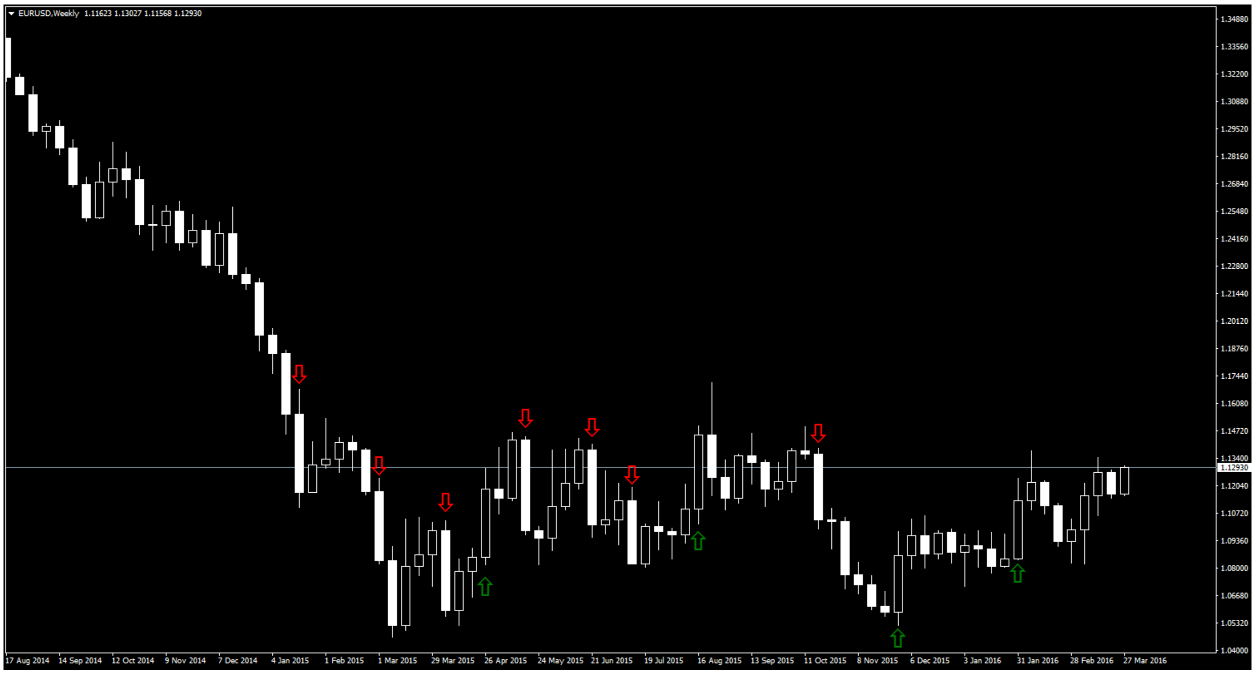
Trading Weekly and Daily Charts

This strategy assumes some ability to evaluate the character of candles. The candles are the most basic element of price action. Each candle tells a story. It is more important to evaluate candles in certain areas such as in the preferred entry area which will be described. Steve Nison and Gregory Morris are experts in Japanese Candlestick interpretation and one is encouraged to study their material.

