Diversified Trend Trading Approach

The Recap....An Overview (March 2015)

By Copernicus (http://www.forexfactory.com/showthread.php?t=514163)

Firstly, a lot of you may have read the entire thread and for that I really appreciate it but I recognise that a lot of us are time poor.....so before they embark on a possible fruitless journey through 17 pages of undecipherable code that this thread may represent....they would prefer a brief summary of the main points to this working feast and then decide if further examination of the entire thread is worth it. That's the main intention of this recap.

The preferred methodology to this approach has had several iterations so that what is being proposed now may not be exactly representative of the approach as defined in earlier posts, but it ultimately will still be necessary to commence from page 1 if you are interested in trading this technique....as understanding the logic and rationale for why this approach has evolved this way is important to those that wish to 'own this strategy' and assists in providing clues to those who further wish to work with or tweak this methodology.

For the purposes of this recap we will be using a variant of the Enhanced Diversified Trend Trading Technique (or EDTT) which is a supercharged variant of the Diversified Trend Trading Technique (or DTT) which was the original technique applied in this thread. Now don't worry because I am continuing to test the various approaches as all techniques discussed are being guided by statistics as opposed to hunches or hearsay. If the stats demonstrate a need for change, we will be right onto it and I will let you know if I am around.

So how does this variant differ from the EDTT itself. Well, this variant **only trades in the direction of the primary trend** defined on the monthly (MN) timeframe. No counter-trend trades to the direction of the primary trend are taken.....why?:

- Because this variant significantly reduces the number (frequency) of trades which is a necessity (for trade management purposes) given that this approach currently trades 24 instruments and it therefore filters those potential lower probability trend moves. Trading in the direction of the primary trend provides confidence that if a trend of any significant duration does occur, then it should ultimately be reflected on the higher timeframe if it has what it takes (eg. levy flight or probabilistic bias as opposed to random walk). The primary trend direction provides the impetus driving all the lower timeframe trends. While we can never tell if a trend is random or fundamental in nature, by adopting this directional bias to trading gives you the greatest chance of being correct, if the trend is a valid real one and not merely random walk. Adopting this variant is your best bet to riding the wave as opposed to being slam-dunked by it.;

- The statistics, though early days, are demonstrating that this technique has a significant probability win rate in its favour and that average wins are of larger proportion than the other direction "agnostic" variants. It does not mean that it will necessarily generate you more dollars, but it means that the total risk exposure from this technique is lower than variants. The nature of a trading approach that offers some hope for 'sustainability' lies more in its risk management measures than on its profit potential.

Given that this is a variant of the EDTT and only takes in-trend trades, we will henceforth call it "EDTTI".....*gasps*....I hate acronyms but this will save me some considerable writing space.

Be patient with this recap as it may take some time and a number of days to achieve, but please ask questions and provide your input as it really makes my day in being able to verbalise my thought processes and I learn as much as you all do with this process.

Ok, ready to start. .....

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Commence with a clean chart in bar chart mode and pick an instrument that you would like to include in your portfolio. **This technique applies to any of the following asset classes namely forex, indices (CFD's) or spot commodities.** I can't say whether it works on equities and other asset classes simply as I haven't tested this technique on them but..... it appears evident that this technique is 'instrument agnostic' which is what you want with a robust durable trend trading strategy.

We will choose for this recap good ol' USDJPY....but in reality any would suffice but..... I have chosen this (in hindsight) as I know what the following recap will demonstrate and for the purposes of learning this technique we want to know how to trade a trend.....and we have a cracker in store for us. But remember....life is like a box of chocolates.....you never know what you're gonna' get.

Just remember that this discussion will focus only on one instrument.....keep in the back of your mind as we step through this that in a diversified portfolio you could be looking at over 20+ instruments. So speed of execution and decision making is going to be essential and for that, the correct platform for this technique **'really matters'**.

Also remember this as we step through the recap. This is **not an elegant trend following technique** with exact lines and formal patterns that would be traditionally regarded as a trend. Such an approach is counter-productive in trading a diversified portfolio as you need a technique that is fast and identifies upwards or downwards price movement of significance...no matter what the pattern. This technique **is one of brute force** that works well in stochastic markets and cuts through any illusory pattern you may think exists, to deliver absolute returns by only focussing on the barest rudimentary pattern of all....and that is whether price is going up or down in a concerted and sustained effort that may deliver a 'real' trend of substance.

So a trend in this approach takes on a different form to that which traditional trend chartists may agree on. This is a no b...hit fast punch-through technique where considerable discretion is allowed for. We are not dealing with exactness ladies and gentlemen as this market exhibits significant random behaviour but what we are hoping for is that in this general random noise there perhaps is a 'sniff' of a kernel of co-ordinated price movement deep within the price pattern.

So don't worry about exact placements of channels and predictive entry points as these allow for considerable discretion. In managing a diversified portfolio, it pays dividends to not be too anal about things. All we want to ensure is that we participate in any significant price movement and therefore we are not too selective in how this directional price unfolds. As a trend trader who depends on directional price movement, we want to enjoy as many as practically possible as in the scheme of things this market tracks more sideways than it does in the vertical dimension. You just want to avoid where possible that damned sideways movement, or what I refer to as price congestion.

The recommended template for a proposed 'single' instrument is below.

Note the following:

1. Clean chart with only information made available that is helpful to this technique. Forget any other additions. It might make a less elegant chart and give the appearance of 'too simple to be practical'...but in essence that's just what we want. To be brutally honest, we could also be working just with line charts as opposed to bar charts as that really is all you need with this brutal technique.....but I personally prefer bar charts. Note that there are no candlestick charts. Their use is not a problem but their colour and the unnecessary information, that you won't use anyway for this technique, quickly gets these charts unnecessarily complicated and visually difficult to interpret. Speed in application is an absolute necessity in this technique, so please make it simple for yourselves.
2. The timeframes we monitor are monthly (MN), weekly (W1), daily (D1), 4-hourly (H4), hourly (H1) and 30 minute (M30). You will need to develop a template for each instrument that allows you to quickly switch between them without recreation.....and if you have a portfolio watch-list like mine....there will be 24 templates...plus a summary template (which I will get to later). "Oh my god (I hear the cries).....that sounds too hard".....na, it's not, and familiarity over time makes management easier. One click and a new template is up. That's how it should be ladies and gents.
3. "What is that platform you are using".....ProRealTime
4. Why not MT4..... Personal preference but also because my preferred platform offers 'trade by chart' functionality and a very user-friendly interface...but this shouldn't stop you using MT4 if you prefer. This technique works on any platform offering 'Standard Deviation Channels' but you need to ensure it 'works for you'. I find MT4 not as user friendly as ProRealTime, but that's just me....and I am a teapot anyway!!!!/ tic

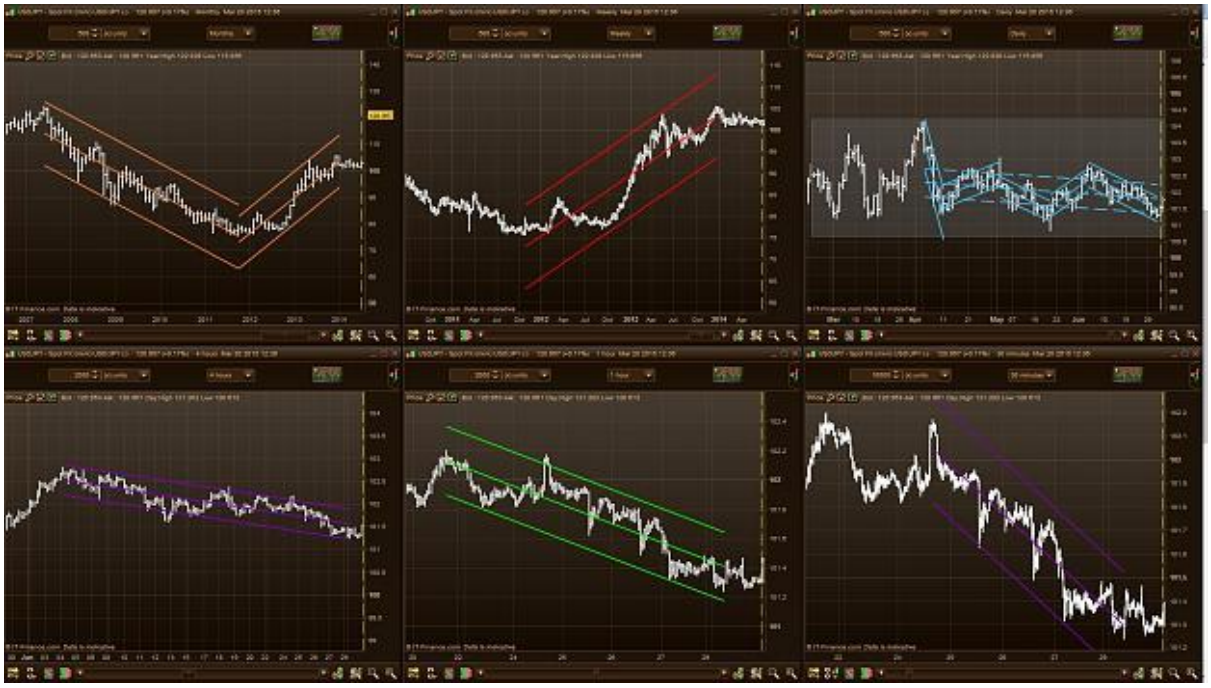
So now have a look back at the USDJPY template above. Before you do anything further, make an assessment visually of what timeframes are trending. I have synchronised all timeframes to be representative of a point in time in late June 2014. Get the feel of overall price movement.

What we are going to do now is ensure we are all defining that price movement the same way, not by personal chart reading but by applying the only indicator you will use in this technique...being the Standard Deviation Channel (SDC). By using this device, we ensure we are all 'see' the same thing

with price movement. This avoids any subjective judgement that may be deceiving you.

Next post..applying the SDC to reflect a possible order that exists in this chaos that we can all agree on.

Application of the SDC on all timeframes to determine..."what's goin' on".



Error to chart above. The colour scheme on the M30 timeframe should be beige....not purple, which is the colour scheme I adopt for the H4 timeframe. Sorry about that chief :-)

Ok now this requires some thought while recognising it is not an exact science.

I simply choose high and low points on each timeframe that represent the commencement and end points of general price moves in the upward or downward motion. Now even using this principle we still run into interpretational problems as the chart reader who is pedantic will be insisting that a price move actual commences *here* and ends *there*. Don't worry about this precision but heed the following advice.....the longer you can determine general directional price movement, **the more valid is the information contained therein of the general nature of any possible 'hidden' directional order in that chaos.** So where you can, stretch it out. If you have two low bars that are separated in time and differ in height with the most recent actually being slightly lower or higher than the preceding bar, then use the preceding bar. What is lost in exactness is made up for in creating a wider SDC which gives more room to breathe and is a necessary pre-requisite in dealing with unpredictable price movements.

