MTPredictor™

find a trade | assess risk/reward | determine position size | manage the trade

Introduction to MTPredictor v6.0

Web: www.mtpredictor.com
Email International: sales@mtpredictor.com
Email US: matt@mtpredictor.com
from UK (freephone): 0800 107 5271
from US (toll free): (800) 856-1582

21 November 2008

Welcome to this introduction to MTPredictor v6.0. I would like to take a look at the automatic routines and advanced manual tools that are available for you in the software.

However, before we start looking at what MTPredictor™ can do for you, I would like to give a quick introduction and discuss what successful trading involves and, more importantly, does not involve…

Introduction

The concept behind successful trading is relatively simple: it is about making money. As we all know, trading involves making both profits and losses. So, put bluntly, all you have to do to make money (over time) is to put more money into your trading account (from profits) than you take out (from losses). Sounds simple, doesn't it...?

One of the most common approaches to this is using technical analysis, which tries to *predict* or *forecast* where a market will be at some point in the future. The idea is that *if* you *know* where a market is headed, then you can profit from that movement, However, and it is a big however, what most analysts do not fully appreciate is that the future is uncertain and, again put bluntly, trying to "forecast" the future is not as reliable as most software vendors or gurus would have you believe.

Also, because the future has not happened yet, how it unfolds is *out of your control*. This is why trading is often called *speculation* because it involves *speculating on an uncertain future outcome*. Gambling, in other words…

So why do I put such a negative slant on all this? Well over 95% of amateur traders fail in this business and the main reason is that they go after the wrong thing – mostly the unachievable desire to predict the future - and work with something that is out of their control. So is there a better way?

Yes, and this is the approach most successful professional traders take.

Most successful traders realise that it is useless pursuing something that is out of their control, so they focus on what they *can* control - the initial risk on their trades. Correctly done, this keeps their losses (which do happen) small and under control. If you remember from earlier, I said that to be successful you must take out of your account (by the way of losses) less than you put in (by the way of profits). Well, keeping the initial risk small achieves this first part – in other words, keeping your losses small.

Professional traders also employ trade management strategies that maximise their profits on their good trades. This is the second part of the equation – large profits. They do this by letting their successful trades *run*. But what most amateurs do not realise is that to do this they do not need to forecast the future or *predict* anything – professionals simply employ good trade management strategies that let markets unfold naturally and make the most of what the market gives them.

This is a very important lesson. When you ask a professional trader where they think the market will go they say "I have no idea". All the professional trader is interested in is what he or she *can control* and that is their initial risk on the trade and then their trade management strategy. They have no desire to waste their time on something that they cannot control – the future.

Compare this with the losing amateur, who is always desperately seeking what will happen tomorrow or next week. I wish I had a dollar for each amateur trader who thought they *knew* where a market would go, so felt that they had no need for stops or trade management to protect profits. This is why most amateurs lose…they *think* they can control the future and, as such, do not control their losses and maximise their profits…

I always know when I am dealing with an amateur trader because one of the first questions asked is "where will XYZ stock be next week?" or something like that…

It is important to re-emphasize this point in order to understand completely "*you do not need to predict or forecast the future to make money*". Most professional traders do not care what will happen tomorrow or next week, all they need to know is when their initial protective stop is, (to control and keep small their inevitable losses), and what trade management strategy they are using to maximise their profits. The rest unfolds automatically.

Most amateurs never fully appreciate this and, therefore, never make the transition to successful professional trader.

Okay, assuming you now understand what needs to be achieved to become successful, let's look at how MTPredictor can help you achieve that goal.

Basically each trader must be able to answer 4 key questions:

- How to find a trade
- How to assess the Risk/Reward
- How to determine the Position Size
- How to manage the trade

MTPredictor has been designed by traders for traders to help you answer these questions. First, this comes by way of the standard and automatic trade set-ups that are included in the software

MTPredictor finds 5 main automatic trade set-ups: the TS1, TS2, TS3, TS4 and DP.

Standard **automatic trade set-ups**

- TS3, *general ABC correction*
- TS1, *abc as part of Elliott Wave 2 correction*
- TS2, *abc as part of Elliott Wave 4 correction*
- TS4, *larger-degree ABC correction (uses fewer earlier swings)*
- DP (Decision Point™), *end of trend*

MTPredictor does not stop there; we also have an array of tools for users to apply more advanced analysis

Advanced analysis

- Elliott wave module (using the unique *Isolation Approach™*)
- Manual DP and Wave Price Targets (WPTs)

The reason we have two categories is that the advanced tools require a little more experience to use well, so we suggest that only the more experienced MTPredictor users incorporate these into their trading plans. The standard set-ups are easier to use and are what we suggest all new MTPredictor users start with.

There is a lot more that very experienced users can do with the software, above and beyond these automatic set-ups – this is taught in the weekly Training webinars and are also covered in Part 2 of the Trading Course.

Which markets and timeframes can you trade ?

The answer is basically *everything*, as long it is a liquid market that is actively traded and has clear, simple swings. The market or timeframe must not be too *choppy*. We have customers who trade on daily and weekly charts as well as 3min, 5min, 15min and sometimes even very short-term 1min charts (although this is reserved for only the most experienced trader) The choice of timeframe depends on your market of choice and your experience as a trader. For example, anyone new to day-trading is not advised to go shorter than a 5min chart on, say, index futures. But if you are more experienced and good at what you do, then some good profits can be made on 3 min charts.

The only exception to this is Forex. Because Forex charts are so choppy on the shorter timeframes, we suggest that the minimum timeframe is 60min. In fact, the best swings unfold on 60min (1hr) and 240min (4hr) as well as the daily timeframe. Only very rarely (and as long as you are experienced) are the Forex markets in a position when a 15min trade could even be considered.

Stocks can be in a similar position. Only consider the very short timeframes on the few most liquid stocks in the major markets - the rest should be traded on slightly longer timeframes.

Please study your local markets and look at different timeframes, then use common sense. If the chart and timeframe have simple, clean swings…then trade it. If it is very choppy with lots of whipsaws…then avoid it. This is pure common sense.

Again, we have customers trading on virtually every market in the world, from futures through stocks to Forex, from India through the Middle East, Australia, Europe to the USA. It does not matter, as long as your chosen market (and timeframe) is liquid, has good volume and makes clear, clean swings, then it can be traded with MTPredictor …

Contents

Section 1 - Automatic trade set-ups
- TS3 *Standard*
- TS3 *Advanced*
- TS1 *Standard*
- TS2 *Standard*
- TS4 *Advanced*
- DP *Advanced*

Section 2 - Advanced trade set-ups (including my personal favourites
- Advanced TS3/TS4
- Elliott 5-waves
- DP / ABC combination
- Multiple timeframe analysis
- Manual DP
- Manual DP with oscillator divergence
- Manual DP with VSA (high volume spikes)

Section 3 - Other Topics
- Trade management
- Strong Trend Filter, STF (larger-degree trend and divergence)
- Position Sizing
- Do you have to be right to make money (% of winners) ?
- Summary
- Last word from the developer…

Okay, on to the individual sections now …

Section 1 – Automatic trade Set-ups

TS3 automatic trade set-up - *Standard*

The TS3 automatic trade set-up is based on an ABC (3-swing) *correction* to the prior *impulsive* move. It does not matter whether the correction is down or up, for example against a prior upswing or a prior downswing - the approach is exactly the same.

