MTPredictor™ Trading/Training Course

[Part 2]

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Table of Contents (Part 2)

Chapter 1 - Introduction

Welcome to Part 2 of the MTPredictor Trading/Training Course. This will take MTPredictor to more advanced levels. It will allow you to use the software to perform manual and more advanced analysis to uncover additional trade set-ups and manage open positions. The individual routines in the MTPredictor program will be covered in more depth. We will take a look behind the scenes to show you the analysis techniques underlying the automatic trade set-ups that were the main body of the prior section.

Although Part 2 is designed to take you to higher levels with the software, it is also recommended reading for the newer traders to MTPredictor, as it will take you through the different routines and modules in the software. This will give you a greater understanding of how the automatic routines work.

Firstly, I will take you through the individual modules that comprise the standard trade set-ups from Part 1. In particular, we will look at the WPTs, the coloured reversal bars and then show you how the software can automatically identify not only the simple ABC correction, but also all of the standard Elliott Wave patterns with the *Elliott Waves* module.

The WPT module will allow you to project in advance the most likely support or resistance areas for any of the main Elliott Wave sequences to end. This offers a huge advantage over some standard technical analysis techniques as it will enable you to be prepared in advance for the areas of support or resistance where most Elliott Wave swings will end - whereas standard technical analysis only allows you to react after a high or low has unfolded.

I will also look at the Decision Point™ (DP) that will allow you to project support/resistance areas into the future where a reversal is anticipated to unfold.

The coloured reversal bars also provide a way to confirm whether a market has indeed found support or resistance at the projected WPTs or DPs.

The *Elliott Waves* module is one of the most important automatic routines in the software, mainly because it enables you to automatically identify Elliott Wave patterns *in isolation*. As you saw in Part I, this is the best way to approach Elliott Wave analysis. This module does not stop there - it is also capable of automatically projecting the most likely areas (using the WPTs) for most of the Elliott Wave patterns to end. Combined with automatic coloured reversal bars, the *Show Elliott Waves* module will be one of the main modules to use on a daily basis.

I will also take a look at the topic of numerology, and go behind the scenes on the WPTs to show you which numbers are used in the software.

I will also look at how to perform advanced Elliott Wave analysis manually. Again, with the main focus on working only with the most obvious and reliable Elliott Wave patterns, taken in isolation.

You can then use your own manual Elliott Wave counts to perform advanced analysis using the modules within MTPredictor to be able to uncover additional trade setups.

It is advisable to read through this one chapter at a time, because each chapter will build on what you have learnt in the prior chapter.

Part 2 will take your MTPredictor analysis to a higher level and allow you to perform more advanced analysis with the aim of advancing up the Techniques Curve. However, the same overriding principle will apply throughout the whole of this section: you should always look to only take a trade setup that allows you to enter the trade with a small initial risk compared with the potential profit. This was the fundamental building block upon which Part 1 and the automatic routines were based, so it should still be applied throughout all your advanced analysis and trade setups, no matter how they were uncovered.

Thanks and good trading . . .

Steve Griffiths
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Chapter 2 – Important numbers

The whole topic of numerology is vast and complicated, and is far beyond an in-depth study here. So, if you are interested in this area, I suggest that you do some further reading and study yourselves. All I would like to do in this chapter is to cover the numbers that are used in MTPredictor and discuss why they are important.

The first major source of these numbers in market analysis can be traced back to R. N. Elliott and W.D. Gann, and possibly much earlier. There have also been many fine analysts in more recent years that have taken on the subject of numerology and applied it to Price analysis with great success.

If you head even further back in history, several leading mathematicians feature, such as Pythagoras and Fibonacci. Fibonacci however, was the key source for most of the ratios now used in the financial markets.

Leonardo Fibonacci was reputed to be one of the greatest mathematicians of the Middle Ages, publishing a number of papers in the years 1200-1220, and is best-known for his *Fibonacci number series*, the implications of which I will cover in greater detail soon.

The Fibonacci number series is the answer to this type of question: if you had two rabbits and let them breed, how many rabbits would you have at some defined point in the future? This seems a bizarre start to one of the most important number series in the financial markets!

The number sequence starts at 1, and then adds the previous two numbers together to produce the next number in the series:

1 + 1 = 2
1 + 2 = 3
2 + 3 = 5
3 + 5 = 8
5 + 8 = 13
8 + 13 = 21

And so the number series goes on:

1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377 and so on...

Okay, so far we have a set of numbers that is important for performing *static counts* in the markets, particularly in Time analysis (more on this later). This is the Fibonacci number series. However, this number series is unique, in that if you take any two adjacent numbers and divide the bigger by the smaller they come closer and closer to 1.618. 1.618 is one of the most important numbers governing the natural world.

For example 55/34 = 1.6176, and 377/233 = 1.61803

The significance of 1.618, and its reciprocal 0.618, is astonishing because this ratio can be found throughout all aspects of nature, from how shellfish grow to ratios between different elements of the human body. This ratio can even be found within the Great Pyramid of Giza in Egypt, or even in the ratios of subjects in masterpieces of art. I encourage you to look into this ratio in more detail for yourself; however for the purposes of this book, all you need to know is that the ratios of 1.618 and 0.618 are the fundamental building blocks from which swings in financial markets appear to unfold.

Let me show you a few examples, starting with a simple retracement of a prior swing on the US S&P500 stock index:

Here you can see how the market declined off the December 11, 2007 high into the January 23, 2008 low. The market then rallied back up; however, as you can see from the chart above, this rally stopped right at the 0.618 level, before it declined sharply.

I know many of you will already be familiar with price retracements, however some of you may not have seen (or, indeed, heard of) price expansions. A price expansion is simply taking the value of a swing, multiplying that value by a certain ratio, and then either adding onto the higher value (to expand upwards), or subtracting from the lower value (to expand downwards).

Let's look at an example again on the US S&P500 index, where I have taken the price move from the 16 Aug 2007 low into the 4 Sept 2007 high and added it to the 4 Sept high. This gave the price expansion up.

Here you can see how the Oct 11, 2007 high fell right at 0.618 (61.8%) expansion of this prior swing.

Price retracements and expansions are not the only price calculations performed on swings in the markets; you can also use price projections. A price projection is where you take the length of one swing in the market and project it from a third point, with the original length multiplied by certain ratios.

Let's take a look at an example on the German Dax index, where I have taken the length of the price swing from the 12 December 2007 high into the 17 March 2008 low, then multiplied this value by 0.618 and subtracted it from the 19 May 2008 high. In effect, what this is doing is taking 0.618 times the 12 December to 17 March swing and projecting that down from the 19 May high.

As you can see in the chart above, the 15 July low fell exactly at this 0.618 projection.

I did not have to look very far, or actually very far back in time, to find some excellent examples of how the stock market made major turns just using the 1.618 and 0.618 ratios of prior swings in the market.

I hope this has shown how important the Fibonacci ratios of 1.618 and 0.618 are, and how they can be used as multipliers in conjunction with prior swings in the markets to help project future levels where support or resistance may unfold.

These ratios are not the only ratios to use. There are two more important ratios derived from the primary 0.618 ratio: 0.786 and 0.382. 0.786 is the square root of 0.618, and 0.382 is the square of 0.618.

In addition, two more important ratios are derived from the important 1.618 ratio: 2.618 and 4.236. 2.618 is the square of 1.618, and 4.236 is the cube of 1.618.

As a result, the Fibonacci ratios that I consider most important are 0.382, 0.618, 0.786, 1.618, 2.618 and 4.236.

There is also one more ratio that I use often: 1.272, which is the square root of 1.618.

At first sight this may seem slightly complicated, but all you need to realise is that all these ratios are derived from the bedrock 0.618 and 1.618 Fibonacci ratios. All that is needed to produce these numbers is some simple maths. However, when performing normal analysis you do not need to worry about this, as the MTPredictor software program takes care of all these numbers for you.

If you would like to take your study of numerology further, then you can start to look at additional ratios that are derived from the square, circle, triangle and rectangle. From these arise such ratios as 1.414, which is the square root of 2, which is the value of the hypotenuse from the square of equal sides of 1. The square root of 5, which is 2.236, is another important number.

As you may have gathered, the main use of the these ratios is in taking the price length of a prior swing in the market, then multiplying it by one of these ratios, then projecting it from another point. This then projects into the future support or resistance levels where the market may well make a turn. This is called *dynamic analysis,* where prior ratios are multiplied and then projected into the future.

Another way to use these numbers is in *static analysis*, simply adding the value of these numbers to prior points. However, this is most relevant to Time analysis, and is not covered by this Trading Course as I believe Time Analysis does not work as well as Price analysis in the markets.

I will go into more detail on which ratios and which swings are used in the next chapter on WPTs, but my concern in this chapter is to introduce the ratios that are used in MTPredictor: mainly based on the Fibonacci ratios of 0.382, 0.618, 0.786, 1.272, 1.618, 2.618 and 4.236.

R. N. Elliott made extensive use of the Fibonacci ratios and number sequence in his work developing the Elliott Wave theory in the 1930s...

However, the Fibonacci numbers are not the only ones that are important in the markets. As I touched on a few paragraphs ago, there are also important numbers derived from the most basic mathematical relationships of 100% and 50%. The main reason for these ratios' importance is that they are very obvious places on a chart for support and resistance to be seen. The legendary trader W. D. Gann based much of his work on these numbers.

Let me show you a few examples.

The 50% value is best used as a retracement level. If you look at the chart below, you can see how UK stock RIO made a low on 20 Mar 2008 at the 50% (or 0.50) retracement of the 22 Jan 2008 to 22 Feb 2008 rally:

When the market reached the 50% (0.50) retracement level, it turned, made a low and continued to rally to new highs from there.

Very often a counter-trend swing will retrace 50% of the prior move before making either a high a low. This is a very obvious level, of which most technical traders are aware.

The second ratio of 100% is best used as either a price expansion or a price projection.

In this example on the German Dax index, we can see how very often a turn in the market will be made after a move has travelled 100% (1.00) of the prior swing:

Here the price difference between the 17 August 2007 low and the 12 December 2007 high was expanded below the Aug low by 1.00 (100%). As you can see, the ultimate low of 17 March 2008 fell right at this 100% expansion level.

You would be amazed how many times this price relationship works in the markets, particularly as it is a relationship that is not very well known. Many you will be familiar with price retracements but I guess that few of you will have seen price expansions before and, particularly, the way a 100% expansion of a prior swing will very often produce a turn in the market.

The third method of price calculation is the price projection. I will take a look at an example of this on the next page.

Here is a daily chart of the Forex pair USDCAD:

As you can see from the chart above the 15 July 2008 low fell exactly at the 100% (1.00) projection of the 10 June high into the 27 Jun low projected down from the 1 July high.

This is a very important relationship because it is a three swing correction in which the third and first swings are equal in price. Or put another way, this can be labelled an ABC correction where Wave A is equal in price to Wave C. I hope this sounds very familiar from what you have read earlier in this Course.

W.D Gann was probably the most famous market technician to make extensive use of ratios derived from 1. In particular, the 50% retracement can be directly attributed to him. Most of the analysis in this book is related to the Elliott Wave theory and the Fibonacci number series, so the ratios based on 1.618 and 0.618 are considered more important, although the 0.50 and 1.00 ratios do have their place...

As such, you should add 1.00 and 0.50 into the current list of important numbers.

At first sight this may seem very complicated; however you do not need to spend too much time on the chapter or worry about what ratios to use, how to use them or what swings to use them from, because MTPredictor can perform all this work for you. As a result, this chapter should be treated more as *information only* rather than an in-depth study.

Summary

There are two sets of numbers that are important for performing mathematical analysis in the markets.

- The first of these is the Fibonacci sequence: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377 etc,
- The second is 0.382, 0.5, 0.618, 0.786, 1.00, 1.272, 1.618, 2.618 and 4.236, where most of these numbers are derived from the important 1.618 (and 0.618) ratios that derive from the first series, and are mainly used for dynamic analysis, with the length of a prior swing being multiplied by these ratios.

As you have seen in this chapter, very often financial markets make reversals at, or very near to, price retracements, expansions or projections of prior market swings which are then multiplied by these particular ratios.

In other words, you can use these ratios to help anticipate future support and resistance areas where markets are likely to make a reversal so they should be considered *leading indicators* because they can help project in advance potential future support and resistance areas.

Again, this chapter is by no means a full and complete look at the topic of numerology; there are many additional sources you may want to consider if you wish to take your study of numerology further. There are also additional ratios and additional techniques that can be used to anticipate future support and resistance areas. This chapter contains only the ratios and techniques that I have found useful based on my own experience in the markets.

However, I do suggest that if you are interested, you do take your own study and research further, not only because it can lead to additional ratios and techniques to use, but also because the topic is absolutely fascinating! It is a real eye-opener to see how often these important ratios unfold in everyday life. It will certainly change the way you look at many elements from nature from now on.

Chapter 3 – WPTs (Wave Price Targets)

As you saw in the last chapter, there are a number of important ratios that can be used to multiply prior price swings in the markets, to then project future support and resistance areas. Just to recap, these numbers are mainly based on the ratio of 1.618, and are as follows:

0.382, 0.5, 0.618, 0.786, 1.00, 1.272, 1.618, 2.618 and 4.236

You also saw a number of examples in the last chapter where a market reversed at either a projection or extension of a prior swing using these ratios. This chapter will take this one stage further, to show you how the best support or resistance areas are where multiple ratios from multiple swings fall in the same area. This is like a *clustering* of Price targets with the most likely areas for a change in trend where the highest number of ratios falls in the smallest area.

Let me show you an example on the daily chart of the Forex pair USDCAD again:

Here you can see how the Wave C low of 15 July 2008 ended right in the cluster of the following Price ratios:

- 1.00 Wave (A) projected from the Wave (B) high,
- 0.272 expansion of the Wave (B) swing and
- 0.272 expansion of the Wave (A) swing

As you can see, this Price cluster worked superbly as it nailed the exact low of 15 July.

However, the picture is slightly less clear if I go back one stage and place *all* the Price ratios from all of the swings on the chart at the same time:

Here you can see a very confusing picture, with Price ratios and lines all over the chart. So how can you decide which ratios from which swings are important, or indeed where the clusters are and which ones are more important than others?

The simple answer is: you do not need to know, as MTPredictor will do all of this for you!

This is just using 3 swings, however the situation gets a lot more complicated when we move onto a Wave 5 high or low and are dealing with 5 price swings as opposed to just 3... Multiply that by the number of ratios, and the number of lines that appear on your chart suddenly increases significantly.

Here is an example of the ratios to use to identify the most likely areas for a Wave 5 swing to end:
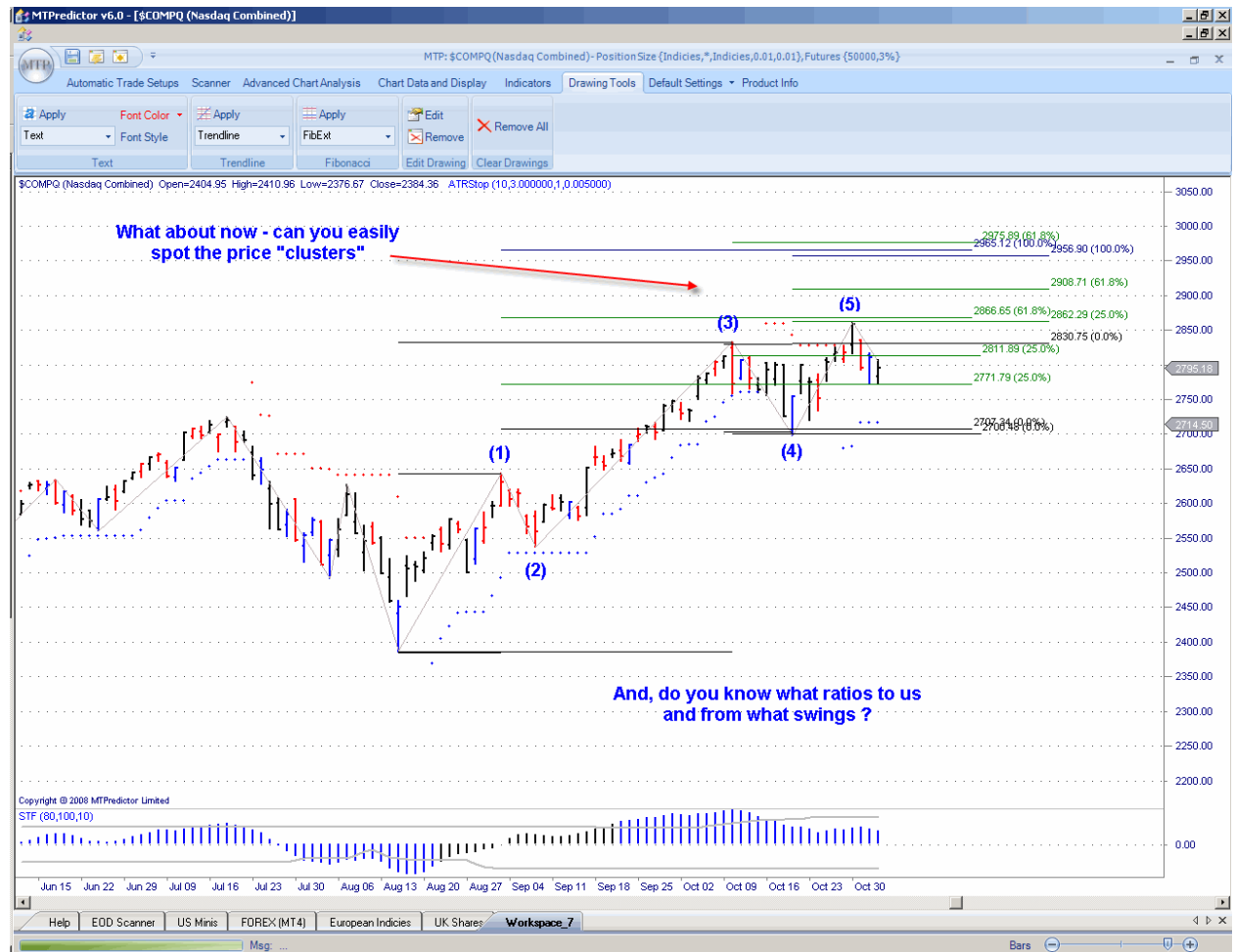
As you see, the situation now gets far more difficult, with Price ratios and lines everywhere - especially when you take into account that you have to know which ratios are more important (and from which swings) when projecting support or resistance areas for different Elliot Wave counts.

This is where MTPredictor comes in, as it uses my 26 years' experience in the markets to automatically perform these calculations with a few simple mouse clicks.

As an example, let's return to the first chart in this chapter on trying to decide where the most important support or resistance areas were for a potential Wave C swing.

Here you have the same chart on the Forex pair USDCAD with the Waves A and B complete...the task now is to project the most likely resistance areas for the Wave C low to end:

After selecting *Wave C down* from the WPT module, all you have to do is make three mouse clicks on the chart: the first on the 10 June high (the start of the Wave A swing), the next on the Wave A low on 27 June, the last one on the Wave B high on 1 July. And the Wave C WPTs will be drawn on the chart for you, as shown in the chart above.

This is a lot easier (and quicker) than trying to decide which ratio to use from which swings, and then where the Price clusters are. As you can see from the second chart on the last page, there are 2 main areas where resistance should be anticipated - where the anticipated Wave C low is likely to end.

Let's move forward in time and see what happened:

As you can see, the Forex pair USDCAD reversed and made a Wave C high low at the typical Wave C WPT support zone. But more importantly, all that was needed to place this area on the chart was three simple and quick mouse clicks - all very easy indeed!

Also, I hope you all spotted that these projections were made well *in advance* of the market reaching this level. AS such, WPT's should be considered a *leading indicator*. Please go back and have a look at the chart a few pages ago where the initial projections were made, these were made only one day after the Wave B low was complete. In this way, you can be prepared well in advance for future support and resistance levels where swings are likely to end.

Let's take a look at the second example in this chapter - the Wave 5 high on the US NASDAQ Composite index.

Continued on the next page . . .

As with the first example, all you have to do after selecting the required WPT is to make the required number of clicks on the chart (I will go into more detail on the number of clicks needed for each WPT later in this chapter) and the WPTs will then be drawn automatically for you:

As you can see from the chart above, for a Wave 5 WPT you need to make 5 mouse clicks. As before, the Wave 5 WPTs will then be drawn for you:

From the chart above, two distinct levels were projected where resistance should be anticipated for the end of the anticipated Wave 5 swing. There was a maximum Wave 5 WPT but this was well above the viewable area of the chart, so was not shown. Also, these projections were made only a few bars after the Wave 4 low was complete. In other words, you were (again) prepared well *in advance* of the market reaching these levels for potential resistance.

Let's see what happened:

The result:

The US Nasdaq index rallied and then reversed right at the minimum Wave 5 WPT resistance area before declining strongly. In fact (at the time of writing, August 2008), this was still the ultimate high of the prior bull market.

I hope you can see how the WPTs can make projecting future support and resistance areas very easy indeed. The most important point to note here is that the MTPredictor software program performs all the important calculations of which ratios to use, which swings to project from and which clusters are important, for you. All you have to do is select the required WPT and make a few simple and quick mouse clicks on the chart. The support/resistance areas will appear as coloured areas on the chart for you - all very simple and easy indeed.

This is a lot easier and quicker than trying to do all the calculations manually!

Also, how these levels are on your chart *in advance*, even before the market gets there. In other words, WPT's are consider *leading Indicators.*

As a number of you may have already spotted, these WPTs are used for projecting support and resistance areas, where individual Elliot Waves are likely to end. As such, there needs to be an obvious and workable Elliot Wave count on the chart already to be able to make best use of these WPTs.

As already outlined in the first section of this course, a workable Elliot Wave count is not always obvious on all charts, all the time. However, when there is an obvious Elliot Wave count, these WPTs can be used to project where the next Wave is most likely to end.

At first sight, this may seem slightly complicated; however these WPTs will be used in additional modules within the MTPredictor software program, in particular as part of the *Elliot Waves* module and *Automatic Trade setups* routines. However, this chapter is designed as an introduction to these WPTs, and also to show how you can use these WPTs manually to make your own projections with your own manual Elliott Wave count.

Over the next few pages I would like to cover which swings you should click on to make the projections for each of the WPTs.

Wave 1orA WPT

In Elliot Wave terms, the Wave 1orA is the initial swing off an important high or low, usually the end of the prior 5 Wave sequence. So, the only swing you can work off is the prior Wave 5 - for this WPT all that is needed is to perform two mouse clicks, the first on the end of the prior Wave 4 and the second on the end of the prior Wave 5. In other words, you select the last swing going into the Wave 5 high or low.

Please see the chart on the next page.

Here is a recent example on an hourly chart of the Forex pair EURUSD:

The first click is performed on the Wave 4 high and the second click is performed on the Wave (5) low - then the Wave 1orA WPT is displayed on the chart for you.

In this example I have used a *manual* Elliott Wave count but the approach is the same whether the Wave count is found automatically, or whether you have placed it on the chart yourself. Basically you are just using the *last swing* into the eventual high or low, in this example it was the last swing into the Wave (5) low

Let's see what unfolded over the next few hours...

The result:

As you can see from the chart above, the Forex pair EURUSD rallied off its Wave (5) low...only to stop exactly at the Wave 1orA WPT that was projected well *before* the market reached it.

In this way, the Wave 1orA WPT can be used as a target for the initial swing off a completed Wave (5) high or low.

Often you have a choice of using the Wave 1orA - or the Decision Point™ (DP) - because the DP tool (shown in the next chapter) can also be used to anticipate where the initial rally off an important high or low is likely to end.

In this example the DP provided the same result:

Continued on the next page . . .

Wave 2orB WPT

In Elliot Wave terms, the Wave 2orB is the second swing off an important high or low and is the corrective swing following the initial Wave 1orA swing. It is very important to be able to identify the end of this swing because, once complete, the main trend normally resumes. W. D. Gann stated that the safest place to enter a trade is at the end of the first correction to the initial swing off an important high or low - this is the end of the Wave 2orB swing.

Because you only have one swing, you only need two mouse clicks on the chart to project the Wave 2orB WPT.

Let's take a look at an example in the fall (autumn) of 2007 on the US S&P 500 index:

After the second click the Wave 2orB WPT is drawn on the chart for you.

Continued on the next page . . .

The first correction to the initial decline off the 11 Oct 2007 high ended right in the Wave 2orB WPT - the S&P500 continued lower from there.

As with all WPTs, the Wave 2orB WPT works equally well providing resistance for a potential high or support for a potential low.

Continued on the next page . . .

Wave C WPT

First you need to select the Wave C WPT from the Advanced Chart Analysis tab, and then make 3 mouse clicks on the chart. The first of these is the start of the Wave A, the second is the end of the Wave A and the third is the end of the Wave B,

Let's take a look at the rally in the Forex pair USDJPY in the fall (autumn) of 2007:

On the USDJPY you can see how, after the third mouse click was made, three potential Wave C resistance levels were placed on the chart for you. These were the minimum, typical and maximum (not shown in this example) Wave C WPTs.

After the 3rd click the Wave C WPTs will be placed on the chart for you.

Again, I hope you can see how these levels can be placed on the chart well in advance of the market getting there.

There are three potential areas where a Wave C swing could end. As the name suggests, the *typical* Wave C WPT is the area where most Wave C swings end. The next most important area depends on where in the *larger-degree* picture you are. If the current Wave C is unfolding as part of the large degree Wave (2orB), then the second most important area is the maximum Wave C WPT. However, if the ABC correction is unfolding as part of a *larger-degree* Wave (4), or indeed just an ABC correction on its own, then the second most important area is the minimum Wave C WPT.

In the current example on the Forex pair USDJPY, the market made a Wave C rally that reversed right at the typical Wave C WPT before continuing the prior decline.

As outlined above, the typical Wave C WPT is the most important support or resistance area, and the area where most Wave Cs will end.

Continued on the next page . . .

