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# Trade Execution

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by Yuri Shramenko

What we're trying to do here is trade market forecasts, specifically the times when the forecast is telling us the trend may change. Because we know forecasts aren't always right, and even when they are right they may be skewed by a day or two, we are looking for a way to avoid trades that will be losers....and we still want to get in very early in the start of a new swing. Furthermore, we experience the same issues when exiting a trade. When and where should we exit a losing trade or a trade not going anywhere? And if profitable, is your use of forecasts exact enough to capture the bulk of a price swing consistently?

An experienced swing trader's ultimate goal is to make more profit - much more profit - than the trader who uses trend-following methods to trade the intermediate term trend. This is because regardless of whether a market is in trend mode or a sideways range mode, more than 90 percent of the time markets move in short upswings followed by downswings. Swing-traders sometimes makes more in trending markets than the trend-follower as they trade the swings within a trend. And in sideways range markets where longer-term trend followers often get whipsawed, the swing trader often profits. Perhaps you've heard the phrase "70% of the time markets trade sideways". Well, a good portion of that "70% sideways motion" is wide enough for tradable swings, but its not wide enough for the trend follower who by definition has to wait for a trend to develop. A growing number of traders are finding short-term "swing trading" to be an ideal time-frame and the techniques presented here are appropriate for trend or range markets.

**The material presented here is specifically geared for swing-trading with forecasts.** By swing-trading I'm referring to trades that usually last from 2 to 15 days, with the goal being to trade the smallest anticipated trends visible on a daily chart. **By forecast I'm referring to one of two things: predicted days in the future when a market is expected to reverse, or a future prediction of how prices will trend over time.** With either forecast the trader is trying to enter the trade as soon as reasonably possible, that being in the beginning of a market swing. While some swing-traders only trade anticipated short-term trends (i.e. swings) in the direction of the intermediate

term trend, most swing traders do not. And this is one of the considerations we'll cover here.

Examples of forecasts include:

- Fibonacci Time Projections - several techniques where prior pivots are used to calculate future turning-points
- Cycles - Fourier, spectral, manual fixed-length; these usually provide expected direction and amplitude of intermediate and long term trends, with future turning-points visually displayed
- Seasonals - times of the calendar year that show averaged market swings over many years, to find time - price correlations based on the calendar year.
- Financial Astrology techniques - too numerous to detail, for Market Trader users these would come from any of the Experts, the Stepper Analyzer, planetary aspects, and anything the Efficiency Tester validates as a high-probability timed trade

The intended audience for this material is the active at-home trader, or those intending to be, who utilize any forecasting methodology. These can be any of the many cycle techniques (Fourier, spectral analysis, fixed-length), neural net projections, Fibonacci Turning-Point projections, the many techniques generically labeled "Gann high vibration days", planetary aspects associated with turning-points, and the forecasts created with any of the Market Trader Modules. While the techniques presented here will be valuable for any swing-trader, why are they especially valuable for traders utilizing forecasts?

1. As a swing-trader is often trading against the smallest trend visible on a daily chart, sometimes that short-term trend keeps going (your forecast was wrong or off by more than a couple of days). **The techniques presented here will aid greatly in avoiding those trades where the short-term trend never reverses.** Don't let one bad trade wipe out the profits of several good trades.
2. Even very good forecasts have difficulty telling you when to exit the trade, and how to set the initial stop-loss. **The techniques presented here take the guesswork out of profit-taking,** and of course advise the initial stop-loss. This point can help even experienced swing-traders as most will tell you that in the years it takes to develop good trading techniques, knowing when to take a profit is usually the weak link in their trading process.
3. **Unknown Events:** Lets say you have a turning-point technique that you believe is 90% accurate. Unless you believe you know every event that influences price, you don't

know if there are other powerful cycles or events at work during the next "due date" this turning-point occurs that will alter the timing or effect of your "90% accurate" event. **The techniques presented here will work over the course of a 4 day time-zone to get you in when and if the short-term trend reverses.**

4. Even accurate short-term forecasts have a statistical variance of one or two days before and after the forecasted peak or trough. Over the years (I've been trading with forecasts since 1989) I've had hundreds of trades where the turning-point is exact to the predicted day - but I can show you over a thousand swing-trades where the actual turning-point was a day early or late. It is inevitable that you will encounter vendors who claim to never be off by even one day. Most of these vendors don't trade, they just research and market. Or maybe you're an enthusiastic researcher yourself, expecting to "crack the code" of never-miss turning-point days. **These techniques will let you trade your current good (but not perfect) forecasts AND get in very early in the new swing.**
5. Personally, I don't believe a variance of a day before and after is even a variance, a three trading day time-zone is the best realistic expectation you should have for forecasted turning-points. Consider: the market is open only 25% of a day - if a short-term cycle is really due around midnight, should the anticipated high/or low belong to the prior or next trading day to be considered "exact to the day". Consider again: your turning-point event falls on a weekend. Will it manifest Friday or Monday? Consider again: if a cycle-low is due Wednesday, should Wednesday have the lowest Low of any day preceding it? What if Tuesday's Low was lower than Wednesday's but Wednesday's Close was lower than Tuesday's Close? Which day was the cycle Low? **The point I'm trying to make is that defining "exact to the day" is often vague. And you shouldn't let this distinction mar your appreciation of trading forecasts.**

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# The Basics

In this section we'll review four items we need to understand for effective trade execution. We'll review:

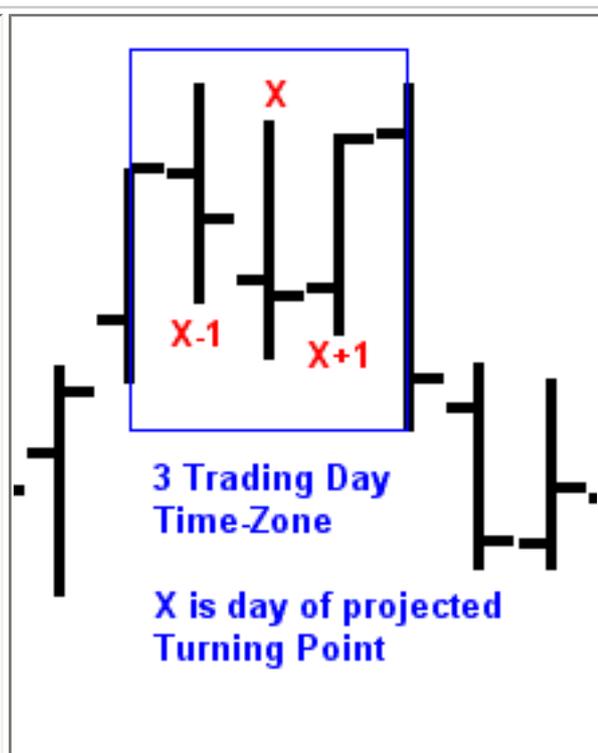
- Time-Zones (TZ)
- Trend-Change confirmation
- Inactivity
- Entry Methods

The first three points lead you into the fourth point, Entry Styles. I firmly believe that without understanding this you will not be successful in trading any method, be it discretionary, rule-based, or systemic.

## Time-Zones

After you've received or created your forecast the next step is to create a time-zone around it. Its often the case that the actual trend-change is a little early or late (by trend-change I'm not advising that you always trade against the trend - it also implies the end of a correction and the next larger trend resuming). Swing trading requires a three day time zone.

Assume X is the day of a projected trend-change. Subtract one day and add one day to X. This is your time-zone for anticipating the start of a trend-change



- Swing Traders (short-term trades of 2 - 15 price-bars) should use a 3 day time-zone as shown above
- Trend-Traders should use a 5 price-bar time zone where they subtract and add 2 days to the projected trend-change date
- Seasonal Traders and intermediate-term traders (trades lasting 20 - 60 price-bars) should use a 7 day time zone where they subtract and add 3 days to the projected trend-

change date

## Key Points

- you are looking for signs of a trend-change within the Time-Zone - most of the time its not apparent that the trend has changed till after the time zone has ended - you will usually see a pivot within the timezone, and a pivot requires one or two confirming price-bars after it
- you apply one of the entry techniques presented in the next section within the Time-Zone
- **Important:** you may not have confirmation of a trend-change till a day or two after the time-zone (price moving in the direction of the new trend) - that is, a pivot may form within the Time-Zone but it may not be "visible" as a pivot till the next couple of price-bars are in, and that may be outside the Time-Zone. For reference, in the above image, "x-1" is a pivot bar. If a pivot forms within the Time-Zone you want may want to add two price-bars to the Time-Zone for when you are apply the Swing Lines presented in the next section.

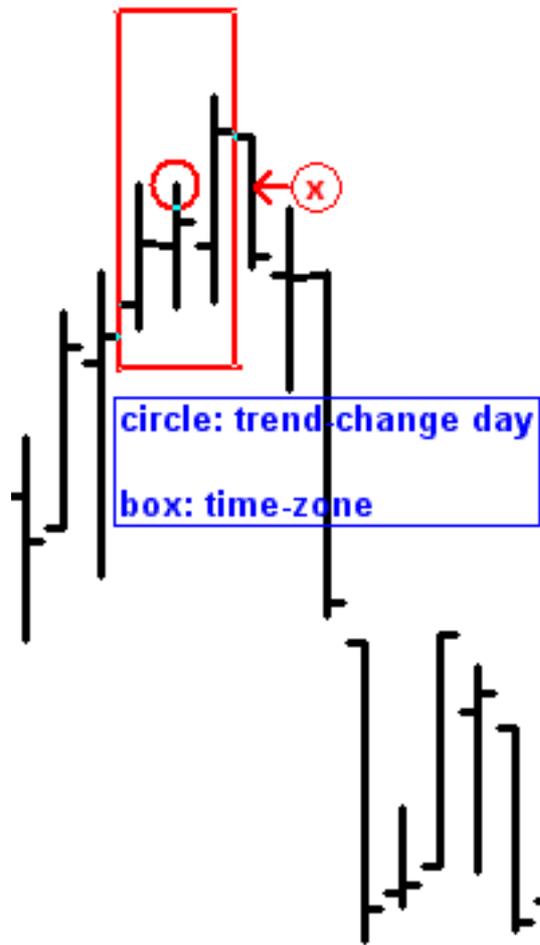
## Cycles Traders

There are two points that can help trading with cycle forecasts.

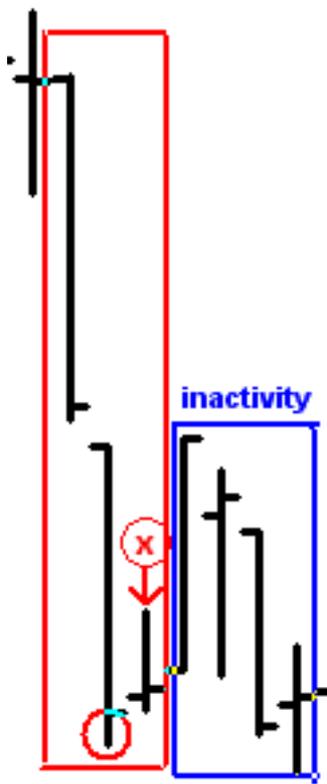
1. About 20% or more of cycles invert. This means that instead of a low in prices you have a high peak, or vice-versa. This shouldn't throw you - the timing of a trend-change is often accurate though so use the cycle forecast in this instance a trend-change date.
2. If a market is in an intermediate or long term trend, and a cycle contrary to trend direction doesn't happen, then when the next cycle in the direction of the trend is forecast it often is a powerful move.

## The Trend-Change

As previously mentioned we expect trend-changes in a timezone (TZ) but it may not be readily apparent till we are past the TZ. That may sound confusing, and this example should help. Assume the red-circled price-bar is a trend-change (TC) day (determined by any method you may be using). To create the TZ you add and subtract one day from the TC day. That's represented by the red rectangle.



We look for one of two events in a TZ: 1) a reversal - if the prior trend was up, then this bars low will be below the last few lows, and the close will be in the lower half of the price bar. If the prior trend was down, just reverse this scenario. 2) a pivot bar formed in the TZ - that's the example above. Note that the pivot bar is not confirmed till the bar marked by the 'x' is complete, and that 'x' bar is outside the TZ in this example. There are three bars in the TZ, and the pivot bar can be any of the three. This example shows the three bars in the TZ had higher closes and the TZ ended with the highest high in the swing - there is nothing in the TZ that looks like a trend-change. Its confirmed as a pivot outside the TZ. This implies that the TZ is a reference and you only occasionally will enter a trade within the TZ, most of the time its after a pivot or reversal has been confirmed by price bars immediately after the TZ. The price bars immediately after the TZ are used to determine an Inactivity Stop. Below, the red circled price bar is the TC day. The 'X' bar begins to confirm the pivot bar (in this case the circled bar is the pivot-bar). Since the prior swing was down you're looking to go long. You create a trade-setup where you place a buy-stop above the high of the bar labeled 'X' - if price gets there you feel you have confirmation of a trend reversal.



