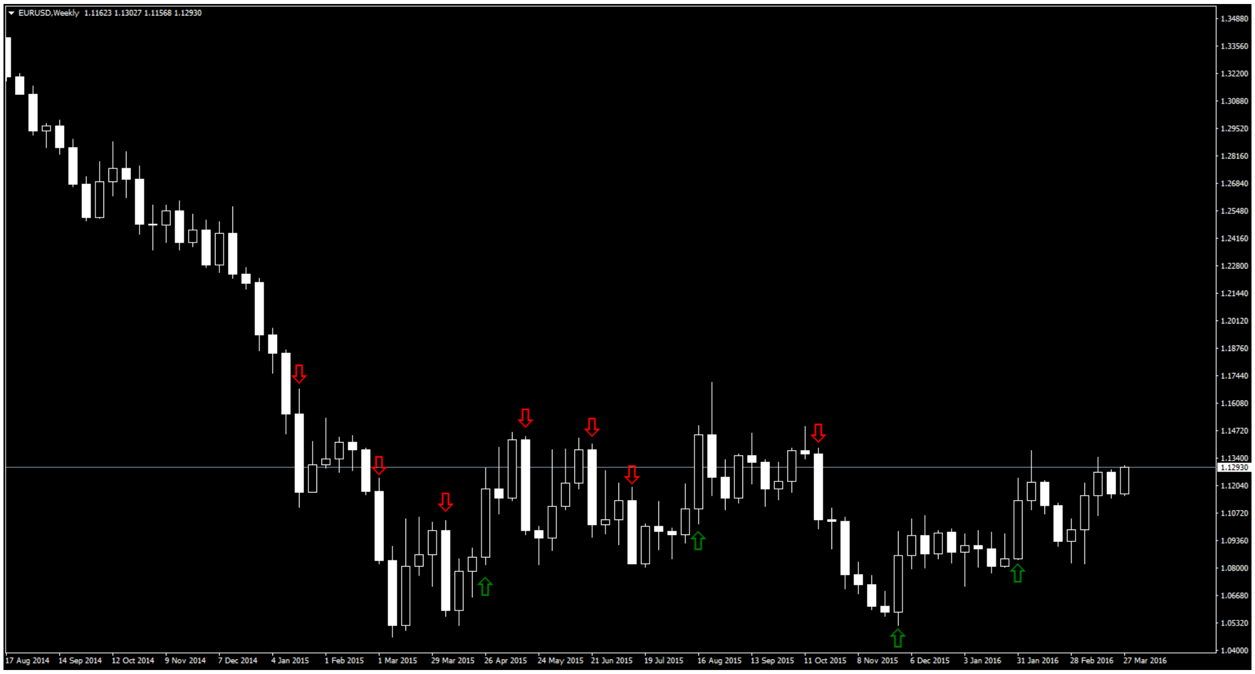
Trading Weekly and Daily Charts

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.

