in divergence making the latter one (4) being the one to take.

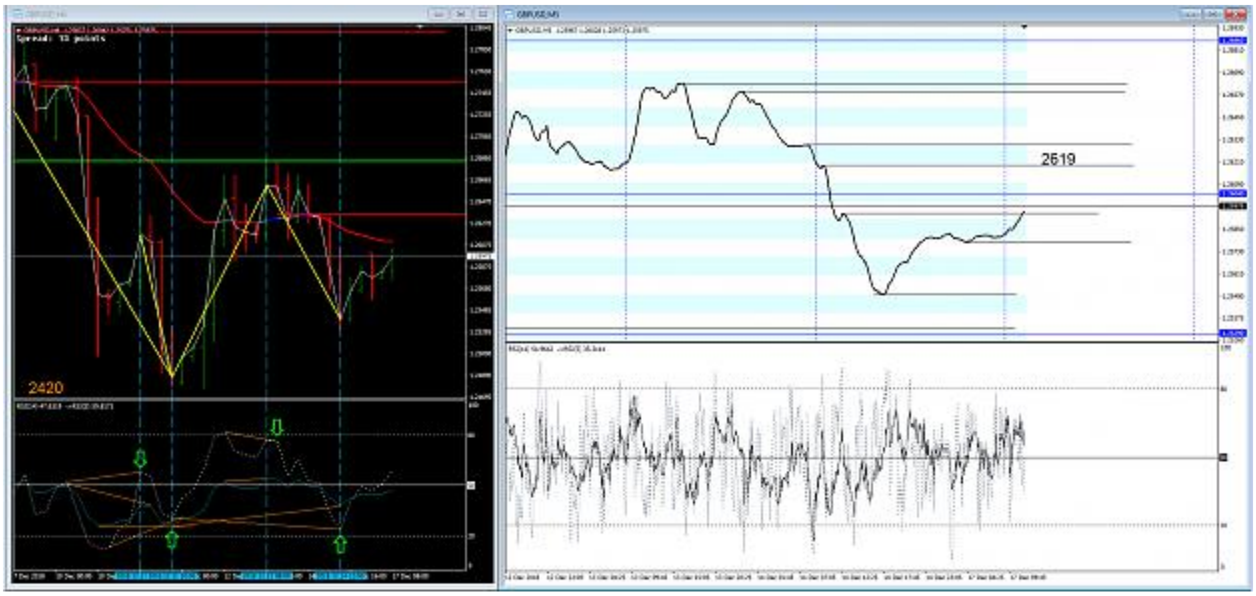
so if traded over the whole day then the moves would look like this...

P.S. I made it look pretty like your charts...cool uh!

On the 1 hour chart this would be in these positions...



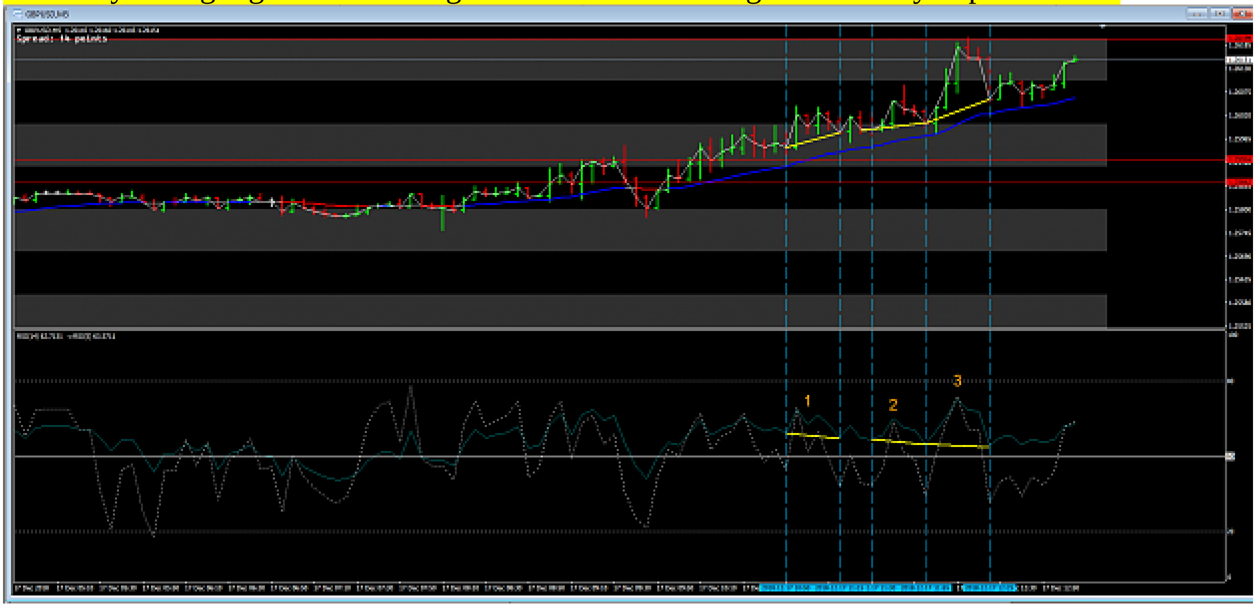
I am expecting the average to break this 2619 but it seems to be struggling a lot.



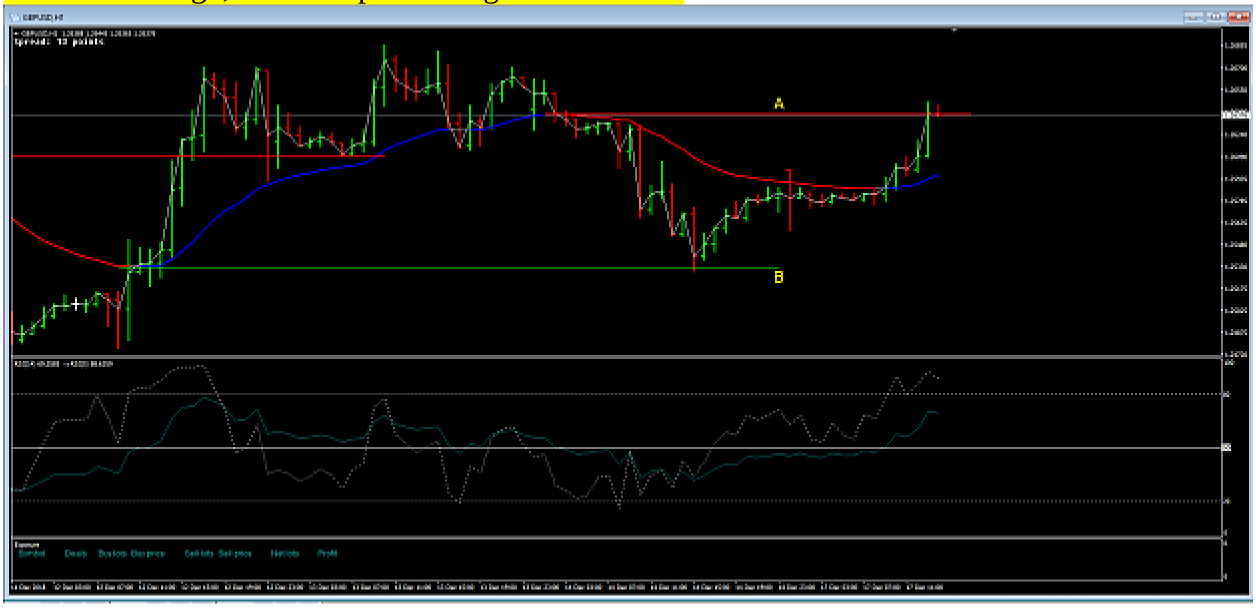
[Quoting Bydyke]

{quote} Both regular and Alan's divergences on M5. Are the bulls now tiring? Meanwhile, I exited my long at 2612. At the side line for now

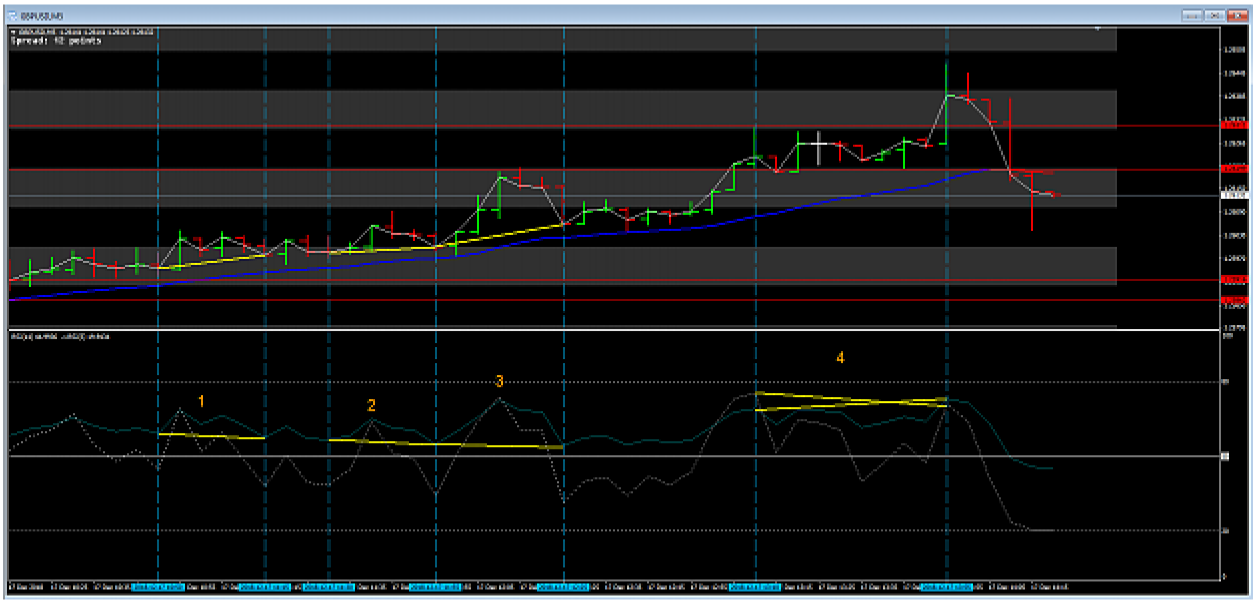
I am only seeing regular bull divergence and no RSI divergence... Can you post charts?



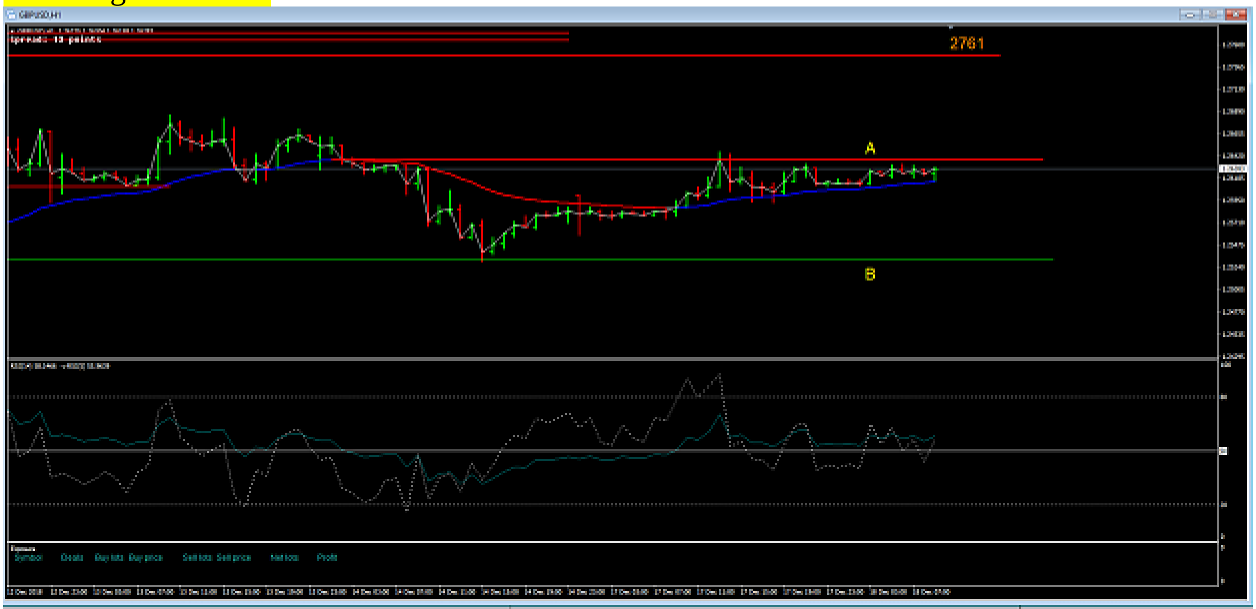
Well there we go, hit the expected target on the hour.



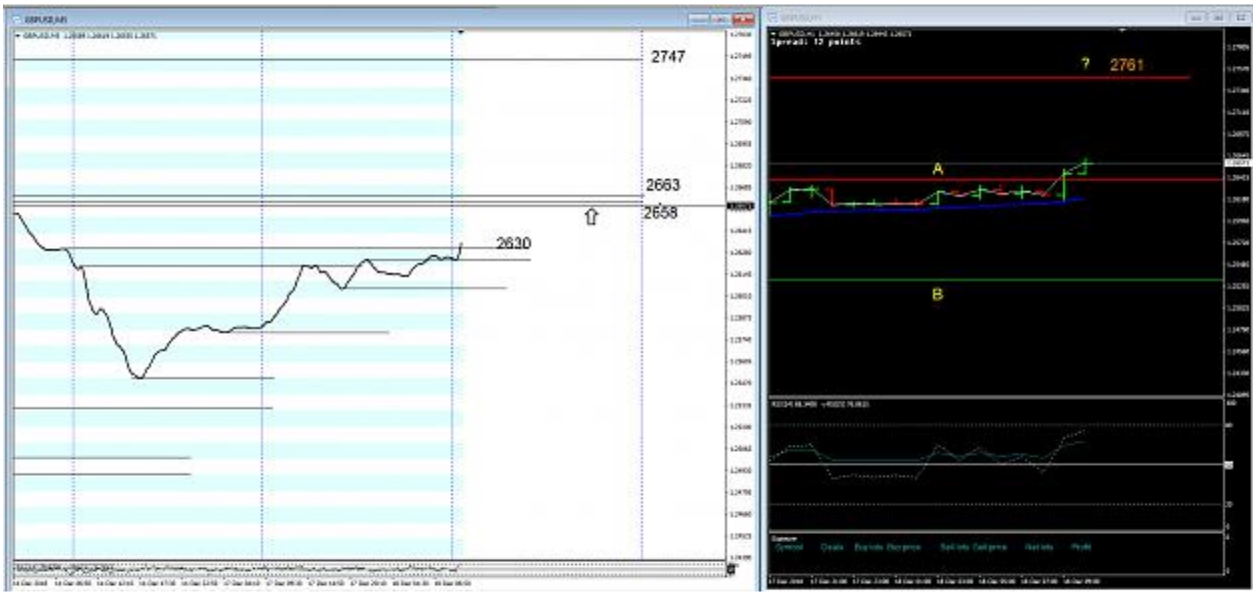
Price hits the 1 hour target in RSI divergence on the 5 min



Trying to determine some sort of inference from the current 1 hour chart would be nothing short of guesswork...



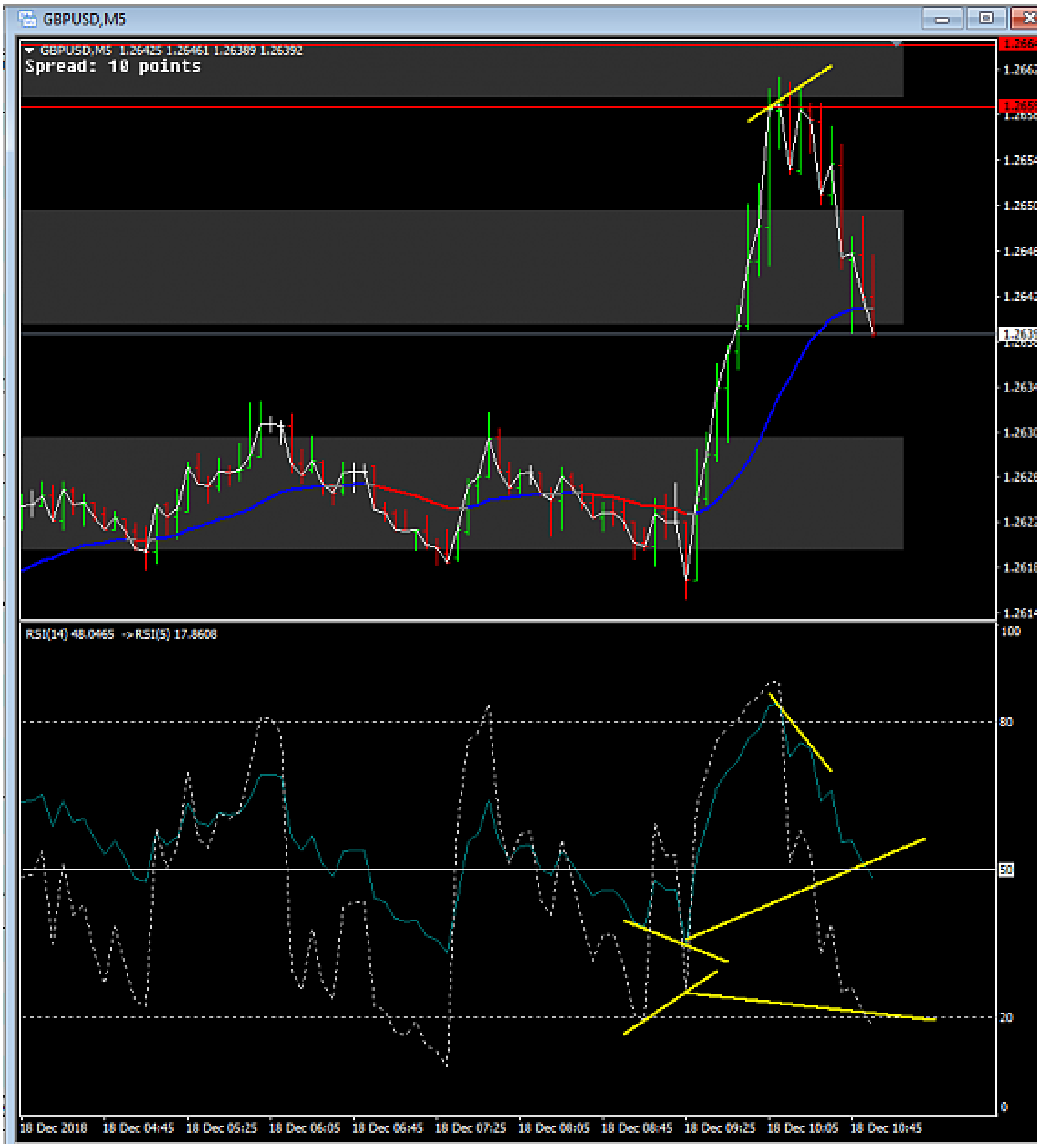
See what I see...
Price has made the 2658 (I closed there) but it has not yet broken the 2663



[Quoting quangvision]

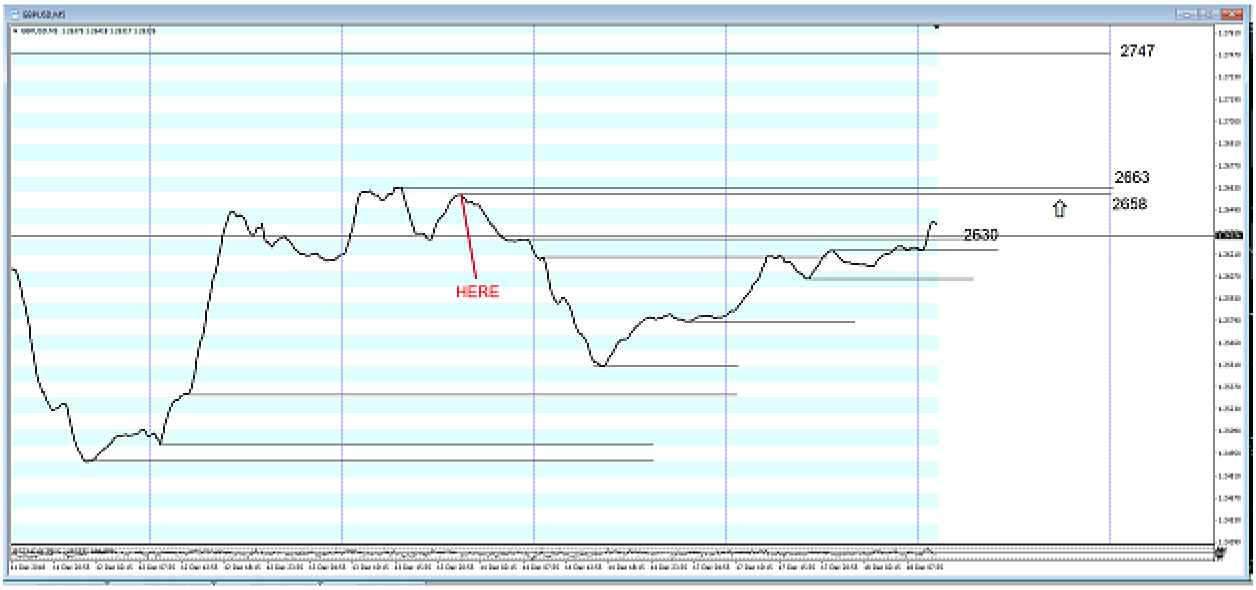
{quote} Hi Alan, I am trying to put everything on practice so I am glad to have you come along. For last upmove I can't find any regular div on M5 to get my short hedge on. Can you point that out for me or you just saying in general? Thanks 😊

It was here though I suspect you did not see it because this is a hidden divergence.

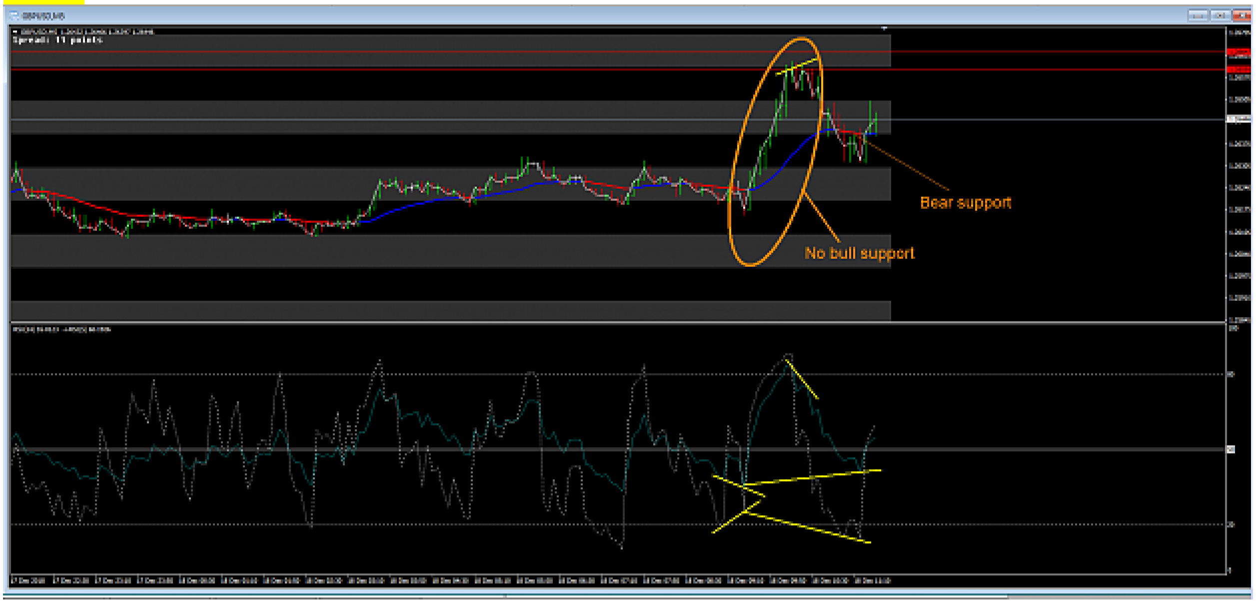


[Quoting mikeeating]
{quote} Alan where did you get the 2658? I cant see the previous swing on the 5 or 1hr?

Here...



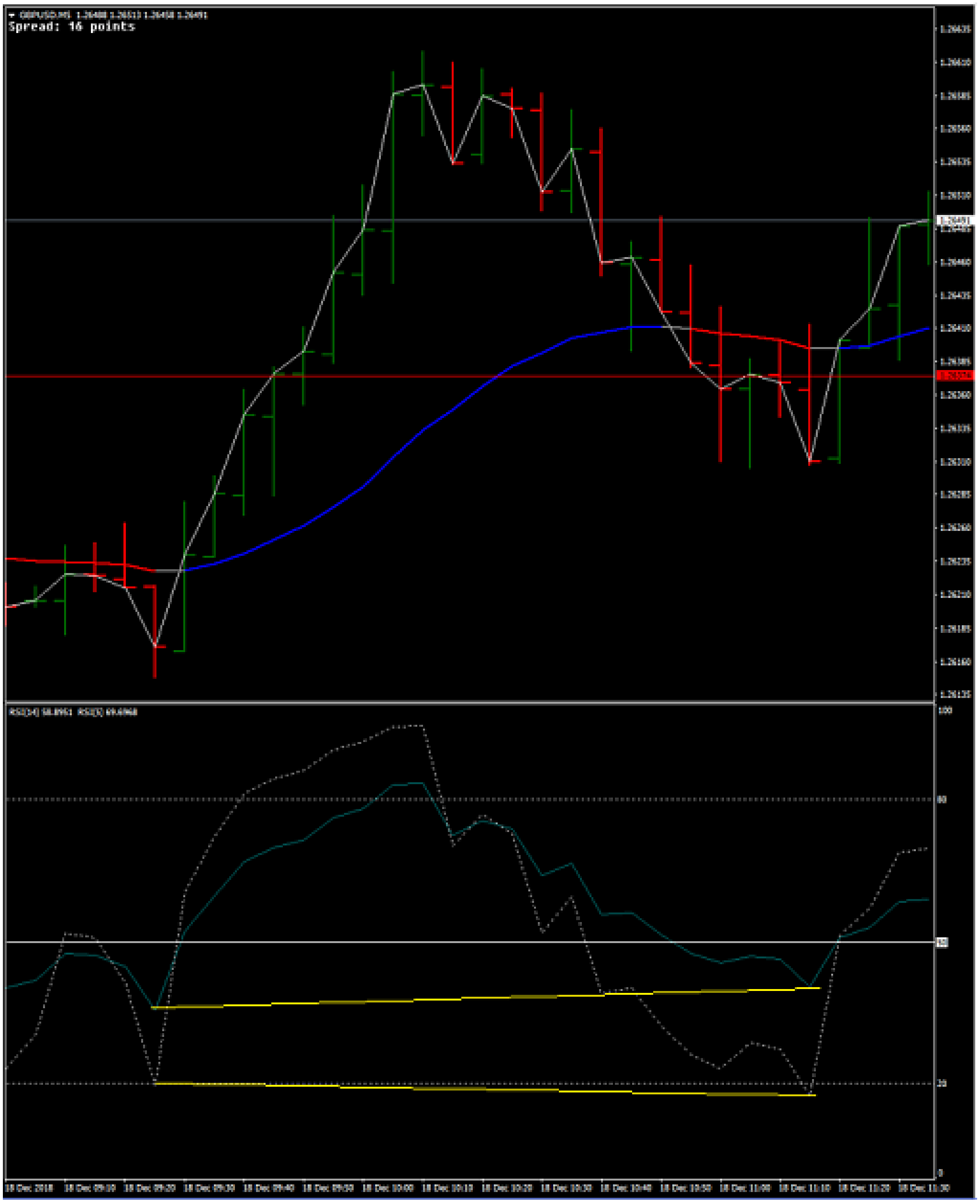
Now are the bulls going to do it properly this time and find support before heading for the moon.



[Quoting Blackeagle]

{quote} I understand that, I read all posts. Would you please show me RSI 5 / RSI 14 divergence indicating top in place? During that top, there was neither RSI divergence, nor price / RSI 14 divergence nor any divergence. At least not on my M5 chart. Regards, Blackeagle

Here it is...this is your chart



[Quoting VictorFaria](#)
Hello Alan, Very interesting, i have an question. which steps do you take regarding managing Stop, moving to BE ect after stage 1 Thank you.

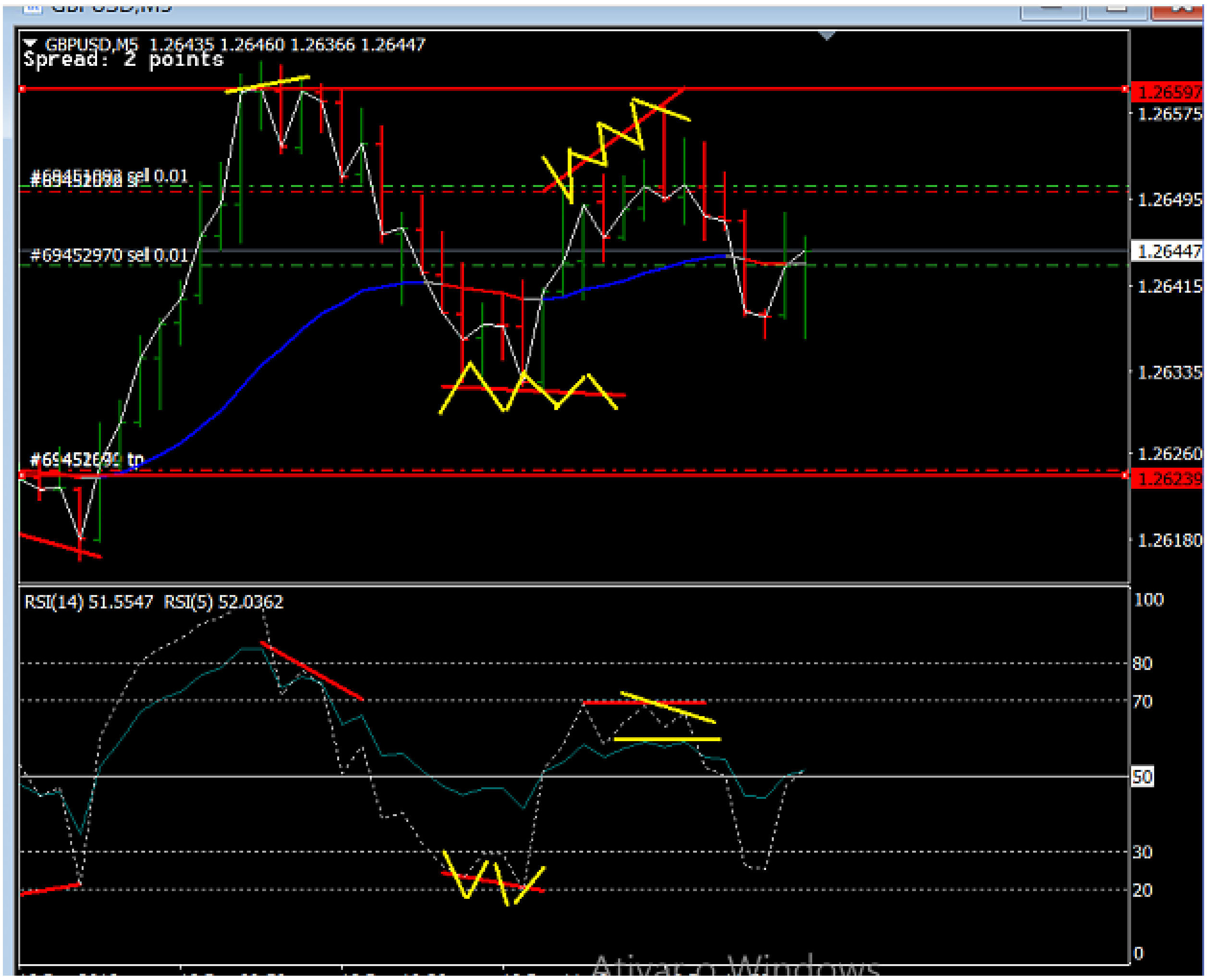
When the second trade is entered the stops are moved to the BE of the first. This is the largest risk of the entire trade.

When the 3rd is entered the stops are moved to the BE of the second and the risk would then be the same as the 2nd because of profits from the 1st

Now Who's on forth

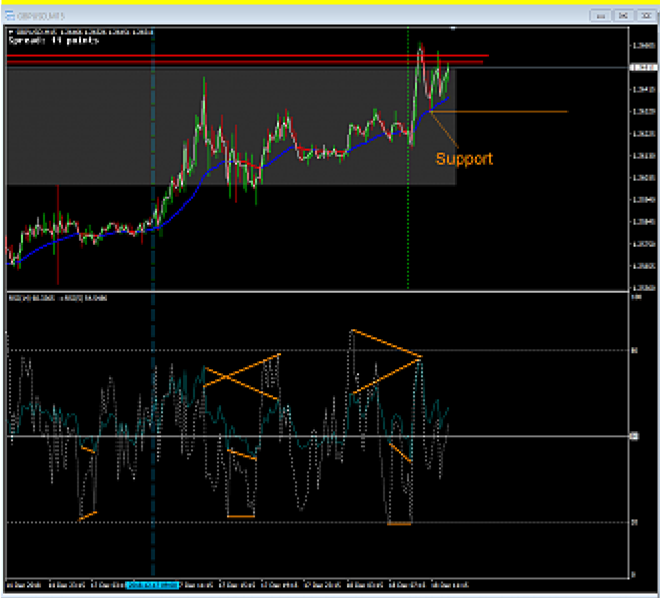
[Quoting VictorFaria](#)
{quote} Can you point the reasons?

