MTF Trading System

Stop Fighting the Trends

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Introduction – Before we Get Started

Since you're reading this, my assumption is that you either do trade Forex, or you want to. Let me start by saying congratulations. For those of us who make their living trading currencies it is an endeavor that is both rewarding, and if done correctly it can also be very profitable.

Having said all of that though, trading Forex is one occupation that requires both drive and discipline to succeed.

Possibly before you ever made a live trade you spent months trading on paper. Maybe you are someone who has the discipline to print off the charts each night, apply your trading techniques to them, write down what your order points would have been and then check later to see how the trade would have turned out.

Maybe you even did this for 2 or 3 months before ever making a live trade with a broker. This is the type of discipline that it takes to trade successfully, but there is one major problem with that idea.

Trading on paper and trading with your money are two entirely different things. You could have the discipline to trade successfully on paper for years, and still lose when you put your own money on the line.

Paper trading, or trading with a practice account, simply doesn't evoke the same emotions as trading with your own live account.

Even if you are disciplined enough to manage that 3 months of paper trading first, you would have been better off making very small trades with your own money as you learned. It's those live trades that will evoke the emotional response, and help you to learn the real discipline required to keep your emotions at bay and trust the systems you put in place.

Before you ever make a trade though, you will need a few things.Let's talk about those for a moment. To trade successfully you are going to need all of the following:

1. **A Method** – Your trading method (or methodology) is simply your philosophy when it comes to trading. Do you trade with the trends? Against them? Do you try and make profits when a currency pair is stuck in a range?

2. **A System** – Your trading system is the tools and rules you use to implement your method. For example if you always trade with the trends you system may simply be to buy on the hourly charts when the MACD ticks up, or Sell when it ticks down.

3. **A Technique** – Your technique is the specific rules you use to enter and exit a trade. As an example if your system gives a buy signal, your technique could be to enter long when you hit the high from the previous candle on the chart, and to exit when your profit target is hit.

4. **Knowledge** – Your trading knowledge is your general knowledge of Forex, but more than that it is the knowledge you have right now to help you properly implement your method, system, and your technique. This is the one area where most trading systems fail.

With the system I am about to share with you I am going to give you all four of those elements. When it comes to knowledge specifically there are other things you should do to round out what you know. You should be up on the current news that pertains to Forex, and you should always work to take your trading knowledge further. But, with the MTF method, you will have the knowledge you need to make the trade now.

The MTF system helps you become more knowledgeable by giving you a bigger picture. Instead of trading off of just one chart, we use three. Each chart has its own timeframe and indicators, but by accounting for more than one time frame you get a much better look at the bigger picture of what's happening. That knowledge will help you make winning trades, and avoid the losers.

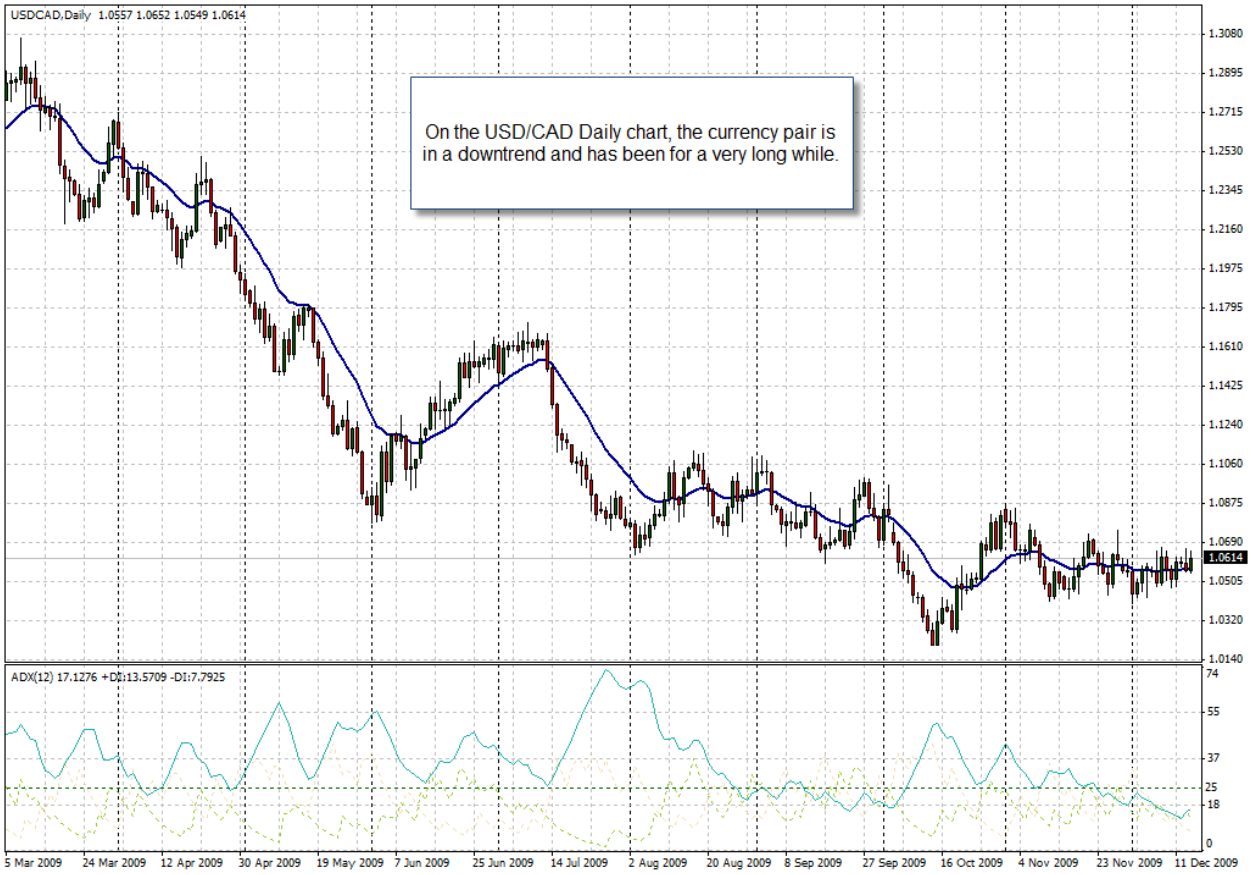
Before we get to the trading system itself, let's first talk about why you need the MTF system.

The Conflict – Why MTF Trading

At one point or another most traders do eventually come up with methods and systems that work with the trends. Trading with the trends simply makes sense.