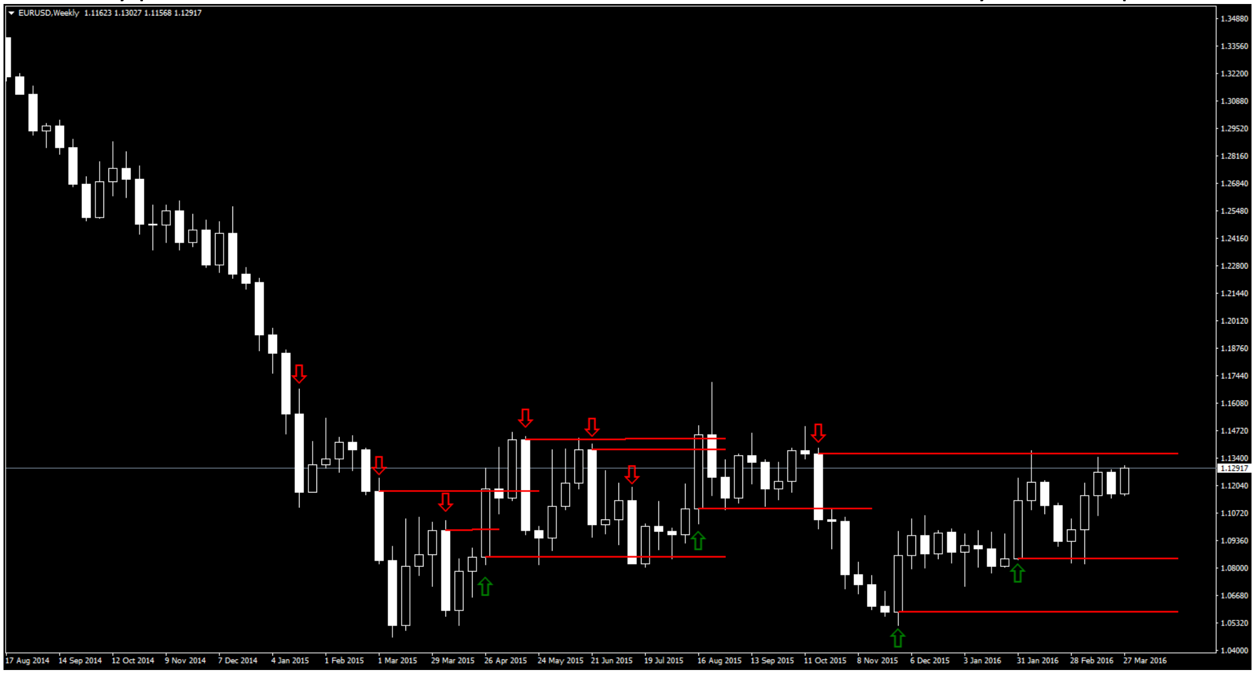
Time Frames: Weekly, Daily and H4 and m30. Using a specific criteria, weekly and daily zones will be identified where trades may occur. The m30 will be used to pinpoint trades within the context of the 30 minute time frame. Since this is not a scalping method time frames less than 30 minutes are not used. Very occasionally the 15 min time frame may be used.

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 and H4 for entry in conjunction with weekly support and resistance.

Look at this weekly EU chart. 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 regardless of how large the wicks. Red arrows identify bearish LBCs (BeLBC) and green arrows identify bullish LBCs (BuLBC).