No this is all very wrong

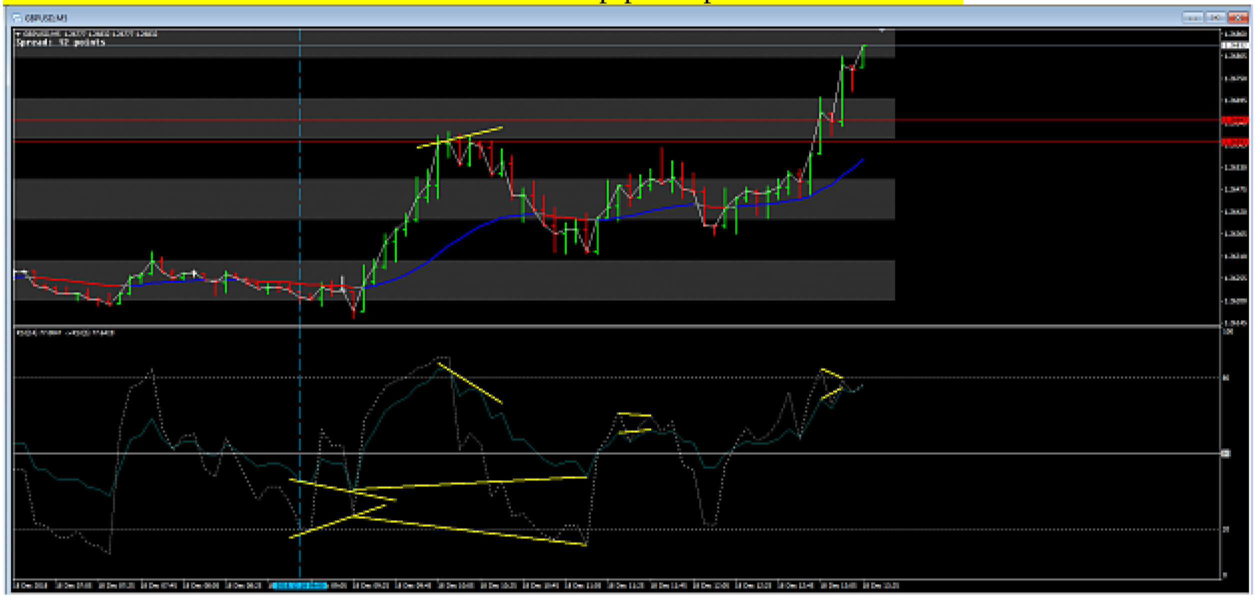


Don't forget what that average is trying to do on the 1 hour.

It looks like the 15 min chart is the one the market is working by at this time.



We have now covered much more than the 50 pips despite all the setbacks.



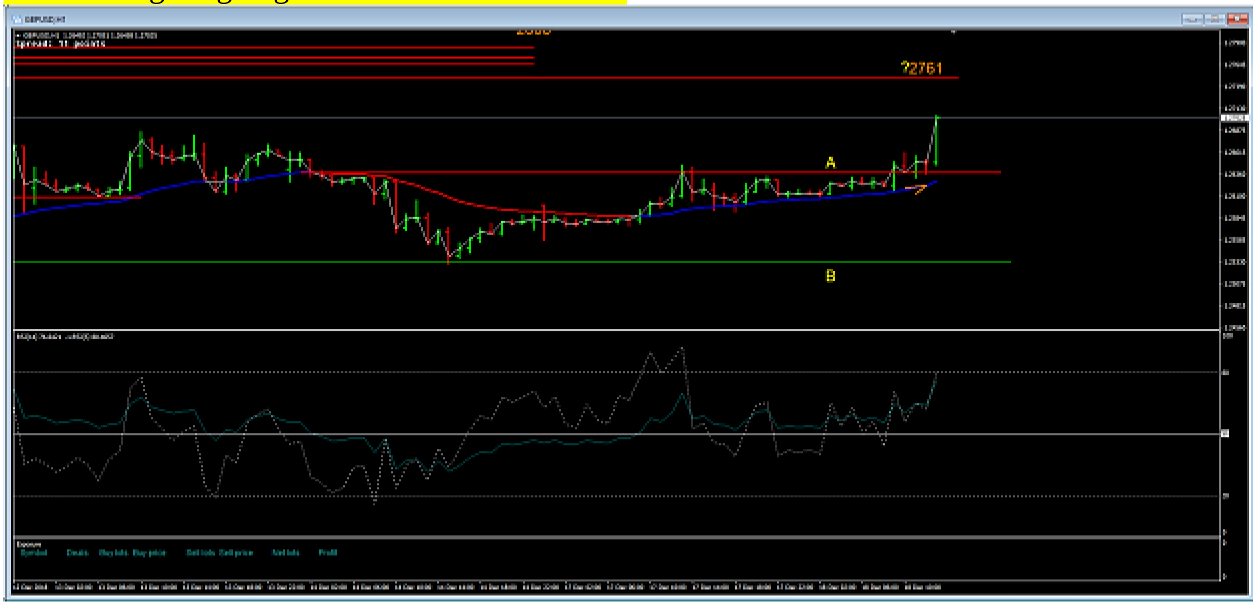
A couple of things here...

A hedge would have save a bit of time.

Don't forget the two bar test for the divs.

And just before I knock off cos I'm tired lets go right back to the beginning of today and ask just how likely is price going to make the 2761?

If the average is going to make the HH of course

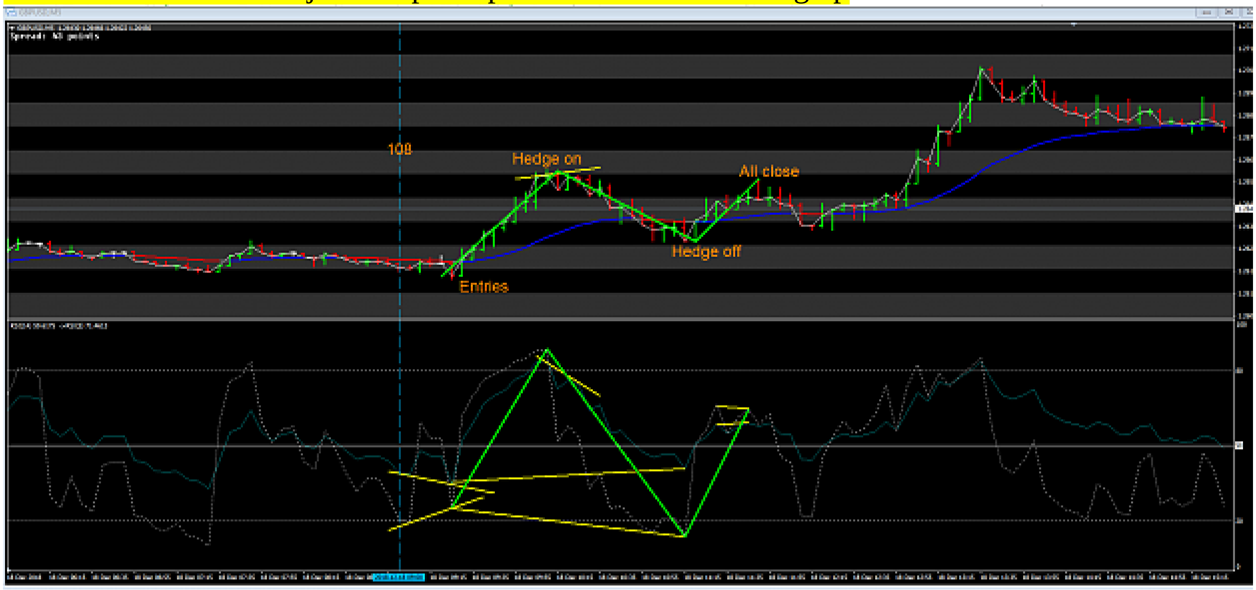


[Quoting mickmack5]()
{quote} Hi Alan, Since there's no div on the last wave, do you enter on the Bull Support (as indicted on the arrow) ? Thanks {image}

Ok well first off that wasn't support, the support came a few bars earlier, that preceding red one.

This is miles away from bar 108, the trade should be over and done with by this time.

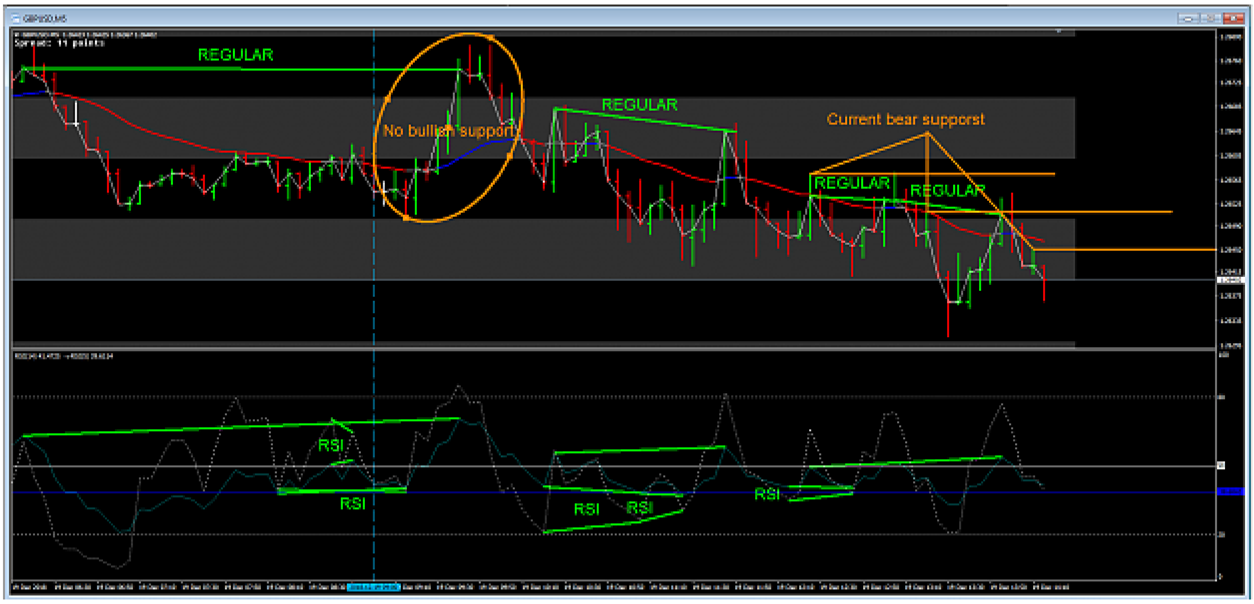
I didn't take this trade I just scalped a piece of it on the first leg up.



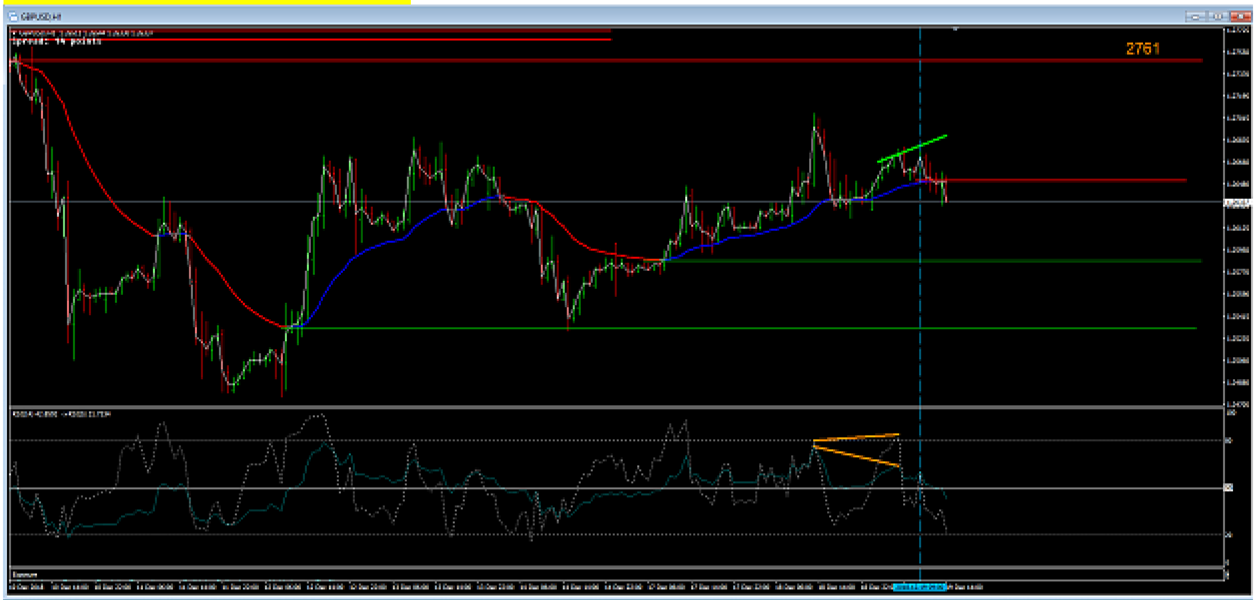
[Quoting mikeeating](#)
{quote} Hi I cant see inference to sell, seems like its indecision to me, but now it seems to be looking at the other side, happy to be corrected! {image}

Corrections...

Here is the state of play on the 5 min....



The 1 hour now looks like this...



It has almost made the required 50 pips

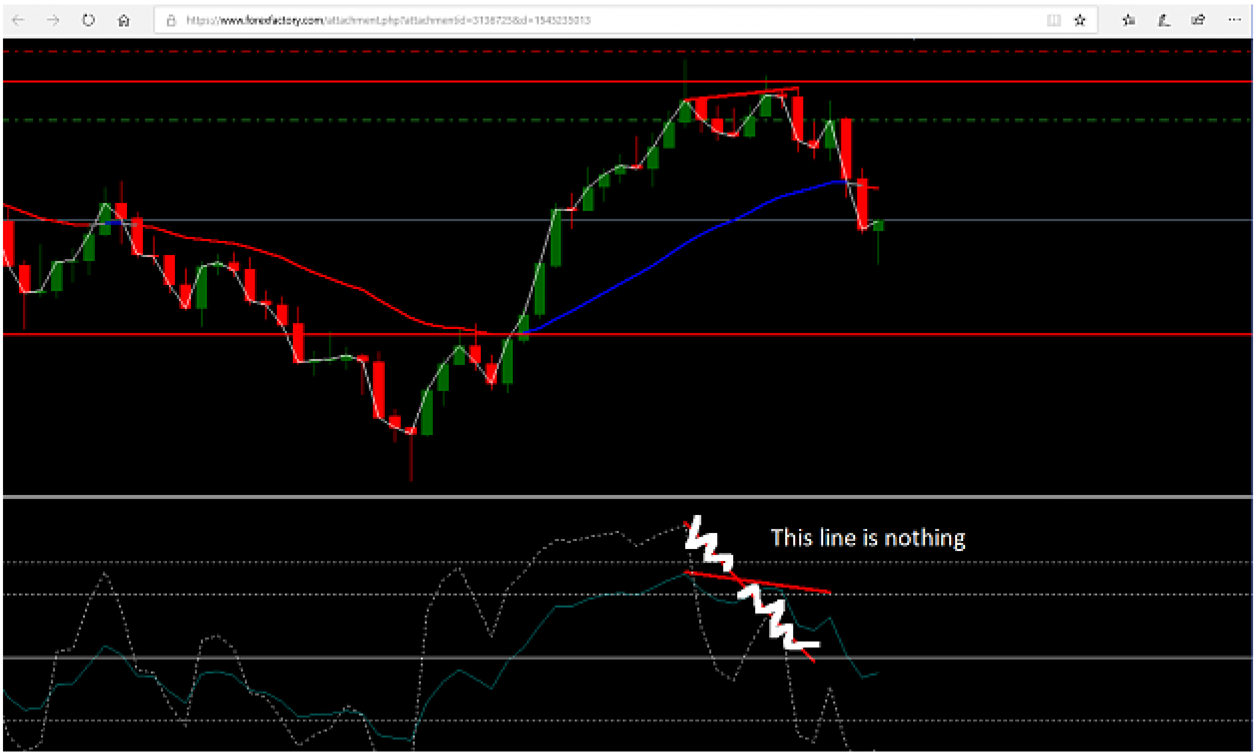
[Quoting quangvision]

{quote} Hi Alan, Can you please explain more on hidden divergence? Thanks 😊

Yes it is exactly the same as regular divergence except the price bar snaps back so the divergence can no longer be seen... Hence hidden.

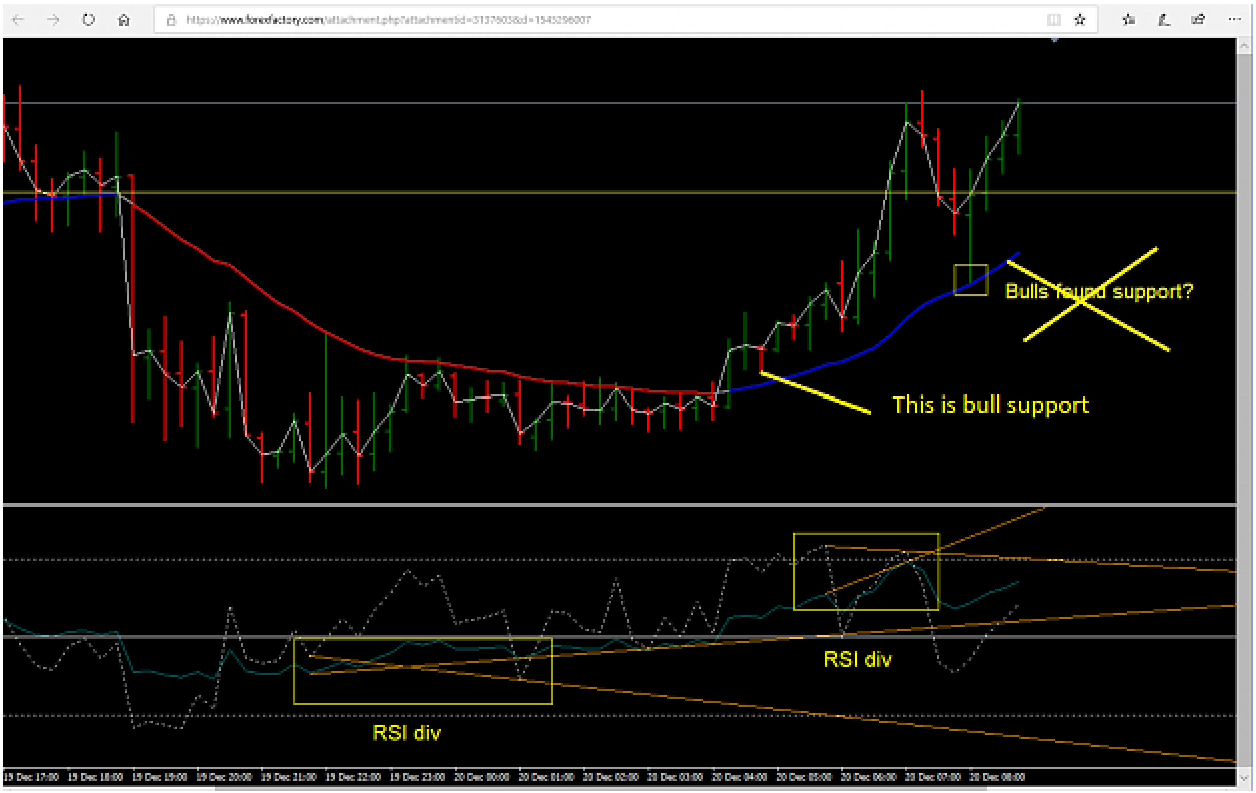
Take a look at this piece of chart. The first of these divs is the better example. See how the price climbed higher than the previous pivot but the RSI did not (at the time) so it was sold down and closed looking nothing like a divergence anymore.

The second example did exactly the same but it did not snap back enough to be hidden and ended as a regular divergence.



Quoting hocius
Nice trades Riaanvw! If we have RSI div in 1h, but then it bounces from EMA, could we say we have bull support? {image}

This was your bullish support...



Here are the last two days of 50 pips on the 1 hour chart...

So on each of these two occasions we should be looking for additional short entries at the 5 min level.

[Quoting quangvision]

{quote} Hi Alan, Thank so much for clarifying definition about hidden divergence. Just only thing I don't quite understand about 'previous pivot'. As I guess 'pivot' on your posted chart was determined by highest close price from last peak (first hidden div) and highest close price from prev upbar (second hidden div), right? Thanks Alan 😊

That's OK lots of people have trouble with divergence. Trust me I could write an entire book just on this subject alone.

See here on this 1 hour chart I have pointed out 3 divergences.

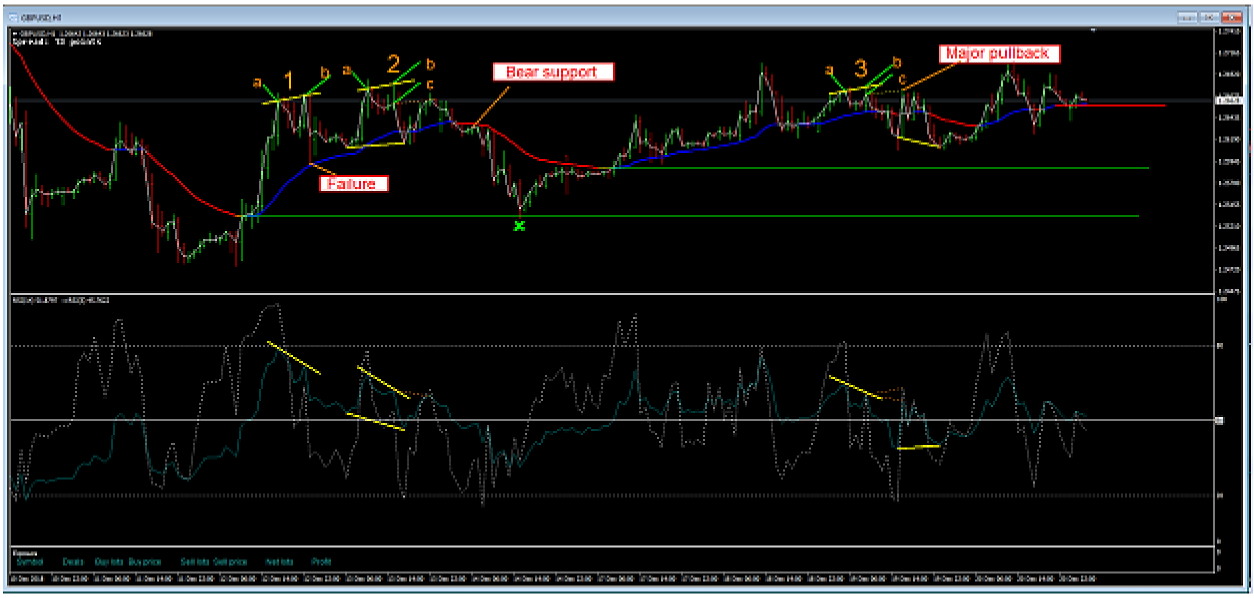
Look at number 1, this is a regular bearish divergence and should return the price to the EMA and beyond. If it fails to do this then most often price will make HH. (Which was the case in this instance)

Now number 2 and 3 were exactly the same as number 1 except they snapped back to be hidden at the close. Notice how the following bars never climb above b so this is the place for the stop (2 pips above b).

Now on both of these last two occasions price did break the EMA so we have a minimum target to aim for and would be looking at the 5 min chart to indicate where we should close. We do this because even though 2 and 3 ended with a regular bullish divergence the number 3 was different, it made a major pullback before the actual divergence which we could have avoided. Now that major pullback was also a hidden div just to through some more confusion into the mix and again it crossed the EMA and also it was an RSI div to boot.

If we must continue just under the letter c of the 2nd div was another regular div again sending price back across the EMA. This time bears found support and attacked the swing low average stopping smack on it. (X)

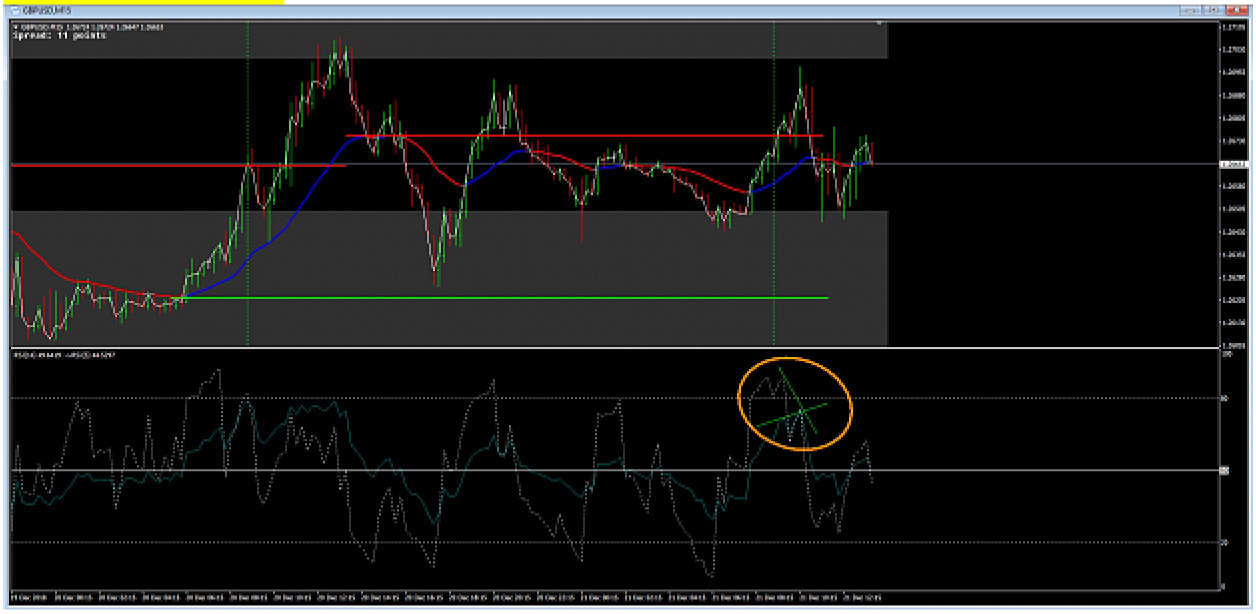
That should present some study and perhaps a headache, I don't see any reason that I should have all the headaches ✌



[Quoting mikeeating]()
Well I made close to 90 pips so far as I turned my hedge into my main trade. I couldn't get all entries on but at least the process is becoming consistent Thanks again Alan for a great system, cant wait for next year Merry Xmas! {image}

Fantastic stuff.

However I am not following your reasoning for the short on the 5 min chart. The answer was on the 15 min chart....



Quoting Bydyke

{quote} Squashing of RSI? This is how I enmeshed the RSI's on my MT4 platform. From the indicator list I uploaded the Relative Strength Index (Gold colour) with period 14. Then from the Indicator List under the Navigator section on the left hand side of the platform, I dragged RSI with period 5 (Dodger blue colour), from there over my trading area. With this, the two RSI are merged. I notice, however, that your fast RSI, ie, my dodger blue-coloured RSI is usually more expansive than my own. I wonder if it has to do with our different time zone....

I am not talking about the settings. I am saying the RSI is squashed making it hard to see. If you had zoomed out a tad and stretched it then it can be seen more clearly like this...

Just a few words about the subject of divergence.

I'm sure everyone is aware of what a regular divergence looks like and by definition it is where...

Bearish 'Price makes the HH but the RSI does not (LH)'
Bullish 'Price makes the LL but the RSI does not (HL)'

Then we start to run into problems in regards to the naming of other forms of divergence.

For example if price makes a LH and the RSI makes a HH it is often referred to as a **hidden divergence** but there is nothing hidden about this at all. So others refer to it as **a reversal** but mostly these are continuation signals so this too becomes a tad confusing. You see where I am going with this, trying to find an adjective to cover all and sundry is very difficult without actually inventing one.

In effect any situation where the price is opposite to the indicator a certain type of divergence is formed so we could invent a noun and call it a Poi (price opposite indicator) and these three letters are next to each other on the keypad but backwards. Then we would need to add the terms bullish, bearish or hidden bullish, hidden bearish. Since bulls and bears both start with the letter b we cannot go any further expanding the noun.

Then we have RSI divergence where the fast is compared to the slow and has nothing to do with the price at all, only the measurement of strength and comparing the most recent with the more ancient. Then there is the subject of divergence formed by the price and the EMA which I don't think I have talked about here yet and there are two types of those also.

If you have followed what I have said hear then you probably have a good handle on the subject, if not then you are probably in for a headache, again.

Take a look at this 15 min chart where there are not one but 4 types of divergence. The grey and black bands are 50pips. Let's just read what we see and not what we think.

No 1) Price pushes up slightly past the previous pivot but the RSI does not so it is caught in divergence, snaps back to become a hidden divergence.

No 2) In making this early push it has left the EMA behind not giving in a chance to make the HH as it was way up there on the fast RSI also. This forms an EMA div. Price makes the HH, EMA LH

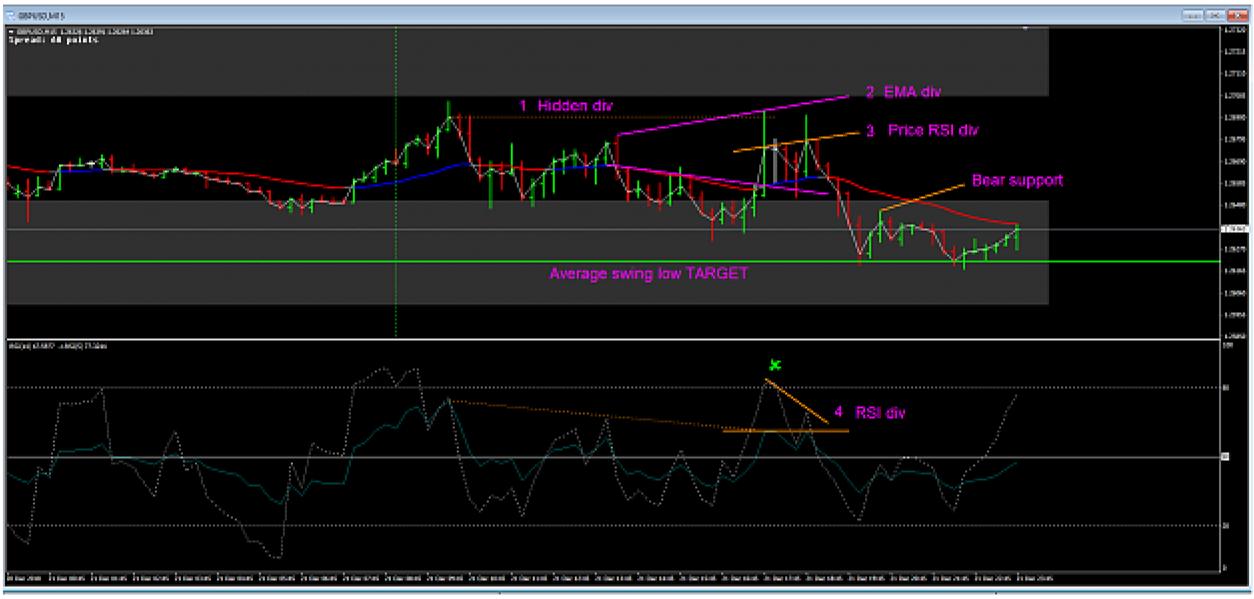
No3) The common garden variety div where price makes HH but RSI makes LH or flat in this case.

No 4) RSI div where the fast RSI is showing little left in the tank to get any higher.

The upshot of all this is the forced crossing of the EMA with the aim of making the swing low average. In this case it did this even before finding the bear support. Then the bears found support and price runs to the target just to make sure you got out.

These factors repeat time and time again, sure we get it wrong sometimes, that's the price we pay to play.

So something to think about over the holidays...



Quoting pipcruiser
Hi Alan, a question regarding your MM.

I can't really be too specific about the entries, sometimes there are only two pips between them and other times I have trouble getting the additional trades on.

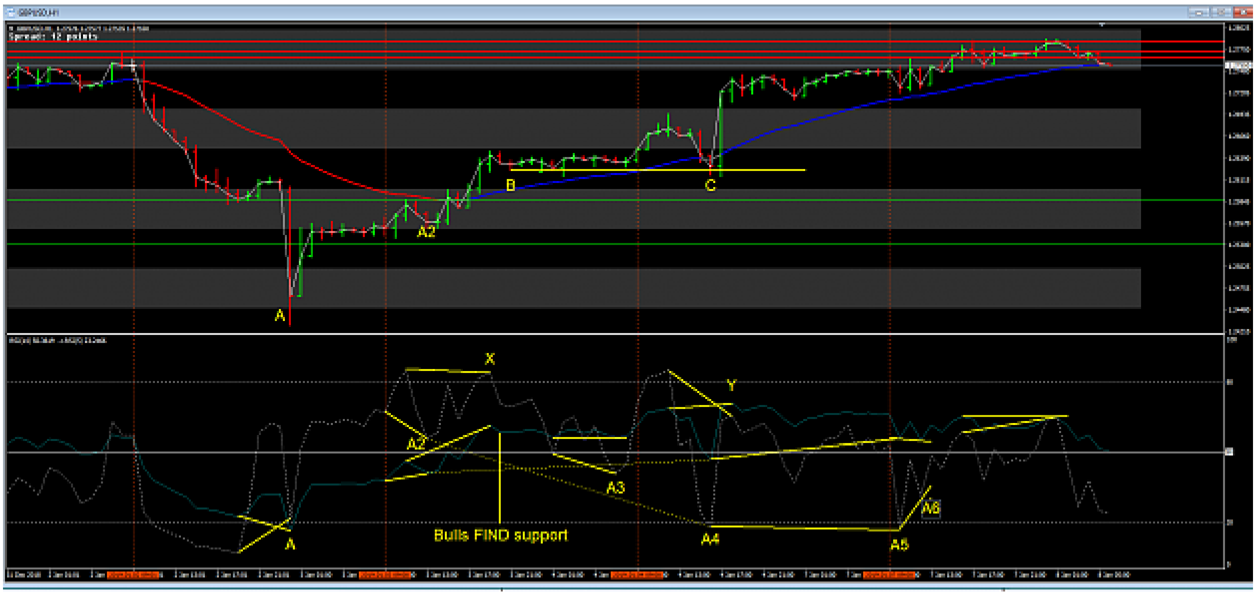
I can't say whether the market is going to have a choppy start or sharp spike. So I try to determine what the likely target is and then try to get my trades all on at least 40 pips away from the target in order to have any hope of achieving the fiscal result. It is difficult to get three trades on sometimes let alone more. The point is to keep pushing for the result even if it fails to make the full amount.

Remember the trades go on at the rate of 1/6th 2/6th and 3/6th totalling 6/6th which is all in. Keeping the stop as tight as we can as we progress so our risk is kept to a minimum whilst we are pushing for the maximum return. Sure we are going to get stopped out and lose a little but this is well offset by the winners and getting multiple winners in a row makes those losers look like peanuts. Besides which a winning trade may be left to run on a tad more and pick up any losses made previously.

