

Using the DASR for Successful Trading

Hi everyone

I've decided to share my system as a "trading journal" because after I've shared it with you I'm hoping that many of you guys will join me in actually trading it live. I've been trading it on demo for 6 weeks and have turned \$600 into \$7000 so to say the least it must have some merit (I will post my trading statement for you in my next post).

A couple of days ago I had no intention of doing this – i.e. starting a trading journal. However, I was reading through the "Trading made simple for Day Charts" and I noticed how many times the guys are opening trades at the wrong time (and of course in the wrong direction). Through no fault of their own, of course. They are trying to follow some system (of which there are many around) using buy/sell indicators. The problem with these buy sell indicators is that they are often fake-outs – many times the price has been going in a certain direction for some time and suddenly it spurts, moves quickly, and the indicator will tell you to take the trade. However, often this "spurt" in the price comes at the END of a move and you are summarily caught in a bull/bear trap!

So I decided to share my trading method. It is NOT the Holy Grail. There is no holy grail because price movement is always going to be unpredictable – many factors can cause the price to move and of course when price action is flat or ranging price action can whipsaw around without reason.

So what we have try to do is (a) filter out the bad trades and (b) most importantly get into the right trades at the RIGHT TIME using correct management (as always) to protect our trading balance.

Before I actually get into the system, I'm going to talk about TIME.

Some Helpful Info About Time

By the way, the other problem with using those buy/sell indicator type systems is that they often give a buy or sell signal long before the price actually turns. Eventually taking out your stop loss or draining your trading account. I know because it's happened to me more than a few times in the past!

Anyway as I said I first want to talk about TIME. It's quite important to be trading the right time frame - at the right time of the day - and also if you're mainly trading the 4hr chart (which you are with this system) then you need to have the candles opening and closing at the right time (I'll explain that in more detail).

1/ TIME FRAME

I think it's really important to get one thing right if you want to be successful in forex trading. That is you want to initiate trades on the higher time frames. The lower time frames (even the 1hr) can give a lot of false signals and really the name of the game is to eliminate false signals!! At least I use the 4hr chart or you could even use the daily chart although then good trading setups may be days apart. You'll understand this better when you actually see the system chart.

2/ TRADING SESSION

The best time to trade is obviously when price movement is going to be the most. Especially if you're trading the Euro or GBP pairs, price movement is greatest (and thus you are going

to have the most pips) when Frankfurt/London and London/New York overlap. Usually that is around 7.00am – 5.00pm GMT. I especially watch the 8.00am, 12.00pm and 4.00pm candles on the 4hr chart. One sees that reflected in the charts constantly.

3/ TIME ZONE

I've seen this question on the forums and it's true that MT4 platforms work in different time zones depending on your broker. This doesn't make a difference on the 1hr chart but it DOES on the 4hr chart and daily chart. Don't ask me why but I think that it's got something to do with the large financial institutions that move the price but I have definitely found it's better to use an MT4 platform that is set to CET time zone. That is: the 4hr candles open and close 8.00am, 12.00pm, 4.00pm etc., Central European time. My broker's platform is not on CET so what I do is look for trades using an AlpariUK demo MT4. It doesn't really matter who you use as long as their platform works on CET. Again you'll understand better when you see the example charts that I'm going to post.

Using the DASR On Higher Time Frame For Success

OK now to my system. As probably some of you more experienced traders have worked out, "DASR" refers to the "DYNAMIC AREA OF SUPPORT & RESISTANCE"

I first learnt about the DASR two years ago from a guy who was offering an online forex training course. He explained it all really well and I understood the concept. Basically the DASR is created by price action and follows price action as it trends up or down. It's a level or zone to which price action eventually returns either stalling and re-trending or shooting through to start a new trend. He uses the 30, 50 and 100 SMA's which work reasonably well, but again because I was glued to the lower time frames, I battled with fake-outs. Also sometimes there is a big gap between the SMA's which can lead to high margin for error!

Only recently really, I have been experimenting with vegas tunnels and a couple of months ago, eureka!! I noticed that the daily Vegas tunnel **very** accurately tracks the DASR. Adding a couple of other indicators like BRN (big round numbers) horizontal lines and fib pivot points – and hey presto! Suddenly you're looking at an interesting chart (I also use the 1 hr vegas tunnel on the 4 hr chart - it accurately shows up the prevailing daily/weekly trend).

Here's an example below. I've circled with a yellow pen 11 areas over the last month on the 4 hour EURUSD chart, which were excellent trading opportunities. In actual fact there were more because on 4th/5th January you could have gone down to the 1 hour chart (I will explain that in more detail later):

Attached Thumbnails



I'll explain better with a few examples how I look for entries and also track the trade still using the daily vegas tunnel but on lower the time frames.

The great thing about this system is you are not chasing trades! YOU ARE WAITING FOR PRICE ACTION TO COME TO YOU!!

OK. Just a little bit more about the DASR "Dynamic area of Support or Resistance"; You are probably asking why it's so important. Well I'm not going to go into a lengthy lesson on what moves the market but suffice to say (especially when the price most definitely in an up or down trend) the "market movers" do not move the price in one go – you've probably notice that price moves quickly, retraces a bit (or sometimes a lot) and then shoots off up or down again. What is happening is that the MM's (whoever they are!) are RE -LOADING their trades. Now that RE-LOAD point is almost always around the DASR. Got it?

So, logically, we are going to be waiting at that DASR area to enter WITH the big guys in the correct direction for a few pips.

Here are some examples – this morning at 9.00am (GMT). Because the Euro is in a very strong down- trend at the moment you can go down to the 1 hour chart to look for entries. I've circled the area. There was a nice 30 pips this morning - 2680 down to 2650

Also back on 5th and 6th January – strong down-trend – you could then use 1 hour chart to find 2 very nice entries for min 50 pips (circled in yellow)
Attached Thumbnails



Trading Fail of DASR

Think you can more or less see now what we are doing here - We are now trading with the PRO's or the BIG GUYS!! I can guarantee to you that many small retail traders would have been long on the EURUSD this morning. Not saying that they may be right in the direction eventually BUT have you ever tried to swim upstream in a river against a very strong current? Very difficult and you may not make it – that's exactly why you HAVE to “go with the flow”!

So obviously, what we are looking for is a FAIL of the area of DASR. Either on 1 hour chart (in strong trend) or 4 hour chart if price action has broken through DASR on the 1 hour chart, it's going to be heading for the DASR on the 4 hour chart. We are NOT going to trade until it reaches there! Then we are going to look for a fail of that area of DASR.

Here is another nice example on last Fridays GBPUSD 4 hour chart – notice how price action failed off the 4 hour DASR after briefly penetrating it (circled in yellow):

Attached Thumbnails



Some More Important Info

Just a word or two about having a clear trading strategy; I think it's important to have ONE clear strategy in your mind BEFORE you open your trading platform. The reason for this is simply because "in the heat of battle" it's so easy to lose your head! So many times I have (I'm sure you have too) opened a trade and after a short while thought – what on earth did I do that for!

