

Trading Weekly and Daily Charts

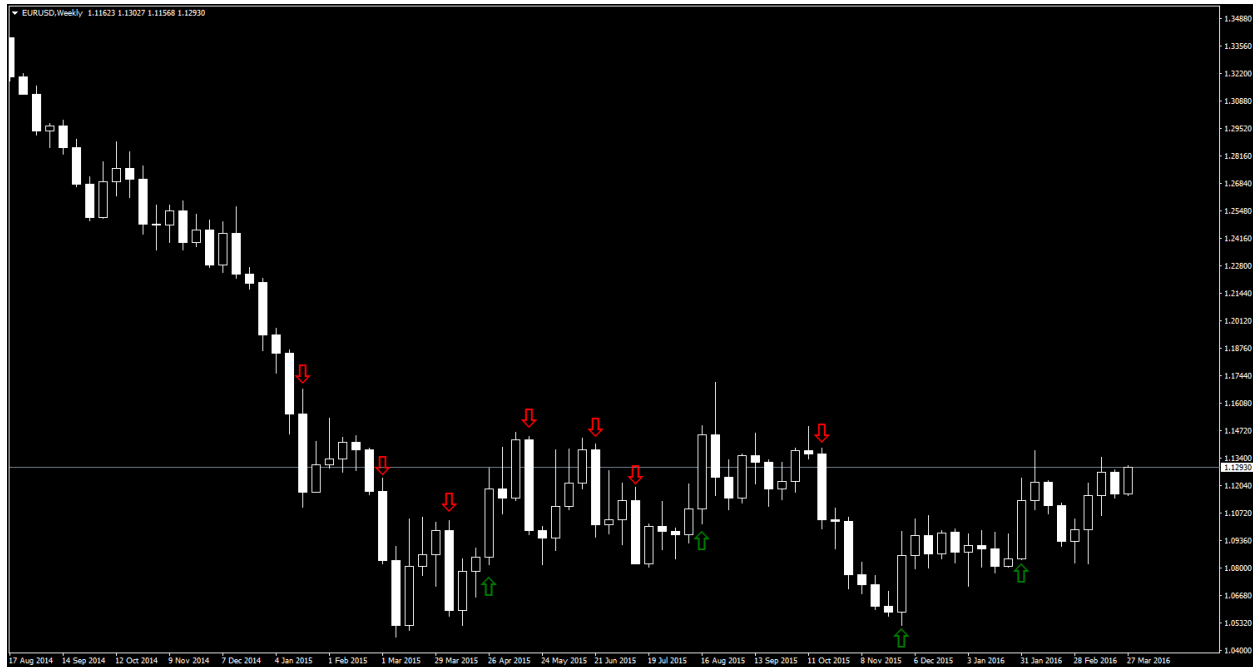
This strategy assumes some ability to evaluate the character of candles. The candles are the most basic element of price action. Each candle tells a story. It is more important to evaluate candles in certain areas such as in the preferred entry area which will be described. Steve Nison and Gregory Morris are experts in Japanese Candlestick interpretation and one is encouraged to study their material. The end of a trend is often signaled by certain candlesticks. Although no candlestick will ever be 100% correct potential reversal daily candlesticks and patterns are an important part of this strategy and are used as signal candles.

Time Frames: Weekly, Daily and H4. I use weekly and daily for the most part and only occasionally the H4. I may look at charts at any time during the day but I only HAVE to look at them just before 1000 PM Mountain Standard Time. I analyze, evaluate and enter or place pending entries around this time. Stop losses are also placed and the trade is allowed to run. If I have time during the day I may manage the trade by closing partial positions or exiting completely depending on trade progression but I don't have to. When 1000 pm rolls around I look at the charts and either evaluate the loss to see if I could have done something different or manage a profitable trade in progress.

