

MY RULES: 5 MINUTE INTRADAY TRADING SYSTEM

Adapted from Original developer – Phillip Nel

Version 3 – June 2007

1. THE CHART SETUP:

1.1 Charts & pairs:

- 1.1.1 5 min candle chart
- 1.1.2 The following 4 pairs:
 - EUR\$
 - GBP\$
 - JPY\$
 - EURJPY

1.2 Indicators on chart itself:

- 1.2.1 EMA = 10 & 21
- 1.2.2 SMA = 50

1.3 SMAangle window:

- 1.3.1 SMAangle indicator (post #399 on page 27 or page 39 of thread)
- 1.3.2 21 EMA based on first indicator data overlaying this indicator (see Attachment A)
- 1.3.3 Put the following horizontal lines on the SMAangle indicator:
 - 0.1, & -0.1, on the EURU\$, GBPU\$ & U\$JPY pairs
 - 0.15 & -0.15 on the EURJPY pair
 - 0.4 & -0.4 on all 4 pairs

1.4 ADX window:

- 1.4.1 Open a ADX indicator in separate window set @ 13
- 1.4.2 Overlay it with an Isma 3 indicator from HelloDollie safe pips thread (not included in example provided) (<http://www.forexfactory.com/showthread.php?t=28935>)

1.5 *Optional:*

- 1.5.1 PhilNelsignals indicator (post #399 on page 27 of thread & page 39) downloaded from thread

1.6 *Optional* – The EJ_CandleTime(1)H indicator from the 4h MACD thread to look at the time left before closure of current candle.

Example of Chart:



2. THE TRADE CRITERIA:

Criterion 1: 50SMA angle to be more than 20 degree

- 2.1.1 It is a subjective measurement and it is not an accurate measurement.
- 2.1.2 It was used in the beginning of the thread) and we changed late to the 21MA on the SMAangle indicator as a guide (as explained in Criterion 2).
- 2.1.3 But it is still very applicable for this system because the angle of the 50MA is the main principle behind the system

Criterion 2: 21EMA on SMAangle indicator to cross the 0.1 or -0.1/0.15 or -0.15 line.

- 2.2.1 The area between the 0.1 and -0.1 lines is called the no-trade zone.
- 2.2.2 No trades to be taken if 21MA is in the no-trade zone.

Criterion 3: The price to pull back through 10EMA to 21EMA

- 2.3.1 The area between 10MA & 21MA is called the fire or war zone
- 2.3.2 In the war zone is where the action is – you'll enter your trade