## Inactivity

Inactivity is relevant in two ways:

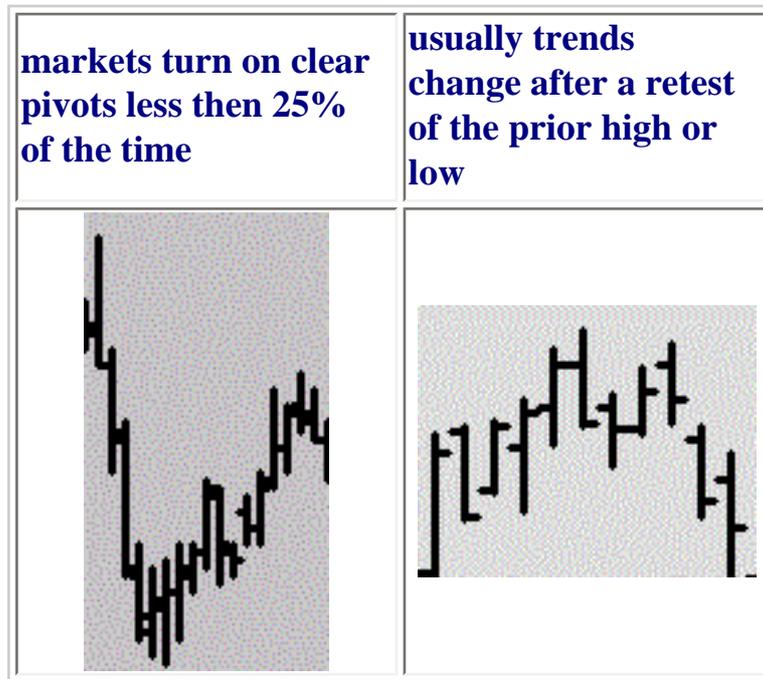
1. how many trading days are you willing to wait to get filled?
2. once filled, how many days are you willing to wait before the trade shows a profit greater than a preset value?

In the above example you're filled Long in the first bar in the blue box. But 5 days after the pivot-bar this trade is showing no profit. Do you feel like staying with this trade. If your answer is no, you understand inactivity. Lets say the trade was showing a profit of 5 ticks 5 days after the pivot-bar, would you still be interested in staying in the trade? If your answer is no, you understand inactivity. For Inactivity, there is no science. I usually wait three or four days after a pivot bar to get filled before I cancel the order. Once filled I wait another three days for the trade to show a profit greater than a few ticks. This is a very simple concept to understand, but for some people its very difficult to apply. There is no one correct number for either the number of days to wait for a fill after a pivot bar, nor is there one preset number of ticks the trade has to be in a profit by before you call it a dud and dump it.

## Entry Methods

This section can also be called trade-entry and reentry. This refers to your point of entry into a market - you've determined that a trend-change is probable and now have to decide exactly when to place your order. Don't forget that by trend-change I'm also referring to the end of a correction and the longer term trend resuming. After you have found good trading methods and learned how to place sensible stop-loss placement, this is the last and usually overlooked hurdle for consistent trading success. This event isn't just important to your bottom line, its crucial to your trading psychology. Its often necessary to exit and then re-enter your trade

before the swing your anticipating occurs. While its common to believe that well-placed stop-losses give you staying power, the reality usually is that these larger losses offset your profits enough to make trading for a living unlikely. Its far better to take one or two small wins and/or losses - especially now in this age of discount commissions and extended trading hours.

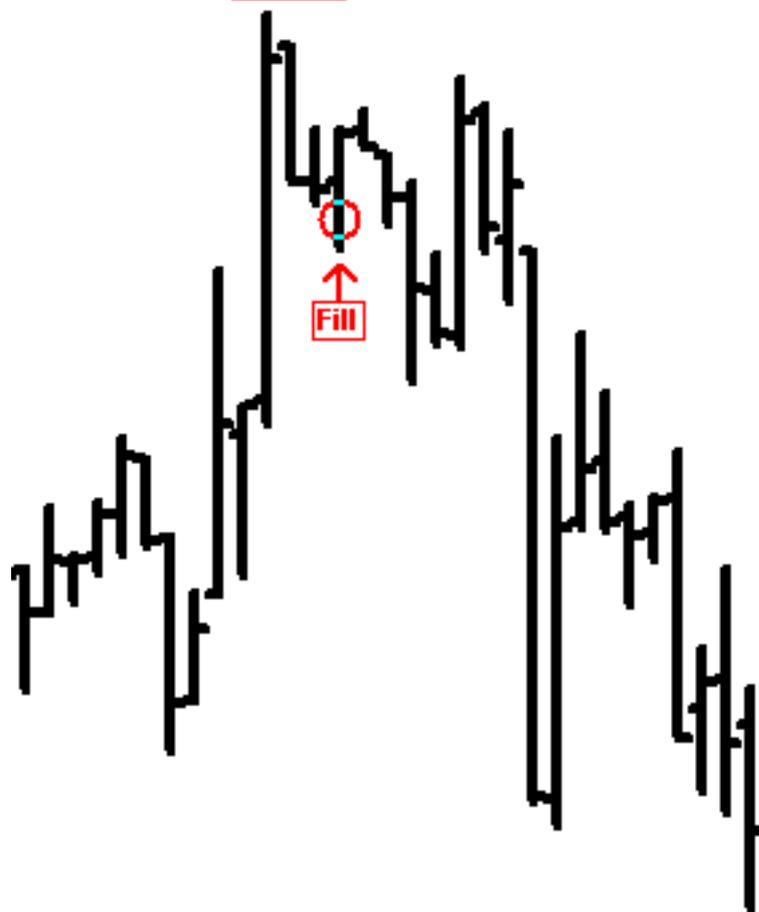


## Price Confirmation

- trade when price moves in your anticipated direction
- goal is to have price confirm that a swing has begun
- Plus: higher winning percentage of trades
- Minus: larger stop-loss then other entry styles, and smaller profits as swing is already underway

**Price Confirmation:  
sell breakout of lowest low  
of prior two days**

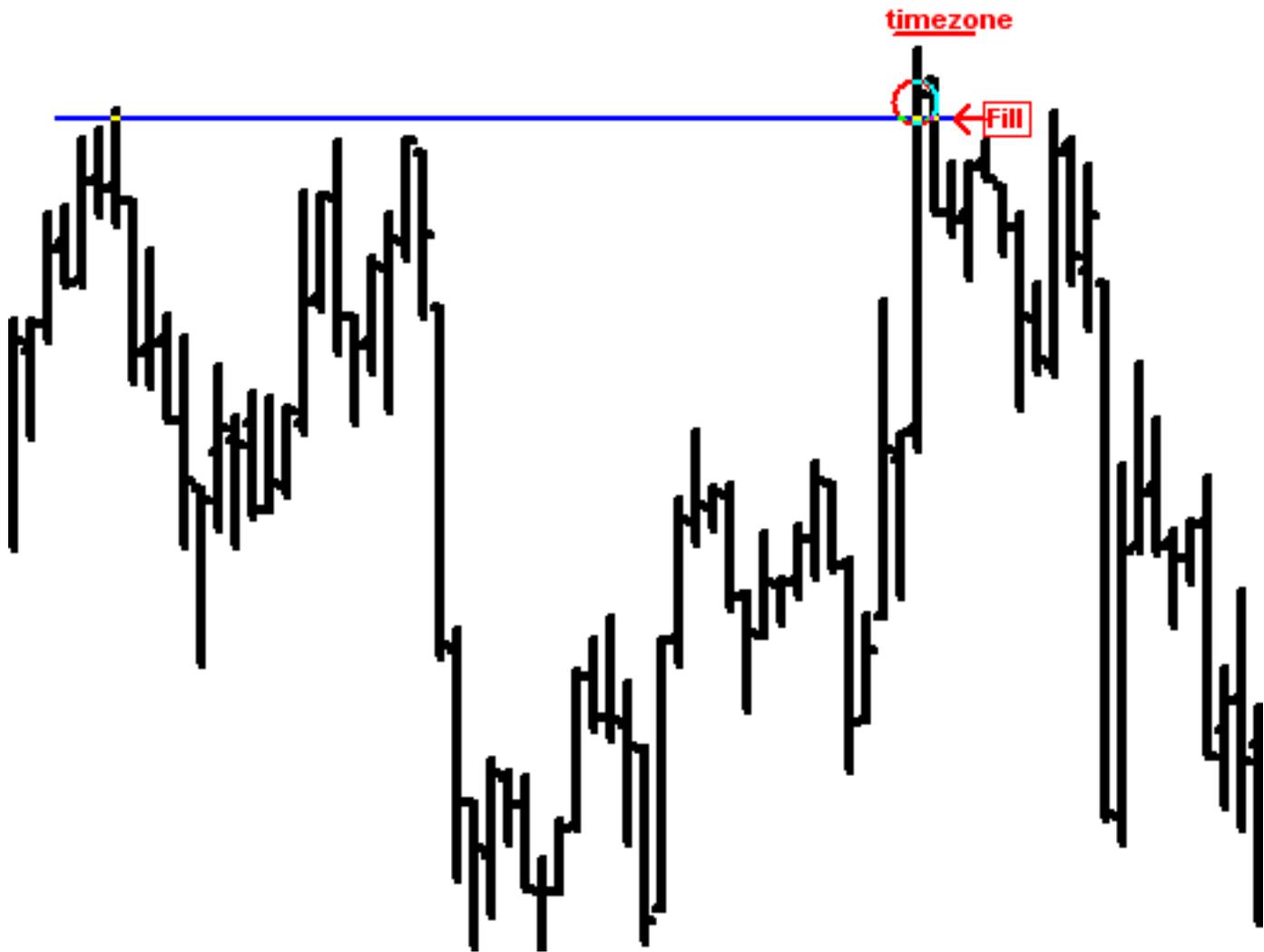
**timezone**



## **Early Entry**

- trade when current swing reaches support/resistance
- goal is to minimize stop-loss
- **Plus:** very small stop-loss, and potential for larger profits
- **Minus:** lower percentage of winning trades, requires more discipline to enforce your exit, right or wrong

**Early Entry:**  
enter when Price at Sup/Res  
within a TimeZone

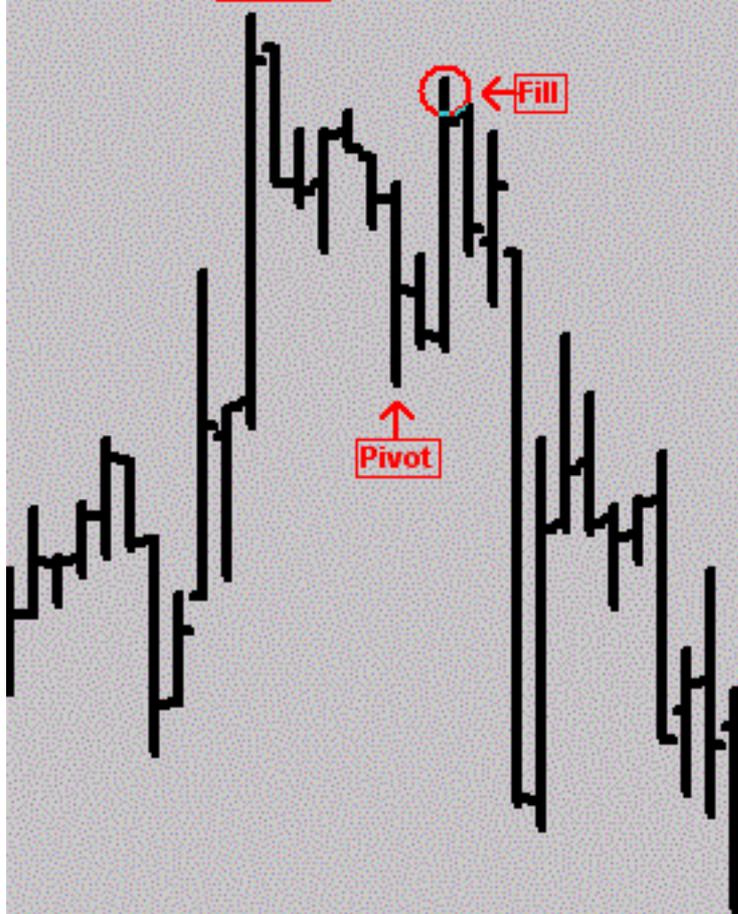


### **Pull-Back**

- trade when price breaks out then retraces to a sup/res level, usually 50% or 62%
- goal is to achieve a high winning percentage and have a small stop
- drawback is that at times price does not retrace
- used by professional and full-time traders
- **Plus:** high percentage, small stop loss, potential to capture most of swing
- **Minus:** requires the most skill and discipline to execute; not all price swings pull-back!

**Pull-Back 1:  
enter on retracement after  
initial breakout**

timezone



Below is another, more conservative, example of a pullback. Here, are the first wave down corrects, you would place a sell-stop below the low of the first pivot. The idea here is to avoid a loss if your forecasted trend-change never happens and the initial trend resumes. In effect, you're requiring a double-confirmation that the trend has changed - by the time you get filled in this entry style the swing has begun its second move down. This style is most appropriate when you have reason to believe the intermediate term trend has reversed and you are anticipating a relatively large swing down.