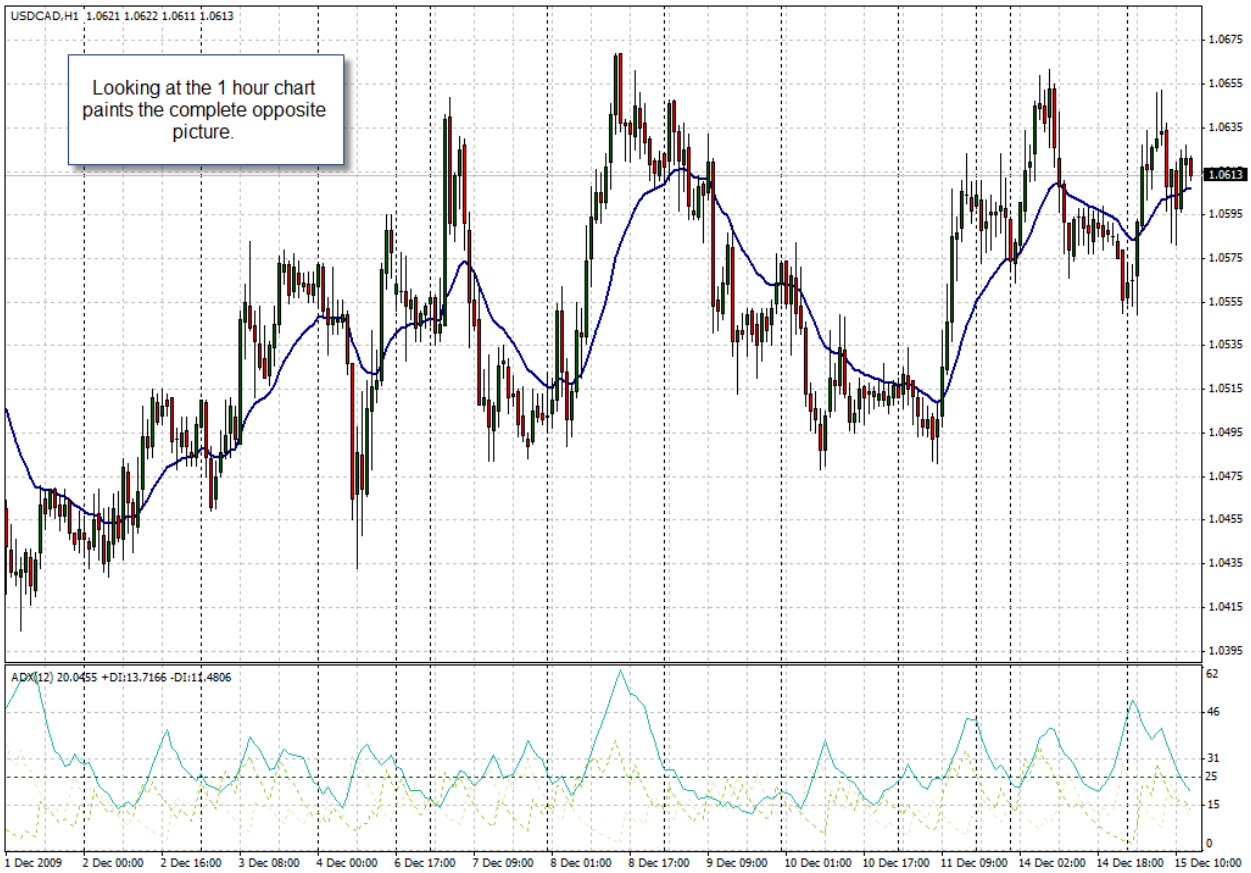
It isn't that you can't find a system that takes advantage of the swing, or that works for trading in a range, it's just that trading long in an uptrend, or short in a downtrend, has a better chance of success. Even trading with the trends has its issues though. The biggest issue that you have to deal with is what I like to call the conflict

. It doesn't matter what trading system or technique you use to trade with, the conflict is always there. To explain what I mean by "the conflict", let's look at some charts. On the daily USD/CAD chart to follow, the currency is clearly in a downtrend:



The candles on the daily chart, the exponential moving average shown, and the ADX indicator all point to the idea that the currency is in fact in a downtrend and has been for a while.

Where the conflict comes into play is when I look at an hourly chart for the same currency pair:



Looking at the chart above, we get an almost opposite picture of what the daily chart displayed. From the looks of the candles on the 1 hour chart, and the fact that the EMA is pointing up I get an indication that the currency pair is in an uptrend.

This is what I call the conflict. Our daily charts and the indicators on it indicate one thing, a different timeframe points towards something else entirely. To overcome this conflict a good trading system should account for it. So without further ado, let's give you one.

The MTF System - Setup

The MTF method is intended to overcome the conflicts we find when trading with the trends. In fact it uses those conflicts to better enable you to gauge entry points, exit points, and moreover it gives you the knowledge you need to make a profitable trade more often.

Each screen in the system gives you a different set of information and in turn when you combine the MTF method into a system you get the techniques you need to trade successfully. Let's talk about the three screens briefly and then we'll move on to help you setup your charts.

- Screen 1 – Long Term Chart– Helps us to reach strategic decisions using a longer term chart.
- Screen 2 – Intermediate Chart – Gives you the information you need to make decisions on when to enter and exit your trades.
- Screen 3 – Short Term or Intermediate Chart – Offers several methods to enter long or short. This may be a short term chart of an intermediate chart.

By using three charts instead of just one, we get the information we need to overcome the conflicts between different timeframes, and more importantly we get the knowledge we need to use them to our advantage.

Let's move on to actually begin setting up your charts. We'll be adding some indicators and then talking about which each screen is for.

Important Note: In the examples to follow I use specific timeframes and indicators. These are intended to give you an example of how the system works, and not necessarily how you should use. As you'll learn in the *Taking it Further* section, this trading system isn't intended to be rigid. It's intended to work for you!

For my example I will be using the one hour charts as my main trading charts. As you follow along getting setup you can work with the same charts I use, or set the system up your own way.

Screen One – Long Term Chart

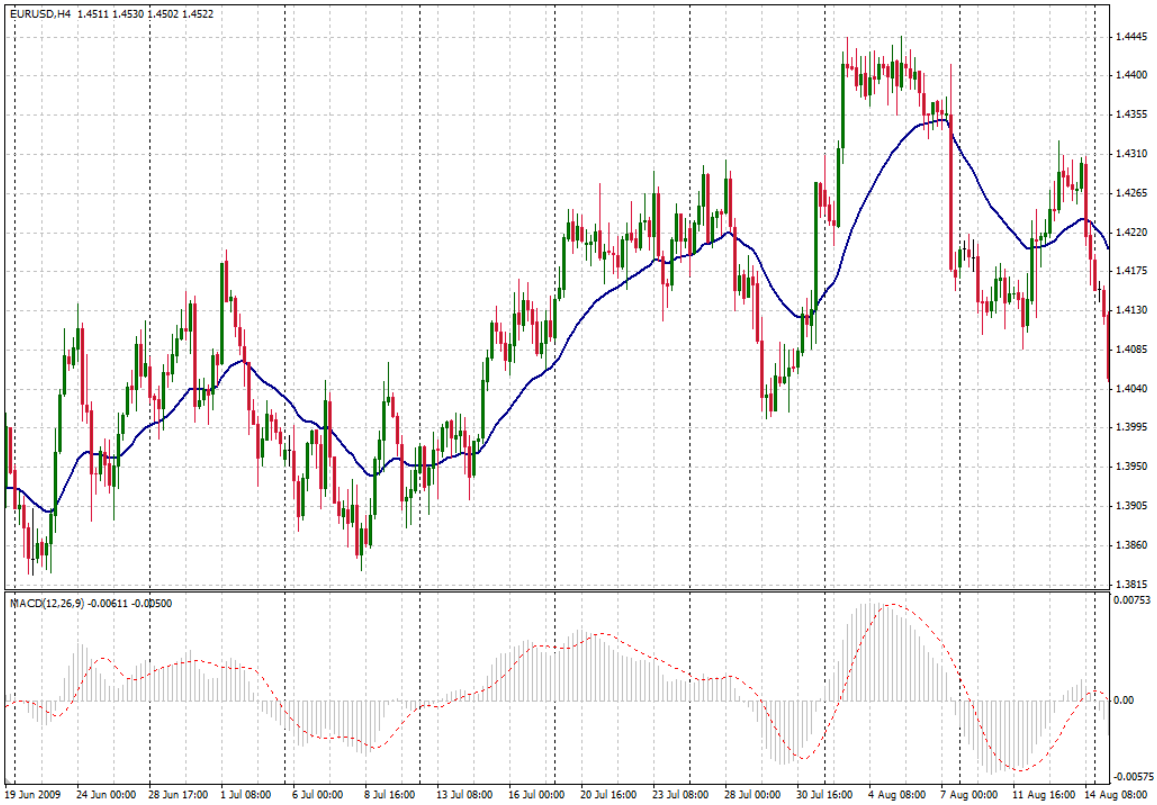
To begin with you need to choose your favorite time frame to trade. I generally trade the one hour charts, so that's what I'll be using in the examples.

Once you've decided on your timeframe, one up a chart that is *approximately* 5 times longer in timeframe than the one you trade, and this is the long term chart we'll be using for screen one.

For example – since I trade the hourly charts, I will use the four hour chart as my long term (screen 1). If you typically traded the 30 minute charts, you might use the 4 hour charts as your long term (screen 1). If you trade the daily charts, use the weekly chart as you long term… Etc.