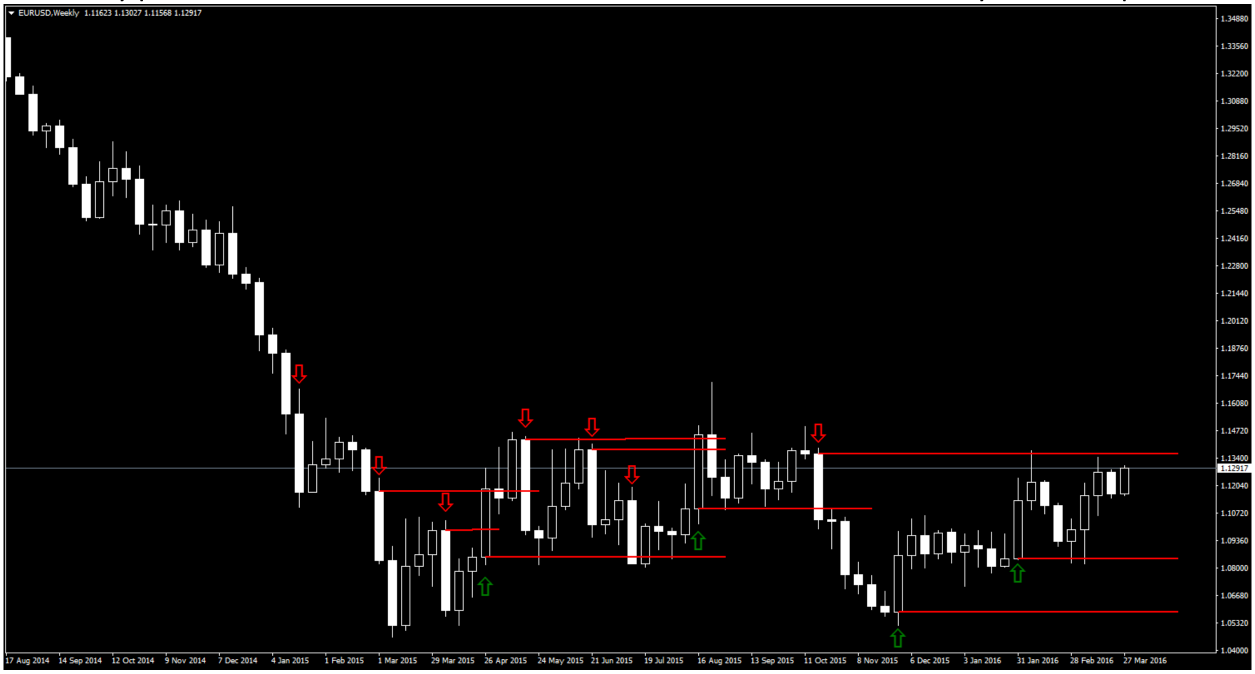
Time Frames: Weekly, Daily and H4. I use weekly and daily for the most part and only occasionally the H4. I may look at charts at any time during the day but I only HAVE to look at them just before 1000 PM Mountain Standard Time. I analyze, evaluate and enter or place pending entries around this time. Stop losses are also placed and the trade is allowed to run. If I have time during the day I may manage the trade by closing partial positions or exiting completely depending on trade progression but I don't have to. When 1000 pm rolls around I look at the charts and either evaluate the loss to see if I could have done something different or manage a profitable trade in progress.

Strategy: Identify key support and resistance utilizing large bodied weekly candles. The 50% rule is explained later and is the preferred area of entry but not necessarily the only area for entry. Daily large bodied candles are also used in the same manner but here I always trade in the context of the weekly large bodied candle. Identify trades using daily and H4 for entry in conjunction with weekly support and resistance.

This is the current weekly EU. The view is intentionally zoomed in a bit so the large bodied candles are easily identified. A Large Bodied Candle (LBC) is one with a body larger than at least two previous candles. The body is that contained between the open and close. The high and the low are not considered when identifying LBCs. Red arrows identify bearish LRCs (BeLBC) and green arrows identify bullish LRCs (BuLBC).