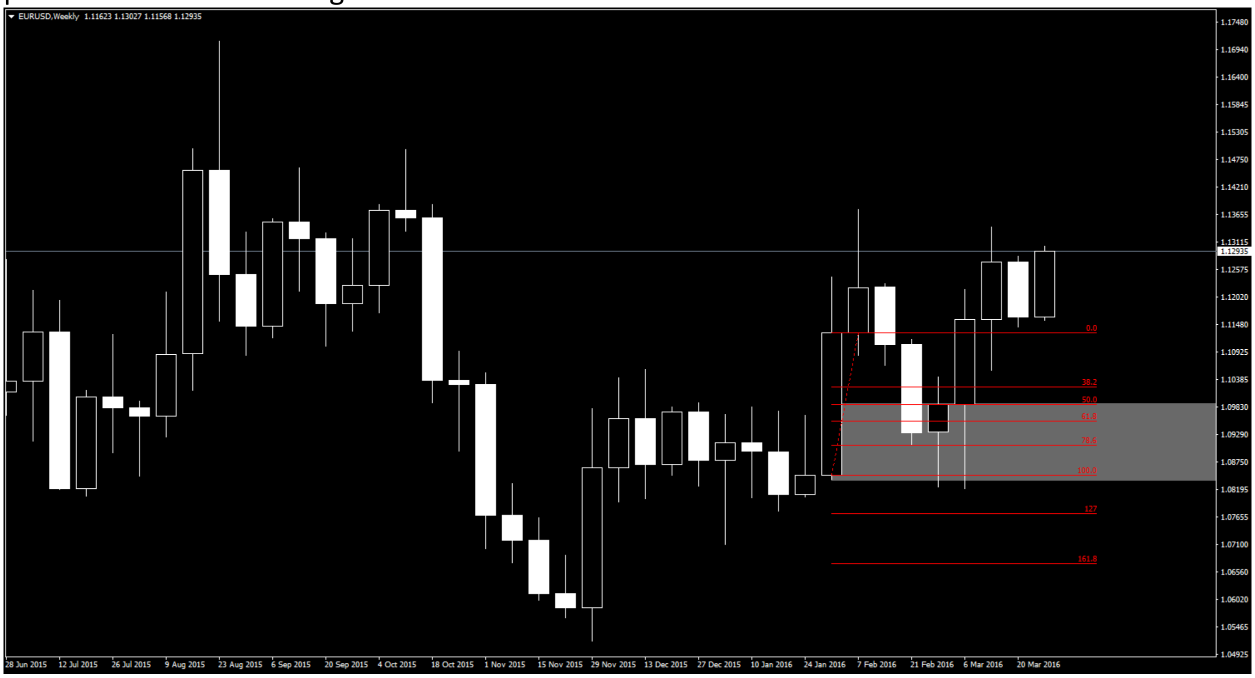


A LBC often acts as resistance if it is a BeLBC and as support if a BuLBC. The red horizontal lines extend from the openings of the LBCs. Notice that when price retraces within the LBC it often fails to close past the LBC. When it does close past the open of a LBC price often continues. Price may pierce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