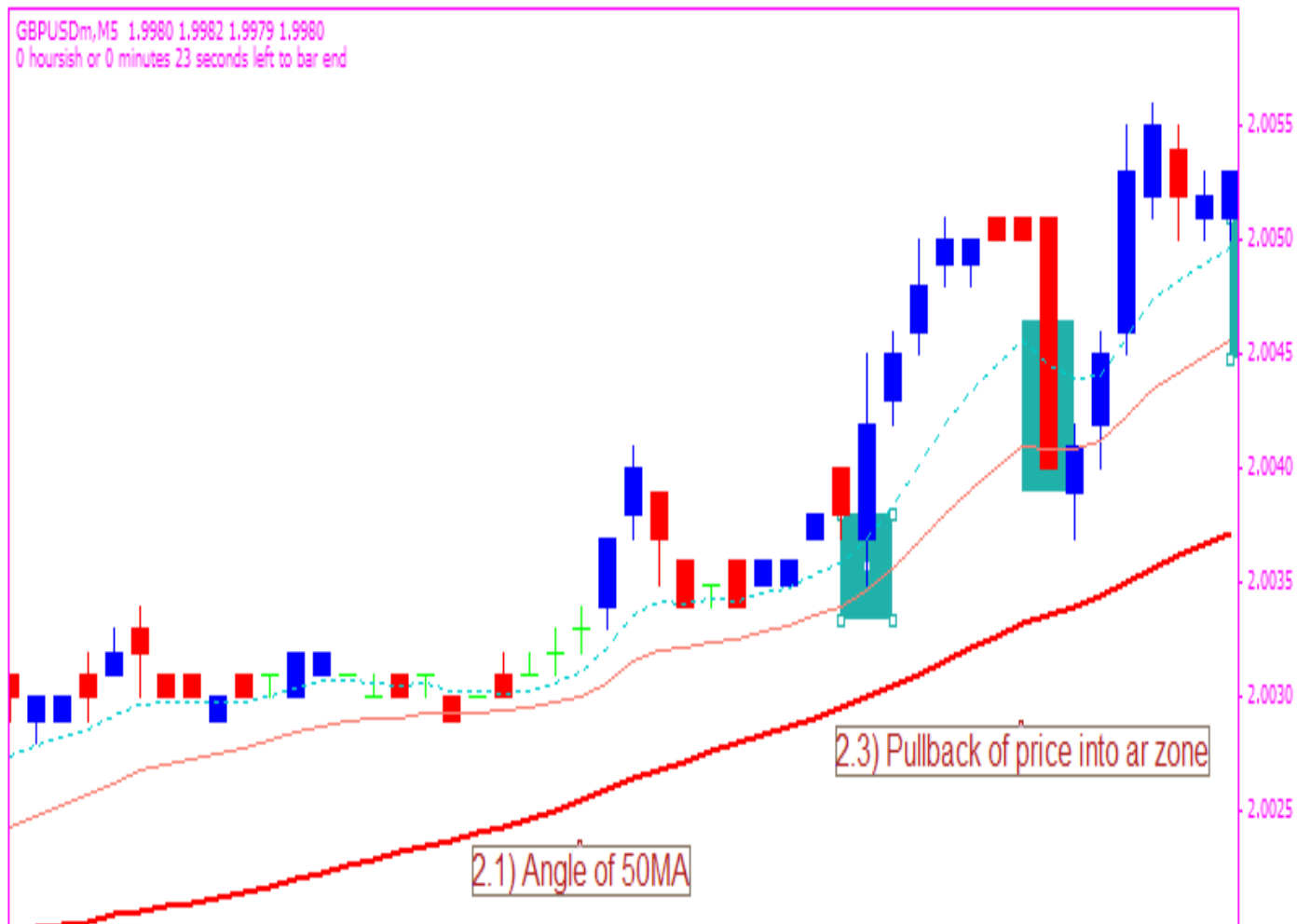
2.4 Criterion 4: The price should stay on the correct side of the small resistance/support line

- 2.4.1 Draw (Appendix B) a small trend line from the:
 - Last High or Low before the cross of the 51MA
 - Next high/s or low/s to form a small resistance/support line

- 2.5 *Optional – SMAangle bars to be higher or lower than 0.2 or -0.2 line (I don't use it any more – the small resistance/support line is more accurate)*

