Strategy – General

DEFINITION:

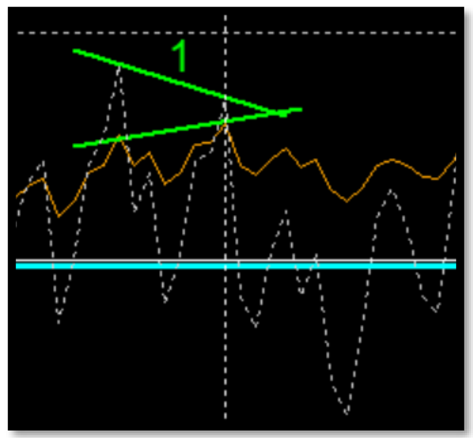
1. Timing - We begin looking at the chart with a view to starting work at about bar 108 - Don’t take trade if it too far from the bar 108
2. Inference - Starts with divergence. Try to check chart on H4, H1, M30,etc. to see which one is the most accurate and market working by at the time
3. Entries - Bulls or bears FIND support.
4. Target - Divergences prompts a close or a hedge.

INFERENCE

Inference from H1/H4/M30 with any of buy/sell signal

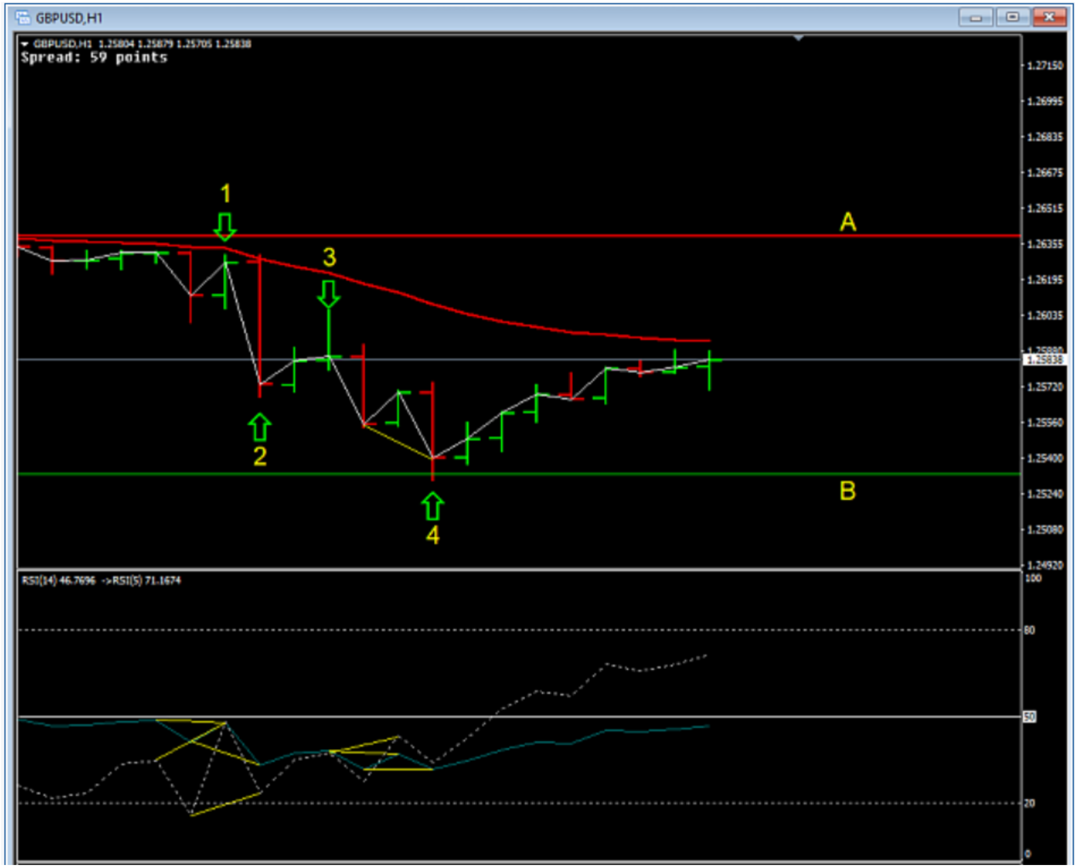
<u>BUY/SELL SIGNAL:</u>

1. When the RSI5 below RSI14: support sell and reverse
2. 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
3. If the slow RSI above the waterline but fast RSI below, it is bullish signal.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



INFERENCE

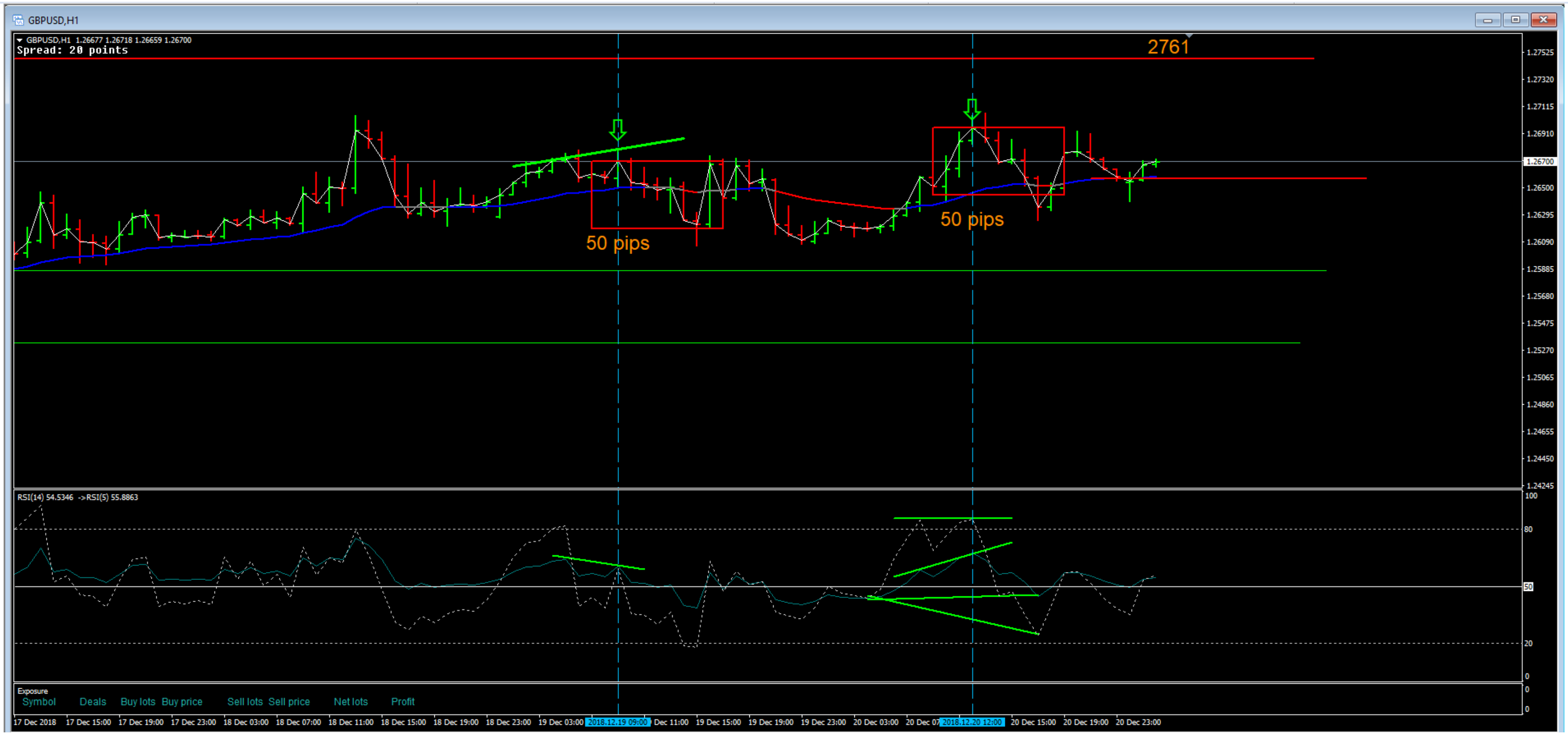
4. RSI div at average swing level more trustful. For example here B is swing low on H1 and at (4) it have divergence



5. Overbought/oversold RSI H1

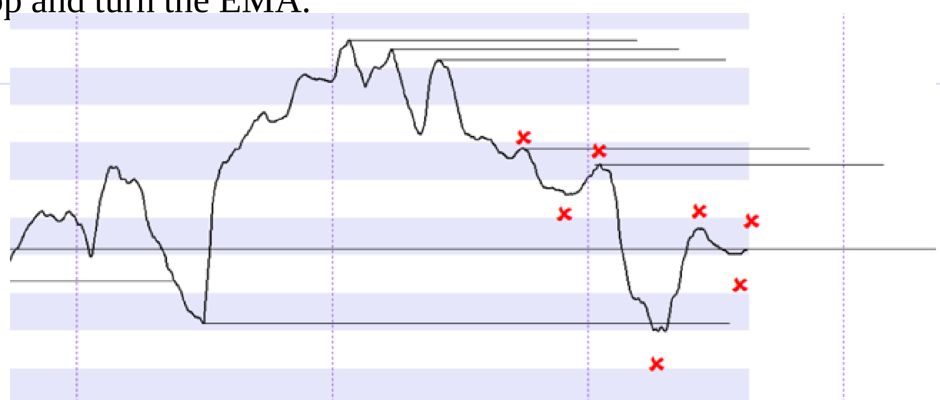
INFERENCE

Example below showing: 2 times divergence happen + RSI over bought on H1, he took it as inference and try to find short signal on M5. Can see that the first divergence is hidden



