

The Forex Trend

By Spudfyre from

<https://www.forexfactory.com/thread/423346-the-forex-trend>

This is how to trade a Forex Trend. It's a system, and success is based on your discipline to accept when to exit a trend. I'll post an MT4 template, as it is somewhat tedious to set up. You would do yourself a great favor to read my MTF Stochastics and Escalator to Pip threads, if you want in depth theory and be slightly ahead of the game.

The system works because we are following 4 indicators that are designed to show us the trend in the short and long term -- together. The indicators are:

Heiken Ashi - to make the trend visible on the price chart

Stochastics - so we know where we are in the trend

Standard Deviation - so we know when the trend is changing (*volatility in price*)

Momentum - so we know when the current trend just passed is dead -- Momentum tells you what is happening to the historical trend, never forecasting the future or trend just developing -- extremely important to remember!

Here's how a typical long thread entry is triggered (*see chart below*):

I like to work from the top of the chart down for safe conservative entries. For early signals you work from the bottom up of the chart.

Starting at the top:

A note: the blue lines represent the short term and the red lines the long term on each indicator. The thick yellow lines are the base setting of the indicator, called the base lines.

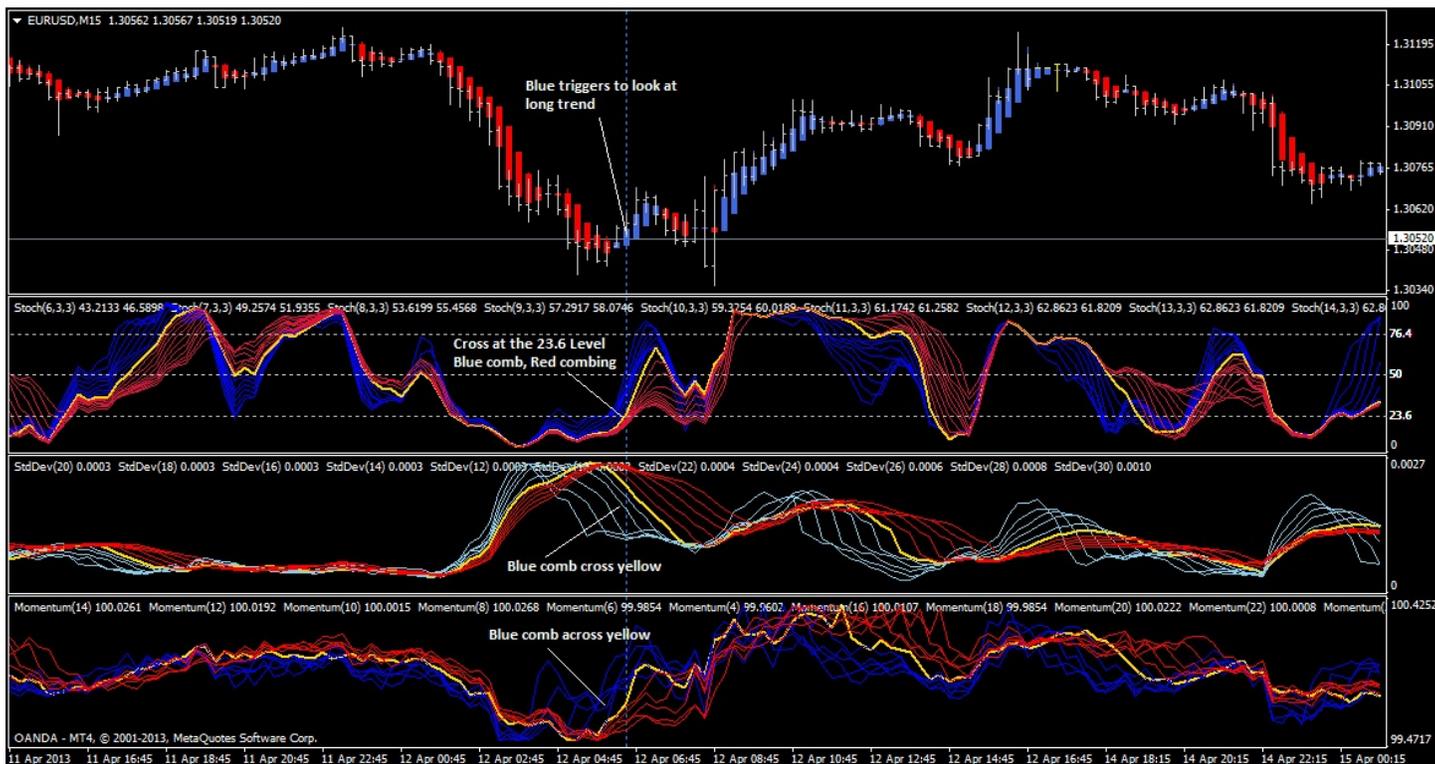
Heiken Ashi - turns blue which is a trigger that a long trend could be forming.

