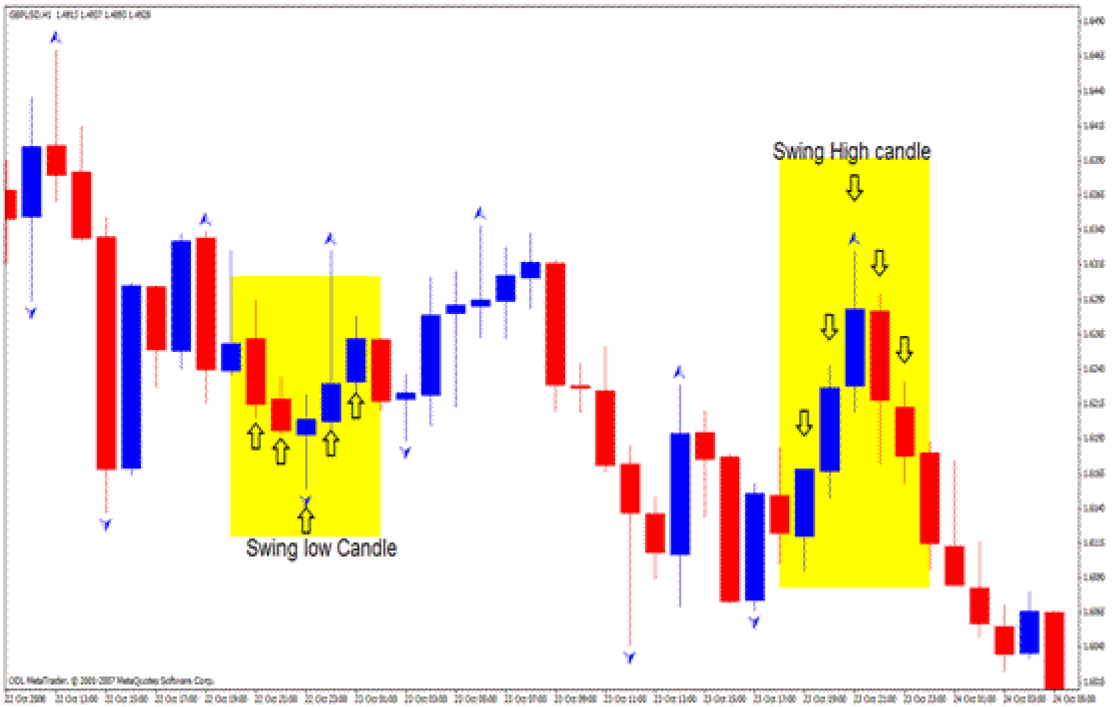
The 'swing' and Atr

Definition of a 'swing'

A swing consists of five candles.

- For a 'swing low' the 5 candles are:
  - 1, 2, 4 & 5 all have higher lows than no 3, forming a downward-pointing wedge shape. Previous to the swing, the market will have been moving downwards. Remember, it is the *low* of each candle that counts; high, open and close are irrelevant.
- For a 'swing high' the 5 candles are:
  - 1, 2, 4 & 5 all have lower highs than no 3, forming an upward-pointing wedge shape. Previous to the swing, the market will have been moving upwards. Remember, it is the *high* of each candle that counts; low, open and close are irrelevant.

I found this brilliant pic on a site I was directed to, that illustrates this beautifully.



Some of the things that newbie traders find hardest to get their heads around are these.

- From any given point:
  - The market will go up.
  - Or it will go down. Suppose it goes up:
    - Then it will go down again.
    - Then it will go up again.
    - Then it will go down again.
    - Then it will go up again.
    - ....

Sometimes the going ups will be greater than the going downs. The market is trending up.

Sometimes the going downs will be greater than the goings up. The market is trending down.

Sometimes the goings down and the goings up will pretty much cancel each other out, so the market is ranging.

The sharp-eyed will have noticed that the above chart pictures were all taken from the same pair – EURUSD – but with different time frames; M15, H4, M5. They were all taken from the same chart on my trading platform, yet all show different information.

Why?

Because different chart time frames show different positional information. A stunning rise on a 1 minute chart is a retrace on an falling hourly, is a barely noticeable blip on a 4 hourly, does not even register on a daily.