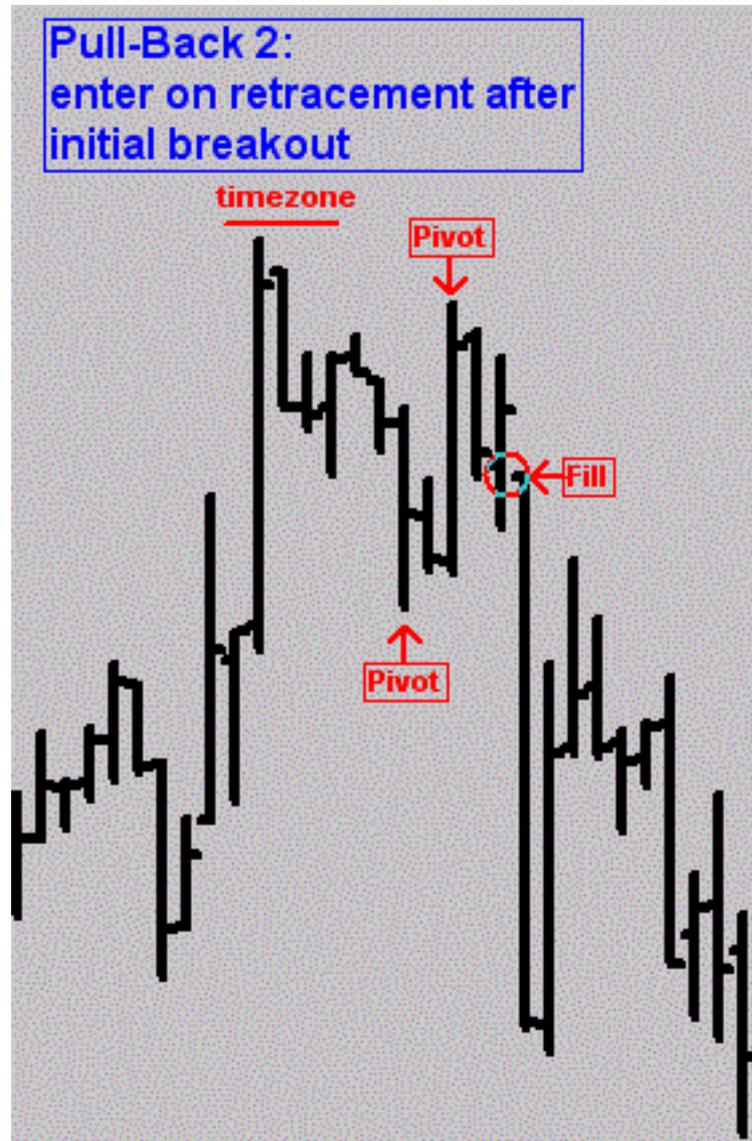
**Pull-Back 2:  
enter on retracement after  
initial breakout**

**timezone**

**Pivot**

**Fill**

**Pivot**



Now that I've presented these styles its important that you understand that you use two of them in your trading, not just one. Select either the Price-Confirmation or Early Entry, but its critical that you also use either PullBack1 or PullBack 2. The difference to your bottom line will be staggering. In effect you are "chasing a trade" because the reality of market movement is that your analysis can be correct, but before your anticipated swing starts markets often retest prior pivots. I can confidently state that there are many successful ways to trade the markets, but without understanding and using these entry methods, its doubtful you'll be able to trade for a living.

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## Entry and Exit Examples

This sections lists entry techniques that I've found to have merit over the years in almost all market situations. Starting with the second technique they get you in and out of anticipated market swings early. To review what we're doing here: you have a forecast of either future turning-points or you have a forecast of predicted price trends (these also give you a date or dates in which markets will reverse). You are primarily interested in high-probability short-term swing-trading. Your forecast covers the short-term trends, the high-probability part of the equation comes from the worth of your forecast AND your ability to manage the trade.

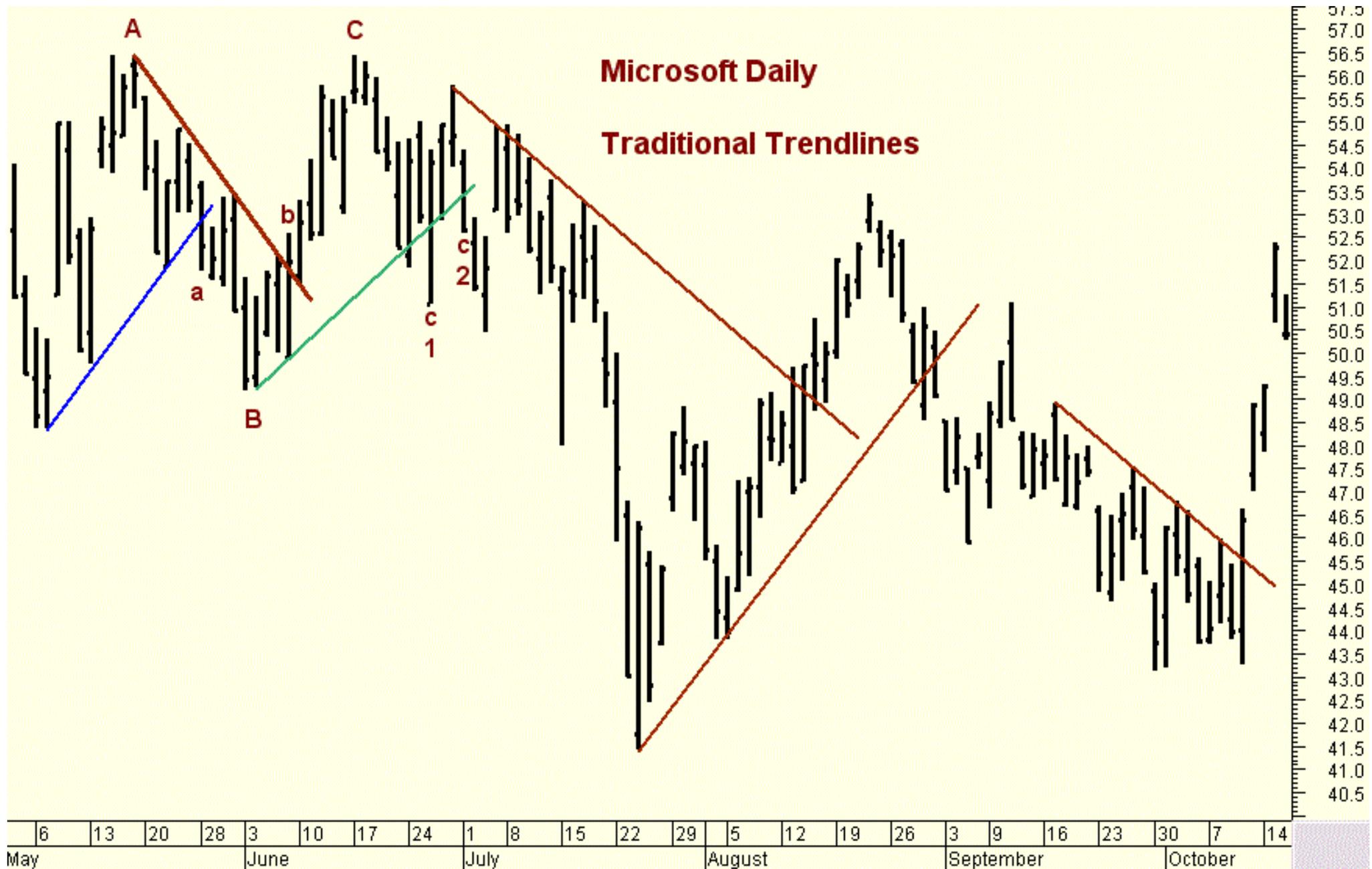
These techniques help you manage your trades - early entry into a new market swing and capturing most of the profit in that swing. Only one of them (3) provides an immediate stop-loss. As we're trading forecasts using a time-zone, if you're long subtract 3 ticks from the prior low pivot, if you're short then add 3 ticks to the high of the prior pivot. I hope you review all of them. At the end of this section I'll make a recommendation, but its best if you can evaluate these techniques and see which matches your approach to trading best. In the last section I'll describe a technique that's appropriate for active traders who have several years of experience.

To jump to one of the techniques click its name:

1. [Trendlines](#)
2. [Swing Line](#)
3. [HiLo Bands](#)
4. [Displaced Moving Averages](#)
5. [Open-Close Moving Averages](#)
6. [Short-Term Breakout](#)
7. [Fibonacci Price Expansion](#)
8. [The Lower Timeframe](#)
9. [Candlestick Patterns](#)

### 1. Trendlines (a benchmark)

These have been used for decades in all sorts of trading. If the trend is up draw them by connecting two or more lows; reverse the procedure for a downswing. If you have a time-zone forecast around "A" then in the below example you would enter when the blue trendline is penetrated at small letter "a". If you have a time-zone forecast around "B" then in the below example you would enter when the brown trendline is penetrated at small letter "B". The "C" example shows a variation. The traditional use is to require a close below the trendline for a sell (close above for a buy). At "c1" we have a penetration but not a close, at "c2" we have a close below the trendline. Which do I recommend? Neither.

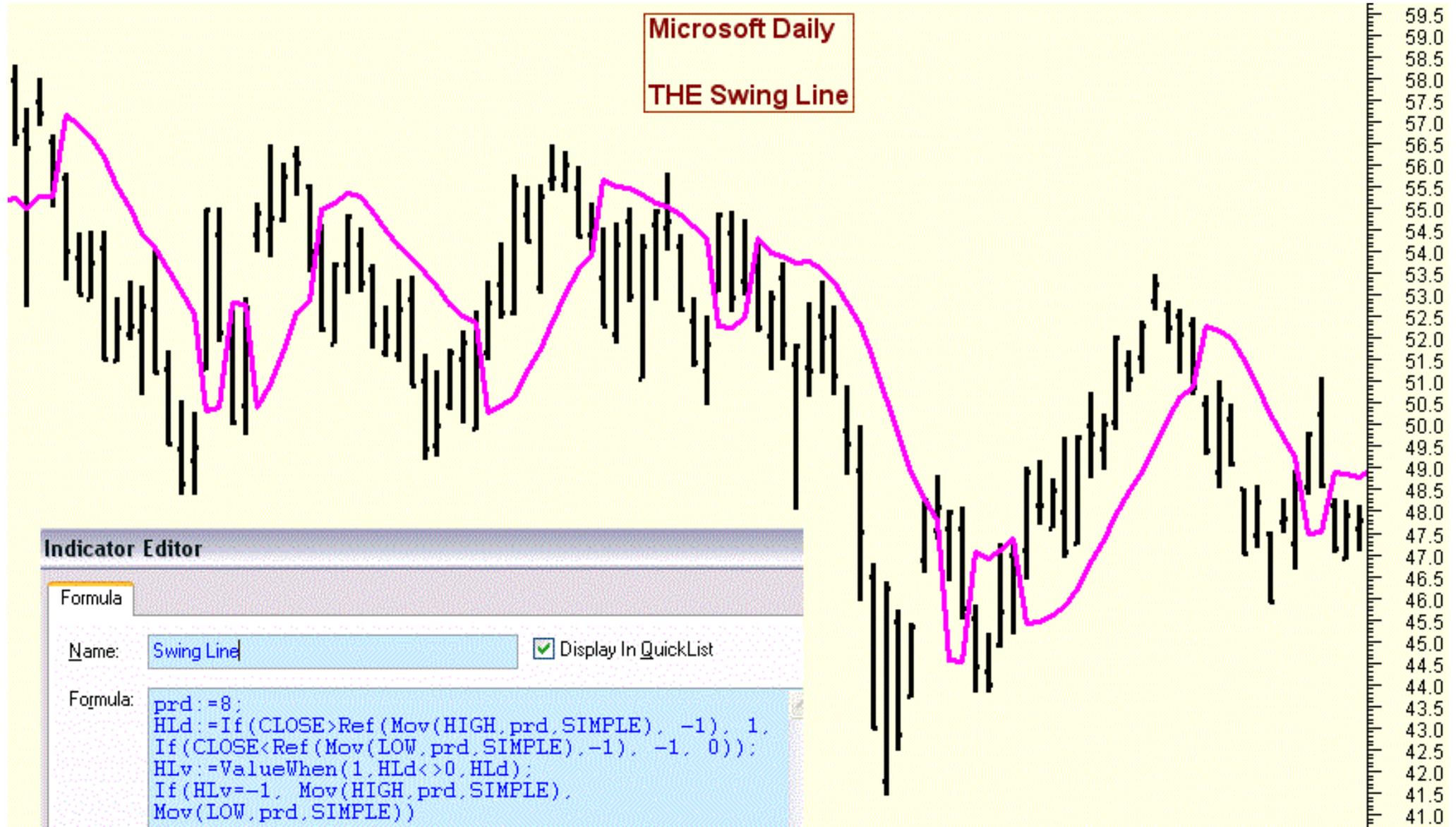


**Trendlines won't help you with a stop loss or profit objective. If the trade goes your way you may be able to draw a new trendline that acts as a trailing stop. My experience is that for swing-trading there are far better alternatives to trendlines, which oftentimes get you in and out later than "old fashioned lagging" moving averages. In fact, I had to do a bit of searching to find a chart on which I could draw a series of trendlines. These days it seems markets trade in a range for extended periods and then rapidly extend to a new level. In that scenario you don't get a series of geometrically rising lows or highs upon which to draw trendlines. So I don't recommend this technique, but am showing it as a benchmark for what's**

common.