It was about 2 or 3 months ago when I lost my six thousandth dollar in forex trading that I suddenly thought, Hey!! - maybe perhaps I'm doing something wrong?? I had about 20 buy/sell indicator based trading strategies that I had either purchased or picked up from various forex forums, but I was losing money hand over fist. So I made a big decision. I deleted every single one of them from my computer and started from scratch.

I then remembered what I had learned a couple of years ago about the DASR which is really the only forex trading strategy which ever made any sense to me. Why? Well because of what I have since learned about the way the market works and the way the "market movers" move the price. It's complicated but it takes a lot of big money to move price 50 or more pips. So eventually even a big move up or down will stutter and we'll see some retracement. The price can retrace a little or a lot depending on market sentiment. When price starts retracing it's very weak so it whipsaws around often re-testing the support or resistance level it had faltered at. Retracements eventually, ALWAYS gets back to the DASR on the 1 hour, 4 hour and even daily chart (after a long time). It sometimes gathers enough steam to temporarily penetrate the central DASR area or "blue line" on the 4hr vegas daily tunnel. But invariably it then comes back again to the prevailing trend. That is when the "big boys" pile in again and that is when we have to enter our trade!

IMPORTANT

Very interestingly, there is a saying: "buy on Monday and sell on Friday" and amazingly enough very often one sees the Euro and Cable moving up Monday and Tuesday and reversing down by Wednesday and Thursday. Obviously this is not a rule but you'll see this happening more often than not. So, we could have bought today but in my view it's low probability – high risk. Why? Because we know that the price action is in "retracement mode" and that the main trend is still most definitely down BUT because we know that Monday and Tuesday are generally "up" days then we would more than likely expect price

action to reach the 4hr DASR. We would then be careful to watch for "bear traps" on Mondays and Tuesdays.

TRADE SET-UPS

Well, I use the blue central line of my daily vegas tunnel as the "trigger" area. When price has retraced back to the 4 hr DASR it has often "picked up steam" so as I said it often breaks temporarily through the central area of our DASR (blue line). When that happens we can set a pending trade order back on the other side of our blue line with a stop loss placed just on the other side of the central area of our DASR. See example (GBPUSD 4hr) below – the yellow line would be more or less where we would set our pending trade order and the red line our stop loss. HIGH PROBABILITY – LOW RISK!!

TRADING PAIRS

I keep a watch on at least 6 or 7 trading pairs – just the ones that usually don't whipsaw or jerk around a lot!

TREND STRENGTH

I also watch the gap between the daily vegas tunnel and the 1 hr vegas tunnel (which I use for gauging trend strength and direction). If there is not much of a gap then the trend is weak (look at AUDUSD right now for instance) and price tends to swing up and down a lot more. Not good!! So we really want to only trade pairs where the gap is big. Then we know that the trend is strong!

More set-ups tomorrow (and how to track an open trade for max pips) - after that we can hopefully start doing some demo trades together.

Attached Thumbnails



Looks like the same pattern again this week! One thing we can always say - the market is always full of surprises. However better to be a surprise than a shock!!

That midnight bar on the EURUSD is quite amazing because EURUSD usually doesn't move a lot in the Asian session - I read that it's something to do with China buying bonds again?

Anyway did you notice - as far as our system is concerned - how it banged nicely against the DASR, took a breather then carried on up - (the 8.00am bar this morning) Of course we could have put a nice buy pending around 12735 as soon as the 4.00am bar closed this morning. (all times are CET - central European time) Only problem is that you have to be up early in the morning (if you're in the UK!)

Attached Thumbnails



Countertrend trading

I think before we go on, I want to make clear the strategy here because any good trading system has GOT to have a CLEAR STRATEGY.

Hopefully you know what the DASR is now! Hopefully you can see it clearly on the charts. OUR STRATEGY is to only trade AWAY for the DASR. I repeat: OUR STRATEGY is to only trade AWAY for the DASR.

When price action hits the DASR it's going to do one of two things. Either it's going to penetrate or it's going to bounce off. In strong trending conditions it usually bounces off but if the counter-trend is strong enough, it will go through. Now it certainly is possible to trade the counter-trend and today we saw exactly that situation with EURUSD and GBPUSD. The way to trade a counter-trend is to ALWAYS WAIT for price to RE-TEST support! Here was a good example with GBPUSD this morning. Notice how the 12.00am bar re-tested support (circled in yellow). We could have taken a trade there with our SL of course BELOW the DASR.



Danger when trading counter-trend

We are in a counter-trend situation with regards to EURUSD and GBPUSD no doubt about it! However because we're trading a counter-trend - we just don't know how far it's going to go! We cannot be talking about a trend change yet until our daily vegas tunnel is ABOVE our 1 hour vegas tunnel (like AUDUSD or USDCHE for instance). So we have to be really careful. If we had taken that GBPUSD trade or even that EURUSD trade early this morning, we would be looking to set a tight TP like 30 pips maybe?

Setting Pending Orders

Quote:

Originally Posted by **maudur**

Jerry, you mean that now we should have a sell stop near 1.2716? The stop loss should be about 1.2740? and the TP with a 2:1 ratio or more?

The only problem I see is the BRN (1.2700), correct?

Thank you very much.

Not a bad idea but I wouldn't set a trade up now unless we see a really big retreat this afternoon! Don't worry about 1.2700 BRN - price will actually accelerate through this level as people's SL's are taken out! Interesting situation right now on EURUSD which really illustrates the beauty of this system; It looks like a reversal but may just be a "bear trap" - we just don't know and we are certainly NOT going to lose money trying to GUESS which way price is going to go!

Set Pending Both Ways If You Like!

Early this morning EURUSD shot up and banged against our DASR. Obviously we could not be 100% sure what the 8.00am (CET) bar was going to do but looking at previous price action (0.00am bar) and knowing that Tuesday is usually an "up day" it was pretty obvious the 8.00am bar would be green (up) so we could set our pending buy trade just above the DASR central blue line. However perhaps price (theoretically) action was struggling to reach our DASR then we could have set a pending sell order 5 or 10 pips BELOW our DASR. Today really, you could have done both and not been wrong!!

Price MUST Do What We Want!

I think that this is a time to stress this point. With our system we want to trade AWAY from our DASR. If price refuses to play ball, we don't CHASE!!

I think that a really important thing to remember is that at all costs we have to protect our trading balance. If we don't take the trade we haven't lost anything!

Only ever take HIGH PROBABILITY - LOW RISK trades!!

And what I like about this system is because we are ONLY trading around the DASR; we can always set our SL on the OTHER SIDE of the DASR which is usually not more than 20 - 25 pips. Also what is great about trading away from the DASR, very often price action moves very quickly when it's going away from the DASR which means that we're in credit very quickly - no big draw-down!

Using Lower Time Frame DASR To Track Or Open New Trade

Irene asked me where to put her SL and I said that because EURUSD is in such a huge downtrend we have the right to expect a lot of pips!