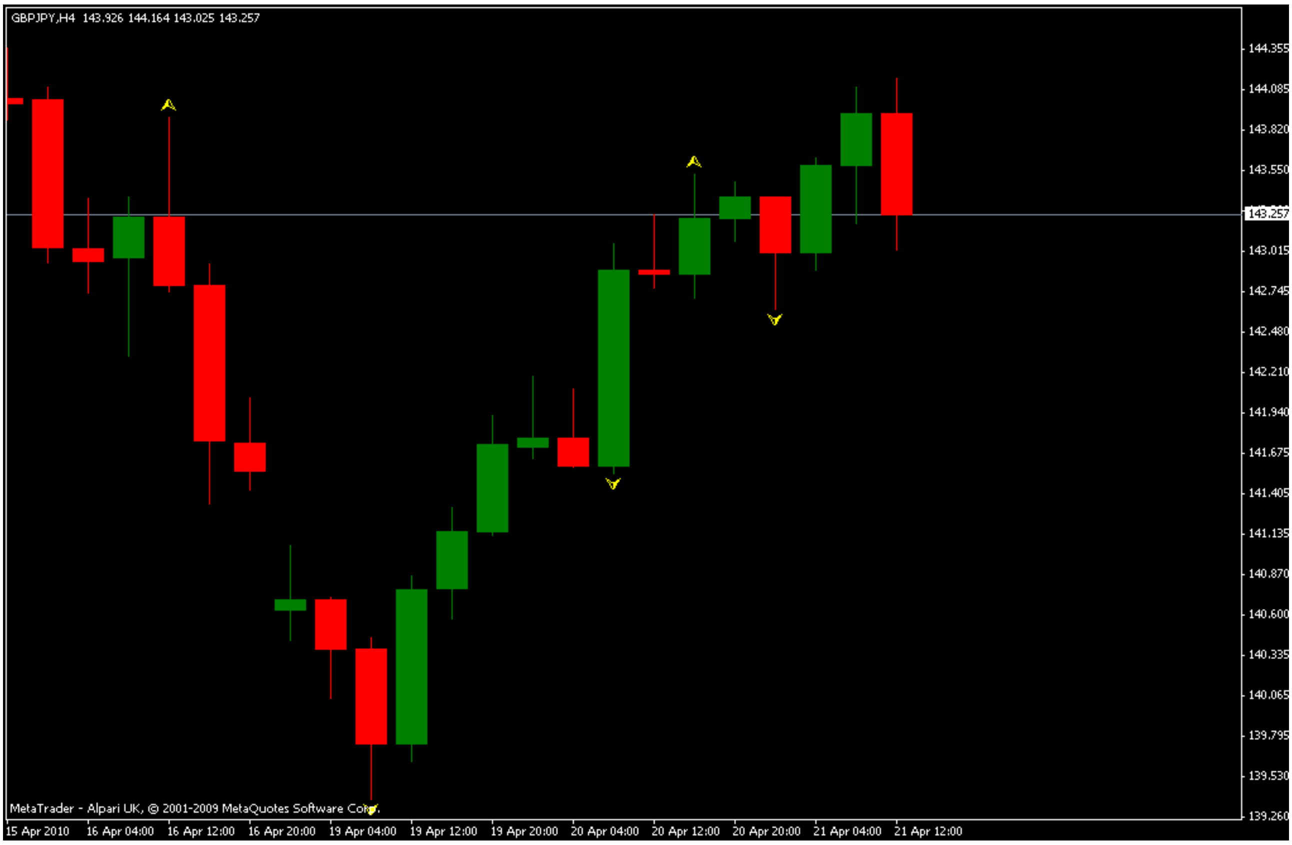
Another *really* difficult thing for newbies to get your heads around is this: you have no way of telling when the markets are going to move in the opposite direction to that in which they have just been travelling.

It is the 'big money' players who move markets – the big banks, people like Gorge Soros. They have millions to play with. When the Bank of Japan decides it needs the Yen stronger, it spends gazillions buying it, so the xxxJPY pairs fall. The principle here is; big money trumps small money. Big money trades the high time frames with lot sizes that make ours look silly.

The waves, or swings that we see on our charts are caused by a change of sentiment on the part of market movers. We small guys have to trade within the confines of the market movement caused by the bigger guys, but we do not try to trade the longer time frames. Instead, we let one of these be our trend setter, and we trade the moves within this trend, but on a smaller time frame.

- A swing high forms when the market *was* rising but is *now* falling. The upward momentum has disappeared, for now; it may return.
- A swing low forms when the market *was* falling but is *now* rising. The downward momentum has disappeared, for now it may return.