## 2. Swing Line

This technique has been an integral part of several swing trading systems for decades, some of these systems sold for over a \$1K. These systems usually use chart pattern identification followed by trading the swing line. In the past decade this swing line has become married to "strength of trend" indicators, like ADX. A trader may run a market scan on numerous tradeables and apply the swing line technique to those exhibiting the most trend. But we're using predictive forecasts here. Just by looking at the below chart you can see it contains swings very well, gets you in and out early, and the small whipsaws are just that, small. And this is just looking at the Swing Line alone with no other analysis. This is an excellent technique for swing traders.



Mov(HIGH, prd, SIMPLE);  
Mov(LOW, prd, SIMPLE);

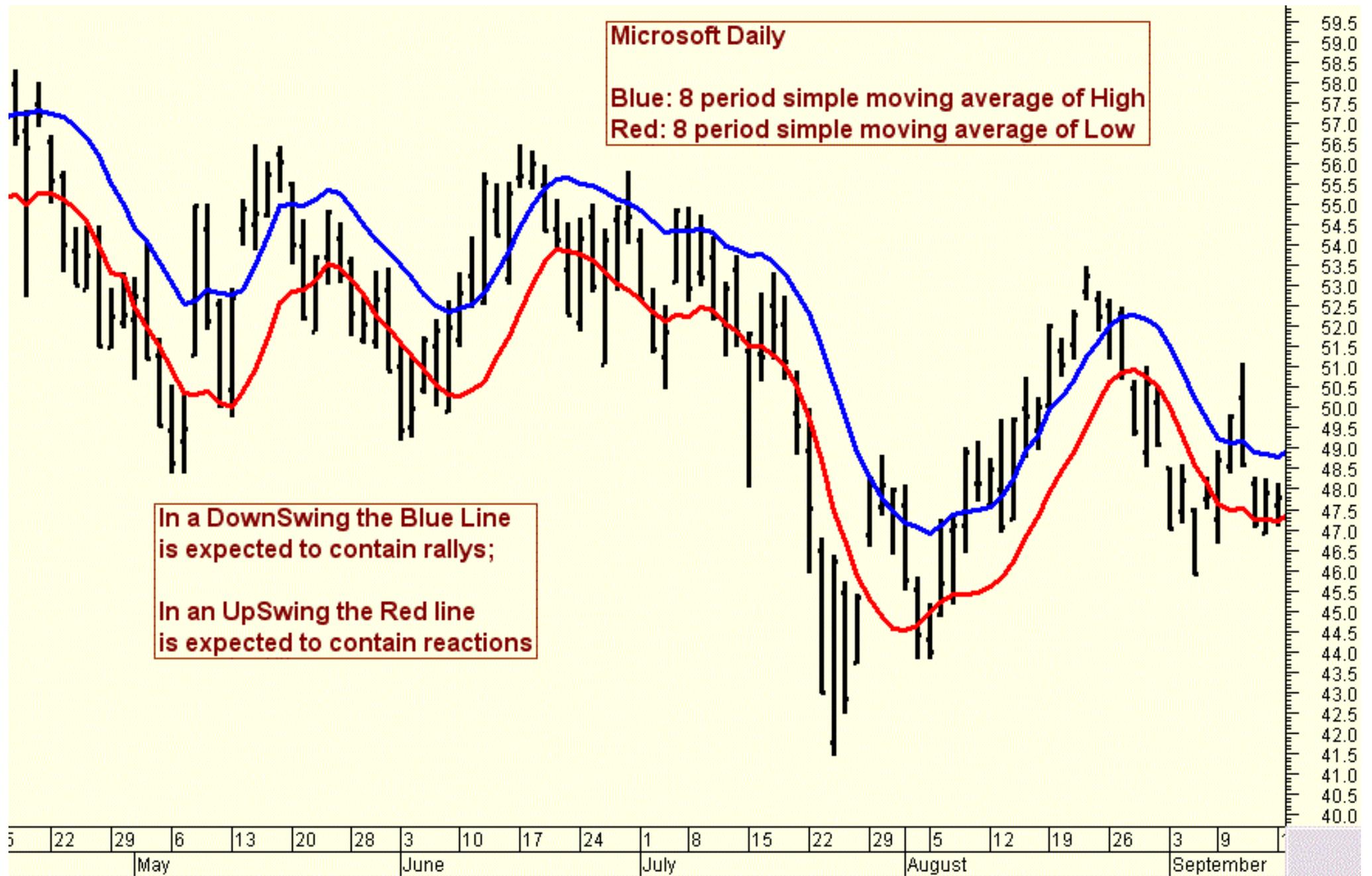
41.5  
41.0  
40.5  
40.0

5	22	29	6	13	20	28	3	10	17	24	1	8	15	22	29	5	12	19	26	3	9		
May							June						July					August				September	

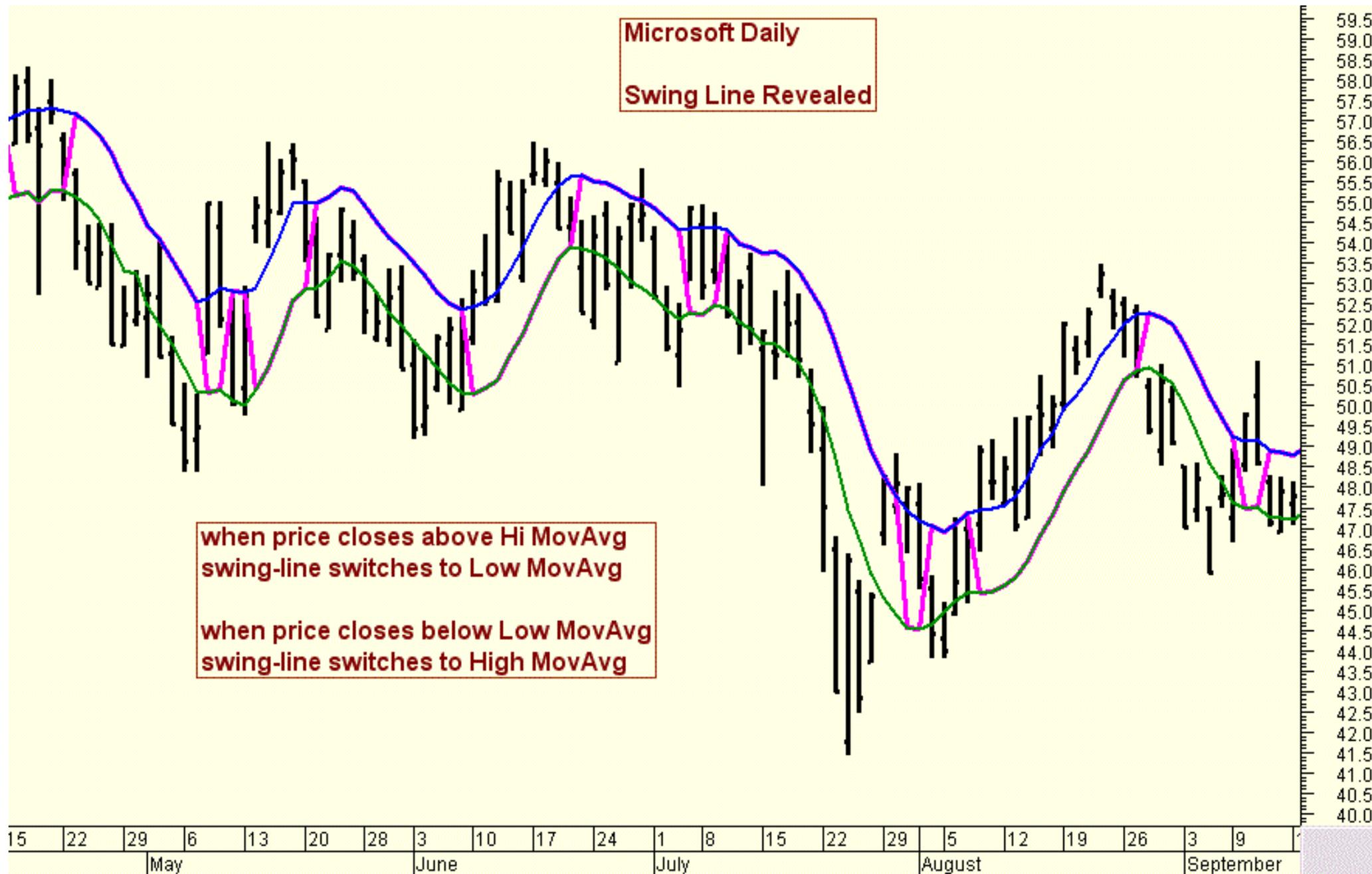
The MetaStock formula for this swing line is in the chart. However, this Swing Line is derived from the below High-Low bands, which actually are a bit better than the above popular Swing Line.

### 3. Hi-Lo Bands

These are two simple moving averages, the first an 8-period of the High, the second an 8-period of the Low. You never optimize the period of 8. Using going long as an example for this entire paragraph, you enter when the market penetrates the High moving average, and the Low moving average immediately becomes your stop-loss. It also becomes your trailing-stop. **To help lock in more profit, the first day that you have an entire bar above the High moving-average then you switch to using the High moving average as a trailing-stop. You exit the market when you have a Close below the High moving-average. Do not let the simplicity of this approach fool you.**



These HiLo bands are the "parents" of the Swing Line described in Technique 2. Below you can see that the magenta line switches from "being" the High or Low moving average occasionally. When price closes above the High band then the Swing Line becomes the Low band. If price closes below the Low band then the Swing Line becomes the High band. However, the HiLo bands give you more than the more esoteric and popular Swing Line, like an initial stop loss and a sophisticated trailing stop technique.

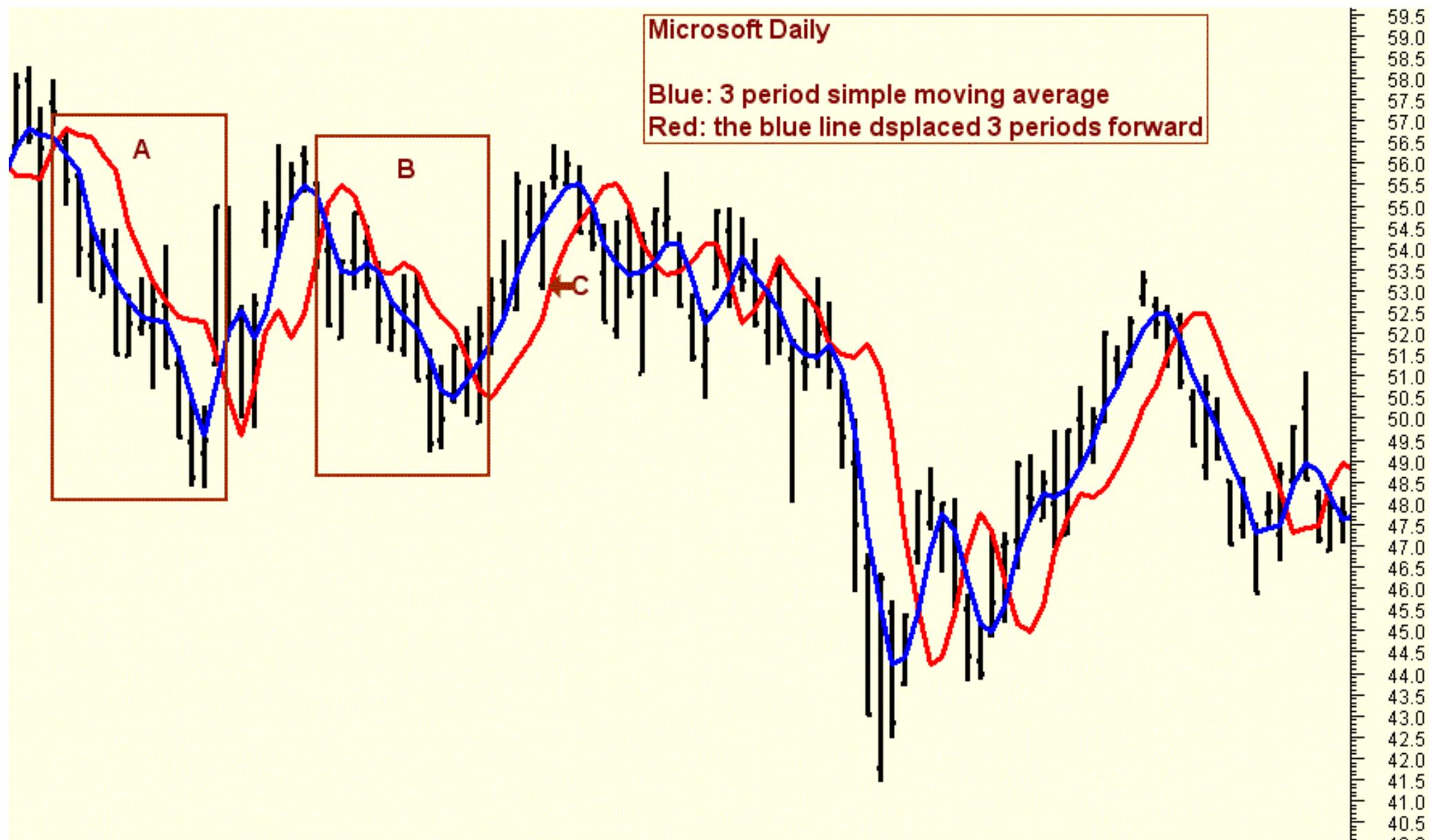


#### 4. Displaced Moving Averages

This is taken from a popular swing-trading system sold by Joe DiNapoli in the 1980's. There are still traders who use these techniques profitably and pass them on. Most all charting software has displaced moving averages - in the dialog box for the regular moving average look for the words "offset" or "horizontal offset" or "shift". Short period displaced moving averages, like the one below, oftentimes contain an entire swing up or down, hence