So what you can do is track your trade using the DASR on LOWER TIME FRAMES. You can see this clearly on GBPUSD 15 min and 5 min charts below. It was the afternoon of 11th January. See how price often retraced back to the DASR on these lower time frames but never broke through? Well, we could use that opportunity to open new trades (especially if we are still looking for a good entry point in the first place!) or to track our existing trade. Obviously we keep our trade open until price breaks through the DASR preferably on the 5 min chart!



Very Important To Track Your Trade On Lower Timeframe

Very important though to track your trade once opened on lower time frame or even go down to the lower time BEFORE you open your trade as like today price retraced right back to 12735 then you can if you want - open your trade at the OPTIMAL moment.



The Strategy Again

Interesting day and we are all (including me!) learning more each day about using the DASR to make good trading decisions.

I think we (including me!) have to again remember the strategy here. Our strategy is to enter a trade when price action BOUNCES off the DASR ideally in the direction of the prevailing trend. Or if it's a strong counter-trend then the same thing applies!

Unfortunately for us, EURUSD is in a fairly strong counter-trend situation and after failing to breach support around 12650 last Friday, and having this in mind (including market sentiment at the moment) we should have traded our system and had a pending buy order at 3.00pm this afternoon around 12732, on the other side of the DASR to catch the reversal in the direction of the counter-trend. The drop from 12800 was quite obviously a "sell-stop hunt" which is often used to catch small traders like us – it's a VERY nasty world!

Guys, what I normally do late in the evenings when I'm not trading is check the daily and weekly charts to double check trend strength and direction on all the trading pairs.

I notice a few pairs that might give us some set-ups using our strategy for trading tomorrow: EURCHF, EURCAD, AUDUSD, NZDUSD as they are all trending strongly

P.S. I have been studying the "vegas tunnel method" a bit more and realize that we may not be using the tunnel with its associated fib lines to the full. More about that tomorrow!

Watch the Tunnel Angle

Yep I've looked at GBPUSD and don't know what's going on there at the moment - price is swinging around! A dead give-away is to look at the angle of our tunnel. It's horizontal. When the tunnel's horizontal we really have to be careful because price action is going to swing around!

For our system to work we really want the tunnel to be at an angle - the steeper the better!
So it does make sense to look at all the pairs to search for the ones that are trending the most.

Forgot My System!

EURCAD

Guys as you can see from the chart, my EURCAD buy at 1.2978 was a great trade and I should not have closed it!

What I should have done is TRACKED IT using the 5 min chart. Only close it when price action EVENTUALLY breaks through (reversal) the DASR on the 5 min chart!

Let's see what happens in the future on the 5 min chart and eventually we can see how many pips I could have got!!

Attached Thumbnails

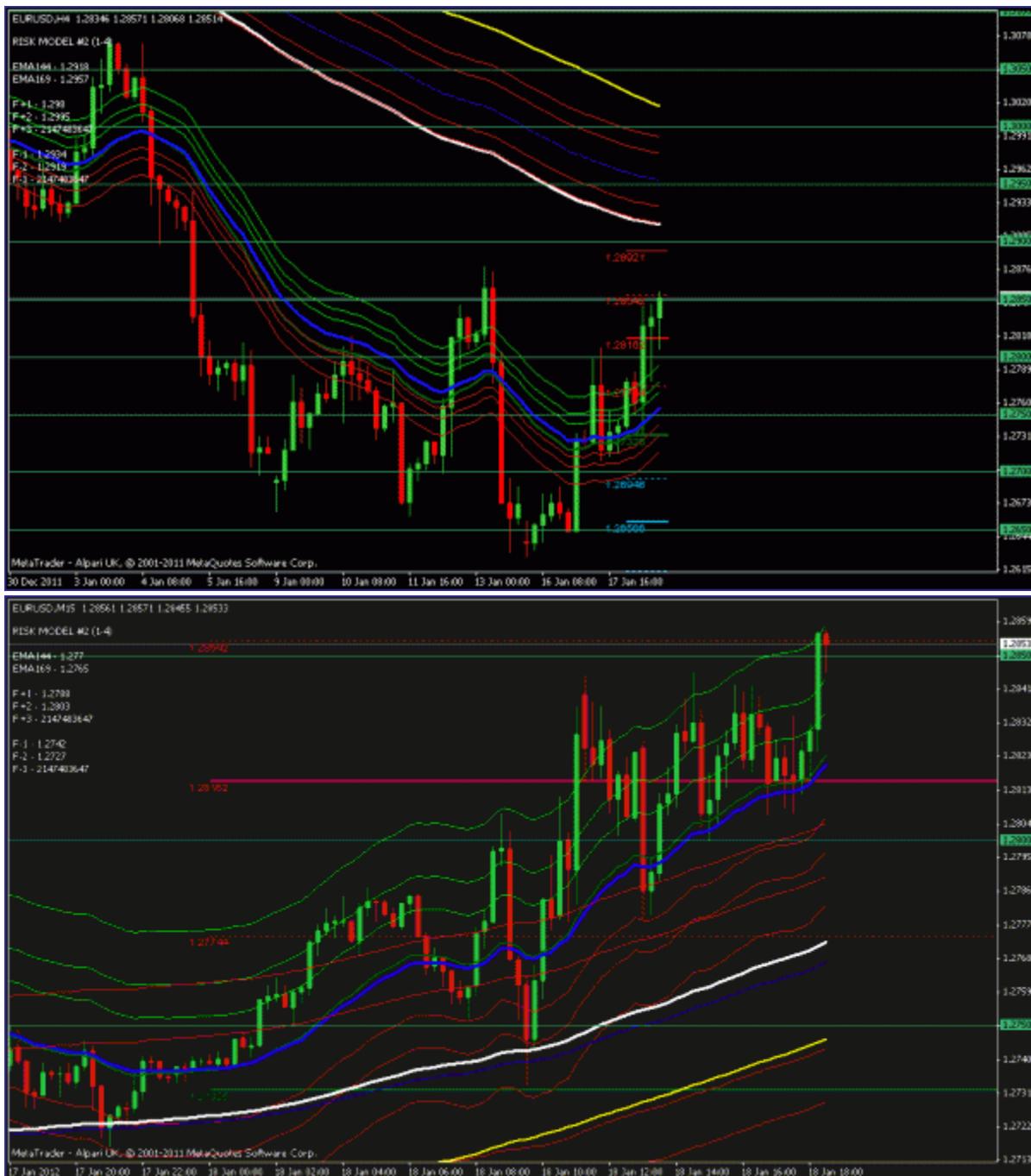


Benefits OF 4hr DASR SYSTEM SHOWN Clearly TODAY

well everyone, I just picked up 45 pips on AUDUSD and EURJPY after those nice buy signals on their 1 hr and 15 min charts respectively.

Many people would have tried to short EURUSD but because it was WAY ABOVE our 4 hr DASR we were only looking for long trades!

Attached Thumbnails



Our Strategy AGAIN

OK - no harm in going over our strategy again.

