STRENGTH SEPARATION STRATEGY (SSS)

DISCLAIMER:

***Disclaimer: Trading Foreign Exchange (Forex) carries a high level of risk and is not suitable for all investors. There is a possibility that you could sustain a loss of all or more of your investment therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading. Unique experiences and past performances do not guarantee future results! The examples contained herein are indicative of what is possible when utilising the strategy outlined, but in no way is it to be seen as a guarantee of success. Your trading results may vary, and will be determined more so on psychological factors which no system or strategy can provide. Because the risk factor is high in foreign exchange market trading, only genuine "risk" funds should be used in such trading. If you do not have the extra capital that you can afford to lose, you should not trade in the foreign exchange market. No "safe" trading system has ever been, or will ever be devised, and no one can guarantee profits or freedom from loss.**

Concept: A strategy that evaluates currency strength and weakness, i.e. as the strength of one currency increases in relative strength compared with its' pair, the disparity (divergence) may offer potential for a trading opportunity.

This system comprises two strategies: Scalping and Long Term, as follows:

- Scalping Strategy – H1 and 15M as Longer Term trend strength, with 5M for entry
- Long Term Strategy - H4 as Longer Term trend strength with H1 for entry

For each strategy, a signal is generated on the Long Term TF/s, at which point we wait for confluent signals on the Short Term TF, at which point we make our entry.

The strategy is built around two main indicators; the Correl8 and the QQE.

The Correl8 indicator displays individual currency strength as measured against ALL 28 pairs. Choosing to display just the chart currencies for the data display it can be readily seen how each currency is performing against the other in real-time.

The QQE indicator measures strength also, in the same way as an RSI, however it offers a smoothing factor. It is well-known for its' accurate signals and virtually no lag.

Lastly, the strategy utilises Pivot Points and the Daily Open line as potential targets for TP levels.

The **SSS** is designed to be used both as a scalping method, using the H1, 15M and 5M charts, or for longer term trading, using the H4 and H1 charts. Both of these will be discussed in detail further on, with examples of trade setups, Take Profit and Stop Loss suggestions, re-entry signals and more.

But firstly, let's take a look at the Scalping Strategy.

When I use the word "Scalping" in this strategy, I am not referring in any way to a 1 Minute chart. After many years and thousands of screen hours under my belt, I prefer to consider a 5M chart display as the quickest movement on which to base my trading decisions.

So, with that in mind, the **SSS Scalping Strategy** utilises the H1 as the Long Term TF, with the 15M as the Medium Term TF positioned underneath. These two indicators show the underlying trend strength and this will determine the direction of our entry.

We use the 5M as the Short Term TF where we identify our trade entry.

1) SSS Short Term Strategy Rules:

As mentioned above, this strategy relies on "confluence" of all indicators in order to generate a positive trade signal, i.e. ALL indicators for ALL THREE time frames must agree before we can enter a trade.

