THE ULTIMATE CANDLESTICK TRADING METHOD

2 Levels

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<u>Acknowledgements</u>

This Candlestick Method has been set up by me by searching out the best currently available trading and money management tactics available.

However, the main credit goes to the hundreds of Babypips Forum traders who put forth their efforts to trade the ideas and give positive feedback as well as helpful suggestions. Without their input, this candlestick method would never have come into existence.

As a result of their input over 2 years, the system has been refined to the fine method it is today.

In the first year, much development took place setting up the risk/reward ratios. Much feedback was given, and the system was developed, corrected, modified and refined, but in the process became complex. I then greatly simplified the system, not once, but twice.

The refined system was good but not successful enough. A second year of input was given, with the system already in place. The massive further input allowed more important adjustments, corrections and modifications. The system was then further refined and simplified.

Now the work is finished. The final Candlestick Method is highly successful, being tested and retested so many times. I am fully convinced that this method given herein must be one of the best candlestick trading approaches now in existence.

My acknowledgement, therefore, is given to the many traders who gave of their time and efforts to test and help set up this method. I am also very grateful for the right people contributing at the right time and the fantastic team work from so many traders to continue this difficult task to completion.

Now I wish to give special acknowledgements to the following people, since we do nothing alone.

I am especially indebted to **VulcanClassic** for his unfailing support throughout both threads and encouraging me thro the hard times.

I am very grateful to **DodgeV83** for setting up and posting training U Tube videos of the method and doing research to make it possible to use Metatrader 4.

Also thanks to **Muthusai2000** who has done a great job posting many demo trades on the 2nd thread.

A very special thanks to **Phil838, Honorary FX Member**, **Clint** and **Pseudo Straddle** for doing the proof reading which proved very necessary.

I am thankful for the suggested improvements provided by **o990l6mh** and **Amosfella**.

And of course, I am very grateful for the general endorsement given by **Tonymand, Honorary FX Member**.

And I leave my greatest thanks till last, going to **Merchantprince** for his fine professional work in creating this PDF. Without his efforts, all this would have just remained a collection of documents. It is thro his work that this candlestick method is made into a public document.

DEDICATION

Some time in the latter half of 2007, I received a private message from someone asking me if I would set up a thread dealing with candlestick trading.

We kept in contact and I agreed that I would start such a thread in February, 2008.

It was his inspiration that allowed this method to be presented to the world.

This person is **Jlmac27**.

As such then...............

THIS METHOD IS DEDICATED TO JLMAC27

I commend this Candlestick Method to you!!

FOREWORD

The Power of Candlesticks

Let us celebrate the sheer power of candlestick trading!!

I would like to encourage all readers to remember that their choice of candlestick trading as a strategy is one of the best there is.

For those who are experiencing losses, for newbies searching for a strategy, and just for everyone else as well, I would like to warm your hearts by again stating the great advantages of candlestick trading :

1) It is the **simplest** system to learn. Know the important patterns and have an eye for spotting them and you're done! No other system is this simple.

2) The candle pattern tells you **which way** to trade. No complex figuring out whether to go long or short. The pattern tells you this.

3) No need to figure out trends - just trade the pattern for profit to come.

4) No need for extra time frames to determine trend direction.
The candle pattern is **standalone** in its time frame and what you see is what you trade.

5) No time lag - all indicators suffer from lag. The candle pattern is **immediate**.

6) Because of (5) above, a trader's **confidence** is vastly improved with an immediate **improvement** in trading performance leading to more frequent profits and less losses.

7) Candlestick patterns, by their very shape, show the **psychology** of trading as well as the price action. Indicators are mathematical displays derived from the price data, and are, therefore, emotionless. Indicators show nothing of the psychology and emotions of trading.

8) Over a long period of time, the character of trading changes. That is why no system will always work. Eventually they all fail. But candlestick patterns are not a system and their shape and occurrence always keeps in step with trading character - because they are actually part of the character. Candlestick patterns **always work**.

9) Candlesticks work under all conditions, whether **trending** or **ranging** (consolidating). An indicator strategy requires that you first discern whether you are trending or ranging. Different indicators are needed for each approach. So with indicators you have twice the work to do. First you must discern the price action, and only after that can you start trading.

10) Candlesticks get you into price action **long before indicators** - in many cases, so much so that you are closing your trade by the time the indicator trader is just opening his.
Candlesticks are the fastest form of price prediction there is.

11) Candlestick trading is very reliable. Providing that the patterns are properly picked, and the poor ones weeded out, the probability of success is extremely high.

12) Providing you have enough charts, candlestick patterns are very frequent and give the trader lots of opportunities to trade. This gives the candlestick trader the choice of rejecting a trade whereas the indicator trader has to wait until his indicators line up to conform to his strategy.

Candlesticks - Behold the Rolls Royce of Trading!!

You will see many systems being advertised as trading methods.
Just lately, there is a whole plethora of them.

But they are all indicator systems, with no great difference in any of their operations. Only the names are changed in an attempt to attract new devotees.

They will all suffer the same fate - eventual failure because the character of price action changes and the system cannot adapt to meet the change.

So I am not interested in any of them.

I have found what I believe is one of the best of all strategies - **Candlesticks.**

* *

<mark>What exactly is it that makes candlestick trading so powerful?</mark>

Why can we get trades going when indicators do not show to even enter?

Well, here I am going to try to answer this question. I will use an example from physics as an aid.

* * * * * * * * * * * * * * * * *

We all know what a magnet is. It is made of iron or an iron alloy and attracts anything made of iron, nickel or cobalt.
Place a handful of nails on a table and the quickest way to pick them up is to grab them all with a magnet. Then you can lower them back into a container.

A small bar magnet will pick up any small iron object, be it nails, screws, a knife or anything else. Indeed magnetic screwdrivers are the property of electricians and you can buy magnetic screwdrivers at a hardware store.
They make life easier when a screw drops into some inaccessible place.

Now the magnet has what is called a "**magnetic field**" around it. Any small iron object within this field can be attracted. But not so outside this field. The magnetic field gets weaker further away from the magnet.

Even so, this magnetic field is invisible. You know it is around the magnet because of the influence the magnet has. That is, you can see the effect of the magnet. But the field itself you cannot see.

Below is a picture of a bar magnet covered by a glass plate with iron filings on top of the plate >>>
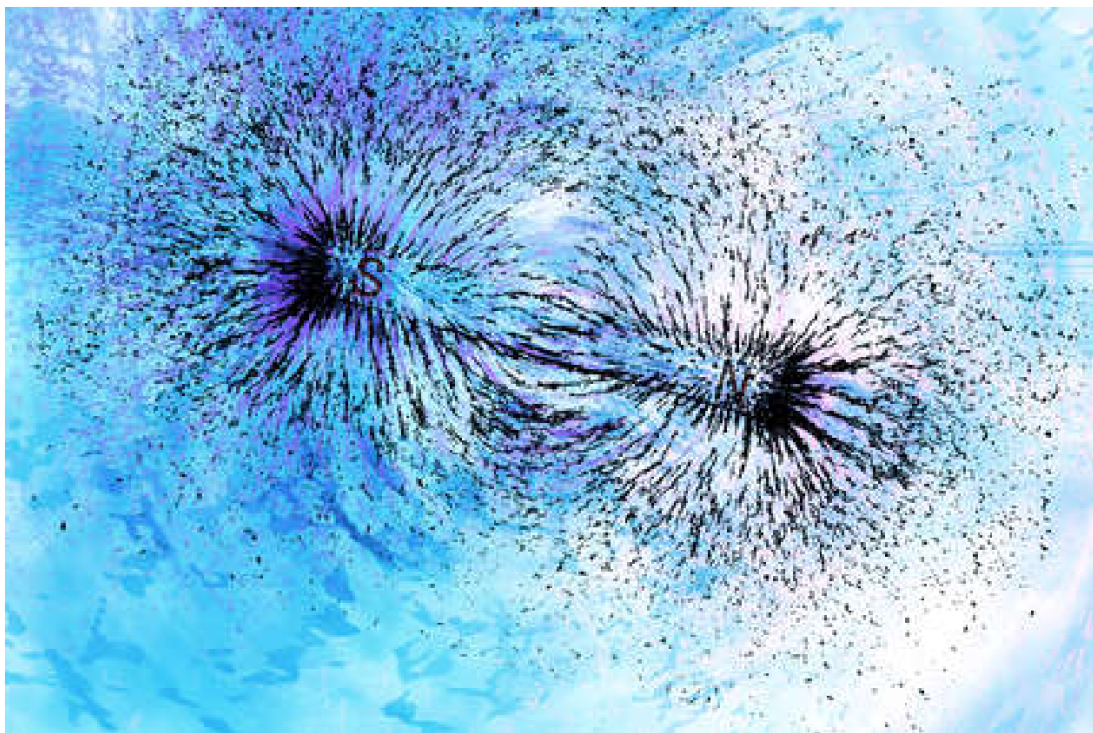
The iron filings will take on a pattern similar to that in the picture above.

Here we now have **visual evidence** of the existence of this magnetic field. We can now, if you like "see" the magnetic field that previously was so mysterious.

Now we know that in all trading, including forex trading emotions are at work.
These we all know as being fear, greed, anticipation, indecision ....and any others you think should be included.

But you cannot see these emotions. You cannot collect a container of liquid fear. Nor can you get a kilogram of greed.
These emotions are at work in the trading business but they are at work invisibly behind the scenes.
Because they are invisible, you can only see their effect when they occur.
 price races down - fear is present................price goes up - greed at work.

But you can see all these emotions!!