What we are doing is looking for good bounces off our DASR on the 4 hour chart. So it makes sense to be continually looking at our 4 hr charts. It also makes sense to be looking at as many trading pairs as we can that seem to be IN A STRONG UPTREND or DOWNTREND. Now when we see that price action has bounced nicely off the DASR on the 4 hr chart (maybe it's already well on the way up or down) we can then go down the LOWER TIME FRAMES to find a good point where price may be just about to OR has already bounced off the DASR on that lower time frame! We can then enter our trade hopefully for a nice few pips.

Tracking our trade once opened probably needs to be refined a bit - cause even I lost quite a few pips today closing out my EURCAD, AUDUSD and GBPJPY trades way too early! So we'll be looking at that tomorrow.

Remember The Strategy

Price action ABOVE our DASR on 4 hr chart we have only BOUGHT today

Price action BELOW our DASR on 4 hr chart we have only SOLD today (like USDCHF, AUDCHF)

Most trades taken after checking for a good spot on lower time frames although some taken STRAIGHT from 4 hour chart.

Entries and TP Ideas

The basic rule is only buy when price action is above DASR on H4 and sell when price action is below H4.

No I don't think it's necessary to wait for the bullish or bearish H4 candle to close. What we are attempting to do is to go down to the lower time frames (preferably 1 hour as it's usually more reliable) to find a confirmation bullish/bearish candle THAT HAS CLOSED to enter at opening of next candle. SL as you say is quite correct.

I'm not sure what you mean about risk model 0 because if you change the risk model to "0" you have no fib lines. By using risk model "2" which is the default setting on my template you can (I have not discussed this before) actually use fib lines not only to assess the strength of the trade but also to close out the trade when the trend weakens and price action comes but into the first fib line. Have a look at the chart attached and I've circled areas where we could have entered (EURUSD) and where we could have exited. Nice thing is that we're staying with the 1 hour chart all the way!

As you can see, there was actually a possible 200 pips to be had!!



Another Strategy - Trading the 1 Min Chart (Scalping)

Last Friday EU went nowhere so if you want (and you feel brave!), you can go down to the 1 min chart and do some scalping. This is a totally different strategy - buying and selling when price fluctuates to different extremities of our tunnel. I use a different tunnel for this strategy, based around the 55 SMA (forex freedom's "FF" tunnel). Also have the 200 SMA which tells us if price action is presently bullish (above the 200 SMA) or bearish (below the 200 SMA).

I've posted the indicator and template in case you want to try it out! Don't ask me too much about it because I've hardly ever traded it. But if like scalping (in and out quickly with a few pips profit) then it could be an option.

Nice thing about it is that you can gauge strength of the short term trend by noticing how much the tunnel narrows. Wide tunnel = hardly any trend not good to trade. Narrow tunnel = strong trend, good to trade.



further on scalping technique

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I forgot to mention that for this 1 min chart scalping strategy we still of course have our BRN's, pivot point and fib levels. One can see far more clearly on the 1 min chart how price reacts to those levels! One can set trades accordingly.

Using stochastic to spot bullish divergence

Well as usual we had the "fake-outs" at the start of the NY session!!

Is this situation it's nice to have a look at the stochastic indicator window (I set mine at 5,3,3)

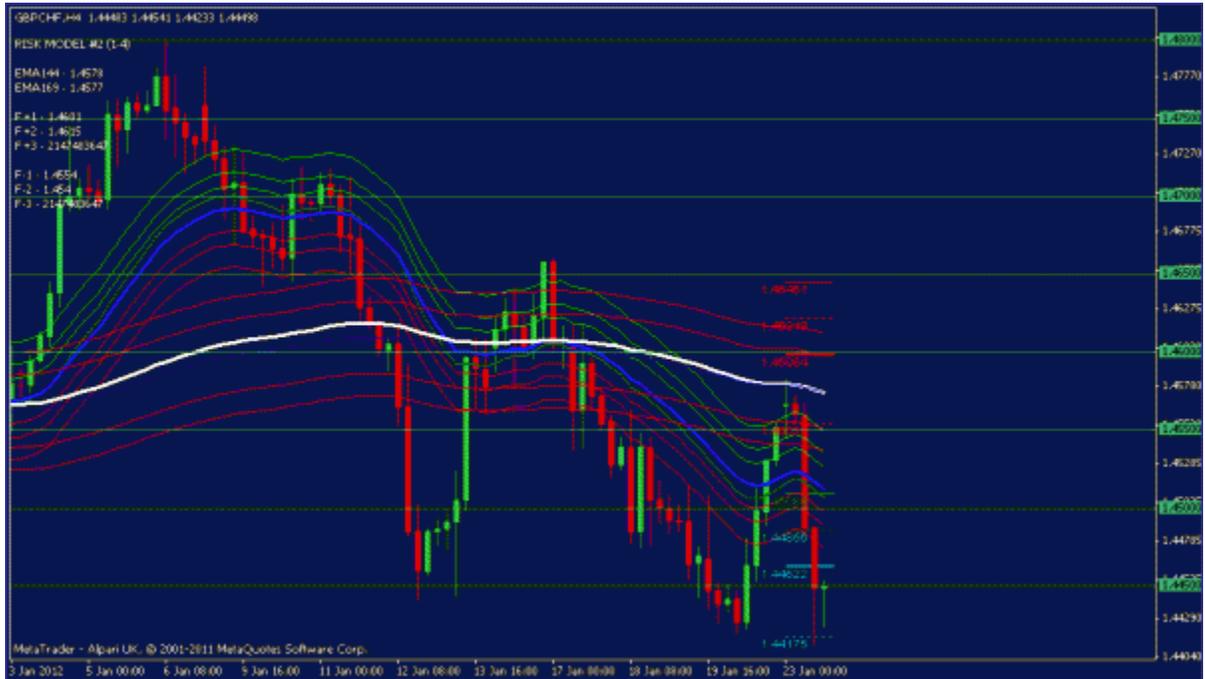
About 20 minutes ago I noted the strong bullish divergence on the GBPUSD pair - a "dead give-away" that we could expect more bullish action which is exactly what happened! We did of course have a nice bounce off our 30 min DASR on the last half hour - just gave us the confidence to hold on for a bit.

Attached Thumbnails



trend reversal - what we should be looking for

Guys, what we should be looking for if we are going to start trading the other way is well illustrated on today's GBPCHF chart - price literally shot through the DASR this morning giving us a super LOW RISK trade on the next bar (in this case the 12.00pm candle)
Attached Thumbnails



Thick Blue Line In Vegas Currency Daily Tunnel

I said of course that we don't sell when price action is above the DASR on the 4 hr chart. The DASR on the 4 hr chart is the central point or area inside the vegas daily tunnel represented by the thick blue line in the centre of the tunnel (see yellow arrow). When price retreated from the morning high (around 1.3180) it came down and penetrated our DASR areas on all the lower time frames (represented by the same thick blue line in the vegas currency daily tunnel but now it's seen on the lower time frames). Even the DASR seen on the 1 hour chart was penetrated at around 4.00pm GMT. However BECAUSE price action was still above the DASR on the 4 hr chart we don't enter any sell trades! And of course price recovered and eventually closed above the DASR on the 1 hour chart - we could then SAFELY re-enter on the long side.