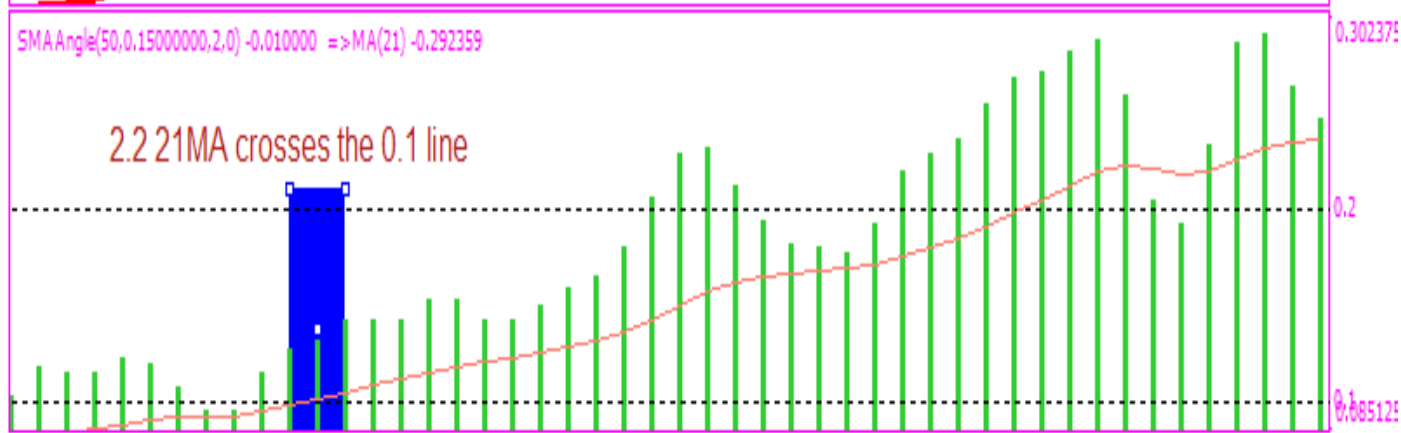
Example of chart:

GBPUSDm,M5 1.9980 1.9982 1.9979 1.9980
0 hoursish or 0 minutes 23 seconds left to bar end

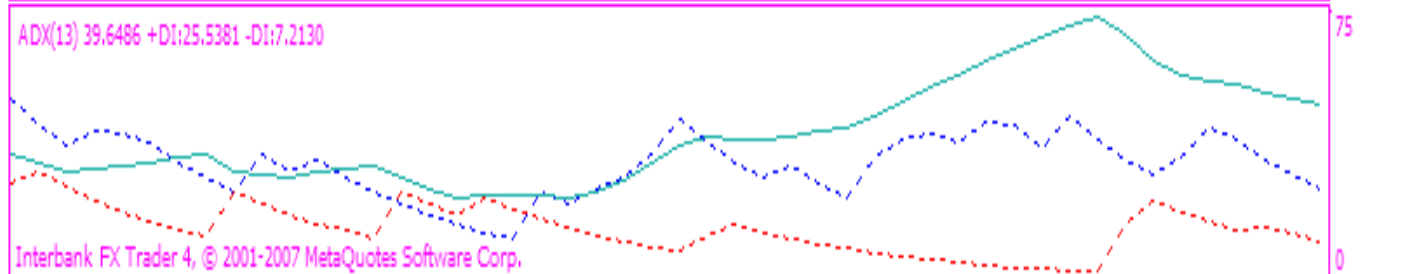


SMAAngle(50,0.15000000,2,0) -0.010000 =>MA(21) -0.292359

2.2 21MA crosses the 0.1 line



ADX(13) 39.6486 +DI:25.5381 -DI:7.2130



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26 Apr 2007 26 Apr 02:35 26 Apr 02:55 26 Apr 03:15 26 Apr 03:35 26 Apr 04:00 26 Apr 04:20 26 Apr 04:40 26 Apr 05:00 26 Apr 05:20 26 Apr 05:40 26 Apr 06:00

3. THE TRADE SET-UP:

Rule 1: Small trend line rule:

- 3.1.1 Ensure that the price and candles stay on the correct side of the small trend line.
- 3.1.2 Any break-out cancels the set-up/possible trades

Rule 2: Specific manner of pullback of candles towards war zone:

- 3.2.1 Smooth and flat pullback of candles – no steep pullback
- 3.2.2 Smooth rounding of top/bottom (wave-like pullbacks) – no sharp V shape change of direction
- 3.2.3 Ascending of descending triangle being formed between resistance/support level and small trend line drawn

Rule 3: Pullback into war zone:

- 3.3.1 Identify the first candle to enter the war zone towards 21MA
- 3.3.2 Wait for second/more candle to pull back from 21MA towards 10MA
- 3.3.3 Enter the trade on the pullback a few pips away from the 21MA

Rule 4: Additional ADX rule (not yet fully tested):

- 3.4.1 For a long trade, the positive line (Blue) must be above the negative line (Red) with Isma line crossed the red line to go in between Blue and red line
- 3.4.2 For a short trade, the negative line (Red) must be above the positive line (Blue) with Isma line crossed the blue line to go in between Blue and red line.
- 3.4.3 The trend line must be above 25 level
- 3.4.4 If the ratio between the positive and negative line is almost 2:1, expect the pullback only up to the 10MA and enter the trade.