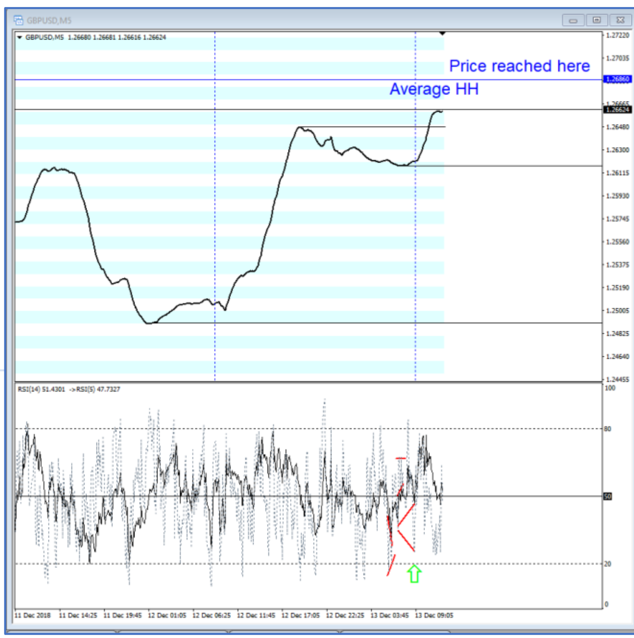
Strategy - Notices

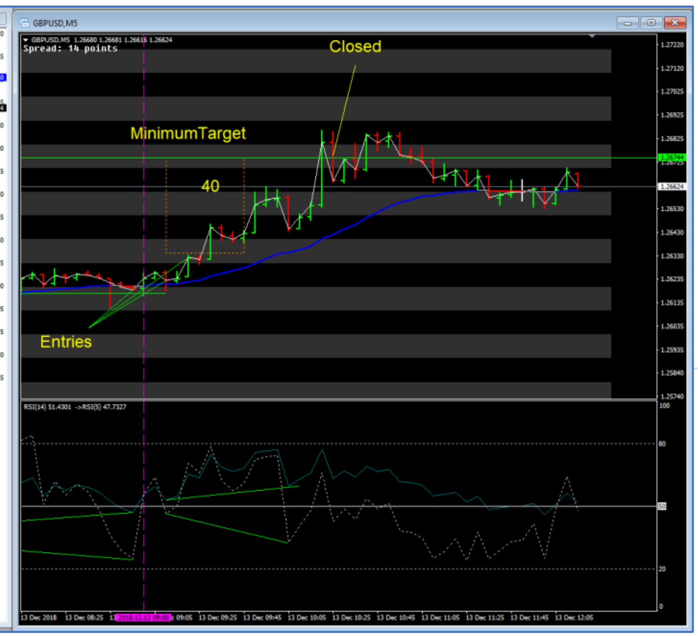
1. This is a scalp method, we simply hold until a div tells us not to
2. If price going to cross EMA but failed it going to make a HH and LL
3. The earlier we can get the three trades on the better but keep moving the stop to prevent too much damage. We don't need signals for the second two trades but if you feel more comfortable then wait for them, it makes no difference because the secret is going to be in the hedge anyway. 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
4. GoTo Tools, Options, Objects and set the magnetic sensitivity to zero
5. Keep a symbol in front of the EMA to remind you to look for the divs. You can then look at the levels to see if the trade is good for 40 pips or more
6. 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.



Strategy - Notices

7. When someone ask which signal make him take 3rd entry: 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.
8. Div should return the price to the average or beyond
9. Zoom out for easier find divergence
10. To reduce the fake div signal: when the RSI5 below 14 support sell and reverse. Also 2 bar test can help reduce fake div signal
11. *And please remember, not all hedges turned into profit. Some will cost as lost trades and there are no way to avoid all lost hedges but just trade as market tells*. >> This is true however you have several options when this happens...
    a) You can add the loss to your pip target.. or
    b) You can add another lot to pay for it and close this when you have covered the loss.
12. Put another chart with just EMA and zoom out to have better view of it, see if it make HH or LL
13. Remember we are trading between the averages and must bear this is mind all the time we are trading
14. All the time we are looking for the Average swings and where they fail to make HH's or LL's.





Money Management

1. 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.
2. 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
3. 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.
    a. Ok $25 for me I need to divide by about 1.46 because I want the 25 in Aussie dollars not US.
    b. This results in 17.12 and I am going to further divide this into 6 six segments = O.29 lots
    c. Now the trades are entered

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

    d. Checking backwards : 1.74 x 40 x 1.46 = AUD$1016
    e. For me 1.74 lots cost me about 800 bucks so I can easily afford this with a 1000 account.
    f. My risk on a trade is usually somewhere around 50 bucks so my risk reward is 50:1000+

BAR 108

1. Frankfurt market – German open (1 hour before London Open)
2. 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
3. Identify Bar 108 by using Period Separator (M5, M15, M30, H1, H4 – 1Day between each period separator) and measure 108 bar from it (108 bar from M5 will be 9 hours, so 2 Bar 108 mean 6PM, when London open at 8PM UTC)
4. Look guys don't get too hung up on the 108 bar it is just a name I give to the time I begin to check out the charts and is the approximate time of day we can expect the better action to begin following the Asia market which tends to be flattish. This is used for the efficiency of our time spent trading. If you want to follow the charts for 24 hours a day then by all means go ahead.

ZOO – ZONES OF OPORTUNITY

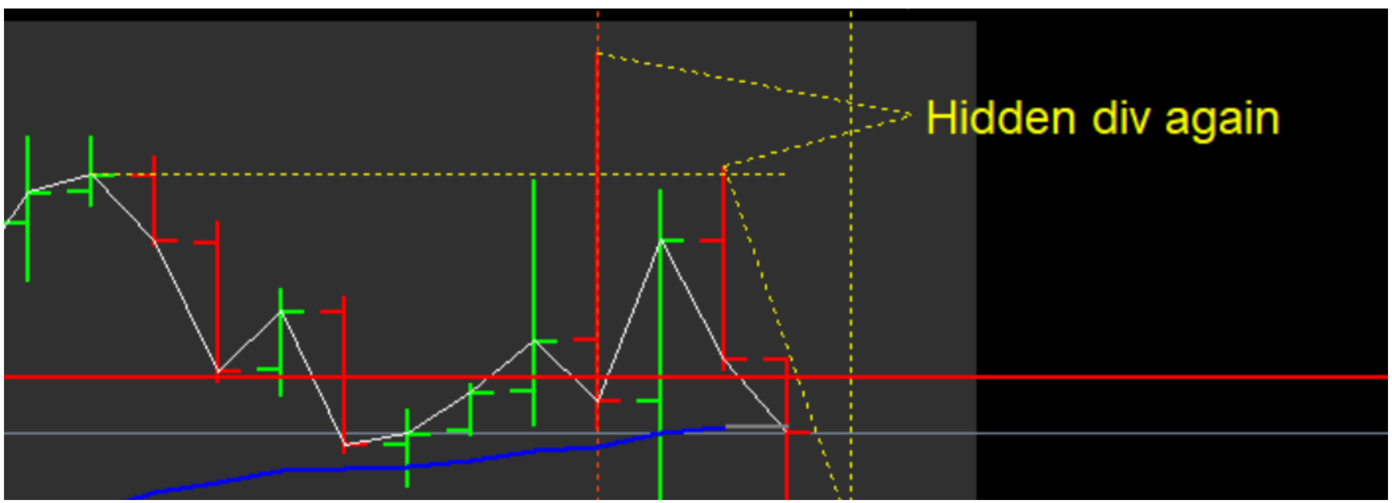
1. Swing high and lows of average on 5M in and H1
2. H1 bearish and bullish failures
3. H1 divergences
4. AB=CD 50% zone on H1

REGULAR DIVERGENCE & RSI DIVERGENCE

1. Regular divergence = Price/RSI 14 divergence
2. RSI divergence = RSI 5/RSI 14 divergence
3. 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
4. Remember divergence will going to take price back across EMA. 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

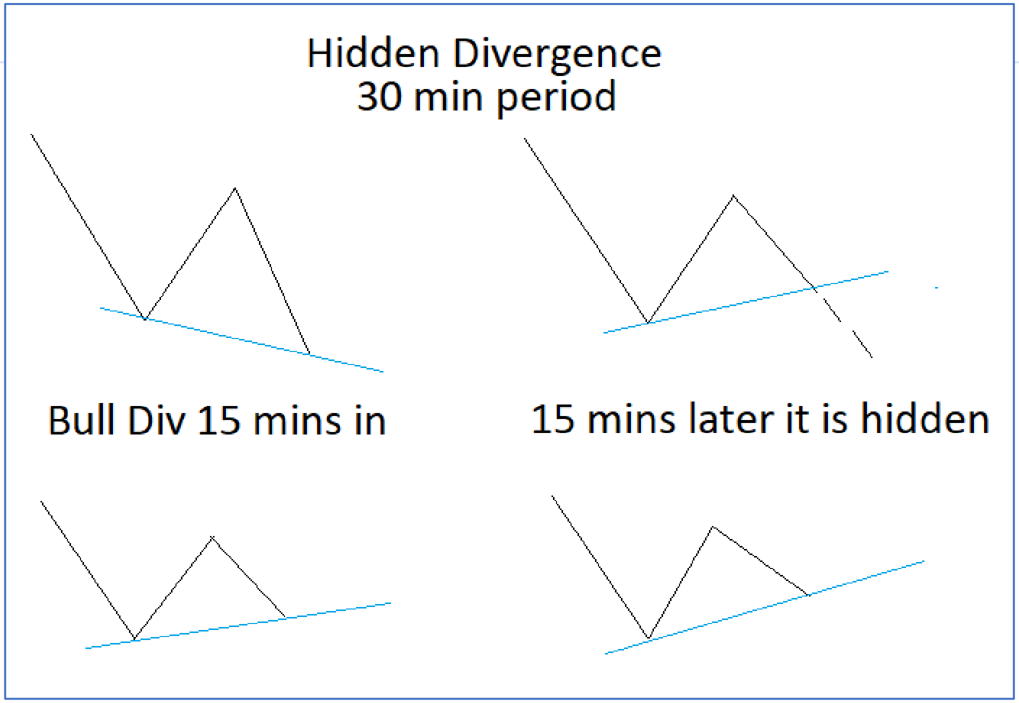
HIDDEN DIVERGENCE

1. Hidden divergence: exactly the same as regular divergence except the price bar snaps back so the divergence can no longer be seen... Hence hidden



