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Title: Trading the 50cci - A Synopsis of the 50cci Trading System

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Statement by drbob:

My good friend Verus has taken an extraordinary amount of time to study and document the essentials of the 50cci trading system that I introduced. I have reviewed and edited this document with Verus and I believe it captures the essentials of the protocol that we are currently using and discussing in TradersHaven.

The use of the higher time frame analysis is a work in progress and has not been 100% objectified. Dharma, my trading partner and friend for almost 8 years, has been instrumental in helping identify some of the nuances of using the higher time frames and integrating them in to the system.

The best way to understand this methodology is to start with Verus' document. After that go to our forum and absorb the charts and notations posted there. Then join our room on Hotcomm, TradersHaven/relay 7. There are traders there using this system on different markets, some with their own nuances, live every trading day.

Best Wishes,  
drbob

*Trading DrBob's 50CCI System by Verus  
(This document has been approved by DrBob)*

This document is for educational information and exchange of trading ideas only. You need to be aware that nothing mentioned here, or your interpretation of the information or charts contained in this document, is to be taken as trading advice; all trades taken based on this educational text are totally and strictly at your own risk. As you already may now, you should consult your broker or financial advisor before placing any trade.

This writer's main goal for putting this document together is to try to help all interested traders learning the basics of DrBob's 50CCI System in such a way that they can understand how this tool for trading the markets works. Knowing what the rules and guidelines actually are, as well as understanding the mathematical concept behind the indicators used, will give you an edge you want to have while trading.

Be aware, however, that this only explains the guidelines and that you will need practice, screen time and studying time to learn how to trade it with confidence. Even though it is a simple system with very objective rules, it will demand some time from you until you can trust it and use it confidently.

It has been said many times, and yet traders do not get it, that trading is less than 20% analysis techniques and more than 80% emotions control. The only way you can learn to control your emotions - greed and fear being the two most important - is to believe in the tools you are using and looking at the results they are producing in the long term. So remember, you cannot let your emotions take the driver's seat while trading.

DrBob - Bob Ferraris - is the creator of this system and you can find him on a daily basis at his HotComm's Relay7:TradersHaven trading room. This is a fine free trading community that you can visit at anytime. You can also look for more information at his web site [www.tradershaven.net](http://www.tradershaven.net), and if by any means you need to reach him directly, you can do it at [drbob@monmouth.com](mailto:drbob@monmouth.com)

May you consider this writer can be of any assistance, or you have any suggestion for adding or modifying this document, please feel free to send an email to [verus\\_fl@earthlink.net](mailto:verus_fl@earthlink.net); it will be a great pleasure to try to do my best for serving you.

And always remember; trading is not as difficult as we think but not as easy as

many want us to believe. It is just another job in life that you have to take seriously if you want to succeed.

Have a wonderful journey through learning how to trade DrBob's 50CCI System.

Ivan Gonima - Verus

### *How CCI (Commodity Channel Index) Works*

It is this writer's very personal opinion that before trading any indicator, you should know what it really is, how it is calculated and how it works. Not doing so would limit your understanding of the signals you are taking while trading; in other words, you would be following something the same way you would be using a black-box system. On the other hand, understanding the mathematical concept behind it, would give you a lot of confidence in your way of trading as well as a very important edge.

The Commodity Channel Index (CCI) was first described by Donald Lambert in the October 1980 issue of *Commodities Magazine*. It just calculates a simple moving average of the price average -  $[(High + Low + Close)/3]$  - in a given time period, and then it calculates the mean deviation.

And, what is the mean deviation? It is the simple moving average of the sum of the differences between each period's average price and its simple moving average.

This mean deviation is then multiplied by a constant scaling factor of 0.015 - supplied by Donald Lambert - and divided into the difference between the current average price and the simple moving average of those average prices. The result is expressed as a single number that may be either positive or negative; one can vary the number of periods used to calculate the simple moving average.

The CCI is usually displayed as an oscillator (could be a single line or a histogram) that moves around, above and below, a zero line (ZL). Since the index measures how far prices have diverged from a moving average, the CCI allows one to measure the strength of a trend. The CCI uses a simple moving average, rather than an exponential, so the prices in the distant past would drop out and not affect the results.

The somewhat arbitrary 0.015 constant used in the CCI formula was added to scale the index, so that 70 % to 80 % of the values would fall within a channel between a

+ 100 and a - 100 lines. Lambert's original premise was that fluctuations within the boundaries of this channel were considered to be random and not worth trading. He suggested that long positions could be established only when the CCI exceeds +100. The rules on the short side are the same: sell below -100.

By the description above it may be difficult to conceptualize how the CCI responds to price fluctuations, but it becomes very clear when breaking the formula down into its components:

There are four steps to calculate the CCI:

1. Compute the period's average price, using high, low and close:

$$X_i = [(High + Low + Close) / 3]$$

2. Compute a simple moving average of the N most recent average prices:

$$\bar{X} = [(\sum_{i=1}^n X_i) / N]$$

3. Compute the mean deviation of the N most recent typical prices:

$$MD = [(\sum_{i=1}^n |X_i - \bar{X}|) / N]$$

4. Compute the Commodity Channel Index:

$$CCI = (X_1 - \bar{X}) / (0.015 * MD)$$

Where

N = Number of periods in data base

$X_1$  = Current average price

$X_2$  = Prior typical price

$X_n$  = Oldest typical price in the data base

$X_i$  = Price series

$\sum_{i=1}^n$  Stands for the sum of items following the symbol, starting with

1 and ending with N, e.g.  $\sum_{i=1}^n X_i = X_1 + X_2 + X_3 + \dots + X_n$

| | Signifies absolute value; differences should be added as if all were positive numbers; thus the value for MD is always positive

regardless of whether the differences between the average prices and their moving average are positive or negative.

As can be seen by examining the formula, the plotted value of the CCI depends not only on the difference between the current average price and the corresponding value of the simple moving average of the average prices, but also on the divisor, which is the mean deviation (MD) multiplied by the scaling constant. Since the MD is the simple moving average of the differences between the average prices and their simple moving average, it can be seen that in a case where the N most recent average prices differ little from the N most recent values of their simple moving average, the resulting value of MD is a relatively low value, as the N absolute values of those differences are all relatively small, and thus add up to a relatively small composite value.

That would be the case just after a period of very low volatility, where prices have moved very little in the last N time periods under consideration. If a sudden price excursion that is relatively large occurs, compared to the N most recent price moves, the value of MD being low in that instant, the resulting move in the value of the CCI will be quite large, since the divisor is a small value. This explains why the value of the CCI often moves quickly from one extreme to the other just after a lull in trading activity.