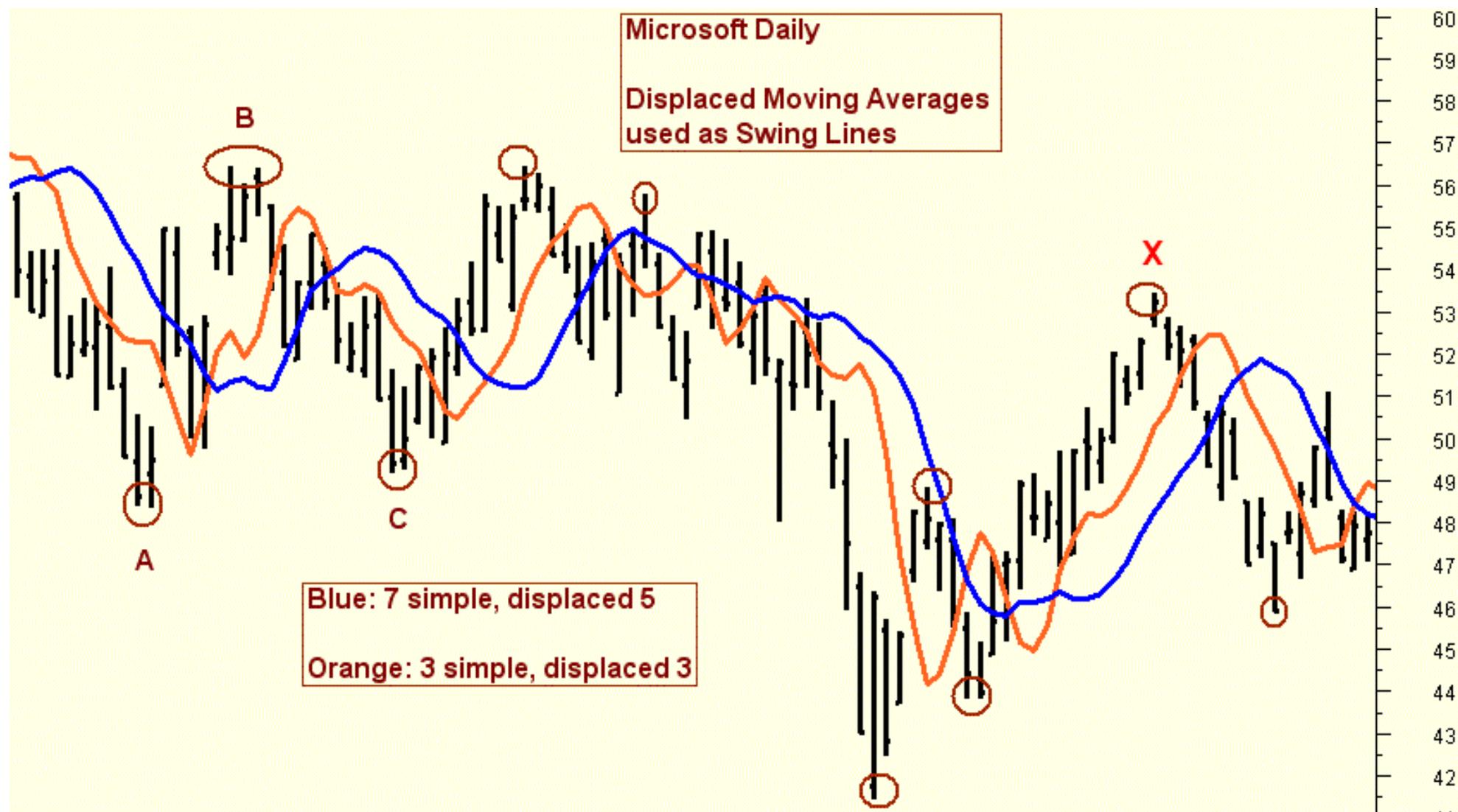
their value here.

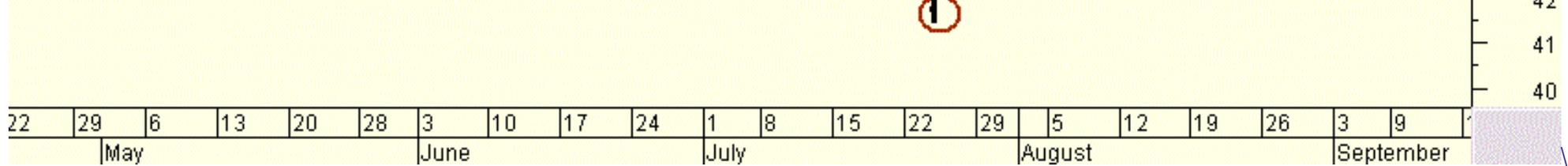
The blue line (in the below chart) is a simple 3 period moving average. By "simple" I mean its not an exponential moving average. What's being averaged is the Typical Price:  $(\text{High} + \text{Low} + \text{Close}) / 3$ . Its sometimes called the daily pivot. If you can't select "Typical Price" then use the daily closing price. The red line is the blue line moved forward three trading days. This is called a 3x3 displaced line. In the below chart observe rectangles "A" & "B". Notice how the "traditional" moving average (blue) is useless for swing-trading, while the 3x3 displaced line does a great job of containing market swings. In August and September this red line again did a great job in getting you in and out of two swing trades. Note: you never optimize either the period of 3 nor the displacement of 3.



15	22	29	6	13	20	28	3	10	17	24	1	8	15	22	29	5	12	19	26	3	9	
			May				June				July				August				September			

The below chart shows the 3x3 line and also a 7x5 line (7 period moving-average moved forward 5 periods). I recommend using just the 3x3 in forecast trading; I used it myself for years in SP 500 Futures trading on 30-min charts. Once you have a high or low pivot confirmed, enter the market when price closes above the 3x3 line. When and if the 3x3 line crosses the 7x5 line, begin using the 7x5 as a trailing stop. The goal is obvious, to give the short-term trend a little wiggle room. I used the 3x3 by itself but other traders prefer the two together as occasionally the 7x5 will keep you in a swing that corrects a little then strongly resumes. Note: you know tomorrow's 3x3 value after the close of today's trading. Just draw a regular 3-period moving average and note the value of that average two days ago - that's tomorrow's 3x3 value, the value you can use in stop orders. For going long, add 3 ticks to that value, for going short subtract 3 ticks.

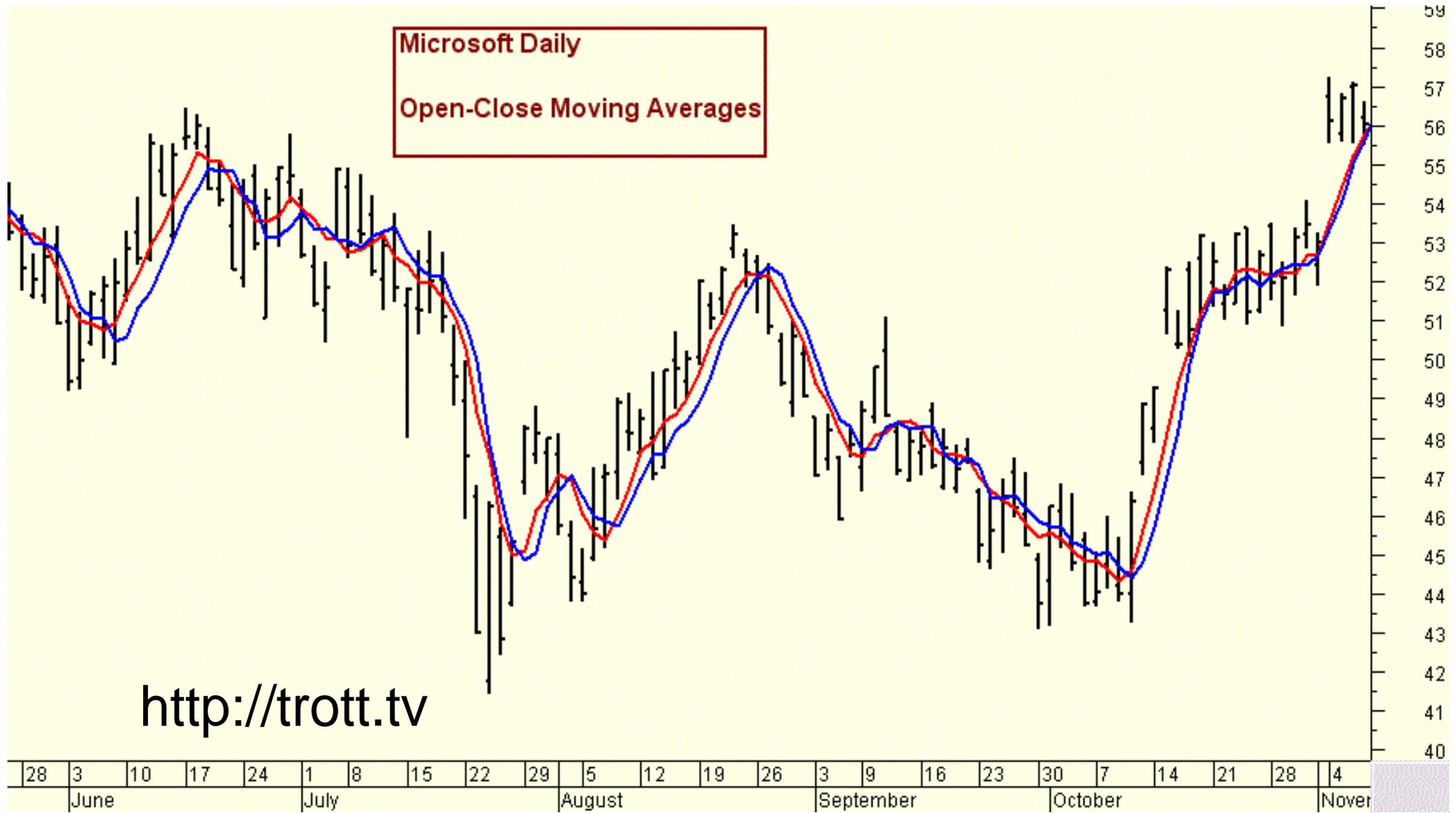




**Displaced moving averages are a premium technique and I highly recommend the 3x3 line. The occasional whipsaws are small compared to the many times you'll get over 80% of a swing that goes your way. However, this technique does not give you an initial stop loss. Place it just a few ticks beyond the prior pivot if you're trading a forecast, then when prices get about 10 ticks above the 3x3 line begin using the 3x3 line as a trailing stop.**

### **5. Open-Close Moving Averages**

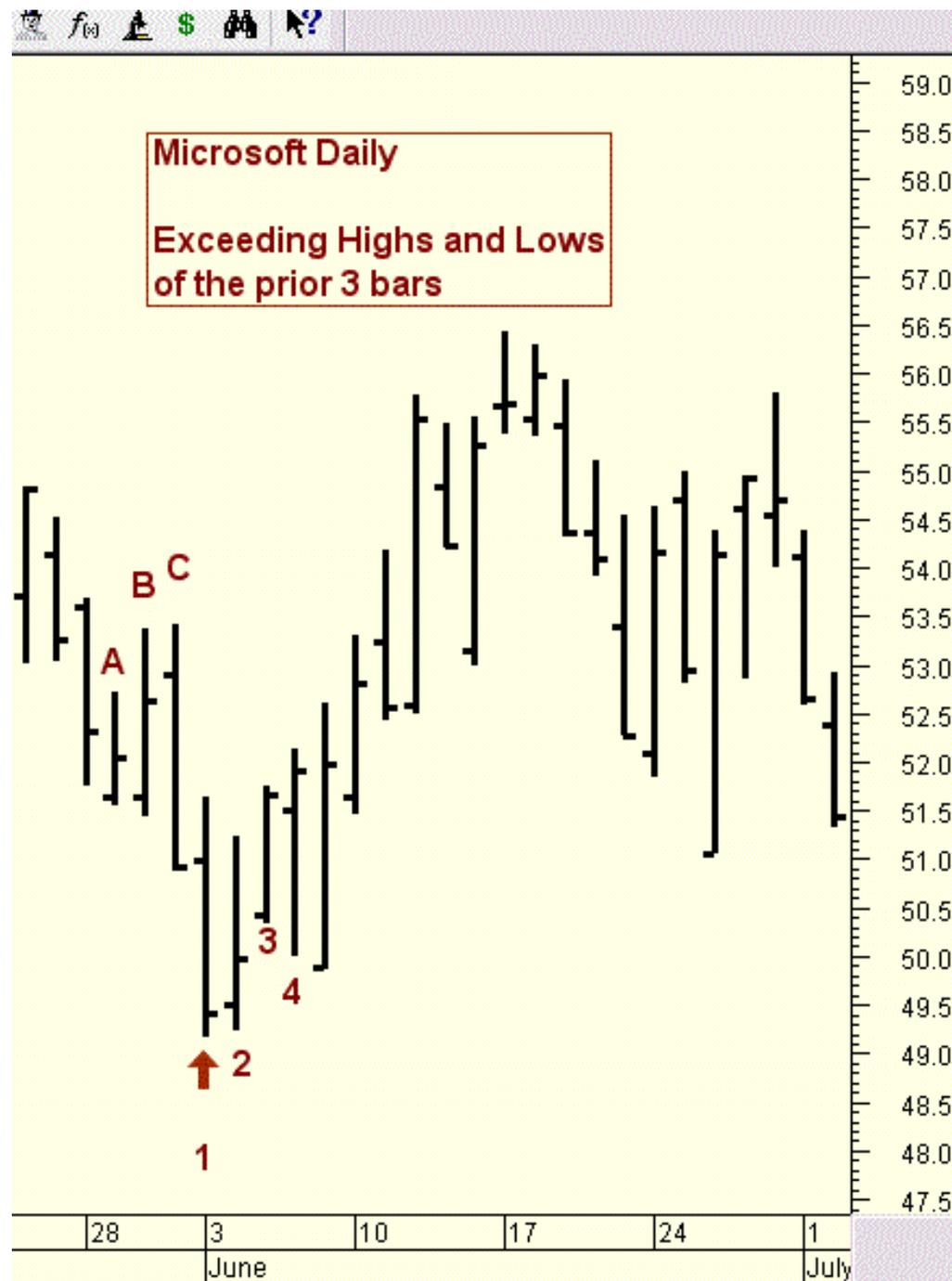
**This is the simplest entry technique, yet it is not common. It yields surprisingly good results. Its simply a 5-period moving average of the opening price (blue), and a 5-period moving average of the closing price (red). I have used this on daily charts, 30-min charts, 5-min charts, and 1-min charts. If you trade using a forecast and are not technically inclined, this is the entry technique for you.**



