eASCTrend 6.0 software application note

Swing trading futures contracts (hold positions for several hours or a few days)

Many traders are swing-trading futures contracts. This application note will cover some of the details regarding futures swing trading.

Nature of the Market

It is our belief that futures 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 the 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

For swing trading, you normally use a daily chart as the guidance window and use 30-60 min charts as the trading window. The ideal place to create a trade is where you can see a C.A.R.E. tradable opportunity in the daily chart. When you have this condition, you can use the 30-60 min chart to time your trade to get the best entries. Again you enter a position when you see the trading window TS/T2 agreement at the end of a consolidation. The trading window will give you the precise reading of your initial risks. You can also manage the trade with the trailing stop values of the trading window T2. You start with the stops in the trading window. Since you will hold the position overnight, you need to migrate to the daily chart stop values (T2) once the T2 value is near the position entry price.

Best Setting for Trading Session Time

If you would like to keep it simple, you can just use the default, which is the "day session" only setting. (9:30 ET to 16:00 ET)

Coordinate 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 chart for swing trading. 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 equal weight (50/50). Under certain conditions (refer to the Swing Trading Rule), 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. If you would like to be aggressive, such as. after a long, long consolidation period, you can just take the signal agreement without waiting for the "R" retracement.

Swing Trading Rule:

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 the Swing Trading Rule:

Swing Trading Rule – When you see a significant price movement, you will expect a very long period of price consolidation. Actually, the consolidation length is 3 to 4 times the length of the major price movement. If the major price movement takes one hour, you need to be very conservative in taking trades in the next three to four hours. **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 three or four hours of consolidation in the trading window, the signals in the guidance window are less important. You should be very aggressive in taking trades from this point if you see a signal agreement in the trading window.

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 tested the key support/resistance a second time.