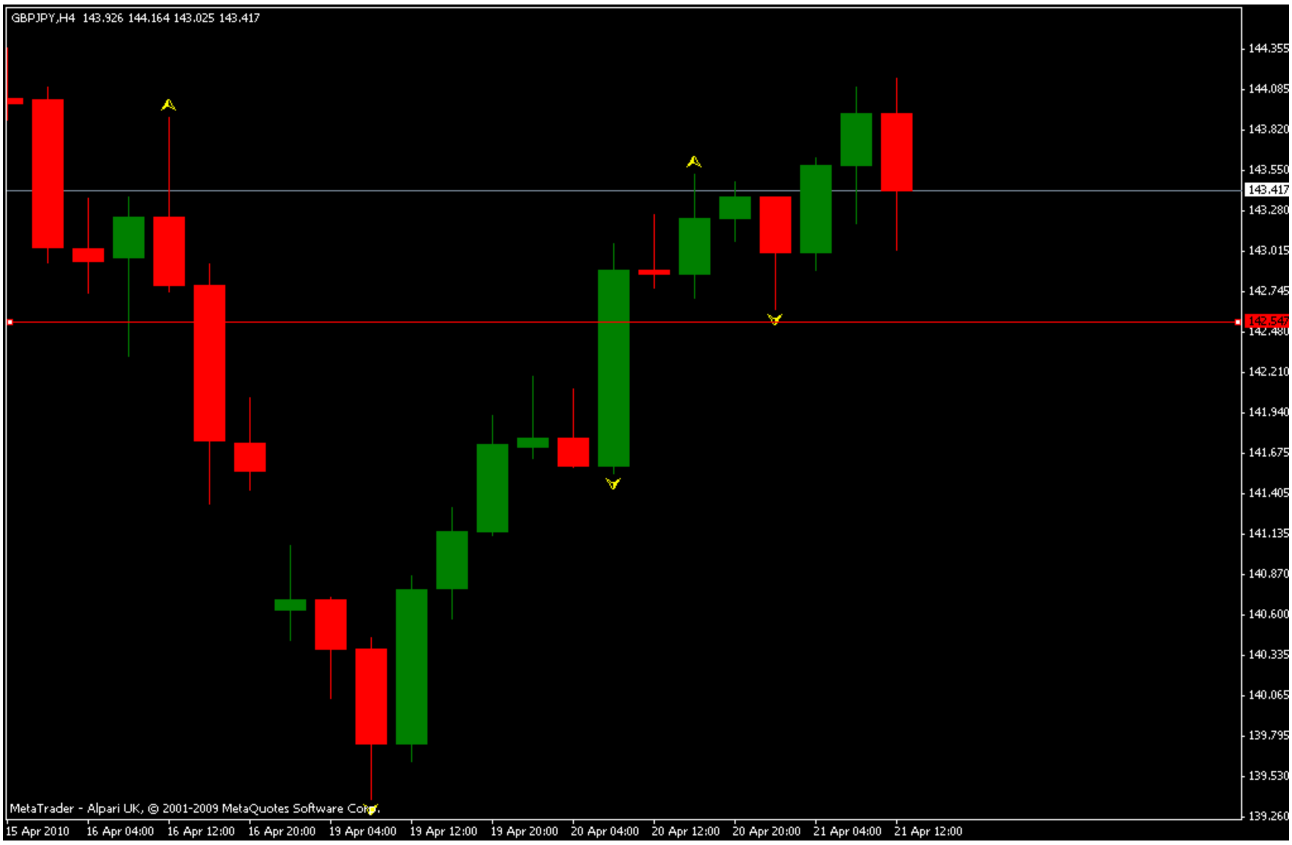
There is an indicator that we can use to show us the swings. It is called Fractals and is found within the Indicators section of your mt4 platform Navigator window. The name is ridiculous. If you Google 'fractals' you will find nothing that suggests this indicator has anything to do with mathematical fractals, so do not expect to glean any insight from doing so. Drag a Fractals indi onto a chart and it will calculate and show all the swings high and low. Have a look at this chart, a 4 hour GJ.



You can see several fractals (the arrow heads), but we are only concerned with the last one on the chart; what went before is not relevant.

The last fractal on this chart shows a swing low, so we make the assumption that the market will resume its downward move at some stage. Indeed, had we taken a sell at the start of the last candle on this chart, we would have made a decent profit.

We had no way of knowing whether the market *would* resume its fall; indeed, it had to be *rising* in order to create the new swing low. What we do instead, is move down to a lower time frame to look for trading opportunities.

