THE PEAK HILO INDICATOR AND SIXTHS

GETTING STARTED

This pdf explains my Peak HiLo indicator and how it allies with Sixths to inform both manual and EA trading. I shall call it “Peaky” from now on as this is how we have come to refer to the indi at SHF.

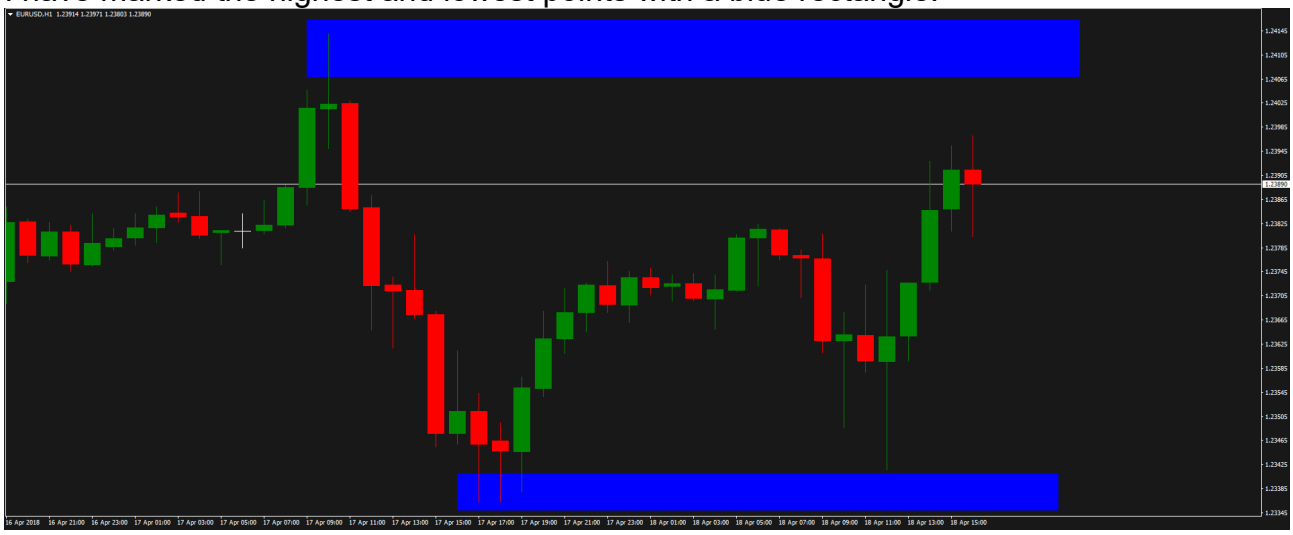
“Buy low, sell high is” something that all traders of goods try to do. It does not matter what the product is; salt, cars, clothes – you name it. The idea is for the trader to buy the goods and then sell them on at a higher price.

Nowhere is it a more obvious principle than in Forex trading:

- When we close a buy trade, we are in fact selling the contract back to the original counter-party. We profit when the market has risen – we bought low then sold back high.
- When we close a sell trade, we are in fact buying the contract back from the original counter-party. We profit when the market has fallen – we sold high then bought back low.

The problem that all beginners face is this: identifying what is “high” and what is “low”. Load up any chart on its default zoom any time frame and it will have one highest point and one lowest point. You would have profited had you bought whilst the market was on the way up to the highest, and sold when the market is on the way to the lowest.

I have marked the highest and lowest points with a blue rectangle:



Dead easy with the wonderful vision of 20/20 hindsight. Even without the benefit of this hindsight and trading at the time, we could have seen when the market was at the top of the chart and when it was at the bottom.

Thingy is, it is not as simple as this – when is anything *ever* that simple? This chart illustrates the problem beautifully. It is the same chart, but zoomed out as far as possible:

Now you can see that the highest and lowest points on the CrapT4 default zoom are actually slap bang in the middle of a damn great range. Suddenly, the direction to trade is less obvious.

In fact, with the market in the middle of the range you should probably be staying out of the market, but if you really want to trade then here is where Peaky comes in:

- Zoom the chart out as far as possible.
- Apply Peaky.
- You need as much chart width as possible, so close down any windows to the left of the chart. Chart depth does not matter, so go with whatever is comfortable.
- Most of us like some right hand margin, but drag the margin arrow as far as it will go (this is the greyish/ whitish arrow at the to of the chart pointing down to the end candle).