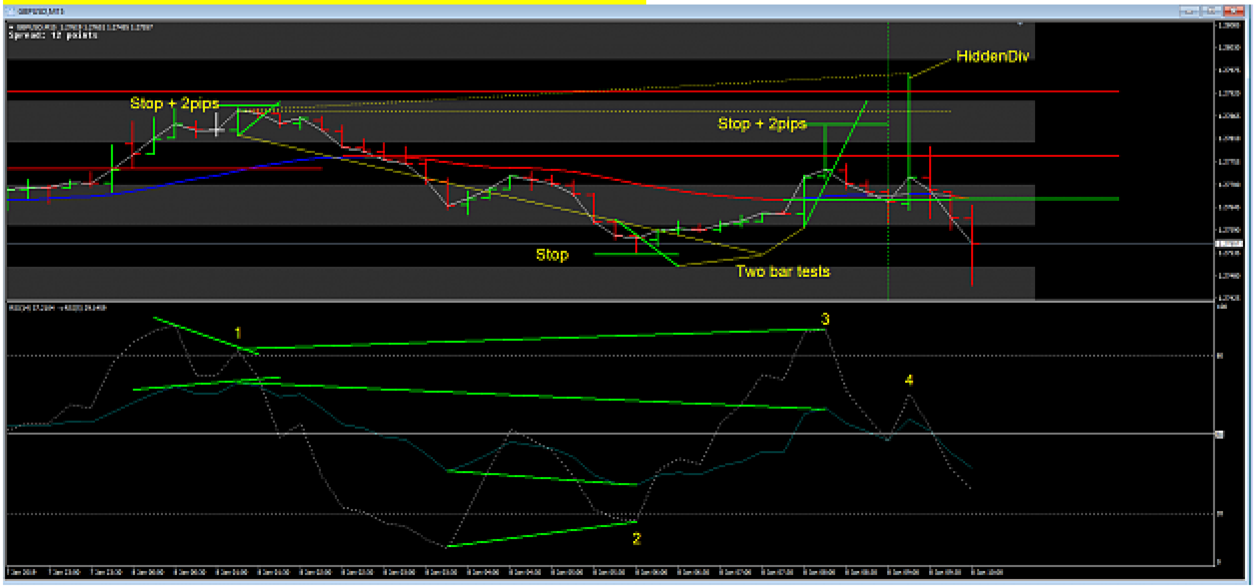
To ask what is the average stop is like asking how long is a piece of string, it is what it is. If the stop is too large then the lot size would have to be reduced or one may even pass on the trade, it is not compulsory to take a trade, we want probability on our side but we still don't want to risk too much. When a trade is going wrong simply close and await the next bus. The 108 trade is usually reliable in its push but we must always be prepared for those that are unstable.

We have to respond to what the market offers so we cannot set specific rules

In the mean time here is the 1 hour chart to have a look at...

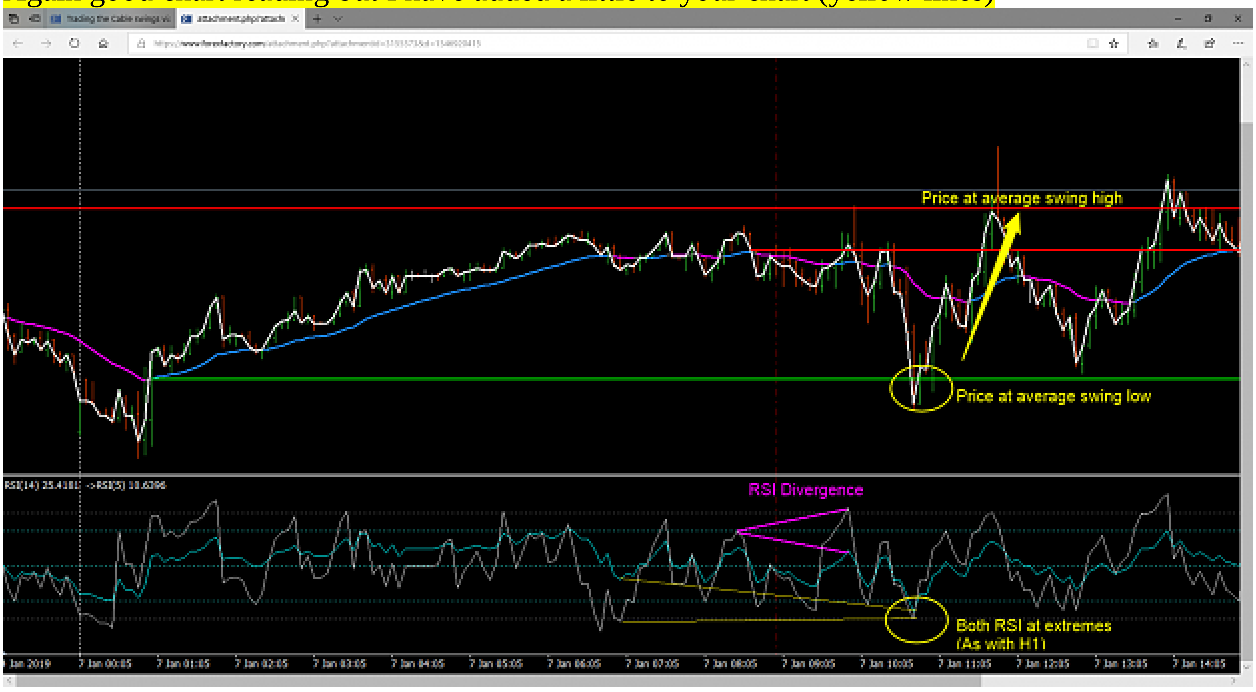


Here is more information on Riaan's 15 min chart.



It is important not to chop off pivots just o make a line fit

Again good chart reading but I have added a little to your chart (yellow lines)



Quoting mikeeating

I wonder if we are going to 1.2825 {image}

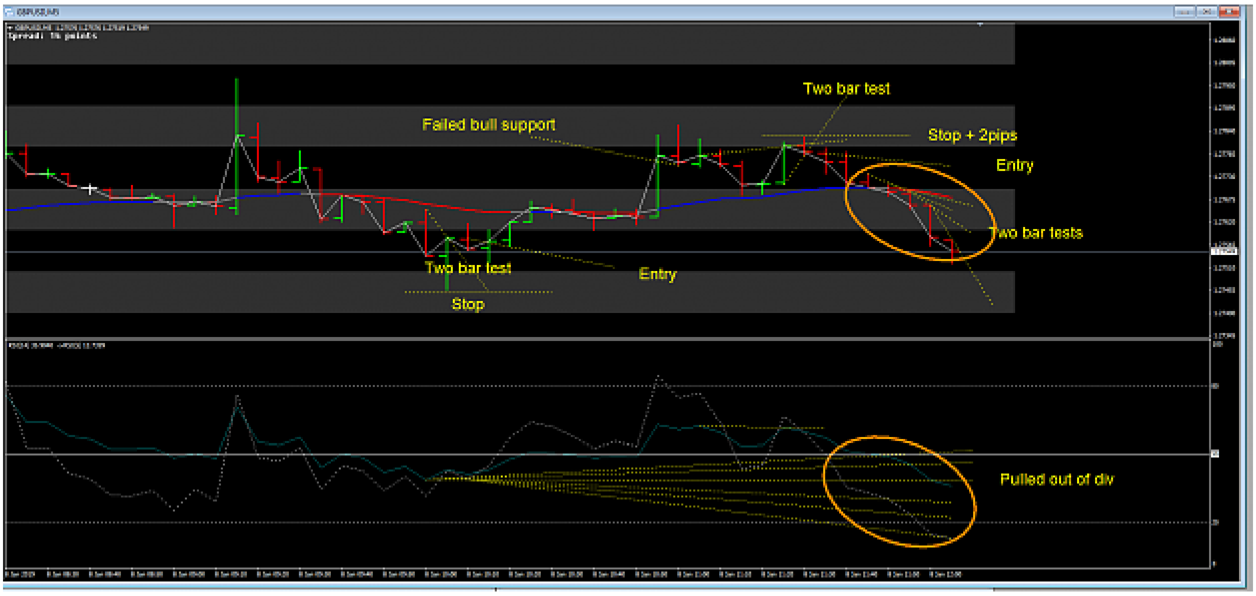
It has already been there and done that but failed to make the EMA swing high so it tests the opposite direct and made an EMA double bottom where it fails to make the EMA LL so again it turns to make the EMA swing high and does so.

[Quoting simon.says]
Oh well, glad I didn't enter.... {image}

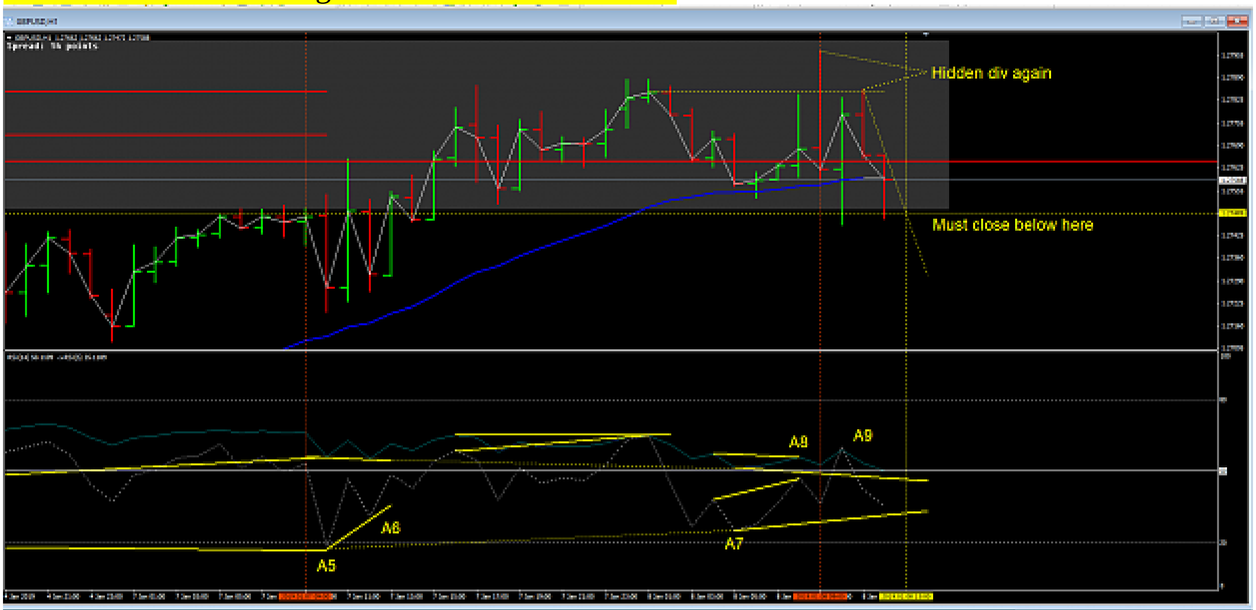
Not sure what you are referring to here.

Chart explanation =

See how on this 5 min chart how the bears pushed down and out of the bullish divergences and how the application of the two bar tests keep us out of trouble by not taking longs.



This is how I am tracking the 1 hour at the moment..



[Quoting Riaanvw]

Thanks Alan, what is the significance of the 1.27489 level to close below?

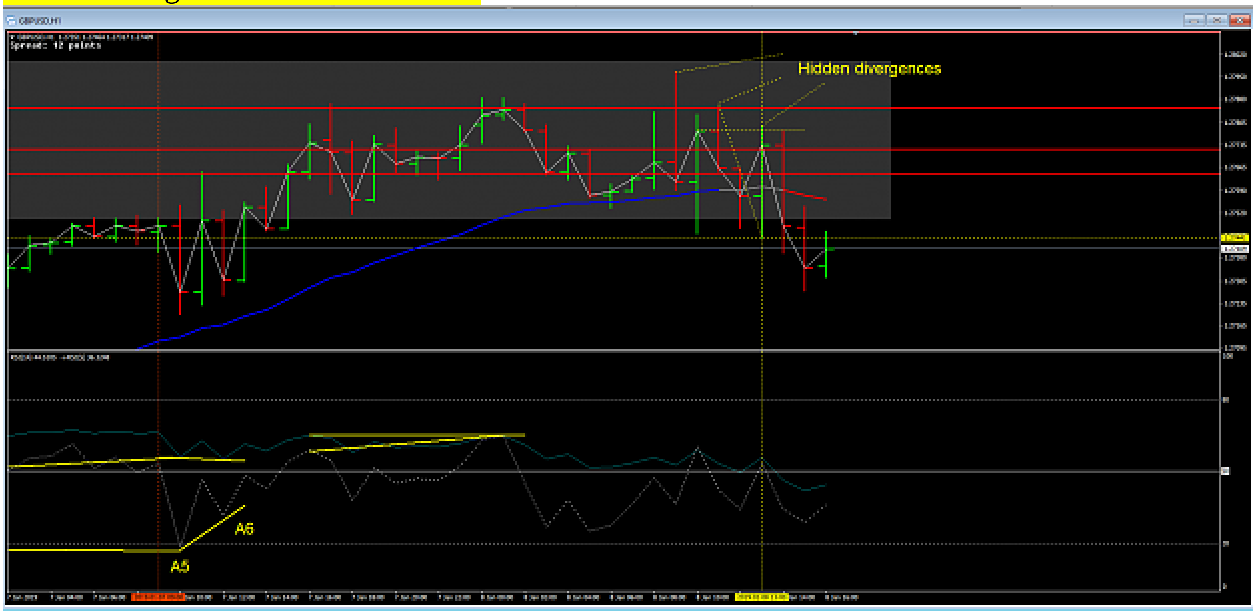
Sorry about the delay Widows did an update and I lost the plotting on the charts because they were not saved.

Yes that's all that was a two bar test. If it had closed below then it would have been a continuation to the downside from the hidden divergence. Actually I adjusted the line a little later to 1.27441, the next bar pushed down to 27443 pretty accurate hey!

This is simple geometry to plot. Draw the two bar test line, put a vertical line where the next bar will open and then put a horizontal line at the intersection of the two.

This will then show us if the price is going to break the two bar test and if not it will close below the horizontal and the down move would continue.

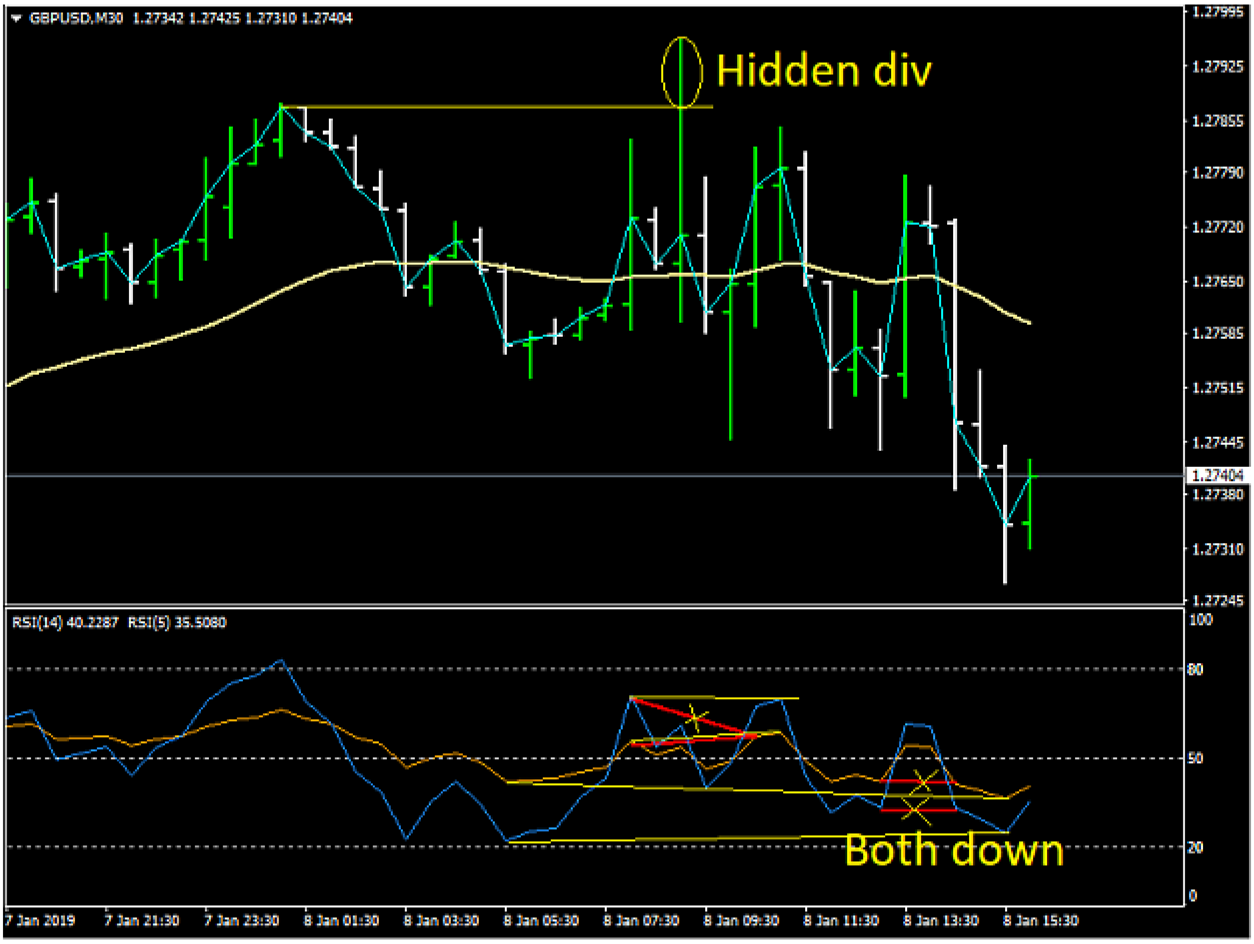
In this case it broke the two bar test and then retested it, failed and went up again running into hidden divergence for the third time .



[Quoting Bydyke]

{quote} Can somebody doff his hat for the latest Alan's div on M30. For one hour I thought the div had failed and that would have been a first for me. From what I have noticed the regular divs can fail but Alan's divs rarely fail. Yes, GU is bearish-inclined at the moment but the M30 div is pushing the bears back with intent {image}

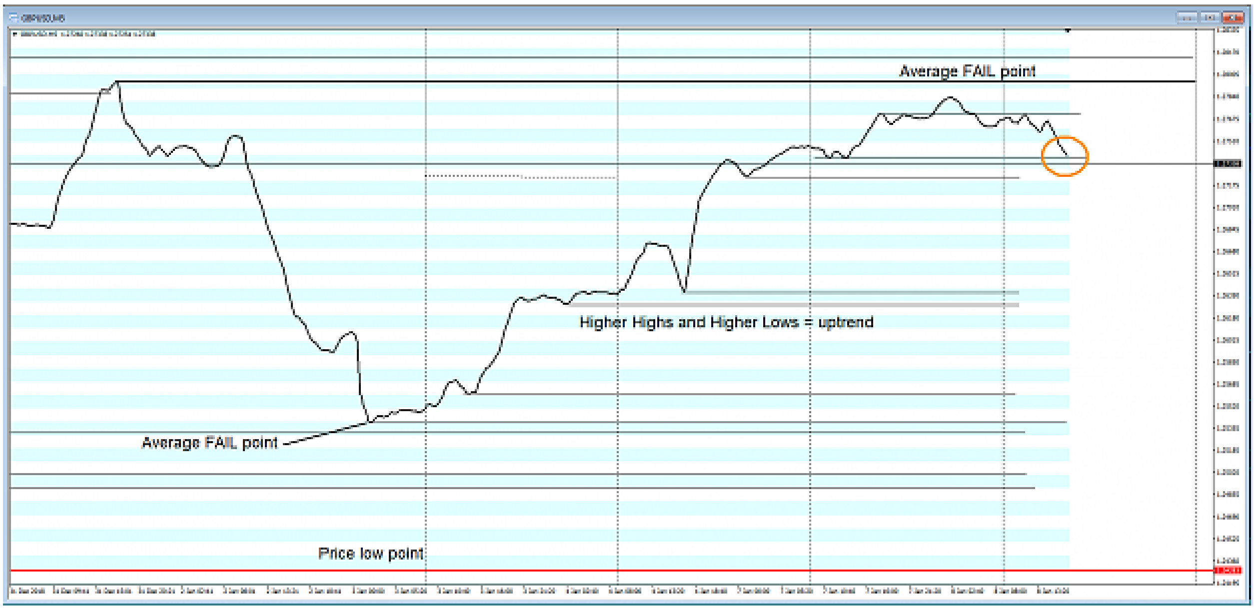
I don't use the 30m chart but the story is the same. I would have drawn it like this (on your chart)



How I trade the hidden divergence...

When I see there is a possibility of a move running into hidden divergence (in this case short) I place a pending short order well below the price action in other words out of the way. Then when the price moves into the divergence I slide the order up so that I catch the spring back

Can you all see what is happening here on the 5 min. This could be a trend direction change to the downside as the average makes the LL's and LH's



[Quoting mickmack5]
{quote} Hi Alan, I apologise I have to ask you about 2 bar test line as I have trouble understanding it. Is this the correct 2 bar test line as shown in the chart? Thanks {image}

No apology required some things need more explanation because we all see things differently depending on our points of view and our preconceived notions.

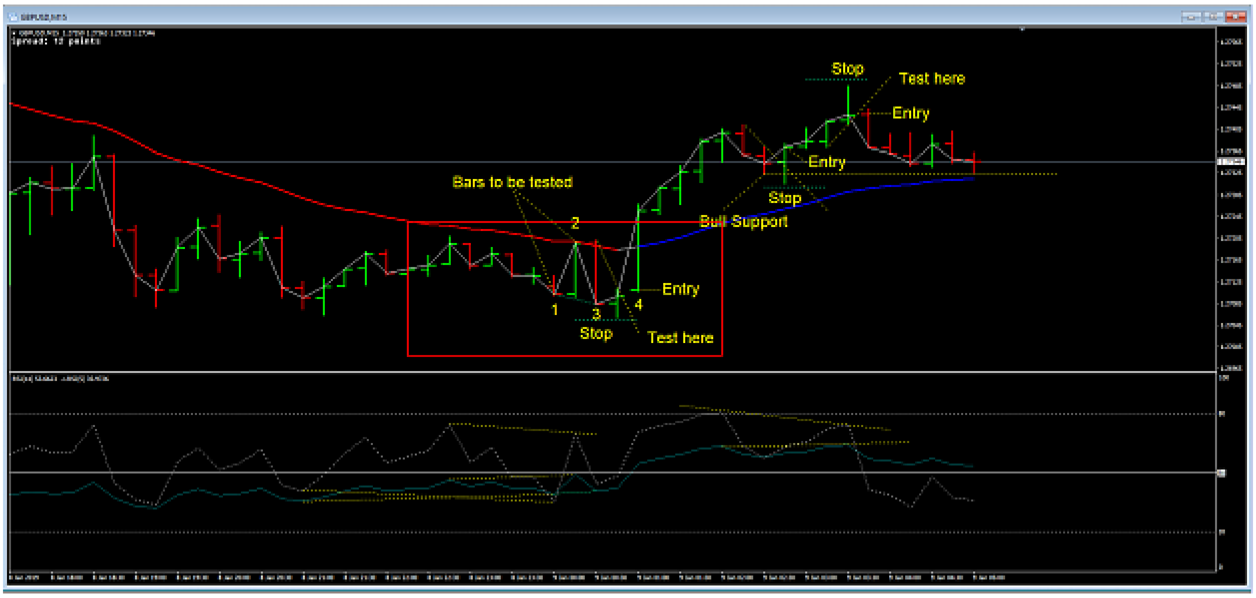
A two bar test is generally used when we spot divergence. I would imagine many have experienced the problem of taking a divergence and price fails to react to it and continues on its merry way. This is because price is heading for a level and divergence will not stop it from getting there. So the best divs happen at these levels because that is the expected turn point to test the opposite direction.

On your chart you have the correct start point but the test is not a horizontal line as you have drawn it but should be drawn connecting the bottoms of the candles (should be bars, easier to see). So the test line becomes in effect a mini trend line we need to see broken and our stop is placed above or below the bar being tested.

Don't assume the test can be applied all of the time, it can't as I will show on a chart directly.

Now I said it can be applied at divs but it can also be applied at supports, bullish or bearish.

Take a look at this very informative 15min chart it has a lot of stuff going on....



Lets first look at the stuff in the red box.

1) was and RSI div so we want to test the bar at 1 but look closely and the entry point would have been at 2 HOWEVER 2 was also an RSI div so there was no long opportunity from 1.

2) Moving now to the diiv at 2 there was no place to place the test line so again nothing for us there either. Price moves down to 3.

3) This was a regular div so we need to test the bar at 3 so we wait to get our test on and 4 presents us with the long entry. All goes well from this point and the div causes the cross of the EMA so now we are out of the box going long.

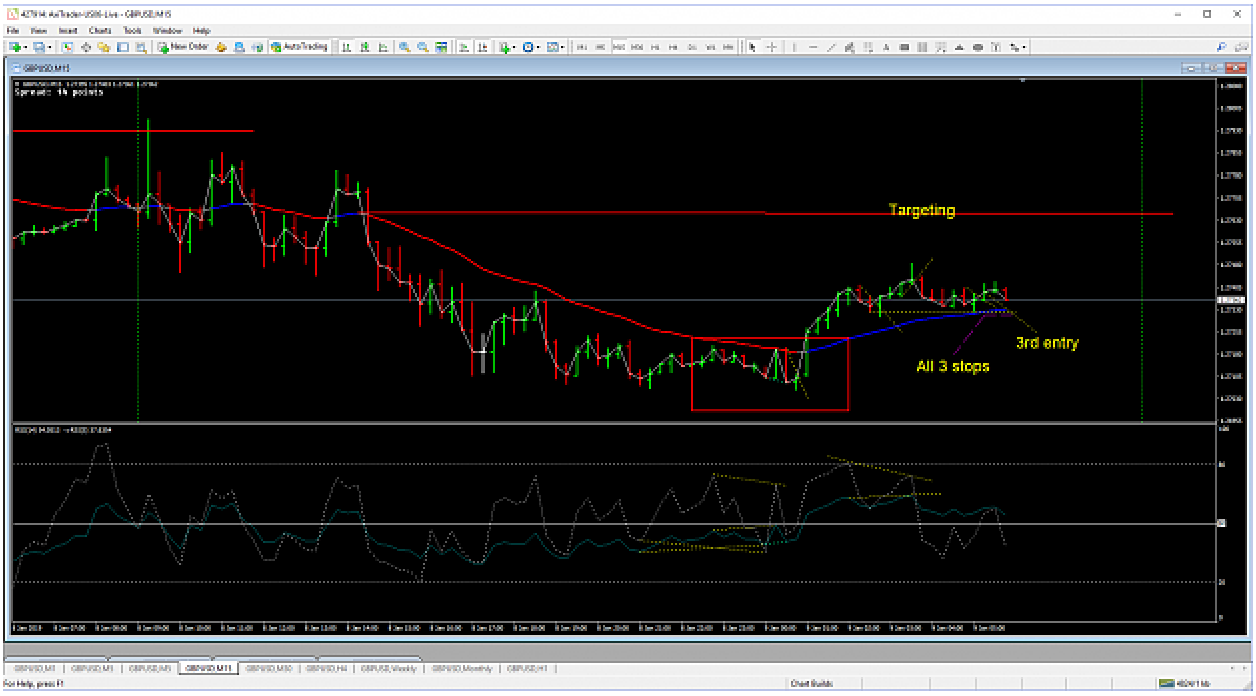
Price makes its pull back (in this case 2 bars) to find bullish support where we can again apply the test as shown. Price passes the test and on the close it gives us another long entry and we have establish a bullish support level. All well and good so far (I hope) but then a problem starts to show its ugly head in the form of a bearish RSI Div.

We can't ignore this, we have to take some form of action.

9 out of 10 times the best action to take is to hedge the 2 long trades by taking the same sum of lots in the opposite direction. This is done because we cannot be sure that the bears will take out the bull support, remember that this div could recross the EMA. We see the price could not break the bull support so we can now close the hedge and take the profits from it. Remember if the div does not cross the EMA then price is going to make the HH, hasn't happened yet but it probably will.

So we have made some profit from the hedge and we still retain the two long trades accumulating towards our total and can move the stops for these two to just below the EMA to lock in some profit.

Now the bounce off the support gives us the opportunity to make a third two bar test and get a third long entry on still hoping we are going to make that HH with price, indeed we are hoping price moves to the average swing high and tests that level.



[Quoting mikeeating](#)
{quote} Alan, would you say that price has a tendency to gravitate toward levels that haven't been tested yet and would you place high significance on this fact? both on the 5min and 1hr? or is this just a natural occurrence for high time frame ranging behaviour I spent some time looking back a fair way on GU on both 5min and 1 hr timeframe and discovered it rarely misses a level, {image} {image}

Not always sometimes it leaves levels well behind as it creates new ones.

It is like a coiled spring having to pull back to get the energy to go forwards again. At the average fail points it turns to test the opposite side releasing the stored energy it has accumulated. Price will usually make the next level to the one the average is aiming for. This is why wide swings are desirable so we can get our 50 pips more efficiently.

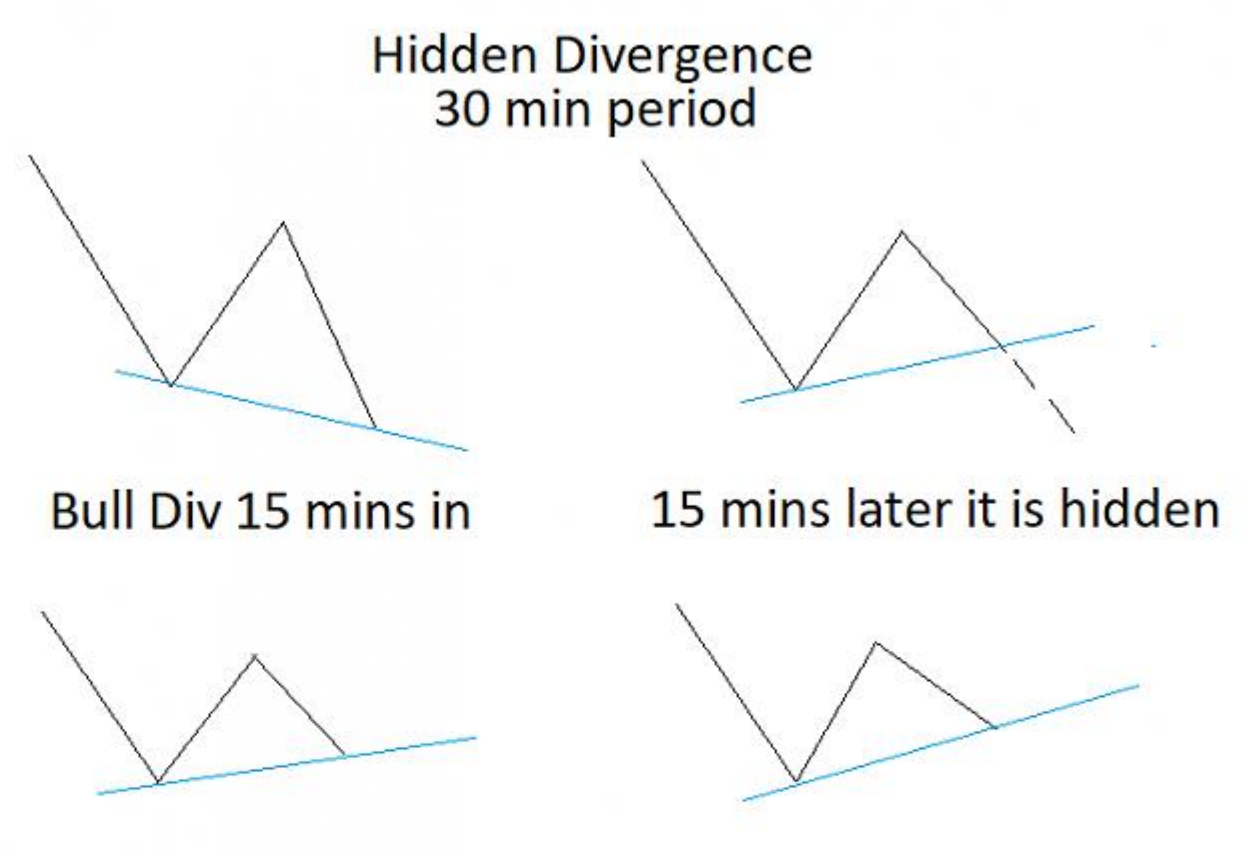
It is surprising just how accurate these average swings present as resistance levels for price

Ok the question of hidden divergence.

First off, let's not get into why things have particular names, remember the names came from people in the past applying them rightly or wrongly and through the passage of time have become accepted terms. I have argued my case in the court of public opinion many times but it is extremely difficult to prove the world is not flat if so many believe it is so. OK having said that I will stick with my terminology and tell you why it is so.

A regular divergence in the bullish sense is where the price makes the lower low pivot but the indicator (RSI) makes a higher low pivot, in other words they are telling a conflicting story.

The difference between a regular divergence and a hidden divergence is in the pivot timing. Let's say we are looking at a 30 minute chart and 15 mins in we see we have a divergence, traders bail out of their shorts (or hedge) and they and others start buying so in effect the divergence disappears over the latter 15 mins making the signal a now hidden divergence because we can no longer see it, in effect it is hidden from view because the RSI does not have wicks and tails like the price chart so we have no history to refer to. We have to be there to see it at the time, we cannot see something that is hidden.



[Quoting simon.says]
Hi Alan, I got two questions about target lines: 1) How do you draw your swings highs / lows? I am aware that you do so using the Moving Average, but what I have a problem with is to determine which tops and bottoms are valid. For example, in the chart below there are many smaller highs and lows. Which ones would qualify to become a target line? And more importantly what criteria do you use to determine that it is a swing high / low? 2) Having looked over your charts many times now, I have noticed that they look "clean" and do not have as many target...

All tops and bottoms are valid. Notice in your first chart how price tends to attack these levels as price resistance levels which it may break or fail to break even though the average fails to do so or not. So what we see is price leading the way dragging the EMA along then at some point failing, turning and ultimately stopping the EMA for a test in the opposite direction. In other words when the EMA fails in one direction it then tests the opposite direction...This is what the market does all day everyday it tests the market to see where buyers or sellers are attracted and our charts are but graphic examples of these actions. Market makers are charged with a specific task i.e. Make a market to attract investment.

Notice how just about all your marked levels have been attacked, so to speak, by the price action. We look to these levels to see if it worthwhile taking the trade to get our 50 pips worth. So all the levels are relevant and lose that relevance once the average has swung to take it out and creates a new level of relevance. This answers your second chart question, the average has taken out the previous swing so it is done with as far as we are concerned.

Within the context of these swings we have the mechanics of actually getting there so we are looking for divs etc to find the entries for the journey.

This also raises the question of trends within the swings so when I get back from shopping I will explain my concepts of what I consider trends.