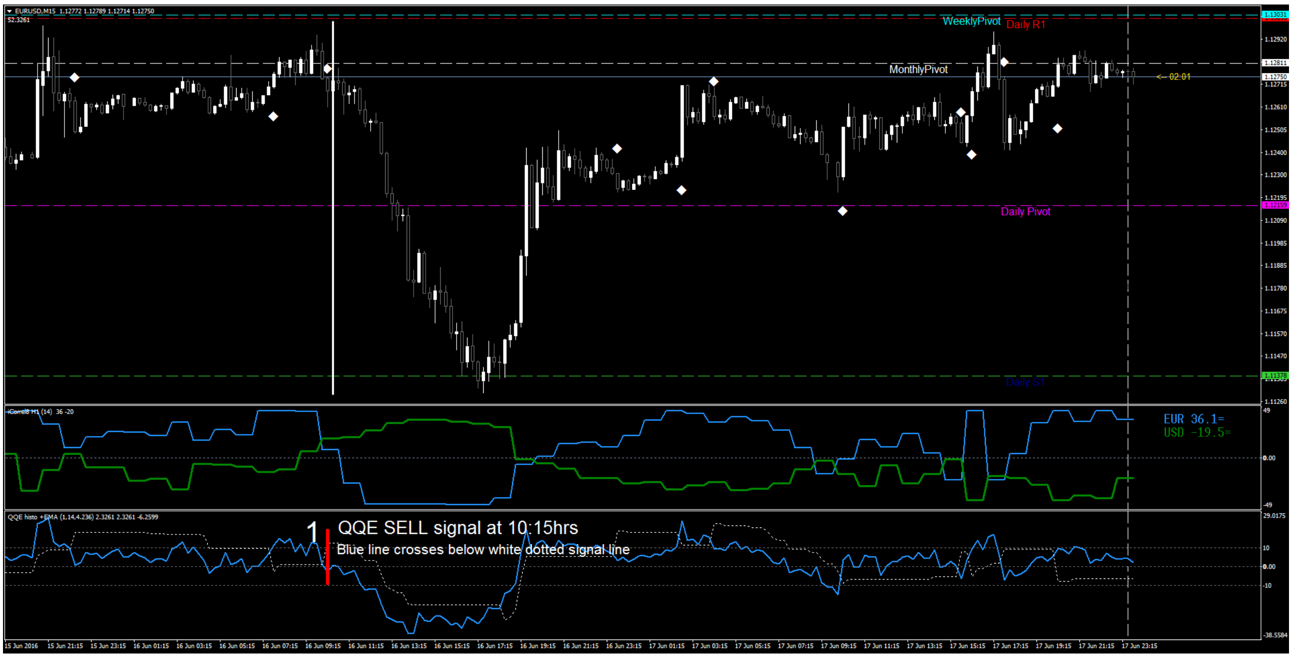
In the following trade example, the 15M QQE signal is generated first, followed by the H1 Correl8 signal.

a) In order for the QQE indicator to provide a valid signal, it needs to display two things:

(i) the BLUE line crossing above the mid-point "50" line from below for a BUY signal, or crossing below the "50" line for a SELL signal, AND;

(ii) the BLUE line has to be positioned ABOVE the WHITE SIGNAL LINE (dotted line) for a BUY signal, or BELOW the white signal line for a SELL signal.

See the screenshot below for a clear example of how the QQE provides a valid signal which is in agreement with the H1 Correl8 signal for a possible SELL entry. The signal occurs on June 16, 2016 at 10:15hrs.