If price volatility continues to increase, and prices trend up (or down), it will result in an increasing value for the MD, and thus the value of the CCI will increase (or decrease) less than before for similar price movements. This explains why the CCI can move to a relatively high (or low) value rather quickly as volatility increases, and then levels off, even though prices continue to move up (or down) strongly following the initial trend. The reason for this is obviously the behavior of the MD, which increases in value as volatility increases and the average prices move farther and farther away from their simple moving average.

## *A Statement by Dr Bob Regarding the 50CCI*

Before presenting the system itself, it is important to read this statement by DrBob:

"I want to take this opportunity to put in writing a statement by myself regarding my use of the 50CCI and the genesis of the trades that evolved from that.

I received a very pointed, unsolicited email from a well known member of Woodies CCI club in which it was said that I was not forthcoming in disclosing my exposure to the 50CCI. It was stated by this person that the 50CCI was taught to me by one or two other individuals in the room and that I should give credit where credit is due. It was also stated that "I made it seem from the beginning that I discovered the 50CCI". It was also insinuated that I am making a "career move over it". This is a statement on my background and use of the 50CCI and the trades that I have described using it.

My use of the 50CCI began when I first was exposed to the CCI in the Paltalk rooms very early on. I was in the original Paltalk room when there were 2 rooms being relayed; I was most often in room 2 with Jayscat. I had been using multiple EMAs on my charts before CCI, using a longer period EMA on a lower time frame chart to represent the EMA from the longer timeframe on that smaller timeframe.

At the time, Woodie was using only the 14CCI so I added a 25CCI, 50CCI and 75CCI to mine in addition to the 14CCI as I had no idea how the longer period CCI would equate to the similar method I had been using with EMAs. I just doubled the 14CCI, rounded to 25 and went up in increments of 25 to 50CCI and 75CCI settings. As time went on the need to cut down on information became evident and I dropped the 25 and 75 and ended up with the 14/6 (as Woodie added the turbo later) and the 50CCI. I was never introduced to the 50CCI by another person in the room. I have had it on my charts since day one and have been using it since then also. I was reticent to discuss it in the room, as it was Woodie's wishes at the time to keep to the basic setup in the room. I showed him what I was doing with the 50CCI at the NJ TAL last year and have shown many others the work on it over the past 3 years. If those people are so inclined they could verify that statement. I have no idea if I was the first to use the 50CCI and have never said that I was. I am not making a "career move". I am just showing others what I do and if they find value in it, good enough.

The 5014 trade came as a result of a side room we had about 2 years ago with SamS. SamS was trying to develop an auto trade system using WealthLab and had marked every 100x as a potential trade and was accumulating stats. We noticed that the 100x in the direction of the 50CCI was a good trade and he ran the stats on it with favorable results. We were using the 5m ZB chart at the time. We named the trade 5014 and we used that trade in the side room extensively on the ZB and later the EUR. I wrote custom alerts for that trade in Sierra and shared those alerts, almost 2 years ago, with a handful of people who if they feel so inclined could verify that. I can paste a chart of that alert system as I still have it as a saved study in Sierra.

On trading it over a period of 2 years I added the 0 line nuance and thus the name change to 50140.

The 5034 became noticeable to me on the EUR during the same period as above. We traded it on and off in our little side room over the past year, mostly paying attention to the first ZLR nuance. Only recently I have really started focusing attention on it utilizing the spread sheet and stats.

I would like to thank GB007 for introducing me to the 34EMA and for highlighting the importance of accumulating stats on your trades. Joanne also influenced me in this regard. This has been of tremendous benefit and the 34EMA has been a must have tool. I would like to thank the person who wrote the excel sheet that I use and he knows who he is and I have expressed my appreciation to him on numerous occasions. It is his wish to remain anonymous and if he chooses to do otherwise, that will be his decision.

I would like to thank Dharma for her moderating influence and for her excellent insights into the nuances of higher time frame relevance. She is long time friend and trading partner. Woodie's benefit to others and me goes beyond words. Just trying to give back is all that any of us can do to repay him.

Thank you for reading this dissertation and I apologize for the time spent on it, but I have been advised by good counsel that clearing the air was probably best, as there are probably others besides this one person who had similar feelings on this issue.

*DrBob*



<i>Dr. Bob's System (drbob@monmouth.com)</i>
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Bob Ferraris, better known as DrBob, has been using these setups for over 3 years now and he claims that they not only work but also "talk" to him. The rules to follow are very objective and simple and he is very happy with his stuff and the results he has been getting. He says he gets enough profit using just these setups on 5 or 6 markets.

DrBob used to be part of Woodie's CCI Club (WCCI) and many people in that chat room felt that these two setups were, as one guy put it, "*The most effective CCI trades to be shared in Woodie's room in many moons*". But on May 19, 2005 Ken Wood (Woodie) decided "not to allow any discussion of DrBob's work in any of his rooms" and he was "banned without actually being blocked from going there".

DrBob decided then to move on and he opened a new place to trade - Relay7: TradersHaven at HotComm - where you can find him and other fellow traders - close to 200 as of June 5, 2005 - ready to truly help you in this pursue.

It is a must, as DrBob has already mentioned, to understand what is behind these two 50CCI setups in order to understand all of the WCCI patterns. For that, he gave us an example:

"Some days ago there was a ghost setup that didn't pan out completely. It was followed by an excellent 5014 signal in the other direction, which did work. If you were short that ghost and managing your trade, watching that 5014 start to set up should have been clear signals for you to exit your short position based on that ghost and possibly go long on the 5014 setup.

Watch this closely, especially if you are in a counter trend trade or a trade against the longer term direction, because longer term trend could be re-exerting itself"

It is important to let you know that DrBob is not a scalper and that he rather looks for a good trendy day. With these setups, you will normally find two, three or four good trades per day; if you are getting more than that, you may consider moving to a longer timeframe in order to avoid chop and stay out.

DrBob uses MyTrack and he trades the 133t as his base (smallest) chart. Please note that if you are a TradeStation or eSignal user, the 233t - or the 500v - will match almost exactly DrBob's 133t chart.

For 5014s trades he rarely looks at longer timeframes; for 5034s trades though, if he has a question or any doubt at all about a signal, he will refer to a longer timeframe. As of June 11, 2005, he is using 1,000v and 3,000v charts for longer

timeframes on Russell and Euro and 3,000v and 10,000v charts for Bonds. Volume charts are the same in all data subscriptions unlike tick charts, so a 250v in TradeStation or eSignal would be the same as a 250v in MyTrack data

DrBob likes to trade ZB, EC, YM, ER (1), QM (2), Canadian Dollar and British Pound.

- (1) DrBob looks at a 250v ER chart if there is a big trend and he is not getting any 5014 signals on his 133t chart. He does not use this chart for 5034s, but the 5014 signals he gets on this chart are very accurate.
- (2) For Crude Oil - QM - he uses a 200v chart.