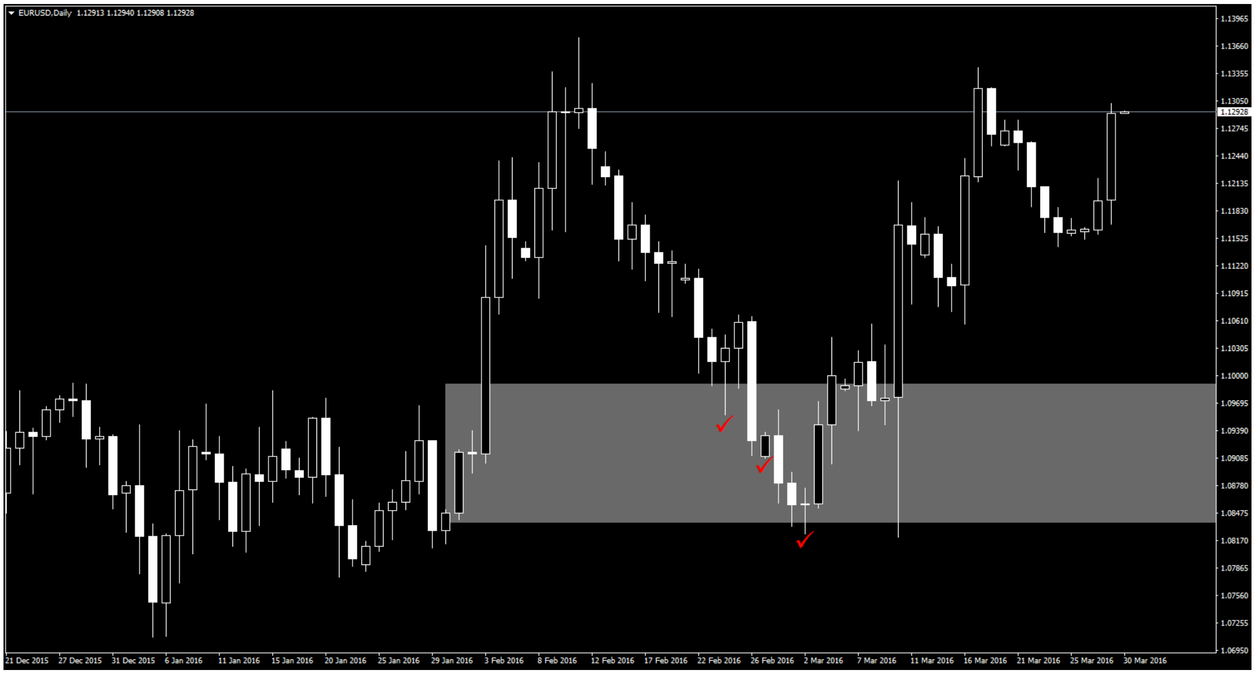


Fifty Percent Rule

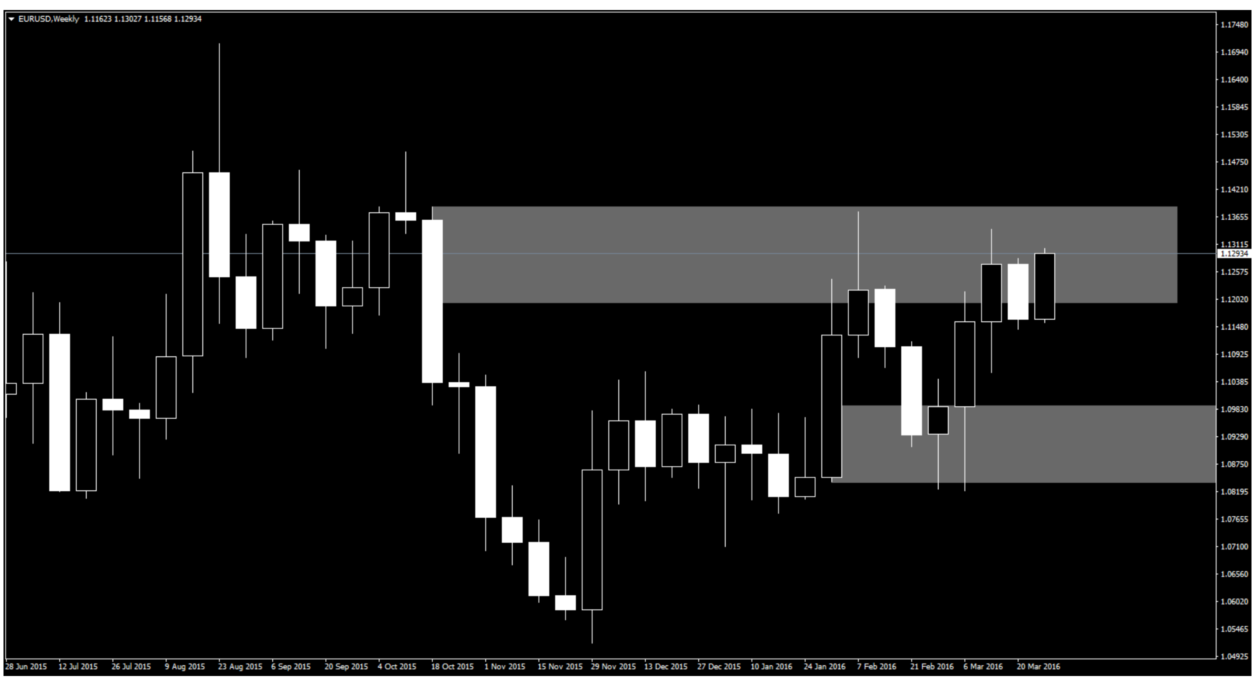
A fib is drawn from the **open** to the **close** of the LBC below. A rectangle is then drawn from the **low** to the 50% level. The rectangle area is a preferred trade entry area. Notice that price pierced below the rectangle twice.



