

The Rainbow Squeeze

I will place a LONG trade only if:

The most recent hour candle pierces into the upper light pink upper bands AND
The price is above the daily pivot (if it has recently broken above, even better) AND
The price is above the moving average AND
The MCAD is above zero and it's bar is larger than the previous hour (if it has broken over zero in this hour, even better) AND
the Bollinger Bands have been in a more or less parallel channel before this (the longer the better) AND/OR
the Bollinger Bands have just squeezed, or pinched, and have now begun to dilate.

I will place a SHORT trade if all the above is opposite.

I will set a stop loss, around 30 pips, at least 10 pips beyond the daily pivot point in the opposite direction of my trade.

Exit strategy is very variable, and arguably the least developed part of this system. For now, I look to take profit at a daily support (1,2 or 3) or resistance (1,2, or 3) line.

So for example, if I get in long on a currency pair just after it passes above the daily pivot, I will either take profit at R1, or sell half at R1 and let the rest run to R2.

A sign that the trade is over is when the hourly candles begin to lose contact with the bollinger bands. The system appears to work best on the E/Y, but also nicely on the E/P and the Cable. It works variably well on different pairs, and I have not experimented with it on too many other pairs often enough to know how well.

I move my stop loss to break even plus one when I am up 15-30 pips (depending on volatility).

I consider the signal 'stale' if it is three or more hour old and I have not gotten in.

In some cases, when the price is well above or below the daily pivot, but the signal still looks good, here I will use the moving average line or a S&R line to set my stop loss.

The closer the moving average is to the daily pivot at time of signal, the better.

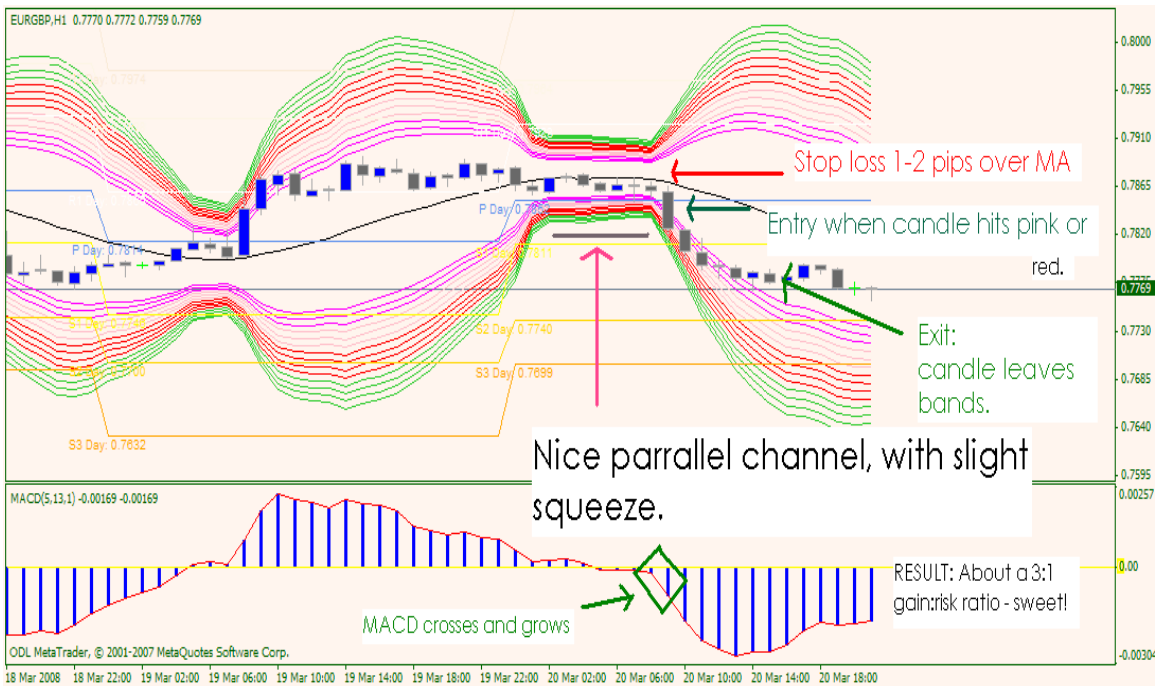
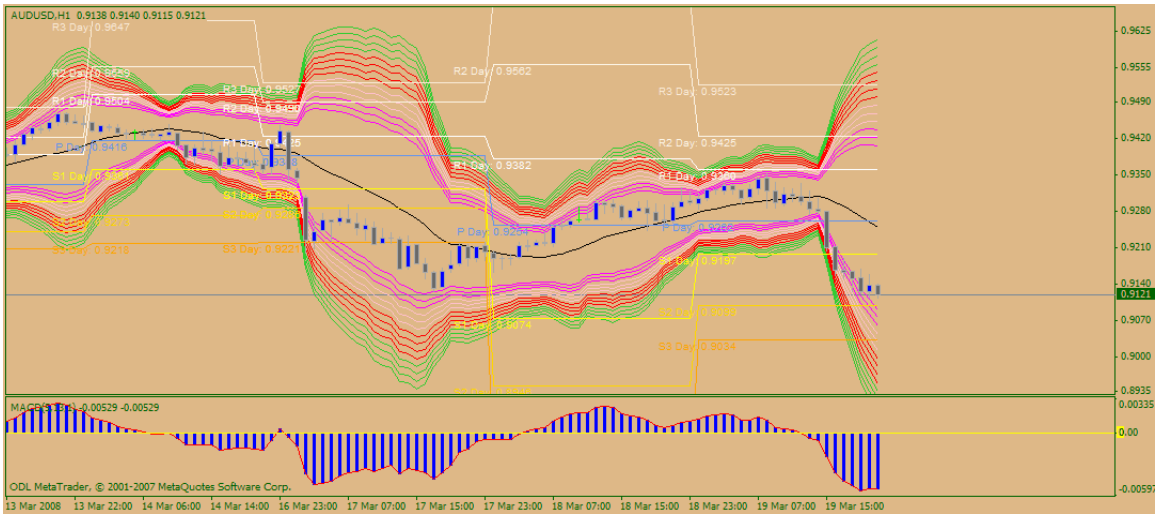
Be extra careful if a signal develops during the release of big news – probably best not to use this system on news. Theoretically speaking there is an "optimal" bandwidth which signals when price action is about to make a decisive move.