Not with a glass plate and iron filings but with ....yes……....**a candlestick chart!!**

Every time you see a candlestick pattern you see a "**magnetic field**". That is, you see a recognized and well proven pattern of emotions at work. The candlestick chart is then, an **emotions chart**, and you can see when the emotions are at work.
You can see which emotions are at work as well as discerning the intensity of those emotions.

Since emotions are a **main driver** of the market, you now have the clearest view of what is happening. Therefore, you can enter and exit the market based on these emotions and be done with your trade long before the indicator devotee gets his signals.

Assuming that we have an emotions chart, we also know that these emotions are very predictable. We know what will happen next.
We, therefore, need to know our emotion (candlestick) patterns **accurately** because a slight change in the pattern means a change in the emotions.

With indicators, **no such understanding is possible**.

The MACD, for example, is a mathematical manipulation of a series of closes.
The MACD knows nothing of what happened between any two closes.
Was there a very high high?
Did the price dip to a great low?
Who knows?
None of this information is revealed in an indicator.
Yet it is this very information that gives away the emotions at work.

And it is the shape and pattern of the candle that reveals all this information, in the same way as iron filings on a glass plate reveal the activity of a magnetic field.

This is what makes candlestick trading so powerful.

SECTION 1

<u>Introduction</u>

The Lion sits in the tall grass waiting for an attack to kill for food. He crouches down so that he cannot be seen. His sharp eyes and smell pick up the herd of animals just a short distance from him.
He waits patiently for the animals to come within striking distance. The target animal is picked and it is just a matter of waiting for the right moment.
Suddenly, without warning, the Lion strikes.
He catches the unsuspecting animal by surprise.
It is done in an instant, and the Lion has dinner.

The sniper is crouched behind a small wall with his rifle.
The enemy is slowly making its way towards him.
The sniper has picked his target and now simply waits for the target to come closer.
It is a waiting game.
Then the sniper aims very carefully, taking his time to make sure that the shot is accurate the first time. He slowly squeezes the trigger. His work will be done in a moment.
Suddenly a shot rings out, and the sniper has accomplished his kill successfully.

Welcome to this Candlestick Method of 2 Levels!!

Like the lion and the sniper, this method is a sniper method!!
It takes time to look and find an appropriate candlestick pattern.
Once found, it becomes your target, you watch and wait until all the other factors are correctly set up.
Then, at the correct time you suddenly strike, going long or short as the case may be.
In an instant the trade starts rolling with many pips pouring in.
A very short time later, the trade is closed with a good profit, and you are successful.

This system will show you how to be a sniper – how to be patient and wait for the correct candlestick setup.
Then, when the setup is there, in a method similar to a sniper, you will obtain large profits in a very short time.

How the Method Works

The Principle of Operation :

The
above

EVENING STAR
DARK CLOUD COVER
SHORT ENGULFING

UPPER BB
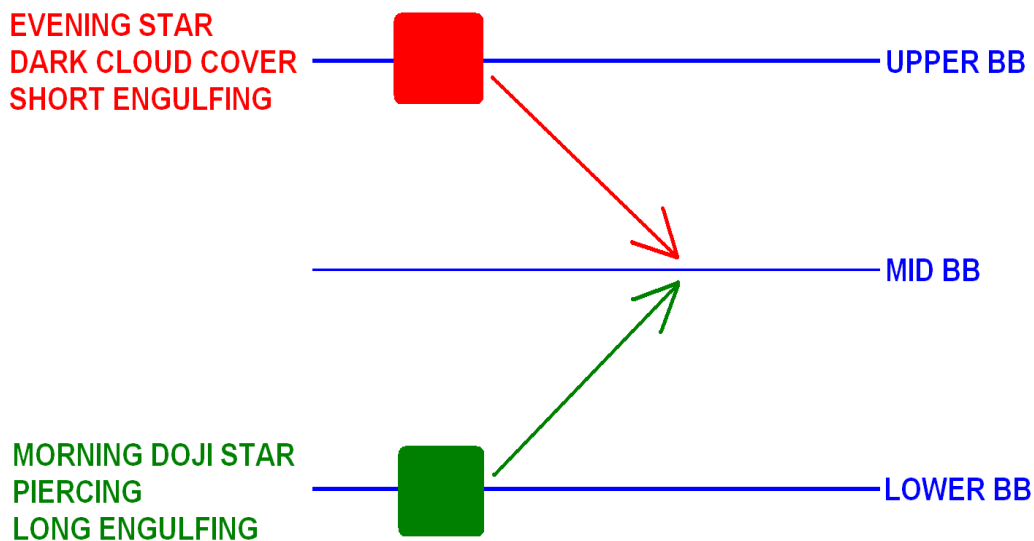
MID BB

MORNING DOJI STAR
PIERCING
LONG ENGULFING

LOWER BB

diagram illustrates how the method works. It is based on the combination of 2 principles. These are……

1) The careful choice of 2 and 3 line candlestick reversal patterns.

2) The use of Bollinger bands – standard settings (period = 20, std dev = 2).

We know that when a candlestick pattern appears, it indicates that price action is about to go in <u>one particular direction</u>.
As well as this we only trade the candlestick patterns when they are <u>placed on the upper or lower Bollinger bands.</u>

These bands mark an extreme point, and when prices are at the extreme of the Bollinger bands, the price action is much more likely to go only one way.
That one way at this extreme, is to return to the centre, marked by the mid Bollinger band.

By choosing a candlestick pattern seated on the outer Bollinger bands we combine 2 powerful signals, that of the pattern and the extreme of the price and hence greatly amplify the probability of the price action going into the centre, which is the direction of our choice.

Selecting the Candlestick Patterns :

The candlestick patterns chosen are reversal patterns.

Reversal patterns are those that break trends, and send the price action in the opposite direction. In this method, the reversal patterns take the trending price action (going outwards) and send it inwards towards the centre (mid BB) and even past this point for a good profit.
On the other hand, the continuation patterns have been shown to be somewhat tricky to trade and, therefore, form no part of this method.

The candlestick patterns are also 2 and 3 line patterns. These are the most reliable and the best ones of these have been chosen for this method.

Here is now a full pictorial description of the six candle patterns that are used in this system. Three are upper BB patterns for trading short and three are lower BB patterns for trading long.
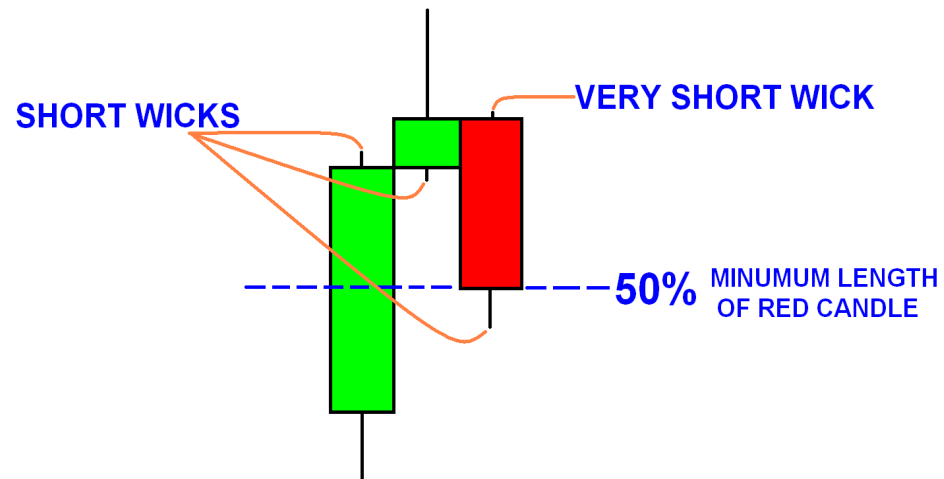The important features to look for in each candle pattern is shown. When deciding to trade a pattern, very strict selection should be made.

In addition to the features, no start or finish candle belonging to the pattern, should touch or come near the mid BB. The reason for this is simple – the mid BB is the first target profit line!! If the pattern already touches the mid BB, where is the profit?
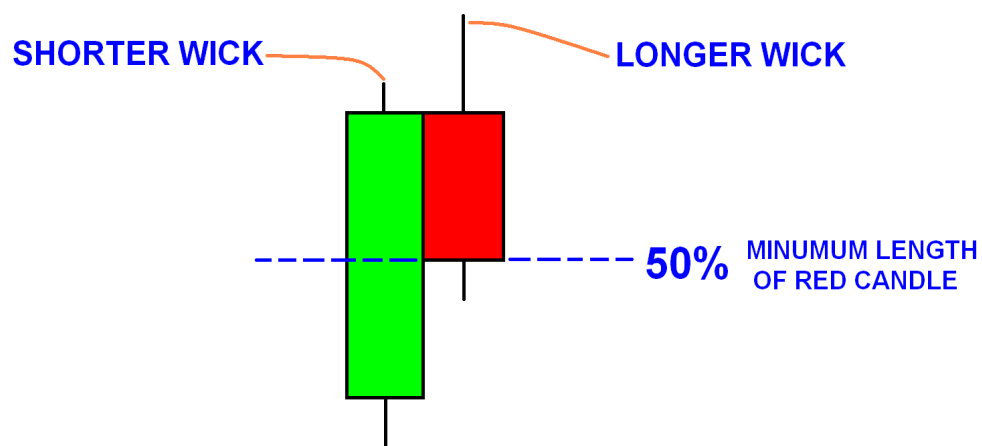
Patterns that do not meet these minimum requirements or are doubtful should not be traded.