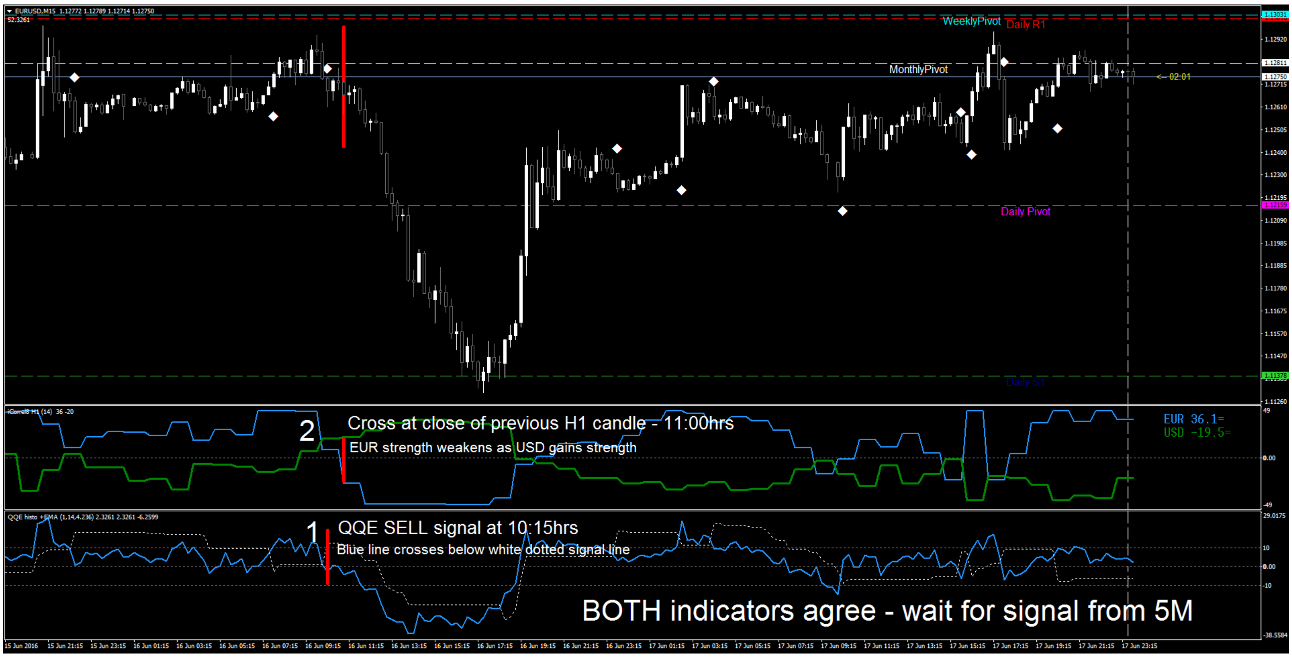


b) We examine the H1 Correl8 indicator which appears as the bottom window of the 15M chart.

We are looking for several things to occur before we proceed to the next step:

> (i) A cross of the coloured lines, indicating a shift in strength from one currency to the other, OR;
> (ii) A convergence toward zero in which the values of each line are within a certain value range. This range can be determined by the End User, but for this example, I will use an arbitrary range between “0” and “20”.

If we are looking at a 15M chart of the EURUSD, and the H1 Correl8 indicator shows a clear cross at ANY TIME during the formation of that candle, then we proceed to the next step. See the below screenshot for an illustration of this. The signal occurs on June 16, 2016 at 11:00hrs.



As this is a 15M chart, the H1 Correl8 indicator shows a horizontal line for 4 x 15M candles, and then starts a new line for the next series of 4 x 15M candles, and so on. We wait until the end of the hourly “candle” line in the Correl8 H1 display, and if there is an obvious cross in strength, or even if the values of the individual lines show a combined separation distance of “20” or less, we proceed to the next step, and look at what the 5M chart QQE indicator is telling us.

Please note that these two signals do not have to occur in any particular order, however they both need to have happened by the close of the hourly candle in the Correl8 H1 display window before we can proceed to the final step, which is waiting for the trade entry signal from the 5M chart.

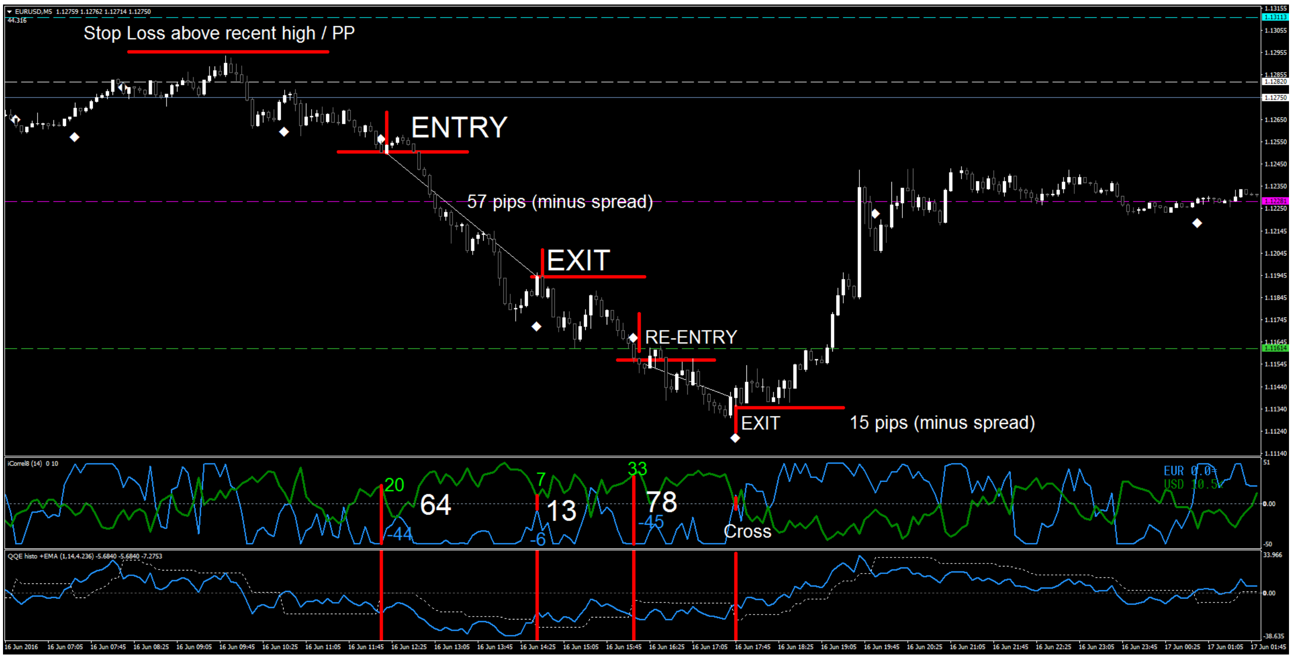
c) A trade entry signal is given from the 5M chart display, and is purely based on two factors:

(i) the 5M QQE indicator provides a signal that agrees with the 15M QQE indicator, and;
(ii) the 5M Correl8 indicator provides a valid signal indicating the volatility of the move.

Using the same EURUSD example, as there has already been SELL signals from both the H1 Correl8 indicator, AND the 15M QQE indicator, we wait for the 5M QQE indicator to generate a SELL signal .

We can see below that our next valid signal comes at the close of the candle at 12:15hrs. Now we just need one last piece of the puzzle to ensure the trade is a correct set up. We check the 5M Correl8 indicator individual line values, and if they combine to give a separation value greater than or equal to 50, we enter the trade. The line values are displayed at the right hand side of the indicator display window.

In the screenshot example below, the EUR has a value of -44, with the USD above 0 at 20. The separation factor here is 64, i.e. the EUR is 44 away from 0 on the low side, and the USD is 20 away from 0 on the high side. As “64” is greater than “50”, we enter our sell trade.



The number “50” has been chosen arbitrarily, and represents a value roughly half way between the upper most line value and the lower most line value during normal trading conditions. Indeed, these upper and lower values can expand during times of greater volatility, but for everyday trading decisions, a combined value above 50, or above half of the total value displayed from top to bottom, suggests enough volatility is in the current move to warrant a trade entry.

After a while it becomes easy to just “eyeball” the separation and determine whether or not it is providing a valid signal. If the lines are diverging steeply away from one another, it is a great indication that there is a lot of buying happening for one currency, or a lot of selling happening for the other currency, or BOTH. The trading decision is based around exploiting the divergence between the individual currencies.

As you can see, after the trade entry was made the market continues down for quite a way, and this is a great example of how this strategy can be profitable.

The screenshot example above also shows how it may be possible (but not always advisable!) to re-enter the market after another QQE signal, as long as it is still in line with what the 15M QQE and H1 Correl8 indicators are showing.

Note however, that the 5M QQE lines are rising, which is an indication of a possible exhaustion of the overall downward momentum. Because of this we close the trade at the next QQE exit signal and take a small profit. Soon after this the market reverses and heads back up.

<u>Why can't I take earlier signals and collect more pips!?</u>

If you study the H1 Correl8 and the 15M QQE indicators enough, you may start to think that you should be able to enter trades earlier and collect more pips. Whilst this is perhaps true in some cases, even many throughout each trading session, this system is not designed to catch EVERY move that presents itself.

The reason and the logic behind why we wait until the end of the H1 candle from the Correl8 indicator, is so that we are generating SUSTAINABLE signals only, and then we follow the lower TF signals that are confluent with the H1 Correl8 underlying trend strength.

This decreases the chances of getting into losing trades, and also means that you can get away with a very tight Stop Loss, as most of the time the move has already generated enough momentum in the signalled direction that there is less chance of a sizeable retracement.

At the end of the day, this system goes by the principle “As important as it is to consistently win, it is just as important (or even <u>**more**</u> so) to NOT consistently lose.”

There's just no need to always “be in the market”. There will always be another trading opportunity.

2) Long Term Strategy Rules:

Just as in the Scalping Strategy, the rules for the Long Term Strategy rely around confluence between the different time frames to ensure a signal is as reliable as possible.

For the Long Term Strategy however, only the one chart is used, this being the H1.

On this chart are the H4 Correl8 and the H1 QQE indicators.

