eASCTrend 6.0 software application note

Day trading e-mini indices futures contracts

Due to good liquidity, low cost, and high leverage, many traders have chosen to follow the indices futures e-mini contracts. This application note will give detail guidance on how to trade those contracts. (ES for S&P e-min, AB for Russell 2000 e-mini, YM for minimized Dow Jones and NQ for NASDAQ e-mini.)

Nature of the Market

It is our belief that the indices 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/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 2-5 minute charts for e-mini day trading. If you have some experience, you can use a 2-min chart to act more aggressively if you anticipate that the upcoming session will likely be trending (the prior session was choppy). For the same reason, you can use a 5-min chart to let the software generate fewer signals so you can avoid some of the market choppiness. There is no absolute best interval in 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 fit their trading profiles. For day trading, we have traders who use tick charts and we also have traders who use other intervals, such as 2-min or 5-min. **If you would like to keep it simple, you can use 3 min charts all the time.** In most days, a 3 min chart will generate 3-4 good signal agreement opportunities. With proper implementation (see Day Trading Rule A and B below), you will be able to make 1, 2, or, at maximum, 3 trade(s) every day with this setting.

Best Setting for Trading Session Time

There are two ways to set the trading session time for day trading (you can change the session time inside "S" (symbol) window). The first one is just using the default setting that is "day session" only, e.g. 9:30 am EST to 16:15 pm EST. You can also add a few hours of pre-market data or include all the data for the entire 24 hours. Again, there is no absolute best setting for this. Some traders are more aggressive at the market open. It is logical for them to add a few hours of pre-market data in order to incorporate the price actions prior to the market open. **If you would like to keep it simple, you can just use the default, which is the "day session" only setting.** You need to make the setting consistent. Don't change back and forth and make it overly complicated.

Coordinate with the Guidance Window

Normally, traders like to use a relatively larger interval chart as guidance, such as using a 30-min chart along with a 3-min trading chart. We can call the 3-min chart the "trading window". A trader will follow the signals and stop values in the trading window to execute trades. We call the 30-min 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). Under certain conditions (please refer to Day Trading Rule A), we have to give more weigh to the signals in the trading window to "break the tie".

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.

Two Filtering Rules 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 are two filtering rules for day trading:

Day Trading Rule A -- We consider a move of 70-80% of the recent daily price range as a major move. At the end of a major movement, 2 hours of consolidation is considered as “medium” and 3 hours of consolidation is considered as “well done”. This is just for day trading with smaller interval charts, e.g. 2,3,5 minute charts. 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 two-hours or three-hours of consolidation in the trading window, the signals in the guidance window are less important. Also, this filtering rule could be used to supersede the filtering rule B stated below in case of conflicting.

Day Trading Rule B -- For day trading, don’t fight with the morning winner. The morning winner is the directional breakout of the first hour range. The winner is a “bull” if the first hour high is broken with force and volume. A trader will have a “long” bias for the rest of the trading session unless Filtering Rule A takes over, meaning: You don’t care about Day Trading Rule B after three hours of consolidation. **Just follow the signal agreement if you see three hours of consolidation with triangle, flat prices and low volume.**

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.