

# Welcome to the Stage III Forex Quick Start User Guide



**Disclaimer:** *Trading in foreign exchange is highly speculative and involves significant risk of loss. This is not a solicitation to invest and you should carefully consider your financial situation as to the suitability of speculative investment activities, prior to making any investment or entering into any transaction. Market conditions vary constantly, and the profitability of this system may increase or decrease at any time. Past results are not indicative of future returns. Trade alerts or any trade recommendation or advice contained in this (or related) material is provided for discussion and educational purposes only. Stage III Forex and its authors assume no responsibility for any loss whatsoever resulting from the use of any material contained in this or related documents, systems or software.*



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STAGE III



SECTION: 1

Installation & Setup Guide

# SECTION 1: Installation & Setup Guide



## Software Installation

- Loading the Indicators
- Customization
- Creating a Template



### Software Installation:

**Option A:** To install the files from your **EMAIL**:

1. Download both ex4 indicator files (FILENAMES)
2. Save the files to the “Indicators” folder inside your Meta Trader 4 program
3. After saving the files into the “Indicators” file RESTART the Meta Trader 4 terminal

**Option B:** To install the files from a **CD** or **Disk**:

1. Load the CD or Disk and select the (FILENAME)
2. Save the files to the “Indicators” folder inside your Meta Trader 4 program
3. After saving the files into the “Indicators” file RESTART the Meta Trader 4 terminal

The typical path to the Indicators folder is as follows:

*My Computer>Local Disk : C (C being the drive to which you have stored the Metatrader4 program)>Program Files>Metatrader4>Experts>Indicators*

*Next: Loading the Indicators*

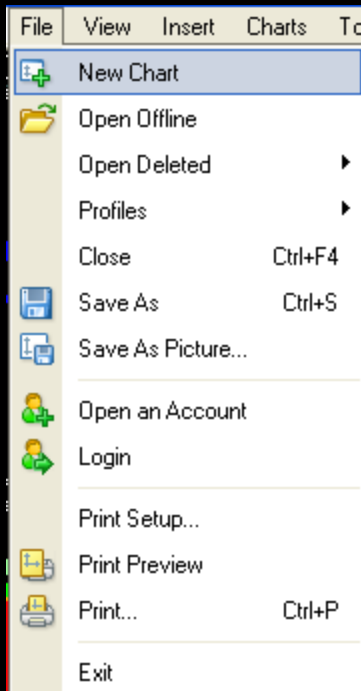
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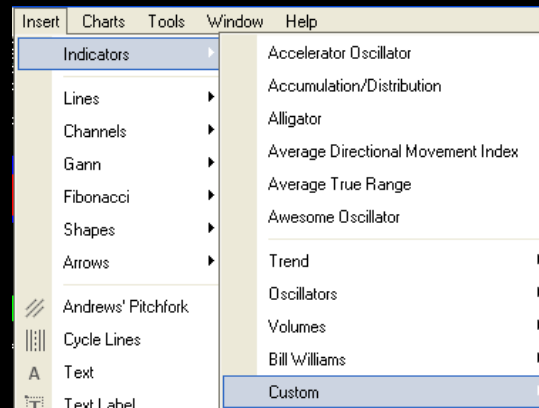
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## Loading the Indicators:

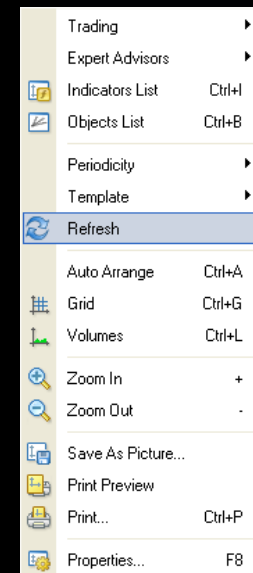
1. Open a New Chart:



2. Select "Insert" then "Indicators" then "Custom" and select "FILENAME1" and "FILENAME 2" from the list



3. If each indicator does not immediately appear on the chart right click on the chart and select "refresh"



*Next: Customization*

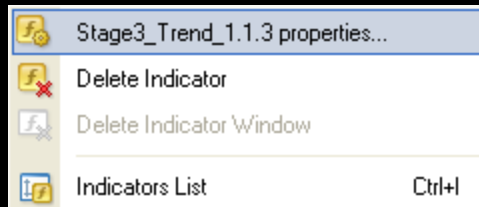
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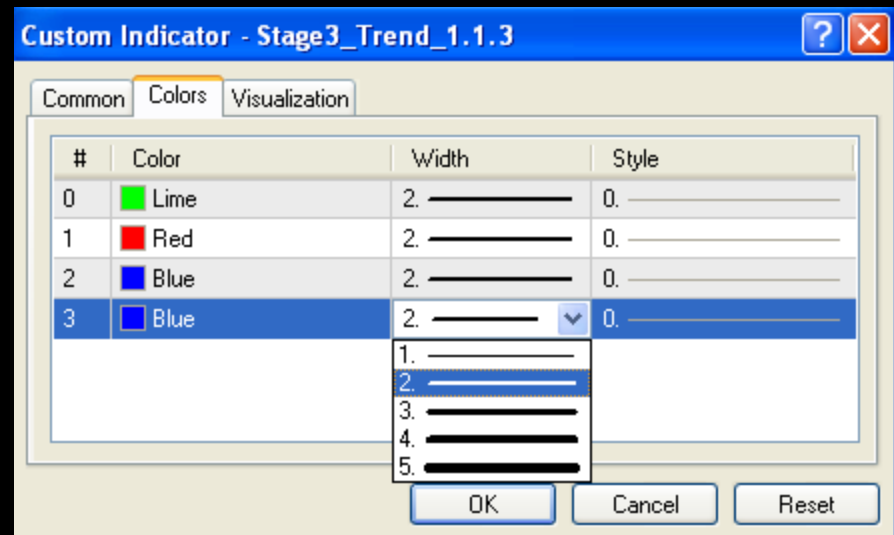
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## Customizing the Indicators:

