

# **MMTT**

## **TRADING REVERSALS OUTSIDE THE 2-PERIOD DAILY MOVING AVERAGES**

2<sup>nd</sup> Edition - Feb 2010

**Original System by Ruilima**

Additional Instruction by Shr1k  
PDF by Merchantprince

## Table of Contents:

- **Overview** – how the system works, theory and practice
- **Chart Setup** – which charts, indicators and timeframes to use
- **When to Enter** – details on opening trades using MMTT
- **When to Close** – suggestions on closing MMTT trades
- **Advanced Methodology** – tips and advice to get the most from this system

## Acknowledgements

This PDF would not be possible without Rui's patience and goodwill in sharing his system with us. Over a period of weeks he has answered questions and provided chart examples of MMTT - to not only show its success but to instruct others on how they may profit from it, as well.

The fact he has done this using English, a second language for him, only adds to the noteworthiness of his efforts. Those of us striving for success in forex using MMTT owe Rui our thanks.

Nearly as instrumental in helping codify and sharpen the efficacy of this trading strategy has been Shr1k, who has built chat rooms and online meeting sites for us to share our screenshots and other media. He has also been essential to the creation of this document, providing answers to pressing questions on the forums and chart examples so informative they have been included in these very pages.

Thanks also to all who join us online in chat and on the forums, sharing their experiences and suggestions for MMTT. Together we look forward to ever greater success.

~ John Edwards aka Merchantprince

# OVERVIEW

MMTT is a system for trading currency pairs in the Forex market when price steps outside the 2-period Daily Moving Averages, either on the High or Low side. This PDF will detail how up to 10-12 currency pairs can be traded, using just one chart for each, changing only the time frame of your chart(s) as necessary.

If price is ranging in the Daily chart (about 70% of the time, some experts say) this system can be very lucrative. The opportunity exists to garner hundreds of pips in profit for comparatively low risk trades (often using 15-pip or fewer stop losses).

Put simply, MMTT looks for the Buy when price goes *below* the lower Daily MA and looks for a Sell when price goes *above* the higher Daily MA. Once price crosses one of these Daily MAs, traders then switch the Daily time frame of their charts down to 5 Minute and begin looking for "Higher Lows" or "Lower Highs" to both confirm the reversals and indicate entry points for a trade.

## Best Times to Trade MMTT

Often the best results for MMTT occur during high-volume periods, starting with the London Open and continuing through the overlap of the London and New York periods. It is best to avoid major news releases unless one is already in a longer, developing trade and your SL has been moved to at least BE.

It is advised to wait 30 minutes after any major news release before seriously considering possible Higher Low or Lower High formations outside the Daily MAs. Trading volume is best Monday through Thursday, with Wednesdays and Thursdays often being most desirable.

