

Linear Regression Channel:

The linear regression channel is a standard tool with the MT4 platform. It is used to project the trending path of price as well as help identify the breaks from the current path or trending move price is currently following. The application is somewhat hazy but I have used them successfully in the past and they may help you in identifying trending moves and the breaks in the current movements. The LRC can't necessarily be traded by itself but combine this with your use of fibs and see if the 2 are compatible..I think you may like the combination. If you don't feel the LRC is of any help do not use it.

This will be an exercise that I will help you get started with then you finish out the year to get the hang of it from what you see here.

The center line uses price as an equilibrium to set the top and bottom lines based on the amount of price you're pulling the channel across.

To place the channel you want it on the previous movement as you want to project in front of it the current path price is following, to start this we will begin as 2008 kicks off and we pull the channel across the last week prior to Dec 31st, 2007. The first chart shows the starting point



As you can see price was following an uptrend as this last week of December ended and we would expect it to continue. If not we will see price break from the pattern. If we advance to the next day we see the break and in this case it's obvious. Now we have to advance the channel to the movement in price and I like to start it from the beginning of the week now that we have a change of direction. So now move the most left point up the last candle of the 31st then move the most right point (start point) of the channel to the first candle of the new week and we see a different projected path now. The next 2 charts show the break from the

previous weeks trend and the following chart shows the new placement of the channel.



New projected path based on the current movement of the new week.



Now based off the 1st day of the new week we want to leave the channel in place and not advance the most forward point until we see price break from this path it's following. As the next chart shows price continues in this projected path through the end of the week



No updated to the channel was necessary as price followed the projected path into the next week.

As Tuesday the 8th of January unfolds we get a break from the trend of the last week, now we have to advance the channel up to the current movement to get a new projection.

We advance the most forward point to the last candle of the 8th, the day that the break occurs and then advance the start point of the channel to the first candle of the week. The new positioning of the channel now gives us another projected path for price to follow.



The new path now with the channel advanced to current movement.



The following day, Wednesday we get yet another break to the short side, once Wednesday is completed we advance the forward point of the channel now to the last candle of this day and leave it in this position until price breaks from this path.



Price continues to follow this path until the 15th of January where we get a break long out of the channel.



Now as we update to the new break from the down trending move, we actually have 2 options we can either start the channel from the low of the previous week since it is so close or continue with the general rule of the first candle of the week, the choice is of personal preference and up to each trader to either fit the channel tighter to price or leave it as is. The channel will self adjust as you test both

locations for the starting point. The forward most point will go to the last candle of the day that the breakout occurs on. Me personally I will always choose the one that has the least amount of angle, the higher the angle the more likely a false break of the channel will be.



This week continues in this path until Friday and a break short occurs



If we advance the channel now to the new point we have the high of this Thursday to the last candle of the day the breakout occurred. This creates a very steep

channel and becomes unreliable to some extent simply because of the angle its just too steep and you must be wary of false breakouts from a channel this steep, very similar to a very steep trend line.



As we move forward now in time and see the action from the next day price does actually follow the channel through this next day, but several candles do form outside the channel, but again the angle is very steep and the breaks can be unreliable its better to stick with the trend here which is down and now take the long breaks here.



You will however want to advance the forward point of the channel to hopefully get some of the angle out and seeing that some candles did pop out we advance to the last candle now of this day. Tuesday we get the breakout to the long side and can now advance the channel to the beginning of the week to the last candle on the day the breakout occurs.

Price follows the channel until Friday where we get an indication of a break to the topside and the trend is showing further strength.



Now the channel can be advanced once again to the last candle of Friday and we will use the low of this week now to tighten the channel some. Here we advance the channel to the low created during this week to the last candle of the day the break occurs to use the equilibrium feature of the linear regression channel and calculate the tightest possible path for price.



Price follows the current channel all the way out to January 30th now where we see it begin to ride the bottom support line of the channel and eventually break short.

Simply update the channel now to the new points the market had provided. And to tighten the channel we will use the opening candle of the week to the last candle of the day the breakout occurs. Letting the feature of the linear regression channel recalculate based on the current selected span of price.



We don't get 2 days into this movement and finally get a break short from the projected path of the new channel.

Following the same basic plan we advance the channel to the last candle of the day that the breakout occurs and then move the start point to the high of the previous week and project the path of price going into the next week.



From this point we get a good trending week that follows though all the way out to the next Thursday where price breaks the channel but in the direction of the trend.



All that's needed is to advance the forward point of the channel to the last candle of the day the break occurs even though it's still in the direction of the current trending movement.



To advance now we follow the same procedures and advance the forward point of the channel to the last candle of the day the next breakout occurs and then move the start point of the channel to the last low of the previous week and see if price will now follow this path in an up trending move.



Here we do get a false breakout to the short side then another breakout to the top side later in the same day. We simply advance the forward point of the channel to include this day's movement and see if price will follow the projected price channel.



Price follows the price channel the remainder of the week and show weakness in the up trending move on this Friday, and where we will advance out channel to these new points since we may be seeing another reversal and need to project its path so we can follow along with price and trade accordingly.



From this point on it's up to you to follow along with price up to the current date and once you've completed out the year up to today. Go back and repeat the process but this time use the Intraday fib along with the channel and watch as the 2 combined can aid each other. If you feel it's not helpful by all means don't use it, it's simply another tool that can be applied to price, some will like it some will not. I just thought we've advanced far enough in the thread now for me to throw a wrinkle at everyone.