SHORT TRADING PATTERNS :

1. EVENING STAR

SHORT WICKS

VERY SHORT WICK

50% MINUMUM LENGTH OF RED CANDLE

2. DARK CLOUD COVER

SHORTER WICK

LONGER WICK

50% MINUMUM LENGTH OF RED CANDLE

3. SHORT ENGULFING PATTERN

SHORTER WICK

LONGER WICK

SHORT WICK
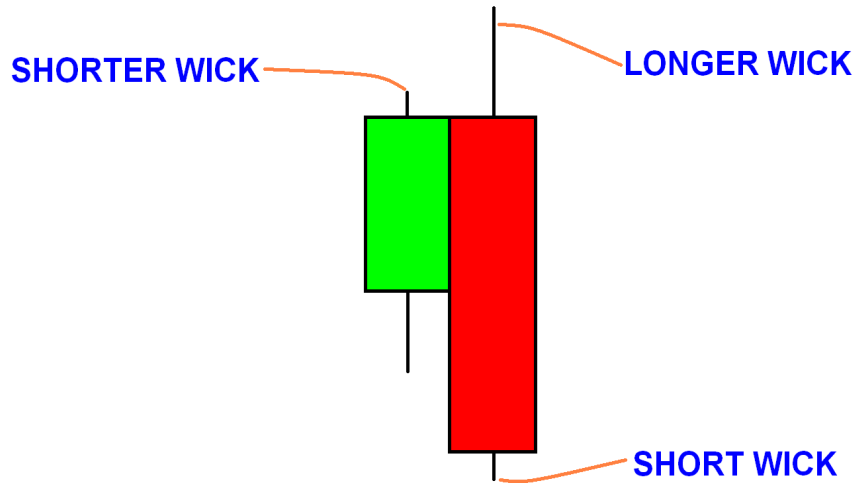
LONG TRADING PATTERNS :

4. MORNING DOJI STAR

SHORT WICKS

50%

MINIMUM LENGTH
OF GREEN CANDLE

5. PIERCING PATTERN

50% MINIMUM LENGTH OF GREEN CANDLE

SHORTER WICK

LONGER WICK

6. LONG ENGULFING PATTERN

SHORT WICK

SHORTER WICK

LONGER WICK
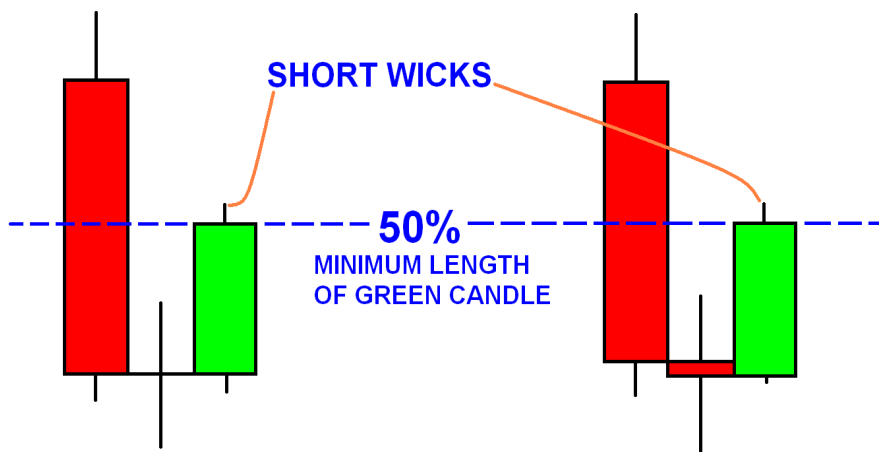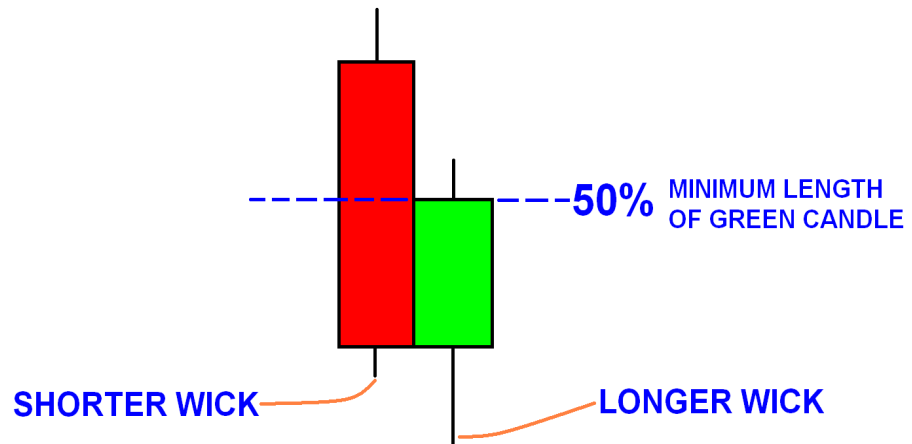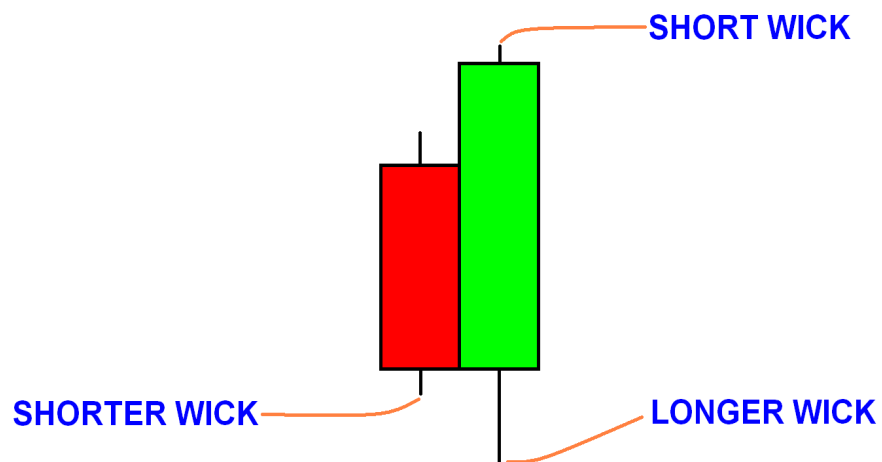
The Shape of the Bollinger Bands (BB) :

We know that when a candlestick pattern appears, it indicates that price action is about to go in <u>one particular direction</u>.
As well as this we only trade the candlestick patterns when they are <u>placed on the upper or lower Bollinger bands.</u>

These bands mark an extreme point, and when prices are at the extreme of the Bollinger bands, the price action is much more likely to go only one way.
That one way at this extreme, is to return to the centre, marked by the mid Bollinger band.

By choosing a candlestick pattern seated on the outer Bollinger bands we combine 2 powerful signals, <u>that of the pattern</u> and <u>the extreme of the price</u> and hence <u>greatly amplify</u> the probability of the price action going into the centre, which is the <u>direction of our choice</u>.

The outer Bollinger bands, however, need to be <u>correctly shaped</u> for this method to work.
Where the pattern is seated, they need to be <u>level</u> or preferably <u>turning inwards</u>.

In addition to this the mid BB needs to be <u>level</u> or <u>turning towards</u> the direction of the trade.
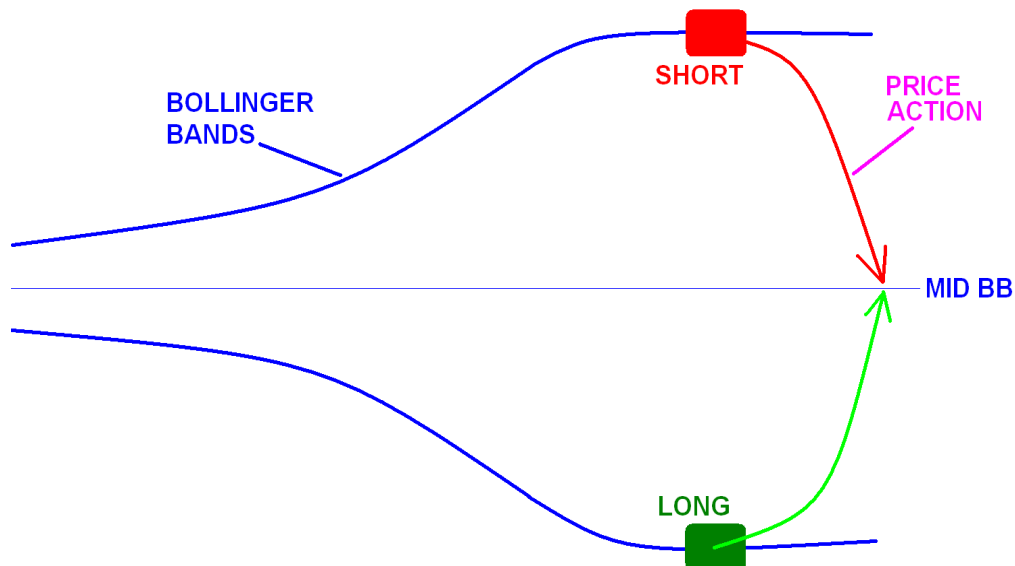
So essential is the correct shaping of the BB, that if they are not shaped as above, then the trade will most likely be lost.
Choosing the correct shaping of the BB is <u>just as important</u> as choosing the correct candlestick pattern.