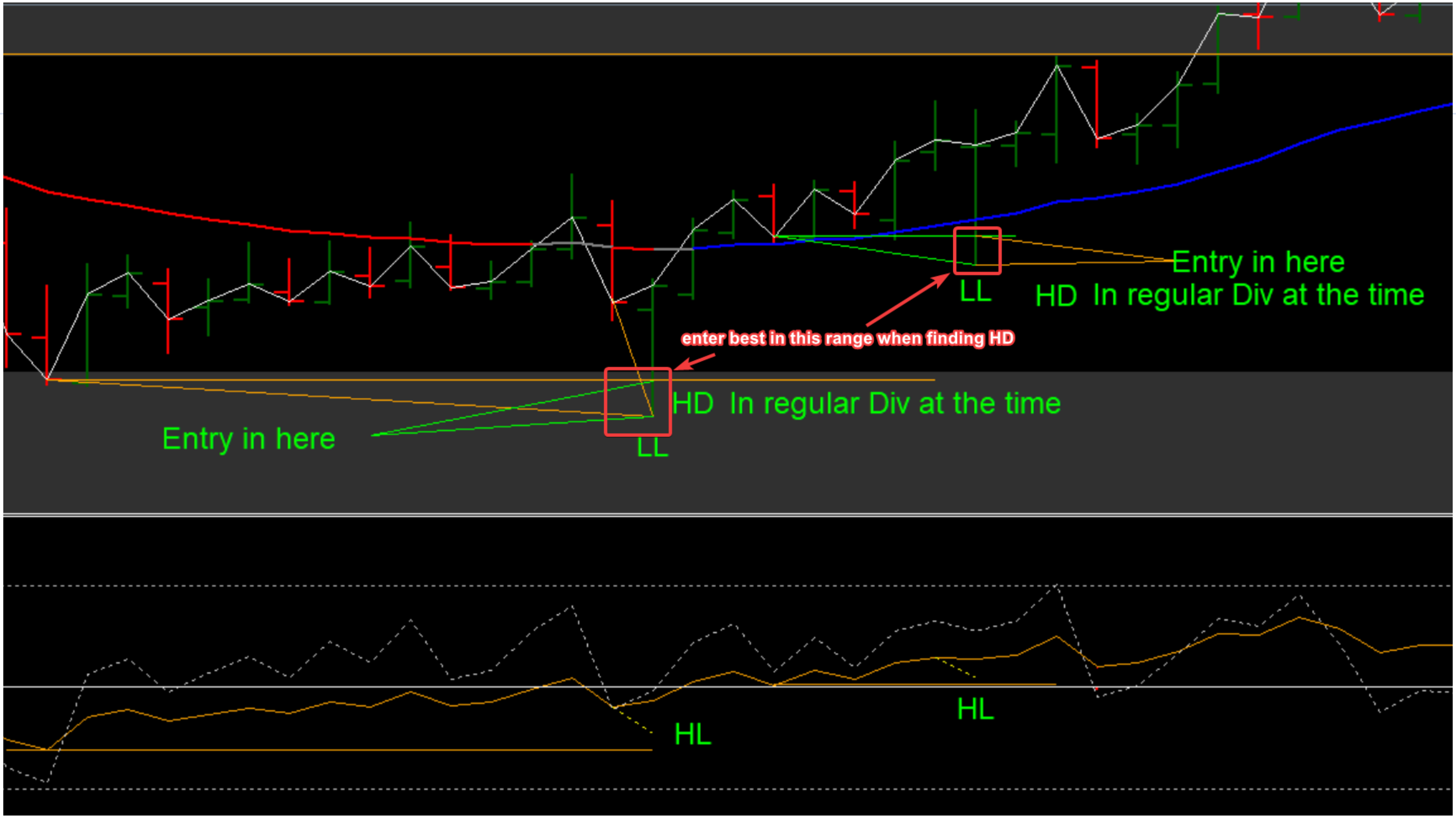
HIDDEN DIVERGENCE

2. 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.



HIDDEN DIVERGENCE

3. Vào lệnh với HD: chú ý khi thấy HD thì điểm vào lệnh tốt là khi HD xảy ra

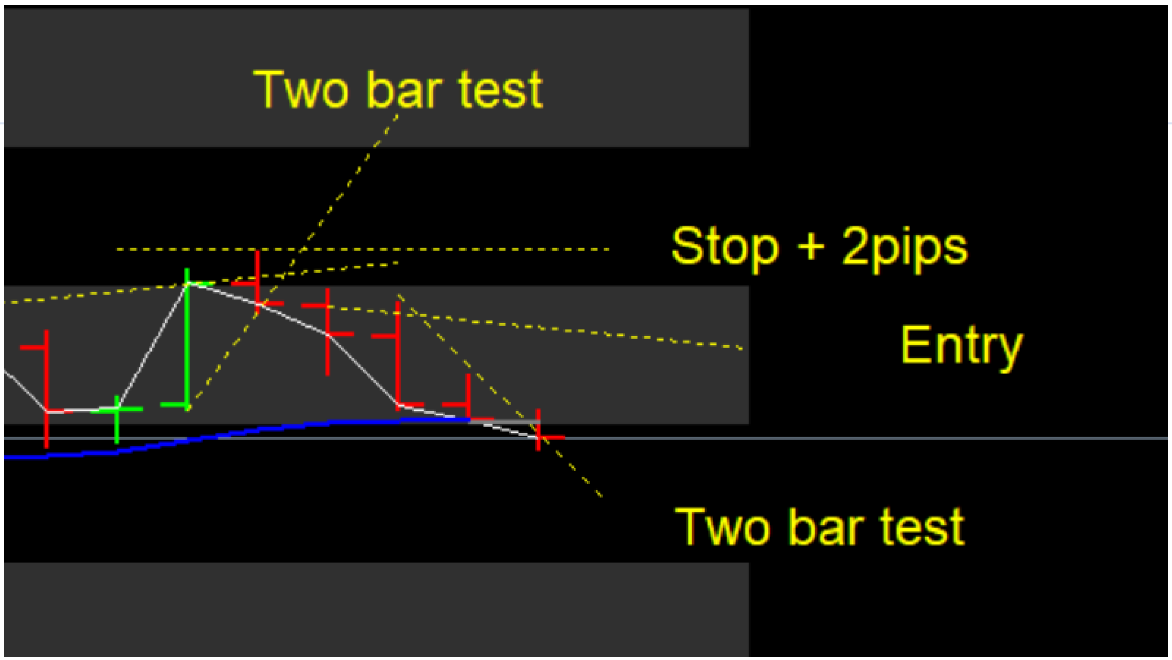


2 BAR TEST

1. 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

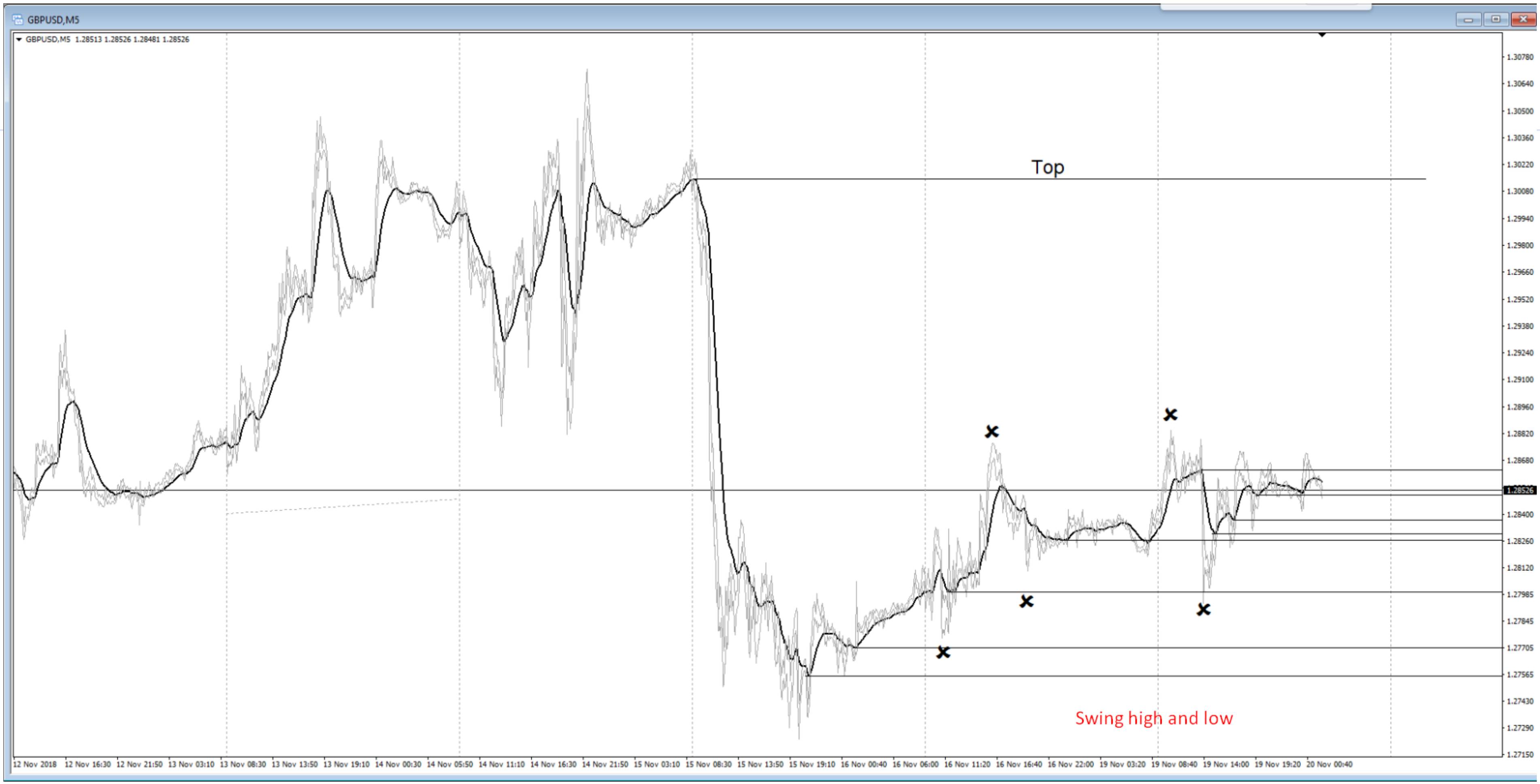
2 BAR TEST

1. Test line 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.
2. *Alan, regarding trades from HD bars, is this just a judgement call on your part or is there something in the PA you're looking for? I have noticed that waiting for a 2-bar test after a HD bar often tends to get you in quite late*. >> Oh no I don't use a two bar test I simply just take the trade as it happens because often it is only one or two pips into the div.



