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Sep/Oct 2013

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How it affects the AU



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PUMP UP THE VOLUME

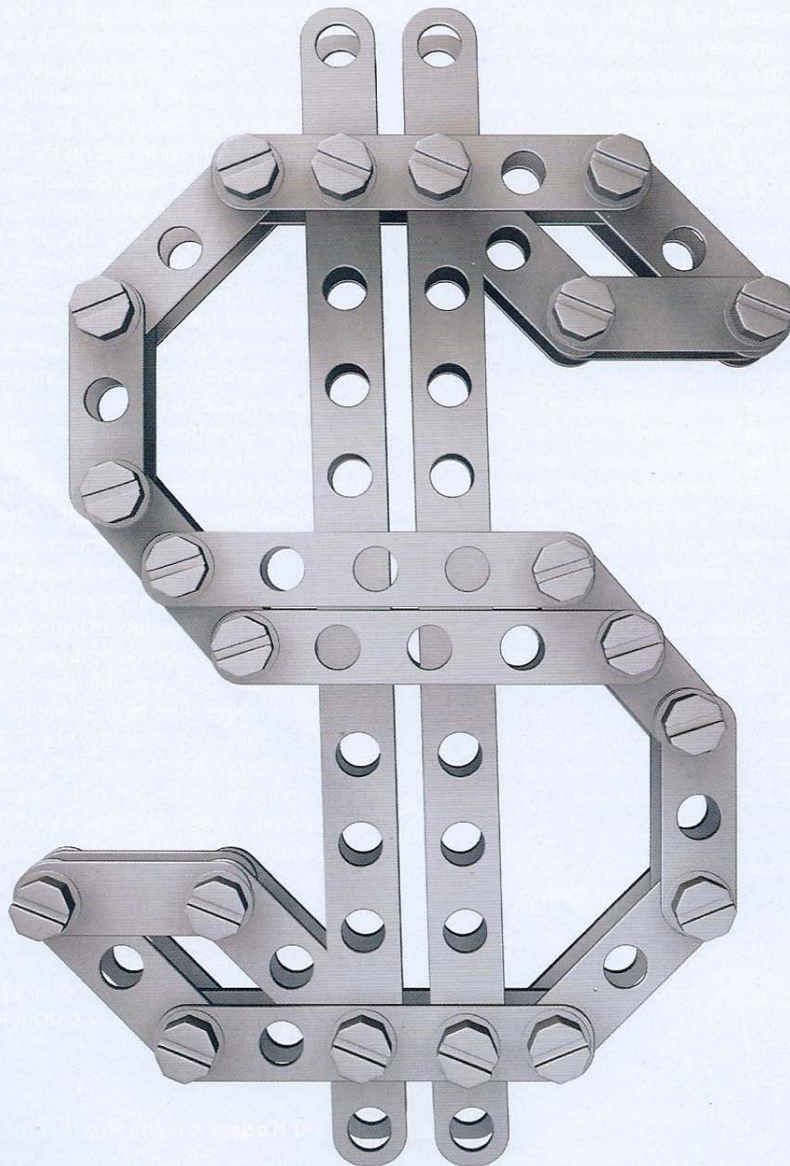
When spikes signal the end of the trend

MAJOR CURRENCY PAIRS

TRADER'S STORY

PART II ARTICLE

Trading German Dax Choice with Keep It Simple Tools (KIST): **A NUTS-AND-BOLTS APPROACH**



Most of the time, the novice traders have difficulties applying the most efficient trading techniques due to a misunderstanding of the so-called assimilated educational material, or to their greed race. In teaching this topic, through the use of progressive modules, **Dr Mircea Dologa** emphasises the use of applied principles of epistemology, based on repetitive examples of trading choice parameters, thus enhancing the probability of getting consistent profits.

The dream of a novice trader concerning their daily profit is humble. The trader does not wish to make more than 200 USD a day, but in a constant manner. The below described Dax trade will certainly satisfy the financial needs of a novice trader, even if it can be done only twice a month.

We took an example of trading the IFO indicator and we performed the following tasks.

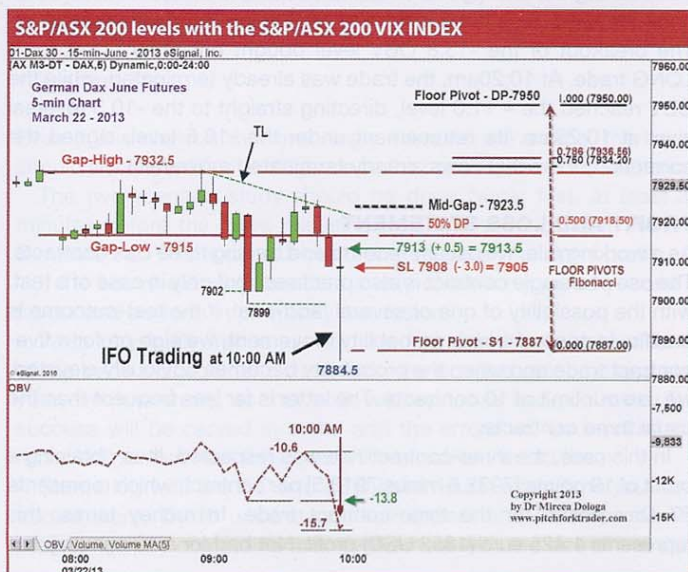
- **Efficient trading tools** – The selection of the most efficient trading tools has a great characteristic. They must not be numerous but, in exchange, they should be highly efficient.

In this case, we have decided to use only the On Balance Volume (OBV) indicator and the key-levels (resistances and supports) generated by the opening gap with its extensions and the floor pivots with their sub-divisions controlled by the Fibonacci ratios.

