

Instructions - Practical Use

Practical Usage Considerations

As we finished up on the Instructions page 1 it was stated that we now have a definition for both the trade signal and the no trade (continuation) signal. So let's handle both scenarios.

Trade Signal

First, we'll assume we got our Primary Setup **Trade Signal** (price meets the purple "208" with all qualifying features). Let's just cover briefly some of what to expect and money management. This system will tell you where to go long and where to go short on whatever time basis you want. Software systems MUST tell you where to place stoplosses since they run unattended. Also they will be "taking profit" or stopping you out at various oscillations so they run your money for you. They typically cost you profit potential in doing these things "for you". I believe the human being is much more capable of doing it better as they consider their own financial situation. So I designed this system to accomodate the whole spectrum of traders. What works for one would not work for another where money management is concerned. There is not a one size fits all method to that. Also this is a trade reversal system, not an entry/exit system so it has to accomodate both the closing and the opening of positions at each trade signal. So even though money management is not part of the trading system it may help to go over this.

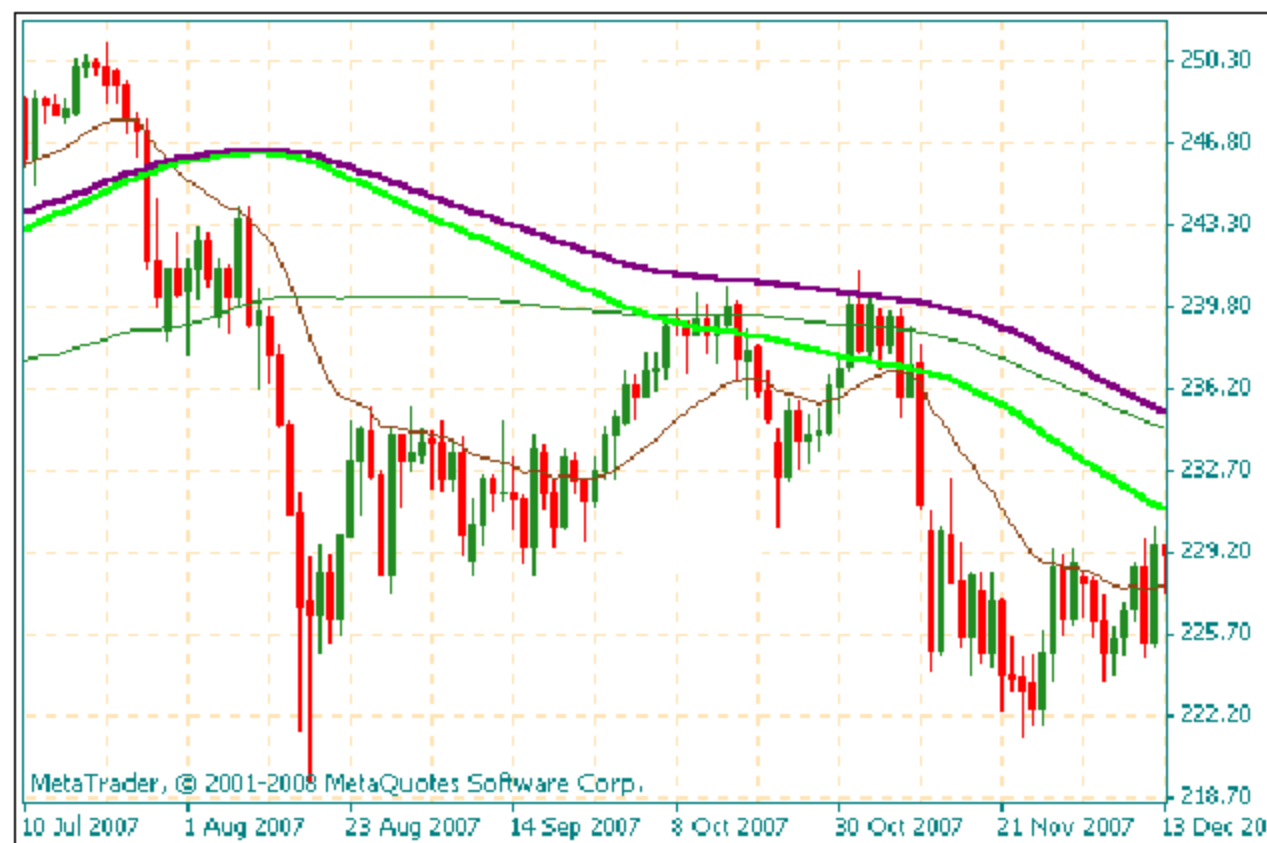
Normally price will go above the "208" but it is a modest amount (See Fig. 6 below). Also this will usually be very close to the former trend's peak so your stop loss is nice and tight. The stoploss is placed at that peak + the spread. This assumes a fairly small timeframe but if you get on a larger timeframe like a 4 hour or daily or so, then you may wish to make your entry when the price comes "back" to the purple "208" and heads your way. This way you can have less drawdown from any overshoot of the "208". Be aware however that the drawdown or the amount the trade moves against you once it is undertaken is sometimes VERY slight. I have seen it as low as 1 pip. If you wait until price returns to "208" rather than crossing it you may lose your reaction time if it moves away (in your intended direction) too quickly. Also it is not that simple since it can cross, come back, then cross again and go even further than the first cross. But it is something to consider as an option.