Next is an example on 3min. chart of the German Dax index, where the ABC correction reversed right at the minimum Wave C WPT:
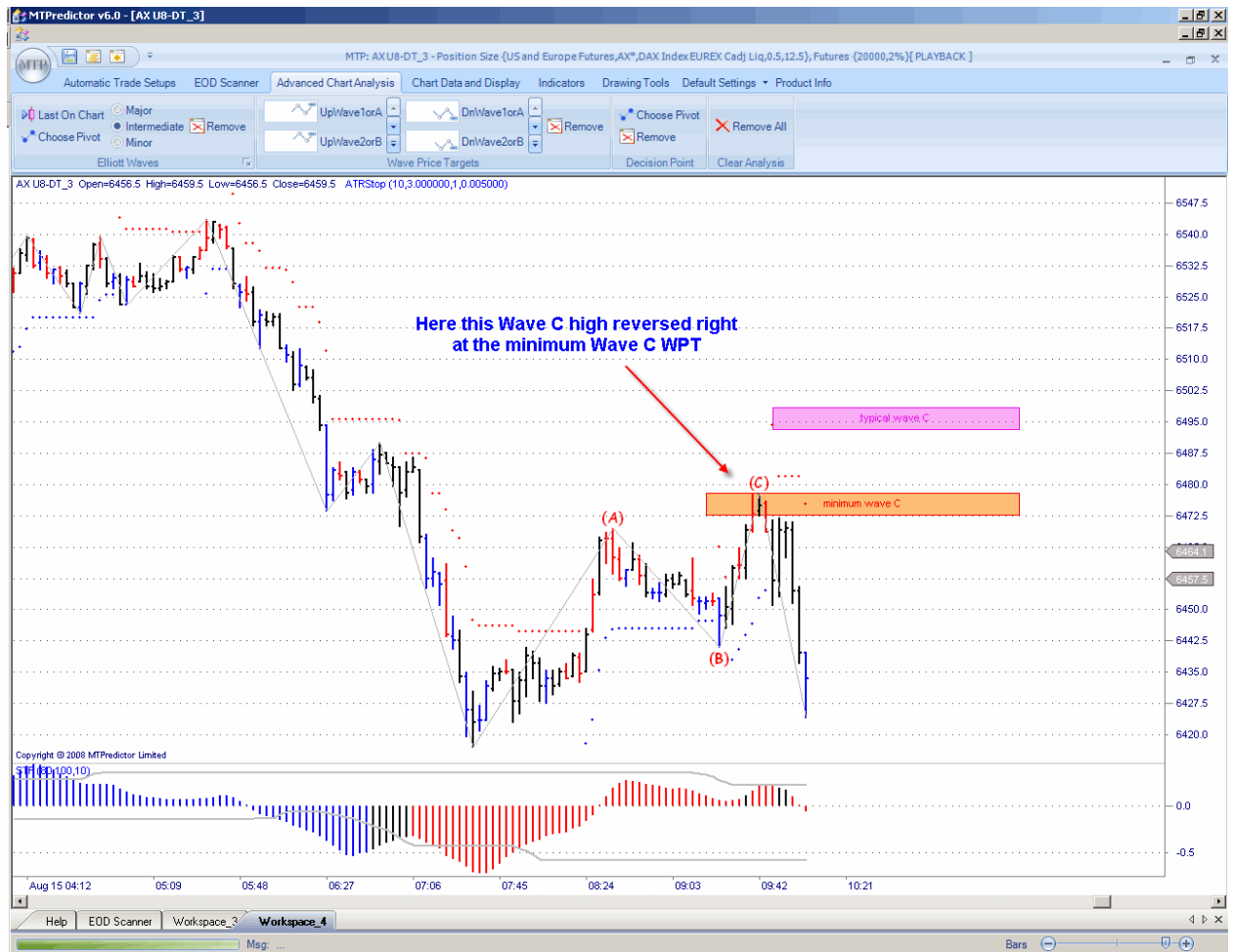
As outlined on the previous page, the minimum Wave C WPT is the second most important price support or resistance level (after the typical Wave C WPT) where a Wave C is likely to end.

Just to recap, the most important area where Wave C is likely to end is the typical Wave C WPT. This is the same no matter where the ABC correction unfolds. The second most important area for most ABC corrections, including where the ABC correction unfolds as part of the large degree Wave (4) or, indeed if the ABC correction unfolds by itself, is the minimum Wave C WPT.

Wave 3 WPT

As with the Wave C WPTs, there are two swings to work with - the Wave 1 and the Wave 2. Therefore, three mouse clicks are required on the chart, once the Wave 3 WPT up or down has been selected:
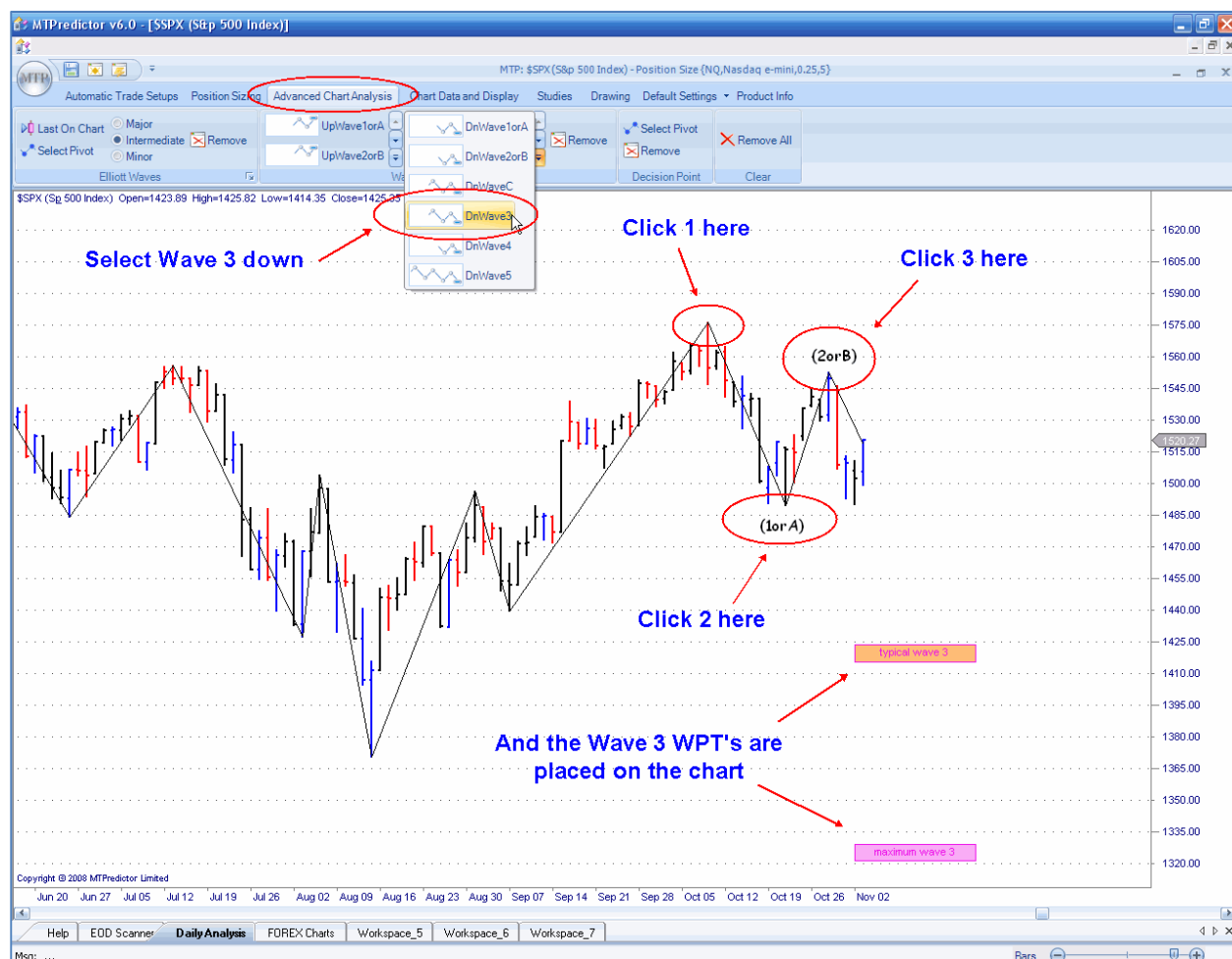
As you can see from the chart above, these Wave 3 WPT projections can be made as soon as the Wave (2orB) high or low is complete. At this stage you do not know for sure whether the anticipated decline will only be a Wave (C) correction or an impulsive Wave (3) swing. However, if you had any additional reasons for thinking a strong decline is possible, you could then apply the Wave 3 WPTs as early as I have shown on the chart above.

But how, at this stage, can you know whether the anticipated swing is going to be a Wave (C) or a Wave (3)? Well, the simple answer is that, just based on these swings, you can't know for sure. However - keeping things simple - the easiest way is, first, to place the Wave C WPTs on the chart using them as *minimum* targets... then, *if* the market in question closes beyond the typical Wave C WPT, then the current swing should be considered more likely to be a Wave (3).

A close beyond the typical Wave C WPT normally indicates a continued move into the maximum Wave C WPT:

Here you can see how this decline on the US S&P500 index has now closed below the typical Wave C WPT; you should now consider this decline more likely to be a Wave (3) type swing. You can use the Wave 3 WPTs for targets to anticipate where this decline is likely to end.

Continued on the next page . . .

As you can see from the chart above, the S&P500 continued to decline sharply, finally finding support at the typical Wave 3 WPT.

Most Wave (3) swings will end in the typical Wave 3 WPT, however some will reach the maximum Wave 3 WPT. Rarely will any swing reach the extended Wave 3 WPT - if it does, you know that the current swing is very near its end.

Again, I hope you see how the WPTs can help *prepare in advance* for these support or resistance areas - allowing you to be prepared to take action, rather than simply *reacting to* prior market action. In other words, WPTs should be considered *leading indicators.*

Wave 4 WPT

A Wave 4 WPT needs only two clicks on the chart, the first on the start of the Wave 3 swing and the second on the end of the Wave 3 swing:

You can see in this example on the Forex pair AUDJPY how, when you suspected that a Wave 3 swing was complete, you could - with just two simple mouse clicks - place the Wave 4 WPT on the chart.

Although this is a quite wide WPT, it does give you an *initial target* for where the Wave 4 correction is likely to end and, as you will see on the next page, this initial broad range can be narrowed down by using the *lesser-degree* Wave C WPTs as the Wave (4) correction unfolds.

Let's see how this unfolded:

As you see, the Forex pair AUDJPY made a Wave 4 corrective low right in this WPT before continuing to rally to new highs. You can also see that this Wave 4 actually unfolded as a simple ABC correction, so you can use this information to help narrow down the initial broad Wave 4 WPT...

The Wave 4 WPT provided a broad range of where the Wave 4 correction was anticipated to end.

Continued on the next page . . .

Wave 5 WPT

First, you need to select the Wave 5 WPT from the *Advanced Chart Analysis* tab, and then make five mouse clicks on the chart. The first of these is the start of the Wave 1; the second is the end of the Wave 1; the third is the end of the Wave 2; the fourth is the end of the Wave 3; and the fifth and final click is the end of the Wave 4.

Let's take a look at the rally in the US NASDAQ Composite index in the fall (autumn) of 2007:

As you can see from the chart, for a Wave 5 WPT, you need to make five mouse clicks. Then the Wave 5 WPTs will then be drawn for you...

Continued on the next page . . .
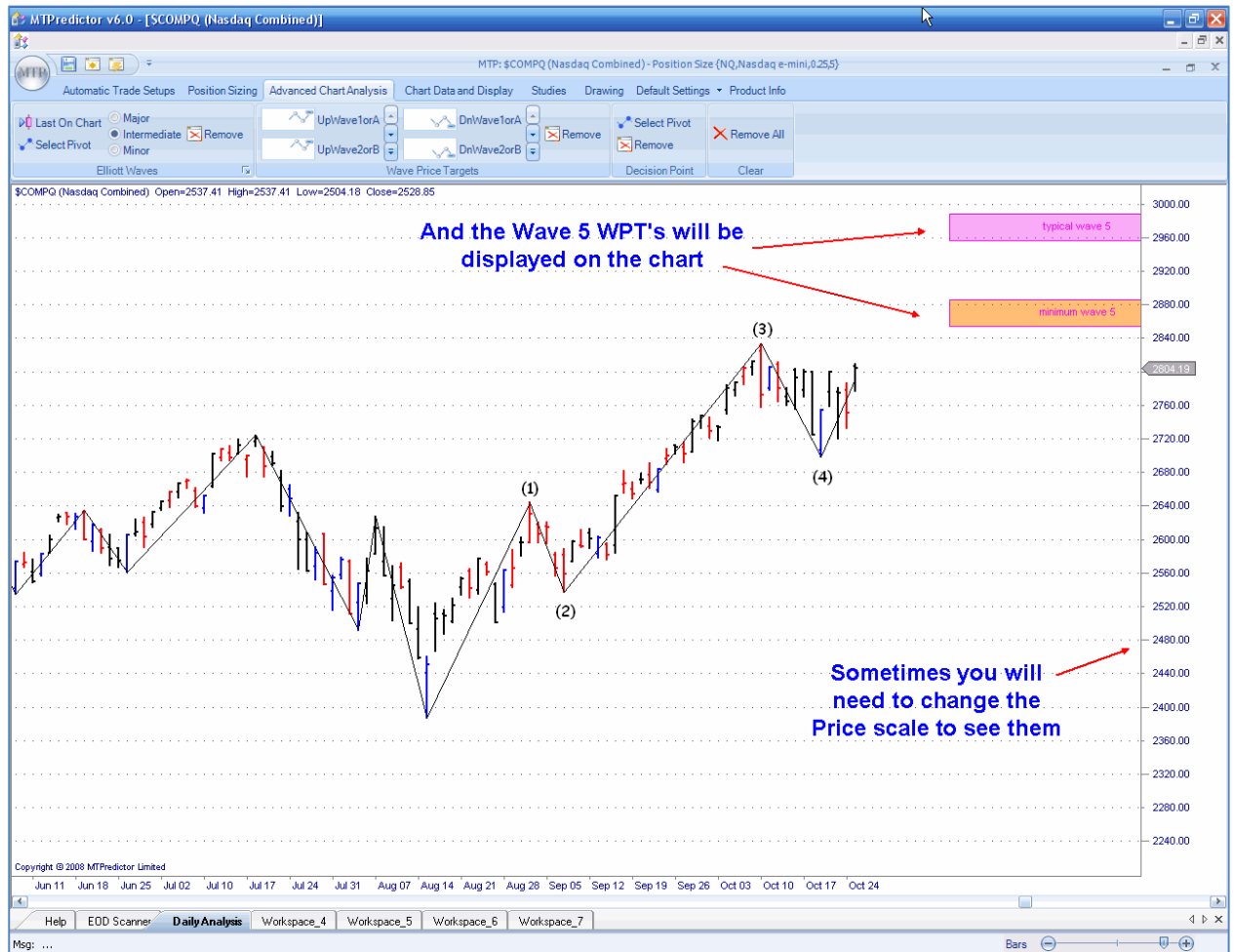
When you have made the last Wave 5 WPT click, the Wave 5 WPTs will be drawn on the chart for you.

Note: sometimes these Wave 5 WPTs will be above or below the current viewable area of the chart, so you may need to change the Price (vertical) scale to be able to see them.

As I have mentioned earlier, these projections were made only a few bars after the Wave 4 low was complete. In other words, you were (again) prepared well in advance of the market reaching these levels for potential resistance (or support).

Let's see what happened:

Continued on the next page . . .

Here is the result:

As you can see, the US NASDAQ index rallied, and then reversed right at the minimum Wave 5 WPT resistance area before declining strongly.

This was the ultimate high for this market in 2007 and you were prepared *in advance* for the most likely areas for this high to be made.

As the name suggests, the most likely area for a Wave 5 high or low to end is in the typical Wave 5 WPT. The second most likely area is the minimum Wave 5 WPT, with very few Wave 5s reaching the maximum Wave 5 WPT.

Summary

I hope you can see how these WPTs make projecting the areas where specific Elliott Waves are likely to end very easy indeed. Normally all that is needed is a few simple and quick mouse clicks. There is no need to perform all the individual price projections or expansions of each individual Wave, nor is there any need to know which ratios are important from which swings - the MTPredictor software program does all this for you. All you have to do is identify the start and end of the swings in question and make a few mouse clicks.

Throughout these examples, I'd like you to consider that the best support or resistance areas are projected when you have a clear and obvious Elliott Wave count to work with. If you try to project WPTs using an Elliott Wave count that is unclear, particularly if the market in question is unfolding in a very choppy and sideways period, then these WPTs simply will not work. As such, my best advice is to use these WPTs only where the current Elliott Wave pattern is clear and obvious. This advice also applies to labelling Elliott Wave counts manually, or verifying the automatic Wave count within MTPredictor. The best and most reliable set-ups come from a market pattern that is clear and obvious.

I apologise for stressing this point, however I believe that most markets tend to unfold in a clear and obvious Elliott Wave count only about 50% of the time. This means that most of the time you are unable to label the chart with a clear Wave count, so you are unable to use the WPTs for reliable support or resistance projection. This may be obvious but it is human nature to want to try to project future movements on all market activity all the time - from my own experience, you simply cannot do this. It is not that the techniques are invalid; it is simply that the market does not unfold in a reliable and pattern enough of the time. Again I stress, these WPTs are excellent ways to project in advance potential support or resistance areas where a market is likely to turn...however, you must use them only when you have a clear and obvious Elliott Wave count.

Furthermore, I hope you can see how the areas can help you prepare in advance for future support or resistance areas. This is very important as it allows you to be *prepared to* take action, rather than simply *reacting to* prior market action. In other words, WPTs should be considered *leading indicators*. This is very different from normal technical analysis where most of the indicators are *lagging*, only telling you that a high or low has unfolded, not the areas where a high or low is *likely* to unfold.

It does not matter whether it is a daily chart of a US stock or a Forex chart, a weekly chart of a commodity, or even a five-minute chart on the US E-Mini SP500 index futures...these WPTs work equally well on all markets and on all timeframes.

Next I would like to look at another price support/resistance zone that we can use – the Decision Point™ (DP).

Chapter 4 – DP (Decision Point™)

As you saw in the last chapter, MTPredictor has the ability to display Fibonacci price *clusters* automatically to form WPTs or Wave Price Targets. As the name implies, these are support or resistance areas that are specific to the current Elliott Wave pattern that is unfolding. However, there is another support/resistance zone that is not dependent on an Elliott Wave pattern - we call this the Decision Point, or DP for short.

Decision Point (DP) basics

This is a very important price zone because it usually reflects a change in sentiment on the market that often leads to a quick reversal in price. As such, it often forms a major high or low. Let's take a look at an example on a daily chart of UK stock RDSA:

Here we can see how RDSA is making new highs above a prior high. Normal technical analysis would suggest this is bullish behaviour and suggests that the current rally should continue.

However, very often I have found that as soon as a market has broken to new price extremes (new highs or new lows), often the rally stops in its tracks and reverses sharply. Why is this? More importantly, can we anticipate and take advantage of this?

Well, this is where the Decision Point (DP) comes in...when this type of sharp reversal occurs, usually it unfolds right at our DP level. Let's take a look at our RDSA example (on the prior page) that was making new highs and set to continue higher:

Rather than carrying on to new highs, exactly the reverse unfolded with RDSA making a high before a sharp fall in price. The important point for MTPredictor users is that this high unfolded right at our DP level.

This is what the DP is designed to capture - when a market makes new price extremes and then reverses sharply.

What we are looking for is a strong swing (up or down) that is followed by a correction, then a new swing to new price extremes (new highs or new lows). Then we look to the DP for a level at which this new price extreme is likely to reverse.

It does not matter what markets we look at, this pattern unfolds on all markets and all timeframes, for example on a daily chart of Soybeans or a 5min. chart of the German Dax index. See the examples on the next few pages...

Daily Soybeans:

5min. German Dax index:

As you can see, on both charts the market reversed right at the DP level. This gave us the opportunity to use a reversal at these levels to take a trade to take advantage of the new swing.

Continued on the next page . . .

As with the WPTs, what we are looking for is a coloured reversal bar to unfold at the DP level. We can then use a break of the high (or low) of this coloured reversal bar to take the new trade:

Here is a good example on a daily chart of the Forex pair GBPUSD - the market made new highs but this high unfolded right at our DP level, with a red (sell) reversal bar. A new short trade was triggered on a move 1 tick below the low of the red (sell) bar, with the initial protective stop 1 tick above the high of the recent swing. This allowed a trade entry with a small controlled risk.

As you can see, this got you into a new short trade to take advantage as the GBPUSD pair declined sharply over the next few weeks.

To increase the odds that a reversal will occur, we can add in a standard technical analysis technique called *divergence*. Divergence is where an oscillator makes a lower peak at the same time as the new price high (or higher bottom with a new price low). I will not go into a detailed explanation here because divergence is a standard technical analysis technique, so let's just look at a few examples.

On the 5min. German Dax index from a few pages ago:

This divergence in the oscillator is a sign of weakness and an indication that this new swing to new highs is running out of steam. However, this is where MTPredictor users have a big advantage over standard technical analysis...we can know in advance the *price level* at which this reversal is likely to unfold – our DP level !

The same applies for a declining market making new price lows with the oscillator failing to make new oscillator lows.

In fact, you can use any oscillator for this divergence . . .

Here is another look at the Forex pair GBPUSD from a few pages ago, with a 5/3/3 Stochastic:

As you can see, the GBP USD had perfect *bearish* divergence going into this DP resistance zone.

Continued on the next page . . .

A reversal at the DP level with a coloured reversal bar on Strong Trend Filter (STF) divergence is the basis for the *automatic* DP sell set-up in the software:

Okay, so far we have been looking at the times the market does indeed make a reversal at the DP level but does this happen all the time? No, sometimes we can get a very strong trend that continues beyond the DP level. So does this mean the DP is of no use when this happens? No, because, very often when a trend continues, the market does stop at the DP level and make at least a minor wiggle. So can we make use of this?

Yes, when we get a minor wiggle at the DP level we can use this to enter a new trade in the direction of the current trend with a small controlled risk - we call this a *trend continuation trade*.

DP – trend continuation trade

Here is a daily chart on US stock ADM:

In this example, we have the market starting to make a decline off the DP resistance. This is the normal way we have been using the DP level up to now but as of the last few bars on the chart ADM has declined into a DP support zone.

However, if you take a look at the STF, can you see how it is below its Strength Band, indicating that the current move is strong - this is the first hint that the current DP support may fail. So the question is – how do we use a DP level that fails? Well, we can place an order to go short (in this example) *if* the minor low *made in the DP zone* fails. We can then use the high of this minor wiggle for the initial protective buy stop. In other words, we are using the minor wiggle at the DP zone to enter a new trade *in the direction of* the current trend (not a trend reversal). We call this a *trend continuation* trade.

Continued on the next page . . .

ADM daily chart:

This gave you the opportunity to enter the market with a trend continuation trade that took advantage as the current decline continued.

The point here is that when a minor wiggle unfolds at a DP zone that we think might fail (because of a strong STF or other, larger-degree, analysis) we can use this minor wiggle to enter a trend continuation trade.

Okay, now we are short (in this example)...how do we manage the trade? We have no specific profits targets. We are simply assuming the current trend is strong and will continue. So, in the absence of any other larger-degree analysis on the higher timeframe, we can just use the trailing ATRStop (volatility stop) to run the trade as far as it wants to go.

Continued on the next page . . .

Here is the result:

ADM continued lower until eventually stopped out by the ATRStop for an excellent +7R profit.

The important point here is that this profit was large in relation to the small initial risk and we managed to keep the initial risk small by using the minor wiggle at the DP zone. So, if there is no wiggle and you cannot enter with a small controlled risk, pass on the trade. As you are gathering by now, successful trading is all about risk control and keeping the initial risk small. So, if you cannot do that on your trade, then pass - there will always be other opportunities.

The DP does not stop there; it can also be used for the *initial profit targets* following a Wave 5 swing as well as a completed ABC correction. Let me show you with a couple of examples...

Continued on the next page . . .

<u>Profit target from a completed Wave (5)</u>

The first *profit target* is off the minor prior Wave (4), following the completion of a Wave (5) high or low:
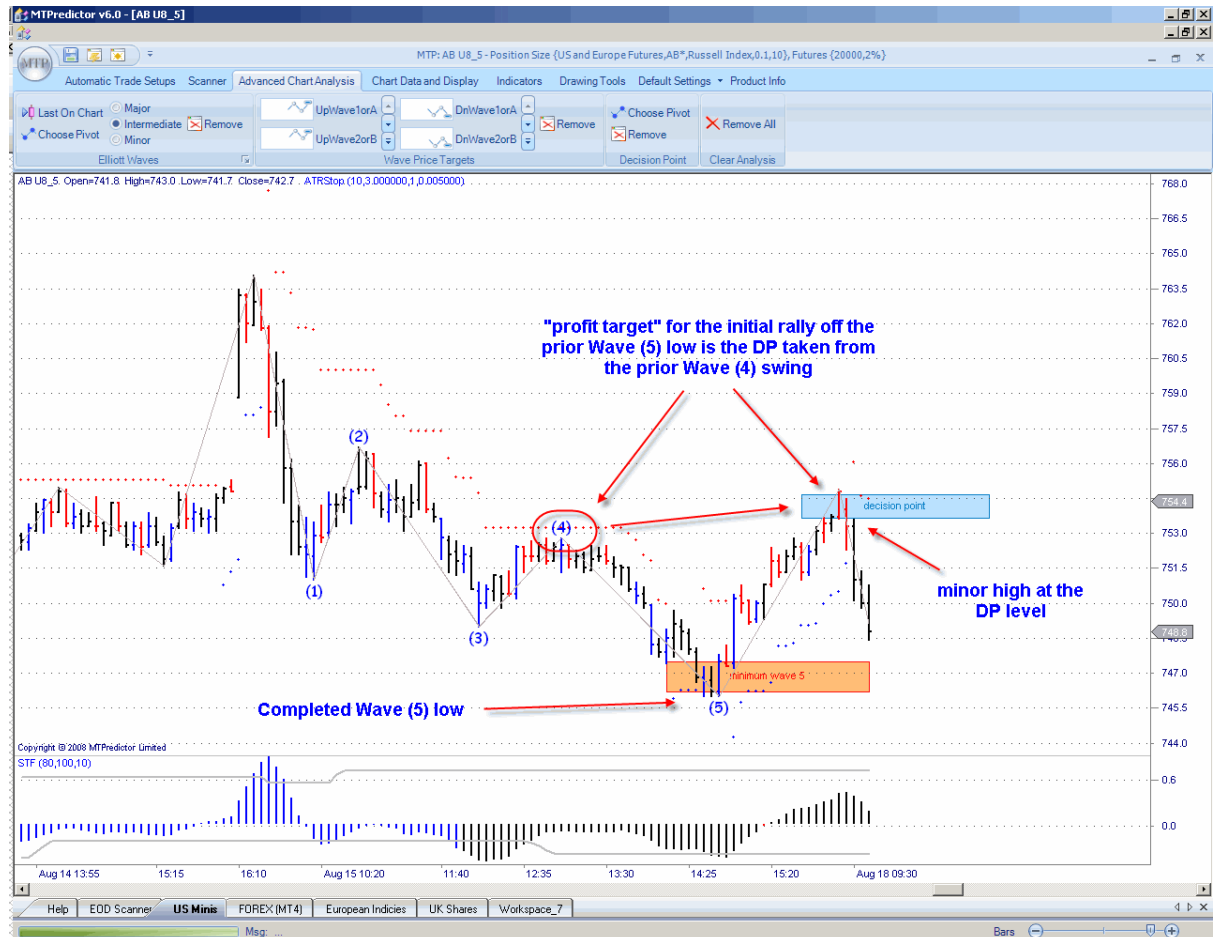
Here you can see a perfect example on a 5min. chart of the US E-Mini Russell2000 index futures.

