- exit signals generated by impulsive/corrective wave retracement breakouts using a five minutes candlestick chart <u>or</u> by a hard stop order of 50 pips using a five minutes candlestick chart

As you can see our strategy places equal importance on entry and exit signals and this is where it greatly differs from most of the strategies out there. First of all we will show you how to recognize the market signals generated by impulsive/corrective wave retracements (see chapter 3.1). Then we will show you when to enter a trade using the market signals generated by impulsive/corrective wave retracements filtered with the 1-day based 14-period RSI momentum indicator (see chapter 3.2). Finally we will show you when to exit a trade due to either an exit signal generated by an impulsive/corrective wave retracement <u>or</u> by a hard stop order of 50 pips (see chapter 3.3).

## 3.1. Market signals generated by ICWR

Before starting to apply the Intraday ICWR Trading Rules, the first thing to do is to recognize from the candlestick chart the actual candidate for being an impulsive or a corrective wave. This candidate we will call from now on the **active wave**. How to recognize the active wave from the candlestick chart is shown in chapter 3.1.1.

After having recognized the active wave we apply the Intraday ICWR Trading Rules. Based on these rules our strategy generates bullish or bearish signals that can be used for entering as well as exiting the trade either on a long or a short side. How to apply the Intraday ICWR Trading Rules once an active wave is recognized is shown in chapter 3.1.2.

### 3.1.1. Recognition of the active wave

The active wave is the nearest market movement to the actual time of our trading with a **height greater than 40 pips**. In order to find the active wave from the candlestick chart the following steps are to be done:

First identify all possible upward and downward waves that seem to be close to or greater than 40 pips on the candlestick chart as shown in Figure 3.1.
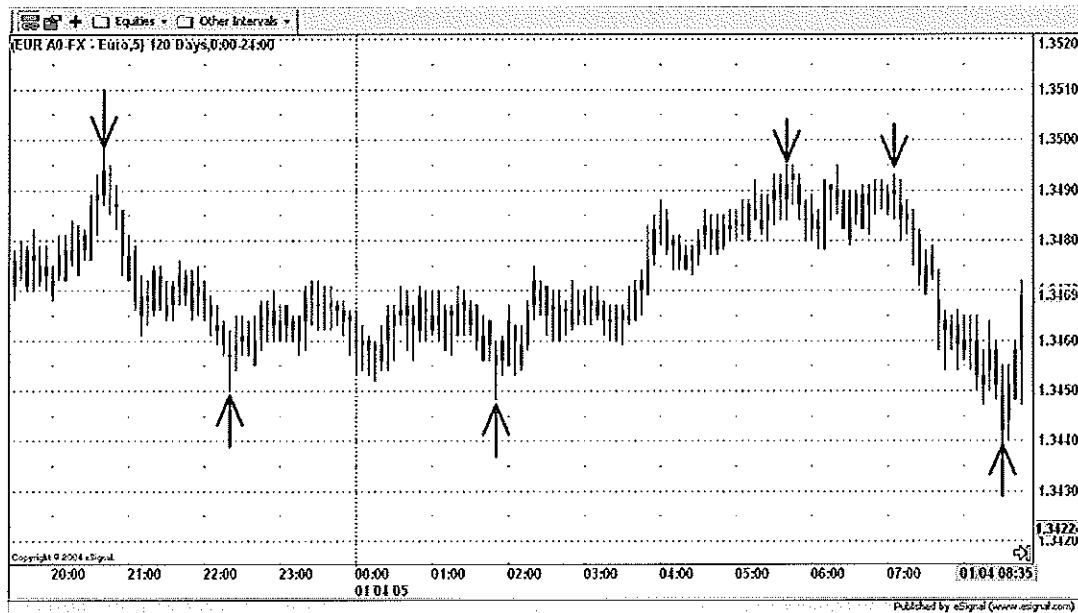
42

