

5_15 GENESIS STRATEGY

A multi timeframe application of the Genesis Matrix System

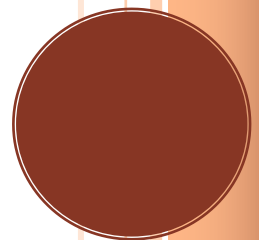
TRADING IS SIMPLY A PROBABILITY GAME

There is a random distribution between wins and losses for any given set of variables that define an edge/system. In other words, based on the past performance of your edge, you may know that out of the next 20 trades, 12 will be winners and 8 will be losers. What you don't know is the sequence of wins and losses or how much money the market is going to make available on the winning trades. This truth makes trading a probability or numbers game. When you really believe that trading is simply a probability game, concepts like right and wrong or win and lose no longer have the same significance. As a result, your expectations will be in harmony with the possibilities.

“Trading in the Zone”, Mark Douglas

Genesis Team

07/10/2012



5_15 Genesis Strategy

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ABSTRACT

This paper aims to introduce a variant to the standard Genesis Matrix System called the 5_15 Genesis Strategy, a Multi Timeframe (MTF) strategy using the M5 and M15 timeframes of Metatrader 4.

The main purpose is to compare two different exit strategies in order to maximize the system performances.

Two different entry/exit rules are presented and combined performances are calculated.

This is not a system for noobies to FX trading. Instead, please go to babypips/school and do their course. It is free and it is extremely good. You will learn much there. The 5_15 strategy requires that you are already skilled in the basic principles of Technical Analysis (TA).

Our firm belief is : “Anything can happen”. We don’t know and don’t want to predict where the market is going.

Before reading this document you need to study the standard Genesis Matrix Method and gain experience with it. (Reference : [Genesis Matrix Trading](#)).

INDICATORS

This strategy is based on the following Genesis indicators :

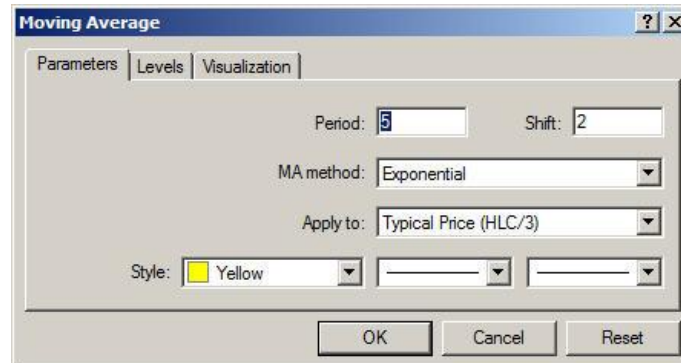
- Genesis Matrix
- Heiken Ashi candles
- EMA 5 (yellow line)
- M5 stochastic
- M15 MTF stochastic
- M5 Arrow
- M15 MTF Arrow

See the references below for more in depth information about these indicators and their settings:

1. [Genesis Matrix](#)
2. HA candles : [post #3651](#)
3. EMA5 settings : see below
4. M5 stoch settings : [post # 1078](#)
5. M15 stoch settings : [post #3654](#)
6. M5 Arrow : [post #3751](#)
7. M15 MTF Arrow : [post #3335](#)



EMA 5 Settings: The moving average of the Genesis System is a standard MT4 Moving Average Indicator with the following properties:



From Ohammond in [post 4403](#): In the settings for a moving average you can set the shift, setting it at 2 will shift the moving average forward 2 candles, the primary reason for shifting it is in order to try to become a leading indicator.

Additional Indicators:

Pivots Levels can help to spot good entry points particularly in intraday trading, as price action may stall or reverse near them. Entries Long just below the Daily Pivot, or Short just above the Daily Pivot should be avoided. Pivot Levels also make excellent Take Profit targets.

SET UP

The purpose of the setup is to wait and look for the right conditions in place to spot higher probability trades.

The Genesis Matrix is a great combined indicator but it isn't a green/red flag which tells you when to open/close trades and make money. You need to integrate it into a trading system which gives you a positive expectancy/edge and fits with your personality to have success with it.

As said, the Genesis Matrix is a combined indicator of 4 different indicators. The combination reinforces the signals of the individual indicators and gives you a higher rate of successful entries when you enter the market.

