DAY TRADING SYSTEM / METHODOLOGY (DTS/M)

The aim of this document is to formally document this trading system/methodology as well as allowing invited readers to use it in it's entirety or it's constituent parts as a template to consistent gains in any liquid market. The document should be read in conjunction with the brief accompanying *Identifying Support & Resistance* doc, and *DTS&M Examples* doc.

Remember that your first task as a trader is to preserve capital, Secondly to grow that capital, then thirdly to become a better trader gaining experience and knowledge from each trade you make.

Consistency is the key to longevity in any market. Professional traders wait for the probability of a successful outcome to be substantially weighted in their favour. …..taking their money when a confluence of technical conditions line up that suggest a high probability trading opportunity.

Introduction to the trading system/methodology

With this *Day Trading System/Methodology* you have at your disposal a soundly based proven tactical approach to the market, capable of delivering attractive gains. The System/Methodology however demands of the user his attention and engagement, not least initially in memorising the indicator based set-ups (not rocket science) then for the highest probability outcome;, acting on them only at areas he can clearly identify as potential Support/Resistance/SBR/RBS (per the Identifying *Support/Resistance* doc,) such a set-up at potential Supp/Res/SBR/RBS confirmed by individual price action.

The user has to stay engaged with the market in keeping track of the overall price action trend on the higher trend time frame, and in updating his appreciation of prevailing support and resistance, and potential SBR/RBS zones on the intermediate time frames+ as they might develop. It is this active engagement that ensures that set-ups are acted on only in the highest probability circumstances, ie Re-entry set-ups when there is a trend to re-enter at an area of potential SBR/RBS –and- Reversal set-ups at identifiable potential Support/Resistance.

This trading system/methodology analyses price across 3 time frames. The *immediate / trigger*, (hereinafter called the *trigger* time frame) the *intermediate*, and the *higher/trend* (hereinafter called the *trend* time frame.)

My personal preference is to use the 1min, 5min and 30min as the trigger, intermediate and trend time frames respectively. The 1min chart is a very noisy chart but it can give a good number of trading opportunities each day. [The Trading system/methodology can be used on longer time frames such as 1hr/4hr/daily or indeed 4hr/daily/weekly, or daily/weekly/monthly for longer time frame trading.]

The aim in utilising the lower intraday time frames is to find high probability entry points into the market at swing points that may or may not coincide with swing points on the intermediate and trend time frame charts+, by filtering out the noise. I.e: intraday swing points. Of course if these swing points coincide with swing points that can be identified on charts extending past the trend time frame chart, in my case on 1hr+ so much the better in terms of potential targets. (I will cover this later in this document.)

This underpinning 3 time frame approach is based upon, and is an obvious evolutionary step of Dr. Alex Elder's methodology (*Come into my Trading Room* etc...) who looks for set-ups on the intermediate in the direction of the trend time frame, with entry fine tuned/timed on the trigger time frame chart.

I have identified a combination of technical indicators some widely available and some custom built, that when combined and set-up in a certain way clearly highlights that a favourable outcome was more likely than not, over any given sample of their set-ups, at areas of potential or proven Support/Resistance/SBR/RBS, confirmed by individual price action (candlesticks.)

The essence of the system/methodology is Support/Resistance and Price Action. Conceivably no indicators are necessary, but there is no question that certain soundly based repeatable technical indicator patterns can assist in filtering out noise on the lower time frames, providing an extra degree of confidence in the trading opportunity.

Before I cover the chart set-ups and indicators used, let me first talk a little about the underlying principles that comprise the overall system/methodology.

They can be neatly categorised into what I call the *4 cornerstones* of a trade set-up. They are the essential components of any set-up;

1. Support /Resistance and the technical phenomenon of *Support becomes Resistance* (SBR) and *Resistance becomes Support* (RBS.)
2. Band/Channel deviation/extreme deviation
3. Oscillator divergence from price/extreme readings
4. Price action (overall price action and individual price action)
It is the combination of these factors that provide the 'trading edge.'

They are further described below;

1. Support/Resistance.

If I had to indicate what I thought was the most important phenomenon in technical trading it would be Support and Resistance and price's behaviour around it/overall price action.

All markets have levels within them where market participants adjudge Support/Resistance to reside. Forex is a 24hr market without a centralised exchange so the traditional methods of identifying potential Support/Resistance like floor pivots can be unreliable in their exclusivity. Support/Resistance can be provided by a variety of factors, from Previous price swing hi and lo areas to Fib retracement / extensions (expansions) to Daily/Weekly S/R pivots, and Trend Lines.

Third party market analysts will also suggest where Bids/Offers lie in the market, and although most retail brokers will not show the extent of bids/offers in the market, or at least the 'depth' of their book, a good ECN may go some way toward this.

In essence what I look for are the areas that the market may consider will provide Support/Resistance and preferably where these different factors indicating such coincide. Ie a *cluster* area of Support/Resistance where sufficient market participants/volume of orders are likely to react. Individual price action itself will confirm where the market thinks Support/Resistance actually resides, and is the purest indicator in this respect.

I am looking to identify in the intraday market the areas where sufficient market participants/volumes are likely to act. Once these areas have been pre-identified, I then look to keep abreast of these areas as price moves in the dynamic market.

As mentioned, market participants use many different measurements of potential Support/Resistance....It follows therefore that if for e.g. a Reversal set-up presents itself at a level that encompasses Daily R1/38.2% fib/offers/former swing lo...i.e.: a cluster of resistance, then more market participants are likely to react than if say there was just the Daily R1 pivot.

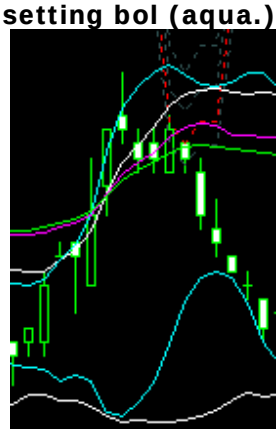
The accompanying doc *Identifying Support/Resistance* deals with an effective simple mapping technique for identifying Support/Resistance in the intraday market that enables the cluster (potentially strongest) areas to be seen at a glance.

The *cornerstones/component parts* numbered 2, and 3, below represent the basis of the technical indicator based techniques/patterns that are known to repeat at regular intervals.

2. Deviation/Extreme Deviation in price.

There are several technical measures of volatility in the market, volatility being a measure of the extent of price movement. Bollinger bands are a measure of volatility being a Hi and Lo band plotted around 2 standard deviations of a moving average. When a market is trending it is always deviated from it's average/moving average, and it follows therefore that when a market becomes extremely deviated from it's average/moving average then a pull back can be expected toward it's average/moving average at some point.

The example below shows that price is deviated from 3 of the 4 Bollinger bands seen, and indeed a whole bearish reversal candle closes outside the 60 (lime) 40 (pink) and 20 (white) and straddles the shortest of them, the 10 setting bol (aqua.)



Price is therefore extremely deviated from it's averages.

The example below shows again a whole reversal candle closing outside the 20bol, and this and the above is a common occurrence. It is rare to see a whole reversal candle close outside the 10bol, but not entirely uncommon.

Think of the middle line (the moving average) of the Bollinger band as a piece of elastic that when caused by price deviation to reach it's maximum point of elasticity is likely to cause price to snap back inside the upper or lower band.

The default 20 period, 2 standard deviations setting of Bollinger bands contains 90-95% of price action within it so if price exceeds it's upper and lower ranges a 'snap back' inside the extreme hi or Lo band toward it's moving average can be expected at some point, as in the example above

The technical set-ups that comprise the *trading edge* are partly based around the pattern that the Bollinger bands make when price deviation / extreme deviation occurs.

3. Oscillator Divergence from price / Oscillator Extreme readings.
Most technical indicators look back to calculate their present value and as such are 'lagging indicators.' The only way to use a lagging indicator as a potentially leading / predictive indicator is when it diverges from the price action. It is oscillator extreme readings / divergence [both hidden (reverse) and regular divergence] that forms the third cornerstone / component of this trading system / methodology.

Oscillators measure momentum, so any divergence from price action in such an indicator suggests an exhaustion of the current price action direction and momentum.

The technical set-ups that comprise the *trading edge* are, along with the Bollinger band patterns, based around the oscillator divergence / extreme readings patterns.

There are different patterns of oscillator divergence, some potentially stronger than others, and they are broadly classed as:

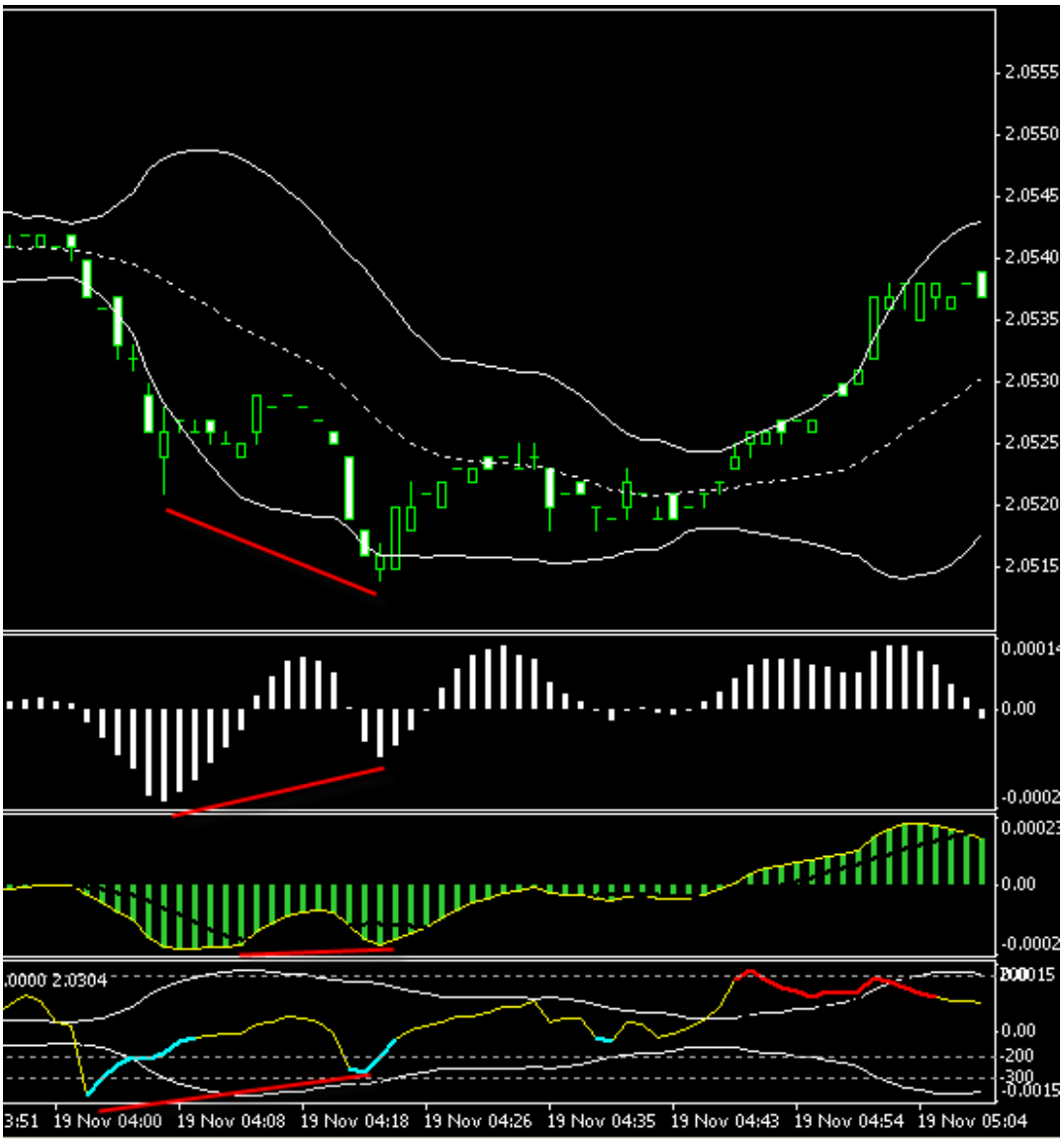
i. *Regular divergence*, which can indicate a reversal / pullback in current price action.
ii. *Hidden* (sometimes called *Reverse*) *divergence* which can indicate a continuation in a trend following a pullback possibly highlighted by Regular divergence.

These can be further sub-divided as:

a. Regular immediate [separate oscillator peak / valley] divergence
b. Regular immediate [within same oscillator peak / valley] divergence
c. Regular sequential divergence
d. Hidden (reverse) divergence
e. Oscillator extreme readings.

They are explained further below;

a. Regular immediate (separate peak/valley) divergence.



The regular divergence shown above is of course Regular immediate separate valley Bullish divergence that can occur in an downtrend/range. (this occurred in both Osma, [the lead oscillator,] and Macd and CCi

Notice that in Osma, there are no intervening valleys between the 2 shown at either end of the red diagonal line and that the second valley was higher than the first whilst price was lower. This is the essence of regular bullish divergence.

The example below is Double Regular immediate Bullish separate valley divergence in the Osma

Double or triple regular immediate / sequential separate peak / valley divergence is potentially a stronger divergence from price.

The following example shows Regular immediate separate peak Bearish divergence in Osma that can occur in an uptrend / range.

Notice that in Osma, there are no intervening peaks between the 2 shown and that the second peak was lower than the first whilst price was higher. This is the essence of regular bearish divergence.

I.e.: Taking this uptrend example, price is making higher highs (from higher lows) but the Osma makes a separate lower high peak than the immediate last one. The Macd makes a same / separate peak regular immediate divergence at same time.

Shown below is Regular immediate separate peak Bearish divergence in Osma when price makes an equal high (double top.)

b. Regular immediate (same peak/valley) divergence.

This is exactly the same as the above explanation of regular divergence except that the divergence is clearly visible in the same peak/valley of the oscillator. I.e. The oscillator has not crossed it's zero axis and back again to form a new peak or valley.

This is of course Regular same valley bullish divergence in the Osma. Shown below is Regular same peak Bearish divergence in the Osma.

Regular same peak/valley divergence in Osma is only valid in 2 set-ups.

i. the Reversal Extreme ii
ii. the Re-entry (to trend) type 2

more on these later in this document.

***c. Regular sequential divergence*.**

This occurs when the divergence in the oscillator between peaks / valleys are separated by other peaks / valleys that may not show divergence with the one being created at the potential Support / Resistance by the immediate price action, but there is divergence in the overall oscillator sequence with price.

The example below shows Regular sequential separate valley Bullish divergence in Osma that can occur in a downtrend / range.

Note how there is divergence from price between the valleys 1 and 3 but not between valleys 2 and 3….overall though the sequence of the oscillator valleys is diverged from price, ie between valleys 1 and 3.

The example below shows the opposing Regular sequential separate peak Bearish divergence that can occur in an uptrend / range.