1. Right click an indicator and select "Properties"



2. Select the "Colors" tab. From this menu you can modify indicator colors, line widths and styles



*Next: Creating a Template*

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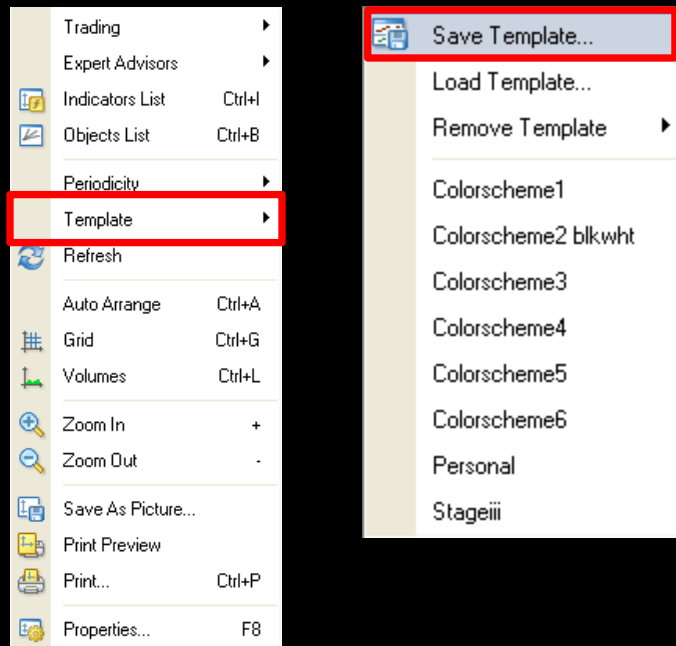
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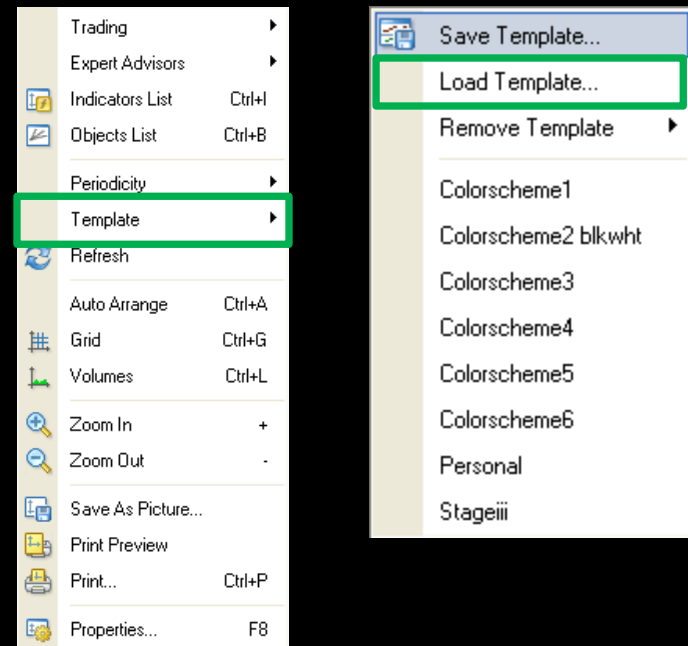
## Creating a Template:

*After selecting a suitable color scheme, you can save this design as a template for future use. Templates allow you to quickly apply your desired color scheme to a blank chart without having to set each parameter manually.*

### Saving a Template



### Loading a Template



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SECTION: 2

System Documentation & Training



## SECTION 2: System Documentation & Training



### System Overview

- The Trend Indicator (Direction)
  - The Volatility Cycles Indicator (Timing)
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  - When to Trail the Stop



### System Overview

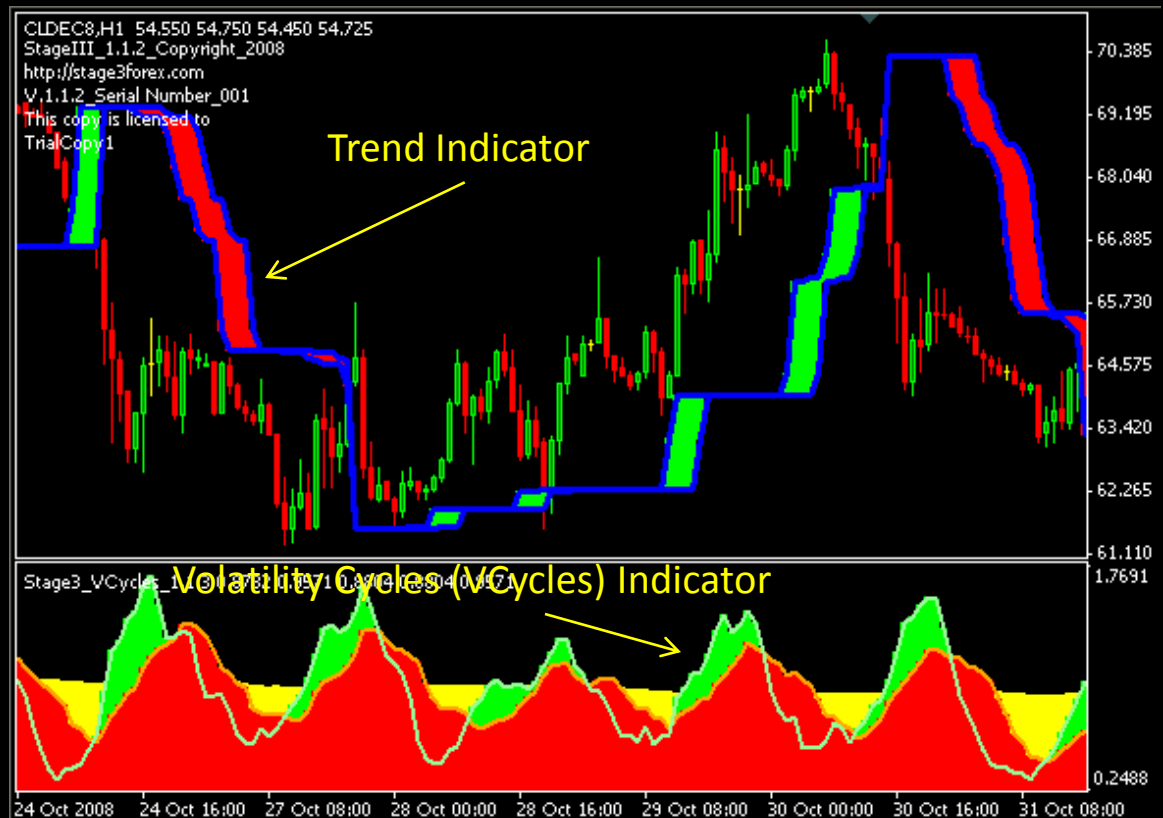
The Stage III trading system consists of two indicators; Trend (Direction) and Volatility Cycles (Timing). In the below example the Trend Indicator is shown in the upper window and the Volatility Cycles Indicator is shown in the lower window.

**Trend Indicator:** The Trend Indicator is used to understand market direction. A close above the indicator signifies a Long Bias while a close below signifies a Short Bias.

**Volatility Cycles (VCycles):** The VCycles Indicator is a proprietary index measuring the patterns and magnitude of an instruments volatility. It is used to filter trades by eliminating areas where the propensity for a move is low while highlighting areas with a high or increasing propensity for a move.

#### KEY TAKEAWAY:

The system consists of two indicators (Trend and VCycles) which when used together create a powerful method of analyzing the market .



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### The Trend Indicator (Direction)