EURUSD 30 min Chart Our Strategy Perfectly Illustrated

Hi everyone - sorry I was out most of the morning. Had a pending buy order in from yesterday evening for a few pips so sitting on a little profit at last!

Well in case you didn't notice, our strategy worked a DREAM this morning on the 30 min chart. Remember you have to go down the charts until you get to the DASR that the "big boys" are playing off. It's obviously different on different days depending on trend strength of course.

I've circled the area that we "the pro's" would have traded from (in yellow) and I've circled the area (in red) that the "rookies" would buy at (maybe we all would have a few weeks ago before we found out how the pros trade!!



Try To Trade RIGHT AT the DASR For More Pips and Less Risk

Something I'm also trying to do - as can be seen from the above chart, if IN A STRONGLY TRENDING SITUATION we can actually press that "buy button" as near to the DASR as possible, we are not only going to bag more pips but we will also, by placing our SL just on the other side of the DASR, be able to trade with less risk - which is really the name of the game!!

Areas Of Confluence Give Us More Confidence

OK here's a new word - "confluence" and of course it means a lot to us. Two or more areas of support and resistance converging together - obviously price action is going to have a lot more trouble penetrating these areas and of course there's much more chance of price "bouncing" off these "areas of confluence".

Perfect example this morning when our DASR converged with a "big round number" - 13000 - BRN's especially triple zeros often act as a strong support/resistance so really when we see this example of convergence of two or more areas of support/resistance we can really take the trade with far more confidence of success!

Some Interesting Info

Hi, I thought I would share with everyone the contents of an email I've just sent to someone. It's more or less self-explanatory and some helpful info for new or less experienced traders:

I'm afraid with forex trading like any job, if you want to make a living out of it, you HAVE to give it the time and you have to be watching the charts constantly. Yes, a set-up can come along at any time. It happened to me yesterday evening - I totally missed that euro/cable break-out against the dollar because I thought "well nothing's going to happen now until tomorrow" and I switched off literally minutes before the break-out. Goodness, did I give myself a strong mental kick! Of course in a strongly trending situation like today you can really just about open a trade anywhere and you would eventually get into profit! But of course everyone hates to see big draw-downs on their account so it makes sense to press the trigger at the right moment.

Just like you and the 95% of other small traders, I am also a big forex loser - about \$6000 up until now. Like you I decided that I had to "go back to the drawing board" and eventually I found out about this "DASR" system (by the way it's not my system, I learned about it from a guy called Hector DeVille. One difference between his system and mine is that I prefer using the daily vegas tunnel whereas he just uses 3 SMA's. I have also added my 4 hr chart strategy which is a great guide to help us to see whether we should be "longing" or "shorting" the market. A huge problem why so many small traders lose money (like I did!) is selling on the long side of the market or buying on the short side. A very good idea always, is to go back and have a look at all your trades and compare them to what you WOULD have done using our strategy - I can just about guarantee that nearly ALL your losses were because you sold on the "long side" of the market or bought on the short side. The other problem is, as you are probably aware, is that the forex market is NOT a "level playing field". The whole market really revolves around the big fish (the market movers) constantly chasing and eating the little fish (that's us!). Stop hunting and "fake-outs" are going on a constant basis in order to relieve small and nervous traders of their hard earned money. Furthermore, they have a huge advantage in that they can see where all the retail buy/sell orders are placed at any one time. And boy - do they gun for them!!

So, the way to succeed in this game is to buy only when THEY buy and sell only when THEY sell! I've been trading for over 3 years and I can tell you in all sincerity that this "trading off the DASR" strategy is the only system that works on a consistent basis. You HAVE to trade reactively - NEVER predicatively. One word of caution though, and that is the system is not so reliable in a "flat" or non-trending market. That's why I'm constantly looking at all the different trading pairs to find the ones that are the most strongly trending.

Price Action Trading (post 256)

A friend directed me to a very interesting website called: *price action trading equation*

I don't agree with everything it says but this is very interesting (because it really does confirm that our strategy is on the ball!):

Support And Resistance - How Does It Confirm

Some traders take a while before they can accept that higher lows above the low+ (SUPPORT) tell you the market is trying to rise to a price level possibly 100+ pips away.

And that lower highs below the session high (RESISTANCE) tell you the market is trying to

decline to a price level again possibly 100+ pips away. Quite often the session high and low are positioned within range of a round or midpoint price level.

Traders get fearful of taking early lower highs/higher lows as entries as they often want to see more of a rise or decline before getting involved. This delay just serves to get traders into trouble as entries will then be too high to BUY or too low to SELL and will be in danger of being fouled by the normal retracement action on markets. There is nothing worse than getting closed out of a trade just because your entry was off where it should have been taken.

Unless a market has a very tight/small daily range there is no such thing as a dominant move that only moves 20/30 pips or so. Traders are caught out all the time by thinking the market is no longer rising or declining because it is now heading against the direction in which they are trading.....THIS IS NORMAL and is the nature of retracement.

Traders will assume support and resistance at inappropriate places if they sit and watch the chart too closely. This will just lead to you becoming a scalper, it will prove very time consuming, stressful and at risk of error as you are allowing the markets to push you in and out of trades all session long. The market can only bully you if you let it.

Support and resistance is mainly encountered at round numbers and midpoints as these affect crowd psychology. If the market has risen off a lower round/or midpoint price level or declined off a higher round/or midpoint price level and is approaching the next it often stops and changes direction here or at/approaching the next midpoint beyond the round number in question. The change in direction can result in a decent pullback or a permanent more meaningful counter move as long as round numbers and midpoints are cleared with price movement as a consequence of the change in direction.

Support and Resistance must be fully confirmed on any market before you are going to trade. When it is not clear or still forming a trader should be sat on his/her hands.

Last Word On The Tunnels

Just thought I would post the 1 hr chart below which shows how nicely the 2 tunnels work together to give us a good "picture" of what price action is doing and hopefully where it's going!

The 1 hour vegas on the 1 hour time frame chart really gives us a very good picture or idea of the 4 hr trend. The 4 hour trend as we all know is always very strong which is why we try to use it as the "backbone" of our trading strategy

Note that when price action (EURUSD) dropped down to the 4 hr DASR on 25th January and bounced off, it was mirrored quite nicely when price action bounced off the 1 hour vegas tunnel on our EURUSD 1 hour chart!



My apologies for leaving out an important piece of the puzzle

(post 264 w/indicators)

I'm going to use the weekend to further refine our trading strategy as well tell you about another very interested forex trading strategy I just discovered that can be used for "week-trading" instead of "day-trading" (which is what we all mostly indulge in and could be the reason why most are losing their money!). It's an area that's not really understood by many new traders.