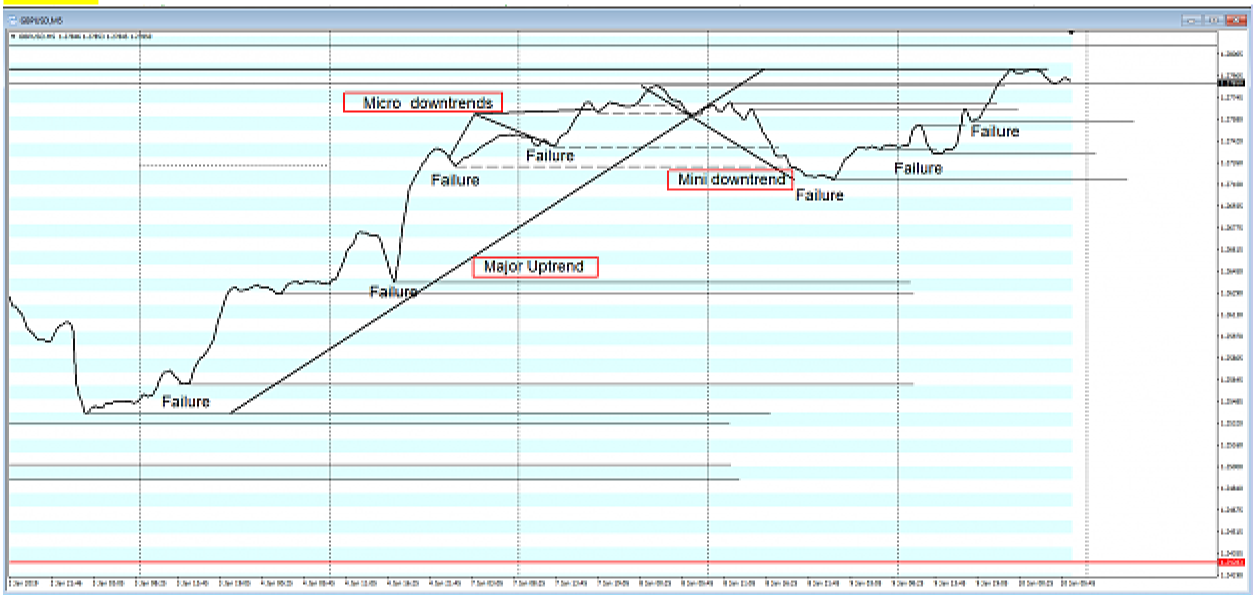
I recall several years ago the subject of trends was under discussion which caused me to have a think about how trends can both be described and fit into my regime. As it turned out it was an easy do.

I found there were three trends to consider...

1) Major trend
2) Mini trend
3) Micro trend

1) The major trend is as the term implies where price does not counter a move. Often this attracts a 50/75% retracement and beyond a 100% would become a counter trend.
2) The mini trend manages to break some of the average swings (shown as dashed lines) but ultimately fails to break the 100%
3) The micro trend which cannot break any of the previous swings and the major trend continues.

That is all a bit of a mouthful but seen here on the 5min EMA chart it should be clear to you. Of course we could zoom out and find even larger trends but that is of little value to us as day traders.



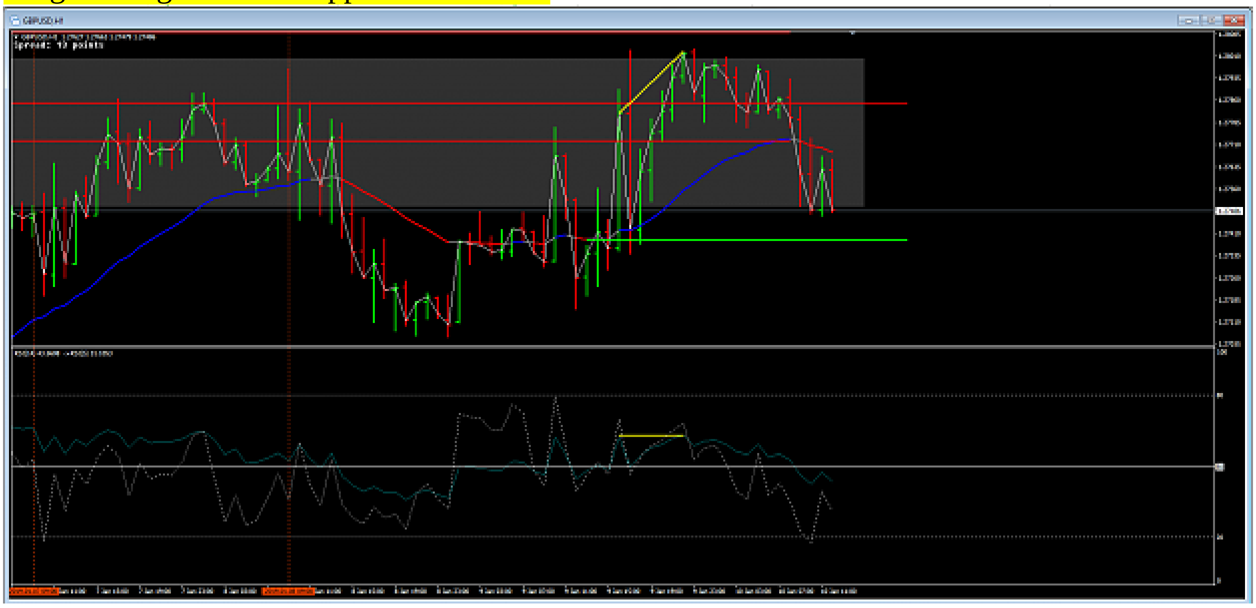
OK you guys are again missing the poin of what the 1hr chart is telling you.

Price has crossed the EMA so that would have been seen as a downtrend on the lower time frames.

Then it has to make a pull back on the hour to FIND bearish support, so if trading short on the lower timeframe you would hedge this pull back.

The 1 hour has FOUND bear support so it continues south... Take off the hedge and pocket the profit.

Where does it look like it is going on the hour chart... Then take signals in that direction and hedge the signals in the opposite direction.



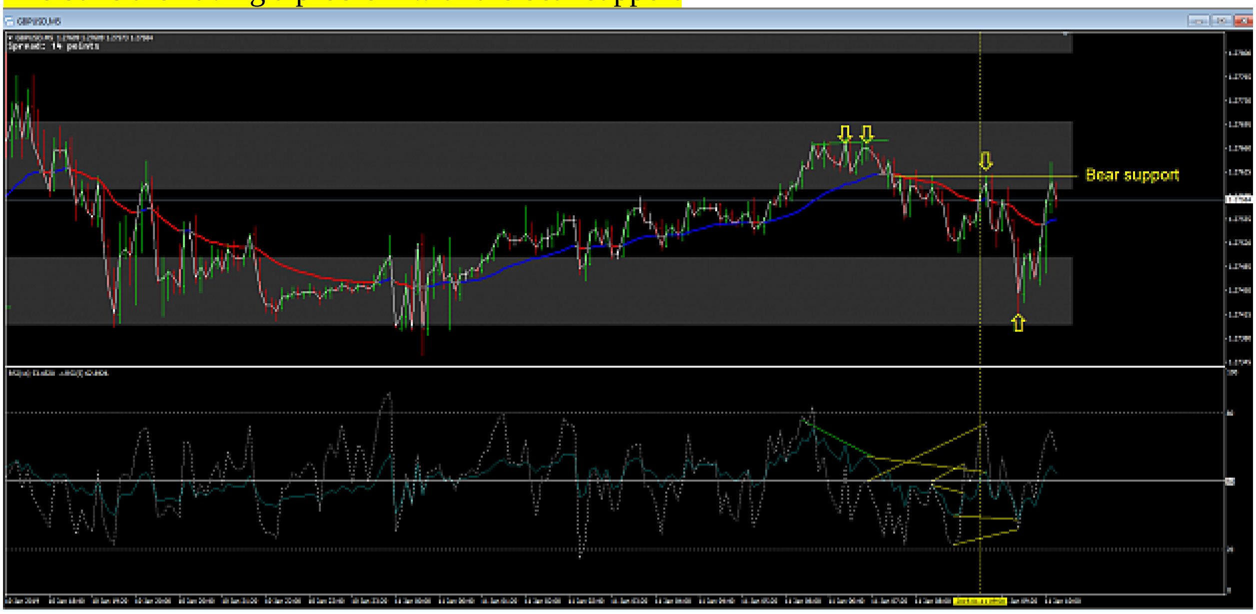
[Quoting mickmack5]()
Hi Alan, got a question on 2 bar test. When the next bar did not break the 2 bar test line, do I wait for more bars to form and break the trendline eventually OR do I abandon the current div trade and wait for a new div trade to setup and then enter? Thanks {image}

First off how can this be a two bar test if you are testing 4 bars?

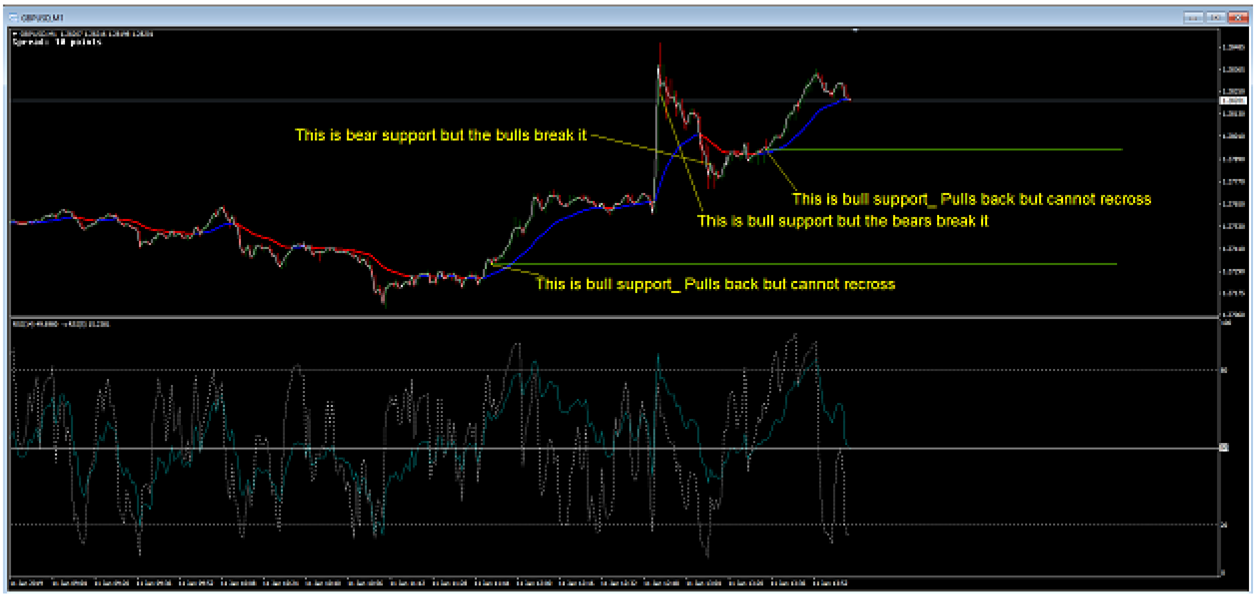
I have corrected your chart but what you should be also asking yourself is the Div is not far from the EMA so would this trade be worth the effort.

If you take the same scenario on the 1 hour chart then the numbers of obtainable pips increases and you trade these 1 hr pips at the 5 min level in the required direction.

The bulls are having a problem with the bear support



Examples of some Bull and Bear supports on the 1 min chart



Here we have the 5 min and the 1hr side by side showing 4 trades, good bad or indifferent it matters not.

1) Was an RSIDiv on the 1 hr and a regular div cropped up o the 5 min a nice scalp of 20 pips or so down to the EMA

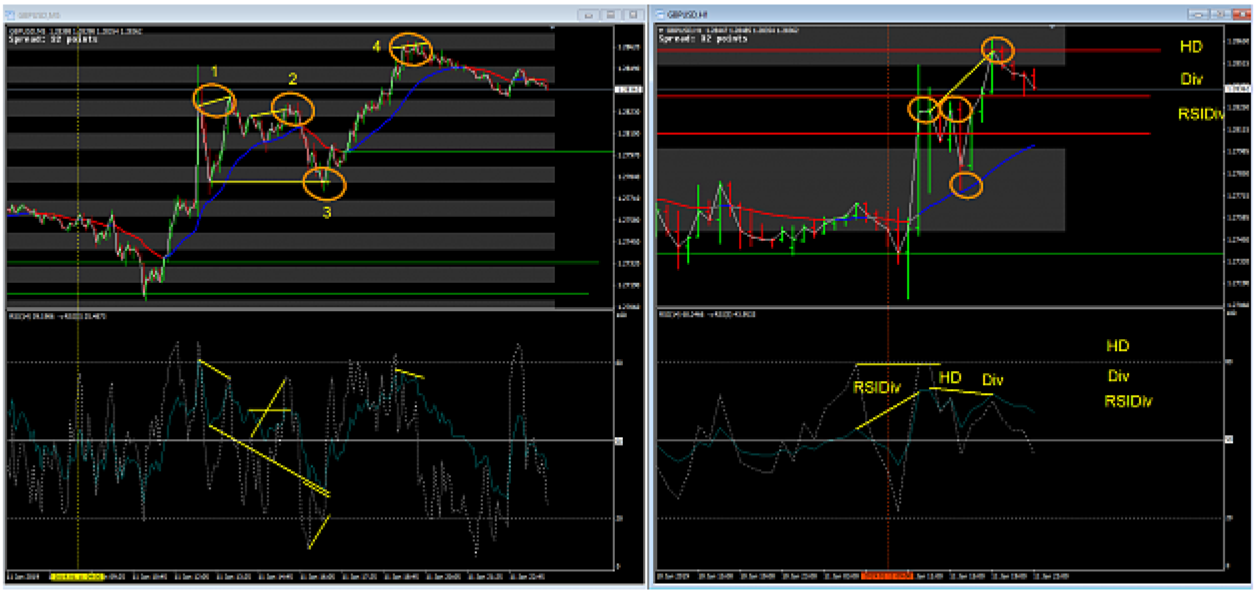
2) Was a hidden div on the 1hr and both a regdiv and an RSIDiv on the 5 min down to the 1 hr EMA

3) Was both a regdiv and an RSIDiv on the 5 min at the 1hr EMA level, plenty of pips there.

4) Was a regdiv on the 5 and on the 1 hr

Bucket loads of pips to be had by simply paying attention to what is going on and not trying to outsmart the reality of the market by 'thinking trades'

This now leads on to what is happening to the money management side of the equation and I will explain that later today...



OK let's consider this so called money management.

I use to be of the opinion that if one traded small enough one could trade out of most situations by simply adding to the losing situation so the recovery of funds was usually a done deal. This meant I had to be at the PC sometimes for days either hedging the loss or adding at appropriate times reducing the loss gradually until at last the trade was out of debt. Not always in profit but not a loss either but I was losing and that loss was valuable time. I can recall saying why didn't I get out early and trade the opposite way I would be quids in.

The problem so I believe was in the fact the lot sizes were so small that even a win from the onset would return only a small profit also. One then falls in the trap of placing too big a lot size to be able to trade out and the inevitable happens as it does with most traders I have come across.

So I spent a lot of time considering this, after all this is probably the most important aspect of trading. The questions I was asking was 'How can I keep my losses small?' How can I make better profits?' ' How much profit do I want?' and so on.

To cut the story short this lead to the method I have outlined. This will continue to make 1K profits in itself but once we do make that first 1K we have options.

The first 1K is made by placing the three trades at the rate of 0.3 lots, 0.6 lots and 0.9 lots totalling 1.8. (1.8 x 1.4 x 40 = $1008)

Now the account is at 2k so I should now be able to double up but look what happens 0.6 lots, 1.2 lots = 1.8 so there is no need to apply the third entry.

Now the account is at 3k and again the increase to 0.9 lots, 0.9 lots = 1.8. So my second entry is getting smaller and so is my total risk as a percentage of the account.

This continues until finally my first entry is 1.8 lots and I need not apply anymore at all unless I care to. I will still make the 1K with 40 pips of profit but look at what has happened on the losing side of things, I am risking about $250 to make $1000 that is a 1:4 risk/reward, I don't know about your thoughts but to me they are pretty bad odds even though the win rate may be much better than the trade loss rate. I would like to see my potential win rate about ten times my initial loss rate i.e. $2,500 so I am still requiring that second trade on to achieve this.

So by following the money management process the account naturally grows exponentially and at an awesome rate where we need not fear stop outs nor spend hours if not days making small profits.

OK stop dreaming for a moment and let's get back to that initial target of making our first 1K. Let's say I managed to get the three trades on but fail to make the full 40 pips, let's say I only make 20 pips because a signal told me to bail. In this situation I don't begin over trying to get the three trades on I just continue as if it were the same trade, that is I place the whole 1.8 lots on from the start looking to make the balance of the 40 pips i.e. 20 pips more. I still keep the stop as tight as I can and get it to B/E ASAP.

We all find a way to manage our money but I am convinced that we have to push the market as much or more than it pushes us. We have to control from the onset just what we are prepared to risk. I don't think risking 1% to make 2% is going to get us anywhere nor is risking 10% to make 20% these are both 1:2 risk/rewards we need to get those figures up to 1:10 to give ourselves the mathematical edge.

Quoting quangvision

{quote} Hi Alan, From your chart, I noticed there were several bearish divs along the way up from 3 to 4. How can you avoid those possible hedges or accept all stopped out? Thanks {image}

A great question and one I have been waiting a long time for.

I am not going to suggest we don't take a hedge or a short at these points because they are indeed legitimate signals.

What I will say is watch what happens after the signal. It should be the case where the div either touches or crosses the EMA but these ones don't do that so what is going on?

Look at the div pull backs, the 5 period stay in the valleys of the 14 period, to me this is a buy signal. So that being the case I better close the short ASAP.

The same thing applies on the underside of the 14 period, that is when the 5 period stays under the peaks of the 14 then these are sell signals.

You are right this makes things difficult at times that is why we have to have stops and move them accordingly to keep those losses tiny.

This is a good question everyone should take note of

Quoting quangvision

{quote} Hi Alan, Thank for your comments. I updated my recent chart applied your guide. Please comment on it unless I understood you well. Thanks 😊Btw, for a hedge trade, stop lost will be placed right on top/bottom of 2 bar test then be moved to BE when you earn some pips, right? {image}

In this case I think you mean the 5 is closes above the 14 on the chart explanation.

See we must remember that we are trading above the average so we have to assume these entries are just scalps however sometimes we don't know if these will turn into full blown trades so the hedge is insurance against this latter situation, who cares if we lose a couple of profit pips . Put that down to the cost of the insurance.

Also there was nothing specific on the 1 hr to indicate a full blown short until we got to the top where we had hit the target, 1hr div and a 5 min div

Managing hedges is important to gaining the full 40 pips required to make the 1k (initially) making 10, 20 or even 30 does not cut the mustard, these are just scalps.

As in this case clearly we can see the long is held as the primary trade and the shorts are just hedges. If we lose a couple of pips on the hedge then we simply add this to the total required by the primary trade until we reach our objective and quit for the day as a good days work has been achieved. Rest up for the next days business.

It takes as long as it takes to make the total, sometimes very quick at other times not so.

It makes no sense at all to post how many pips we get, pips are only the measuring distance price moves and as such only form a part of the equation of profits made. For example if I have a 100K account and trade at 10c per pip and get 25 pips have I done well?

This is why we have a money management system to keep pushing for our daily bread.

We only drop our leverage when the account is large enough to cope with the lot sizes required. In fact your broker will probably let you know. However if we keep withdrawing we keep the account small yet still make good money. It is just not possible to make good money with a small account and small leverage 1:30 is just plain ridiculous for the currency market since we have to buy in 100,000 parcels for a standard, 10,000 for a mini and 1000 for a micro. Multiply any of these by the price and divide by the leverage and we get the price we have to pay in USD then we have to change this to our base rate for the actual price.

It is true that the lower the leverage the less we are likely to lose but remember the sword is double edged so it follows that we are not likely to make much either. Only when the account is large enough to still make our 1K a day with a lesser leverage for the same lot sizes should we consider dropping it but why bother just put the money in a term deposit or something other than the trading account and let that do some work for you.

Quoting pakeha
{quote} realistically the only way to match Allan when you have much lower leverage is to increase the equity in your account. I haven’t done the math but if Alan starts with 1k in equity, and has 13x more leverage then you likely need 13-15k in equity. I also have a lower leverage account and target a smaller amount of percent profit than Alan. If I can consistently make 5% a week or 20% a month then I would be a happy camper 😊.

Correct and I really feel sorry for the USA folks where they have serious restrictions stopping the average bloke making a quid, there the max leverage is just 1:50, they cannot hedge and have to take the first trade on as the first trade off FIFO creating an impossible situation where only the wealthy can benefit. Talk about a free country, yeah right.

I am a very cynical and skeptical person especially when it comes to nouns beginning with the letter G. Ghosts, ghouls, gremlins, gods, greys but especially governments. Thousands of years of evolution and money has become the dominant factor controlling us all and those that control the money could not care less about the have nots. What a crazy world we live in hey, who wouldn't be a cynic

Quoting simon.says
Hi guys, Alan has already written that he is currently trading with 1:400 leverage. However, I can imagine that some of you are trading with less. Mine for instance is 1:30 (EU account). For the folks with similar leverage: How do you position yourself to maximize returns while limiting your losses? In other words, how do you conduct your money management?

I suppose the short answer is you can't. The currency market has a very high risk of loss and equally a very high rate of return. For modest returns with modest risk then it may be better to just buy shares in BHP and sit back for ten years or so. This is why it is very often stated to only trade with money you can afford to lose. If we have to deposit more to compensate for leverage then we had better be sure we still can afford to lose it because we can. I know plenty of people with low leverage and no stops who got smashed on the Swissy.

This is what low leverage gives you, a sense of safety, so often stops are not used after all it must turn sometime🙏 It really doesn't matter ow we slice it if we lose a hundred pips with whatever leverage we still have to make 100 pips to get back to B/E. A $100 dollar loss on a low leveraged $10,000 account may not seem like very much but keep doing this and it becomes more and more difficult to recoup let alone profit from it. It can become a slow death because of this sense of safety. When you are in a very much higher risk situation it becomes a matter of a much quicker death, you have to get out or die.

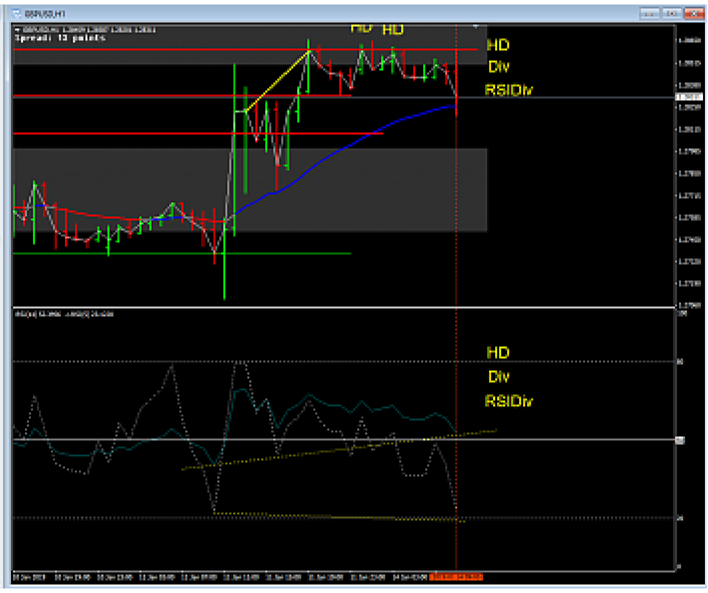
This is the option we are all confronted with:.
Slow death v's slow profits.
Quick death v's quick profits.

I opt for the latter but control the manner in which I lose so my winnings far outweigh those losses and I can make good money with relatively far less capital and do so in far less time.

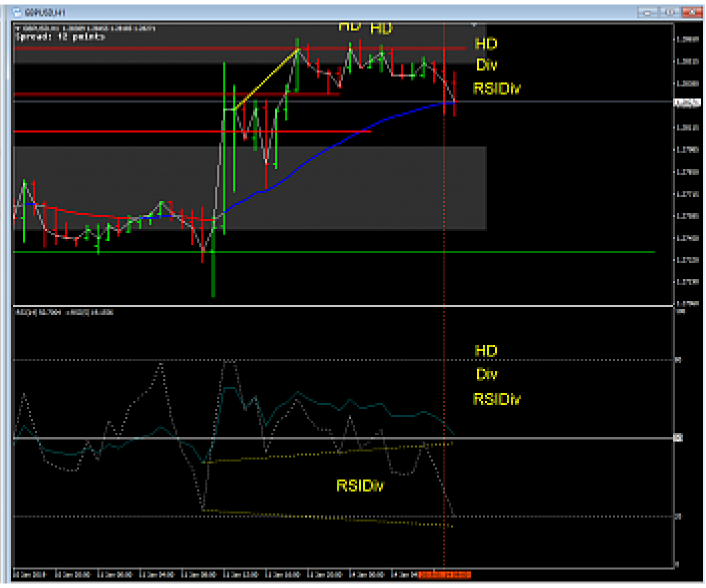
Others may put a case forward for low leverage but that is not what I do

OK I am in a free trade situation now so here is the trade to date..

Going as fast as I can



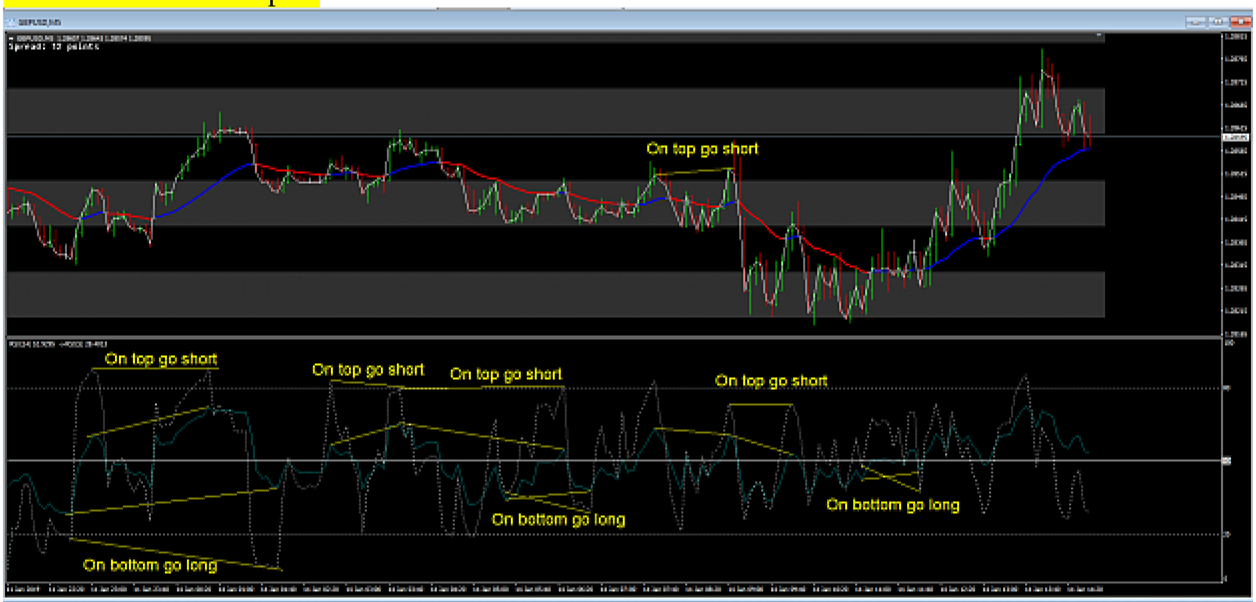
Looks like this at the moment... nearly stopped out.



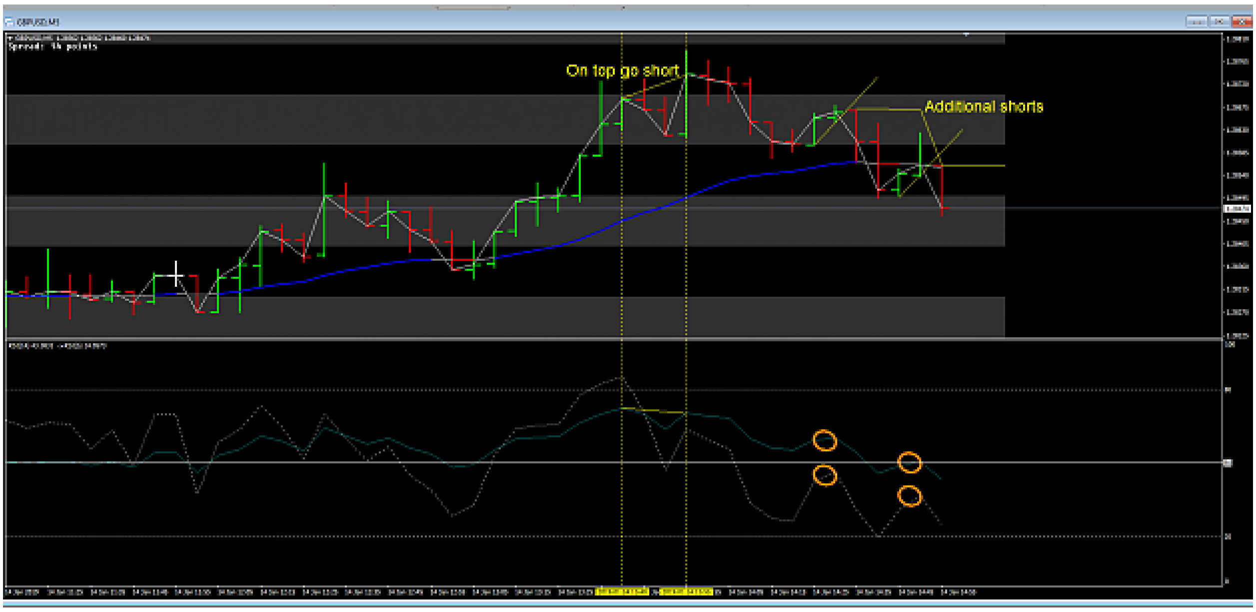
[Quoting hocius]()
{quote} Good morning all! Alan, may I know why is this a bearish div and not bullish? Does the slow RSI give the div direction?

If the div is on top then the price should go south if the div is on the bottom then price should north

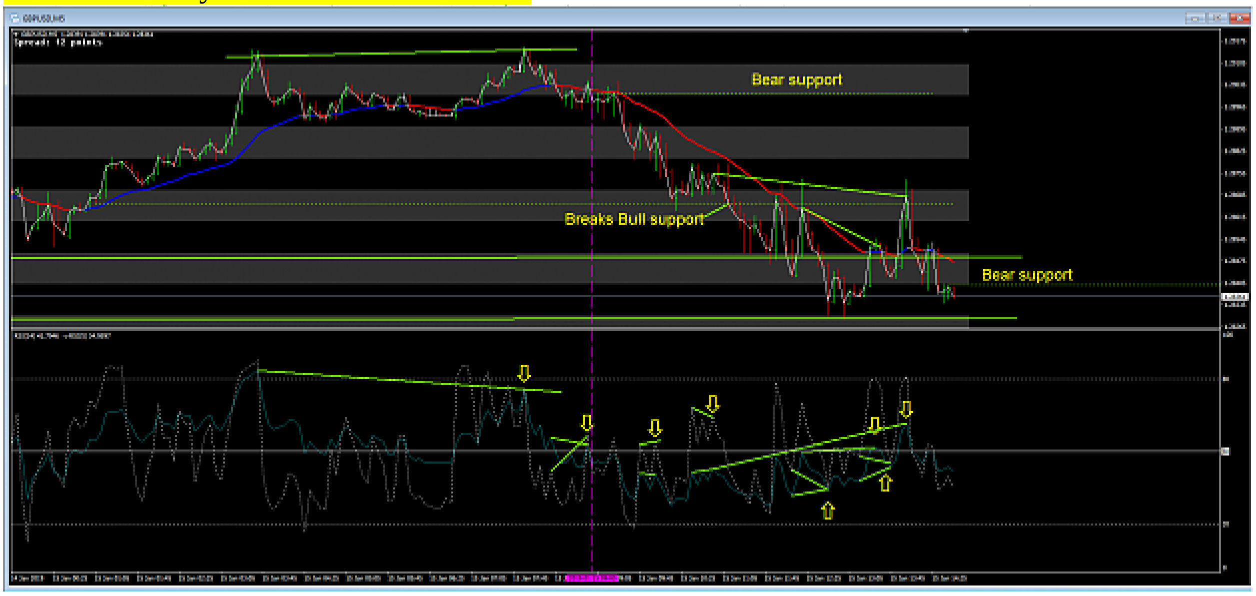
Here are a few examples



See how the slow RSI and the quick give you additional entries because the quick is staying under the slow RSI pivots. (Well that made sense to me as I was typing)

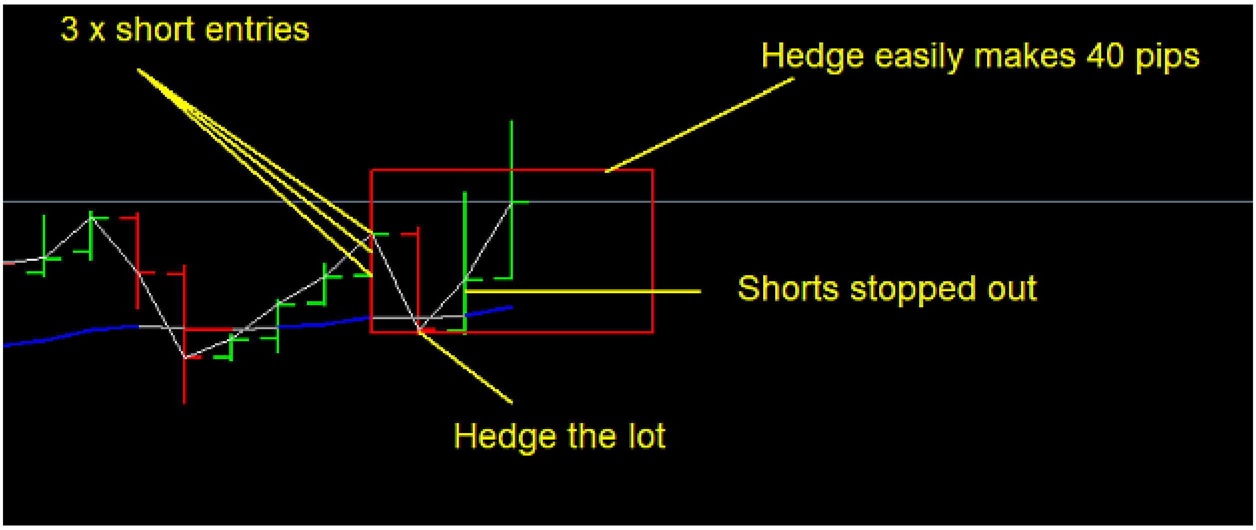


Here were todays trades...off to bed now.