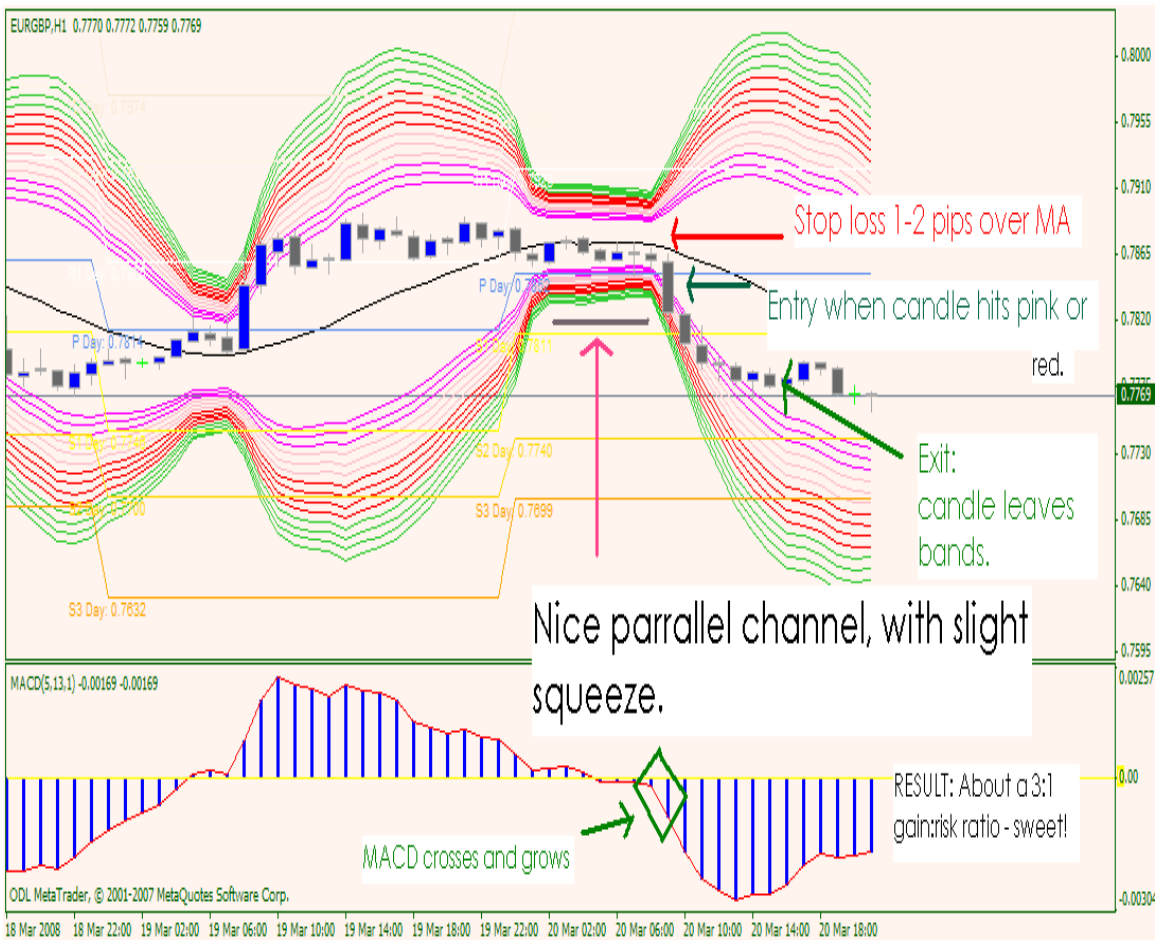
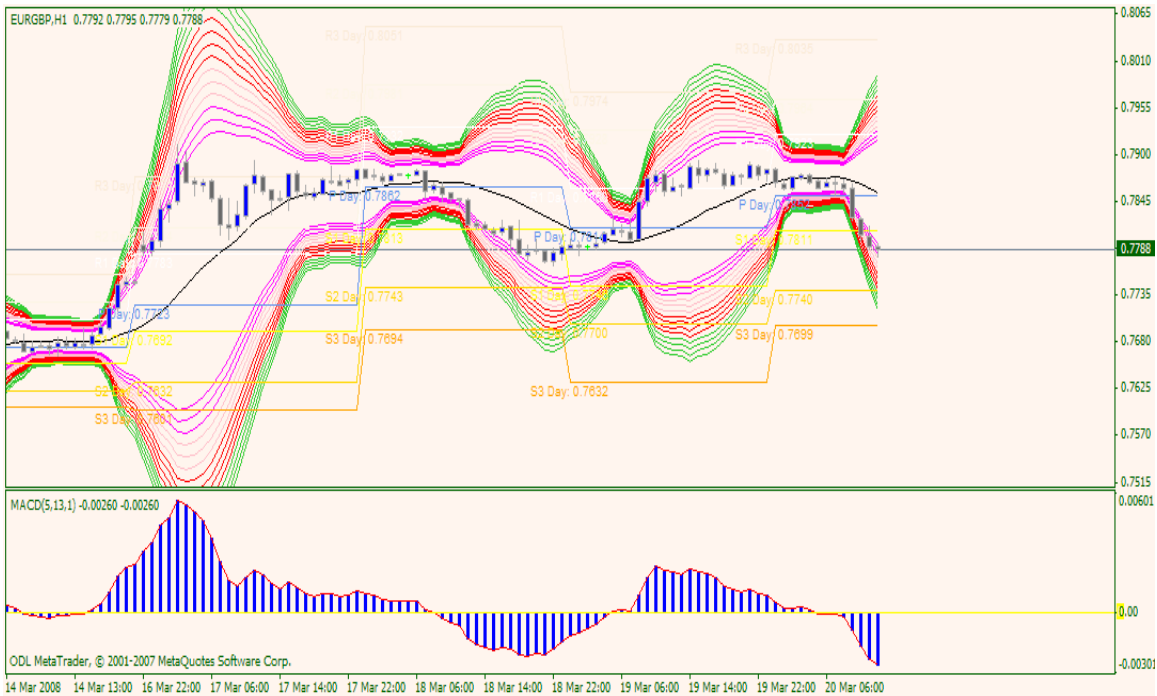
And when I say "bandwidth" I mean the distance from the lowest upper Bollinger Band, measured in pips, to the highest lower Bollinger Band. This optimal bandwidth changes over time and from currency pair to currency pair.