Let's take a look at an example:

In this example, the market was moving down, then made a 3-swing (ABC) rally to reverse right at one of the coloured WPT (Wave Price Target) resistance zones (upper coloured rectangles on the chart above), where a red (sell) reversal bar unfolded. This suggested that the ABC correction was over and signalled a new short trade. Once complete, the prior trend normally resumes, which meant a continued move to new lows in this example.

As you can see, this would have allowed you to enter a new short trade just as the correction was ending, to take full advantage as the decline continued. Specifically, the initial risk on the trade (how much you would lose if the trade went wrong) was small in relation to the profit on the trade. This is a very important point and one I will go into more detail later…

The important points to check before trade entry:

- The reversal is at one of our price support/resistance areas (we call these WPTs, Wave Price Targets).
- There is a good Risk/Reward at the first profit target (the software will calculate this automatically for you). Ideally, we need a minimum of 2:1.
- The trade is *in the direction of* the larger-degree trend (given by the colour of the STF oscillator - red for a downtrend, blue for an uptrend, black for flat).

This trade set-up met all three of these initial requirements,

The new short trade (in this example) is entered as the as the low of the red (sell) reversal bar is exceeded. The initial protective stop is then placed 1 tick above the recent high, these levels are displayed on the chart for you.

Even at the first profit target the profit was approximately 3x greater than the initial risk required to take the trade (excluding slippage and commission). In fact this trade went further taking a profit of nearer +6R at the Typical Wave 3 WPT (see next page) Having profits much larger than the losses is vital and the real secret of professional trading - more on this later in the Position Sizing section.

The software also calculates how many lots (the Position Size) you should consider trading. This is based on the % risk on your current account size. For futures, we suggest 2% (1-3%), for stocks 0.1-0.5%, for Forex 2% (1-3%).

In this example, using an initial risk of 2% on a sample US $20,000 portfolio would mean trading 4 contracts on this YM (mini Dow) short trade.

Again, the software calculates this for you.

Summary - TS3 automatic trade set-up – *Standard*

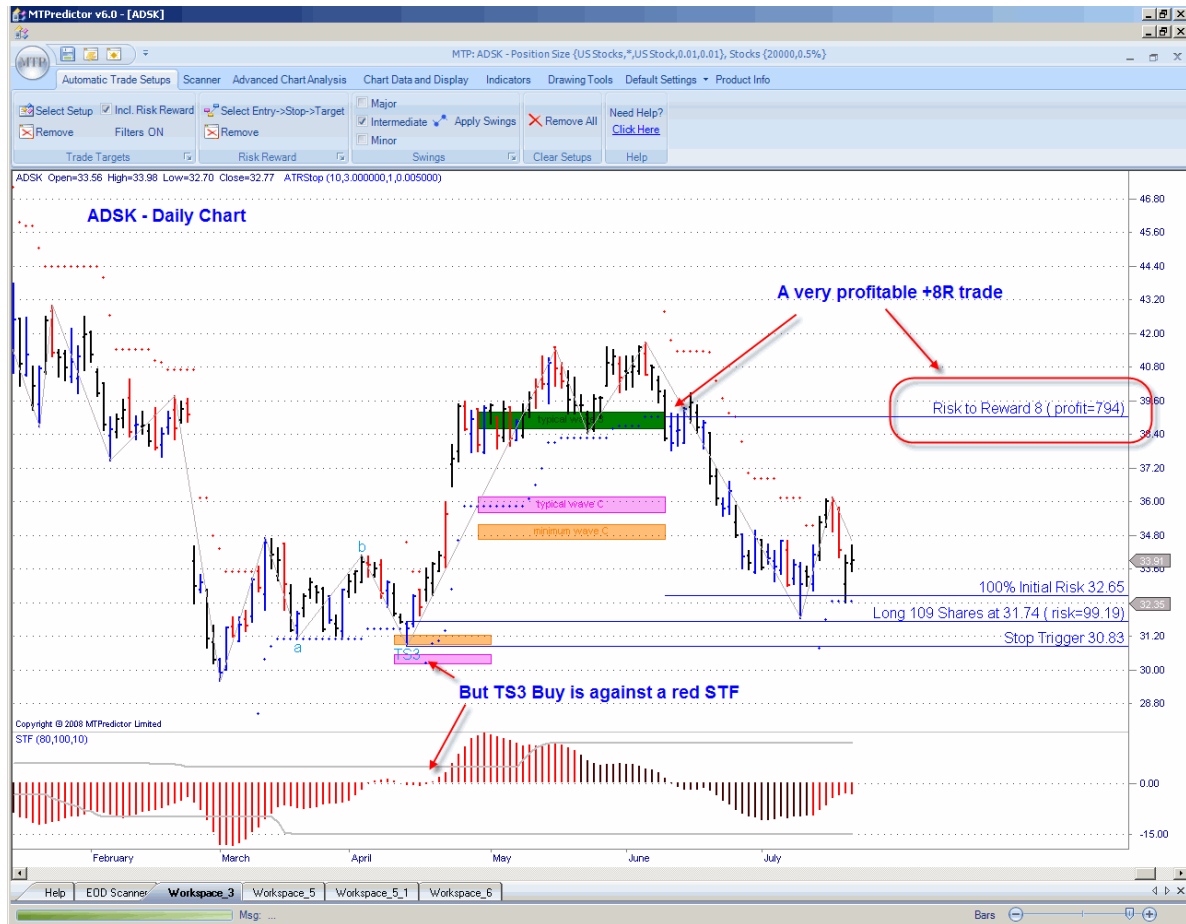The important points to check before trade entry for the TS3 trade set-up are:

- The reversal is at one of our WPT support/resistance areas
- There is a good Risk/Reward at the first profit target, ideally a minimum of 2:1
- The trade is *in the direction of* the larger-degree trend, given by the STF colour.(red or black for a sell, blue or black for a buy)

TS3 automatic trade set-up - *Advanced*

So far so good, as you can see the TS3 trade set-up does a very good job of enabling you to enter a new trade with a small controlled risk to take advantage as the main trend continues. But what if the TS3 set-up arrives early in a newly-established trend?

Let's take a look at an example:

As you can see, this would have been a very profitable trade. However, the initial buy set-up would have been ignored, using the standard guidelines, because it was *against* a red (larger-degree downtrend) STF. If you remember, in the prior section we used the colour of the STF to *filter* trades that are only *with* the larger-degree trend. Most of the time this works well, however there is one exception…

This is where the TS3 (ABC) correction unfolds as part of the *initial correction* to the *initial move* off an *important* high or low. In Elliott Wave terms, this is the Wave (2) correction off a Wave (1) swing. Because a Wave (3) - the strongest and longest of all the Elliott wave swings - follows on from a Wave (2) correction, this can very often be one of the most profitable trades you can have…