“Anything can happen” and we don’t know and don’t want to predict where the market is going But we can plan our trade!

Like many indicators, however, it's signals could be prone to be lagging ([leading-vs-lagging](#)) compared to the pure price action particularly when price action is sudden. All indicators lag....there simply is no indicator that predicts where the price will go next. That said, the lag that may be encountered in the Genesis Matrix is very minimal and does not cause any major issues.

Therefore, if you want to use standard Genesis or the 5_15 strategy, an important condition is that price can move enough pips in your direction.

Because we don't know what will happen and everything can happen ...How do we choose to get in?

Below are some guidelines to spot high probability trades:

- ✓ Time filter : choose the time during the day where volatility is higher (typically from Frankfurt/London open to second half of NY session). Pay attention to FKT open because sometimes the price movement is denied by London open (reference : [post #4142](#))
- ✓ Trade with the trend : This is obvious and you have heard it thousands times: "the trend is your friend until it ends". Well, how to understand where we are? Here some suggestions :
 - Try to use a MA in the higher timeframes and look at the following conditions to spot a potential lasting trend:
 1. Price position (below/above MA)
 2. MA direction (raising or dropping)
 3. MA slope (Trend Momentum)
 - Stochastic oscillator. Once again the higher timeframe gives you the direction while the lower timeframe helps you to spot the better entry point. This is the reason why some of us like to have a M15 higher TF stochastic in the same window with the standard one.... this is our compass. Don't try to grasp the perfect reversal point but wait for a clear trend in the higher timeframe before choosing the direction ... in other words wait for the crossover of the stochastic in your trading timeframe and climbing over 20/30 level heading up or dropping down from 80/70 level, in agreement with the direction of the stochastic in the higher timeframe
- ✓ Support/Resistance(S/R): This is the basic knowledge you should have before trading. If the price is coming close to an S/R level, pay attention because all of us are waiting to understand what will happen and as rule of thumb "Buy close to support and sell close to resistance" obviously after a good entry/sell signal on the trading timeframe or a confirmation (double bottom/top or 123 pattern). For intraday traders, pivots play an important role from this standpoint and once again as rule of thumb, during trending market conditions, if price is above the daily pivot think about going long and vice versa. ([Support/Resistance](#)); this rule doesn't work in consolidation market conditions where the daily pivot can be broken some times.

ENTRY RULES

When the setup is good what are the entry signals?

ENTRY 1 : Standard Genesis LONG/SHORT rule (reference : post #2)

- 1) 4 matrix dots with the same colour after the current bar is closed.
- 2) M5 stoch crossover and moving out from 20-80 overbought levels.
- 3) HA bar open above/below EMA5.

The M5 Arrow.....now we don't always wait for the arrow because in a sudden PA reversal it may be late...but....if a M5 arrow doesn't arrive within the next couple of candles, the trade must be monitored more closely for a possible early exit.

ENTRY 2 : 5_15 Genesis LONG/SHORT rule

This entry is the same as standard one but we use M15 arrow as a filter and we enter in the market only in the direction of the M15 arrow. As you can see from the following statistics, this increases the return of the system using either exit strategy.

EXIT RULES

This is the hardest part of any system and requires both technical experience and psychological skills. We try to identify as much as possible mechanical rules to support the trader's decisions. In some market conditions (range), there aren't great differences between the three exit strategies in terms of performance; but in other situations (trend), performance between the three exit strategies can show impressive differences, particularly adopting a scale-in tactic. Obviously there is also the dark side of the moon; psychologically it isn't simple to look at the price moving against you and wait.

There are three scenarios to close the trade : loss, profit and breakeven.

EXIT WITH A LOSS

See Risk and Money Management section.

EXIT WITH PROFIT

If PA moves in the direction of your trade, sooner or later you have to make the decision to close your positions, either partially or totally; here we have three different options.