Once you have a long term chart, let's add some indicators. Add both of the following:

1. Exponential Moving Average 26 Period
2. MACD 12, 26, 9

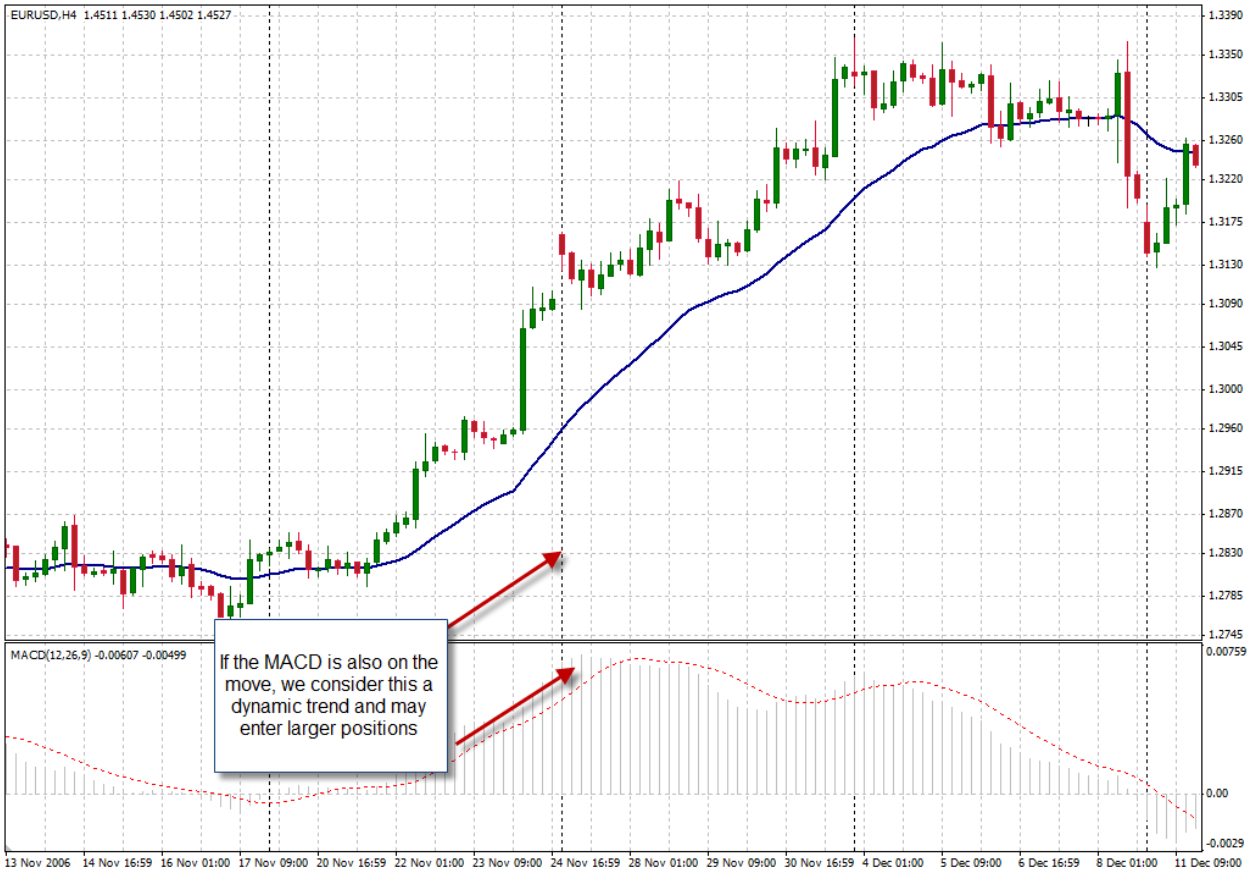


When finished your chart should look something like the 4 hour chart shown above.

Screen one is used to determine the current trend, and to let us know whether we should be going long, going short, or not trading at all.

For the most part you use the slope of the EMA 26 to decide which way to trade. If it's pointing up that indicates an uptrend, if it points down it indicates a downtrend. If it doesn't have much of a slope we should stand aside and not trade that currency pair.

While looking for our trends, if the MACD movement agrees with the EMA 26, we consider this to be a dynamic (strong) trend and we consider entering a larger position when we trade.



Once we've determined the trend, and whether or not we consider the trend to be a strong one, we move to screen two to look for our entry points.

Screen Two – Intermediate Chart

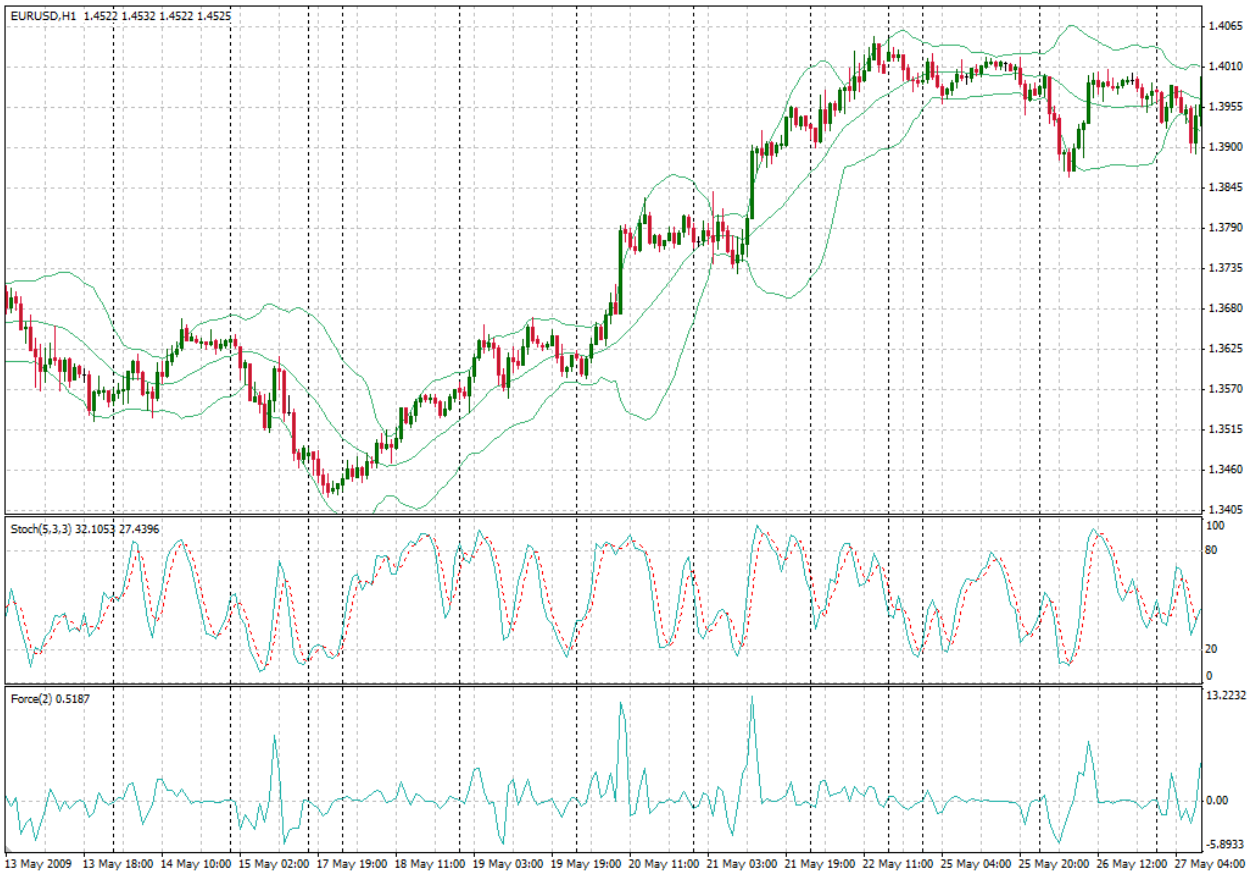
Your intermediate chart is the timeframe that you considered to be your favorite timeframe when we setup screen 1. If you said that you trade the one hour charts, then you should now be looking at the 1 hour charts.

This time we add two oscillators two the charts. Looking at your intermediate timeframe (screen 2) add the following indicators:

1. Stochastics (5, 3, 3) – That is %K = 5, %D = 3, and Slowing = 3
2. Force Index (2 Period)

3. Bollinger Bands – This indicator is optional, but I like it as a visual representation of the trend on the intermediate chart, and a cue as to where the price is in the current trend.

Once you've done this, your chart should look something like this.



Both of the main indicators that we added to screen 2 are oscillators and they will be used to help us gauge entry points. Which one you use will actually depend on the type of trader you are.

If you are a *conservative trader,* you would *use the stochastic* to gauge your entry points. If your long term chart (screen 1) is in an uptrend, then your entry point occurs when the stochastic falls below 20 on screen two. On the flipside, if the long term trend is down, then your entry point occurs when the stochastic is above 80.