DrBob used to look at the 3m or 5m charts to confirm what the 133t was showing; nowadays - as of June 11, 2005 - he is looking instead at 1,000v and 3,000v charts. Please note that he still uses the same 50CCI, 14CCI and 6CCI. It is important to say that he is not really looking lately at the 6CCI and he says he could probably take it off of his charts.

### *DrBob's Note on how he uses Higher Timeframes*

As of today, June 13, 2005, DrBob is using 3 charts in each market. A baseline chart, a midrange chart and a longer timeframe chart. He is using volume charts at this time, except for the baseline 133t one for ER2 as all of his statistics were based on this chart. He already said it is possible on the Russell to use 500v instead of the 133t, as they are almost identical. Remember again that he uses MyTrack and his 133t is equal to a 233t in TradeStation and eSignal.

What he is looking for in the higher timeframes is a confluence of signals. i.e., if 133t shows a 5034 long and the 50CCI at 1,000v is under the -100 line, he DOES NOT take that trade. If having the same signal, but the 50CCI at 1,000v is at zero line (ZL) and 50CCI at 3,000v is at the +100 line - meaning all timeframes are a go - he DOES take the trade.

Notice that there is a lot of ground in between, and knowing where 50CCI is at higher tf's, could keep you out of losers and stressful small winners if you like. The higher timeframe evaluation is subject to some interpretation - hence a bit more subjective - but with time it is an adjunct to identifying the best setups.

### *3 Favorite Setups*

He takes his signals on a combination of the positions of the 50CCI, the 14CCI and the 34EMA. He is very satisfied with these simple setups and because of that he does not use anything else such as the so called sidewinder or the LSMA; for him, the simpler the better.

He does not count bars, like GB does. He looks for the setups regardless of the number of bars and he does not care how close the 50CCI comes to the ZL; only thing that counts is that it is above the ZL for longs and below it for shorts.

DrBob only likes clear cut easy to recognize signals. He is a right brained guy and he only likes things that are black and white; in other words, he wants one plus one to equal two. It helps him to be very definitive in his trading and he does not like subjectivity whatsoever. Be aware that if you are the type of trader who strives to catch the earliest possible entries, using these setups shall make you feel like if you are entering late. But what is finally the key while trading? It is being in a winning trade and maximizing it; these setups will get you in winning trades.

Always remember; if 50CCI is above (below) the ZL, prices are probably trading above (below) the 34EMA and we are looking for long (short) trades. It helps in a glance to help you decide if the market is most likely moving up or down.

DrBob's three favorite setups are:

- 5014. It is a trend continuation sort of trade and it considers 50CCI, 14CCI, and the ZL
- 5034. It is a trend reversal sort of trade and it considers 50CCI, 14CCI, ZL and the 34EMA. It occurs less often than the 5014 but has a higher % of being a winner
- 5034Z. It is the first ZL Rejection after a 5034 signal

*50CCI - 14CCI - Zero Line Cross / aka 50140 or 5014 - Trend Continuation Trade*

This is the main trades he watches for and takes all day long. It works in any time, volume or tickframe but as stated before he is actually using a 133t chart. If you clearly understand that this setup represents a serious pullback in a trending market, you will have for sure a better chance of trading it successfully. It will basically get you in a trade just when the pullback is over and the trend is ready to continue. What are the conditions for this setup to occur?

1. 50CCI is above (below) the ZL. Remember that if the 50CCI crosses down (up) through the ZL, as we will see later when explaining 5034, the uptrend (downtrend) is probably over. It does not have to be above (below) for any specific number of bars. As a matter of fact, it can just have crossed above (below) one bar ago to meet this condition.

2. 14 CCI drops (climbs) below (above) the ZL and crosses -75 (+75) or -100 (+100) in its way down (up) for hooking back up (down) later and crossing -75 (+75) or -100 (+100) in its way to test the ZL.
3. ***When to enter?*** This trade triggers when 14CCI comes back up (down) and crosses the ZL. Very often the real move begins at that point - when 14CCI crosses the ZL - so you are not missing much of the move by waiting.

If 14CCI turns back down (up) and crosses the ZL to the down (up) side, it is best to exit because you will have - almost for sure - a loser there.

Many times after the hook at -75 (+75) or -100 (+100) occurs, 14CCI will start up (down) but it will return down (up) again without crossing the ZL. This is the main reason why we wait until 14CCI crosses the ZL before going long (short). This will keep us out of bad trades and drop us in right around the time that the up (down) move is about to continue.

According then to the last paragraphs, you are basically looking for the 50CCI to be above (below) the ZL and a hook up (down) on the 14CCI after dipping (climbing) below the -100 (+100). The difference between the GB100 and DrBob's 5014 is that DrBob does not count the number of bars or take the TLB as the entry point. Instead, he waits for 14CCI to cross the ZL.

### *How does DrBob use a 250v Russell chart with 5014?*

It was stated before that DrBob also looks at a 250v chart if there is a strong trend and he is not getting any entry signals on his 133t chart. He does not use this 250v chart for 5034s, but the 5014 signals he gets on it are accurate.

Remember, use it *only if you have a strong trend and you are not getting any setups on your 133t chart*. For better understanding, let us say that it is like zooming in closer and trying to get a clearer place to enter a trade if you want in, and you are feeling like "the train passed the station and I did not get on board on time".

*50CCI - 34EMA - 14CCI - Zero Line Cross / aka 5034 - Change in Trend Trade*

Another setup DrBob created and uses is the 5034. In this case, the 50CCI crosses up (down) above (below) the ZL at around the same time that the price bar crosses and closes up (down) above (below) the 34EMA. In other words, the 50CCI and the 34EMA are in agreement. Be this the time to say that 14CCI must be also above (below) the ZL.

You will notice many times that a 5034 setup is the beginning of a new trend; almost every great move begins with a 5034.

***When do you enter this trade?*** It triggers when 50CCI crosses and closes above (below) the ZL at the same time 14CCI is already above (below) the ZL and the last price bar is closing above (below) the 34EMA. In that case you want to go long (short).

The only and main problem we have with this 5034 setup is that sometimes it reverses back through the ZL a few times in a choppy way. For trying to avoid choppy times DrBob has been filtering his signals with longer timeframes, looking at triangles forming on price bars - he does not take a signal if price is consolidating inside a triangle, please refer to Figure 2 and Figure 3 - and avoiding trading when 50CCI is stuck between the 100 lines.

Also, many times you will go long (short) on a 5034 and shortly thereafter the 50CCI will cross back down (up) through the ZL and price will close below (above) the 34EMA. In this situation you can reverse your position and go short (long) or at least you can exit your trade to avoid a sure loser.

When 5034 works, 50CCI will reach the 100 line pretty quickly. So, if it stalls or takes too long to do so you better protect yourself by quickly moving your stop to break even + 1 or so. Now, once 50CCI breaks that 100 line it usually will move fast in the direction of your trade. Just as an example, again only as an example, we could say that the March 2005's average peak, after 50CCI cleared the 100 line, was 18 for Russell and Euro. Please refer to Targets and Exits for this subject on how to find stops and targets by keeping statistics.