**Figure 3.1.**

Then draw the waves, connecting the extreme values of the starting and the ending point as shown in Figure 3.2. If the wave goes downwards we are going to connect the high value of the starting point with the low value of the ending point. Else if the wave goes upwards we are going to connect the low value of the starting point with the high value of the ending point.
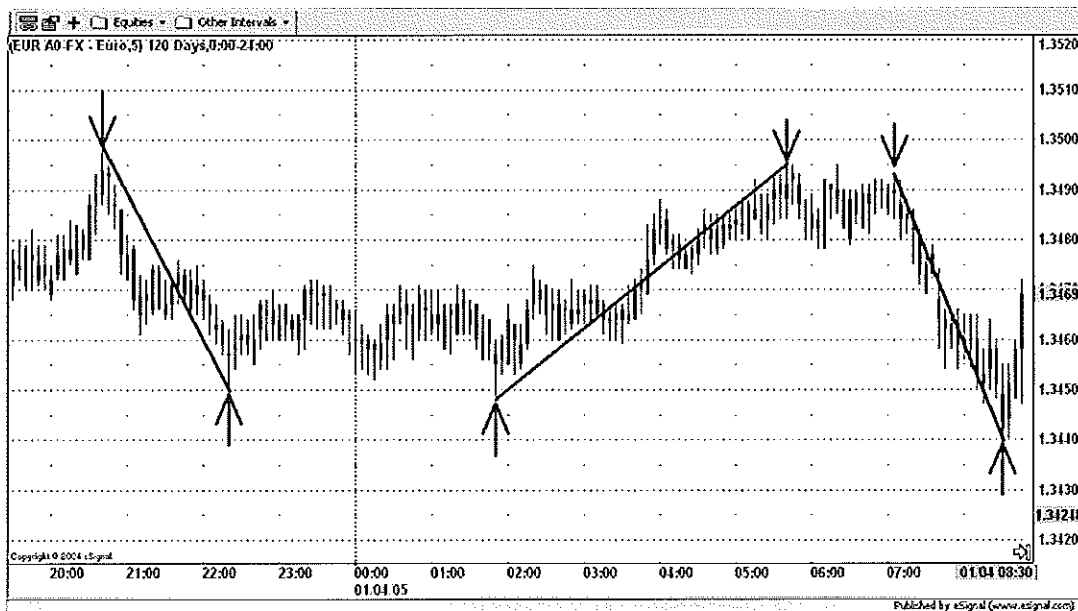


**Figure 3.2.**

Enumerate the waves starting with the nearest wave to the actual time as shown in Figure 3.3. Please notice that the actual time is always at the right of the candlestick chart.
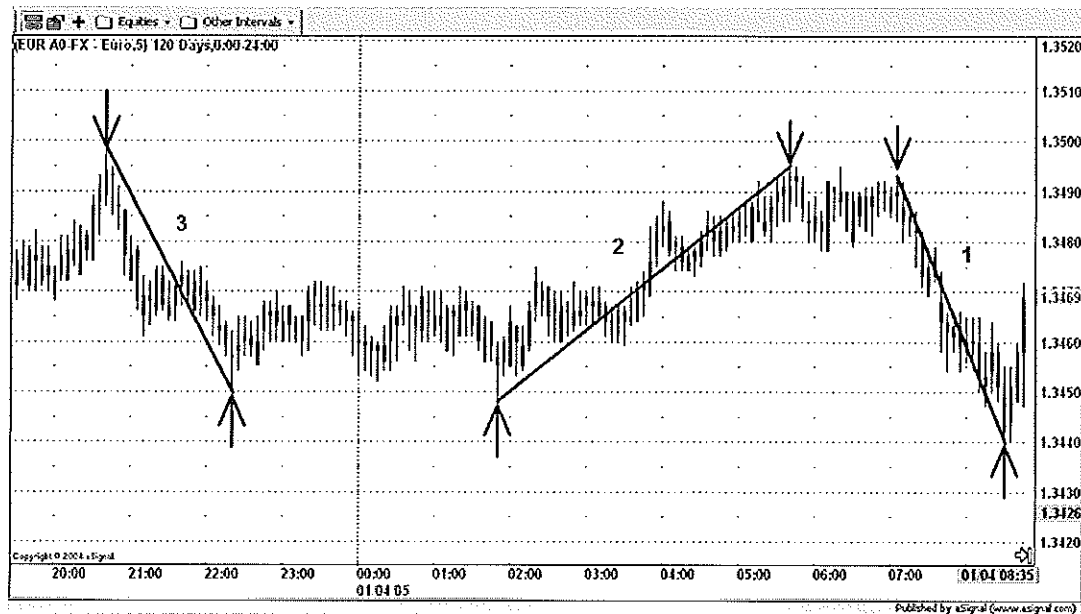
43

**Figure 3.3.**

Afterwards read the extreme values of each wave and calculate its height.