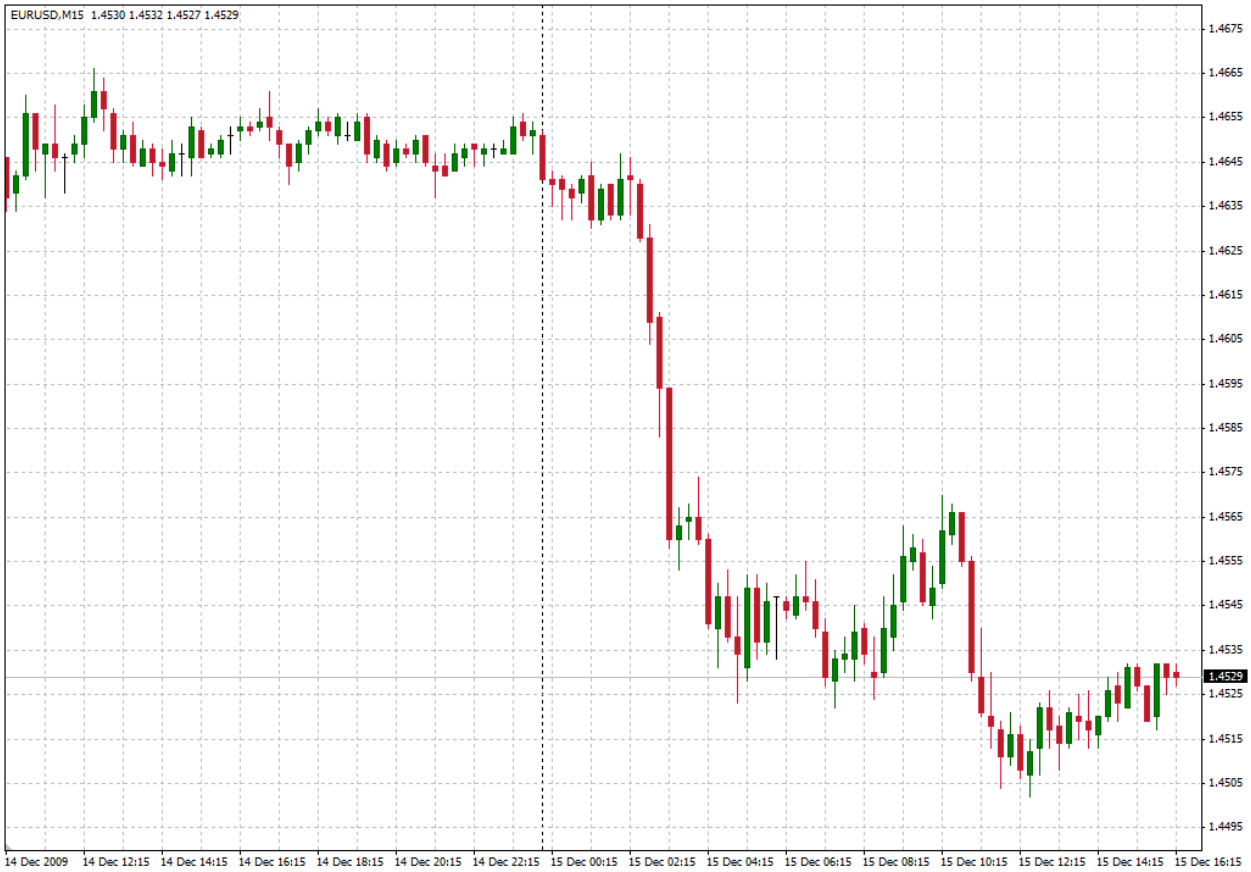
For a more *aggressive trader* you can *use the 2 period Force Index* to gauge your entry points. When the trend is up and the Force indicator falls below zero that is your indication of a buy opportunity. In a downtrend, if the Force indicator rises about zero, that is a sell opportunity.

We will also be using screen two to set stops and take profits, but we'll talk about that shortly.

Screen Three

Screen three is used for live data trading. It helps us to pinpoint entry points and see what's going on with the price movement right now. Generally, if you plan to use live data to enter your trades the third screen should be a shorter term than the second screen.

In this case the indicators you use will be dependent on how *you* are trading.



If you're an experience trader, you can use this third screen to enter on the breakout, or to use some other form of technical analysis of to decide when is best to enter the trade. .

It's important to note here that trading with live data may help experienced traders, but may hurt newer traders. This will become clearer in the next section – trading.

The MTF System Trading

Trading the MTF system isn't really difficult at all. I'm going to cover two separate ways to trade the system, and I'll give you some real examples of how to trade it using the first method (without live data).

Trading the MTF System without Live Data

Using the MTF system without live data, you are basically trading the first two screens only. The steps to enter a trade are as follows:

1. Look at your long term (screen 1) chart to establish the major trend.
2. Look at your intermediate chart (screen 2) to see if the currency pair is moving against the long term trend.

This is our indication that a possible entry point may be coming up. All trading is now completed off of screen 2. Our entry signals are as follows:

- Conservative Traders – The stochastics on the short term chart rise above 80 in a down trend. This is a sell signal. In an uptrend, when the stochastics fall below 20, it's considered a buy signal.
- Aggressive Traders – If the Force indicator falls below zero in an uptrend it is a buy signal. When the Force indicator rises above zero in a downtrend it is considered a sell signal.

Once we have an indicator we enter the order:

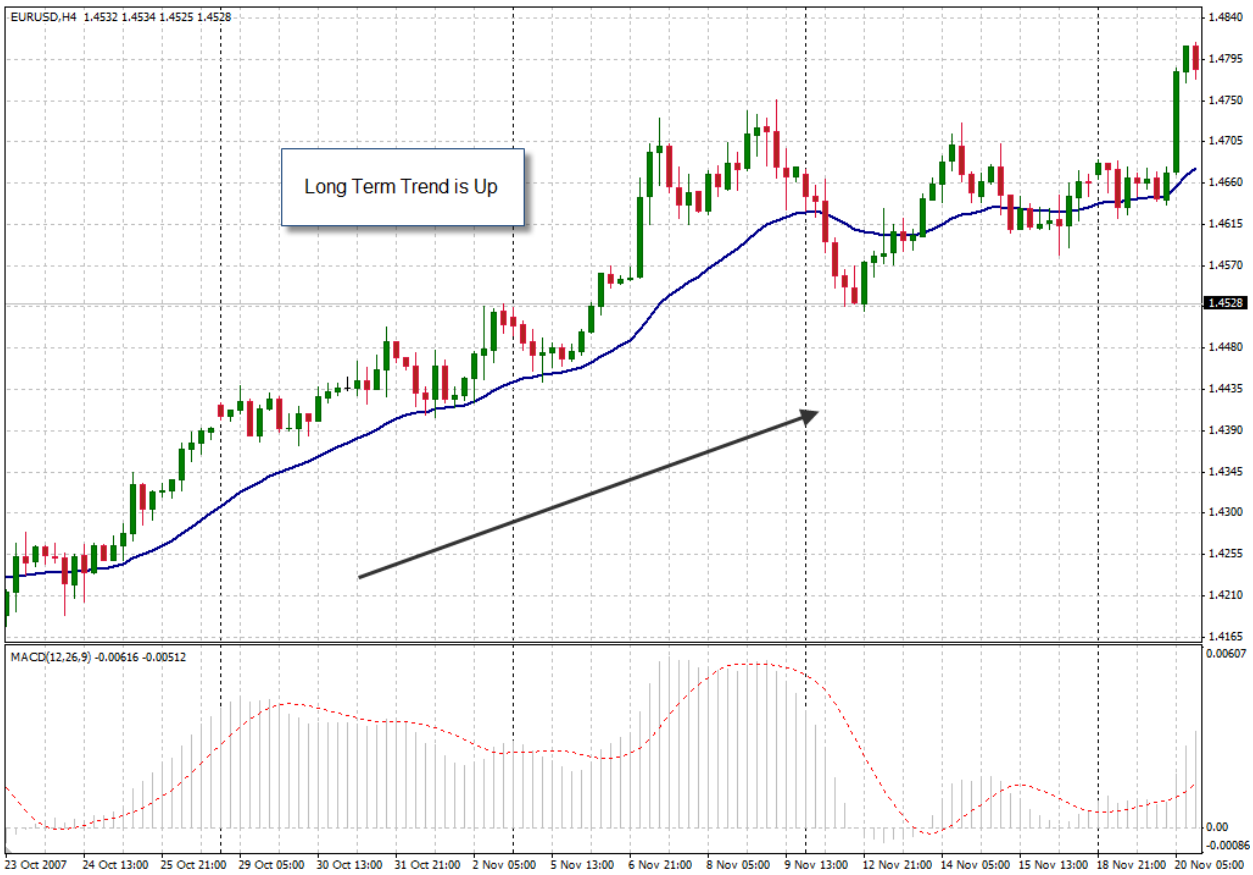
Long Trade – When the buy indicator is given we set our order entry point 1 pip above the high of the previous bar. We set a stop loss one pip below the low of the swing.