## Abbreviations

MA - Moving Average

HL - Higher Low

LH - Lower High

TF - Timeframe

TP - Take Profit

SL - Stop Loss

BE - Break Even

BB - Bollinger Band

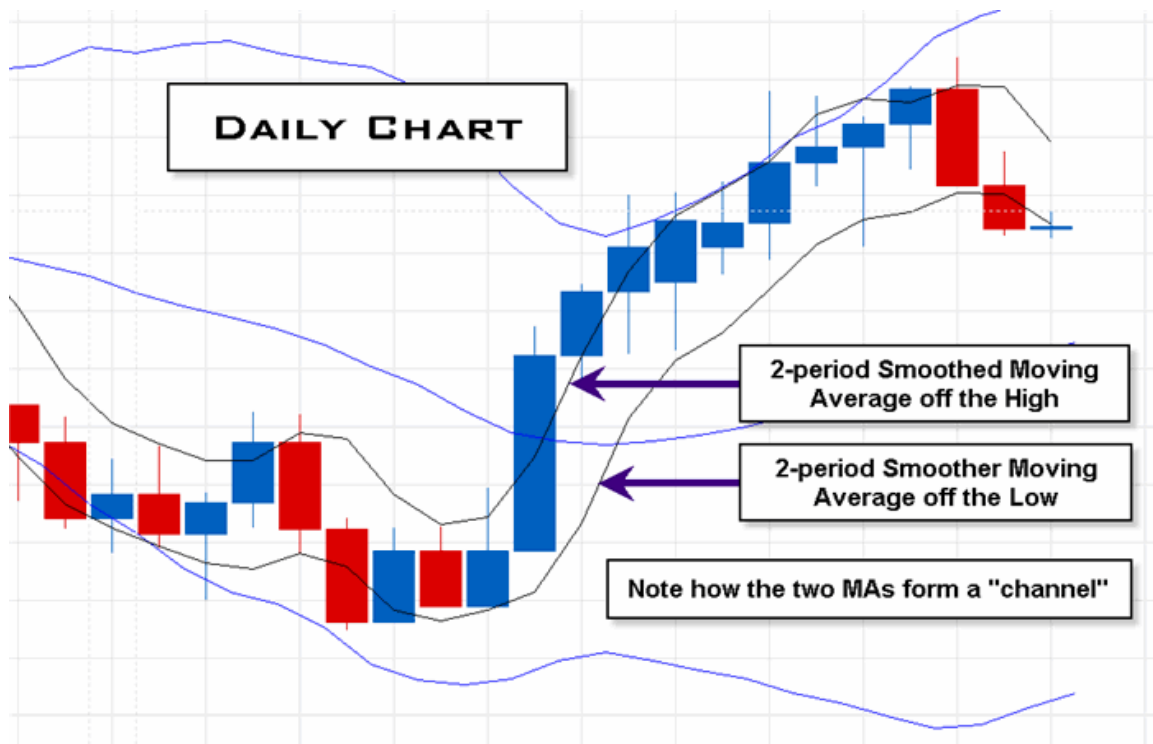
# CHART SETUP

Only one chart is needed for each pair one intends to trade.

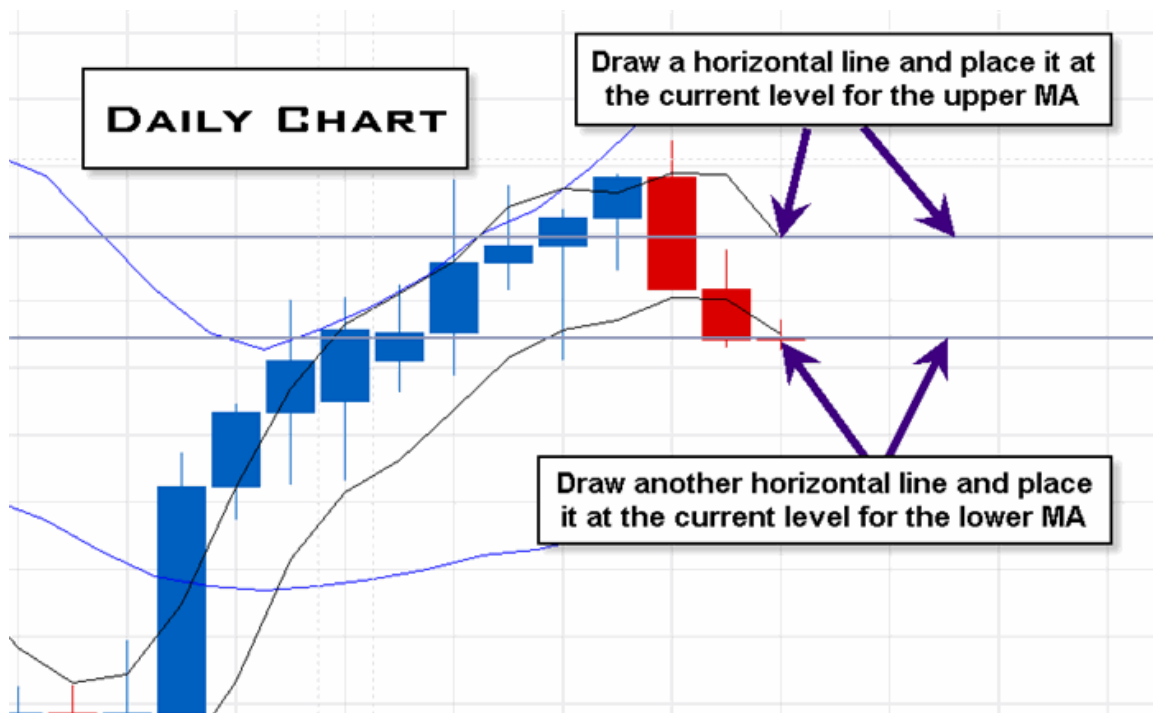
Start with a Daily chart, switching down to a 5 minute chart when price moves outside the Daily MAs. You may also switch to other time frames to better understand price action in and around your trade. Hourly charts can also be very helpful for determining trade exits (explained later).