The point is that following the completion of a Wave (5) high or low, the market normally makes an *initial rally* to just beyond the prior Wave (4) high or low. As such, this is the perfect place to look to bank profits on a trade initiated form the prior Wave 5 high or low.

Just being able to project where this initial rally is likely to end is not the full story because, as you will all know by now, the important point is not just anticipating where a market will go (in the hope to make money). It is all about Risk/Reward and making profits where the profits are large in relation to the initial risk, which must itself be kept small.

This is where some of the other tools in MTPredictor help, as you will learn in other parts of this Trading Course...

In this example, the profit at this initial DP target was approximately +4R the initial risk - a good trade:

Okay, next we can use the DP as an *initial target* following the completion of a Wave (C) high or low.

Continued on the next page . . .

Profit target from a completed Wave (C)

The initial profit target for the initial swing off a completed Wave (C) high or low is the DP from the prior Wave (B) swing:

In this example on a daily chart of Gold, we had a Wave C low on May 2, which was followed by a rally. The rally continued until it reached the DP taken from the prior Wave (B) high, where it stopped dead before a sharp fall unfolded. But, as you can see, the DP gave the ideal place to bank your profits and nailed the high of the initial rally off the Wave (C) low.

This does seem to be in contradiction to what you learnt in the section on Elliot Wave analysis, where a market should move to new highs or lows following the completion of an ABC correction. So what this DP does is give you a level where most *failures* to move to new highs or new lows unfold. It is a great place to look to bank profits if you think the swing will not continue to new price extremes.

Continued on the next page . . .

As normal, this DP level is not important on its own...it must be put into context of the R/R of any trade taken off the prior Wave (C) swing:

Here, the profit at this DP level was approximately +7R, in other words approximately 7 times greater than the initial risk required to take the trade (excluding slippage and commission).

So this is another use of the DP – as an area the *initial move* off a completed Wave (C) high or low is likely to reach *if* the move to new price extremes is to fail.

Continued on the next page . . .

DPs as a general support or resistance zone

DPs are a very powerful tool and can be used as a first line of support or resistance from most intermediate degree highs or lows.

Here is a good example on a 3min. chart of the US E-Mini Dow index futures:

Most highs and lows for the day unfolded at DP support or resistance...

This is not restricted to intraday charts. The DP is a very powerful zone for potential support or resistance on any chart of any timeframe, so you should always be aware of these zones and pay close attention to your chosen market as it approaches.

Continued on the next page . . .

<u>A word of caution.</u>

Lastly I would like to issue a word of caution when using the DP. Because the DP is a *trend termination* tool, it is best used when it falls "in line" with the larger degree trend position. What can happen is that as the trend is ending you can get a number of *false* attempts as the final high or low comes in. This can result in unnecessary losses. The way to avoid these is to make sure that you are at larger degree support or resistance (using the DP's or WPT's on the higher time frame chart). There is more on this in the Chapter on trend.

Therefore the DP is best used **only** when it falls *in line with* the larger degree trend position.

<u>DP Summary</u>

1. The DP is an area where a move to new price extremes might fail
2. Oscillator divergence is used to help confirm this reversal
3. The DP can be used for a trend continuation trade
4. The initial target from a completed Wave (5) high or low is the DP from the prior Wave (4) swing
5. The initial target from a completed Wave (C) high or low is the DP from the prior Wave (B) swing
6. DPs can also be used to project general support or resistance areas from any prior intermediate degree swing
7. Use caution as this is a trend termination setup
8. Always check the higher time frame for added confirmation that the current trend is indeed ending (DP and/or WPT levels on the higher time frame).

Chapter 5 – Coloured Reversal Bars

In the last chapter you saw that WPTs could be used to anticipate where any of the Elliott Wave sequences were most likely to end. However, this is not the end of the story. When a market enters a WPT support or resistance area, this is simply an area where a high or low is *likely* to unfold...it does not mean that a high or low *will* unfold.

The next stage is to have a method that gives you an indication that the market (by its own actions) *is* actually finding support our resistance at the projected area. These are the coloured Reversal Bars in MTPredictor.

Let me show you an example:

You can see from the example in the last chapter, the Forex pair CADUSD has reached the typical Wave C WPT support area. MTPredictor has also painted the bar of 15 July blue - this would be considered a buy Reversal Bar (red bars are potential sell set-ups).

The USDCAD pair is now at a level where a Wave C low is *anticipated* to unfold and you have a signal that may well indicate a low *is* actually unfolding. Confirmation that the high is completed would be *if* the USDCAD trades above the high of the blue Buy Reversal Bar (of July 15).

Let's see what this looks like on the chart:

Let's now move forward and see what happens one day later:

Continued on the next page . . .

Chart:

As you can see on the chart above, the CADUSD pair rallied and (more importantly) exceeded the high of the blue buy Reversal Bar (of 15 July). This confirms that the Wave C low is complete and that the CADUSD should continue higher from here.

At this point, three aspects have combined at the same time to signal a potential change in trend

- Firstly, the market in question (CADUSD) was at a level where a low was anticipated to unfold - the typical Wave C WPT resistance area

- Secondly, the market in question made a blue Buy Reversal Bar that unfolded right at the typical Wave C WPT support zone

- Thirdly, the market in question then rallied above the high of the blue buy Reversal Bar

As you see, these three points suggested that the CADUSD pair was not only at an area where a low was anticipated to unfold but also that a low was actually likely to unfold (by a blue buy Reversal Bar appearing at the WPT). Then the CADUSD pair (by its own actions) confirmed that the low was complete by rallying above the high of the blue, buy reversal bar.

Let's see what happened over the next few weeks:

The CADUSD pair did indeed continue to rally from this level - in fact, the blue buy Reversal Bar, of July 15, was the actual day the Wave C low ended!

Let's take a look at another example, this time on the US S&P500 cash index and the Wave 5 high of 19 March 2008:

As you can see, 19 March fell right at the minimum Wave 5 WPT, which was the first area where a potential Wave 5 high was anticipated to unfold. This is only the first criterion that is needed for the high to be confirmed - as before, we require three points to coincide to signal a potential change in trend:

- Firstly, the market in question (the US S&P500) is at a level where a high is anticipated to unfold - the minimum Wave 5 WPT resistance area

- Secondly, the market makes a red sell Reversal Bar that unfolds at the minimum Wave 5 WPT resistance area

- Thirdly, the market then declines below the low of the red, sell Reversal Bar

As you see, these three developments meant that the S&P500 was not only at an area where a high was anticipated to unfold but also that the S&P had given an indication that a high was *likely* to unfold (by a red, sell reversal bar appearing at the WPT). Let's see what happens...

The very next day the index declined below the low of the red Reversal Bar. This confirmed that the Wave 5 high was complete. As you can see on the chart above, the S&P declined sharply from there, leaving 19 March as the very day the Wave 5 high ended!

A coloured Reversal Bar gives you the first indication that support or resistance is unfolding at the anticipated WPT. However, the market must exceed either the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar to confirm the change in trend.

What this also means is that the coloured Reversal Bars are only relevant when they appear at WPT support or resistance areas. This makes sense because the market has to be at an area where a high or low is anticipated, as most highs or lows unfold at the WPT support or resistance areas. Therefore, if a coloured Reversal Bar unfolds in the middle of a trend, it has a low probability of actually making a change in trend...so, it should be ignored.

This is a very important point, so I will stress it again: if the market makes a coloured Reversal Bar it should be ignored unless in unfolds at a WPT support or resistance area.

When it unfolds at a WPT support or resistance area, the market is very likely to make a change in trend. However, you must wait until either the high or low of the coloured trade to the bar is exceeded for the change in trend to be confirmed.

The MTPredictor software program uses a unique combination of criteria to calculate these coloured Reversal Bars. Coloured Reversal Bars often unfold on the exact day (or bar) a high or low is made. Usually, if they do not unfold on the exact day (or bar) of a turn, they will unfold one day (or bar) later.

Here's an example:

Here we have a Wave C low on a 3min. chart of the UK FTSE100 index future. Although the low was right at the typical Wave C WPT, the blue buy Reversal Bar did not unfold until one bar later.

The same applies to a reversal at a DP (Decision Point) support or resistance zone. As with the WPTs, DPs provide the price levels to anticipate support or resistance. The coloured reversal bars are then used to confirm the high or low and for the actual trade entry.

Let's look at an example on US stock ADM :

As you can see from the chart above, the red sell reversal bar at the DP resistance zone nailed the very day the high unfolded on ADM.

Continued on the next page . . .

Summary

As you have seen in this chapter, coloured Reversal Bars are the final piece in the puzzle that indicates whether a change in trend is unfolding. First, we require the market be at a WPT or DP support or resistance area where the current trend is likely to end; then we need a coloured (red or blue) Reversal Bar to unfold at that WPT or DP; finally, we need the market in question to exceed either the high (for a buy) or the low (for a sell) of the Reversal Bar to confirm that the change in trend is complete.

In this way, you can usually nail the exact day (or bar) when the current swing is likely to end.

Just to recap, for a change in trend we require three criteria to come together at the same time:

1. Firstly, the market in question is at a level where a high or low is anticipated to unfold - this is normally a WPT or DP support or resistance zone

2. Secondly, the market makes a coloured (red or blue) Reversal Bar and that bar unfolds at the WPT or DP support or resistance zone

3. Thirdly, the market then exceeds the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar

When these three criteria have been met, a market is very likely ending the current swing and making a reversal. Often, these techniques allow you to catch the exact day (or bar) the market makes this reversal.

Chapter 6 –Elliott Waves module

The last two chapters have shown how the WPT module and the coloured Reversal Bars, when combined together, allow you to not only anticipate where the current Elliott Wave sequence is most likely to end...but also (by a break of the high or low of the coloured Reversal Bars) give you confirmation that the current Elliott swing is ending. So it would be useful if you had a way to do this automatically?

This is where the *Elliott Waves* module comes to the rescue within the MTPredictor software program.

Let me show you an example:

If you look at the chart above, a daily chart of US commodity future Gold, the software automatically found an ABC correction.

The *Elliott Waves* module not only identified the ABC pattern on the chart, but also placed the Wave C WPTs on the chart for you - all this with just one simple mouse click.

I hope you see how easy it was to be able to identify the potential Wave C low as of the last bar on the chart...all you had to do was select the *Advanced Analysis Tab* then click on *Last On Chart*, then click OK.

The module also works on prior swing highs and lows. For this, just use the *Choose Swing H/L* option then click on the swing high or low on the chart:
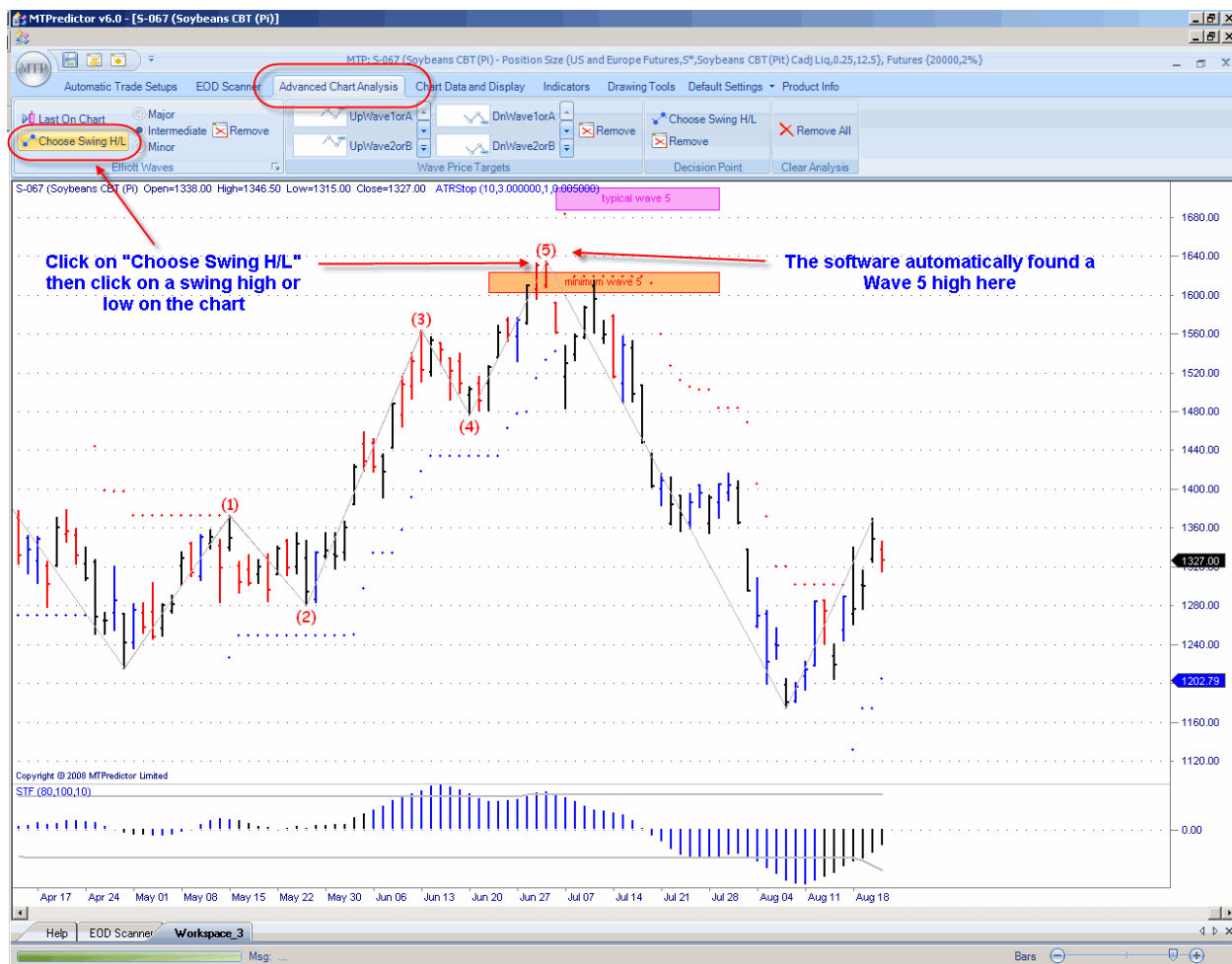
In this example on US commodity future Soybeans, I clicked on *Choose Swing H/L* then clicked on the 3 July 2008 high and the software automatically found a Wave 5 high. Can you see how the software automatically placed the Wave 5 WPT on the chart as well?

In this example the high reversed right at the minimum Wave 5 WPT.

The same applies to all the common Elliott Wave patterns, including Wave 2orBs, Wave 3s, Wave 4s, Wave 5s and simple ABC corrections.

Here is another example looking at the 16 June on this same Soybean chart:

The software automatically found a Wave (3) high. But can you see how this high stopped right at the Typical Wave 3 WPT? This makes this module so powerful because not only does it identify all the common Elliott Wave patterns for you (using our unique *Isolation Approach™*) but the combination of these WPTs and the coloured reversal bars enable you to nail most highs and lows in the markets as well - when there is a clear, clean and obvious Elliott Wave pattern.

Continued on the next page . . .

These are only three isolated examples - the *Elliott Waves* module is capable of identifying all of the most common Elliott Wave patterns automatically. However, as you have also seen from these examples, it also displays automatically the appropriate WPT support/resistance areas on the chart...and colours the appropriate bars either red (for a sell) or blue (for a buy). In this way, identifying the potential end of an Elliott Wave sequence has become as simple and easy as just a couple of mouse clicks.

As outlined in the prior chapter, to signal the end of the current Elliott Wave sequence three factors have to combine at the same time:

- Firstly, the market in question is at a level where a high or low is anticipated to unfold - normally a WPT support or resistance area

- Secondly, the market makes a coloured (red or blue) Reversal Bar and that bar unfolds in the WPT support or resistance area

- Thirdly, the market then exceeds the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar

When these three criteria have been met, a market is very likely ending the current Elliott Wave sequence and making a reversal. Often these techniques allow you to catch the very day the market makes this reversal.

What the *Elliott Waves* module does is enable you to display all the relevant information on the chart with just one simple mouse click. All that is needed then is that the market (by its own actions) either confirms or invalidates the set-up, as outlined in point 3 above.

More importantly, the *Elliott Waves* module performs the hard job of identifying the most likely Elliott Wave count automatically for you.

This module may not seem that different from some of the other Elliott Wave software programs on the market today. However, what is unique is the way that the software not only identifies automatically the most likely Elliott Wave count but also displays the WPT projected targets on the chart and colours the Reversal Bars for you.

The main difference between MTPredictor and other Elliott Wave software programs is the unique way it calculates its Elliott Wave count.

As outlined in the section on practical Elliott Wave analysis, I believe the main weakness of the Elliott Wave theory (as its taught conventionally today) is the way it is applied to all charts all the time. I do not believe that because an Elliott Wave sequence is complete, it automatically leads onto another sequence. At this point, I suggest you go back and re-read the section on practical Elliott Wave analysis.

MTPredictor looks at the chart in *isolation*, so it can form an unbiased opinion of the most likely current Elliott Wave count, without having to rely on prior market behaviour. In this way, it can identify the end of the current swing more reliably. This can then be used to either enter a new trade set-up or adjust stops on current positions. Without the need for either prior history or trying to force a projection onto the future, MTPredictor is able to focus on the task at hand - identifying the most likely area for the current Elliott Wave sequence to end.

This also has another major advantage - as the market moves forward in time, MTPredictor does not change its Elliott Wave count (as of the entry bar) in relation to the trade you are currently in. This is a major drawback with some of the other Elliott Wave software on the market today because when you have made a trading decision based on a current Elliott Wave count, the last thing you want is for the software to change its mind suddenly and re-label its Wave count, leaving you in confusion.

When you are trader, you have to make a decision based on information at hand here and now. This is the way MTPredictor looks at the market. In other words, it will take a view on the most likely Elliott Wave count based on the last bar on the current chart. When the information is placed on the chart, it will not step back and then re-label its analysis at some point in the future. Of course as new data arrives, it will re assess the current Wave count, but if you go back in time and replace the count on the chart in history, then it will be the same count as found at the time when that was the last bar on the chart.

Nor will it give you a choice of *alternate* Wave counts which, again, can be fitted into the past market history when more data has been added to the chart. Again, when you are trading, this can confuse you hugely.

The best way to think of this is that MTPredictor is designed to identify trade set-ups here and now, and not try to predict the future. You will then either be stopped out for a small (-1R) loss or you will manage the trade accordingly. This is more akin to what we do as traders.

Again, a very important point to understand is that MTPredictor works off the bar you click on, so this can be the last bar displayed on the chart or at some point in history (to check the Elliott Wave count at that time) Either way, the software does not use any data *after* the bar you click on. I will cover this in more detail in a later chapter but, again, I want to stress that MTPredictor will perform its automatic Elliott Wave routines on the bar you click on.

This has a major advantage over some of the other Elliott Wave software programs available today - you can return the chart back to some point in history, apply the automatic analysis, and then move forward day-by-day to see how the market unfolds in relation to the automatic analysis. This is more akin to a how you act as a trader because if you are long or short in a market you cannot go back and say, "Actually I was short rather than long" - you have to take your position as it is. You will then either be stopped out for a small (-1R) loss or you will manage the trade accordingly. This is why MTPredictor works more like a trader than a software *analysis* program.

Another major advantage of MTPredictor over some of the other Elliott Wave software available is the way that it labels an Elliott Wave count only *if* a valid Wave count is present up to the last bar on the current chart. I believe a valid Elliott Wave count exists on a current chart only about 50% of the time. As such, if a *un*-ideal Wave count is placed on the chart, not only has it a low probability of working out as anticipated, but it can also give a misleading impression as to where the market may go in the future - often leading you to losing trades. So, it makes no sense at all to me to have a software program that will either place Elliot Wave counts on the chart all the time or, indeed, give you so many alternate interpretations of the current position that anything could be fitted onto the chart *in hindsight*.

As a trader, this makes no sense at all - why should you put your own money at risk in the market when the current pattern is unclear, so the current trade (or position you are in) has a low probability of unfolding as anticipated. It makes far more sense to bet only on the high probability trades, which are most likely to unfold as anticipated.

This is why, if a valid Elliott Wave count is not present on the chart (as of the last bar on the chart), MTPredictor will not try to label a low probability Wave count - it will simply not place any analysis on the chart for you. This means you will not be presented with a low probability Wave count that is likely to mislead you because it probably will not turn out as anticipated. This is the main weakness of most Elliott Wave software programs available today.

Some of you may find this slightly confusing, but it does make perfect sense because as a trader you should not be in the market all of the time. It makes no sense to try to force a Wave count on the chart all of the time either. As a trader, you will have the greatest success if you trade only the highest probability trade set-ups. This is why MTPredictor is designed to give you information on the current chart only when the likelihood of the current Wave count unfolding as anticipated has the highest probability.

Obviously, no Elliott Wave count is 100% accurate, as the future is always uncertain. However, I hope you can see that it makes most sense to work only with the *highest probability* Wave counts and set-ups, where the likelihood of success is the greatest. In this way, you can target your valuable trading capital on where the likelihood of making a profit is the highest. When the probability of success is lower, you can keep your powder dry and preserve your trading capital. It makes no sense at all to throw good money (your trading capital) at low probability trade set-ups.

I hope you understand this point - it still surprises me how many traders wish to either trade every day or simply know where the market is headed every day. As you have seen, I believe this cannot be done with enough accuracy all the time. However, there will always be a newsletter, software program or a friend down the pub who will have an opinion on the market! The danger is that if this opinion is the same as yours (for example, you are long and would like the market to go up), you will be happy to listen to anyone who will validate your current trade position. However, based on personal experience over the last 20 years, this is not a good way to trade and will usually end in losses...

MTPredictor has been designed to give you automatic Elliott Wave counts only when it has found a *valid* Wave count. In this way, it will not confuse you with low probability and misleading Wave counts.

However, because MTPredictor is a software program, sometimes it will not find a Wave count although there *is* a valid one. This is when you can decide to override the automatic routines and perform some *manual analysis* yourself. I will cover this in detail later in the next chapter. However, I recommend that you perform your own manual analysis only if you are experienced at Elliott Wave analysis. In the early days, or while you are learning, it is far better to just stay with what the software finds via its automatic Wave counts. This will keep you on track and allow you to focus on the highest probability Wave counts.

Lastly, I always suggest that you check visually the automatic Wave count as found by the software, to make sure it makes sense - in particular, that the Elliott Wave sequence starts from a sensible place on the chart.

Let me show you an example on the next page . . .

Here you can see how, on this daily chart of the US Nasdaq Composite index, the 5-Wave rally *started* from a Major low in the market. This is what happens most of the time.

However, what should you do in a situation like this?

Please see the chart on the next page . . .

This was the situation on a daily chart of US commodity future Natural Gas towards the end of June 2008.

As you can see, this particular 5 Wave sequence did not unfold at a major low. In fact, it actually started *mid-swing*. When this happens, the current Wave 5 sequence should be ignored because the 5-Waves did not make up the entire, complete swing up.

So, if we are to ignore situations like this, why did the software find this sequence?

(By the way, we have other routines – such as the DP, that should be used in situations like this...)

Continued on the next page . . .

That is a very good question. Yes, I could have designed the software to make sure each Wave always starts at a major high or low but then it would have missed many great setups when the start of the sequence was not quite so clear cut. In this case, experience should be used.

Let's take a look at an example on US commodity future Soybeans:

Here we have a good-looking 5-Wave rally but the Wave 1 (the start of the sequence) does not start at the Major Low. So, does this mean that this 5-Wave sequence is invalid, as in the Natural Gas example on the prior page?

Well, no...

This is where experience helps. In this example, the start of the Intermediate degree 5-Wave sequence was actually at a larger-degree Wave (2) low.

Here I have added the Major degree Wave on the chart and can you see how the low where the Intermediate degree 5-Wave rally started was also a Major degree Wave (2) low. So in this example, the Intermediate degree 5-Wave rally would be considered valid.

This is where experience comes in and knowing how different degrees of patterns fit together. Initially, though, if you are not experienced with Elliott Wave, I suggest the simple approach - work only with obvious patterns where the sequence start at a Major high or low. Only if you have the experience and know how this fits in with a larger-degree patterns would I suggest working with a pattern such as this.

Continued on the next page . . .

The next area where you must be careful is with a Wave C correction. As with the 5-Wave sequence above, to allow more advanced analysis by the expert traders among you, I have made the ABC correction a little more liberal in the patterns it finds As such, you *must* check that the ABC is *corrective* to the prior swing for it to be valid.

What do I mean by *corrective*?

Let's take a look at an example on a daily chart of the Forex pair USDCAD:

Here you can see how the USDCAD pair made one swing up, followed by a 3-swing (ABC) correction *but* (this is the most important part) the Wave (C) low was above the start of the prior up swing. In other words, the ABC pattern *was correcting* the prior swing.

Continued on the next page . . .