The only solution to such a case is shown in the diagram below >>>

In this
we
not one,
patterns

case,
have
but two
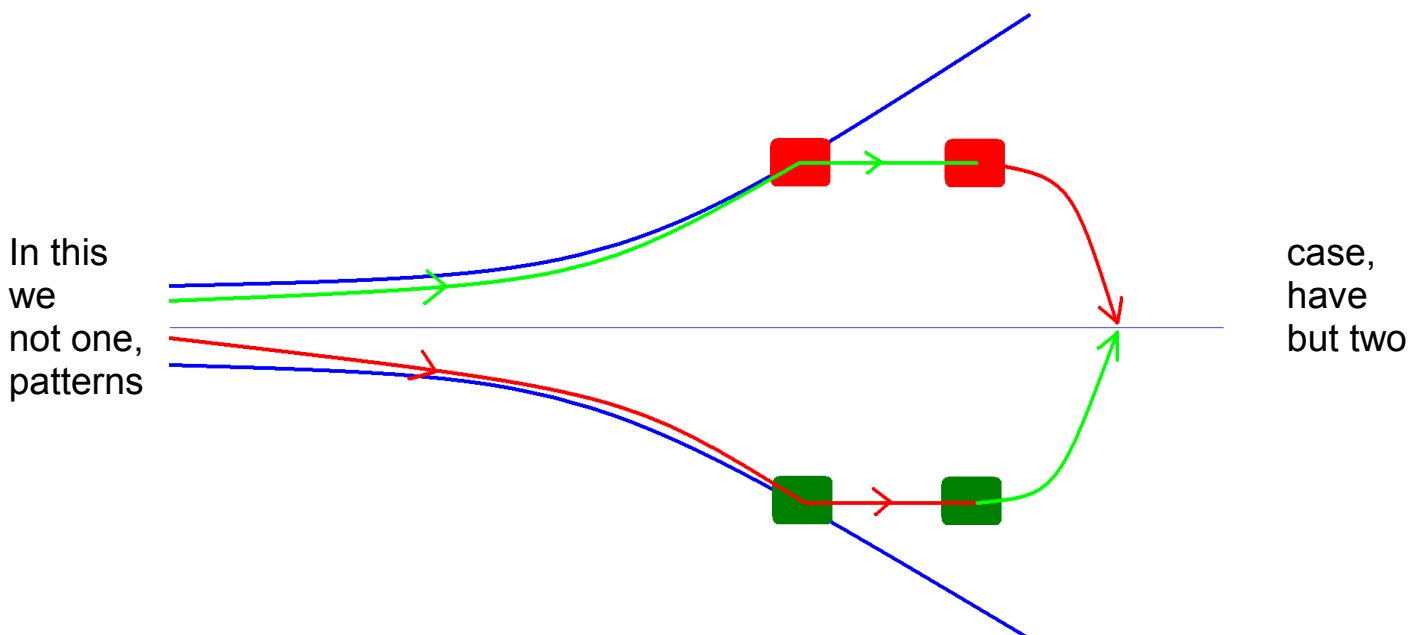
following each other separated by several candles.
The first pattern causes an interruption to the walking of the BB and price action
goes level. The second pattern then causes the price action to go inwards towards
the centre, that is, the mid BB.

Therefore, in cases where the outer BB are expanding strongly, the trade can only
be safely taken after a second pattern.
Where there is mild expansion of the outer BB, the trade can be taken with one
pattern but great caution needs to be exercised.

What about the mid BB?

The mid BB at the time of trade should be :
- preferably going in the trade direction.
- level is quite OK.
- mildly going against the trade spells – CAUTION.
- strongly going against the trade – PROBABLE LOSS.

<u>Setting Up the Method</u>

<u>Overview of the 2 Trading Levels :</u>

This method uses 2 levels to trade……

1) The Basic Level.

2) The Advanced Level.

The **Basic level** uses a powerful money management strategy involving the use of Multiple Contracts instead of just one. This strategy is used to cleverly maximize the number of winning trades while reducing the losers to an absolute minimum. Both the win/loss and risk/reward ratios are dramatically improved using this approach.

The **Basic level** uses a whole series of charts of timeframes 20,25,30,35 mins………1 hour. A fishing net principle is used here to "catch" as many candlestick patterns as possible. By using only one chart we would unfortunately find that candlestick patterns occur few and far between!!

All these charts, called <u>main charts</u>, have one indicator, the Bollinger bands, placed on them.

The **Advanced level** goes a step further and exerts such powerful control over the trade as to make the stop loss almost irrelevant, even though one is used. A true sniper approach is used here, and once the candlestick pattern is found and the other factors are lined up, an ambush strike is made, resulting in maximum profits in a very short time.

The **Advanced level** uses all of the <u>main charts</u> with the Bollinger bands that the **Basic level** uses. In addition to this, a <u>5 minute chart</u> is used at this level. The <u>5 minute chart</u> has the following :

1) Bollinger bands – (standard settings).
2) 2 sets of Stark bands :
   - the first is set at "factor = 1"
   - the second at "factor" = 0.7"

Detailed explanations on how to use the 2 levels will be given further on. The choice of level to use is yours. The ease of use is the same for both levels.

Procedures Common to Both Levels :

The operations here are important and frequently used.
Later I will simply use their names when referring to them so as to keep things simple.

Definition : <u>Contract</u>.
A contract depicts any number of lots together with any leverage.
For example 2 standard lots can be "1 contract".
Or 5 minilots can be "1 contract".
The size and leverage of the "contract" is at the choice of the trader.
In this candlestick method, a trade will consist of 2 contracts in every case.

Definition : <u>PCI stop loss</u>.
Power, computer, internet.
This stop loss will be used and its intention is to prevent a margin call if there is a failure in the power supply, a computer failure or internet dropout.
The PCI stop loss is generally set moments before entering a trade.

Definition : <u>Break Even.</u>
This is the clever act of preventing trades from becoming losers.
The Break-Even involves moving the stop loss or trade closure to the <u>trade entry point.</u>
The worst that can happen after that, is a price retrace to the trade entry point, giving a profit/loss of zero.
The Break-Even act can be done in <u>two ways</u> :

1) Closing the trade immediately if the <u>floating profit/loss window</u> hits zero.

2) <u>Moving the stop loss</u> to the trade entry point.

<u>OTHER IMPORTANT OPERATIONS</u>

<u>Default Parameters</u> – When clicking on the Direct Order Window (Direct Deal ticket in GFT), you can <u>preset the lots</u> to be traded.
This presetting can be very useful because it saves time.
In GFT, there is an operation under "parameters" which will allow you to do this. Other platforms will have their own methods.

<u>Moving PCI stop loss quickly to break even</u> – the quickest way of doing this in GFT Dealbook is to mouse drag the line down to the trade entry point.
A window appears, click OK and it is done.
Other broker platforms will have their own fast methods of doing this.

<u>Use of Eyes</u> – you will be doing a lot of careful looking to control your trade. Your eyes will become the most important tool you will use to win your pips.

How to trade the Basic Level

Overview :

There are 2 types of **Basic level** trades………….

- **Retrace first** – Most of the time when we enter a candlestick pattern trade, the price action will go against us for a time. To cater for this, we use a <u>Retrace first</u> trade.

- **Pips first** – Sometimes when we enter a candlestick pattern trade, the price action goes into profit immediately. To cater for this, we use a <u>Pips first</u> trade.

Retrace First :

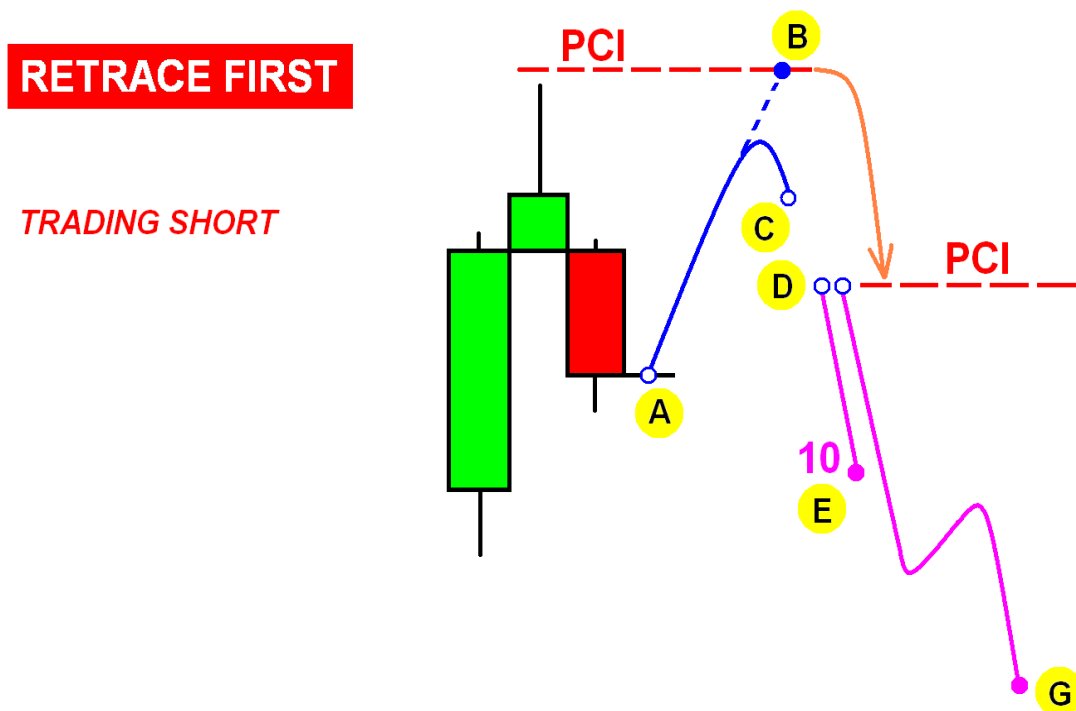2 strategies are used here to greatly improve performance………..

- **The retrace** – when the price action goes against us, traders normally give up on the trade and call it a loss. But in this strategy we take advantage of this negative price action to give us an even better trade than normal.

