

# eASCTrend 6.0 software application note

Day Trading or Swing Trading Forex

Due to good liquidity, low cost, and high leverage, many traders have chosen to follow the Forex market. This application note will give detail guidance on how to trade Forex. (EURUSD, USDJPY, etc.)

## Nature of the Market

It is our belief that the Forex price actions, like every other market, alternates between a short-period big price movement and a long-period consolidation. Normally, the length for consolidation is three to four times the length of the big price movement. This observation is very important for trend-following trading. Our software and all related trading methods and strategies are based on this understanding of the nature of the market.

## Must-Read Materials

Please spend time on two very important web pages and thoroughly understand the points and rules in these pages:

[http://www.wintick.com/6\\_0/trading\\_strategy.asp](http://www.wintick.com/6_0/trading_strategy.asp)

[http://www.wintick.com/6\\_0/hybrid\\_rules.asp](http://www.wintick.com/6_0/hybrid_rules.asp)

(You can also find similar materials in eASCTrend 6.0 Manuel as well as the Help within the software program.)

## Powerful and Flexible

Because eASCTrend 6.0 is very flexible to accommodate all trading styles and all markets, each trader can explore settings (selecting different intervals, applying different indicators and fine-tuning parameters for indicators applied) to fit his or her trading style and risk tolerance. **This note intends to offer some specific settings and practical implementation details for a first time user of our software.**

## The Best Interval

We recommend 30-60 minute charts for Forex day trading. It is generally true that charts with smaller intervals will generate more signals with lower initial trading risks and lower signal accuracy while charts with larger intervals will offer the opposite. Traders need to find the balance point that fits their trading profiles. For Forex day trading or swing trading, we have traders using 30 min or 60-min or even 120-min charts.

**If you would like to keep it simple, you can use 30 min charts all the time.** Since most big price movements in Forex happen near the US, Asia or Europe market open, markets tend to be more aggressive near those major market open times.

## **Best Setting for Trading Session Time**

You need to change the session time setting inside “S” (symbol) window. Since Forex is a 24-hour trading market, you can set the start time to 0:0 and end time to 23:59 so the program will load the whole 24 hours of data.

## **Coordinating with the Guidance Window**

Normally, traders like to use a relatively larger interval chart as guidance, such as using a daily chart along with a 30-min trading chart. We can call the 30-min chart the “trading window”. A trader will follow the signals and stop values in the trading window to execute trades. We call the daily chart a “guidance window”. It will be ideal to find the tradable opportunities in the trading window that are also in agreement with the directional bias indicated by the guidance window. For example, trade the long (buy) signal agreement in the trading window while the guidance window also indicates a long (buy) signal. But sometimes, it is not appropriate to mechanically enforce the direction agreement between the trading window and the guidance window with the equal weight (50/50). Please refer to the Filtering Rule below to learn how to “break the tie” with more weight given to the signals in the trading window.

## **Further Thoughts Regarding HTM**

The key to the success of HTM is its “near 100% mechanical” nature to remove traders’ guesswork and emotion in trading. Our software offers colors and dots as well as exact values. Once the trader decides to trade, the entry, stops and exits are pretty much managed by the program. In all the steps (C.A.R.E. & Stops) associated with HTM, only “C” needs a trader’s experience. And even “C” is fairly straightforward, namely, triangle, flatness and low volume. If you would like to be aggressive, e.g. after a long, long consolidation period, you can just take the signal agreement without waiting for the “R” retracement.

## **A Filtering Rule to Find Better Time to Trade**

Traders need to understand which phase the market is in. As we mentioned before, the market always alternates between a big thrust and consolidation. As a trend-following trader, you need to get very aggressive in honoring (executing) the signal agreement at the end of a long period of consolidation that is the “C” of the HTM rules. The odds for a big thrust or a “run” will be very high at this time. This is just the nature of the market. It is very important to know this. But knowing this phenomenon alone is not specific enough for trading. As a trader, we need to take a much closer look at how the market behaves in most cases. Here is a filtering rule for Forex day, swing trading:

**Filtering Rule** -- We consider a move of 70-80% of the recent daily price ranges as a major move. At the end of a major movement, 3 hours of consolidation is considered as “medium” and 4-5 hours of consolidation is considered as “well done”. This is just for

day, swing trading with a 30-min chart. Actually, the consolidation length is 3-4 times the length of the major price movement. This is generally true for all interval charts. **Please note that this filtering rule could be used to “break the tie” if the trading window signals are conflicting with the signals in the guidance window.** In other words, if you see several hours of consolidation in the trading window, the signals in the guidance window are less important.

## **Risk Management**

Due to the uncertain nature of the market, everybody is equally at the mercy of the market once the trade is placed. Nobody can control the market direction. But we all can control our own trading risks (to a certain degree of course). With C.A.R.E., we are entering a trade at a low risk and high reward area. By looking at the T2 value before you place the trade, you know exactly what will be the initial risks. Once the price is heading the direction we desire, we can just follow the T2 trailing stops to manage the trade. We can dramatically cut down the emotional involvement of the real time price fluctuation. We tend to make fewer mistakes if we have less emotional ups and downs when we have positions in the market. T3 (for ASCTrend 3.5 indicators) or T13 (for eASCTrend 6.0) could be used once the market has done an extended move or has tested the key support/resistance a second time.