Now compare this with the ABC as found on a daily chart of the US Nasdaq Composite index below:

Can you see the difference here?

The Wave (c) low was actually *below* the prior upswing, making this an *impulsive* swing down and *not a correction to the prior upswing*. So, this should not be considered a valid ABC pattern.

This is very important and is a vital check for you when considering any ABC pattern - it must be *corrective*.

Okay…why did I not program this into the software automatically? Well, as before there are cases where the more experienced Elliott Wave analyst will want to override this because of the larger degree-trend. Let's take a look at an example on US commodity future Corn:

Based on the prior few pages, this ABC is not corrective when you look at only the prior Intermediate degree upswing.

However, when you look at the larger-degree picture, you can see how this ABC is still corrective relative to the prior *larger-degree* upswing…

Continued on the next page . . .

Chart:

Can you all see the difference here?

All I have done is look a little further back and seen that we have a clear larger-degree upswing into the same high. So, all I am doing is condensing the ABC correction in relation to this larger-degree upswing rather than just the small, prior Intermediate degree upswing. And when you do this, the Wave (C) low is then above the start of the prior upswing so *is* still corrective.

This is the basis of the TS4 automatic set-up that looks at the larger-degree prior trend rather than simply the prior Intermediate degree swing as in the TS3 automatic set-up.

Continued on the next page . . .

The MTPredictor software can identify automatically three degrees of Elliott Wave count: the Minor, Intermediate and Major. So far, most of the examples shown in this Course have been using the Intermediate degree option in the *Elliott Wave module*. This is the most common degree of Wave and the one that should be used most of the time.

However, minor Waves can be particularly useful in identifying the smaller swings that sometimes unfold *within* the Intermediate degree swings, particularly in Wave (3)'s and Wave (5)s.

The Major degree of Elliott Waves can be particularly useful if you decide to take a *longer-term* view and wish to look for swings and trade set-ups that unfold over a slightly longer period.

Please note, these Wave conventions are specific to MTPredictor and may not relate to other Elliott Wave software or other sources of Elliott Wave education.

Again, I stress that the best type of Elliott Wave counts to work with are those that unfold as *ideal* and *perfect* Elliott Wave patterns. Anything else is best avoided. Also, these different degrees of swing should be used *in isolation* to identify the end of the current swing. Sometimes these different degrees of swing do not unfold *within* each other. As such, they should be treated in isolation from each other.

As this may be slightly confusing, I will re-state this. Each different degree of swing should be treated in its own right. It does not necessarily mean that a Minor Wave sequence unfolds as part of an Intermediate degree swing, or indeed that a Major swing comprises an Intermediate degree pattern. Each degree of swing should be treated in isolation.

This goes back to the idea that Elliott Wave analysis is correct only about 50% of the time and one of the standard Elliott Wave rules - that Waves sub-divide into minor Waves and unfold as part of a larger-degree pattern - does not always work out. Each degree of swing found automatically by the MTPredictor software should be used to identify simply the end of the current swing, and should be treated in isolation from other degrees of swing or in isolation from other Elliott patterns of the same degree.

For more information and the reason for this, please see the chapter in Part 1 on practical Elliott Wave analysis.

Here is an example of a *Minor* 5-Wave rally, found automatically on US commodity future Gold:

As you can see, the software works in the same way with the Minor setting as it does with the Intermediate, in that the WPTs are still placed on the chart as well as the current Elliott Wave labels.

Personally, I use the Intermediate degree setting for 90% of my work and only check the Minor pattern if it *fits in with* the Intermediate degree pattern

Continue on the next page . . .

For instance, on the current Gold example:

Here this minor Wave 5 high also unfolded at DP resistance as well as stochastic divergence, so there were other reasons why we should have been looking for a high at this level as well...

Although we have a Major degree available, personally I use this setting only rarely, preferring to work mostly with the Intermediate degree and only occasionally going to the Minor degree when necessary.

Continued on the next page . . .

Summary

As you have seen in this chapter, the *Elliott Waves* module is capable of automatic identification of all of the most common Elliott Wave patterns on three different degrees of swing: Minor, Intermediate and Major - if and ONLY if a valid Elliott Wave count is present on the chart as of the last bar. This is a very important point, especially when you take into account (as outlined in Section I) that a valid Elliott Wave count is present on only 50% of the charts, 50% of the time. Therefore, placing an Elliott Wave count on all charts all of the time would just be misleading. This is why MTPredictor only places a valid Elliott Wave count on the chart when one is present. This is very different when compared with many of the other Elliott Wave software programs available today.

As you have seen from the examples in this chapter, MTPredictor can also automatically place the appropriate WPT support or resistance areas on the chart for you and colours the appropriate bars either red (for a sell) or blue (for a buy).

In this way, identifying the potential end of an Elliott Wave sequence has become as simple and easy as a couple of mouse clicks.

As outlined in the prior chapter, to signal the end of the current Elliott Wave sequence three developments have to occur at the same time:

- Firstly, the market in question is at a level where a high or low is anticipated to unfold - normally a WPT support or resistance area

- Secondly, the market makes a coloured (red or blue) Reversal Bar, and that bar unfolds in the WPT support or resistance area

- Thirdly, the market then exceeds the high (for a buy set-up) or the low (for a sell set-up) of the Reversal Bar

Once these three criteria have been met, a market is very likely ending the current Elliott Wave sequence and making a reversal.

Chapter 7 – Trend

As a general rule it is always a good idea to try to orientate your trades in the direction of the main market trend. The reason is that the best trades (and largest profits) normally result from trading *in the direction of the main trend.*

The idea is that if you trade in the direction of the main trend, it is like swimming in a river but you go *with* the flow off the river. Trying to swim against the main flow, in other words upstream, would be difficult. The same can be said trying to trade against the main trend, as this would firstly increase the likelihood of your trades failing, and secondly, trades are very unlikely to *run*. This is why it is always better to try to position your trades to go with the main trend because then you have not only a greater probability of success in your trades, but also the trades have a higher likelihood of running further - both of which should help add to your bottom-line profits.

So, at the outset, the idea of being able to trade in the direction of the main trend appears to be the answer to all your trading worries and, as such a result, will allow you to make every trade a winning one and never make a losing trade again...

However, there is one major point that I have to stress from the outset - that is, by definition a *trend* can only be considered a trend once it has been established. What this means is that while the market is moving strongly in one direction, it is very easy to identify that as a major trend. However, problems will always arise as one trend ends and a new trend starts, in other words at a turning point in the market.

It is such an important point that I would like to stress it again. Any trend analysis will only be applicable and as such reliable in the middle of a strong trend. Any trend analysis (no matter how you calculate the trend) will always be in the wrong direction as a market turns and a new trend in the opposite direction starts. This is normally the point at which most traders struggle and have problems.

There has been much work in the past on trend analysis and many different systems and approaches have been developed to tackle this very question. For myself, I believe that some of the oldest and simplest methods are still the most appropriate even in today's markets...let me introduce an alternative approach.

Continued on the next page . . .

Again, this alternative approach is not a new indicator- it is just my personal angle on a classic and simple *price oscillator*. So why use such an old, standard indicator? Well, very often the older approaches are best, as long as they are used correctly.

So for this, I have taken a standard price oscillator and added different colours to help determine the trend. Put very simply, when the oscillator is Blue the main trend is up; when the oscillator is Red the main trend is down; when the oscillator is Black the main trend is flat. As you see, a very easy and simple concept.

So let's take a look at an example on a daily chart of the US NASDAQ Composite index:

As you can see, this helped confirm the main trend very well...

So is that all there is to this indicator - just looking at the different colours?

No, this is why I have decided to use an oscillator as opposed to a straightforward moving average (for example, a 20 period ma) - you can do far more with an oscillator.

Firstly, a price oscillator is very good at picking out a very strong trend. As you should know by now, the strongest trend in a completed Elliott Wave sequence is normally the Wave (3). This can be seen very clearly only on a chart:

In the chart above, the strongest oscillator peak corresponded to the strong Wave (3) swing. Therefore, the strength of the current trend can be gauged by the strength of the oscillator peaks.

This leads nicely on to the next benefit of an oscillator - *divergence*. In other words, as a trend is weakening, the oscillator will normally only make lower and lower peaks. In Elliott Wave terms, this is normally the Wave (5) swing.

Instantly you have added information to than with simpler methods, such as a simple moving average - not only can this oscillator help define the strongest (Wave 3) swing, but it can also give you an indication that the current trend (Wave 5) may be nearing an end. I will look at some more examples on this later in this Course.

So far, so good. Now have an indicator that can not only show the direction of the trend by its colour, but can also give us an indication of the strength of the current swing...also a sign that the current trend may be coming to an end as the oscillator starts weakening. This, as mentioned earlier in this Course, is where most trend indicators start to get into trouble. So how can we make use of this with MTPredictor?

Well, if you looked just at the price oscillator all you would see was that it was making lower highs against new price high. All you would be able to say is that the current trend is weakening.

A weakening trend is typical of a Wave (5) swing in Elliott Wave terms. So the question we have to answer is "do we have any tools in the MTPredictor software that help us identify the likely the areas for a Wave 5 swing to end?"

The answer to this question is "Yes".

As you can see from the chart above, I have added the Wave 5 WPTs to try to determine when this weakening Wave 5 swing was likely to end. As you can see, the US Nasdaq index tagged the minimum Wave 5 WPT perfectly on 31 Oct 2007. This was the actual day of the high!

In this way, not only can we use the price oscillator to help determine that the current trend is weakening, but we can also turn to the DP (Decision Point), as well as the Wave 5 WPTs in MTPredictor to find another area where a weakening trend is likely to end. We can often answer the most difficult question to do with trend – "when is the current trend likely to end, and a major turn is unfold?"

Let me take a look at one more example, again on the US Nasdaq index, but a few months later as the low came in on 10 March 2008:

As you can see, we had price oscillator divergence going into the March lows, indicating that the current down trend was weakening and, therefore, nearing an end. The DP was then used to anticipate the actual price zone where support was likely to unfold.

As you can see, this nailed the March 10 low perfectly.

Let me stress at this point that trying to pick the *end* of a strong trend is difficult to do and, as outlined in Part 1, is not as reliable as we would all like. This is why I suggest that you only try to do this when you have a clear, clean pattern. In other words – work only with the best and clearest patterns.

Larger Degree trend

So far we have looked at trend using the colour and then divergence of the STF oscillator on the *same* time frame as you are trading. But a very reliable method of establishing tend, is to look to the higher time frame, in other words look for the *larger degree trend*.

Let's take a look at an example with the higher time frame on a 15min NQ (NASDAQ e-mini) Chart:

Here we had a TS3 buy that appeared early in the day. This set the "trend" to be UP on this 15min Chart for the rest of the day.

Please remember, we are not looking to actually trade off this 15min Chart, we are just using the DP and or WPT's (or automatic setups) to "set the trend" that we then use on the shorter term (3 and 5min) Charts for our actual trades.

We can use the 15min and/or 60min Charts for the larger degree trend for 3 and 5min Charts on the US e-minis or European Index Futures. Or we can use the 240 and 480min Charts for the larger degree trend on the 60min FOREX Charts, or even the weekly Charts for Daily Stock trades.

The idea is that the larger degree trend is a chart that is approximately 5 time periods higher than the chart you are actually trading on.

Now we have established that the 15min NQ Chart has set an "uptrend", let's move down to the 3 min chart for the actual trades.

Here you can see both buy (in blue) and sell (in red) setups, but because during this period the "larger degree" 15min chart was in an "uptrend" we should be focusing on the buys and ignoring the Sell setups.

So in this example it meant taking the DP buy (off the very low of the day), then the TS3 buy later in the day, and ignoring the TS4 sell around lunch time. There was also two history sells (as shown by the history triangles, more in this in the next section) that should have been ignored as well because they were potential sells.

In this way we (by using the higher time frame chart) can always trade "in the direction of" the larger degree trend, even when the STF colour is lagging because the setup has unfolded early in the new trend direction.

Continued on the next page.........

Summary

The STF price oscillator can be used in the following ways:

- As an absolute value - when the oscillator is Blue the main trend is up; when it is Red the main trend is down; when it is Black the main trend is flat
- It does not matter whether the oscillator is above or below the 0 line - the colour only is used
- The strength of this oscillator can also help show the strength of the main trend
- Divergence can be used to help anticipate that the current trend is weakening and therefore nearing an end

Note: The Larger degree trend can also be established on the higher time frame chart (usually approx. 5 time period higher)

The STF colour can be used to help identify the *main trend*. You can use this to tailor your individual trades so they fall *in the direction of* this main trend. Trading with the main trend will help maximise profits on the good trades and help avoid unnecessary losing trades.

However, you must be aware that, as with all oscillators, the STF can *lag* behind major turns, so you can use the weakening STF peaks to give you *early warning* that a trend is nearing an end. Then use the WPTs and DPs on the *higher time frame chart* to help pinpoint the exact turn.

Chapter 8 – Studies

As you have seen so far in this Trading Course, the main analysis techniques used in the MTPredictor software program focus on forecasting potential price support and resistance areas based on specific Elliott Wave analysis. However, MTPredictor does include some simple technical studies that are found more commonly in standard technical analysis software packages.

These include:

- Strong Trend Filter (STF)
- ATRStop (volatility stop)
- Volume
- Moving Averages (including exponential)
- Bollinger Bands
- Stochastic
- RSI
- Stochastic RSI
- CCI
- MACD
- VSA High Volume Spike
- *More may be added in the future*

As you may have guessed already, these studies do not form the main part of the MTPredictor approach to trading the markets. They should be used only as secondary indicators to any of the normal MTPredictor trade set-ups.

If you would like more information on any of these analysis techniques, as they are available commonly in virtually every standard technical analysis package, you can check any trading analysis book or software literature. However, I would like to show in this chapter some very simple uses for some of these indicators.

I am not a big fan of technical indicators, mainly because they all do the same thing. It seems useless to me that a technical analysis software package will allow you to plot many different indicators, which basically tell you the same thing. Most of the standard indicators should be considered *lagging* - they do is tell you what has happened already. The standard MTPredictor analysis techniques allow you to *project in advance* potential support and resistance areas - a far better way to trade. This is why I prefer the MTPredictor approach to trading the markets.

However, there are some indicators that may help give added confirmation when using the standard MTPredictor analysis techniques. So, in this chapter I would like to look at some of the indicators that I have found useful over the last 20 years. The first of these is the Strong Trend Filter or STF for short.

Strong Trend Filter (STF)

The Strong Trend Filter (STF) is a proprietary indicator included in the MTPredictor software program.

This is a very simple indicator to use - blue bars above the zero line indicate a strong uptrend and red bars below the zero line indicate a strong downtrend. Black bars indicate no strong trend in force and the market moving sideways. Please note that you should look only at the *colour* of the indicator...whether it is above or below the 0 line does not matter.

Let's see what this looks like on a chart:
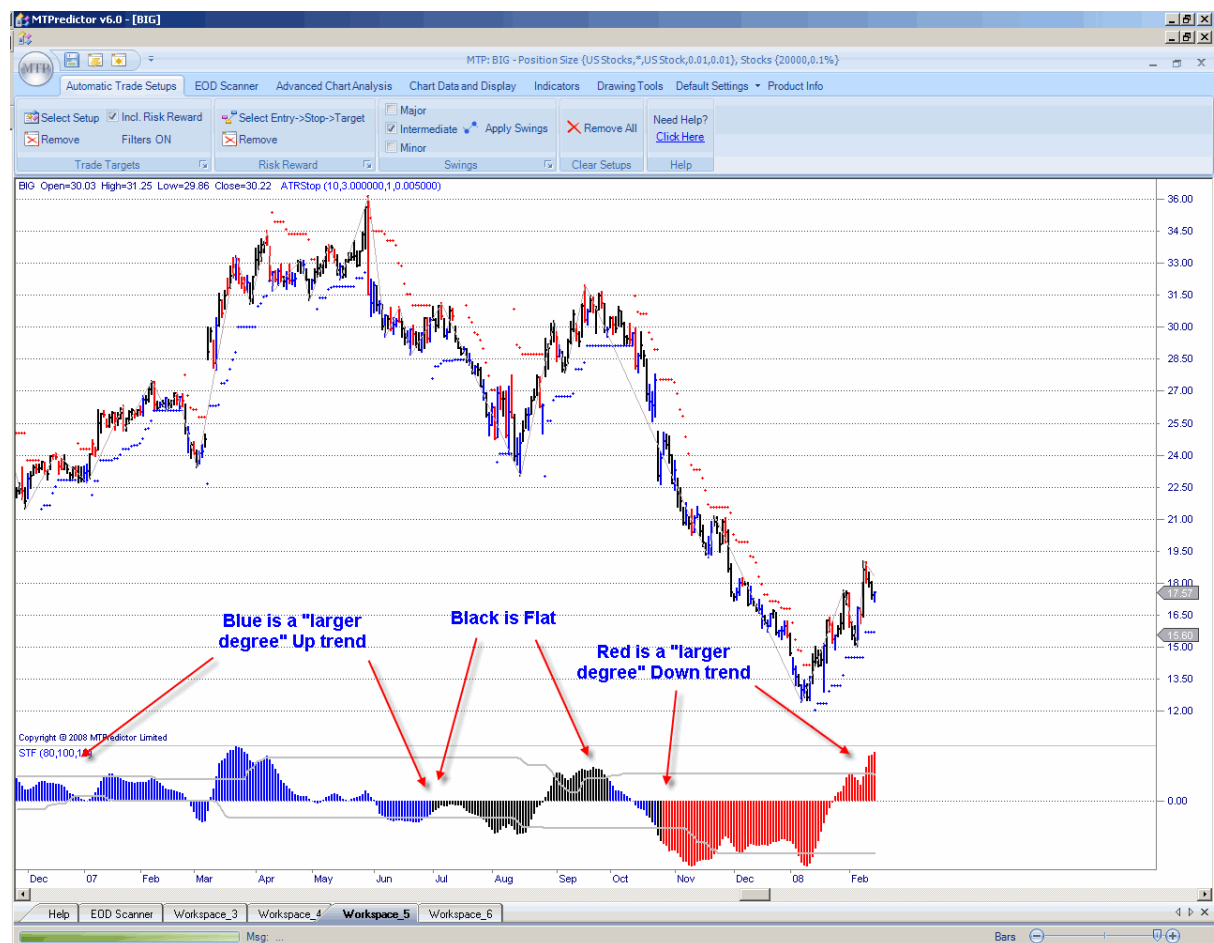
On this daily chart of US stock BIG, you can see how the STF helped define the major trends during this period.

As such, you can use the STF to help indicate whether a market is in either a strong uptrend or strong downtrend.

This takes account of the trend automatically for you (please see the chapter on trend for more info) ...

However, because the STF is plotted as an *oscillator* you can use divergence to help spot when the current trend is weakening and, as such, when a reversal is likely.

What do I mean by *divergence*?

This is where price makes a new extreme without a new extreme in the STF oscillator. Here is a good example on another US stock, BTU:

Although BTU was making new price highs going in to July 2008, the oscillator was not. This is an indication of weakness and usually indicates that the current trend is nearing an end - you should be looking for signs of a reversal. Oscillator *divergence* is a standard technical analysis technique.

Continued on the next page . . .

Oscillator divergence can be particularly useful when helping to identify Wave (5) highs or lows.

Let's look at an example on a daily chart of US stock CNX:

Here we can see how the Wave (5) high came in at the Typical Wave 5 WPT, so was a perfect Elliott Wave pattern. However, can you also see how the STF oscillator was diverging into this high? So, not only was it at the ideal price resistance for a high to unfold, but the oscillator had also confirmed that weakness had started to enter the market during the last swing up. This gave extra confidence that the current upswing was ending and a high was likely to unfold...

We will return to oscillator divergence later in this chapter when I look at the Stochastic indicator.

Continued on the next page . . .

But the STF does not stop there...we also have a Strength Band on the STF indicator which helps show when the current move is strong compared with prior swings.

Now let's look at an example on US stock CTX:

When the STF oscillator exceeds the Strength Band (grey line on the oscillator) we consider that the current swing is *strong* in relation to prior moves. When this happens we look to run our current trades further using the ATRStop (please see the next section).

When the STF is weak, or has not reached the Strength Band, we consider that the current move is *weak* (in relation to prior swings) so look to bank profits earlier using the WPT or DP targets.

There is more detailed information on this in the chapter on trade management.

ATRStop

The ATRStop is a proprietary indicator that is used to help run profits on your current trade when the current move is strong. As you saw in the last section, we define a strong trend by looking at the Strength Band on the STF oscillator.

Let's take a look at an example on US stock CTX:

When the Strength Band on the STF is exceeded it indicates that the current swing is strong and, therefore, likely to continue. As such, it makes sense to look to run trades like this rather than exiting earlier using the WPT targets.

As you can see from the chart above, the ATRStop (red and blue dots on the chart) would have held this short trade past the initial WPT targets, for a +7R Profit.

There is more information on this in the chapter on Trade Management.

Stochastic

A Stochastic calculation is a standard technique that can be found in many trading books and courses. For this reason, I do not intend to go into detail on how the calculation is made, or the detailed application.

My main use of the Stochastic (normally a 5, 3, 3 Stochastic) is with divergence. I looked at divergence with the STF oscillator in an earlier section...well, exactly the same principle applies here:

As you see from the chart above, at the last swing high on a daily chart of the Forex pair GBPUSD, the value of the Stochastic showed divergence with the price action, indicating that this current rally may well be nearing an end.

Again, this is standard use of oscillator divergence that is taught in many conventional technical analysis books.

Continued on the next page . . .

However, to add confidence in these divergences - and this is where the unique routines in MTPredictor help - I would suggest that you consider them only if you have additional reasons for a high or low unfolding, for example the standard MTPredictor WPTs or DPs.

Let's take another look at the Forex pair GBPUSD example on the prior page:

Here the GBPUSD pair was right at DP resistance just as this stochastic divergence was showing. This gave additional confidence that a high was near and you should consider a new short trade.

Combining this with the red (sell) reversal bar caught the very day of the high before the GBPUSD fell sharply.

Continued on the next page . . .

VSA High Volume Spike

VSA stands for Volume Spread Analysis - a technical analysis technique which aims to look behind volume figures to find out if the volume in a market is predominantly buying or selling. What does this mean? Well, as an example - just because a market rallies on high volume does not mean that it will continue higher and that all the buyers have the same goal.

This is actually a very in-depth and complicated subject so I suggest you do further research on the topic. All that is needed here is a brief overview, showing how it relates to the High Volume Spike indicator in MTPredictor and how you can use this to identify potential trade setups.

To achieve this, we should look at the volume bars coloured red, which indicate a VSA High Volume Spike. However, these are only important *if* they occur at DP or WPT support or resistance levels. In particular, they work best when the market in question has just exceeded an important prior high or low and has then reached the DP zone.

Let's take a look at an example on the 5min. chart of the German DAX index:

Here we have a bar that has made new lows and has reached the DP support zone *and* all of this has happened on one of our High Volume Spike bars.

Now we look to the next bar - the bar directly after the High Volume Spike bar:

As you can see in this example, the bar after the High Volume Spike bar was a blue (buy) reversal bar and was still at DP support.

Standard technical analysis would suggest that a high volume break of an important level indicates high selling pressure (in this bearish example) and means new sellers are entering the market...so the decline should continue.

However, often the exact opposite unfolds (as we shall see...). So what is happening here?

Well, this strong decline on high volume is actually made up of professional traders who are *buying* into the drop. Yes, the opposite of what conventional wisdom would suggest. So the decline is likely to stop and be followed, more importantly, by a strong reversal as the professionals continue to push the market in the new trend direction.

This does seem the wrong way round. However, if you think about it logically, *if* this high volume was new selling, the market *should* continue lower. The fact that this does not happen suggests that the opposite is actually happening.

Do we need to delve further than this? No, all we need to do is to check the bar after a High Volume Spike to see if the market is currently at DP or WPT support. If so, we should be prepared for a sharp reversal. This works best when the market is at a DP and has just made new highs or lows. Often a very powerful reversal can unfold.

So let's see what happens in this 5min. German DAX index example:

As you can see, the very bar at the low of the day was nailed before a strong rally unfolded. The STF Strength Band was exceeded on the upside so the ATRStop could be used for an excellent profit of approx +9R (excluding slippage and commission)

Continued on the next page . . .

So, does the market always reverse after a *VSA* High Volume Spike bar? No. All this does is give us an early warning that something *out of the ordinary* is happening in the underlying buying and selling - so we need to watch the next bar for signs of a reversal. In other words, whether it is at DP (particularly) support or resistance and is the correctly coloured reversal bar.

Sometimes the market will continue in the original direction with no reversal. This is okay because no trade would have been entered. All this is doing is giving us a very good potential trade setup that often nails the very turn...as a result it allows a low risk trade entry to take advantage of the strong reversal that tends to unfold.

This setup works well on all timeframes, from 5min. to daily charts. My tip is to make sure the reversal comes after breaking an important high or low. The more important the prior high or low, usually the stronger the reversal that unfolds...

Chapter 9 – Day (and short-term) Trading

So far in this Course you have seen examples on all timeframes, including many on short-term intervals such as 3 and 5min. charts. So you already know that MTPredictor and its routines can be used on intraday charts for Day Trading. But in this chapter I would like to look at some specific setups that can be used when Day Trading and also at some particular differences that should be considered when Day trading as opposed to looking at longer-term charts.

But before we start, let's look at the best timeframes to use when Day Trading.

Timeframes

The choice here depends on the liquidity of the market you are trading. Basically, the shorter the timeframe, the harder it is to get a good fill - because fewer trades are made in that time frame. This is why the first consideration is whether the timeframe you are looking at has good volume and, in particular, enough volume for a good fill.

Next, you must make sure that there are good, smooth swings on the timeframe. The shorter the timeframe, the more likely you are to have spiky, sharp whipsaws. The reason is obvious - the shorter the timeframe, the less volume it takes to make a move – so the moves can be sharp and quick. In addition, the shorter timeframes can have horrible sideways periods in between these sharp, spiky moves. Both are very hard to trade so are best avoided. This was covered in the chapter on Forex as well. Forex charts can be especially spiky, with nasty whipsaws on very short-term charts so with you should look to the longer timeframes. See the Forex chapter for more information on this.