EXIT 1 : Pivot & S/R level exits

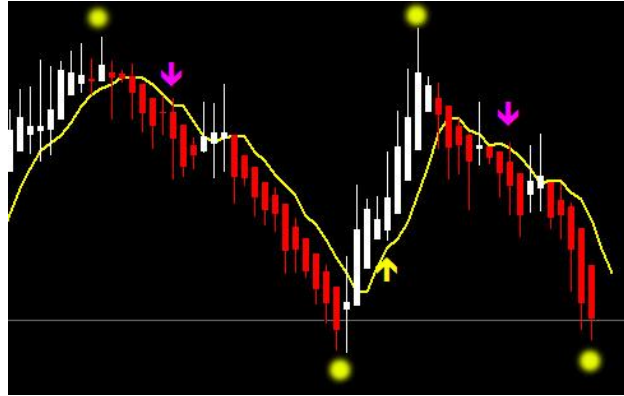
When the price moves in a direction with strength, it doesn't stop arbitrarily....it stops at areas of support or areas of resistance. Most often this will be either a previous historical high or low, a round number, or a Pivot level. Fib levels do count, but they are more useful for long term trading rather than Intraday trading.

Typical Exit

Here we can see that the trade was taken as the price left the Daily pivot. The obvious target will be the next nearest level of support, which in this case is the S1 pivot level. As the price hits this level an exit can be considered. You can see how there was an element of 'slippage' as the price hit the S1 level. Sometimes the price will stop exactly on the line, sometimes not. The price reversed here as we can see, and so an exit is in order (this is shown on the stochastic, but is not included in this image).



Sometimes the price will hover at this level before continuing, which gives an opportunity to re-enter the trade is an exit was taken at the S1, or if the trade is still running, another trade can be entered to maximize profits. In that case, the next target will be S2. Round numbers work in a similar way....numbers such as 1.2800, 1.2900, 1.3000, as do previous highs and lows as you see in the image.



EXIT 2 : Scalper exit

Here, the idea is to take quick profits after the impulse due to the momentum. After this exit one has to be ready to wait for a new opportunity, reverse or re-enter in the same direction in the trend according to Genesis entry rules if the movement is strong enough.

Long Exit :

First opposite candle which closes below EMA5 and the Low of the previous 1 or 2 bars.

Short Exit :

First opposite candle which closes above EMA5 and the High of the previous 1 or 2 bars.



EXIT 3 : Swinger exit.

Here, the idea is to let the PA develop and ride the price swing as much as possible. Conceptually, we would like to enter like a scalper and exit as a swinger according to the signal coming from M15 timeframe, but following the price action on the M5 timeframe.

There are basically three ways to exit according to this strategy:

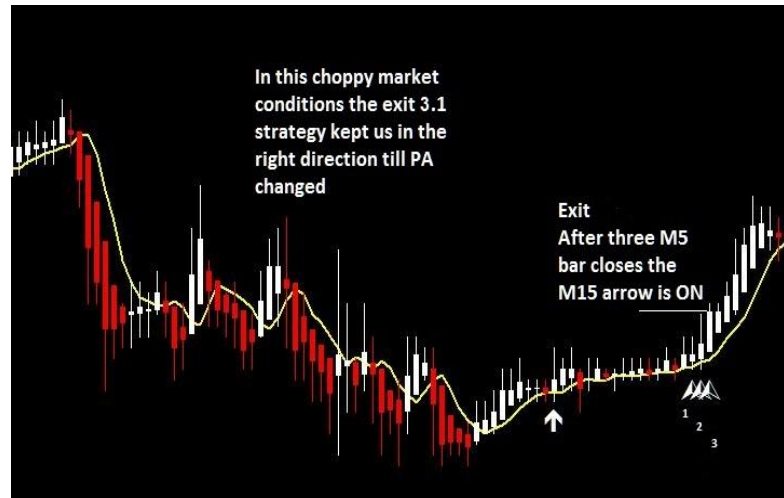
Exit 3.1 : M15 MTF Arrow Signal

Long Exit :