Stochastics - the yellow Base Stochastic line (BS Line) crosses up across the 23.6 level. Key is that the blue lines have also crossed the 23.6 level and that they are nicely "combed" in sequence. Notice the red lines are also starting to comb. Also make note that just before the trend starts how nice and tight the blue and red lines were to the BS Line.

Standard Deviation - this is an early or confirmation trigger. It will generally start a signal prior to the thread starting. Key is that the blue lines cross the yellow line (*up or down does not matter*). We'd like to see a nice comb like in this chart, but the blue lines crossing is the signal for a trend change. Standard Deviation measures volatility - which used in this way indicates a change in trend.

Momentum - early indications of the previous trend dying. Momentum only refers to the historic, previous trend. Never forget this! When looking at momentum we are thinking about the past/previous. Momentum indicator works the same for signal as the Standard Deviation, when the blue lines cross the yellow line it is a great indication that the current trend is finished.

Yes, this is extremely simple! And it works extremely well.



Theory Section - Why This Works

Forex trading, successful Forex trading, is all about being able to see the market and what it is doing so that you know when to enter and exit a trade. Whether I explain this using stochastics or as clean as using price levels and volume, the message and result is the same....finding a way that works for you to see the market.

This system is nice and colorful. The blue and red lines you see represent multiple times. The blue lines being the short term and the red lines being the long term. Believe it or not, the use of the blue and red lines are a science in themselves, but we'll forgo that detail for now and focus on the easy stuff first.

I briefly explained the indicators at the beginning of this thread, and the yellow base lines. What really makes this system work is the entire interaction of all 4 indicators. Each single indicator can work alone with many false signals, but together and used with multiple timelines changes the landscape and puts Forex Trending into our advantage.

Why this system works and it really is no secret, is that it exposes a trend's life visually well. Now the trick is learning when to pull out. Knowing what we see, when to enter, when to exit and accepting that this is a good time to exit, sometimes swallowing a loss is the rule. We can't always run every trend to 500 pip gains on the M15. OK? One more item, a trend does not always last a long time, some trends can be very short -- when I mean short I refer to the number of candles.

This system works on any time frame. However, the longer the time frame you use, the more money you will have at risk. I recommend starting with the M15 and working up. M15 is a good time frame for the \$1/pip trader with lots of action and opportunity for good gains with low risk for losses.

The Stochastics indicator is our bread and butter. Generally we are looking for one of four things with the BS Line:

1. The BS Line crosses up over the 23.6 level line (long)
2. The BS Line crosses down under the 76.4 level line (short)
3. The BS Line is in oversold territory (under the 23.6 level line)
4. The BS Line is in the overbought territory (over the 76.4 level line)

When the Stochastic blue and red lines look like a net (criss cross each other) this means the market is very unstable and we want nothing to do with it. When the stochastic blue and red lines are extremely tight and narrow to the yellow BS Line we are at the cusp of a trend. Ideally, we want the blue and red lines to form a straight, reasonably narrow comb effect of sequential lines, generally starting very tightly to the yellow BS Line and then gradually expanding and ideally making a nice little "U" turn across a level line. Don't worry we'll see all this shortly.

So here's another chart:

Our **Heiken Ashi** turned red.

Jump down to Momentum at the bottom - see the blue lines crossing the yellow signal line, that's the death of the previous long trend. Momentum is always signaling the death of a previous trend.

Move up to Standard Deviation and blue lines are crossing the yellow line, yes, only 3 lines have crossed but given all of the other indicators, this is fine as a signal.