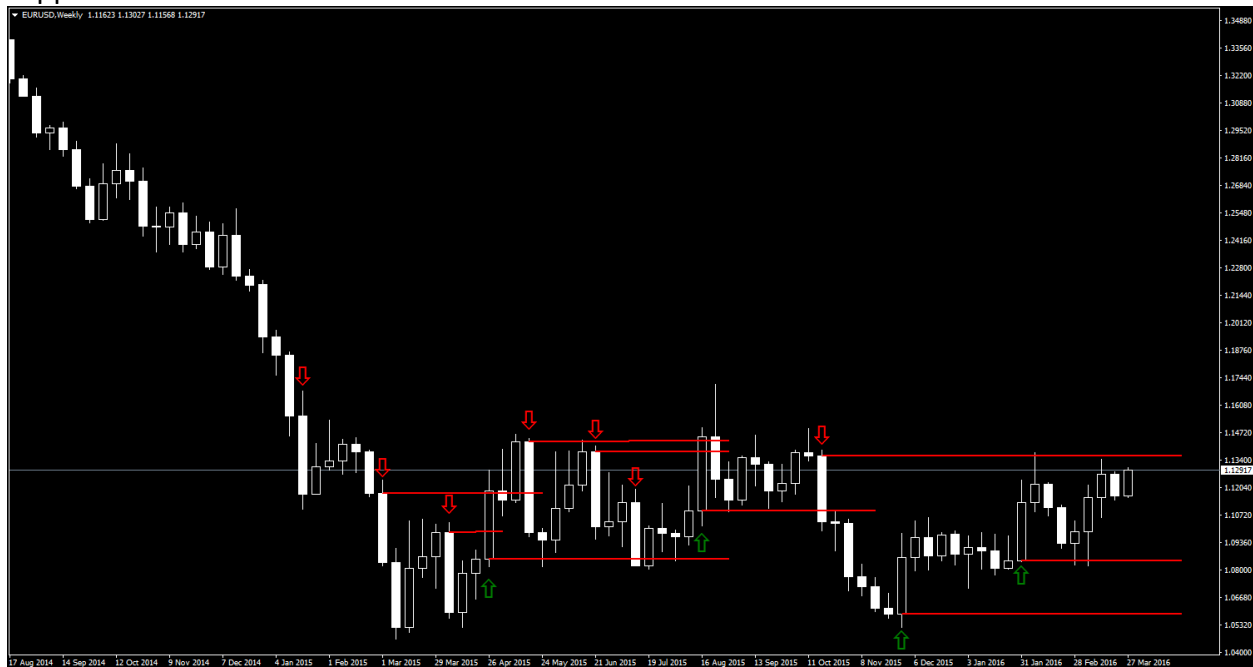
MultiTimeFrame (MTF) Analysis: This is not really a MTF analysis strategy although more than one time frame will be used. The weekly time frame is the primary time frame to identify the preferred entry area. In the preferred entry area the daily time frame will be used to identify signal candles and thus trade entries. So I do not condone nor advise the idea that one could use the H4 time frame and find entry candles with the H1 or m30, or maybe one would use the daily chart and use the H4 or H1 for entries. I know many will want to do this but I think this is a mistake.

Strategy: Identify key support and resistance utilizing large bodied weekly candles. The 50% rule is explained later and is the preferred area of entry but not necessarily the only area for entry. Daily large bodied candles are also used in the same manner but here I always trade in the context of the weekly large bodied candle. Identify trades using daily for the most part and occasionally the H4 for entry in conjunction with weekly support and resistance. Again using the H4 will be infrequent and truly if the daily time frame does not generate a valid signal candle in the preferred entry area then it is probably best to wait rather than search for signal candles on lower time frames.

This is the weekly EU. The view is intentionally zoomed in a bit so the large bodied candles are easily identified. A Large Bodied Candle (LBC) is one with a body larger than at least two previous candles. The body is that contained between the open and close. The high and the low are not considered when identifying LBCs. Red arrows identify bearish LBCs (BeLBC) and green arrows identify bullish LBCs (BuLBC). The bigger the body is in comparison to previous candle body the better.