The trending tools – pitchforks, channels, parabolic and moving averages [especially the 34-ema (HLC/3)] – are highly desirable for identification of the pullbacks (or rallies) and the reversal pivot.

- **Context** – We can't get any consistent profit without the vital implication of the context.

By context we understand the direction of the dominant trend and the immediate and recent-past environment. The former rapidly reveals and evaluates the direction of the current market flow,



on which will be grafted the marker activity of the IFO period. The latter optimally informs the trader of the end-run phenomenon, often neglected by the trader, in their search for blocking levels, which could reverse or simply temporarily halt the market flow.

- **Indicators** were here restrained to only one... the On Balance Volume.

The study of the end-run phenomenon (refer to the below chart), performed before the news release, will quickly reveal the most important key levels:

- Downwards, the market flow has been stopped by the S1-floor pivot located at 7887 level, only 2.5 points from the reversal of the first IFO 5-min bar at 10am.

I should also mention the support key-levels of 7902 and 7899 (previous lower low), whose blocking effects could be seen on lower time frames, not illustrated here.

- Upwards, the market flow could encounter resistances at the following key-levels:

- The high of the IFO opening bar at 7913;
- The gap Low at 7915 key-level;
- The 50% threshold – 7918.5 key-level – of the floor pivot distance between Daily floor pivot (DP at 7950) and S1 level at 7887 level;
- The break-up of the TL-trend line;
- The Mid-gap at 7923.5 key level;
- The gap High at 7932.5 key-level;
- And finally, the other sub-divisions of the DP-S1 floor pivot distance, governed by the Fibonacci ratios (7934 level at 75% ratio, 7936.5 level at 78.6% ratio and 7950 at 100% ratio).

TRADE TACTICS

Once we have established the key-levels of the end-run phenomenon we will prepare the up and down scenarios. These tasks are scheduled to be performed in two periods: the first is done 30 minutes before the news release, and the second, right after the first five minutes, on the 5-min timeframe chart.

In the chart, we can observe the following:

- **Upwards scenario**

ARGUMENTS IN FAVOUR OF AN UP-SCENARIO

The close of the first 5-min bar at 10:05am, in the vicinity of its high,

POST-IFO TRADE EVENTS

Even if the trade has been terminated at 7932.5 key level (gap's high) we can observe that the IFO momentum climaxed at the 7938 level at 10:33am. Its span life was 33 minutes.

After this high, the market started a correction and its retracement reached the gap's low level at 7915, just a few points from the origin of the IFO movement at 7913.5. At 11am, after the 7915 key-level was tested twice, the market flow reversed and vehemently climbed above the DP-floor pivot (7950), closing at 7952 level. With the assistance of the OBV readings, the astute trader could have entered again LONG, almost at the same entry level (7915) as that of the IFO trade at 7913.5.

We can see now, that the IFO news trade has also an informative role concerning the post-news period.

• Downwards Scenario

ARGUMENTS IN FAVOUR OF A DOWN-SCENARIO

We could have considered this alternative, before 10am, because after that it became obvious that this scenario could not be the most probable one.

A study done before 10 o'clock would have revealed the following arguments in favour of a downtrend scenario:

- The opening gap was already filled upwards between 8am and 8:50am and downwards right after that. The probability of another gap-fill, this time in upward (contrary) direction, becomes very low, due to the lack of energy.
- The 9:40am failure, just above the mid-gap (7923.5), clearly illustrated that the market flow can't reach the morning high performed at the 7932.5 key level (gap's high). The descending TL-trend line is a graphic illustration of the inability of the market to reach and exceed the 7932.5 morning high.
- It is clear to us that without new kinetic energy resourcing there won't be any other ascending movement.
- The OBV is at its lowest low below the last one, at - 13.8 level. As always, an oversold indicator can aspire to only one thing... be ready to reverse upwards.

• Trading Tip


Even if it is obvious that one single scenario will suffice, the trader should always do his due diligence on the hypothesis of two scenarios.

The two-scenario study should be done twice: first, at least 30 minutes before the news releasing time and second, after the first 5-minute bar. This approach could entirely save your day's profit.

If the above elements become a way-of-life for you, do yourself a favour and perform imperatively two tasks:

- Write physically into a journal, the just practised nuts-and-bolts of the trade management, describing the positive outcome and also your eventual errors, so that both will crystallise into you mind. The success will be carved in stone and the errors will be involuntarily recorded, so that next time, you will instinctively avoid them.
- Start a log with the IFO and ZEW behaviours, every time you have traded them. Try to understand their impact and influence on the market flow, by comparing their evolvement with the size of the daily

ATR. In this way you can quantify them in percentages of daily ATR, thus better evaluate their duration and magnitude. Analyse the extent of the 'graft' effect during the duration of the IFO news occurrence, 'instilled' on the daily market flow.

We conclude Part II of this article by believing that we have convinced the young traders, at least partially, to trade the German Dax Futures. The outcome of trading the IFO and ZEW could become part of the monthly profit of a disciplined trader who has exercised this methodology and has perfectly assimilated it. Once this is done, we should keep in mind that multiple small losses and fewer, but more consistent, profits is our way of life. For further practical trading details please go to our website and consult the excerpts of our trilogy of professional trading manuals, a 1200 page work. 

This article was also published in June 2013 on the educational website of www.esignal.com.

Dr. Mircea Dologa, MD, CTA, is a well known contributor to international magazines in United States, England, Germany, Asia and Australia and publisher of a financial trading report, *World Charting Report*, containing international indices, commodities and Forex charts. He is also an author of a trilogy of professional trading manuals (1200 pages and 1500 charts), published in English, Chinese, French and Romanian. Those interested in receiving free copies of the *World Charting Report* or excerpts of his trading manuals may contact him at www.pitchforktrader.com. His email is mircdologa@yahoo.com.