Example:



4. THE TRADE:

- 4.1 Use a market order to enter within the war zone as specify
- 4.2 Put Stop Loss 6+spread pips away
- 4.3 Move stop loss to breakeven after a clean 6 pips gain/profit (brokerage/spread included)
- 4.4 No Trailing Stop Loss
- 4.5 Put/activate profit limit on 10-15 pips
- 4.6 There are plenty of chances to get in a trade:
 - 4.6.1 Don't try to trade every signal that might work
 - 4.6.2 Wait for the good setup to occur
 - 4.6.3 **Wait for the High probability ones**
 - 4.6.4 Rather miss an opportunity than to get involve in a bad/wrong set-up
- 4.7 The Entry looks:
 - 4.7.1 Small candles
 - 4.7.2 Flat type of pull back
 - 4.7.3 Some sort of Resistance (up trend) and Support (down trend) to form a small ascending or decending triangle awaiting a breakout within the war zone.

5. PHILLIP'S ORIGINAL CHART:

Page one the thread



6. NEW SET-UP & TRADE ON CHART



7. ADDITIONAL ISSUES TO CONSIDER:

7.1 Look for activities on the wrong/other side of the 21MA:

- Do not get involved in No1 and No2 - too much movement below the 21EMA (be on the lookout for tails of closures on the wrong side of the 21MA like that)
- Look at the set-ups in No3 and No4 – beauties within the war zone



7.2 Look for the speed of the trend:

Phillip's advice:

I just want to point out that the angle of the 50SMA is not a matter of calculating it. It is a matter of a visual aspect. As long as it is not flattish. Again what is flattish. That is why I used 20 degrees or greater just to emphasize that if it is too flat it gives false signals.

Let me explain it this way. See the three different moving averages as three lanes on a highway. A slow lane, a medium fast lane and a fast lane. The 50SMA represents the slow lane, the 21EMA represents the medium fast lane and the 10EMA represents the fast lane.

Circle No 1,2 and 3 as you can see comes back to the 50SMA and the speed or momentum can then be described as slow(in the slow lane).

The purple No4 as another move up and the movement is above the 10EMA(fast lane). No5 confirm the momentum as in the fast lane. No 6 and 7 would have been perfect entries.

However with experience I already saw that at No4 there is no interference with the MA's therefore I would have entered on No5 and then No6 and my two deals for the day was done.

Between 6 and 7 you could see the speed changing as the 10EMA slightly change speed.(Angle becomes flatter) this is a sign that the speed might be changing. At No8 the speed changed to slow again. Wait for the speed to change to fast.

As you can see that although the 50SMA was upwards at point 1,2 and 3 the angle or speed was not enough. **The retracement(pullback) is normally back to the lane that represents the speed.** This is a very important point. If the speed is slow(50SMA) the pullback will be to the 50SMA. Therefore it is important to wait for the speed to be in the medium to fast lane because the pullback will be into that zone.

The speed of point 5,6 and 7 was better than 1,2 and 3.

I hope this explained the setup better.