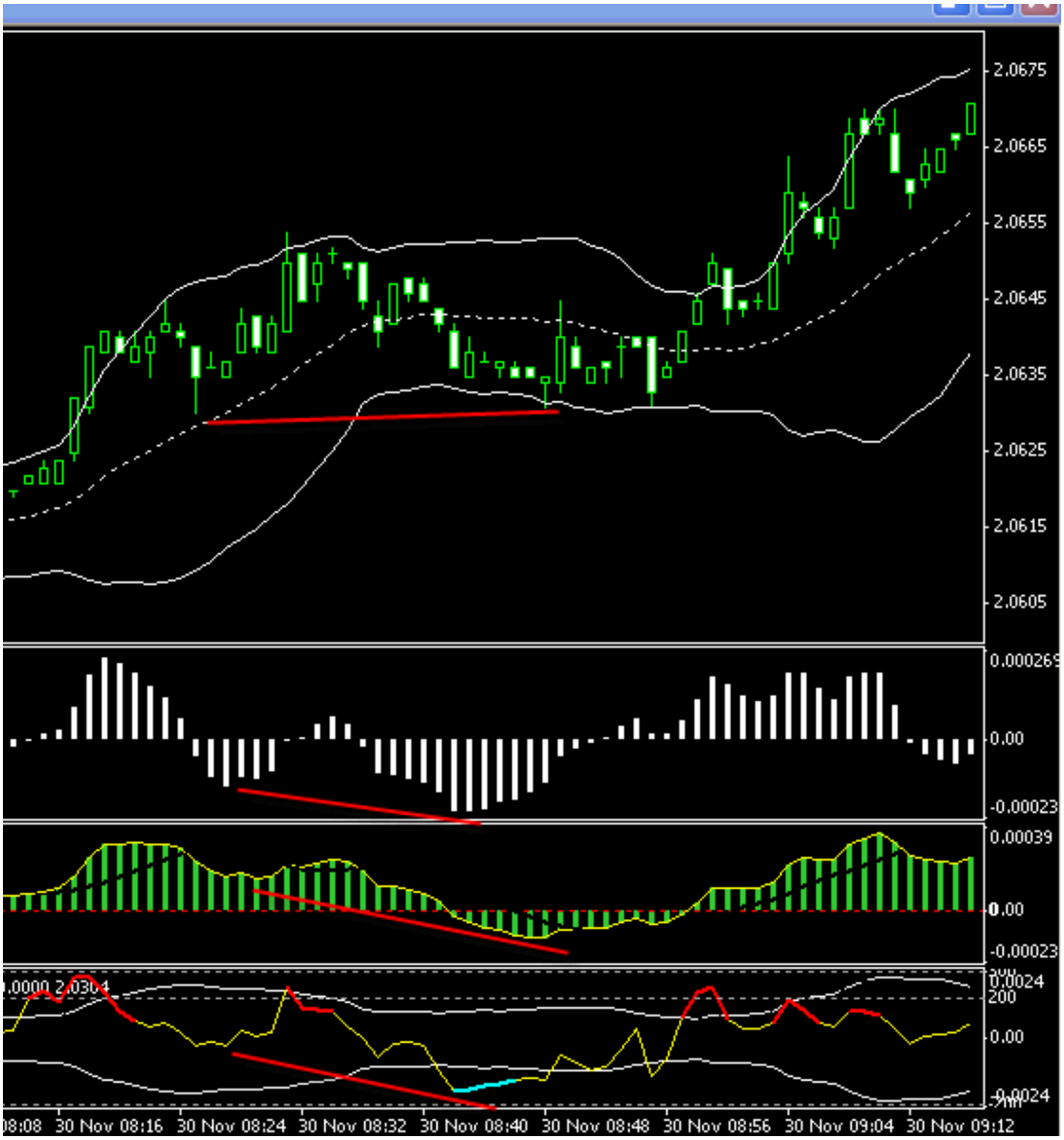

1.7345
1.7335
1.7325
1.7315
1.7305
1.7295
1.7290
1.7285
1.7275
1.7265
1.7255
1
0.000422
3
0.00
2
-0.00043
0.00057
0.00
-0.00056
0.0038
200
0.00
-200
-0.0038
11:20
17 Oct 11:28
17 Oct 11:36
17 Oct 11:44
17 Oct 11:52
17 Oct 12:00
17 Oct 12:08
17 Oct 12:16
17 Oct 12

For regular sequential divergence to be valid there should really only be 3 a maximum of 3 peaks or valleys involved on the Macd (1, 2 and 3,) the sequential divergence measured between 1 and 3.

d. *Hidden (reverse) immediate divergence.*

The example shown below is of course Hidden immediate Bearish divergence in a downtrend. Using a down trend example, price is making lower lows (from lower highs) but the oscillators make a higher peak than the immediate last one, in a pullback.

Shown below is the opposing Hidden immediate Bullish divergence that can occur in an uptrend. Price is making an equal or higher swing low following a pullback in trend, but the oscillator is making a lower swing low.

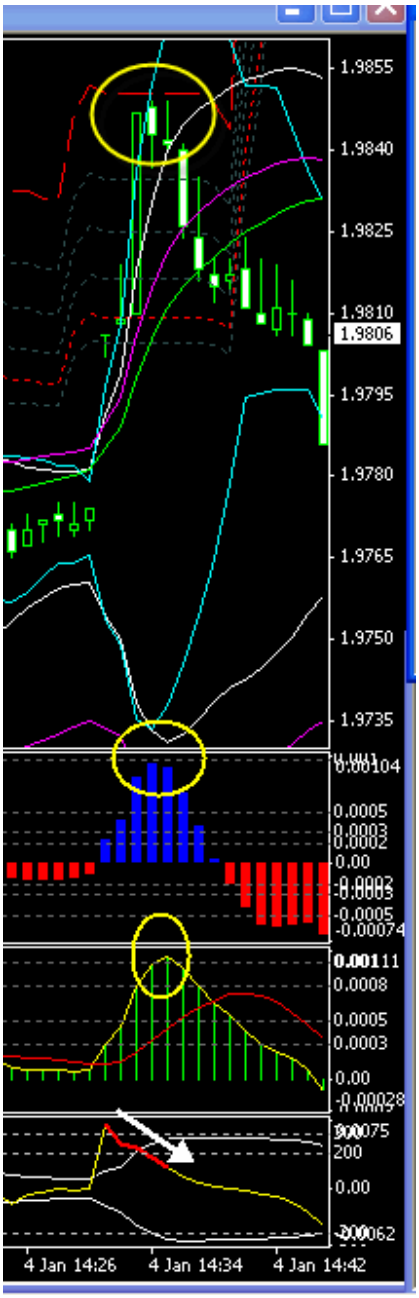


In essence this was a double test of RBS.

For hidden divergence to be valid, price should be at a higher / equal swing low in an uptrend, (like the example above) or indeed at a lower / equal swing high in a downtrend on the time frame it sets-up on.

e. *Oscillator Extremes.*

The example below shows the oscillators at extreme readings in an uptrend.



Extreme oscillator readings can occur in an uptrend, downtrend or range and generally indicates that price is overbought or oversold on the time frame on which it occurs.

Generally speaking the CCi oscillator will have 'hooked' back from an extreme reading outside it's own bol, and in effect be showing regular same peak/valley divergence when the other 2 oscillators (Osma and Macd) reach an extreme. This is clear in the example above.

So those are the types of oscillator divergence from price / extreme readings. The highest probability patterns of divergence across any extended sample are;

a. Regular immediate separate peak/valley (Reversal set-ups)

-and-

b. Hidden immediate separate peak/valley (Re-entry to trend.)

-followed by-

c. Regular sequential divergence.
This is still a valid pattern of divergence and used with other the other 3 cornerstones/components of this system/methodology can still highlight a high probability set-up.

This trading system/methodology identifies very clearly the strongest patterns of divergence that when combined with the 3 other 'cornerstones/components' indicate the highest probability set-ups.

Generally speaking Regular immediate / sequential divergence is used as part of a set-up that is reversing against the immediate price action on the t/f on which it appears and at least the one above that.

Hidden (reverse) divergence helps to highlight possible high probability areas at which to re-enter the trend prevailing on the higher trend time frame, following a pullback.

This distinction between Regular and hidden divergence is very important.

Oscillator extreme readings suggest overbought or oversold conditions on the time frame on which they appear, but we know that when a market is trending these oscillator readings will stay at overbought or oversold levels. Oscillator extreme readings only really become valid at areas of potential Support/Resistance.

4. Price action.
Price is the most efficient/purest indicator upon which everything else is calculated.

Price action analysis can be divided into

- **a. *overall price action* analysis (peak/valleys)**
- **b. *individual candlestick price action* analysis.**

a. Through overall price action, you need to be able to recognise when your intermediate/trend time frames are trending or ranging/consolidating. Classic Peak/valley price action analysis is the key to this analysis.

A time frame is trending when a succession of obvious higher swing highs (HH) and higher swing lows (HL) results in an uptrend, with the opposing lower swing highs (LH) and lower swing lows (LL) occurring in a downtrend.

The 1hr chart example below shows a typical downtrend in price action through a succession of lower swing highs (LH) and lower swing lows (LL.)

A typical uptrend on any time frame would of course see clear higher swing lows (HL) and higher swing highs (HH.) See chart below;

A trend on any time frame is said to be in question when, continuing with a downtrend example, the last LL then last LH of the downtrend is exceeded to the upside, from an area of support, directly or following an HL from it's lowest point.

This is shown in the example below; a downtrend of lower highs and lower lows was in place on this time frame, until an equal high (EqH) to it's last LH from support found at it's lowest point was then succeeded to a HH following a HL indicating that the down trend on this time frame could be at an end for now. Indeed a 2nd Higher Low (HL) resulted in a second Higher High, (HH.) establishing then a new uptrend.


LH
LL
LH
EH
HH
HL
LL
HL
HH
2.0645
2.0605
2.0565
2.0525
2.0485
2.0445
2.0405
2.0365
2.0325
2.0285
2.0245
2.0205
2.0165
4 Dec 12:00
5 Dec 04:00
5 Dec 20:00
6 Dec 12:00
7 Dec 04:00
7 Dec 20:00
10 Dec 12:00
11 Dec 04:00

In the further example below, this time an uptrend composed of classic HH's and HL's was quickly reversed by a Lower low (LL) than the last HH and HL of the uptrend before a further Lower High (LH) and Lower Low (LL) occurred, establishing then a new down trend.

Using the example above, When the last HH and HL an uptrend is exceeded to the downside, it puts into question the prevailing uptrend on that time frame, and may indicate the beginning of a new opposing trend, or indeed a period of consolidation. The opposite holds true for a downtrend.

A time frame is ranging/consolidating when there is a random distribution of HL, HH, H, LL and LH and L 's as price consolidates and remains undecided about it's next direction. An example is shown in the chart below;

Establishing whether your trend time frame+ is ranging or trending using classic peak/valley price action analysis is essential in making an informed decision in respect of any trading set-ups that may present themselves.

Identifying a Re-entry set-up for example is highest in probability when you have ascertained that your trend time frame is indeed trending, one way or the other.

b. Individual candlestick price action

Individual/small group patterns of candlesticks can provide the final confirmation needed to trade when the cornerstones/components listed as 1-3 above are in place. As such this is the 4th cornerstone of a trade set-up.

The example bellow shows a bearish hammer when oscillators were extreme. The whole reversal candle closed outside the 20bol, a case of extreme deviation.

This classic Reversal candle provided the most immediate individual price action confirmation needed to trade against the prevailing uptrend at that point.

In the first instance, this immediate individual / small group candlestick reversal confirmation is sought on the trigger chart as the 4th cornerstone / component of the trading system / methodology, with further such confirmation sought on the intermediate+ time frames as price action develops, following any market entry.

In summation, these 4 cornerstones/components should all be present and clearly identifiable to consider entering the market, and as mentioned before, it is the combination of these cornerstones that gives rise to the complete trading set-ups that indicate the highest probability trading opportunities.

Put simply, band/channel deviation combined with oscillator divergence/extreme readings at identifiable support/resistance/SBR/RBS, confirmed by individual price action itself, forms the basis of the set-ups that give rise to the trading edge that this System/methodology provides.

<u>The Day Trading System/Methodology Set-ups</u>

As you now know, the system/methodology highlights high probability market entries where a confluence of it's component parts set-up.

The confluence is of identifiable potential or proven Support/Resistance with repeatable easily recognisable (oscillator extremes/divergence with band/channel deviation) technical indicator based set-ups, confirmed by price action itself.

Once the overall price action conditions have been established on your trend time frame (+) ie trend or range, and potential/proven Support and Resistance has been established in the prevailing market the task is simple;

a. Identifying whether one of the Reversal or Re-entry set-ups has presented itself on the trigger chart (1min) at an identifiable area of Support/Resistance/SBR/RBS.

And, if so

b. Whether individual price action confirms that all 4 cornerstones/components of a set-up are now in place to warrant a market entry.

(In the case of a Re-entry set-up, whether overall price action is conducive to such a market entry, ie whether a trend exists to re-enter.)

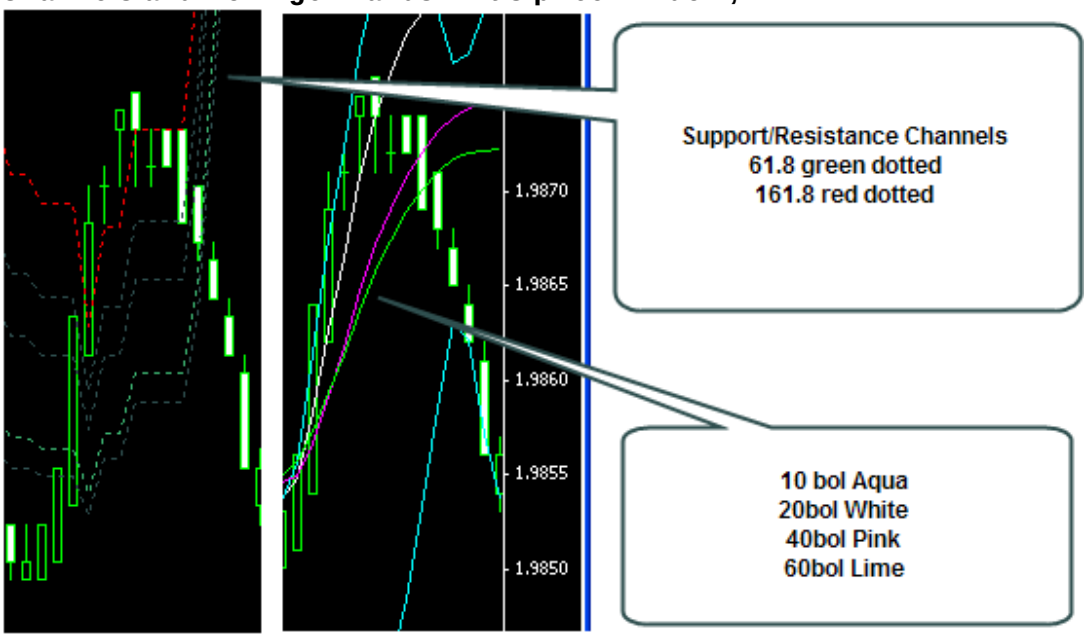
c. Once the above (a. and b.) are ascertained, the next step is to check the intermediate time frame chart (5min) for a confirming set-up to the (1min) trigger set-up.

Once in the market;

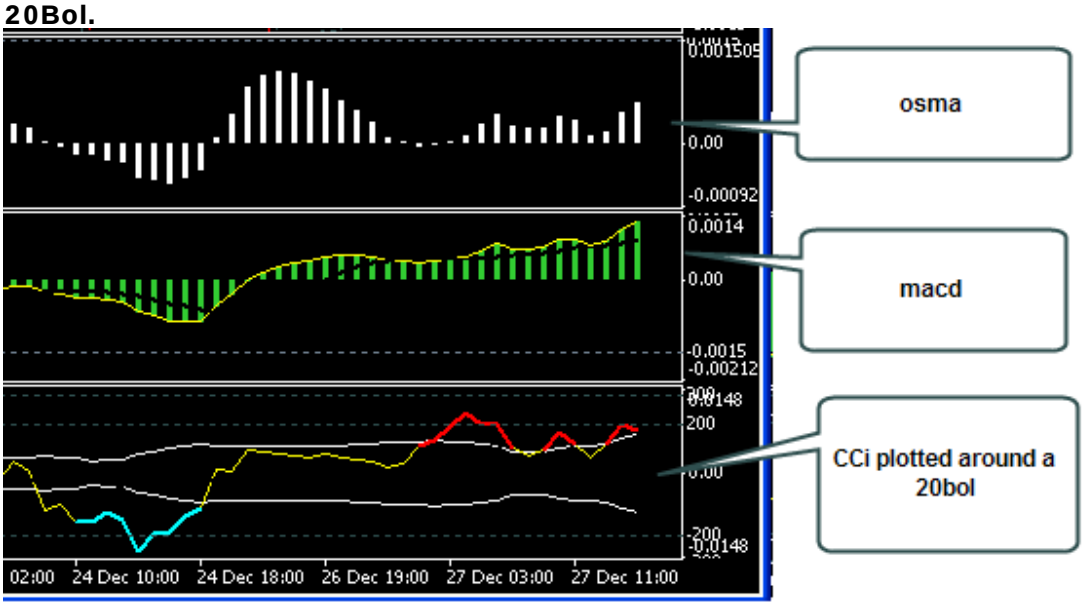
d. If the intermediate chart has a confirming set-up evident, the next step is to check the higher trend time frame + to see whether confirming set-ups/conditions exist there too. Generally speaking the more confirming set-ups exist the bigger the potential target for the trade.

The Main Charts.

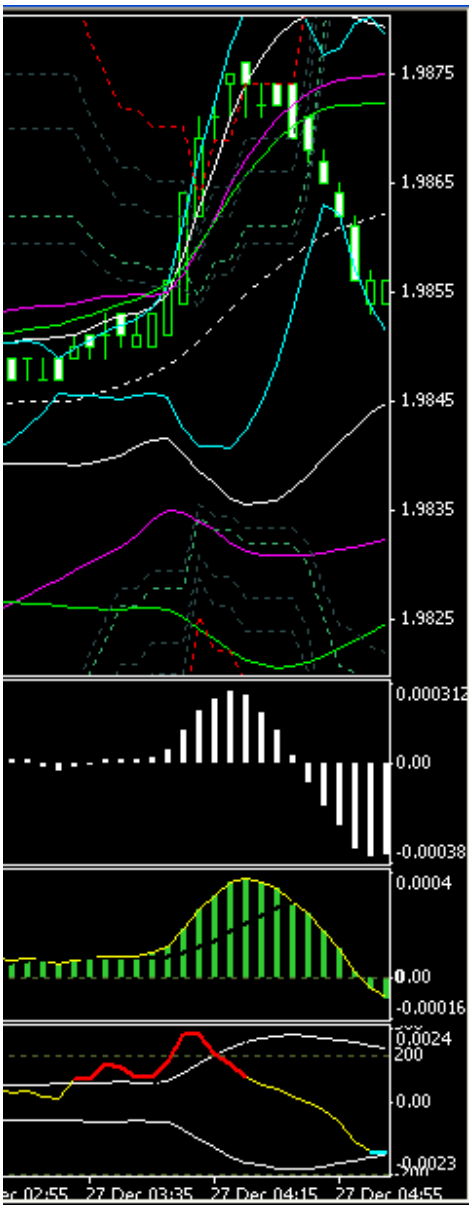
The Main chart used across all time frames utilises Support/Resistance Channels and Bollinger Bands in it's price window;



The Osma is utilised as the lead oscillator, with Macd as the secondary oscillator. I make use of a 3rd oscillator too, the CCI plotted around a 20Bol.



