

Dr Walvekar's trading method based on the Guppy MMA system

FIRST DRAFT, ILLUSTRATIONS TO COME

Background

The Guppy MMA system is a trend trading approach. But entries and exits are not very well defined by him in his published literature. After much experimentation trying many indicators, candle patterns, divergences, flags and what not, Dr Walvekar found that replacing the short-term MMAs with a 10 EMA High/Low channel worked best for him as it combined the trend-trading qualities of the Guppy system with the entry and exit rules based mainly around the 10 EMA channel.

The value of the Guppy system is that we can identify and follow trends and avoid getting caught up in sideways movement or choppy markets. So, instead of chasing highs and lows we allow the trend to form before entering. We are then able to ride the trend. A new trend is defined by the long-term (L/T) group of EMAs crossing over and re-aligning themselves in their correct order.

The strategy

Once a new trend has been established, we wait for a pullback to the L/T EMAs and enter when price resumes in the trend direction and breaks out of the 10 EMA channel. We enter at the close of that candle. This would be the first pullback/breakout pattern in the new trend. We can also trade the second pullback/breakout pattern but from there the odds diminish so we do not trade until a new trend has formed.

We should also be aware of the Guppy rules: (i) the L/T EMAs should not show compression; and (ii) there should be a clear gap between the S/T and L/T groups of EMAs. Dr Walvekar has replaced the S/T group with the 10 EMA channel, but he still advises looking at a standard Guppy chart to check that the gap has appeared.

At the time of entry (i.e. when the breakout candle has closed beyond the 10 EMA channel):

- 1) All L/T EMAs must be evenly spread. This is the first criterion. if this is not fulfilled there is no trade.
- 2) The first candle to close beyond the 10 EMA channel is the entry candle. if this is not fulfilled (e.g. the candle closes inside the channel) we consider it as a consolidation, hence no trade.
- 3) RSI 6 should have crossed below RSI 12, and both should be below 50% (for a sell trade).
- 4) Supportive criteria but not mandatory: trend line break, flag formation, fib retracement less than 50.

The best trades are when the price pulls back into the L/T group. Alternatively, the pullback should retrace NEAR or, to avoid confusion, about 50% of the initial trend movement, measured from the swing high to the swing low (in a downtrend).

Placing and managing your stop-loss

At entry the SL is placed at the opposite line of EMA channel.

Trail the stoploss on the same line after the close of subsequent candles.

Be comfortable in the trade while all candles are closing beyond the EMA channel.

When a candle closes inside the channel (see "The channel test" below) and price is still close to your entry, move SL to BE to prevent losses. If you are in significant profit, move your SL to the

high/low of the newly closed candle with a buffer of a few pips. This way you don't lose your already gained profit.

Setting your targets

We use the fibo tool with the first three extensions re-labelled as T1, T2 and T3 to set targets. Draw the fibo tool so that these T1 to T3 levels extend in the direction of your trade. The fibo tool is applied from the low of the breakout candle (in a sell trade) back up to the last swing high. More about how we use these targets follows.

Managing the trade

1. The channel test: A trade is considered strong as long the candles close beyond / outside the 10 EMA channel. This is true even if you get a bullish candle in a downtrend or a bearish candle in an uptrend. But, if a candle closes inside the channel, it signals weakness, so move the SL to break-even if in the early stages of the trade or to the inner end of that candle (the end closest to the L/T MAs) if in significant profit. Also consider taking partial profit.
2. The RSI test: Consider taking profit if RSI 6 does not remain below RSI 12 (for a sell). If RSI 6 closes above RSI 12, but both remain below 50%, you can stay in the trade, but you need to watch the price action and decide accordingly. If RSI 6 closes above 50%, definitely book profits, partial or total depends on you.

If the trade survives the above:

- At T1 move the SL to break-even
- At T2 book partial profit
- After T2, as long as the candles are still closing outside the 10 MA channel, remain in the trade and trail your stop along the inner line of the 10 EMA channel (in a sell trade it is the upper line of the channel).

Note:

For trend trading we need a strong trend. So, during the pullback, if price retraces as far as 61.8%, it signals that the pullback is almost as strong as the new trend, so we do not trade.

If you are already in the trade (in the early part, initial few candles), any pullback should not go beyond 50% at candle close.

Also:

- Avoid trading news
- Avoid carrying trades over the weekend
- Avoid carrying losing trades.