Chart patterns (Line study), the best indicator:

I think chart patterns despite of being of oldest study on markets will work at least 100 years from here on. So never forget to use them if you see clear and nice patterns, recognizing them is not so difficult and any even newbie can learn to catch them on charts after a bit of experience and work. Channels, triangles, double/triple tops/bottoms are my favorite patterns. You can use that to 1- confirm you entry 2- prepare a pending entry order (stop orders most of the time) and not to be obligated to monitor the market and wait for indicators signals.

I don't want to speak pessimistic here, but it is not so bad to know any indicator can be tampered with for any reason by providers but nobody can cheat on price charts to mislead you; yes, this is a battlefield and some may do everything to win. So never abandon to learn much form charts, of course there are some complex patterns that some people discuss, I don't prefer too because if you think that this is a complex work, then it is, but if you think that you can do this by even very simple but original and powerful ones then you will do it surely. I don't mention any name of books or sites here; I just tell you that there are thousands of sites that offer free lessons for all this chart patterns. Even during the examples you will learn practical use of them that no site discusses.

In part I, I discussed about the best entry setup, if you use it solely it will offer you very strong and easy to enter and follow trades, but it needs a great patience and some experience that help you to recognize the characteristics of the currency pairs (or other symbols). I am going to explain a little more about the setup. Choosing a symbol to trade is the first step of trading, there will be many opportunities that you should choose one or some of them. Many factors are effective in this matter, but totally I recommend mastering yourself in some symbols. Choose those that trend well and have most of time decent trends. Do you know what my meaning of a decent trend is? Let's see!

Decent trend:

A decent trend is the one that abides a simple support and/or resistance rules. Most of the time we can define a channel for that and it nicely go up in an upside channel or go down in a downside channel. What are the characteristics of a decent trend in this method? Firstly due to trending nicely it has a good range regarding the currency pair. Secondly it keeps its blue color in uptrend and red color in downtrend. Thirdly there is no misleading/wrong arrow signal during the trend (after closing its candles) and finally it respects our 8SMA and frequently retrace on it and after touching returns to its way. Let's see some examples!

The first uptrend (blue candles) is almost a decent trend. Just except some green bars the rest are blue. After a sharp start it retraces on 8SMA. I will talk about retracement in detail later on. Until candles are above 8SMA the momentum in good and we can expect higher targets. But any breakthrough into 8SMA could be a sign of exhausting and reversal potential. Especially if the green candles be abreast and far from 55SMA. This is a hesitation and at this moment we tighten our stop.
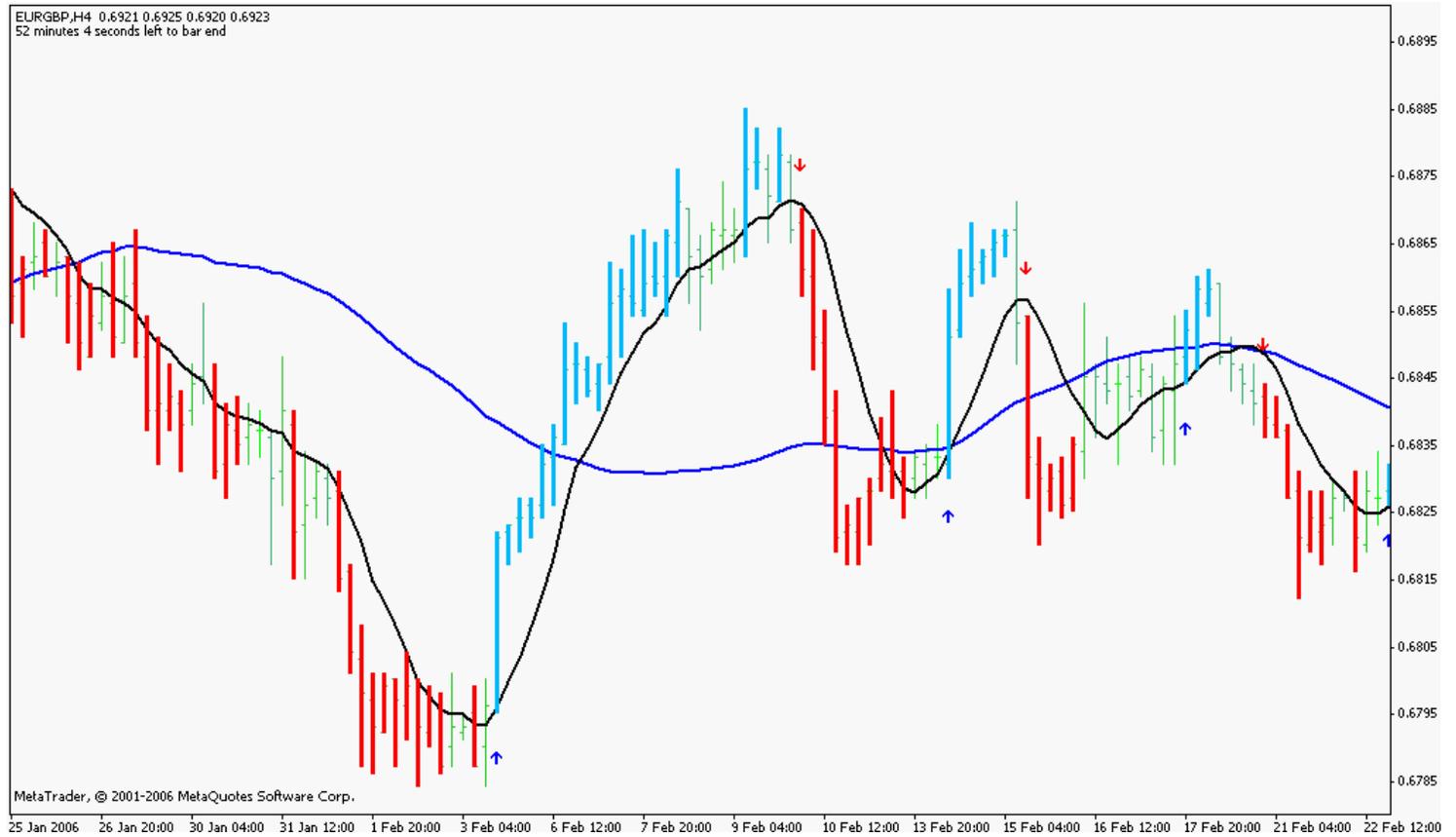
This is a good shot of USDCAD with four trends, two down and two up, one of each type is decent and another is not decent trend. From left, the first trend is a downtrend and it has a decent behavior with 8SMA; falls and sometimes retrace on 8SMA and finally at the last retracement on 8SMA the color of candles change into green and after some close above 8SMA and arrow signal it reverse into another decent uptrend. The third trend that is the second downtrend is not a decent one. It sometimes cross the 8SMA and is full of green lines even from its starting. When we see such trends we should consider much or preferably give it up till it finds a good momentum to trend. The same goes for the last one.
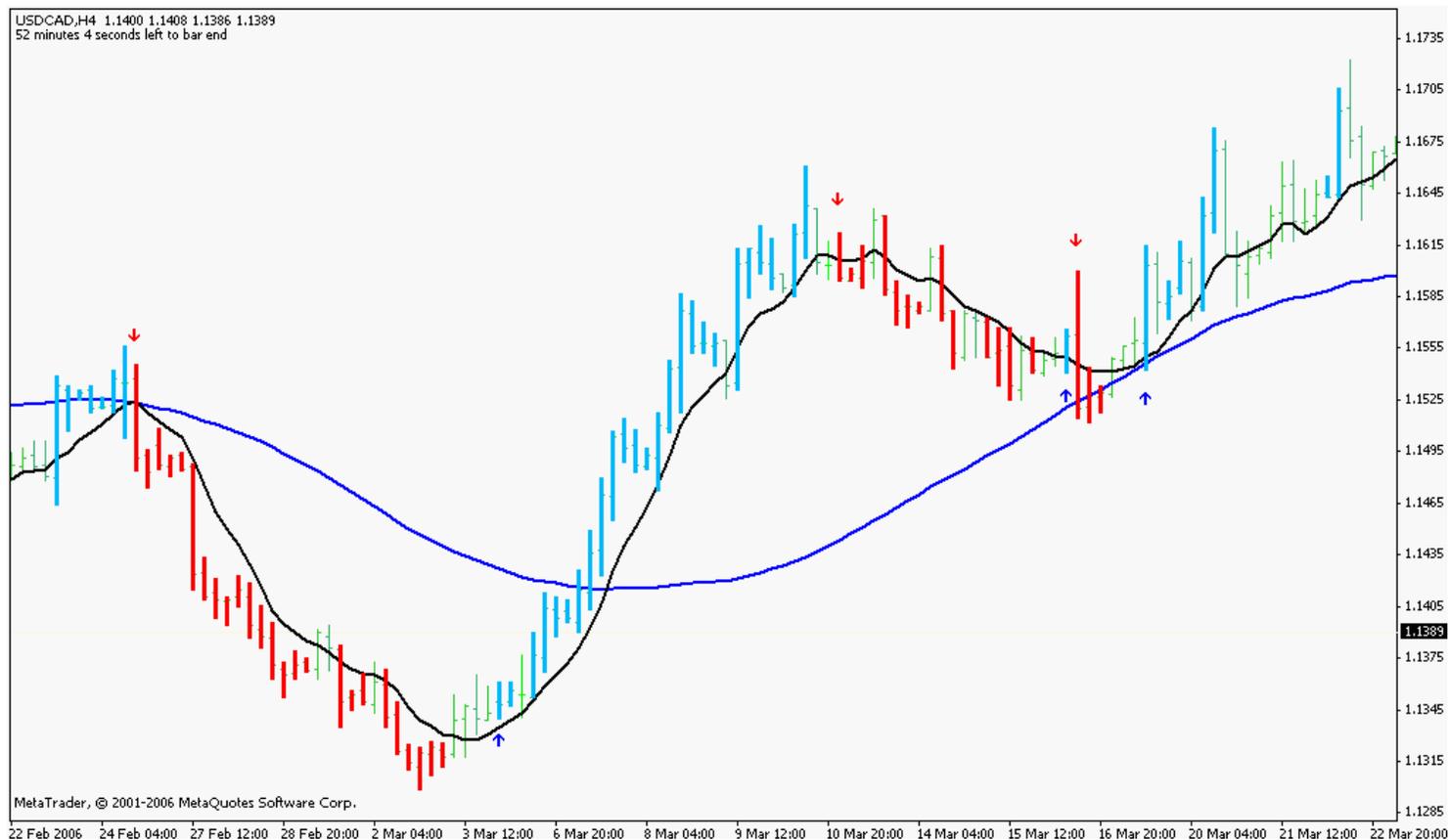
This is another example for an indecent trend. I think there is no necessity to tell you look at the violations through the trend and misleading arrow signals and plenitude of green lines.

