# Trading Multiple CCI Time Periods

Trader: Mark Whistler

## Within Forex, there's something professional traders call, "chasing indicators."

Sadly, so many retail traders – with the mindset that trading Forex profitably is easy – fall victim to this destructive attitude and unfortunately, constantly find themselves behind the curve as volatility kicks in.

## However, there is another way to trade.

In this special report, traders will learn why "chasing indicators" is such a losing game, while also seeing how they can begin putting indicators on their side to overcome destructive volatility that overwhelms most trader daily.

## One Indicator with Three Kings to Assist Traders

Here, traders will also learn three important parts of the larger equation to becoming profitable. While the discussion on Multiple CCI Time Periods is not a "one stop shop" for completely understanding the larger universe of currency trading, using the indicator correctly can help traders when markets are offering little guidance.

**Within this report, traders will learn:**

1. How to identify trend.
2. How to use the Commodity Channel Index (CCI) correctly to avoid simply "chasing indicators."

I have provided FXStreet.com with special Two Time Frame CCI Indicator code for MetaTrader / MetaEditor.

*The code can be found by clicking here.*

*If you are not able to open the above link, please cut and paste the URL into your browser:*
http://www.fxstreet.com/search/contributors/authors/author.aspx?id=aad47c8f-50a4-41d2-aca3-46329117a6d7


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What is a Commodity Channel Index (CCI)
By definition a Commodity Channel Index (CCI) is an oscillator indicator with a baseline of zero. The indicator was initial created by Donald Lambert and was formed for the purpose of aiding traders in timing cyclical trends.

Historically, when the CCI was trading above 100, traders began looking for an overbought situation, while below indicated a potentially oversold scenario.

While this does hold true in many cases, as we will soon see, by looking at two different timeframes, we can actually avoid "head fake" moves when a larger trend is intact.

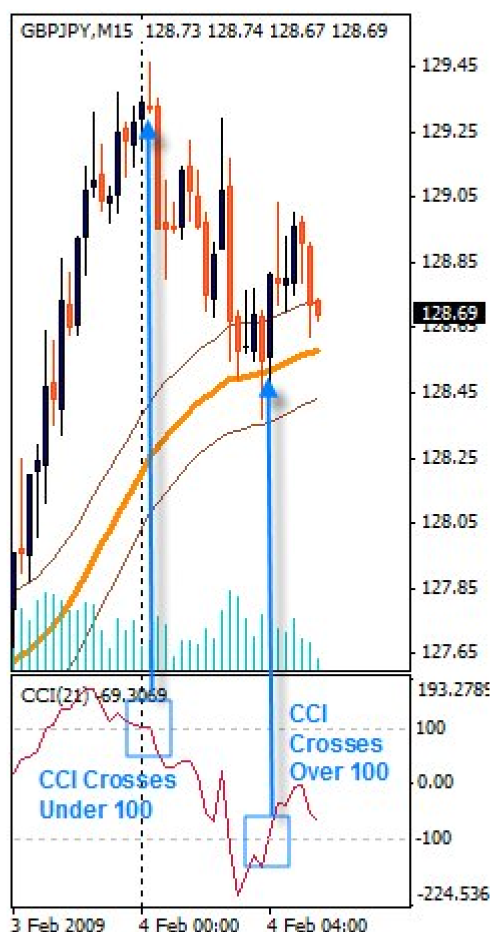
Please remember that CCI is typically thought of as an indicator that helps to identify situations where price diverges from trend, thus creating a state where a larger collapse in short-term trend or longer trend continuation within the larger cycle may be pending.

Overall, the Commodity Channel Index (CCI) measures price against a moving average, helping traders to identify when the price diverges significantly from the average range. Really, when traders are attempting to use the indicator to time trades when CCI crosses back underneath +100, or back above -100, they are effecting a "mean reversion" position – and often don't even know it.

Simply take a look at the chart to the right and notice that when CCI crossed back under +100 (and over -100), at first glance, it appears those who took contrarian positions probably made out pretty well. Right?

Sort of… Read on to see why CCI can fail traders in real time…

**Note: I am not going to delve into the math behind CCI here; we will simply discuss actual trading of the indicator.**





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Take a look at the chart to the right; really, it's just an expanded version of the previous chart on Page 2… What you will now notice is that in multiple occurrences, traders who took positions based on the 21-period CCI 100+ cross under would have lost money…

See, when looking at shorter-term time frames, many traders often mistakenly take a position against the longer-term trend, based on CCI reversing above the -100 oscillator level, or below the +100 oscillator level and thus, find themselves in big trouble when the longer-term trend resumes.

So how do we defeat this potentially misleading and costly pitfall?

**<u>We identify trend.</u>**


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# Identifying Trend with Multiple CCI Time Periods

Identifying trend to defeat false CCI signals can be done by applying two CCI time periods to a chart, in an effort keep from taking a position against momentum.

How is this done? Using the “Two CCI” code provided, copy the file into your MetaEditor “Indicators” folder. When you close and reopen MetaTrader, the indicator will show up in your “custom indicator” drop down menu within your charts. Add the Two CCI code and (for example) enter two timeframes such as 100-periods and 21-periods. What we are doing is using the 100-period CCI line to identify trend, while using the 21-period CCI line to identify shorter-term price volatility, in an effort to trade “with the trend.”

In essence, we are attempting to identify trend with the longer-term CCI and then wait until short-term price action and volatility have “reloaded” against the longer-term trend. When short-term volatility has reloaded, we can take a position in the direction the trend, with a stop just under the relative range.

