The Secret Tactic That I use to Make $175 Dollars a Day with Forex

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Multiple Time Frames

Early on in my trading career I used to trade off 5 – minute charts and that was it. Just one big 5 – minute chart and I could never understand why when everything looked good, the market would suddenly stall or reverse.

It never occurred to me to take a look at a large time frame to see what was happening. You see the larger the time frame the more important it is.

Resistance and support are a lot more important on a weekly chart than they are on a 5 - minute chart.

When the market did stall on a 5 – minute chart, it was often because it had hit support or resistance on a larger time frame.

In all of our trades we will be using more than one time frame. Think of multiple time frames as different magnification of a map.

When you look at a map to plan a long journey, you initially just want to know the broad strokes – am I headed in the right direction?

For all of the examples, I will be using a 4 – hour, 30 – minute and a 5 – minute chart. Take a look at the image below to see what my screen usually looks like.

On the left is my 4 – hour chart, in the middle is my 30 – minute chart and on the right is my 5 – minute chart.

Looking at the examples, you will also notice that the charts look a bit congested (squashed). This is how I like my charts. I want to get a feel for the big picture and only really enlarge the chart once I am about to trade.

I discovered that when I started trading I often had direction right but my entry was wrong. One of the reasons was that I was watching the market so closely, I lost perspective on where I was in the bigger picture.

Trend Identification

I have my own way of identifying a trend, which I have found works well in the FX markets – so lets get started.

I use good old exponential moving averages (EMA) for my primary trend identification in combination with three different time frames.

The reason I use EMA's is that I have found no significant difference in using EMA's as opposed to simple moving averages, weighted moving averages or any other kind of moving average.

I also like big long moving averages as opposed to shorter time periods such as 5, 10 or 20 period moving averages.

The reason I like the longer moving averages is that they are less inclined to whipsaw. Often with any combination of smaller moving averages you will find a lot of whipsaw.

For the three time frames we will use an 89 period EMA of the highs and an 89 period EMA of the lows.

This is our short-term trend. Our long-term trend will be 144 period EMA of the highs and a 144 period's EMA of the lows.

The reason I chose these periods is because they fit extremely well with this type of trading and also because they are Fibonacci numbers.

The sequence goes like this 1,1,2,3,5,8,13,21,34,55,89,144 and on into infinity.

Of all the averages I tested, the 89 period and 144 period seemed to fit the FX market the best.

Have a look at the following 2 charts. They are both 4-hour charts.

The rules for the EMA bands are that when both of the shorter 89's cross above both 144's then the trend is up.

The trend remains up even if both 89's move into the 144's. It only changes to down if both 89's cross below the 144's at some stage.

The first chart of the AUD/USD has been in an uptrend for just over 40 days using the two sets of EMA bands.

The next chart of the USD/JPY has been in a downtrend for over 40 days and remains in a downtrend even though 89's have moved into the area of the 144's towards the right hand side of the chart.

The trend for JPY/USD will remain down until both 89's have crossed above the 144's.

Trend Indictor

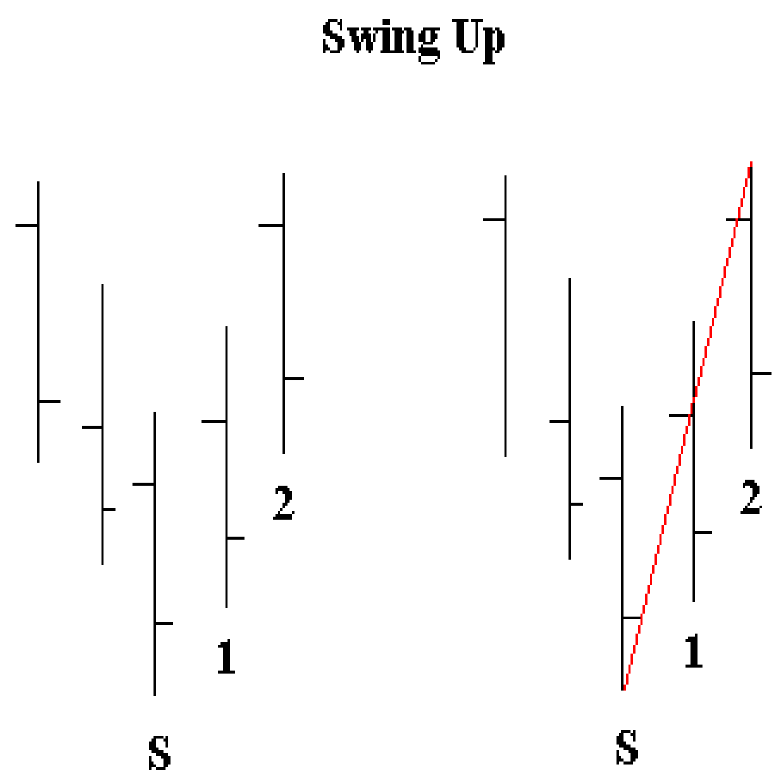
Because we use such big long moving averages, there will be lots of moves both up and down before there is a change in trend.

We need to identify these changes in direction to get the best possible entry. To identify these changes in direction we will use swing points.

These swing points will lead to what we call the ''TrendIndicator'' (TI).

Swing Points

A swing point ''up'' is when we have two higher highs than the ''S'' bar.