Using chart patterns to enter better:

I have two good reasons that why using chart patterns is very wise to enter a trade:1-Trend reversal usually starts with a high range bar so you may lose many pips 2- Monitoring the market and waiting for a signal to enter instantly is a killing work and harmful for health. By using chart patterns and their rules you can easily put a stop order and in case of reversing the trend you will be entered automatically and won't be late. Not only this gives you a good range to be far from entering point and moving to break-even sooner also you will feel better of not being in a hole. (Being in a losing situation)

Example 4:
(EURGBP)

The price trends up beautifully (decent trending) and makes a ranging market at the end of its run. A ranging market is the time that buyers and sellers are in doubt and after that we expect a breakout or a breakdown; as this is end of an uptrend we normally expect a fall. Moreover the distance between lines is good. The 8SMA is going to flatten and green bars prove this. But the range at the end of trend is not so clear and putting any order is a hard and risky.
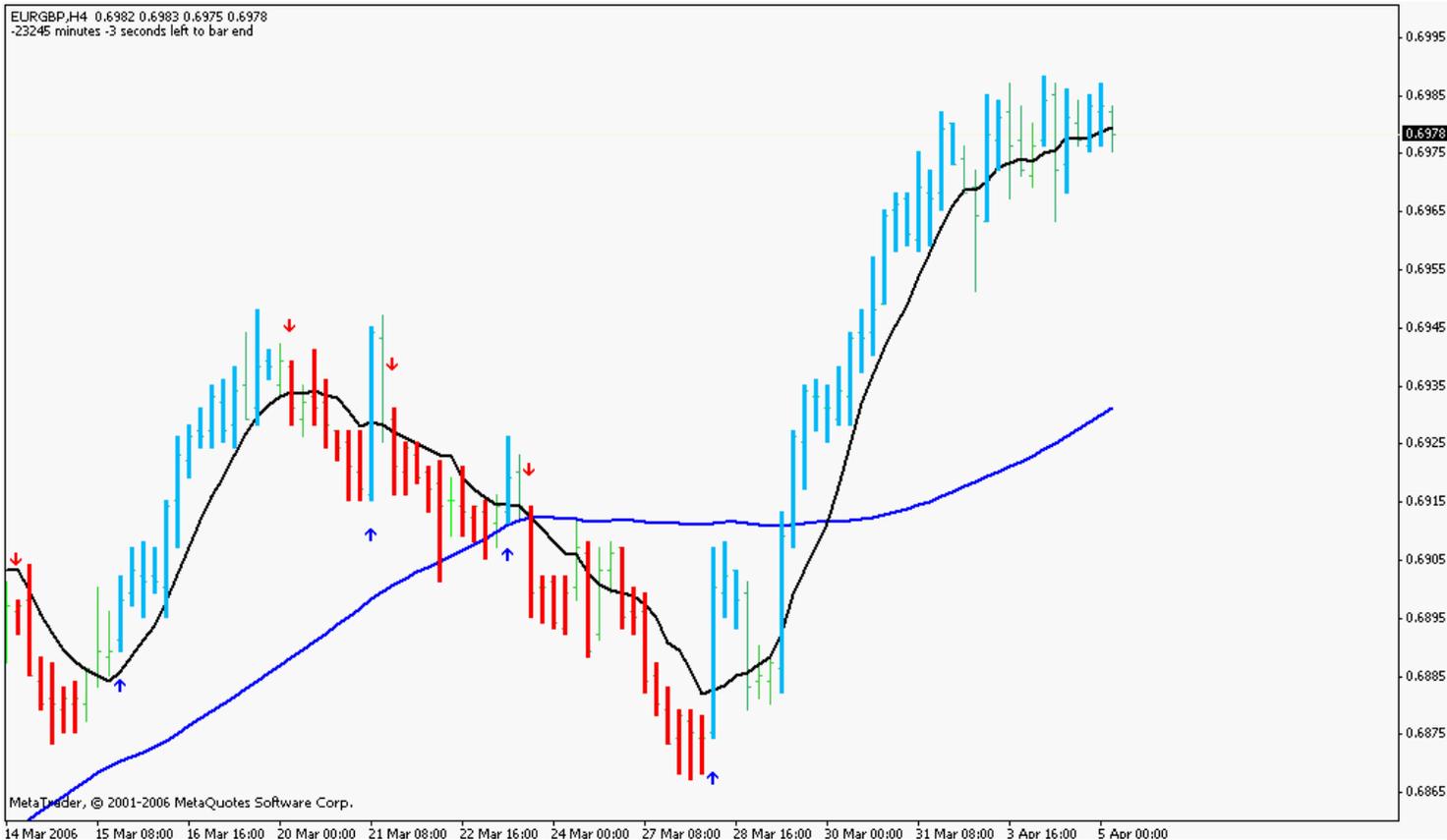