The chart to the right shows what I am talking about. You will notice that 100-period CCI (denoted as the red line) was trading above the 0 baseline, while the 21-period CCI (denoted as the blue line) was erratically moving up and down.

What we can infer is this: Short-term volatility will move up and down as traders zigzag in and out of markets, while trying to identify which direction the currency pair is moving. However, in the case of the hourly chart, we would have known to **NOT** take a short position while longer-term price action remained bullish, meaning the 100-period CCI was trading above the 0 baseline.


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Thus, savvy traders needed to only wait until the 21-period CCI "reloaded" and crossed (the trigger) back above the -100 oscillator level to implement long positions, thus potentially seeing large winners in both occurrences.

Conversely, if the 100-Period CCI were trading below the 0 baseline and the 21-Period CCI spiked above the +100 oscillator level, the trader could look for a short position entry, assuming the 100-period CCI had not begun ascending and attacking the 0 baseline at the same time. It's important to note the short position in the latter example would not have not actually implemented the trade until the 21-period CCI actually breached the upper +100 mark, and then commenced a freefall from above the same +100 oscillator area.

Aggressively taking positions before CCI lines actually breach the +100/-100 oscillator levels, falling/rising from upper/lower extreme ends of the indicator window is extremely dangerous. The reason is that when CCI (long, or short term) is still ascending/declining above/below +100/-100, momentum is still in play. For reversals, we want to wait until trend continuation momentum has shown significant signs of completely stalling, as noted in CCI lines falling back into the relative range towards the 0 baseline

# Identifying Reversals

Identifying reversals is slightly trickier, as anytime we are trying to take a larger contrarian position against the trend, we are truly fighting momentum. However, as all good things come to an end, trends eventually stall and… cease.

Thus, to find reversal entries, we will use +/-100-line oscillator "cross unders" and "crossovers," similar to the 21-period CCI crossover in the above example on Page 4. However, this time, we're going to do something different.

We're actually going to use the longer-term 100-period CCI line as inference and confirmation of pending downside/upside reversal, even though the line may be trading above (in the case of a bull trend), or below (in the case of a bear trend) the 0 baseline. The main rule is this: The 100-period CCI line must be trading well above the +100 oscillator level, or below the -100 oscillator level, before even thinking about a reversal. In the example on Page 4, you will notice that 100-period CCI line was trading above zero (denoting a bull trend) but was not significantly above the +100 oscillator level. Let me


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reiterate that again, the 100-period CCI was indeed “flirting” with the topside +100 oscillator level, but was **not** actually trading visibly above.

When the 100-period CCI line is trading “almost at”, or above the 0 baseline, while “roughly at”, or below the +100 oscillator level, than taking a short position is a low probability scenario, as overall momentum is “up” and we truly do not have enough information to put reversal probability on our side.

High probability overbought reversals (meaning the bull trend could be nearing an end and a sharp downside move could potentially be pending) generally surface when both short-term (21-period) and long-term (100-period) CCI lines are trading well above the +100 oscillator level, or below the -100 oscillator level. When the short and long-term CCI lines are at the extreme ends of the oscillator, “trend capitulation” or “the 5$^{th}$ Wave”, in terms of Elliot Wave Theory could be in effect. You will notice in the example to the left, when the 100-period CCI line was trading well above the +100 oscillator level (not “just flirting” with it), the occurrence foreshadowed a large reversal looming on the hourly chart, which could have provided significant opportunity for savvy traders.

What’s more, you will also notice that the 21-Period CCI line crossed BELOW the +100-period CCI line - while STILL above the +100 oscillator level…and then subsequently failed the 100-line. In essence, we are basically saying “I want to see longer-term momentum “rapped out” **with** short-term momentum, before even considering the possibility of looking for a reversal.

It’s important to note that traders will need to configure their CCI time periods to best fit each chart timeframe traded; however, 21-periods and 100-periods can be used as initial benchmarks.


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Moreover, never ever, ever, ever, ever, ever, ever, ever trade without a stop and never take on more risk that your account can handle.  When in doubt stay out.

While there a many more examples of CCI trading – the above two are a great starting point for traders who are not only seeking to help identify trend – in an effort to increase discipline – while also ensuring greater probability for both trend trading and reversals are on their side.

Finally, please remember anyone can enter a trade, but the best of the best know:

**EXIT IS EVERYTHING**

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Mark Whistler is a professional trader, author and analyst.  Whistler is a contributing Senior Market Strategist to TradingMarkets.com and heads the currency trading Service: Forex Force on WallStreetRockStar.com.  From time to time Mark can be seen on CNBC and is a regular contributor to FXStreet, discussing currency trading and global markets.

His books include: Trade With Passion and Purpose (John Wiley & Sons, Inc. 2007), Trading Pairs (Wiley, 2004), Profit from China (Investment U/Wiley, 2006) and Profit from Uranium (Investment U/Wiley, 2006.) Mark's newest book, The Swing Trader's Bible (John Wiley & Sons, Inc. 2009) - co-authored with CNBC/Fox News regular guest Matt McCall – just released in the second week of the New Year.

Mark Whistler is also the founder of FXVolatility.com and InstitutionalIndexResearch.com, and is a regular columnist for TraderDaily.com and Investopedia.com.  In addition, Whistler is one of three founding principles of Tekonomix Partners LLC., a corporate services company focused on aiding small to mid-sized companies planning/execution of strategic deals and capital raising.  Tekonomix Partners also facilitates tactical planning for both domestic and international acquisitions.  Moreover, Whistler is a contributing blogger with BabyPIPs.com and TradersChoiceFX.com.   In his spare time, Mr. Whistler operates Eats for the Streets, a growing organization - dedicated to helping homeless across America.

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