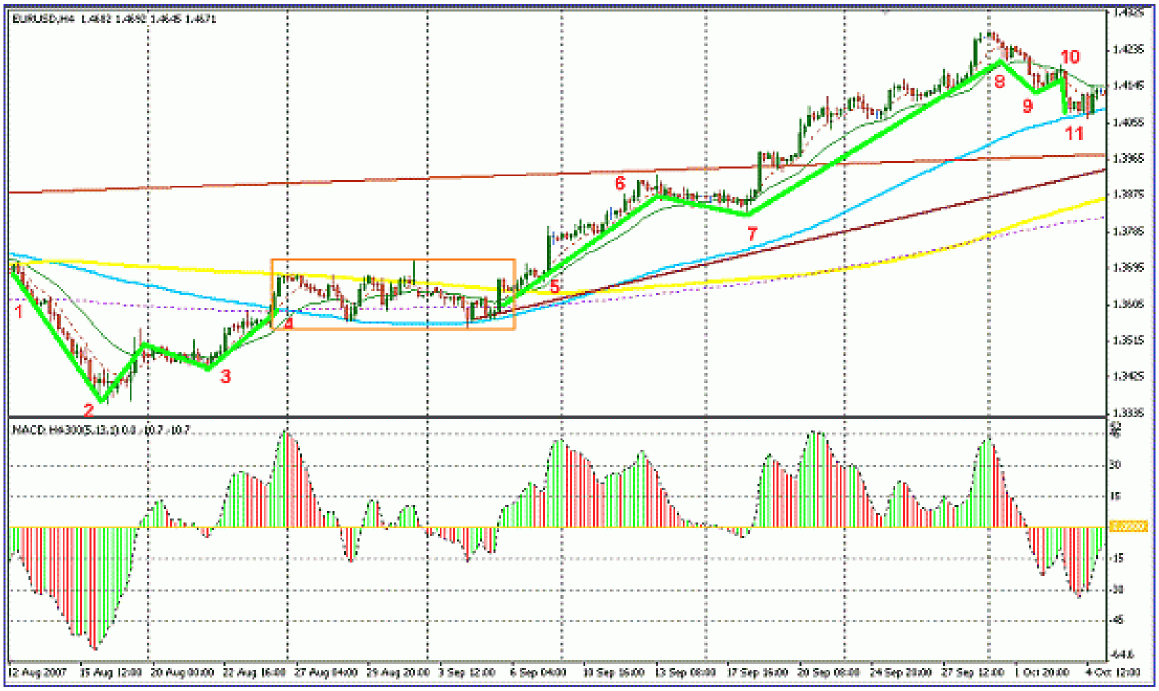
The Heart of This System



Right, I'm going to do that market rhythm once again, just for the new people coming in. I'm going to put in on Post number 1 as the #1 important file they have to go to, apart from reading the original .pdf file. FOR THIS IS THE HEART OF THIS SYSTEM.

Now if you look at the picture above, on the graph. On the left hand side the price come down below the 89 and 200 and came down to point number 2. Then there's a pull back to the 21EMA. Then the price closes above the 21EMA and then it back below the 21EMA and point number 3. And then it closes back up at the 89. That is the rhythm at the end of either a down move or an up move.

What I included here is if you look between the yellow line (the 200 SMA) and the blue line the (89SMA). Look at that rectangle that I've drawn there. The price has been confined in between the two moving averages, which is very important to notice that it oscillates between them before it gets direction. Now look at the MACD at the bottom. People trading just the MACD are going to get burned there. You HAVE TO KNOW the Rhythm of the Market. Between the confined spaces like that, those two moving averages, the market is oscillating between them. So if you want to get involved there in trading, you have to trade off the edges. Because the market is not in a trend, it is flat. You don't need an indicator to tell you the market is flat now, you see it within those two moving averages. The moment the price went in between those two moving averages at point 4, crossing the 89 upwards and it didn't go through the 200. And then it came down to the 89 again, it means it's between those two moving averages. It did not go through the 89 coming down again. So now we either have to trade from the edges, taking them as support and resistance, or you have to wait for it to show direction.

At point 5, that's where it broke above the 200, and then that huge candle upward that broke upward was on a Friday afternoon, and I won't get involved there. But just to the left of the number 6, if you look at the MACD on the bottom give you trend continuation pattern, a TC. Beautiful off the 8 EMA to get in there. Look what happens between point 6 and point 7.   The price came below the 21, so what were we expecting according to the rhythm of the market? Expect it to go back to the 21 and then come down to the 89. But it did not! It kept on moving upwards. It just closed below the 21 and then it just carried on. That's the two scenarios. It's not to say that it is going to come down to the 89, that's just the anticipation. And you have to wait until it proves it. If it doesn't prove it, you don't trade. It's as easy as that.