It is the moment that traditional patterns help us. Ascending triangle, a bullish pattern, but we are at the end of a uptrend, so what it means? Simply WAIT. You may ask yourself is there any way to put a sell order in this moment not to be out of pit? In other words you are in doubt that may price fall and you lose the opportunity to enter in time. I have a very simple but powerful rule: "when you are in doubt, be sure and stand away." We are not here to take our chance, we are not gamblers; we are traders and should trade with strong reasons not the strong guesses. If you ask why we don't long, again the answer is simple: entering a long position at the end of a decent uptrend plus a good distance between lines is not wise at all.
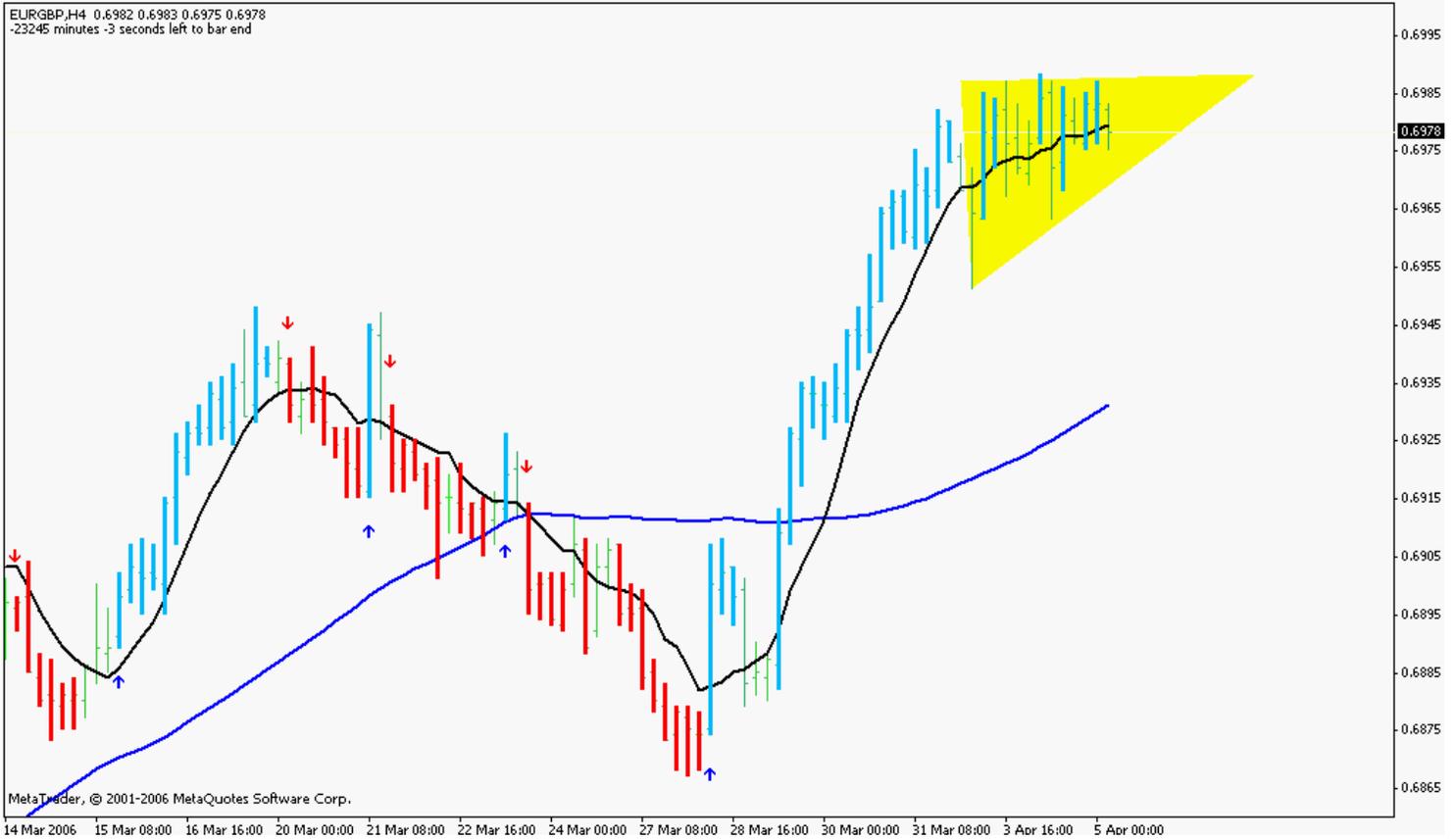
As you can see the range of the next bar is high; this is the struggle between buyers and sellers and we could be easily whipsawed in case of putting any order.
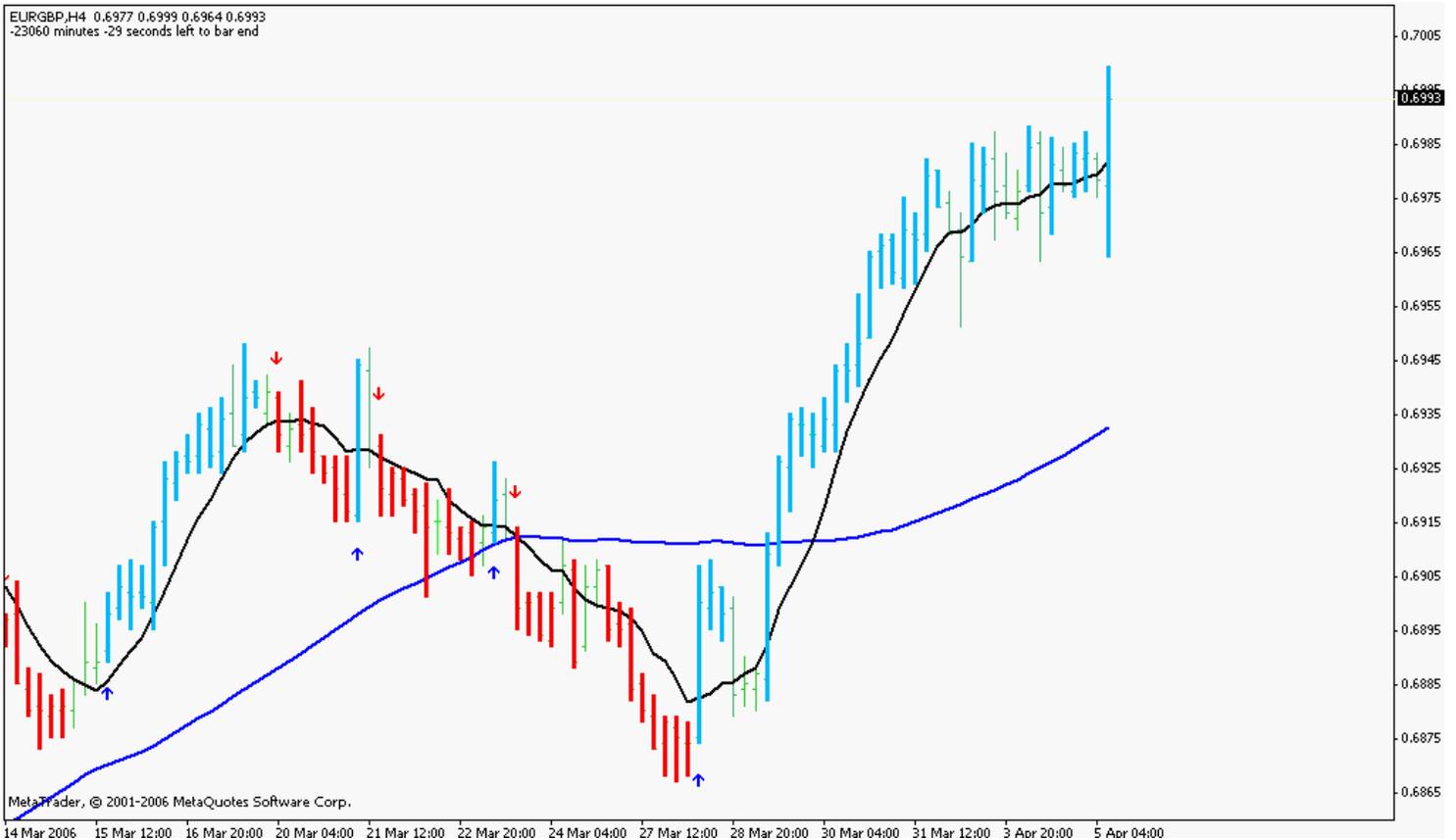
We can recognize a double bottom or even a triple bottom. All these are bullish patterns. We get confused of conflicting signals. Some tell it is the time to sell, but there are bullish patterns too. During market hours because of violating the price there will be arrow signals appear and disappear. So you know now why I persist that wait for closing the candle. Fortunately there is no arrow signal and we know we should wait. There