Wave 1:

High = 1.3493; Low = 1.3439;

Height = High – Low = 1.3493– 1.3439= 0.0054 = 54 pips

Wave 2:

High = 1.3495; Low = 1.3448;

Height = High – Low = 1. 3495– 1. 3448= 0.0047 = 47 pips

Wave 3:

High = 1.3499; Low = 1.3450;

Height = High – Low = 1. 3499– 1. 3450= 0.0049 = 49 pips

Finally identify the nearest movement to the actual time position with a height equal or greater than 40 pips. In this example it is the wave 1. This is now the active wave (see Figure 3.4).
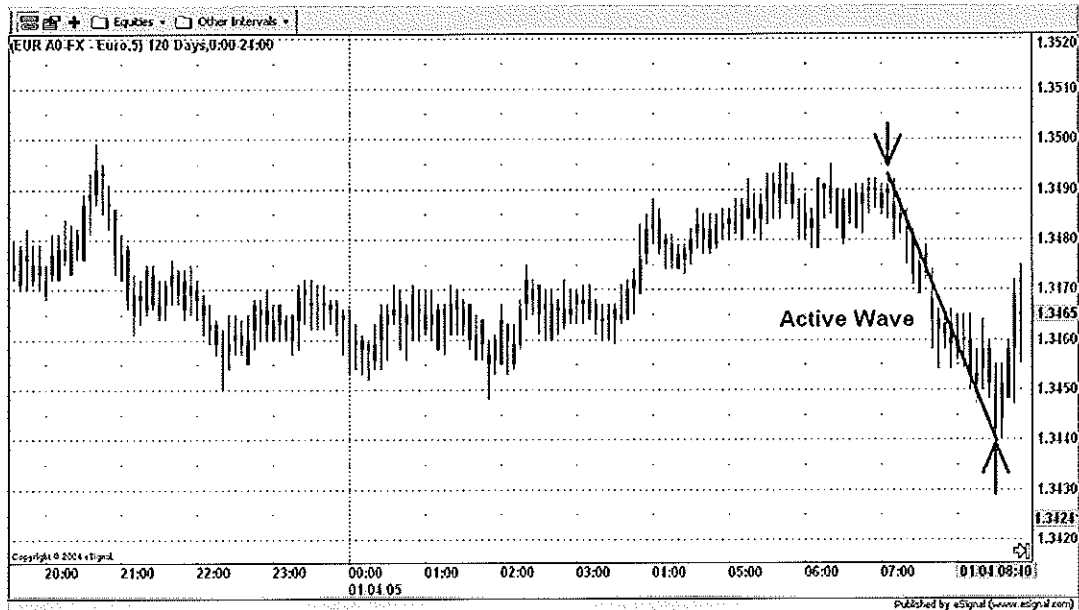
**Figure 3.4.**

If none of the waves has a height greater than 40 pips you have to go further in the past until the active wave is found.

As the time goes on a new movement with a height greater than 40 pips will occur. In that case the previous active wave gets inactive, and we get the new active wave (see Figure 3.5).
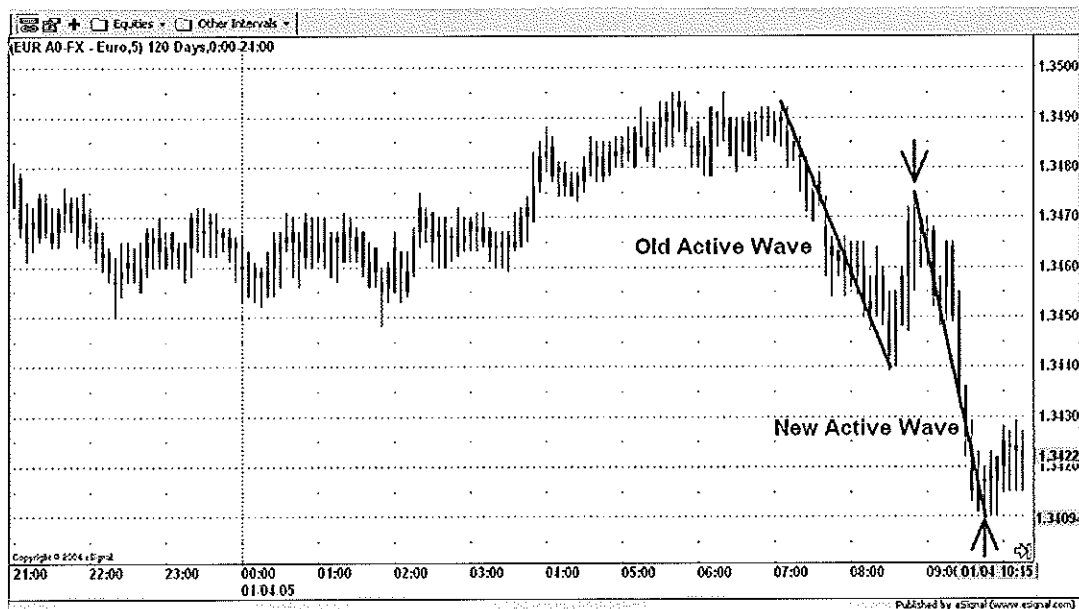


**Figure 3.5.**

45

### 3.1.2. Applying the Intraday ICWR Trading Rules to an active wave

Every time a new active wave is recognized the Fibonacci levels are to be drawn (see Figure 3.6). We will draw only the 0.000, 0.250, 0.382, 0.618, 0.750 and 1.000 levels. The level 0.000 is defined by the lower extreme value, the level 1.000 by the higher extreme value. The Fibonacci levels start at the ending points of the wave. Most of the software packages will do this automatically for you, however if your software doesn't have such a feature you can do it manually. In the example below you would subtract the low value from the high value (1.3317 – 1.3257) and you would get a height of 0.006 or 60 pips. You would then use the following formulas to get the Fibonacci levels.