HINT: Is this hopeless search for exactness a fundamental trap that all heavily rule based systems and EA's fall into when in fact in this highly random noise of the market, no such exactness ever exists?....now that's something to mull over. So in the absence of exactness, isn't it best to use the tools of probability itself to determine the most 'likely' action to take. I will leave you all to ponder that one.

So refer back to the chart with fresh ideas and look at where I have extended my SDC's from and to. Note that I am extending from a broad interpretation of a high/low to a high/low in the information that is made available to me. I will stretch out the chart deeper into the past if necessary to ensure I am

dealing with a single phase of directional price movement that can make some weird patterns in unfolding. They key thing is that the SDC will create order to this weirdness.

Q&A:

1. What settings are used for the SDC on each timeframe?.....A setting of **1.0 *thanks genie*** width with each SDC drawn having a distinct colour that allows you quickly identify the timeframe (sorry to those with colour-blindness out there...but choose your own distinct visual identifiers of a distinct timeframe).
2. Why a setting of 1.0?.....The width of the SDC signifies the probability of closing price on a particular timeframe to lie within a statistical variance from the mean of that price range by a certain percentage. With a width of 1.0, the data distribution (of closes) is (with 95% confidence) representative of 68% of the data values. A width of 2.0 represents 95% of the data values....and 3.0 represents 99.7% of all data values.
   Sure to be safer than sorry we would love to have as wide a SDC as possible to give room for future price movement to breathe but with this technique, this of course correspondingly reduces trade risk% (which we will get to) resulting in smaller position sizes. A width of **1.0** is in a sense optimised for this method of trading where you want to make hay when the trend shines but avoid leaving too much profit on the table for the flock to enjoy....and of course this means that more frequently you will be whip-sawed prematurely out of trends but you can always re-enter them later and some of the longer term timeframe trades will just sail through it as their **'relative'** SDC is wider in the sense that the range between entry and stop is considerably larger even at the same width setting of **1.0**...but also remember you need to 'own this strategy' so choose the setting of your choice after you have strenuously tested it empirically.
   The width of the SDC is defined by price volatility around the mean and this provides an excellent indicator of average true range. Accordingly the width of the SDC is used to define your stops so in volatile markets, the width of the SDC is wide for **1.0**, and in less volatile markets, the width of the SDC at **1.0** narrows. You will see that over time in its application the SDC 'breathes' to the tune of the market just like a Bollinger band....and that is not surprising considering the most distal end of the SDC actually represents a moment in time of a Bollinger Band.
3. How is the SDC different to the Bollinger band.....The SDC only concerns itself with price movement within the defined extent of the channel and as we draw the SDC from high to low or vice versa, it therefore is only concerned with the price data of the trend itself. It excludes those periods before and after the trend is identified unlike a Bollinger Band that simply looks at X bars back to define the statistical variation of price irrespective of whether that price series is trending or not. In riding the trend, the SDC gives me greater relevant info relating to trade management (which we will progressively see in this recap) than that delivered by a Bollinger band.....though I still really really like them anyway.
4. What is the centre-line in between the outer extremity lines?.....That is a very significant line which is the mean regression line (or linear line of best fit) associated with the price history contained within the entire channel. This is the line that represents whether price on average is going up or down and it's speed of movement (represented by the slope). A steep line is a fast trend usually of shorter duration than a trend with a lower slope....but remember we want to be riding a trend irrespective of the slope and some of the better trends to ride are those with a progressive build in momentum over time. They may start out as trends on original low slope that progressively pick up steam over time. I actually prefer a less ambitious slope than a fast trending slope as the former tend to have longer duration and ultimate directional movement in price extent.....but you really can't afford to be picky. Up is up and down is down and that's the way you need to treat it.

In a nutshell guys, the reason why I don't use a traditional trend following technique (even though there are some crackers out there...thinking Fartist, Graviton, Stevepatt...) is that I am after a tool that deals with probabilities and not exactness. Namely the Standard deviation Channel. This makes me enter more times than other techniques but with miserly risk management we can deal with that and ensure that as soon as a trend sniffs, I am onto it. :-)

So now, look back at the template above. What is it telling us about the recent history of price movement. Which timeframe is trending and what is it's speed (or momentum) and volatility ?

Firstly you should be looking at the highest timeframe chart to see the direction of the primary trend. We will only be trading in that direction. Quite evidently the primary trend direction in this example is long (or up) so that's the direction we will trade on all timeframes.

Q. What if the MN timeframe isn't trending and we can't define a direction of the primary trend?.....A) then go to the next timeframe down to determine the primary trend direction and so on and so forth.

So, back to the example...we have a primary trend direction which is up....good, so we will be going long on all timeframes.

The W1 timeframe is also up.....that's great. It is also quite convincing and appears to have good momentum.

The D1 timeframe is a mess!!!! What's up?....well in attempting to draw your SDC's, there is a lot of confusion in where to draw them from. It's up and down and up and down.....*aaaarg!!!*. That's a sign that the instrument on that timeframe is range bound. There is very little price information you can extract that gives confidence that a valid long trend also exists on this timeframe in recent history. What I therefore do is extend the SDC across the entire section (hashed lines) to let the SDC attempt to work out general price direction across the entire series. In this example, there appears to be a small short (down) bias in the price series....so nothing to see here at the moment. Avoid this timeframe until solid evidence for directional price movement 'long' emerges.

The H4 timeframe is short (down) but it's momentum in reality does not appear to have much oooomph. Also this is counter to the primary trend direction....so avoid until the direction changes.

The H1 timeframe is also down but appears to have good momentum...however...yuck....avoid as it is counter to the rule of this technique.

The M30 timeframe is down as well and boy that looks fast. Should I be shorting?.....No, because you will then be counter-trend trading and it is likely that what you are seeing is a simple retracement move before the next leg up on the higher timeframes....but yes, you might also be lucky and be at a trend turning point on the higher timeframes and therefore possibly entering at a nice early position in the future downtrend....but that's predicting and not in accordance with the rules of this approach so stop that brain doubting the technique and stick to the strategy.

Putting D1, H4, H1 and M30 together, these are representative trend retracements of the primary trend represented by MN and W1. Now look at MN and W1 and see which part of the chart represents the price history represented in the shorter timeframes.

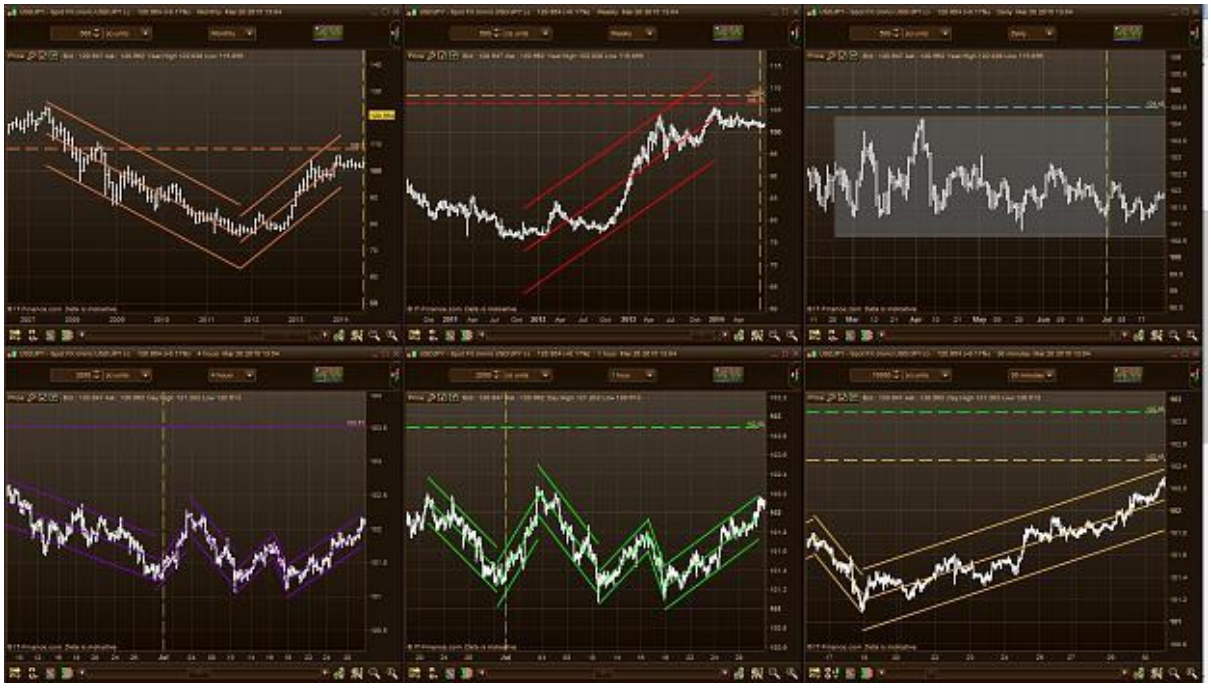
Ok, so we have our SDC's drawn and we now have a feel for how the market is trending on different

timeframes. Now it's time to get cracking and work out my predictive entry placements to ride these suckers.....**but lunch calls. I will be back to continue.....**

Any questions so far for my return? Just nominate the Post number and the query that relates to it

SETTING PREDICTIVE ENTRY LINES

"Hold on a minute Copernicus....you said this wasn't about predicting? Just ride the trend you say".....Ok Mr wise guy, in reality what these lines represent are simply reference points to indicate that if price reaches that level, to redraw the SDC and see if a valid trend appears to exist. I therefore give sufficient space on the relevant timeframe to allow a suitable price pattern to emerge so I can shout 'trend ahoy' and if valid then jump on board. I am a surfer out in the market sea and I am positioning myself into a location where if a wave surge exists, then it should be substantial enough at that place for me to ride it. I actually have no prediction or idea if price is actually going to reach these lines at all. They may or may not...but I am visually and figuratively positioning myself to take advantage of them if they do.



Note that the chart above has moved forward in time to the chart presented in the prior post. You may be wondering how the hell the M30 trend slope is now up and that is because the charts above have moved forward in time.

So what goes into my thinking in determining that place to sit in wait?

Firstly we are in-trend trading so on each timeframe there is only **one predictive entry line**. Not two as in the DTT or EDTT. That predictive entry is positioned for a break-out trade where a new high or new low is clearly reached in the relevant timeframe and in accordance with its position ahead of the current SDC line you have drawn on your timeframe. For this example, the primary trend is long so all the predictives are place for a long trade only.

