

Swing Trading with Heiken Ashi and Stochastics

Update 9th May 2013

It's been a long time since I updated this system and a lot has changed in the meantime. I have been busy trading and not had time to devote to system development, etc but I am in the process of winding things up now so I will have more time to give to trading and helping people trade this system.

The basic pattern hasn't changed. A signal like the chart below is what you are looking for. To improve the probability you should use it on two timeframes. I recommend the weekly and the 4 hour. When you get a clear signal on the weekly chart monitor the 4 hour chart for signals in the direction of the weekly move. You can either take profit at the end of each 4 hour impulse move or you can let them ride and close when the 100 sma is broken against the trend. I recommend the latter as you can catch some huge trends this way. Also it is usually possible to get two or even more entries on the pair and to break even so when you do catch a good trend it will return a substantial amount.

I have set up a demo account to trade this system for a while. Once I have the time to devote fully to this system I will post a live account. I don't want to put funds at risk on a system I am not wholly devoted to trading.

Here's a quick recap of the system...

Indicators...

100 sma
Heiken Ashi candles
Stochastics 8/3/3, low/high

The signal...

Watch for the 100 sma to be sloping up or down the page smoothly and for the price to be trading the correct side of it.

When the price pulls back smoothly towards the 100 sma (green candles going up towards the 100 sma in a downtrend, not choppy red then green, opposite for an uptrend) and then the heiken ashi candle changes colour

and the stochastics have been moving smoothly and then turn smoothly then that is the signal to get in. I have posted lots of charts in the thread but there are a few below.

I particularly like heiken ashi dojis which are discussed on page 2 of the thread.

Stops and trade management...

I use 2 x ATR (Average True Range) for the initial stop. I move to break even after the price has moved into profit by 2 x ATR. Then I trail the stop loss 1 x ATR behind the 100 sma as an emergency stop only. The actual exit signal is when the price closes the wrong side of the 100 sma against the trend.

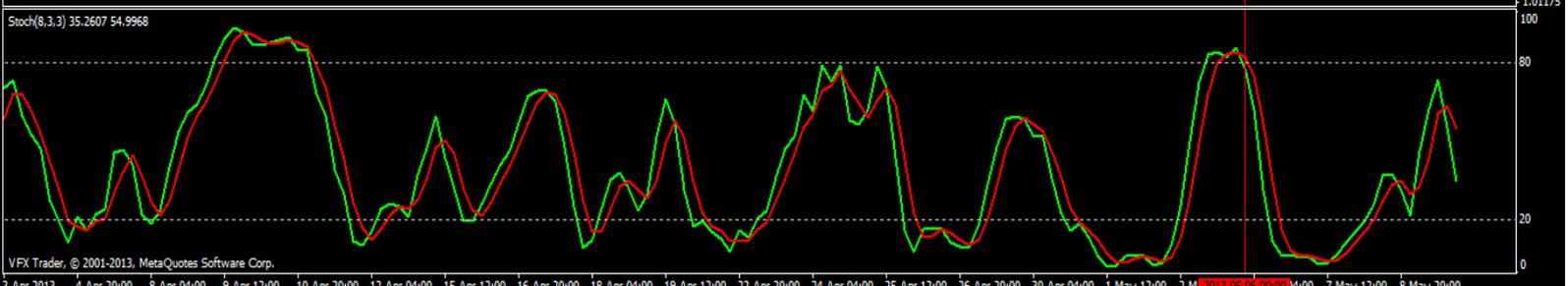
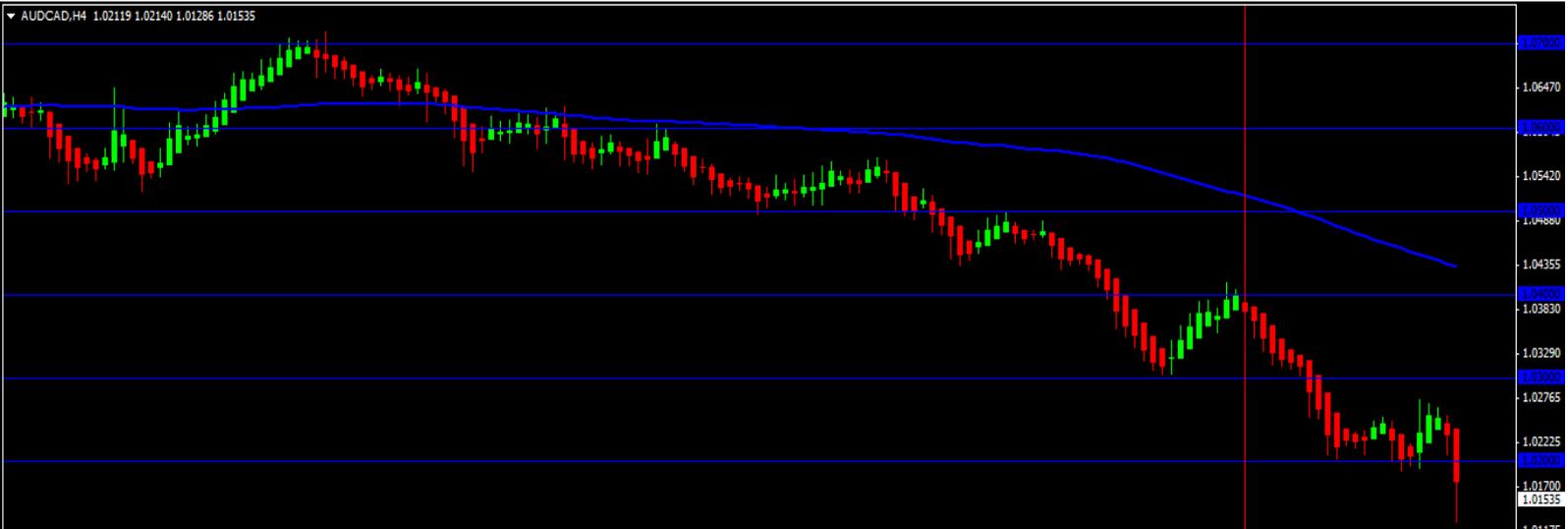
As mentioned above you can take profit at the end of each 4 hour momentum push (impulse move).

