The Momentum Reversal Trade (MR)

Formerly the "PT" or Plateau Trade

as used and understood by "JoAnne"

The Spirit of the trade:

As the name says, it's a "momentum reversal".

To me this means, at the very least, a MR requires 2 things:

1. Something to define an initial momentum direction
2. Something to define the stalling and/or turn of the momentum

Pretty simple, 'eh?… I like it that way.

WHY THE NAME CHANGE????

The MR (Momentum Reversal) trade used to be called the PT (Plateau Trade)

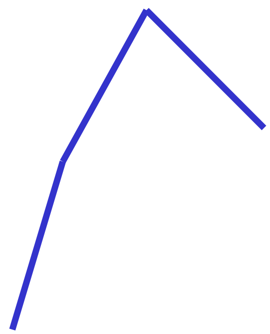
Calling this the "Plateau Trade" gave most people the (incorrect) mental image that the pattern should have a flat top (for going short), or a flat bottom (for going long). In reality, most PT's (now called MR's) did not (and do not) have this shape. Most are more "arrow-head" or "pointy" shaped. The name change from PT to MR should help clarify this common hang-up. The "Momentum Reversal", or "MR", trade is simply "calling it what it is" -- It's a momentum reversal in the CCI.

Another reason for the name change was that, using the "PT" name, caused some confusion on what was the "confirmation" versus the "trigger" bar for the pattern, and, thereby caused uncertainty about where to enter the trade. Using the MR name, those two words refer to the same CCI bar and hopefully removes that ambiguity.

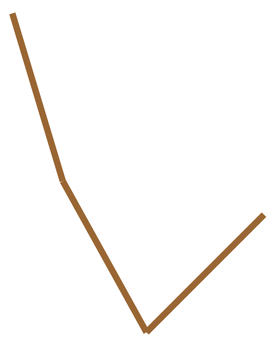
Morphing of MR patterns

- These are <u>all</u> valid CCI MR patterns to go short. All of these could be inverted to get MR patterns to go long.
- Note the evolution from a flat top to a pointy top. Nothing special about any of these. The spirit of the MR is still there on all of them: The momentum was one way, and then it reversed and is ready to go the opposite direction.
- The bottom one is just the special case of the others where the 2nd CCI bar is flat. This is where the old "Plateau Trade" name came from. It's just a "flat-top" MR trade, that's all.

Minimum Requirements for the MR



2 CCI bars up defines the momentum (up).
1 CCI bar down confirms the MR to go short



2 CCI bars down defines the momentum (down).
1 CCI bar up confirms the MR to go long.

Bottom Line:

1. If you do not have (at least) 2 consecutive CCI bars in one direction, you have not established sufficient momentum
2. If the 3rd CCI bar does not turn against the momentum (that is, it only goes flat), you do not have a confirmed MR…. just wait for another bar.

Two Types of MR's

1. **With the Trend (wt-MR)**
   - Going LONG with a GREEN CCI
   - Going SHORT with a RED CCI

2. **Counter Trend (ct-MR**)
   - Going SHORT with a GREEN CCI
   - Going LONG with a RED CCI

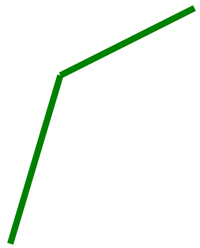
Entering the MR:

1. The wt-MR :   I go in at bar close
2. The ct-MR : I buy at 1-tick beyond the price prior bar extreme

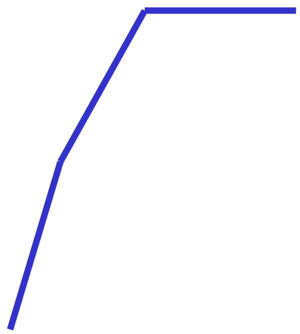
Exiting the MR:

There is no profit target, nor strict exit criteria for the MR.
Exit using whatever method works for you.
Set initial stops as per whatever system works for you.

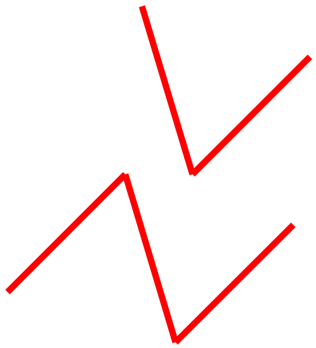
<u>NOT</u>-VALID MR's



No confirmation bar. Momentum has not moved against the up-trend. The next CCI bar could be up, flat, or down… so just wait.



No confirmation bar. The CCI is just flat, and has not moved "against" the momentum. If the next CCI bar is down, it will be a MR pattern (to go short). If the next CCI bar is up, it won't be... So wait.



Insufficient momentum defined. You need at least 2 consecutive CCI bars up or down to define the initial momentum. Trading this as a "MR" will churn losses while the market goes sideways.

The Achilles Heel of the MR

Trading the MR, you will get a lot of signals. It's a reality of trading, that, if you get too many signals, your churn losses can eliminate a lot of your hard-earned profits, and you get signal overlap. To address this, many have come up with ways of filtering the many MR signals to try to pick those more likely to result in profits. These ideas include, but are not limited to:

1. Combining the MR with the LSMA color/direction
2. Combining the MR with the 34ema
3. Combining the MR with the LSMA crossing of the 34ema
4. Combining the MR with Candle analysis of price bars
5. Trading only specific times of the day
6. Taking only MR's that close inside/outside the +/- 100 lines
7. Combining MR with HFE – or ignoring if HFE was "too extreme"
8. Combining multiple time frames
9. Taking only ct-MRs or only wt-MRs, not both.

BOTTOM LINE: Do your homework. Find out what (if any) of the above work for you and fits your style of trading.