Why don't you look at retracement entries. You get a better price on entry?.....well the main reason is that being selective on entry like this means you may actually miss some moves if you are not able to jump on board with such techniques. Once again this is a brute force entry with minimal decision making to ensure we can get on board every trend of substance. The point is that in this technique 'a

sniper entry' is not needed but most importantly you don't want to miss the wave as it could be a while before they return.

I frequently set pending orders to buy at this point if I am going to be away from the screen. However it's nice to at least confirm the nature of the historic price movement immediately prior to this preferred entry point so if it is clearly haphazard in nature with extreme volatility on say a single bar or merely a few.....you want to avoid these one's. In these instances, then simply put your predictive entry further away to allow time for the volatility to settle down or obtain further price data to more exactly define this volatility with greater precision.

"Are there any rules here?"....well not really as more importantly it is experience that counts in that respect here. Get familiar with the SDC and entry placement and you will start to get a feel for it. Ideally you are after consistent prior past action with directional bias and lower volatility....but once again....don't get to anal with this. Just avoid the really obvious volatile nightmares that may comprise a single 'finger of death' price movement and are not truly representative of the entire time series of price action that has occurred in the channel up to this point.

Note also that these predictive entry lines give a bit of room above previous highs and lows....well that is because I am suss about false breakouts and it is a legacy from direct experience I have had to deal with. I am prepared to give some profit away than get too lean and mean with my breakout entry.

So now look at the template above and the overall scheme of things with predictive entries.

Note that the M30 predictive entry is close to where current price action sits. If price reaches this point to trigger a buy, this will be the first position to be activated.....then a bit later the H1 entry.....then the H4 entry.....then the D1 entry.....then the W1 entry....then the MN entry.

This staggered entry across timeframes is going to have a similar, but better effect than traditional pyramiding on a single timeframe. The reason for this is that the defined stops on each associated timeframe are configured for the trade risk% associated with positions taken on that timeframe. As a result, and this is important....you may get knocked out by temporary price whip-sawing of your positions on the lower timeframes while those positions on higher timeframes are preserved. All that means is that if trend resumes in the primary direction on the lower timeframes, you simply climb on board again while at the same time enjoying the additional profit retained on the longer timeframes. The traditional pyramiding technique on a single timeframe means that when the last position is knocked out, you close all positions remaining on that single timeframe to lock on a defined (but possible lower) profit...and then if trend resumes you have to start all over again, building the pyramid from scratch.

Now we have the predictives in place and the SDC's established on all timeframes, we are ready to rock and roll and see what this market delivers.

But note here ladies and gentlemen, that we are starting from scratch at this point in time. We have come to the screen with no existing positions in place and we are starting this technique from ground zero. Here is what to expect. Whenever you shut down the portfolio or come in from scratch to use this technique, expect losses early as it takes time to get into the rhythm of the market. Unfortunately it is a fact of life. That's why when I shut down the portfolio in January and returned shortly after to re-establish it again, the first few weeks were 'painful' as a number of losses were incurred particularly on the short timeframes before I got into the rhythm. Also the SDC from a prior loss is often preserved if price returns in trend after a whip-saw quickly which allows you to extend the SDC further to include more price action and better validate the directional and volatility nature of the extended price move.

Ok. I am going to leave things here for a bit. The recap is going to be a longer exercise than I anticipated but if you can be patient, it will ensure I can attempt to anticipate any possible queries and incorporate them into my discussion. It may take a few weeks and I would like to restrict this recap to my Saturdays. It is quite exhausting and furthermore it gives everyone time to digest this more slowly and bring up questions and queries before we progress.

Farewell for now. I apologise for this delay but I will temporarily be returning as a git on this forum generally and will re-commence next Saturday. I will also be re-reading my prior posts and further amending and editing if required.....and also responding to queries if required on the recap so far.

The post next Saturday will commence where we have just left off. Where we will start trading this sucker if probabilistic price action confirms entry. That's where the real fun begins. Stay tuned.

The Recap continued.....

Greetings again all.....

Given that a number of participants are well ahead of the curve in their understanding this technique, rather than wait for next weekend to finish the recap, I thought I would give it a good nudge tonight to allow interested folk to fast-track in the learning curve.

Well since the last post of the recap we have had a few days to become familiar with:

- the creation of a template for trading a single instrument using a clean chart;
- applying the SDC with a standard setting of 1.0 to determine which timeframes are trending, their volatility and in what direction;
- establishing predictive entry lines in the primary trend direction; and
- a bit of a discussion as well from queries.

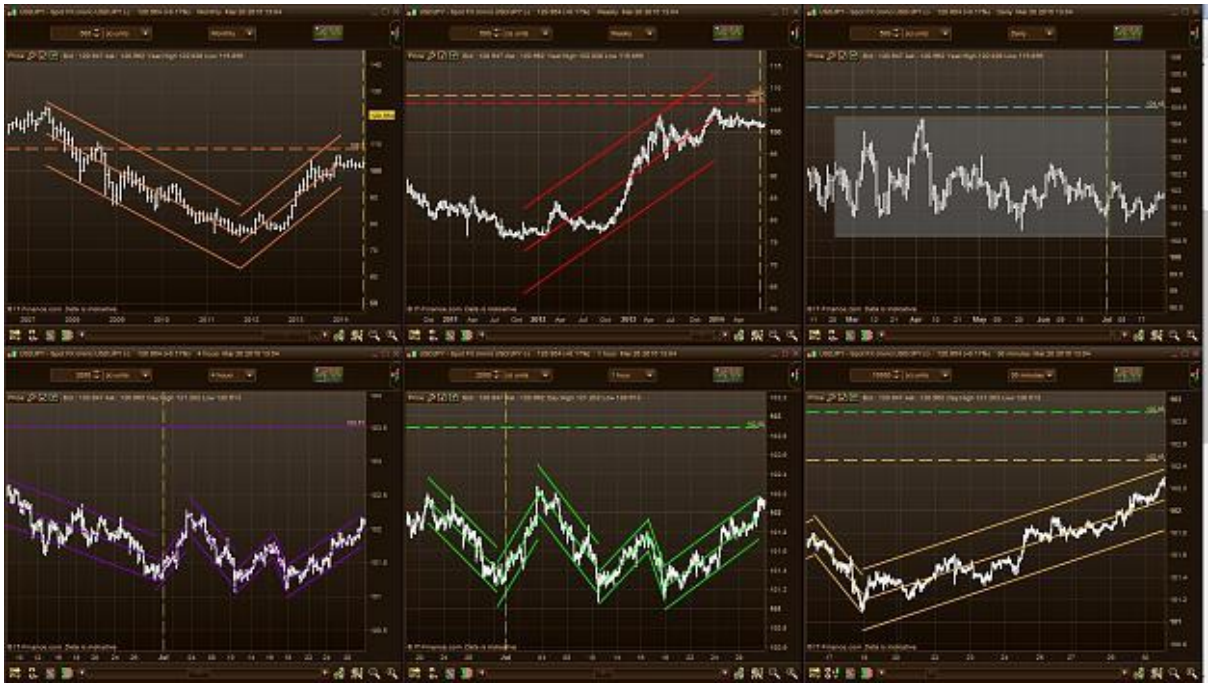
What you may note regarding the positioning of predictive entry lines in the direction of the primary trend is that you have effectively established an impermeable barrier on all timeframes that ensures that if price breaks out on the upside, that you will always catch the movement. This is unlike other traditional trend following models that are more selective in entry technique based on a particular trending pattern.

Of course this means that on average you will face more losing trades if price movement is of a random walk nature as opposed to a biased determinate pattern. For this reason, with this approach you must be aggressively risk averse...but with it comes the rewards if price indeed makes a protracted run in a single direction. In trending periods, this approach will literally clean up delivering exceptional returns for a trend following system, but in non-trending periods, you can be hampered by excessive drawdowns if you are not miserly with your risk management approach and if you do not set fairly wide predictive entries to allow a trend to form and discourage trade entries within potential price congestion ranges. Do not be concerned that you have left the run too late for trend entry with the placement of predictive entries that appear to be too far away, as all you are doing is adding substance to the possibility that the trend is a real trend by doing so.

Anyway, back to the charts.

Now the fun begins as we are now ready to trade.....So let's step forward in time with our USDJPY template and see when our first order is triggered. But just note that this post is probably going to be the toughest to get a handle on as it involves some maths...but bear with it because it gets simpler after here.

The Chart below highlights how price on the M30 timeframe is now approaching the beige predictive entry of that timeframe and the consistent directionality in price movement appears to be trending. Our trigger fingers are getting itchy



Note how there appears to be a fairly well defined and orderly trend in directional price movement in the M30 SDC channel to this point, which is making us confident that the entire price series may just have that small bias, suggestive that this may not just represent random walk in action but possibly part of a longer term directional move associated with some significant economic factors driving the MN primary trend.

Of course we never really know whether the trend is simply a random walk movement or random price movement with a small bias, but we like to think our chances are better in riding a portion of a larger secular trend of the market with this unfolding price action.

At this point in time when a potential trade is imminent we are checking on the nature of volatility of price in the SDC to ensure that upwards or downward price movement in the SDC is not being significantly biased by a few bars in the overall channel.....now all seems good.....so we ensure we set an alert at the predictive entry line (if you are trading by charts) or if you are not, then get the order ticket up and waiting.

What we are waiting for is the bar immediately prior to entry where we define position sizes and our initial stop for the trade and initiate a pending order or prepare for a manual trade entry. Now be aware that you can anticipate that the next bar is going to breach the predictive, but you can never be sure, so the following process may need to done a few times (adjusted) before an entry is confirmed.

So let's move forward again in time on the charts and see what the market brings.

Ok, we have a breach of the beige predictive entry line (M30) which is actually visually a bit late for the purposes of this point of discussion, but for demonstration purposes at least this breach has confirmed that you have entered. So let's imagine a point in time immediately prior to the bar before the breach of the predictive entry line.

Take the following steps to prepare the setup.

First you drill down into the relevant chart to clearly see what's going on.

Now where we are actually in time is on the bar immediately prior to the predictive entry breach but note the following process needs to be finalised on **the *close*** of this bar immediately prior to the bar of entry, so the final verdict of entry condition and position sizing is actually made when the new bar of entry commences forming.

Why?.....because if you extend the SDC to the current bar it continues to redraw every time price moves on that bar (on the current close) and we do not want an SDC that repaints.