Continued on the next page …

In more detail:
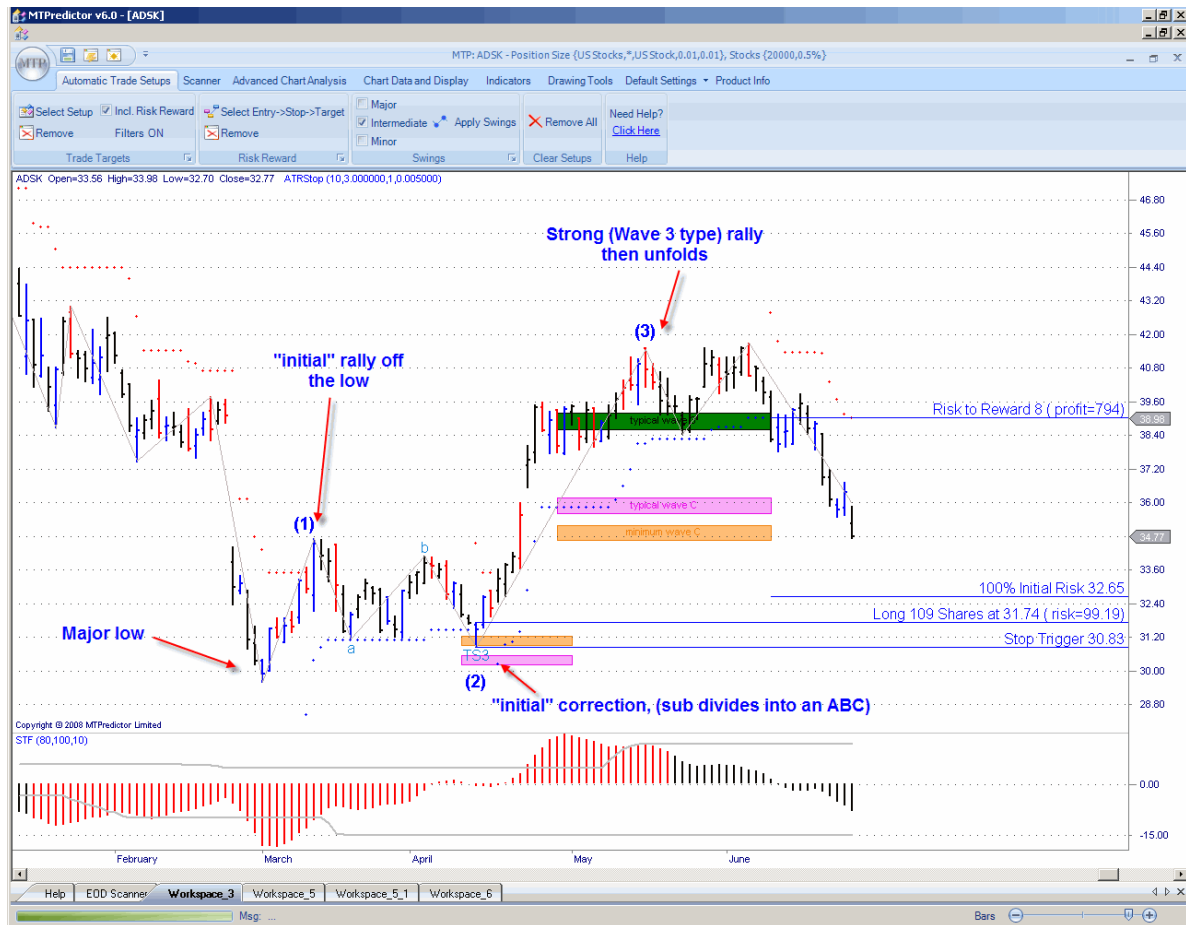
Here you can see how the market made a *major low*, followed by an *initial rally* (Wave 1 swing), which was followed by an *initial correction* (Wave 2 correction), that sub-divided into a lesser-degree ABC (3-swing) pattern. The market then took off from the Wave (2) low to make a very strong Wave (3) type rally.

So how can you capture trades like this, when the initial set-up is very often against our STF filter?

This is why this is an *advanced* set-up, for advanced and experienced traders only; because it requires that you can define the prior Major swing low/high. This normally achieved by looking at the larger-degree charts and/or looking at other correlated markets.

Continued on the next page …

Because you are anticipating a strong (Wave 3 type) rally off the Wave 2 low (TS3 buy set-up in this example), the *initial* WPT profit targets are very often exceeded. Therefore, this is a good candidate for our trailing ATRStop to help *run* the trade further and maximise your profits:

This type of *advanced trade* is for the more experienced users but it does show what you can progress towards as you become more experienced.

However, for new traders, I suggest you stick to the standard, automatic set-ups.

Continued on the next page …

TS1 automatic trade set-up - _Standard_

The TS1 trade set-up is similar to the TS3 in that we are still looking for an ABC correction, but the difference is that the abc correction in the TS1 trade set-up is on a smaller degree. More importantly, this minor abc unfolds as part of the _first correction_ against the _first move_ off an important high or low. In essence, it catches a similar trade set-up to the advanced TS3 we just saw but with a smaller (lesser-degree) abc pattern.

Let's take a look at an example:

Okay, so how do you trade it?

Well, the approach is exactly the same as with the standard TS3 trade set-up...

Continued on the next page...

Summary - TS1 automatic trade set-up – *Standard*

The important points to check before trade entry for the TS1 trade set-up are:

- The reversal is at one of our price support/resistance areas (WPTs, Wave Price Targets).
- There is a good Risk/Reward at the first profit target, (the software will calculate this automatically for you). Ideally, we need a minimum of 2:1
- The trade is *in the direction of* the larger-degree trend, given by the colour of the STF oscillator - red for a downtrend, blue for an uptrend, black for flat.

The short trade was entered as the low of the red (sell) bar was exceeded. The initial protective stop was then placed 1 tick above the recent high. These levels are automatically displayed on the chart for you, along with the number of lots, shares or contracts to trade, in a similar way to the TS3 automatic trade set-up…

As you can see, this TS1 sell set-up met all of these initial criteria.

TS2 automatic trade set-up - *Standard*

The TS2 trade set-up is similar to the TS1 in that we are still looking for a minor abc correction, but the difference is that the abc correction in the TS2 trade set-up unfolds later in the trend. For the Elliott Wave experts among you, this is in a Wave (4) type correction.

Let's take a look at an example:

I have added the Elliott Wave labels (1-4) on the chart manually for the Elliott Wave experts. For everyone else, there is no need to worry about this…all you need to know is, how do you trade it?

The approach is exactly the same as with the standard TS1 and TS3 trade set-up…

Continued on the next page…

Summary - TS2 automatic trade set-up - *Standard*

The important points to check before trade entry for the TS2 trade set-up are:

- The reversal is at one of our WPT price support/resistance areas.
- There is a g*ood* Risk/Reward at the first profit target, ideally a minimum of 2:1.
- The trade is *in the direction of* the larger-degree trend, given by the STF colour.

The short trade was entered as the low of the red (sell) bar was exceeded. The initial protective stop was then placed 1 tick above the recent high. These levels are automatically displayed on the chart for you, along with the number of lots, shares or contracts to trade, in a similar way to the TS3 and TS1 automatic trade set-ups…

As you can see, this TS2 sell set-up met all of these initial criteria. In fact the market declined into the initial projected profit target where a profit of approximately 4x the initial risk (excluding slippage and commission) was available (see chart above).

Okay, now on to the more advanced set-ups, including the TS4 and DP (Decision Point).

TS4 automatic trade set-up - *Advanced*

The TS4 trade set-up is again based on a 3-swing (ABC) correction. In fact, it is very similar to a TS3 trade set-upas it uses the same degree of swing, however the difference is that the TS4 trade set-up does not *look back* to see the prior swing, so it cannot judge whether it is *corrective* in relation to the prior swing.

The inability to see whether it is a corrective swing automatically would seem, on the surface, to be a risk…so why have I included it?