Okay, so if the very short timeframes are so hard to trade, why are so many amateur traders drawn to them? Well, it is all to do with risk. The shorter the timeframe, the smaller the bars (generally) so the amateur trader thinks he can enter trades with a small risk. While this is true, what is not understood is that, because the shorter timeframes are so much harder to trade, in reality they will be stopped out far more often. So, although the money risk make look smaller, in fact they are far riskier trades and, generally, will make more losses overall.

Also, many amateur traders are trading with what we call *scared money* - they are so desperate to make profits that they are unable to give a trade *wiggle room* before it progresses in their favour.

Here is an example on a 3min. chart of the US E-Mini S&P500 index future:

As you can see, before this TS1 sell reached its Typical Wave 3 WPT target it had many minor retracements. These were small on the timeframe we are looking at but if this trader was on an ever shorter timeframe, such as a 1min. chart, these retracements would have looked huge. And this is what happens...on the very short timeframe the amateur trader is too keen to bank profits too quickly, so the trade never has time to run or mature. This means the very short-term trader might make only small profits. Combined with the nasty whipsaws that can stop you out too many times, this can mean a trading system that has many losses and only small profits. This is not the recipe for a long-term, successful trading strategy. You must give enough time for a trade to run and mature to be able to reap big profits.

This example is perfect, with wiggles against it on the way down but eventually reaching its main profit target (Typical Wave 3 WPT) for an excellent profit of approx +8R (excluding slippage and commission). More on this trade shortly, in the mini section on *Multiple Time Frame* analysis.

This was just one trade...generally, the shorter the timeframe the more trades...therefore, the more activity. Because everything happens so quickly on the very short timeframe the amateur trader can make mistakes and suffer bad fills - there are far more opportunities to lose money because of silly, rushed decisions.

All of this is a real shame because there is no need to mess up like this. As I have already said, many amateur traders make the mistake of thinking they can reduce their risk on the very short-term timeframes. However, all they are doing is trading scared and are so paranoid about any trade going against them that they cannot let trades run. In other words, they are approaching trading from the wrong angle - one of blind fear, rather than as a professional trader with the patience and discipline not only to wait for the best trades, but also to employ the patience and discipline to manage the trade correctly - so it can run and mature. This is the difference between the scared amateur and the confident, successful professional trader.

For the vast majority of Day Traders it is best to avoid the very short-term charts. But for those with the correct mind-set, what timeframes are best to look at? This will depend on your local market. For example, the main US mini index futures (symbols ES, NQ, YM and TF) on 3 and 5min. charts work well, as do the main European index futures (such as the UK FTSE100, German Dax, French CAC40, Swiss SMI, Dow Jones EuroStoxx50 and so on). Other markets working well on lower timeframe charts include the Indian Nifty index futures and stock futures, the Australian SPI index future...and major global stocks around the world. The 15 and 60min. charts can be used for a longer-term view of the short-term day trades. But use common sense – if the chart looks patchy, gappy or spiky...avoid it!

Tick Charts

So far I have only mentioned *min* charts...but there are many MTPredictor customers trading tick charts and even range bar charts. Again, the general principle is that the shorter the timeframe, the more dangerous the chart, so look to the slighter longer-term tick or range bar charts, maybe corresponding broadly with the 3 and 5 min. charts.

24hr or Day Session?

This is only relevant for the US E-Mini index futures because, although they trade for almost 24hrs a day, the volumes overnight (outside the US day) are relatively low. So, many traders look at these markets only during what used to be called the *Day Session* (although, technically, it no longer exists) which runs from 09:30 EST (New York time) to 16:15 EST, which is when the US Stock Market is open.

Although, the 16:15EST end time is just after the US Stock Market closes, this is general the accepted time for the end of the Day Session.

Gap Opening Play

This setup works on markets which have a specified *day session* (such as the US E-Mini index future, which start at 09:30EST (New York time)) because these markets sometimes *gap* open into a DP from a swing made the prior session.

Let's look at an example on a 3min. chart of the US E-Mini Nasdaq index future:

Here you can see how the NQ opened, then immediately fell into a DP support level projected from a swing pivot the prior day. The bar that entered the DP support zone was a blue (buy) reversal bar, so this gave us a potential buy setup.

Does the market have to actually *gap* into the DP zone? No but the move should happen very quickly after the open, for instance the DP zone should be reached within the first 3-4 bars after the opening. The idea is that orders that are filled on the open are in the wrong direction and are then reversed immediately after being filled. In other words, it is a *sucker play* on the bigger orders placed overnight ready for the opening that are reversed sharply by the shorter-term players in the market. This can work very well if this reversal occurs at our DP level, so we have the advantage of a defined price level off which we can make this play.

The profit target is then the *opposing DP* level:

The result:

This is a nice trade that can work very well sometimes so it is always worth keeping an eye on any potential support / resistance DP zones from the prior day's session - to see if these are reached immediately after the new *day session* starts.

The example on the NQ on the prior page was a particularly good one because not only did we have the gap down into the DP support zone but the decline into that zone also unfolded as a 3-swing ABC pattern. And we know by now that an ABC is corrective, so a corrective decline into a DP support zone is yet another reason for considering a potential long trade...

Multiple Timeframes

As you will have seen in the chapter on Trend, it is always a good idea to look to trade *in the direction of* the longer timeframe.

A few pages back I looked at a TS1 sell on a 3min. chart of the E-mini SP500 index future [ES], showing the profit was +8R when it reached the Typical Wave 3 WPT. Yes, the more experienced trader will already know from the Advanced Analysis chapter that I like to see TS1 trades reach the Typical Wave 3 WPT...because a TS1 trade setup is usually a Wave (2) in Elliott Waves and a Wave (3) usually follows a Wave (2). But were there any other reasons you should have been looking for this trade to extend past its initial targets to the downside?

Let's take a look at the 15min. chart, which would be considered the *larger-degree* trend to the 3min chart:

As you can see, on the 15min. chart we had a DP sell so this chart (at the time of the 3min. TS1 sell) was on the way down to its 15min. profit target. In other words, the 15min. trend was down at the time of the 3min TS1 sell. Therefore, it was likely that the TS1 sell would extend past it initial profit targets, so you should have looked to *run* this short trade into at least the Typical Wave 3 WPT.

Not every short-term trade sits *inside* a higher timeframe trade such as this...but when it does it gives you added confidence in your short-term trade. It is always useful to have an idea of what the longer-term 15 and 60min. charts are saying when you are trading, say, the 3 and 5min. charts - to judge whether you are i*n the direction of* the larger-degree trend.

Does this mean that you only take trades that are in the direction of the larger-degree trend? No, you can take trades that are against - as long as you are aware that they are against the larger-degree trend so you can adjust the way you manage them. For example, you could look to bring the stop to break-even more quickly and also look to bank profits sooner, for example using the closer profit targets such as the DP from any minor swings.

If you think about it, this is obvious. Trades that are in the direction of the larger-degree trend are more likely to run, so you need to use either the further-out profit targets or the ATRStop. However, those that are against the larger-degree trend are likely to have only small moves, so you should protect yourself sooner and look to bank profits earlier.

Is it always this easy...you just identify the larger-degree trend and you are set fine each day on your short-term trades? Well, sadly no, as already shown in Part 1 of the Trading Course, in the real world markets do not make perfect patterns all the time. In fact, about 50% of the time you will be in the *don't know* zone. So what do you do if you cannot see the larger-degree trend clearly? You have two choices. Firstly, don't trade - you trade only when you have a clear picture. Secondly, trade more conservatively but be prepared to trade on both sides of the market, for example both long and short.

Trading is not as easy as some *gurus* would like you to believe but we at MTPredictor are different. We are all traders and, as such, live in the real world and teach you how markets really unfold - including the hard times. This is important because only with a balanced view can you ever learn how to become a successful professional trader.

Markets move in Cycles

Markets tend to unfold in cycles - they tend to have a few days with small, narrow range moves unfolding, usually followed by what we call a *range expansion* day where the market starts to trend strongly. This can continue for 1-3 days before traders tend to pause for breath and take stock of the last few days of strong movement.

It may seem strange that I am talking about how markets evolve on daily charts in a chapter on day and short-term trading? So what effect can this have on a day trader and why should all day traders be aware of how the last few days have unfolded?

Well, if you know that the last few days have been in a relatively narrow range, the probabilities are that, soon, you will have a range expansion day - so you should be looking to run your short-term trades further. The opposite is true if the last few days have been strongly trending because the probabilities now favour a few narrower range days - so you should be focusing on banking profits earlier.

Let's take a look at an example of a narrow range day on the 3min. US mini-Dow index futures [YM] that unfolded after two very wide trending days:

As you can see, the whole day unfolded in a relatively narrow range with choppy and overlapping swings. Initially, this may seem a hard day to trade...yes, because of the narrow swings it can be harder than a trending day but this is when you need to swap mindset and start to look for short-term quick profits. And this is where the DP comes in useful...

As you can see from the chart on the prior page, the DP can work very well in a narrow range and choppy day, with many short, overlapping swings.

So, knowing that you are likely to encounter a narrow range day (and you need to change mind-set to start looking for short, sharp profits) will only help you. This is why it is important to keep an eye always on how the last few days have unfolded, to know where you are in the cycle and to anticipate that either a wide range trending day or a narrow range choppy day is likely to unfold. You can then tailor your trading accordingly.

VSA High Volume Spike on short-term charts

In the chapter on *Indicators,* as well as in the *Advanced Strategies* chapter, you will have seen the High Volume (VSA) spike outlined as a trade setup. This works particularly well on intraday charts, especially when it unfolds after a break of a psychologically important high or low, such as making new highs or lows for the day.

Let's take a look at an example on a 3min. chart of the US E-mini SP500 index future [ES]:

Here you can see how the ES broke to new highs for the day on a High Volume (VSA) spike - the red bar in the volume plot - but then reversed right at the DP resistance area. This is a perfect setup for a reversal. In layman's terms, the move to new highs was a fake-out by the professional traders who now anticipate a sharp decline. This decline will be fuelled by all the amateur traders who will be caught on the wrong side of the trade as the decline gathers momentum. A classic fake-out, trapping the amateurs who mistakenly went long as new highs were made...

You will see this kind of setup many times on short-term charts as the professional traders trap the unsuspecting amateur traders in a fake move.

The result:

This nailed the very high of the day before a sharp decline unfolded...

Trades do not always work out as well as this one but with short-term charts this type of setup does unfold quite regularly, particularly when the failure unfolds after a break of a psychologically important level.

As such, this is a very good trade setup to keep an eye on when Day Trading.

Summary

As you have seen in this chapter, it does not matter whether you apply the automatic routines or your own manual analysis to short-term charts because exactly the same procedure and methods apply equally well to short-term charts as to daily charts. This is very important because if any analysis method, or approach to the markets, is to be valid, it should apply equally to all markets and all timeframes. This is exactly what you have seen in this chapter.

So, once you become familiar with using MTPredictor on daily charts, then the step to real-time trading and looking at short-term charts is only a small one. The main difference is the speed at which everything unfolds. As you have seen, a trade could unfold in only a matter of hours, whereas on a daily chart it could unfold over two or three weeks. Also, the initial setup itself normally unfolds very quickly, so you have to make the decision whether to enter the market in only a few seconds. On a daily chart you may have hours to decide and come back to the analysis again and again, to double-check it before the market opens.

I do recommend that before anybody does make the step (although it is a small one) to real-time trading, they are familiar with all the MTPredictor analysis and approach to trading the markets.

Also, there are often periods where no trades unfold. This can be particularly hard to deal with because following intra-day charts is a lot more intense than daily charts - you think you should be busy all day! As you have seen on daily charts, it is far better to have the patience and discipline to wait and *t*rade only the ideal set-ups. Sometimes this means doing nothing all day.

Having said that, there can be some spectacular and very rewarding day-trades, where large multiples of your initial risk can be made in a very short period of time.

Lastly, intraday trades normally perform better if they are *in the direction of the main trend*. As such, there is a whole chapter dedicated to the topic of trend analysis.

Chapter 10 – Trading FOREX

Forex trading should be approached in exactly the same way as any other market and any other timeframe. Your aim should be to only look for trades that can be entered with a small controlled initial risk, and (over time) to have profits that are larger than the losses. As you will have gathered by now, this is the fundamental building block that all successful trading approaches must be based on – to keep your losses small and profits large. Forex is no different.

Before starting, I would like to say a few words on Forex that newer traders may not realize. I would like to dispel some *myths* that are spread widely about Forex.

At the moment, as the time of writing, Forex is not one single market...it is just a collection of quotes between the big institutions that trade currencies between each other. Initially this can cause a few problems, the first of which is that there are no *official* prices or data for Forex quotes. It depends on which bank you look at. Yes, some data feeds try to *combine* quotes but currently there is no *official* Forex market so the quotes you see may be very different, depending on the source of the data. One problem is that two traders could be seeing slightly different data on the same currency pair. Having said that, as long as you stay with your Data feed over time these differences will even out. Please be aware of this if you are discussing trades with colleagues who may have different data than you. Neither is incorrect, just be different...

The lack of an official Forex market also dispels one of the main myths that many amateurs circulate - that Forex is the largest, highest volume market in the world. This may be true if you consider *all* the trades worldwide but, and this is a big but, what *you see* as an individual trader is only the volume at your own Broker - not the total in the market (at all the different Brokers and Banks across the world). As a result the only trading volume that is relevant to you is at your own Broker which, in reality, can be very small...So Forex is not necessarily the most liquid market in the world – volumes can be much smaller than trading the same *currency future* contract on an official exchange such as the Chicago Mercantile Exchange (CME). Does this matter? No, but you need to know how FOREX works...

Then there is the Volume quoted by your data feed. When trading Futures, the actual volume of each trade is reported, so you could have two trade one of 5 contracts, the second of 100 contracts, so the total volume across these two trades would be 105 contracts. But, in Forex we can only track how many trades (and not their size) are done, so in this example of two trades the volume would be reported as just 2, even if the first trade was for 50,000USD (5 mini lots) and the second was for 1,000,000USD (100 mini lots). So as you can see, there is no real true volume for Forex, there is only what could be considered a *trade count*, rather than trade volume.

This leads on to another myth – you, the individual trader, are actually trading against other traders. This is false because Forex, for now, is not an official market; your Broker is actually on the *other side of the trade* to you, not another trader...In other words, you are trading against your Broker and not other Traders. This leads onto two further implications...

Firstly, Forex is *commission-free*...yes that is true, however most Forex Brokers charge a *spread* and that is how they make their money. So although you are not charged a commission for your broker making the trade, you must be careful of the spread being charged because it can be very wide, particularly on the less active cross rates. To help keep this to a minimum, check the spread being charged on all your currency pairs by your broker and then trade only those with the lowest spread. This will typically be the main cross rates.

Secondly, and this is probably the most contentious of all, because your Broker is on the *other side* of the trade to you, some of the smaller Brokers only win when you lose. This is not a problem with larger Brokers because they trade enough volume for them to be *fair* and make their money from their spreads alone. But I have heard stories of some smaller brokerage firms *running stop,* so customers make losses while *they* win. Again, this is just something to be aware of - arguably, it is best to go with a large, well-known firm.

Lastly, your broker may not be regulated, so you have no come-back or compensation scheme available if the firm gets into trouble. This is another reason to place your valuable trading capital only with well-known Brokers.

Okay, all of this can sound scary but it is better to know the truth, be aware of some of the potential pitfalls and understand the difference between Forex and other markets that are trading the world over. As you can see, they all stem from Forex not being one, single regulated market. This should change at some point in the future as there are ongoing collaboration discussions between the main exchanges. When this happens, these potential problems will disappear because Forex will be a *normal* market like all the others. But until then, just be aware of the peculiarities in Forex...

How to read a Forex Quote

Currencies are always quoted in pairs, such as GBPUSD or USD/JPY. The reason they are quoted in pairs is because in every foreign exchange transaction, you are simultaneously buying one currency and selling another. Here is an example of a foreign exchange rate for the British pound versus the U.S. dollar:

GBP/USD = 1.51258

Base currency   Quote currency
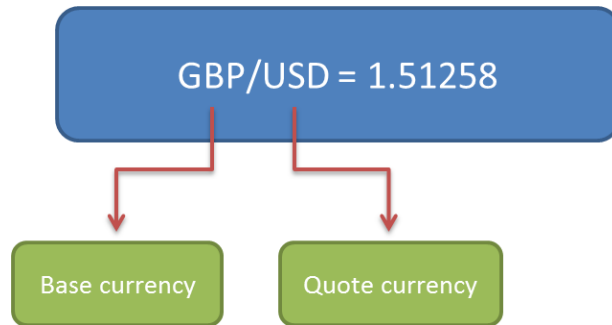
The first listed currency to the left of the slash ("/") is known as the base currency (in this example, the British pound), while the second one on the right is called the counter or quote currency (in this example, the U.S. dollar).

When buying, the exchange rate tells you how much you have to pay in units of the quote currency to buy one unit of the base currency. In the example here, you have to pay 1.5143 U.S. dollars to buy 1 British pound.

When selling, the exchange rate tells you how many units of the quote currency you get for selling one unit of the base currency. In the example above, you will receive 1.5143 U.S. dollars when you sell 1 British pound.
The base currency is the "basis" for the buy or the sell. If you buy EUR/USD this simply means that you are buying the base currency and simultaneously selling the quote currency. In caveman talk, "buy EUR, sell USD."

You would buy the pair if you believe the base currency will appreciate (gain value) relative to the quote currency. You would sell the pair if you think the base currency will depreciate (lose value) relative to the quote currency.

Pip Values

Next, let's now take a look at what is a *pip*?

A *pip* (Percentage in Point) is the minimum price movement of a cross rate. Most Brokers have three levels of contract you can trade: *Standard*, *Mini* and *Micro*. The *pip value* of a Standard contract is US$10, with $1 for a Mini and $0.1 for a Micro. What does this mean? Well, if you are trading a Standard contract, each single pip movement in your trade is worth $10 to you. For a Mini it is worth $1 and so on. Please check with your broker, as Brokers differ in the services offered...

Most professional traders such as fund managers and large speculators trade Standard contracts whereas most private traders trade Mini or Micro contracts because of the smaller pip values involved. Again, check with your broker...

Let's take a look at an example.

Here we have a TS3 Buy setup on a 60min. chart of the Forex pair GBPUSD. The entry trigger was at 1.4615 and the initial protective stop at 1.4529.

This means that the trade had an initial risk of 86 pips (1.4615 – 1.4529). Remember each pip is the minimum price movement - 0.0001 on the GBPUSD...so 1.4615 to 1.4616 is 1 pip. Note that some cross rates have 0.01 as their minimum price movement rather than 0.0001, for example the JPYUSD is quoted at 2 decimal places (0.01 pip) rather than 4 decimal places (0.0001 pip) as in this GBPUSD example. So you need to check your Data feed and broker to make sure you are working with the correct information.

In this example, MTPredictor has suggested trading 4 lots - 4 lots at 86 pips, with each pip worth $1 (Mini lot) for an initial risk of US$344 (86 x $1 x 4 = $344).

If you were trading a Micro lot account the initial risk would be 86 x $0.1 x 4 or $34.40. As you can see, the size of your initial risk can be very different depending on what size Forex contracts you are trading.

Please refer to the chapter on Position Sizing as this is important and shows why we trade different numbers of lots per setup, while keeping the initial money risk the same. This is why MTPredictor suggested 4 Mini lots on this setup - this example uses a nominal trading account of US$20,000 with an initial maximum risk of 2% per trade. 2% of $20,000 is $400 so to keep the initial risk under $400 you could trade only 4 Mini lots (4 x 86 pips at $1 per pip = $344).

Let's take a look at another example:

In this example on the JPYUSD we have an initial entry price of 99.56 with the initial stop price at 100.55, so the initial risk is 99 pips (99.56 – 100.55 at 0.01 minimum price movement). This time I am using a U$10,000 account with 2% initial risk so the smaller Micro lots size ($0.1) is better as it carries lower initial money risk per pip.

So the initial risk is 99 x $0.1 or $9.9 per pip. So for 2% initial risk on a $10,000 account you risk less than $200, meaning you can trade 20 Micro lots (20 x $9.9 = $198) – just less than our $200 maximum.

This shows why most private Traders trade either Mini ($1 per pip) or Micro ($0.1 per pip) contract sizes - the initial money risk per pip is smaller.

Direct Rates, Indirect Rates and Cross Rates.

Forex has three basic classes, Direct Rates, Indirect rates and Cross rates, where:

DIRECT RATES:
Currency pairs where the USD is the quote currency are referred to as direct rates. This holds true for such currencies as the EUR, GBP, NZD and the AUD.

INDIRECT RATES:
Most currencies are traded indirectly against the U.S. Dollar (USD), and these pairs are referred to as indirect rates. An example is the USD/CAD (Canadian Dollar). The USD is the "base currency," the CAD is the "quote currency" and the rate quote is expressed as units per USD. An example of an indirect rate is as follows: USD/CAD trading at 1.1500 means that 1 USD = 1.1500 CAD.

CROSS RATES:
Currency pairs that do not involve the USD are referred to as cross rates. Even though the USD is not represented in the quote, the USD rate is usually used in the quote calculation. An example of a cross rate is the EUR/GBP. Again, the EUR is the base currency and the GBP is the quote currency.

Fractional pips

Fractional pips are a recent pricing feature which allows you to see more price action detail A fractional pip is a tenth of a pip and the addition of this feature allows you to take advantage of smaller price increments and moves in the market.

For example, instead of quoting prices with four digits, i.e. EURUSD at 1.4251 / 1.4253, the quote is now with five digits i.e. 1.42508 / 1.42528 with the last digit (sometimes quoted as a subscript) referring to the fractional pip. If (for example) you are trading Standard Lots sizes and as such the pip value for a EURUSD 100,000 position is $10 then the value of a fractional pip for this same position is $1.

Okay, now you understand the definition of a pip, how it differs depending on the type of Forex account you have (Standard, Mini or Micro) and the need to be careful when trading non-$USD based cross rates when your actual trading account is in $USD to get the correct position sizing. Let's now cover the best timeframes to use.

Timeframes

Before we start, we have to decide on the best timeframes to trade Forex. Because Forex is really a collection of quotes from different banks across the world, there are quotes and trades 24 hours a day (except over the weekend) so many traders use intraday timeframes rather than just daily charts.

However, as Forex is traded largely between big banks, which make massive single transactions, very short-term Forex charts can be spiky...

Here we have a 15min. chart of the Forex pair USDJPY. A lot of the time the chart is drifting sideways in a relatively narrow, choppy range before a very sharp spike moves prices quickly in one direction. This is where the major banks have put large orders through. This makes trading Forex on very short-term charts quite difficult in that you must be careful to avoid being whipsawed during these ranges.

So what is the solution?

Well, most professional Forex traders choose to trade on slightly longer timeframes, usually 60min. (1hr), 240min. (4hr), 480min. (8hr) and Daily charts. The reason for this is simple – longer-term charts *smooth* the choppy periods and short-term spikes to make the chart much easier to trade.

Let's take another look at the Forex pair USDJYP - this time on a slightly longer 240min. chart:

As you can see, the swings are a lot smoother. This has the effect of making the chart easier to trade, in particular making you less prone to false move and whipsaws.

I am not saying that you should not consider shorter-term Forex charts, simply that it will be far easier for you to focus on, say, the 60min., 240min., Daily and even Weekly charts as they are far smoother and easier to trade.

Multiple timeframes

Now we are focussing on the 1hr and 4hr charts for intraday trading, can these be used together?

They certainly can. In the chapter on Trend you saw how it is better to trade in the direction of the larger-degree trend. So, in this context, the 4hr chart is the larger-degree chart when compared with the shorter 1hr chart. What many of our Forex traders do is to use the 4hr chart for their trend then focus on the 1hr charts for their trade entries. Again, please see the Trend chapter for more information on this.

Let's take a look at an example on the Forex pair GBPUSD:

Here we can see how the 4hr chart appears to have found support at the DP level, so now we can consider that the main, *larger-degree* trend is up. Therefore, on the shorter 1hr chart we should be concentrating on Buy setups.

Continued on the next page . . .

As you can see from the chart above, we should have been looking for Buy setups on this shorter-term 1hr chart as soon as the 4hr chart found support at its DP level.

And that is exactly what unfolded with this nice, automatic TS3 Buy setup.

Continued on the next page . . .

Summary

Because, at the time of writing, Forex is not a standard regulated market, there are many pitfalls that await amateur traders. In particular, data can be different from different data sources...also, it is important to trade only though a large, reputable broker.

The definition of a pip was covered and how to calculate your position size (number of lots) based on the initial trade setup and your account size. The different Forex contract sizes - Standard ($10 pip), Mini ($1 pip) and Micro ($0.1) - affect the amount you win or lose on your trades.

Next, I covered what you must do to bring trades on *non-USD based currencies* back into $USD for correct Position Sizing (number of lots) calculation.

Lastly, I took a quick look at the larger-degree trend and how it is important to orientate your trades to fall in line with the larger-degree trend. 1hr and 4hr charts work very well together for this...

As you can see, there are differences to consider when trading Forex but these stem from the fact that Forex is not yet a standard, officially-regulated market. When you understand that, you can see why it is important to trade on slightly longer timeframes to help reduce whipsaws and how longer frames help smooth out your charts.

Otherwise, Forex is the same as any speculative market in that your aim should be to take trades only when you can enter with a small, controlled risk and, over time, look to make profits that are larger than the losses. Small losses and big profits, as always, are the key to long term success.

Chapter 11 – Trading Stocks

When you move to the stock market and, in particular, individual stocks, you find that they will move generally in the same direction as the overall market. This is itself a generalisation - individual stocks can and do - move against the main market. Most of the time, however, stocks will move with the main market. As such, it makes sense to orientate your trading on individual stocks with the main index.

For this, I suggest you look at the daily and weekly charts of the main indices, for example the S&P500, Dow Jones Industrials and Nasdaq Composite indices in the US. If you trading other global markets, please check the daily and weekly charts of the main indices that represent your local stocks for an idea of the main, larger-degree trend. As outlined in the Trend chapter, if you are in the middle of a strong trend this is easier; however it is slightly more difficult if the main indices are just entering an area where a Major trend is likely to unfold - care is needed here!