So what info do I need to set the pending order entry? You need the price of entry (which is the value of the predictive entry line) and we want to ensure that if price movement goes against us that the maximum we lose is a **defined trade risk % or less**. Hence we want to define a stop that is **consistent with this technique and not an arbitrary one** and clearly defines when the approach tells us when it's time to get out. Given that this approach measures a trend from where price action moves within the SDC channel, a suitable stop is therefore where price touches the outer SDC channel to ensure that the SDC itself is breached. Given the required location of the stop, we then want to ensure that our trade risk exposure is defined.

For the purposes of EDTT1 we use the following trade risk% guidelines:
M30 = 0.25%
H1 = 0.25%
H4 = 0.25%
D1 = 0.50%
W1 = 0.50%
MN = 0.50%

What does this mean as far as risk goes?.....well if you have a $200K trading account, you are therefore only risking $500 for an M30, H1 or H4 trade or $1,000 for a D1, W1 or MN trade. If you don't compound profits, which I don't, your trade capital (provided you are not in a capital deficit....which has occurred once or twice with these various approaches...and in those instances I just top up the account using past profits)....will stay at a constant balance of $200K leading to a consistent $ risk on your trades.

If you compound profits (put them back into trade capital) then simply ensure these trade risk %s are observed and calculate the relevant $ risk each trade.

Why the different level of risk between M30, H1, H4 and D1, W1 and MN?..... This is because the back-test is concluding that trends on the longer timeframe have a greater directional extent. I have a hunch why that might be, but cannot with any certainty say exactly why. The hunch relates to the notion that sequential real economic underpinning factors are accentuating trend bias (or levy flight) on the longer timeframe. This is also supported by the research paper a few posts back examining trends over history and their nature. There has been an observed reduction in the number of trends of shorter duration over history but no significant change in frequency of long term trends has been identified.

But aren't I exposed if I have trades on all timeframes running at once?..... No you aren't, because given the staggered entry into trades, to have 6 trades on a single instrument running at once, you have built up a considerable on-screen profit on some of the timeframes which therefore more than compensates for any risk deficit on a single timeframe. What this effectively ensures is that we are risk management Nazis with this approach and find that we are never exposed for more than say 1.00% at any one moment in time. We also use a trailing stop once the trade has been entered (which well get to shortly) that ensures that our risk is actually even lower than these minimal levels.

But that's just crazy talk. You can't effectively trade with such low trade risk?.....that's where I beg to differ and is a singularly powerful myth that is perpetuated in trading circles and has been disproven by empirical testing with these approaches. I am not sure where the old 2% rule emanated from.....but that is far too generous with this technique if you want sustainable returns.

Ok now back to the last chart. We know we are applying a trade risk% of 0.25% for the M30 timeframe and we have an entry price of **102.45** determined by the predictive entry line, so what position size is required for the trade and where do we place our initial stop (which I refer to as the initial hard stop)? .....Well for this, we need to define the placement of the stop and the distance in points or pips between the stop and entry referred to as **R.**

Refer to the chart and look at the placement of the initial stop at the most distal end of the SDC. This is where you place the initial hard stop for if price reaches this point immediately after entry, this is where your SDC will be breached. The value of the stop on the chart above is therefore **101.822**. Ok, now to calculate R which is the difference in pips or points between entry and stop = (102.45 101.822) = 0.628 = 628 points or 62.8 pips. The reason that we need to know R is that later in this technique, when the trade is 2.5R in profit (or 157 pips in profit) you will then need to alter the SDC width from 1.0 to 0.5 to reduce the width of the channel and restrict the distance to the revised outer SDC channel and ensure not too much profit is sacrificed when the trend bends.

So far so good. We have a graph entry price (E), A graph stop price (S) and now R. Now comes the harder part, we want to convert R into a Capital risk measure that incorporates an estimate of all costs of the entire transaction but still lie within the required 0.25% trade capital risk.

What do we mean by the entire costs of the trade transaction? This means that we need to incorporate into this risk measure:

- the estimated spread of the entry transaction;
- an estimate of any anticipated holding costs; and
- a contingency estimate for slippage.

Now it is important to note the following feature when trading by charts. Typically you will be used to a buy/sell spread for a transaction, When trading by charts the midpoint between the selected buy/sell spread is used so we need to break the spread into two separate components which is approximately of the transactional spread costs.

We break this into two components being the spread on entry and the spread on close and remember that the spread throughout the transaction changes. Now in live trading you don't want to be stuffing around calculating the actual spread so I will show you how I estimate a number which I use as a convenient way to quickly ensure I have conservatively estimated total transaction costs.

To estimate an adjusted spread on entry and an adjusted spread on close that includes an estimate of holding cost and slippage contingency, you need to simply adopt a very conservative estimate that more than compensates for these necessary costs incurred in trading. I take the average spread and halve it and then adjust this entry and exit adjusted spread calc x 1.2. In my instance using IG markets, the average spread plus these estimates create an adjusted entry and exit spread of **approx. 30 points for entry for forex and spot commodities** and **10 points for indices**. I am conservative by nature and these estimates I find more than compensate the trade transactional costs, but you will need to estimate these yourselves dependent on your broker.

Once this is considered we are then in a position to confidently and conservatively estimate position size.

So we need a formula here. I actually build this formula into my database where I record my trades so it is automatically calculated when the inputs are provided.

Here t'is

Rec # Lots: -Round(([Trade Risk %]*[Opening Balance])/([Risk Pts]*[$ Per pt per 1Lot]*[Lot Size]),0)

Let's see what we can define here:

- Round = Simply rounds the result (number of Lots);
- Trade Risk % = In this instance = 0.025%
- Opening Balance = $200,000
- RiskPts = We need to define this separately (refer to next formula).
- $ Per pt per 1Lot = $1.00 for all instruments
- Lot Size= 0.01 for microcontracts, 0.1 for mini contracts or 1 for full contracts

So now to define RiskPts

Risk Pts: Iif([Long_Yes]=-1,Round((([Entry Stop]-[Entry Price])*[Spread Pts Conversion]),0),Round(([Entry Price]-[Entry Stop])*[Spread Pts Conversion],0))

Don't be scared of a conditional if statement. All this does is create a formula that relates to whether the trade is a long trade or a short trade.

- We also round this entire result to 0 decimal places.
- Entry Stop = Graph Stop Adjusted Entry Spread = 101.822 0.03 = 101.792
- Entry Price = Graph Entry Price plus adjusted spread = 102.45 + 0.03 = 102.48
- Spread Pts Conversion is a conversion ratio that is applied to the instrument to convert say 30 points to 0.03 in decimal notation.

Below is a Spread Pts Conversion Table for the instruments I trade

Currency Pai	Currency Pair	Spread Pts Conversion	$ per pt per 1	Type
1	EURUSD	100000	$1.00	Mini
2	USDJPY	1000	$1.00	Mini
3	EURJPY	1000	$1.00	Mini
4	CADJPY	1000	$1.00	Mini
5	AUDJPY	1000	$1.00	Mini
6	USDCHF	100000	$1.00	Mini
7	AUDUSD	100000	$1.00	Mini
8	EURAUD	100000	$1.00	Mini
9	USDCAD	100000	$1.00	Mini
11	GBPUSD	100000	$1.00	Mini
12	EURCAD	100000	$1.00	Mini
13	AUDCAD	100000	$1.00	Mini
14	ASX	10	$1.00	Micro
15	DJI	10	$1.00	Mini
16	NIK	10	$1.00	Mini
17	FTSE	10	$1.00	Mini
18	DAX	10	$1.00	Mini
19	XAUUSD	10	$1.00	A$1 Contract
20	USDSGD	100000	$1.00	Mini
21	NZDUSD	100000	$1.00	Mini
22	XAGUSD	10	$1.00	A$1 Contract
23	NZDJPY	1000	$1.00	Mini
24	NZDCAD	100000	$1.00	Mini
25	GBPSGD	100000	$1.00	Mini
(New)				

.....anyway enough with the formulas.

The end result of all these calculations is a conservative recommended position sizing of 73 micro-lots. If the trade moves a distance R, then that brings the total loss to <= 0.25% of trade capital or <=$500.

..well that was a mouthful so I will show the results I enter into my database and give you reasons for the cost estimates I include in my risk assessment.

I use a tailored Access database (dbase) to record trade details and you are also going to need something similar such as a database or spreadsheet as quick calculation and recording of trades is essential.

In my trade display I have:
1) An opening balance (OBal) reflective of my trade capital account balance (eg. $200K);
2) Details of the instrument (Pair) I am trading....in this case USDJPY;
3) The trade risk % = 0.25%;
4) If the trade is long or short (L=1), where long is a tick and a short trade is blank;
5) Disregard the countertrend column for the EDTT1 as we only trade in the primary trend direction with this technique;

6) The Time frame of the trade = M30;
7) The graph entry price = the price of the predictive entry line = 102.45;
8) The entry date= 30/7/2014;
9) The entry time = 13:30 which is GMT+10 in my zone;
10) The buy/sell adjusted spread for entry that I estimate at 30 points for forex as detailed previously;
11) The graph hard stop = 101.822
12) And then the dbase calculates by formula an estimate of position size = 73 in microlots;
13) The actual position size taken for the order = 73 microlots which is the same as the recommended column; and
14) The dbase calculates a result of 2.5R (2.5 x R) which provides information later to us that we use when deep in profit to reduce the SDC to 0.5 width (more on that later).

Ok....now note that we cannot complete trade close details including the adjusted close spread as that lies in the future of this trade and note also that we have no defined profit target as we let the profits run.

So we have all the information we need to make the trade.....I therefore buy 73 micros or 7.3 minis when the predictive line is breached and know that I am risking worst case $500 bucks.

Now remember as discussed before that the placement of the initial hard stop is at a specific location where according to this technique, that's the point you must get out of the trade if the trade immediately reverses in the same bar to touch this hard stop.....but on the following bar and thereafter the initial hard stop is replaced by a trailing stop that sits on the SDC outer channel and progressively follows price as the SDC breathes to the tune of the market (more on this later).

.....so what we therefore need to do to create the trailing stop is superimpose a hashed line over the stop line of the SDC so that we can **set an alert or pending stop on that line to automate exit** so we don't have to worry further about it. Refer to the chart below to see this hashed superimposed line on the outer SDC channel.

Just a note about the initial hard stop. While we initially set a hard stop and then replace this with a trailing stop, I still retain the hard stop as a contingency buffer (or secondary stop) just in case we have a fast price movement or extraordinary event on our hands where the rapidity of movement just

flies through our trailing stop. This is just the a secondary precaution measure and you might want to do the same thing.