After the third bar of the MTF down-arrow cluster closes on the M5 chart-

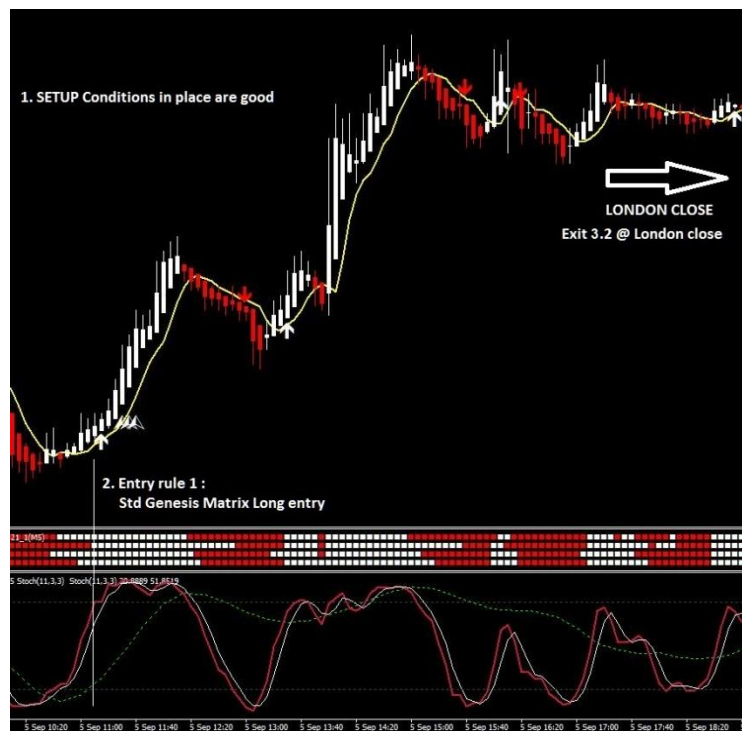
Short Exit :

After on the third bar of the MTF up-arrow cluster closes on the M5 chart.



Exit 3.2 : At London Close (Time Filter)

At the end of the European session (London Close) the market typically becomes tiny and volatility plunges therefore we take out our profit whatever PA is.