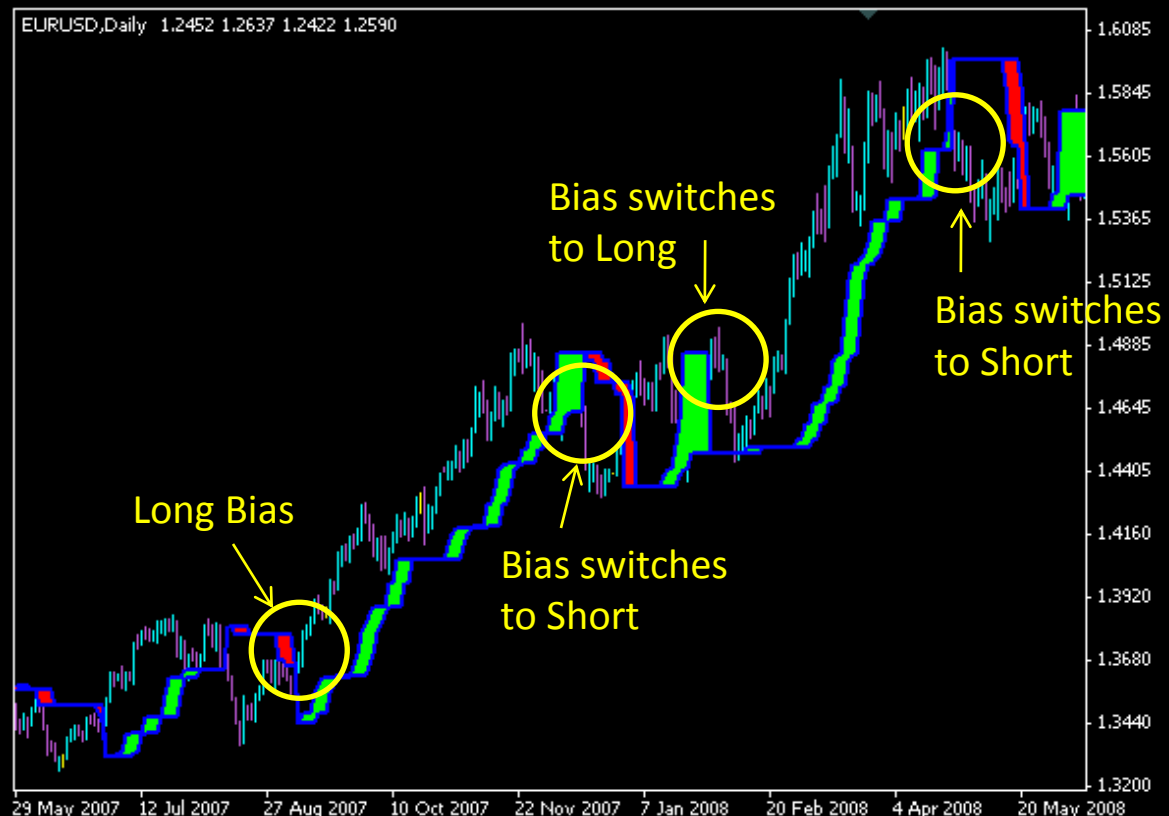
*The Trend Indicator is used to understand market direction. A close above the indicator signifies a Long Bias while a close below signifies a Short Bias.*

*The example to the right illustrates Long and Short directional changes. While above the Trend Indicator one should take only Long trades, while below one should take only Short trades.*

*The Trend Indicator paints a red or green cloud which corresponds with the directional bias. This area signifies support (green) & resistance (red) zones.*

#### KEY TAKEAWAY:

*The Trend Indicator is used to determine market direction. A cross above signifies a Long Bias while a cross below signifies a Short Bias.*



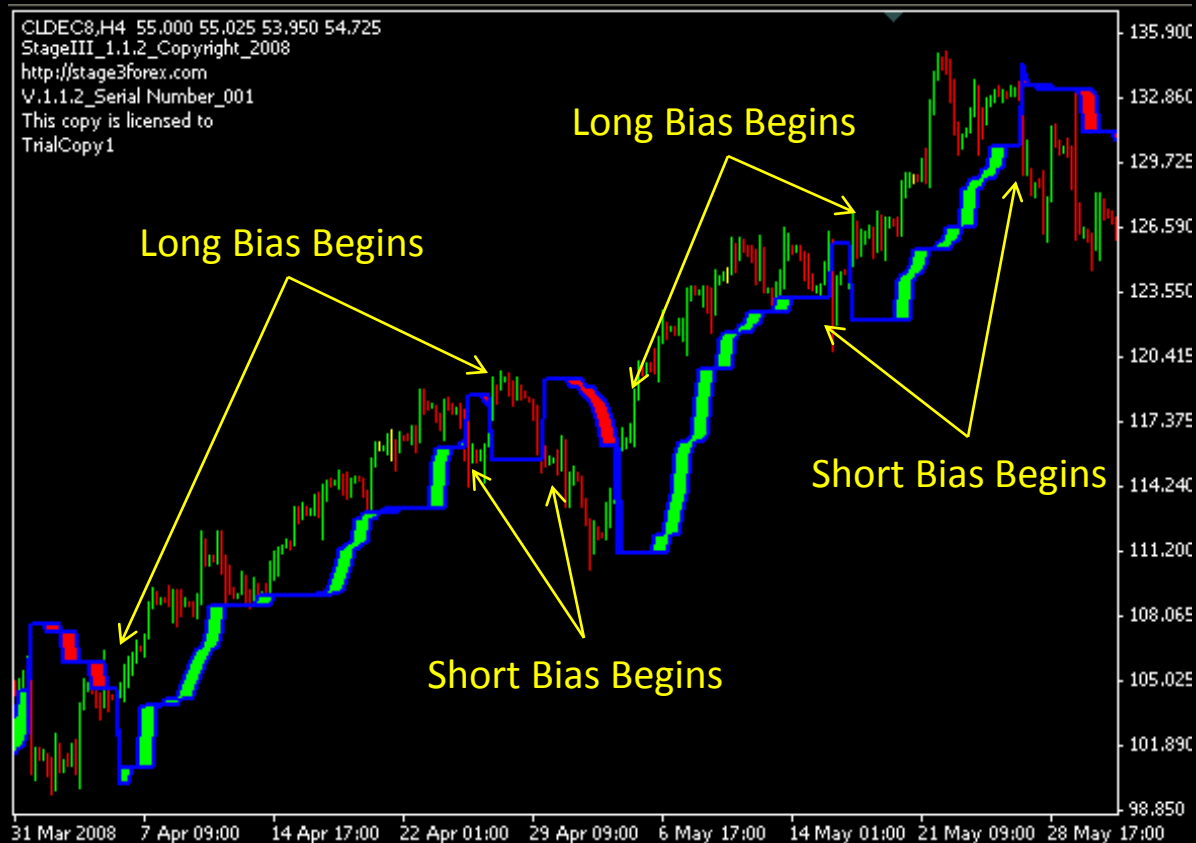
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### The Trend Indicator (Direction)

*Another example.*



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### The Trend Indicator (Direction)

*The Trend Indicator may be applied to any timeframe and instrument (chart). However, as the timeframe is shortened, so are the trade opportunities. In general the indicator will perform on charts 5m and higher. While performing the best on periods 15m and higher. Shown below on E/\$ 5m.*



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### The Trend Indicator (Direction)

*The indicator will self correct to match the market conditions. This self adjustment serves to maintain optimal system performance across any timeframe and instrument. **NOTE: The indicator does NOT repaint.***