When you have an idea of the main trend you can use this to filter the individual Buy and Sell setups on the individual stock to be in tune with this larger-degree picture. This is important because the best trades (and largest profits) result usually from trading *in the direction of the main trend.*

So now you know that you should not just take all the Buys and Sells generated by any individual scan on any particular day and that you must always view these in the context of the larger-degree trend on the index itself...are there any other considerations when searching for trade opportunities on stocks?

Tick Size and Tick Value

At this stage, it is vital to take a look at Position Sizing for stocks and particularly the Tick size and Tick value...

For US stocks, the Tick size and Tick value is simple - it is 0.01 and 0.01. In other words, each stock moves in 1/100s (0.01) and each tick is worth US$0.01 or 1 cent. This makes the Position Sizing calculation relatively easy. Each 0.01 movement in a US stock means 1c ($0.01) per share.

This is reflected in the *pre-built* Position Sizing module in MTPredictor.

However, while many other stock markets around the world, such as Australia, have the same 0.01 and 0.01 values, some do not...for example the UK. In the UK, the Tick size and Tick value varies according to the price of the stock:

Bands	Tick size	Tick value
UK FTSE100 less than 9.99 pence	0.01	0.01
UK FTSE100 10.00-199.90 pence	0.1	0.1
UK FTSE100 200.00-499.75 pence	0.25	0.25
UK FTSE100 500.00-999.50 pence	0.5	0.5
UK FTSE100 above 1000.00 pence	1	1
UK FTSE250 0.01-9.99 pence	0.01	0.01
UK FTSE250 10.00-499.75 pence	0.25	0.25
UK FTSE250 500.00-999.50 pence	0.5	0.5
UK FTSE250 above 1000.00 pence	1	1

As you can see, you need to be very careful to double-check that the stock you are following has not traded into a new price band, requiring a different Tick size and Tick value. If you do not ensure that these values are right, you may not have the correct Position Sizing calculation for the number of shares to trade for each separate setup.

So, please make sure you know how your particular stock market works in relation to its Tick sizes and Tick values.

Okay, now you know about Tick sizes and Tick values for stocks, let's take a look at the software filter settings to use.

Filters for the automatic setups

On US stocks, I tend to run a scan with the STF Filter on:
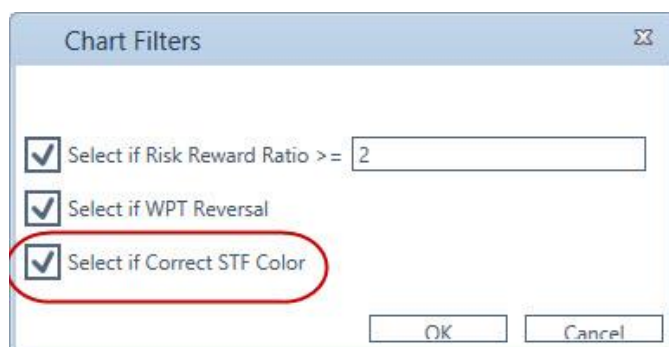
The reason is that this is a large universe of stocks, so you can afford to be more restrictive with the potential setup candidates.

If you are following a smaller universe of stocks, for example the UK FTSE 100 or Australian ASX 200, I suggest running scans with the STF Filter off.

With a smaller universe of potential candidates you need to be less fussy on the potential setups you find.

It is far more important to seek potential setups that are in the direction of the larger-degree trend than to look for the ideal ABC pattern when you have fewer stocks to choose from.

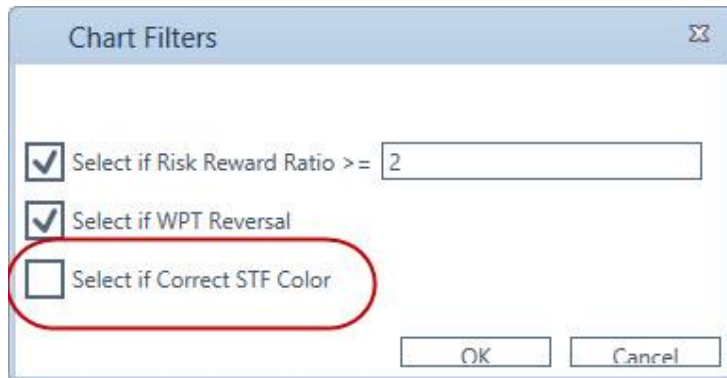Although this may lead to fewer trades it is a common misconception among amateur traders - who believe they should make trades every day when, in reality, this is far from sensible. To be a successful stock trader does not mean taking new stock trades every day. In fact, the best course of action is to spend most of your time preparing and waiting for the *ideal* trade opportunities, where the probabilities of success are stacked in your favour.

This is a very hard concept to understand fully because most traders assume that to be successful they *must* make trades every day…exactly the opposite is true. Most professional traders will spend their time watching and waiting for the ideal opportunities. You can think of this either as a professional gambler willing to place his largest bets only on his best hands (therefore passing on his weaker positions) or a wild animal stalking its prey, watching or waiting in preparation for the final kill. As a professional and successful trader, you must adopt the same strategy.

Chapter 12 – Trading Futures / Commodities

Let's take a look at the subject of Tick sizes and Ticks values. Each commodity has a different value - which can be confusing, particularly for newer traders.

It is important to understand Tick size and Tick value because this has a direct impact on your profits and losses through the number of contracts you can trade without threatening your maximum initial risk. This is where the automatic Position Sizing module in MTPredictor comes in handy...

Tick size and Tick value

As we saw in the previous chapter, for US stocks and most global stock markets, Tick size and Tick value was relatively easy - it was 0.01 and 0.01. However, for futures and commodities the situation is very different because virtually every market has its own, unique Tick size and Tick value. For example, Wheat futures on the Chicago Board of Trade (CBOT) have a Tick size of 0.25 (1/4 point) and Tick value of US$12.5 per tick (so $50 per full point)...however, Gold futures on the Chicago Mercantile Exchange (CME) have a Tick size of 0.1 and a Tick value of US$10 (so $100 per full point).

At first sight this could be very confusing - but this is where the pre-built Position Sizing module in MTPredictor helps, as it already contains the Tick size and Tick value for all the common futures and commodities markets:

Continued on the next page . . .

Let's see how this automatic Position Sizing works on the charts and setups for you:

As you can see, it automatically calculates how many contracts to consider trading for the initial setups - as well as calculating the initial money risk for you. Here it is suggesting taking 1 contract on a $100,000 account using a 3% initial risk.

All of this is displayed on the charts automatically for you.

As a double check, you can see all the relevant information at the top of the MTPredictor program window. If, for some reason, the market you are trading is not covered in the pre-built database, you can add it in yourself using the internal editing function.

Please see the Position Sizing Chapter in Part 1 of the Trading Course for more information.

Continued on the next page . . .

Correlated markets

When you are trading commodities, each individual commodity tends to move in its own way. As long as the commodities are not related - for example, US Treasury Bonds and Treasury Notes – usually you can analyse each market in its own right for trade setups. For instance, a trade setup on Wheat is not related to a trade setup on Copper.

This is an important concept because you must avoid *doubling up*, where you have two positions in correlated markets. The reason for this is fairly obvious - if you have two individual trades, each with a 2% risk, and both markets move in the same direction at the same time...and you are stopped out on both trades, you would have lost 4% rather than the small, controlled 2%. In other words, you would have doubled your initial risk by having two positions in correlated markets. This should be avoided.

Seasonal trends

It may seem odd that seasonal trends are featured in a Trading Course based on my own view of Elliott Wave theory. However, many commodity markets do show seasonal trends and there are particular times of the year when you must be ready for them. The best known is the tendency for grains to rally from late April/early May into the June/July period. This does not happen every year – sometimes the opposite happens - but the late April/early May period is still a very important time to be looking for potential trade setups in the grains markets.

The reason is that this is the growing period for grains so farmers will start to have an idea of how strong or how weak the next harvest will be...this can push grain prices up or down quickly at this time of year.

Let's take a look at a daily chart of Soybean futures from spring 2008:

Here we have Soybeans making a 5-Wave rally. But just note when the rally started – 1 May...and when did the 5-Wave rally stop? July 3. In other words, this rally unfolded exactly during late April/early May into the June/July period.

This is why it is particularly important to start looking for potential trade setups in grains in the late April/early May period - to be ready for a rally into the June/July window.

Please note: this rally does not happen *every* year - the grains have to be in a position off which a seasonal rally can occur. But more often than not, this is a very good place to start looking for ideal trade setups.

Continued on the next page . . .

Chapter 13 – Daily Routine

In this chapter, I would like to look at a daily routine that you could follow. In this way, you should have a good idea of how best to use the software on an everyday basis.

Generally, we have three main market groups to follow: futures, Forex and stocks. So over the next few pages I will outline how you might follow these on a daily basis.

Futures/Commodities

The first thing to do is to perform a scan. For me, this involves a scan of my database of US futures, consisting of the US futures markets traded on the main US exchanges.

Normally I use the current contract months *only* for analysis, not any form of continuous or back-adjusted or perpetual contract. From experience, this is the easiest method and typically produces the best results. I also focus on the most active *day-session* data and ignore the thinly-traded overnight sessions (on the contracts that have them). Again, I have found this produces the best results.

For futures, because we are not looking at a large universe of different markets, I normally switch off the STF filter off in the scan settings:
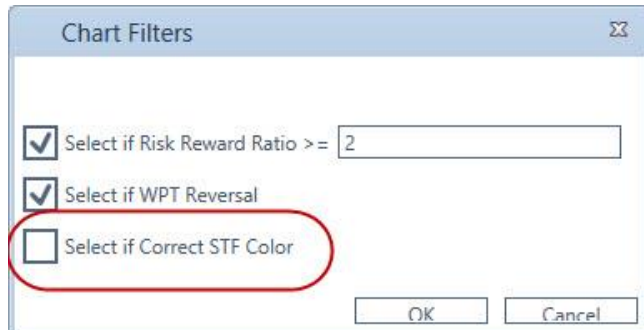
As you can see, on this first pass I am focusing just on the automatic trade setups. However, because some of the filters are off, you must always take a look at any setups found and qualify them yourself - particularly checking how good the pattern looks as well as the position of the setup in relation to the larger-degree trend. Remember, these automatic setups are not to be followed blindly. They are only a shortlist of *potential candidates* that you should now evaluate and decide which meet your criteria for a possible trade *yourself*.

For the more advanced trader, you could also run a scan looking for some of the more advanced Elliott Wave patterns:

I would also suggest that if you are an experienced trader, you actually check the main futures contracts by *actually looking at the charts* on a daily basis - looking for advanced patterns. There is no substitute for studying the charts on a daily basis, especially if you have only a small universe of different contracts to follow.

Forex

The procedure for Forex is very similar to that already outlined for futures. The reason is that Forex is a relatively small universe of different cross rates, so it is advisable to relax the STF filter in the scanner to find more automatic trade setups:
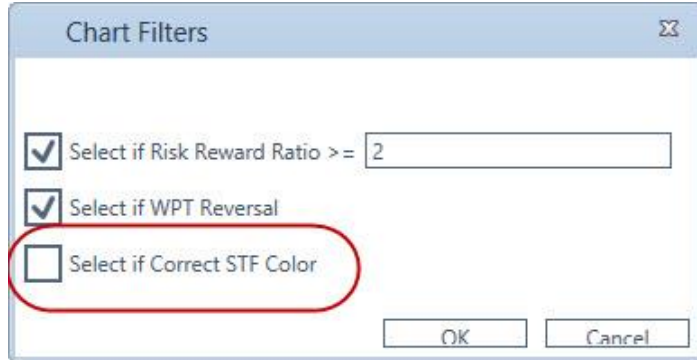
This is the default setting in the software, so you do not need to adjust or change anything

I would suggest following some of your favourite pairs and cross rates manually on the charts themselves, particularly looking for major areas of support and resistance using the Decision Point (DP).

Please also see the Forex chapter for more information on trading Forex with MTPredictor.

Stocks

The procedure for stocks is slightly different because, as outlined in the Trend chapter, it is preferable to orientate your individual stock trades *in the direction of* the main, larger-degree trend.

First I check the daily and weekly charts of the main indices. In the US these are the S&P500, Dow Jones Industrials and Nasdaq Composite. If you are trading global markets, please check the daily and weekly charts of the main indices that represent your local stocks. What I am looking for is an idea of the main, larger-degree trend. As outlined in the Trend chapter, if you are in the middle of a strong trend this is easy. The difficulty normally arises if we are just entering an area where a major trend is likely to unfold.

As you will remember from the last chapter, we have the colour of the Strong Trend Filter (STF) to help guide us for the main trend direction. This works well in an established trend. But we also have the Wave Price Targets (WPTs) and Decision Points (DPs) that help us look for the end of a trend and identify a trend change - usually as it is unfolding.

Once you have an idea of the larger-degree trend you can use this to filter the individual Buy and Sell setups on stocks, to be in tune with this main trend. This is important because, as stated in the Trend chapter "The reason is that the best trades (and largest profits) normally result from trading *in the direction of the main trend.*"

When you have determined the main trend you can run a scan. On US stocks, I tend to run a scan with the STF filter on:
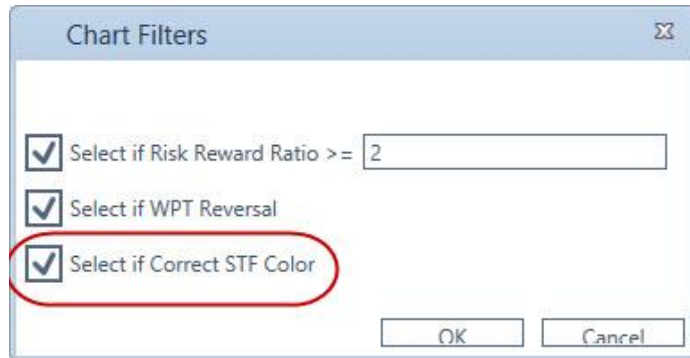
The reason for this is that the US stock market is a larger universe of potential stocks, so you can afford to apply more restrictions to the potential candidates.

If you are following a smaller universe of stocks, such as the UK FTSE 100 or Australian ASX 200, I would suggest running scans with some of the filters *off* as outlined in the prior section on Forex.

As with the prior two sections, you can also follow a small number of your favourite stocks manually - on the charts themselves - to uncover any additional, more advanced trade setups.

Continued on the next page . . .

Summary

I use the Trade Scanner as my primary tool for uncovering trade setups on stocks, Forex and futures. However, sometimes - particularly in futures and Forex, *ideal* trades are not found constantly, so I also perform scans with the restrictions off. This will normally produce more candidates for further study but, because these can be *in the process of* unfolding, it is important to qualify the trade on the chart itself before considering any trade setup. Please see the next paragraph.

It is also useful to perform analysis on individual charts using the automatic routines and *manual* analysis where appropriate. Nevertheless, please remember that for a trade setup to be valid 3 factors must combine at the same time:

- Firstly, the market in question is at a level where a high or low is anticipated to unfold - normally a WPT or DP support/resistance area.

- Secondly, the market makes the appropriately-coloured (red or blue) Reversal Bar, which unfolds at the WPT support/resistance area.

- Thirdly, the market then *exceeds* the high (for a Buy setup) or *exceeds* the low (for a Sell setup) of the coloured Reversal Bar.

The order in which to look for trade setups is as follows:

1. TS1 – abc correction as part of a Wave (2orB) correction
2. TS3 – simple ABC correction
3. TS2 - abc correction as part of a Wave (4) correction
4. TS4 – larger-degree ABC correction
5. DP - Decision Point setup

These are the main automatic trade setups and are the most reliable, consistent and easiest to work with. In particular, my own favourite is the TS1 - mainly because often it can position you in a trade right at the start of a strong Wave (3) swing which, as you know, is usually the strongest and longest (and, therefore, the most profitable) of all the Elliott Wave swings.

Following this:

6. Wave 2orB (with *no* minor abc sub-division)

Although this trade setup is slightly less reliable than the main TS1, TS2 and TS3 setups, because it is still *in the direction of* the main trend, it can produce some excellent trades.

And lastly:

7. Wave 5

As you know by now, I do not recommend trying to trade off the end of a Wave 5 swing...mainly because, from personal experience, I know how unreliable they are. However, **if** *and only if*, the setup is absolutely perfect and carries a good Risk/Reward profile, it might be considered. But clearly this is the least preferred trades; therefore it should be the exception rather than one of your primary trade set-ups.

I hope this has helped demonstrate how I use the software myself and can be used as a guide for you, particularly in the early days with the software - until you become familiar with all the routines. The main point is how the software is designed to make finding *ideal trade setups* as easy and as quick as possible. This allows you to spend more time evaluating and qualifying the trade setups, especially making sure that any new setup carries a strong Risk/Reward profile.

Chapter 14 – Where are you on the Curve?

A lot has been written on trading psychology and how traders must *learn* to become better traders. While much of this is true, and it is clear that the hardest part of trading is the psychological aspect, I would like to add my own interpretation.

First, all traders are different. We are all human beings and are all different. Some of us will be office clerks while others will be brain surgeons. And I am sure you will agree that the office clerk will not have the ability or indeed the desire to become a brain surgeon. You should treat trading in the same way. Or, to be more specific, some will be more comfortable with and prefer trading the automatic setups, while some will thrive on performing their own manual analysis. So, forcing some of you to perform manual analysis will make you uncomfortable, while forcing some of you to stay with the standard setups will not work either. As individuals, you will be happier staying within your own *trading comfort zone*.

So the question I ask – is one type of trader better than another?

Statistically, numbers have been published on the success rate of speculators, especially private and novice traders. Some sources quote that as high as 95% - 97% of these will fail to make money. Therefore my answer is that if both types of trader make money, then both should be considered successful.

Success comes from each individual finding and becoming an expert at the particular technique that suits them best. In this way they can stay within their own *trading comfort zone*, which is unique to them.

For example, some MTPredictor customers will use only the standard setups and manage them with the standard guidelines. Others may take just TS1 trades and try to run the position in anticipation of a strong Wave 3-type swing. Others take positions off as a trade moves in their favour, while others add positions. Still others have hybrid techniques and combinations of the above. There is no single (and correct) answer to how to trade.

I believe that the single, most important aspect to master in becoming a successful trader is finding a technique with which you are comfortable and then applying it time and time again. Only then can you be a truly successful trader.

This is why the vast majority of traders fail - they skip between techniques, always searching for the one *Holy Grail*. They may hide in chat rooms trying to pick up morsels of information from other traders. In reality, the really successful traders will neither give nor seek advice.

Ask a successful trader if a market is going up or down and they will invariably answer – "I don't know and don't care". They have their positions and stops in the market, safe in the knowledge that they are managing their initial risk carefully and that over time their profits will outweigh their losses. More importantly, they are happy and comfortable trading in their own personal way. It works for them; however it may not work for you. So you need to find, and then settle on, your own unique and personal method or approach rather than trying to imitate or follow another trader's methods blindly.

I could continue but I am sure you get the idea that when you are successful, you no longer need to seek or give advice because trading is a unique and personal approach to the markets. The critical point is that to become successful does not mean that you have to learn, or indeed apply, *all* the techniques that I or any other educators apply. You can think of this as a Techniques Curve™ where different people are happy and comfortable at different positions on the curve. Let me expand on this idea.

Let's take a look at a potential MTPredictor Techniques Curve™:
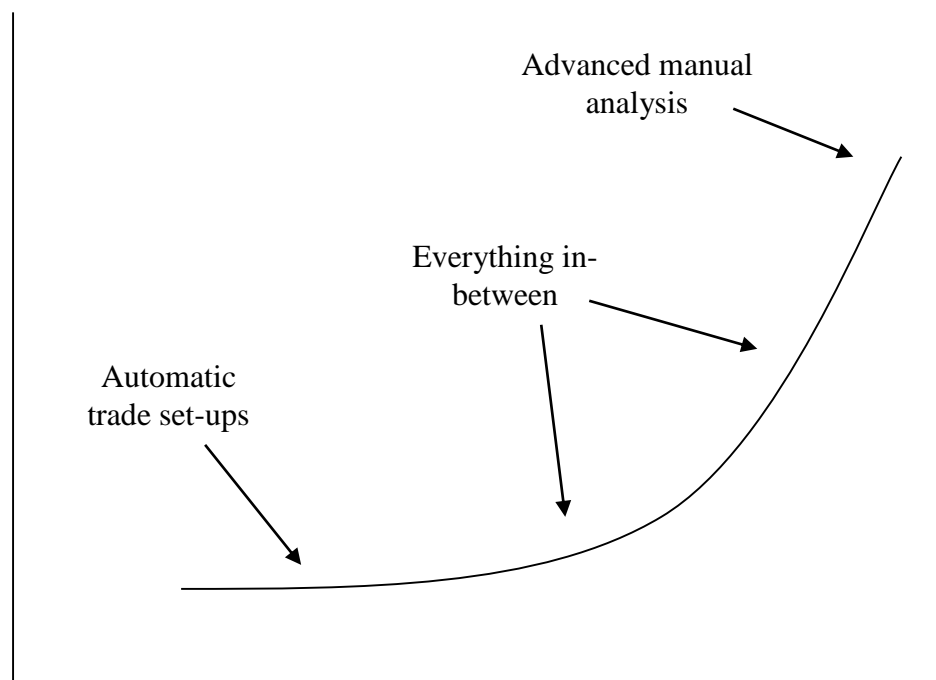
Here we have a fictional curve, with the standard trade setups at the bottom, leading up to advanced manual analysis at the top and every combination and variation in between.

Note that this does not mean that the automatic trade setups are the least profitable or that you have to master advanced manual analysis to make more money. It is simply that the higher up the curve you go, the more techniques you will have to learn and master.

Some of you will relish the challenge of learning and mastering new and more advanced techniques. Some of you will be perfectly happy sticking with the standard trade setups. Both are correct, if they are right for you. I cannot stress this enough - the best way to trade is to trade a system or approach that is right for *you*. This will be different from person to person.

This is why this Course contains many advanced and additional techniques that I know some will learn and master, while some will ignore. However, one theme runs through the Course and should be the one constant in all of your techniques, advanced or standard: Risk/Reward. Keep the Risk/Reward equation on your side and over time, whichever technique you apply, you should be on a sound footing for long-term trading success.

As you can see, the further you move up this Techniques Curve the more analysis you take on yourself and the further you shift away from the automatic setups and standard trade management guidelines. The more confident you become in the MTPredictor techniques and your understanding of them, the more often you can break the rules, or know when and where you can break or tweak them…

In the next chapter I would like to show some examples of when you can bend these standard guidelines as you become more experienced. This step is not necessary or compulsory but if you are that way inclined these examples demonstrate areas where additional experience can help take you further up the curve.

Continued on the next page . . .

Summary

The automatic trade setups and standard trade management guidelines are designed to do the best job over the widest variety of market conditions.

Many will feel most comfortable trading and managing your trades using the standard guidelines. This is fine. However, I know that some will prefer to move up the Curve by performing additional manual analysis and also tweaking the standard rules as and when your experience and knowledge allows.

A good analogy is to a skier. I have been skiing for over 20 years and can ski anywhere on the mountain. However, on your first ski trip you will be using the basic technique of a snowplough and staying on the easy green runs. If you try a harder red run you will more than likely get into trouble. However, as you become more experienced and learn more advanced techniques (such as parallel turns) more of the mountain will become accessible to you.

Same with trading - if you are using only the automatic set-ups there will be times when few trades appear. Here, patience and discipline are required to trade only the setups you know and are comfortable with. Straying into more advanced setups will just get you into trouble and probably lose you money. The same applies when you are learning to ski - you have to stay on the easier slopes, otherwise you will get into trouble. This does not mean you will enjoy your skiing holiday any less than an experienced skier, or indeed you will not make as much money as an advanced trader. But for your current ability you have a specific *comfort zone*. The trick is recognising it and staying within this comfort zone.

As you become more experienced you will settle at different points on the Techniques Curve. Some skiers thrive on deep off-piste powder while others prefer to glide down red runs. The same applies to trading. Everybody's *trading comfort zone* will be different; there is no right or wrong way to trade and no requirement for you to trade in a particular way to be successful. The challenge is to find the techniques that you yourself are comfortable with and become an expert in those techniques, no matter where on the Curve you decide to settle.

The final point I would like to make is that you should not expect to become an expert overnight. Nobody in his or her right mind would buy a book on golf, for example, read it over the weekend and then expect to beat Tiger Woods immediately! However, many traders seem to expect the same from trading.

It took me many years to become an expert skier, as it did with trading. I have been trading for over 26 years and although you do not need to wait 26 years to become an expert trader, the point is that it does take time.

This is why MTPredictor is different from many trading approaches - you can apply many different techniques using the software. In a similar way to skiing, traders need to start with some easy-to-apply techniques in the early days. That is why I have designed the automatic trade setups in the software...the software does most of the work for you. However, as you become more experienced, Part 2 of the Trading Course teaches you how to apply more advanced techniques. This allows you to take advantage of many more trade setups. It also teaches you how and when to amend the basic trade management guidelines to maximise profits under different market conditions.

What most amateur traders do not realise is that the market has many different phases and they are all different. Some are easy, some are extremely difficult. So when they try to apply the same technique to all phases they run into trouble. Have you ever seen a snowplough skier being able to cope with a steep black run?

The trick is in knowing your own comfort zone and then trading only when you are in that zone. As you become more experienced this comfort zone will change but this takes time as you learn new techniques. For me, this is the one of the biggest challenges a trader can face. If you can master this and trade only when you have the ideal setups (for you at your level), NOT straying into areas where you are uncomfortable, you have every chance of becoming a successful trader. But to achieve this will require patience and discipline - psychological qualities, not trading techniques.

My advice is to start with the automatic trade setups. Become an expert at these. Then, slowly, as you become more experienced, using Part 2 of the Trading Course, learn additional techniques and move up the Techniques Curve. Where you decide to stop on this Curve is up to you but it is vital that you recognise this and stay trading in your own personal comfort zone. If you have the patience and discipline to take trades that fall only within your zone - and do not fall into the trap of being tempted by trades that are beyond your current level - you will be on a solid footing to becoming a successful trader.