## Indicators and Chart Elements

You'll need a pair of 2-period smoothed moving averages, one placed off the High, the other off the Low. These two MAs will form a "channel" on the Daily chart (see below).



2 Horizontal Lines - these will be used to mark the 2-period MA levels on the Daily chart (see below), so that these price levels will still be evident when you switch to the lower 5-minute TF. These lines are approximate and there's no need for concern if your lines are a few pips different from a fellow trader.



As the trading day progresses, the Daily MAs will often change. Be sure if you have not switched back to the Daily TF in some time to do so and adjust your horizontal lines as necessary, so they continue to match whatever price level the two Daily MAs are currently at.

#### *Special Note:*

Additionally, when dropping your Daily chart down to the 5 min TF, you may also draw an arrow in the direction you are waiting for price to move. When looking at several pairs, waiting for Lower Highs and Higher Lows to form, it's easy to forget which way one is trying to go and it's not always apparent on a 5min chart that may be zoomed in very close.

#### **Optional Chart Elements**

Standard 20:2 Bollinger Band - this indicator can greatly assist in determining Price Action for the pair, both on the Daily and all other TFs as well. Using your BBs in conjunction with good candlestick analysis can also help determine a good TP point for your trades.

Additional Moving Averages - Adding your choice of additional moving averages to your charts may also help identify price changes. This can be helpful to determine the best time to close your trade manually.

Employ any other indicators as you wish. Bear in mind that MMTT itself is predicated only on the 2-period MAs and anything else is just extra.