0.25 Level = Low Value + 0.25 * Height

0.25 Level = 1.3257 + 0.25 * 0.0060 = 1.3272

0.382 Level = Low Value + 0.382 * Height

0.618 Level = Low Value + 0.618 * Height
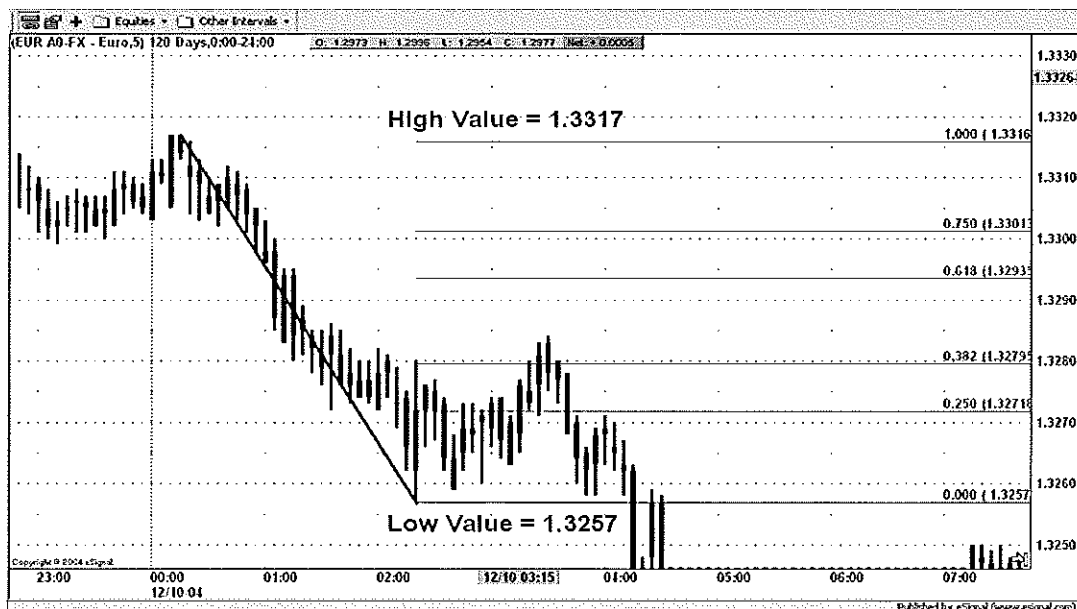
0.75 Level = Low Value + 0.75 * Height



Figure 3.6.

The level 0.382 defines the **lower retracement level**, the level 0.618 the **upper retracement level**. The **retracement channel** is the channel between the upper and the lower retracement levels:
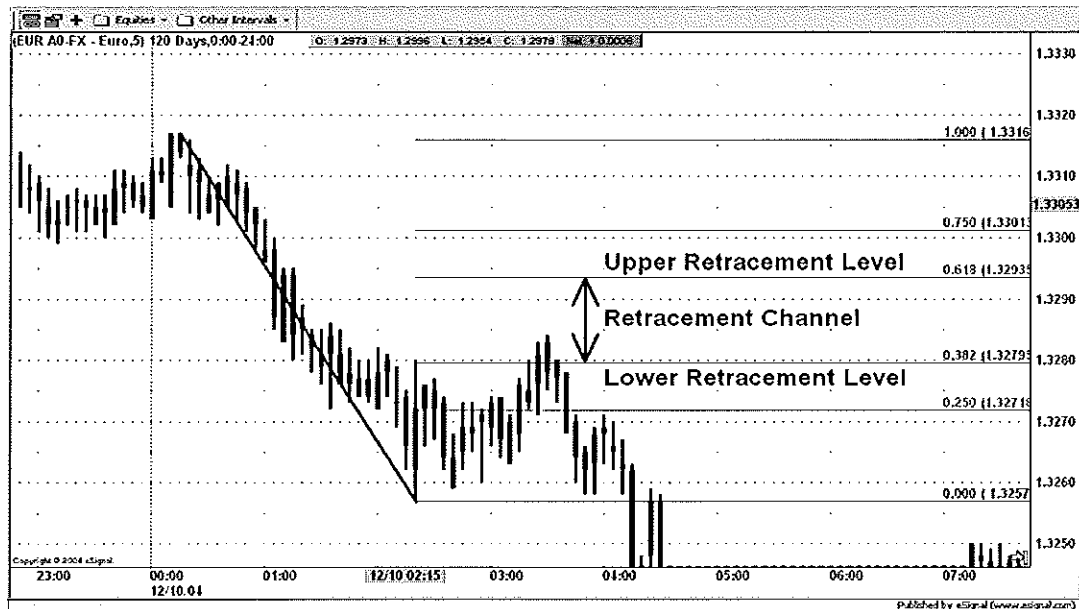


