

By Palmer

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I've been taking some time, a lot of time, looking at the 5min method here and Phillip's 3 moving average pullbacks into the 'war-zone' approach. Maybe too much time because my 'duties' in the 4hr thread have been a little thin lately. But, what I have been doing is simply trying to look for the high probability set-ups on the 5min and to try to find out which pullbacks to pass on. I've simply been looking at the ADX14 along with the price action into the 'war-zone'. I haven't been using the SMAAngle indicator, I just prefer to look at the slope of the 50.

All pullbacks to the war-zone marked with the vertical white lines are the first pullbacks and are used as the initial entry with a target of at least 4 pips. 4 pips! Just 4 pips?! It's all about leverage. Price may be in the war-zone for a few candles so your entry and stop are all up to you, timing is everything.

Simply put, it looks like if you can read the ADX 'correctly' you can filter out some of the bad signals and see where the entries should work out correctly. Here's the first 'easy' chart with the ADX:

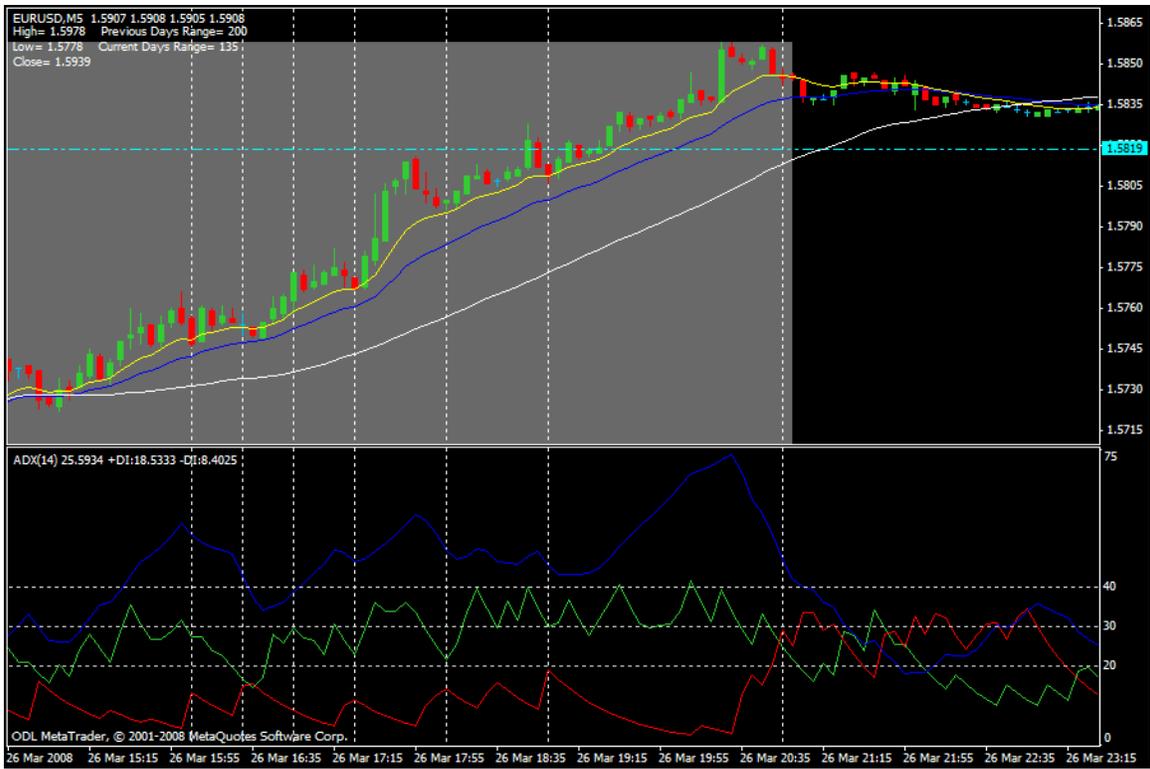


ADX is the blue line, DMI+ is the green line and the DMI- is the red line. To gauge the strength of the trend, see how the DMI- flows with the ADX (DMI- crosses above the ADX when price is falling fast) and the DMI+ has trouble moving to the upside. Now the entries. The 10 and 21 cross below the 50 and we are in a downtrend per the rules. The