### *First Zero Line Rejection after 5034 / aka 5034Z*

If you do not want to work too hard or feel it is too risky to take the 5034, take the first ZL Rejection, using the 14CCI, after that 5034; this is usually a high probability winner. For increasing odds even more, look for bounces from 34EMA when all these occur. It has been also said that it is even better when 5034Z occurs at the same time a Slingshot (dip below zero and return up above for longs) and a Plateau Trade are occurring. This is an extra piece of information this writer considers you may have but at the same time it is suggested you do your own research on that affirmation.

These are then the 3 main setups DrBob takes. However, he thinks it is still important for you to know about some other CCI setups that will help you understanding and trading better the setups already explained. Those setups are:

#### *Shamu*

DrBob suggests that we all learn when the shamu usually occurs because it is a very powerful pattern and it leads to a strong move most of the time. It is important to learn and understand when a ZLR could fail and turn into a Shamu. This is especially powerful when you have a 50CCI shamu at the same time the 14CCI is showing a ZLR or a bounce from the 100 line.

Normally, you would not take a 100 line bounce, but if the 50CCI is forming a shamu, you may consider it as a trading opportunity. Consider this if you have been burned often taking ZLRs; Dr Bob prefers the dips and hooks at the -100 as we mentioned earlier. Please refer to Figure 8.

#### *Shamu after Ghost (SAG) - Change in Trend Trade*

Many times after having a ghost, CCI will shamu and then fall out of bed. This happens both on the 14CCI and the 50CCI. Many times you may be tempted to trade a ZLR forming after a ghost. Wait, if you do not want to get burned, and better observe and try to anticipate if it turns instead into a shamu. Please refer to Figure 8.

#### *Ghosts on 50CCI are just beautiful*

Look for 50CCI Ghosts too. You can use it as an actual entry signal or as an exit if you are already in a trade in the other direction since this is a high probability reversal signal.

## *Stops & Targets & Exits*

Be alert that when talking about stops and possible peaks, you have been only offered some examples. For finding your own trading settings you need to do your own research and create your own database of statistics for the market (s) you are trading. DrBob keeps statistics on all the winning trades in the Russell. A winning trade for him, while accumulating statistics, is one that provides a reasonable opportunity of profit based on visual evaluation of the charts. Also for the purposes of collecting and keeping statistics, the peak value is considered the highest (lowest) point of the move before 50CCI crosses back over the 100 lines.

DrBob's spreadsheet accumulates this data and gives him a percentage calculation for each peak tick target level. He sets his targets off of that data. Currently, as of June 13, 2005, 90% of his winning trades go 7 ticks (so his first target is 8 ticks) and 60% of them go 11 ticks (so his second target is 12 ticks). He manages his third contract based on evaluation of the 50CCI above (below) the 100 line. Exiting on a CCI signal (TLB, Diver) or CCI crossing back across the 100 line is his drop dead exit.

Also as another example we may add that for March 2005 his first Euro target was 10 ticks with the rest of his contracts being managed with a CCI hook or counter trend signal after moving his stop to break even + 1. Many times, he will switch to a longer timeframe, like a 1,000v, and wait for a divergence, a counter CCI signal or a 100 cross. But, this is only if you are trading a multi contracts position.

### *Stops*

As stated before, he uses a 6 tick stop on most of the markets he trades. When looking at his statistics spreadsheet for 5034, he would have needed a 4.2 tick average stop on the winning trades to stay in the trade for the big move without getting stopped out. So, according to this fact, if it does not go against you over 5 ticks, it is probably going to be a winner. That is why he uses 6 ticks.

### *Exits & Targets - Trading 1 Contract*

If you are trading only one contract, it is probably best to just select a target and exit once it is gotten. Also, exit the trade if CCI turns against your direction. Let us see now what would be the case if trading a multi contracts position.

## *Exits & Targets - Trading 3 Contracts*

### *First Target:*

Just for the sake of it, let us say that after 50CCI breaks the ZL DrBob enters long the ER with 3 contracts. Following his statistics, he takes 8 ticks as it is his first target (T1). Then, he watches like a hawk for the 50CCI to go across the +100 line; if it kind of stalls and comes back, he exits all of his position and waits for another trading opportunity. But, and just for following this explanation, let us say that the trade goes his way.

### *Second Target*

Once 50CCI does break through the +100 line, he will exit his second contract, and again according to his research and findings, at 12 ticks as his second target (T2).

### *Third Target (Runner)*

His experience has shown him that typically, when 50CCI gets past the 100 line, he can start to manage his exit on the 3<sup>rd</sup> contract (runner). If 50CCI goes all the way to the 250 line, very far away from the 100 line, he will sit tight and stays in. He will look for a regular divergence pattern or ghost on the 50CCI, and draw a trend line, but given that we are far away from the 100 line he will not exit yet. He just wants to be aware of the facts, although you could exit when ghost triggers, if you'd like. You can also draw a trend line on the 50CCI, and exit on a crossing.

If the regular divergence comes close to the 100 line, he will exit and possibly look to re-enter later on a new 5014 setup; if he feels he is being shaken out on a strong trend, he will go to a higher timeframe just to make sure what is going on before making a decision.

You need to have a lot of discipline while trading. Once you set your parameter and rules you have to stick to them. Somebody asked DrBob a very good question once: "Will you re-enter a long if you exited your position because the CCI crossed down below the +100, but then returned above it?" For sure you have already figured his answer out. He said, NO; in this situation he will wait for the next 5014, even if he has to drop to that 250v chart to find it, and re-enter in the direction of the trend.

## *Exits*

In trading, exits are the most important thing to manage. For your long term results, it is vital to maximize your winners and minimize your losers. Because, if you have not noticed yet, it is time to: **YOU WILL HAVE LOSERS!**

DrBob's stop is almost always 6 ticks and if he gets stopped out, he is out. Now, keep in mind that setting a stop is not necessarily for waiting until it is hit. If 50CCI prints one or two bars against you, or you see signs of the market moving against your trade (he looks for counter trend setups such as ghosts, plateaus, regular divergences or Vegas setups) you better exit before your stop is hit and wait for the next setup.

He exits everything when the 50CCI crosses back down (up) below (above) the +100 (-100) line. This is ultimately his dead end exit, if he has not already exited from a CCI hook or any other sort of CCI exit. By experience, we can also say that a Horizontal Trend Line Break on the 14CCI is another exit.