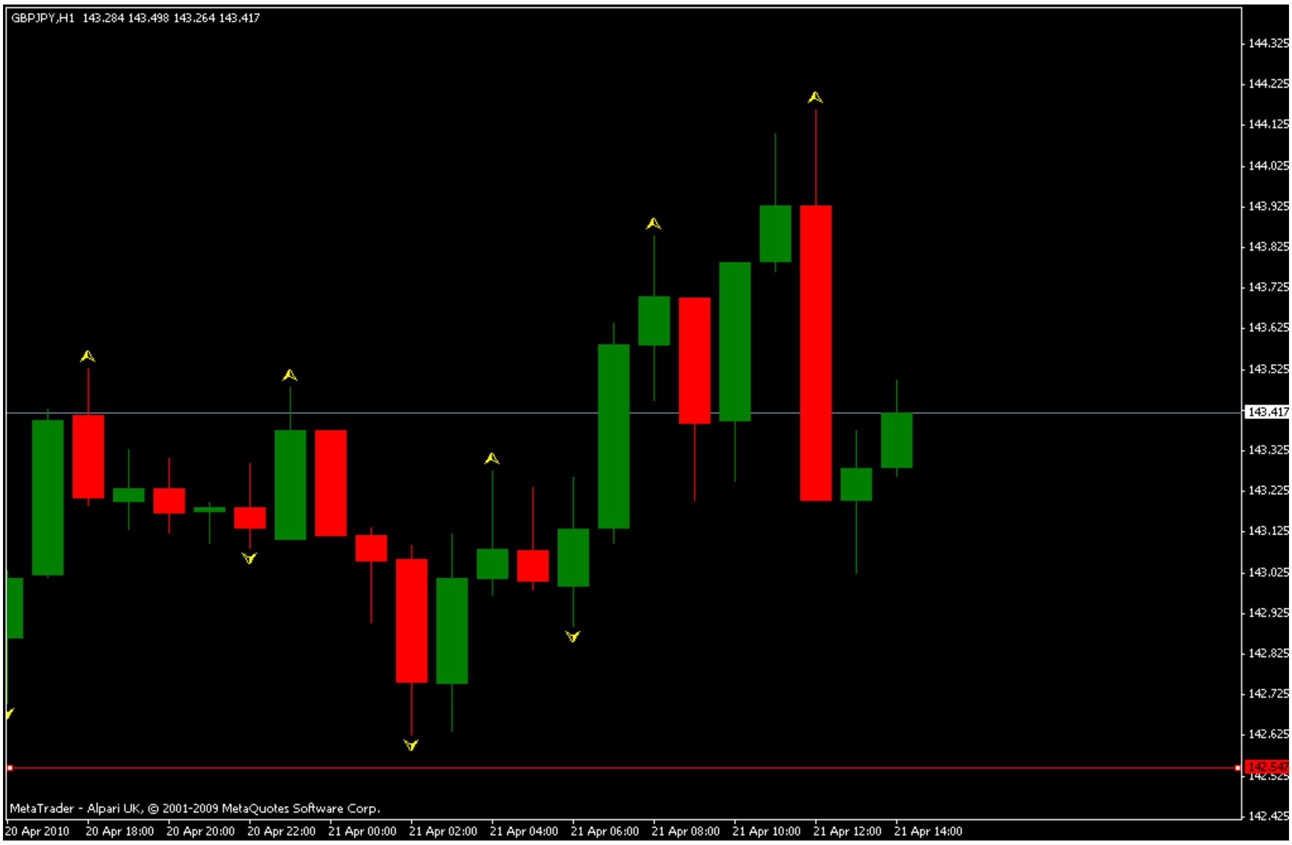


First of all, we draw a line on the 4H chart to represent the trend on the higher time frame. I use red to remind myself that the trend is down, green for up. It does not matter where the line goes; its purpose is merely to remind ourselves where our trading direction is.
Now we consult a lower time frame. Typically, we us a minimum ratio of 1:4 so:

- Trade 15M: higher tf is 1H
- Trade 1H: higher tf is 4H
- Trade 4H: higher tf is D1

Ignore the other time frames. Lower than 15M trades are going to be murdered by chop. Higher tf's need deeper pockets than we have to accommodate a huge stop loss.

So, I have ascertained my trend on the 4H, so now I drop to the 1H. The fractals adjust to the new time frame and show a whole new series of swings.