Short Trade – When the sell indicator is given, we set our order entry point to 1 pip below the low of the previous bar. Our stop loss it set to pip above the high of the swing.

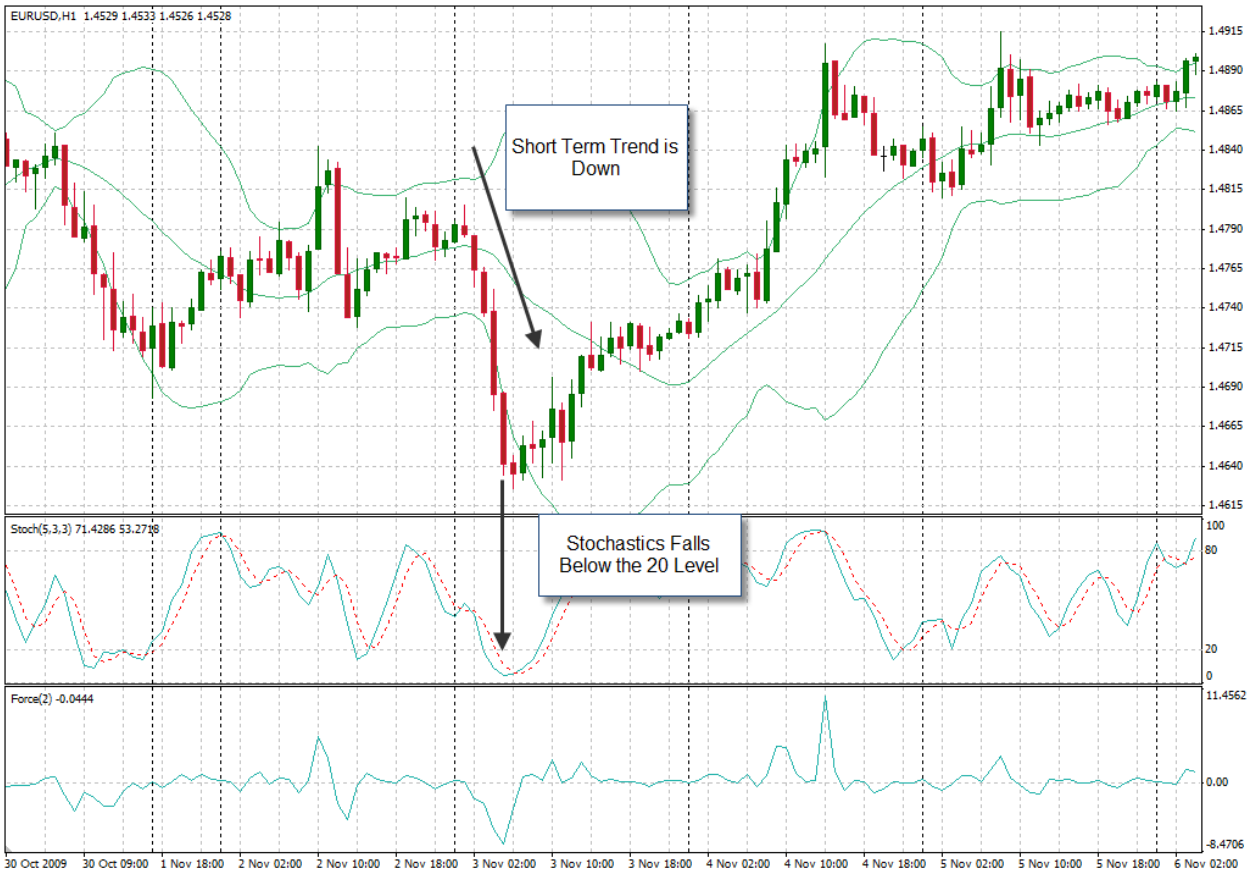
Once our order entry point is hit we set our take profit levels (discussed shortly) and we wait for the trade to move in our favor. At that point we manage the trade as per the rules we setup. I will talk about this after a couple of entry examples.

Long trade example

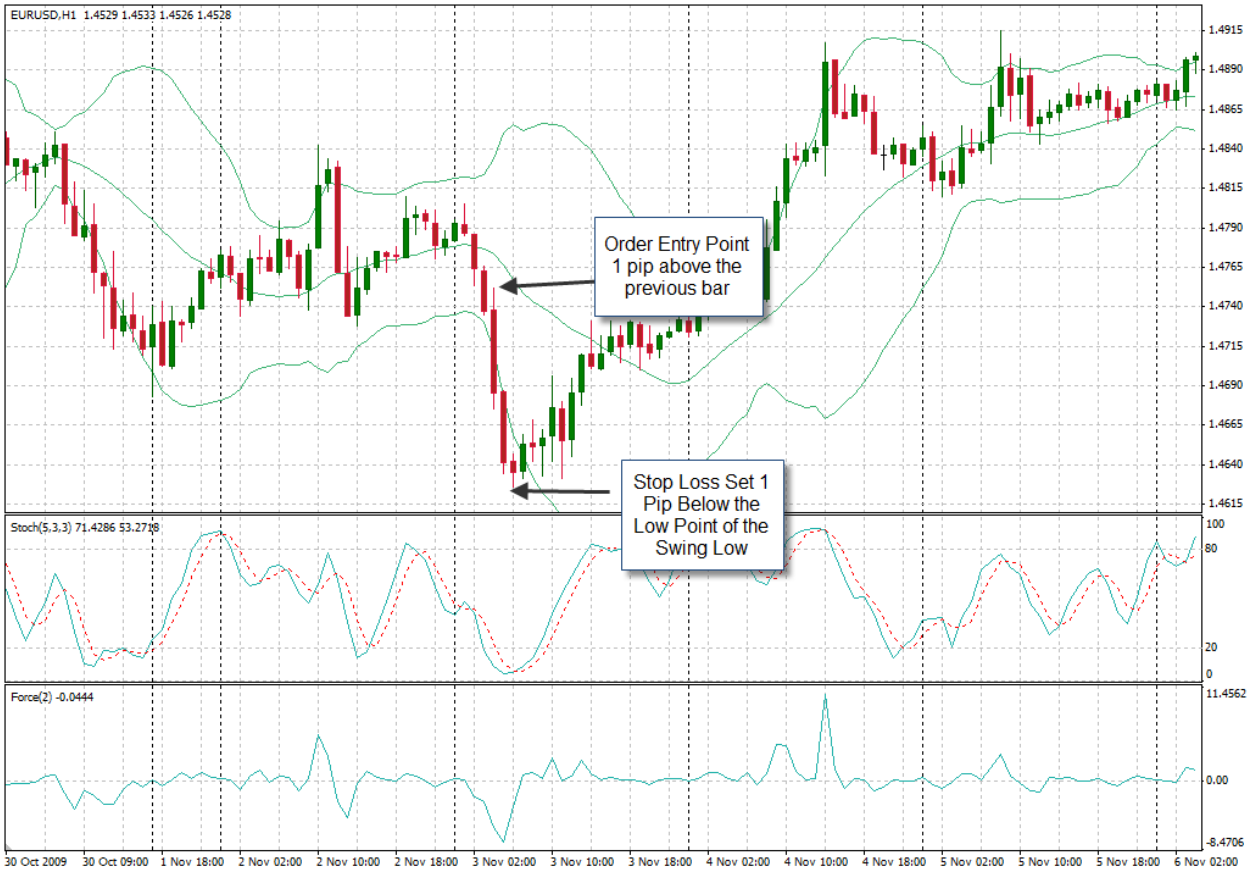
On the 4 hour chart we look at to see that the long term trend is up:



We then look at our intermediate chart (1 hour in this case) for our entry signal. On the chart below, the trend is opposite of the long term trend, and our stochastics have fallen below the 20 level.