Unlike the Short Term Scalping Strategy, the Long Term strategy firstly seeks a signal from the Correl8 indicator H4 display, and then seeks a confluent signal from the H1 QQE indicator.

These signals need to occur in this order!

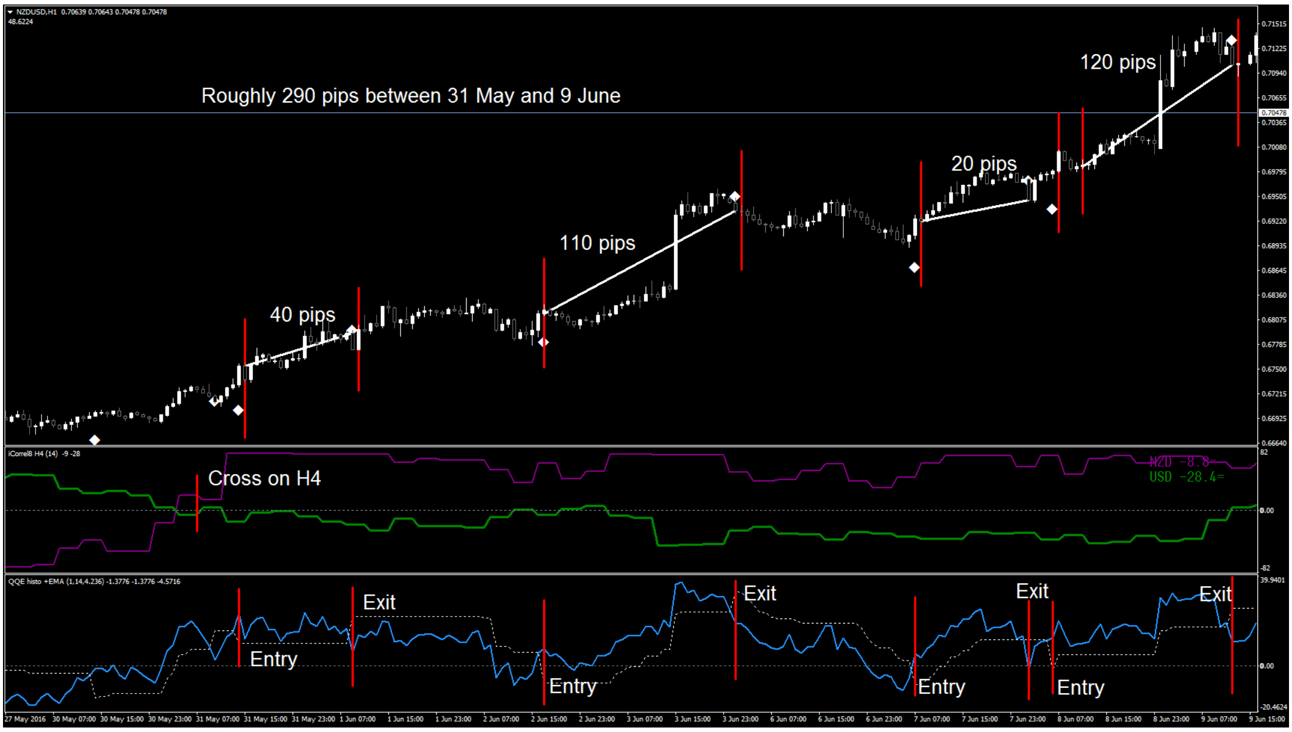
The reason for this is that, different to the Scalping Strategy, a signal from the H1 QQE is the trade signal itself. As with the Short Term Scalping Strategy, where the next step is to wait for a signal from the 5M indicator/s on the other chart, the Long Term Strategy enters a trade directly after a signal from the H1 QQE – all on the one chart.

Aside from the differences in Time Frames used, the rules and conditions for exiting a trade differ slightly also.

All exit signals come from the H1 QQE indicator, unless specific targets are being set, which will be covered soon.

Re-entry signals may be taken as long as they are in agreement with the Long Term TF direction.

See screenshot for examples of an ideal setup on the NZDUSD H1 chart, along with trade re-entries.