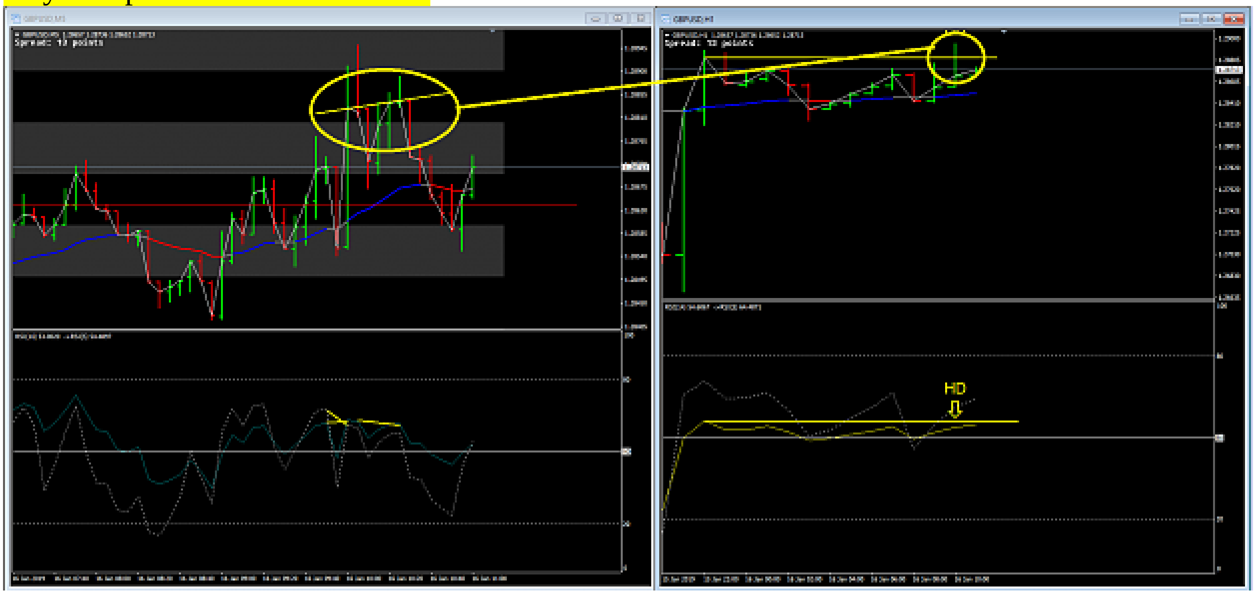


David should be done and dusted too if the trade was played in the correct fashion.

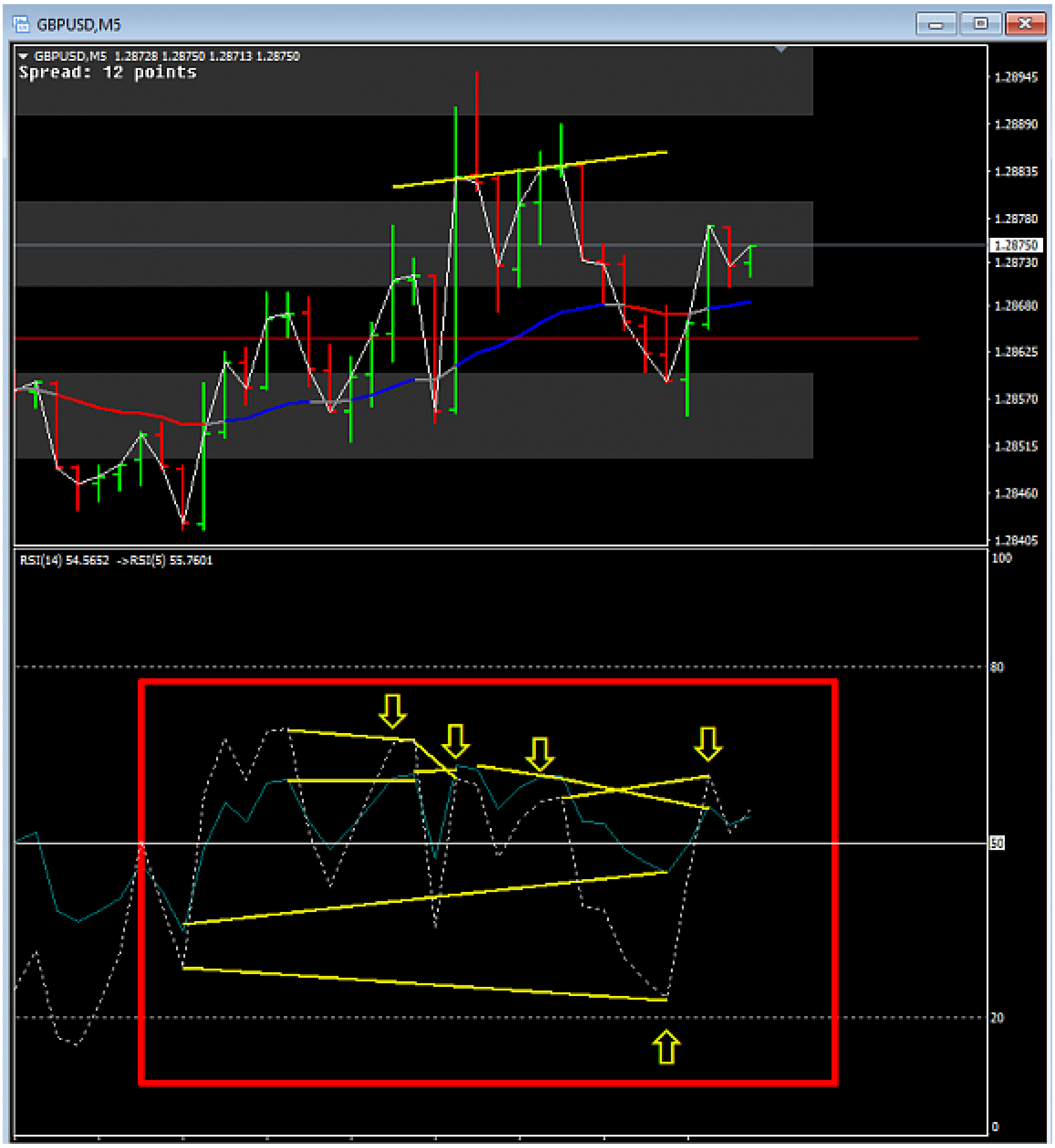
Like this



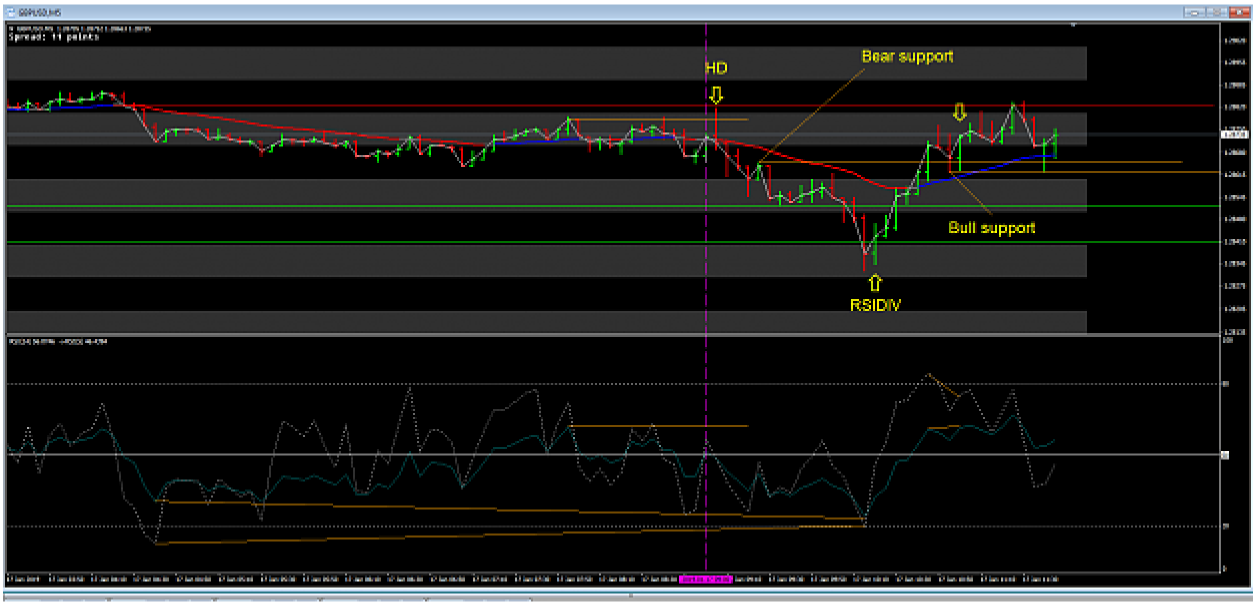
Anyone spot that HD on the hour



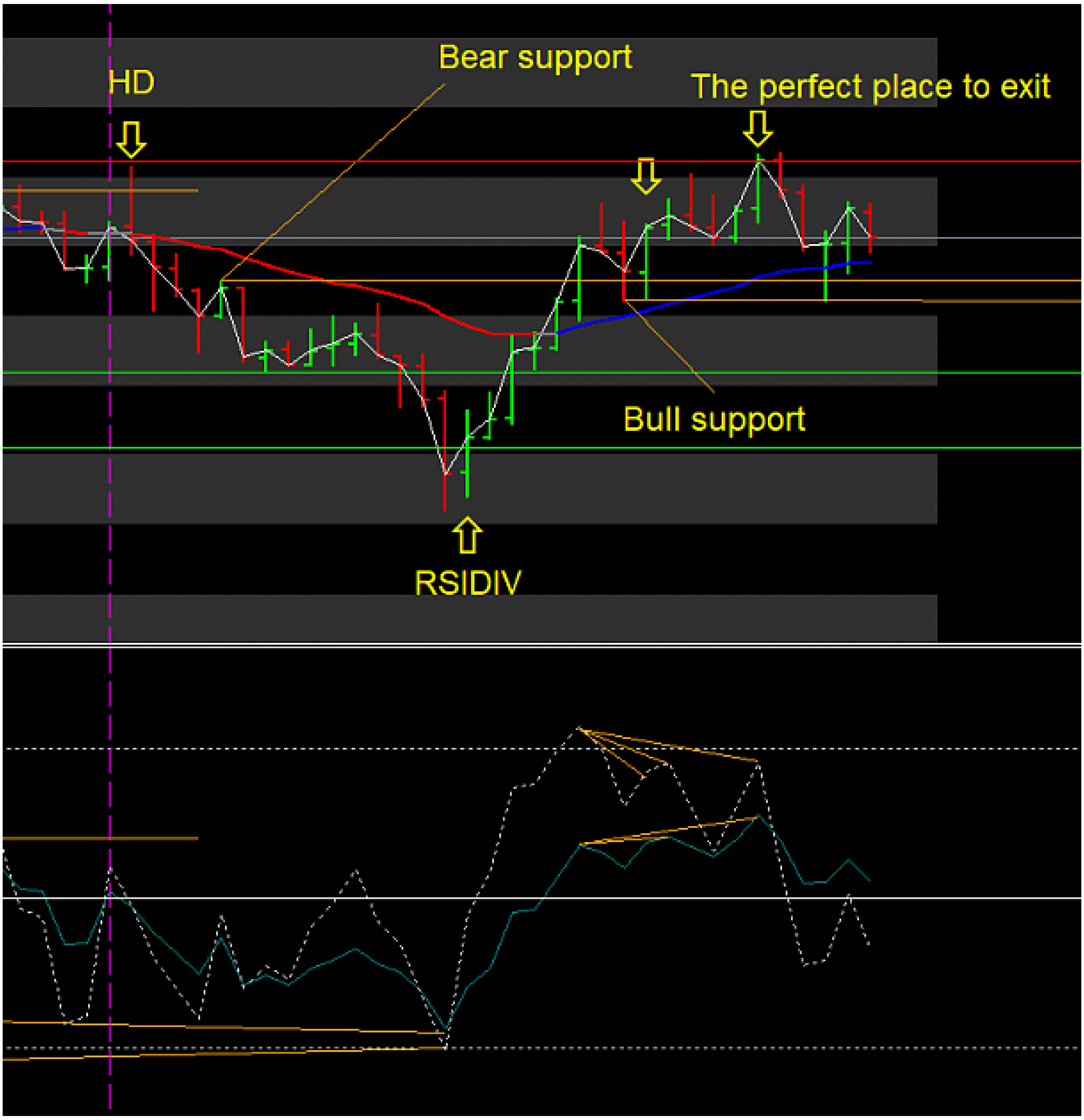
Signals are thick and fast today, some good some not so good...



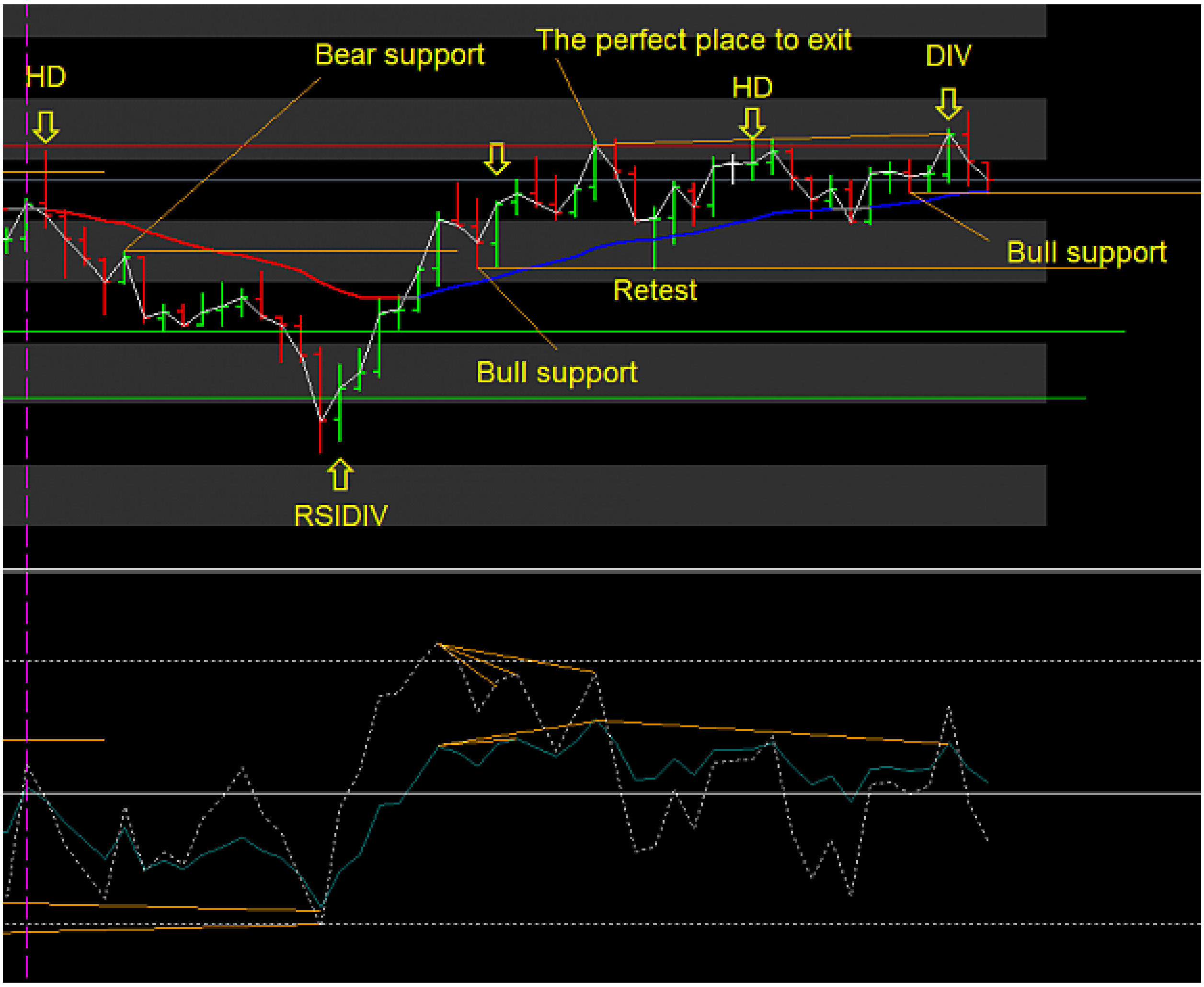
Here you go if you didn't see these...



We could have waited a tad longer until price hit the average swing target and was still in divergence. This would have been the perfect exit place.

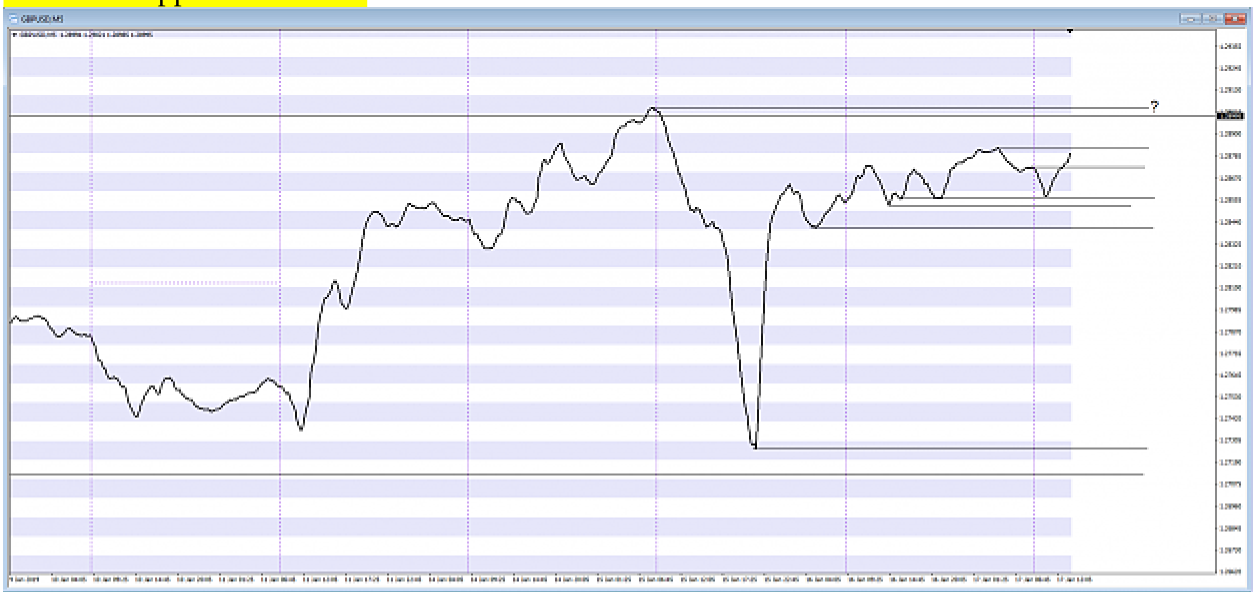


Now trying to break the new bull support



And there they go a bounce off the bull support and now in open country

See what happens tomorrow



[Quoting hocius]

{quote} Alan, in this old chart: The 1st entry is at the RSI bullish div The 2nd entry is because of the valley on the RSI? What signal makes you take 3rd entry? Thank you!

I don't really need a signal once the trade gets underway I just go with the confidence of knowing I can always hedge the trade if need be.

Understand I only need to use the three entry approach until I get my first K in profit, from then on things get a lot easier having lots of backup money to take the better trades to the maximum. Currently I am entering with 1.8 lots that is $25 a pip and follow this up with a 3.6 trade so in all I am at $75 a pip. It doesn't take many pips at that rate to make good money with the confidence I am playing with the markets money. At the end of this month I will start again with my profits safely in the bank.

This is where I believe people go wrong, they look for percentages of the account whereas I target specific sums. People fail to hedge whereas I find it very profitable to do so. People worry too much about losing and fail to let themselves get stopped out whereas I don't let that bother me at all. We cannot get it perfect all of the time but people insist on looking for the holy grail that lets them win all the time. Losses should be kept small in proportion to the account so we always have the opportunity to have another go. Never add to a losing trade that is a mugs game and never hedge a losing trade. Don't overtrade, it takes a lot of effort to stay on the ball for a few hours and there will always be another day to trade, make the profit target the amount the market is will to pay you. If the signal says get out then do so, don't expect a miracle.

Quoting STrading
I just dont get why the pound is almost 500 pips up from the beginning of the month when all the news point for a complicated brexit deal. To me a 500 pip drop would make more sense. I think its possible that it will drop in the near future as this up move might be just some manipulation (for me it looks like smart money is selling and then pushing the price up to hit the stops but i could be wrong). Do any of you know some reason as why this pair is going up?

There is nothing to understand, trade the market as it presents itself. If a 500 pip drop was on the cards then we would be trading in that direction. I have put forwards quite a comprehensive way here to be on the winning side irrespective of the direction. It bothers me that folks always try to find some political reason for the movements, it just means they are not paying attention to what the charts are telling us at the appropriate times.

You say the smart money is selling during this current up move whereas I believe the smart money is making profits not losses in real time. Speculation on what price may or may not do in the future is purely and simply fortune telling and has no place at all in this particular forum.

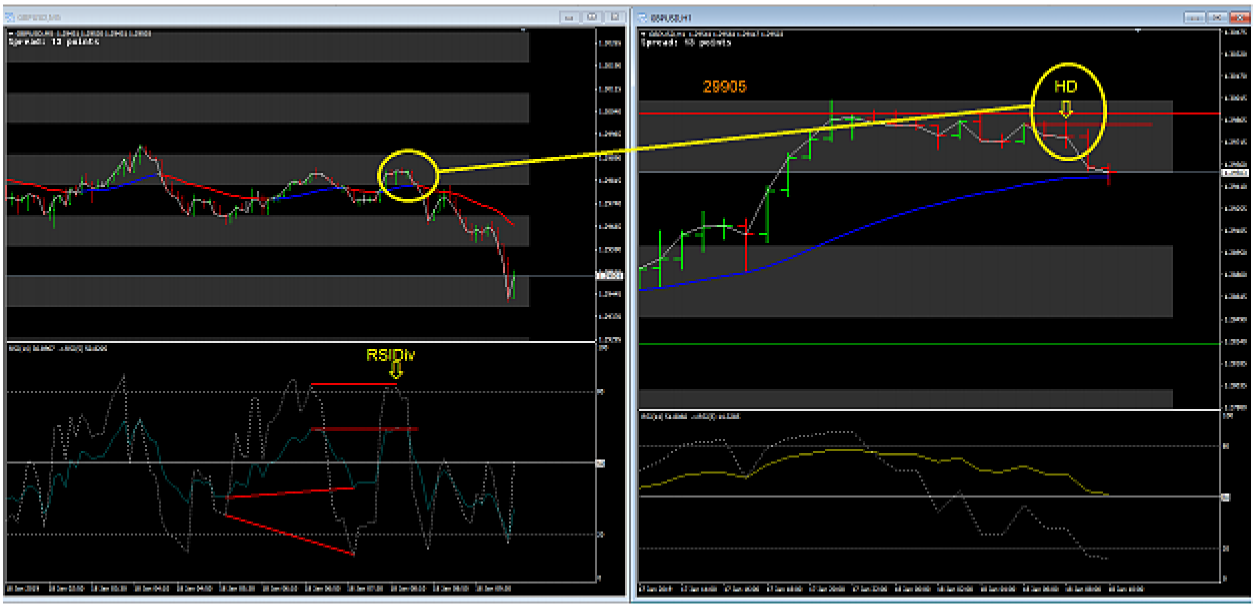
The market is always in a testing situation trying to get whatever price is can and doesn't care a fig which direction is going to yield profits.

Mostly the market is going to take off for these test areas throughout the European sessions and that is simply what I trade.

Don't get sucked into what the news broadcasters are saying, their job is to sell news by making it exciting (news worthy) another broadcaster may have completely the opposite view so your only one true fact is the reaction of the charts

Quoting Riaanvw
Morning all, taking a shot at this {image}

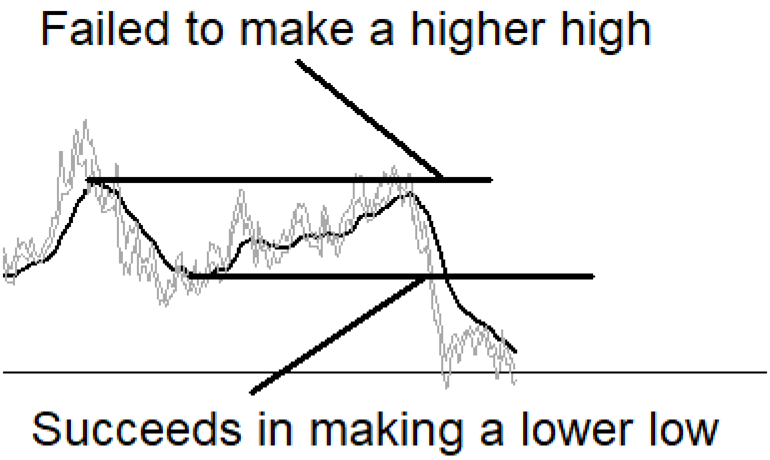
Not sure why you did this Riaaan… Late again and right on the signal for a long.



[Quoting davidmaree](#)
Excellent Alan, think I'm going to make HDs my new best friends!!

Yep but remember to check that swing...

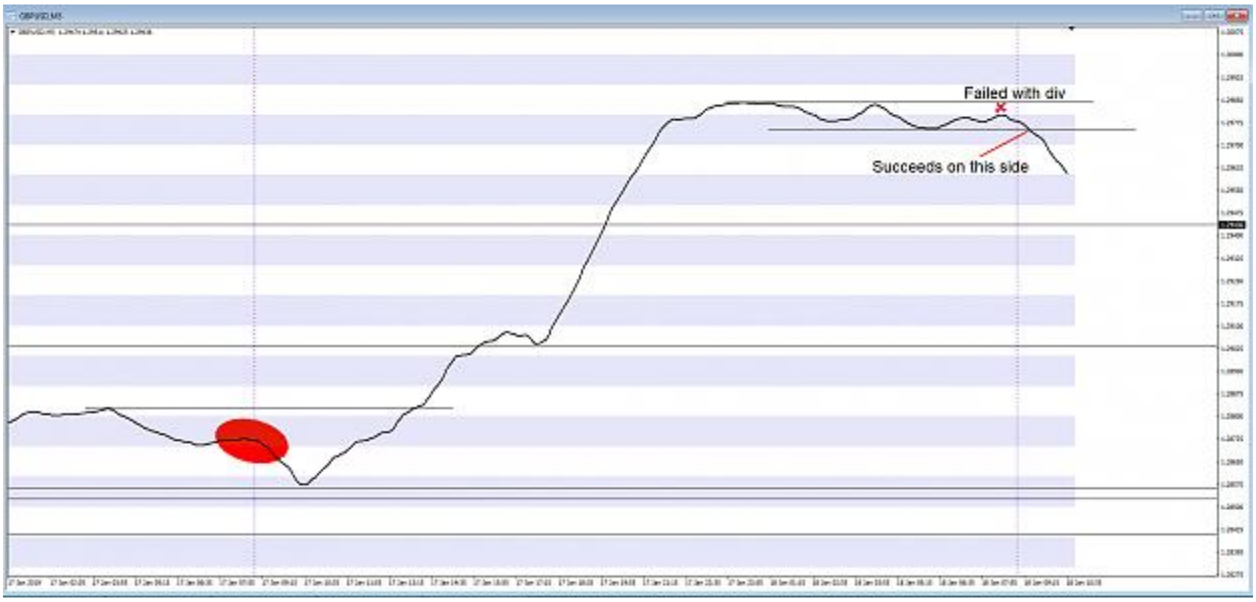
Let me try to switch the light bulb on for you because this is of major importance and most people here tend to be missing the point of the whole thread.



Now look at that chart and you see the bulls fail... This is where you want the divergence because a div will take the price back across the EMA or at least try to. If it does then the swing high will fail and we should see the swing low succeed which it did. Now bear in mind that is all it is required to do so a bullish div might take it back again.

The relationship between the signals and the swings is critical to understanding this.

Isn't that exactly what happened here on the 5 min chart, and is exactly what happens all the time



Quoting davidmaree
{quote} All clear thanks Alan, do you primarily use the 5 min chart avg swings for this determination?

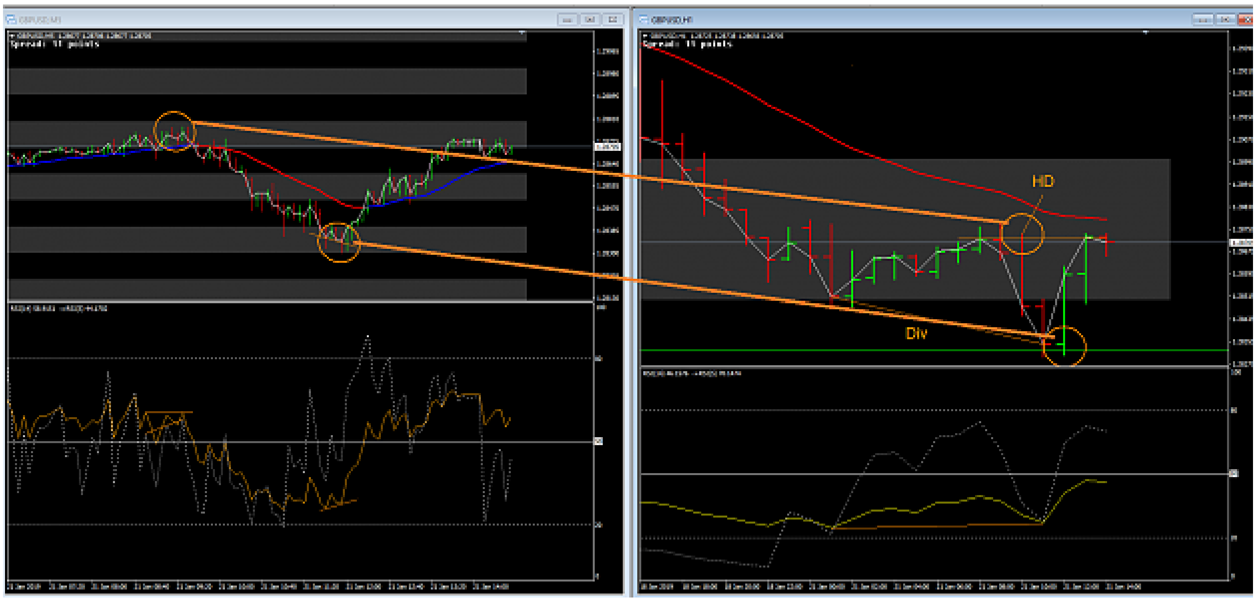
Yes because this gives me the clearest definitions of the activity. Put together with the timing and 40 pips is 40 pips on all the charts.

If we looked at a monthly chart then we would hardly notice a thing, conversely the 1 minute chart is far too choppy.

The 5 min gives a nice smoothing of what is happening on the hour chart with the detail within

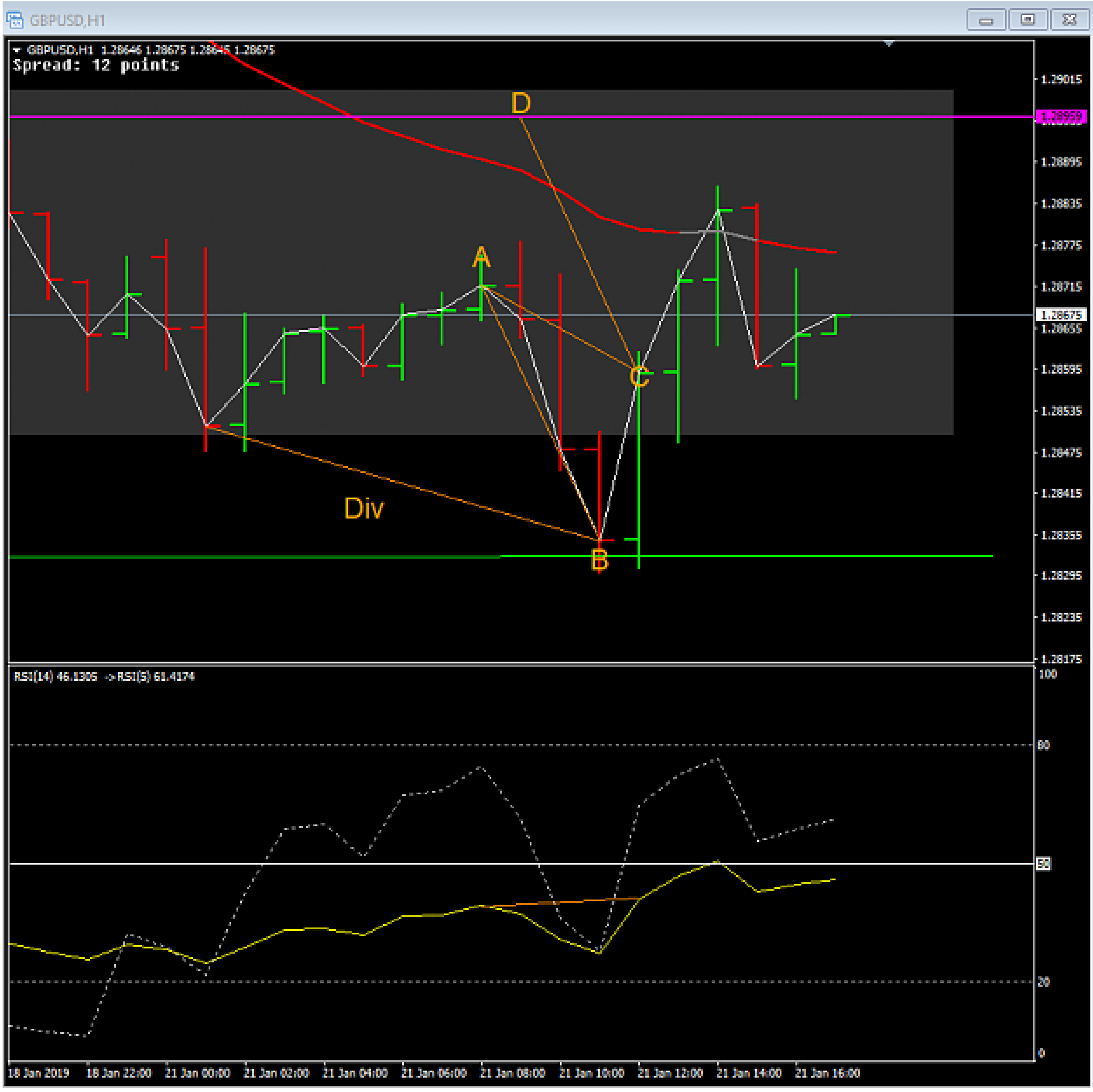
Well what can I say that I haven't already said about how the market moves.