Chart to explain Phillip's advice:

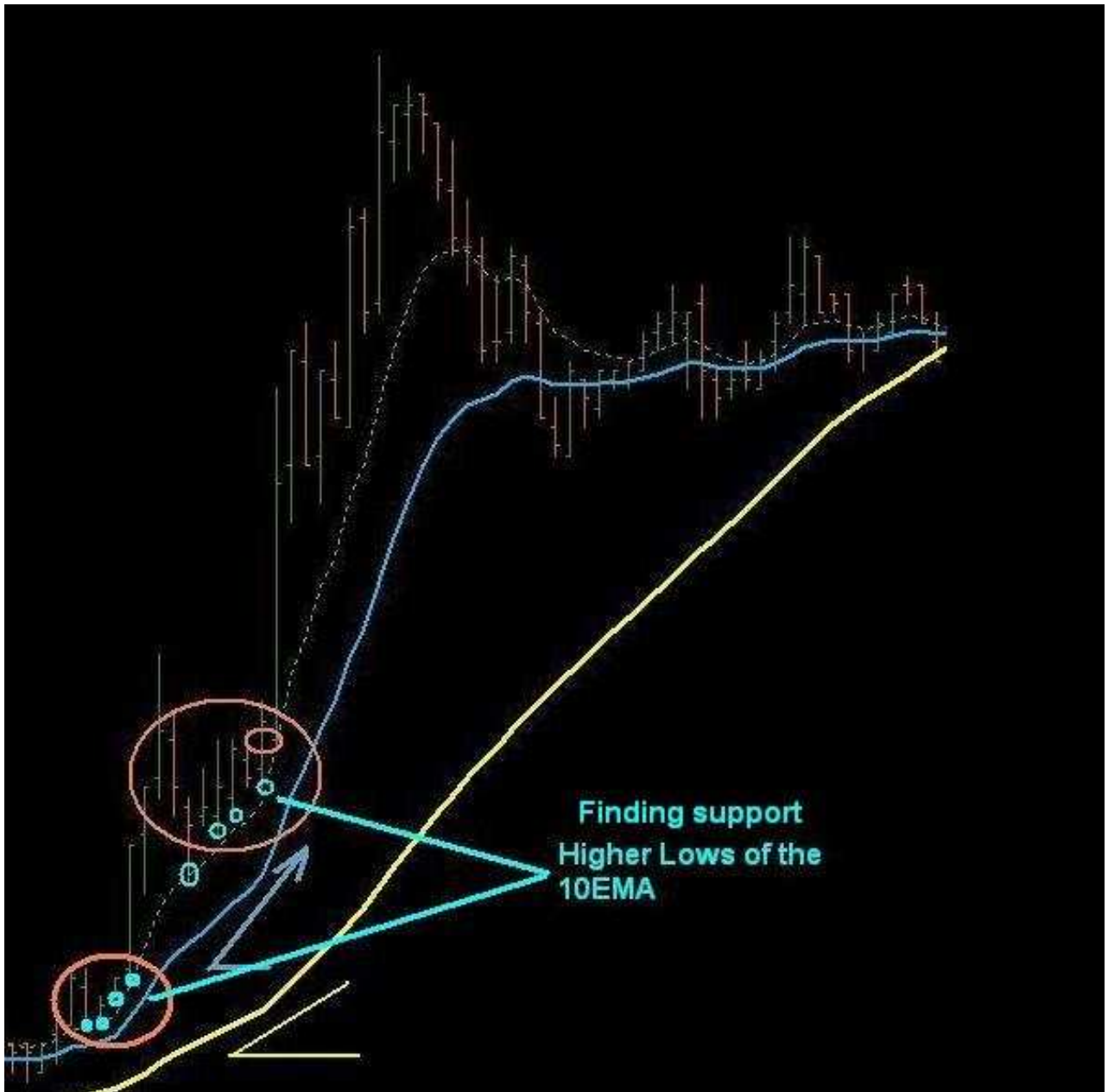


Another example in the change of the trend speed with excellent trade set-ups after 06:00:



7.3 First pull-back to 10MA – fast speed:

- Consider taking the first trade during the fast speed trend (comply with set-up criteria) when price have a pull back to 10EMA – price tends to bounce off 10EMA first
- Be careful – very risky – look at the example
- When the 50SMA is clearly in a trend, wait for the price to pull back into the zone. If it goes through the 21EMA wait for the next bar to move back into the zone and then enter. When the trend is **very strong** it does not normally pull back deep into the zone. Look at history and you will see that. If two to three bars in a strong trend find support on the 10EMA just close your eyes and enter. Rules stay the same.