will be many times that you will see conflicting signals. Why this happens or at least what it means? There is nothing 100% in forex and each pattern or indication has its own probability, plus their probability is different in different time scales. We can not do calculations to find out which direction the price will choose to continue, we just in such situations wait and time will filter the wrong signals for us.
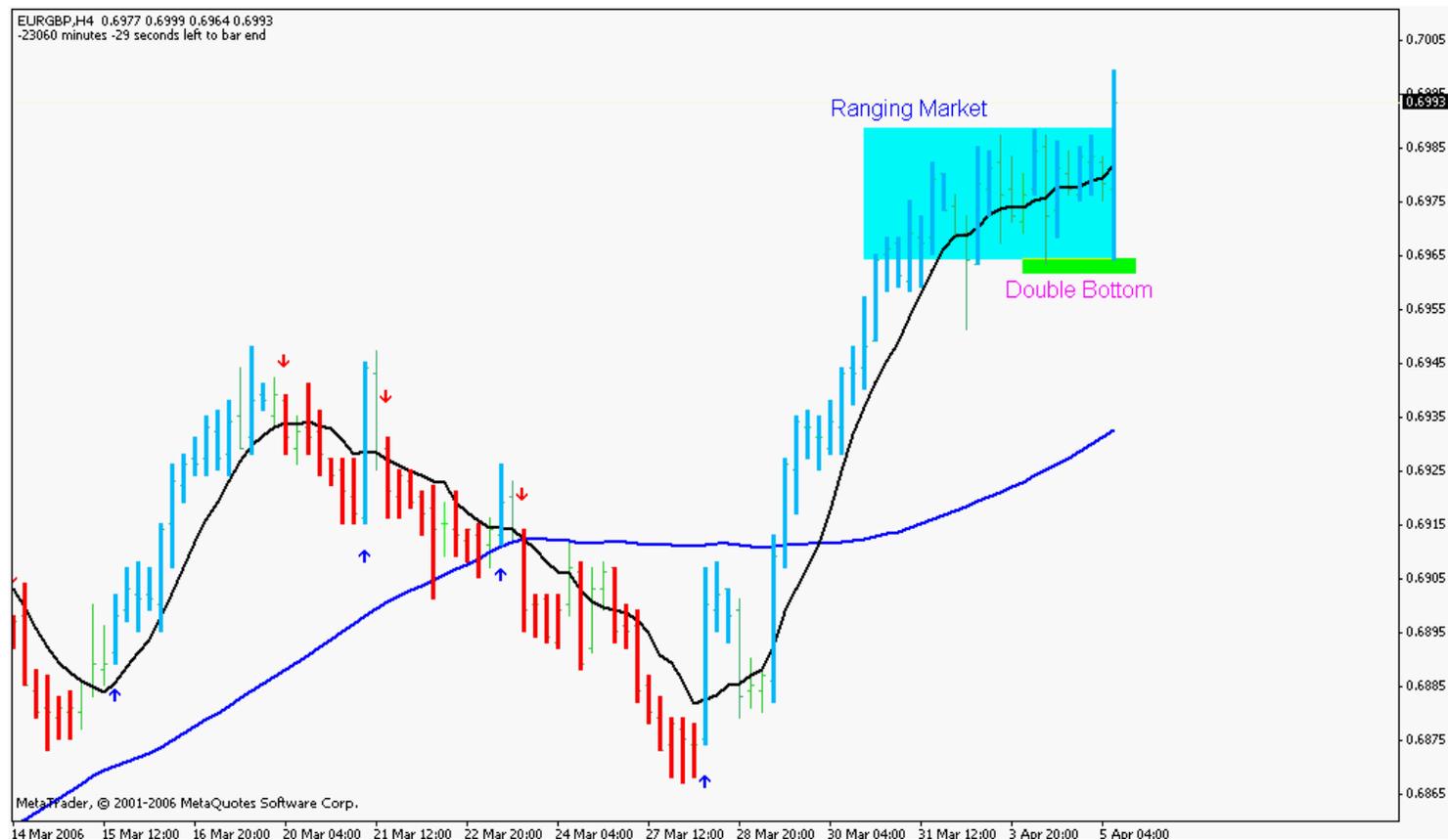
Price over-extends and goes higher again and makes another ranging/sideways. This time you can see weekly pivots too. This consolidation has a tight range so putting order can be easy and wise, because you take a very low risk of losing. A sell stop order just some pips below the support line of the range is a good order. Stop loss should be at some pips above the resistance line of the range or safely some pips above R3.
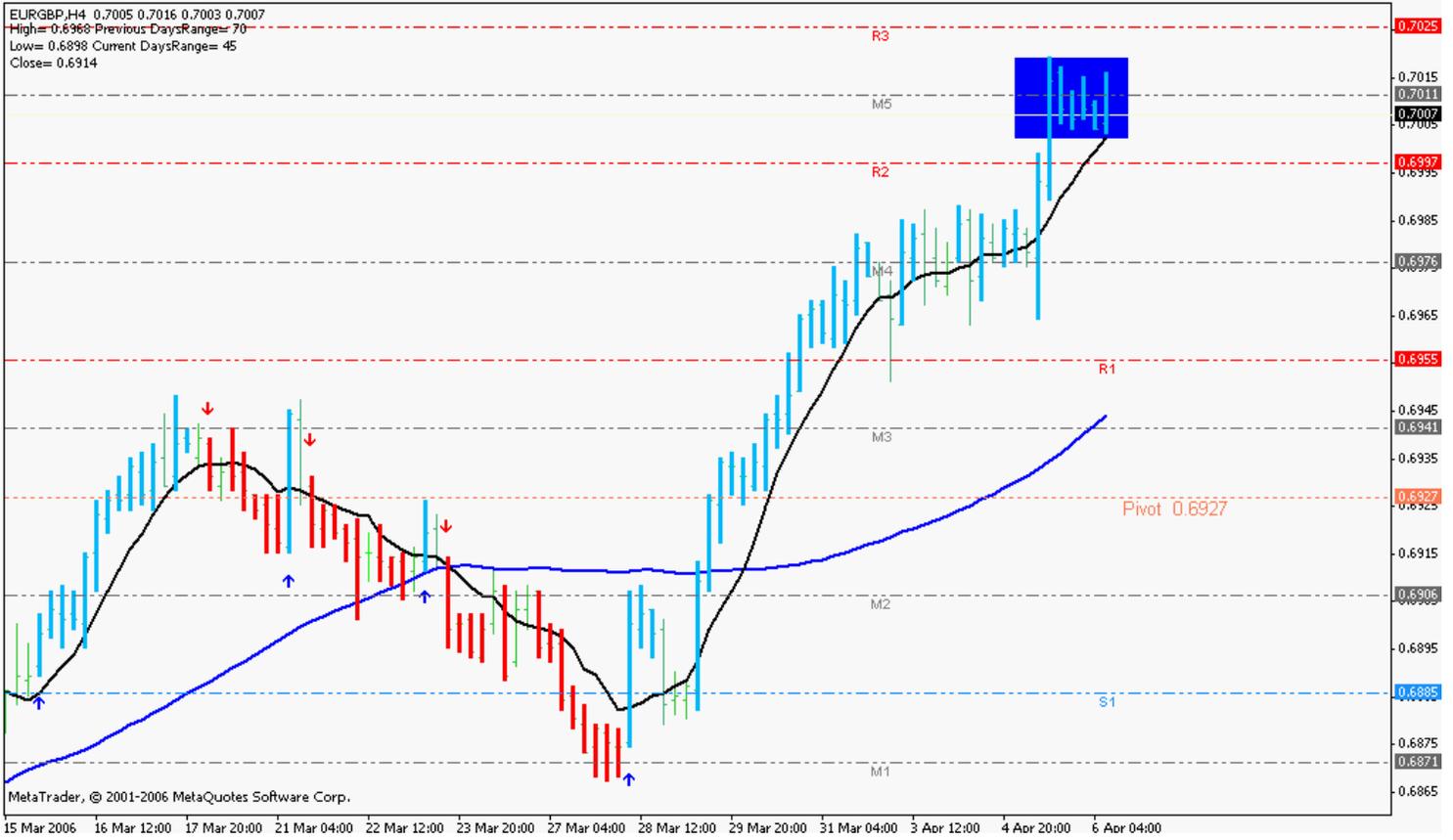
Just after 4 hour sellers won.
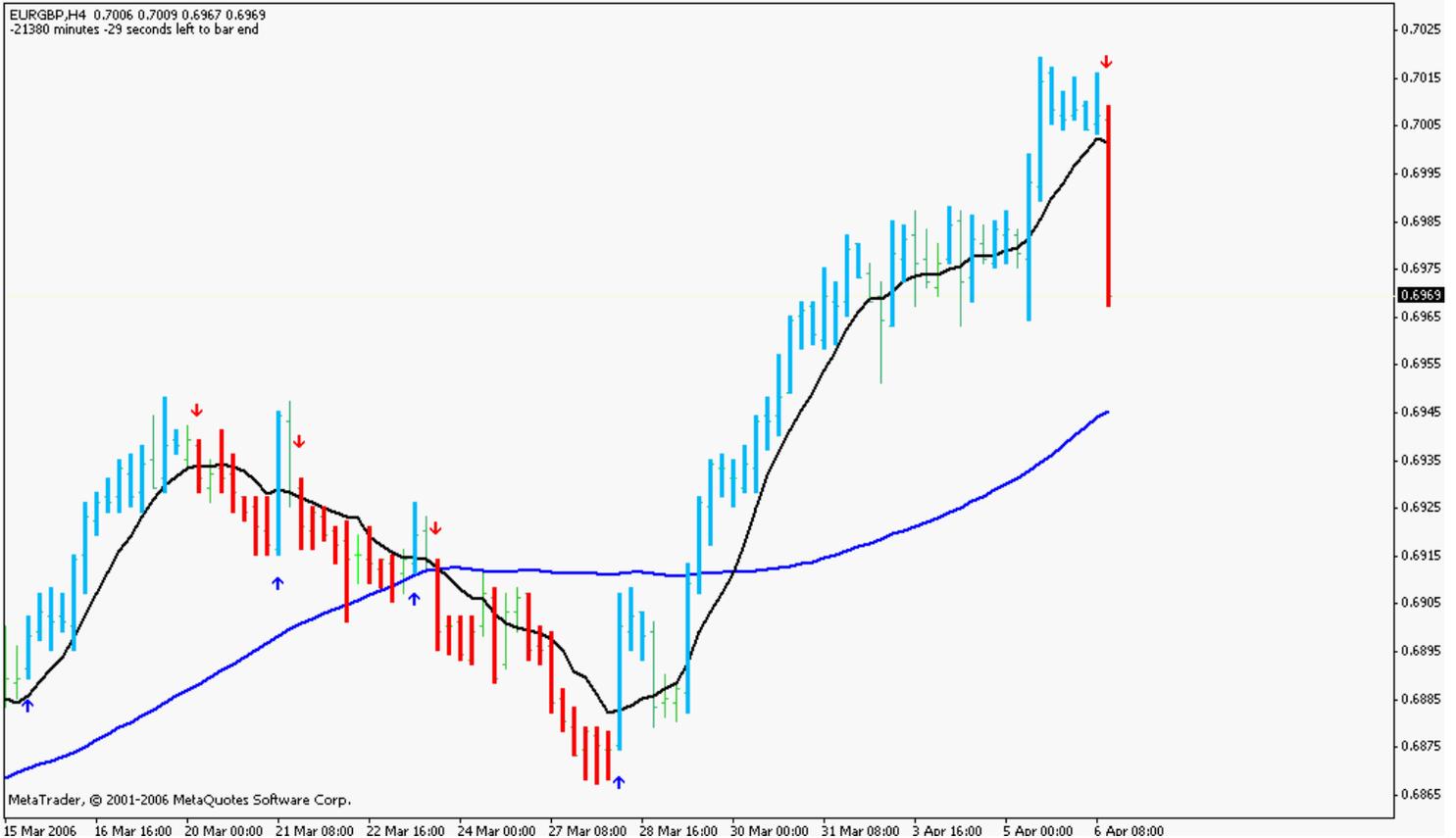
Using trailing rules you could seize 100 pips on EURGBP (almost 200 pips on EURUSD). One such a trade is enough for a decent living. DECENT TRENDS, DECENT LIVING!
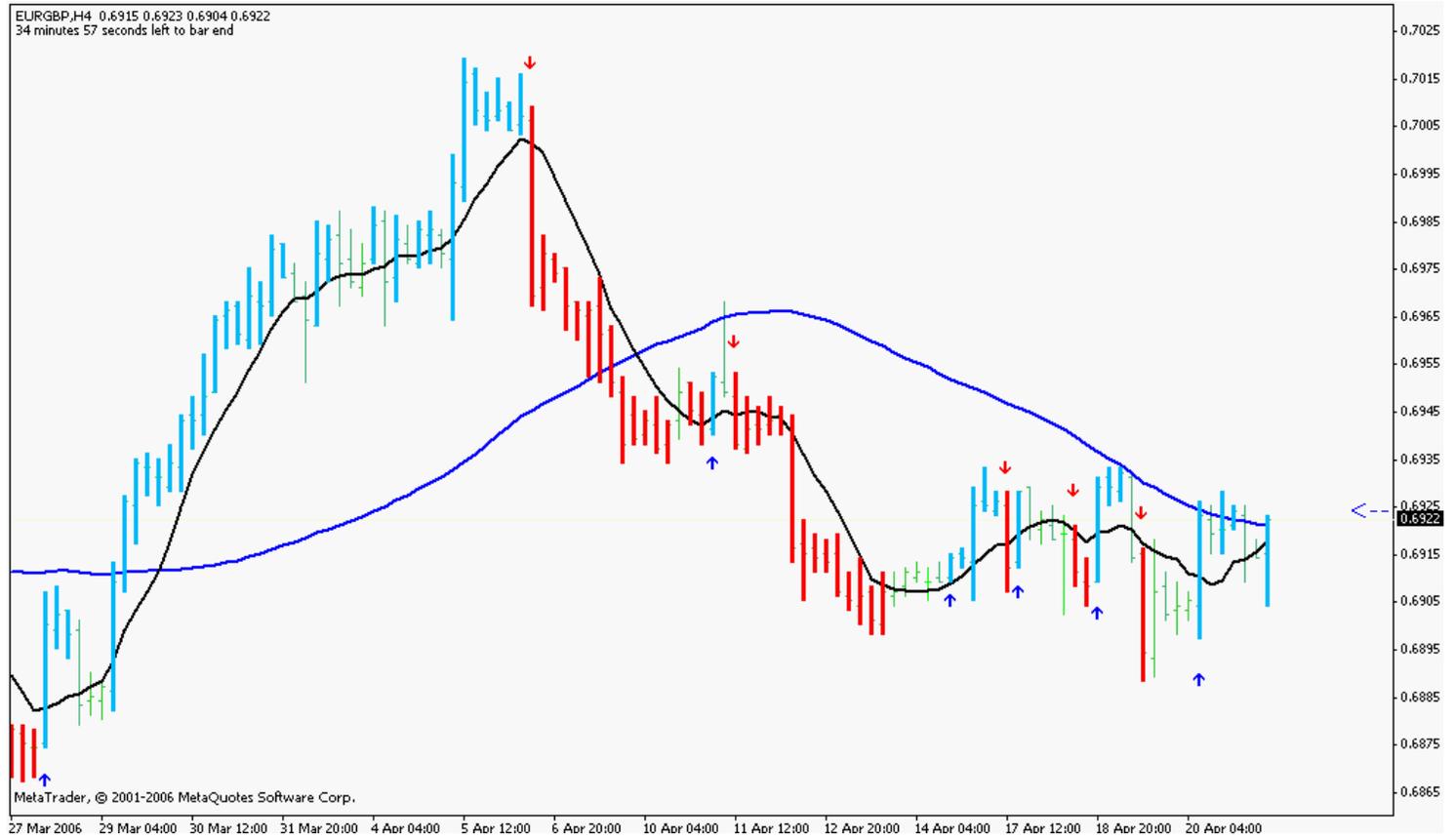