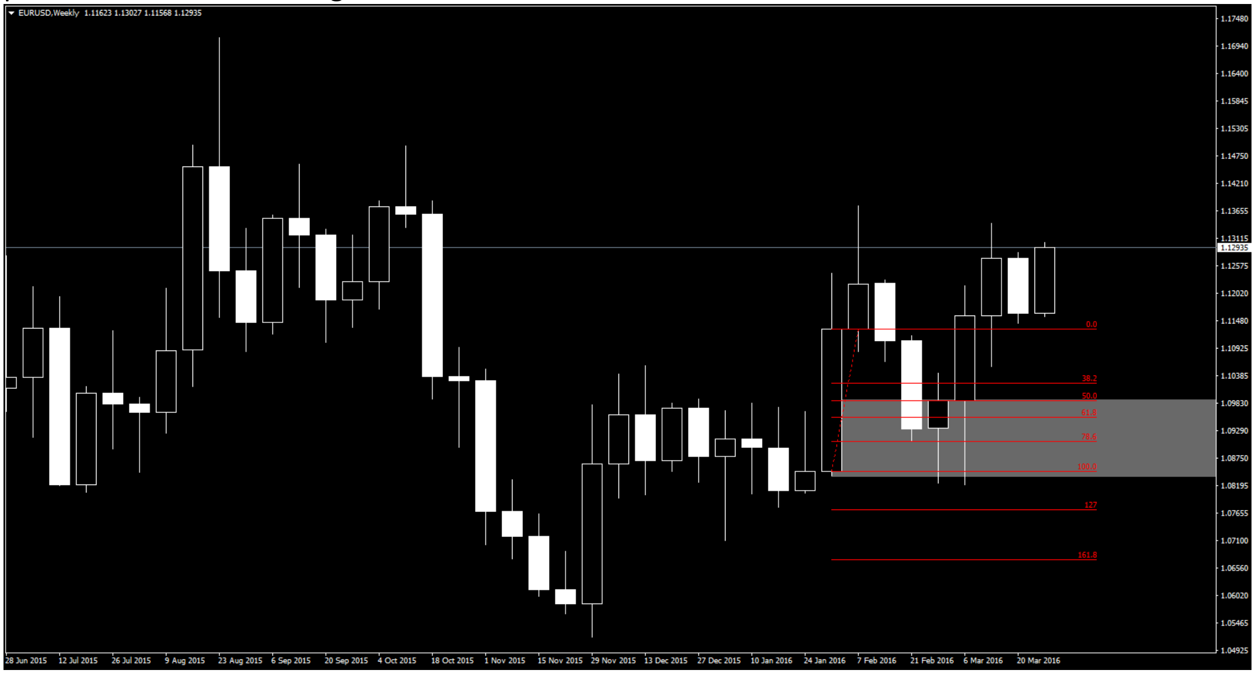


A LBC often acts as resistance if a BeLBC and as support if a BuLBC. The red horizontal lines extend from the openings of the LBCs. Notice that when price retraces within the LRC it often fails to close past the LRC. When it does close past the open of a LRC price often continues. Price may pierce the above the line but often it closes below. This tendency can be exploited.