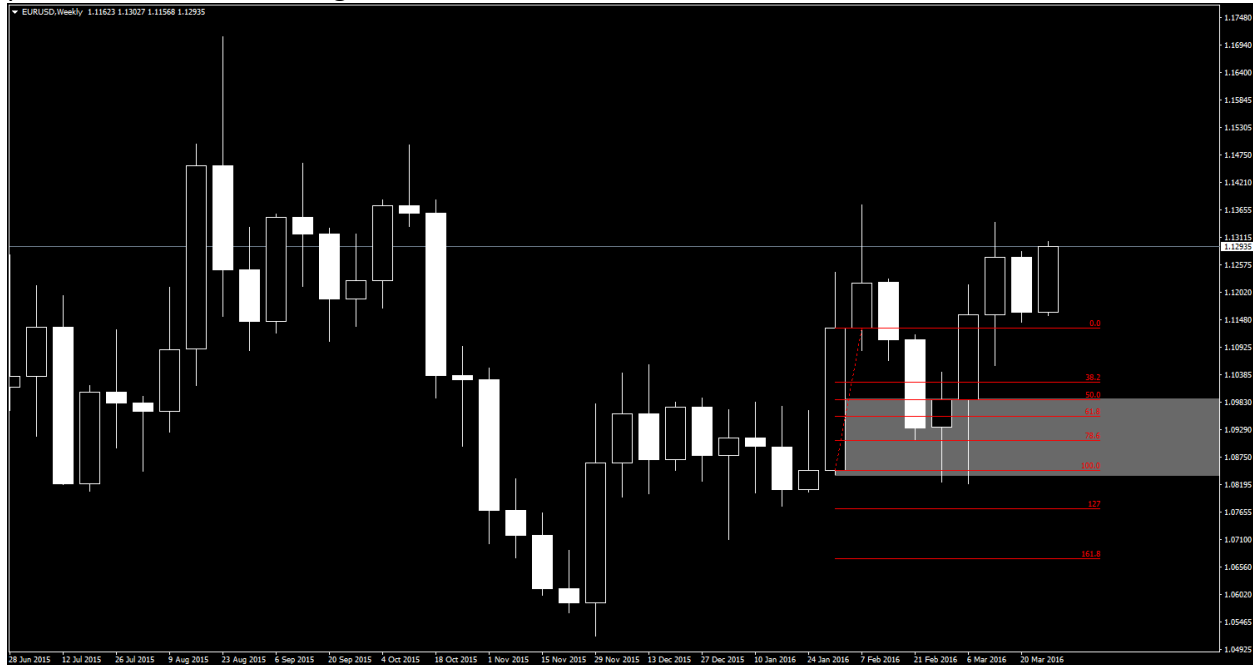


A LBC often acts as resistance if a BeLBC and as support if a BuLBC. The red horizontal lines extend from the openings of the LBCs. Notice that when price retraces within the LBC it often fails to close past the LBC. When it does close past the open of a LBC price often continues. Price may pierce the above the line but often it closes below. This tendency can be exploited. Primarily we will exploit the tendency for price to respect resistance as with a BeLBC and support as with a BuLBC.