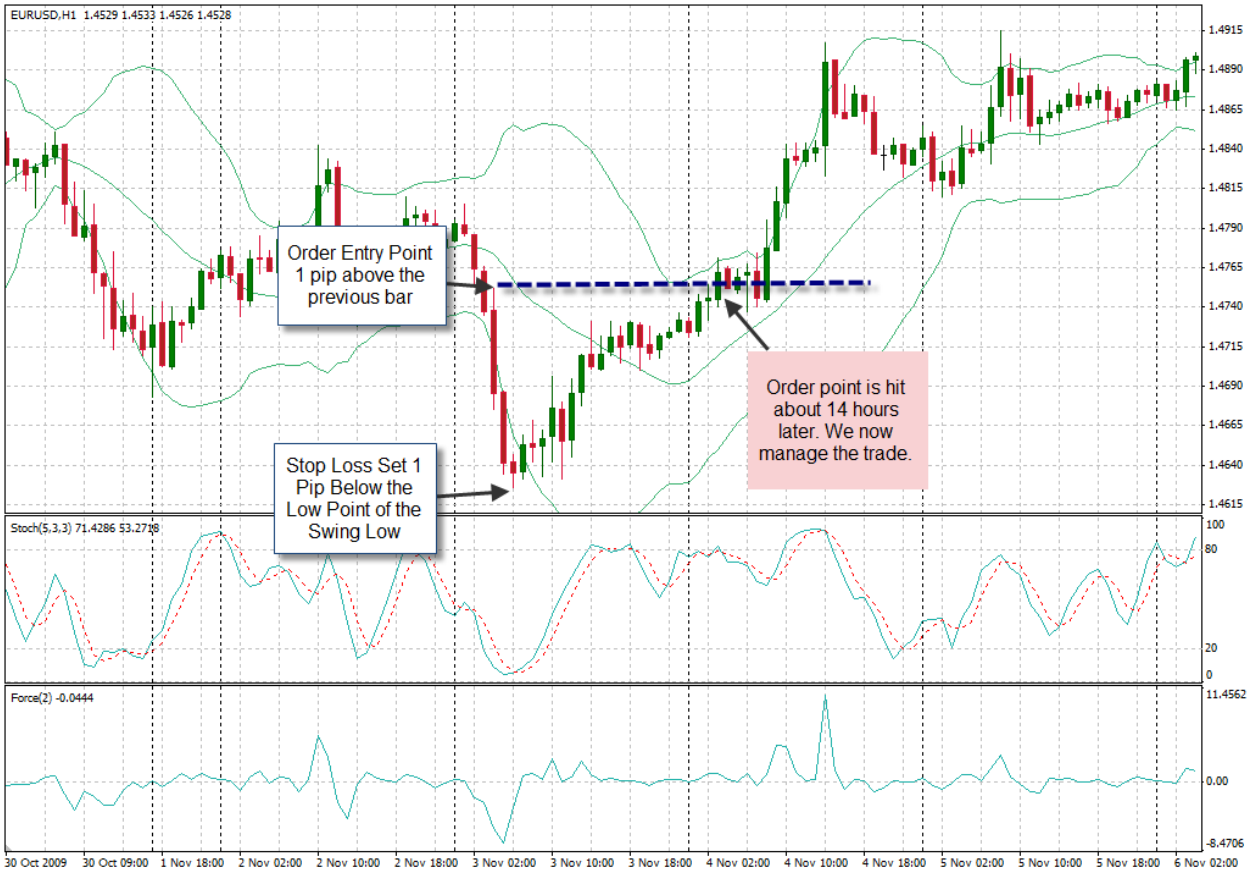


We then set our buy order 1 pip above the high of the previous bar. Before the order point is hit we also set a stop loss to 1 pip below the low of the swing.



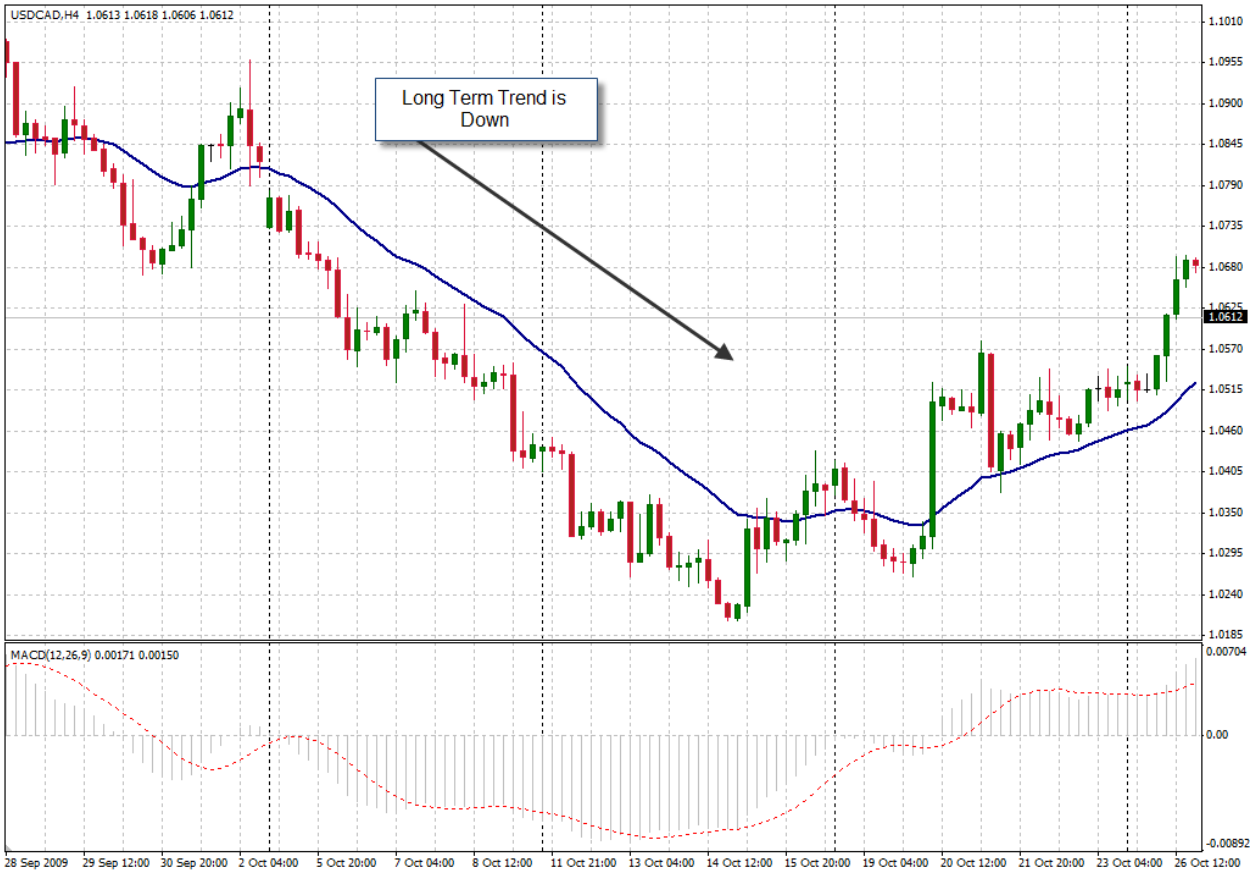
Once we have our order placed, we wait for the order point to be hit. Our expectation is that the long term trend will re-establish itself, and in this case it did. Our order point was hit about 14 hours later.

When we are in the order we manage our profit levels, and move our stop as per the rules we'll discuss at the end of this section.