Putting these all together results in the main chart on all time frames;



The set-ups

Before I outline the technical indicator set-ups, let me remind you of what it is I am trying to achieve through this trading system/methodology:

The aim is to find sufficient high probability market entries so that over a sample of trades I realise a gain. By utilising the noisy 1min chart as the trigger chart, I aim to filter out the inevitable *noise* and find swing points that may or may not coincide with likely swing points on the 5min chart+ at areas of Supp/Res/SBR/RBS. These swing point set-ups are a combination of the indicator patterns confirmed by individual price action at these identifiable Supp/Res/SBR/RBS areas.

All any of us know about our preferred set-ups that comprise our *trading edge* is that historically over a sample they have repeated themselves. When we click the mouse to enter the market when one of the set-ups presents itself and we are satisfied all rules/conditions are in place to make it a high probability set-up...we cannot know what will happen next...no one can (except maybe some one with a $2trillion order to place, Lol.) Because we do not know ....we must not get hung up on the result...it is a statistical occurrence in our sample of set-ups that meet the rules/criteria/conditions for entry...that is all.

Simplified Bullet-pointed screenshots of each set-ups can be found in the *Set-ups bullet-point screenshots* file that accompanies this doc.

I'll deal first with the Reversal set-ups;

<u>Reversal set-ups</u>

Reversal set-ups seek to identify intraday swing points at identifiable support/resistance that may or may not coincide with swing points on the longer time frames. Reversal set-ups can identify *out and out* reversals or merely trade-able pull backs in a trend.

The rule of thumb is that the stronger the trend, the stronger the area of Supp/Res (a cluster) you should seek to identify a set-up at, with at least a 5min intermediate confirming Reversal set-up to support your market entry.

There are 4 Reversal set-ups; Reversal types *A,B,C* and *Extreme.*

*** Reversal types A and C can occur with regular immediate or regular sequential divergence.**

*** *Reversal B* set-ups tend not to exhibit regular sequential divergence, only regular immediate.**

*** *Reversal Extreme* set-up exhibits not divergence in the oscillators but extreme readings in them.**

*** *Reversal Extreme* and *Reversal type A* have slight variants known as the *Reversal A (ii)* and the Reversal *Extreme (ii)***

I log any Reversal set-up with regular sequential divergence as *Seq*. Eg; *Reversal C seq.* Any Reversal set-up having regular immediate divergence would be logged simply as *Reversal C*

The main confirming factors for a Reversal set-up (be it a pullback / retrace or complete reversal of current trend) are:

a. Regular immediate / sequential separate peak / valley Osma divergence from price or extreme readings. (Save for Reversal Extreme type ii)

-and-

b. Regular immediate / sequential same or separate peak / valley Macd divergence from price or extreme readings.

Add to this the Bollinger band patterns and that is the basis of the technical indicator based set-ups.

There follows the Reversal set-ups. When you read the technical description of them, they appear complicated, but a look at the screenshot examples reveals that they are not, and in fact are easily recognisable once memorised.

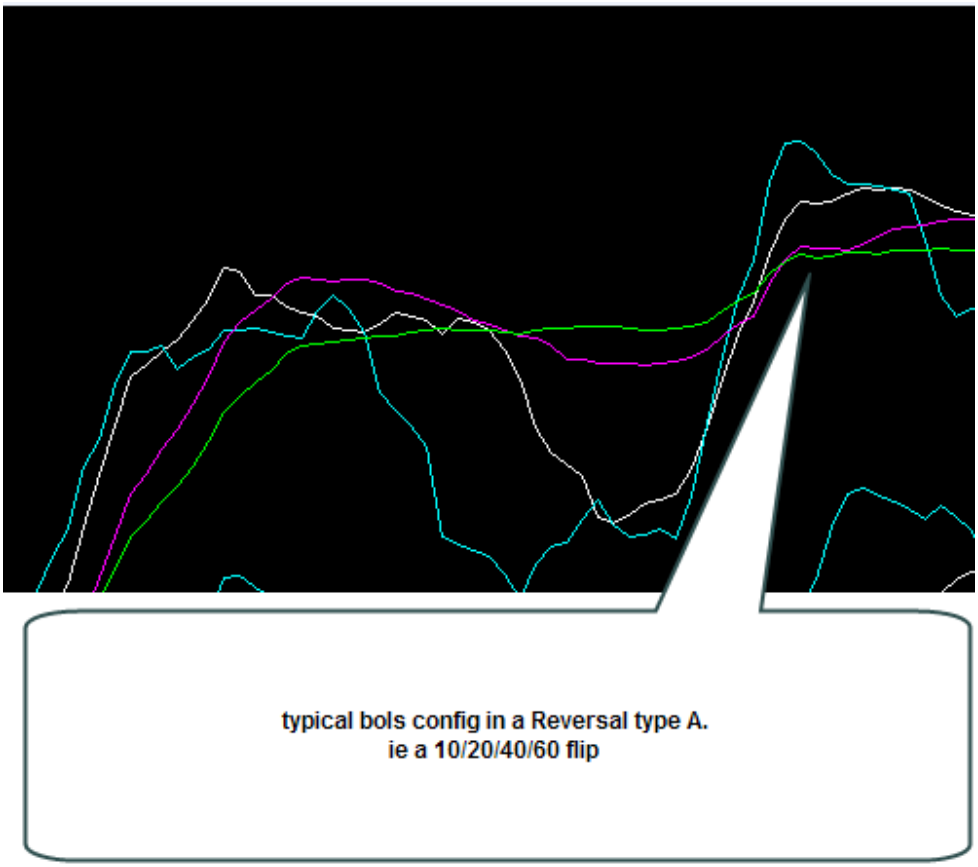
Memorising the set-ups is essential so that they can be easily identified in real time.

Conceivably you could just use one Bollinger band with the divergence patterns at support / resistance to simplify the Reversal set-ups, but there is no doubt that the Bollinger band patterns help to accurately pinpoint the optimum entry point on any trigger chart.

Reversal type A

A clearly identifiable area of potential Support / Resistance / SBR / RBS (cluster better.)

A 4Bol flip (10 / 20 / 40 / 60)



Clear regular immediate / sequential separate peak / valley Osma divergence

Clear same / separate peak / valley regular immediate / sequential Macd divergence.

Price should have made a higher / equal high or lower / equal low from that from which oscillator peak / valley is being measured re divergence.

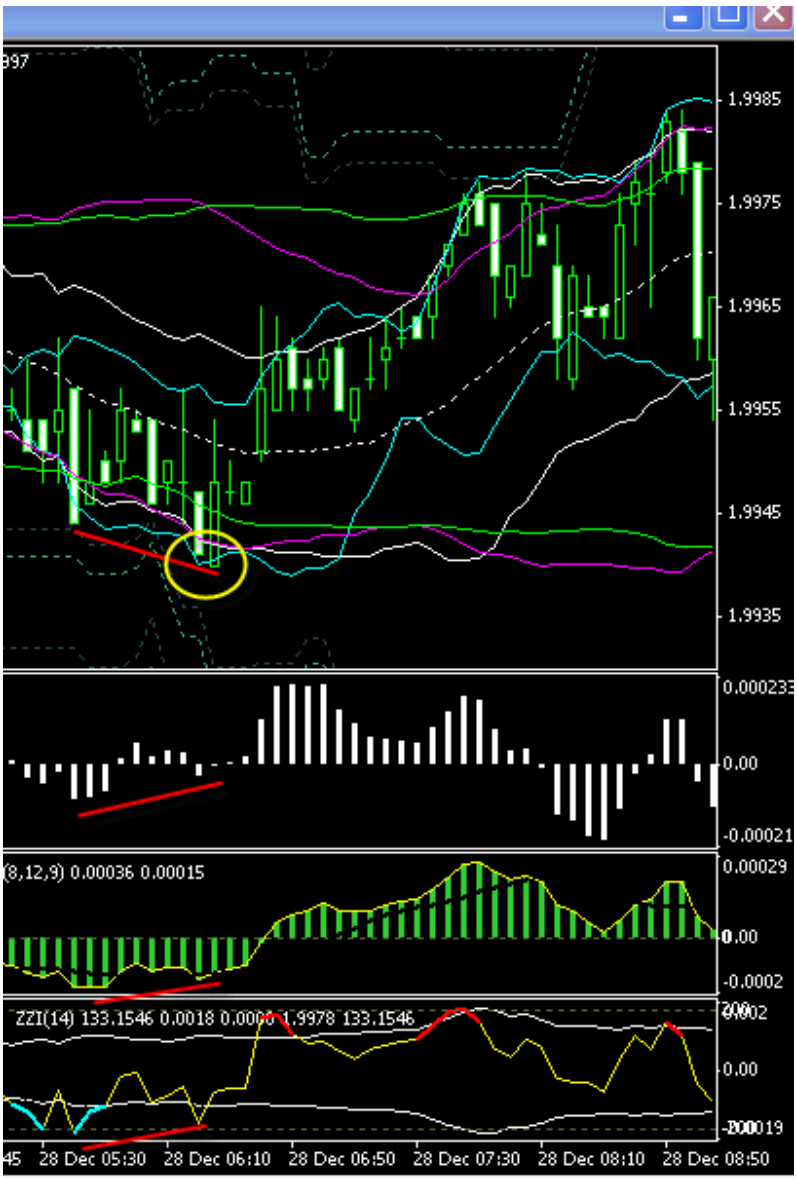
A confirming Reversal candle.

The screenshot below shows an example of a *Reversal type A* on the 5min (intermediate) chart.

The example above was a Bearish *Reversal type A*.

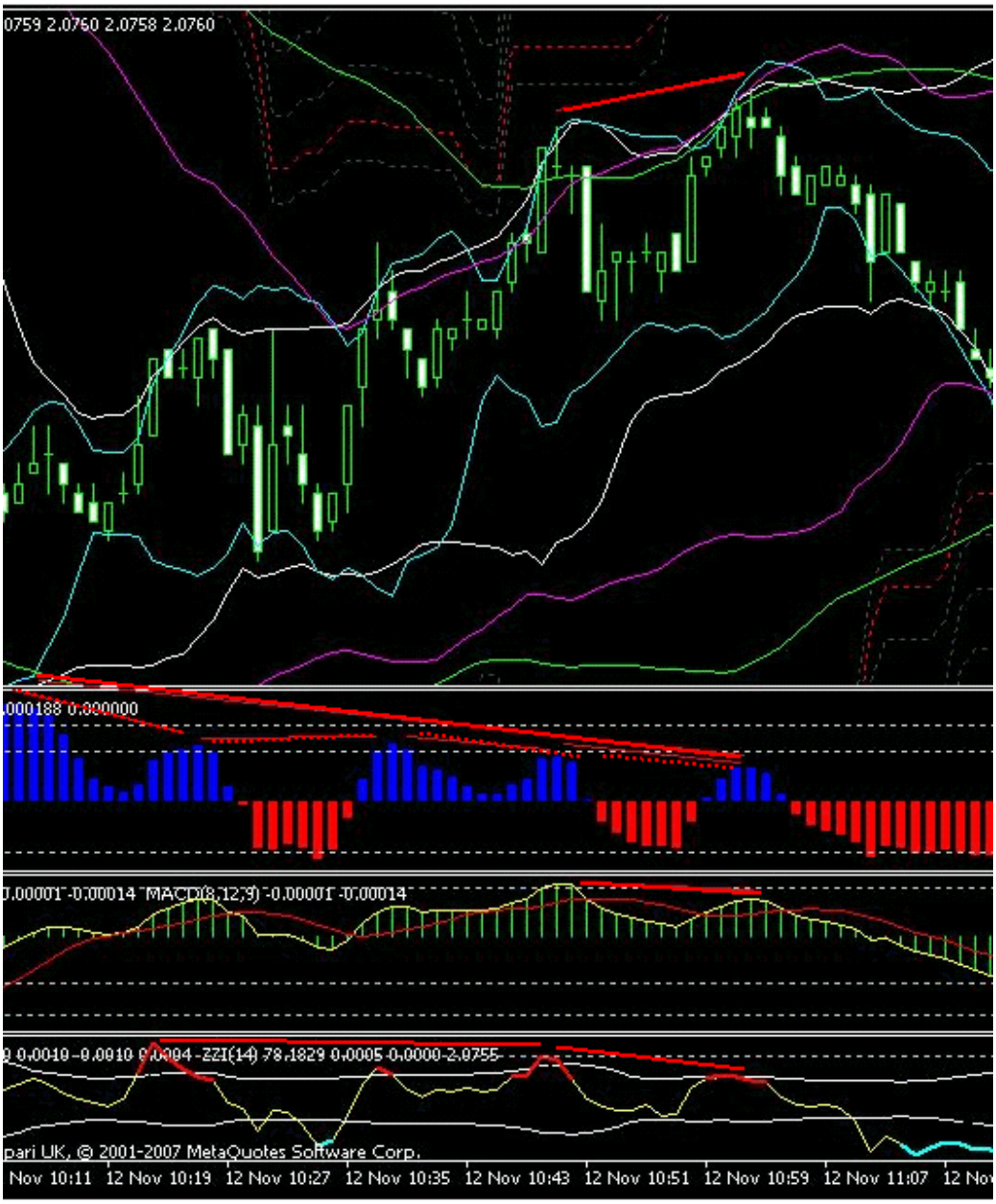
Note the 4 Bol flip and regular immediate separate peak Osma divergence with regular immediate same peak Macd divergence. There was Bearish divergence too in the CCI.

The following example shows a bullish *Reversal type A*;



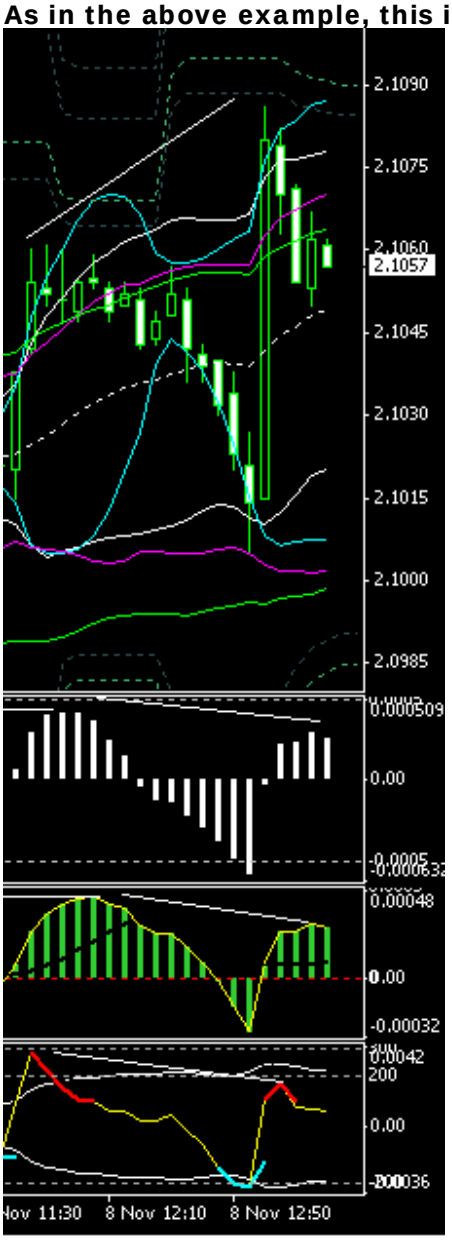
Again a 4 bol flip is accompanied this time by regular immediate separate valley Osma divergence with regular immediate same valley Macd divergence. Again there existed Bullish divergence in the CCi as a further confirmation of the Bullish divergence.

There follows an example of a Bearish *Reversal type A* on the 1min (trigger) chart.



Note in the example above the Double regular immediate separate peak Osma Bearish divergence from price. (Double or triple regular immediate divergences make any Reversal set-up potentially higher in probability.)