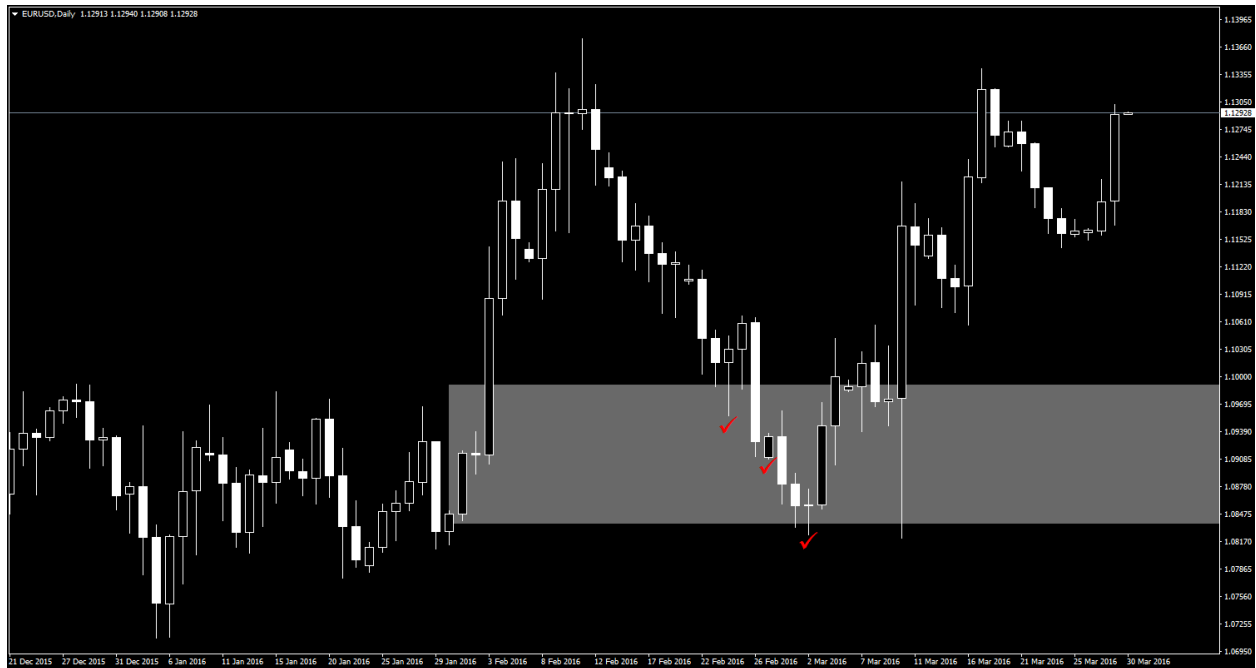


Fifty Percent Rule

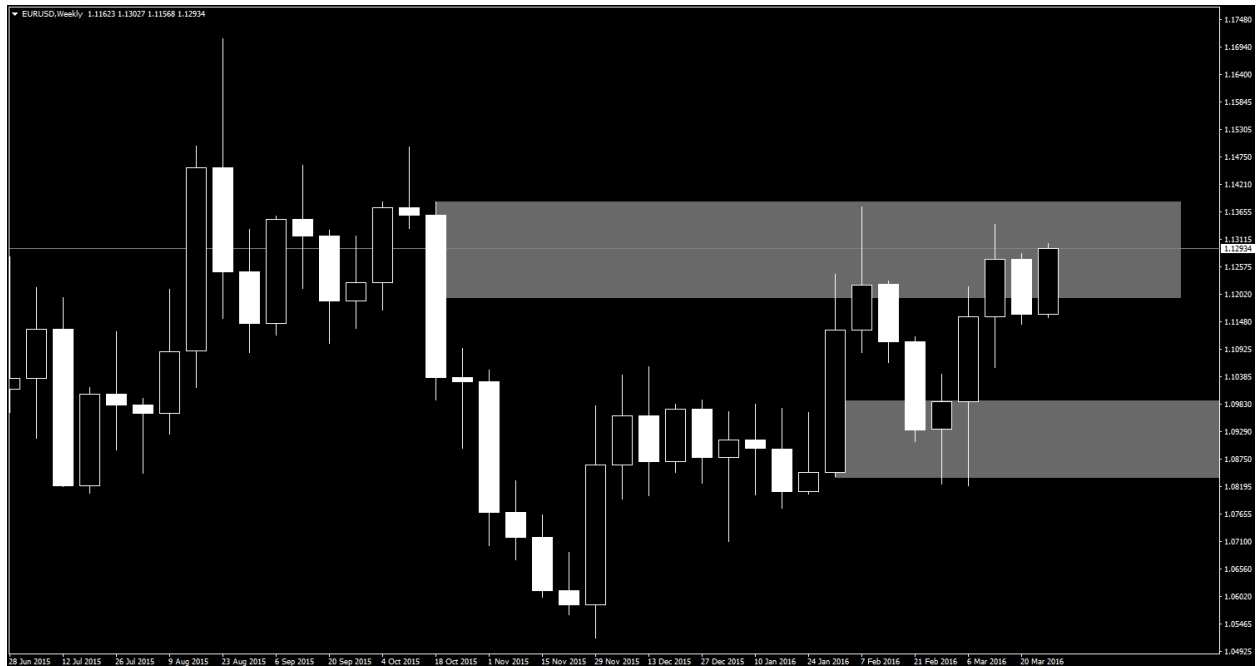
A fib is drawn from the open to the close of the LBC below. A rectangle is then drawn from the low to the 50% level. The rectangle area is a preferred trade entry area. Notice that price pierced below the rectangle twice.