Stochastics - see how the red and blue lines were all tight with the yellow line in the oversold position just prior to the trend change? See how the blue lines make a slight curve and then drop sequentially across and down the 76.4 level with the yellow BS Line following....ok that is picture perfect with the red line still tight above.

To follow this short trend, watch the red Heiken Ashi, watch the stochastic blue lines comb and flow down to the 23.6 level (*classic Escalator to Pips move*), and sorry I chopped the chart off at the bottom but you would see Momentum blue lines turning and crossing the yellow signal line when the short trend ended.

Now one thing to note is that our Standard Deviation is lagging a bit behind the other indicators and the blue lines will not cross the yellow indicator line when this short trend ends. The simple explanation is that we see the upturn, 3/4 indicators tell us when to get out, so we are out. The Std Deviation blue lines do turn up and collide with the yellow line. Of course there is more to that move, but for now you can still use that as a reliable conservative indication of trend change.



Last post for the day, here's a chart where we can see why the trend wouldn't develop:

Heiken Ashi turns blue.

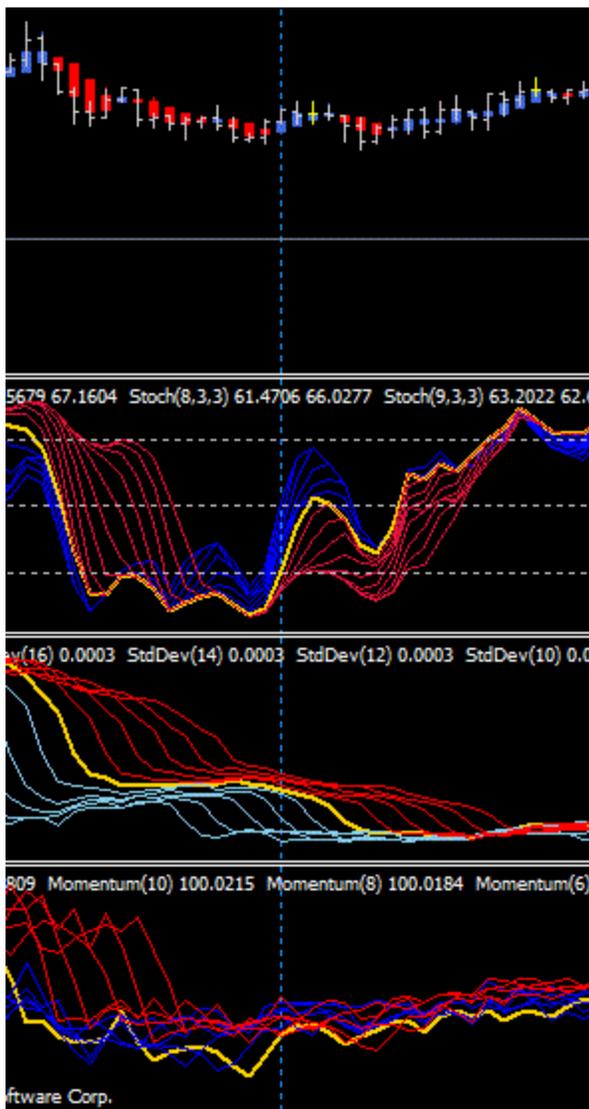
Stochastics cross the 23.6 level, blue is combed, red is tight and just spreading. BUT, notice the stochastic jumble of red and blue lines just prior. That's a mess.

Standard Deviation, absolutely no signal.

Momentum, see how the blue lines have crossed the yellow line compared to my previous examples. And notice the jumbled mess of blue and red lines. Now Momentum can be a jumbled mess most of the time...but really things are not good here.

Everything here is telling us this long trend just isn't where we want to enter.

Compare this to the above charts.



This is a chart of a little more complex trend, but you will see how the rules hold true and keep you out of trouble.

What we'll see here is the long trend form, face a short but steep short and then back to a long trend again. We can follow this quite easily:

Heiken Ashi is blue. Notice how we wait for the other signals to catch up for this long trend.

Stochastics yellow BS Line crosses 23.6 level, blue comb, red spreading. Also notice how we came from blue and red being tight together against our yellow BS Line just previous.

Our Std Dev blue isn't a perfect cross of the yellow line. This might persuade you to stay clear of this entry. I'd weigh in more with the stochastics indicator and use the fact we have 3/4 indicators right. As we can see as this trend develops the Std Dev is telling us something, and this long trend wasn't quite ready yet.