Money management...

Always best to use a % of your account. 1% is fine to start with but if you are willing to accept the bigger drawdown then you can use 2 or even 3%. The higher your % risk the higher your potential drawdown and in my testing I hit a 35% drawdown with 3% trades.

That is the basic system but as mentioned above you are better to trade it on two timeframes. You can use daily and hourly, weekly and 4 hourly or even daily and monthly. It should also work fine on lower timeframes but I've never traded anything lower than 1 hour charts. I'm currently using 4 hour charts as it doesn't take up too much of my time.

The first chart below is a basic signal. The second is a weekly chart with a signal marked and the third is a 4 hour chart with the resulting trend. Could you have traded that successfully?





Here's a bit about the history and development of the system...

It all started with the Lindencourt Daily system which you can find here...

http://www.lindencourt.net/daily_fx_system.html

It's a good enough system but I don't like the idea of using stochastics for exits. Stochs can go overbought or oversold and stay there for a long time so if you exit on the first cross against your trade you could well be cutting your winners short.

I haven't fully tested the above system but I include it for completeness.

This gave me the basic idea of using stochastics in a trending market which as most people who don't know anything about indicators will tell you doesn't work (yeah right).

I used the same 100 sma and the same stoch settings but at the time I came across this I was getting into using heiken ashi candles and so the basic system was there. I couldn't believe the signals it was giving me

when you combine the smooth stochs with the heiken ashi turns. Add a bit of support and resistance and it looked great.

At first I would just take profit after each push but after reading Greg Michaelowski's book, *Attacking Currency Trends* I got the idea for trailing behind the 100 sma until it was broken against the trend.

After a while of trading it on one timeframe I wanted to increase the probability of catching a good trend. I read about the dual timeframe approach in the book, *High Probability Trading Strategies* by Robert Miner. He recommends to use the two timeframes that I set out above. Daily/hourly or Weekly/4 hour or whatever you want as long as it has a similar degree of separation.

That pretty much set the system in my mind and it's the final system that I laid out in the last update which has had nearly 5000 downloads.

How to build your account up if you're starting out with not a lot...

The biggest problem for new traders is not having enough money to trade with. If you don't have sufficient funds to trade to make the money you feel you should be making then the temptation is to use a larger % risk than you should and the first losing streak puts a big dent in your account... and your confidence.

A good way round this is to use the principles laid out in the book, *The Richest Man in Babylon*. It's a good read but the basic message is to put aside 10% of your income each week/month/whatever and invest it wisely. Forex could possibly be called a wise investment if you're making a steady percentage return on your account. Of course if you're just going to gamble and lose it each time then you're wasting your time anyway.

If you are in debt then the book suggests to restructure your loans so that you can pay them with 20% of your income so you always keep 70% to live on. Then when your debts are paid back then you can start to save 30% of your income each payday or use an extra 10% for luxuries and save 20%, whichever.

I really think the above idea is a good way to improve your financial situation. It uses the theory of compounding quite nicely. First of all though I would recommend you only trade a demo account until you can prove to yourself that you can return a % gain on a monthly basis. If you

can't make a profit on demo month to month then you're just wasting your money trading live.

After that then you can start to invest your money bit by bit until you feel confident to invest your full money and top it up with your 10% each payday.

Then not only are you making a percentage gain on your capital each month but you are also adding to it from your income. This will build up quite nicely over time. It's not get rich quick but it's your best option.

That's it for now, thanks for reading. I hope you try and like the system and that you make lots of pips trading it. Everyone is always welcome to post in the thread. If you have any questions then feel free to ask and please do post your trades and results there. I will keep the thread going as much as I can.

Edward Munroe/Hugh Briss