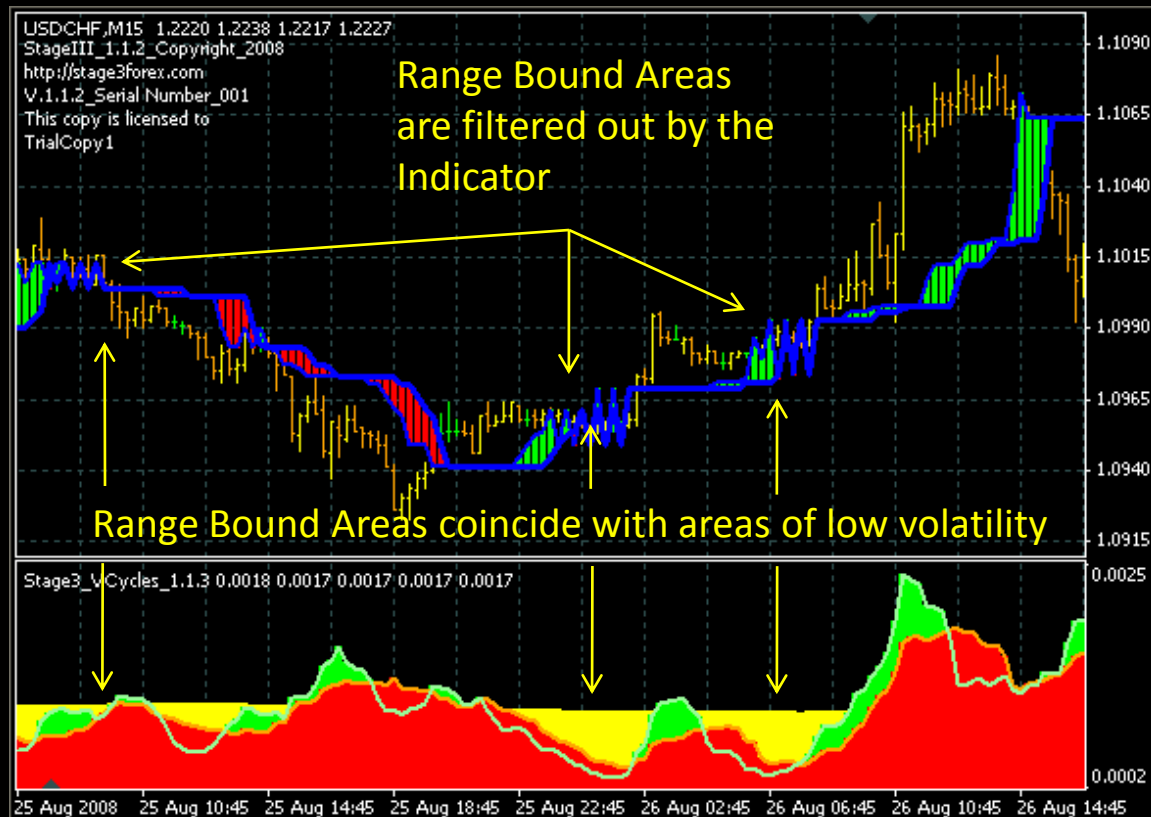
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### The Trend Indicator (Direction)

*The Trend Indicator will also serve to filter out particularly range bound areas of the market (shown below). This phenomena becomes more frequent as the timeframe is lowered.*



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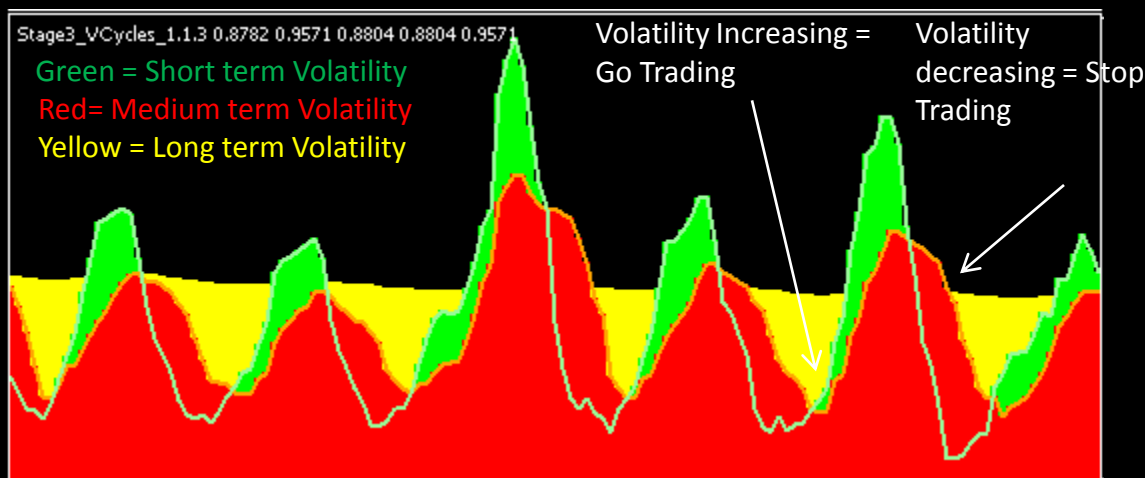
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### Volatility Cycles (Timing)

*Volatility Cycles (VCycles): The VCycles Indicator is a proprietary index measuring the patterns and magnitude of an instruments volatility. It is used to filter trades by eliminating areas where the propensity for a move is low while highlighting areas with a high or increasing propensity for a move.*

*The VCycles Indicator consists of the comparison between three averages of volatility. The long term average shown in yellow, a medium term average shown in red and a short term average shown in green.*

*When the indicator displays green, the short term volatility is increasing. During this phase the greatest propensity for a move exists. Trade signals taken during this phase have the greatest chance of success.*



*When the short term volatility is decreasing the propensity for a trending move is the lowest. During low volatility no new trades should be opened and any open trades should be protected. During periods of low or decreasing short term volatility range bound or corrective market conditions should be expected. Additional perspective may be gained through the comparison of the short term volatility (green) against the long term volatility (yellow). The following pages will explain the usage of this indicator in further detail.*

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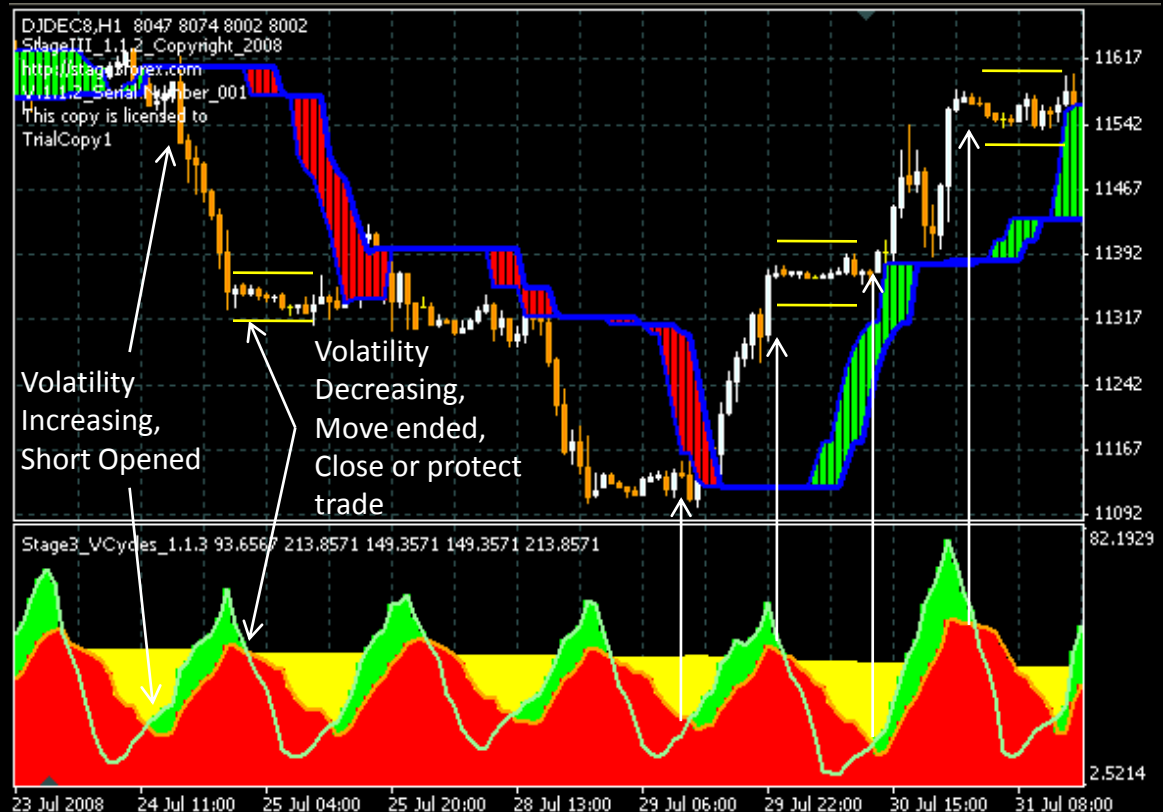
### Volatility Cycles (Timing)