The chart below is another example of a 5min (intermediate) *Reversal type A*. As in the above example, this is a Bearish *Reversal type A.*

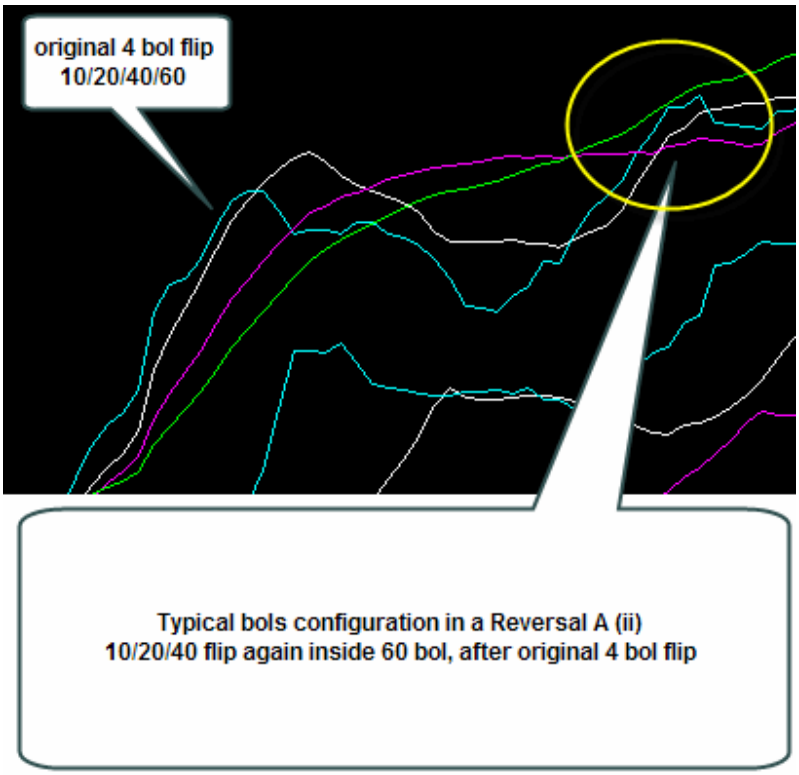


And another example of a 1min (trigger) Bearish *Reversal type A* set-up on the chart below;


0.0000 1.9833 108.6906

Reversal type A (ii)

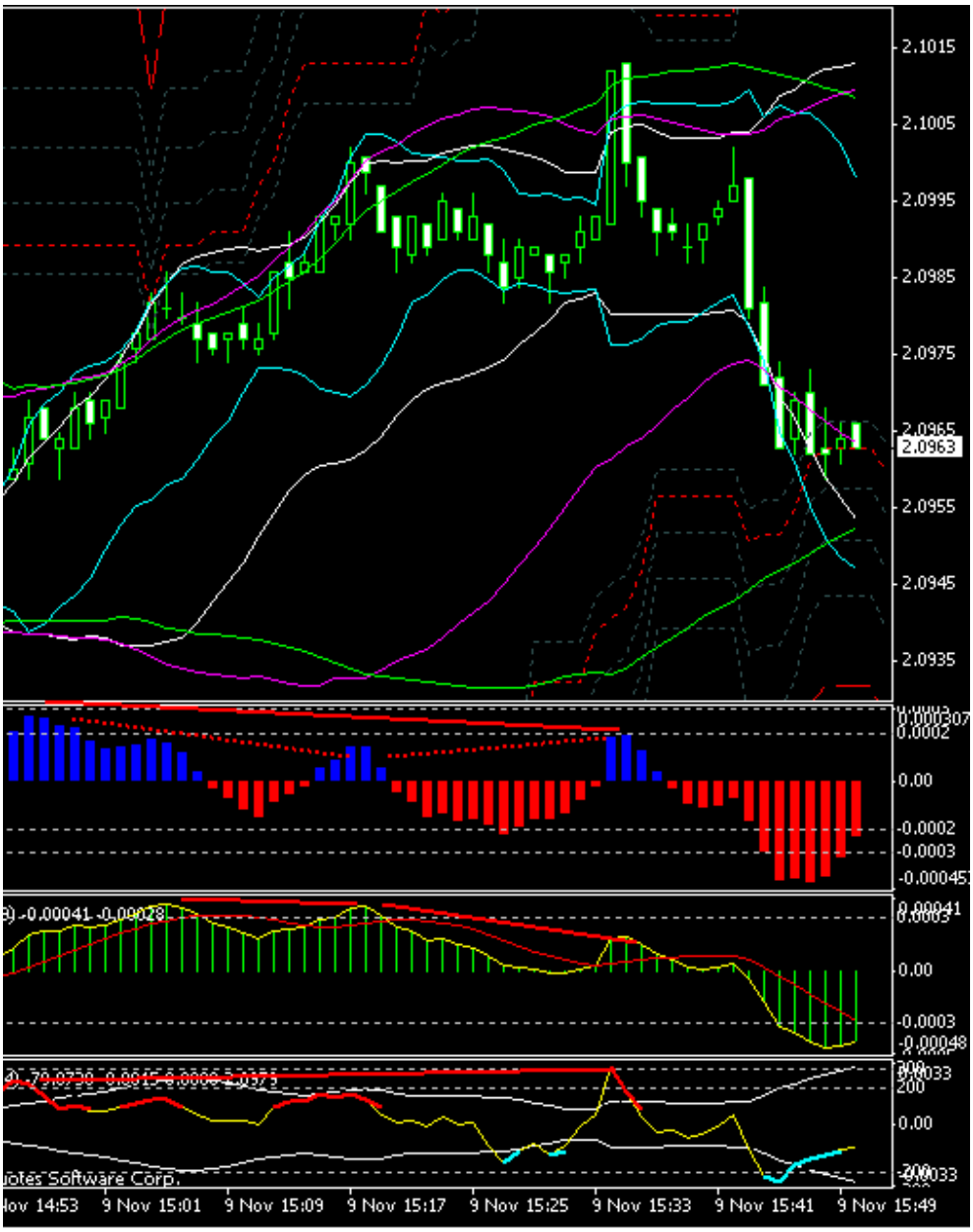
As a *Reversal Type A* above except there exists a clear 3Bol flip (10/20/40) occurring inside the 60 Bol.



There follows a typical example of a *Reversal A (ii)* in practice;

In this example, the Macd too showed separate valley Bullish divergence. Actually strictly speaking this example is a *Reversal A (ii) seq*, meaning the Bullish divergence on the lead oscillator Osma) and on Macd was regular sequential not regular immediate. (see small valley in between the 2 large valleys, the second of which being where the set-up occurred at an area identified as potential Support.)

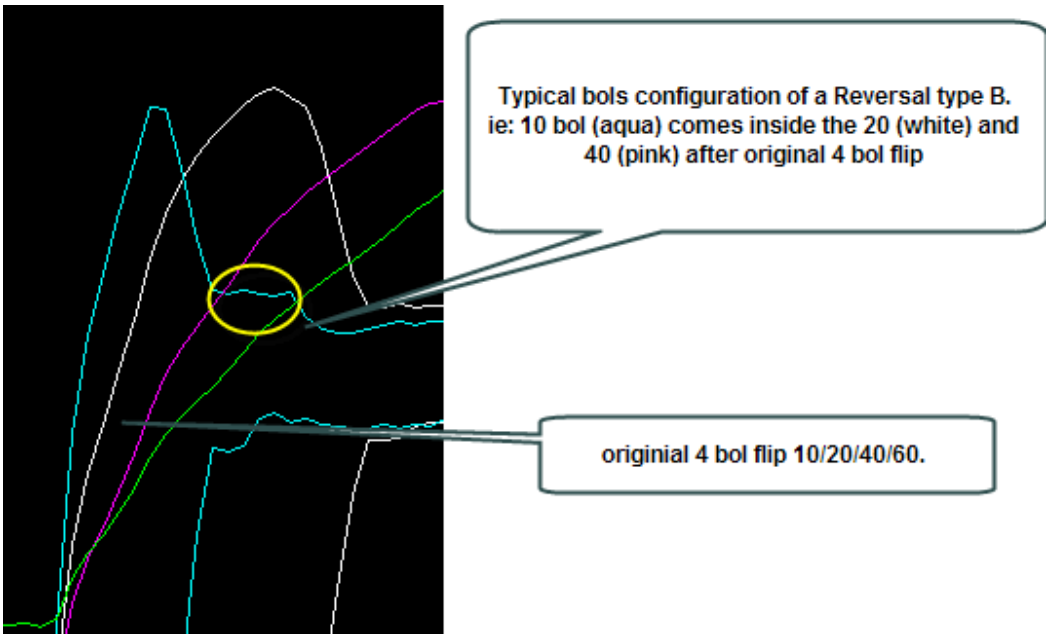
The chart example below shows a Bearish *Reversal A (ii)* seq set-up.


2.1015
2.1005
2.0995
2.0985
2.0975
2.0965
2.0963
2.0955
2.0945
2.0935
0.0002
0.00
-0.0002
-0.0003
0.0003
0.00
-0.0003
200
0.00
-200
9 Nov 14:53
9 Nov 15:01
9 Nov 15:09
9 Nov 15:17
9 Nov 15:25
9 Nov 15:33
9 Nov 15:41
9 Nov 15:49

Reversal type B

As a *Reversal type A* except at the time of the 4Bol flip there does not exist the divergence as described ...so await;

The 10Bol comes inside both the 20Bol and 40Bol (and occasionally the 60Bol) as price makes an equal or HH / equal or LL at which time the divergence sets -up as described and price ' comes off ' the last Bol. (The 60Bol remains inside the 40Bol during this sequence.)

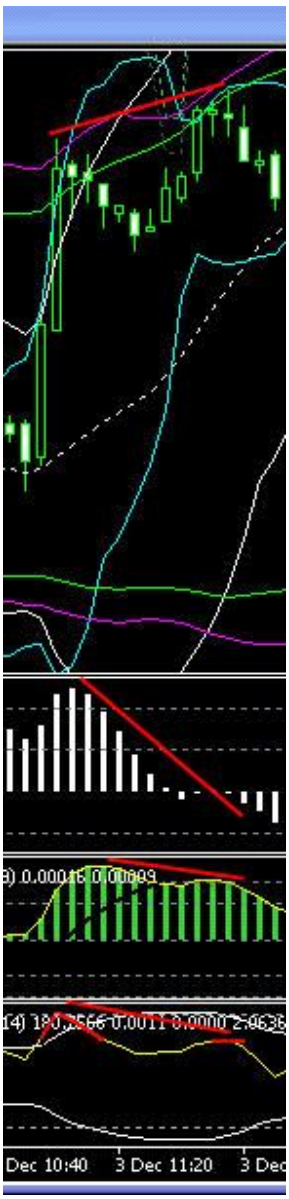


More often than not with the *Reversal Type B* set-up, the Osma histogram doesn't make it back above / below it's axis, showing even greater divergence from price.

An example of the set-up is shown on the chart below.

In this chart example price makes an equal high, and the set-up is of course a Bearish *Reversal type B*.

The following chart is another example of Bearish *Reversal type B*, this time price making a slightly higher high.



The chart example below shows a Bullish *Reversal type B*.

Here price makes a LL.

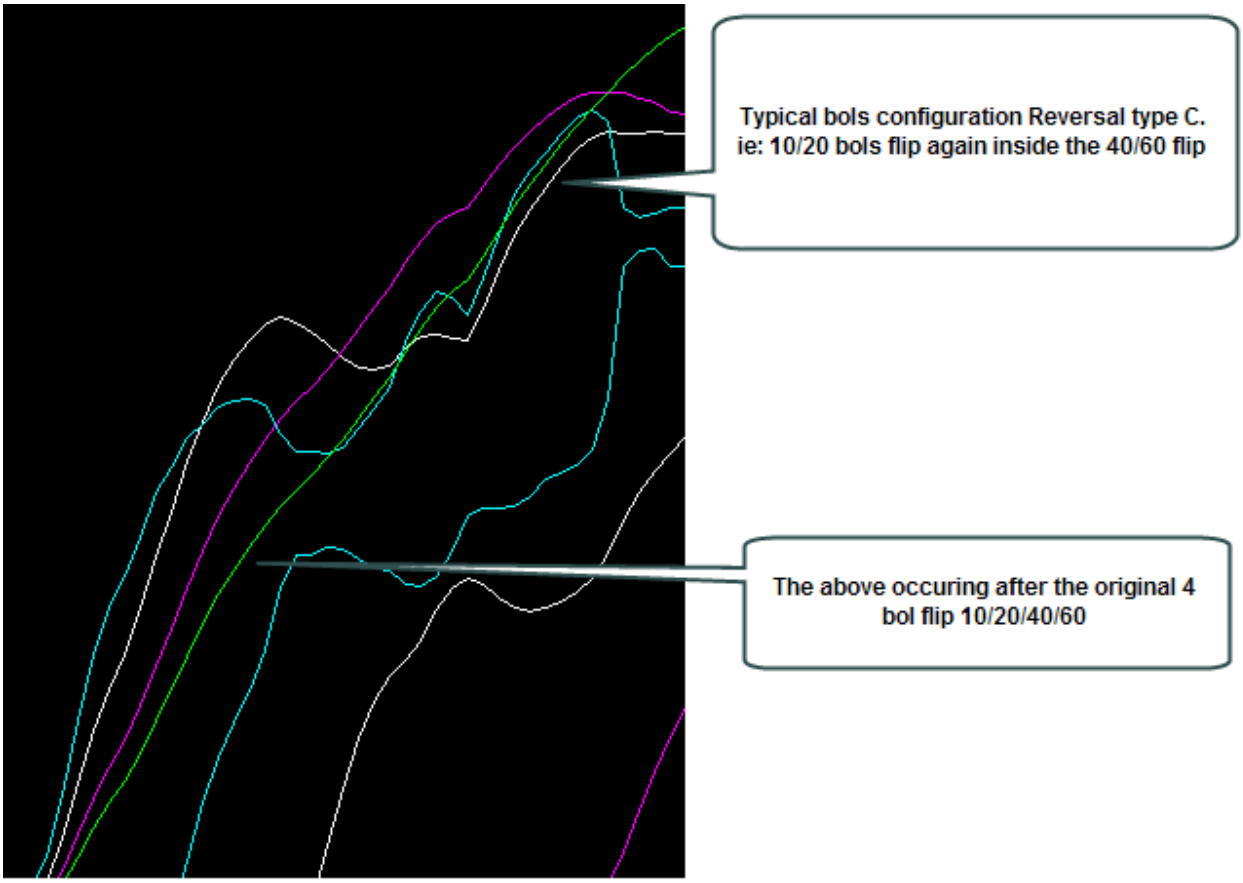
There follows a chart example of a *Reversal type B* when the 10Bol comes inside both the 40Bol and 60Bol at an equal high;

Note in the above example that the 2oBol had not come inside the 60Bol as the 10Bol did as this would then be most likely to develop into a Reversal type C...ensure this is the case in this situation.

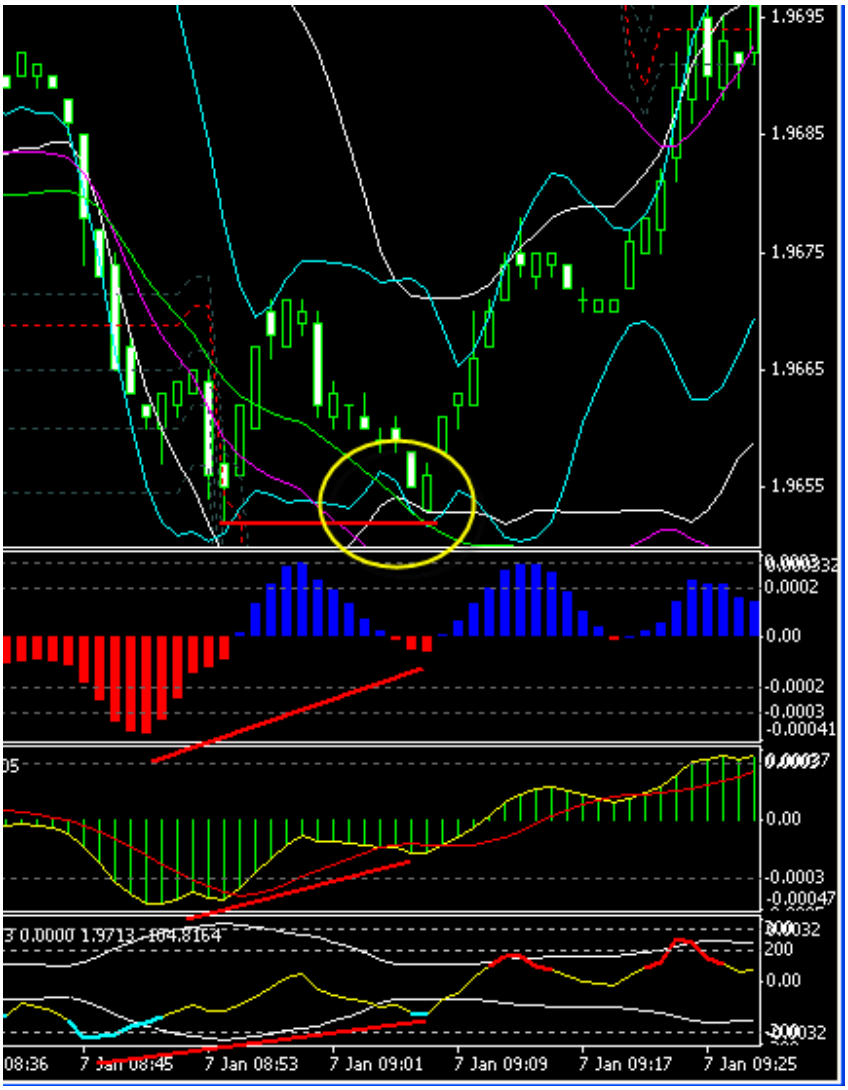
Reversal type C

As a *Reversal type A* except at the time of the 4 Bol flip there does not exist the divergence as described ...so await;

The 10 and 20Bols now come inside the 40 and 60Bols and flip again inside the 40Bol (which still has the 60Bol inside it.) The divergence now sets-up as described.....as price makes an equal or Hh / equal or LL than at time of the original 4 Bol flip.