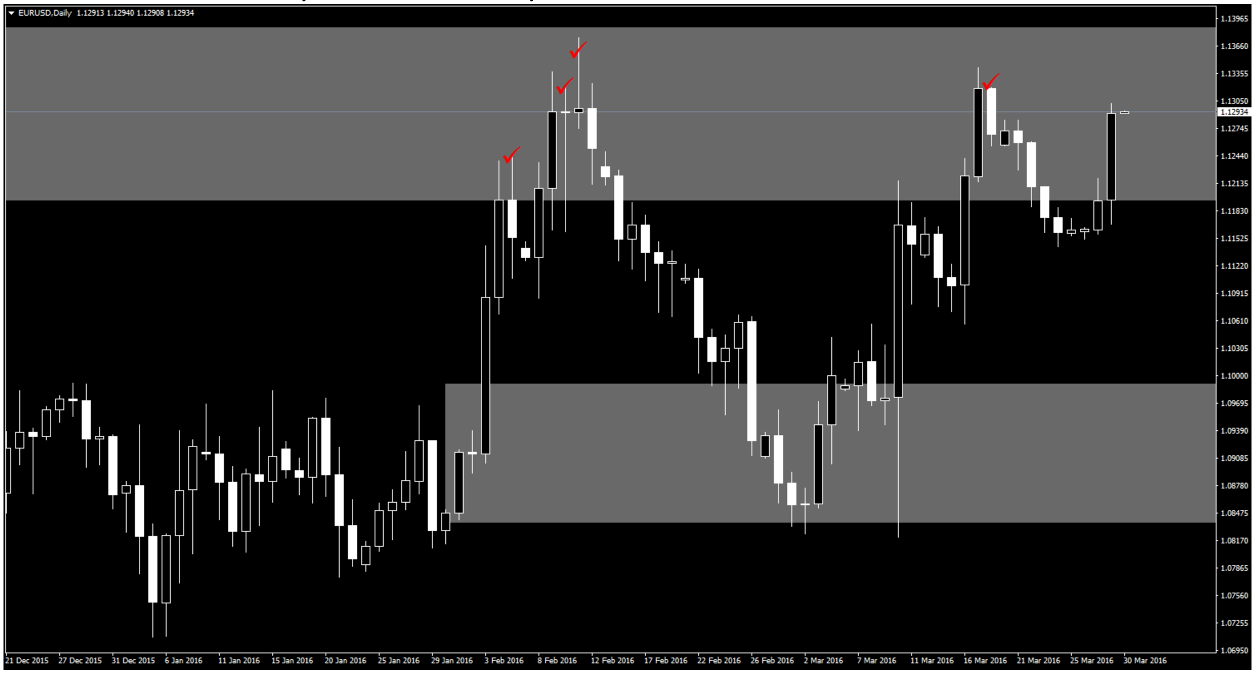
This is a daily view of the above. The grey rectangle is unaltered. Notice the price action with the rectangle. The check marks identify potential areas to have considered entries. Entries will be discussed later.



Another example. The 50% rule was used.