Todays trades

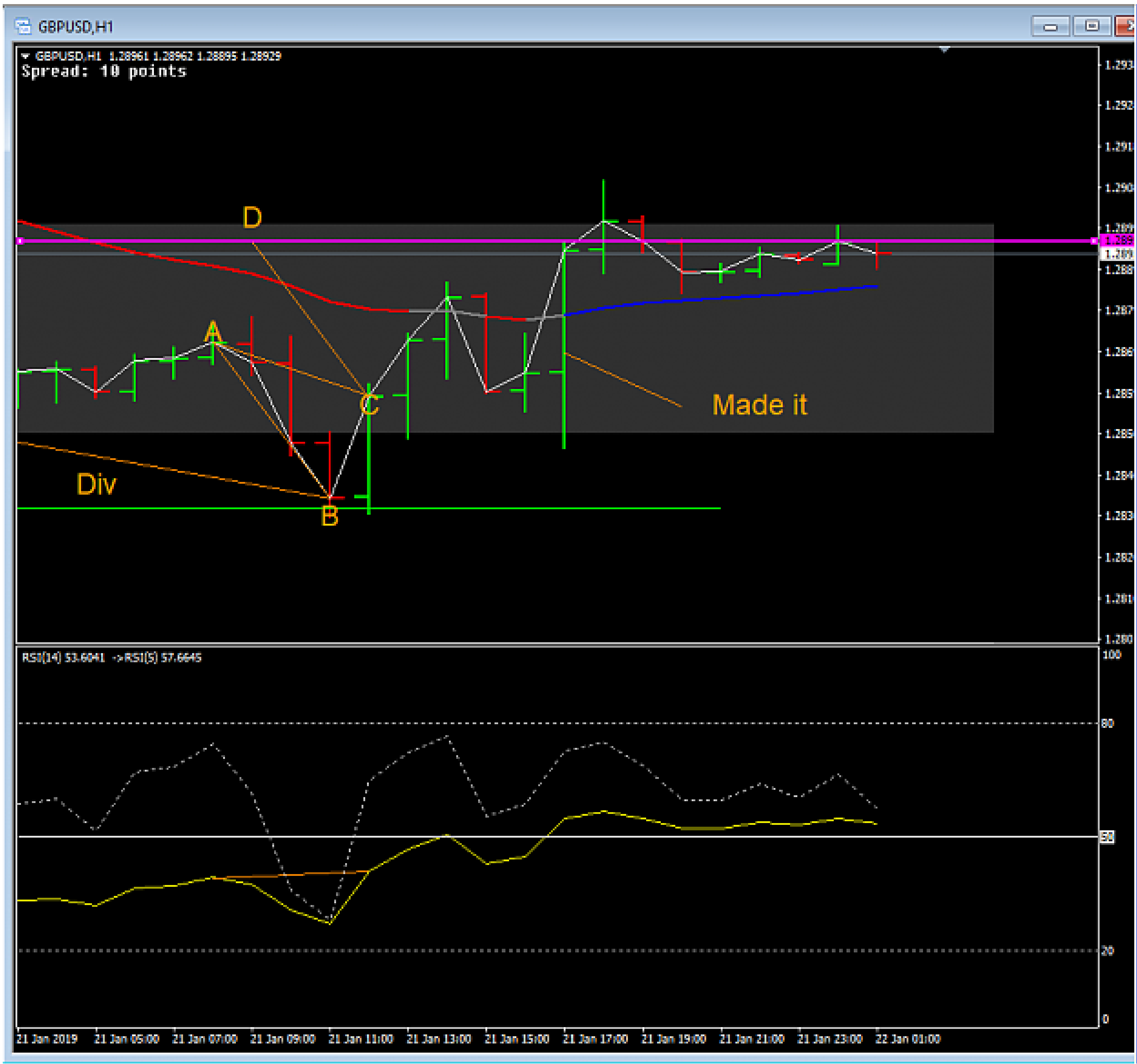


Quoting quangvision
{quote} Hi Alan, can you please tell me where 28959 is from?

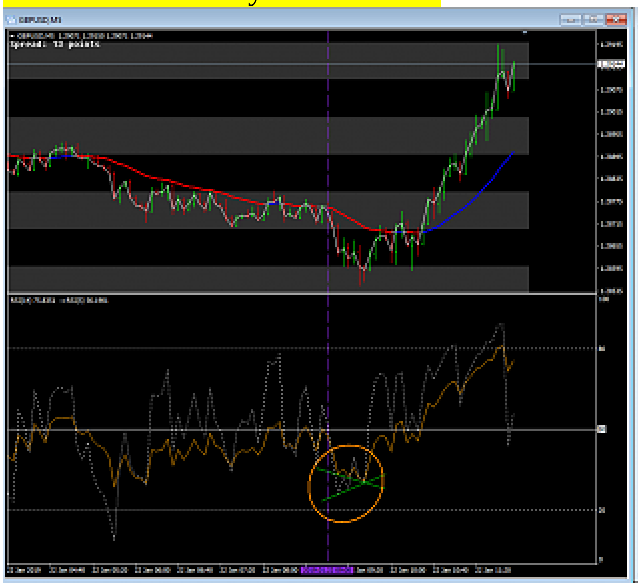
I took it from the AB=CD measured move. We don't want to see a close below C

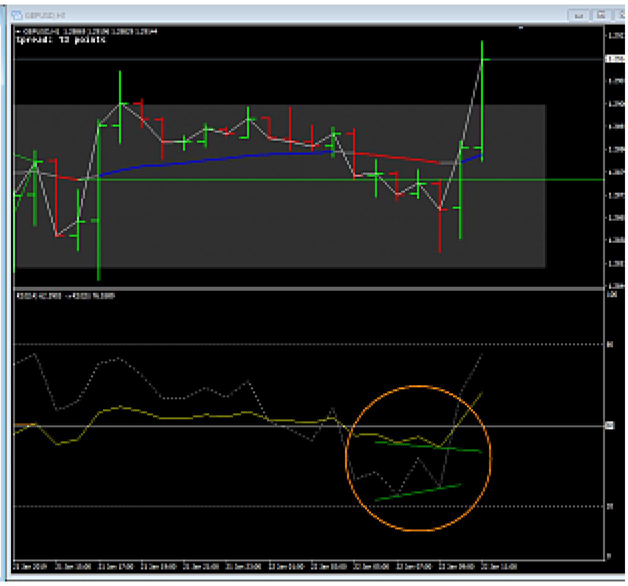


And there we go the measured move made its run..



This trade is already a done deal...



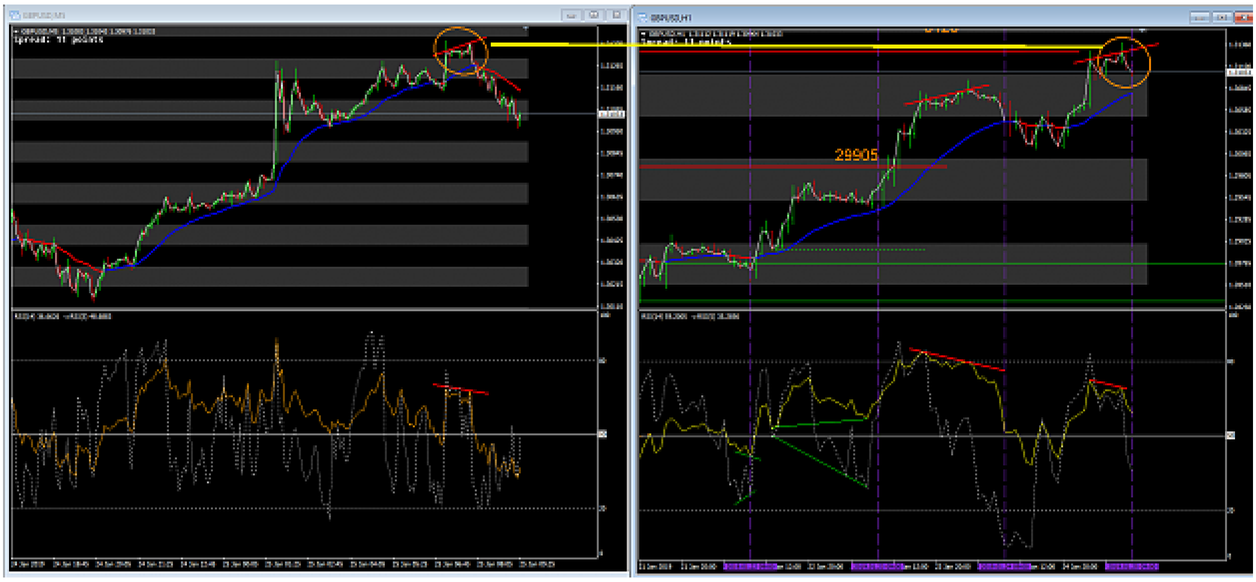


[Quoting davidmaree]
Quiet here today. Am currently short despite bullish RSI div. on hour chart. {image} Hope my understanding is correct Alan in that since bulls failed at EMA I was looking for shorts on 5 min targeting the avg LL. 5m short on 09h00 candle as HD was present. Hedged at 09h25 upon bullish RSI div.

From your drawing David is seems you are not understanding the HD's correctly. Below is your chart with the corrections on it.
The first HD you had was a nothing
The next one was on the wrong bar.
The third one was OK
The AB = CD was drawn wrong
You missed the RSI Div at the appropriate time.

[Quoting davidmaree]
Hedged at +15 because of Alan bullish div on m5.

I don't see the bullish div, only the 1 hour bear div and the 5 min bear div and price is almost at the target of 40 pips, hoping for a few more here.



[Quoting forex_dimi]
I know you have answered such questions a lot in the past (but unfortunately I learn by examples). I think the first trade might have been in the 1st rectangle. Would you consider a 2nd one on the next rectangle? In that one do we have a hidden divergence? In the 2nd picture was this long valid? Was it divergence or was trying to find a trade? (don't care about the outcome, at this point want to understand the theory) {image} {image}

Most of what you say here is correct however the first entry is the div itself.

Normally I would try to get the three trades on in ten pips but this moved so fast there was no chance to do it.

That is ok though because we can still adjust the trade to make the correct profit target by adding an extra trade and you are correct with the HD an option for an extra trade.

I can trade just using the 5 min charts which I have two of.
One just shows the EMA and the other is the regular one with the indicators.

Take a look at this EMA chart. I have put orange boxes all over it. These boxes represent where we should be looking for the signals even into the future.

This is our signal for entry

Now mostly we are going to see enough action to make our quota during the European session.

This is our signal for timing.

Price is not always going to make the full quota in one direction as it turns on another signal into the opposite direction.

This is our signal to hedge.

We have made a calculation of the pips requirements to reach our objective in 40 pips and we don't conclude our days work until we reach this objective.

This is our target for the day.

Now when looking for the signal on the 5 min chart we may see many of them throughout the day sending us long and then short but they very often don't pay much for the effort we put in watching the charts.

So we look to time our work in the most productive zones and this is where the bar 108 comes in. It is not an exact time but we can expect some major movements at this approximate time. The earlier we can get the three trades on the better but keep moving the stop to prevent too much damage. We don't need signals for the second two trades but if you feel more comfortable then wait for them, it makes no difference because the secret is going to be in the hedge anyway.

Once we get the three entries on we have no money left, we are all in. So it is vital we protect our winning position with the appropriate hedge. The profit is locked in and all our equity is released for us to add positions if we wished to. But we don't, we just wait and see if the primary trade or the hedge is going to make the target remembering that one or the other is going to be stopped out for no loss.

If the hedge looks like failing we can close it and bank the pips and this means the primary trade has less of a journey to make now 40 - Hedge. If the hedge continues after we have closed it then the primary trade gets stopped out and our only profit is the hedge we made.

Always if in doubt the safest option is to hedge a winning trade without exception. Never hedge a losing trade.

Remember at all times our task is to make our profit target not pips. Pips are only the chart increments they don't represent your account.

In this fashion you should easily turn 1k into 2k in one trading session. From then on life gets easier and easier because we have money to burn and can clock up those thousands at an alarming rate. There will come a time when you say 1K a day is fine but now I am going for 2k a day and so on. However I would remind all that the money is not yours until it is safely in your bank account so start taking money out.

In essence what we are doing is reducing some 240 pips of movement down to just 40 pips. Sure we can take the longer option and keep knocking off the pips day after day. It is going to take 240/40 = 6 times longer and this may be fine for some, I don't have a problem with that at all. For my part I am much more aggressive.

On the charts below (2 x 5 min)

We see on the left an orange box with an X in it. This would represent the last trade we were looking for. All the time this box is progressively moved upwards following or indeed leading the way for the EMA. However we expect this EMA to fail sooner or later so we are watching and waiting for the signals.

Now look to the right hand chart and we see there two potential trades 1 and 2. For number 1 the orange box would have been lower and we would be looking for the short.

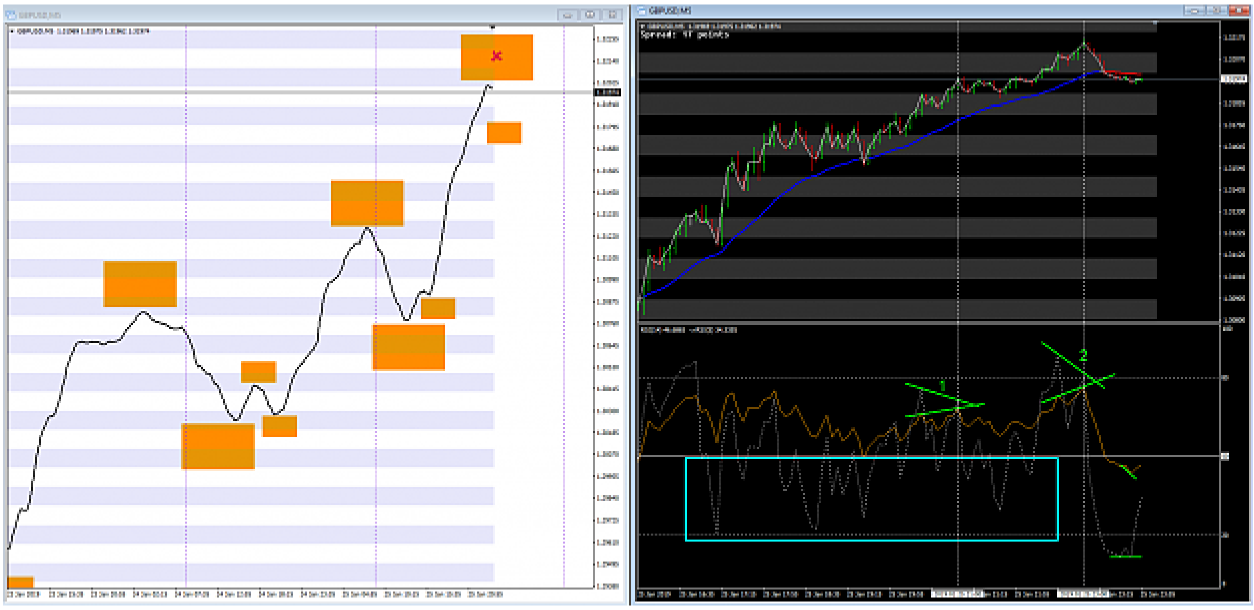
Trade 1 gives us the go ahead with an RSI Div but look what happens. The fast RSI pushes below the waterline but the slow one doesn't. This is a buy signal but I am short.

What do I do next? a) panic b) ignore it c) close d) hedge it.

I hedge it because this locks in the profit and releases my funds to trade again. Now if the Div is not going to make the EMA we are going to see a HH so I now have time to consider my options and reverse my short and go long instead.

I have put an Aqua box on the RSI look at all those fast spikes below the waterline but the slow RSI remains above. All of these are long signals and I know we are going to make a HH than the failed Div. So it is a no brainer I should be long not short and I am long until we reach trade 2 another signal to be short. I am only scalping here because of the time so I can now close all and go short and this time we make the EMA and both RSI'S make it across the waterline, I close this short again at the RSI Div, no point hedging this the RSI is in the basement and we are running out of time for the weekend.

We play what we see and be prepared to take the appropriate action. The first trade was hedged because of doubt, the second trade was closed because of the RSI Div. No two trades are going to be the same, we have to learn to read and react.



[Quoting quangvision]
{quote} Hi Alan, There is one thing I can't understand is this: {quote} How do you define the slow RSI not touch waterline? Most of the time, on case of trade 1, if there were two or three down bars continuously would put slow RSI below waterline but when we were trading live how we could know for sure slow RSI wouldn't touch waterline and price would make HH?

This is simple stuff.

With the RSI we are dealing with the closes. So if the slow closed below the waterline and the fast closed below the slow then you have not one but two indications the bulls are weak. Potentially.

I think you are trying to apply the same interpretation to two different situations here. In the text above the situation was different because the slow RSI was above the waterline and the fast was below. So this is a bullish interpretation because the bears cannot push the price across the EMA which is exactly the same as the RSI waterline. In other words the bears are oversold

[Quoting pakeha]
{quote} moving average convergence and divergence? Given the 1 SMA is a proxy for price I am guessing it is basically price/ema convergence for the impulse bar and price/ema divergence on a corrective bar.

I went through all this years ago trying to find a definitive reason for what was happening and I really got hot under the collar over it. Traders would say stuff like they are lagging and should be used in conjunction with something else and so on and so forth. Most traders like me stopped using them altogether because they tell us nothing of any value. Some used many MA's of different value to construct what is termed the Ribbon and would be looking for it twisting from bearish to bullish or bullish to bearish but even this twist was late.

Then something a kiwi (hi Kev) said a while back caused me to take a different look at these indicators. That caused me to take every thing else off the chart leaving me with the 5 min chart only showing the EMA. Now this all took quite some time But I found the 26 period was in effect the same as the RSI 50%.

Then sitting back and looking at this 5 min chart a light bulb switched on and a whole new way of looking began to emerge from the depths of my mucky mind.

I saw that when the EMA failed on one side it usually succeeded on the other to break the previous swing level.

In other words the use of the EMA as a tool had nothing whatsoever to do with price crossing or crisscrossing, I had been listening to the experts and I now know they were not wrong but completely off track.

Instead of comparing price to the average I should be comparing the average to the average.

From that moment on everything I had learned about trading just began to fall into place. I threw out the Fib, MACD, Bollinger Bands, Stochs, CCI and so on. They all became redundant as I cut back to the bare minimum. I began to see these average swings were places I was likely to see some resistance long or short, That being the case then I must also see something denoting support either long or short and what was already known to me slotted in perfectly.

So what trigger can I see that forms an indication of these swings? Well I had traded just divergences for an entire year so I knew a thing or two about those and bingo there was that problem solved. All I had to do was put all this into a tradeable package which turned out to be easy enough. Then I worked on the money management aspect to reap the benefit to the best of my advantage,

There were other discoveries over these years but I am giving the gist of the stuff here to keep it simple. By far the best was the fact that I was looking at the EMA all wrong and the formula for its calculation to try and speed up the information delivery was just a misleading slight of hand trick. All the calculation does it it marries the EMA up very nicely with the RSI 50%. There is nothing more than that to it.

The impulse bars are just where the masses have jumped in to make a few bob.

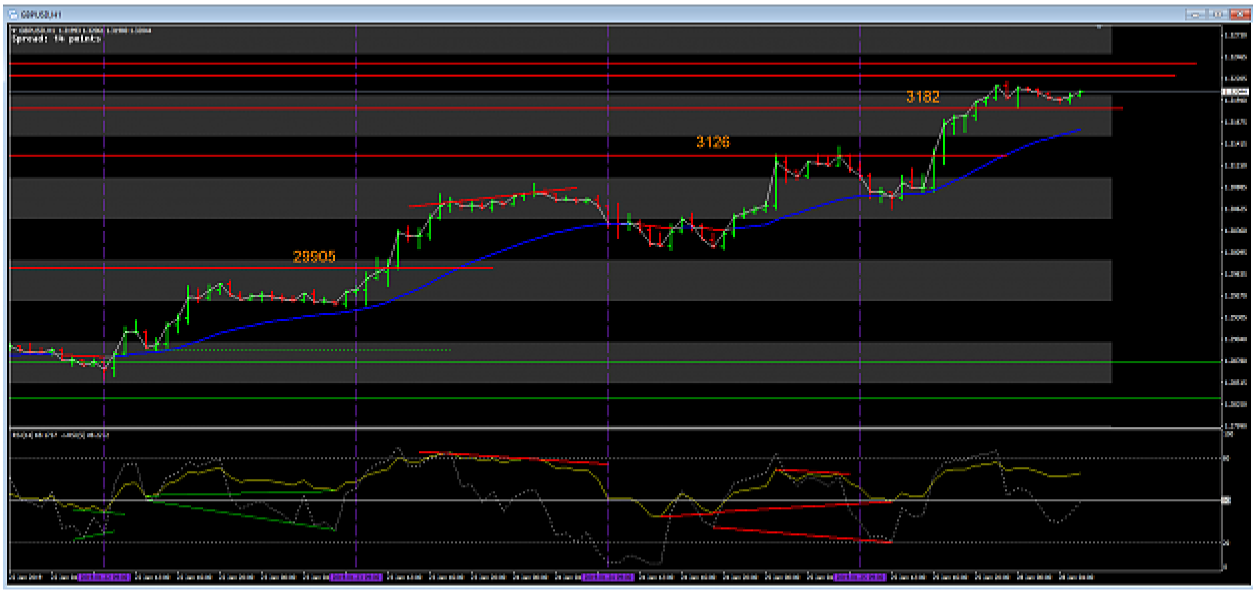
Quoting mikeeating
{quote} Alan that is the four hour chart does it matter? while Im asking should we be taking in consideration 4 hr or Daily at all? I have just been working on 5 and 60 for direction and entry, if we are going to have a change of direction wont we see it first on the 1hr before the 4?

Sorry that was a typo I mean 4 hour.

Yes we would see it first however the 4 hour is giving me a heads up for the 1 hour and thus we get down to the 5 min.

The only time I pay much attention to the 4 hour is when it is approaching the levels. If I am taking any inference from it then look what I see on the 1 hour below..

Nothing as yet is telling me there is a short on offer.



There we go...

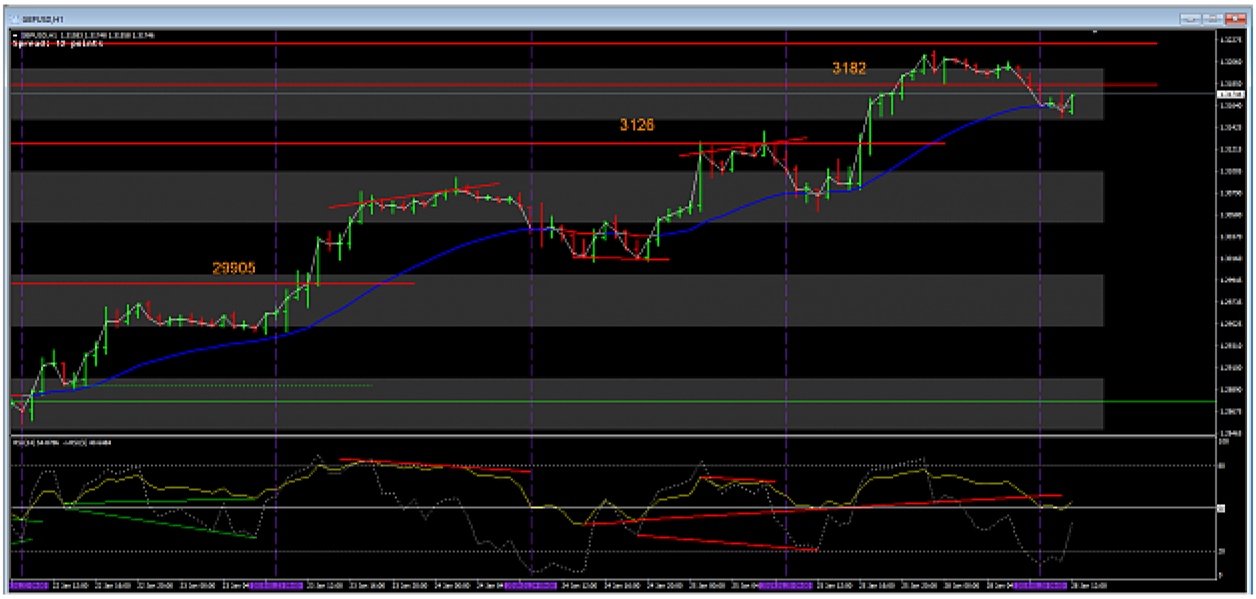
These continuation divergences A - C form measured moves of AB = CD.
Where D is a support to be broken and becomes a resistance then.

[Quoting mikeeating]

{quote} ok thanks, so is there inference there? ok maybe that price hit that historic swing high {image}

Good work that man however it failed to hit that historic high so it comes back to the EMA to make a new swing high price can have a go at.

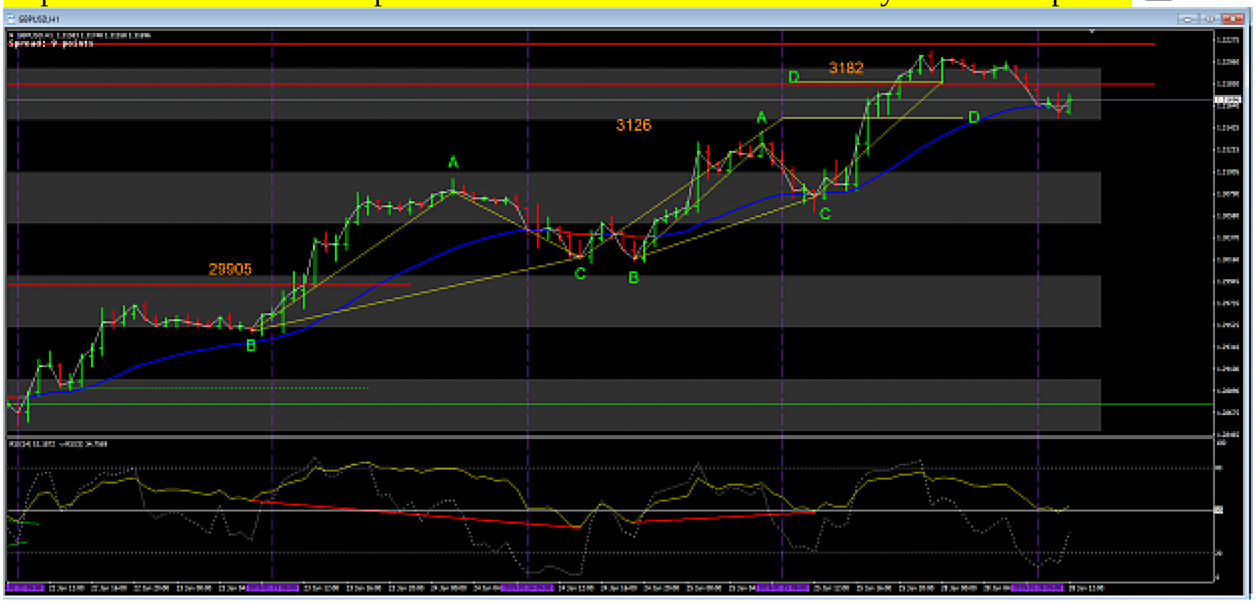
So if the inference was a failure on the 1 hour should we not see a signal on the 5 minute?



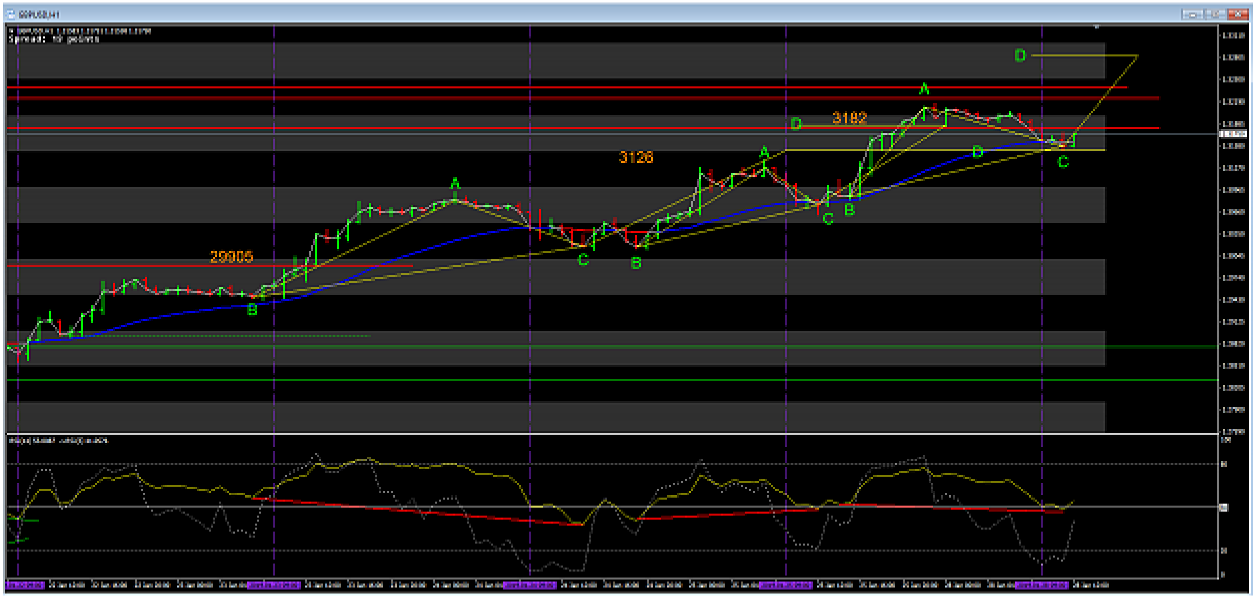
Now we are in the London session so what are they going to do?

Quoting how2
{quote} Great to see the Continuation Divergences again ... From memory the reason the 2nd one started from where it did is because it was the 1st point/pivot/fractal that formed after the 1st one had completed (hit or exceeded it's Pt) that we can use to look for a new setup (The 2nd continuation divergence)

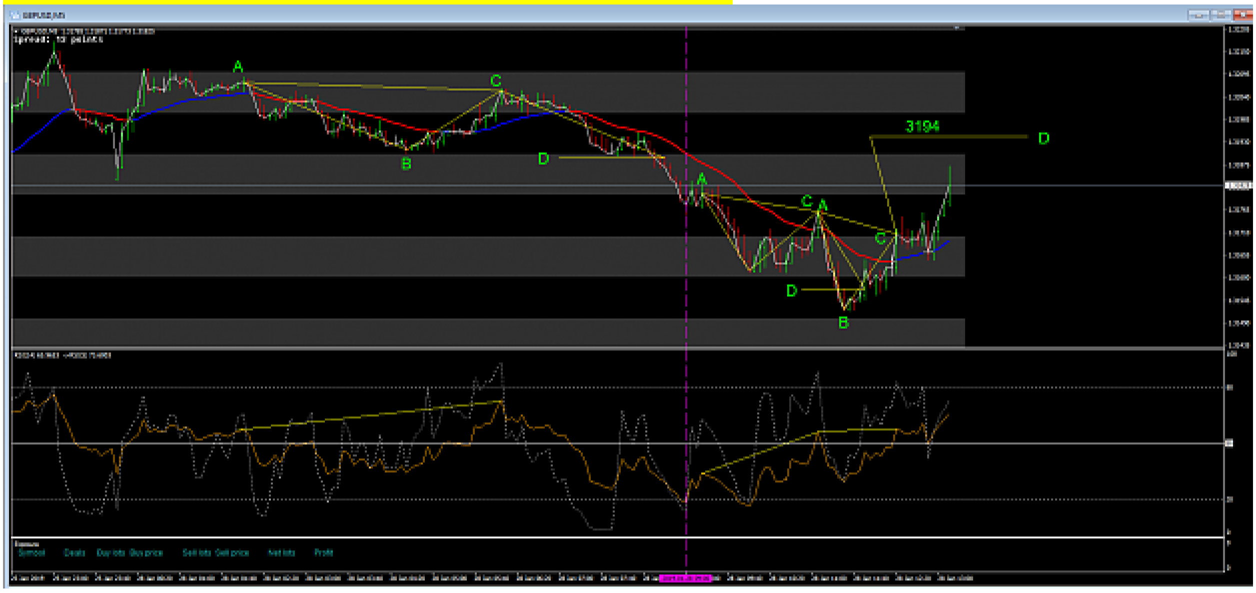
Yep and here are some examples on the 1 hour chart which I'm sure you or John spotted. 🧑‍🎓



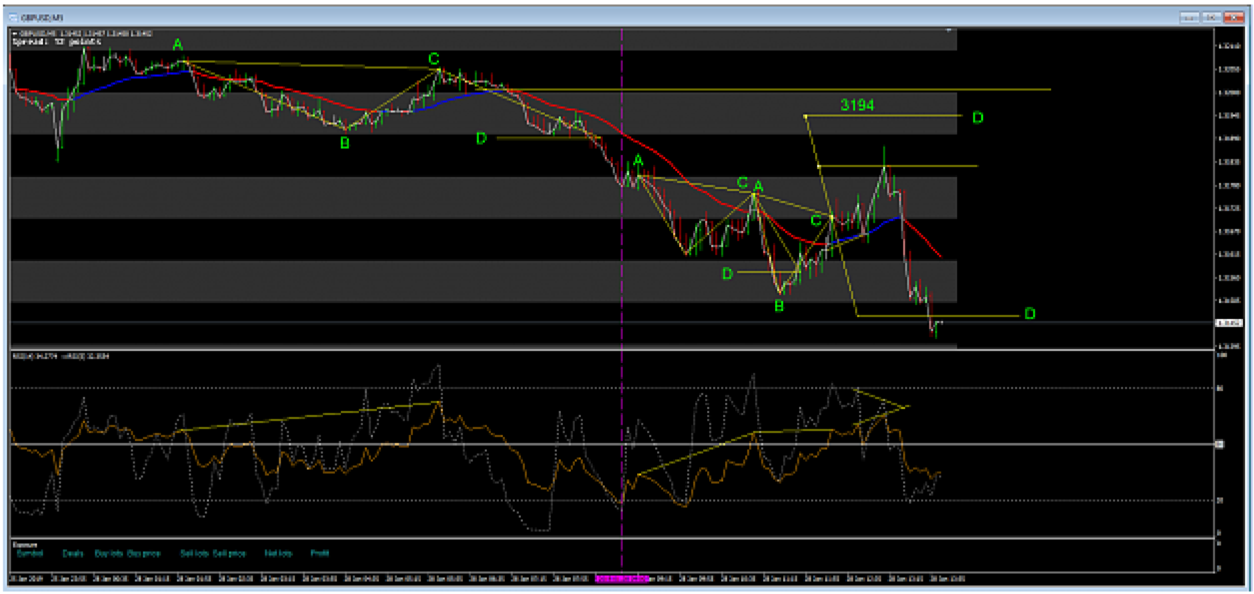
Look at this next continuation divergence



This is the measured move on the 5 min...will it make it?