A good question. Well, I found that the way markets unfold sometimes and the way the automatic swings on the charts are created, the standard TS3 set-up can miss some very good ABC patterns because of a minor *wiggle* in the prior trend. This confuses the standard TS3 logic, so I decided to construct the same ABC pattern as the TS3 but remove the *look back* so it can find trades where minor wiggles in the prior trend have occurred.

Let's take a look at an example on the USDJPY daily chart:

Here the minor *wiggle* would have invalidated this as an automatic TS3 trade set-up, when in reality the decline from the high has still unfolded in a 3-swing (ABC) pattern. This is the kind of set-up the automatic TS4 trade set-up is designed to find for you.

Okay, bearing this in mind, what additional checks must the advanced trader do to make sure that this 3-swing ABC is still a valid trade set-up?

The main one is that you must make sure the ABC pattern is still *corrective* in relation to the prior main swing:

For this, you must look at the Wave C pivot (TS4 set-ups) and check that it falls above (for a long trade) the prior main low. Reverse for a short trade.

In this way the 3-swing (ABC) pattern is *correcting* the prior upswing because the whole correction ends *above* the start of the prior rally. This low is circled in the chart above. Can you see how the Wave C (TS4) set-up is above this main low?

Now you can move on to the standard check of WPT support/resistance and coloured reversal bar.

Because this is not as straightforward as the standard TS3, the TS4 should be considered an *advanced trade.*

Continued on the next page …

So, assuming the TS4 trade set-up is *corrective,* you now need to check also that the reversal is at one of our price support/resistance areas (WPTs, Wave Price Targets).

The long trade was entered as the high of the blue (buy) bar was exceeded. The initial protective stop was then placed 1 tick below the recent low.

The initial profit target is the DP (Decision Point) from the prior main swing high. This is because we are assuming that once the ABC correction is complete, we should get at least a move to new highs (in this long example).

Also, because this TS4 ABC correction is sometimes larger than the TS3 set-up, the STF is not as important as in the standard TS1, TS2 and TS3 trade set-ups. Again, this makes it more of an *advanced set-up.*

If you find any of this confusing or do not understand how and when to use the TS4 trade set-up, then please do not use it.

DP automatic trade set-up

The DP automatic trade set-up is designed to catch the *end* of an impulsive move as the impulsive trend runs out of steam:

The basic ingredients here are that the market is making a strong *impulsive* swing, then makes a *correction* to the *prior impulsive* swing, followed by *another impulse* swing to new price extremes. However, this new price extreme is not supported by the STF oscillator as the STF peaks *diverge* from the price peaks on the main chart. This is standard divergence as taught in general technical analysis books…

However, the important addition that we at MTPredictor have made is the *price level* - where this second price extreme is most likely to reverse. This is the DP (Decision Point) level – the higher light blue zone in the chart above. This allows us to enter a trade with a small controlled risk to take advantage as the market starts to move in the opposite direction (new trend).

Continued on the next page …

The *initial* profit target for the DP set-up is the *opposing* DP level taken from the prior swing low:

This is the lower light blue zone in the chart above. As you can see, the Risk/Reward at this *initial* target was approximately 2.6x the initial risk (excluding slippage and commission). As you will know from earlier, we consider anything above 2:1 a good risk and worth considering.

Summary - DP automatic trade set-up

The important ingredients for a DP trade set-up are:

- The reversal is at the DP (Decision Point) support/resistance zone.
- There is clear divergence on the STF oscillator.
- Good R/R (above 2:1) at the first profit target (the opposing DP level).

Continued on the next page …

Section 2 - Advanced Analysis

In this section I would like to take a look at some of the more advanced features that are available in MTPredictor by covering some of my personal, favourite trade set-ups.

The first one is when a market makes a *major high or low,* which is followed by an *initial rally* or an *initial decline*, but then I am particularly interested to see how the pattern of the *correction* to this initial move unfolds, (this is the Advanced TS3 setup I outlined briefly earlier) … So why is this setup so important?

Well, as W.D. Gann said – "the best place to buy is on the initial correction after the start of the new trend". In Elliott Wave terms, this is the end of the Wave (2). Why is this so important?

Well, after a Wave (2) correction is complete a market will normally make a Wave (3) swing, and because Wave (3) is usually the strongest and longest of all the Elliott Wave sequence, trading this swing represents the best and largest profit potential in relation to the smallest initial risk. So for me, this is the best trade you can find !

So, what do i look for? First, for a major high or low, this is usually a high or low that unfolds at DP or WPT support / resistance on the *higher* time frame. For this example, a 15min German Dax index futures chart is used:

As you can see from the 15min chart on the prior page, the Dax made a low at a 15min DP support zone, we then had the *initial rally*, so now I want to pay very close attention to see whether the *correction* to this initial rally unfolds as a 3-swing ABC. For this, we move down to a lower timeframe, for example the 3min chart (although this works equally well on Weekly and Daily charts for Stocks, or 240min and 60min FOREX charts):

Here I have use the **Elliott Wave module** to automatically identify this ABC correction and, more importantly, it has automatically placed the Wave C WPTs on the chart for me – the areas where the Wave C swing is most likely to end…

So the picture is complete now. We have a major low already complete (as shown by the 15min DP support), we then had an initial rally, which was followed by an initial correction which unfolded as an ABC (as found by the **Elliott Wave module** in MTPredictor).

In Elliott wave terms this is a Wave (1) rally, followed by a Wave (2) correction. So what should we anticipate from here?

Continued on the next page ….

Dax 3min Chart:

I have manually added the Wave (1) and Wave (2) labels on the chart above to show you what I mean…

Now we should anticipate a rally into the Wave 3 WPTs which I have placed on the chart using the **WPT module** in the software.

I have also analyzed the trade using the **Risk/Reward module** which, combined with the **automatic Position Sizing**, shows a *potential* profit of +9R (or 9x the initial risk) at the Typical Wave 3 WPT.

In other words a very nice trade set-up, where the profit potential is much larger than the initial risk required to take the trade.

The entry trigger is as the high of the Blue (buy) coloured reversal bar is exceeded.

Continued on the next page ….