<u>A final word on these two indicators bewfore we move on:</u>

Both indicators offer complete and comprehensive alert functionality, including:

- painted Arrows on the chart display;
- screen pop up alert;
- sound alert;
- email notification, and;
- push notification.

Having these functions means less screen time and more "YOU" time!

<u>TARGETS</u>:

Targets are something which many users will have their own opinion on, and so this system is not about pushing a particular idea and claiming it is better than the rest. The following idea is a suggestion only, and not to be interpreted as the ONLY method of setting your TP and SL levels.

I suggest the use of a Pivot indicator, and I should leave it to you to decide what levels you want it to paint to the chart display, i.e., do you just need to see the Daily Pivots, or would you prefer to add in the Weekly, or Monthly?

I am also a fan of placing the Daily Open onto the chart display, as this level can disturb price action quite a bit.

There are countless other methods available by which traders set their targets and SL levels. Some use actual indicators designed to do this automatically when entering a trade, using pre-determined variables based on a percentage of equity to risk, or a pre-determined number of pips.

I like a bit more control over where I place my targets and stops, and so I look for the most recent swing point or the closest Pivot Point on the 5M chart and place my stop no more than 3 to 5 pips beyond this level.

Similarly, I use the next Pivot Point in the direction of my trade as a potential target, but I always plot longer term Support and Resistance lines first, usually from both the H4 and D1 charts.

Finally, if a signal appears that suggests price will move in a certain direction and price is already close to an important level, be it S&R, PP or psychological level, then I would suggest waiting until price either breaks through or bounces off that level before entering. The ideal entry would be when the signal is in confluence with a bounce or a break of a significant level just prior.

In the illustrated example on the EURUSD earlier, the signal came just after a bounce off of the Monthly Pivot Point, which provided an ideal entry.

NO MAGIC BULLET!

This system, as already stated, has been designed to offer up entries that are more sustainable than if we were to blindly take every signal available. Because of this, this system may not generate as many signals as a trader may be seeking.

It is important to remember that we don't always need to be in a trade, and in fact the opposite is just as important, i.e. it is important to limit the number of trades we are in each day. Whilst theoretically this can be seen as limiting the potential for income, it can equally be seen as reducing the opportunity for loss.

If it is absolutely necessary that you have more trading opportunities than this system provides on a single currency pair, then try it out on several at a time. But please do your due diligence and trial the information provided here on a DEMO account first, to ensure you become familiar with the "behaviour" of the indicators involved.

This is NOT a "magic bullet" to make you rich on auto-pilot. Such a system does not exist anywhere. The market can do anything at any moment, and the market is always right.

What this system does offer is a way to consistently pull pips out of the market without being greedy for them.

Some final thoughts on the best time/s to trade:

It is important to recommend particular trading sessions over others when using this, or indeed any system.

The success of this strategy relies upon exploiting the divergence in relative strength between currencies. In order for a decent divergence to occur, there must be enough volatility in the marketplace to drive price in a particular direction more so than another, so that it gains enough momentum to be considered a sustainable trend direction and generate a decent signal.

I recommend using this system during the most volatile times of the trading day, i.e. London open, New York open, and most definitely the crossover between these two sessions. It is when the market is at its' most liquid, and there is more chance of there being a trend to follow, rather than a range. Trading the Asian session may prove worthwhile, but care should be taken during periods of lower volatility.

Similarly, there are times when I would absolutely stay away from the screen and ignore any and ALL signals that this system will generate. Always remember to check for the current days' news releases and keep these times in mind as you consider taking a signal. I would not trade this, or indeed any system, within 15 minutes either side of a major news announcement. This system suggests a tight Stop Loss and with violent spikes and high volatility, the chances of getting stopped out are tremendously increased. Why risk your capital for no good reason?

As a final note, please use proper Money Management methods if using this, or indeed any system.

As stated already, it is just as important to NOT lose, as it is to win. Preservation of capital should be foremost in a trader's mind when deciding to enter a trade. I would definitely not risk any more than 2 to 3% of your account balance on any one trade when starting out live, and even when on a DEMO.

And if you haven't done so already, please read “Trading in the Zone” and / or “The Disciplined Trader” by Mark Douglas. Trading really is far more about the mindset you enter into your trading environment with, and far less about the system or strategy you use.

That's all for now. I hope this system brings you success.