Study 2

I have been occupying most of my weekend studying the 5,3,3/14,3,3 phenomenon with stochastics and price moves. As I stated here before this combination of stochastics gives you a great elasticity indicator and a measure of the strength of the price move versus the strength of the stochastic move.

However, while analyzing this I realized that although you can keep complicating the formula...the more complicated it gets the more interpretive it becomes. Such as adding the 15,5,5 and looking for elasticity/convergence. Dang if it doesn't work extremely well but it will give you a headache trading it.....so I decided to look harder to simplify it.

I spent a lot of time identifying the periods of sync between stoch moves and multiple time frames for scalping and how best to identify scalp moves when lo and behold I didn't discover something more interesting.

While looking at the charts a distinct pattern was developing to identify tops and bottoms on the price chart. The bonus of this pattern is it is much clearer as the time frame increases...it is almost "perfect" on the day chart. What is a little more strange, is that it was difficult to find any exact sync with multiple time frames but that each time frame would give you separate entries within the "boundaries" of the longer time frame moves....perhaps a little more along TEB's (Ginger's) ideas.

Below is a picture taken from a day chart. There are a few rules to identify the pattern:

1. In a short move (price has topped) the 5,3,3 stoch moves under the 14,3,3 stoch or they merge at a very high level. On the price chart you are probably seeing a new high.

2. In the long move (price has bottomed) the 5,3,3 stoch moves above the 14,3,3 stoch or they merge at a very high level. On the price chart you are probably seeing a new low.

Now trading this signal gets becomes a little intuitive. You want to interpret if you are seeing a new high or low rather quickly to maximize pips, but you also don't want to get faked out and jump in too early.
The good news is that fakes, especially on the daily chart are not that common. Even in a fake you stand to know you are being faked out and can still gain pips with a careful exit.

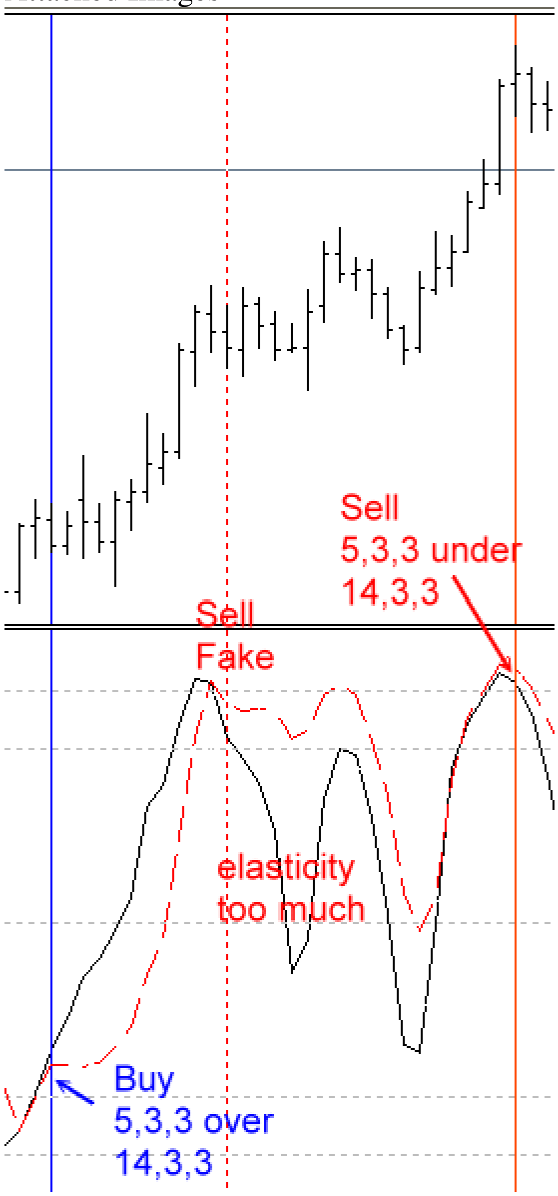
The picture below shows a sell fake. This is where elasticity can play a huge role. Notice how much the 5,3,3 and 14,3,3 separate. This is a good sign to try and get out of the trade before the 5,3,3 snaps back to the 14,3,3. When you see that sign, you can save yourself!

You can limit risk by determining at what level the stoch makes the signal.
Both stochs:
above 90 - safest entry
above 80 - good entry, still quite safe
above 70 - good trades here but also lots of fake moves

below 70 - not recommended

Best suggestion is to grab a day chart and overlay the 5,3,3 and 14,3,3 "K" stoch lines together and then draw vertical lines at new highs and new lows.....you'll soon see what I am describing here quite clearly. Now look for the fake outs and see the elasticity (seperation) of the 5,3,3/14,3,3.

Attached Images



Study 2 - Continued

Trading the 5,3,3/14,3,3 on multiple time frames is a little different than previous discussions about stochs.

The problem is, if we look at a single long entry and exit area (low to high), you may have several dozen 5M cycles from low to high in the same day period...less 15 min cycles...less 30 min cycles and so on. It would be best to ignore any high to low cycles as we are long in the day.

What you have to determine first is what time frame you are going to use to trade.

Scalp on 5 min longs?
Or pip longs on 15/30/1H or even 4H?
Or maybe just trade the day long?

If you really want action, you could trade them all...but here you are not escalating...you are simply trading each unique time frame as a separate trade based on seeing the indication I explained earlier.

What you do use the multiple time frames for is to find the "zone". For example let's walk through a long trade on a 30 min chart.

1. The first thing we want to know is what the daily is doing and how long ago it made a long indication and how close it is to a new high. It is better that the day is early in its long trade, near the low it has risen from and far away from a new high.

2. You have to expect that the 30 min time frame is going to give you at least a few trades long as the daily climbs. Now you can just use the 30 min and day chart as you are actually using 4 stochastic time frames with 5,3,3/14,3,3 on each chart.

3. You may want to use the 5 min chart to optimize trade entries on the 30 min chart. This would in fact give you 6 stoch time frames using 5,3,3/14,3,3 on each. So in a long...you don't want to be entering a trade with the 5 min falling...you want to wait until it is rising. This can be done anywhere along the 5 min rise. I would prefer entering at a low point on the 5 min...just as you determine in the day and 30 minute.....but entering with the 5 min headed down from 80 is a bad idea. Once you enter the trade you ignore the 5 min...I recommend not looking at it.

4. Exiting the trade is going to be subjective. The safest exit is going to be when the 30 min 5,3,3 tops out around 80-90. The other way is more mathematical. Simply look at all the previous longs on the 30 min 5,3,3 stochs and measure their pip gains to get an average pip gain per long stoch run up. You'll find that the variance is usually quite small when the "trend" is up during the long stoch moves. SO say you find the ip gains for the last 10, 30 min up stoch moves on the 5,3,3 from 20-80 were 20,25,28,33,27,19,35,40,28,30...then you might use the lowest (19) as you TP or the average (28) as a TP...or maybe split the difference and use 23. If you see a wonky pip gain..say in this example you get a 10 pip gain...I'd just throw that number out and not use it.

There's a lot here to digest so if you are confused ask questions on what you don't understand and I'll dive deeper into those areas. Please keep in mind this is somewhat different than the older MTF Stoch methods I have explained.