**Figure 3.7.**

The level 0.250 defines **the lower confirmation level**, the level 0.750 defines the **upper confirmation level**:
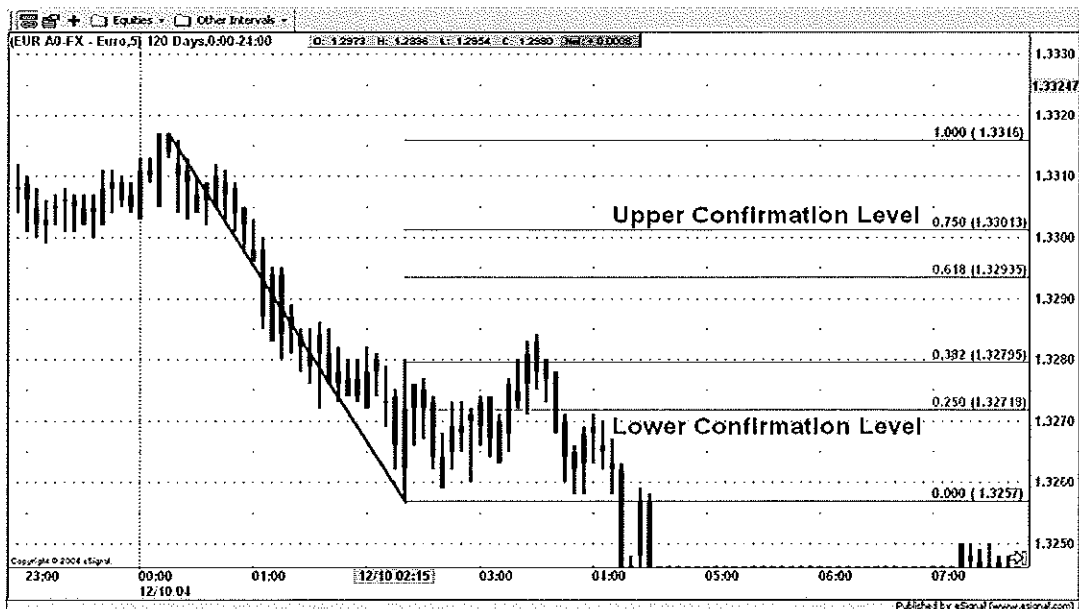


**Figure 3.8.**

The levels 0.000 and 1.000 have no trading relevance. They are only drawn for confirming that the Fibonacci levels are drawn properly.

The Intraday ICWR Trading settings are done, now we need to see what the market is telling us. First we will concentrate only on the retracement channel. We wait until the retracement channel is triggered. Only then we can use the confirmation levels.

**The retracement channel is triggered when the closing price of a candlestick is inside of the retracement channel.**
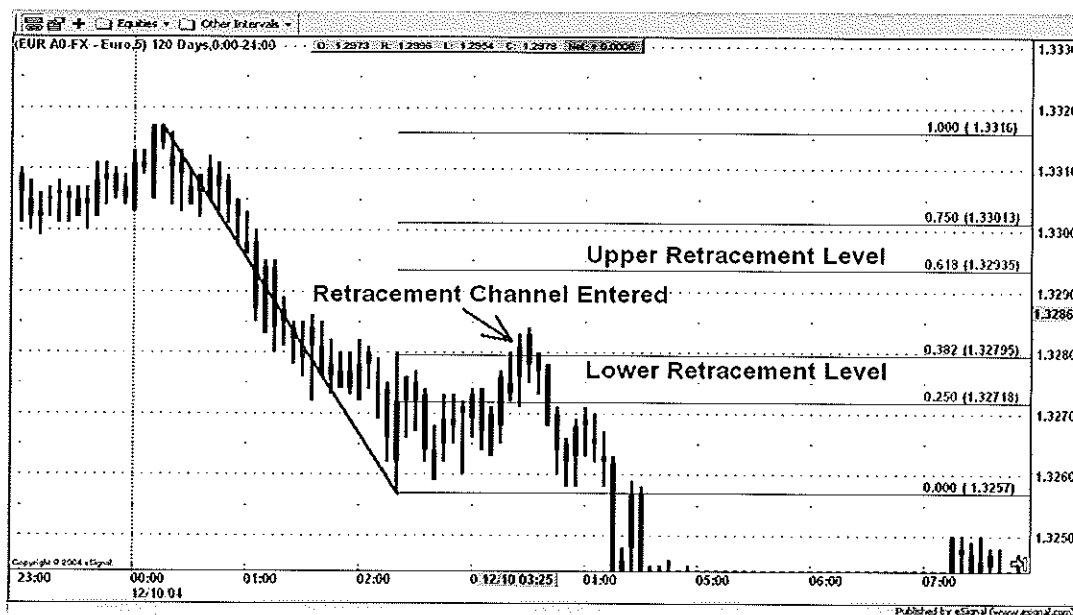