Here is another example for USDCHF. Again 8SMA has made a good distance form 55SMA. There is a decent downtrend that was rapid in falling at its start. We expect a buy signal. To avoid being late and entering a good point with less risk where we should put a stop order?
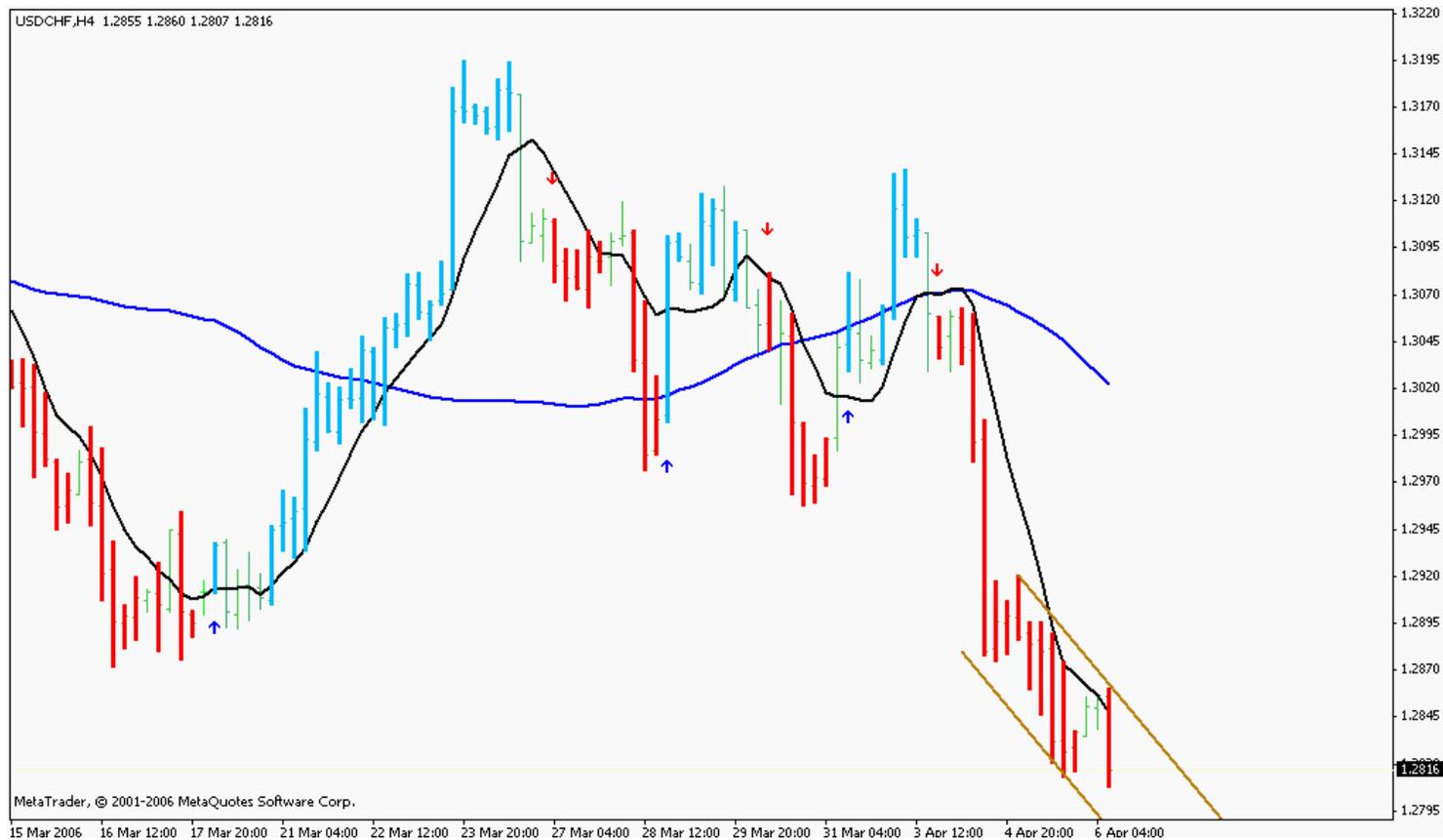
There is a dip around that level that indicates a strong support. So the problem solved easily. Some pips above the support line. It is not important that the level we choose for this work is a support or resistance. All dips and tops indicate important levels. At important levels price decide to go which side of it. Most of time after breaking such levels price does not come back beyond it again and continue to the next important level.
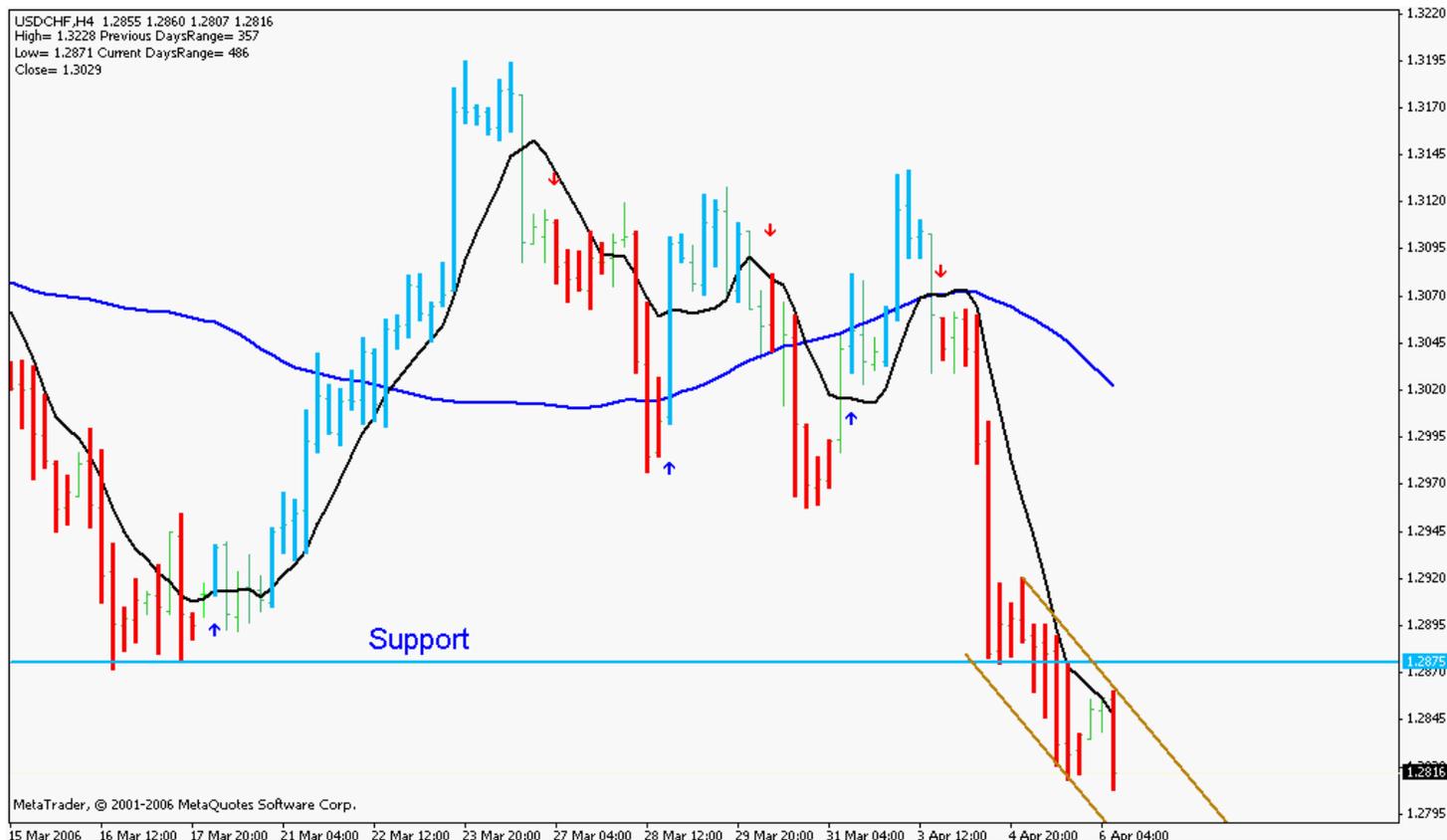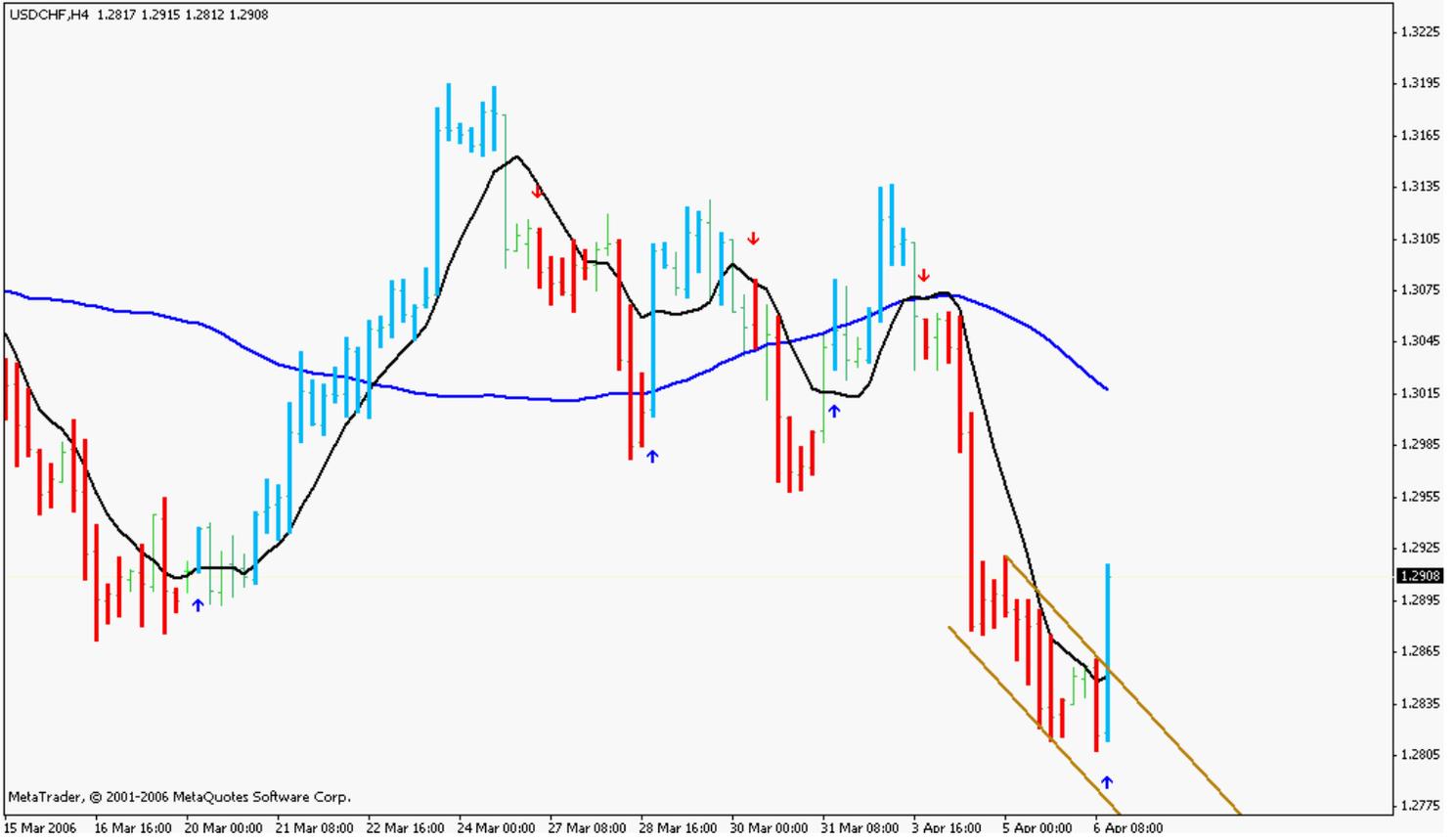
A decisive breakout confirms the reversal. Price nicely trends and at the end of run you get out with sell arrow signal.
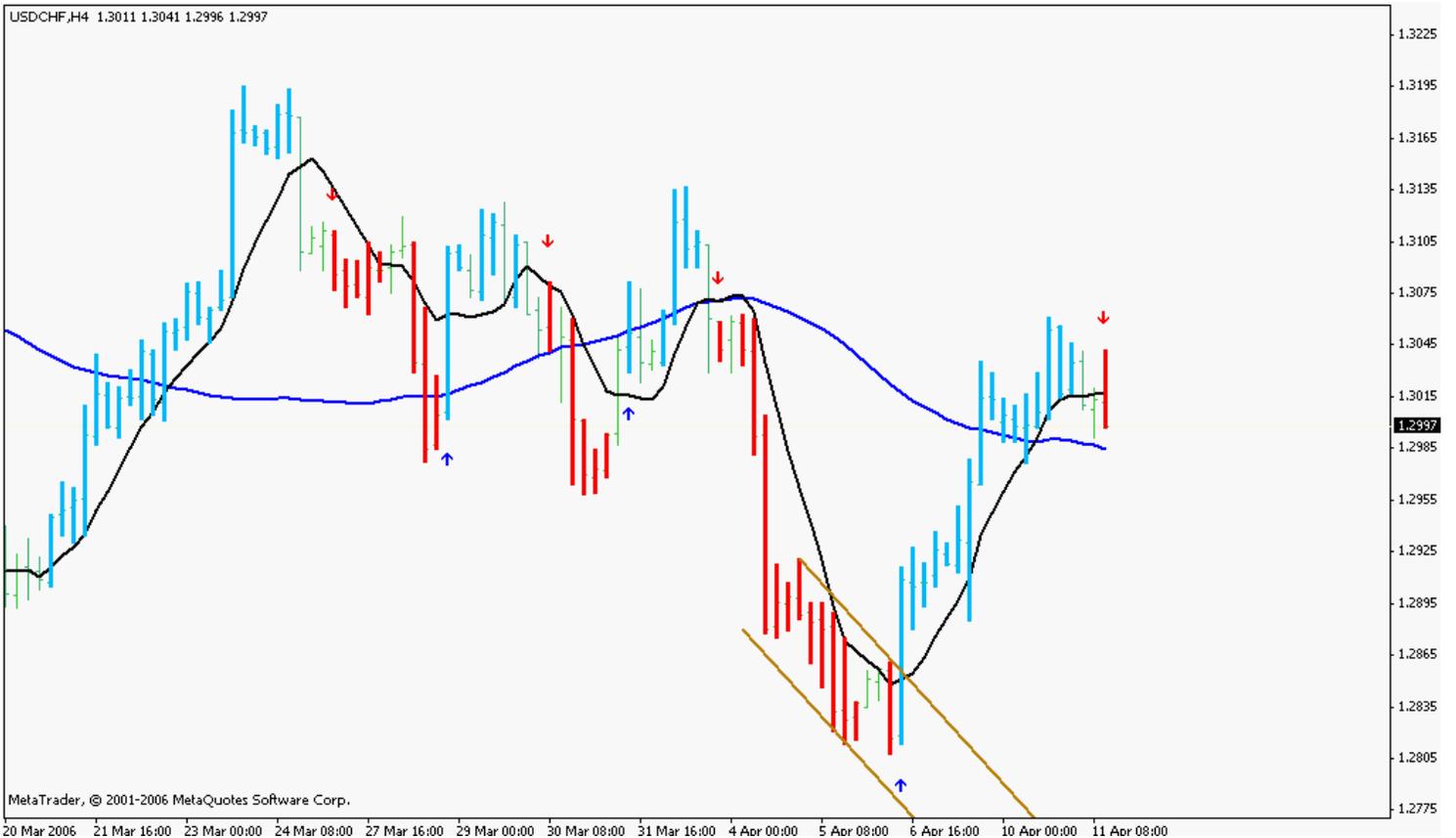
You can see that in previous trends also we could use such orders to confirm the entry. The first one form left is a buy signal that is not so strong at first. Let say that you were late and when see the signal that price is strolling around 8SMA (green bars) so you are in doubt to enter or stand aside. Easily you put an order (buy stop) just some pips above resistance line and get the trend in time.