- **Multiple Contract strategy** – this is the clever tactic to get many more winners than losers. Even with the powerful candlestick trading method, trading only <u>one</u> <u>contract at a time</u> would see us getting more losers than winners, and in the end, of course, we would lose all our funds!! The power of the Multiple Contract strategy comes from moving the stop loss to **Break Even**.

Let us now look at the **Retrace First** in detail……………..

In the diagrams the blue lines are negative price action (loss), while pink is positive price action (profit).
The diagrams are taken from the **viewpoint of trading short.**
In **trading long**, the direction is simply reversed >>>

RETRACE FIRST

TRADING SHORT

We will now arrange a step by step walkthrough for the trade by referring to letters in the diagram above :

Prepare) We find a correct candlestick pattern on one of the charts (20, 25, 30 mins………1hour) and make sure it is located on the outer BB. We also check carefully to see that the BB have the correct shape.

Prepare) We then set a PCI stop loss about 3 pips outside the extreme point of the pattern.

1) Enter with 1 contract **(A).**

2) Wait for the trade to either hit the PCI **(B)**, or come back.

3) If it comes back, then enter the 2nd contract **(C).**

4) <u>Dealbook</u> – the computer automatically averages the entries **(D).**
   <u>Metatrader 4</u> – does not average the entries – calculate **(D)** quickly.
   Note **(D)** = **(D).**

5) <u>Dealbook</u> – at 10 pips profit **(E)** exit 1 contract and <u>move</u> the PCI stop
   loss to <mark>Break Even.</mark> **(D)**
   <u>Metatrader</u> – at **(D)** + 10, move PCI to calculated <mark>Break Even</mark> **(D).**

6) Wait until the trade continues into profit **(G)** or reverses to the <mark>Break
   Even</mark> stop loss **(D)** [Dealbook]
   or calculated <mark>Break Even</mark> **(D)** [Metatrader].

The Multiple Contract strategy greatly improves the **win/loss ratio** from 40%
winners to 60% winners.
It accomplishes this by shutting down many of the loser trades by moving the stop
loss to <mark>Break Even</mark> giving a profit/loss = 0.
Further a 2nd contract acts in sniper fashion to grab 10 pips while the trade is still
positive thus making a winning trade.

The net result is that a whole bunch of loser trades become winners!!

A very clever money management strategy indeed!!

For a deeper understanding of this strategy, click on the following hyperlink……

Using Multiple Lot Positions To Improve Trading FX - BabyPips.com Forex Forum

Pips First :

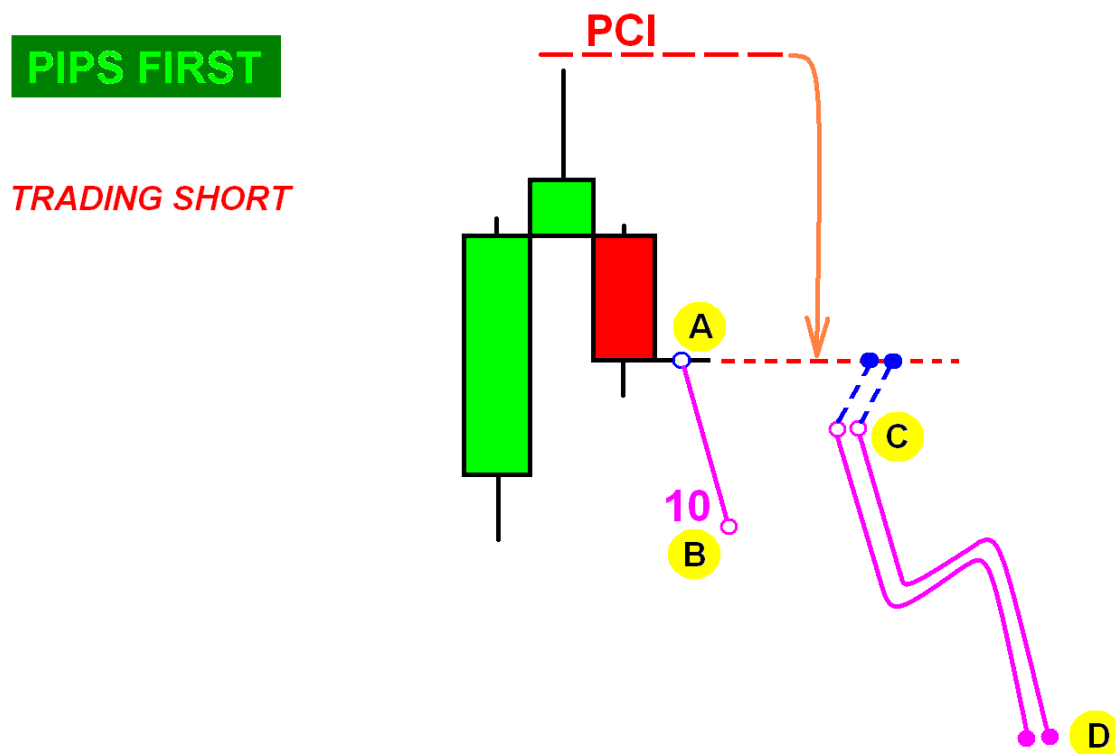1 strategy are used here to greatly improve performance………..

- **Multiple Contract strategy** – a slightly different strategy is used here to double the winning amounts compared to the losing amounts. Again, the power of the Multiple Contract strategy comes from moving the stop loss to **Break Even**.

Let us now look at the **Pips First** in detail……………..

In the diagrams the blue lines are negative price action (loss), while pink is positive price action (profit).
The diagrams are taken from the **viewpoint of trading short.**
In **trading long**, the direction is simply reversed >>>

We will now arrange a <u>step by step walkthrough</u> for the trade by referring to letters in the diagram above :

Prepare) We find a correct candlestick pattern on one of the charts (20, 25, 30 mins………1hour) and make sure it is located on the outer BB. We also check carefully to see that the BB have the correct shape.

Prepare) We then set a PCI stop loss about 3 pips outside the extreme point of the pattern.

1) Enter with 1 contract **(A).**

2) Wait until the trade has moved into profit by 10 pips.

3) Enter a 2nd contract (B). The computer automatically averages the entries (C). Metatrader 4 does not average the entries.

4) Immediately move the PCI stop loss to <mark>Break Even</mark> (A). This also applies to Metatrader 4.

5) Wait until the trade continues into profit (D) or reverses to the <mark>Break Even</mark> stop loss. (A).

The Multiple Contract strategy greatly improves the **risk/reward ratio.**
It accomplishes this by making the risk = 1 contract trade, while reward = 2 contract trades.
Moving the stop loss to **Break Even** reduces the loser (risk) trades to 2 losses of only 5 pips each.
That equals <u>1 contract</u> of only 10 pips.
However, the reward is run to completion with <u>2 contracts.</u>

The net result is not only 2 contracts of reward as to one cntract of risk, but also a severe reduction of the maximum loss possible.

A very clever money management strategy indeed!!

How to Trade the Advanced Level

Overview :

The **Advanced Level** replaces the Multiple Contract strategy with a 5 minute Starc band chart. However, 2 contracts are still used to trade with. The Advanced Level uses :

- The <u>main charts</u> – 20, 25, 30, 35………1 hour. These have the Bollinger bands (standard settings), on them.
- <u>5 minute charts</u> which have the following……..
  - Bollinger bands (standard settings).
  - Starc bands – 2 sets.

The Starc bands are the powerhouse of the **Advanced Level**. They provide surgical precision entries and exits, so that the PCI stop loss becomes almost irrelevant. If used correctly, the win ratio of this level is almost 100%.

There are 2 sets of Starc bands used. One has factor = 1, the other has factor = 0.7. You can set the thickness of the lines as you please. The other settings of the Starc bands are :

- mid band = 6 period sma.
- ATR period = 15.

For a deeper understanding of the Starc bands, click the following hyperlink….

CRB Trader Archive

The Stages of Trading :

There are 2 stages in trading the **Advanced Level**…………..

- **We search for a correct candlestick pattern on the main charts. We carefully check the Bollinger bands. We then set the PCI stop loss.**

- We then switch to the 5 minute charts where the entries and exits are made.

The rest of this section is devoted to the Starc bands and how to make entries and exits with them.
Once we have switched to the 5 minute Starc band chart, there are 2 types of trade possible……..

- Level Starc band trades.
- Sloping Starc band trades.

Observation of Price Action :

In order to more fully understand how this level works we now look at some actual charts of price action on level and sloping starc bands.