*In general, one should look to open new trades while short term volatility is increasing. During this market phase the trade has the highest chances of success. When short term volatility falls (green disappears) generally the immediate move has ended. See Example.*

*Studying an instruments volatility patterns allows a trader to anticipate the times when the market is likely to move. Combining this understanding with the predetermined market direction taken from the Trend Indicator creates a powerful technique for understanding and trading the market.*

*In the example, notice that the volatility patterns coincide with market activity.*

*Note that in this example the peaks and valleys of the VCycles Indicator are approximately equidistant. This facilitates the traders ability anticipate the timing of trades. More on this in the "Timeframe Selection" section.*





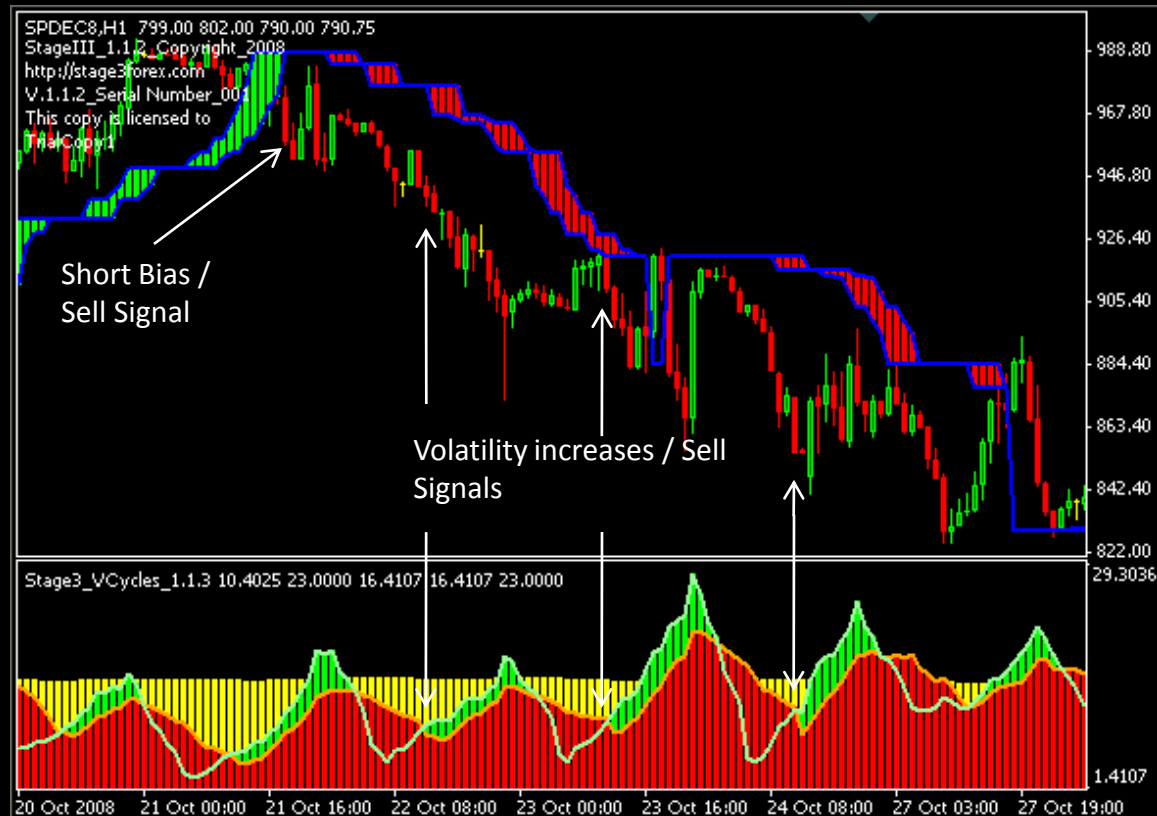
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### Volatility Cycles (Timing)

*While a close above or below the Trend Indicator while short term volatility increases serves as a primary entry signal (explained in detail in “Signals Section” of user guide), increasing short term volatility also provides additional entry points in accordance with the underlying market direction.*



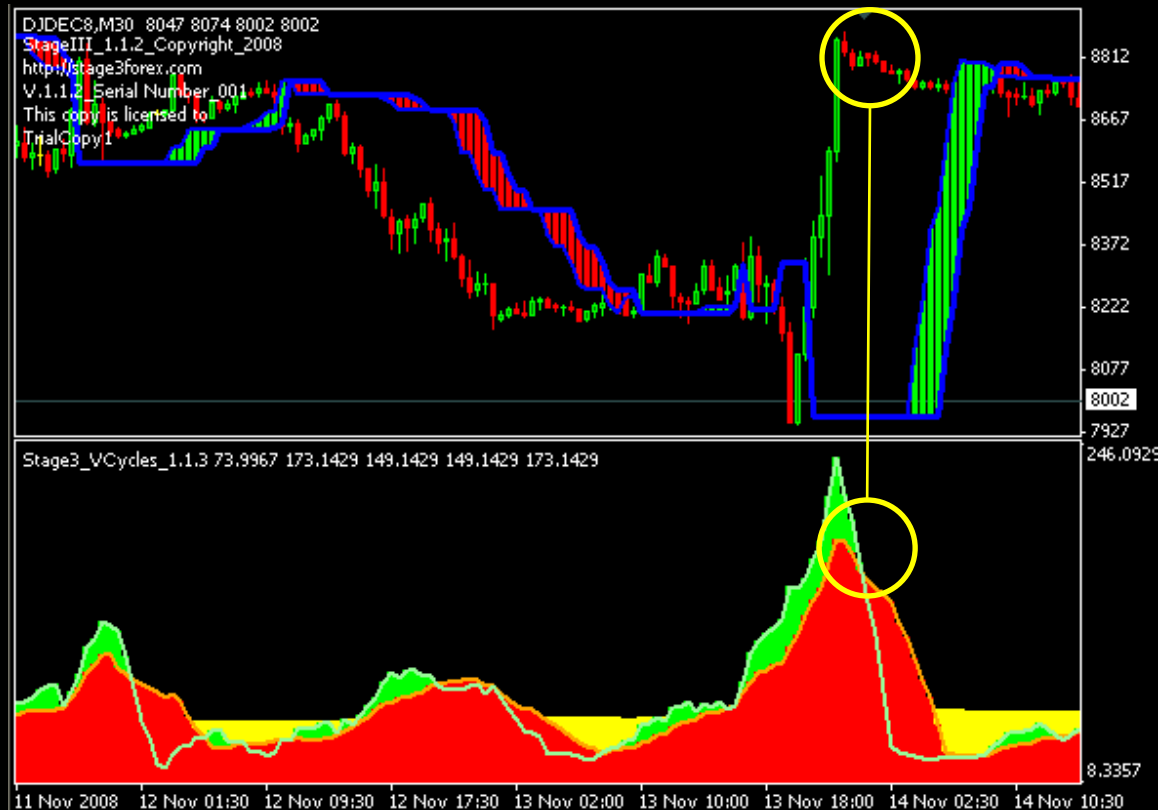
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### Volatility Cycles (Timing)