Peaky will do all of the above for you; there are inputs that allow you to control his behaviour, but I will describe these later.

Now the chart looks like this:

Reading this in pdf format, you might have to use the zoom feature to see the details properly. There is a yellow like marking the highest point on the chart that is easily visible and one marking the lowest point that is hard to see because it is so low. I found a zoom of

150% helped enormously.

Towards the right of the chart you can see “H1” in yellow and “Short” in red. This is recognising that the highest peak is closer to us in time than the lowest peak. We say that the Peak High is later than the Peak Low and so we should only be considering sell trades.

From here on, I shall write, “Peak High” as “PH,” and “Peak Low” as “PL”.

Experiment with a few charts for a few minutes, then return here. Peaky will show a lot more information than I have described here, so set these inputs to 'false' and save the inputs as a set file:

- UseHighestTimeFrame
- UseHighTimeFrame
- UseMediumTimeFrame
- Set TradingTimeFrame to 'current' so the display will change as you change time frames.

NEXT STEP

The sharp-eyed of you will notice that the Peaky lines are not always at the very top or bottom of the charts. This is because we do not consider 'spikes' to be genuine highs or lows. When a market 'spikes' long for example, it rises rapidly and for a considerable distance but then falls back substantially.

We want to ignore these spikes at the top and bottom of our charts, so turn the chart to it line-chart setting. Your chart will look something like this (different chart to the previous):

Again, it might not be easy to see the PL line in pdf format, but if you repeat this exercise on your charts, you will see that the spikes are ignored.

SIXTHS

Years ago Bob taught us to:

- Measure the distance from the bottom to the top of our charts.
- Divide the distance by six to create the Sixths.
- Only buy from within the bottom Sixth.

- Only sell from within the top Sixth.

Not many of us fully grasped what he was saying at the time – including me. Thinking back, some members were trying to make us see that the sixths need to be calculated over a large number of charts; the rest of us missed the point by a universe of distance.

Go back to your charts and allow Peaky to show you the top and bottom sixths by setting the ShowTradingArea input to true – you will find it in the “Trading time frame” inputs more than half way down. Your chart will now show dashed yellow lines like this:

I call the dashed yellow line the “Trading line”. It marks the top of the Sixth of the PL, and the bottom of the Sixth of the PH. I call these the 'trading areas'.

Either:

- Buy when the market is in the lower sixth:
  - Or set a buy stop a few pips above the PL trade line – you will see why later.
- Sell when the market is in the upper sixth:
  - Or set a sell stop a few pips below the PH trade line – you will see why later.

THE 'CLOSE PROXIMITY' LINE

Go back to your charts again and tell Peaky to show the close proximity line by setting the ShowCloseProximityArea input to 'true'. Your chart will now show a dotted yellow line (by default) 50% of the size of PL Sixth above the trading line, and below the PH trading line:

The lines are quite faint in the picture, so I have added labels to show where the lines are. They will be obvious on your charts.

The purpose of these lines is to highlight to manual traders that the market is nearing a trading area. One possibility is setting stop orders just beyond these lines. The theory is that once the market breeches these lines, then the move up from a PL and down from a PH is firmly established. None of my recent EA's use this line.

CYCLES

I think of the journey from a PL to a PH, or a PH to a PL, as a cycle. CJ describes a cycle more precisely in his thread The Captains Chest - Naked Trading & Other Stuff. I do not use this level of precision when using Peaky and consider a new PH or PL to be a cycle completed.

There is a problem with my approach and it is this: just because there is a new PL/PH does not mean the market will not continue in the same direction and continually create new ones. In this picture, the blue rectangles mark what would have been new PL's at the time:

The market continued on its merry way down and it was some time before a true PL formed. Buys taken at the 'false' PL's would have gone into deep draw down before recovering, or hit a stop loss. This is the advantage of sending stop orders somewhere outside the trading area; you can move the stop orders ith the market if it market continues to expand the peak.