Momentum we have the blue lines crossing the yellow.

So, taking all things into account our indicators showed us this would be a weak long trend because the Std Dev indicator blue lines did not cross the yellow. Being our stubborn selves we opt for 3/4 being right and the Std Dev blue lines sort of crossing the yellow line and we enter the long trade. See what it gets you! It isn't that we can't enter...it just isn't perfect and we better be on our game to catch the short that follows.



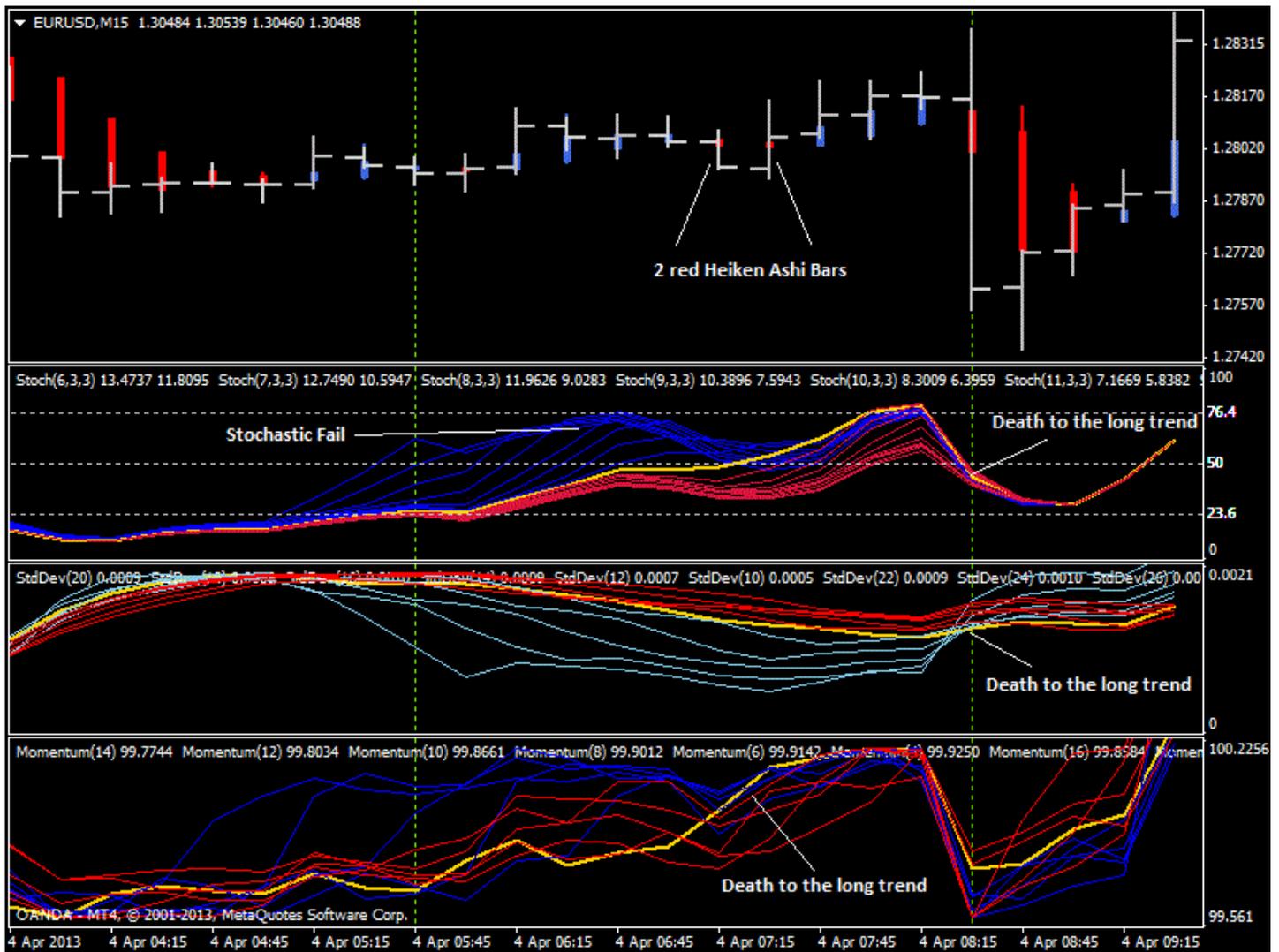
So let's take a closer look after entry and what is happening in this weak long trend and what the indicators tell us.