The second one is not the best setup. Just you see that 8SMA has rebounded form 55SMA and there is a sell arrow signal. So you are in doubt that which side price will choose. In this case you set a sell stop order and catch the trend in time. I will discuss many instruments that will enlighten the way and filter the conflict indications. But simply the breakout confirmation will work for you. If you are not in a situation that taking risk is not wise for you never enter these setups, just take decent trends with the best entry setups.
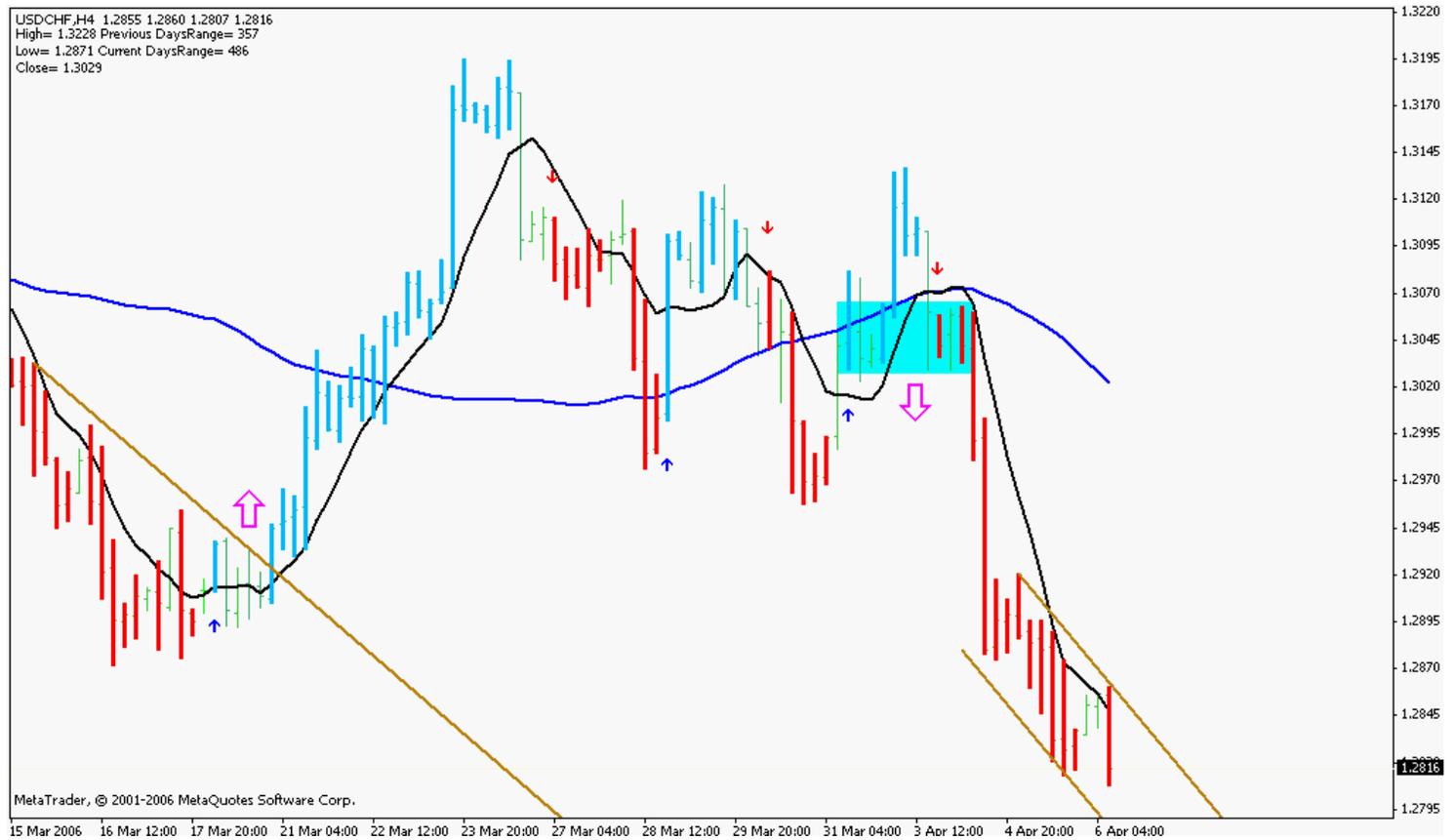
In all of my life waiting was killing but when we can estimate the duration that we should wait, this helps us very much, so a tool for timing is a need.