EURUSD,H1 1.4529 1.4533 1.4526 1.4528
Order Entry Point 1 pip above the previous bar
Stop Loss Set 1 Pip Below the Low Point of the Swing Low
Order point is hit about 14 hours later. We now manage the trade.
Stoch(5,3,3) 71.4286 53.2718
Force(2) -0.0444
30 Oct 2009
30 Oct 09:00
1 Nov 18:00
2 Nov 02:00
2 Nov 10:00
2 Nov 18:00
3 Nov 02:00
3 Nov 10:00
3 Nov 18:00
4 Nov 02:00
4 Nov 10:00
4 Nov 18:00
5 Nov 02:00
5 Nov 10:00
5 Nov 18:00
6 Nov 02:00

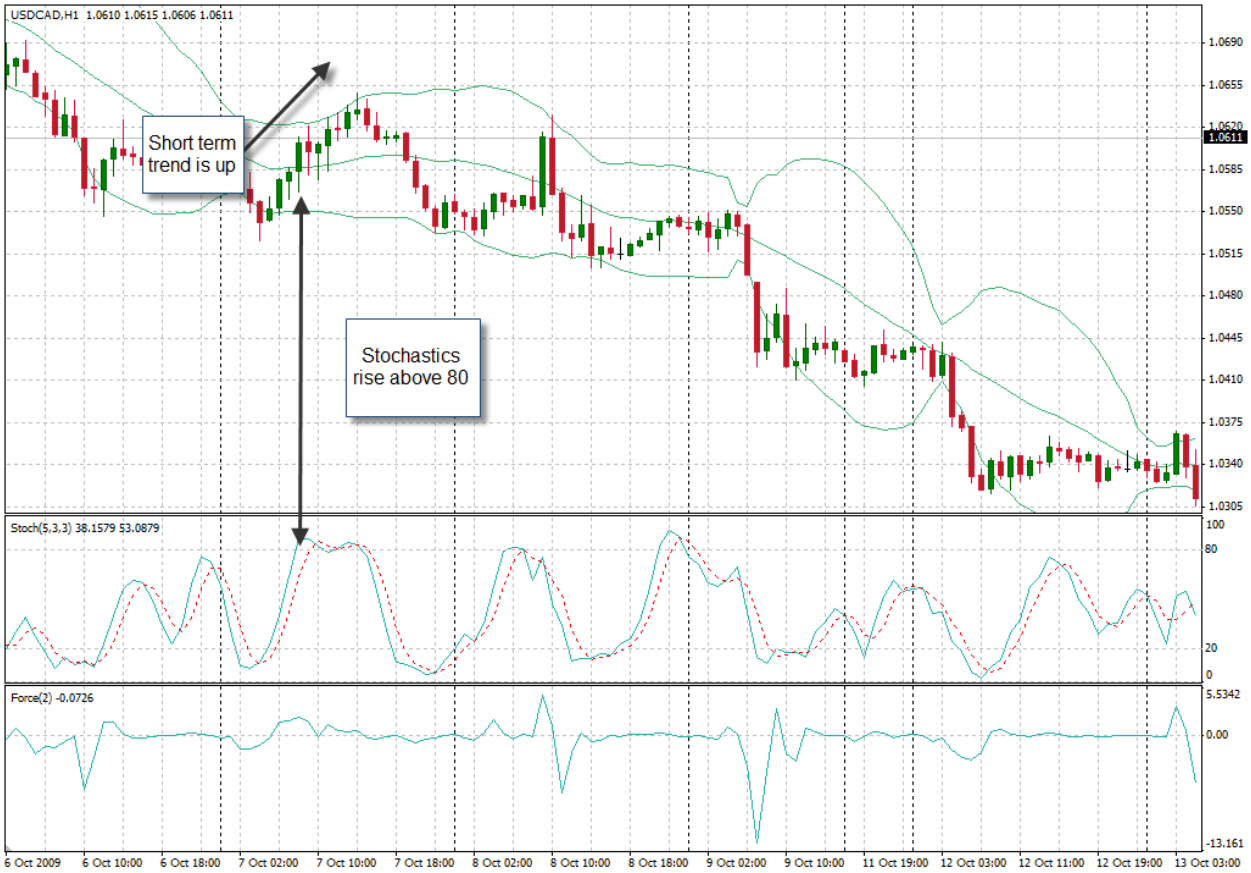
Short Trade Example

The rules for a short trade are basically the same, just opposite. Looking at the 4 hour USD/CAD chart to follow, we establish that the long term trend is in fact down.

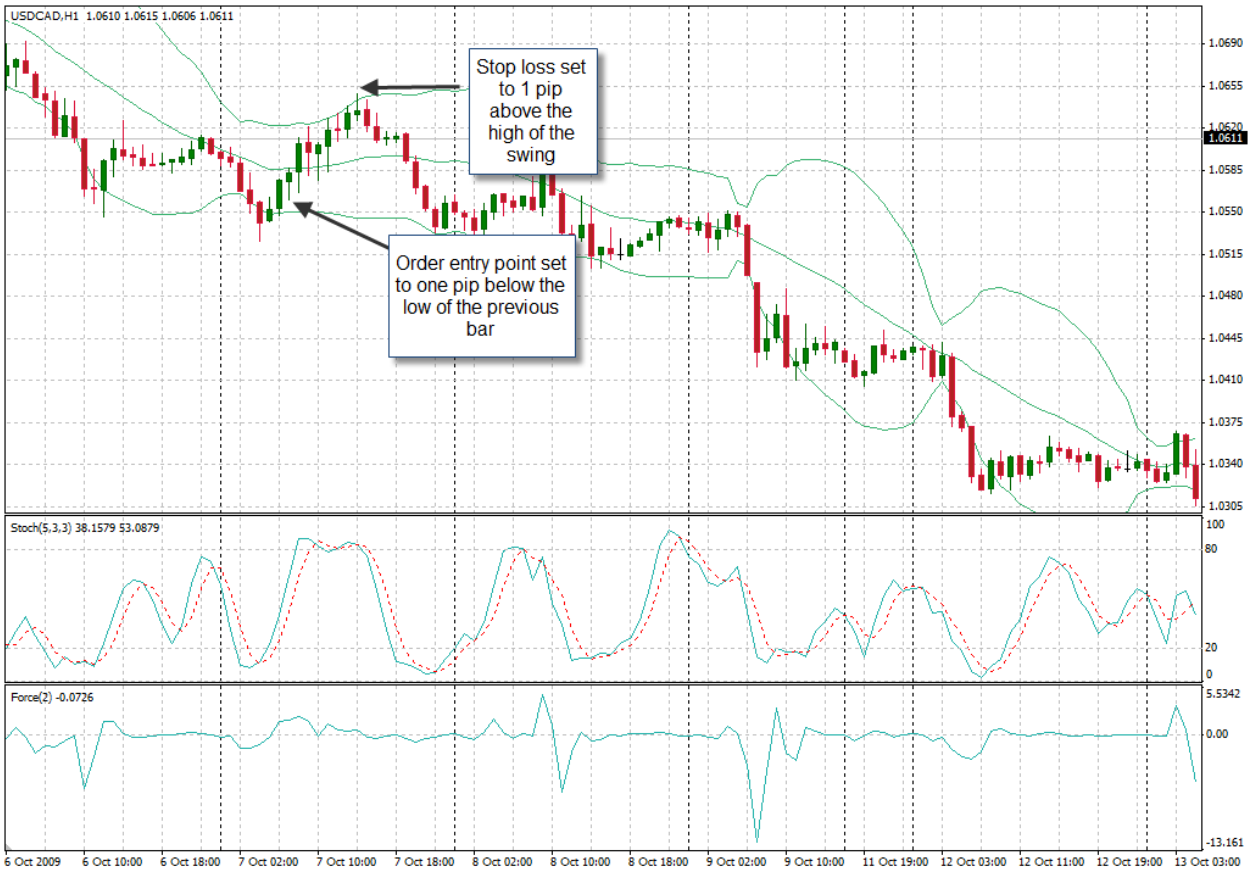


With that knowledge in hand we then move to our intermediate chart (screen 2) to look for a suitable entry point.