Here is the same chart but with the time frame changed to the H4 and Peaky's TradingTimeFrame input changed to the H1 so the lines do not move:

You can see that the latest peak on the H4 is a PH, so we would only be looking to sell on the H4. Buying on the H1 means we are fighting the H4 and as we all know, higher time frames trump lower – and if you did not know that before, then you do now.

Go back to your charts and set them to the H4. Leave TradingTimeFrame to the H1 then scroll up to the “Medium time frame” inputs and set the UseMediumTimeFrame input to 'true' and leave the default time frame to the H4.

Here is a chart with H4 Peaky enabled. The turquoise lines mark the PH/PL on the H4 chart:

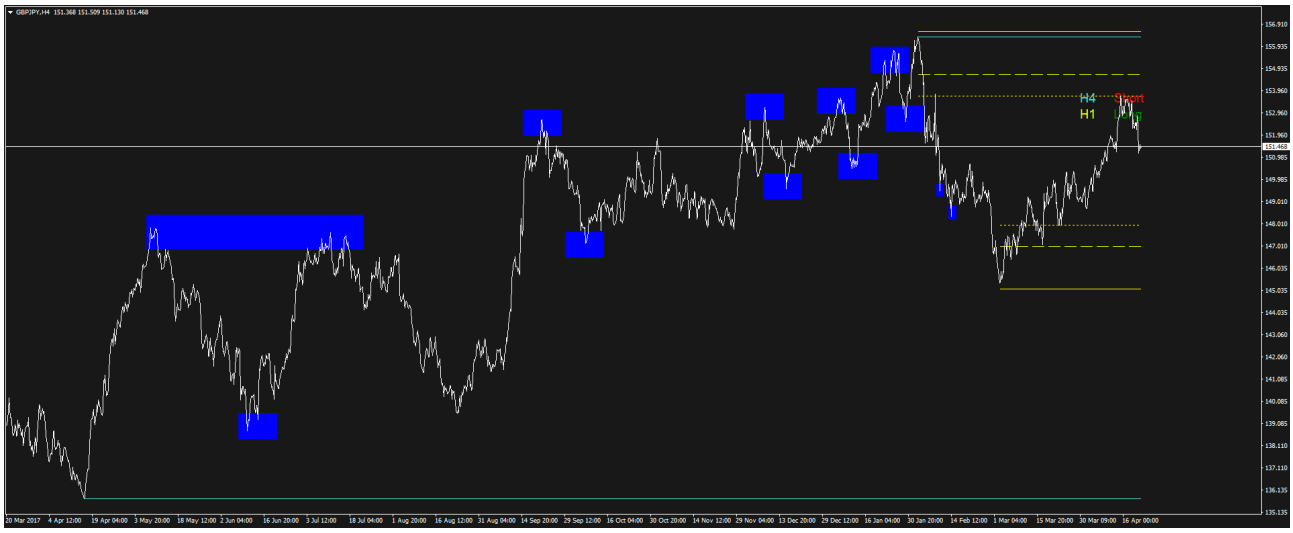
Suddenly you can see that what was clearly a buy from the H1 PL has a limited life span. That long cycle on the H1 is now clearly merely a part of a pull back on the H4 downward movement. Time to talk about pull backs.

PULL BACKS, A.K.A. RETRACEMENTS

Markets do not move in straight lines over periods of time. They move in waves. Looking at the chart above, we can see clearly that the market moved from a PL to a PH. Anyone who bought at the PL and hung on to the trade would have been sitting on over 2,000 green pips *but* would have waited from mid-April until the end of January to get there.