OK the first point is that you probably noticed a new thick magenta coloured line on the last chart I posted. Well it's actually the FF (forexfreedom) tunnel set to input "0". Basically it's the 55 SMA and why I'm using it is because it in actual fact is one of the SMA's that Mr. DeVilleville uses in his strategy upon which our strategy is loosely based! It's very clear to see its value when you look at the 1 HOUR charts as an area to "bounce" a trade from. Obviously too, FF would not have come up with their "tunnel" for no reason and to be honest I've had the FF tunnel indicator for a long time but never really saw its value because it really only works properly on the 1 hour time frame. By the way you can also use the 100 SMA if you want to because very occasionally price action will go up or down to the 100 SMA and strongly bounce off this area too. There's a good example on this week's GBPUSD 1 hr chart. I have posted two charts and circled the relevant areas in yellow.

I have also posted the FF tunnel indicator. If you get some funny black lines, go to the "colours" tab and change "black" to "none".

* If you use the FF tunnel indicator rather than just the 55 SMA, you get some useful information posted in the top left-hand corner of your chart. (post265)



Week Trading instead Of Day-trading the Forex Market

There are 2 very positive aspects to longer-term trading that have to be considered. The first one is the mental side of trading. I now have 2 trading accounts which I'm trading constantly (day trading). One is live and one demo. My live account is around 16% up this week while my demo account is 110% up. Why the huge difference? Well it's the "fear factor" obviously. Day trading, let's face it, is mentally taxing, nerve-wrecking, frustrating and time-consuming. How many times have we gone out, come back, and found we've just missed a huge "bounce"! Yep, day-trading is NOT for the faint-hearted!

There are two kinds of traders. In our first category is the guy who's trading forex the same way he gambles on the horses or at Las Vegas - hopefully of course with money he can afford to lose. The second guy fits into the category that probably includes most of us - we want to make good, regular money out of forex trading. The problem with day-trading in the main though is that although we don't like to think so, it fits fairly and squarely into the FIRST category! Yesterday's trading session, for instance, was very difficult to trade with price action see-sawing around for most of the day (not many "follow-through" trades) and I'm sure that many people's SL's were hit on a regular basis.

So what's the answer? Well obviously to enter trades far less often and when we do it's with the goal of achieving a lot of pips (hundreds of pips if possible!) It's "position trading" of course & really is the BEST way to trade (some would say the only way!). Have a look at the attached chart (EURUSD). It's been divided into weeks and you don't have to be a rocket scientist to see that if we bought on Monday and sold on Friday over the last few weeks whilst the Euro is in this strong uptrend, we would have bagged an awful lot of pips!!

But the problem with position trading of course, is where do we find the best position to trade from and more importantly, is there any way of knowing it's going to be a good week to "week-trade"?



Week-trading the Forex Market

OK - it goes without saying of course that once our position-trade is a few hundred pips in credit, there is no reason to close it out at the end of the week IF we see no sign of the trend weakening!

But, to come back to our two questions- Well I've posted that 4 hour chart again but this time I've circled 2 bullish bars.

You will notice that every time, right at the beginning of the last 3 weeks we've seen great bullish activity. This is not going to happen at the beginning every single week but there IS evidence of it whenever we are in or going to start a strong trend.

Really you have to think of how the big forex players operate. Sure, they are on a part-time basis probably gunning our stops, but in the main they are playing the forex market like all good capitalists - "buy low - sell high! Of course there are big players that buy and sell during the Asian session as well as at the beginning of the European session (a lot of big banks in Germany, France, etc.) and let's face it, they have a FAR better insight into what might happen with currency pair (in this case EURUSD) throughout the coming week than we could ever possibly have! So the question is: what do we look for? Well obviously we're looking for EVIDENCE of their activity. When the big players buy - boy, the price moves! So what DID we see, especially at the beginning of the last two weeks? Well we saw evidence of some big buying of the euro. Do you really think those guys were buying the euro to sell it at a loss?? No, obviously they had target in mind. Pretty clear now that the target was 13200. How do we know that? Well when price hit 13200 it suddenly shot down nearly 40 pips - many of the "big guys" (maybe not all) were taking their profit!!

So when we see that sort of great buying activity right at the beginning of the week (and we knew of course that we were in an uptrend), are we going to jump in right away? No - not a good idea because we would likely expect to see some retracement after those 2 big bars which is EXACTLY what happened - and that's when we could have joined in the fun - directly when price retraced down to our 4 hr DASR!

How do we manage our trade once we've pressed our buy/sell button?

That I'll answer tomorrow as well as look to possibly see if we can help improve matters for those who would rather carry on day-trading. We're going to try to help new and especially inexperienced day-traders trade better by looking at the "day"!



It's a longer wait but well worth it!

Using the 4 hr chart DASR in my mind is the perfect chart to look for longer term "position" trades. The 4hr trend is usually strong and reliable and of course it's so much easier to find a good entry point for a position trade using the 4 hr DASR then scratching our heads trying to work out what's going on the daily or weekly chart!

It means obviously that we will have to wait a bit longer for entries (but as most of us can't be watching the charts 24 hours a day that's a good thing!) as when we are in a strong trend price action stays well above the 4 hr DASR for long periods. However when it does come back to the DASR on the 4 hr chart, that's ideally when we should be looking to enter a trade that hopefully should yield a lot of pips!

There were only 3 on the EURUSD 4 hr chart over the last 10 days but of course we had other trading pairs to look at that were also trending strongly.



Using the Daily DASR For An Even Bigger Bounce!

Of course what we could have done and of course can do in the future, with an even greater chance of success as well as far more pips available, is use the DAILY chart's DASR to bounce a trade off!

I've posted 3 charts where it's easy to see the DASR areas where we could have planned a trade. As one can see, we are really refining our strategy to trade less often for GREATER REWARD! And due to the fact that we are trading less often life is going to be far less stressful and we'll probably avoid an early grave!!





In the heat of battle... theory as opposed to reality!

I think I mentioned those famous words right at the beginning of my thread and so true "in the heat of battle it's so **so** easy to lose your head" and of course not think clearly as to what exactly you really want to accomplish. When your hard earned money is at stake it's even more easy to not think clearly and perhaps go back to old and FATAL habits like attempting to scalp a few pips when you "think" you are seeing a "break-out"! I can't stress it more firmly than to say NEVER trade that way!! Take it from someone who lost over \$5000 trading in exactly that manner that it does not work! That's exactly the kind of sucker that the "big guys" are gunning for and you're DEAD MEAT - that's guaranteed!!