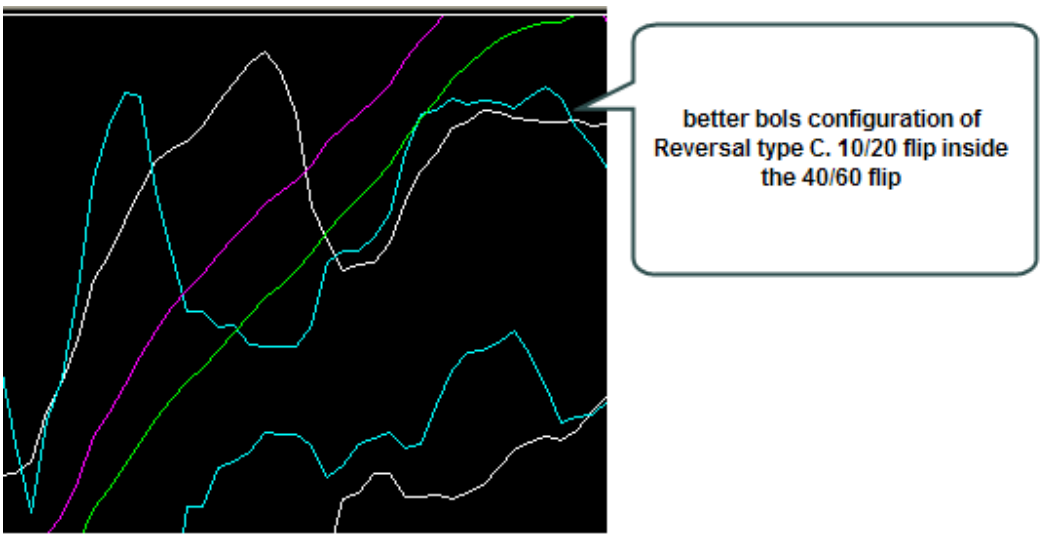


A typical example of the *Reversal type C* in practice is shown on the chart below;

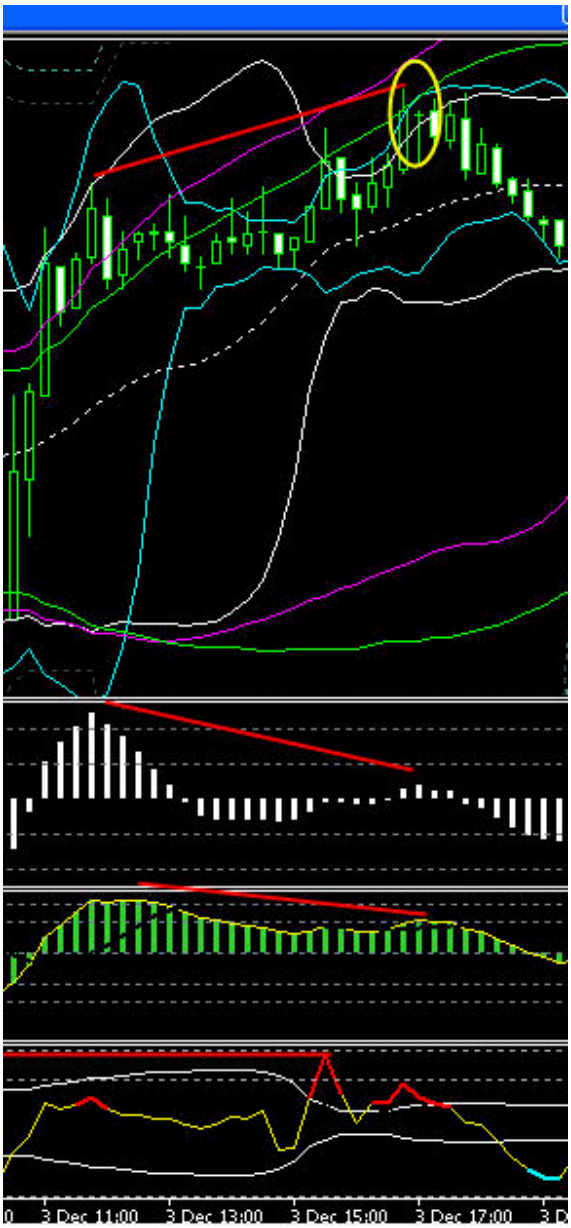


This example is of course a Bullish *Reversal type C.*

The neatest *Reversal type C* set-ups are when the 10/20Bol flip that occurs after the original 4Bol flip sets-up inside the 60bol (which is still inside the 40Bol,) ...as the oscillator divergence sets-up, as described.



This is the *perfect Reversal type C,* a 30min (trend time frame) example of which is below. It confirmed a Reversal set-up on both the 1min trigger and 5min intermediate charts.



Notice how the 10/20 Bol flip occurred inside the 40 and 60Bol after those shorter period Bols came inside the 40 and 60, that followed the original 4Bol flip. This example is of course a Bearish *Reversal type* C and occurred at an area of potential Resistance.

There follows a chart example of a Bearish *Reversal type C seq.*

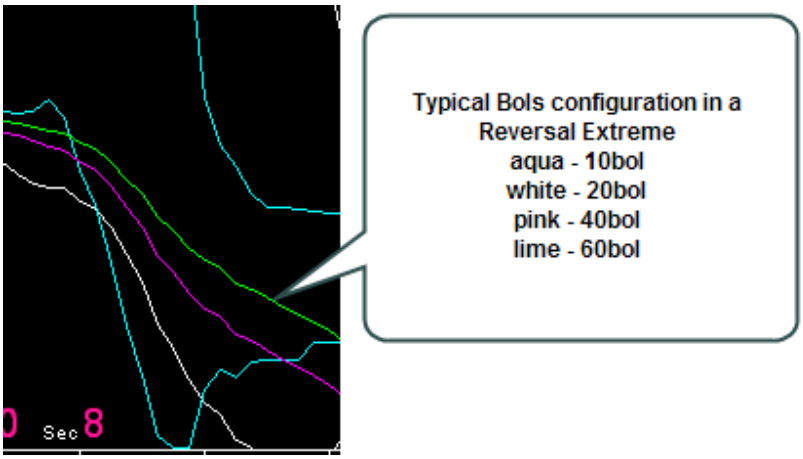

1min trigger
Reversal type C seq
1.9845
1.9835
1.9825
1.9815
1.9805
1.9795
1.9785
0.000478
0.0003
0.0002
0.00
0.0005
0.0003
0.00
-0.00023
0.00
-200
2 Apr 10:39
2 Apr 10:47
2 Apr 10:55
2 Apr 11:03
2 Apr 11:11
2 Apr 11:19
2 Apr 11:27
2 Apr 11:35

Reversal Extreme

The set-up is as follows:

A clear identifiable area of potential / proven Support / Resistance / SBR / RBS (cluster is better.)

A well diverged 4Bol flip (i.e. daylight between the Bol bands in the flip) 10 / 20 / 40 / 60



Osma at an extreme (levels as given on template)...more extreme the better

Macd at an extreme (levels as given on template)...more extreme the better

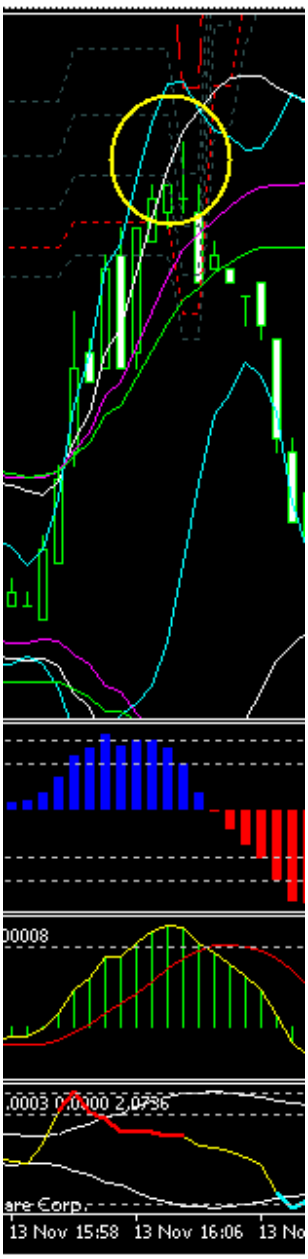
CCi will be showing same peak / valley regular immediate divergence and to have 'hooked' back inside its own Bol from an extreme, at the time of the opening of the Reversal candle.

Price to have touched or breeched the 61.8 Support or Resistance channel min (deeper into the channels the better.)

A confirming reversal candle

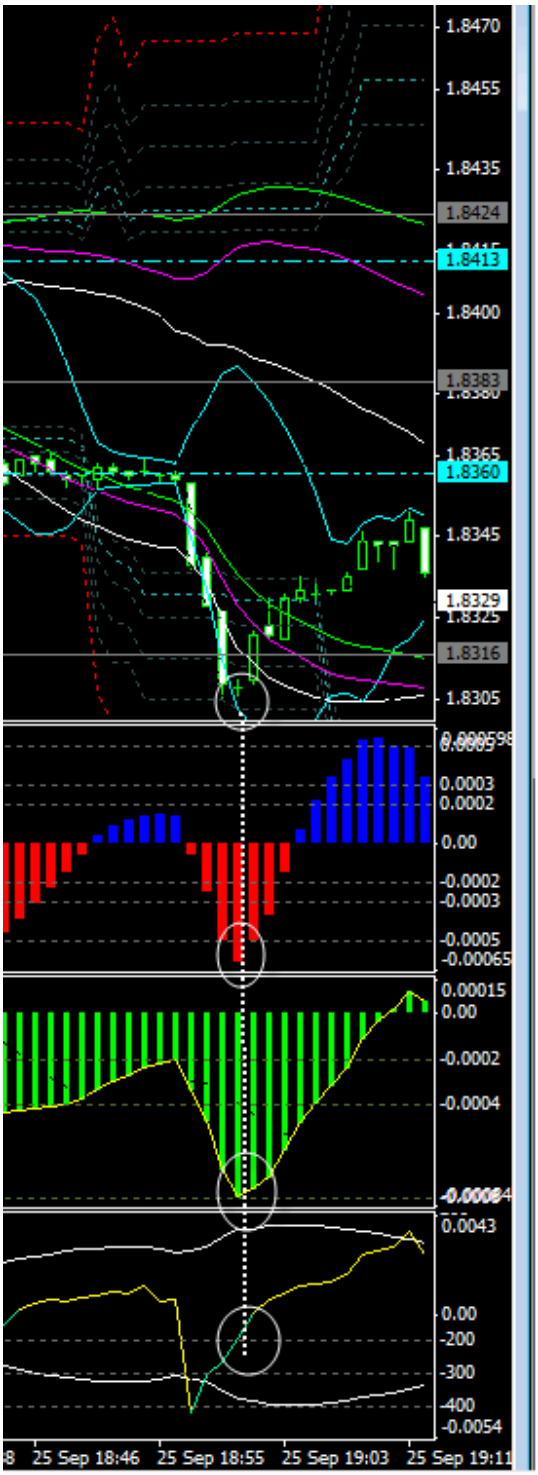
NB: A *Reversal Extreme* on the 1min trigger chart without a confirming set-up in the 5min intermediate chart most likely represents overbought or oversold conditions on that chart only NB: ie against trend it is advisable to seek a 5min + confirming set-up.

The chart example below is a Bearish *Reversal Extreme* (ie overbought conditions on this time frame.)



Note that the CCi oscillator is already showing same peak/valley divergence from price having hooked back inside it's own Bol from an extreme reading at the opening of the Reversal candle (the doji)

The example below bullet-points the optimum conditions for a *Reversal Extreme* set-up, it is a Bullish example of the set-up

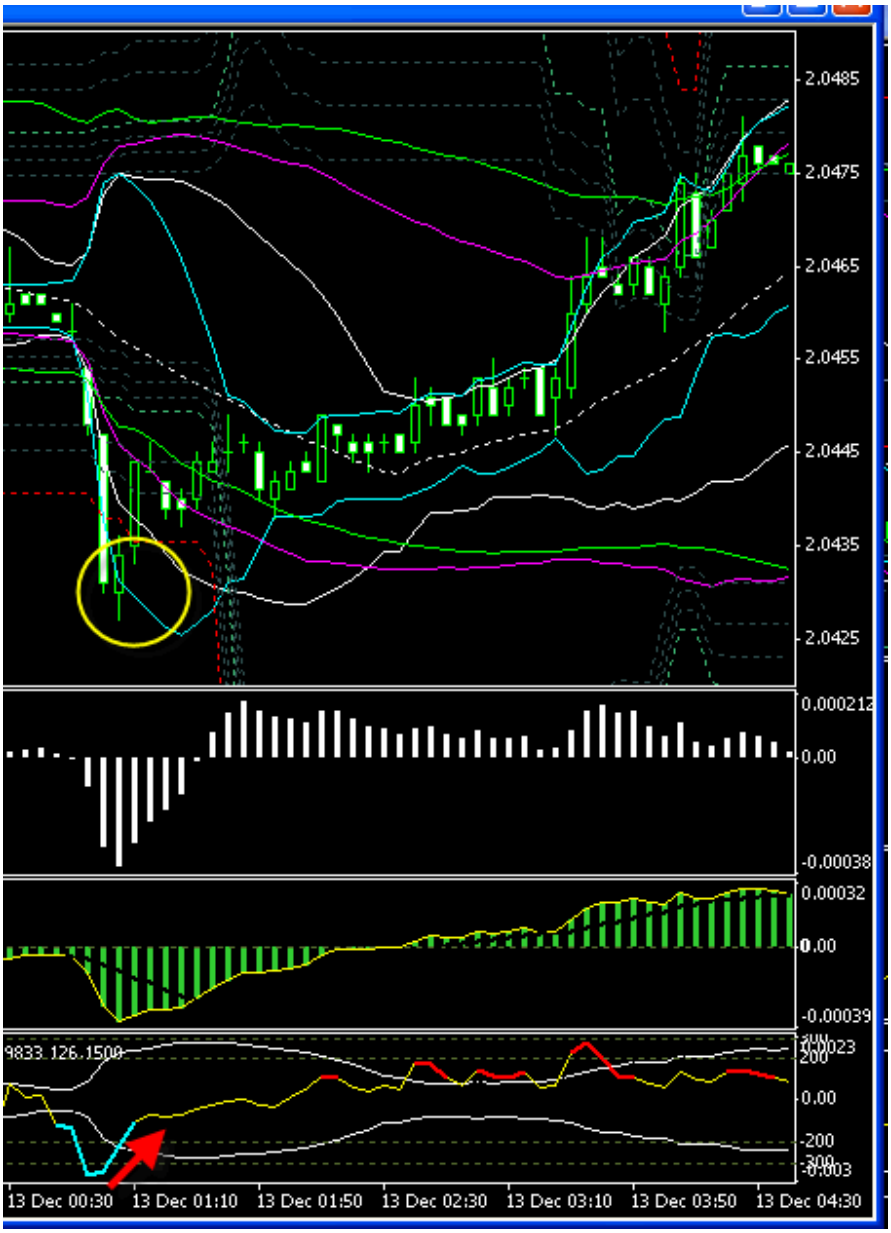


(Bullish) Reversal Extreme

1. 4bol flip (10/20/40/60 in asc order)
2. Breech of min 61.8 Support Channel (green dotted)
3. Oscillators at an extreme level
4. CCI hooked back inside it's bol from an extreme (blue) at **Open** of Reversal candle (*)
5. price at a Pre-identified area of potential Support

* Exception to this rule is if there is 'local' bullish regular divergence in the cci / the whole reversal candle closes outside the 20bol (white)

On the following chart is an example of a 5min (intermediate) Bullish *Reversal Extreme* set-up.



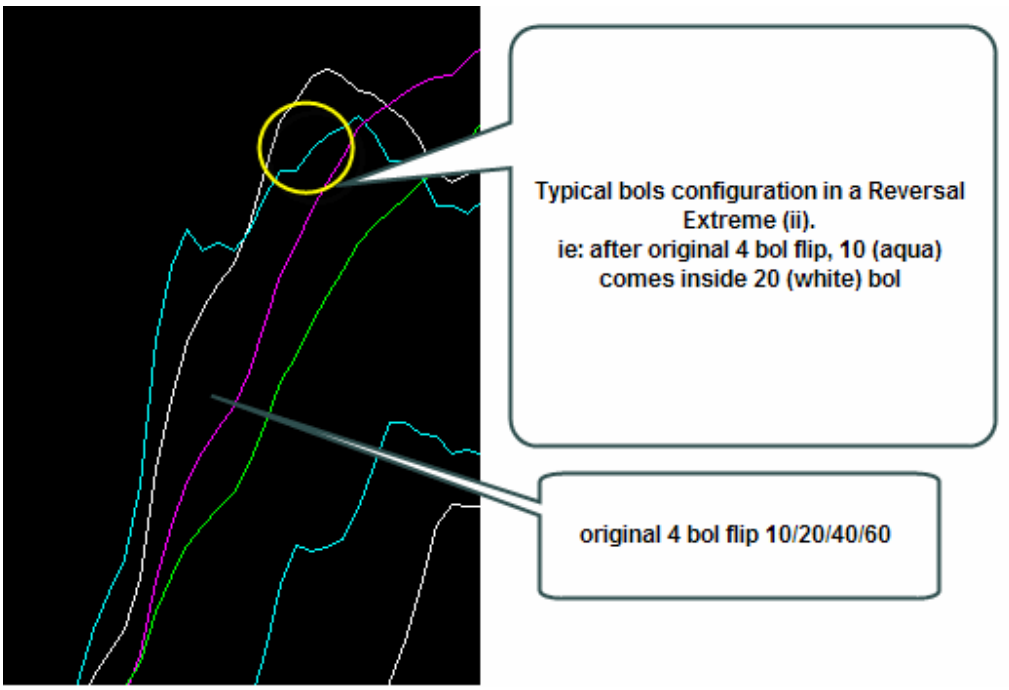
In this example the 161.8 Support Channel was breeched too (red dotted.)