You will find that it is only often that the 10EMA and 21EMA are more than 6 pips from one another. In most of those cases the trend is very strong upwards and then there is not a pullback to the 21EMA. Try to enter anything from 2 pips inside the zone. Sometimes the move downwards is fast and then wait for a slowdown before entering. With time you will get the feel for it.

7.4 Wait for two or more candles to enter trade/war zone (between 10 & 21MA):

- Wait for two candles to make contact with/enter the war/trade zone on the chart before consider entering a trade.
- Not necessary for second candle to open or close in the war zone
- Entry should be made as close to the 21EMA as possible. When the move is quick halfway between the two is OK while when the move is slow closer to the 21EMA. It means 2-3 pips difference between the two.

Example of 2 or more candles within the war zone before entering a trade:



7.5 Look for the width between the 10 & 21 MA:

- Be careful when looking at the width between the 10 & 21MAs.
- The angle is very important but look at this example of the GBP forming. The 21EMA and 50SMA are too close together and the angle between the two is not opening up but running parallel. Phillip won't get involve at all.



7.7 5-6 candle rule: Profit not triggered within 5 candles, consider closing the trade:

- If your profit is not triggered within 5-6 (25-30 minutes) candles, consider taking profit/break-even as soon as possible.
- Phillip's comment on this trade of mine (example below): "It was one of those setups that looks OK eventually. Look at the 21EMA flattening out. If there is no movement in 5-6 bars get out as close to breakeven as possible."



7.8 Close trade when there is close above/below the 21MA:

- If there is a close of a candle above the 21EMA in case of a short trade and below the 21MA in case of a long trade, consider taking profit quickly or take break-even trade.
- Consider not taking any more trades or wait for pull back from 50SMA

7.9 Only two trades:

- Only take the first two trade set-up in the London trade time and the first two trade set-up in the USA trade time per pair
- Phillip: “A move normally provides two trades. The London session might give two and the US session might give two. When the move is steady downwards but many pips it might give three to four. After two wins for the day I am out. After two losses I am out. After one win and one loss i will trade one more if it comes. Don't try to get even with the market. You then get emotional and that is looking for trouble.”

7.10 Two consecutive losses:

- After two consecutive losses, stop trading for the day

7.11 Alternative profit taking

- Phillip: “If the move is strong I will take 50% profit and set the rest at breakeven. If it retrace back into the zone without triggering my breakeven I re-enter the other 50% and take 50% again till the remaining 50% is closed at breakeven.”

8. **TRADE EXAMPLES:**

8.1 EURUSD made three trades. No 1 was right, No 2 was wrong and No 3 was right ending up 10pips for the day.



8.2 Nice pullback into the zone after it went above 21EMA with a inside bar therefore I took the next bar with target +8 pips.



8.3 It is all about when the market is moving that by entering when a pullback occur in between the 10EMA and 21EMA that the odds are in your favour to have 8 out of 10 winners. Phillip enters somewhere in between the 2 EMA's, preferably halfway if possible. Just look at Friday late, it gave 2 trades.