**Figure 3.9.**

Once the retracement channel is entered we will forget about it and concentrate only on the confirmation levels. The following four cases are now possible:

**Case 1. "Downward impulsive wave"**
If the active wave goes downwards and the whole candlestick goes below the lower confirmation level (0.250) we identify that wave as an impulsive wave. According to the chapter 1 the impulsive waves go in the direction of the market trend. As the trend of the wave is bearish (as it goes downwards) it is giving us the information that the actual market trend is also bearish. This is a bearish signal. Such a bearish signal is shown in the Figure 3.10. below.
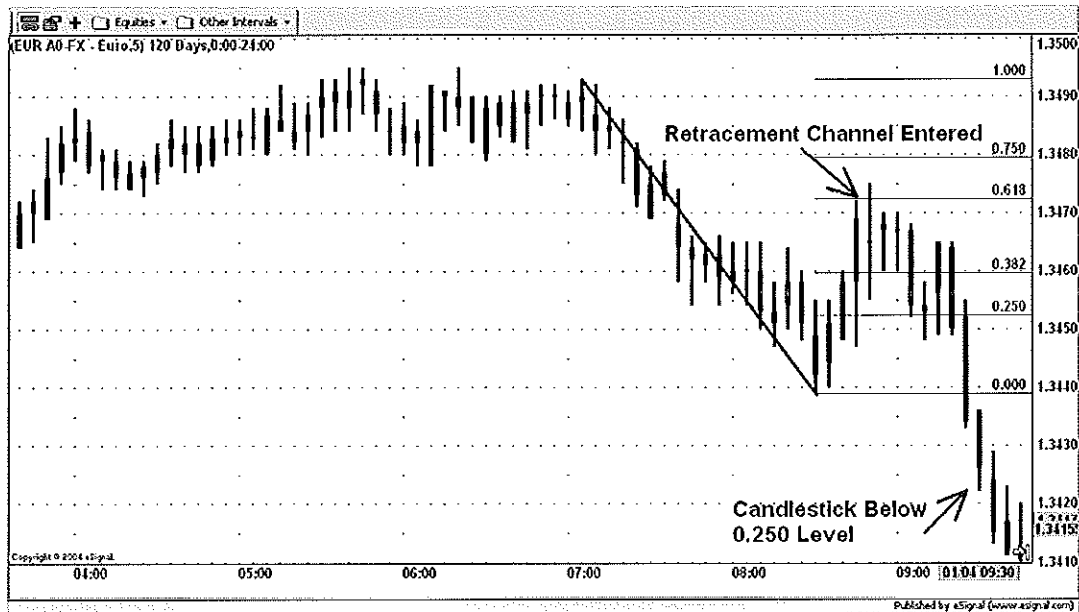
**Figure 3.10.**

Please remember that when we say that the candlestick is below the lower confirmation level, we actually mean that the **whole** candlestick is below the lower confirmation level. This is shown in the Figure 3.11. below.
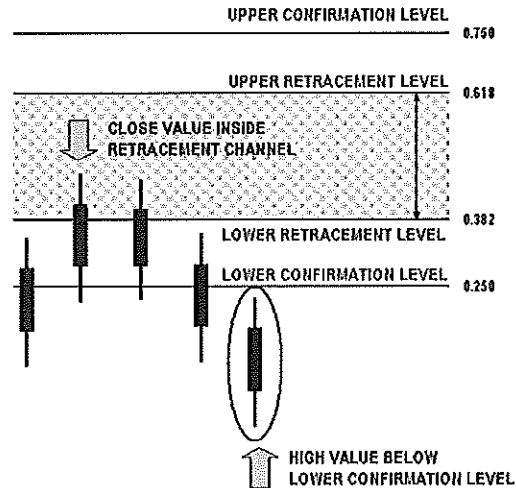