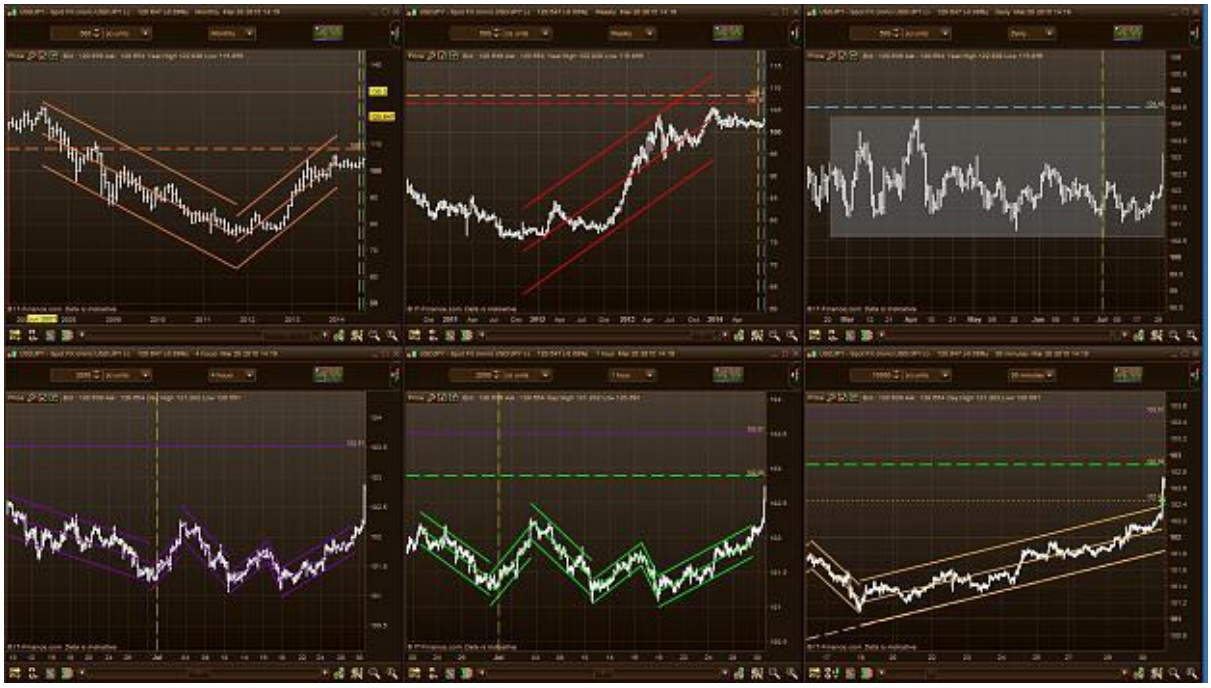
Now the last thing we do before moving on following an entry is to change the nature of the predictive entry line to a new format as shown in the prior chart above to visually reflect that a trade is now active.

At last, we have completed our trade management chores and now it is up to the SDC to take trade management over..... So we have a trade in play.....and we move on in time which will be the subject of the next post.

The Recap continued.....

Ok we have come a long way so far and not much further to go.

So now we have now stepped forward in time as detailed in the chart below.



The trade on the M30 timeframe is progressing well but you can see that price on the H1 timeframe is approaching the predictive entry line. Once again the trigger finger is getting itchy and we follow exactly the same process outlined in the prior post.

But before we get there, we need to discuss what we do to the SDC on the M30 timeframe when it reaches a new high for a long or new low for a short. We need to redraw the SDC each time it does this. This ensures that the additional price data is included in the SDC channel which allows it to breath like a Bollinger Band.

Given that we redraw the SDC, we therefore also need to redraw the hashed trailing stop line over the new SDC outer channel and re-set our alerts and pending stop orders.

Now the process undertaken of redrawing an SDC is a regular one when new highs or new lows are made and I always keep the latest SDC channel on the chart but delete prior SDC channels EXCEPT the original SDC channel that was established in entry. The reason I keep the original SDC is simply as a reference tool as it contains important info such as the initial hard stop position and the trend slope and width immediately prior to entry.

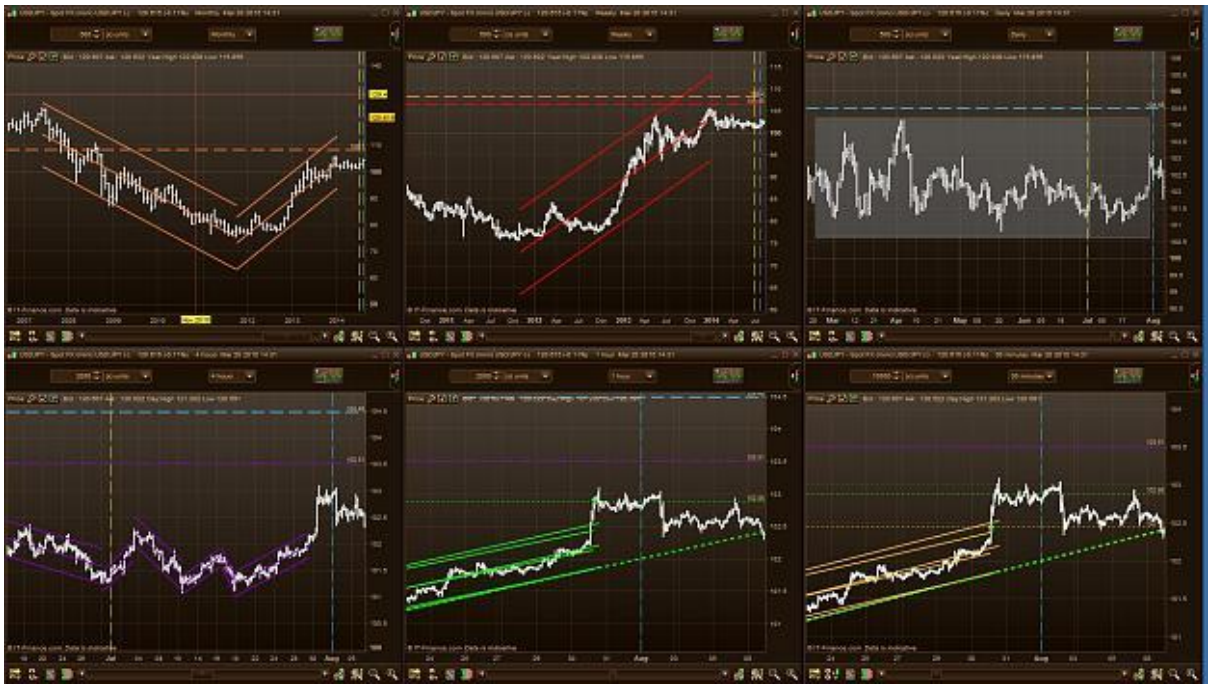
Now don't get too anal about the redraw every single time a new high or low is reached, but it is good practice to keep the SDC current. Note that in the chart above, the redrawn channel commences at the same location as the original SDC but now extend to the new high. Note how there has been an increase in width and slope based on the additional price information that is now contained in the channel. The width setting is still 1.0 but increased volatility has naturally widened the channel. Furthermore the trend channel becomes steeper given the price movement in your favour which means that the trailing stop accelerates towards a breakeven position.....oh the beauty of the SDC in naturally managing trades J

...but what's that?...is there a breach on the H1 timeframe? Have we overshot the mark and shouldn't we have already taken a new trade?..... Great observation. You are quite correct so let's back track just a bit.

Now we have a predictive entry touch on H1 but given the rules of the prior post we were ready for this and immediately on the bar of entry we drilled down to the H1 chart and followed the same process as before

The result of the trade entry on H1 are detailed on the chart above and the records of the trade taken are reflected in the following database snapshot.

Ok so now we move on again in time.



Damn...it looks like the trades on the M30 and H1 timeframes have been stopped out!!!!!.

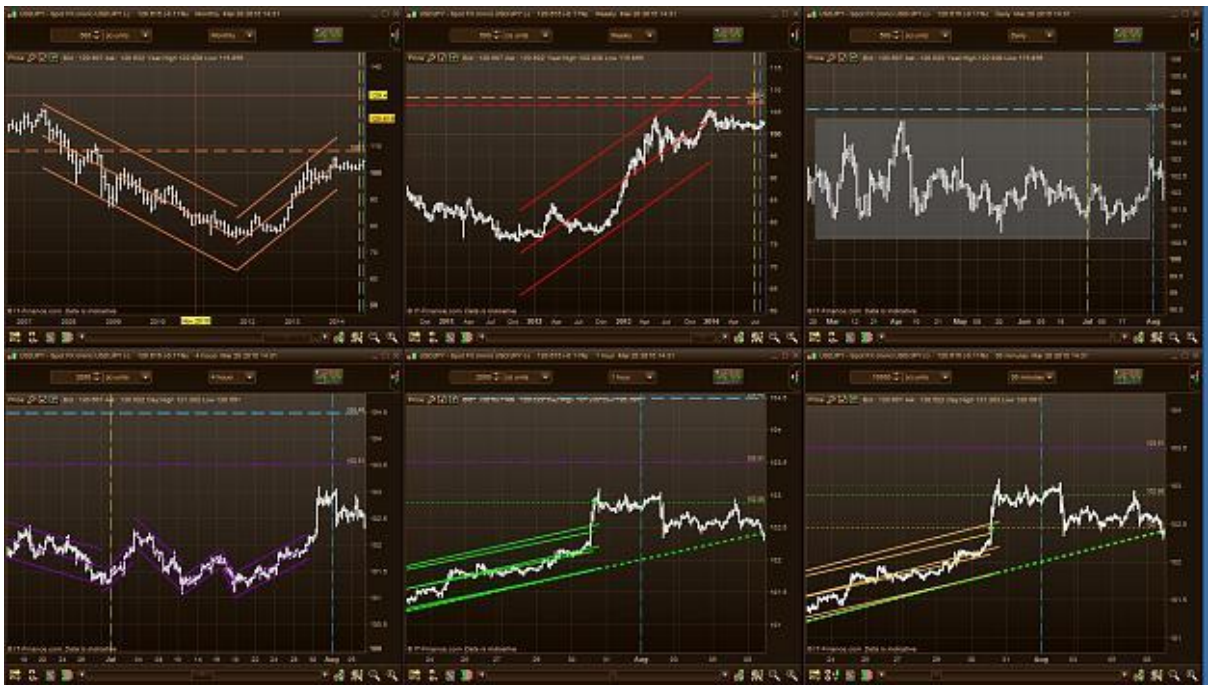
In my next post I will describe what we do in exiting positions.

The Recap continued.....

Almost there guys.

This post will focus on what we do when we exit a position.

So refer back to the current template.



When the alerts sound or pending stops trigger we drill down into the relevant chart to see what's going on.