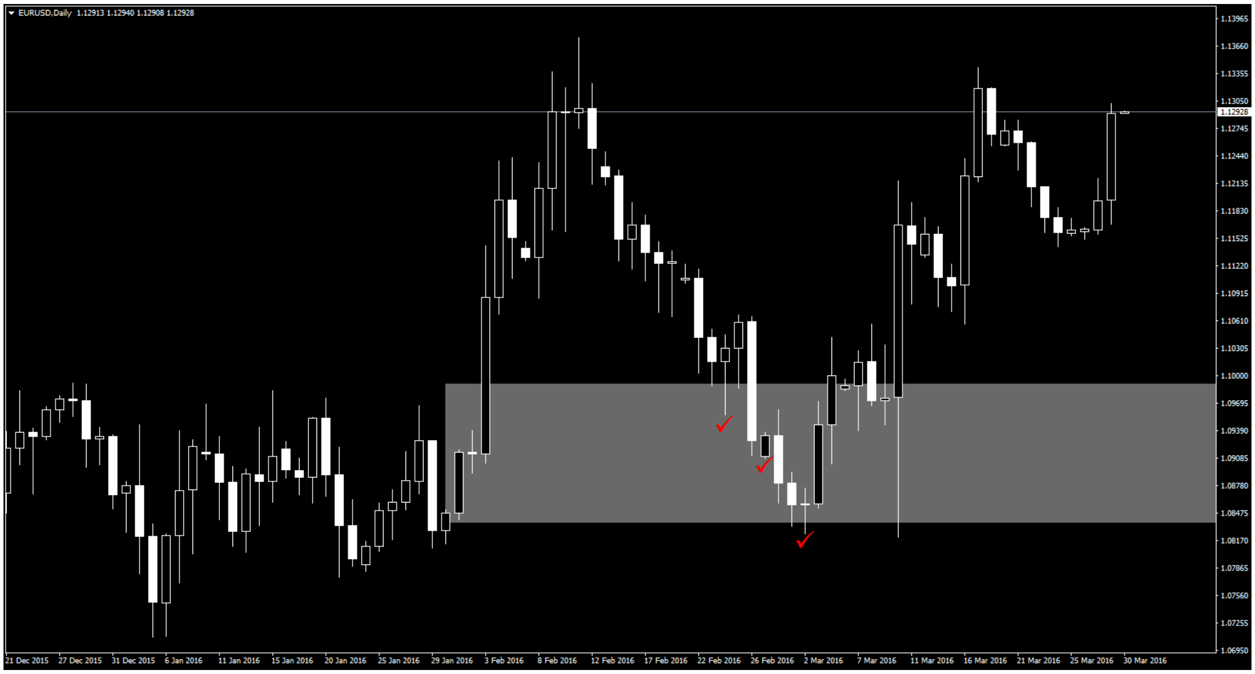


Fifty Percent Rule

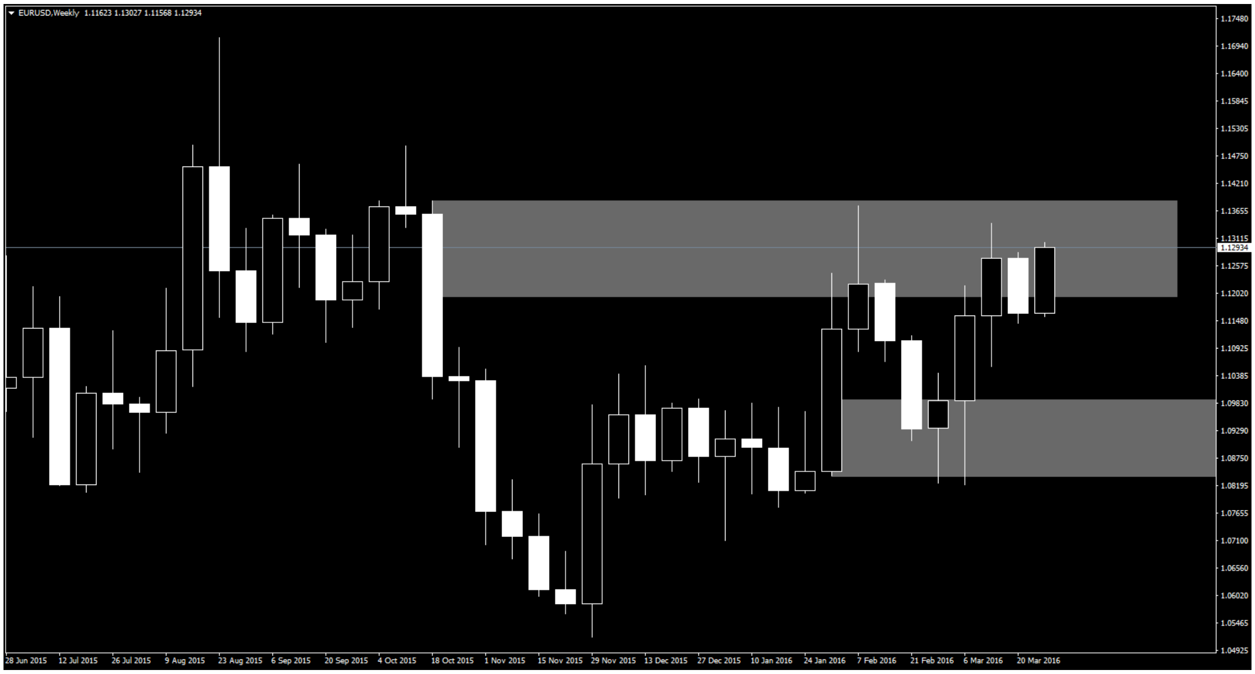
A fib is drawn from the open to the close of the LBC below. A rectangle is then drawn from the low to the 50% level. The rectangle area is a preferred trade entry area. Notice that price pierced below the rectangle twice.



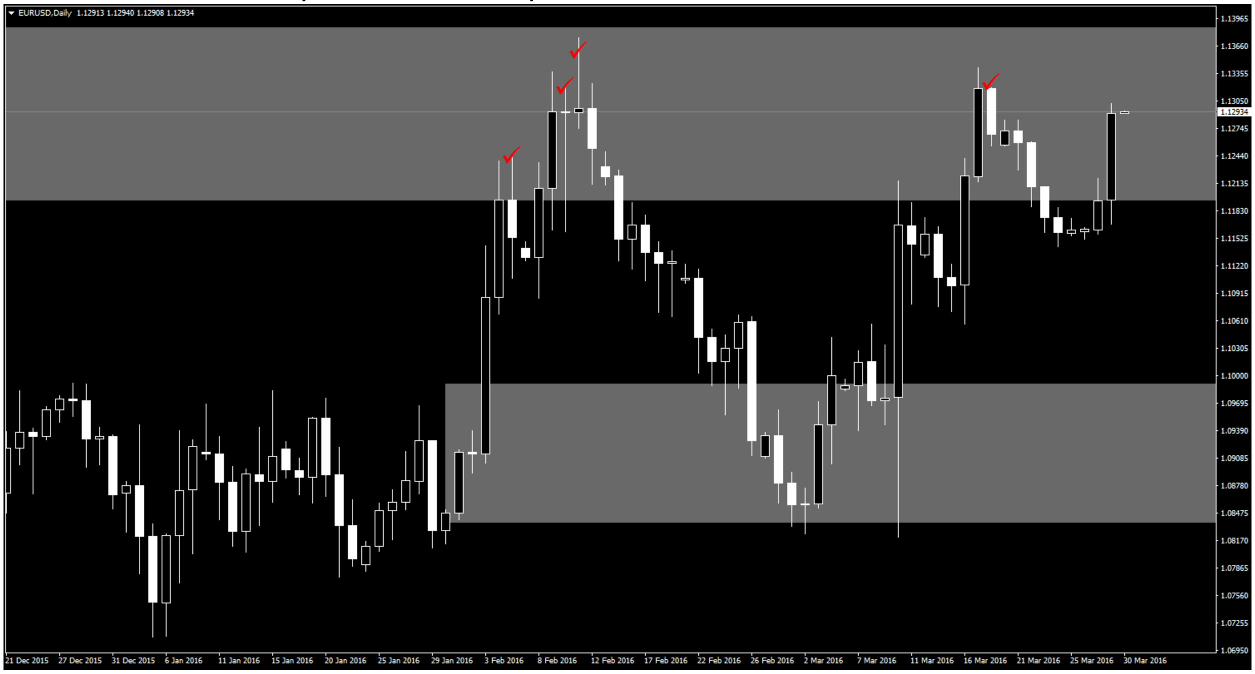
This is a daily view of the above. The grey rectangle is unaltered. Notice the price action with the rectangle. The check marks identify potential areas to have considered entries. Entries will be discussed later.