EJ_4H Dual Stoch:

Many indicators are old and they are lagging so that for today are useless, but is there any way to use them? I think yes, we just can modify them and define a new setting for today's market. One of the most popular of them is Stochastic Oscillator. Using a single STO is really misleading setting, but when we make a setting to monitor current time frame and the next longer one in the same time frame, in case of coincidence, the signals of overbought/oversold are more reliable.

Example 6:
(EURGBP)

Let's back to the previous example. There are two Stoch oscillators at the bottom of the shot. The upper one is for 4H and the lower one is for the longer time frame just next to the 4 hour chart, in other words it shows the daily chart sentiment. We just use this indicator to pinpoint oversold/overbought of both. Keep in mind that the leading one is longer time frame, in other words the lower one (daily). So wait for its reverse to enter for sure. For first ranging market it was oversold but did not show any sentiment to revere so we

should wait. The smaller Stoch is for better entry timing. As you can see still the upper one is not oversold. It shows a cross from below to above that means a bullish move. The lower one is still oversold. But there is not any sentiment to go down. So we wait.
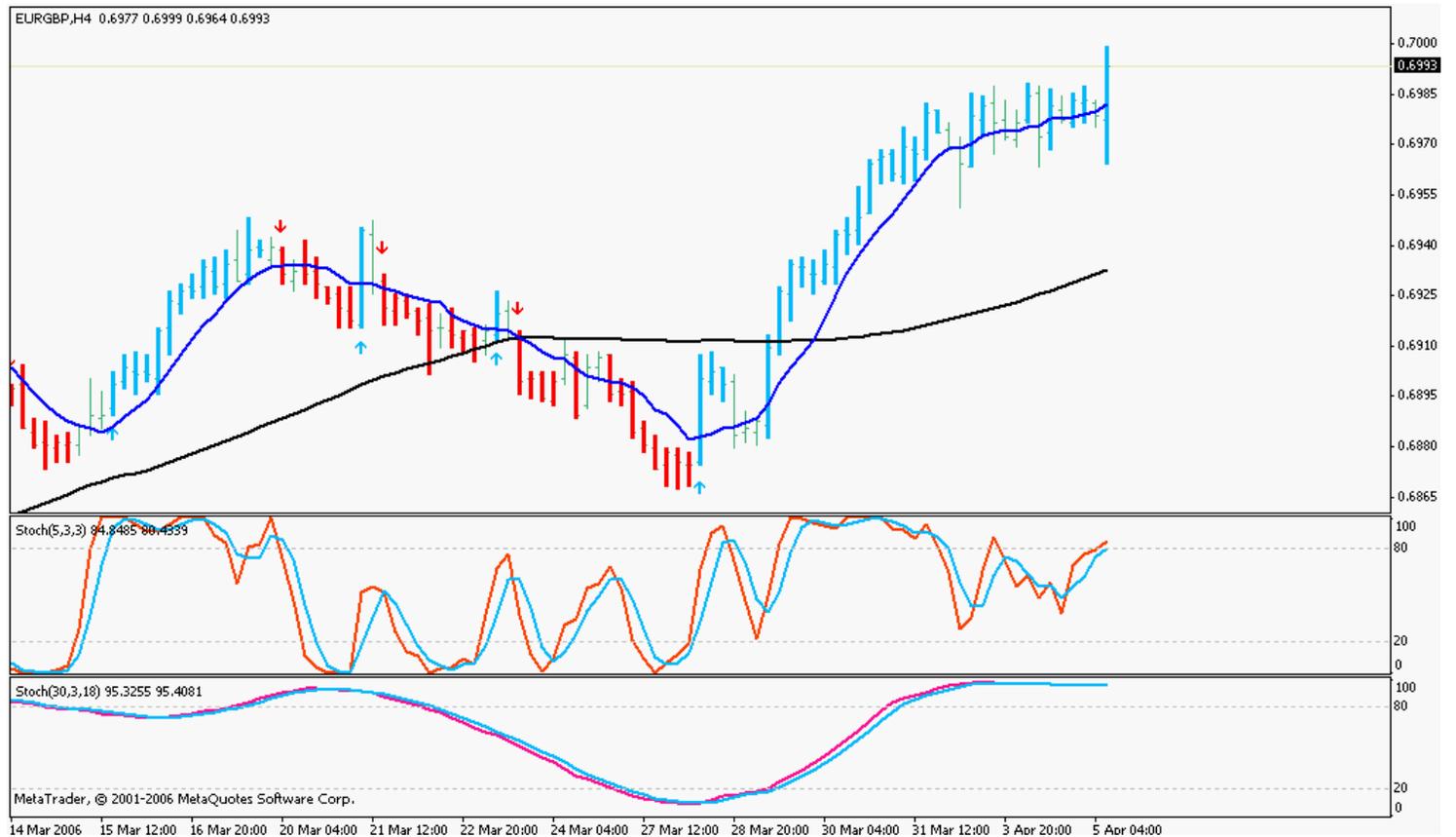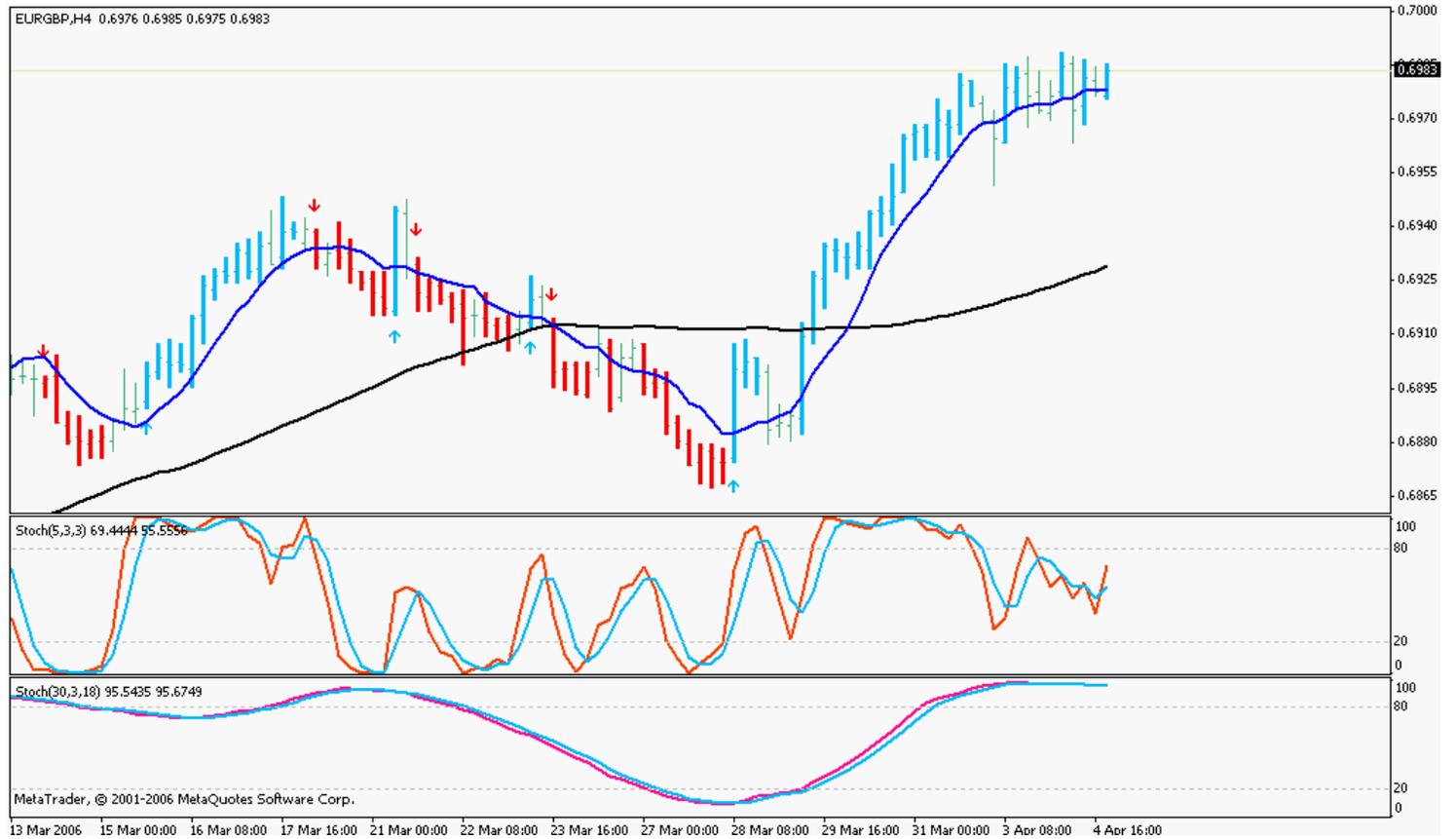
Smaller time period STO (upper) predict a sell-off. Of course again we never enter instantly we just put our stop order.
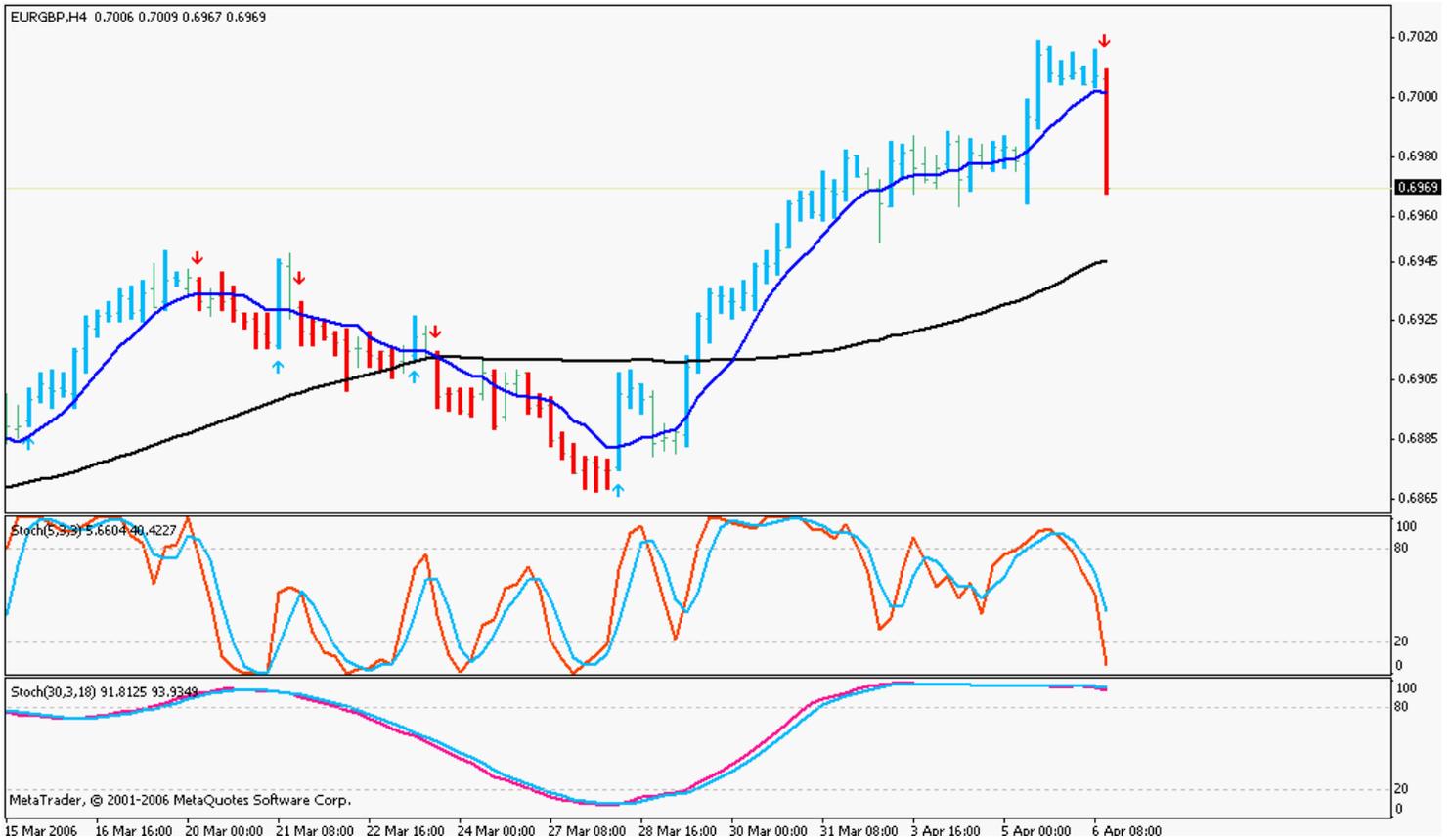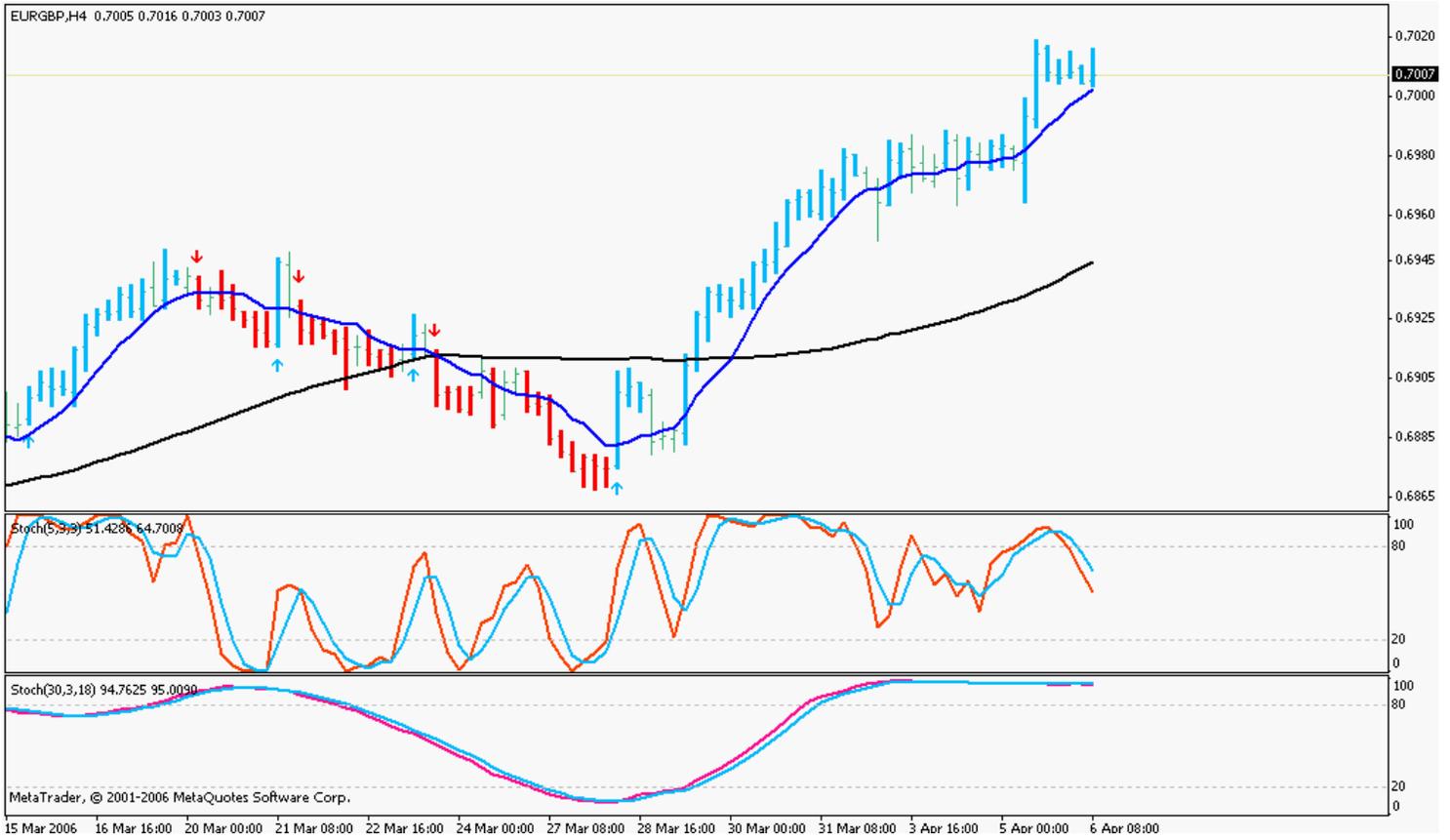
We got the trend in time. Look at the uptrend with blue candles. Form its start the upper STO is overbought but the lower one trending up. By this I showed you that how much a single STO is misleading indicator. Most if the time the trend will keep its way till the lower STO get oversold or overbought. So this can help you to be patient if you have a long position or if you are waiting for a sell-off reversal.
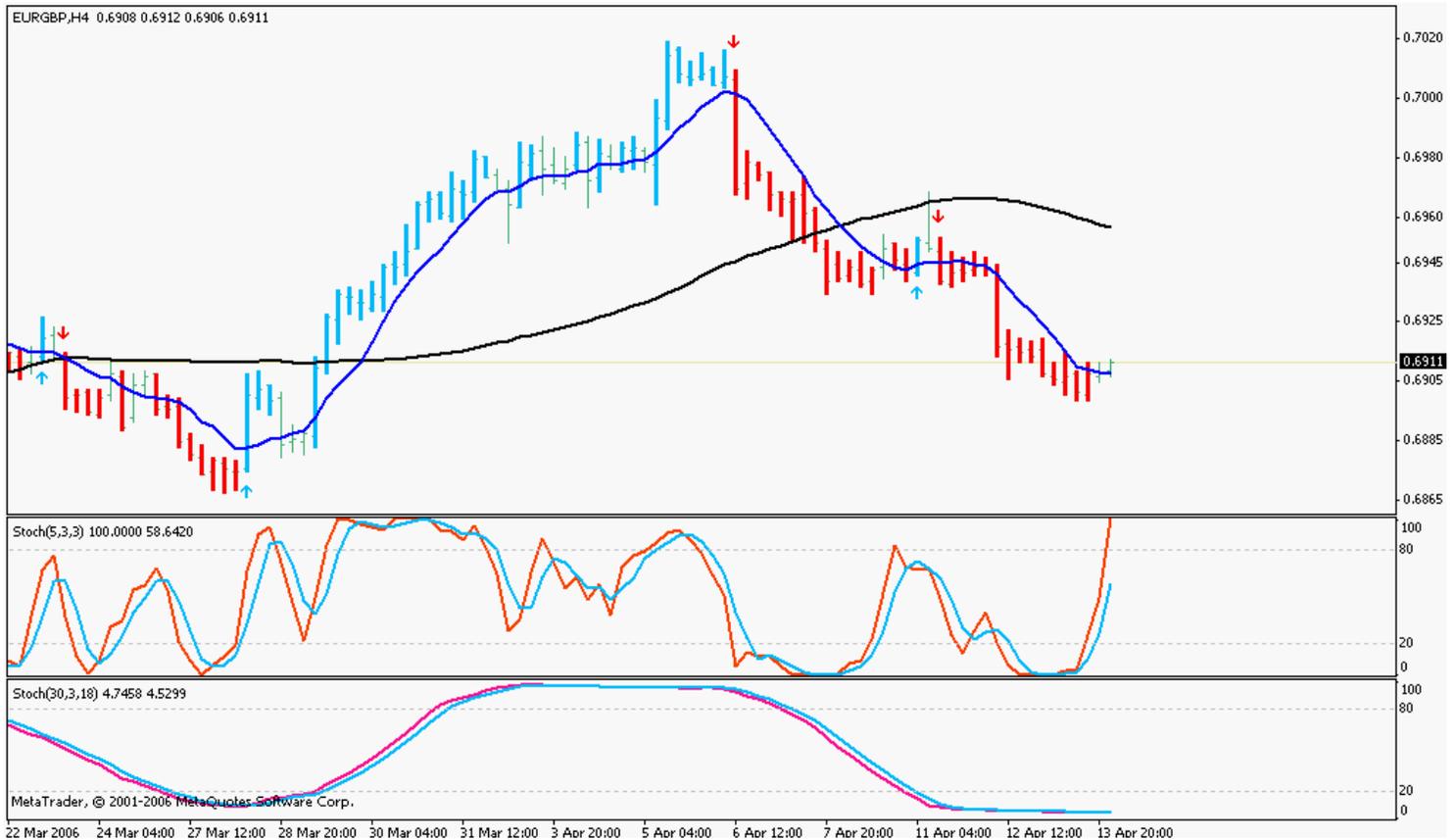
Thank you for being with me. I hope this little could help. You can back test the history on various charts and find more other setups with this type of indication. Add this to your arsenal and one day you will have enough instruments in your arsenal to interpret the market.

Ibo
21 April 2006
ejeddi@gmail.com