The result:
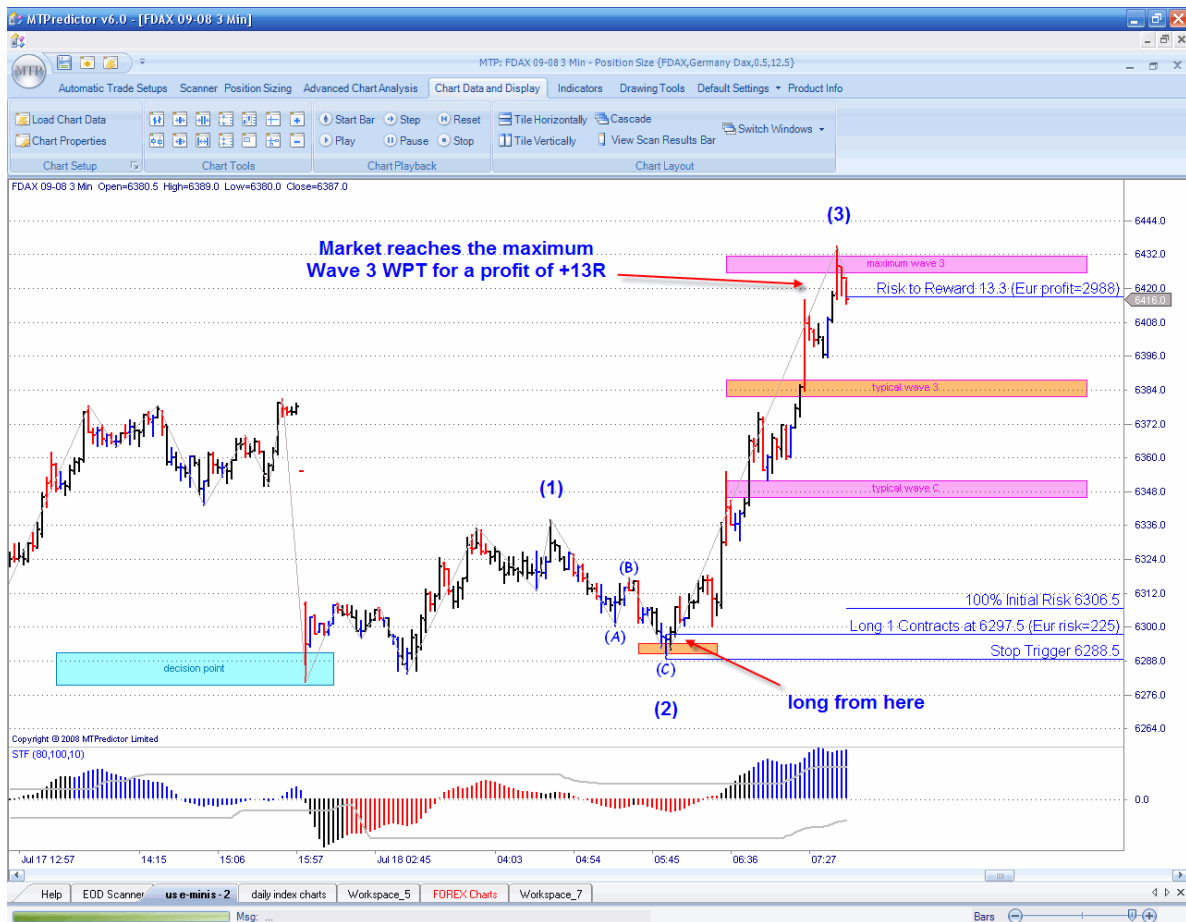
As you can see, the Dax did indeed rally from this low, and in fact, exceeded the typical Wave 3 WPT and went onto the maximum Wave 3 WPT (again placed on the chart using the **WPT module** in the software), where the profit was approximately +13R (excluding slippage and commission). Or put another way, this turned an initial risk of approximately Eur 225 into a profit of approximately Eur 2,900.

In the example above I have used the **Elliott Wave module** in the software to find the ABC correction, but very often this very set-up is found by the **automatic set-ups** as an advanced TS3 or TS4 (with the STF filter off), see below:

The reason we turn the STF filer off is that because these set-ups occur very early in the new trend, very often they are against the STF, which takes some time to catch up after a major high or low.

As you can see, this is a very good set-up that has the potential to get you into a new trade just at the very start of a strong Wave 3 move. As my favourite trade set-up, it represents the largest profit potential compared with the least initial risk.

Other Elliott Wave patterns:

MTPredictor v6.0 can also automatically find the other main common Elliott Wave patterns, for example MTPredictor identified a Wave 5 high on the US S&P index on May 19, 2008:

As you can see from the chart above, this was the very day the high occurred !

But, the **Elliott Wave module** is capable of far more, because not only does it use our unique *Isolation Approach™* to Elliott wave (which reduces the confusion from less-than-ideal patterns), but the module also automatically places the **WPTs** (Wave Price Targets) on the chart for you. These are the most likely Price zones for each wave to end.

This, combined with the **coloured reversal bars,** nailed the May 19 high to the day !

Continued on the next page ….

I also use the DP module to place Price support / resistance zone on the chart as areas in the future to look for price reversals:

As you can see, the decline off the May 19 high continued straight down until it reached this manual DP level, where the decline stopped dead.

In this way, not only were you able to catch the very day of the May 19 high, but also the very day (July 15) the decline stopped as support came in at the DP.

The manual DP zone is a very powerful tool that can be used to help identify markets turns in all markets and all time frames….

Continued on the next page ….

Here is another area where I like to use the manual DP, to project a future support or resistance zone, after which I look to see the *pattern* of the market as it enters this zone. Here is a great example on US Commodity Future Corn going into the May 29, 2008 low:

Here I have used the DP on its own to *project in advance* a potential area to be aware of for potential support *if* the market gets there…

Notice how this was on the chart well before the market even reached the zone….

Continued on the next page …..

Corn futures chart:

But this is the most important part - the *pattern* of the decline into this DP zone.

Here I have used the Elliott Wave module, which automatically identified an ABC decline going into the low. Again, as I mentioned above, the Elliott Wave module also places the WPT support/resistance zone on the chart for you. In this example the minimum Wave C WPT fell at the same price zone as the DP we had placed on the chart a week earlier.

As you can see, Corn made a low right in this price zone before making a blue (buy) reversal bar, the cue to consider a long trade.

Continued on the next page ….

The result:

As you can see, this nailed the low, before Corn rallied sharply.

But the point here is how you can use the manual DP level to project potential support/resistance zones well in advance for areas where you need to look closer for the minor pattern. In this example, the minor pattern was an ABC correction which (again) was automatically identified by the Elliott Wave module.

Another important aspect you should take into consideration is the *larger degree* trend. For this you can use the *colour* of the STF, but the more advanced traders among you can also look at you own analysis on the larger degree timeframe. Let me show you what I mean with an example on a EURGBP forex chart

Continued on the next page …….

1hr EURBBP forex chart:

If you look at the chart above, you can see how MTPredictor v6.0 found an automatic DP sell. Notice how our in-built Position Sizing module automatically gave you guidance on the number of lots you should be trading for this market and set-up, based on your account size and % risk per trade.

The market then declined nicely to reach the first projected profit target. At this point the STF had exceeded its strength band so the trade management swapped from using the profit target (here, the opposing DP level) to using the ATRStop (covered later in this document).

The ATRStop then held this short trade as the decline continued, eventually being stopped out for a profit of +12R. If you remember from earlier in this document, this means that the profit was 12 times larger than the initial risk. Or put another way, this turned an initial risk of approximately $320 into a profit of approximately $4,000.

As you will have learnt earlier, this is what is important when trading – the *size* of the profits in relation to the losses. Most amateurs do not understand this and still have losses that are too big and take profits too early; this is why most of them will never be successful. MTPredictor is different and emulates most successful traders by keeping the initial risk (and losses) small, and maximising the profits.

As a side note: for the more experienced traders among you. MTPredictor allows you to do *multi-timeframe* analysis. In other words, it is always a good idea to see how your short-term (for example, 1hr) trades *fit in* with the larger degree (for example, 4hr) picture.

So let's take a look at the EURGBP 4hr chart when the 1hr DP sell came up:

Here you can see how the (larger degree) 4hr chart was falling from DP resistance to a projected DP lower down. So the 1hr sell appeared right in the middle of the 4hr down trend. This would have given you extra confidence in not only taking the initial sell set-up, but also riding the 1hr short all the way down to the larger degree, 4hr DP support zone.

Continued on the next page ......

The Decision Point (DP) can also be used in conjunction with many other, more standard, technical analysis methods.

Many of you will be familiar with using oscillator divergence to pick the end of a trend...well, this analysis method can be enhanced by the addition of the DP level. The reason for this is that the standard divergence lacks the ability to know whether the market is actually at important price support or resistance, where a reversal is likely, at the time of the divergence. What do I mean by this?