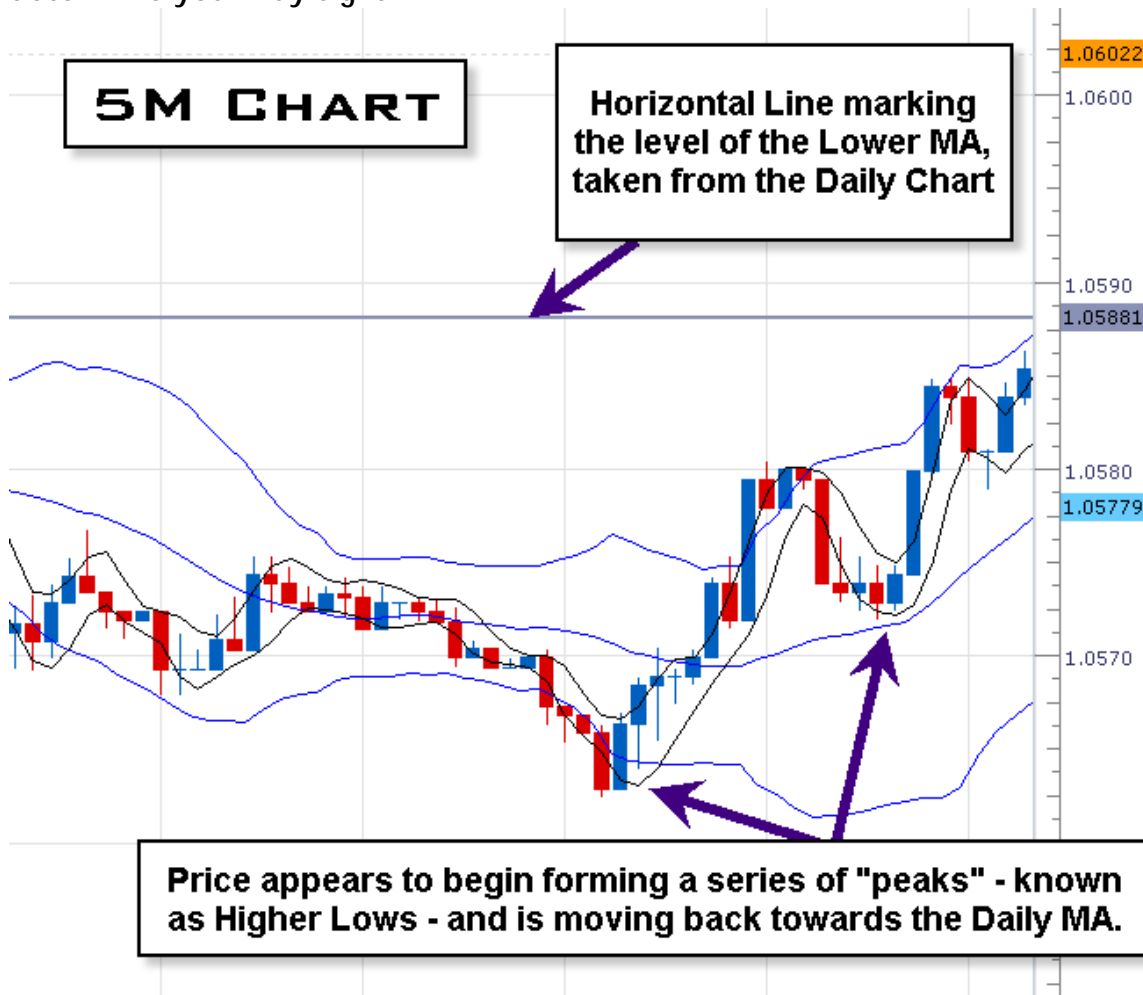
# WHEN TO ENTER

If price is *below* the lower 2-period MA then look for price to head back up. In other words, you are looking to Buy -- to go Long.

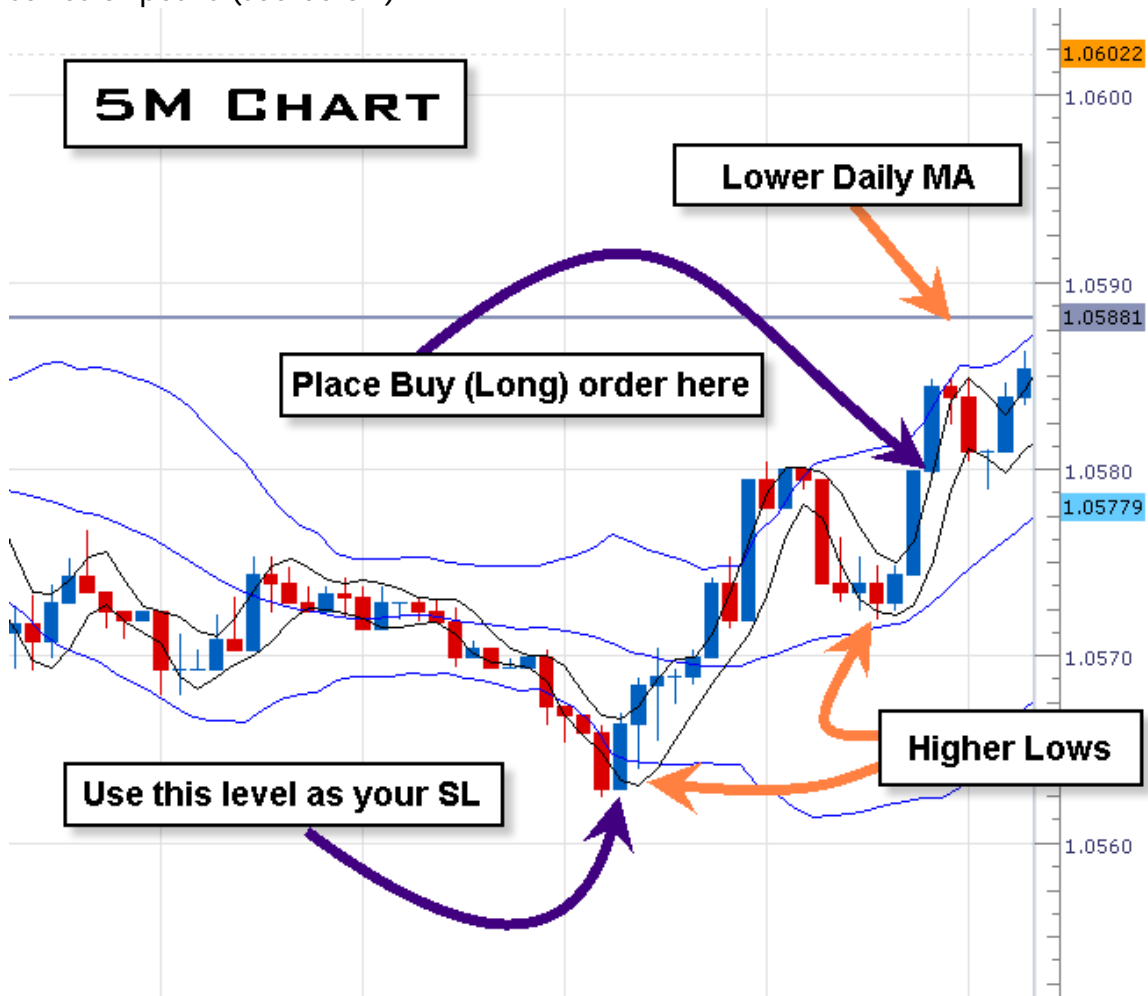
If price is *above* the upper 2-period MA then look for price to head back down. In that case, you are looking to Sell -- to go Short.