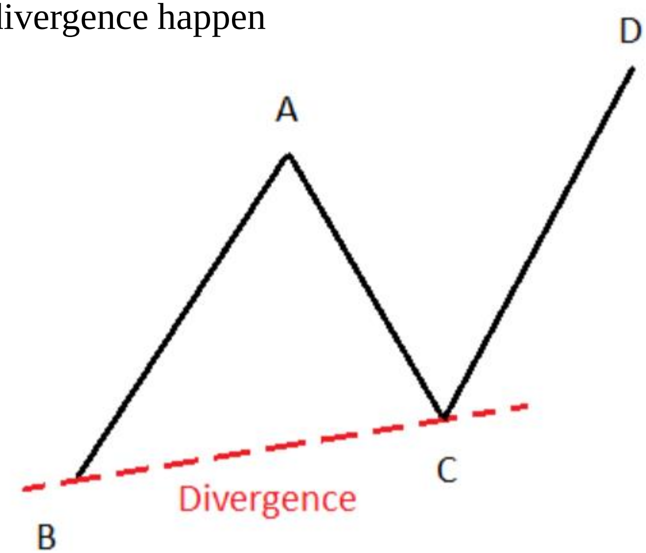
SWING HIGH / SWING LOW

1. Support and resistance line created by EMA.
2. Price is always trying to make a new swing high / swing low
3. If price fail to make a new swing high, it gonna make a new swing low.
4. Swing high/low on H1 acting as target
5. All the time we are looking for the Average swings and where they fail to make HH's or LL's