first vertical white line is the first pullback to the war-zone. The slope of the 50 might not be exactly what we want it to be yet, but things are starting to set up. The second, third and fourth vertical lines show pullbacks to the war-zone and the subsequent down move that follows. Notice the ADX and the DMI- how they have been trending on top of the DMI+ = strong downtrend. The pullbacks to the war-zone with the ADX and DMI- moving in tandem could be looked at as high probability entries. The first vertical blue line is where the DMI+ finally crosses above the DMI- with the pullback to the war-zone and another down move. But, the DMI+ is still contained within its previous range, important. This may have been the potential for trade #5 for the day and you may have been on the golf course already, I know Willem would be, but either way it was another entry. Now the last vertical white bar, look how the ADX and DMI- are way above the DMI+ and the price move that follows. Go back over your charts and look for this set-up (all of this opposite for longs) and look at the price action that follows, nice. Of course the slope of the 50 has to be there. But, as long as the ADX and the DMI- or DMI+ are ruling the trend as the price pulls back to the war-zone, look at the following price action...high probability.

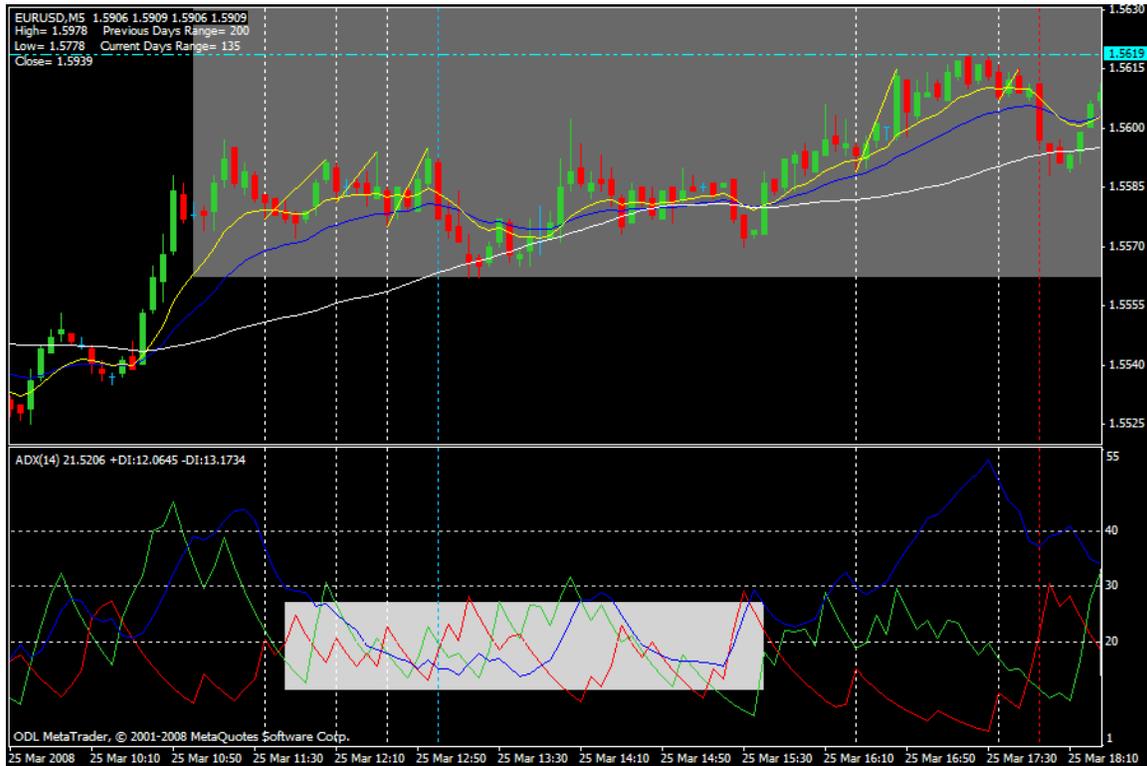
Now the vertical red line. Price pulls back to the war-zone and looks like a typical entry but look at the DMI+. It has reached its highest point since the beginning of the downtrend. A sign of the trend pausing? Weakening? Turning? Either way, caution with the entry, and a low probability trade. By now, Willem is at the 19th hole with a good scotch and fine cigar calling Phillip and thanking him for the free round of golf that the pips paid for. Look at the following price action for the next few hours. Price starts to flatten, the DMI+ makes another peak and a range begins.

As usual, switch things for a bullish trend and here ya go...



