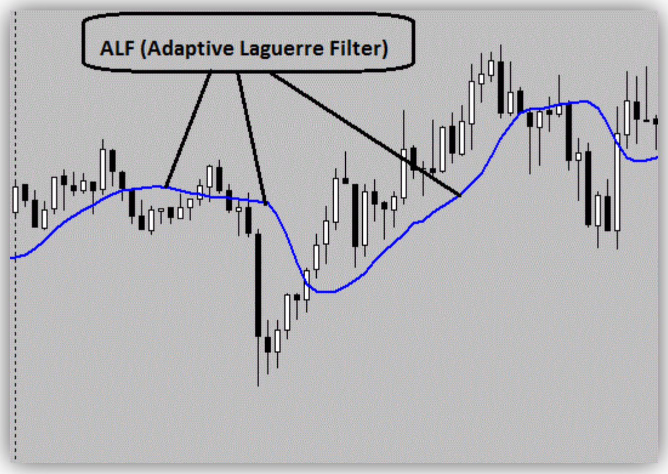
ALF/TVI - Simple, effective daytrading

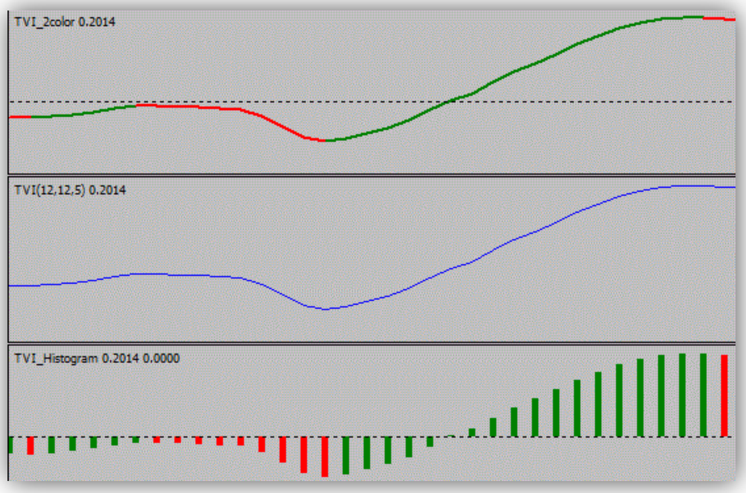
Indicators in use:

Accordingly, this method has only two indicators:

ALF (Adaptive Laguerre Filter) was created by John Ehlers, a true visionary who adapts Digital Signal Processing techniques for use in futures trading. You may want to visit his website at www.mesasoftware.com. In the Technical Papers section of the site are many interesting and free examples of his work. ALF functions as a continuously self-adjusting overbought/oversold line. Buy when price goes above the line, sell when price goes below (similar to a Stochastic except that ALF is both the 20 and the 80).



TVI (Tick Volume Indicator) was introduced by William Blau in his book "Momentum, Direction and Divergence". The book contains many other excellent indicators and delves deeply into smoothing techniques that introduce only minimal lag. TVI measures the relationship between incoming ticks for a given volume. If upticks outnumber downticks the TVI rises, and vice-versa.



Basics

I trade from about 12:00 GMT until 16:00 GMT. This period is the last 4 hours of the London market and the first 4 hours of New York. There is almost always a tradable (and profitable) move each day during this time period. Generally speaking, the first half of any of the three markets is the time most likely to be successful.

Rules (such as they are) are very simple - trade a direction change in the TVI filtered by ALF. If TVI is moving down and PA goes below ALF, sell. Reverse for long trades. TVI nearly always changes direction before PA crosses ALF so that gives time to give PA a long look and decide if the market is actually moving or only ranging. I like to see a clear, definitive break through ALF, even if it means I get to the trade late.

If ALF is horizontal and PA is cycling around ALF, it's not a good time to trade - wait for a real move to start.