AB=CD

1. A is the highest/lowest pivot point between B and C
2. Draw ABCD when continuous divergence happen

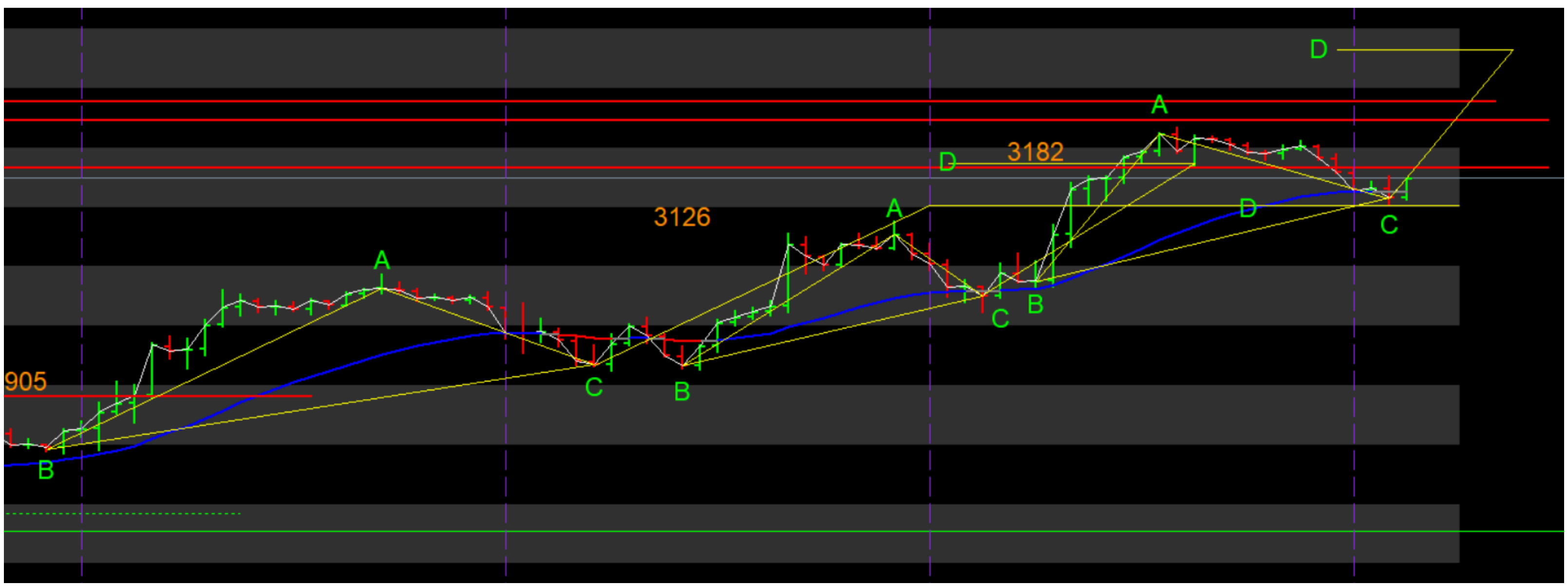


A continuation divergence projects CD being the distance AB

3. Draw triangle with the closes
4. A is the Apex and is always above C. B is the Bottom or Base and is always below C

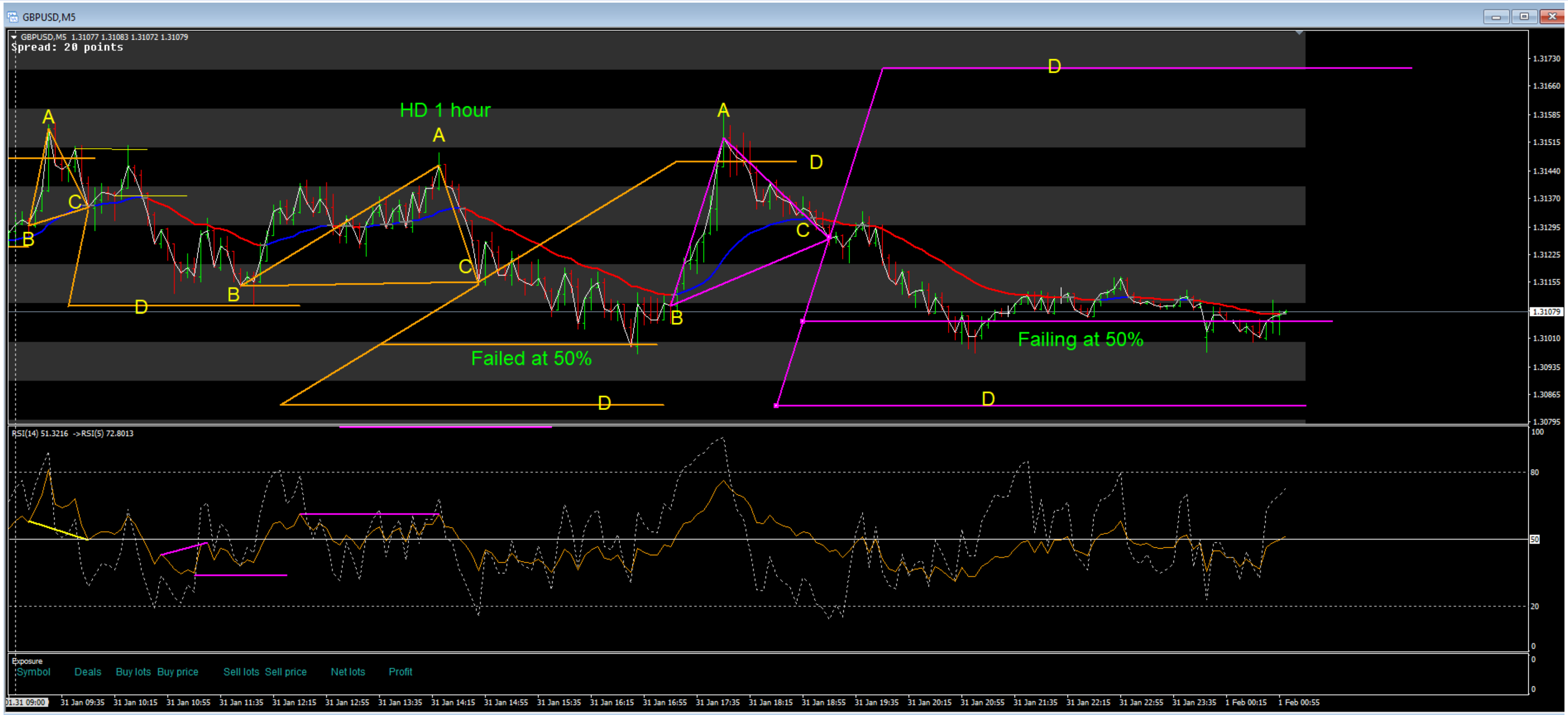
AB=CD

Bearish continuous divergence vs bullish continuous divergence



AB=CD

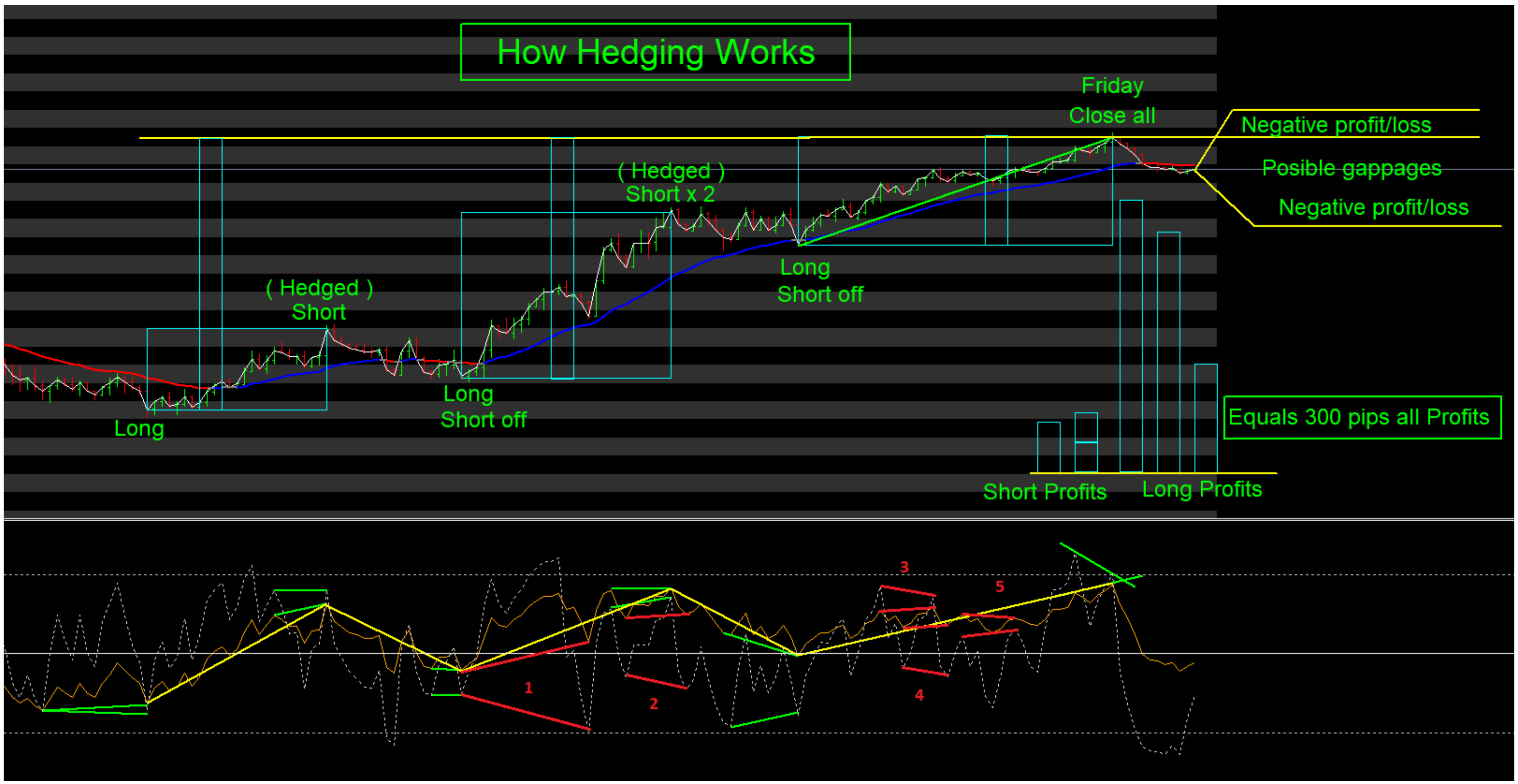
Example



HEDGE

1. Hedging is simply a trade of equal value in the opposite direction
2. Hedge is important: “ I would say at least 50% if not more of my trades involve hedge winnings if not all the trade at least a part of it.”
3. Only hedge when your trade is winning
4. Close hedge when seeing bull/bear signal
5. Hedge is more accurate when seeing div at target price