Now note that we have not been able to further redraw the SDC from the high on the 30 Jul as no higher high from that point on occurred. That therefore effectively locked the SDC in place until price ultimately decided to touch the hashed trailing stop line. On the touch we are out of the trade which is preferably done with an automated order (which is made available with ProRealTime's trade by charts functionality).

Given that our exit was below our entry we are going to cop a loss but this will be far less that the original 0.25% of trade capital as over time, the trailing stop has faithfully mirrored the extension of the outer channel of the SDC which defines the trend boundary.

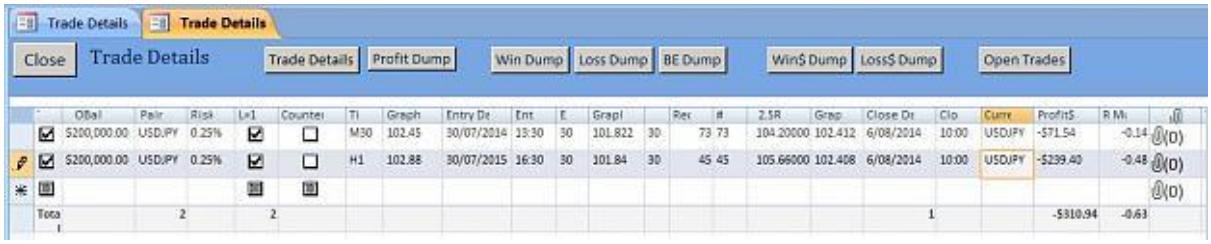
For example, the trade result is detailed below as a loss of ($71.54) or -0.14R which is far lower than the initial hard stop of 1R or a loss of $500. Refer to the closed trade details captured by the dbase for M30 below.

.....but a loss is a loss and expect many of them...Just suck it in and remain confident in the approach.

Once a trade has exited it is time to clean up the chart by removing unnecessary information associated with the prior closed trade and by resetting the predictive entry as detailed below.

Following the cleanup, then we can return to the template.

But wait....we have also been stopped out on the H1 timeframe as well as the alerts are sounding.



	OBal	Pair	Risk	Lvl	Counter	TI	Graph	Entry De	Ent	E	Grapl		Rec	#	2.5R	Grap	Close De	Clo	Curry	Profit$	R Mi	
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	@(D)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2015	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	@(D)
																						@(D)
	Tota		2		2													1		-$310.94	-0.63	

Ouch that one hurt a bit more.....once again just suck it in and reset the chart.

.....Ok you now should start getting the picture so what I will speed things up in the next post and just roll through time to show the charts and the steps taken.

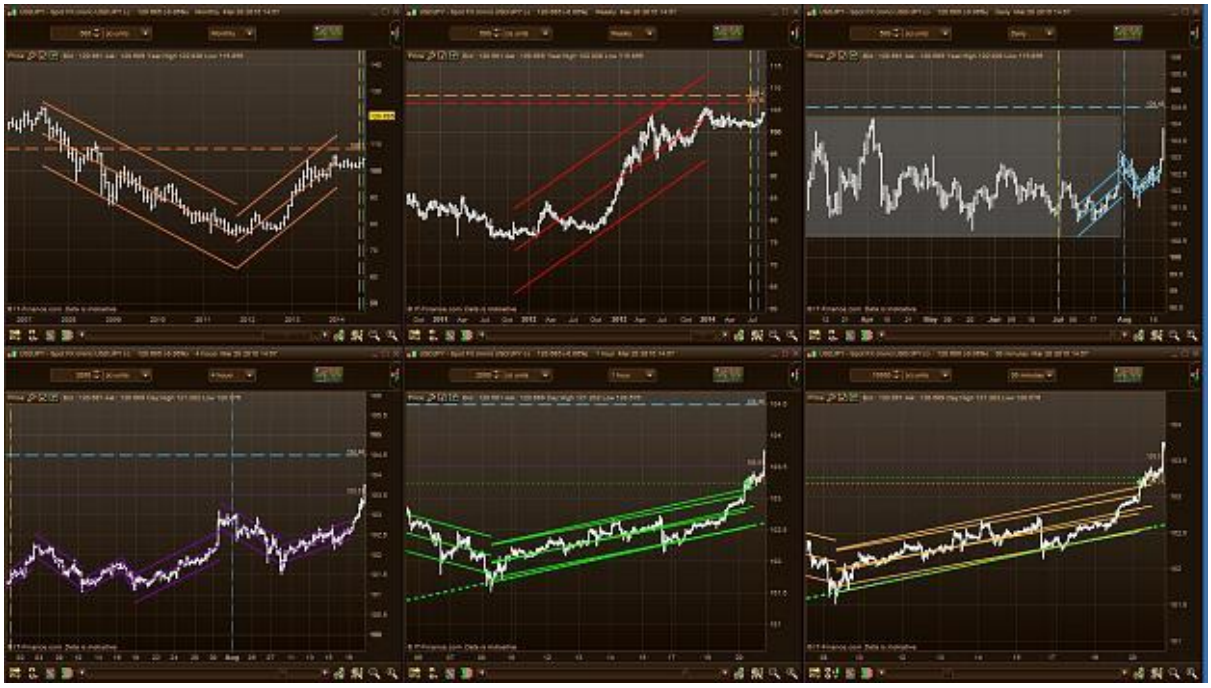
The Recap continued.....

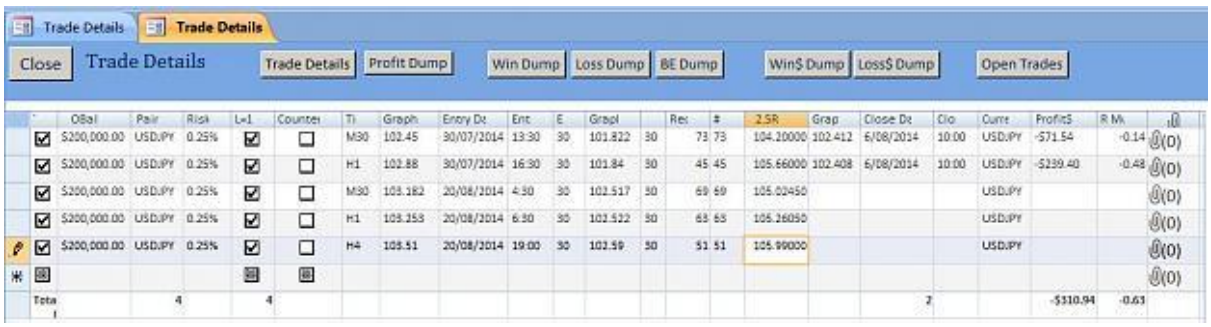
Here is the sequential progression of trading activity undertaken for the USDJPY to ferment the ideas we already have discussed.

Buys on M30 and H1

	OBal	Pair	Risk	L=1	Counter	Ti	Graph	Entry Dt	Ent	E	Grapl		Rec	#	2.5R	Grap	Close Dt	Clo	Curre	Profit$	R Mu	
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2014	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	103.182	20/08/2014	4:30	30	102.517	30	69	69	105.02450				USDJPY			(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	103.253	20/08/2014	6:30	30	102.522	30	63	63	105.26050				USDJPY			(0)
⊞	⊞			⊞	⊞																	(0)
Tota l			4		4													2		-$310.94	-0.63	

Buy on H4





	OBal	Pair	Risk	L=1	Counter	Ti	Graph	Entry Dt	Ent	E	Grapl		Rec	#	2.5R	Grap	Close Dt	Clo	Curre	Profit$	R Mu	
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2014	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	103.182	20/08/2014	4:30	30	102.517	30	69	69	105.02450				USDJPY			(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	103.253	20/08/2014	6:30	30	102.522	30	63	63	105.26050				USDJPY			(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	103.51	20/08/2014	19:00	30	103.59	30	51	51	105.99000				USDJPY			(0)
⊞	⊞			⊞	⊞																	(0)
Tota l			4		4													2		-$310.94	-0.63	

Damn...exits on M30, H1 and H4.

Trade Details | Trade Details

Close | Trade Details | Trade Details | Profit Dump | Win Dump | Loss Dump | BE Dump | Win$ Dump | Loss$ Dump | Open Trades

	OBal	Pair	Risk	[=]	Counter	TI	Graph	Entry Dt	Ent	E	Grapl		Rec	#	2.5R	Grap	Close Dt	Clo	Curre	Profit$	R Mu	
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2014	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	103.182	20/08/2014	4:30	30	102.517	30	69	69	105.02450	103.711	28/08/2014	1:30	USDJPY	$323.61	0.65	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	103.253	20/08/2014	6:30	30	102.522	30	63	63	105.26050	103.719	28/08/2014	1:30	USDJPY	$255.78	0.51	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	103.51	20/08/2014	19:00	30	102.59	30	51	51	105.99000	103.719	28/08/2014	1:30	USDJPY	$75.99	0.15	(0)
☒	☒			☒	☒																	(0)
	Tota l		5		5												4			$344.44	0.69	

....more rolling forward to come.

The Recap continued.....

Entries on D1, W1, M30, H1 and H4

Trade Details | Trade Details

Close | Trade Details | Trade Details | Profit Dump | Win Dump | Loss Dump | BE Dump | Win$ Dump | Loss$ Dump | Open Trades

	OBal	Pair	Risk	L=1	Counter	Ti	Graph	Entry Dz	Ent	E	Grapl		Rex	#	2.5R	Grap	Close Dz	Clo	Curre	Profit$	R Mu	
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2014	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	103.182	20/08/2014	4:30	30	102.517	30	69	69	105.02450	103.711	28/08/2014	1:30	USDJPY	$323.61	0.65	@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	103.253	20/08/2014	6:30	30	102.522	30	63	63	105.26050	103.719	28/08/2014	1:30	USDJPY	$255.78	0.51	@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	103.51	20/08/2014	19:00	30	102.59	30	51	51	105.99000	103.719	28/08/2014	1:30	USDJPY	$75.99	0.15	@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	104.4	2/09/2014	1:30	30	103.674	30	64	64	106.39500				USDJPY			@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	104.55	2/09/2014	2:00	30	103.66	30	53	53	106.95500				USDJPY			@(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	104.55	2/09/2014	2:00	30	103.64	30	52	52	107.00500				USDJPY			@(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	D1	104.48	2/09/2014	2:00	30	103.005	30	65	65	108.34750				USDJPY			@(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	W1	106.45	9/09/2014	17:00	30	97.697	30	11	11	124.51250				USDJPY			@(0)
☒				☒	☒																	@(0)
Tota		10		10													5			$344.44	0.69	

Ok so now we are getting some good trend extension on the lower timeframes and profits are building as we experience the building momentum of the underlying trend.