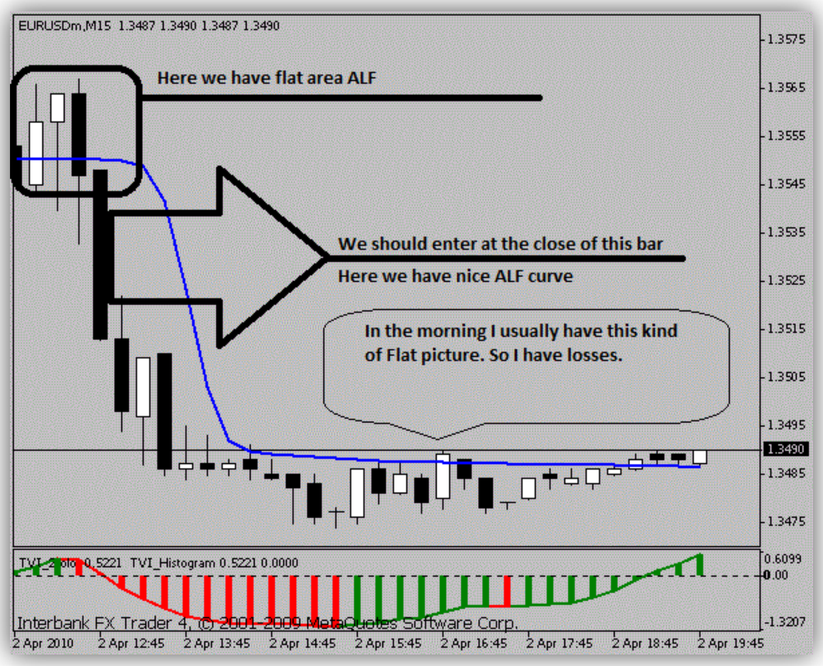
The cross of the zero line by TVI may or may not be important - several posters have mentioned this but I think the jury is still out 🙂
As with any method, you need to put in some screen time to get the "feel" of what a good trade looks like.

Timeframes are up to you but, as I said in post #1, this approach is set up for M15 to H1, maybe M5 at a stretch. I have seen no convincing evidence that it's good for scalping or interday trading.

Exits are possible when ALF and PA meet after a move, or when TVI changes direction.

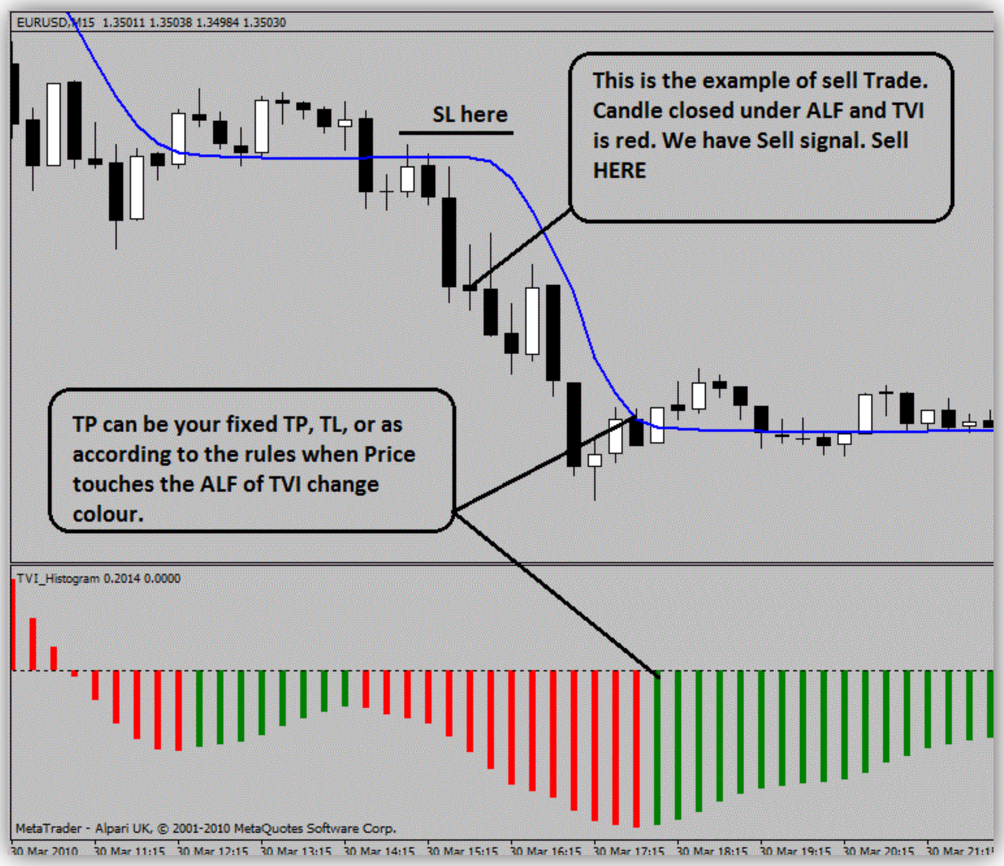
The attached chart shows both a good trade and a viable exit. There is room for an aggressive entry or a conservative one - these are pretty obvious. Exits at either the intersection of ALF/PA or the TVI direction change would have been good choices.

As you can see, the "rules" are more like guidelines - this is as it should be. I hope this helps...



BUY&SELL SIGNALS SAMPLES

SELL



BUY