## 6. Short-Term Breakout

This is a very popular technique for traders who believe a larger market swing is coming. It's purely chart-based and for traders who won't use any technical indicators this technique is very valuable. Its also used by mechanical systems traders extensively. (example for going long) Assume "1" below is the beginning of a forecasted time-zone. On this day you would place a buy-stop two ticks above the high of "A" which is three days back of "1". If not filled, on day "2" you place a buy stop above the high of "B" which is three bars back of "2". On day "3", above the high of "C". In this example, at the end of day 3 you're not filled yet - but you notice a low pivot has formed in the time-zone. As such the turning-point is giving an early appearance that it may be working. So on day 4 you place a buy-stop above "1", and you're filled on that day. Like most chart-based techniques, your initial stop-loss is "x" ticks below the low pivot at "1". This technique comes with a chart-based trailing -stop. Each day place a sell-stop two ticks

below the lowest value of the past two days.



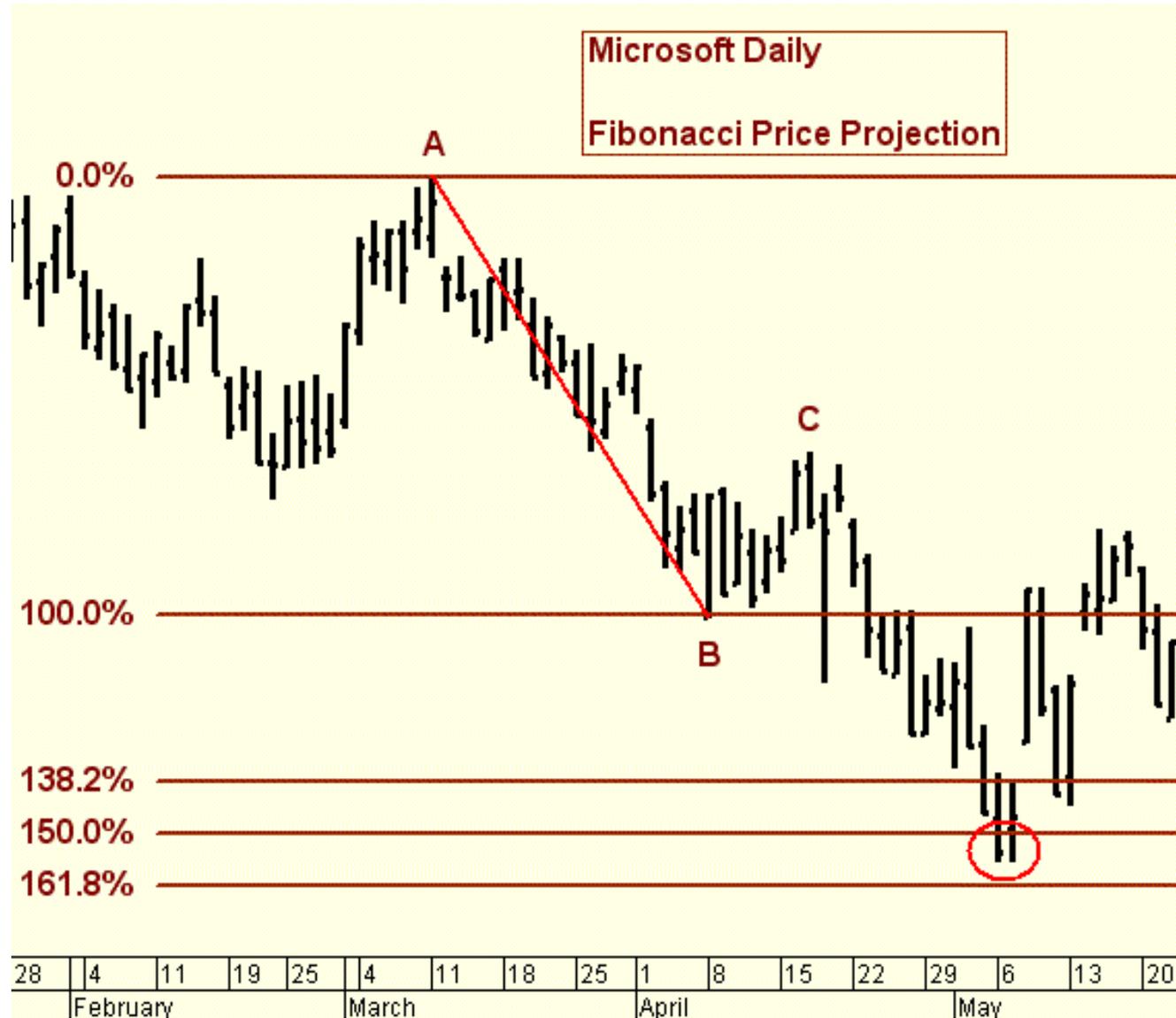
Should you always use the highest high of the past three days? That's a common conservative approach.

- If I'm expecting a short-term correction to end and the intermediate term trend to resume, I place a buy-stop above the highest high of the past day
- For trading against the intermediate term trend, I use the past two days
- For a breakout from a sideways range I usually use the highest high in the range

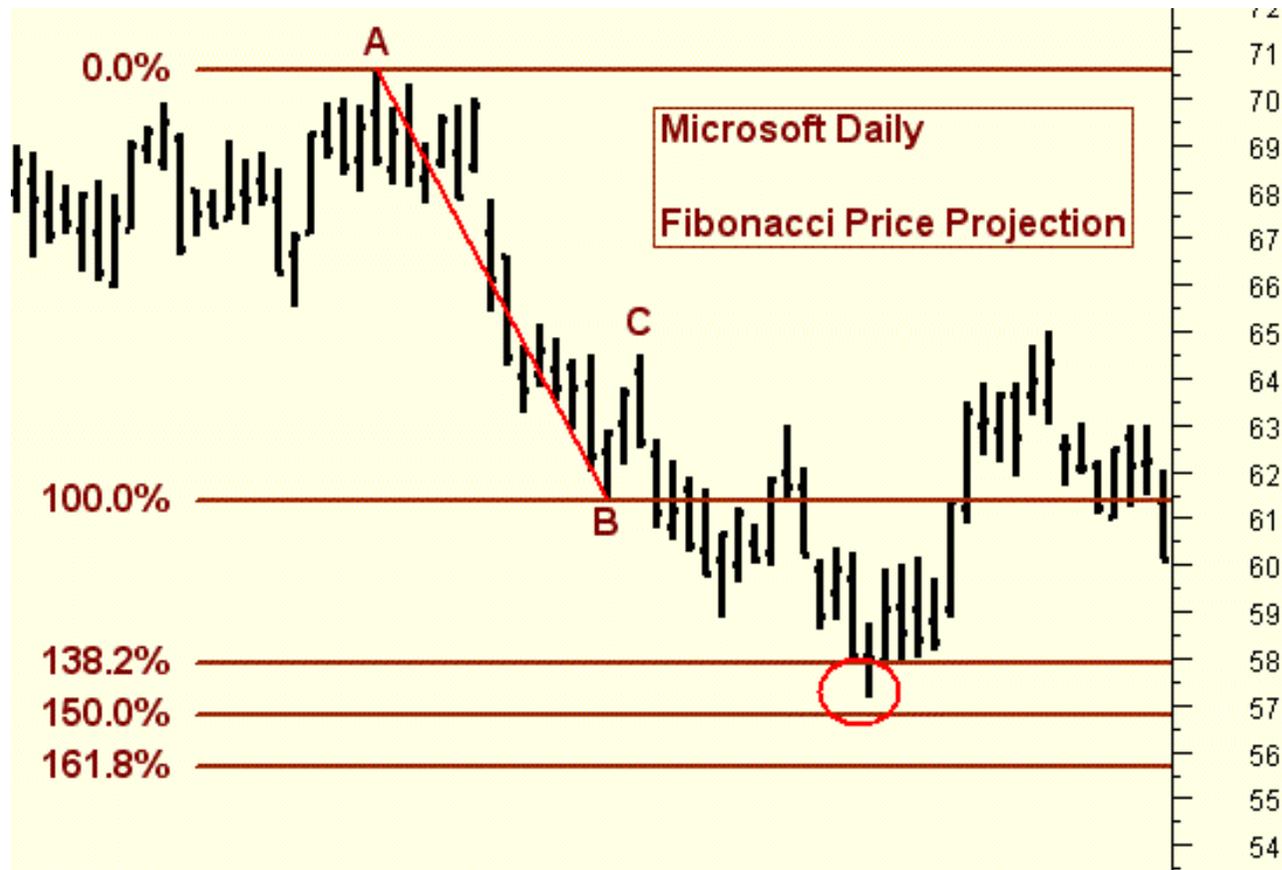
**Note: in several sold systems, instead of price today exceeding the high of "x" days ago, you'd be looking to exceed the highest high of the past "x" days.**

## **7. Fibonacci Price Expansion**

This technique can serve as a profit-taking technique or an entry technique. Lets cover profit-taking first. In the below chart, assume a forecasted time-zone for either "A" or "C". You used your charting software Fibonacci Drawing Tool (MT has this in the Larry Expert) to draw price projections by connecting the swing from "A" to "B". The tool will draw the standard Fib Expansion lines as you see. When price forms a pivot inside the bands of lines, you exit. For entering the market, assume you have a time-zone where the red circle is. You'd look left to find the top of the prior swing ("A") and connect it to the first correction ("B"). If a pivot forms inside the expansion lines then you have a very good confirmation that price will correct or reverse.