Between the green vertical dashed lines a lot happens in our long trend. First, our stochastic blue line comb is breaking apart. Notice how it is failing to cross the 76.4 line. This is a key signal that the trend could fail. It is supported when the Heiken Ashi candles turn red and at the same point in time the blue lines collapse to the yellow BS line.

You can also see the momentum die in the long trend when the blue lines cross the yellow line, Heiken Ashi is red, and our stochastics have failed.

That's the early warning.

Get to the vertical green line on the right and we have short trend entry signals. Our long trend is dead. Also notice how our momentum and stochastics do not really support a short trend entry here. Pay attention, be picky and the good trades will come.



You can get some great early signals for a trend change with this system.

Heiken Ashi isn't pointing to a long trend coming, but everything else is.

Classic stochastics blue is tight to yellow BS Line and you may not see it in this picture, but the blue lines are crossing the yellow BS Line and the yellow BS Line is crossing 23.6 level.

Std Deviation blue lines cross the yellow line.

Momentum blue lines, hard to see but they do cross the yellow line.

This is definitely a higher risk entry but the reward can be phenomenal. These kinds of entries will pay off more than they fail.



Below is an example of a Stochastic Indicator "fishnet". When the blue and green lines make a criss-cross pattern like this you can almost always count on a ranging market.

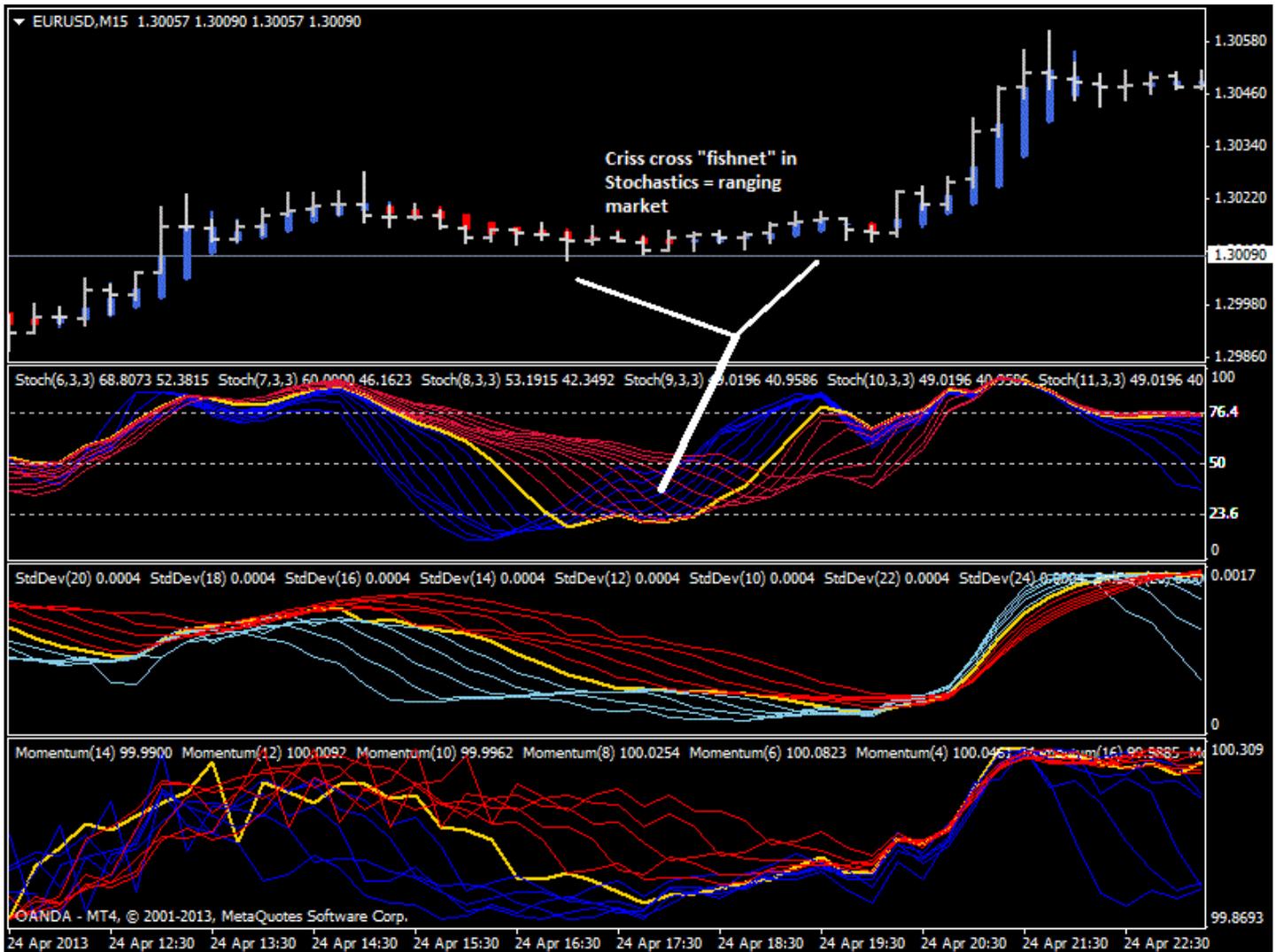
What's happening? Well it is a lot like the market has its wires crossed. In this example, the blue lines which represent our short term Stochastic signals are indicating that the market trend will start to rise, and true to form price actually does rise a little. However, the blue lines are crossing up and across our red long term Stochastic signal lines. These red lines are going down. Now the fishnet alone is a good indication the trend is dead.

