

By 'Palmer' on the Forex Factory

Based on Phillip Nel's 4 Hour MACD Method.

Here we go....

First things first: This may be little out of bounds as far as Phillip's MACD method is concerned because the main focus here is re-entry on the 1 hour chart. But, the same indicators are used and the trade direction is only taken in the direction that the 4 hour chart is moving in; price is below the 89 taking shorts only and above the 89 taking longs only. Re-entry on the 1 hour is more of an aggressive approach, as Phillip had stated early on in the thread, and should only be considered after you have the 4 hour method in your grasp.

It is easy to get taken away with the 1 hour chart. By that I mean, you can devote too much emphasis on the 1 hour and neglect what the 4 hour chart is doing. The 4 hour is the bread and butter of this system, the main ingredient if you will. Take away the main ingredient and things just aren't the same. It's like making good soup. The main ingredient in soup is water. Take the water away and you have no soup. Let the 4 hour be your guide.

I have been spending a lot of time on the 1 hour charts, after the 4 hour trend has been established, looking for re-entries in the direction of a 4 hour trend. I believe in Phillip's method to the extent that I have paid a professional programmer to clean up the code I was working on to alert me when the conditions are lining up for a re-entry. When the 4 hour trend is really strong, price is hugging the 8 EMA and keeps moving up or down and rarely dips below or above it, re-entries on the 4 hour may be hard to come by. That being the case, you should be extremely satisfied with the pips from the Rb or Rt that go you there in the first place. Remember, the first target on the 4 hour after a Rb or Rt that is a counter-trend trade is the 8/21 EMA 'area'. The dilemma is that if that is your target on the 4 hour, the 1 hour may be setting up for you to take a trade in the opposite direction for a re-entry in the direction of the 4 hour. In other words, if the 4 hour chart has given a Rb signal where price is below the 89 it is a counter trend trade for you to go long. Now, the 1 hour has retraced to the 21 and you are now looking for a re-entry with the trend direction on the 4 hour which is still short. You now may be faced with having a long and short position open at the same time because you have two 'valid' signals. This is why it is called trading or for a better term, speculating. That is what we are doing in the first place. We are counting on some underlying instrument to either go up or down per some given rules or method. We have no control over which direction the market will take, we just have an idea what side we want to be on. OK, back to the dilemma. The fix is simple, go both ways and let the market decide for you AFTER YOU HAVE PUT YOUR STOPS IN!

The 1 hour will get you in a position sooner so you may be showing a large enough profit on that trade while at the same time taking a 4 hour Rb or Rt trade that is starting to show a profit as well. One of those will be correct so it's up to you to decide of which one to hold on to. This is where your trendlines need to be used as support, resistance, AND profit levels as Phillip has mentioned so many times in the past. Go back to post # 5470 on page # 365 for that exercise.