However, generally speaking the tighter the bandwidth the better. When the bandwidth is very tight, the colored Bollinger Bands begin to blend and look white-hot – this is an *excellent* sign of an impending big and decisive price movement, but does not come around that often.

As (probably) with all systems, you can improve your success rate if you are simultaneously aware of the overall market direction at the time of your trade.

To use this system, you must have MT4, and add the indicator and template listed in my next post.





Finding a long term profitable system definitely takes time, work, and study. And just because a "profitable system" works for Joe does not mean it will work for Jim.

The key to finding a profitable system depends on finding a system that makes intuitive sense to you, and that naturally fits your trading needs (i.e. - that has signals when you can trade, that has signals at a frequency you can handle, that has draw-downs that you can psychologically handle, etc...)

The Rainbow System that I offer here is working for me as it fits all these criteria for me. Give it a shot, and if in a few months it is not working for you, it might be good to move to something better for your needs 😊

Again I want to emphasize that this system is not merely an entry system - it *requires* that one use a 30 pip stop loss, not expose more than 2% of your equity, and never never never ever move a SL against you. If you do these things, it is not the Rainbow Squeeze, it is a new system you have created.

If some of these points work for you, take em and use em, and ignore what does not work for you, and in time, you could come up with a better system, and that would be great - thats what FF is all about, sharing ideas, and developing systems for everyone to be successful.