Reversal Extreme (ii)

As above except sometimes you will see Osma reach an extreme first,....await Macd reaching an extreme too at which point the Osma will likely show same peak/valley regular immediate divergence now and the 10bol will be inside the 20 Bol, at the pre-identified Supp/Res/RBS/SBR area. Price will have made a HH or LL at the time of the full *Reversal Extreme (ii)* set-up, than at the time when Osma first went extreme.

Sometimes both Osma and Macd reach an extreme but the 4Bol flip isn't in place for a *Reversal Extreme* set-up or there is no identifiable potential Support/RBS or Resistance/SBR in which case:

Await the 4Bol flip and/or for price to reach the area of potential Support or Resistance that you have identified at which point a true *Reversal Extreme ii* set-up may have developed.



The chart example below is a *Bearish Reversal Extreme (ii*) and did not have a 5min (intermediate) supporting set-up so indicated a likely shallow pullback in trend only.

Here is another example of a *Reversal Extreme (ii)*, this time a Bullish example, at point B.

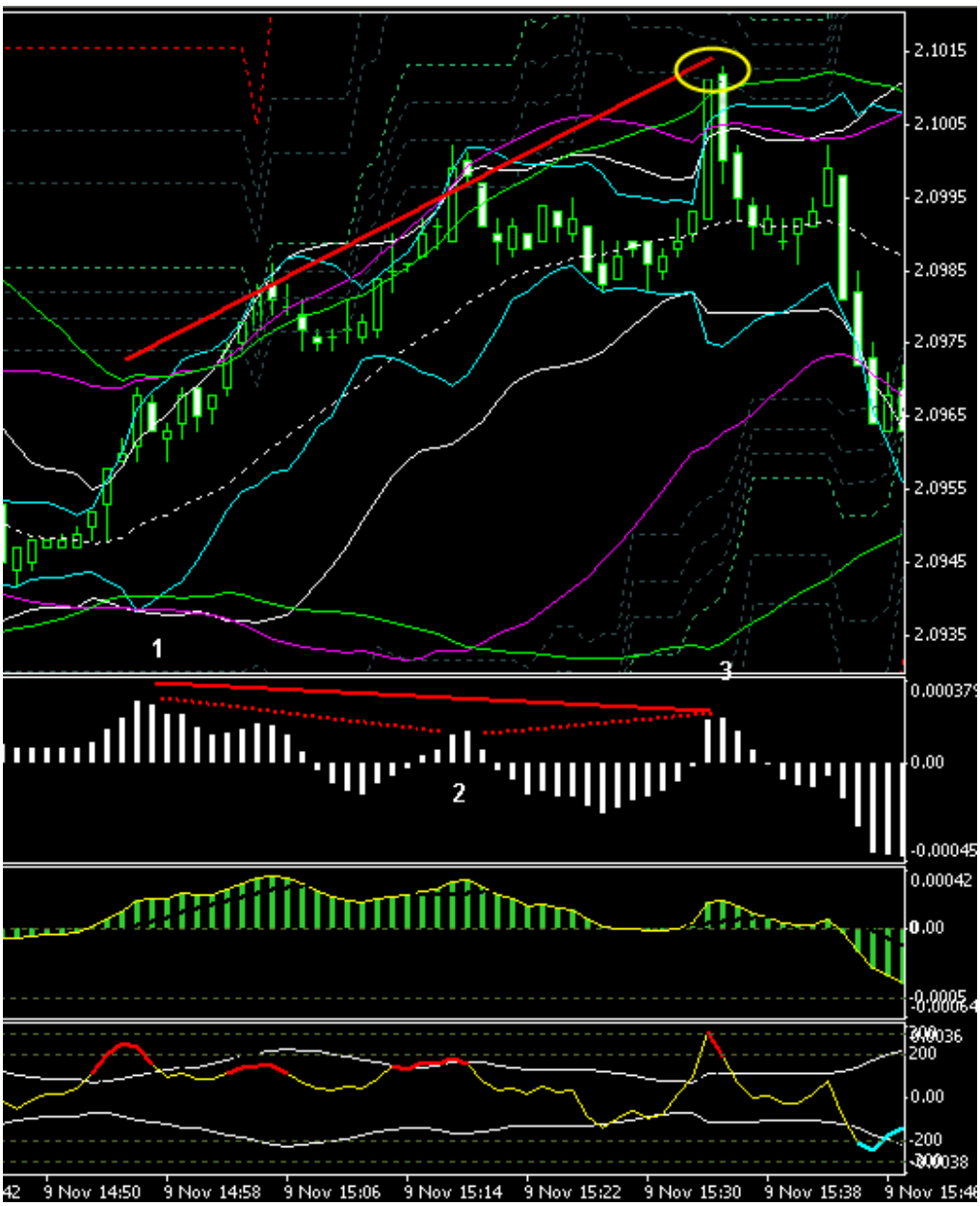
Nb: On a news/data inspired moves you will very often see a *Reversal Extreme* develop at a level of Supp/Res/SBR/RBS and very often the first reversal candle is large....this can be problematic in terms of getting a stop in a safe 'value zone' so it is sometimes better to await a retest of the area and another Reversal candle for a 2nd rejection of the area whilst the 4Bol flip is still intact, and/or use half usual volume/double usual stop.

Reversal Set-ups with Regular Sequential Divergence

The above Reversal set-up examples mostly involve regular immediate divergence in the set-up. This is the preferred oscillator divergence pattern.

Regular sequential divergence, as mentioned is still a valid high probability set-up particularly if combined with strong cluster areas of Supp/Res/SBR/RBS and 5min+ confirming set-up (s) and/or other factors (to be discussed later in this document.)

A regular sequential pattern of divergence is shown on the chart below. The set-up is a 1min (trigger) Bearish *Reversal A (ii) seq.*



You can see that definite Bearish divergence exists overall between points 1 and 3 but there is an intervening peak at point 2.

A further example of regular sequential divergence is shown on the chart below, the *5min Bullish Reversal type C seq*;

A further example of a sequential (seq) divergence set-up is on the chart below:

5min *Reversal type A seq.*

<u>NB:</u> Such regular sequential divergence (as described) that gives rise to the *seq* set-ups is more common with the *Reversal types A*, and *A(ii)* and can occur although infrequently in a *Reversal type C* set-up also.

Guidance for acting on Reversal set-ups.

a. On very strongly trending days, particularly when the intraday trend is coexistent with the longer time frames trend, (ie above the 30min trend time frame) you should favour Re-entries as even a 1min Reversal set-up with a 5min (intermediate) Reversal set-up confirmation can represent just a trade-able pull back in the prevailing trend.

The rule of thumb is that the stronger the trend, the stronger the area of potential Supp/Res (a cluster) you should seek to identify a Reversal set-up at, with at least a 5min (intermediate) confirming Reversal set-up.

b. Do not be tempted to act on a Reversal set-up where only *minor* Resistance exists, for eg Daily or Weekly Mid pivots. There must be at least one identifiable Support/Resistance factor per the *Identifying Potential Supp/Res/SBR/RBS* doc if acting upon a Reversal set-up.

c. Only act upon a 1min Reversal set-up that is unconfirmed by any 5min (intermediate) + set-up, in a 5min range, not against a strong intraday trend....for added higher probability the set-up will be potentially higher in probability with regular immediate Osma divergence not regular sequential.

d. These Reversal set-ups signify either a pull back in a strong trend or a complete trend reversal area if present on enough time frames, but care should be exercised in expecting large targets if against a strong trend, as described above. The preference should always be to stay with the trend in a strong trend, but on rangy/weak trend days and indeed in a strong trend these set-ups provide high strike rate trading opportunities for identifying pullbacks / retraces in trend or complete reversals thereto.

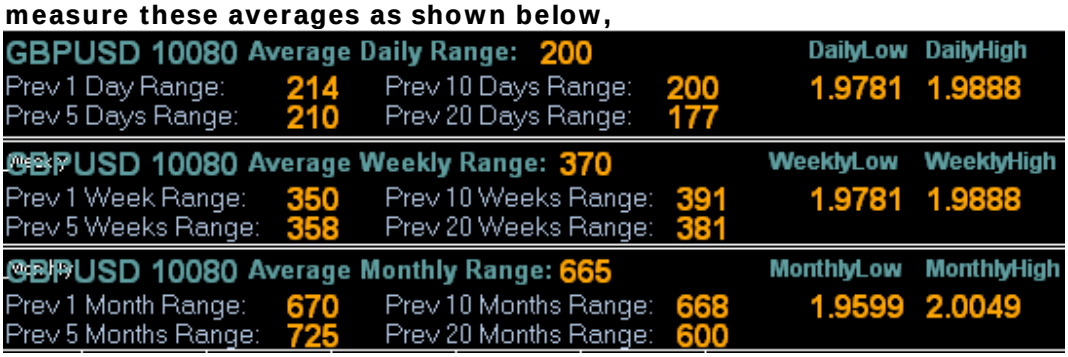
A word to the wise about trends: For some reason there is a tendency when price starts to trend to always be looking for a trend to end, you know the thing, ' this must be the top or bottom ' Why?.. We trade strongly trending instruments so our preference should always to be with the trend and you must exercise caution in trying to reverse (go against) the trend particularly if it exists on the longer time frames that extend past your *trend* time frame. Price does however retrace/pull back in a trend, and these are very trade-able if identified correctly, and a 'home run' score is not always expected.

e. Unless there were strong mitigating/supporting factors I would not trade a (trigger) 1min Reversal *seq* set-up that was confirmed by a 5min (intermediate) Reversal *seq* set-up, preferring instead for at least one of the set-ups, either the 1min trigger or the confirming 5min intermediate set-up to be with regular immediate divergence.

Such mitigating/supporting factors may include a very strong cluster area of Support / Resistance and/or a clear confirming Reversal set-up on the 30min+ and/or confirmation on the 'small secondary' charts. (These *Small* charts are an addition to the DTS/M and are discretionary. They are detailed and discussed later in this doc.)

f. Be aware of the intraday range in relation to it's average pip range. Be aware too of the current weekly range in relation to it's averages. A large deviation from these averages means that there is a higher statistical probability of a reversal / deeper pullback than not.

I use a custom indicator that I refer to at the start of each session, to measure these averages as shown below,



In the same way, be aware too of price's intraday relationship to it's pivots. Any extension beyond R2 or S2 again results in a higher statistical probability of a pullback.

This wider appreciation of the market and it's ranges is useful in this respect, but do not base trading decisions on it exclusively.

Generally, these Reversal set-ups can highlight either a pull back in a trend or a complete trend reversal area if reversal set-ups are present on enough time frames, but care should be exercised in expecting large targets if against a strong intraday trend as described above, particularly if the intraday trend is coexistent with the longer time frame trends like 4hr / Daily / Weekly. The preference should always be to stay with the trend in a strong trend, but on rangy / weak trend days and indeed in a strong trend these set-ups provide high strike rate trading opportunities for identifying pullbacks / retraces in trend or complete reversals in trend.

*** In order to help memorise the Reversal set-ups it may be useful to use the following summary;**

Oscillator extremes or divergence as described with;

4 Bol flip [10 / 20 / 40 / 60]…….. *Reversal Extreme* and *Reversal type A*

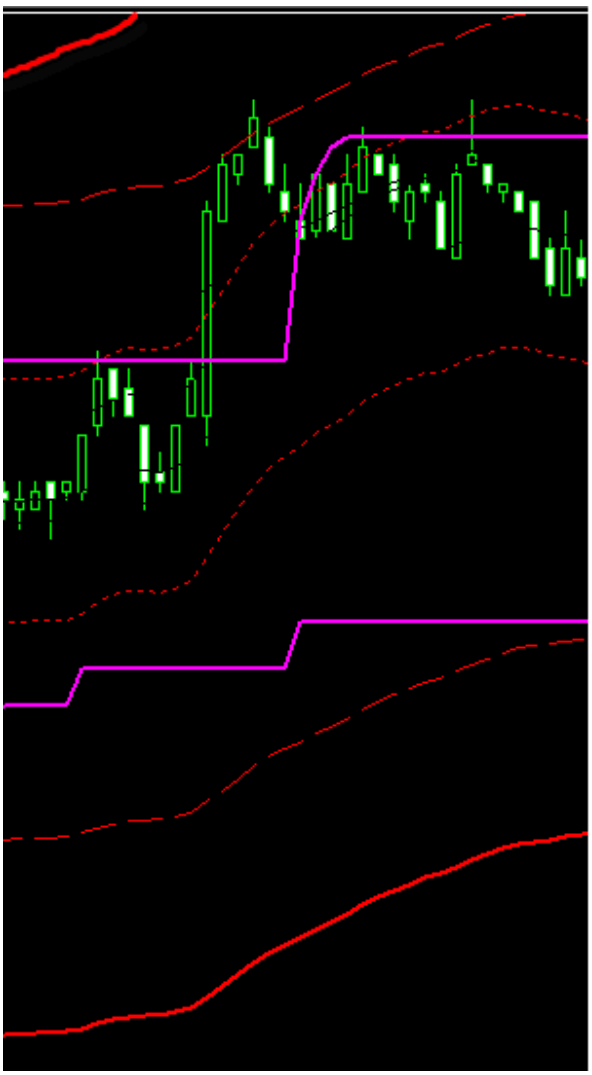
***On all other Reversal set-ups, a 4Bol flip first, then required divergence as;-**

10Bol comes inside 20Bol……*Reversal Extreme (ii)*
10Bol comes inside 20 & 40Bol…… *Reversal type B*
10 & 20Bol now come inside 40 & 60Bol, and flip again…..*Reversal type C*
10 & 20 &40Bol come inside 60Bol and flip again……*Reversal type A (ii)*

Before I go on to deal with Re-entry set-ups, let's deal first with the optional S*mall* charts that I use to accompany the *Main* charts;

The *Small* charts

These charts simply show further supporting channel deviation and are composed as follows:



***Small* Charts:**

Red [small dotted]...1st extreme Fib Tunnel
Red [wide dotted]...2nd extreme Fib Tunnel
Red [solid]...3rd extreme Fib Tunnel
Pink [solid] Upper & Lower Donchian Channels

There are 3 Fib Tunnels on the *Small* charts, for different levels of market volatility. Each Fib Tunnel has an Upper and Lower extreme.

The Small chart above shows a breech of the 2nd extreme Fib Tunnel as well as the upper Donchian channel. Such a set-up added to the technical confluence of a Reversal Set-up on the corresponding *Main* chart.

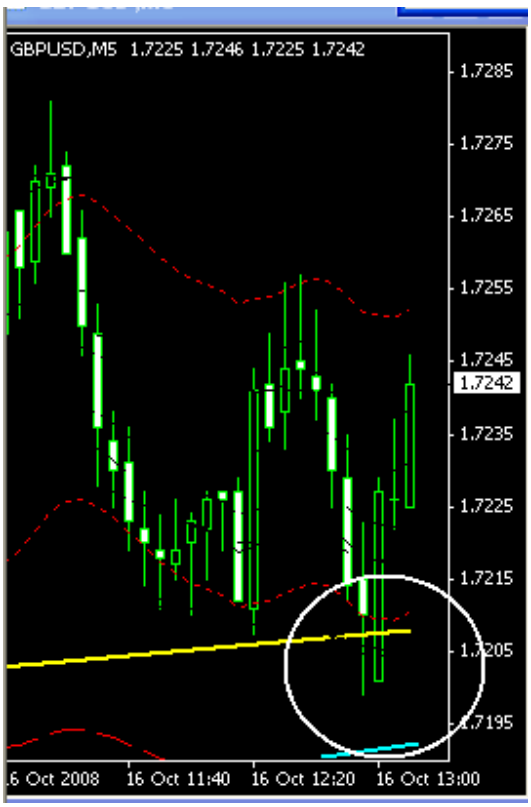
I use these *Small* charts for the 1, 5 and 15min time frames, positioned alongside the *Main* charts. On the 5min Small chart I have the Fib Channels as a further indicator (yellow and aqua lines shown in charts below) and a breech of these can also be a good indication of overbought or oversold conditions particularly if

a. The Upper Fib Channels are descending into price at a potential SBR / Resistance area

b. The Lower Fib Channels are ascending into price at a potential RBS / Support area

Examples of this are given below;

Price breeches the ascending lower Fib Channel and first extreme lower Fib Tunnel;



Price breeches the descending upper Fib Channel and first extreme upper Fib Tunnel and upper Donchian Channel.;

Ok, Now on to the trend Re-entry set-ups;

Re-entry set-ups

This section should be read in conjunction with the brief accompanying doc; *Identifying Potential Supp/Res/SBR/RBS.*

These set-ups seek to identify the highest probability areas to re-enter a trend that exists on at least the intermediate chart (5min) and preferably the higher (30min) trend time frame chart also - following a pullback.