Once price is outside the 2-period MAs (high or low) on the Daily chart, switch your chart to the lower 5 minute time frame to begin looking for the actual buy or sell signals. These are called Higher Lows (HL) and Lower Highs (LH).

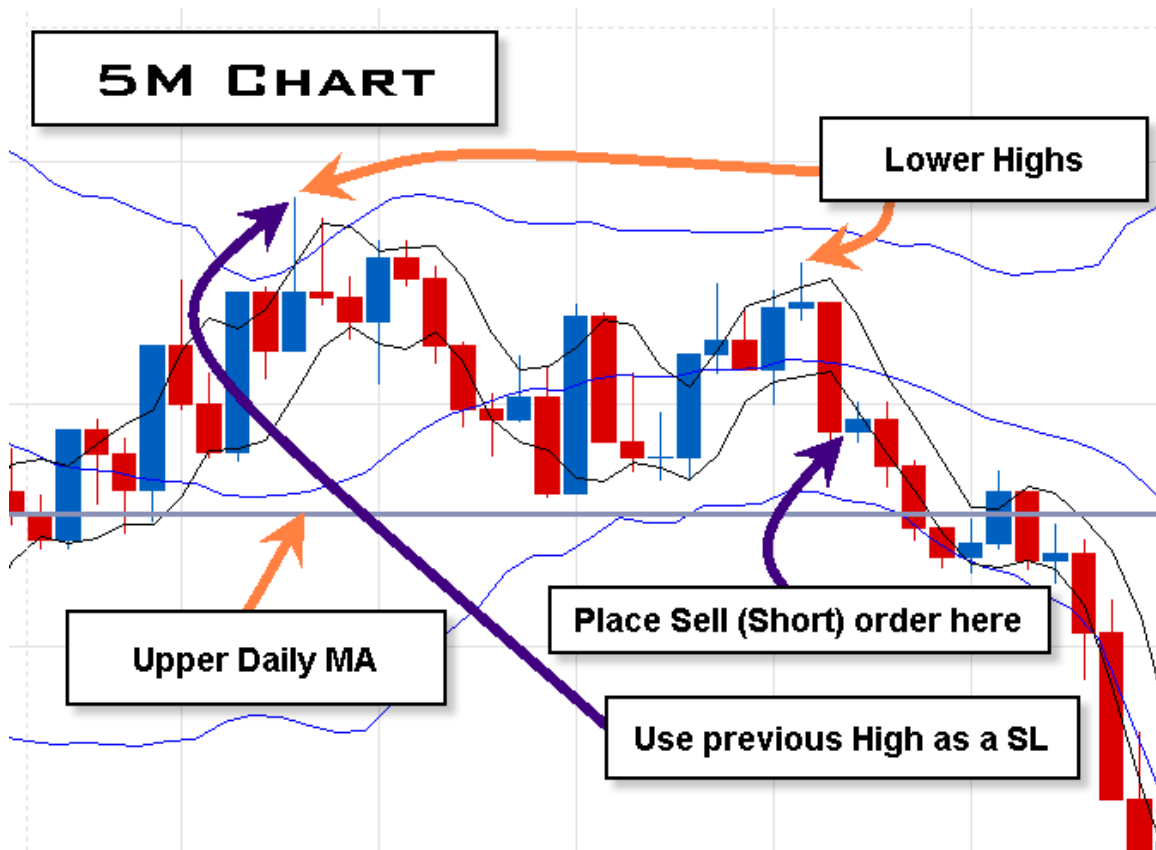
If you are looking for a Buy (Long), then look for a series of Higher Lows to determine your Buy signal.