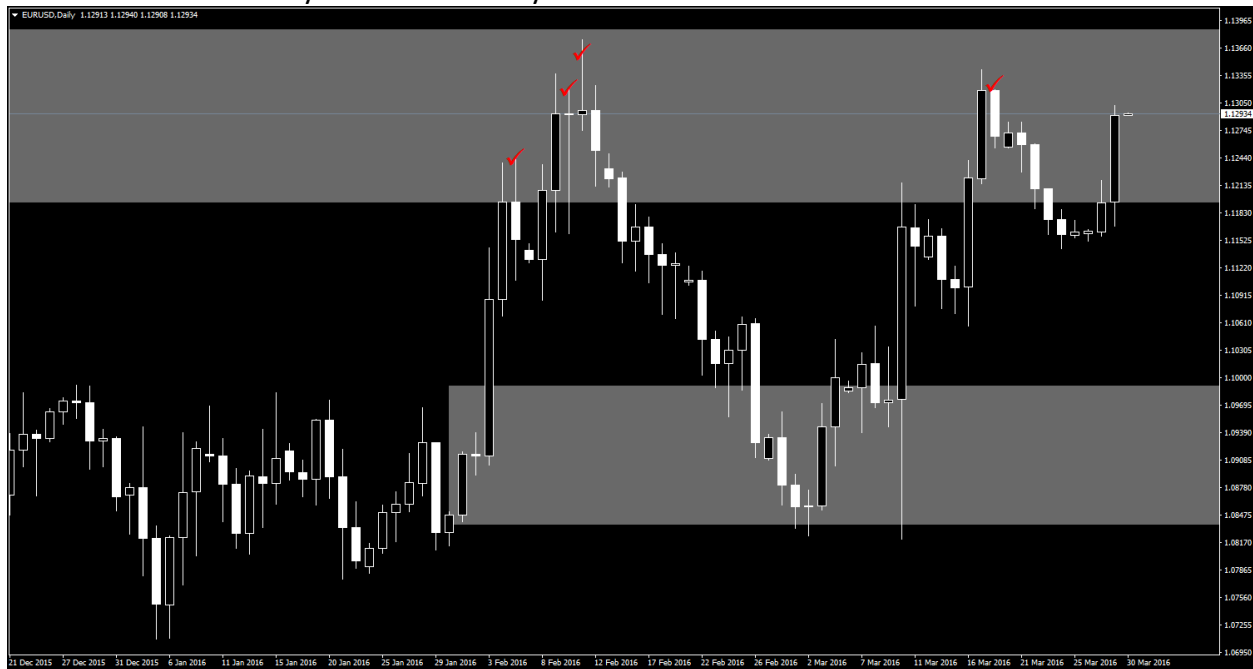
This is a daily view of the above. The grey rectangle is unaltered. Notice the price action with the rectangle. The check marks identify potential areas to have considered entries. Entries will be discussed later.



Another example. The 50% rule was used.



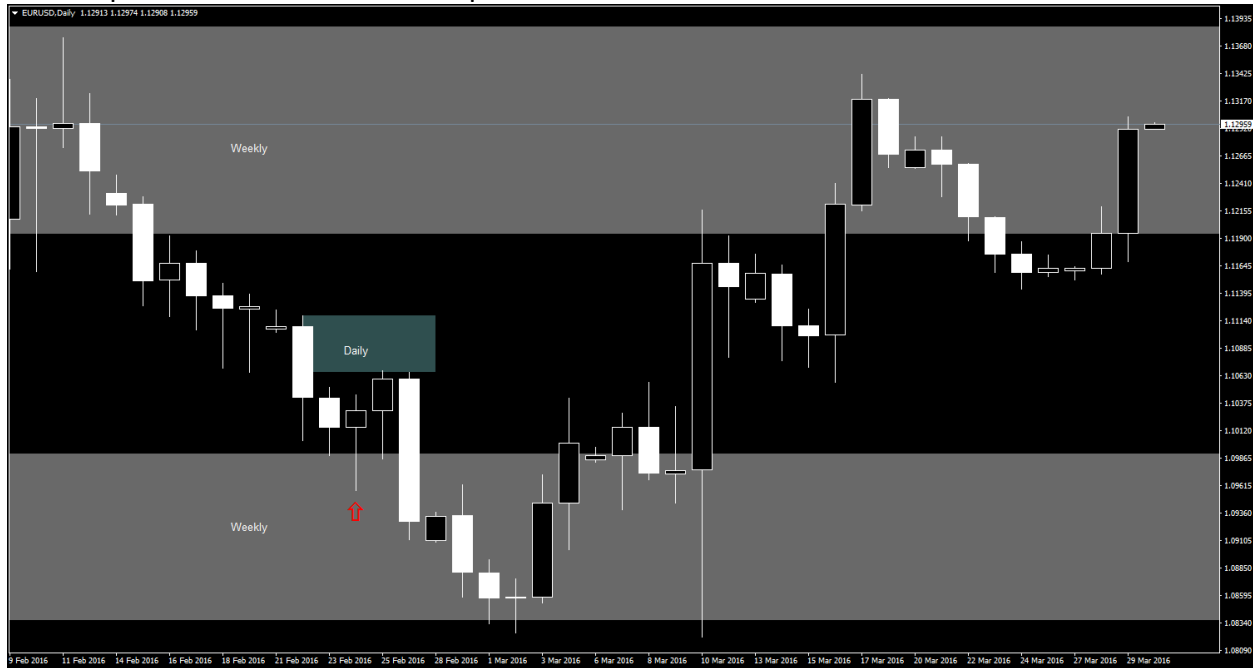
The same chart on daily time frame entry considerations.