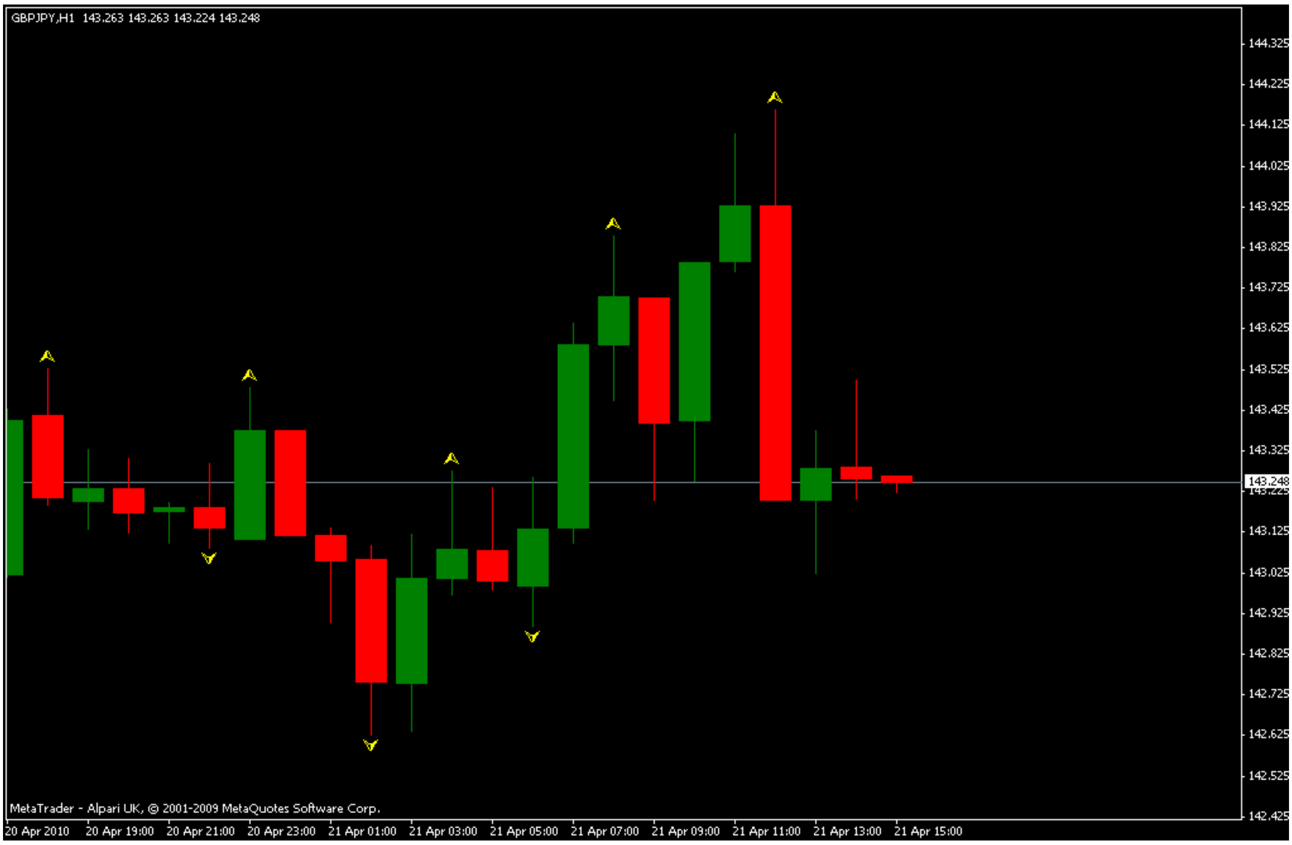
This shows the latest swing forming – a swing high this time. We cannot trade this yet. Notice the final candle on the chart is only the *second* after the long red marked by the Fractal. It is a green candle – the price has been rising. If it continues to rise and eventually passes the high of the fractal candle, the swing will not have happened and that fractal will disappear.

What we actually do is wait until the opening of the third candle after the fractal. Remember:

- A swing high forms when the market *was* rising but is *now* falling. The upward momentum has disappeared for now; it may return.
- A swing low forms when the market *was* falling but is *now* rising. The downward momentum has disappeared for now; it may return.

The swing low on the higher time frame (4H) indicated the loss of downward momentum. We are waiting for this to resume. So, if the fractal remains in place at the start of the next candle on the 1H chart, the rising momentum has disappeared, suggesting the market is about to fall again and so resume the down trend on the 4H. We take the sell trade the moment the new 1H candle turns red to indicate the resumption of the downward movement.

The third candle has formed, it is red, just, so we are in.



Atr

Average True Range (Atr) is a measure of volatility (price movement) over a set period of time. The is an Average True Range indicator available in the Indicators section of you mt4 Navigator window. You do not need it on your charts to use my robots.

Atr is great for deciding stop loss and take profit values. They usually have a multiplication factor, so a take profit can be set to multiples of the value of the Atr.

For more information about this, Google 'average true range' for descriptions.