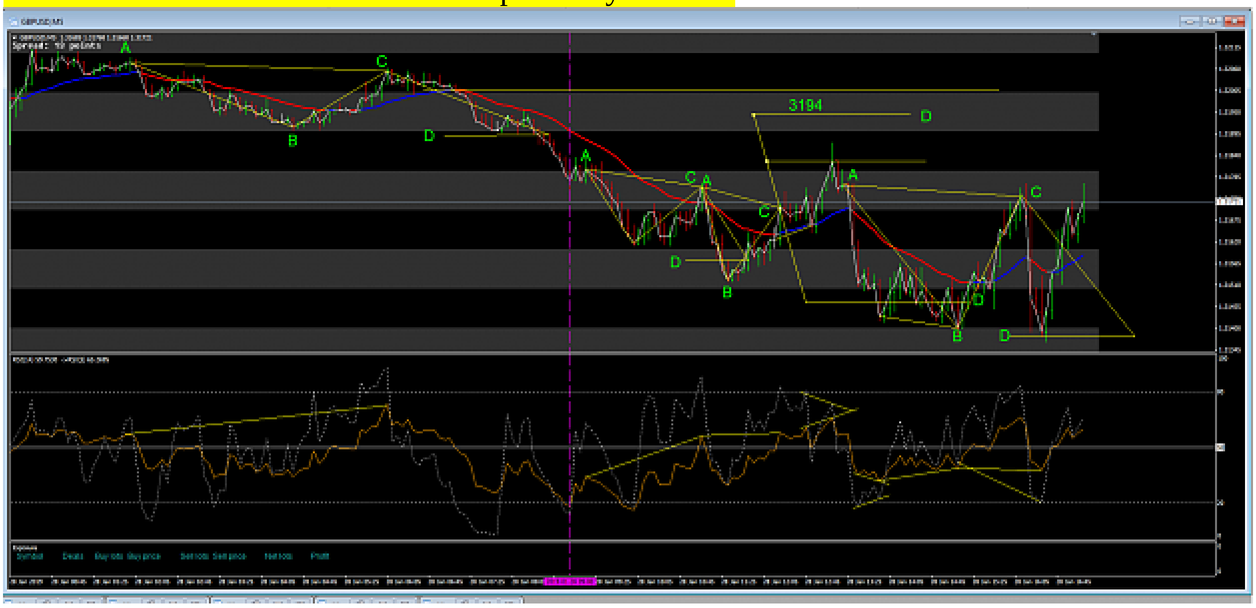
It is quite common for these measured moves to only make 50% and run into divergence. They are traps and will suddenly take the opposite direction in a hurry.



I am always doing that... Falling asleep at the keyboard, I have a face like a chocolate bar with QWERTY written all over it.

Before I head off to bed I'll show you what the 5 min looks like now since we have had yet another measured move from the continuation div. A - C

Remember AB = CD and watch for traps. Pretty cool uh!



Quoting simon.says

Hi guys, There is one thing I would like to settle once and for all. I am still not 100% sure what signals that would qualify as a 1H inference. As far as I am aware a 1H inference could be; Any type of divergence Oversold/overbought RSI 26 EMA Target Line (EMA) Bull/Bear support? Are there any other missing and/or are some of the listed wrong? Thanks

Could also add HH's and HL's and so on. In other words anything we see that takes our interest we simply look then to the 5 min for the signal to take us in the direction we perceive.

We are not always going to be right we are simply looking for the better probabilities in the busy time of day to take price to a level we expect

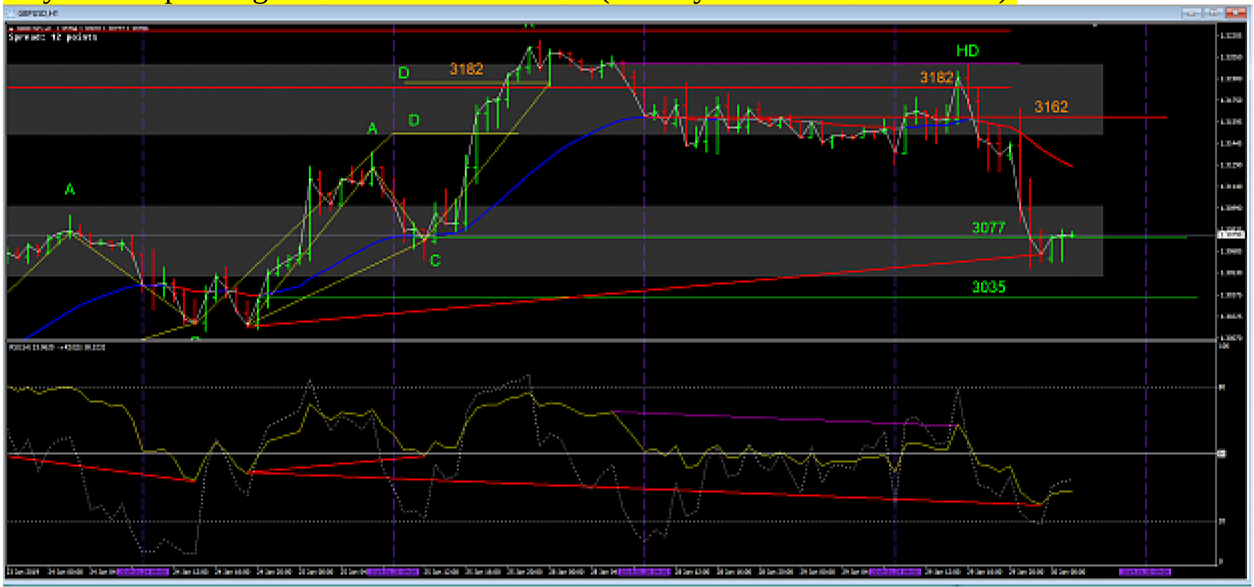
Quoting Voelhok

{quote} Hi fxmars Thank you for the response. Not easy for me to read the signals on a day like today and yesterday.

It is if you pay attention to the timing.

After that the bears stopped the bulls from breaking out of the range (3162) so having failed on the top side the attempt is made on the bottom side (3077).

Now I don't see the signal on the 1 hour that sent it plummeting except for that possible HD I have marked on the chart. On my chart it didn't actually touch the level but on other peoples it may have depending on the brokers data feed. (check your own charts for this).



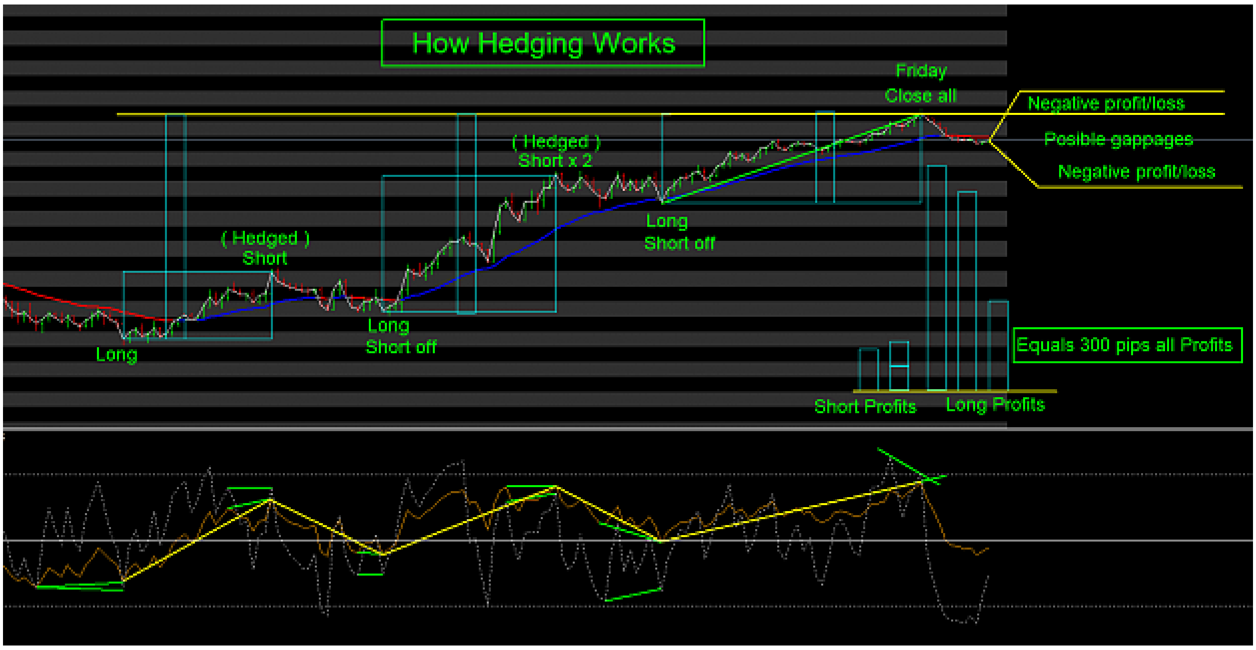
Quoting fxmars

{quote} Technically it bounced off the EMA and made an impulse move to make a new EMA high. Also see how the EMA was rising throughout the move an made a higher low. These are all good technicals to study to predict price movements. As Alan teaches, price has a tendency to move between H1 EMA levels. It is astounding how accurate this can be. I was watching the ema level at 3182 to see if price could break through to reach my last target. This swinging from level to level is the roadmap in this kind of trading😊

I guess that was my fault since I did not mention the 3162 level.

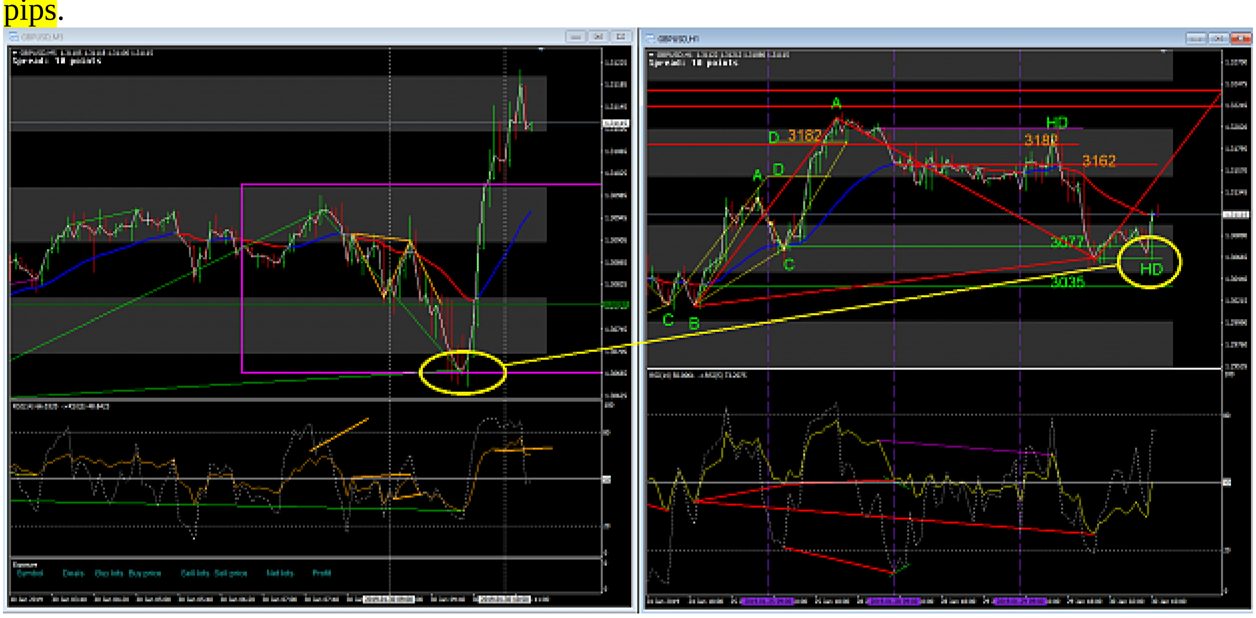
Note how when it tries to break one level the price itself most often makes the next level, That can clearly be seen it the chart above.

As far as a text book trade goes here is one of my text book examples.



[Quoting fxmars](#)
{quote} Thanks Alan! I am getting better at taking inference from the H1, that seems to be the most important aspect for me to adhere to. In fact, most days I do not even look at the M5 and M1 before I see something on the H1 and H4. That has helped me to get better entries. Cheers 😊

As I say I wouldn't worry too much about the 4 hour because the wicks alone can be lots of pips.



[Quoting mikeeating](#)
Took the long around 1.3065 with the Bull 60 min DIV (I think it was). I hedged at the 60min EMA but have since been stopped out and closed the position's. {image} {image}

Did you miss the short earlier. The dark blue on the black RSI is difficult to see clearly

Quoting hocius

{quote} Hi Alan, I spoted some RSI div in that chart. I'd like to ask you what would you do in each case: Bullish RSI div: we are long so we keep the trade Bullish RSI div: right after our short hedge. Would you close the hedge? Bearish RSI div: we are long, so we short hedge? Bullish RSI div: we close short hedge? Bearish RSI div: we are long. We short hedge here? If you hedge here and you dont put a stop loss up, it could eat a lot of profits since the price keeps going up. So what do we do in these cases? Edit: My biggest concern and worry here...

OK lots of questions here..

Lets take your first one... W e are currently long, have hedge and taken another long and removed the hedge when we run into that 1st div you have drawn.

This is a continuation bull div we could have taken another long but would we had had enough money to so? (maybe) But I am not looking for more longs I need to get the protective hedge on. (This chart is showing how hedging works.)

Anyway we get to the short signal and then take the hedge trade which locks everything up again. This short should take the price back to the EMA but as you rightly point out there was a bull div. This is a problem but our trade is all locked up anyway so not a real worry and besides that the fast RSI is still below the slow which is actually another sell signal.

Finally price does get back to the EMA and runs into another bullish divergence so another long is taken and the hedge short is closed all stops move up to compensate. Now this div is actually two, it is a RSI div and a continuation div. This sends the price up to where you have the third div.

This is definitely a worry because we have hit the previous div target and run into a short one. At this point I would have just moved all the stops to the EMA level because this div should reach that But as luck would have it this div did not reach the EMA so now I am just trailing the stops along the EMA line.

The 4th was is in my direction so nothing to worry about. The 5th one never made it back to the EMA so no stop out.

Finally we get to the top with the RSI way up the top with a div showing so might as well close there.

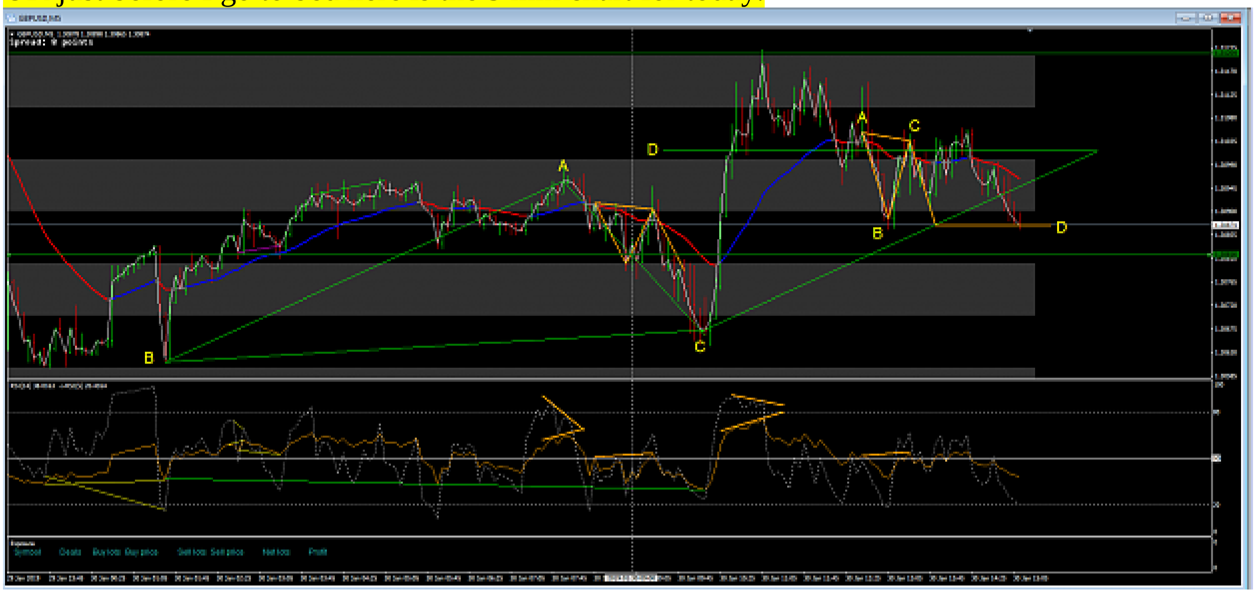
OK that explains the moves but they are only there to show how to track and trade with hedges over this 11 hour period.

I would have been out on the very first long for my 40 pips.

If I had missed this trade then the first hedge would have been my trade and that second long would have been the hedge. It would have stopped out the short and then gone on to make my 40+ pips because of the measured move, about 60 pips.

It doesn't matter which trade we take we simply stay in the game long enough to make our 40 pips and if we have to hedge then we do so.

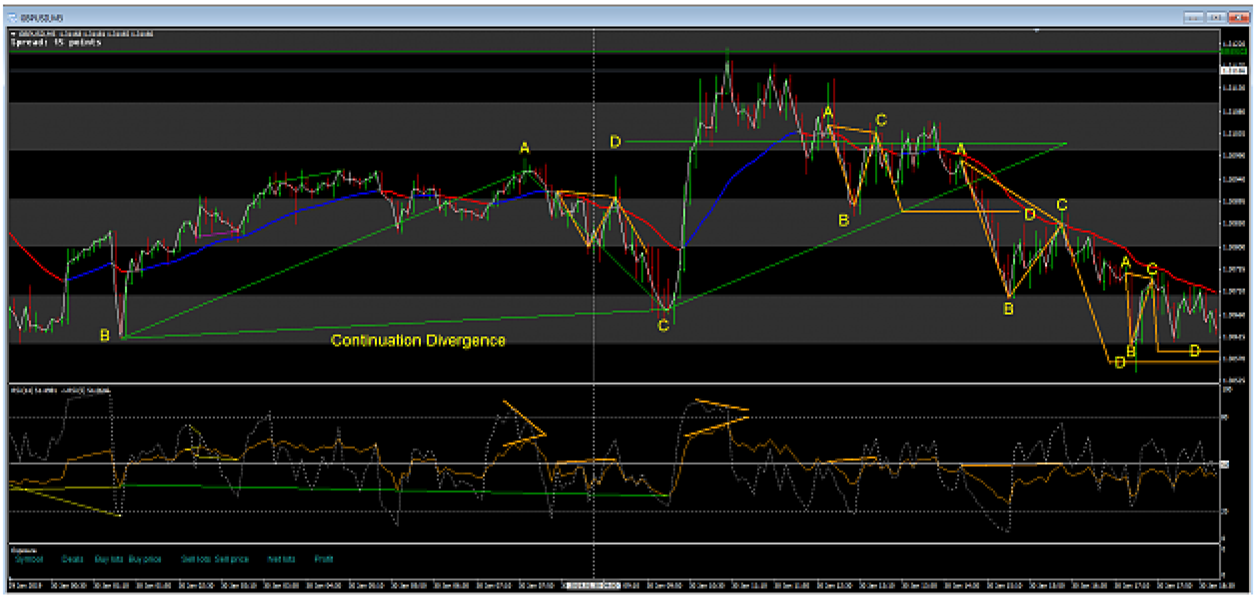
OK just before I go to bed here is the 5 min chart for today.



[Quoting quangvision]

{quote} Hi Alan, I see you are using AB=CD to determine target levels besides using average swing highs/lows. Can you please share what rules to spot A,B and C to figure out D? Thanks

A measured move comes from a continuation divergence

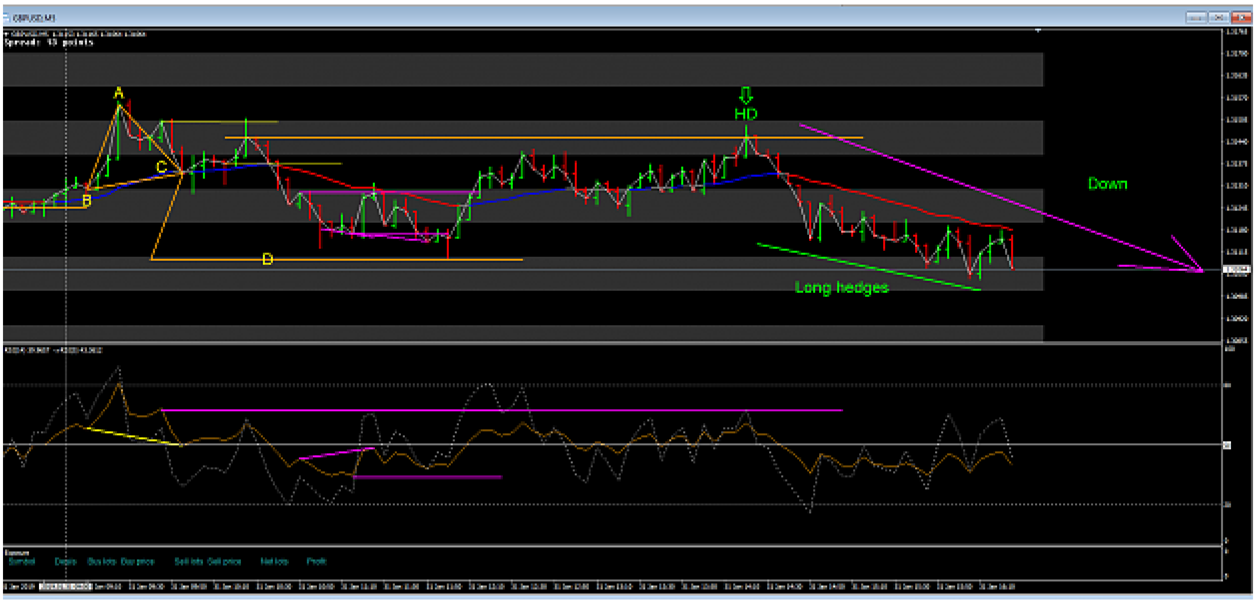


Here is a specialise RSI showing its history. You can see on the price chart a bar made the HH but look to the RSI and you see it was a LH so it was for an instant in div the fact that it snapped back made it hidden.

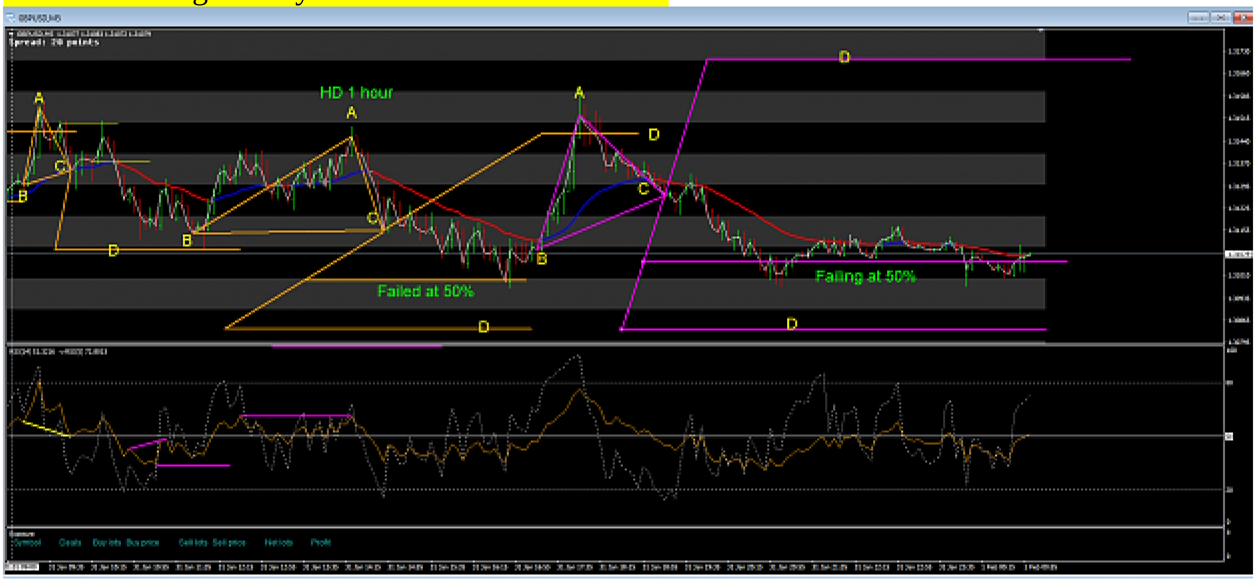
I have searched the charts for ages now and can't find a single one where it didn't perform this way. Maybe there are but I can't find them. Whereas I can find plenty that perform exactly as I said.

[Quoting Bydyke]
The last bullish Alan div on H5 that appeared about 15 minutes ago might now propel us northwards particularly as the H4 candle has just closed with a bullish doji. And for effect, PA has just breezed down to touch the H4 average at 3103 after about 15 hours

In a downtrend the bullish divs are only hedges.



So this morning and my 5 min chart looks like this..

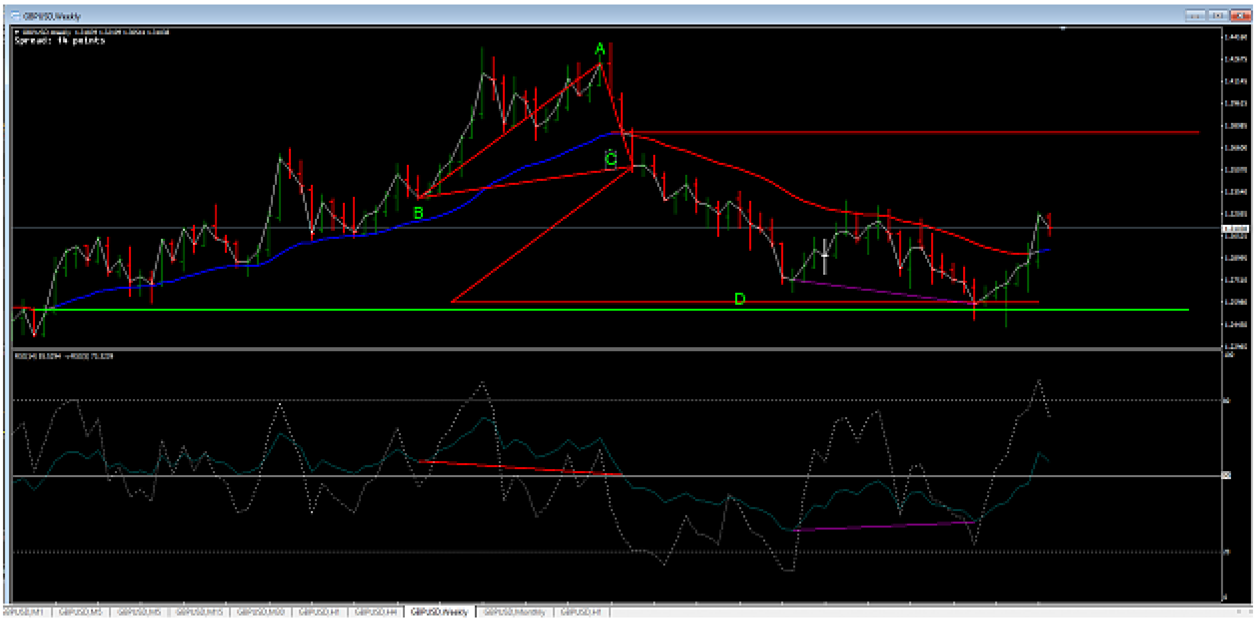


First of the month so let's take a look at the monthly chart to see what is there.

We see the bears are still holding the ball but the bulls are trying to get it back. We may get an exciting month if the bulls do make a run across the EMA.

However the reality is the chart is telling us very little so no joy there.

Down to the weekly and we see the bulls looking for support. The bears have completed the AB = CD some time ago and in doing so ran into divergence.

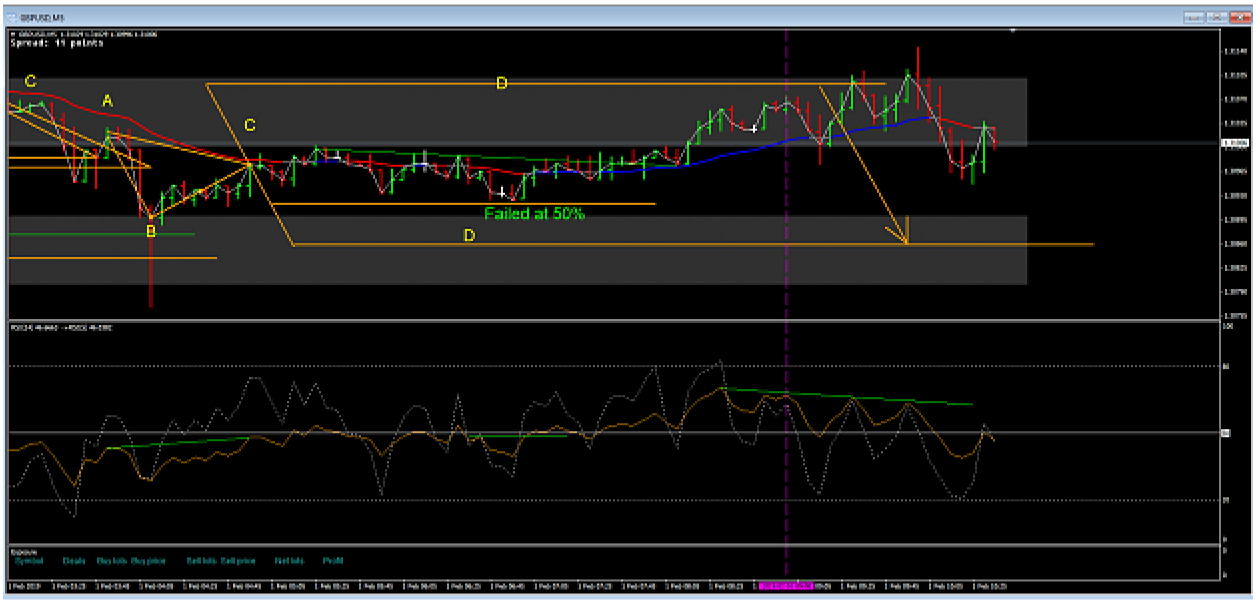


Then we are down to the daily and things start to look real exciting as the bulls are approaching a wide open space. This area would be full of those lovely 100/200 pip moves we like so much. But let's not hold our breath just yet.

Alan's **B**est **C**alculated **D**estination 😇= ABCD

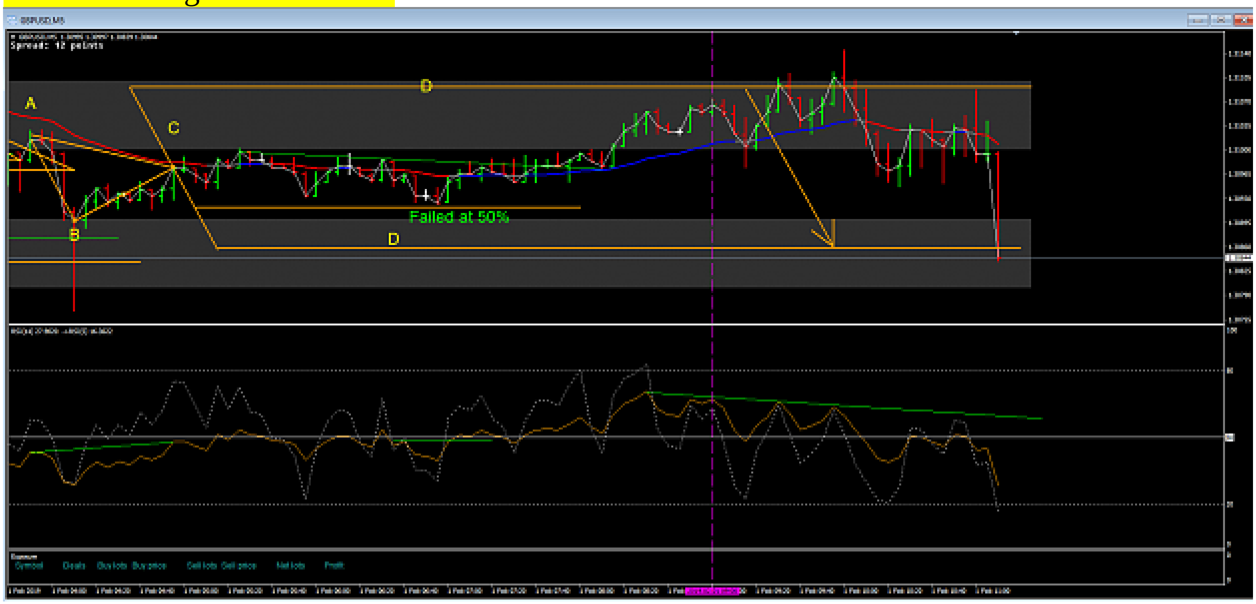
Look at this latest ABCD on the 5 min how it failed at the 59% level turned north and hit the target on the opposite side.

The strange thing with these is they then turn and will often go for the original target, in this case the short one. weird!