### *Other Notes of Interest*

#### *Trend Lines on Price*

There are some trendless days, and you will see many of them, when you do not have a define trend to trade but for sure you will see price moving inside a range from top to bottom and again to top without breaking away from it. On those days, draw a channel around price's highs and lows. Here are some of the actions you can consider taking:

1. Scalp, if you like that sort of trading style, off of the walls of the channel.
2. Take a trade in the direction of the breakout if you get a 5014 or a 5034 setup at the same time price does break out of the channel.
3. Use the walls of the channel as a target for taking profits, anticipating possible and probably Support & Resistance lines.

Please refer to Figure 1 for an example regarding Trend lines on prices.

#### *Dharma's Charts & Qualifier for Trend Reversal Trade Entry (CT)*

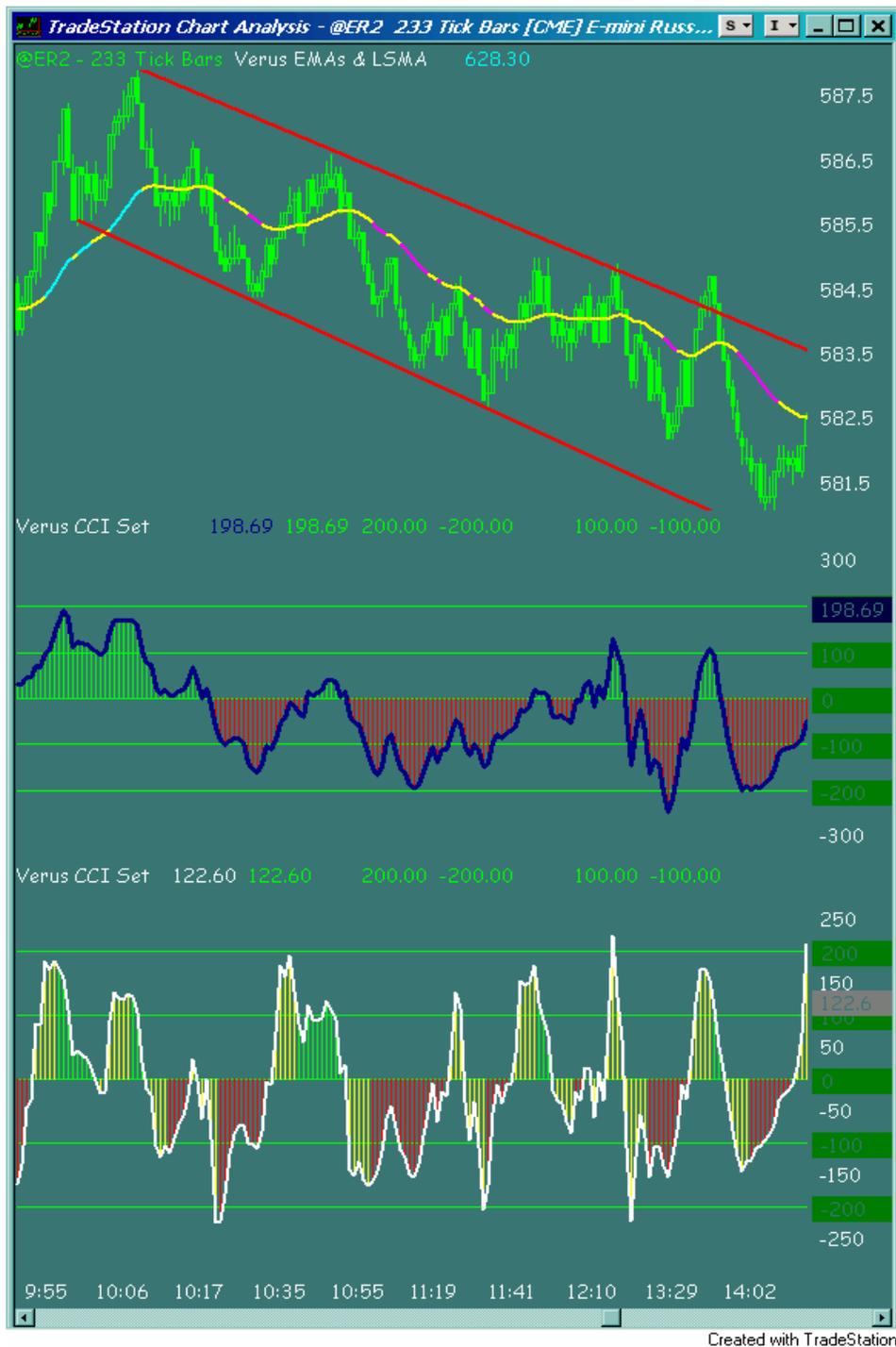
Dharma, another fine and great 50CCI trader using Sierra Charts, watches the 233t, the 3m, the 500v and the 13m charts. She says she is no longer a believer in just the 5034 and because of it she waits for the first ZLR on a 3m, after the 5034 occurs on the 233T or the 13m 50CCI closes above (below) the -100 (+100) line.

On a long signal for example, she says that if a 3m chart has a trend changing setup and the 13m chart's 50CCI has crossed up and closed above the -100 line, she will look to enter a long trade if she gets a successful ZLR while price stays above the 34EMA. As an example, we can say that in some opportunities we do not get much price movement until we got a ZLR on the 3m chart.

Also, Dharma does not take counter trend trades against the 13m chart. For instance, if 13m chart's 50CCI is below the -100 line, she will not take any long setups. Another interesting tool Dharma uses is that if 50CCI on 3m chart is bouncing between 0 and +/-100, she will sit on her hands until it crosses the ZL and wait for the next setup. This is her way for avoiding chop.

Here is an example of a channel bound day 5/2/05:

*Figure 1*



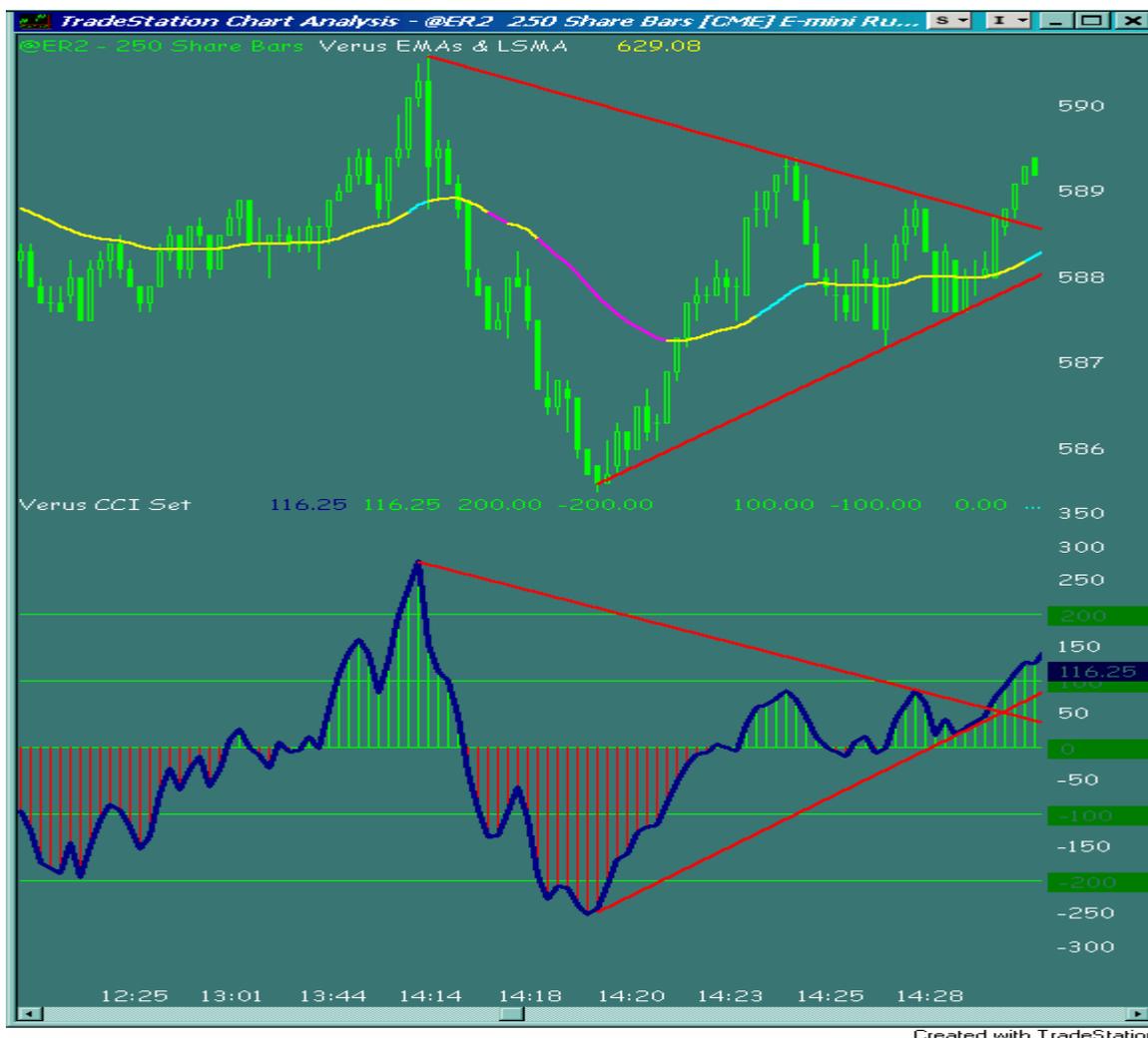
### *Drawing Triangles for Staying Out Of Chop*

If you notice that price starts to consolidate - **Higher Lows and Lower Highs** - draw a triangle on Price Bars; it will help you visualize if we are in a chop mode - and staying out - as well as breakouts when they occur. Basically, each time you get a 5014 or 5034, double check to make sure we are not trading inside of a triangle; if we are, stay out so you don't get chopped up; if not, take the trade. Pay special attention to 5034s and 5014s combined with a breakout from the triangle.

It has been said that you could be in a bar early if instead of drawing a triangle on Price Bars you draw it on CCI. The reason given is that one of the supposedly main attributes of CCI is to get you into trades a bar early, before the momentum pushes price up and the masses pile in (whose trend lines are drawn on price). Here is a picture of a chart with triangles drawn both on price and CCI. You can clearly see what the point is and make your own decisions.

Take into consideration that in this specific example there is a clear trendline to be drawn on CCI. Often in these price triangles, the swing points of the CCI do not allow such clear lines like this, which is why DrBob draws them on price bars. If you see the triangle on price, then glance at the CCI and if you can get a clear line, then draw it and you can use that as a TLB entry.