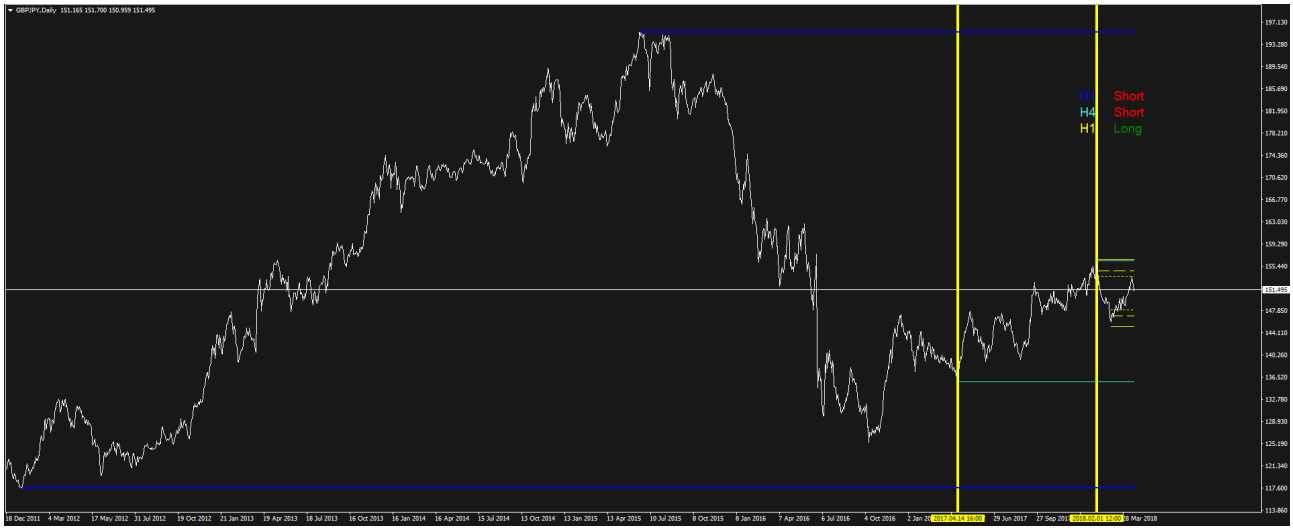
Worse still, the trader would have seen the profit on the trade going up and then down like a demented yoyo. S/he would have needed a *lot* of patience to stay with the trade – and courage as well.

Whatever direction the market is ultimately going, it will be subject to moves in the opposite direction. Some describe these opposite moves as, “pull backs”; others describe them as, “retracements”. I have highlighted them on the chart I am using for illustration:



CYCLES WITHIN CYCLES

Here is a chart with the high time frame also enabled – set the UseHighTimeFrame input to 'true':

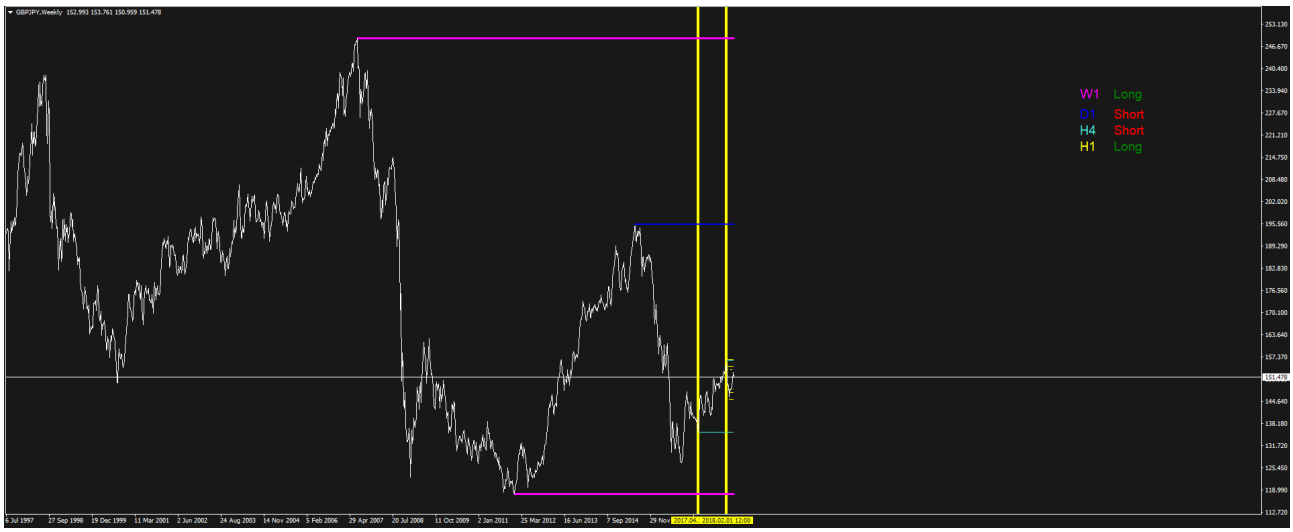


Peaky draws the high time frame peaks in blue – the D1 in this case. I have marked the boundaries of the completed H4 cycle with the yellow vertical lines. There was no encouragement for the trader to stick with the H1 buy trade. It looks as though the H4 cycle is part of a retrace on the D1; it is a completed cycle within the forming D1 cycle.