*In the below example, the sudden decline in volatility identifies the end of the move. When this occurs, the trade should be closed or protected by trailing the stop loss (explained in further detail in “When to Trail the Stop” section of the user guide).*



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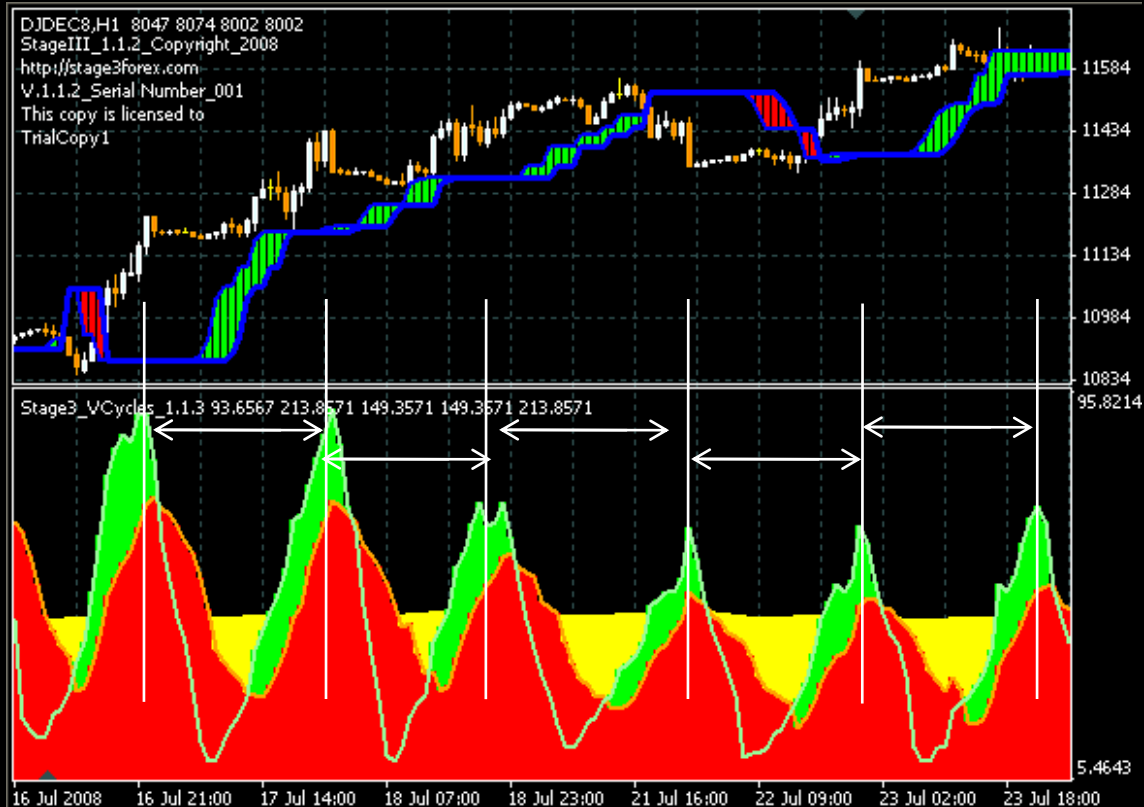


### Timeframe Selection

*Proper timeframe selection is essential to the successful deployment of this trading methodology. Selecting a timeframe which produces identifiable patterns is ideal. Typically timeframes from 15m to 1hr are suitable with the best timeframe being dependent on the specific instrument and market conditions.*

**Timeframe Selection:** Volatility patterns should be roughly equidistant. Peaks and valleys in short term volatility should have identifiable patterns. If they do not, in general there is probably a more suitable timeframe with which to trade the instrument in question.

*In the example, volatility patterns (peaks and valleys) are roughly equidistant. This is an example of a properly selected timeframe. See the next slide for a illustrated comparison of a “good” and “bad” example.*



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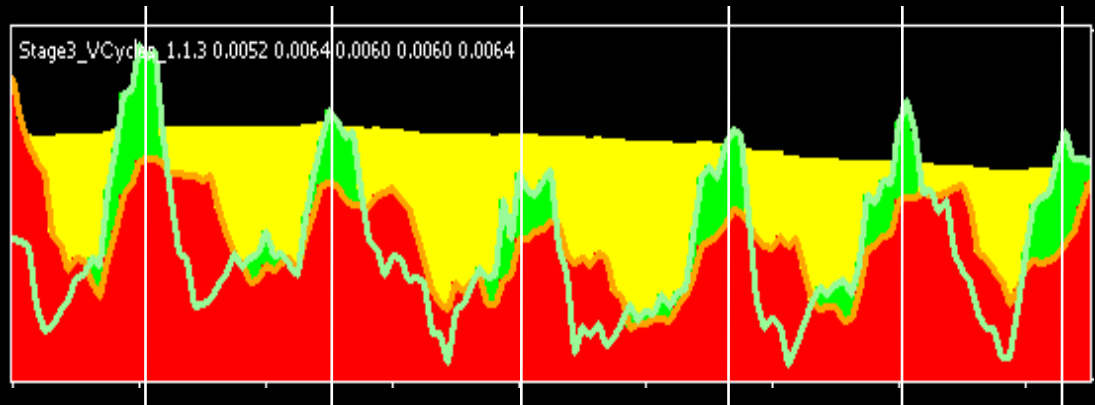
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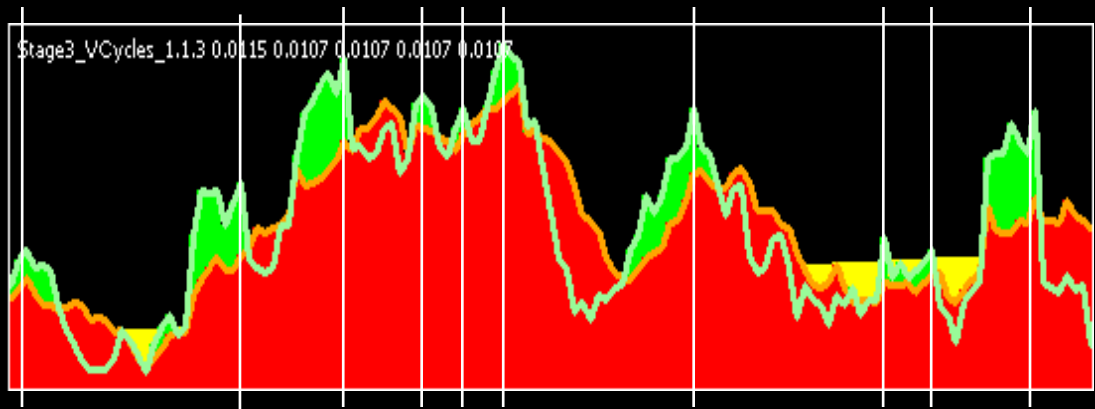
### Timeframe Selection