We have more info here. The yellow BS line (Base Stochastic) is in the oversold area under the 23.6 level, with this fishnet occurring this means this down trend and oversold market is extremely weak...weak to the point of no existence.

If you look at all the indicators, then look after the fishnet area. See where the single Heiken Ashi turns red and then the price shoots upwards and the HA turns blue? Now look at our other indicators at this point, see how they all consolidate and narrow together. Also see the BS Stochastic go into oversold across the 76.4 line. All

of that is a great point to make an investment into the price going up. You'd want to make that investment at about the 3rd blue HA candle from that lone red HA candle. The signals aren't as clear, and the guarantee not as great, but it is a good position for a sound buy into the market.

The exit from the long is extremely clear at the end of this chart with just typical cross overs.



The next few charts walk through a live trade, and watch carefully because you will probably not believe how something so befuddled looking as the Momentum indicator along with these other indicators can tell us so much. There's nothing special here, just a typical trend move in price.

We are trading short here and following a short trend.

Here's our entry, simple enough:

Heiken Ashi turns red.

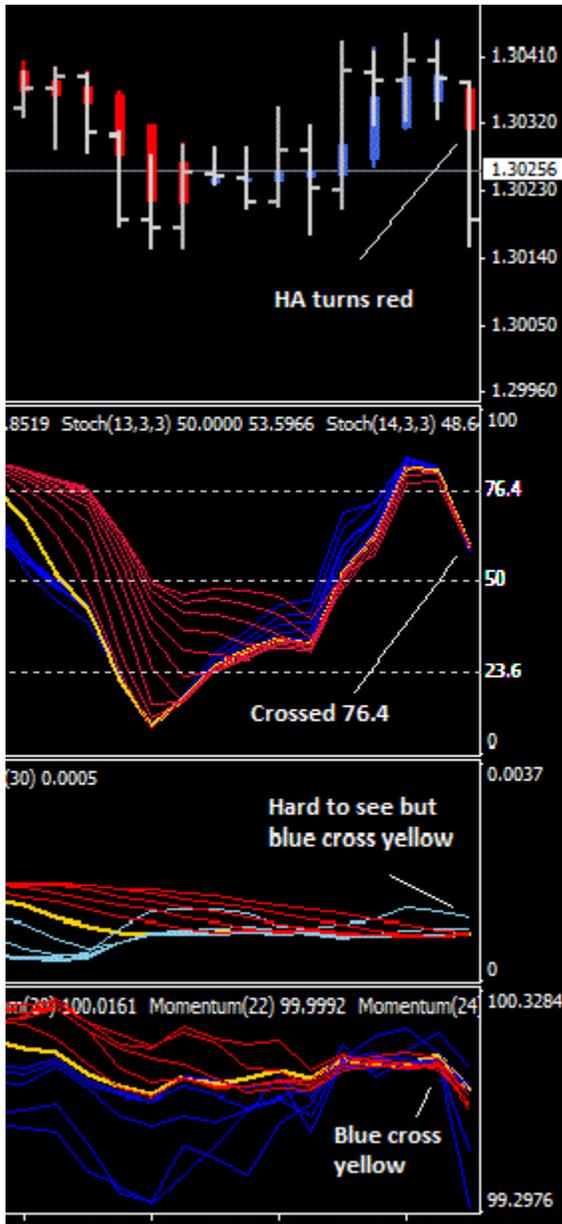
Stochastics BS (yellow) Line moves down and across the 76.4 line. Added bonus, blue, red and BS Line all tight together.