That H1 cycle was a completed cycle within the forming H4 cycle. There will have been M30 cycles within the H1; M15 cycles within the M30 and so on. It is these cycles that create the wave movement.

These cycles are why experienced traders wait for a retrace before trading; the buy following a retrace low and sell following a retrace high.

Here is the same chart but on the W1 time frame and with Peaky's HighestTimeFrame input set to 'true':



Fewer bars on the chart because there the charts are on my software development

platform and I limit the bars on each chart to 2,000. Look how utterly insignificant that H1 cycle was within the grand scheme of things. The H4 cycle does not look all that important either *but* there was encouragement for that long trader here.

Conventional wisdom is that we should look two time frames out when considering our trading direction, so for example:

- Look to the D1 when trading the H1; stay out when these are mixed.
- Look to the W1 when trading the H4; stay out when these are mixed.

Here we can see that the W1 is on its way eventually to a long cycle.

USING PEAKY AS A TRADING AID

You can use Peaky as a stand-alone trader trading the different time frames. We have an EA that utilises this - Peaky on Steroids. Be warned that you often have to be *very* patient when doing so – guess how I know?

You can use it to trigger trades when your system shows a trading direction:

- Buy when:
  - Peaky is in a long cycle on your chosen time frame OR
  - The market is inside the lower Sixth and you are buying after a deep retrace.
- Sell when:
  - Peaky is in a short cycle on your chosen time frame OR
  - The market is inside the upper Sixth and you are selling after a deep retrace.

Here are a couple of ideas to get you started:

- Go to Bob's Holy Grail Indicator thread. HGI is a stand-alone trading trading tool but there is nothing wrong with only taking the signals when Peaky agrees.
- Go to Baluda's Super CSS-2.0 thread:
  - Buy when CSS is blue and Peaky is in a long cycle.
  - Sell when CSS is brown and Peaky is in a short cycle.

I love Super CSS-2 and there is a whole family of EA's devoted to using it. The best of them by a country mile is Slopey Peaky Bob, which is an automation of the second trading idea in the previous paragraph.

THE INPUTS

- **NoOfBarsOnChart:** users occasionally want control over the number of bars used in the peaks calculations. The default of 1682 is roughly the number that can be viewed with the chart at its widest and zoomed out to its highest zoom.
- **Zoom_Level:** this gives you control over the zoom level when you load the indi, allowing you to get closer to the actions as it is right now.
- **The highest time frame:**
  - **UseHighestTimeFrame:** tells Peaky to show the highest time frame.
  - **HighestTimeFrame:** your choice of time frame.
  - **HighestTimeFrameLineColour:** your choice of colour for the peak lines.
  - **HighestTimeFrameLineSize:** your choice of line size. 0 = thinnest; 4 = thickest.
- The next 3 groups of inputs are for a high, medium and trading time frames. There

are three extras in the trading time frame:
    - **ShowTradingArea:** tells Peaky to show the dashed line that delineates the top and bottom Sixths. You will trade long out of the bottom one and short out of the top.
    - **ShowCloseProximityArea:** tells Peaky to show the dotted close proximity line.
    - **PercentOfTradingAreaForProximity:** the percentage of the trading area to use to calculate where to draw the close proximity line.
- **ChartDivisor:** tells Peaky to divide the chart into Sixths. You might want different sizes, so an input of 5 would divide it into fifths, of 4 into quarters and so on.
- **Label inputs:** play with these to position the time frame and trading direction lables as you want them. Ignore spacingtweek – the code that draws the labels was donated by lifesys and I haven't a clue what that does.

Disclaimer and Risk Disclosure:

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work with as well as against you. Before deciding to invest in foreign exchange you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor should you have any doubts.

I will put this a tad more bluntly:
Most Forex traders lose all their money.

- Using Peaky in trading Forex does not guarantee success.
- Trading with Peaky could lead to serious financial loss.

Good luck. Have fun.