**Figure 3.11.**

## Case 2 "Upwards impulsive wave"

If the active wave goes **upwards** and the **whole** candlestick goes above the upper confirmation level (0.750) we identify that wave again as an impulsive wave. According to the chapter 1 the impulsive waves go in the direction of the market trend. As in this

case the trend of the wave is bullish (as it goes upwards) it is giving us the information that the actual market trend is also bullish. This is a **bullish** signal.
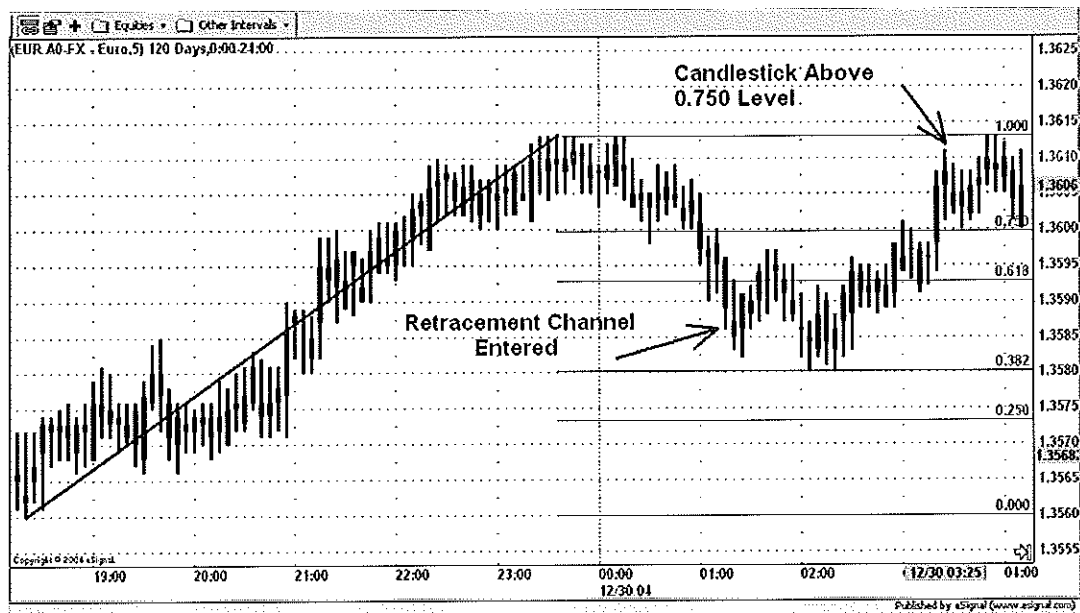


**Figure 3.12.**

## Case 3 "Downwards corrective wave"

If the active wave goes **downwards** and the **whole** candlestick goes above the upper confirmation level (0.750) the active wave is a corrective wave. According to the chapter 1 the corrective waves go against the direction of the market trend. As in this case the trend of the wave is bearish (as it goes downwards) it is giving us the information that the actual market trend is opposite to the trend of the active wave and therefore bullish. This is a **bullish** signal. Such a bullish signal is shown in the Figure 3.13. below.
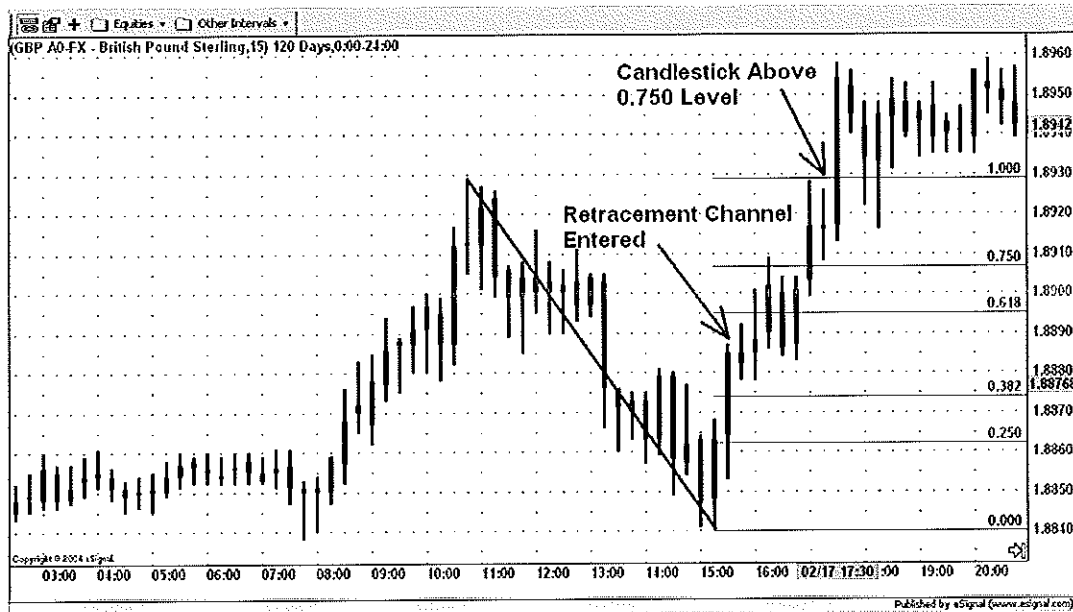
50