6. He dont apply stop to a hedge
7. You should always take the hedge when you get a signal. Once the hedge starts heading the expected direction we put the stop to BE, so if the original trade keeps going we don't lose any money

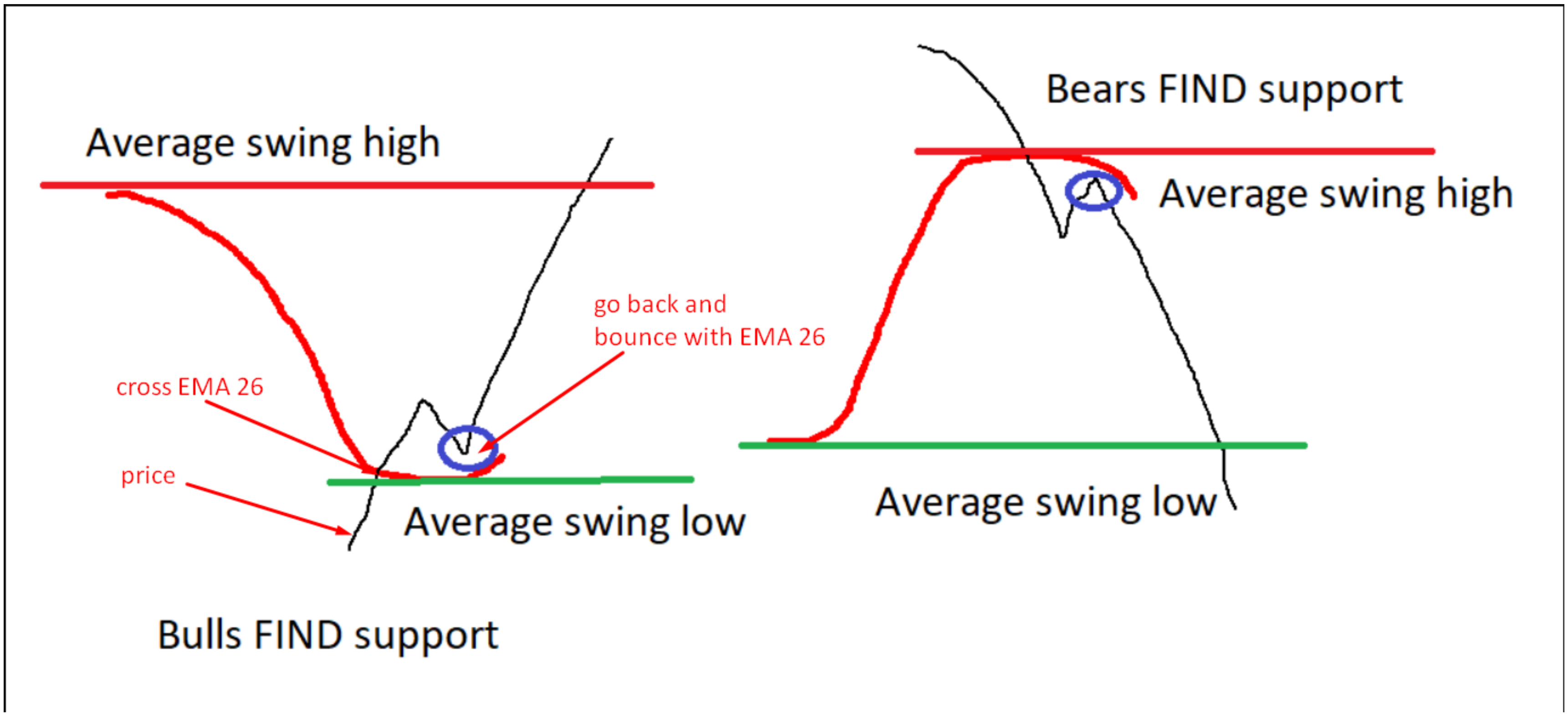
HEDGE



How Hedging Works
Friday
Close all
Negative profit/loss
Posible gappages
Negative profit/loss
(Hedged)
Short x 2
(Hedged)
Short
Long
Short off
Long
Short off
Long
Equals 300 pips all Profits
Short Profits
Long Profits
3
5
1
2
4

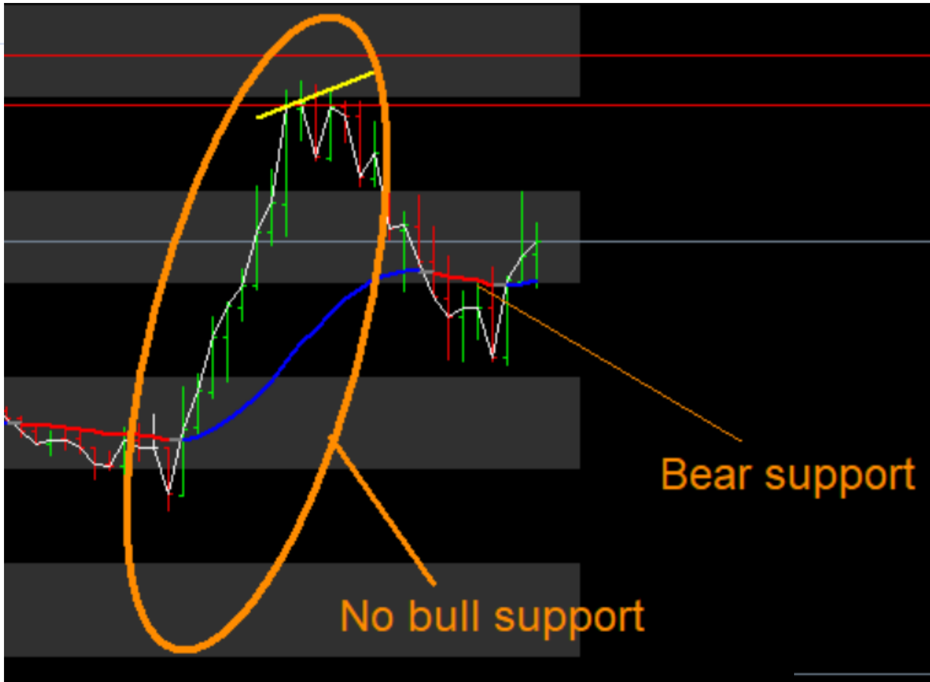
BULL / BEAR SUPPORT

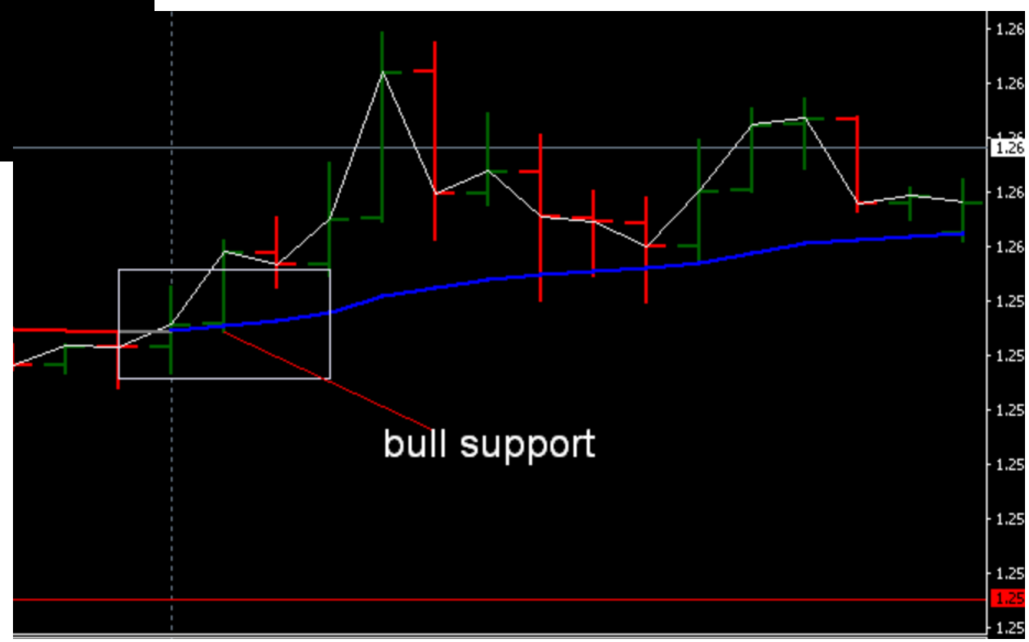
1. Bear support... Bears push from above the EMA to cross it and the bulls fail to take it back = Bears FIND support.
2. Bull support... Bulls push up from below the EMA to cross it and the bears fail to take it back Bull FIND support