The Starc bands mostly operate within the Bollinger bands.
In the following charts the Bollinger bands are shown in blue while the Starc bands are shown in pink. The grey and yellow shading is done for clarity and will not be seen on live charts >>>
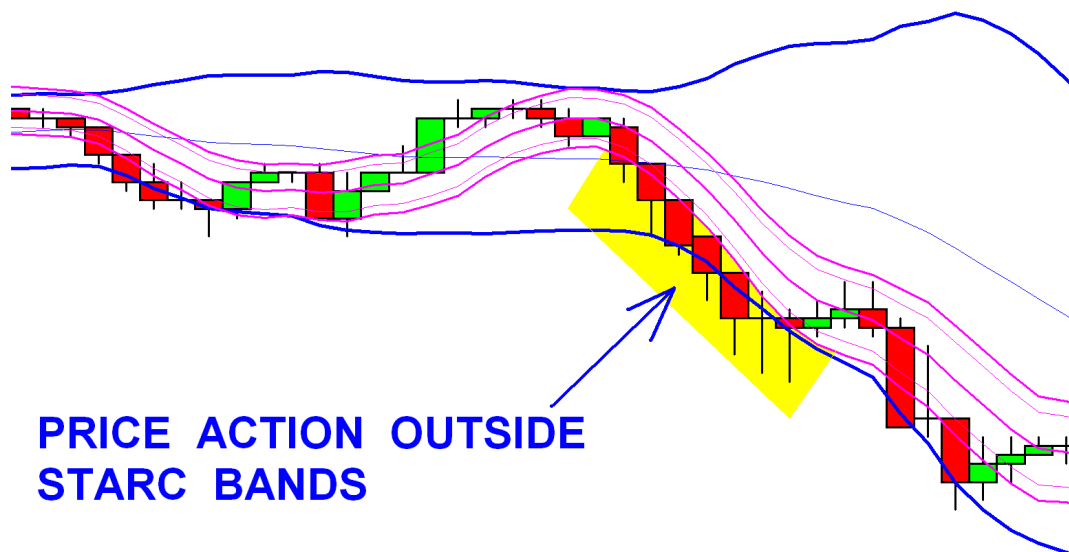

STARC BANDS LEVEL
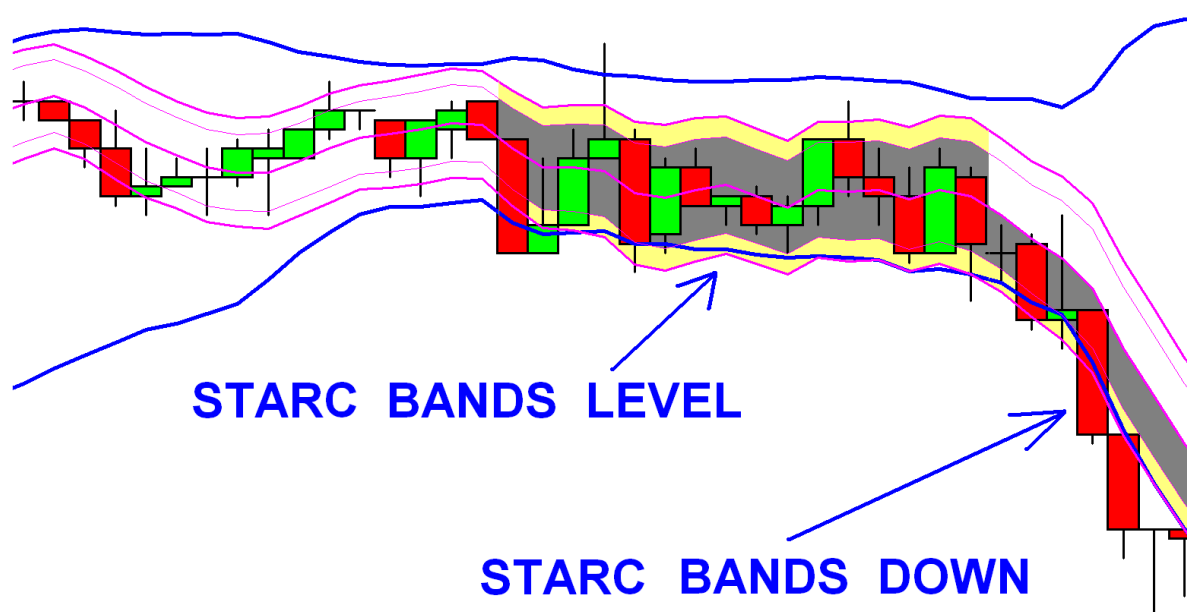
STARC BANDS DOWN

We note that on the level section the price action travels the entire width of the Starc bands. But where the Starc bands go down, the price action is restricted to the lower half of the bands.

We now look at a case where the Starc bands are rising >>>

STARC BANDS RISING
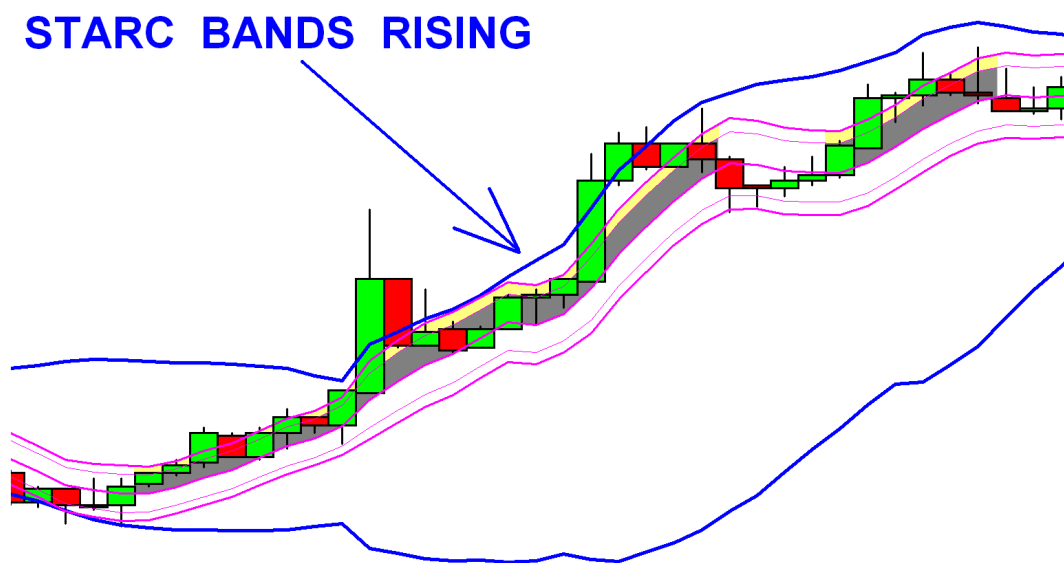
Here we note that the price action is generally restricted to the upper half of the Starc bands.

In this last example below, the Starc bands are falling very steeply >>>

**PRICE ACTION OUTSIDE
STARC BANDS**

The price action here is not only restricted to the lower half, but is actually outside the lower Starc band.

These observations can be summarized :
- Starc level – price action everywhere.
- Starc rising – price action in upper half
- Starc rising steeply – price action outside upper half.
- Starc falling – price action in lower half.
- Starc falling steeply – price action outside lower half.

With this knowledge in mind, we now continue…………….

Setting Up the Trade :

We assume at this point that the initial selection of the candlestick patterns and the careful checking of the Bollinger bands on the main charts is fully in order. This is absolutely essential before we proceed.
A PCI stop loss has also been set.

We now switch to the 5 minute chart and check 2 things :
- The mid BB must be going in the trade direction, or at least, level on this 5 minute chart.
- The Starc bands must be going in the trade direction, or at least, level on this 5 minute chart.

The following combinations are then possible ………
- Both mid BB + Starc in your favour.
- Mid BB in your favour, Starc level.
- Mid BB level, Starc in your favour.
- Mid BB level, Starc bands level.

If any of the above combinations are met, then there is AGREEMENT.
If either, or both are going against us, even slightly, then there is DISAGREEMENT.

We **only trade** when there is AGREEMENT.

While there is DISAGREEMENT, there is **no trade** until such a time as AGREEMENT occurs, if at all.

Sticking closely to this rule is essential if there is going to be success in the trade!!

The Level Starc Band Trade :

If the Starc bands are level, the mid BB must be going in our favour or at least level for there to be AGREEMENT.
Assuming this is so, we look at a level starc band trade >>>
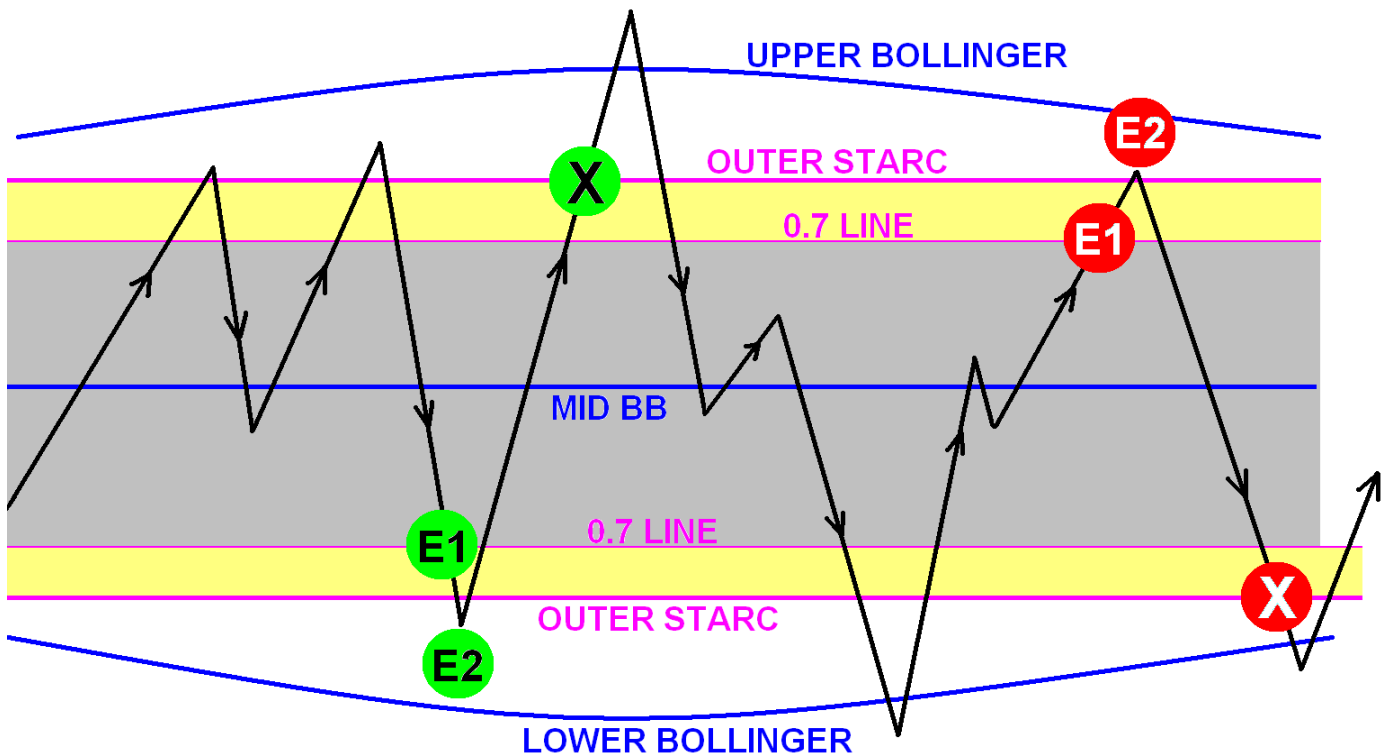
Explanation

This diagram summarizes the level Starc band case.
In this diagram, the mid BB is level – the weakest case, the best being with the mid BB going in the trade direction.
The Starc bands are shown level with shading for clarity. The 0.7 line is from the 2nd set of Starc bands.
The black line represents price action.