OK having got that clear about having a clear head, we said at the beginning of this thread that we are looking to trade off the higher time frames, especially the 4 HOUR CHART because the 4hr trend is usually especially strong and a lot more reliable! We said that once prices BOUNCES off the 4 hr DASR we would go down to the lower time frames to look for bounces off their DASR's because obviously we can't use the 4 hr DASR anymore because price action is now well above (or well below, if we're perhaps trading USDCHF) the 4 hr DASR. The REALITY is of course, that often after the initial bounce off the 4 hr DASR (the first or second very bullish candle) price action consolidates, flattens out, and either (if we're trading EURUSD) carries on up or sometimes comes back down to re-test a support level. This is reflected in the lower time frames by wishy-washy, see-sawing price movement that's not easy to trade. In view of this, we are often forced to scalp off the DASR on the lower time frames rather than trade off them. So really, the only way around this is GET IN EARLY by trading off the 4hr DASR (or even daily DASR if the opportunity presents itself) so that when price action does flatten out, we have already banked a lot of pips and we can then either close part of our trade, "lock in" more profit by moving up our SL to BE or even higher. If PA does come right back down to the 4hr DASR (as it did on the 25th last week) we can just RE-LOAD and off we go again!!

Refining our strategy for longer and more profitable trading

OK so you say, Jerry, you're refining our strategy for longer and more profitable trading but your template is so cluttered it's hard to see what's going on sometimes!

That is true and so what I've done is simply "uncluttered" a chart for high time frames which we should use when price action is coming back to our DASR so that we get a clear "picture" of what's going on. Just the two tunnels and 200 SMA) We're going to use our "uncluttered" template to look for a "bounce". On the higher time frames you probably noticed that when we get a bounce, PA tends to accelerate quite nicely back off the DASR. Now if it's a red candle (I don't know about you) but I always am terrified to buy when I see a red candle so obviously what we can and should do is NOW we go down to the 1 hr (or 30 min chart if you like) where we are going to see green candles and find a nice bullish one to initiate our trade off!!

I have posted a 1 hr chart below which really does show clearly where we could have easily traded from when price action bounced off the 4 hr DASR on 25th last week (a nice "squeezed" bullish bar). Remember it's the 1 hour so we certainly didn't have to panic when deciding on a good area to trade from along with good candlestick confirmation (our strategy is ALWAYS reactive because we ain't going to get caught in any bear or bull traps!).

Having entered there, as you can see from what followed, we certainly would have bagged a lot of pips, banking some profit and moving up our SL of course and staying IN the trade as long as possible!



An article on Contrarian trading - our strategy endorsed

I'm reproducing an article here that I recently read from a major forex trading website. My goodness, what an endorsement of our system!!

Trade the break-out, trade the bounce, or wait for a perfect signal

Trading the bounce from a recent price reversal that is hitting major support, will more times than not be more reliable than trading the break-outs to new highs. Contrarian trading the bounce tends to create more trades you are already in as the new break-out occurs at the other end; you are then selling as others are looking to buy the new breakout. No point trying to plow a new field when we can follow the lines that we just saw set, the task is so much easier when we are retracing moves that recently happened, the resistance is lighter.

Look for a move back to a main support area (previous session low, main pivot point area, daily Simple Moving Average etc), wait for the market to show that the price has held, look for confirmation from other cross pairs that are moving in the same direction as your proposed trade, and get in before the Perfect Signal has formed. The art of contrarian trading is to not over-leverage the positions, and look to be buying the overall direction of the daily chart trend, after a pull-back rather than as a new break-out.

This leads on to looking for Perfect Signals; how many trades set up that when the Perfect Signal comes, (everything aligns, trade gets taken), they suddenly reverse the moment that you get in? By waiting for too much confirmation or not having a plan in place that allows for disciplined Contrarian Trading a Perfect Signal to enter will most times fail. It has become Perfect by having already moved from a Contrarian bounce off a major price point.

Contrarian Trading; taking bounces off Trend-lines, Pivot Point lines, SMA's, whatever they are that can be justified at a major Price Point, but it is harder to do, needs more discipline, and has far more fear attached to it for new traders than just waiting for the Perfect Signal. However, if it is properly planned and taught it is the easiest way to trade because it is following the overall trend. The 4 Hour and 60 Minute charts are key, Pivot Point lines help dramatically.

The Perfect Signal then becomes to a Contrarian Trader their signal to exit, along with the other Pro traders. Hence the reasons for the reversal just after those looking for the perfect signal have jumped in.

It is Trading with the overall Trend, but only after a pull-back to a pre-determined price point. Trend, discipline, plan, and open mind; Contrarian Trading-

Successful Day-trading by Correctly Analysing the "Day "

OK so you're a masochist – Like me, you enjoy the cut and thrust of day-trading! How can we make sure that we're at least trading in the right direction and at about right point in time? Well here's some great ideas taken from a very reliable source:

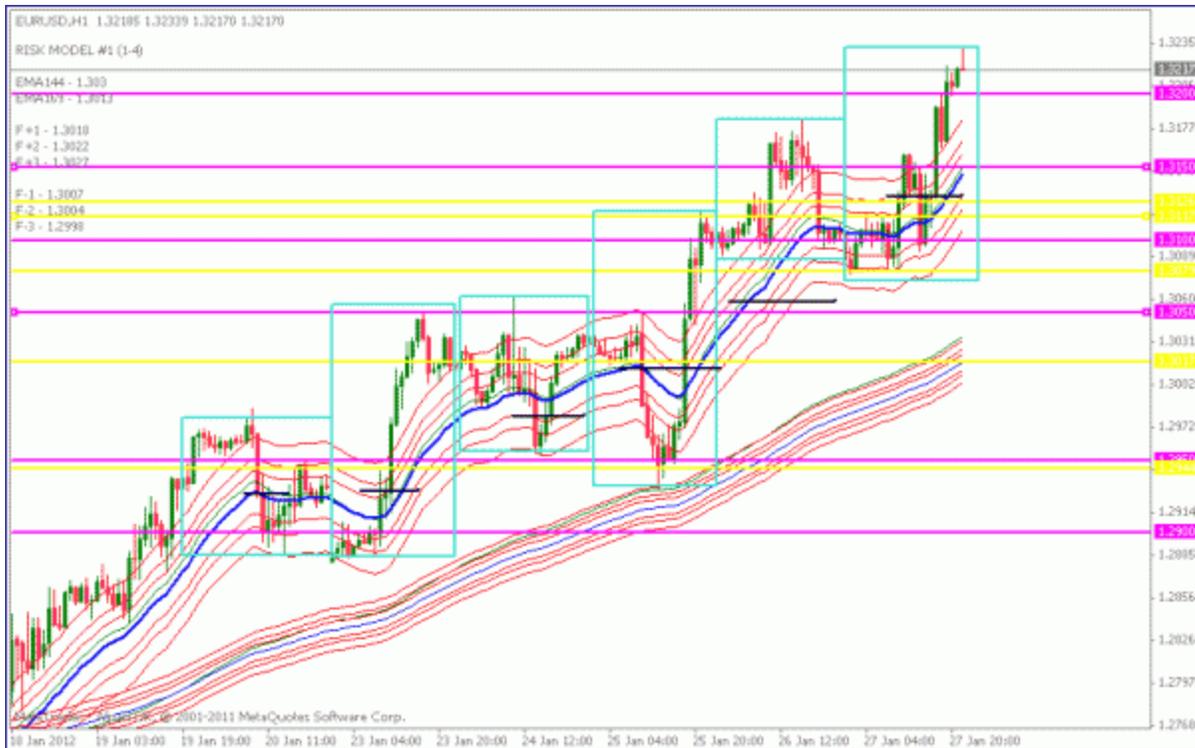
We're going to be looking at 5 elements, or tools if you like, to help us successfully analyse the trading day ahead (and we are going to look specifically at everyone's favourite pair - EURUSD):

- 1- The average trading range. This is quite important as every trading pair as we know has an average trading range. In the case of EURUSD it's around 130 pips. Just take a look at the daily chart as from 1 September last year. The price has moved a staggering 1800 pips!
- 2- The Asian session high or low.
- 3- BRN's (Big round numbers), especially when situated at key levels.
- 4- The daily pivot point.
- 5- News Releases that affect the Euro or US Dollar.