Well, let's take a look at the GBPUSD Daily chart using a standard 5/3/3 Stochastic:

As you can see from the chart above, there was clear 5/3/3 stochastic divergence nearing the Jul 15 high. But the important point is that the price of the GBPUSD was also entering DP resistance at this same time.

The trigger for a new short trade was as the low of the red (sell) bar was exceeded. This had you positioned short to take advantage as the GBPUSD fell sharply over the next month.........

Continued on the next page..........

Another method that works well in conjunction with the DP is high volume spikes. This is advanced volume analysis, where we are looking for the market to make a break beyond an important level on extra high volume. This normally signals a continuation of the break, however *if* the market reverses immediately, it suggests that the professionals are in the *opposite* direction - this often leads to a strong reversal.

Again, this method is enhanced by using the DP to pinpoint the price level at which this reversal occurs.

Let's take a look at an example on a daily chart on a UK stock - RDSA
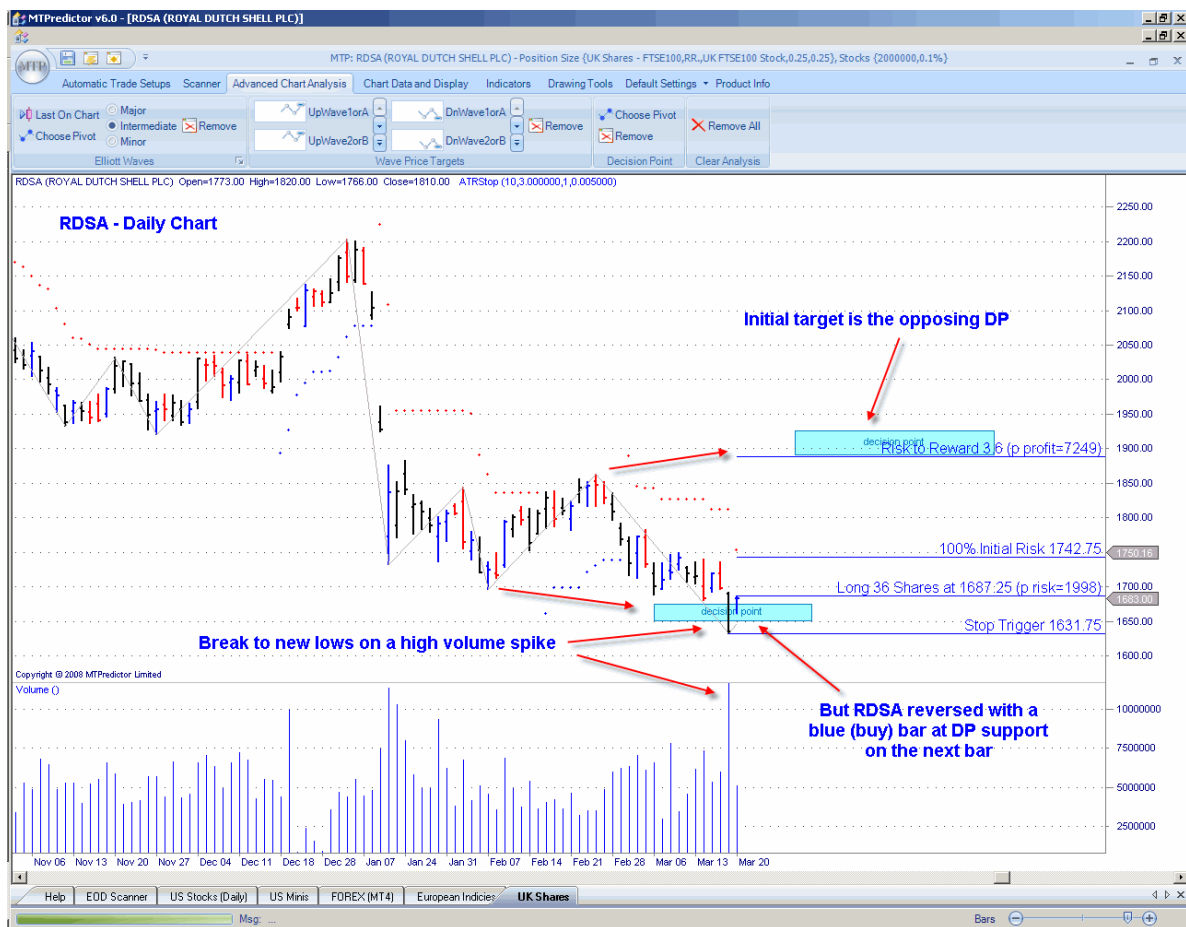
On 20 March 08, RDSA made new lows on very high volume. But the very next day, rather than the decline continuing, the market reversed and formed a blue (buy) bar. Look where this reversal occurred – right at our DP support level. This was the sign that an important low was in the process of unfolding but, even more important, this low was backed by professional buying as signalled by the failure of the high volume break to continue lower.

Support at the DP level allows you to enter a new long trade with a small controlled risk.

The initial target for this trade is the opposing DP, for a *potential* +3.6R trade. But let's take a look how this unfolded a few months later....

Here is the result:

RDSA rallied past the initial target to reach the higher DP resistance zone. Here is the interesting point – it reached this zone on another high volume spike, that reversed with a red (sell) reversal bar. So, in essence, the exact opposite set-up. This implied that this rally was over and profits should be taken on the current long trade. The result was a very strong trade that had you long form the low to take profits as the high came in for a massive +9R profit. In fact, RDSA continued to decline - an excellent opportunity for a short trade off this high as well

But the point here is how the DP gave you the level where you should be looking for reversals on these high volume spikes. So, another example of how the tools in MTPredictor can help enhance more standard technical analysis techniques.

The reversal on a high volume spike at DP support / resistance is a particular favourite set-up of mine and works especially well on intraday charts as well as daily charts, so is well worth keeping a close eye out for....

Continued on the next page.....

Here is an example on a 3min chart of the Dax to show you that these high volume spikes unfold on intraday charts as well as on daily charts:

As you can see, we have exactly the same situation as on the daily charts of RDSA on the prior pages, where the 3min Dax made a push up into new high territory on high volume. But (and here is the important part) this push higher (on high volume) bumped right into our DP resistance zone, where the rally stopped dead.

If this had been buying volume, then the rally would have continued higher, but because the rally stopped so sharply, it suggested professional traders *on the other side* of the trade actually selling into this rally.

Just as before, a red (sell) reversal bar unfolded at this high, this gave us the opportunity to enter a new short trade with a small controlled risk. As you can see, this nailed the high perfectly just before the Dax started to fall sharply. The ATRStop would have then held you short for a massive +17R profit !

Just as with the daily example on the prior pages, this particular set-up identified the actual turn in the market, just before a very sharp move in the opposite direction...

Although not shown on the prior page, this DP high also unfolded at both STF and Stochastic (5/3/3) divergence on the 3min chart, adding support to the initial trade set-up.

But also, and this fits in nicely with examples earlier in this section, *at the time* of the 3min DP sell, the 15min (larger degree chart) was also at a good resistance area. This is the *multi timeframe* analysis I described earlier in this section.

As you can see, here we have a very nice Wave C high, with the 15min high reversing right at both the Typical Wave C WPT and the DP from a prior high.......

So not only did we have a very nice sell set-up on the 3min Chart using a high volume spike, but this was also backed by the 3min sell set-up unfolding at larger degree 15min resistance.