*The below examples illustrate the difference between selecting the correct timeframe for an instrument and selecting the improper timeframe to deploy the system.*

**Good Example:** In the first example the applied timeframe is correct, note the roughly equidistant peaks and valleys which assist the trader in anticipating the next market move



**Poor Example:** In the second example the timeframe for this is not correct. Volatility Patterns are unidentifiable.



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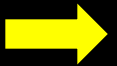


### Understanding Entry Signals

*This section deals specifically with Entry signals, details on exits and Stop Loss placement are outlined in subsequent sections. Entry Signals are generated by the combination of both the Trend and VCycles indicators. In order to deploy this methodology successfully, a trader must fully understand and follow the entry and exit rules outlined below.*

#### Entry Rules:

Detailed Examples Follow



A **BUY** or **SELL** signal is defined as either:

1. A close **above** / **below** the Trend Indicator **WHILE** short term volatility is increasing (VCycles displays Green).

*EXAMPLE: An hourly close breaches the Trend Indicator in a downward direction, while at the same time the VCycles Indicator displays increasing short term volatility (Green). Yielding a **SELL** Signal*

OR

2. Short term volatility increasing **WHILE** the current price is **above** / **below** the Trend Indicator

*EXAMPLE: The current price is already above the Trend Indicator AND VCycles begins to show a measurable increase to short term volatility (the indicator begins to display Green). Yielding a **BUY** Signal*

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### Understanding Entry Signals

*In the below example, a **BUY** Signal is generated based on the first entry rule;*

**A close above / below the Trend Indicator **WHILE** short term volatility is increasing.**



1. A close above the Trend Indicator indicates a switch to a long bias.

2. While short term volatility is increasing.

Resulting in a **BUY** signal

Next Example



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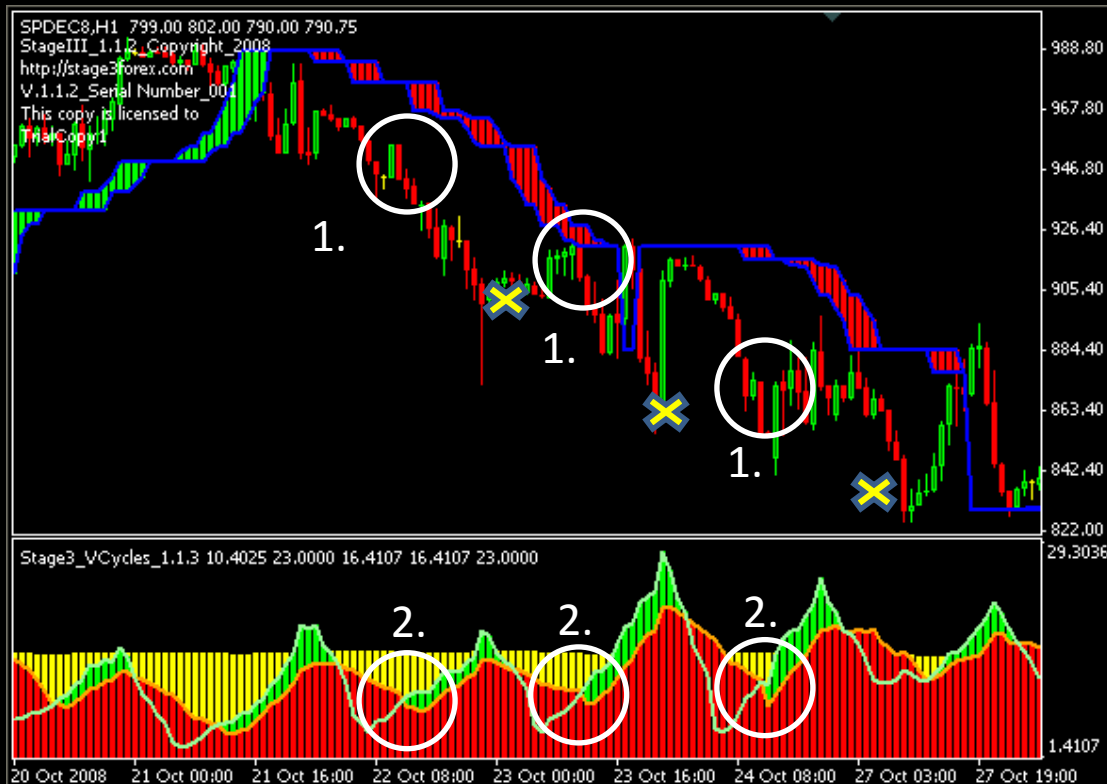
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### Understanding Entry Signals

*In the next example (below) multiple short signals are generated based on the second entry rule;*

**Short term volatility increasing *WHILE* the current price is *above* / *below* the Trend Indicator**



1. Price is below Trend Indicator (short bias established)

2. Each time volatility increases a new short signal is generated

*Note: A stop placed outside (above) the trend indicator, all trades would have been successful (more on this in the Stop Loss Placement Section).*

Next Example ➔

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### Entry Signals

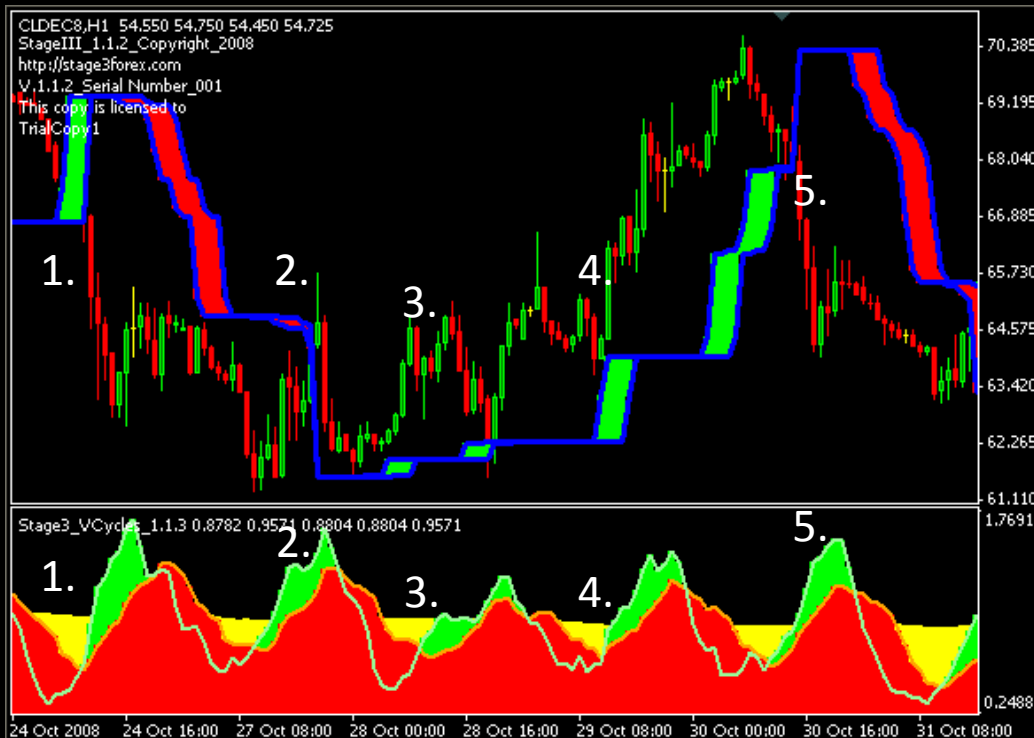
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### Understanding Entry Signals