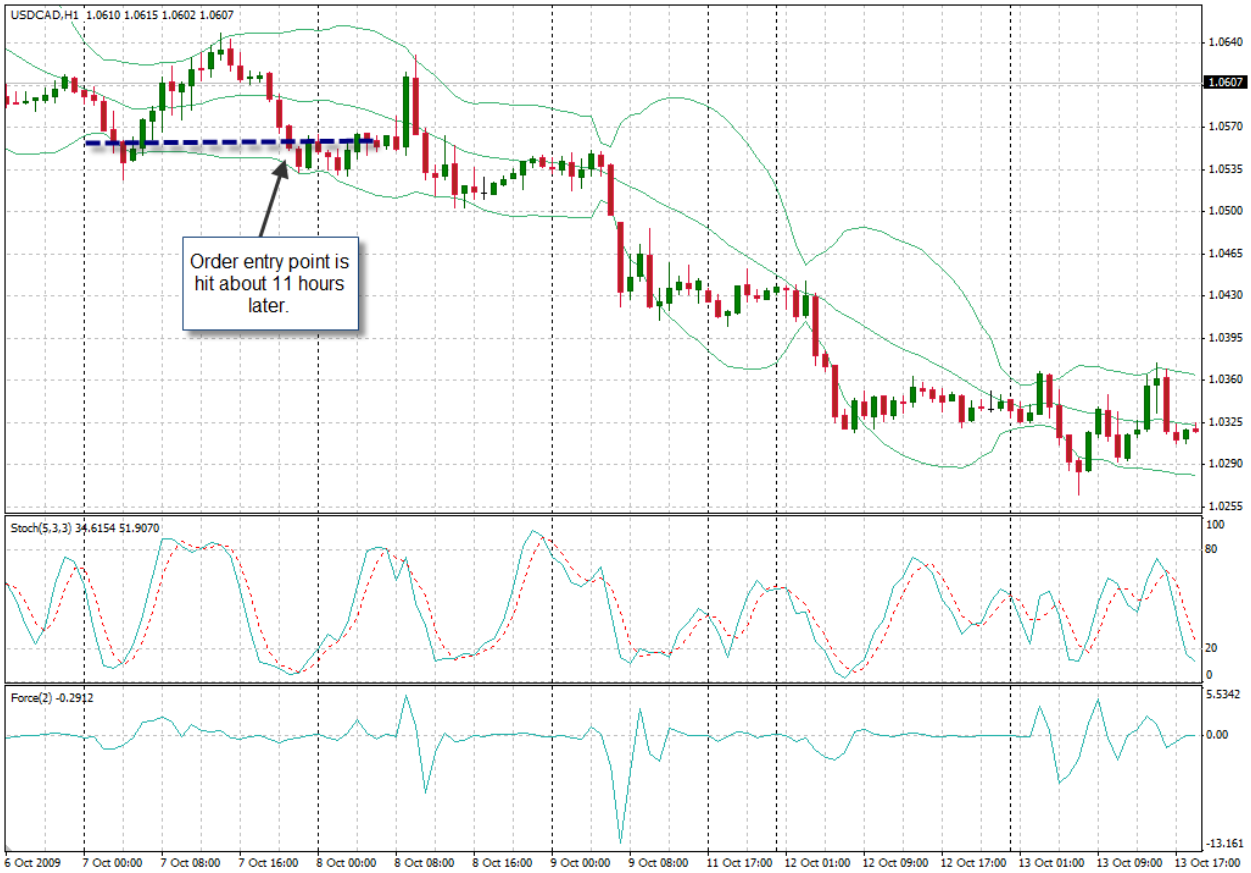
For an entry point, we are looking for the intermediate trend to go against the longer term trend. On the 1 hour chart below, the USD/CAD has had short up trend in the



Once you've found an entry point, you set your sell order one pip below the low of the previous bar. Before that order point is hit you also set a stop loss to 1 pip above the high of the swing.



Once you have your order in place you simply wait for your order point to be hit. In this case, the order point was hit about 11 hours later.



Once you are in the trade, you manage your order as per the rules we're about to setup.

Once You're in the Trade

When it comes to managing your trade, the rules are somewhat flexible. Some traders like to set profit targets for the same level as their stop, other's use 2 x their initial stop loss value. My preference is to build into the trade which I'll talk about in just a moment.

Once rule you should stick to is moving your stop to the breakeven point as the trade moves in your favor. If your initial stop was 50 pips back of the order entry point, the once the trade moves 50 pips in your favor, set the stop to break even.

When it comes to take profits, a good way to work with them with this particular system is to wait until the EMA on the long term chart turns flat. On your intermediate chart you take each entry signal as it comes, and place your orders, but as the trades continue to move in your favor you use the longer term chart to gauge when to exit.

Once your first order is profitable, move your stop to break even and then take the next order point that comes along. Let's go back to our short trade example to clarify this. In the example, we received a short trade signal on October 7th, and 11 hours later on that same day our order was entered.

That order was entered at 1.0560, and my initial stop was 89 pips back. Zooming out on the chart a little and looking at it, here's what happened:

The next day on October 08, I got another entry signal. I didn't take that one because when it came, the first order wasn't profitable; in fact it almost stopped out. However, as expected, the price did continue in my favor and later that same

day I received another entry signal. This time my first order was profitable, and I set another entry point 1.0527. That order was entered on October 09.

As both orders moved in my favor I set my stops to the breakeven point and then let them run. I waited for the EMA on the longer term chart to turn flat before exiting either trade. This happened on October 14th:

At that point I exited both orders at 1.0270. So on the first order I made 1.0560 – 1.0270 = 290 pips, and on the second order I made 1.0527 – 1.0270 = 257 pips. So my total profit for the order was 547 pips.

If I had received other entry points while my first two orders were in place – assuming those orders were profitable – I would have taken them as well. This is

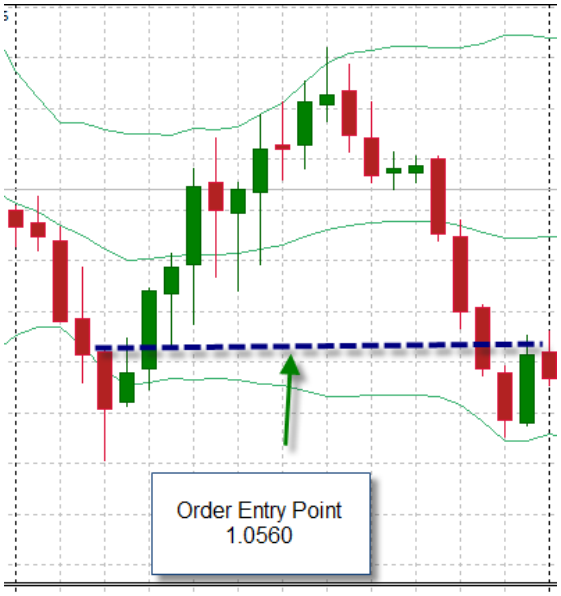
actually one of the big advantages to accounting for more than one timeframe when trading.

Instead of just trading off a short term trend, I am accounting for the longer term trend which enables me to buy into the longer term trend and profit from it over and over.

Trading the MTF System with Live Data

Now it's time to talk about the third screen. The third screen can be used to finesse your entry points and gain even more profits from your trades. In this case I'm not going to give you an exact system. Instead I just want to show you how a shorter term chart could be used to maximize your trade. I really only suggest using this third screen if you are experienced enough with Forex to make the system work better for you by doing so.

Let's go back to the short trade example from the previous section, and talk about how we could maximize our profits on this trade by using another chart to determine when to enter.



If you remember, our order was set to 1.0560, that order was entered the same day, and our stop was set to 89 pips back.

What if we could determine a better time to enter, and use a smaller stop to begin with? We earn more and risk less if we do, so it only makes sense to try it if we can.

To find a better entry point we could use a shorter term chart. Let's look at what happened on the 15 minute charts during the same time frame:

If we use the shorter term chart, and a system to enter the trades using that chart we can make more on the trade and risk less to begin with. For example assume

my system was simple to enter the trade on the first bar that closed on the downside of the middle line of the Bollinger bands. If I used that system on a 15 minute chart my order entry point would have been 1.0622 instead of 1.0560

To put that into perspective, suddenly instead of using an 89 pip stop, I am using a 27 pip stop. More than that, I stand to earn an extra 62 pips on that first order!

If you are a newer trader you may not want to use this particular method to enter your trades. Using the shorter term chart to enter can be difficult if you're unsure. However, if you're experienced enough with trading to come up with a system to gauge a better entry point using a shorter term charter, then you should use this system to enter your trades. Anything you can do to improve your profits is definitely worth doing.

Taking it Further - Your Forex System

One last thing I wanted to cover before I leave you. The MTF system isn't intended to be a stiff and structured trading system. In fact, it's those among you who are willing to make it fit their trading style that will probably profit the most from it.

Maybe for your trading style you find that on screen one you're better off using directional movement indicators. Or possibly you decide that you like momentum indicators or the RSI on the second screen. Maybe you'll be the one to come up with the best system on screen three to get a better entry point.

The point is that MTF trading is about understanding the correlation between the various charts and using them to your advantage. Tailoring the system to your trading style will ensure you ride the wave to Forex profits now and in your future!