Chapter 15 - Advanced Analysis

In Part 1 of the Trading Course, I covered in great detail Elliott Wave theory and the practical application of Elliott Wave analysis in the markets. The conclusion was that no matter how good this method looked in theory, it did not bear out what it promised. In fact, I went on to suggest that Elliott Wave theory should be applied to markets only approximately 50% of the time and that the reason why so many Elliott Wave analysts get into trouble in the market is that when in a reliable and obvious pattern, it has a habit of moving out of phase - or drifts into the 50% of the time that it is not working. As such, I suggested that the theory was best used only for finding a simple ABC correction and also suggested that this simple pattern should be used simply for finding trade setups, not trying to analyse the market or predict the future.

However, there are times when Elliott Wave patterns appear to be unfolding within the *good* 50% and it is at these times that you can use some other (more advanced) parts of the theory to help uncover potential trade setups. But at all times, you must be fully aware that any market could drift back into the *bad* 50%, so I would suggest that when performing additional and advanced analysis as outlined in this chapter, use it only to identify the end of the current swing to find a tradable setup (not to predict the future). In other words, you treat the Elliott Wave pattern you are working on *in isolation*. I have found this approach works better than trying to use the theory to *forecast* where a market will be at some point in the future. As you have seen, the theory has a nasty habit of drifting in and out of phase just when you least expect it. So, as long as you bear this in mind, there are additional aspects to the Elliott Wave theory that can be useful.

Before continuing with this chapter, I suggest you go back and read chapter 3 in Part 1 of the Trading Course, on the basic Elliott Wave patterns and the basic Elliott Wave rules and guidelines. I will be applying these to more advanced situations in this chapter - you should be familiar with all these basic rules and guidelines before continuing.

In this chapter, various isolated patterns that I believe have an above-average reliability will be covered, showing how to use them in your own trading. More importantly, I will give you guidelines advising when it is best to use these advanced patterns and, crucially, when you should *not* use them.

This chapter will contain a mixture of automatic patterns as found by the *Elliott Waves module* and also patterns derived from pure *manual* Elliott Wave analysis.

 Let's start with the first example - my personal favourite.

Wave 2 usually unfolds as a simple ABC correction

Let's remind ourselves of this guideline. In most cases Wave 2 usually unfolds as a simple ABC correction. Put another way, a simple ABC pattern is found in a Wave 2 correction more often than in a Wave 4.
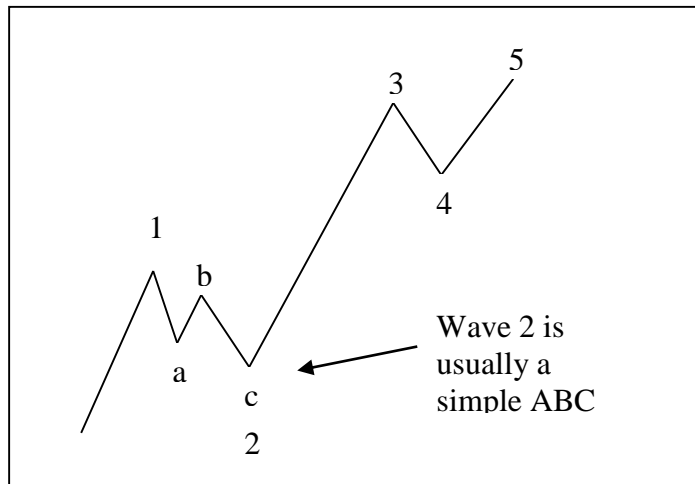
So how can this help us? Well, because we know that a Wave (2) *usually* sub-divides into a simple ABC correction, we can use this to help find the end of the Wave (2) correction. Then, as you should already know, Wave (3) usually follows a Wave (2) correction and, because Wave (3) is usually the strongest and longest swing in a completed 5 Wave sequence, this is where the largest profits can be made. So, being able to identify the end of the Wave (2) swing is the best place to look for a potential trade setup.

Let's take a look at this from another angle.
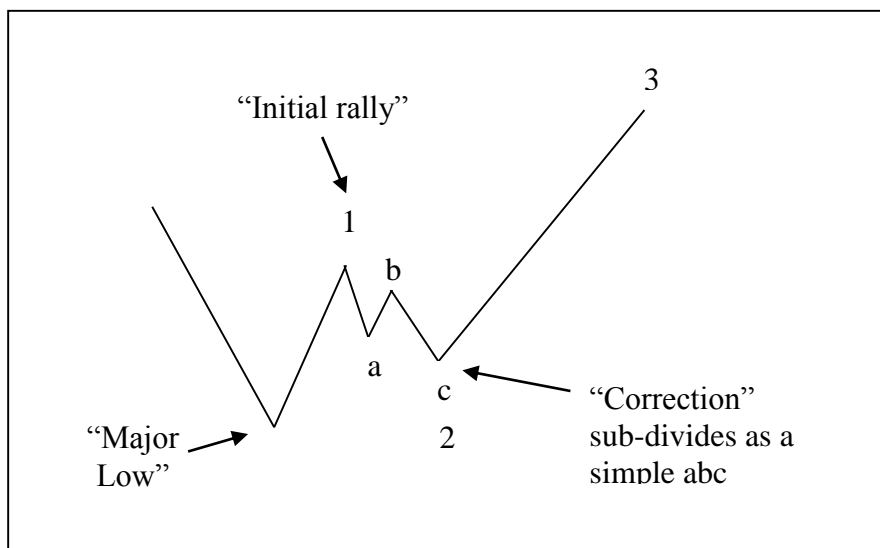
Here we have a *major low,* which was followed by an *initial rally,* which was then followed by a *correction* which *sub-divided into a lesser-degree abc*. As I have already outlined, after a Wave (2) correction is complete a market will normally make a Wave (3) swing and, because Wave (3) is usually the strongest and longest of all the Elliott Wave sequence, trading this swing represents the best profit potential and smallest initial risk. So for me, this is the best trade you can find!

Legendary trader W.D. Gann believed "the best place to buy is on the initial correction after the start of the new trend". In Elliott Wave terms, this is the end of the Wave (2).

So, what should you look for? First, identify a major high or low. This is usually a high or low that unfolds at DP or WPT support/resistance on the *higher* timeframe. For this example, a 15min. German Dax index futures chart is used:

But this could be a Major high on a daily or weekly chart as well.

Continued on the next page . . .

As you can see from the 15min. chart on the prior page, the German Dax made a low at a DP support zone. We then had the *initial rally*, so now we watch carefully to see whether the *correction* to this initial rally unfolds as a 3-swing ABC. For this, we move down to a lower timeframe, for example the 3min. chart (although this works equally well on weekly and daily charts for stocks or 240min. and 60min. Forex charts):

Here I have used the Elliott Waves module to identify this ABC correction automatically and, more importantly, it has placed the Wave C WPTs on the chart for you automatically – these are the areas where the Wave C swing is most likely to end…

So the picture is complete now. We have a major low already complete (as shown by the 15min. DP support); we had an initial rally, which was followed by an initial correction *and* this correction unfolded as an ABC (as found by the Elliott Waves module in MTPredictor).
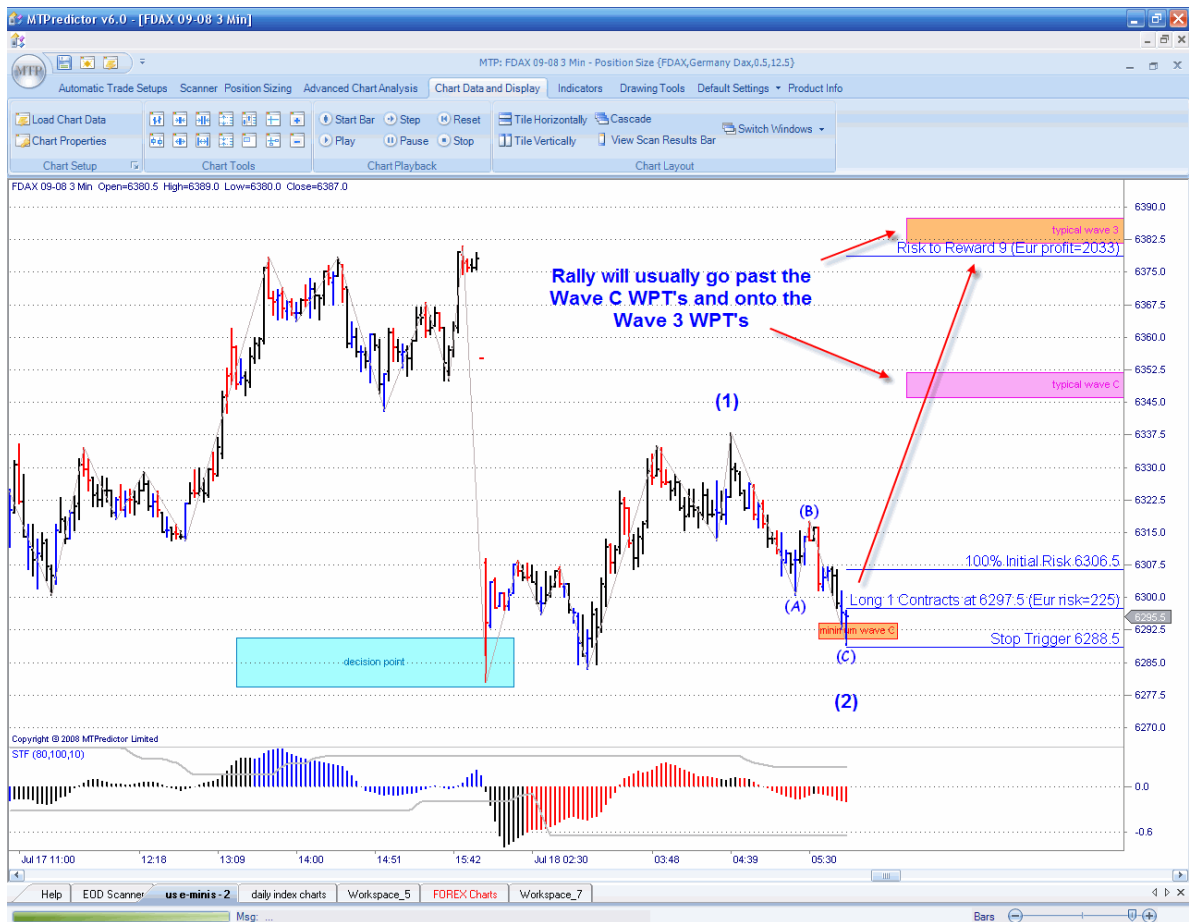
In Elliott Wave terms this is a Wave (1) rally, followed by a Wave (2) correction. So what should we anticipate from here?

Continued on the next page . . .

Exactly...a strong Wave (3) type rally should now follow:

I have added the Wave (1) and Wave (2) labels manually on the chart above to show you clearly...

Now we should anticipate a rally into the Wave 3 WPTs which I have placed on the chart using the WPT module in the software. Please note that because we are anticipating a Wave (3) type rally, I have not used the nearer Wave (C) WPT targets.

The trade has also been analyzed using the Risk/Reward module which, combined with the automatic Position Sizing, shows a *potential* profit of +9R (or 9x the initial money risked) at the Typical Wave 3 WPT. In other words, an excellent trade setup, with the profit potential much larger than the initial risk required to take the trade. The entry trigger is as the high of the Blue (buy) coloured reversal bar is exceeded.

Continued on the next page . . .

The result:
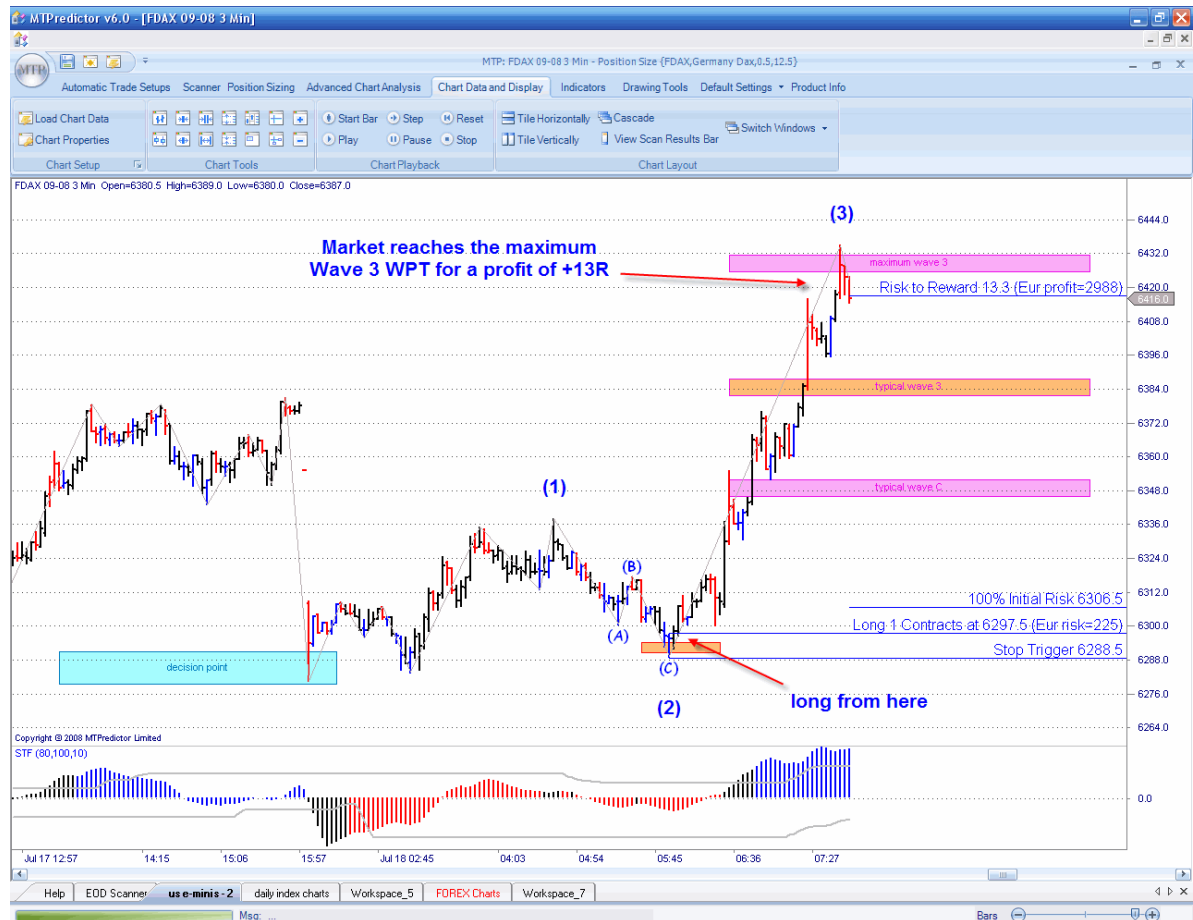
As you can see, the German Dax did indeed rally from this low - in fact, it exceeded the typical Wave 3 WPT and continued to the maximum Wave 3 WPT (again placed on the chart using the WPT module in the software). Here, the profit was approximately +13R (excluding slippage and commission). Put another way, this turned an initial risk of approximately Euros 225 into a profit of approximately Euros 2,900.

Continued on the next page . . .

In the example above I used the Elliott Waves module in the software to find the ABC correction...but often this very setup is found by the automatic setups as an advanced TS3 or TS4 (with the Strong Trend Filter – STF - off), see below:

The reason we disable the STF is that because these setups occur very early in the new trend, they are frequently against the STF, which itself takes some time to catch up after a major high or low.

As you can see, this is a very good setup that has the potential to get you into a new trade just at the very start of a strong Wave 3 move. This is my personal favourite because it usually represents the largest profit potential compared with the initial money at risk.

Five Wave swing completes the sequence

Before looking at this pattern, a warning! Trying to pick the end of a strong Wave 5 swing can be very dangerous. An *impulsive* sequence has a nasty habit of overrunning WPT targets. So, although there can be some spectacular trades off the end of a Wave 5, caution is advised.

Let's see what this looks like:
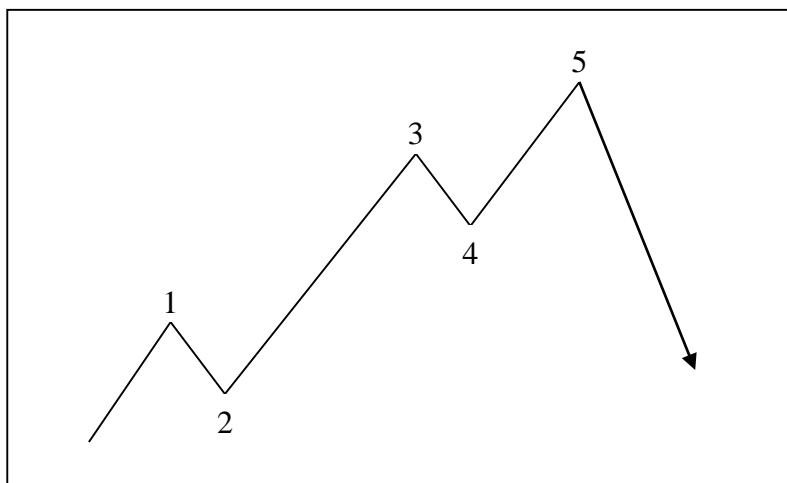
Here you can see the simple, basic form of a 5 Wave swing - 5 Waves that unfold in the direction of the main trend; it is considered an impulsive pattern. However, once the Wave 5 swing is complete, the whole sequence is finished and this can signal a major reversal in trend.

Remember that we use our *Isolation Approach* to Elliott Wave - the end of a Wave 5 means just that...when the current swing is over a reversal is likely. We do not try to project how important the high or low is; nor do we try to project how this fits in with swings on other timeframes. The whole idea behind the Isolation Approach is that it frees you from the usual constraints of traditional Elliott Wave analysis (that does not work...)

Let's take a look at an example:

Here we have a Wave 5 high on the US S&P500 index, where the red (sell) Reversal Bar of 20 May 2009 unfolded right at the minimum Wave 5 WPT. This signalled that the current uptrend was now likely to be over and a reversal was at hand. This was the very day of the high - as you can see, the S&P500 index declined sharply from there...

So how do you manage a trade like this if you have no *specific targets* for a trade off the end of a Wave (5) swing?

Well, as you will see in the next section, the *initial target* is the DP taken from the prior Wave (4) high or low...but because this is the initial target only, it is often exceeded as the market in question starts a new larger-degree swing in the opposite direction, as in the S&P example above. So whether you use the DP from the prior Wave (4) as your target or look to further-out targets depends on how the initial swing into this initial DP target unfolds. This will be covered in more detail in the next section.

In the S&P500 example on the prior page, the initial target from the prior Wave (4) low was very close to the high and was exceeded quickly. In the absence of any swing unfolding *in* the decline off the May 20 high, the DP from the prior major low is the obvious place to look for support and, as such, the end of this new drop.

As you can see, this produced a profit of approximately +9R.

Again, although this was a good example there are many times when what appear to be perfect Wave 5 trades end in losses. The reason for this is that the Wave 5 is the end of an impulsive pattern so does have an uncomfortable habit of failing more times than other trade setups. For this reason, caution is always advised when trying to pick the end of a Wave 5 swing...

The first leg of the move off a complete 5 Wave sequence often finds support/resistance at the prior minor Wave 4

To remind you of this guideline please take a look at the chart below:
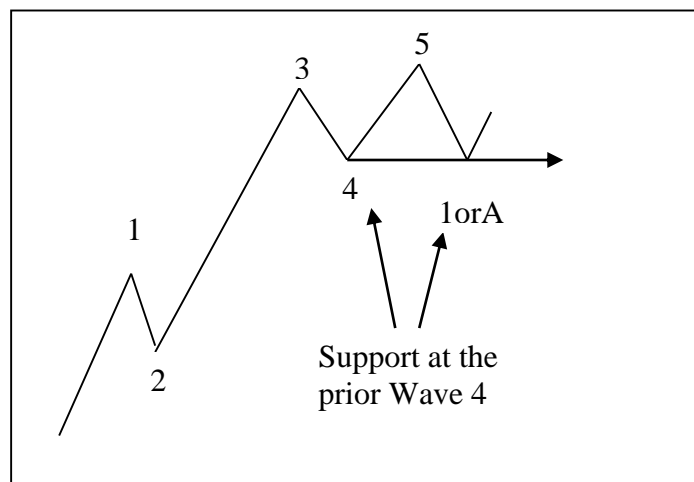
Here you can see how the first swing off the Wave 5 high found support at the price level of the prior minor Wave 4.

Again, this is a very useful observation as it gives you an approximate target for the first swing of the correction following the end of a completed 5-Wave sequence. In Elliott Wave terms this is the Wave 1 or A.

However, from practical experience I have found that often the level of the prior Wave 4 is exceeded slightly and, in fact, the DP (Decision Point) taken from the prior Wave 4 high or low is a much more accurate area for the end of the initial decline off the prior Wave 5 high or low is.

Take a look at an example on a 3min. chart of the US E-Mini Nasdaq index futures [NQ]:
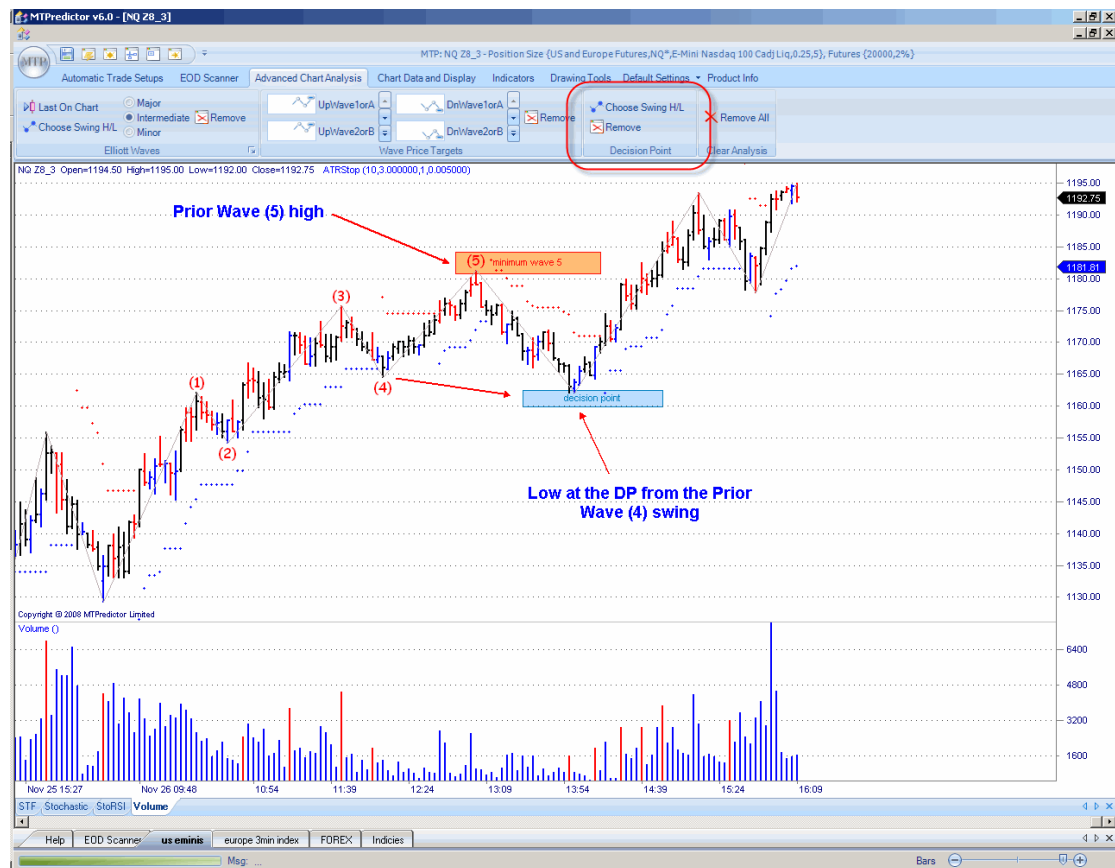
Here you can see how the market made a perfect Wave (5) high that unfolded right at the minimum Wave 5 WPT. The market then fell and made a low perfectly at the DP projected from the prior Wave (4) swing.

As such, this should be used as the *initial target* following a completed Wave 5 high or low. But the question to answer here is: should you anticipate that a minor Wave 1orA low might unfold here (the first minor low in a new declining trend - from this Wave 5 high in this example) or is this simply a minor low before a continued move in the opposite directon to new highs (as happened in this example).

Well, we can never know for sure how any future move will unfold but the minor pattern of the initial swing off the Wave (5) high or low can give us a *clue* to what to anticipate will happen next.

Continued on the next page . . .

From what you have learnt so far, you should know already that the ABC pattern is *corrective* so we can look inside the initial decline from the Wave 5 to see if the drop looks corrective (minor abc pattern) or impulsive (we should anticipate that the larger-degree trend has reversed and further declines are likely).

So with this in mind, let's take a look at the initial decline from the Wave (5) high using the Minor Elliott Waves function:

As you can see from the chart above, the initial decline from the Wave (5) high has unfolded as a minor abc. And because ABC patterns are corrective in nature it suggests that this decline is corrective and, as such, you should anticipate a continued rally to new highs when this low is complete.

As we have already seen, that is exactly what unfolded.

This is a very powerful pattern – it unfolds not only relative to the prior Wave (4) high or low, but also relative to any prior swing. See the example on the next page...

Minor abc pattern going into DP support/resistance

This is an extension of the example in the last section (showing a DP that has unfolded from a prior Wave 4 high or low). We can use the DP from a prior swing, when no particular Elliott Wave pattern is present.

This is an example on a daily chart of US commodity future Corn:

Here I have projected the DP from the prior swing low; this gave us the *initial* support zone. Now the important point is how the *pattern* of the decline into the DP unfolds. As you can see from the chart above, we have a 3-swing ABC. As we know the ABC pattern is more corrective, this would suggest that a low could unfold here.

Support at the minimum Wave C WPT - at the same level as the DP - along with a blue, Buy reversal bar the next day, gave a low risk setup for a potential long trade.

Continued on the next page . . .

The result:

As you can see, this nailed the low before Corn rallied sharply.

The point here is how you can use the manual DP level to project potential support/resistance zones well in advance - for areas where you need to dissect the minor pattern. In this example, the minor pattern was an ABC correction which was automatically identified by the Elliott Wave module for you.

This can happen on any market and timeframe, so is a good pattern to look out for. Here is an example on a 3min. chart of the US E-Mini index future [ES]:

Here we can see how the rally off the low (which was also an automatic DP buy) unfolded only as a 3-swing abc pattern. We already know that the abc pattern is *corrective* in nature, suggesting that this is just a corrective rally and not the start of a new, strong move up – rather, we should be looking for a high for a new short trade.