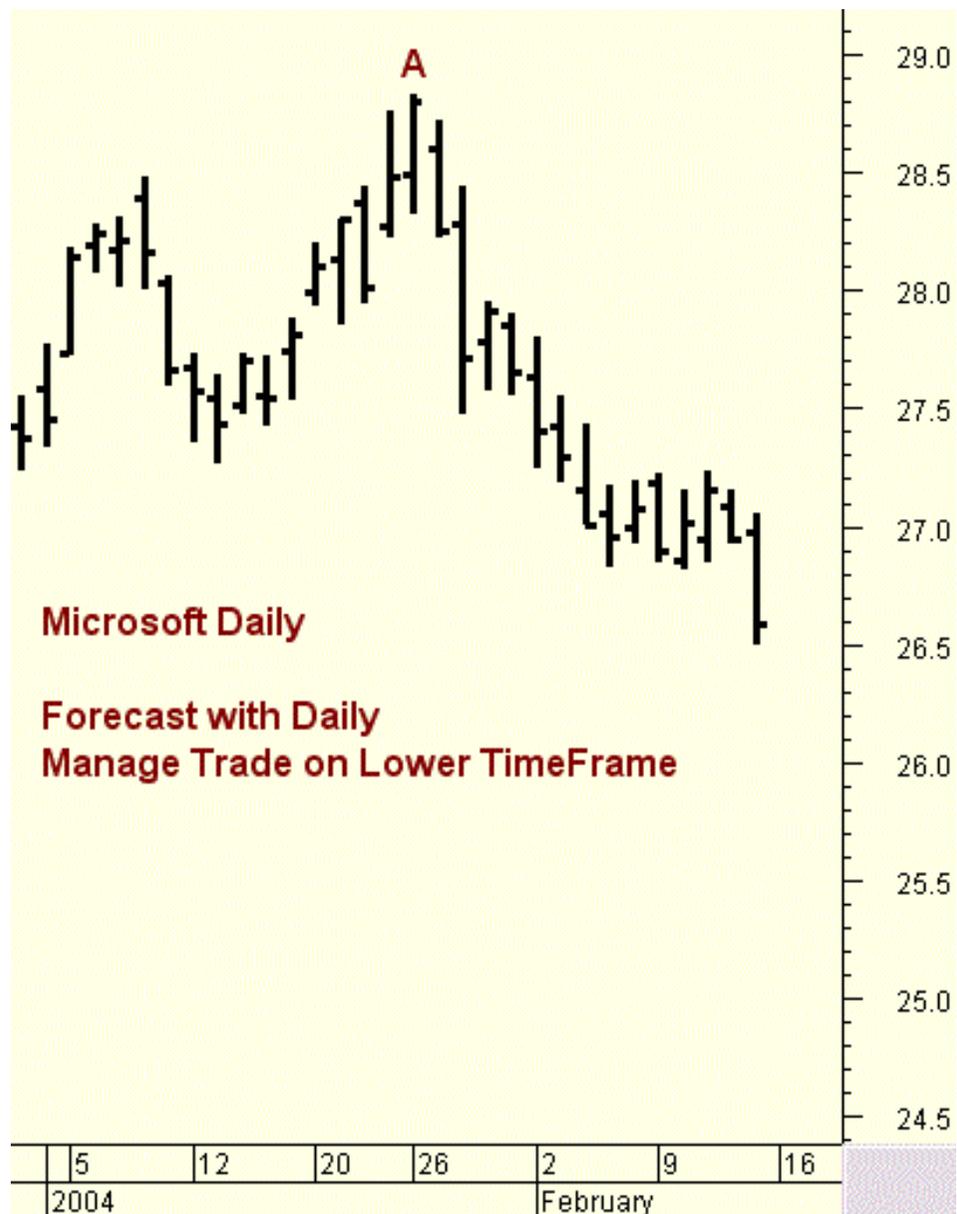


Below is the same technique a few months later in Microsoft's chart. Its surprising how often this occurs.

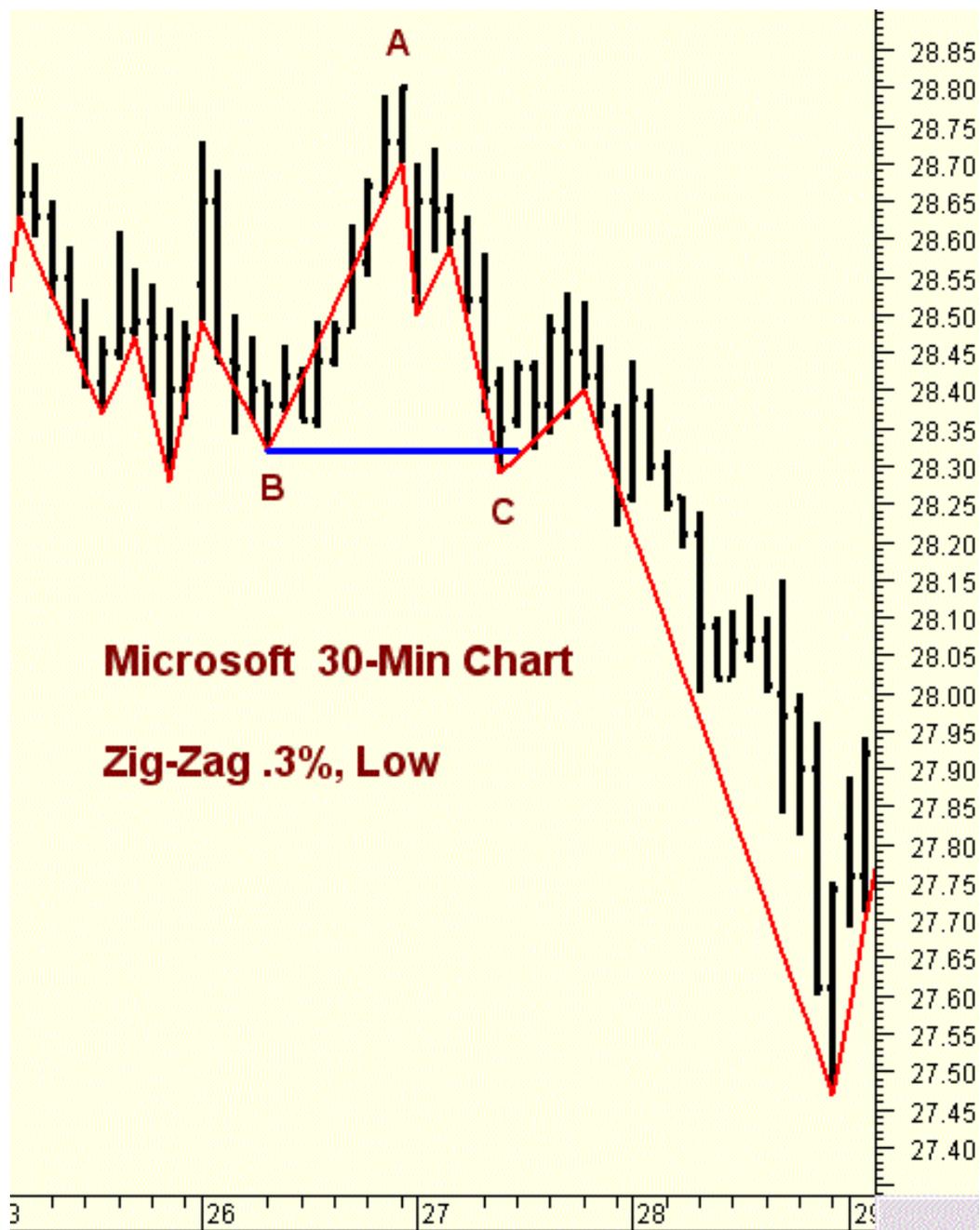


### 8. The Lower Time-Frame

There are 2 charts below - the first is a daily chart, the one beneath a 30-minute intraday chart of the same time-period. This technique is about Assume we have a turning-point time-zone starting at point A below. The short-term trend is clearly up before "A" so we're looking to go short during or just after "A".



In the below chart point "A" is centered on the same day as the daily chart above. In this technique you apply a .3% (that's three tenths of one percent) zigzag indicator (aka "filtered wave") to the 30-min chart. Select the Low, not Close, in the zigzag. Looking at the zigzag plot, identify the prior low pivot to the left of point "A". That would be "B" below. Starting with the first day of the time-zone you place a sell stop order 2 ticks below the Low of "B". In this example you'd be filled at point "C". If price continued to rise during day 2 or 3 of the timezone, you'd still apply this technique. Its certainly possible that the High pivot could be on day 3, the prior low zigzag on day 2, and your fill a day after the time-zone ends. With this technique, only place orders till one day after the time-zone ends (i.e. price can start falling on the last day of the time zone but not reach your order till tomorrow).



<http://trott.tv>

This entry technique does not have an exit counterpart. It is preferred by those traders who dislike the use of technical indicators. Generally these chart-oriented traders will first try and apply a trendline but if none is apparent they will use this or a similar technique where the emphasis is to enter a trade when price exceeds a prior pivot. You should also know that a popular variation of this technique is to (using a short sell as an example) to enter the market when price falls below the low of the past 3 or 4 days. I used that technique for awhile in the early '90's but gave it up as too often

the entry was far from the beginning of the swing I wanted to trade. I developed this 30-minute chart technique precisely to overcome that drawback.

## 9. Candlestick Patterns

These can be divided into continuation and trend-change patterns. Their effective use however requires more skill than any of the above techniques AND they do not define an entry price for the next trading day, nor do they help you in determining a stop-loss or trailing-stop. Furthermore, a common mistake among candlestick users is to (mis)apply them to markets that are not showing any trend. Still they are effective for price-confirmation that a swing is starting if the market has been exhibiting some trend preceding the formation of the candle pattern.

For good Candlestick references see the books by Steve Nison or Gary Wagner. If you're a Metastock user it ships with an Expert that automatically identifies candle patterns on your price chart. The Metastock user manual also identifies graphically the major candle patterns.

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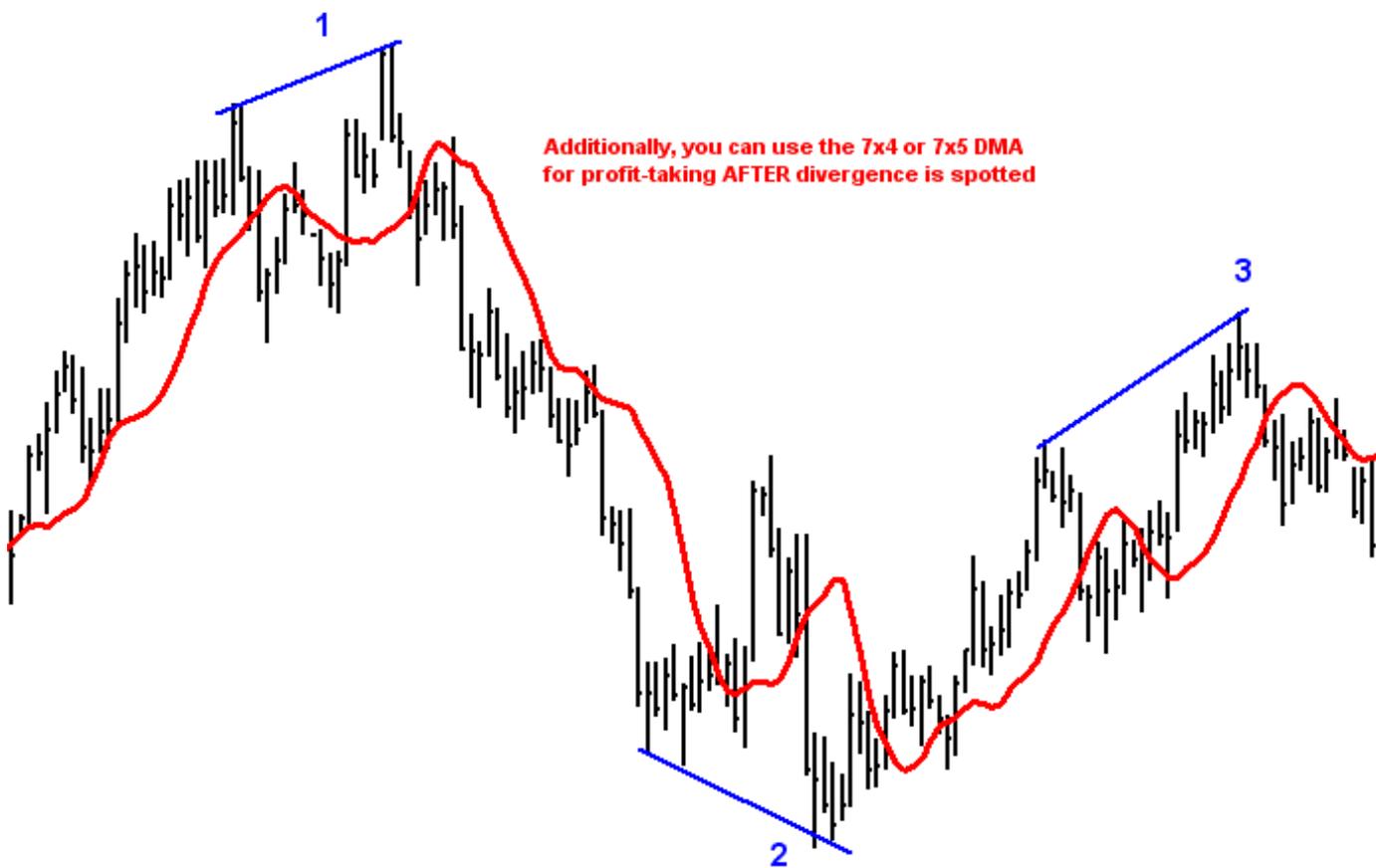
## Tips for Trade Management

Trade Management includes but isn't limited to the use of mechanical entry and exit techniques, described earlier. In this section we look at ways of enhancing our understanding of market conditions, information you can use as a "trade filter". A filter can be used to void a potential trade or exit an existing trade if market conditions are inappropriate for your trading methods.