Once at least two peaks have formed and you have an apparent Higher Low, place a Buy order. Entry may be at the end of the most recent bullish candle that formed the HL. Set your SL to the bottom of the previous low candle in the series of peaks (see below).



If you are looking for a Sell (Short), then look for a series of Lower Highs to determine your sell signal.



Note where we place the Stop Losses in both examples above. We have it set for the previous candle we used to interpret that a Higher Low was happening. We place our SL here because, if price retraces back to this point then... you guessed it, *a HL never truly formed*.

However, a losing trade ought never to reach these set stop levels. The success of MMTT is predicated on getting tight entries and limiting losses to no more than 6 or 8 pips - and certainly never more than 10.

### Setting and Managing Your Stop Loss

The foundation of success with MMTT is not the winning percentages or how much profit you might earn each trade. It is how well you manage your losses. *MMTT traders can often experience two or more failing trades before a successful trade back inside the Daily channel is achieved.*

Even when LH/HLs seem to form, often price will retrace, proving LH/HLs had indeed not yet truly occurred. The key to weathering these storms is managing losing trades so they never exceed more than 6 or 8 pips - and absolutely never more than 10. Although the chart examples above show stops being set for the



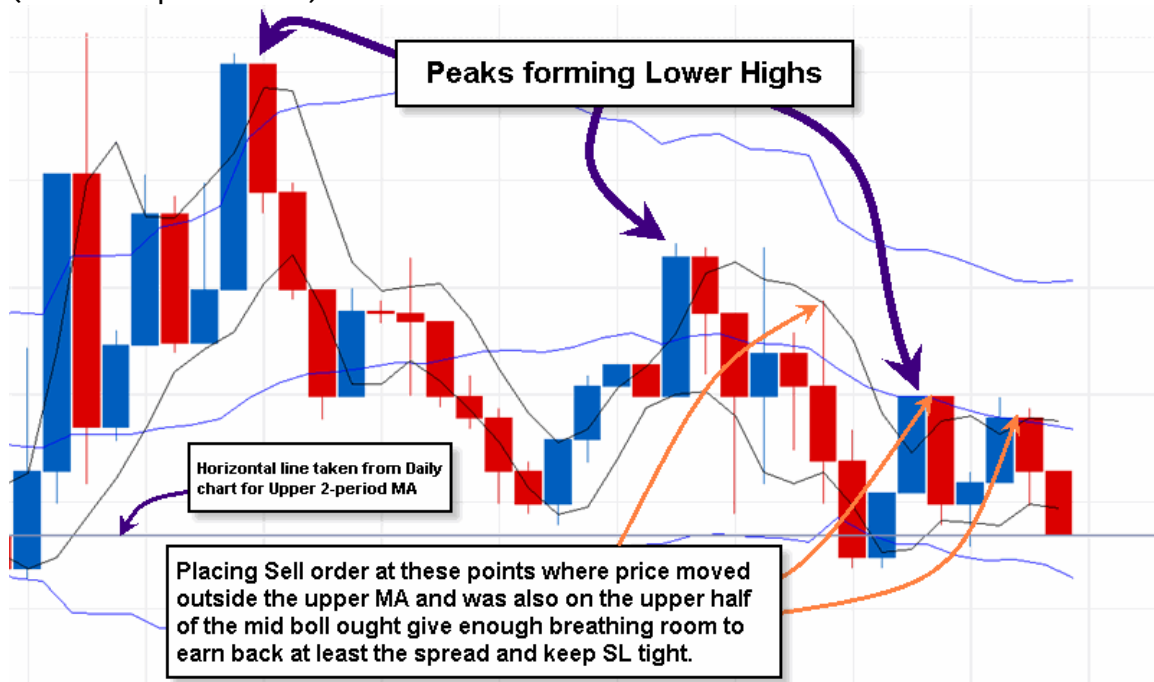
previous high or low point that had price reached, one should never allow losing trades to reach these points. Close your trade once it is evident price did not move with authority in your direction and return to watching the 5m chart to see the next possible occurrence of a HL/LH formation.