Entries

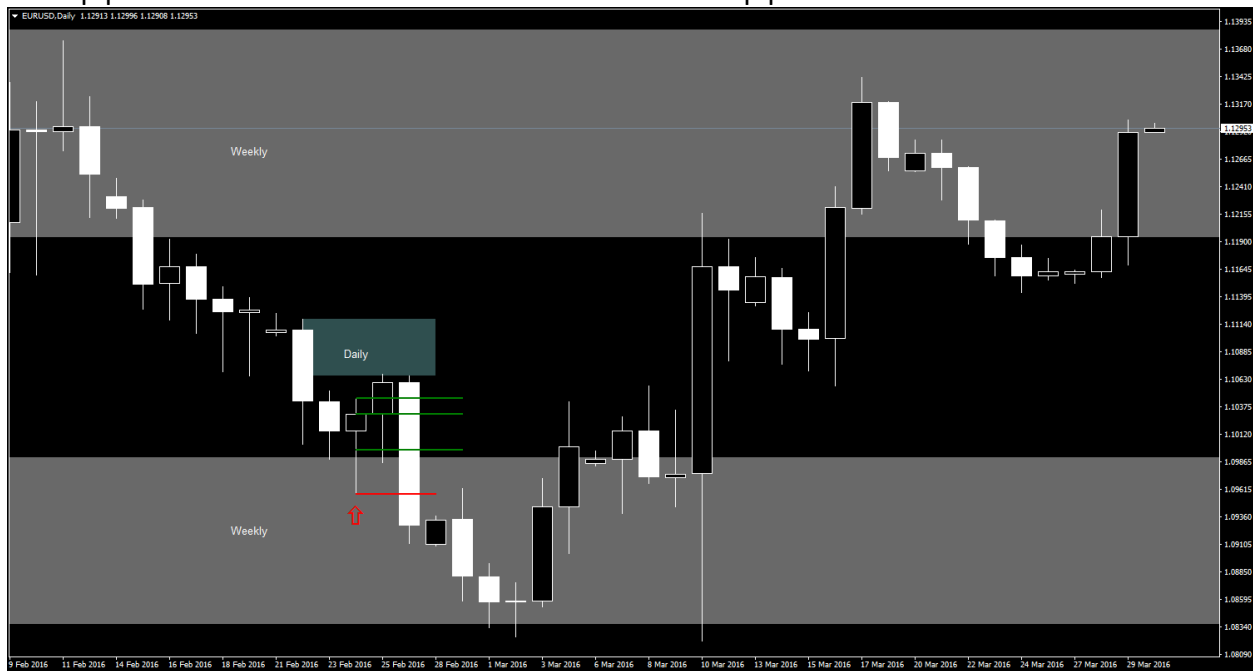
Entries must consider not only the entry but the potential for the entry to result in reasonable profit. A trade is not entered until a stop loss is identified that is acceptable to the trader. Stop losses can often be created that fit most trader's risk profile. Trader's must be wary of tightening stop losses to limit risk when the trade should be allowed more breathing room. If the trader cannot afford the risk then it is best to pass and wait for a trade that fits the trader's risk profile.

Price entered the weekly preferred trading area and created a Hammer (red arrow). The next candle after the Hammer shows price did move up and encountered resistance followed by a precipitous decline back into the weekly preferred trading area. Resistance was encountered at a daily LBC. Does this mean the trade was not worthy. The trader's awareness of resistance directly above might have influence on whether or not to enter this trade. Again this would have depended on the trader's risk profile.



Profit vs Loss

Considering various entries an entry long on the close of the hammer would have resulted in about 35 pips maximum profit. If the stop loss were below the low of the candle the maximum loss would have been 70 pips. An entry long on a break of the high of the Hammer would have resulted in a maximum 20 pip profit. With the same stop loss the maximum loss would be 88 pips. An entry on a 50% retracement of the Hammer would have resulted in a maximum profit of 70 pips. The maximum loss here would have been 40 pips.



The 50% retracement entry seems to offer the best risk to reward in this case. However if one consistently takes only 50% entries the trader will frequently miss entries. Considering the nature of this trade it was probably the best way to enter given the immediate resistance above. The risk to reward of the other two entries doesn't seem reasonable given the potential loss.

This is just one example of a trade entry and the considerations involved. Every trade is different and therefore evaluations for entry, risk and stop loss will be different, but these considerations must be made with every trade.

This is an introduction to this trading method. My thread "Truth in Trading" on Forex Factory will have live trades and explain other details as they occur. Any editing of this PDF will be announced and posted on the thread.