Another example. The 50% rule was used.



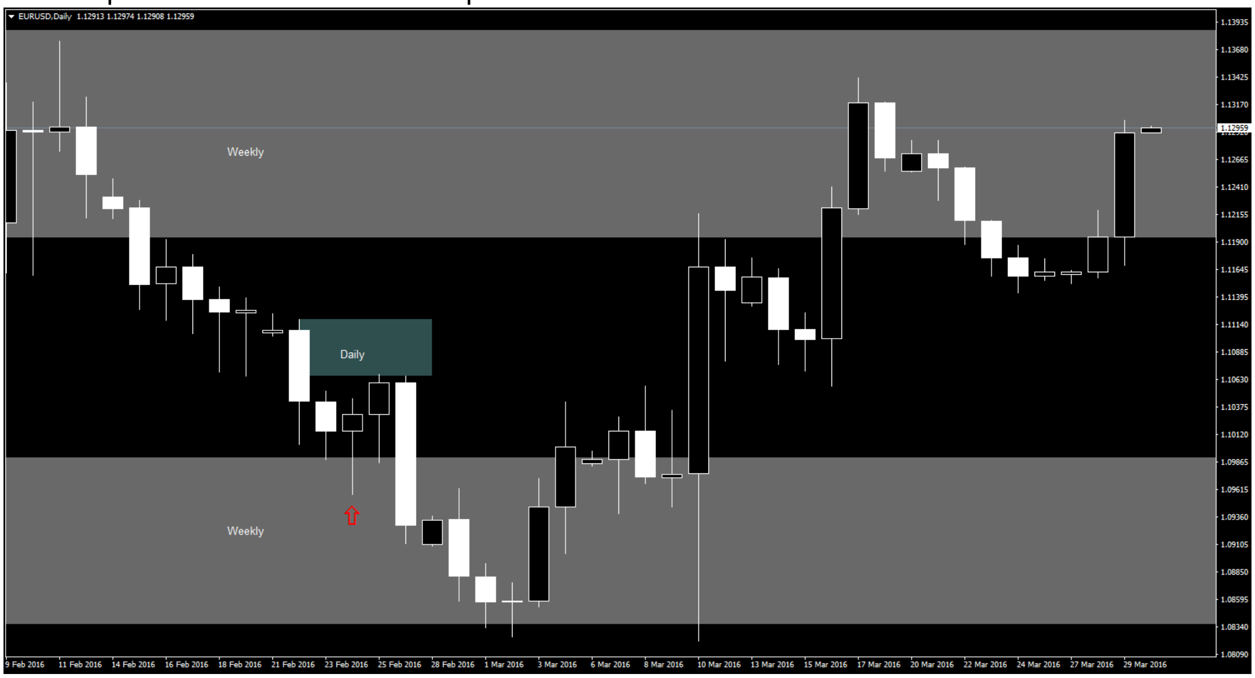
The same chart on daily time frame entry considerations.