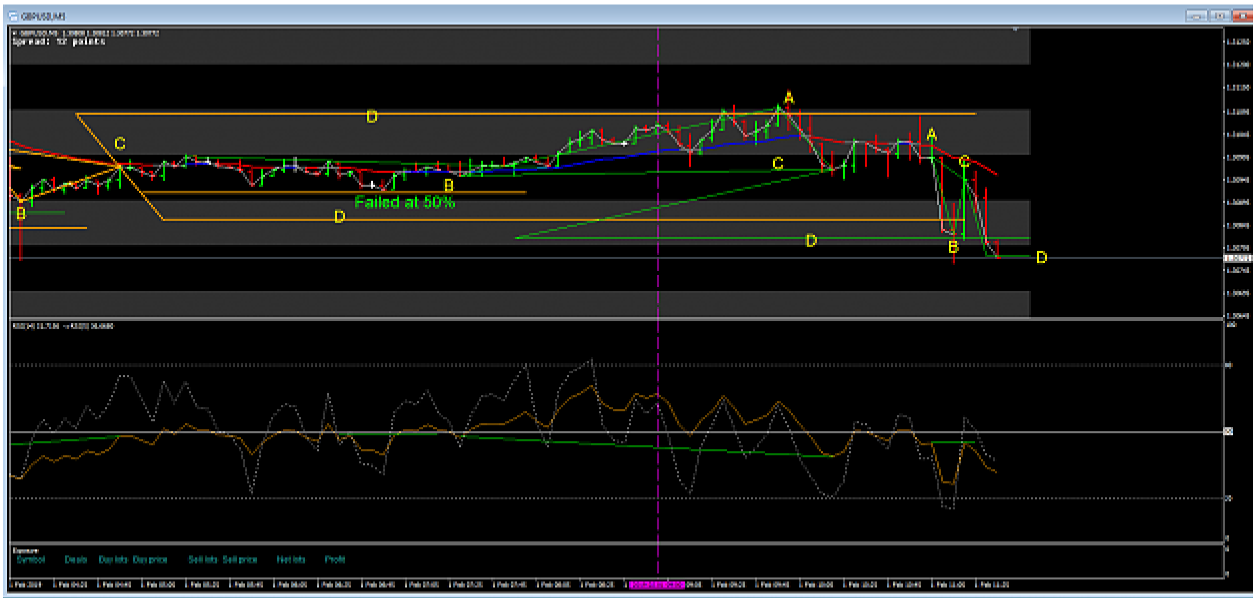


[Quoting Nala66]
Look at this latest ABCD on the 5 min how it failed at the 59% level turned north and hit the target on the opposite side. The strange thing with these is they then turn and will often go for the original target, in this case the short one. weird! {image}

And there we go... Weird huh!



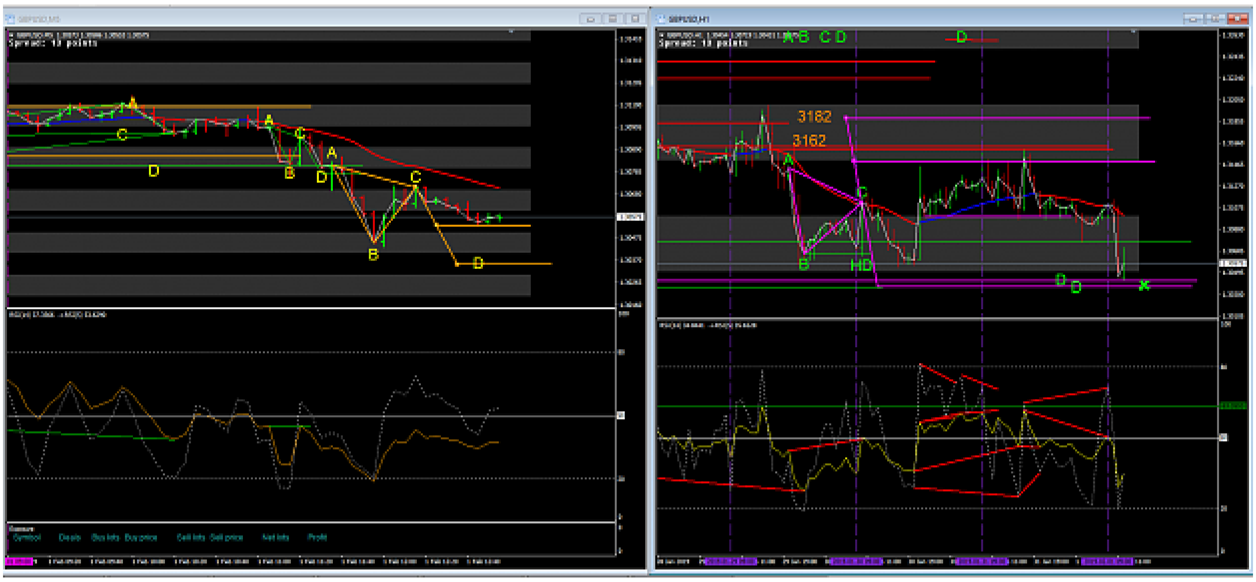
And another one bites the dust



Still waiting for these two on the hour..

Well guys if you haven't got your 40 pips worth yet (you are not trying)

It looks to me like the 1 hour has a little ways to go but price is stalling at the 5 min 50% so there is reason enough to close all now.



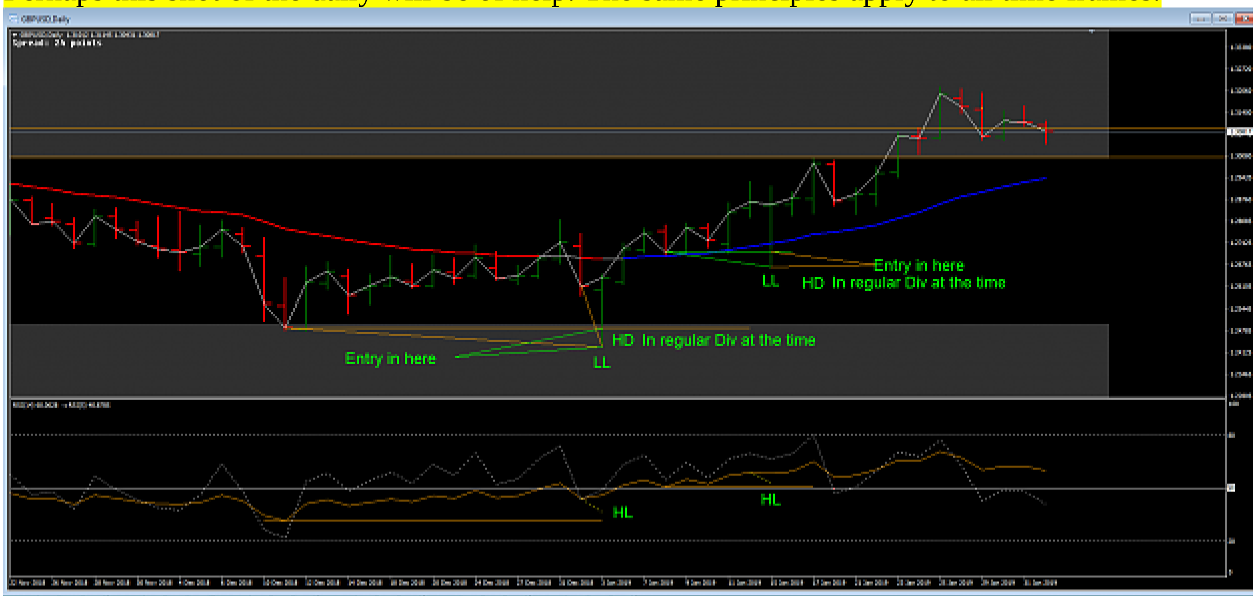
[Quoting quangvision]()
Hi Alan, I do see the effectiveness of using AB-CD pattern. I have some concerns, please help: 1/ A,B,C points are defined by continuation divs, if price below average then we are looking for bearish divs. Draw ABC will show where price would hit next, either upper or lower D. At first posts, you said we measure targets using swing averages and now comes AB=CD. How can we use it correctly along with swing averages? 2/ Is there any better tool to draw AB=CD pattern on MT4 or we have to draw 4 seperate lines to connect 4 points?
Thanks 😊

If we look at the swing averages for price targets then the divs are just the mechanics of getting there.

[Quoting Riaanvw]()
Afternoon all, took these trades {image}

Nice Riaan but I see you are still getting in late

Perhaps this shot of the daily will be of help. The same principles apply to all time frames.



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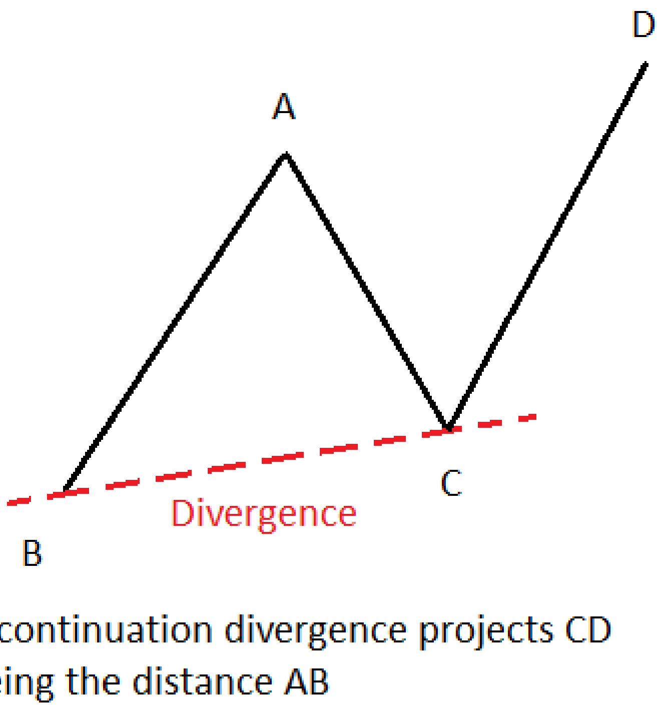
Hi Alan, I do see the effectiveness of using AB-CD pattern. I have some concerns, please help: 1/ A,B,C points are defined by continuation divs, if price below average then we are looking for bearish divs. Draw ABC will show where price would hit next, either upper or lower D. At first posts, you said we measure targets using swing averages and now comes AB=CD. How can we use it correctly along with swing averages? 2/ Is there any better tool to draw AB=CD pattern on MT4 or we have to draw 4 seperate lines to connect 4 points? Thanks 😊

So if we look at this the 5 min EMA we can readily see the levels the average is trying to break. However The X's you see we move always in front of the EMA (Leading it) and we are looking for the Divs that can stop the EMA or even turn it to test the opposite side. These would be your primary divs and from then on you may see additional ones or even counter ones. So we can add to our position on the continuation divs and hedge the counter ones just in case the counter ones again stop and turn the EMA.

All the other stuff I have talked about is just the mechanics of the price action doing its thing. Remember this thread is about trading the average swings.

Quoting jgoedhals
Allan the abcd triangles do you use it with all 3 types of divergences ?

No it is only used with the continuation divergence



Another perfectly executed ABCD.

Notice how it went 50% the wrong way first.

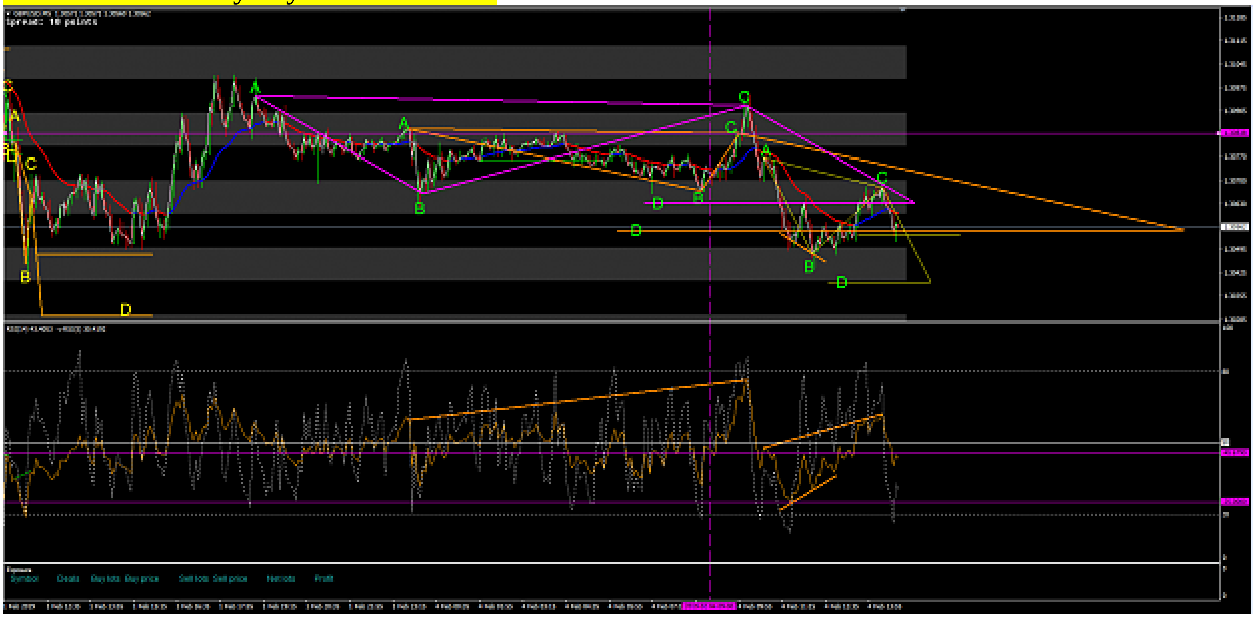
[Quoting davidmaree]

{quote} Very nice Alan. I still have one playing out from Friday too. {image} My trades today. Still making mistakes but the strong trend after London open was forgiving. The hedge also helped make up for the earlier stop outs. {image}

Cor Blimey you are reading the chart like a pro..

We have another on the 5 min but it is having trouble going short at the 50% level

I am done now anyway and off to bed.



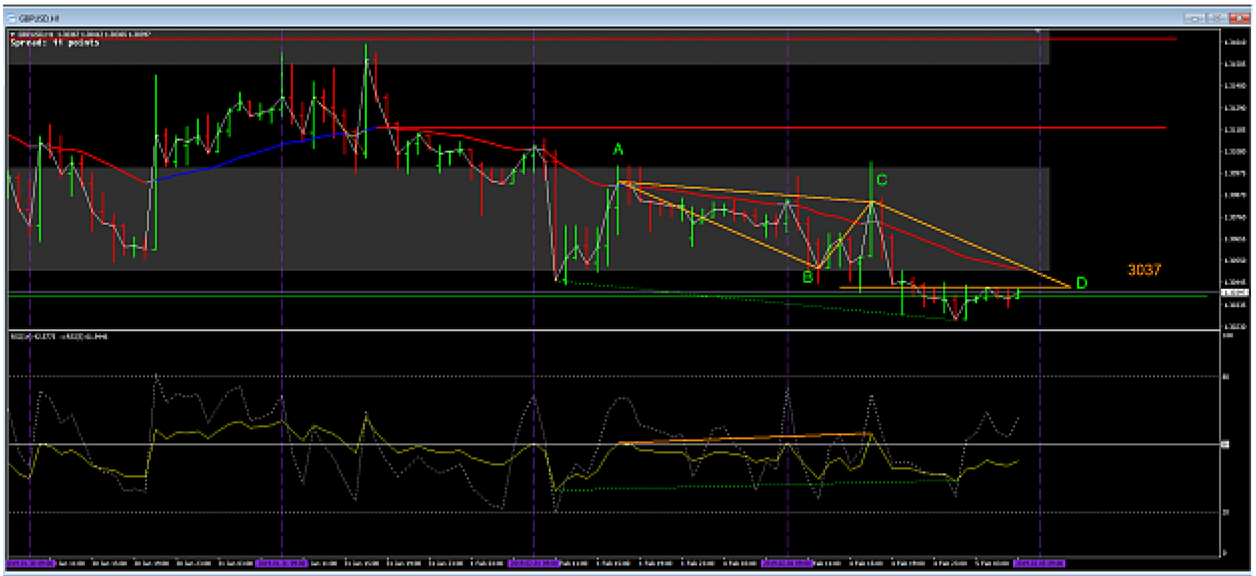
As I wake up I see the 1 hour finally got to the 30357, only took 4 days. (Magenta line)

At this time I am not sure what to make of this situation.

The 1 hour has hit its targeted ABCD and the D is still holding as resistance.

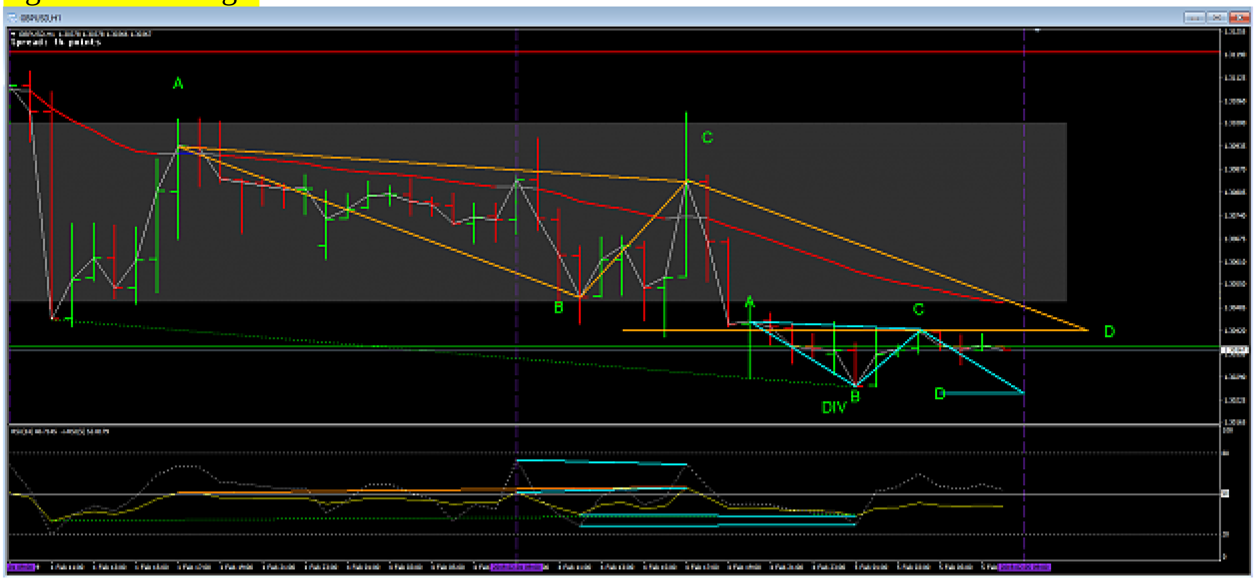
It looks like the EMA is trying for a lower low (Green Line).

The bullish div (dotted line) has not returned price to the EMA so I am guessing price is going to make a lower low. (Maybe)

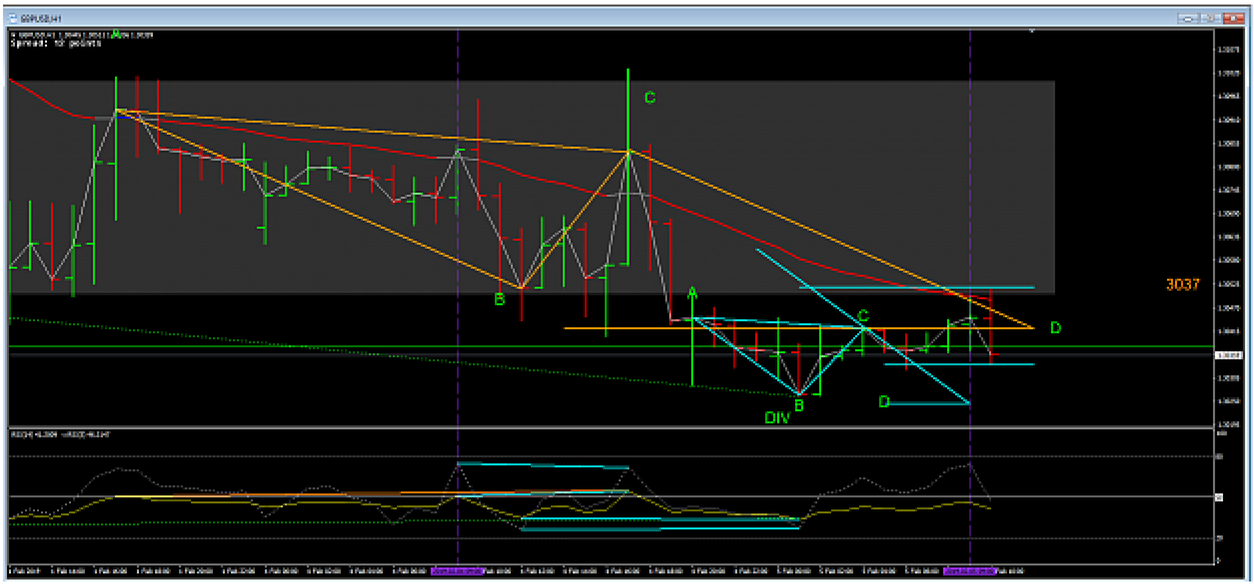


[Quoting Bydyke](#)
H1 is posting a bullish Alan div. To me that looks like a warning. {image}

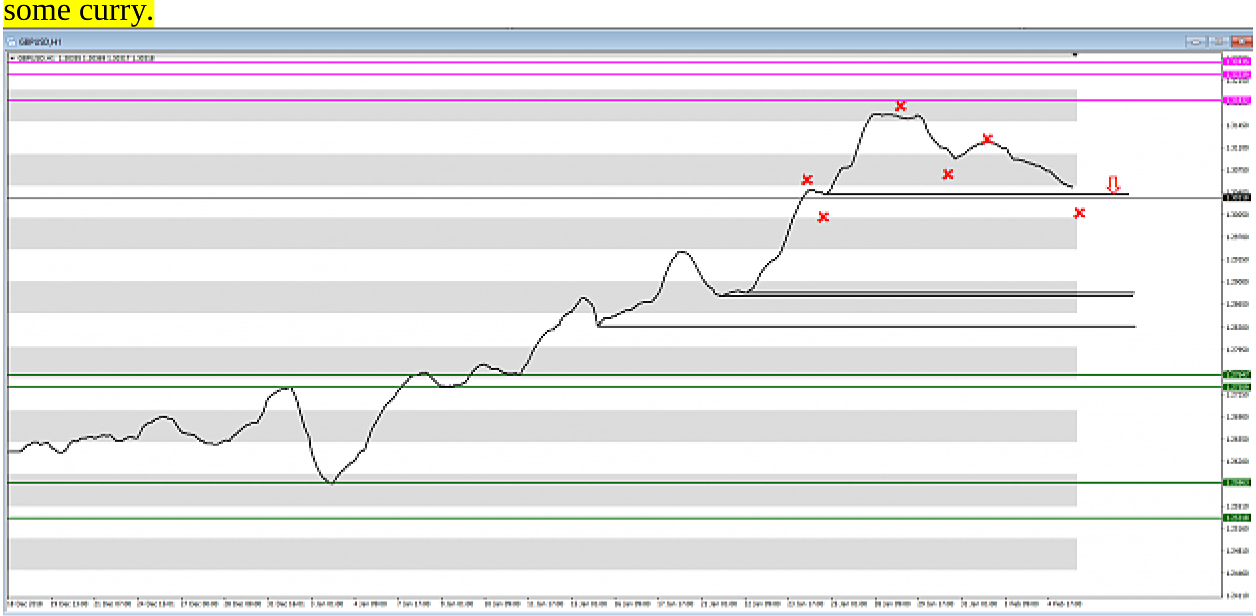
That one has run its course running into a continuation div forming the ABCD. So lots of signals at this stage.



This thing is playing silly buggers on the hour between the two 50% levels



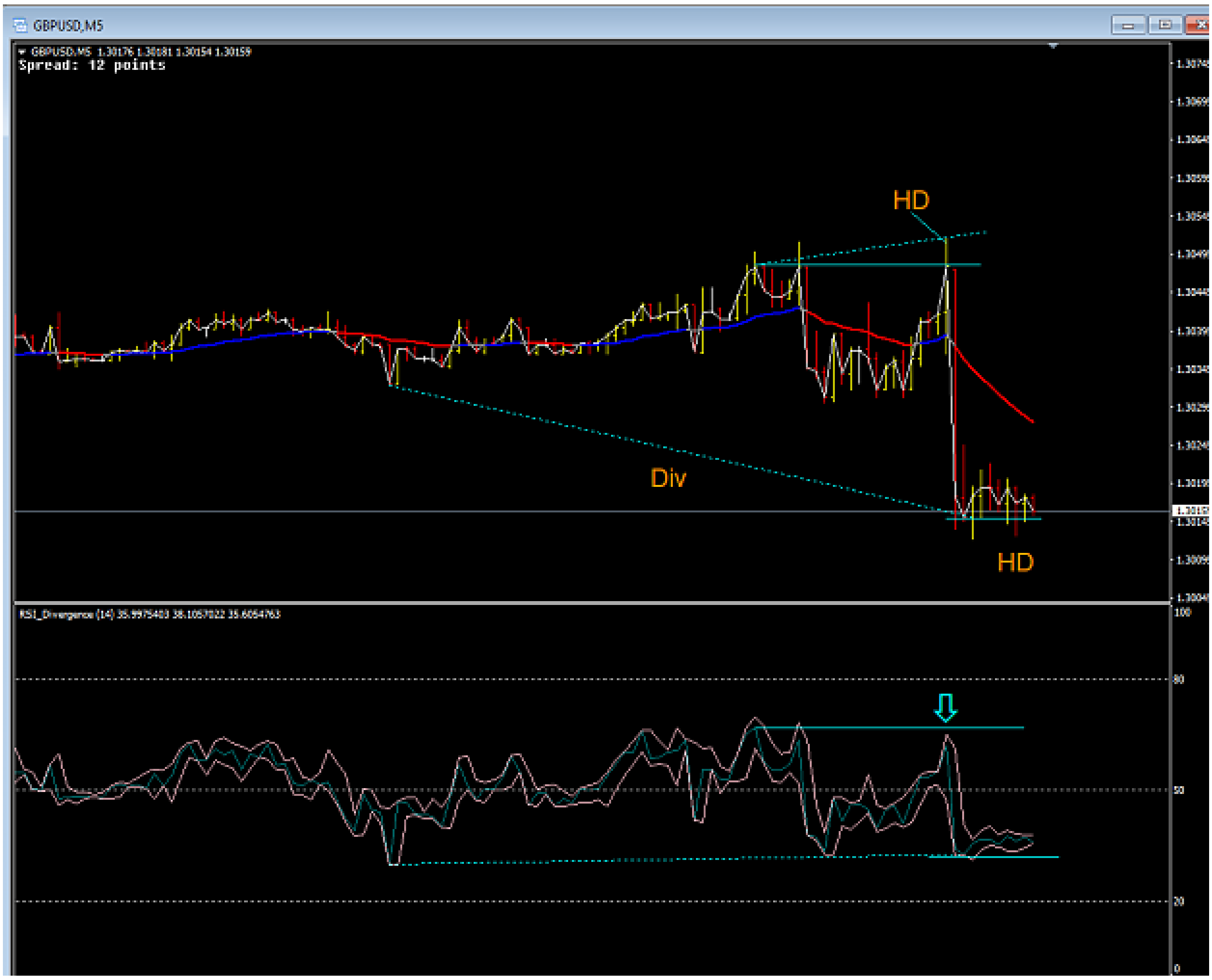
It still looks like the bears are trying for the lower swing low but the bulls are giving them some curry.



So if you see a divergence forming on the 1 hour drop to your 5 min and look for an entry and a shorter stop.

On the 5 min you should see something like a regular div, RSI div or even an overbought situation

Well that was a nice HD from the top down but the ones from the bottom up are not doing too good.



[Quoting hocius](#)
Alan, just to clarify some doubts I have about HD. We draw a line with the 1SMA to the next price high and compare that line with the slow RSI?

Just take a look at the 1 hour chart and look at the direction....short uh.

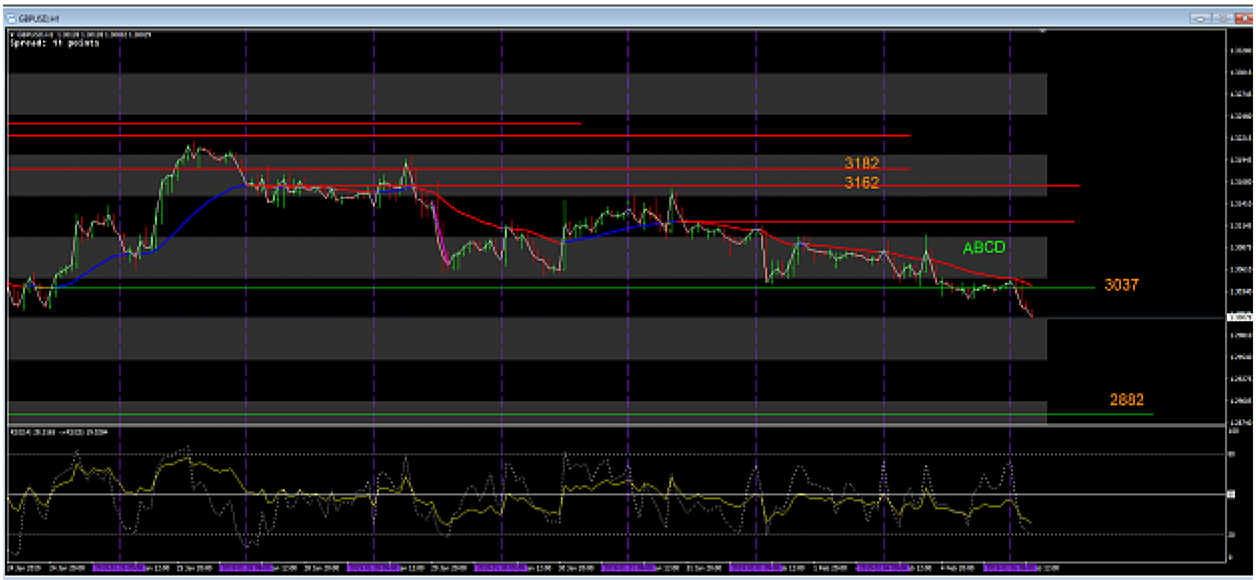
Where may the price be going to … 2882 possibly

What is your primary trade direction... Short

So we are looking for signals on the 5 min that take us short and we hedge any that take it long.

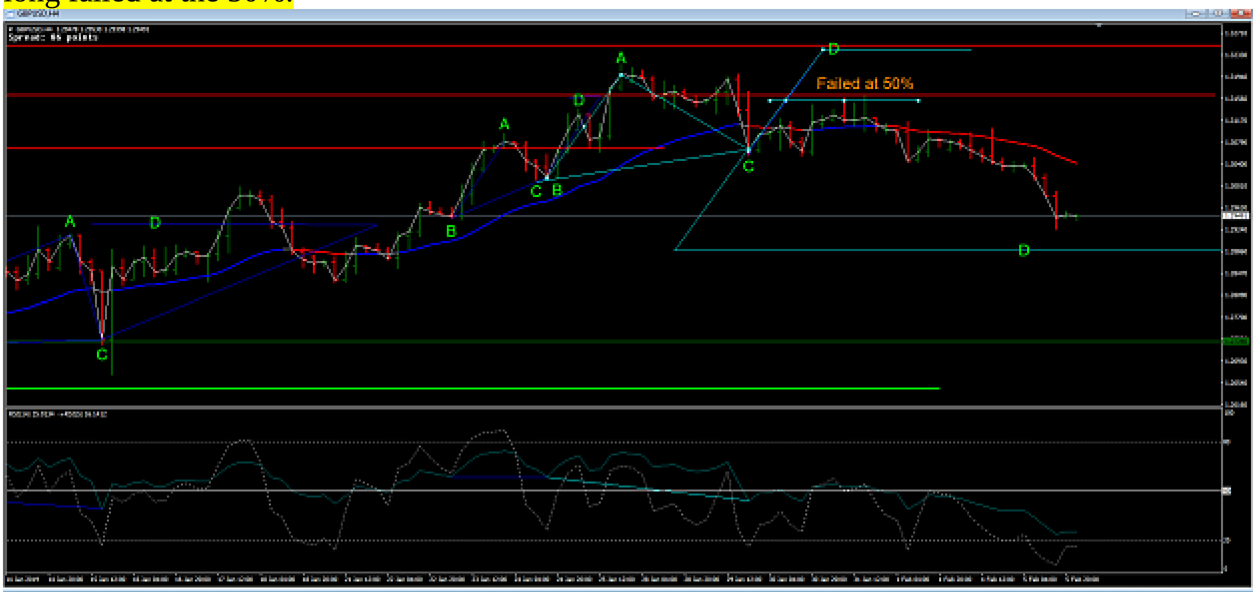
Why do we hedge...Because the move may stop the EMA and even turn it around.

It is the same thing every day look for the bias direction and trade it accordingly with whatever signals we get.

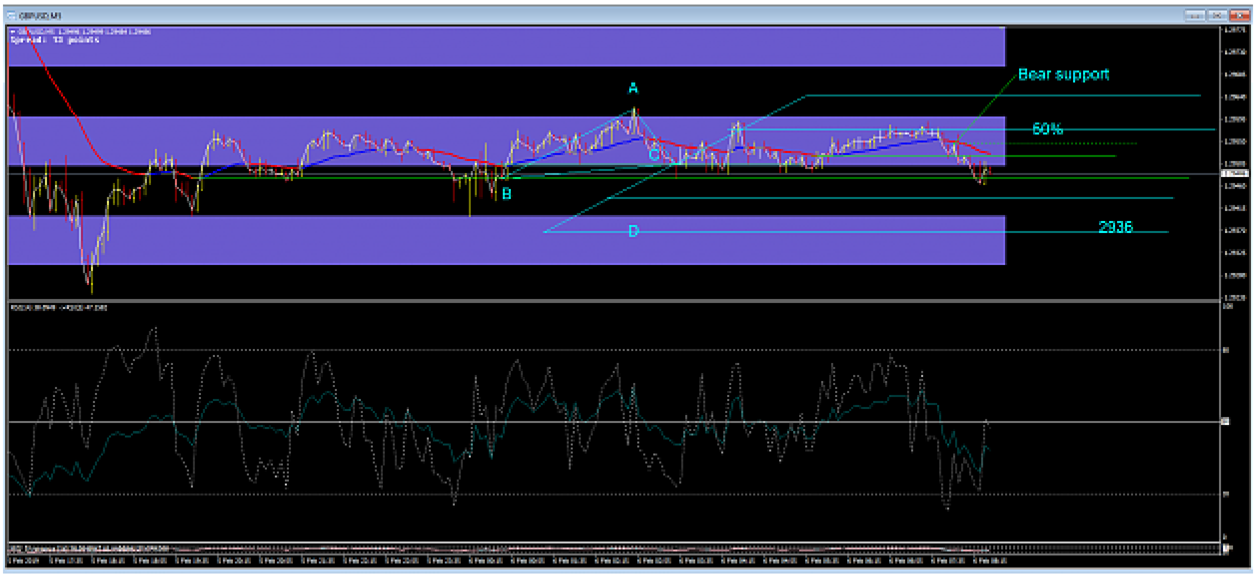


Quoting davidmaree
HD short blasted through D point from Alan ABCD for 40. Have a good day/night all.
{image}

Having run out of targets on the 1 hour look to the 4 hour. The pushes at the 1 hour level indicate we should see this 4 hr make the D level. Note how even at this time frame the push long failed at the 50%.



We have a 5 min continuation forming the ABCD and it has failed long at the 50%.



And there we go..