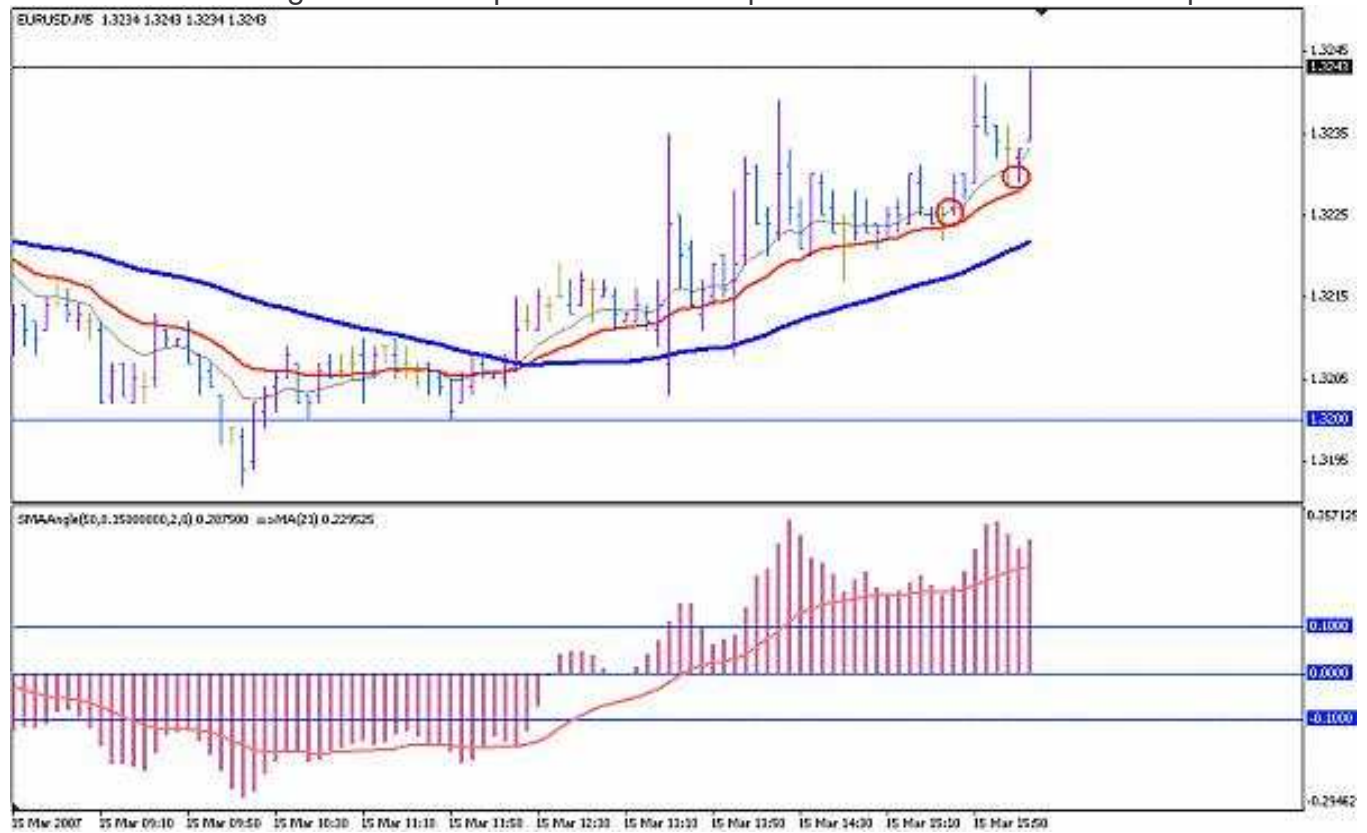
8.4 Look at this one on the GbpUsd and let it run.



- 8.5 Phillip entered the GbpUsd @ 18:10 at 1.9445 because of several lower highs and angle signal at zero. Took profit at 23pips. Phillip: "I knew due to the movement that the move could be more than 10 pips so I put myself at breakeven after 10pips gain and let it run."
 Update:
 I see that the deal was actually closed for 20pips.