Now when we get to a profit of 2.5R on any timeframe, we need to reduce the SDC to a width of 0.5 as shown below. Note the narrowing of the SDC which means you need to now adjust the trailing stop (hashed line) over the top of the new outer band. The result means that you give less chance for the trend to breath ensuring that significant profit is derived when the trend hiccups. Now remember given that you will also have trends running on higher timeframes, this will not affect their progress so you are not sacrificing profit potential by doing this. You are simply maximising your profit potential on each timeframe.

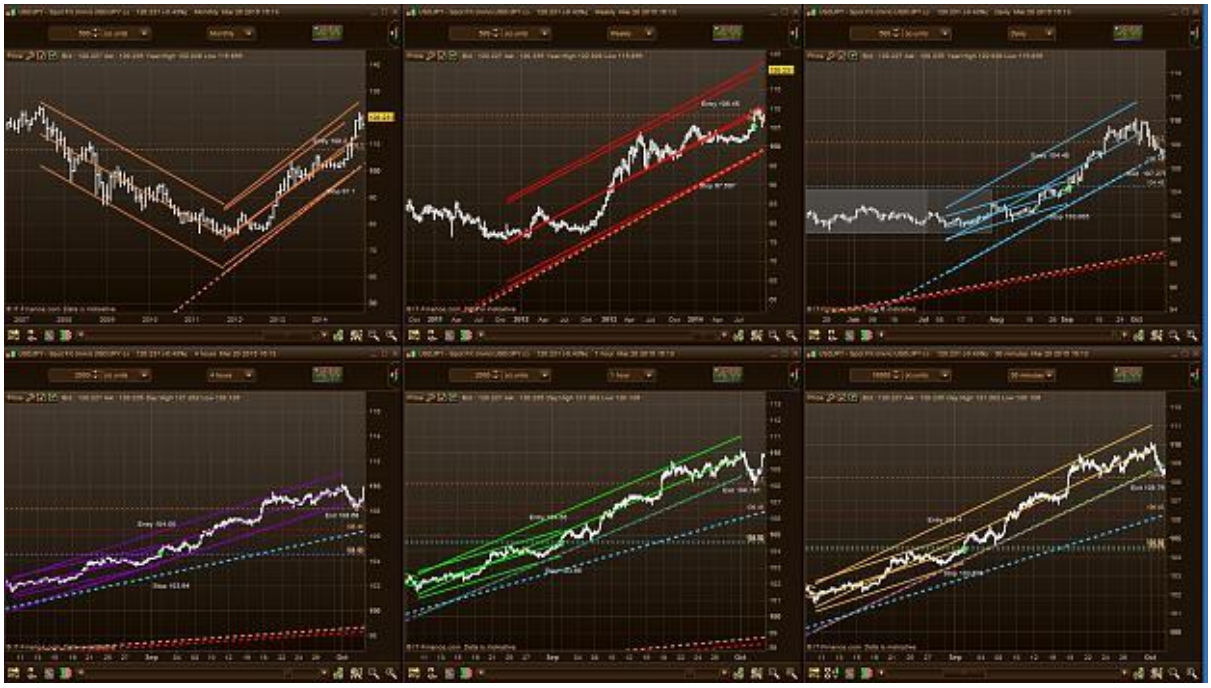
.....so moving on again.

Some good profits are building on those lower timeframes and M30, H1 and H4 have all been reduced to 0.5 SDC width. D1 and W1 have not achieved 2.5R as yet hence are still on the 1.0 width setting.

The Recap continued.....

...so moving on again.

Stopped out on the D1, H4, H1 and M30 timeframes but MN and W1 survives.



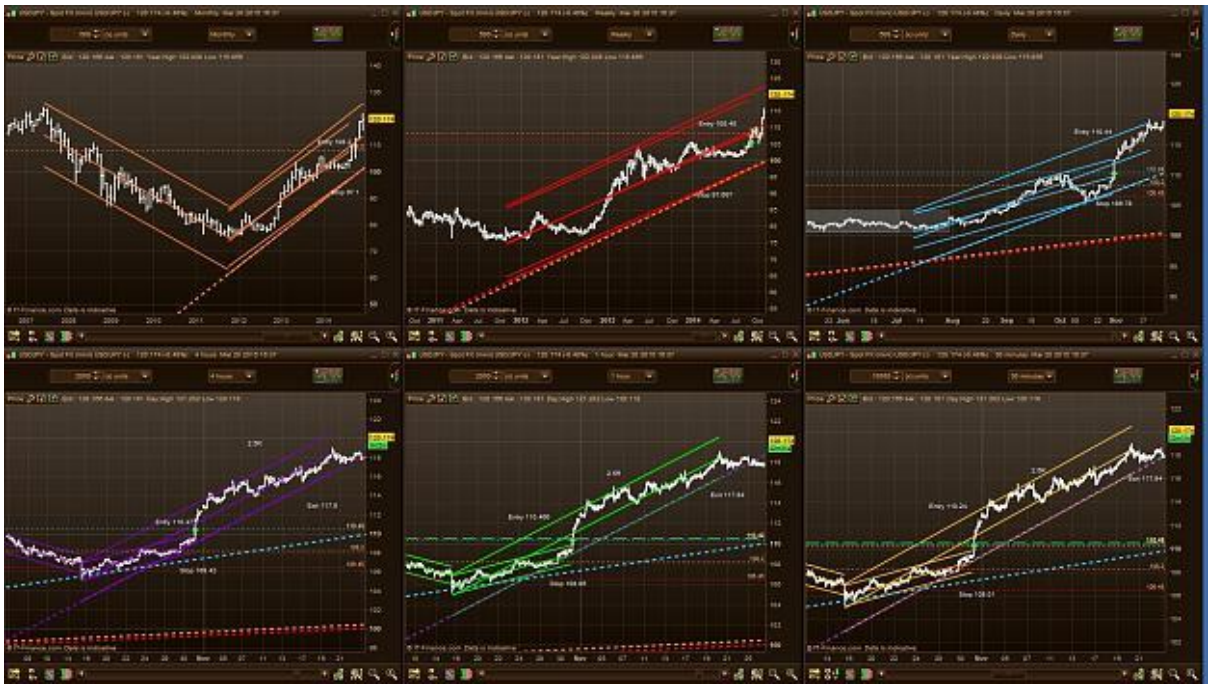
Trade Details | Trade Details

Close | Trade Details | Trade Details | Profit Dump | Win Dump | Loss Dump | BE Dump | Win$ Dump | Loss$ Dump | Open Trades

	OBal	Pair	Risk	L=1	Counter	Ti	Graph	Entry Dt	Ent	E	Graph		Rec	#	2.5R	Grap	Close Dt	Clo	Curre	Profit$	R Mu	
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2014	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	103.182	20/08/2014	4:30	30	102.517	30	69	69	105.03450	103.711	28/08/2014	1:30	USDJPY	$328.61	0.65	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	103.253	20/08/2014	6:30	30	102.522	30	63	63	105.26050	103.719	28/08/2014	1:30	USDJPY	$255.78	0.51	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	103.51	20/08/2014	19:00	30	102.59	30	51	51	105.99000	103.719	28/08/2014	1:30	USDJPY	$75.99	0.15	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	104.4	2/09/2014	1:30	30	103.674	30	64	64	106.39500	108.76	2/10/2014	3:00	USDJPY	$2,752.00	5.47	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	104.53	2/09/2014	2:00	30	103.66	30	53	53	106.95500	108.781	2/10/2014	3:00	USDJPY	$2,210.63	4.39	(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	104.55	2/09/2014	2:00	30	103.64	30	52	52	107.00500	108.68	2/10/2014	3:30	USDJPY	$2,116.40	4.20	(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	D1	104.48	2/09/2014	2:00	30	103.005	30	65	65	108.34750	107.275	12/10/2014	23:00	USDJPY	$1,777.75	1.78	(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	W1	106.45	9/09/2014	17:00	30	97.697	30	11	11	128.51250				USDJPY			(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	MN	108.2	17/09/2015	20:00	30	97.1	30	9	9	136.13000				USDJPY			(0)
✳																						(0)
	Tota l		11		11												9			$9,201.22	16.55	

Some good profit is starting to build but it aint over as MN and W1 are still going up.

Another great profit haul from the M30, H1, H4 timeframes with D1, W1 and MN still in the game.



....and the trade profit keep building but once again, we are still in the game with MN, W1 and D1.

	OBal	Pair	Risk	Lv1	Counter	TI	Graph	Entry Dt	Ent	E	Grapl		Rec	#	2.5R	Grap	Close Dt	Clo	Curre	Profit$	R Mu	
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	102.88	30/07/2014	16:30	30	101.84	30	45	45	105.66000	102.408	6/08/2014	10:00	USDJPY	-$239.40	-0.48	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	102.45	30/07/2014	13:30	30	101.822	30	73	73	104.20000	102.412	6/08/2014	10:00	USDJPY	-$71.54	-0.14	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	103.51	20/08/2014	19:00	30	102.59	30	51	51	105.99000	103.719	28/08/2014	1:30	USDJPY	$75.99	0.15	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	103.253	20/08/2014	6:30	30	102.522	30	63	63	105.26050	103.719	28/08/2014	1:30	USDJPY	$255.78	0.51	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	103.182	20/08/2014	4:30	30	102.517	30	69	69	105.02450	103.711	28/08/2014	1:30	USDJPY	$323.61	0.65	🖉(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	D1	104.48	2/09/2014	2:00	30	103.005	30	65	65	108.34750	107.275	12/10/2014	23:00	USDJPY	$1,777.75	1.78	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	104.55	2/09/2014	2:00	30	103.64	30	52	52	107.00500	108.68	2/10/2014	3:30	USDJPY	$2,116.40	4.20	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	104.55	2/09/2014	2:00	30	103.66	30	53	53	106.95500	108.781	2/10/2014	3:00	USDJPY	$2,210.63	4.39	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	104.4	2/09/2014	1:30	30	103.674	30	64	64	106.39500	108.76	2/10/2014	3:00	USDJPY	$2,752.00	5.47	🖉(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	W1	106.45	9/09/2014	17:00	30	97.697	30	11	11	128.51250				USDJPY			🖉(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	MN	108.2	17/09/2015	20:00	30	97.1	30	9	9	136.13000				USDJPY			🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	M30	110.24	31/10/2014	4:00	30	108.01	30	22	22	115.99500	117.84	20/11/2014	14:00	USDJPY	$1,658.80	3.29	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H1	110.466	31/10/2014	5:00	30	108.06	30	20	20	116.66100	117.84	20/11/2014	14:00	USDJPY	$1,462.80	2.97	🖉(0)
☑	$200,000.00	USDJPY	0.25%	☑	☐	H4	110.47	31/10/2014	5:00	30	108.42	30	24	24	115.77500	117.8	20/11/2014	14:00	USDJPY	$1,344.80	3.45	🖉(0)
☑	$200,000.00	USDJPY	0.50%	☑	☐	D1	110.44	31/10/2014	5:00	30	106.78	30	27	27	119.77000				USDJPY			🖉(0)
☒				☒	☒																	🖉(0)
Tota		15		15													12			$14,067.62	26.23	

Now I won't bother keeping going, as the story on the longer timeframes continues to the present day but here is where we will leave it with for the purposes of the recap.