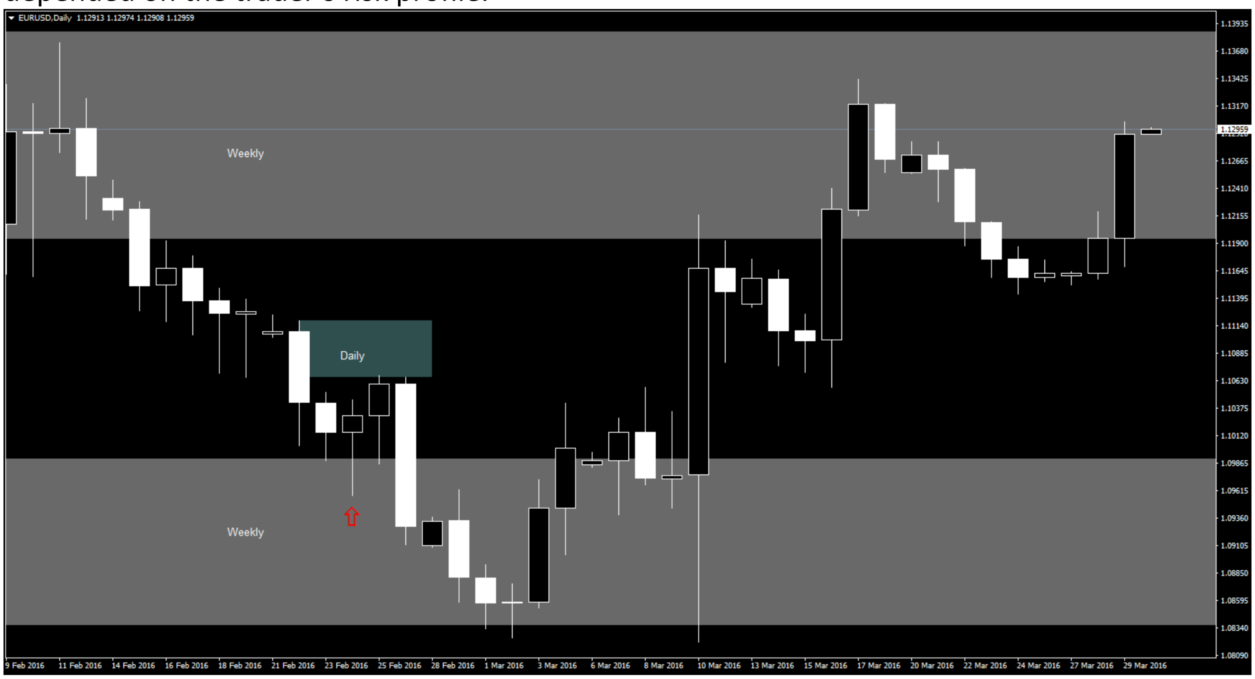
The same chart on daily time frame entry considerations.



Entries

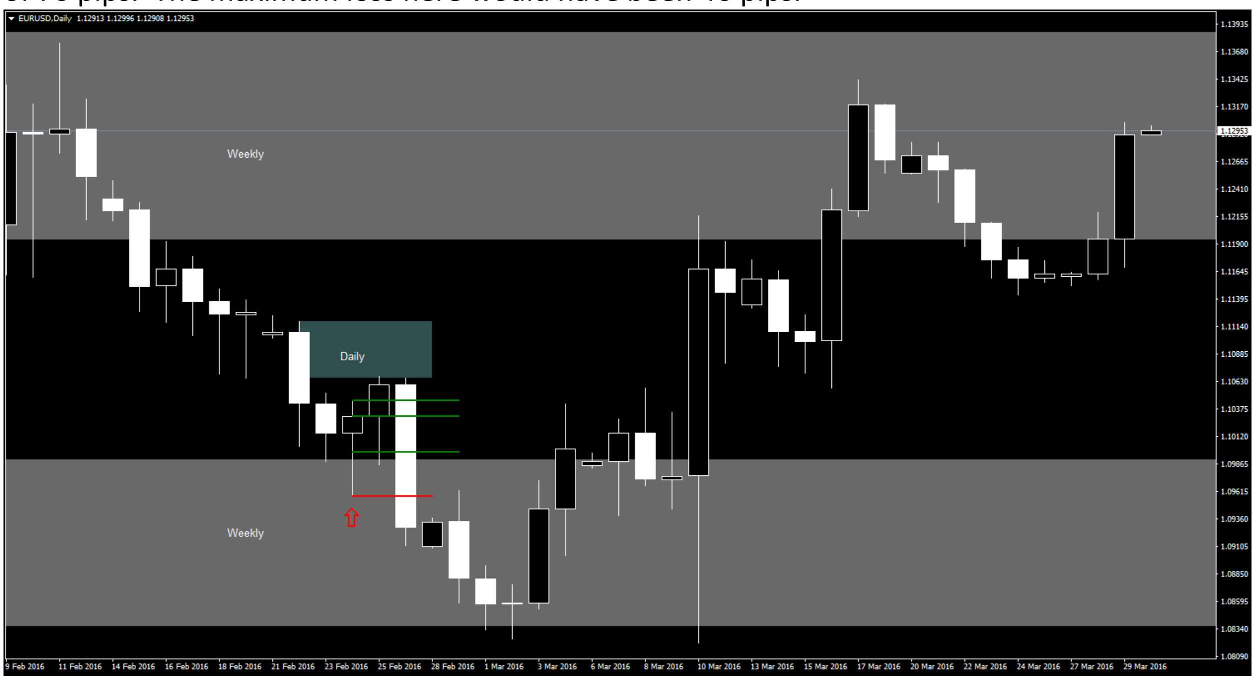
Entries may occur purely based on daily and H4 price action by entering on the close or a retracement of the signal candle. Signal candles are reversal candles as explained by Nison and Morris.