When you have multiple pieces of analysis all coming together at the same time, particularly when you have a short-term set-up that also unfolds at larger degree support or resistance then it often turns out to be a very good trade. It does not matter whether this is 3/5min charts backed by 15/60min analysis (on Index Futures, for example) or 60min charts backed by 240/480min analysis (on Forex, for example) or daily charts backed by weekly analysis. When your current trade fits in with the larger degree picture, it increases the odds of a successful trade.

We also have many other more advanced capabilities and analysis tools that are discussed in more detail in Part 2 of the Trading Course, for example the VSA (Volume Spread Analysis) high volume spike. This is a particularly powerful setup that can nail a turn, particularly when it unfolds at a DP or WPT support or resistance level.

Here is a great example that nailed the low of the day on a 3min NQ chart:

The result a very nice long trade, from the very low of the day, that results in a +5.7R profit (ignoring slippage and commission).

Continued on the next page................

Section 3 – other topics

In this section I would like to start with trade management.

Trade Management

The basic ingredient for a good trading system is that it has small losses - achieved by the tight trade entries already discussed - and that the profits are large. For this, we must have a good trade management strategy. However, markets are very dynamic and, from my 20 years' experience, I have found that to get the best results over time it is difficult to use a single trade management strategy. The reason is that the market does not unfold the same way each day. Some days have wide ranges, when the market runs a long way, whereas other days are narrower, with small, choppy swings. The same applies to daily charts. Sometimes the market is in an impulsive phase and the trend runs a long time, while at other times the swings are shorter and choppier. Trying to have just one trade management strategy to cope with both situations is impossible.

This is why we have two strategies specifically designed to maximise your profits in each of these scenarios. First, there are the standard profit targets (WPTs) - the coloured zones displayed on the chart for you and used for our *initial* R/R calculations. These do a great job of taking profits slightly earlier and, as such, are ideal for maximising your profits on narrow range choppy days (for day-trading) or during the small, choppy periods (when using daily bar charts). Second, there is the trailing ATRStop, specifically designed to let trades *run* further when a big move is underway…

Okay, the question I hear you ask is – "how do I know which method to use?"

The answer to this is simple – look at how the current peak in the STF oscillator relates to the position of the *strength bands*. These show you where the current swing is in relation to prior swings, so you can gauge whether the current swing is strong or weak compared with recent history.

You can then use this information to decide whether to take profits earlier (using the WPTs) if the current swing is weak or look to use the ATR stop to *run* your trade further if the strength band has been breached and the current swing is strong.

Let's take a look at some examples …

Weak STF example – use WPTs to bank profit early:

In this example, we had a good TS3 sell on th 5min UK FTSE index future chart. And as you can see, the market declined nicely to reach the first projected profit target.

But, should you look to bank profits here or run the trade further ?

The answer is to look at the current value of the SFT oscillator and see where this is in realtion to the strength band (grey line) on the oscillator. As you can see from the chart above, in this example the STF had not reached the strength band, suggesting that the current swing was weak (in relation to prior moves) - so you should consider taking profits earlier (using the WPTs or DPs) rather than looking to *run* this trade.

As you can see, this would have banked a very nice +5R profit.

Now, let's compare this to another set-up on this same 5min FTSE chart a little later......

Continued on the next page ....

Strong STF example – use ATRStop to run trades further:

This was actually a *manual* DP trade, but the principle is the same for the automatic set-ups.

Can you see the difference here as the market reached the first project profit target? In this example, the STF has reached (in fact had already exceeded) the STF strength band. This indicated that the current move was strong (in relation to prior moves) and you should switch to using the ATRStop to let this trade *run*.

Continued on the next page......

The result:

As you can see, the FTSE did continue much higher as the rally gained strength. Using the ATRStop enabled you to *run* this trade, enabling you to maximise the profit.

Again, this technique is only applicable when the market makes a strong move. This does not happen all the time - sometimes the market is in a sideways and choppy period, therefore having two exit strategies designed to take account of either a sideways choppy market or a strong trending market is vital...and something that most other trading approaches do not have.

STF - larger-degree trend and divergence

In the prior section you saw how we have *strength bands* on the STF oscillator to help gauge whether the current swing is *strong or weak* in relation to the prior swings. This is great for managing the trade, but what about when you are looking to enter a new trade…how does the STF help then?

Basically, the STF (Strong Trend Filter) does exactly that - it gives you an indication of how strong the larger-degree trend is. We have made this very easy to use – simply look at the colour of the STF (not whether it is above or below the 0 line). Blue is a strong uptrend, red is a strong downtrend, black is a flat trend – it is as easy as that.

As you have seen, you can then use this STF colour to help filter your automatic TS1, TS2, TS3 and TS4 (not DP) trades so they fall *in the direction of* the larger-degree trend.

Let's take a look at an example:

At the time of this TS3 sell set-up on a daily chart of US stock SUN, the STF was red, indicating that this sell set-up *was* in the direction of the larger-degree downtrend.

Continued on the next page …

To make it easy for you, we have filters built into the software that can screen trades based on the STF colour, so only showing you valid trades that are *in the direction of* the larger-degree trend:
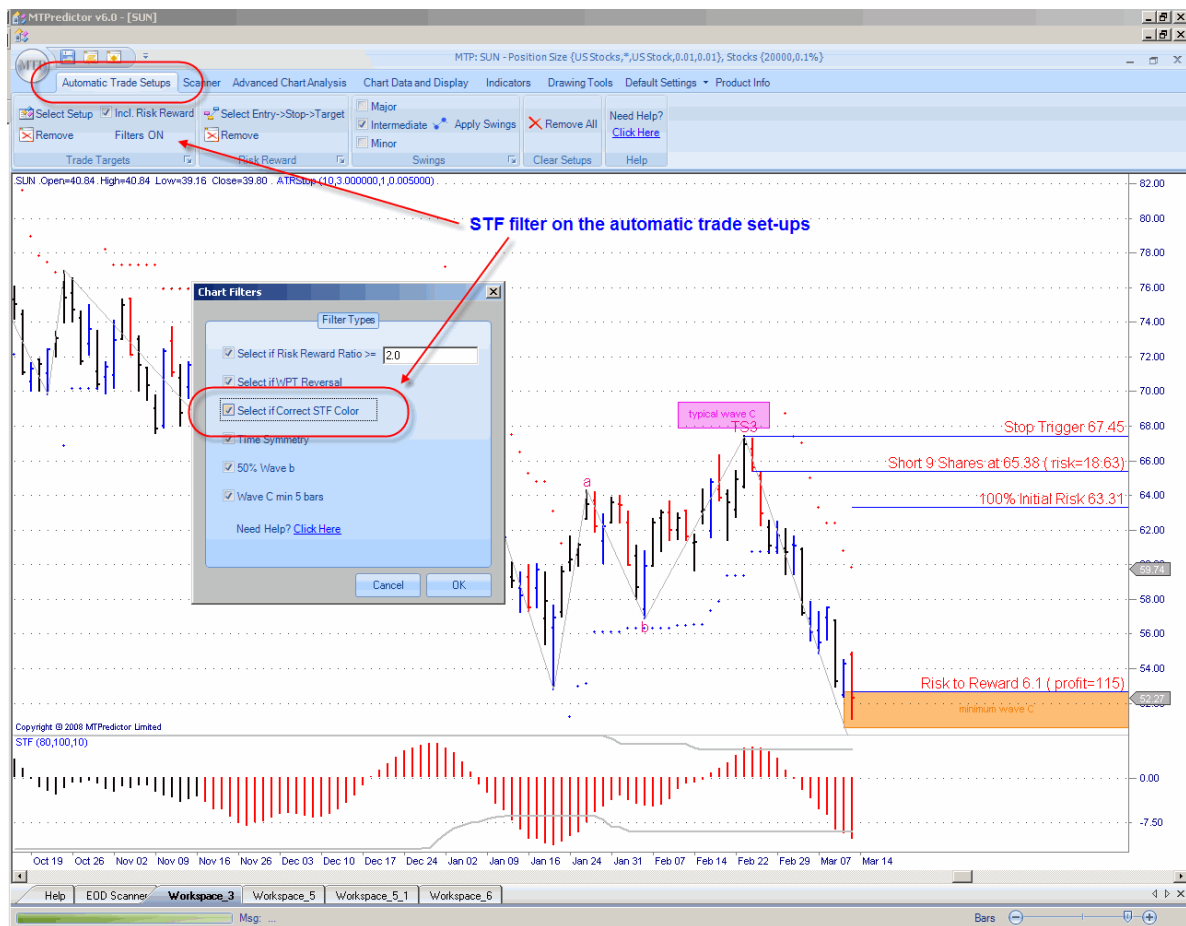
This makes it very simple for new users as the software does this filtering automatically for you!