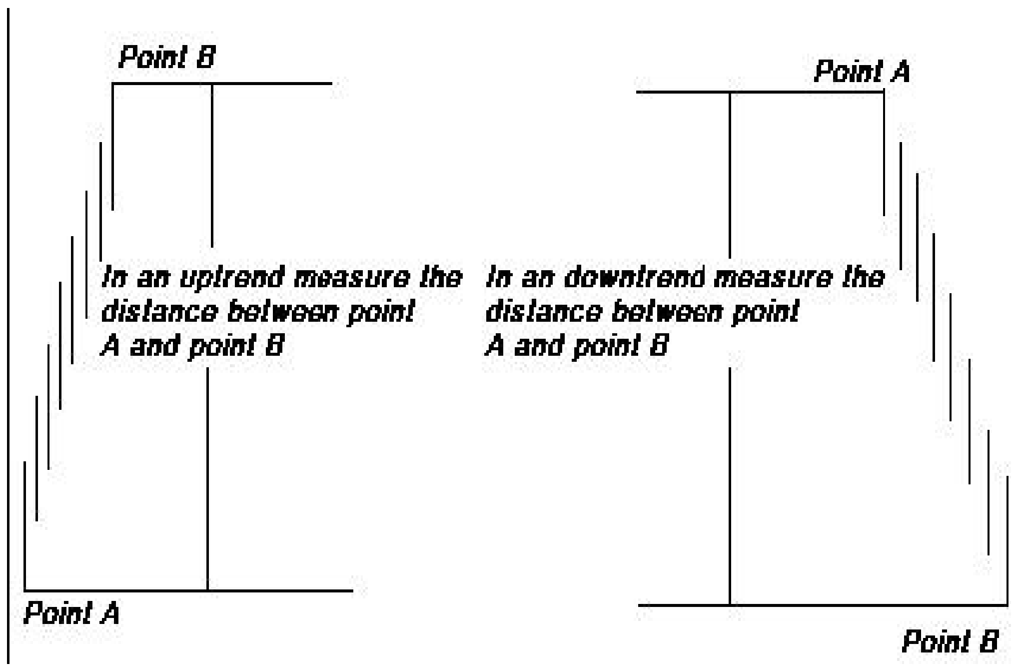
For the purpose of our swing points, we are not interested in the open or close of the bar. We are only interested in the high and low.

Take any bar on a chart and think of that as your starting point (S Bar). If you have two consecutive higher highs than the S bar then you have a swing up. If you don't have two higher highs then it is not a swing up and you do not mark it as an S bar.

Fibonacci Ratios

In an uptrend, measure the distance between point A and point B and in a downtrend measure the distance between point A and point B.

Where point A is always the lowest recent point in an uptrend and the highest recent point in a downtrend.



Look at the chart below of the EUR/USD. Point A is 1.1373 and point B is 1.1543. The total distance between the two points is 0.0170 pips.

If you worked out 38.2% and 61.8% of 0.0170 and subtracted it from point B (1.1543) you would get retracement levels of 1.1478 (38.2%) and 1.1438 (61.8%).

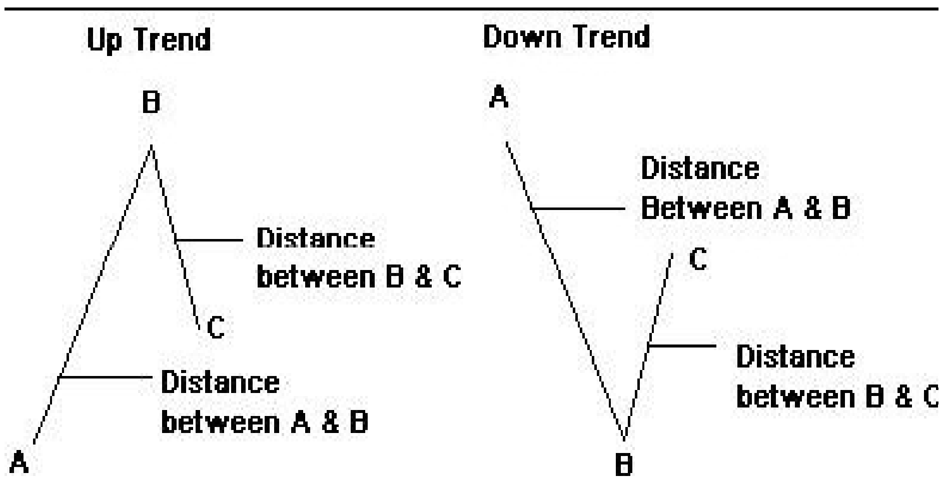
The idea of taking these measurements is to find an entry level and a place to put your stop. As you will see we will be using a 30 – minute (occasionally a 5 – minute) time frame for our entry and a 4 - hour to determine trend.

You will be entering on 38.2% retracement and placing our stop loss below the 61.8% retracement level.

Targets

The next use of Fibonacci you will be applying, is that of targets. You will always have three potential targets. Which target you select will depend on market condition and certain criteria. Targets are calculated by measuring the distance between points A, B and C.

Point C is the most recent low point of the retracement before the market moves up in an uptrend. In a downtrend the most recent high before the market continued down.



The calculations for targets are as follows.

Target 1

0.618*(Point B - Point A)+ Point C

Target 2

Point B – Point A + Point C

Target 3

1.618*(Point B – Point A)+ Point C

Lets Look at the chart of the EUR/USD again.

Point A was = 1.1373
Point B was = 1.1543
Point C was = 1.1443

Therefore:

Target 1

0.618*(1.1543 – 1.1373) + 1.1443 = 1.1548

Target 2

1.1543 – 1.1373 + 1.1443 = 1.1613

Target 3

1.618*(1.1543 – 1.1373) + 1.1443 = 1.1718

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