I have posted a 1 hr chart below with showing these tools or elements. The effect of a significant news release on price action can be seen clearly when we (for instance) look at the trading day of the 25th January when we had some poor USD related news.

The blue boxes are each trading day, significant Asian session high or low at horizontal yellow lines, magenta coloured horizontal lines show significant BRN levels and the approx daily pivot points are the small black lines.

So how do we use this information or these "tools" to formulate a trading plan to help us have a successful trading day? Well, we'll try to put it all together in the next post!



Price action nearing 4hr DASR (EURUSD)

Hi everyone, I just emailed someone this info and I thought I'd reproduce it on the thread for everyone's benefit:

It looks like a good situation is appearing on EURUSD right now. So what are we going to do? Well preferably, we really want to wait until price action "punctures" the DASR (blue line area) and then catch it when it (hopefully) comes back again. The advantage of that scenario is that of course we can hide a pending buy order on the "long side" (above the DASR) and have a reasonably tight SL back on the short side. Otherwise (if PA doesn't puncture the DASR) we can just rather wait for good evidence of the bounce by checking the 30 min or 1 hr chart for a nice bullish bar. The advantage of approaching this now as a long term (position) trade is that we can scale our leverage right down because we're rather looking to catch a lot of pips. What one can also do is add to a winning trade by placing a new buy/sell order every 50 pips or so.

In today's case, it looks like (although we are going to have to get good candlestick confirmation on 30 min or 1 hr) EURUSD may be bouncing off strong support at 13100. Cable has already bounced but I would first wait until cable breaks though daily pivot (around 15702) before jumping in there!

Today was a "down" (retracement) day although we're still in an up-trend. Any buy trades that we try off the lower time frames are failing That's why as you see in my last couple of posts I'm trying to incorporate "day analysing" in the strategy so that we can try to get a clearer picture on what might happen during the coming trading day. That is going to save us from entering trades that are doomed to failure! You'll see that by looking at the previous trading day plus the Asian session plus using BRN and pivot point - we can get a clear "picture" of what is happening on this trading day. I'm going to add some more info on this matter later today on the thread.

Attached Thumbnails



"Analysing the day" Continued

OK here's today's 1 hr chart with our light blue box showing the trading range at this moment plus last night's Asian low (at 7.00am GMT this morning) and of course daily pivot and BRN's.

Note how we had a CLEAR sell-off last night and price then dropped BELOW the Asian low about 9.00am this morning plus we were then well below daily pivot. We know the average range is 130 (plus/minus) pips so no prizes really for guessing that we were going to go a lot further down!

We're at 130 pip day range already at 13090 so to chase it by selling now (in my view anyway) is probably foolhardy. Plus of course we are at the 4 hr DASR as we know. So really we're at a critical level right now. If we have been sitting on our hands this morning, and you're using our strategy, best to keep sitting on them until we see clear signs of direction either up or down later on this afternoon.

Attached Thumbnails



Analysing the day..... continued

We've looked at Asian session high/low and pivot point in planning our day but what about BRN's (big round numbers)?

Well BRN's are really great to utilise as the "floor and "ceiling" as well as target points in our daily trading plan. For instance today quite obviously 13200 was the "floor" (or "ceiling if you like!) and knowing the daily range we could quite easily work out that 13100 would be a good "ceiling" to aim for. If you think about it course, when the "big boys" (who buy and sell enough currency to really move the price) work out THEIR daily strategy, they are certainly not using minor levels in their planning rather it's so much easier to work from BRN to BRN (say 13200 to 13100 or 13200 to 13050). If we know HOW THEY THINK AND PLAN and we know the approx. daily range of our favourite currency pair, we can obviously work on those targets too!! They are also of course "stop hunting" along the way, and as people usually put their stops at BRN's, you'll note how price action seems to accelerate though BRN levels as it did this morning through 13150 and just now through 13100.

The "short side" and the "long side" Clearly Illustrated

Just in case we have some newcomers to the thread, I thought I would just try to clearly illustrate exactly what we mean by the "short side" and the "long side" (as far as our 4 hr strategy is concerned).

So I've posted two GBPUSD charts. One shows that from 5th to 13th January we (as far as GBPUSD was concerned) were on the "short side" and could have really entered short just about anywhere with comparative safety!

From 18th January until at least last Friday we were on the "long side" and the converse is true.



The fourth element of our daily analytic strategy

Today the fourth element of our daily analytic strategy came into play: News releases!!

The European common currency traded further lower against major opponents during New York mid-day trading on Tuesday, after reports from Greece showed that nation's debt-swap negotiation has seen progress. (from advfn)

I guess it's "selling the news". Anyway, I think it took many by surprise including me! We

had a nasty 2-way direction in price action today with a bullish morning and a very bearish afternoon. The way to trade it? Well there were actually 2 nice CLEAR opportunities! I'll illustrate them with charts in the next post.

Combining our two strategies to cover all the bases!

OK you've probably been asking the question: Jerry, why on earth are we not catching a ride on these two big sell-offs that we've had over the last couple of days?

Well of course, with our 4 hr "long side of the market" or "short side of the market" strategy we just don't take any sell trades when price action is ABOVE the 4 hr DASR.

But we have been looking at a new strategy called "daily analytics" whereby we utilise the Euro's average daily trading range (130 pips but can be a lot more!), Asian session high/low, daily pivot point, and BRN support/resistance levels to try and get a "picture" of exactly where price is and how far price action is heading. We obviously MUST try to follow the "big guys" and trade in the same direction THEY are trading and have the same targets!

Have a look at the EURUSD 1 hour and 4 hr charts I have posted below.

On the 1 hour chart the key areas we need to look at is when price EXCEEDS the Asian high or low (completely and decisively breaks higher or lower than the Asian high/low). Today we had it going both ways but note that price action really did not fully break through to the upside. We saw a big sell off and at 3.00 pm we had a great opportunity to enter short when price broke decisively through the daily pivot AND below the Asian low. Plus of course we had a very bearish previous candle!

The other great opportunity, using our 4hr DASR strategy - there was a lovely "bounce" off the 4hr DASR when the 4hr candle opened. Quite OK to take because price action is now on the "short side" of our Vegas tunnel! (look at 4hr chart attached)