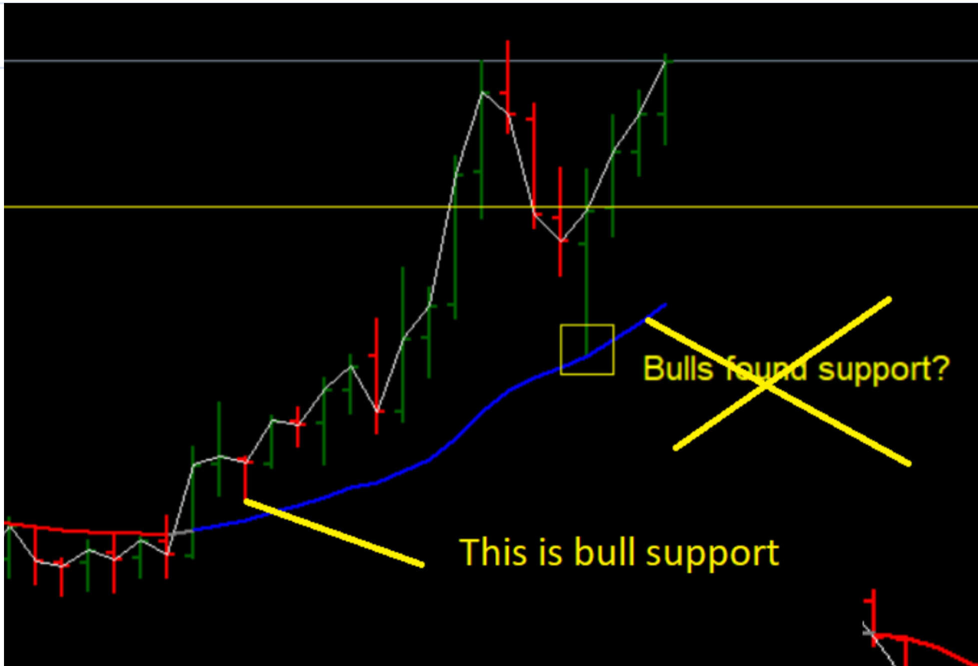
BULL / BEAR SUPPORT

1. Can draw bull support/bear support line horizontal

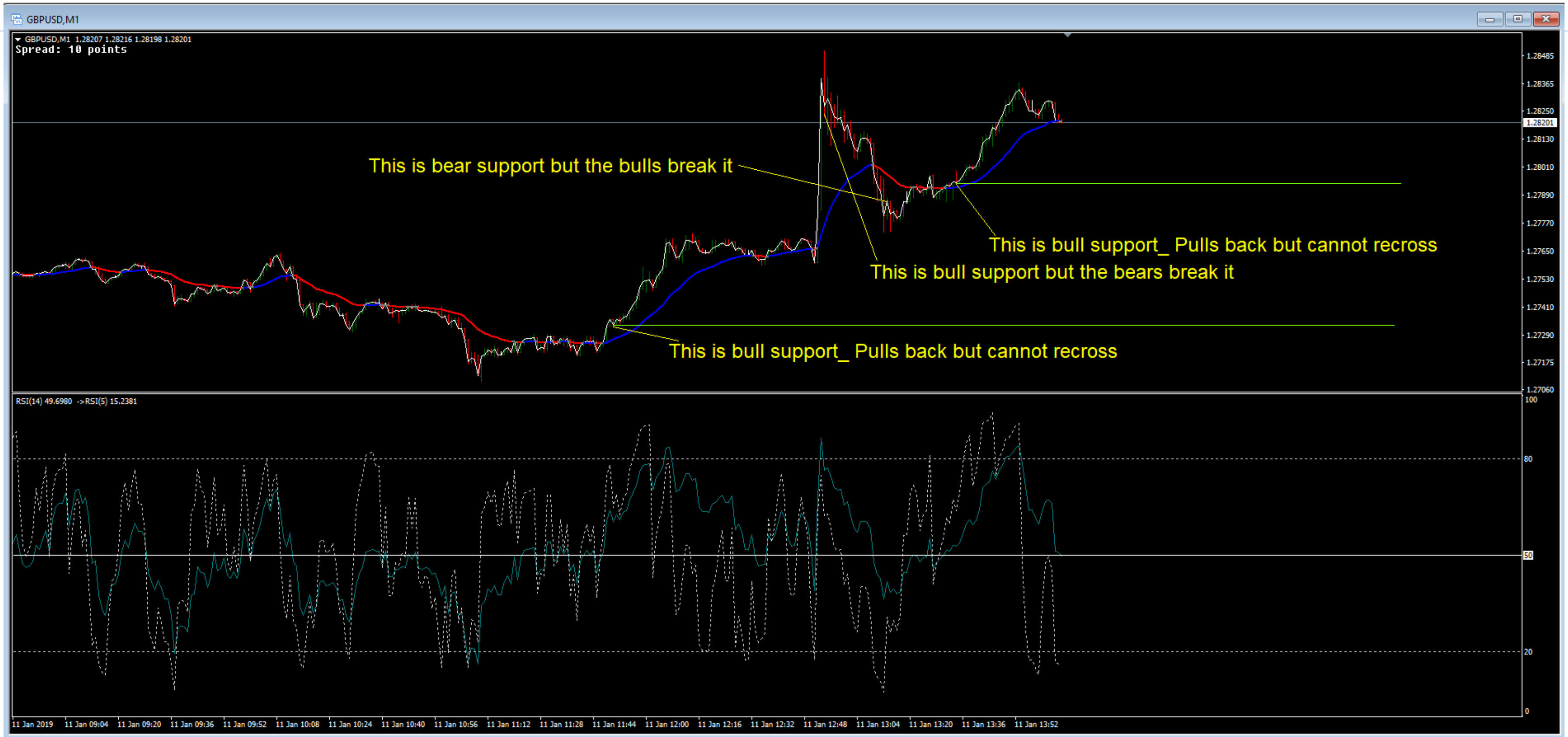




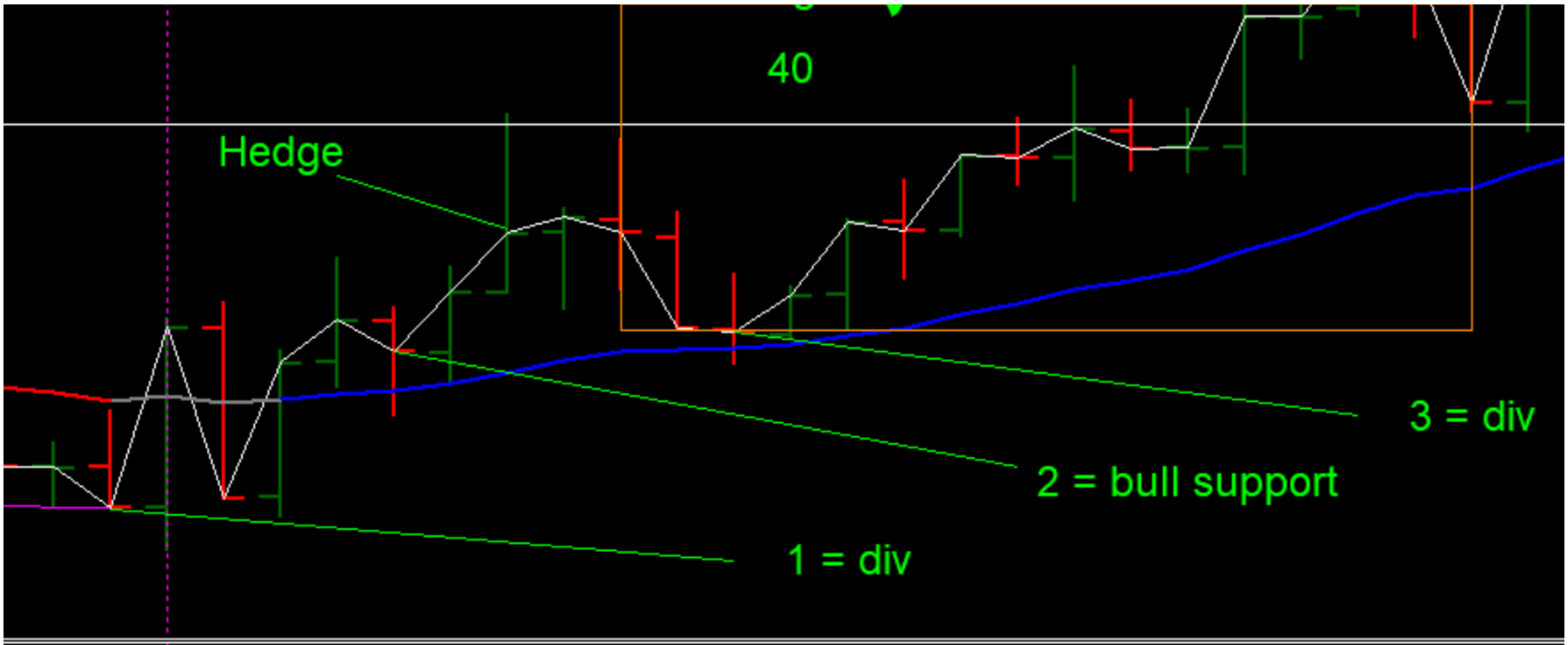
BULL / BEAR SUPPORT



BULL / BEAR SUPPORT

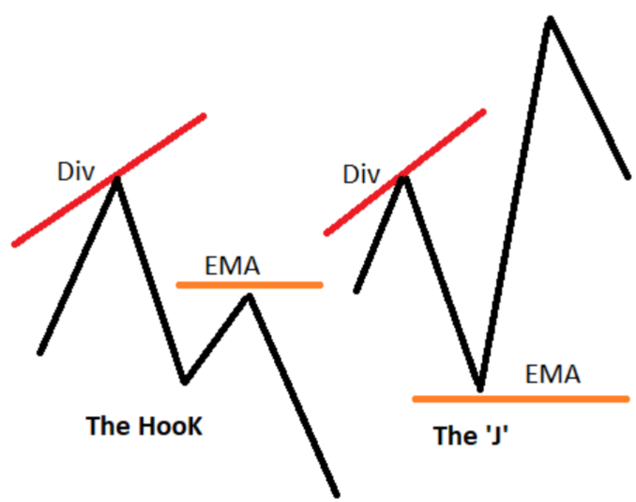


BULL / BEAR SUPPORT



THE HOOK

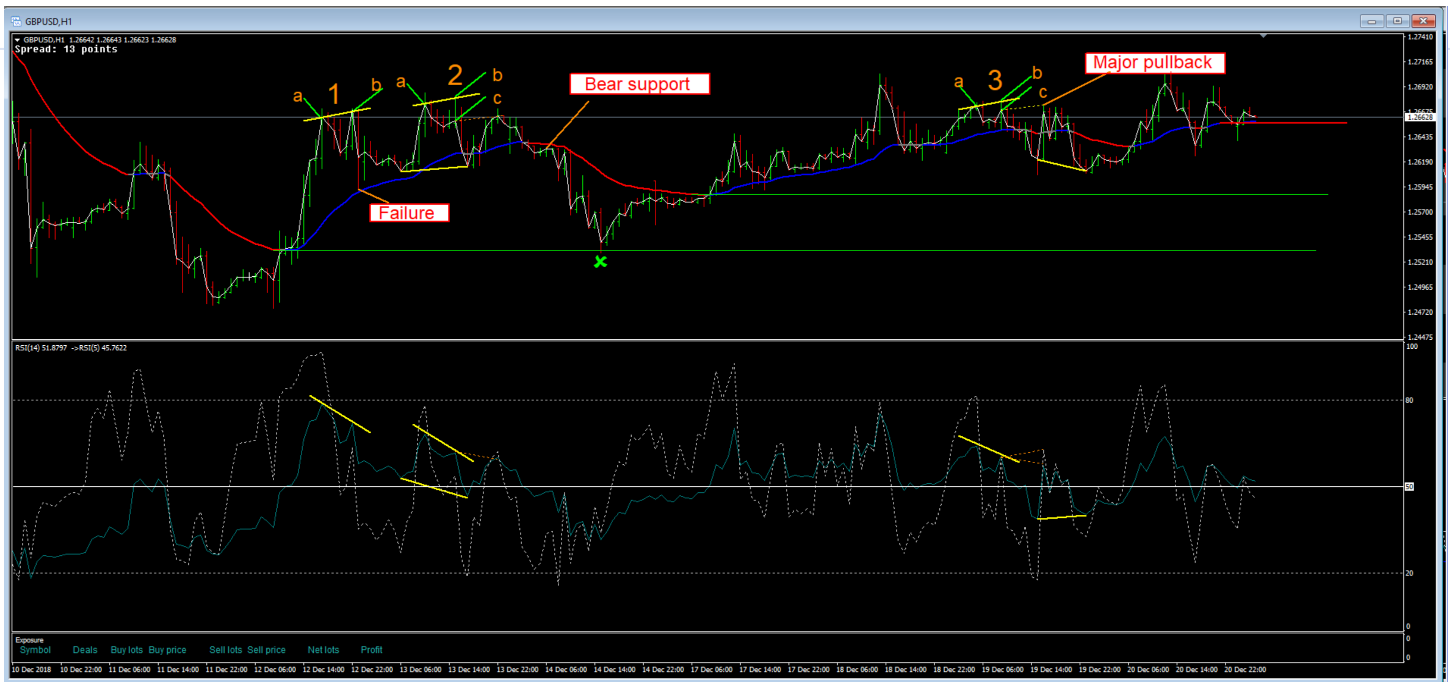
1. Not all divergence's are going to be friendly ones. You have to stretch your imagination a little to apply the drawings below to actual chart examples.
2. As traders the one we are looking for is the Hook. In this example we spot a divergence hoping it will take us across the EMA to find bearish support and form the Hook. From here we are looking to test the lower EMA swing and get our daily pips. We don't know if the entry is going to be good or bad as yet so we test the waters with our smaller entry. The result is a potentially smaller loss, often nothing if we move our stop to BE. We then add to our winning position as confidence builds that the trade is good.
3. The second example is the 'J' and this will stop us out. The divergence fails to make it across the EMA and as a result fails and then makes the HH. If we don't move our stop to BE then we are just going to donate some funds to the market. It is always better to take these signals from a 1 hour time frame because the distance from the Div to the EMA is mostly of a good size to make a profit from. However we can still use the same on the 5 min chart if we are expecting price to roll the EMA over.



Divergence follow ups

EXAMPLE 1

1. See here on this 1 hour chart I have pointed out 3 divergences.
2. 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)
3. Now number 2 and 3 were exactly the same as number 1 except they snapped back to be hidden at the close (hidden divergence). Notice how the following bars never climb above b so this is the place for the stop (2 pips above b).
4. 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.
5. 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)



EXAMPLE 2

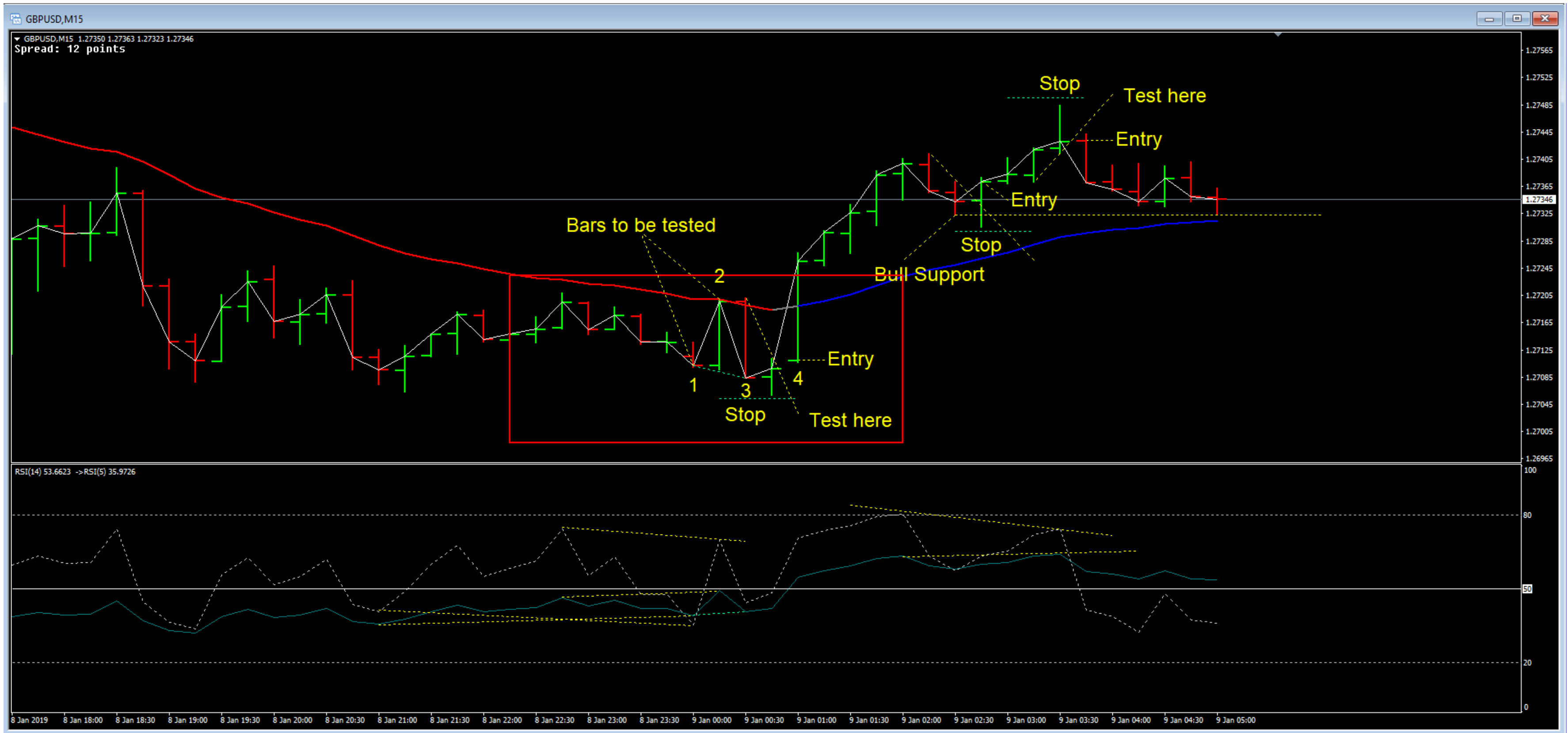
1. Lets first look at the stuff in the red box.

   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 div 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.
2. 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.
3. We can't ignore this, we have to take some form of action.
4. 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.
5. 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.
6. 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.