Hard to see our Standard Deviation, but our blue lines are crossing the yellow line.

Momentum crossed yellow - signaling the end of the long trend (blue HA)

I cannot emphasize this enough, that Momentum signals the end of a trend.
You may think that signaling the end of one trend means the start of another...WRONG!

If you look closely, on the Momentum indicator the blue crosses the yellow starting at the last HA blue candle - end of the blue long trend.



Jump forward a little. We now have the Stochastics crossing 23.6, this is a safe exit point...but an early exit from this trend.

See what our Standard Deviation is doing...just purring along above the yellow line. I'm more worried here about the top 2 blue lines, the other blue and red lines are all wrapped around the yellow line, so we are purring along in this trend.

Likewise our Momentum is still exiting out of the end of the previous long trend and has no indication that this short trend is ending.

For those wondering....when the stochastics (which is still a nice tightly bound group of blue, red and yellow lines) crosses down below the 23.6 level line, it is in an oversold market. Oversold markets are extremely dangerous places (like overbought markets) to be in as price can bite back and the market reverse on you. Which is why when the stochastic yellow BS Line crosses 23.6 like this in a short trend it is a nice safe exit. However, we have the "power" of Std Dev and Momentum on our side...and that's a good bet to stay short and ride the oversold market.

Here we go....critical moment of decision and the power of Momentum (along with the other indicators here):

Heiken Ashi turned blue and our Stochastics yellow BS Line crossed up from 23.6....this would normally in the Stochastics world have you looking for a price rising.

Not so with our Std Dev....blue lines still purring along. No cross of the yellow line.

Now Momentum...remember when the blue lines cross the yellow line it indicates the end of a trend...no cross, no end to our short red HA trend is being signaled. See it? Got it?

If our Std Dev blue lines were crossing the yellow line, it is a good idea to bail on Momentum and just exit the trade. 3 indicators against you, I'd get out and play safe. But here, we have Momentum and STD Dev working for us and you could exit, but it is a safe bet to ride this out.



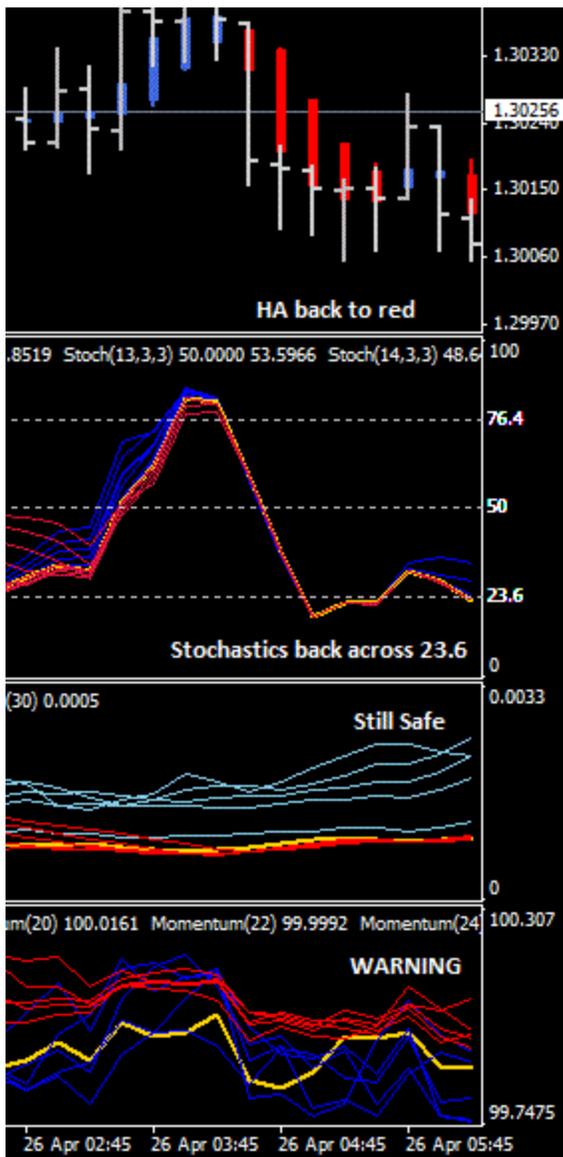
So as we move along the HA goes back to red, and the Stochastics goes back down across the 23.6 level.