8.6 Classic change from slow speed to medium speed trend with two trade set-ups:



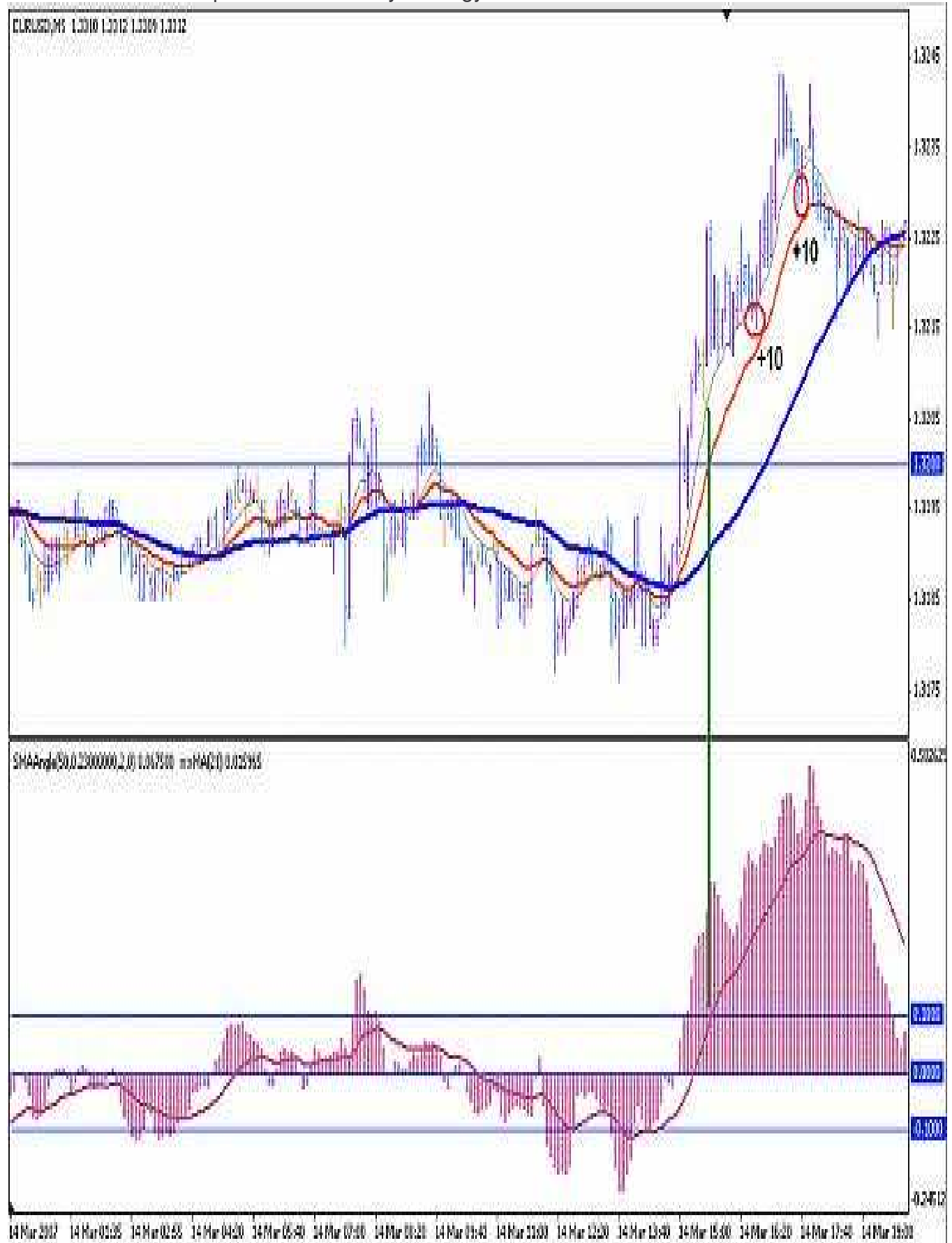
8.7 2 examples in medium speed and a “no trade” set-up thereafter



8.9 Examples of mixed successes – do expect some negative trade & losses



8.10 Another example of a 2 bar entry strategy



8.11 Look at resistance found on 10MA