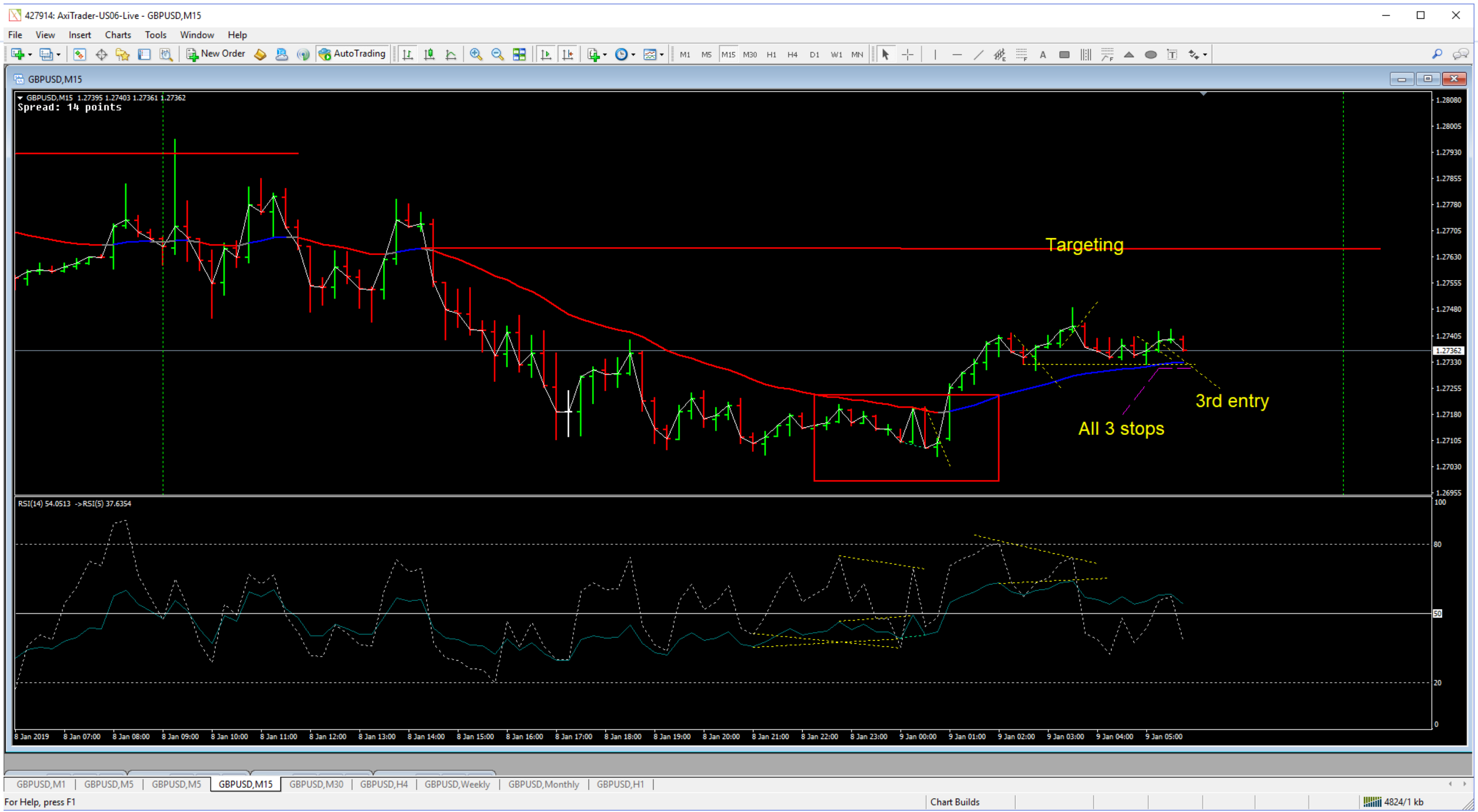
EXAMPLE 2



GBPUSD,M15
GBPUSD,M15 1.27350 1.27363 1.27323 1.27346
Spread: 12 points
Stop
Test here
Entry
Entry
Stop
Bars to be tested
2
Bull Support
Entry
1
3
4
Stop
Test here
RSI(14) 53.6623 ->RSI(5) 35.9726

EXAMPLE 2

1. Result: that trade was all stopped out net result was...
   1 hedge for $100 profit
   2nd hedge for $200 profit
   1st entry $117.60
   2nd trade B/E
   3rd Trade -$18.90
   Total = $398.70 profit



EXAMPLE 3

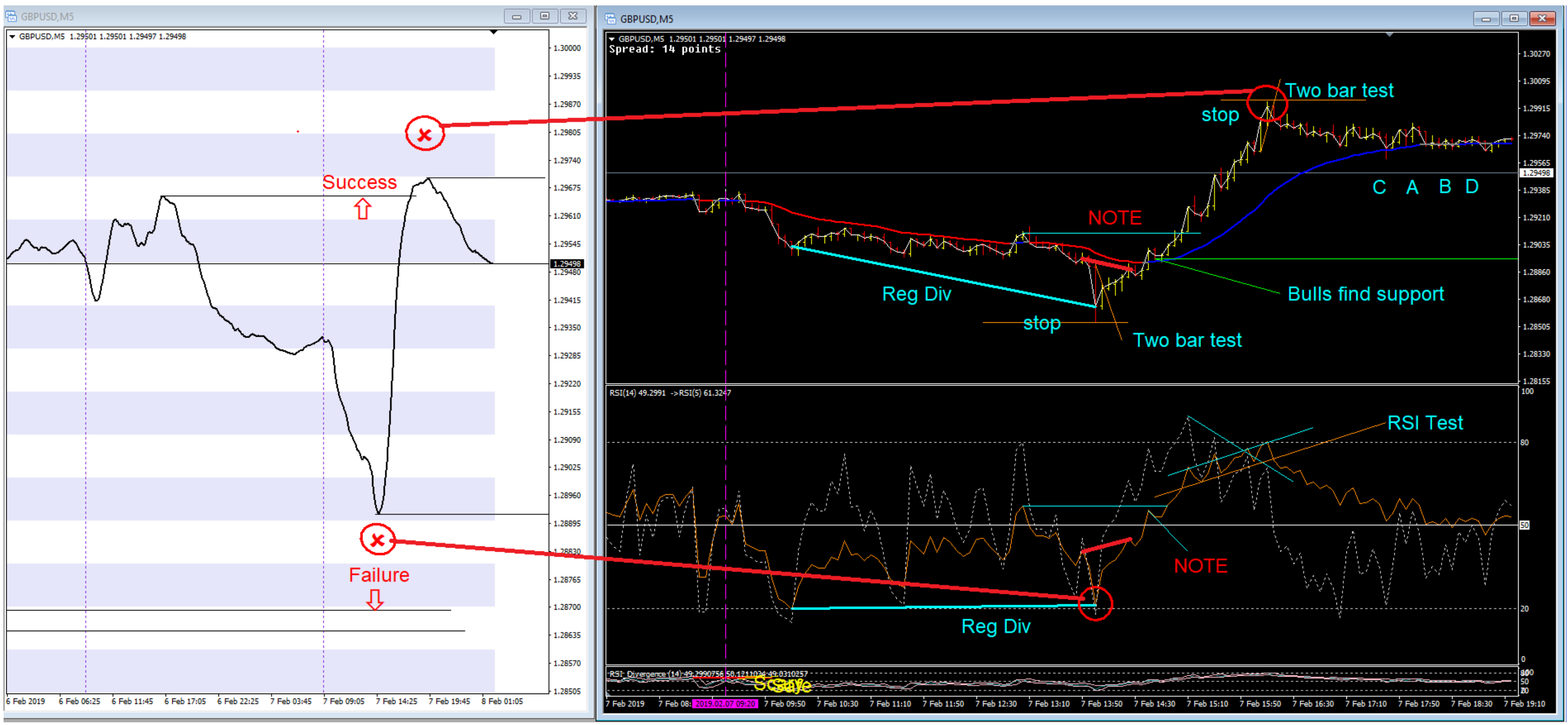
1. On the left 5min I have the EMA showing me where the swings are. The X symbol leads the EMA telling me to look for the divergence that may turn it around. The horizontal lines on the swings are the levels to be broken. When the average fails one side it tests the opposite side (which can also fail)

2. The 5 min chart on the right shows me two types of divergence at the X symbols.
   a) Type one, the lower of the two, is a regular bullish divergence and we have resolved these will take price long. In other words they change price direction, reverse it if you like to express it that way and we note the average has failed to make the next lower low. . Now this type of divergence will do one of four things...
      1) It will send price back across the EMA and the bulls will look for support which is what happened in this case.
      2) It will fail to reach the EMA and then make a lower low.
      3) It will reach the EMA and then bounce back and make again a lower low.
      4) It will run into an opposing continuation divergence (ABCD is formed)
3. So this divergence was a type a1. As regular as it gets.
4. The two bar test presented us with both the entry and the stop level. (allow for spreads) and if we are just starting the trade we enter with our 1st of three entries.
5. Now it is important to do this because we could easily be wrong so we are not going to lose much. If we think even for a minute that we can't lose then we will lose lots of money by 'thinking' instead of taking precautions. Thoughts and actions are two separate things. Now there is a difference with this entry in that we have reached all the targets plotted on both the 1 hour and the 4 hour so in this case I would have just entered on the divergence without testing getting me in much earlier. The next bar after the div often spikes down a tad so I wait for it to close, see my div is working and then place trades 2 and 3 moving the stops as close as I dare. However this is extremely risky in a volatile market

EXAMPLE 3

6. Then look what happens 30 minutes after the divergence we get that red Div which is a continuation short signal, what do we do? A) panic, B) close. C) hedge
7. The answer is when in doubt HEDGE. This is going to give you time to see what happens, locks in your current profits and removes the panic you feel.
8. So this entry at the lower div is presenting us with problems to get our three trades on. Every time we start a trade we go through the same routine of threats stressing us out. Why do this to yourselves? I here many say they got stopped out and how do I avoid this. I keep saying the answer is always simple, this trade should not have been an entry it should have been a very safe option to hedge the original short unless you have made you pips for the day, then just quit.
9. I know there are many who don't follow my money management preferring instead to get as many pips as they can for the smallest entry they feel comfortable with. Well even that method will benefit greatly from hedging the trade at the appropriate levels.
10. I also know there are many who just like to score a few pips here and there putting themselves through the same set of threats every time they take a trade.
11. This is definitely not smart and is far too risky in this volatile market.
12. If we hedge the bottom div then we have nothing to lose and all our southerly profits are locked in, We have absolutely no problems whatever the market does so we have no stress at all. Once the bulls found support we could have close the shorts and used the profits to add to now winning position of the bottom div.
13. However I see you guys are reluctant to do that and keep opening and closing trades. The only time we should be closing is when we are done for the day. We only want to go through the agony of an entry once per day, well at least I do.
14. Ok the trade now runs long and goes for a bout 150 pips, this would quadruple your account if done correctly.
15. We get to the top and start to run into RSI divs but there are a series of them we don't know which is going to work so our first reaction is to hedge the long and lock in all that profit from bottom to top. That is if we still wanted to continue trading else just close and count your money which should add up to about 5 x your account at least.

EXAMPLE 3



GBPUSD,M5
Success
Failure
Spread: 14 points
Two bar test
stop
C A B D
NOTE
Reg Div
Bulls find support
stop
Two bar test
RSI Test
NOTE
Reg Div