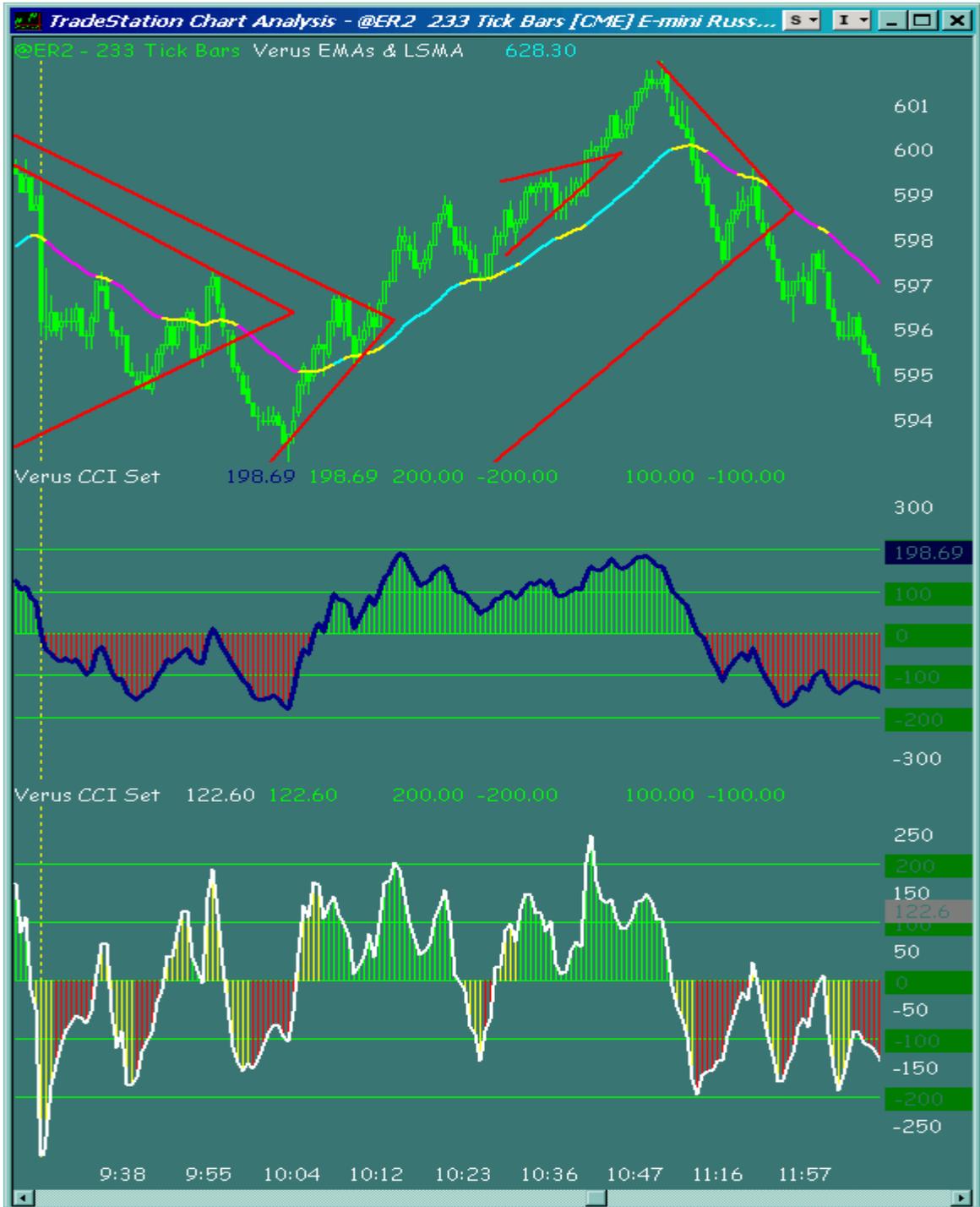
Figure 2



As stated, DrBob may ignore 5034 or 5014 signals if we are consolidated inside a triangle and price does not break out of it. Price will probably just trade within the triangle until we have a breakout; then, and not before, you can enter a trade in the direction of the break. Just as a note, this is similar to what JeanYus calls the Accelerator Trade.

Remember that while trading, being flat is also a position. Stay aside and sit on your hands until you have a clear signal out of the triangle; within it you will most likely get chopped up. Price will bounce inside the walls of the triangle until a true breakout occurs. Here is a marked up example of triangles:

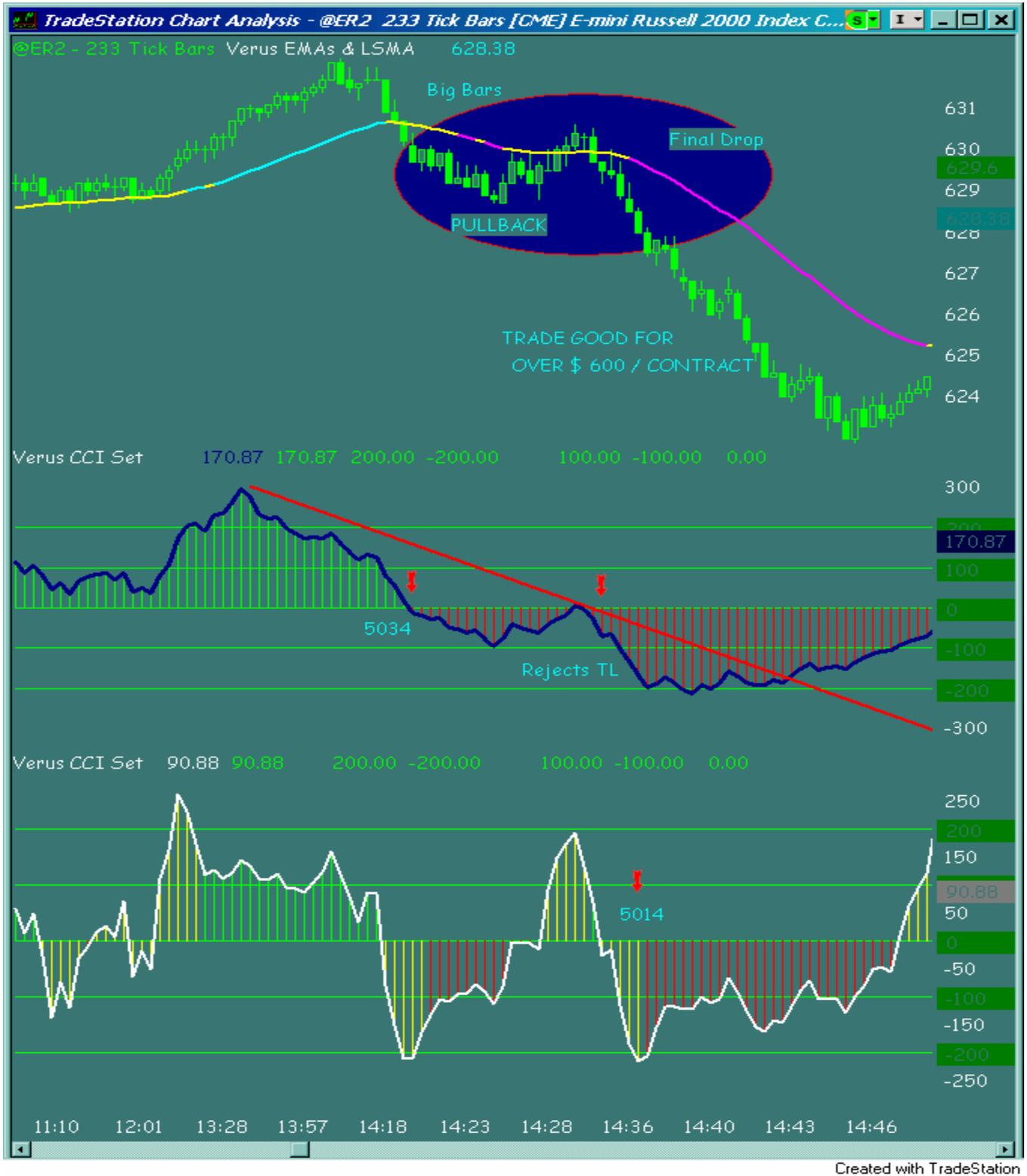
Figure 3



### *Big Bar Rule*

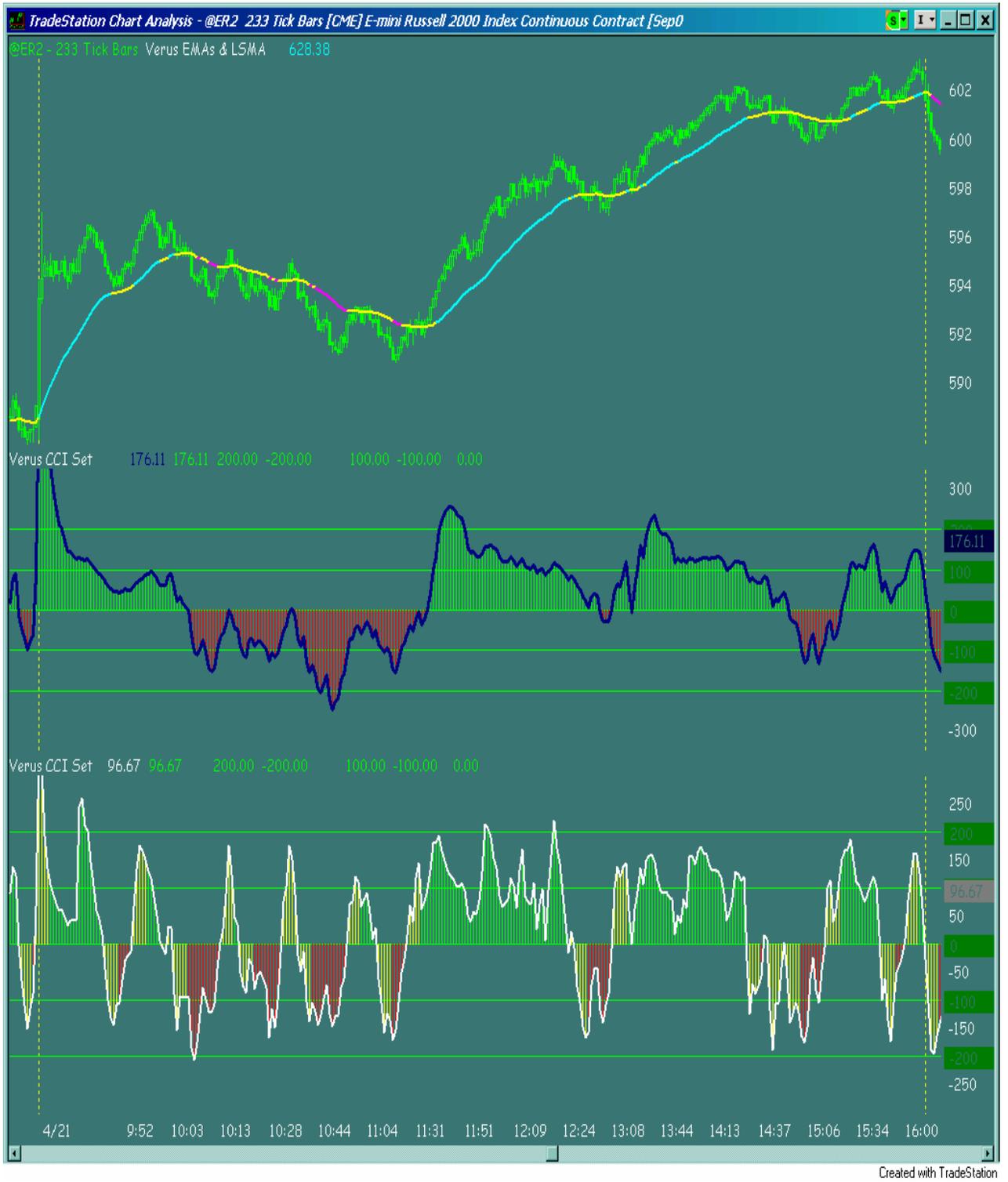
If you are getting 8 or 9 ticks bars at signal time, you might want to wait for the next signal; you may get a pullback just after you enter and your stop would be hit; it has moved too far too fast. Below is a great example - ER 233T - from 3/22/05:

Figure 4



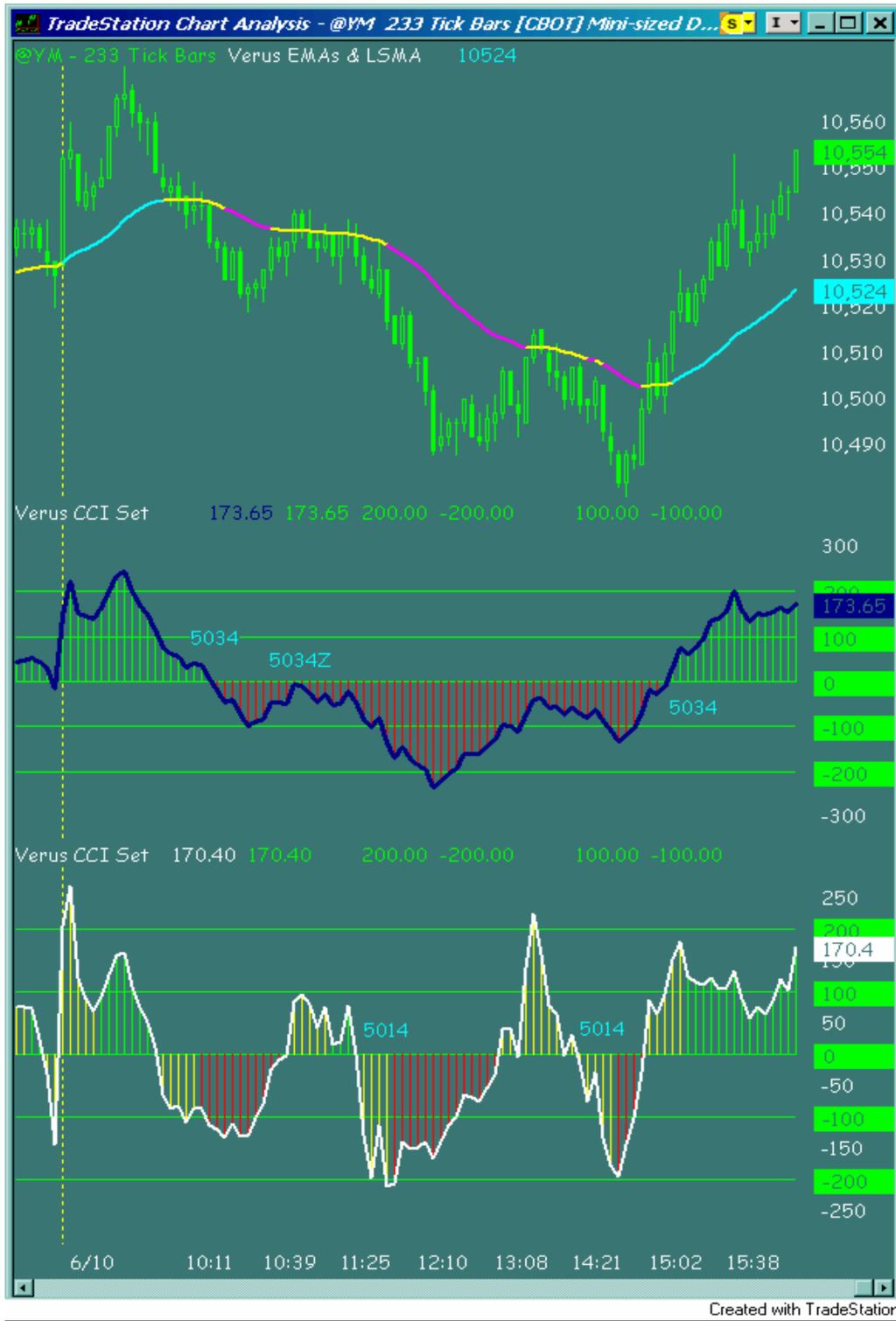
April 21, 2005, on Russell 233T, we had 11 trades; 6 of them were 5034s - 5 winners and 1 loser - and 5 were 50140s; 5 winners and no losers. Refer to the chart below and try to identify them:

Figure 5



Here is another example using an YM 233 ticks chart:

Figure 6



And another one, this time using an Euro 500 Volume Chart

*Figure 7*



And here, is a 250V ER chart showing a Shamus after a Ghost - SAG - on the 50CCI (SAG):

Figure 8