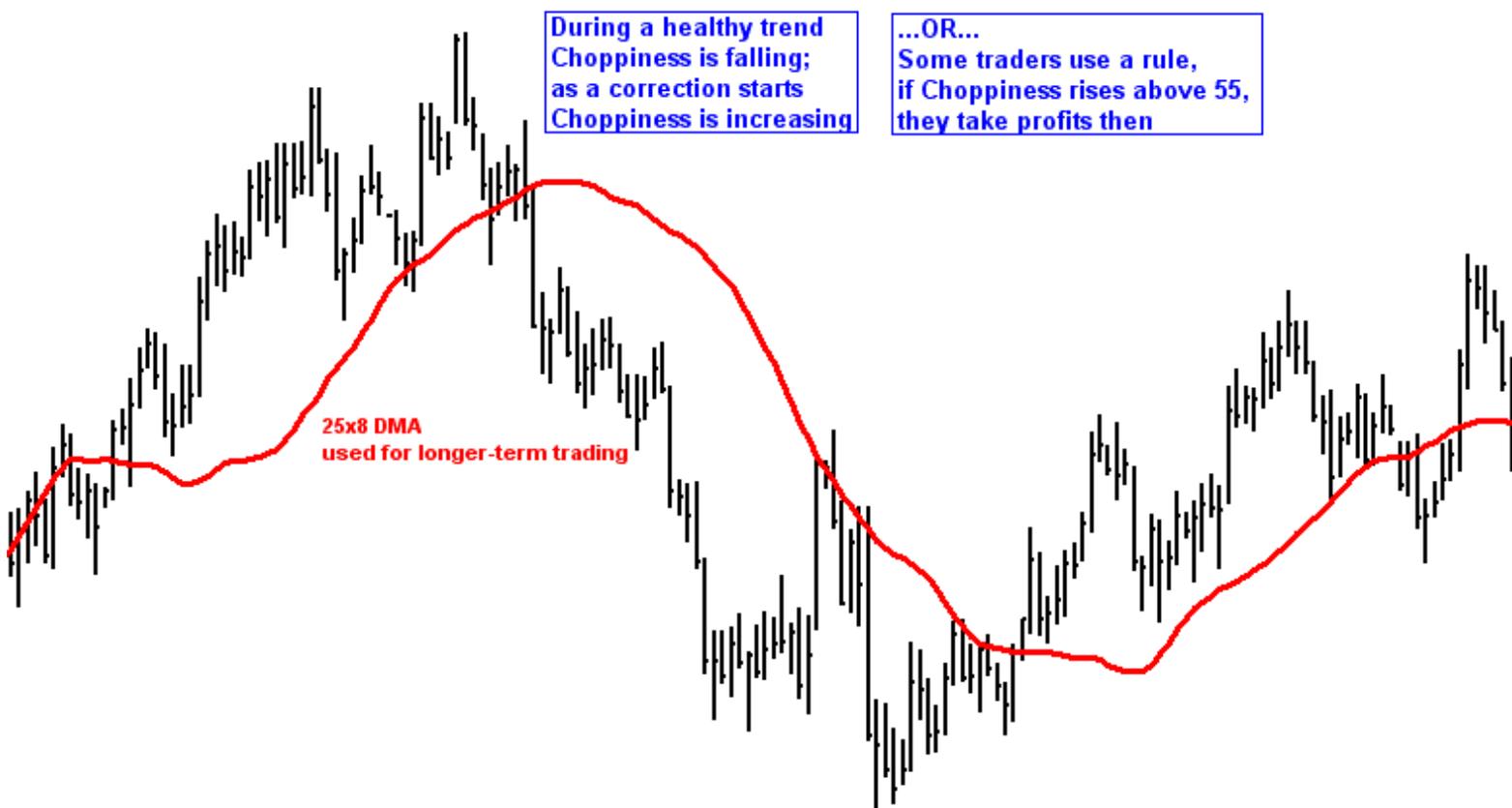
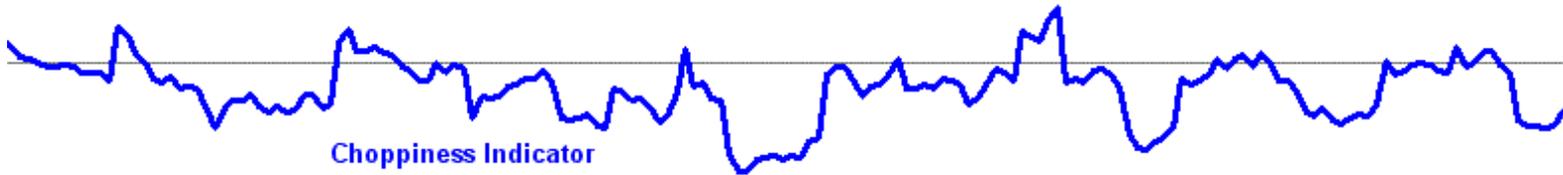
When trading with forecasts I recommend never trading on the basis of just one forecast, regardless of how well its tested out. Do what Commodity Pools and Institutional traders do - use the "Vote by Committee" approach, where you require two or more forecasts to agree on future price move before you consider trading it. In the case of Fund Managers, they utilize multiple CTA's (Certified Trading Advisors) for trading recommendations. They only make a trade when two or more advisors agree. You can do the same with newsletters or trading advisories for retail traders (me and you).

For (AIR Software) Market Trader users I advise using similar criteria in different Experts. You should get similar forecasted swings from the different Experts using similar criteria. Since each Expert uses different weighting algorithms when two agree on a swing your probability of success increases dramatically. Only have one Expert? Use it and SuperSearch's Efficiency Tester together. See what aspects are coming due the following week. Save the Efficiency Test for each one. If most of them point to swing for the same period your Expert is forecasting a swing, same deal - the probability of success increases dramatically. The point is - don't trade using just one forecast. Random Market Noise can emulate the presence of cycles and you don't want to take a chance that the sewing one forecast is calling for was the result of "mis-training" on random market noise.

For those times when you are trading a forecast longer then a few days and you are holding a profit but are not sure where to take profits it is helpful to consider using not just a tool but a trading-system just for managing an existing position. Below are recommended components, meant to be used AFTER you enter a trade. Primarily one is first looking for "oscillator divergence". If you are short this is a condition where price makes a lower low while the oscillator makes higher highs (if you are long, price makes higher highs but the oscillator does not). See below for three examples in one chart. I'd like to mention that this one function, Oscillator Divergence, has an incredible track-record going of picking trend-changes (a correction is also a trend-change). You can use price data from any decade and see it picking trend-changes. Please consider using it!



Below I'd like to show another little known but very powerful indicator used for gauging the health of a trend. Its called the Choppiness indicator, it comes standard with the free eSignal Advanced Charting software. Below the chart I show the MetaStock formula. As the name implies it measures a form of volatility, the smoothness or lack thereof in a trend. This one is more sensitive then the above Oscillator Divergence. You'd use it when you want to take partial profits and leave a few contracts (or shares or lots) on, lifting the entire position when Oscillator Divergence is confirmed.

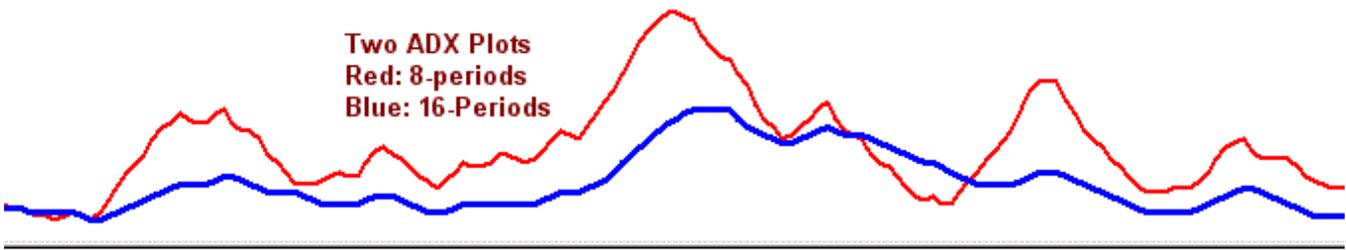


### Choppiness Indicator Formula

$$\left( \frac{\text{Log}(\text{Sum}(\text{ATR}(1),14) / (\text{HHV}(\text{If}(\text{H},\geq,\text{Ref}(\text{O},-1),\text{H},\text{Ref}(\text{O},-1)),14) - \text{LLV}(\text{If}(\text{L},\leq,\text{Ref}(\text{O},-1),\text{L},\text{Ref}(\text{O},-1)),14)))}{\text{Log}(10)} \right) / \left( \frac{\text{Log}(14)}{\text{Log}(10)} \right) * 100$$

Alternately, sometimes markets just go in narrow trading ranges. When both the ADX(8) and ADX(16) are falling (shown below) it is an indication that there is neither a short or intermediate term trend in place, and there is simply no reason to be in a trade at this time. This screen I recommend for when you're in a longer term trade, or you're in a swing-trade that is extending nicely but you don't have access to the Choppiness indicator shown above.

Two ADX Plots  
Red: 8-periods  
Blue: 16-Periods



1) When both ADX's are falling you will correct "for awhile", take profits

...OR...

2) When the fast ADX (red) falls below the slow ADX after both were rising, another sign a correction is coming



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## Evaluating Trend Filters

A common admonition often given to beginning traders is to never trade against the trend. "The trend is your friend". Certainly no one wants to advise another trader to not pay any attention to the trend. But a concern arises when the trader tries to identify the trend. Based on your chart's data compression (how many price bars you're displaying) you may see several different trends simultaneously. How's that possible? The Longer term trend may be up, the intermediate term trend may be in a corrective down swing, and the short-term trend over the past few days may be up, possibly the long term trend resuming. So...which of these three trends are you supposed to never trade against? The long, intermediate, or short term trend?



Of course nobody wants to advise another trader to disregard trend. So let's review two very bullish charts. The first chart below is the Nasdaq Index from July 1999 to March 2000, when the Nasdaq more than doubled in value in just over half a year. Journalists wrote this bull market was a "once in a lifetime" event. The next chart shows "once in a lifetime" occurring 4 years later in the summer of 2003, again a roaring bull market where the Nasdaq gained 50% of its value in a few months.

These charts show forecasted turning-point times suitable for swing-trading, they point as gray vertical bars - I extended a few with black lines so you can see how they correlate to the price chart. At 2,4,8 you'd be swing-trading Long. At 1,6,7 you'd be swing-trading short. At 3 you'd never be filled using any of the techniques, and at 5 and 9 the results are ambiguous.

DX History.txt  
o Name 1



The next chart is more revealing. At 1,6,7,9,10 (and the last vertical bar) you'd be swing-trading Long. At 2,4,5,8 you'd be swing-



trading Short.

The reason I'm showing these specific charts is they show one of my personal forecasting tools and I have to deal with this issue of trading with or against a trend all the time. Its a personal choice, but I do it safely as I employ entry / exit techniques as shown in this manual. It appears to me that swing-trading both long and short using forecasted turning-points is a very promising and lucrative venture. Each trader can review charts and make up their own minds.

(both charts from AIR's Market Trader)

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## Recommended Entry / Exit Strategy

For novice traders I recommend technique 5, the Open-Close moving averages. This simple technique has a sound underlying premise that is true in all timeframes - a market will tip its hand as to its next trend by the relationship of the close to the open. With this technique you simply look for one line crossing another - don't let the simplicity fool you, this is an especially good technique if you swing-trade using 30-minute charts.

**For most traders I recommend technique 3, the HiLo Bands.** They're perfect for traders who are now ready to add or increase discipline to their trading approach. They provide an initial stop loss, a trailing stop, and a technique to lock in more profit if the market extends rapidly. And any charting software can draw it as its comprised of two simple moving averages.

However, in those instances when price moves quickly, the HiLo Bands will be too far from price to be effective. In this case I have two recommendations:

1. drop to a lower time-frame and apply the HiLo Bands there. If you're trading off daily charts, use a 30-minute chart
2. if this isn't practical then use technique 6, the Short-Term breakout. I use this method the most, probably reflecting the fact that these days most market swings are very quick, rather than slow trends

Experienced traders who are adept in a discipline shouldn't have any problem selecting their own technique. None of the techniques presented here are poor, they all use price to confirm its own trend early in a new price swing. The idea is to find an entry technique that is close to the natural way you view the markets.

There is one thing I need to add when dealing with Swing Lines, and I'll use a Long trade as an example. Sometimes you'll see price penetrate below a swing-line by a few ticks during the day and then the trend resumes - that is, the market does not close below the swing line yet you may have been stopped out. In that case what I do is place a buy-stop above the high of that day, and leave it on for two days. In other words if the market quickly rejects a downside penetration of your swing-line, that's bullish, maybe very bullish as traders have just discovered something about that price level - there is more buying than selling there. It may be confirming your forecast. However, I just allow one swing-line penetration and trade re-entry - a second penetration of your swing-line within a few days is no longer bullish.

I need to re-emphasize the importance of knowing when to re-enter your trade. Markets often retest prior highs or lows before the move you've been anticipating starts - too many good-traders get stopped out and then watch the swing they've been waiting for start. I can assure you the answer is not using stops further out, especially if you hope to trade for a living. Rather take small losses, use inactivity stops, and learn how to use the PullBack method described in The Basics section.

The PullBack technique is used almost always at least 5 price bars outside of the end of the time zone. What we're doing here is seeing that the timezone did effectively end the prior upswing. Price either has not exceeded the high formed within the timezone, or it has passed above it briefly and been quickly rejected (the so-called "head fake"). This happens because prior to most trend-reversals the market retests prior highs. When that test fails, the real swing down commences. And the PullBack technique is meant to capture this event.

This technique requires the most focus and discipline to execute. The idea expressed in the example is really a form of price confirmation that the test of prior highs has failed. Another benefit of this technique is that when you don't have quick price extension in your favor after being filled its because the market has entered a narrow trading range, and you can often exit with a wash.

I'm hoping I was able to point out:

- using entry techniques with your forecast can keep you out of swing-trades where the market doesn't correct or reverse
- using these entry techniques lets price action confirm your forecast while still getting you in early
- using entry and exit techniques as presented here will often yield the bulk of a swing
- for many traders the most difficult part of a profitable trade is knowing when to take profits; these techniques allow that decision to be mechanical removing emotions from your trading decisions

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