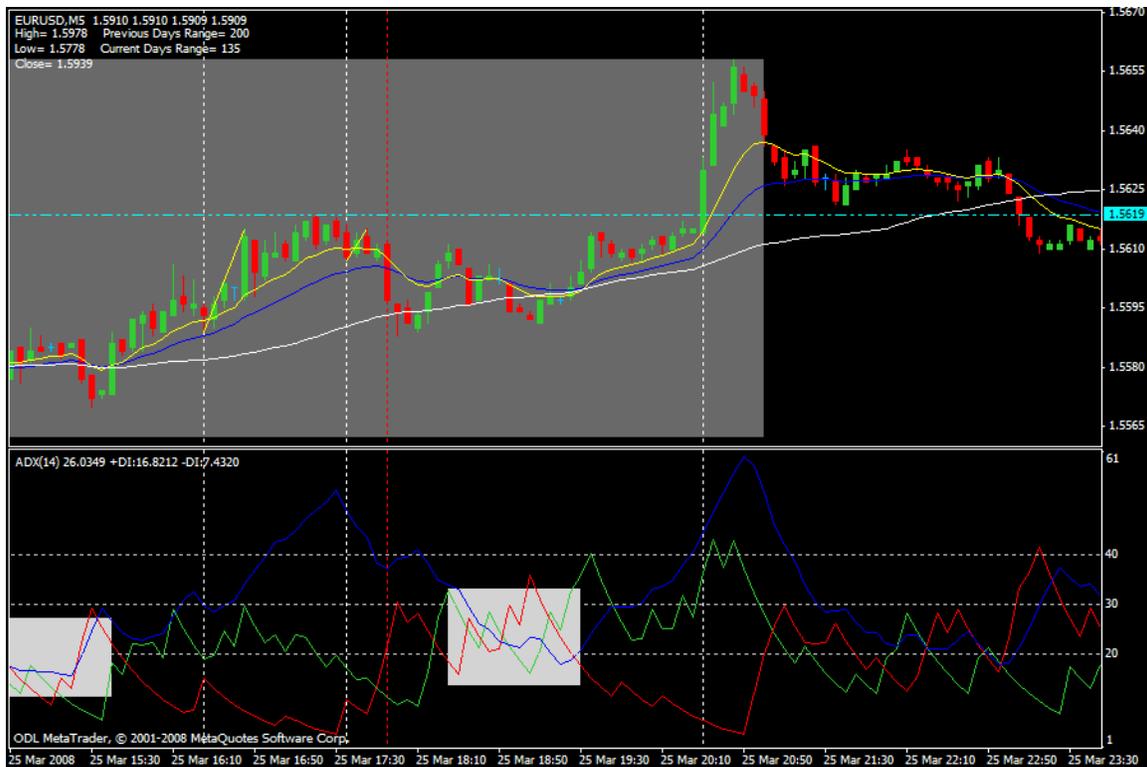
Again, look at the last vertical white bar and the DMI-. It peaks and the trend changes; caution with the pullback to the war-zone.

Now for something more difficult, the above examples are easy. Let's look at some choppy market action along with the ADX.



The first vertical white line: Price makes it into the war-zone (ADX and the DMI+ are bullish), keeps coming down and eventually returns to the upside. Again, timing the entry is vital or just pull the trigger (enter Xaron here) and trust the trend. The second and third vertical white lines are the next entries that work out also. Now the blue vertical line along with the close below the 21 along with the choppy ADX, highlighted box. The 50 is still sloping up but the 10 and 21 moving averages are converging. Price clears the moving averages to the upside again and the fourth vertical white line gives a high probability entry (ADX and DMI+ are strong). The fifth vertical white line is the last entry. This bar closed at 1.5608 and the small yellow line connects the high of the second candle after entry at 1.5615, 5 pips after a 2 pip spread. The vertical red line, price comes down below the 21, DMI- peaks and.....

...chart continues on the next page...



...the ADX gets choppy. The last vertical white bar shows a high probability entry with the strong ADX and DMI+. After the DMI- starts getting stronger (peaks) and the next few pullbacks into the war-zone may have been a little tough to hold on to.

Of course the following is a given:

The slope of the 50 needs to be there.

The 10 and 21 should have several pips between them.

Take note of the news events to come and be cautious of price action before and after the release.

None of this is set in stone and the more chart time put in the better as always. But, using the ADX may provide a filter for spotting those high probability entries and also help you see when the market may be changing direction or pausing.

Just thinking out loud as usual...

-Palmer
04/17/08