**Figure 3.13.**

## Case 4 "Upwards corrective wave"

If the active wave goes **upwards** and the **whole** candlestick goes below the lower confirmation level (0.250) the active wave is a corrective wave. According to the chapter I the corrective waves go against the direction of the market trend. As in this case the trend of the wave is bullish (as it goes upwards) it is giving us the information that the actual market trend is opposite to the trend of the active wave and therefore bearish. This is a **bearish** signal.
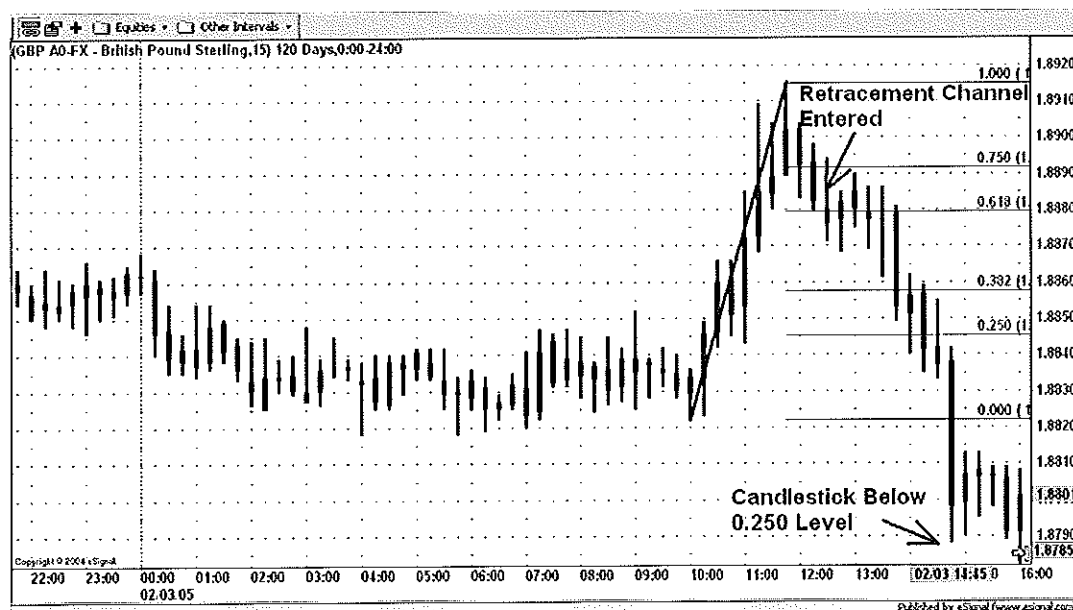


**Figure 3.14.**

51

Ok, we know this stuff is a little bit complicated. But don't be discouraged! Things, will become more clear for you now. We will now explain to you again in the most simplest manner the rules for recognizing bearish or bullish signals. That means, what in the end you have really to understand for trading.

In our strategy there are two different bullish signal scenarios and two bearish signal scenarios.

A bullish signal occurs if the active wave is recognized as a **downward corrective wave** (see Figure 3.15. below). That means the active wave was downward and the whole candlestick was found above the upper confirmation level (0.750).

A bullish signal also occurs if the active wave is recognized as an **upward impulsive wave** (see Figure 3.15. below). That means the active wave was upward and the whole candlestick was found above the upper confirmation level (0.750).

A bearish signal occurs if the active wave is recognized as a **downward impulsive wave** (see Figure 3.15. below). That means the active wave was downward and the whole candlestick was found below the lower confirmation level (0.250).

A bearish signal also occurs if the active wave is recognized as an **upward corrective wave** (see Figure 3.15. below). That means the active wave was upward and the whole candlestick was found below the lower confirmation level (0.250).

Please note that each time we need to make sure that the retracement channel has been entered. This is quite obvious for the corrective waves but not for the impulsive waves. So please pay attention to it.