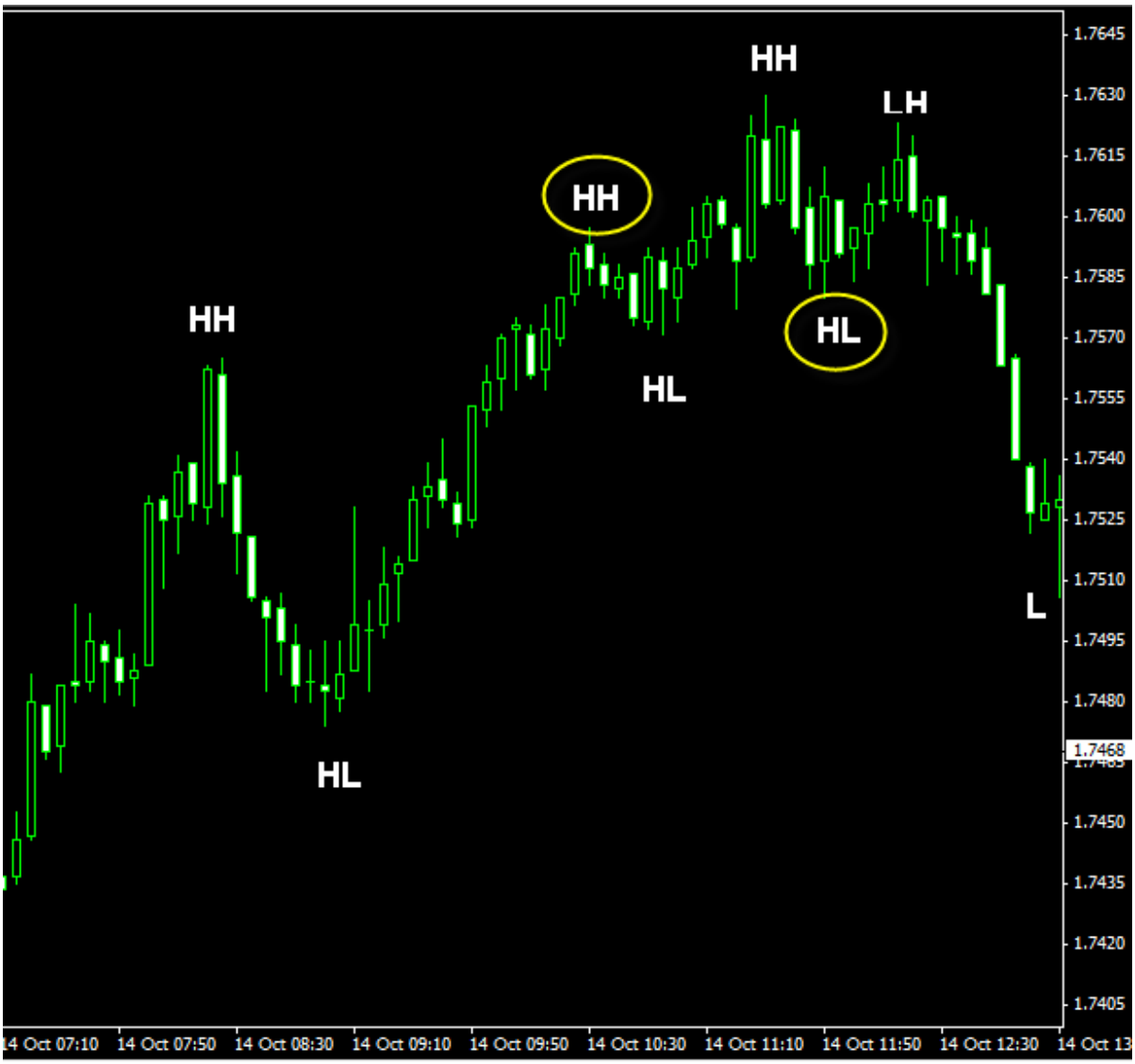
As you know, using overall price action analysis, an uptrend is composed of obvious HH and HL and a down trend is composed of obvious LH and LL swings in price.

The minimum requirement in establishing a trend may be present/developing is either;

a. the break of a range/price consolidation area

or

b. Using an uptrend example; the last HH and HL of the trend is breeched to the downside, possibly after a LH, as in the screenshot example below;



Potential SBR/Resistance now at the breeched HL on any re-test of the area.

In the event of a downtrend the last LL and LH of the trend will be breeched to the upside possibly following a HL. Potential RBS/Support then at the breeched HL on any re-test of the area.

In identifying a trend is present preferably on both the intermediate and trend time frame, a re-entry set-up may develop on either the trigger or the intermediate time frame chart depending on the extent of the pull back.

Generally speaking;

- **A shallow pullback could find potential SBR/RBS at a previous intermediate time frame Support/Resistance area in which case a Re-entry set-up might develop on the 1min trigger chart.**
- **A deeper pullback could find SBR/RBS at a previous trend time frame Support/Resistance area in which case a Re-entry set-up might develop on the 5min intermediate chart, co-existing as a Reversal set-up on the 1min trigger chart.**

A trend that is only present on the intermediate 5min chart is likely to be potentially weaker than if that trend is present on the higher 30min trend time frame (+.) Whatever the case always drop down a time frame to seek out a re-entry set-up at potential SBR/RBS found on the time frame above, into whose trend a re-entry is sought following the pullback in price to the previous Support/Resistance area.

A pullback in a trend is created by sellers overwhelming buyers in an uptrend or buyers overwhelming sellers in a downtrend at a level at which they;

a. Think fair value has been reached and therefore take profit
b. Think the asset is over-valued and therefore sell/buy. Of course if sufficient number of market participants believe price to be overvalued/overvalued, the pullback could be deeper or even be the start of a new downtrend/uptrend.

Generally speaking price does re-test or attempt to re-test the area of the most recent highest highs in an uptrend/most recent lowest lows in a downtrend if only to make an equal or LH/ equal or HL lest the sellers/buyers resume their action re point b. above, and the trend begins to breakdown.

The key technical factors in determining where the optimum place to re-enter a trend is, ie: how far prices will pullback/retrace before the buyers/sellers causing the trend direction assume that better value exists and re-enter the market in the direction of the prevailing trend, are;

a. The technical phenomenon of Support becomes Resistance (SBR) and Resistance becomes Support (RBS) on the time frame into whose trend a re-entry is sought.

b. Whether a repeatable indicator based set-up presents itself at a. above suggesting that buyers/sellers may view the pullback as a better value buying opportunity in an uptrend / selling opportunity in a downtrend

Dealing with a. We know Support and Resistance can be provided by 3 main factors (see the accompanying doc: *Identifying Potential Support/Resistance/SBR/RBS*.) Any breech of Support to the downside or Resistance to the upside creates a potential SBR/RBS area if re-tested following a pullback in trend from the downside/upside respectively.

Generally, the stronger a Support/Resistance area was before it was breeched - the stronger that area may be as SBR/RBS if re-tested from the opposite side. An example of this is shown in the screenshot below, whereby the Resistance area (a) became a potential RBS area (b) when breeched to the upside with several tests of it (c,d,e) before a breech to the downside and a subsequent test from the underside following a pullback which then became a potential SBR area (f) at the broken former Support area (c,d,e.)

In both the cases of the potential RBS area (b) after the Resistance was breeched, and the subsequent potential SBR area (f) after the Support area was breeched; any re-entry set-up would have been sought on the time frame below.

You will see that as the potential first RBS area (b) provided by an upside breech of the previous swing highs/Resistance (a) held and then turned into Support following the first successful holding of the then potential RBS area (b) So this new Support area had several re-tests at c, d and e before being breeched to the downside, the area then becoming potential SBR at point f.

Sometimes it is not easy to identify potential SBR/RBS as a potential area for trend re-entry from just intermediate or trend t/f previous price swing hi/lo areas like the chart example above. In these Instances you may have to consider the other factors such as fibs, previous bids/offers, or trend lines. Of course where two or more of these factors combine – this makes a previous Support or Resistance area potentially stronger SBR/RBS areas respectively.

Moving on now to detail the actual technical indicator based set-ups that give rise to high probability *with trend* trading opportunities at such areas of potential SBR/RBS:

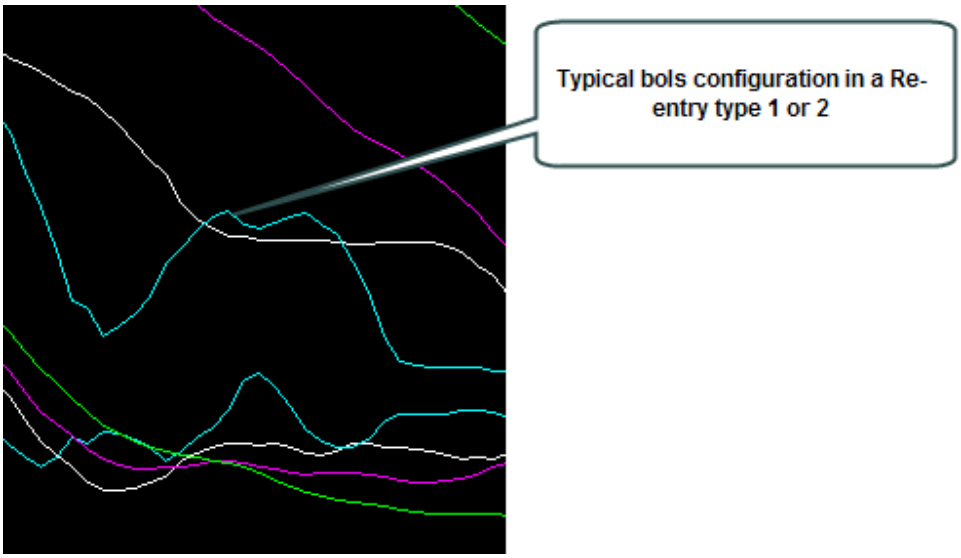
Re-entry set-up types 1 2 3 and 4.

The basis of these Re-entry to trend set-ups is Hidden divergence which occurs when price has a made a LH in a downtrend or HL in an uptrend following a pullback, with the oscillators making a HH or a LL to price respectively, measured from the same place. The Bollinger band patterns are like the Reversal set-ups, the essential second technical indicator component of the Re-entry set-ups.

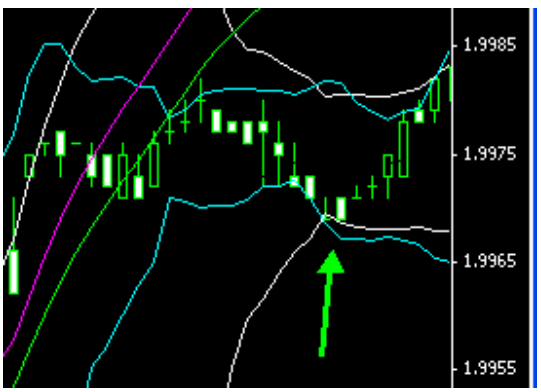
These Hidden divergence based indicator set-ups when developed at a pre identified potential SBR/RBS area on the next higher time frame from that of the set-up, provide high probability areas at which to enter the prevailing trend.

Re-entry type 1

10/20Bol flip, at which time osma and macd show clear Hidden (reverse) immediate divergence at an identifiable area of SBR/RBS.



An example of a typical Re-entry type 1 (or type 2) Bols configuration is shown below;

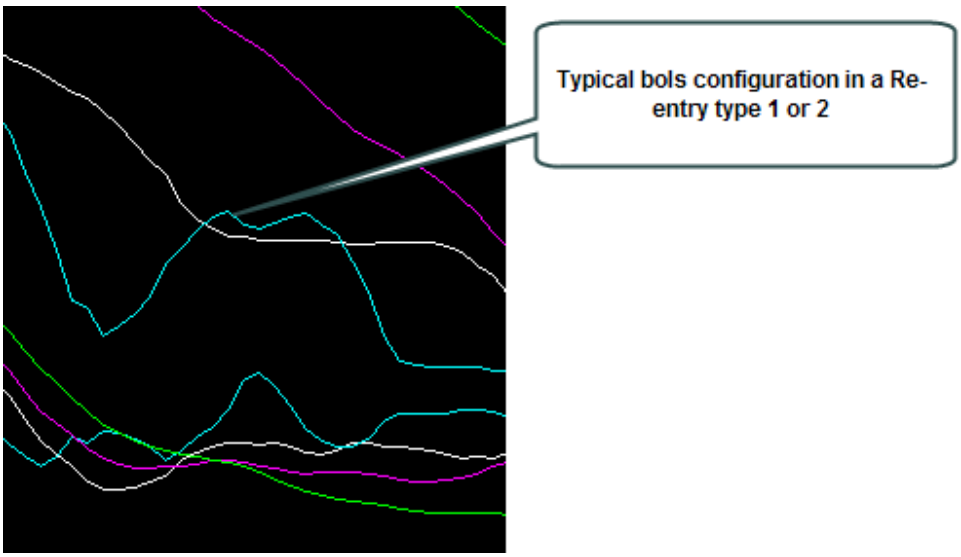


A typical example of a *Re-entry type 1* set-up is shown below. This is a Bearish *Re-entry type 1* to a downtrend.

The following example is a Bullish *Re-entry type 1* to an uptrend;

Re-entry type 2

10/20bol flip at which time Osma shows clear hidden divergence but Macd does not, ...await Macd showing clear hidden divergence too at an area of SBR/RBS, at which time Osma that showed it first before the Macd , now shows regular immediate divergence in the same peak / valley, and the 2 Bol flip as described still exists/now sets-up.



A typical *Re-entry type 2* set-up is shown below;

This is a Bearish *Re-entry type 2* to a downtrend.

The following example is a Bullish *Re-entry type 2* to an uptrend;


1.9705
1.9685
1.9665
1.9645
1.9625
1.9605
1.9585
1.9565
1.9545
1.9525
0.00
-0.0005
0.0005
0.00
-200
24 Jan 12:10
24 Jan 12:50
24 Jan 13:30
24 Jan 14:10
24 Jan 14:50
24 Jan 15:30

Re-entry type 3

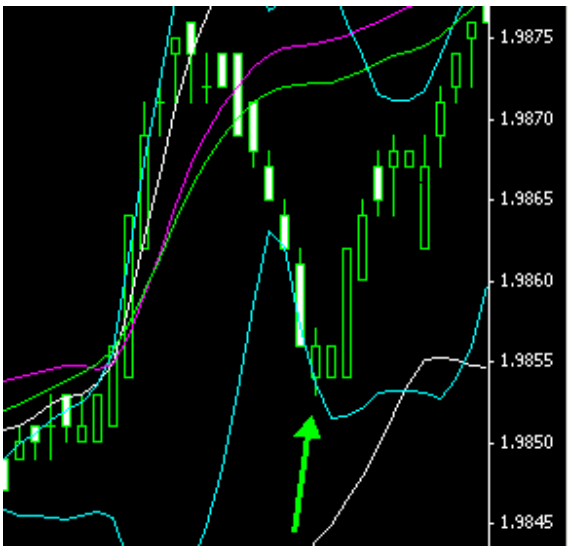
Osma shows clear hidden divergence at an extreme oscillator level , Macd showing clear hidden divergence too at this time. Generally no Bols are involved. Nb: This Re-entry set-up mostly follows a *Reversal Extreme…* particularly in a fast moving market.

The following is a *Re-entry type 3*. The set-up occurred at the then 23.6% fib of the move down, there were also former bids in the potential SBR area and 2 further longer term fibs. The screenshot below shows the set-up.

Re-entry type 4

Clear hidden divergence in both Osma and Macd with price connecting with the 10Bol only;

This is a typical example of the 10Bol in a *Re-entry type 4* set-up during an uptrend.