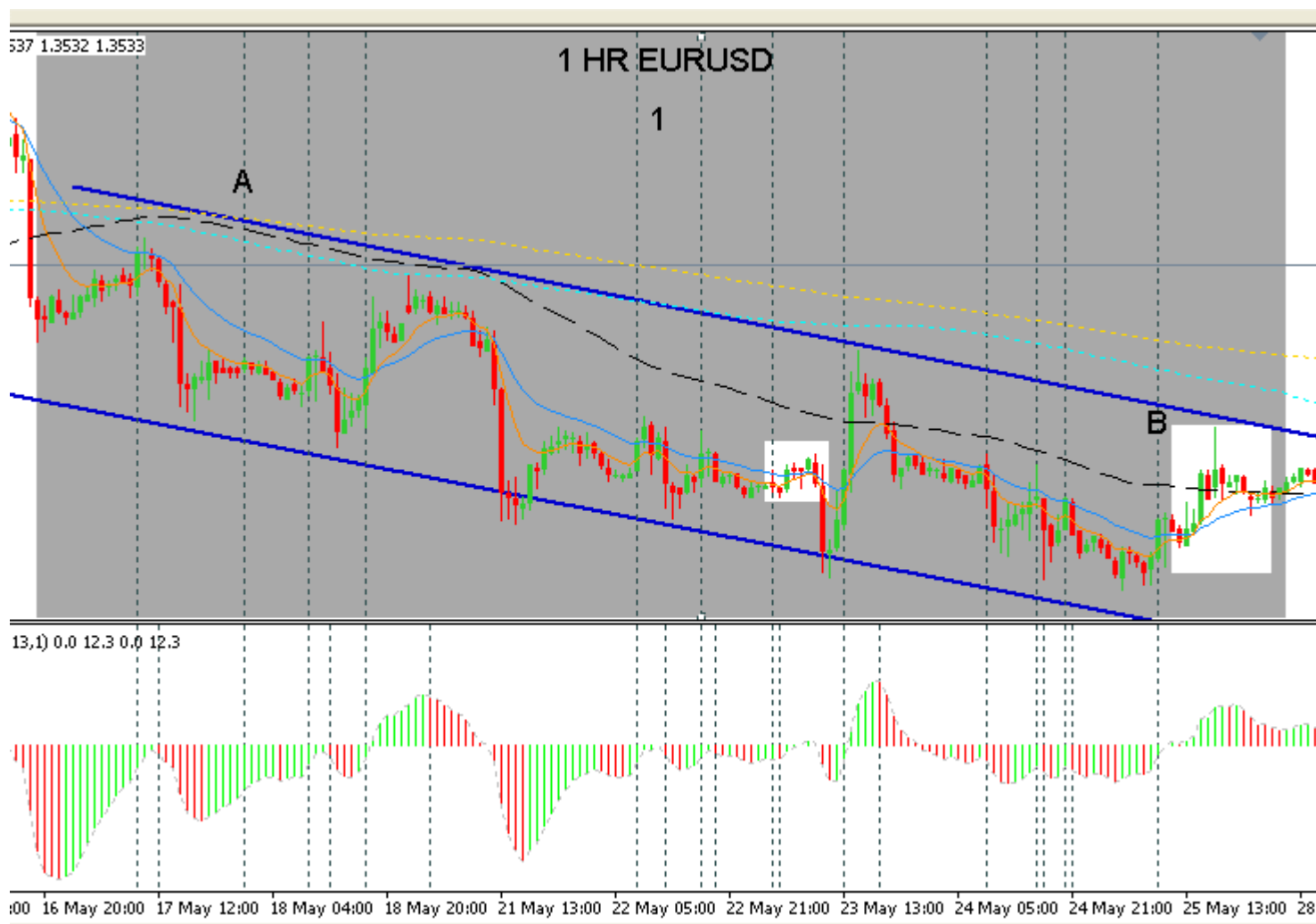
Remember, this write up is about re-entries on the 1 hour. It's up to you to figure out your stops and profit taking areas...

On to the charts:

Here is a 4 hour chart of the EURUSD



Here is the chart for the same period of time on the 1 hour EURUSD:



The dashed lines that go through the 1 hour price chart and MACD bars are where the price hit the 21 EMA. The dashed line that follows that just goes through the MACD bar is where the MACD bar changed from green to red. As you can see, when the 21 is hit on the 1 hour and the 4hr is below the 89, it's a pretty good signal to re-enter according to the 4 hour trend. I marked the MACD bar that changes from green to red for the re-entry instead of just using the price bar that hits the 21 because this might be a better or more reliable entry. If you go back to the 4 hour chart above, you see that lines A and B are where 'true' Rb's occurred. This is a case where you would enter a counter trend trade to the bearish 4 hour chart. The 1 hour chart is marked A and B at the first hour bar that made up the beginning of that 4 hour candle. Rb at A worked out to well enough to push price between the 8/21 area on the 4 hour chart. At point A on the 1 hour chart you see that price hit the 21, the first vertical dashed line after A, pushed above it, and then came back down. The vertical line that goes through the MACD bar has turned from red to green and that should be your re-entry to the short side with the trend on the 4 hour chart.

Rb at point B on the 4 hour works out a little better for a counter trend trade. Price continued to the 89 before hitting brick wall and came back down to resume the down trend after a 90 pip move to the upside. This is a

case where an entry on the 1 hour for a trend continuation signal would have resulted in a loss. But, since you were long already with the Rb on the 4 hour you would still have ended up with a nice profit. The take home message here is to not forget about what is happening on the 4 hour chart as stated earlier. The small white triangle is where the 8 and 21 moving averages start getting packed together and make things a little difficult to trade. Yes, this is after the fact. Everything is a lot easier to see after the fact. So, in addition to printing out the 4 hour charts and making notes on the, this can be done for the 1 hour as well. You're just going to end up using more paper and maybe another ink cartridge or two.

A few take home notes to remember:

1. The 4 hour chart trend is the direction to take on the 1hour chart.
2. Don't forget about the 4 hour chart by getting 'lost' on the 1 hour chart.
3. You may end up being long and short at the same time, be prepared for that.
 - Where are your profit targets in both time frames?
 - Draw your trendlines on both time frames.
 - Is there a Rb or Rt that is forming on the 4 hour that is causing the 1 hour to retrace?
4. Print the charts out and make notes on them.

This is an aggressive approach to trading the 4 hour MACD method. You need to be able to monitor the charts pretty closely to be able to take advantage of the reentries on the 1 hour. However, the 4 hour method by itself is just fine and dandy as it has proven itself again and again....

Trade well.