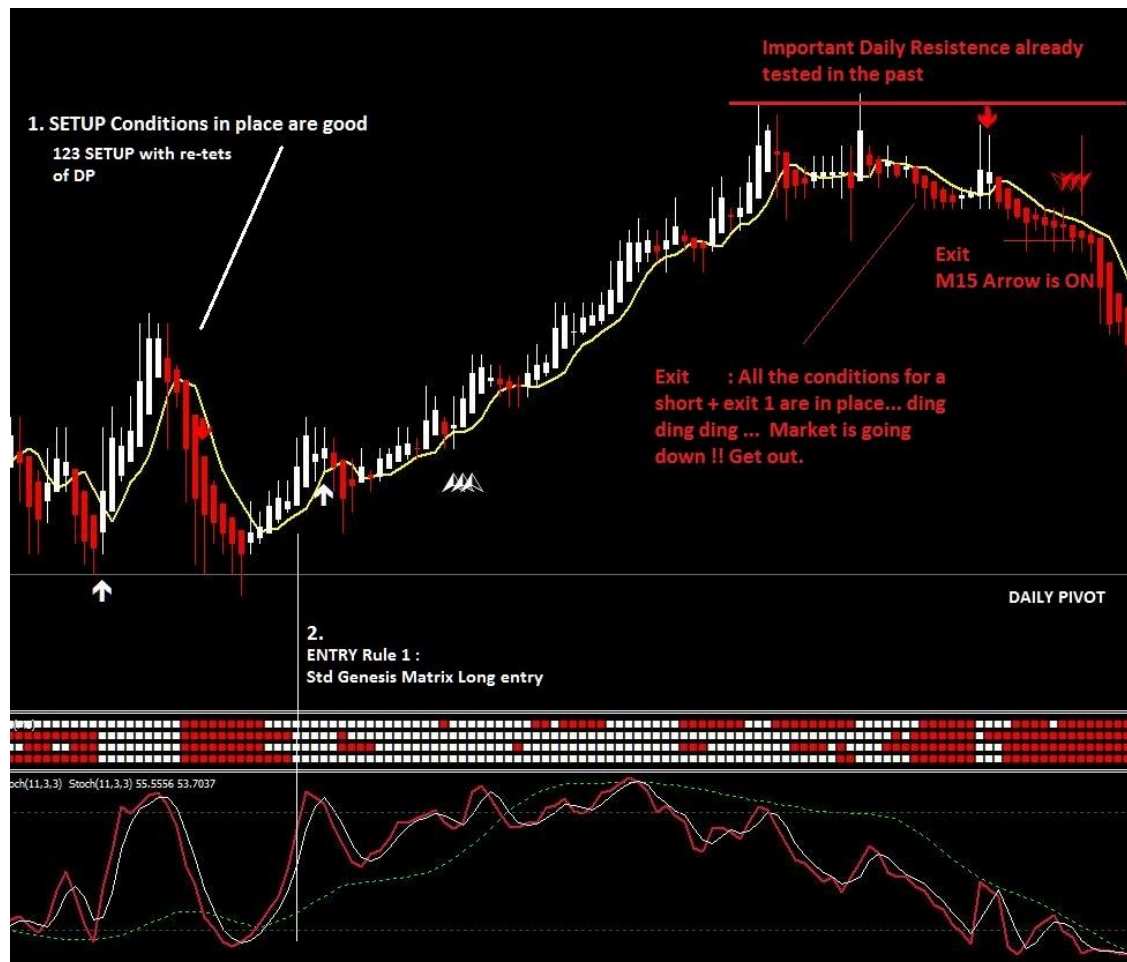


Exit 3.3 : Reverse M5 Entry 1 Signal

In a sudden reversal of price action, both M5 and M15 Arrows could be late. Therefore, if a good setup occurs in the opposite direction and all the Entry 1 conditions are in place, the market is telling you: “Hey folk I am reversing !!!!” in this case don’t wait for M15 arrow but close all your positions and reverse or wait according to your plan.

This case happens typically before some important news or close to some strong S/R or pivots in countertrend movements, particularly but not always after a retest of the area and this is when the first of the three M15 MTF Arrow symbols start to appear.

Here is where the trader experience can make the difference. A suggestion to protect the trade from these events without losing the opportunity to ride the potential breakout is to move your SL to breakeven or close to the dangerous area and wait.



RISK AND TRADE MANAGEMENT

In this section, we deal with loss management. Every trading system has losing trades and losing streaks and we don't know when it happens or how long it can last. The only thing we can control is what we do and how we protect our capital.

Position size

Position size is a very important part of trading for a least two reasons : first the wrong position size can hurt traders (overleveraging); second correct position size can boom your profit. Here, there isn't a "golden rule" because much depends on traders' tolerance to losses and risk, confidence in the system and oneself, psychological inner side

Our suggestion is to define what you are willing to lose per trade (% of your risk capital) and then convert it in nano, micro or lots and hence into pips per pair. This is the maximum amount of pips you can risk on one trade.

Since the Stop Loss is a determinant of what you are actually risking on a trade, one formula for calculating the Lots is:

$$\text{Lots} = \frac{(((\text{PercentRiskPerTrade} / 100.0) * \text{AccountFreeMargin}) / \text{PipValue})}{\text{StopLossInPips}}$$

The PipValue, above, is the USD dollar value of 1 pip move for a full lot trade. So, for GbpUsd or EurUsd, it is 10. For a Yen pair, it is 1000/UsdJpy ask price.

The beginning traders should select a fixed small lot size which suits them until they have demonstrated consistent performance with the system and then switch to larger calculated values.

Stop Loss

In this strategy we always use a Stop Loss placed according to the standard rule (ref. : [post # 2 : SL](#)):

Stop Loss for shorts goes above the previous swing high + spread, and for longs, below the previous swing low+ spread. Having said that, the Stop Loss is not there for you to sit and watch it get hit if the PA turns around. It's there as emergency protection. The idea is that you recognize that the PA has turned and you need to manually exit the trade and consider entering the opposite way. It is false economy to place your SL (say) 10 pips away instead of above/below the recent swing high/low. It might seem a cheaper option but when it gets hit time after time, and then the PA moves the way Genesis indicated, it can become very expensive. The PA needs room to 'breath'...the PA doesn't move in a straight line. However, if your SL is place above/below the recent swing high/low and it gets hit, you can be sure that the PA is reversing and not just 'breathing'.

“The only thing we can control it is what we do”

Break Even and Trailing Stop

Stop Loss is like a "safety net"; you don't need necessarily sit and wait to hit the SL.