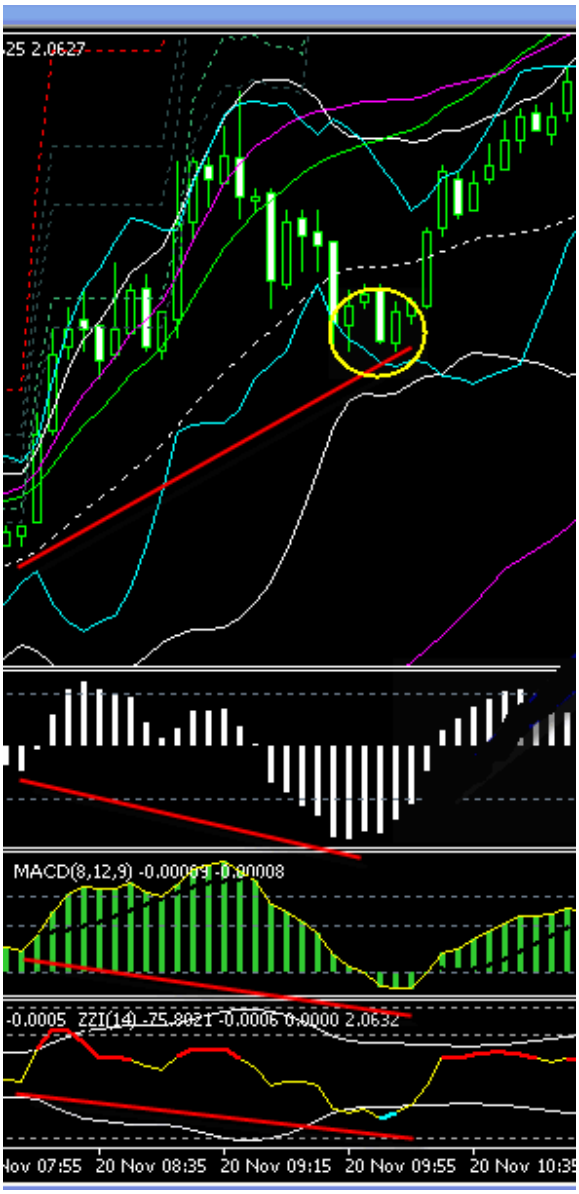


Nb: This Re-entry set-up mostly occurs in strongly trending markets, and the retraces that give rise to it's set-up are generally shallow.

A Bearish Re-entry type 4 set-up during a downtrend is shown on the chart below;

Another example of a Bearish Re-entry type 4 is shown on the chart below;

There follows a Bullish Re-entry type 4 in an uptrend;



So those are the Re-entry (to trend) set-ups to look out for at clearly identifiable areas of SBR / RBS on the next higher time frame from the set-up.

NB: In order to help memorise the Re-entry set-ups it may be useful to use the following summary;

***Re-entry type 1*……. 10/20Bol flip…hidden divergence in Osma & Macd.**
***Re-entry type 2*……. 10/20Bol flip…hidden divergence in Macd/regular same peak/valley divergence in Osma (from initial hidden reading)**
***Re-entry type 3* ……. No Bols just clear hidden divergence @ extreme levels in Osma & Macd.**
***Re-entry type 4* ……. 10Bol and clear hidden divergence in Osma & Macd.**

Guide lines to Re-entering a trend:

1. Re-entry set-ups occur on all time frames. To act on such a set-up it should be accompanied by a trend present on the time frame (+) above the one it sets-up on, and occur at an identifiable area of potential SBR/RBS on that higher time frame.

For example; Identifying a Re-entry set-up on the 1min trigger chart will require identification of a potential SBR/RBS area on the higher intermediate 5min chart, providing that it is trending. Similarly, identifying a Re-entry set-up on the 5min intermediate chart will require identification of a potential SBR/RBS area on the higher 30min trend time frame chart providing that it is trending. (This 5min Re-entry set-up should also co-exist with a 1min trigger Reversal set-up to fine tune the entry.)

2. A Re-entry set-up is highest in probability when the set-up appears at an area making

- A LH in a downtrend
- A HL in an uptrend

on the time frame the Re-entry set-up appears on, and on the time frame (s) above into whose trend the re-entry is being made.

For example, see the chart below.

A series on Lower Highs (LH) and Lower Lows (LL) signify that the downtrend is in progress, so when price retraces to point A, that is a Lower High (LH) and any Re-entry set-up on the chart below there is high in probability, being at a LH on both that chart it sets up on and on the chart time frame above it (+) into whose trend a re-entry is sought.

The Re-entry at point A fell at a LH on both the time frame it set-up on and the time frame above (+) into whose trend (s) a high probability re-entry after a pullback was sought, actually failed to result in a with trend follow thru to new lows below the last LL of the downtrend, retracing back up off a HL at point B, making a H at point C.

Any Re-entry set-up at point C falls at a H above the last LH of the downtrend (at point A) on this time frame so has statistically less chance of resulting in a with trend follow thru than if at a LH, even if that H at point C still falls at a LH on the time frame above into whose trend the re-entry is sought. (As price developed, this was indeed the case, price making another HL at point D before a HH at point E.)

NB: For further clarification on this point please read the accompanying brief doc *Optimum Trend Re-entry Points*.

3. A 1min (trigger) Re-entry set-up requires no 5min (intermediate) main chart confirming set-up, but must occur at a 5min (intermediate) potential SBR or RBS area.

1min (trigger) Re-entry set-ups tend to occur in fast moving trends on volatile days. For a 1min Re-entry to be acted upon, there is one further stipulation;

The 5min (intermediate) and 30min (trend time frame) Macd histogram should be below it's zero axis if acting upon a 1min (trigger) Re-entry in a downtrend:

and above it's zero axis if acting upon a 1min Re-entry set-up in an uptrend;

Similarly if acting on a 5min (intermediate) Re-entry set-up (presenting itself as a Reversal set-up on the 1min (trigger chart) then the Macd histogram on the 30min trend time frame (+) is preferable as detailed above.

4. Generally, if the intraday trend is strong and particularly if it is co-existent with the overall price action trend on the longer time frames above your trend time frame (in my case above 30min,) then the *With trend* direction should generally always be favoured. A market will mostly go further than you think.

Guidelines when to exercise caution on Re-entering a trend:

There really are only a few exceptions to acting upon a Re-entry set-up. They are

(i) If a trend does not exist on at least the next higher time frame up from the one on which the re-entry set-up presents itself on.

(ii) If the Macd histograms on the 2 next higher time frames are not conducive.

(iii) If you cannot readily identify the potential SBR/RBS.

(iv) If technical conditions exist that threaten the chances of a successful re-entry to a trend after a pullback either because the trend may be showing technical signs of exhaustion, or a deeper pullback may occur. These exceptions are detailed further below:

a. When the optimum overall price action trend conditions do not exist on at least your intermediate, and preferably your trend time frame as described. This occurrence leaves the indicator based Re-entry set-ups with a lower probability of success.

b. When a 1min (trigger) Re-entry set-up presents itself in at 5min (intermediate) SBR/RBS area but is opposed by a clear 5min and 30min Reversal set-up that gave rise to the pullback, ….this may threaten the chances of success of this 1min (trigger) Re-entry set-up, ……the opposing 5min and 30min Reversal set-ups indicating that a deeper pullback may be more probable.

Any subsequent *with trend* trading opportunity following such a deeper pullback may present itself as a 1min (trigger) Reversal set-up with a 5min (intermediate) Re-entry set-up confirmation.

Similarly if a 5min (intermediate) Re-entry set-up co-existing as a 1min (trigger) Reversal set-up, is opposed by a clear 30min + (trend time frame) Reversal set-up…it may indicate an even deeper pullback in trend is probable. In this situation it is often better to await 1min (trigger) and 5min (intermediate) Reversal set-ups coexisting with a 30min Re-entry set-up to confirm, at an RBS/SBR zone that is most likely to co-exist on both the trend time frame +.

The rule of thumb is be wary of a 1min (trigger) Re-entry set-up against a clear 5min+ Reversal set-up that gives rise to the pullback, and similarly be wary of an intermediate 5min Re-entry set-up (co-existing as a trigger 1min Reversal) against a 30min (trend time frame) + Reversal set-up that gave rise to the deeper pull back.

The old adage *A trend is your friend till the end when it bends*, applies. Of course if the trend really is your friend, you need to get out more often.

(Actually I do tend to scalp such set-ups in these circumstances anyway <u>if flat</u> because very often price makes an attempt to retest the last HH/LL of a trend even if falling short at a LH or HL, some pips should therefore result for a scalp+ target (hold if momentum is in your favour.)

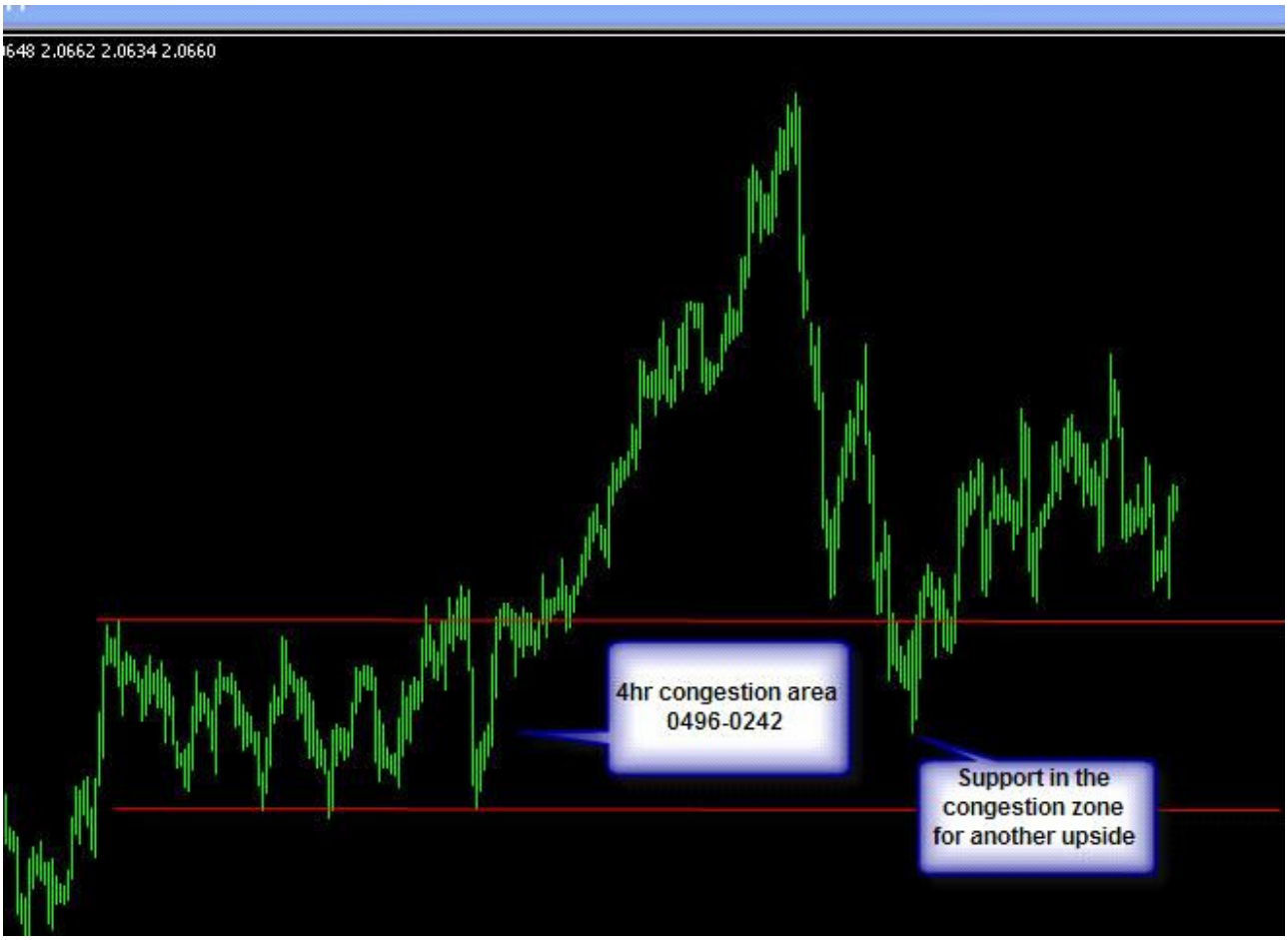
c. Similarly, and as detailed under point 2 of *Guide lines to Re-entering a trend* above, be wary of acting upon/expecting a large target from a Re-entry set-up that follows an obvious HL in a downtrend or LH in an uptrend on it's own or the next higher time frame chart.

Such a HL in a downtrend / LH in an uptrend on it's / the next time frame can be an early warning of a trend change/consolidation/deeper pullback.

<u>Now a special not about price channelling/congestion/ranging:</u>

This is an important phenomenon as the price channel/congestion can act as RBS/SBR if re-tested following an upside/downside break in the same way as a potential SBR/RBS area comprised of other factors like a previous swing Hi or lo areas.

As an example of congestion and how it can act as SBR/RBS: Look at this chart and the congestion channel that set-up in gbpusd between early and mid October 2007.



Price congested before a break to the upside to highs and a sharp sell-off retrace back into the congestion channel finding support for a second upside break. (The technical phenomenon is known as 'congestion 2nd breakout' and it fits in well with the SBR/RBS trend re-entry methodology.)

The important phenomenon about congestion is that it can act as strong RBS/SBR following a break and retrace back into the congestion/channel, as in this example.

Money and Risk Management / Trade management

Trade Exit (Target setting) / Trade management.

Using a high strike rate trading model / methodology the rule of thumb in trade exits is to always ensure that your average winner is equal to or greater to your average loser. To do this we need to ensure that if you gain at least whatever you risked as measured by your stop placement.

The absolute rules are therefore

1. Maximum risk / trade is 1.3% of available equity.

For eg:

A full volume trade will be 13pip stop, but in most cases you will require a longer stop, 17pips being 3 / 4volume and 26pips ½ volume to preserve these risk / trade ratios.

2. Do not move your stop into b / e unless price retraces then exceeds the starting point of the retrace in your favour, or in the absence of this, until the trade is at least 13pips in profit net of spread.

3. When the trade is at it's 1:1 minimum target ...either take the profit or move stop in to B / e and hold for more pips.

I.e.: Be looking at the 5min then 15min then 30min etc... for clues as to the likelihood of more pips. In a Re-entry trade look for an engulfing or thrust / continuation 5min then 15min candle for example, and in a Reversal be looking for a classic 5min then 15min then 30min reversal candle (engulfing, doji, shooting star, harami, hanging man, hammer etc...)

5. In terms of further trade management when stop is at b / e...move stop to above / below the retrace before last on the trigger chart as the trade develops.

For eg: You go short at 00, price moves to 93 so we move stop into -6, price then moves to 85, and by this stage we have either closed and taken profit or our stop is now B / e. Let's say at 85 it retraces back to 95 making a lower high, then continues short surpassing the previous low at 85 and moving down to 75 before another retrace back to 82...only when it surpasses 75 do we move stop into 85, thus trailing the stop above the retrace before last, in this short trend example.

In general you must use common sense and not get move / trail the stop too tightly and risk getting prematurely stopped out of an otherwise good trade.

Stop placement

Stops should be placed both outside of the local swing high or swing low on the 1min chart and outside of the broker's potential price manipulation if price retests the entry area.

For e.g.: let us assume that you await a confirming candle for entry and that your entry is therefore 94bid against a local swing high of 00. The stop should be beyond 00 and slightly above as the broker's offer price could well spike up to take out any aggressive stops on a retest of the entry level area. The stop really should be a 05/06 if offered and this would constitute a value zone for the stop. This would represent a 12pip net risk or 1.2% within our maximum risk/trade ratio.

The main threat to any trade entry in the first instance is potentially our stop placement. You should always seek to place your stop in a ' value zone ' i.e. where the market has not recently been. If for example you have a very good confirming candle, this in itself is a good confirmer but by using the wrong size of stop you may not get it out of harms way....so you must use judgement even if that means using a 3/4volume with 17pip stop, or 1/2 volume with 26pip stop to preserve the 1.3% max trade risk ratio.

Target setting

The general advice regarding target setting for set-ups that meet all the rules... is that the more time frames that there exists a confirming set-up on....the bigger the target should be.

For e.g.: A Reversal set-up on the 1min trigger confirmed by a Reversal set-up in the 5min intermediate chart should aim for a 1:1 - 2:1 risk:reward target. If a Reversal set-up were on the 30min chart also, a 2:1 – 3:1 target could be aimed at...etc

Generally speaking more caution should be taken when setting targets for against trend trades.

If a 1min trigger Reversal set-up present s itself but is un-confirmed by a 5min + Reversal set-up and/or any factors on the small secondary charts then special caution is required in target setting, as it likely represents a shallow pullback in trend only. Of course such a situation in a 5min intermediate range is less risky as no intermediate+ trend is being reversed against...use discretion as to target, but a small scalp target is ok...of course if there exists momentum try and hold and manage stop accordingly.

Summary

This Trading system / methodology encompasses classic price action, both individual candles as well as classic peak / valley trend and range analysis, and classic support and resistance. It also utilises useful and effective technical techniques based around the behaviour and combination of technical indicators at identifiable areas of Supp / Res / SBR / RBS.

As such it is a dynamic methodology and whilst it can be traded successfully once learnt, it's really successful exponents will use it's technical components as a template to personalise their own trading style / technique across preferred time frames. Some may choose the SBR / RBS trend re-entry across multi-pairings, others may choose to specialise with both the (Re-entry) and against trend (Reversal) set-ups it offers in 1 or 2 pairings only.

You may choose to simplify the indicator set-ups or even just rely on individual price action analysis itself at potential Supp / Res / SBR / RBS.