The exercise we have followed through the recap demonstrates the power of this EDTTI technique but importantly you will need to have a user friendly platform and a system that can quickly determine appropriate position sizes as speed in execution is essential. Just practice, practice and practice to make this process intuitive and seamless and then benefit from the fruits of this approach across a diversified portfolio.

Given that now we have a comprehensive account of the process I thought I would now revert back to simply a Q&A approach with this thread and just:

- maintain on an ongoing basis for the next few weeks at least, the Weekly Outlook to assist those that might be utilising this approach on similar instruments; and
- provide monthly performance results that compare the DTT, EDTT and EDTTI (the subject of the recap).

I would encourage you all after familiarising yourself with the recap to now venture back to Post 1 and read to this point again to pick up any small details that have been missed and closely examine the performance results posted in this thread to-date.

It has been a fairly exhausting process for me...and now it's time to sit back a bit and work on my own technique.

If there are any substantive changes to the technique, I will let you all know as I will continue to forward test not just for statistical purposes, but also to continuously hone my own personal technique, but in the interests of keeping this thread brief as opposed to a vast wall of posts that in the future may be difficult to trawl through....this thread in the next few weeks should probably be put to bed aside from occasional updates to performance results.

I wish you all well.

C

END OF RECAP

PS Something I didn't mention which is worthwhile considering is the following. The recap looked at a sequential time ordering of trades taken across multiple timeframes associated with the USDJPY. Now some may argue that it is the lower timeframes that drive the price direction of the longer timeframes, but quite clearly using this sequential method of analysing trades, the reverse appears to hold. Namely that it is the long term secular trend on the monthly timeframe that is running the show. The results of this recap show the profit taking in sequential trending surges that is being driven by economic fundamentals associated with the relative strength between USD and JPY and is largely the progressive announcement driven nature of the longer timeframe which is causing the rally.

This fact alone is giving me a great deal of confidence in why it is very beneficial to trade the longer timeframes even though many feel it is not very exciting or rewarding. With this technique the major profits are being driven by trend surges on the M30 and H1 timeframes with the longer timeframes being icing on the cake. If you are a trend follower, no matter what technique you use, you are missing out on opportunities if you don't consider also trading on the higher timeframes which enjoy far greater breathing space and lower risk albeit also lower returns. The combination of trading multiple timeframes appears *so far* to compound performance significantly.

> *Quoting thomasK*
>
> Dear Copernicus Thanks for the recap. Very useful. There is a point though which is not clear in my mind. Can you please repeat how and why did you draw the predictive entry line of the M30 UJ example at 102.45?

Hi TK (morning here)

You have highlighted something that I have not discussed in the recap. Namely, a discussion regarding sideways price action (congestion). It is morning here but in the next few days I will revisit the "Predictive Entries" as there appears to be a bit of confusion regarding their placement from a few posters, which is suggesting that I have not explained it sufficiently. I will focus specifically on the decisions that were made in setting that predictive entry on M30 at 102.45 and then look at other examples as well.

In the meantime, what is driving my considerations in their placement is the following:

- I am ensuring it is placed in the direction of the primary trend;
- I am ensuring that a higher high or higher low is achieved on entry which necessitates that I look at price action on the timeframe concerned and place a few testing SDC channels at various points (lows or highs) to check whether price action is currently in the primary trend direction or not. If it is then I am looking for entry point above the most recent high/low to confirm a trend is valid. If it isn't, then I clearly need more room for price action to turn in the primary trend direction and have room for an infant trend to develop;
- I am creating sufficient vertical space for a trend or sufficient breakout pattern to emerge between where price is now (including an assessment of its recent history) using the timeframe price history and higher timeframe price history assessments;
- I am checking to see if the entry lies outside zones of clear price congestion by using multi-timeframe analysis to jump onto a breakout from congestion;

- I am ensuring it is a sufficient distance from prior highs/lows to avoid the majority of fake-outs; and

- I am ensuring that if trading higher timeframes that the predictive entry on the higher timeframe is not placed in exactly the same position as a lower timeframe as this really helps trade management purposes as you don't want to be doing two things at once.

I will discuss with more examples in the next few days that hopefully brings a bit more clarity. As you can see, there is a hell of a lot of subjective assessment going on, but as mentioned, this is not an accurate science and provided that generally the conditions above are met, that in my mind is a 'good' entry. It's the same kind of decision making that a surfer makes in deciding whether to catch a wave or whether to wait a bit until the swell gets bigger or better formed. He is simply looking to avoid the chop and ride a good wave by being picked up and carried by it, as opposed to being concerned about being in the right exact place at the right exact time.

One of the issues associated with this approach that many of those traders used to following exact rules will be concerned with, is that there is no exactness to the entry technique. Different people will get different results based on their different interpretations but it is quite clear that 'exactness' of entry is not a pre-requisite of this approach. Provided the general rules above are followed, it should be Ok.

Preparing for Setups

Guys (and in particular TK)

I thought I would provide an example or two of a few current trade templates to help things a bit more in determining where to put those 'Predictive Entries' (PE) and SDC's while waiting for trade entry opportunities.

Below is the current ASX template.

Current info that can be drawn from the chart template is as follows:

- Primary trend (MN) is long so all timeframe entries will be long;

- A trade is active on the MN timeframe (note the hashed line on the outer SDC which is a trailing stop).;
- A trade is active on W1 timeframe. Note the current SDC that has been extended to the highest high. You can also see the original setup SDC for entry;
- We are approaching the D1 Predictive Entry (blue dashed horizontal line at 6059.4 which is positioned at a location that requires a new high to be formed a distance above the highest high to avoid possible fake-outs;
- We are approaching the H4 PE (purple dashed horizontal line at 6026.7) which is positioned at a location that requires a new high to be formed a distance above the highest high to avoid possible fake-outs. Also note that this is positioned lower than the D1 PE to ensure that there is a bit of distance difference between entry on D1 and H4 for simply ease of trade entry management ;
- We are also approaching H1 PE....(refer to H4 reasons above). Also note that in this case, the H1 PE **is above** and **not below** the H4 PE. This is because I have already had a crack at an H1 entry and it failed, so when re-setting and re-establishing the new predictive entry, the space I wanted to put the new H1 entry was already filled by the H4 PE. I therefore looked at the nearest available space to place the H1 predictive that ensured that H1 and H4 trade entries were not right on top of each other.
- We are also approaching M30 PE....(refer to H1 reasons above).

Note that in all instances we are trading into clear blue sky.

Also note the commencement bars of each SDC and see how where possible, each time frame has its own unique starting point. Now H1 and M30 are the same as it was not possible for me to conclude that the prior price movement to H1 and M30 was part of the same directional thrust. With reduced magnification of price movement on the higher H4 timeframe, I was able to extend the commencement of the SDC further back in time to now include that prior price movement that was not included in the M30 and H1 assessment. I am always trying to stretch the SDC if possible as it gives more room for the trend to breathe if it continues but it also does reduce position sizing. So where possible I ensure that each timeframe has its own unique settings which assists in risk management diversification and also trade management purposes.

I hope this helps. I will put further examples up as I see them.

Preparing for Setups continued.....

Ok here is another template for interpretation for AUDCAD.

Information made available from this template is as follows:

- MN timeframe is currently sideways tracking in consolidation. I cannot determine primary trend direction here so I go to the next lower timeframe to see if we can define it there. Note that given the lack of clarity for primary trend direction I have two PE's placed on the chart if price commences a trend direction from consolidation. The PE for a long trade is located in blue sky above the highest highs of most recent history. The lower PE is placed with sufficient distance away from consolidation for a trend to emerge and.....below the lowest low of 2010. I could set it at the lowest low of 2009 but that would be too far away and well beyond the distance from which a trend could emerge so I would miss a significant part of the trend if placed such a long distance away....but there is nothing wrong with doing this.

- The W1 timeframe is also not convincing in trend direction. It is in consolidation but on the most recent bar, appears to be moving up...however too soon to say with confidence. PE placement based on previous posts should be easy to determine here.

- The D1 timeframe is in consolidation but the hashed SDC is concluding an upward bias. This is where I conclude (not very confidently) that the primary trend direction is up. Obviously this assessment and it's subjective nature is not standing out hence I am saying this with less conviction. Given that I conclude that on this timeframe the primary trend direction is up, I do not have two PE's here. I am only going long. Note that the hashed SDC is commencing at A. I am stretching it out as far as possible given consolidation uncertainty currently.

- The H4 timeframe has been in consolidation and now appears to be making its move up slowly. The PE is still a distance away for more price data to conclude that a trend is underway. It is not shouting at me yet. The SDC commencement point at B is as far as I can stretch the current SDC.

- The H1 timeframe like H4 is like H4 timeframe but I am gearing this trade more to a breakout trade from prior consolidation than a straight forward trend entry. The PE is located above a consolidation at a position where I will catch a sharp move. The SDC commencement at B is as far as I can stretch things to be representative of a trend movement long.

- The M30 timeframe is currently active and I have a trade running. No big deal, and if it works it works. This is a fairly low probability trade that is 'testing the waters' given the interpretation above.

How the SDC Deals with Price Movement Anomalies

Below is a M30 chart of the EURCAD

If you were using a traditional trend following technique of exactness plotting the trend line to touch 2 or more highs, you would not be interested in this price movement. Note however how the SDC deals with the price movement in confirming that directional price movement is sloping up in accordance with the entire price data contained in the channel. It is not being significantly influenced by the anomaly (highlighted with the ellipse).

This is one of the benefits of the SDC in its ability to 'cut through' price anomalies and define what is going on generally with underlying price action.

While the predictive entry is still a way to go, I am getting interested in this price movement as a potential trend appears to be forming in general price direction.

PS Don't be confused with the 2 PE's for the M30 timeframe as this graph is relevant to the EDTT approach where we are both intend trading and countertrend trading. Not the EDTTI approach. I just thought this chart may interest you as it highlights a benefit of the SDC in determining trends.