If we didn't close the trade due one of the two exit rules once the trade profit went over 20 pips, we moved the SL to BE in order to have a free risk trade in hand and waited to close the position according to one of the two exit strategies or scaling in at the next Matrix Signal. In this second case, SL was moved to the new SL level to protect the first trade and use market money to risk in the new trade.

PERFORMANCE

The statistics of the system performance are presented just for EU. The test was performed from 2012/08/13 to 2012/09/07 with very different market conditions (from narrow choppy days to strong trend days).

Only Exit rules 2 and 3 were used in the data collected and analyzed below.

Test protocol

Once the setup conditions were in place we took the trades according to the standard Genesis Matrix rules. We closed the trades according Exit strategies 2 and 3 then recorded the following parameters: presence/absence of M5 arrow, bars before M5 arrow appeared, presence/absence of M15 arrows, bars before M15 arrows appeared, trade direction, Entry Price, Stop Loss, Rule 2 exit price, Rule 2 Profit/Loss, Rule 2 Risk/Reward, Rule 3 exit price, Rule 3 Profit/Loss, Rule 3 Risk/Reward.

A summary of the study results are given in the following table.

Overall 5_15 System	Exit 2	Exit 3
Total Number of Trades	53	53
Total net profit (pips)	+907	+1806
Gross Profit (pips)	+950	+1881
Gross Loss (pips)	-43	-75
Number of winning trades	34	38
Number of losing trades	19	15
Percent Profitable	64.1%	71.7%
Largest winning trade (pips)	+58	+143
Largest losing trade (pips)	-11	-19
Avg. winning trade (pips)	+27	+50
Avg. losing trade (pips)	-5	-8
Avg. Risk/Reward	1.24	2.43

Definitions:

Total net profit	(Gross Profit – Gross Loss) in pips
Gross Profit :	Gained pips
Gross Loss :	Lost pips
Winning trades :	Because we closed some trades at breakeven in order to calculate reliable and more conservative stats we define a winning trade as a trade with a profit > 10 pips
Losing trades :	In opposite a losing trade is a trade with a profit <= 10 pips
Percent Profitable :	Winning/Total trades. It is important just to calculate the amount of money you want to risk to maximize the return of the system
Largest winning trade :	The largest amount of pips gained
Largest losing trade :	The largest amount of pips lost
Avg. winning trade :	The average value of all the winning trades
Avg. losing trade :	The average amount of pips of all losing trades
Avg. Risk/Reward	Average gained pips / average SL in pips

The database allowed us to ask additional questions as follows.

1. ARROW COMBINATIONS CORRELATION WITH PIP OUTCOME

How does the presence or absence of the M5 and M15 arrow at the time of entry correlate with the outcome of the trade?

EXIT 2			
	M5 Arrow NO	M5 Arrow YES	Total pips
MTF 15 Arrow NO	123	103	226
MTF 15 Arrow YES	217	464	681
Total pips	340	567	907
EXIT 3			
	M5 Arrow NO	M5 Arrow YES	Total pips
MTF 15 Arrow NO	202	358	560
MTF 15 Arrow YES	231	1047	1278
Total pips	433	1405	1838

The total amount of pips is different than overall 5_15 stats because the winning trade definition.

2. ARROW COMBINATIONS CORRELATION WITH NUMBER OF TRADES

Trades			
	M5 Arrow NO	M5 Arrow YES	Total trades
MTF 15 Arrow NO	8	10	18
MTF 15 Arrow YES	8	27	35
Total trades	16	37	53

3. ARROWS BARS DELAY

How many M5 bars do we wait, on average, before an arrow appears after we take a matrix signal ?

	M5 ARROW	M15 ARROW
Number of M5 bars	3.1	11.5

CONCLUSIONS :

1. The performance of the Genesis Matrix Trading System has the potential to be enhanced by including the Timeframe and Multi-Timeframe Arrow Indicators as components of the entry conditions; 73% for Exit 2, 80% for Exit 3.
2. The MTF Arrow is a significantly better signal for an exit than Price Action Closing above/below the MA5 indicator, both in terms of percentage of profitable trades, and number of pips profit; 39% improvement for a “No Arrows Entry” up to 55% improvement for a “Both Arrows Entry”.