## Precision Entry

A new school of thought for entries is to wait for the HL/LH peaks to form, but to withhold order entry until an optimum position presents itself to at least cover the pip spread of your order.

To enable a Precision Entry, observe the candles which form *after* the last bullish or bearish candle closes to confirm your HL/LH. With our 2-period MAs still on the chart, we may select a later point (which may be one or more candles away) that will allow entry on the MA *opposite* to our chosen direction.

(See example below.)



Note that although price action has formed peaks and we have confirmation of Lower Highs in this example, our best Precision Entry would be to wait for price to retrace within an individual candle back towards the *opposite* outer MA on the 5m chart.

Just as price often seeks to return to within the channel on our Daily charts so does it often seek to return from the outside extremes of the MAs to the middle of the candle on the 5m chart. We hope to capitalize upon any "extreme" movement outside the upper MA in the expectation price will slingshot back in our anticipated direction.

The effect that this can have is that, by opening our trade on one of these minute retracements, we can hopefully “build in” a cushion of a few extra pips back in our chosen direction.

As MMTT teaches success through often the tightest of stop losses (as few as 6 or 8 pips), these extra pips picked up by a Precision Entry can be the difference between closing a trade at a loss or allowing it to move towards success.

# WHEN TO CLOSE

This is a matter of ongoing discussion and some trades are best with a simple 2:1 ratio. For example, if your set SL is 15, then set a TP of 30. For pairs where the average daily range of pips is not great it is often best to catch small winning trades rather than risk earning nothing. Observe the number of pips separating your upper and lower daily moving averages to see just how many pips you might reasonably expect to earn over the course of a daily candle.

Another school of thought is to set your SL to BE once price has moved a number of pips in your direction equivalent to your SL. Then set your TP to the opposite Daily MA, on the other side of the channel - or at a point halfway across the channel if you are uncertain.



You may also utilize Bollinger Band analysis and other moving averages to help determine when price has gone as far as it can in your direction and may be stalling out. A set of moving averages on the 1-Hour chart that cross over one another indicating price changing direction are often used by experienced traders seeking to know when it's best time to close out.

These suggestions are merely ideas for now and this section will be expanded upon in further editions. For now, understand the value of any system that can provide good entries with low risk. Knowing when to close a profitable trade can be entirely dependant on the trader and is a happy predicament to be in, considering the number of pips which can be earned in even one MMTT trade.

# ADVANCED METHODOLOGY

Some days are better than others - and the same can be said of trading MMTT. By observing the Daily charts for all our chosen pairs, we can determine those times when price action does not lend itself well to trading reversals outside the daily moving averages.

MMTT often works best when the candles of the Daily chart are moving fairly horizontally, in a ranging motion. However, if the Daily price action is trending up then look mainly for Buy signals and if it's trending down then look mainly for Sell signals.