What happened is only when it went up that huge candle. Look at that trend line I have at just above point number 6. The price went above it, it pulled back to it, and the 8EMA, the MACD at the bottom gives you a TC, a trend continuation pattern, you enter there and you're well away.

Point number 8, the price starts coming back and closes below the 21. You won't get it more perfect than that one. It came down below the 21 at point number 9 and pulled back to the 21 at point number 10, coming down to the 89. That's the rhythm of the market. And that's exactly where we have found ourselves since Monday morning (Jan. 7, 2008) in the market. We were at the 21 after a bit of an up move through the 89, it wasn't a very strong up move, but it was an up move. Then the price came and closed below it. It pulled back to it, just above it, then it started coming down towards, well not the 89 in this case, but the reason why is that the 200 is between the 21 and the 89. But the price is still coming down, so there is nothing preventing it from coming down to the 89.

So for you people that just started this thread, I wanted you to hear this first. And the reason for it, is because this is the Heart of This System. The MACD plays a very important part, but the MACD is not the sole indicator that you use to pull the trigger. If you do that you will get burned. If you want to do that you have to take each and every MACD signal, you can't miss a one, otherwise random is going to take you out. Or you have to take the good ones. And what I say to new people coming in, take the trend continuation patterns.   The TC patterns which are off the 21. Or off the 8EMA if the price is constantly moving the along the 8EMA making those pull backs back to the 8EMA and then moves away. That's a Trend Continuation pattern on the MACD.

Be very careful to take Round Tops and Round Bottoms. You got to know a bit more about the market emotions in terms of candles to take Round Tops and Round Bottoms. Unless it's way over bought or over sold. Let's say it's moved above the 45 horizontal line on the MACD. You'll see on the MACD indicator that there are some horizontal lines, that 15, 30 and 45. The reason they are there is to tell your how much oversold/overbought the pair are. So if it has moved a quite a lot above the 8EMA and your oversold above the 45 horizontal line and it starts giving a nice round top, you can enter on market emotion (on candles) and the MACD confirming the nice Round Top.

You can go counter trend, but you must look at the 8EMA, because it can bounce off the 8EMA continuing or going on with the trend. So you have to take some profit there are cover the rest. With either a Break Even (BE) or use the little profit you've made to the 8ema as part of stop loss on the remainder. So that way if you are taken out, you get break even on the deal. Round Tops and Round Bottoms are counter trend and are always more risky than going with a trend. So I would suggest as a start to do your first month or two with only trend continuation patterns. In fact it you only trade Trend Continuation patterns you will succeed with a lot of pips every month. I guarantee you'll get more than 300 per month on an average. There might me a month where you get only 150, but then there will be months that you get 450 or 500. So that's what I tell people is to firstly due the trend continuation pattern.

This rhythm that I just showed you, you have to go back and see it for yourself. Go through and do some back testing. Another thing about back testing, in MT4, MetaTrader 4, if you scroll back on your chart and use "F12" (function key f12), you can shift only one candle at a time. Do that and that will help you as you don't know what's coming and you can make your decisions based on what you see on the chart. And see how well it goes with you and how well it doesn't go. Don't take every MACD signal. You CANNOT DO THAT. MACD is there to help you pull the trigger, yes, IF other things are in place. Like today's trade (Jan. 9 ,2008), 12:00-16:00 candle you can see there that the MACD has just went through zero above and then pulled back and then gave a red signal/bar below the zero. We call that a zero break. Very slightly above the zero, I would have preferred it to be more visible, but it was there. What I like about it was if you look at the 8:00-12:00 candle, there was an engulfing candle that suggests that the market was coming down. And if even you look at the 1 hour chart, just to make sure about the emotion of the market at that specific point, you will see that there was an evening star that helped me make that decision.

So don't just take the MACD itself. Familiarize yourself with the market motion and market rhythm as I've discussed it here on the graph that I've posted. Because that is the Heart of This System. And if the market is doing anything else in that rhythm you sit on the sidelines. You wait until it shows rhythm again. Not trending, not necessary that it be trending, although the biggest part of the profit lies in the trending market. But you can also see it when it's coming down at the end of run when it comes down pulling back to under the 21EMA then goes back to the 21 EMA and then comes down to the 89. If there is a major moving average, like today, for example the 200SMA which was above the 89, it most probably only go back to the 200 and stay a little bit there. And if the information or the news, or whatever it is that drives the market is good enough or has some force behind it, it will most probably move through it and come down to the 89SMA.

Well that's it for this rhythm part, but really you have to get this under belt, for that's what this system is all about. Don't take too many trades. Only 8-12 per month per currency pair. I would say 8 per month per currency pair. If you go more than that you start looking for trades. I hope this is going to help you all. If you finished here then you can go back and start reading the thread and then you will now something about the RHYTHM and the Hearth of This System.