The ideal setup then appeared as the red, Sell reversal bar unfolded at both the Typical Wave C WPT and the DP from the prior swing high. This is exactly the same pattern as I have been looking at over the last few pages. This represented an ideal place to look to enter a new short trade...

Here is the result:

As you can see, this nailed the very bar of the high before the ES declined sharply onto the close, where a +9R Profit (excluding slippage and commission) was available.

You can use the DP from the prior swing high or low to *anticipate in advance* areas of future support or resistance; then - this is the important part - you should watch the *minor pattern* of the move into the DP to see if it is more *corrective* or more *impulsive*. In particular, look for the ABC pattern, which is corrective. If a corrective move unfolds, you can use this for a low risk trade entry...

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Wave C (of an ABC correction) should sub-divide into a lesser 5 Waves

To remind you of this guideline, take a look at the chart below:
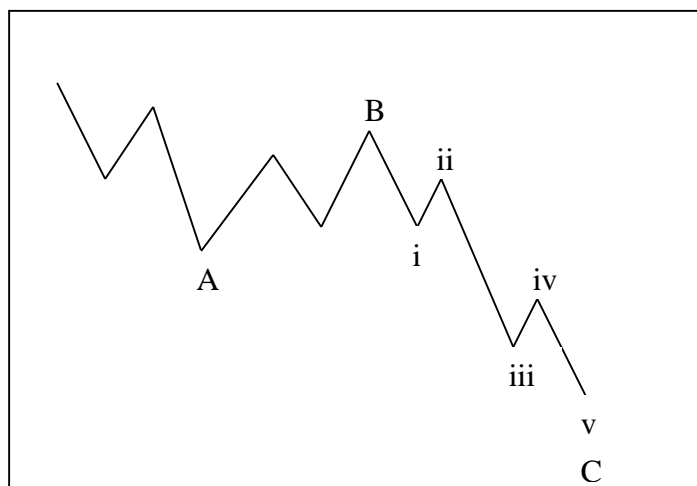
Ideally, Wave C should sub-divide into a lesser-degree 5 (12345) Wave pattern.

This is a good one to remember because normally I suggest that trying to pick the end of a trend, for instance a potential Wave 5 high or low, can be dangerous. So when the Wave 5 high or low is actually part of a *larger-degree* Wave C, it can give you a very good trade entry.

Let's take a look at an example using a 3min. and a 15min. chart of the UK FTSE100 index future. Remember, however, that this pattern unfold just as much on, say, 60min./daily Forex charts, daily/weekly stock charts and so on. The main point is to check the larger-degree trend to see if the Wave 5 is actually ending a Wave C of larger-degree.

Continued on the next page . . .

Here is a good-looking Wave 5 high that is unfolding on a 3min. chart of the UK FTSE100 index future:

So the question to be asked is – how does this *fit in* with the larger-degree picture? For larger-degree swings, we can move up a timeframe to the 15min chart.

Continued on the next page . . .

Here is the *larger-degree* position on the 15min. chart:
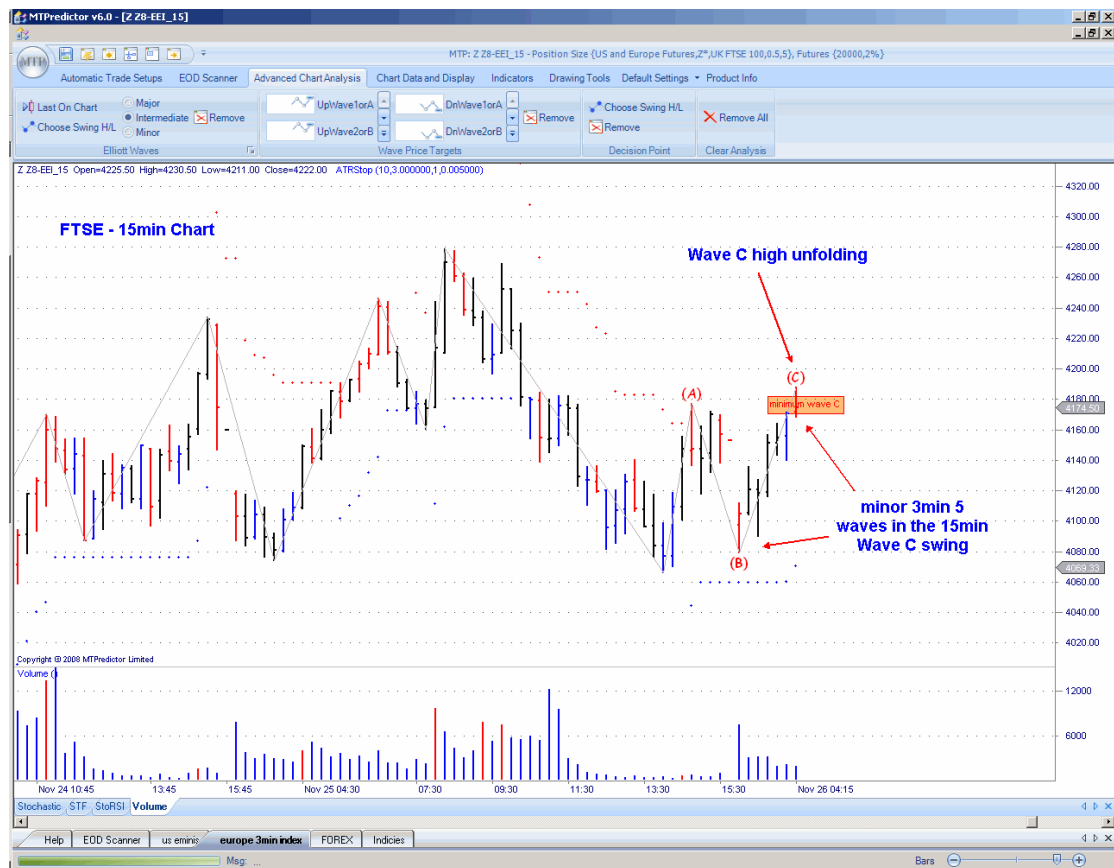
As you can see, on the larger-degree 15min. chart we have a Wave C high in the process of unfolding. So this means that the 5-Wave rally on our 3min Chart is actually a Wave C swing on the 15min. chart and, therefore, likely to make a high. In other words, it is safe to look to sell the 3min. Wave 5 high as is it is not really the end of an *impulsive swing* but rather the end of a *corrective swing* on a higher timeframe...

Continued on the next page . . .

Let's see how this unfolded:

As you can see, this nailed the high perfectly before the FTSE100 index declined sharply.

The point here is how the Wave C on the larger-degree chart actually sub-divided into a lesser-degree 5-Wave sequence and, as such, was a perfect example of this general guideline on how an ideal Elliott Wave pattern unfolds.

Do markets unfold like this all the time? No. As I have said before, Elliott Wave patterns tend to unfold in recognizable patterns only about 50% of the time. What I am trying to do here is to encourage you to make use of them when an obvious, clear pattern is unfolding...

Wave (2orB) correction (with no abc sub-division)

The next advanced Elliott Wave technique to look at is what you should anticipate will unfold after the *initial* move off an important high or low is complete. This is the Wave (2or B) correction.

General guideline number 4 suggested that in most cases a Wave (2orB) correction usually unfolds as a simple ABC correction.
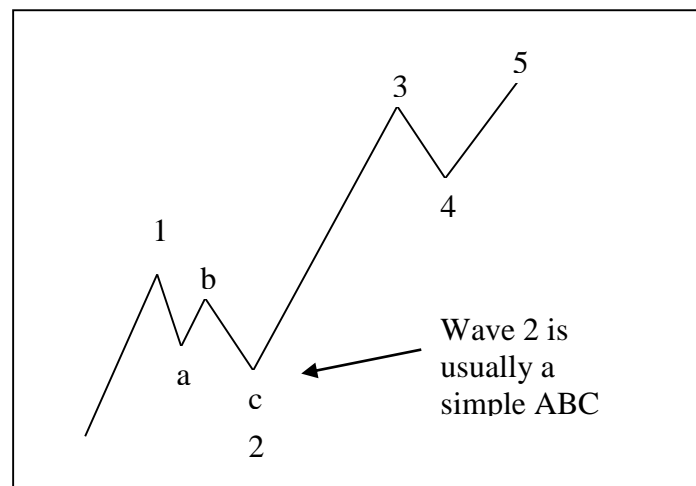
This is a very useful piece of information because when the Wave (1orA) swing is complete, the most likely pattern to unfold is a simple ABC correction. This is the basis of the standard MTPredictor TS1 trade set-up.

However, what happens if the Wave (2orB) correction unfolds as anticipated but does not sub-divide into a lesser-degree ABC?

Let me show you an example on the next page . . .

Here is an example on a 3min. chart of the German Dax index futures, where a Wave (1orA) high appears complete and the market has now declined into the Wave 2orB WPT:

For me, there are several points here that need checking closely. Firstly, this pattern is more effective if the entire *initial rally,* then *initial correction* is coming off an *important high or low*. For this, I would check support at prior DPs as well as any minor pattern going into the prior low. This is a particularly good example because we had the prior low both reversing off good DP support as well as unfolding at the end of potential 5-Wave decline. Both of these pointed to this being an important low. The more obvious the pattern and the stronger the support (or resistance for a sell setup), the better this trade setup tends to turn out.

I also wish to mention that because this potential setup usually unfolds very early in a new trend, it is often against the STF colour, which (as outlined in the Trend chapter) can lag after an important high or low has been made. Therefore, you should not use the STF colour in this particular trade setup.

The result:

As you can see, the German DAX index rallied nicely off this low to make a Wave 5 high where an excellent +5R profit was available.

Although ideally we like to see the first correction such as this unfold as a 3-swing ABC pattern, as you can see, sometimes it does unfold as just one swing. In this case you can still identify a potential trade setup but, again, you need the correctly coloured reversal bar unfolding in the Wave 2orB WPT - and always check to see how strong the prior high or low is. In particular, look for DP support/resistance as well as any trend termination patterns going into this pivot. The example above on the DAX was ideal.

This pattern unfolds on all markets and all timeframes.

Remember what the legendary trader W.D. Gann stated: *"The safest place to enter a new trade is at the end of the first correction off the initial move off an important high or low".* This is the Wave (2orB) correction.

Chapter 15 - Advanced Analysis

The minimum or typical Wave C WPT question?

In Part 1 of the Trading Course I covered the standard and automatic MTPredictor trade setups – here, we were looking for a reversal at one of the two possible Wave C WPTs. But are they both equal? Well, no...as suggested in the Elliott Wave Chapter of Part 1 most Wave Cs reverse at the typical Wave C WPT. The minimum Wave C WPT should only be used when you have a very strong move underway. So, what does this mean for you as a trader?

Well, if you are conservative, you could take Wave C reversals (the TS1/2/3/4 set-ups) only where the Wave C reverses at the *typical* Wave C WPT.

Let's look at an example on the 3min. German Dax index futures:
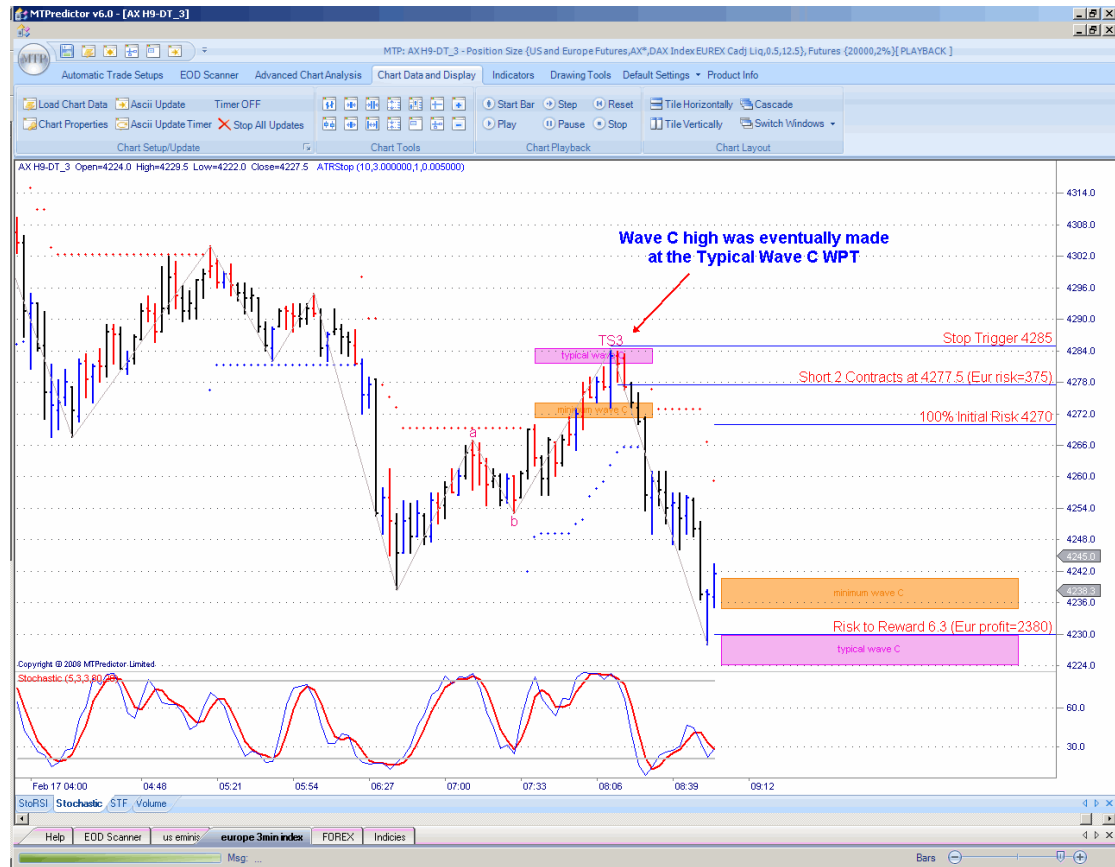

Here we have a valid TS3 sell set-up. However, the Wave C high (of the TS3 sell) was only at the minimum (orange upper box).

Continued on the next page . . .

Let's see what happened a few bars later:

As you can see from the chart above, the 3min. German DAX made only a minor high at the minimum Wave C WPT before rallying slightly further to make the eventual high right at the typical Wave C WPT. So, yes, the first short trade (in fact there were 3) was stopped out for a small loss.

As you all know by now, losses are part of trading as long as they are kept small. So, three small -1R losses (-3R in total) was much smaller than the eventual +6.3R profit as the decline eventually unfolded. But that is not what I am looking at here. This section is suggesting that if you wish to have a higher number of profitable trades (fewer losses) then you might take only trades at the typical Wave C WPT.

So, is there a downside?

Yes, it will mean you will have fewer trades overall and sometimes you will miss a good trade that unfolded off the minimum Wave C WPT. But because most Wave Cs unfold at the typical Wave C WPT you will have higher reliability on the trades that you do take. The choice is up to you - some traders prefer higher reliability whereas others like more activity and more signals.

Summary

As you have seen, the aim throughout this chapter has been to keep things simple. Although I have taken Elliott Wave theory a few steps beyond the simple ABC correction, by looking at the 5 Wave sequence, as well as using the DP for support and resistance, I have kept the same basic principles all the way through. The pattern should be very simple and very obvious on any chart. The less obvious the pattern, the less reliable the analysis and the more likely you are to make losses. Therefore, it makes perfect sense to focus only on the most obvious, clear and good-looking patterns - anything else is just throwing money away.

The next point is on the initial risk to reward: no matter what particular pattern I have looked at, the overriding aim has been to enter a trade setup only if it has a low initial risk and a high potential profit in relation to that initial risk. In this way, you should tilt all your trading towards keeping your losses small and maximising your profits. As long as you stick to this basic guideline, it will put you on the right track towards a solid, long-term profitable approach to markets.

Also, the best trade setups still arise at the end of the simple ABC correction. Whether you find this ABC correction by doing manual analysis or whether the software automatically finds it for you, the ABC correction will normally put you in a trade that is in the direction of the main trend and, as such, will increase the probabilities of a successful and profitable trade.

I have looked at trading off the end of a Wave 5 which, although possible, is not recommended. This is trying to pick the end of an impulsive swing which, from experience, is less reliable than trading off the end of an ABC correction. However, you may wish to include this particular setup in your own trading plan. So, I have tried to give some guidelines that will help you when making these kinds of trades. In particular, focus only on the *ideal* and *obvious* 5 Wave counts; then consider taking a trade only if the Wave 5 ends in one of the Wave 5 WPTs with a coloured reversal bar. The analysis does not stop there - I would also suggest that you check the potential profit at the first profit target (which is usually the Wave 1orA WPT), and then consider a trade only if is greater than the 2:1 minimum. By adhering to these guidelines, it should allow you to concentrate on the best trade setups, keeping the losses to a minimum.

To stress again, the most reliable trade setups are in the direction of the main trend and this is what trading off the end of a simple ABC correction is designed to do. In particular, the TS1 (or larger-degree TS3) trade setup is my personal favourite because it allows you to enter at the very start of what may well unfold as a strong Wave (3) - usually the strongest and longest Wave. So, the TS1 (or larger-degree TS3) setup usually carries the largest profit to initial risk potential.

I also looked at the Wave (2orB) correction, especially where the correction did not sub-divide into a lesser-degree abc - so cannot be considered a standard TS1 trade setup. However, being able to identify the end of a Wave (2orB) correction is still one of the best trades you can make because it allows to you enter the market just before it starts a strong Wave (3) type swing. This - along with the TS1 trade set-up - is a personal favourite.

As you can see, throughout the whole of this chapter, one consistent theme has arisen - whatever Elliott Wave pattern you are looking at, it should be taken in *isolation*, and therefore only used to help identify the end of the current sequence. This is why I have looked at all these advanced Elliott Wave patterns in separate sections, treating them as completely independent and isolated patterns. Although Elliott Wave analysis does have some predictive properties, I hope I have shown in earlier chapters how this is less reliable than we would like. As such, again I want to stress that the best way to use Elliott Wave analysis, whether it is on a simple ABC pattern or in a more complex 5 Wave sequence, is to identify the end of the current Wave taken in *isolation*.

This is a unique view and one I believe perfect sense, particularly when you fully understand and have demonstrated to yourself that Elliott Wave analysis is only accurate only about half the time.

Chapter 16 – Summary

Part 2 is the main section of the MTPredictor Trading/Training course and has taken your analysis skills to the next level - in particular, using the MTPredictor programme to perform manual analysis above and beyond the standard trade setups, to uncover more advanced trading opportunities.

Chapter 2 opened this section with a look at the important numbers used in the MTPredictor software program. As you saw in this chapter, the ratios that are used to project future support and resistance levels are largely derived from the Fibonacci number series. The 1.618 ratio is the fundamental building block of the MTPredictor analysis techniques.

Chapter 3 built on these numbers to show how the WPT module allowed you to project both quickly and easily where all the most common Elliott Wave sequences were most likely to end. As such, you should now be able to take any manual Elliott Wave analysis and, with just a few quick mouse clicks, project future price targets where each of these Waves is most likely to end. This will be an invaluable tool for your everyday trading.

Chapter 4 looked at the Decision Point™ (DP) module. This is new in MTPredictor v6.0 and is a very easy tool to use - just one click projects support/resistance zones that very often nail highs and lows in the markets. It can be used on all markets and all timeframes.

Chapter 5 covered how the MTPredictor software program colours the bars on the chart either red (for a sell) or blue (for a buy) automatically for you. As such, identifying the end of an Elliott Wave sequence becomes a simple matter of seeing whether one of these coloured Reversal Bars unfolded at one of the WPT support or resistance targets.

Chapter 6 pulled these two chapters together with the automatic *Elliott Waves* module in MTPredictor. As you saw, this module allows you to identify automatically not only the most likely Elliott Wave pattern, but also the WPTs where the current Wave sequence is most likely to end – and with a coloured reversal bar...As such, this is the tool to use on an everyday basis to uncover the most likely areas for current Elliott Wave sequences to end. In addition, this chapter went into detail on how MTPredictor is unique in the way it applies its automatic Elliott Wave routines.

Chapter 7 looked at the concept of trend and how you can use the colour of the STF indicator to gauge the larger-degree trend. It also showed how you can project areas where trends may end by using the WPTs and DPs.

Chapter 8 looked at additional studies that are included in the software. In particular, the VSA High Volume Spike indicator is extremely useful. I have found this works well particularly when it unfolds at DP support or resistance. I also like to use stochastic divergence, especially for picking the end of trends.

Chapter 9 featured Day-Trading and went into some detail about the differences to be aware of when day trading. It also covered some unique setups that day traders should look for in their daily routine.

Chapter 10 looked at trading Forex, especially emphasising pip values and how to trade non-US$ based currencies. I also looked at the use of multiple timeframes to help you identify the best trade setups

Chapter 11 covered trading stocks.

Chapter 12 looked at trading futures and commodities. Important points were the Filter settings to use and some techniques that are specific to commodities, for example seasonal analysis.

Chapter 13 is another very important chapter because it includes a daily routine you could adopt. If you are new to MTPredictor, this will be important so I suggest you study it carefully as it will show how I personally use the Trade Scanner and also my settings.

Chapter 14 focused on you as an individual trader and demonstrated the different ways you could move up the Techniques Curve™ by using additional and more advanced analysis techniques.

Chapter 15 offered much information on many trade setups that I look at myself. Here you will have learnt many more *expert* trade setups. This is where the true power of MTPredictor comes into its own - I strongly advise that you study all of the examples in this section carefully, as these types of trade setup occur all the time – they will give you trade setups above and beyond the standard, automatic setups as covered in Part 1 of the Trading Course. These are the setups I use myself and are the reason MTPredictor was developed in the first place.

This has been a very detailed and in-depth Course - I do suggest that you re-read this section a number of times to become fully familiar with all the contents. The main reason is that it will enable you to take your analysis techniques to the next level, beyond the standard and automatic trade setups. This is especially important because I hear from many traders who would like to find more trade setups than the automatics routines generate on a daily basis.

The MTPredictor software program is a very powerful tool. The main advice for you is that the routines and modules in the software are best used when there is an obvious and clear pattern. If you remember from Part I, this does not always happen. To be a successful and profitable trader you must be willing to admit that sometimes there is no easy-to-recognise pattern on the current chart. When this happens, the only thing is to have the discipline and patience to either wait until the pattern becomes clearer on the current chart, or move on to another market.

Chapter 17 – Conclusion

I hope you have enjoyed the journey through this Training Course and have now reached a level where you appreciate the simplicity and ease with which MTPredictor approaches analysis and trade identification in the markets.

As you know, my own view on the way Elliott Wave analysis should be applied is unique and very different from the way Elliott Wave analysis is taught conventionally today. Some pure Elliott Wave analysts will disagree with me…that is okay! I hope you can see that treating Elliott Wave analysis *in isolation* (the MTPredictor *Isolation Approach™*) - where the primary aim is identifying *ideal trade set-ups* and not trying to forecast any future outcome - releases you from many of the constraints and problems that arise with this form of analysis.

I cannot stress this difference enough. Therefore, when you look at the way I approach the markets and MTPredictor is used to analyse and identify trade set-ups in the markets, please be fully aware of this.

In particular, I hope I have been able to demonstrate - and also that you have found from your own research by looking at many examples - that when you use Elliott Wave analysis in the standard way, it tends to come unstuck more times than not. Please note, I'm not saying that Elliott Wave analysis does not work; just that from my own experience (and from many traders I have spoken to over the years) I believe there is an easier and simpler way to approach this analysis.

Again, one particular Elliott Wave pattern (the simple ABC correction) and used this as the basis for the automatic trade setups in MTPredictor, makes trade identification and trade management simple and straightforward. I personally believe that because, in today's markets, there is so much information and so many techniques available, if you try to take in all this information it will only lead to confusion. I have heard the phrases *information overload* and *paralysis of analysis* far too many times over the years. Therefore, I believe it is far easier to focus on one particular method and then take the fishing approach to trading. In other words, you take your line and cast into the markets and reel in only the best and biggest fish. Although this may take some time waiting for the big fish to bite, it is normally better in the long-run.

This analogy highlights the MTPredictor approach in that it is far better to have the patience and discipline to wait for and trade only the *ideal* and perfect trade setups. Although this will mean that you may not trade every day, over- trading is one of the worst mistakes any trader can make and should be avoided at all costs. This is why sticking to just the standard trade setups will help - it will enable you to learn the self-discipline and patience that is required for a successful long-term approach to the markets.

Throughout my years as a private trader, whenever I incurred a period of losing trades, I thought the answer was to become more educated and look for greater and more in-depth ways to understand the market. This personal journey took me through many different (and ever more complicated) ways to perform technical analysis. However, although I became an expert in many different forms of analysis, the bottom-line results did not reflect this new-found expertise. After many years of going down this road, I suddenly stopped and looked back, and finally realised that the route to profitable trading does not come from unlocking the markets or finding that one perfect method - simply because the so-called *Holy Grail* does not exist.

In a way, the real *Holy Grail* is to make trades consistently, over time, where the profits are larger than the losses. It is as simple as that. And in reality, the real Holy Grail is within you and your ability to apply your own simple method consistently – with the patience and discipline not to make silly and unnecessary trades.

This is where professional traders has a huge advantage over most new (and inexperienced) private traders - they fully understand that to make money over a period of a year does not mean making trades every day, or even every month. They fully understand that to make a profit at the end of a trading year needs the patience and discipline to wait for and trade only the best setups - which may mean participating in and taking full advantage of only one or two major moves during that year.

The statistics on the number of private traders that fail in the markets are alarming. One of the main reasons for this is over-trading and the belief that there is one Holy Grail or perfect market technique that can predict with complete accuracy any future market movement. If you stop and think about this for a while, this is pure gambling mentality and complete nonsense. If there were one Holy Grail, some of the highly-paid institutional traders would certainly have found it by now. If you look at most of the successful traders throughout history and those who have made the most money, one consistent theme links them all - the ability to keep their losses small in relation to their profits. The sooner you understand that this is the real Holy Grail and accept that you *will* make losses, but the trick is keeping the losses small...and stop looking for that one method which avoids all losing trades, the sooner you will become a profitable long-term trader.

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