The **long trades** are shown as **green dots**.
The **short trades** are shown as **red dots**.

The 1st contract entry, **E1**, is made at the 0.7 line.
The 2nd contract entry, **E2**, is made a little later, at a better price, to try to improve the total entry. (the computer will average the 2 entries).

The exit, X, is made with both amounts, at the opposite outer Starc band.

The Sloping Starc Band Trade :

This section is a little more complex and we will, therefore, look at entries and exits separately.

If the Starc bands are sloping, the mid BB must still be going in our favour or at least level for there to be AGREEMENT.
Assuming this is so, we look at a <u>sloping starc band</u> entry >>>
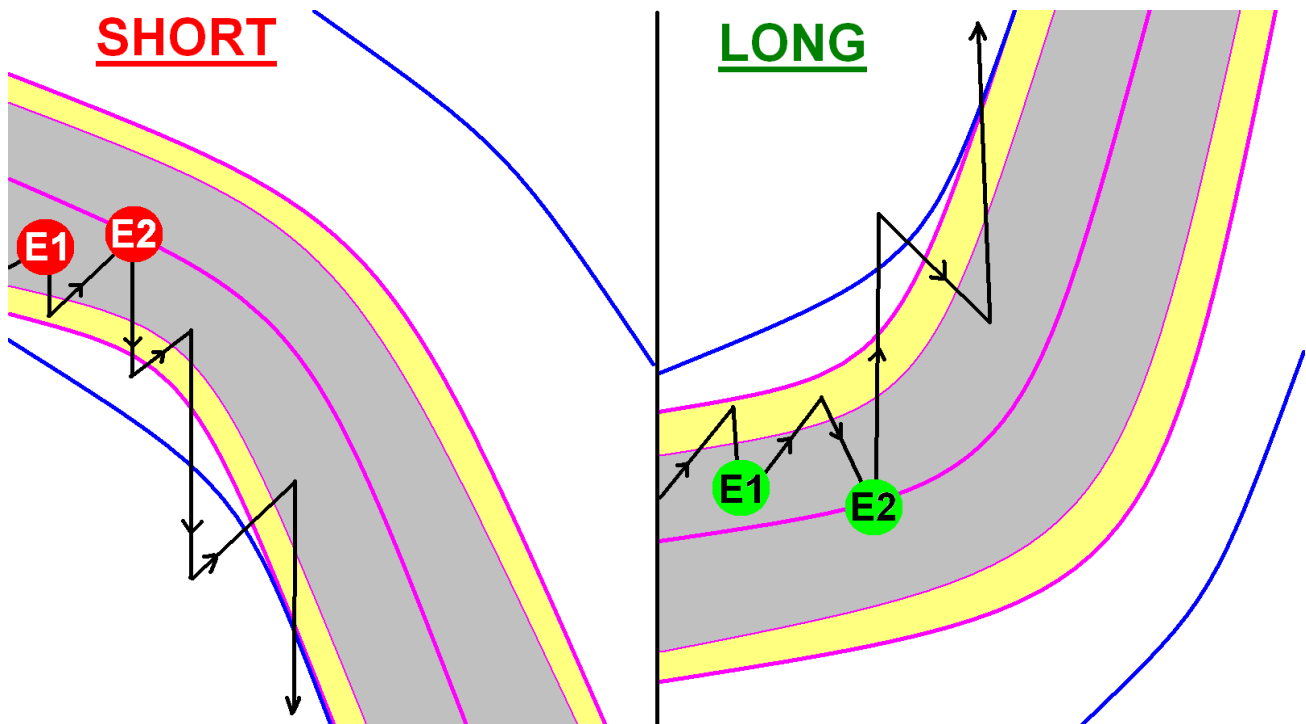
Explanation
For the purposes of clarity, the mid Bollinger band has not been shown in this drawing. But it should be at least level, preferably in our favour.

The Starc bands are shown level with shading for clarity. The 0.7 line is from the 2nd set of Starc bands.
The black line represents price action.

The **long trades** are shown as **green dots**.
The **short trades** are shown as **red dots**.

The 1st contract entry, **E1**, is made immediately.
The 2nd contract entry, **E2**, is made a little later, at a better price, to try to improve the total entry. (the computer will average the 2 entries).
A price at the mid Starc band is about the best **E2** price to expect.

Now we will look at a <u>sloping Starc band</u> exit >>>
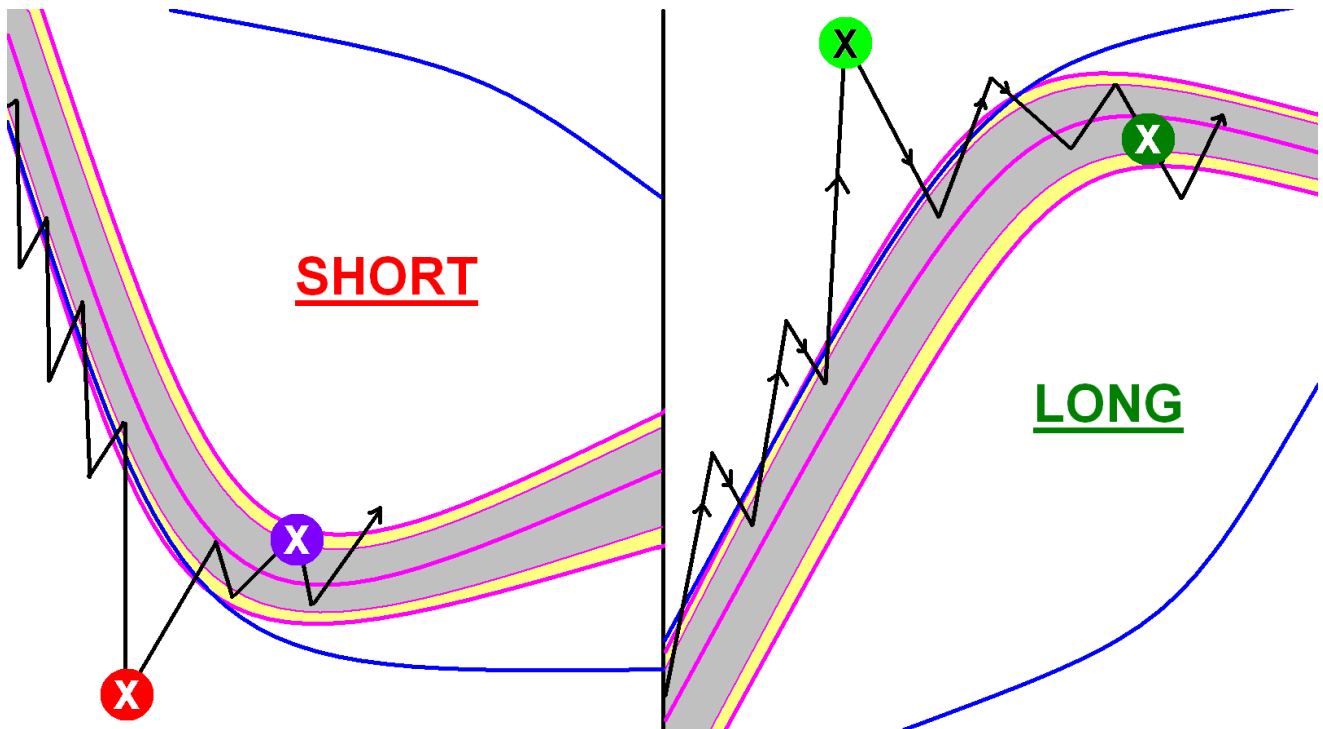
Explanation

Again, the mid BB has not been shown here for clarity.
But at this point the mid BB will have been going strongly in our favour.

The Starc bands are shown level with shading for clarity. The 0.7 line is from the 2nd set of Starc bands.
The black line represents price action.

<u>An exit is done with both contracts at the same time.</u>

There are 2 quality exits in each diagram.

The **red** and **light green** exits occur when the candles extend themselves way beyond the Bollinger bands. This is an absolute extreme and, therefore, an excellent exit point.
The **purple** and **dark green** exits occur when the Starc bands begin to turn around as shown in the diagrams.

END

Appendix A
Training :   Forum, Videos, Reading

Forum :

Here is a link to the forum to see actual trades that have been made. Click the following hyperlink……

THE JOY OF CANDLESTICK TRADING - Part 2 - Page 112 - BabyPips.com Forex Forum

The above hyperlink takes you from page 112 onwards. There are many trades from here on for you to learn from.
There is also a great deal of material about the use of Metatrader from page 153 onwards.

Videos :

This hyperlink showing many example trades has been kindly provided by **DodgeV83**……

http://www.youtube.com/user/DodgeV83

Reading :

Nison, Steve, *Japanese Candlestick Charting Techniques*, Wiley, 1991.