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. 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.

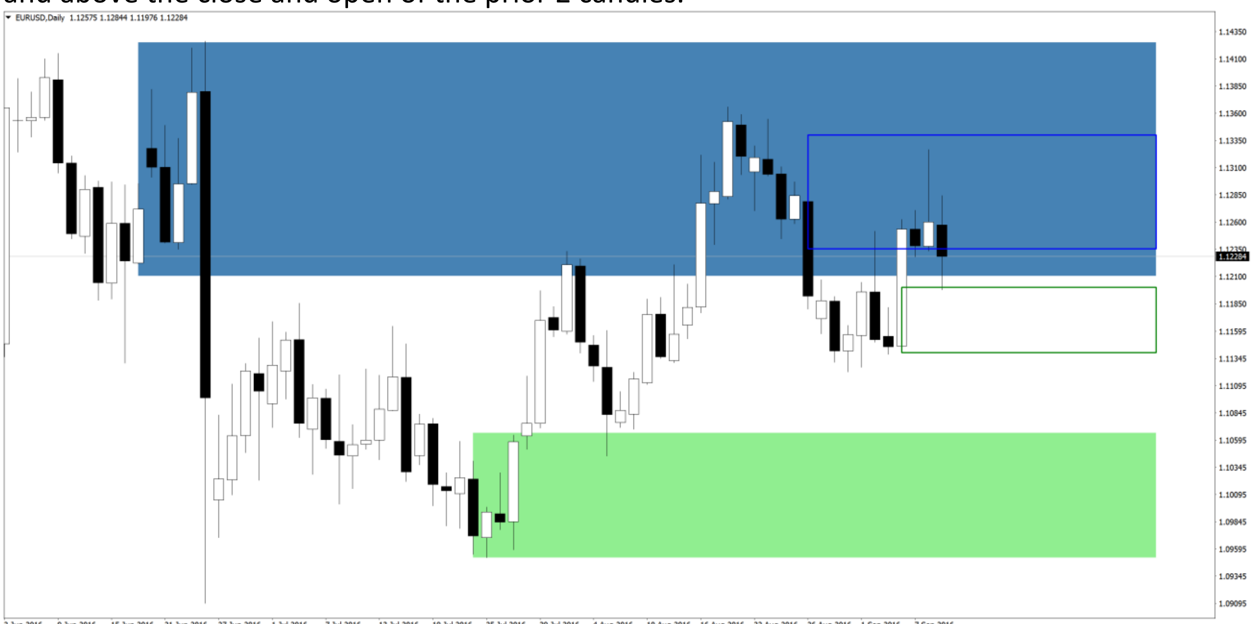
This is just one example of a trade entry and the considerations involved. Every trade is different and therefore evaluations for entry, risk and stop loss will be different, but these considerations must be made with every trade.

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.