Observe the chart example on the following page:



Observe those candles inside the oval and imagine the type of MMTT trades possible on those days. Several of the candle bodies within the oval push outside the MAs and that means many opportunities to get stopped out. Any counter trend trade should be approached with caution.

If the trend on the daily chart looks strong one might not put a lot of faith in using the 5 min chart to try and confirm such a strong trend is turning. That does not mean we won't take the trade, but we must be prepared if the 5 min trend upon which we entered decides to reverse itself after a few pips and then continue on with its overall direction. Moving SL to BE as quickly as possible is prudent under these circumstances.

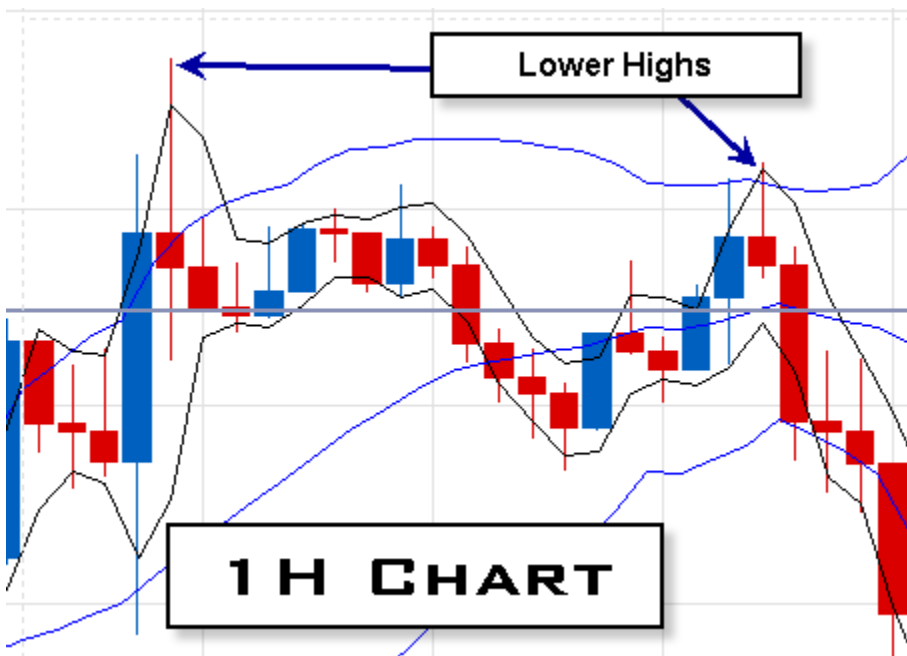
However, in a *ranging* movement of price on the daily charts, as shown in the rectangles, MMTT is much more like a Bollinger Bounce sort of trade and a higher pip gain is more likely. In such instances, frequently any movement outside the daily MAs yields good opportunities to trade a reversal back to the inside of the channel.

#### HL/LHs forming on several TFs

Another opportunity to enjoy huge gains comes when HL/LHs form not only on the 5m chart but have also formed equivalent peaks on the charts for other TFs, including the 15m and the 1H charts.

Observe the three examples below, all taken from the same day and time on the EUR/USD pair last week:





Such trades can be ridden for longer periods, almost always half the range of the daily channel and often the length of the entire channel. If you had placed your Short entry on the 5m chart above and allowed it to run, price did not change direction on the hourly chart until it had gone 200 pips over two days!

**GOOD LUCK AND GOOD  
TRADING!**

Feb 15, 2010:

*This 2<sup>nd</sup> edition reflects additional input from other successful MMTT traders over the rough draft of the first edition. I certainly expect that changes will be forthcoming to this document and more content will be added in editions to follow.*

*In the meantime, be sure to join us online for chat and meeting room conferences during trading days. Often questions can best be answered there and we can all share in the learning experience.*

- [MMTT Online Chat Room](#)
- [Shr1k's Vyew conference room](#)

[The Original Babypips forum discussion thread for MMTT](#)

- John, aka Merchantprince