Entries

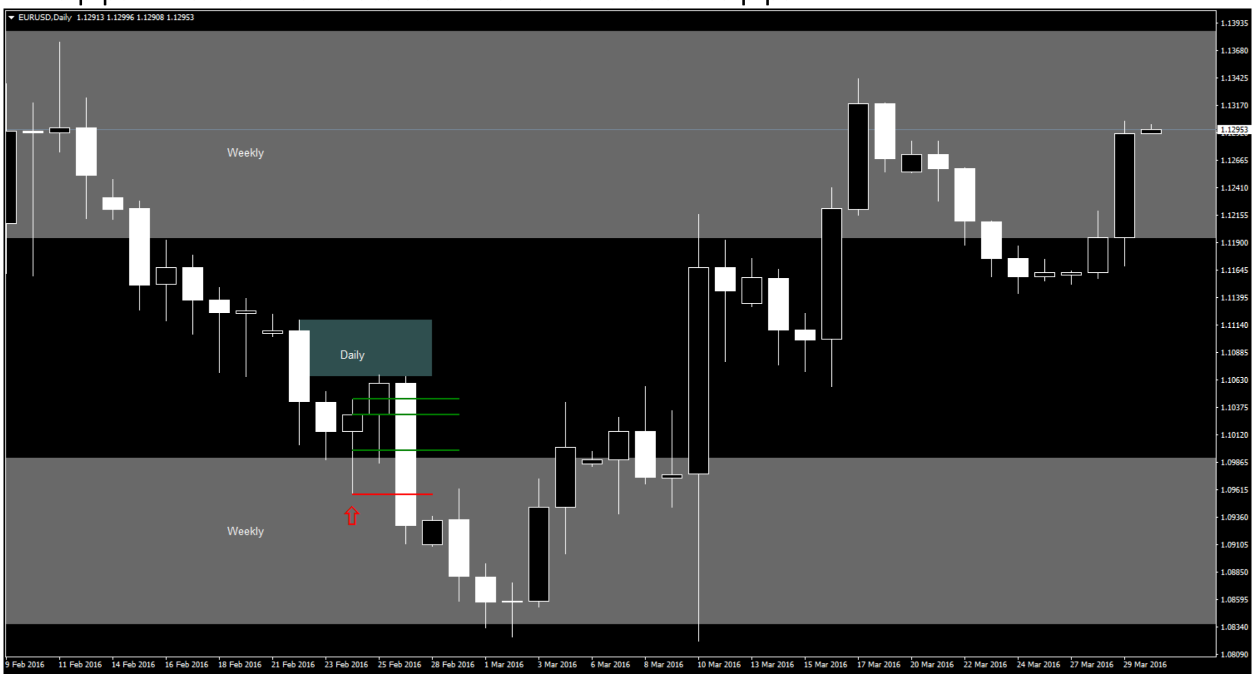
Entries must consider not only the entry but the potential for the entry to result in reasonable profit. A trade is not entered until a stop loss is identified that is acceptable to the trader. Stop losses can often be created that fit most trader's risk profile. Trader's must be wary of tightening stop losses to limit risk when the trade should be allowed more breathing room. If the trader cannot afford the risk then it is best to pass and wait for a trade that fits the trader's risk profile.

Price entered the weekly preferred trading area and created a Hammer (red arrow). The next candle after the Hammer shows price did move up and encountered resistance followed by a precipitous decline back into the weekly preferred trading area. Resistance was encountered at a daily LRC. Does this mean the trade was not worthy. The trader's awareness of resistance directly above might have influence on whether or not to enter this trade. Again this would have depended on the trader's risk profile.



Profit vs Loss

Considering various entries an entry long on the close of the hammer would have resulted in about 20 pips maximum profit. If the stop loss were below the low of the candle the maximum loss would have been 70 pips. An entry long on a break of the high of the Hammer would have resulted in a maximum 35 pip profit. With the same stop loss the maximum loss would be 88 pips. An entry on a 50% retracement of the Hammer would have resulted in a maximum profit of 70 pips. The maximum loss here would have been 40 pips.



The 50% retracement entry seems to offer the best risk to reward in this case. However if one consistently takes only 50% entries the trader will frequently miss entries. Considering the nature of this trade it was probably the best way to enter given the immediate resistance above. The risk to reward of the other two entries doesn't seem reasonable given the potential loss.

This is just one example of a trade entry and the considerations involved. Every trade is different and therefore evaluations for entry, risk and stop loss will be different, but these considerations must be made with every trade.

This is an introduction to this trading method. My thread "Truth in Trading" on Forex Factory will have live trades and explain other details as they occur. Any editing of this PDF will be announced and posted on the thread.