Nison, Steve, *Beyond Candlesticks*, Wiley, 1994.

Bedford, Louise, *The Secret of Candlestick Charting*, Wrightbooks, 2003.

Bollinger, John, *Bollinger on Bollinger Bands*, Mc Graw-Hill, 2001.

Phillipe Cahen, *Dynamic Technical Analysis*, Wiley, 2001.

Appendix B
Trading with Metatrader 4

Setting up the Timeframes in MT4

This candlestick method was designed to be used with GFT Dealbook or a similar high calibre forex charting program.

I cannot recommend the use of Metatrader 4 because in the words of one trader who used MT4…. "Metatrader simply does not cut it with this strategy".

And later "Dealbook just blows it out of the water".

To summarize, Metatrader presents a number of difficult problems in trading this candlestick method. Thus, I cannot guarantee success using this program.

Metatrader has spaces between the candles on its charts. This is a problem. Because we deal with slopes of outer and mid BB as well as Starc bands, the degree of these slopes is affected by the spaces between the candles. The result may not be what we think it is. GFT Dealbook, on the other hand, allows the candles to be positioned as you want them – in this case next to each other.

However, for those persons wishing to trade with MT4 anyway, included herein is the material for setting up the many timeframes that you need. In Appendix C, the material for setting up the Starc bands is given.

Here now is the hyperlink for downloading the Metatrader file which allows you to trade with many timeframes……….

Period Converter Optimised - MQL4 Code Base

Now here are the instructions to go with it……..

I. Features:
This is an improved version of period converter for MT4 based on the MT4's default period converter by metaquotes.

The default period converter script do not support real-time refreshing, and consumes lots of CPU (50%-9x%) making the whole system slow. Also, the default one is a script which do not save when you exit MT4, so you have to apply every converter script again after restarting, quite annoying.

This one fixed all above problems:
1. Real-time updating or custom interval millisecond level updating.
2. Low CPU cost, average 5%-10% or less.

3. Works as an indicator, so can be saved and reloaded during restart.
4. There is no one converter per chart limitation as it is not script any more, you can only use one window as source to generate as many new timeframe chart as possible.
5. Auto updating if there is new history block loaded.

II. How to use:
Copy the mq4 file to your MT4 indicators folder (experts\indicators) to install it as an indicator, NOT script. then in the custom indicator list, attach period_converter_opt to the chart you want.
It support 4 parameters:
PeriodMultiplier: new period multiplier factor, default is 2
UpdateInterval: update interval in milliseconds,
                        zero means update real-time. default is zero.
Enabled: You can disable it without removing it with this option.

Other parameters are comments or for debugging, it is safe to ignore them.

Also Make sure you have Allow Dll imports option checked in common tab or
it won't work

After that, File->Open Offline to open the generated offline data. then the offline data will be updated automatically.

As long as you keep the source chart open and the converter indicator running, the generated chart including indicators inside will always be updated. also you can close the generated chart and open again later from File->Open Offline without problem.

If you want to quit MT4, you can leave those offline chart as other normal online charts. when you start MT4 next time, those charts will also be loaded and updated.

III. Notes:
1. Do NOT uncheck the "offline chart" option in offline chart common properties.
   or after MT4 restart, it will treat that chart as online chart and request the data from server, resulting empty chart window.
2. You can attach more than one converter to same window with different PeriodMultiplier, e.g: you can attach 3 converter with PeriodMultiplier = 2, 4, 10 to M1 to generate M2, M4, M10 at the same time.

It is even ok to use the M1 chart to generate Hourly chart like H2, which
  only cost a few more CPU resource during initial conversion. but usually
  most server don't have much data for those short period. resulting the
  generated data isn't long enough for long period. so it is suggested
  to use Hourly/Daily charts as source when needed.
3. The real-time updating mode updates quotes as fast as possible, but as
  this is done via script, and MT will skip calling start() function when
  your PC is busy and lots of quotes income. anyway, this seldom happen,
  and you can at least get 10 updates each seconds which is much more
  than enough.
4. The offline charts don't have a bid line showing in chart, but all data
  in the chart including the indicators is still being updated,
  so don't worry. you can show the bid line by unclick the "offline chart"
  option in chart properties. but which don't helps much and if you forget
  to check "offline chart" option before exit. it will cause errors and
  become empty on next startup. you have to close the window and open
  again from File->Open offline, which don't worth the trouble.

IV. History:
2006.02.16 1.5   Added TimeShift option, can be used to shift hour
                     timeframe
                 to generate daily timeframe when your timezone is different
                 from the server, default is zero.
2005.12.24 1.4   faster to detect if data changed by removing float point
                 operations, added support to output CSV file in real time.
                 OutputCSVFile = 0 means no CSV.
                 OutputCSVFile = 1 means CSV + HST
                 OutputCSVFile = 2 CSV only, no HST .
                 (useful if you want to generate CSV for builtin periods)
                 CSV Filename will be the same as HST file except the extension.
                 added safe checking for PeriodMultiplier.
2005.12.04 1.3   Fixed missing data when there is large amount of data
                 loaded in several blocks, and support auto updating
                 when new history is loaded.
2005.11.29 1.2   Additional fix for missing data and server changing.
2005.11.29 1.1   Fixed missing partial data after restart.
                 Reinitialize after changing server or data corrupted.
2005.11.28 1.0   Initial release

Appendix C
Trading with Metatrader 4

Setting up the Starc Bands in MT4

Video :

Before you start, here is a U Tube video that shows you how to set up the Starc Bands…..

http://www.youtube.com/watch?v=7k_EdC3Kahc

Instructions :

1. Open notepad on your computer.
2. Copy the code in the white box that you posted
3. Go to File "Save As"
4. In the name box type "Husky_Double_starc.mq4" (Use the quotes, as it will save it as .txt if you do not.
5. For the location you will go to C:\program files\<Name of your metatrader folder>\Experts\indicators\...
6. Once save in their, you can close notepad.
7. Now go to the above directory and you should see the file,double click it and it should open in Metaeditor.
8. Hit the compile button and now it should show up in your custom indicators.

The Code :

```
// Originally STARCBands.mq4
// Copyright © 2005
// scorpion@fxfisherman.com
// http://www.fxfisherman.com
// Updated by Husky to have 2 sets
// of bands for the Tymen Method
//+----------------------------+


#property link "http://www.fxfisherman.com/"


#property indicator_chart_window
#property indicator_buffers 8


//---- indicator parameters
```

```
extern int MA_Period=6;
extern int ATR_Period=15;
extern double KATR=1;
extern double MKATR =0.45;
extern int Shift=1;
extern color UpperColor=Pink;
extern color MUpperColor=Pink;
extern color MiddleColor=Pink;
extern color MLowerColor=Pink;
extern color LowerColor=Pink;
//---- buffers
double MovingBuffer[];
double UpperBuffer[];
double LowerBuffer[];
double MUpperBuffer[];
double MLowerBuffer[];


//+------------+
//| initialization function
//+------------+
int init()
{
  //---- indicators
  SetIndexStyle(0,DRAW_LINE,0,2,MiddleColor);
  SetIndexBuffer(0,MovingBuffer);
  SetIndexStyle(1,DRAW_LINE,0,2,UpperColor);
  SetIndexBuffer(1,UpperBuffer);
  SetIndexStyle(2,DRAW_LINE,0,2,LowerColor);
  SetIndexBuffer(2,LowerBuffer);
  SetIndexStyle(3,DRAW_LINE,0,1,MUpperColor);
  SetIndexBuffer(3,MUpperBuffer);
  SetIndexStyle(4,DRAW_LINE,0,1,MLowerColor);
  SetIndexBuffer(4,MLowerBuffer);

  //----
  SetIndexDrawBegin(0,MA_Period+Shift);
  SetIndexDrawBegin(1,ATR_Period+Shift);
  SetIndexDrawBegin(2,ATR_Period+Shift);
  SetIndexDrawBegin(3,ATR_Period+Shift);
  SetIndexDrawBegin(4,ATR_Period+Shift);
  //----
  return(0);
}


//+----------+
//| Bollinger Bands
//+----------+
int start()
{
  int i,k,counted_bars=IndicatorCounted();
```

```
   //----
```

```
   if(Bars<=MA_Period) return(0);

   //---- initial zero
   if(counted_bars<1)
   for(i=1;i<=MA_Period;i++)
   {
     MovingBuffer[Bars-i]=EMPTY_VALUE;
     UpperBuffer[Bars-i]=EMPTY_VALUE;
     LowerBuffer[Bars-i]=EMPTY_VALUE;
     MUpperBuffer[Bars-i]=EMPTY_VALUE;
     MLowerBuffer[Bars-i]=EMPTY_VALUE;

   }

   //----
   int limit=Bars-counted_bars;
   if(counted_bars>0) limit++;
   for(i=0; i<limit; i++)
   {
     MovingBuffer[i] =
iMA(NULL,0,MA_Period,Shift,MODE_SMA,PRICE_CLOSE,i);
     UpperBuffer[i] = MovingBuffer[i] + (KATR *
iATR(NULL,0,ATR_Period,i+Shift));
     LowerBuffer[i] = MovingBuffer[i] - (KATR *
iATR(NULL,0,ATR_Period,i+Shift));
     MUpperBuffer[i] = MovingBuffer[i] + (MKATR *
iATR(NULL,0,ATR_Period,i+Shift));
     MLowerBuffer[i] = MovingBuffer[i] - (MKATR *
iATR(NULL,0,ATR_Period,i+Shift));
   }

   //----
   return(0); }
//+--scorpion@fxfisherman.com--+
```

END