Fig. 6



For instance the trade on the daily chart from 11/01/07 (See Fig. 7 below) had a 60 pip drawdown and that is modest for that timeframe and for that currency pair. However the former trend's peak is a mere 1144 pips beyond the trade signal. That was a little much for my stoploss (even without the spread). This is when you must supply your own money management limits. It is wise to consider the Average True Range(20) on the selected timeframe of the instrument traded when choosing the stoploss when this type of situation occurs. The nice thing about the larger timeframes is they give more time to plan everything. These money management considerations are for the trader to decide.

Fig. 7



This paragraph's commentary is for any traders who have not been trading too long or anyone with an itchy trigger finger relating to patience. On the Instructions page 1 it is stated, "remember that the pullback may also resume and that is why we wait for our target to be hit before getting in." I have coached some traders and have seen that when a signal gets close they sometimes get impatient. Notice in Fig. 7 above what would have happened if the entry was taken when price got 'close' to the "208". So this is not an idle thought to make the Ebook 'thicker'.

Once in a position monitor the position using the 13-68 crosses tool on the same timeframe the trade signal was given. Watch it for signs described in Primary Setup Step 1A (big move pending trend failure traits). Then you trade according to the system steps for the other direction. Remember that each actual trend reversal brings a new wave and with that 'may' come a new timeframe. Every wave has its own and it is a fibonacci timeframe.

This does not mean that you cannot take intermediate trades if your broker allows hedging. I would not recommend hedging in any other circumstance but to operate the system on multiple timeframes on the same currency pair. Each trade is maintained according to the steps and time basis as appropriate to that trade.

I have included an additional template called flip finder. If you haven't already found it and tried it, the flip finder is obviously used to find ribbon flips. It has 0.5, 1, 2 and 4 X pairs of the 1.382 and 1.618 "68" values in 4 thicknesses. It is just available if you want to quickly scan for opportunities. Once you have used it to home in on flips that look like they may be in the later stages you simply take the multiple, figure the actual timeframe and load the appropriate 13-68 crosses tool to further evaluate the move for traits per Step 1A.

Continuation Signal

Next lets cover what to expect when we get a Primary Setup **Continuation Signal** (the purple "208" does not turn before the pullback stops). The first thing is obviously it is a Primary Setup NO Trade. But does continuation mean that the trend will definitely continue? No it does not. Many times it will resume the pullback and other times it will continue the trend. Really the signal means we continue to monitor the pullback and subsequent developments. A special section for the Secondary Setup will discuss how a trade signal may also develop from the continuation signal and the cases where to expect and employ them **if** desired. The system can be traded **strictly** on Primary Setup signals.

Another implication of the continuation signal is that you have been informed by it that you now have some free time to do whatever you want. You can go and look at some other currency pairs for signals if you like. But it does come as a nice side benefit that you will also come to appreciate. All that is needed is an occasional look back (relative to time basis) to see how it is doing.

Once you are in a position there is one thing that you should not be concerned about at a continuation signal and that is the extent of any pullback. The signals for the Primary Setup are formed in such a way that the time basis on which they were derived is the time basis for the wave moving in your intended direction. What goes up must come down and vice versa. These are the things that will normally cause traders and software to exit too soon. That is what the signals are designed to protect you from. Allow them to do their job while you relax and re-read the previous paragraph ;=).