There's a blip in the STD Dev blue line, so things might start to change. That blip may also be caused by the bump in our short trend when the HA turned blue.

Momentum has early indications of blue lines crossing the yellow line. This could be just signaling the end of the long trend blip we just saw. It also could be signaling the end of our short trend.

For now with HA red and Stochastics oversold, I'd go some more with this short trend. Nothing wrong with an exit here, we are playing into the Stochastic oversold market again and the dangers are lurking.

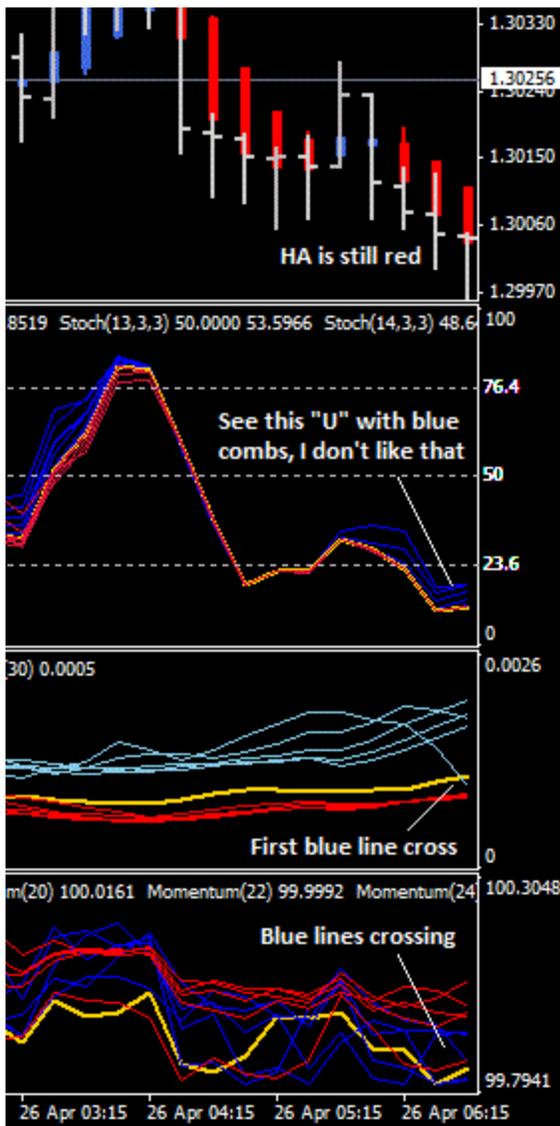
I should mention, you can see our blue stochastics lines starting to comb out, if we see any hint of a "U" shape, in the Stochastics from here on, we exit.



Now, we really have no option but to exit this short trend. Risk takers could try one more candle to see what happens, but here the odds are starting to move against us.

My tell tale sign along with the STD DEV and Momentum is that "U" shape forming on the Stochastic....it's not quite a "U" yet, but given the STD DEV first blue line crossed yellow and Momentum is clearly indicating the "END" of a trend, things look risky to stay short.

You could argue that Momentum is just closing the trend life of that long trend blip we went through, and if this was the only indicator making a movement, I'd stay.



So as the short trend comes to an end, we can see how this system gave us plenty of notice to exit. Sure, you could have stayed in and rode it out a bit longer, but not many pips more to be gained from when we first saw the warning signs.

You can see by the time we reach the new blue HA, everything is into a long trend signal. And yes, you had plenty of warning the long trend was coming before the blue HA came along.