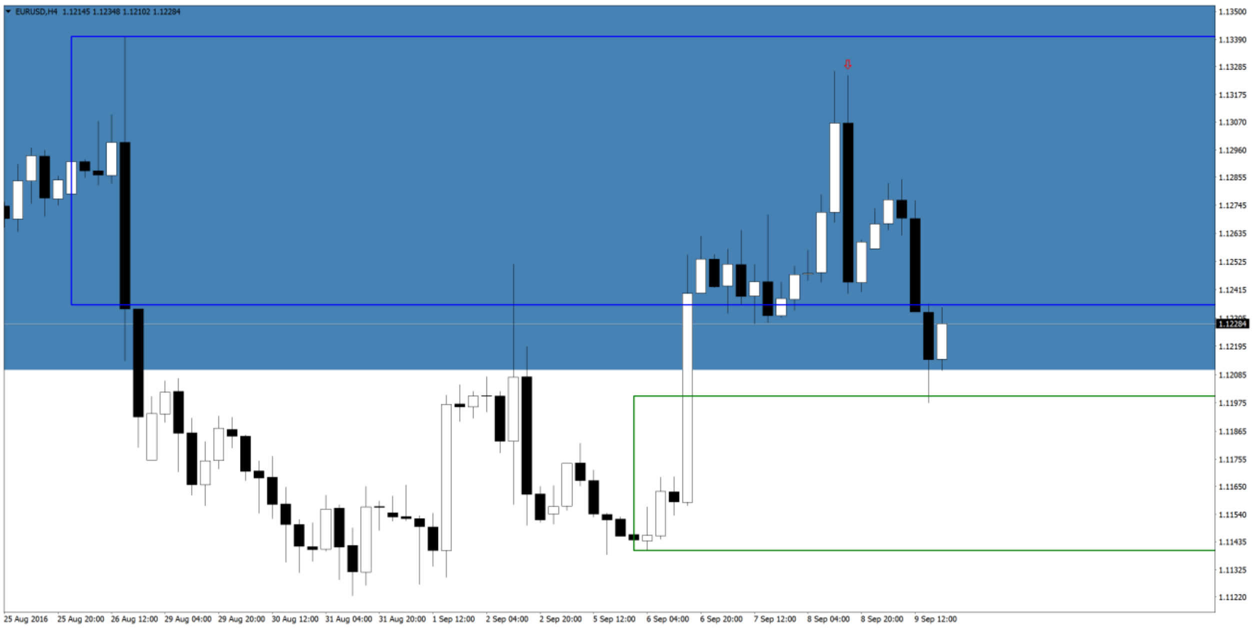
Entry Using the 30 Minute Chart

A signal candle is a daily reversal candle occurring in a weekly zone or a H4 candle occurring in a weekly and/or daily zone. Reversal candles here are those described by Nison and Morris. Zones are created by LBCs as previously described. After the closing of a signal candle the 30 minute chart can be monitored for evidence that price action will continue in the direction heralded by the daily or h4 signal candle. Often the signal candle closes at the end of the NY session and entry during this time often results in a slow but inevitable retracement or sideways range. Entry at this time seems often a "leap of faith". Often the 30 minute chart will reveal the return of liquidity or volatility with an engulfing candle. When using the 30 minute chart only engulfing candles are recommended rather than the reversal candles used with daily and H4 charts.

Below is a daily chart of EU. The solid rectangles are weekly zones and the unfilled rectangles are daily zones. In this chart a daily shooting star occurred on 9/8. It closed somewhat bullish and above the close and open of the prior 2 candles.



The H4 chart reveals a large bearish engulfing designated by the red down arrow that engulfs 2 prior candles. This was a valid signal candle and entry on its' close or a retrace was valid. Price action retraced the H4 engulf for 12 hours resulting in an uncomfortable drawdown.



The 30 minute chart reveals 30 minute engulfs after the close of the H4 engulf shown above. Notice the 12 hours of 30 minute candles trending upwards. The first red down arrow shows a 30 minute engulf during a very low volatility period. The second red down arrow is more significant and entry on its' close is valid. A third red down arrow occurs and is another valid entry. In fact in general once price has shown its' intention of moving in the direction of the signal candle (the H4 engulf in this case) trading most if not all 30 minute engulfing candle is valid. Not doing so leaves money on the table.