*In the next example (below) multiple trades are generated based on the combination of both entry rules;*

1. A close **above** / **below** the Trend Indicator **WHILE** short term volatility is increasing
2. *Short term volatility increasing WHILE the current price is above / below the Trend Indicator*



1. Sell Signal (rule 1) & Bias switches to short
2. Buy Signal (rule 1) & Bias switches to long
3. Buy Signal (rule 2)
4. Buy Signal (rule 2)
5. Sell Signal (rule 1) & Bias switches to short



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### Stop Loss & Targets

In this section we will explain the methodology behind selecting stop loss and take profit levels. A static stop loss and take profit should always be placed at the time at which a trade is opened. *Under certain circumstances it is appropriate to trail the stop to protect the position, these situations are explained in detail in the following section entitled "When to Trail the Stop".*

#### Stop Loss Placement

In general, a trader should seek to place the initial Stop Loss to the outside of the Trend Indicator. For example a **Sell** order should have a stop placed above the Trend indicator, while a **Buy** order should have a stop placed below the Trend Indicator.

*Example:*

*In the example to the right, a Buy order is opened at "1" and the initial stop is placed below the Trend Indicator at "2"*

*Another Example follows.*



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### Stop Loss & Targets

#### Initial Stop Loss Placement: Example 2

*In this example, a short trade is opened at "1". The initial stop is placed just above the Trend Indicator at "2".*

*Note: Back testing and system optimization results conclude that on average a stop loss of 80 pips is ideal (EUR/USD) .*

*Next we will explain the methodology behind determining the Take Profit and Exit Points .*



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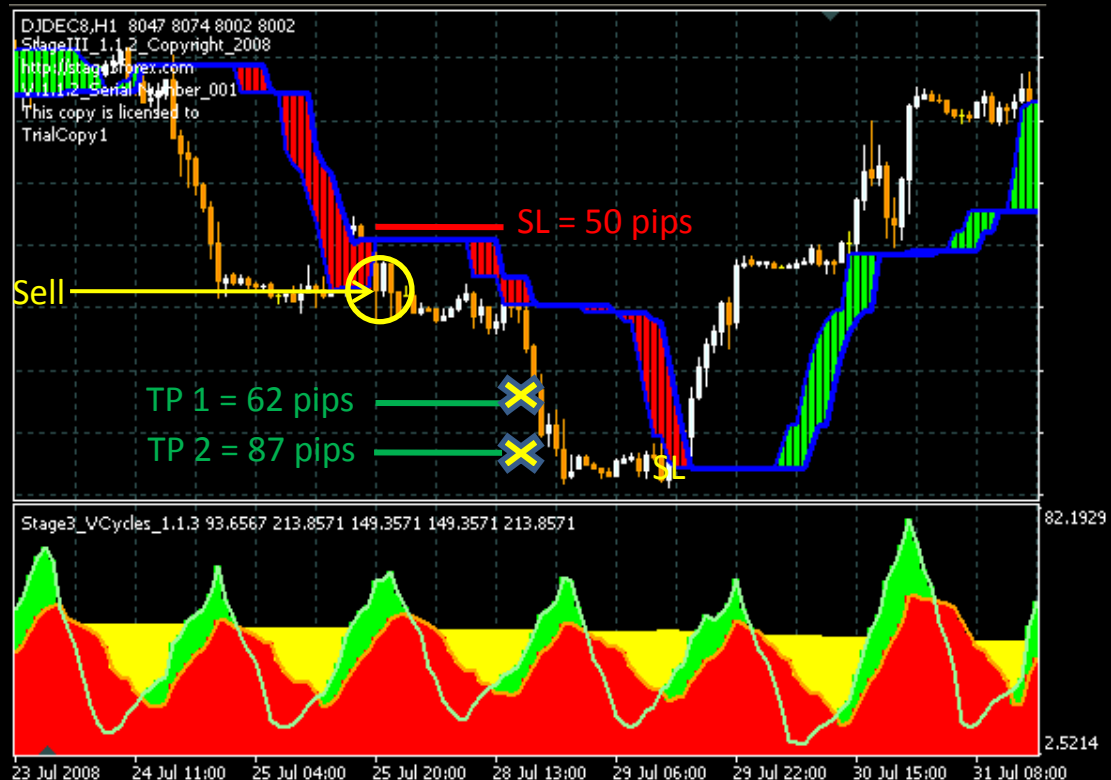
### Take Profit Levels and Exit Points

*This section will explain the methodology behind determining the initial Take Profit level as well as understanding when market driven events necessitate the premature exit from an open position. Every trade should be accompanied by an initial target or Take Profit level, while certain conditions will require a trade to be closed before it reaches full maturity (target level).*

#### Take Profit Levels

*Determining Initial Take Profit Levels is the most subjective component of this trading methodology. In general the TP level should be 1.25x or 1.75x times the size of the Stop Loss in pips.*

*For example a stop of 50 pips would require a minimum TP of 62.5 pips ( $TP = SL \times 1.25$  i.e.  $50 \times 1.25 = 62.5$ ) and a maximum TP of 87.5 pips ( $TP = SL \times 1.75$  i.e.  $50 \times 1.75 = 87.5$ ) Taking profit at one or both levels is a subjective variable and ultimately dependent on the individual traders preferences and market conditions.*



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### Exit Points

*Certain conditions will require a trade to be closed before it reaches full maturity (target level). This trading methodology uses the Trend Indicator to clearly define these exit points. In general, if a trade is open and the directional bias changes (price moves back inside the Trend Indicator's lines), the trade should be closed.*

### Understanding Exit Points

*Consider this example;*

*A Short is opened at "1" and assuming for example purposes that the TP has not been reached.*

*The price then comes back into contact with the Trend Indicator at "2" (price moves back between the Trend Indicator's lines).*

*At this point the Short should be closed and the trader should await the next signal. (Remember to check that the VCycles indicator displays the correct conditions for entry).*



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### When to Trail the Stop

*This section will explain the methodology behind understanding when to trail the stop loss in order to protect or reduce the risk of an open trade. In general a stop should be trailed when short term volatility has ceased (the Green area of the VCycles indicator disappears).*

*In the example to the right, a Buy is opened at "1", while volatility is increasing. The trade moves into profit and then volatility begins to decline – See number "2". At this point the propensity for further continuation of the trend is low, until the next cycle of volatility begins. At this time it is appropriate to place a protective stop – See number "3".*

*Under ideal circumstances, it is preferred to have the protective stop remain to the outside of the Trend Indicator ("4"), however this is not always the case.*





This concludes the Stage III Forex Quick Start Training Guide.

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