This is extremely easy to use. However, there is one important exception to be aware of with all technical indicators (no matter what some vendors say). They are all *lagging*. They will give you a good idea of the larger-degree trend *when that trend is established*. All technical indicators, by definition, will always miss the exact turn in the market when a major turn unfolds. That is why we have advanced set-ups - for example, the advanced TS3 - where experienced users can decide whether a Major turn has *just* unfolded (by use of the DP or WPT levels) and, therefore, decide whether to override the STF signal.

However, this is for advanced traders only…for the vast majority of you, and especially if you are new to MTPredictor, the STF colour will keep you on the right side of the larger-degree trend most of the time.

As suggested, to overcome this lag the more experienced traders will use our additional techniques that can nail the very turn *as it is unfolding*. In fact, the DP and WPTs (Wave Price Targets) can be placed on a chart *in advance,* to highlight future support/resistance levels for possible major turns in the market.

Next, let's take a look at an example using the DP (Decision Point) to pick the end of a trend:

Here we can see that STF divergence was present as the market made a reversal right at the DP resistance level. Divergence is where the STF oscillator fails to confirm the move in the actual price to new extremes. This is a standard use of an oscillator, where divergence can indicate that a trend is coming to an end. Please review the DP section for more information on this.

So as you can see, we have both aspects covered…an easy-to-use, colour-coded indicator that will keep you on the right side of the larger-degree trend the majority of the time - hence the suitability for the vast majority of traders - and advanced techniques allowing you to catch the very turn when appropriate.

Summary - STF - larger-degree trend and divergence

1. Use the STF colour for an indication of the larger-degree trend - blue is a strong uptrend, red is a strong downtrend, black is a flat trend.
2. Use divergence (not the colour) as an indication that the current trend is ending.

Position Sizing

Correct *Position Sizing* is one of the most important parts to a successful trading approach, however is not used in the vast majority of trading software or mentioned by most trading gurus. So this material may be new to you.

Position Sizing uses a selected % risk on each of your trades, so *sizes the position* to take account of the difference in the trade entry and initial protective stop levels for different trades. Different trades have different trade entries and different stop levels - sometimes the entry is close to the initial stop level, sometimes it is further away. If you always traded in a set number of lots, shares or contracts, your initial risks between these different set-ups would vary. If your initial risk varies from trade to trade, it is impossible to keep your losses small and constant. The only way to achieve this is by the use of correct Position Sizing.

You will have heard of the phrase *keep your losses small and your profits large* to succeed in trading. But what this fails to address is exactly how to achieve it when you have different initial risks on different set-ups and across different markets. More importantly, this is the only way to get your profits to relate directly to your losses. This is vital if you are truly to have *profits that are large in relation to your small losses.*

This may seem complicated but the solution is simple. All you have to do is apply the same % of your trading account to each trade. To do this, you will have to vary the number of lots, shares or contracts you trade - to keep this initial % risk constant from trade to trade.
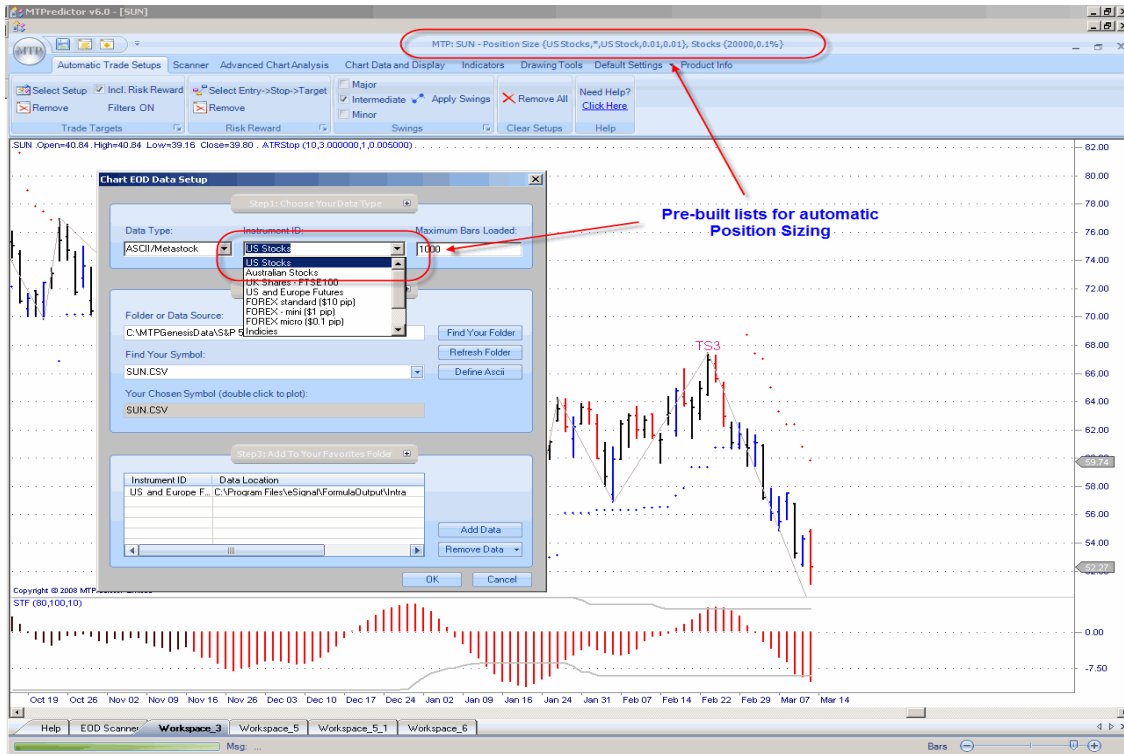
For example, we suggest a maximum risk of 1-3% for trading futures, 0.1-0.5% for stocks, 1-3% for forex and 1-2% if you daytrade.

So, for a 2% risk on a US $20,000 account, this would mean an initial risk of approximately $400 for each of your trade set-ups. You then have to calculate how many lots, shares or contracts to trade for this $400 initial risk, based on the trade entry price and the price of your initial protective stop.
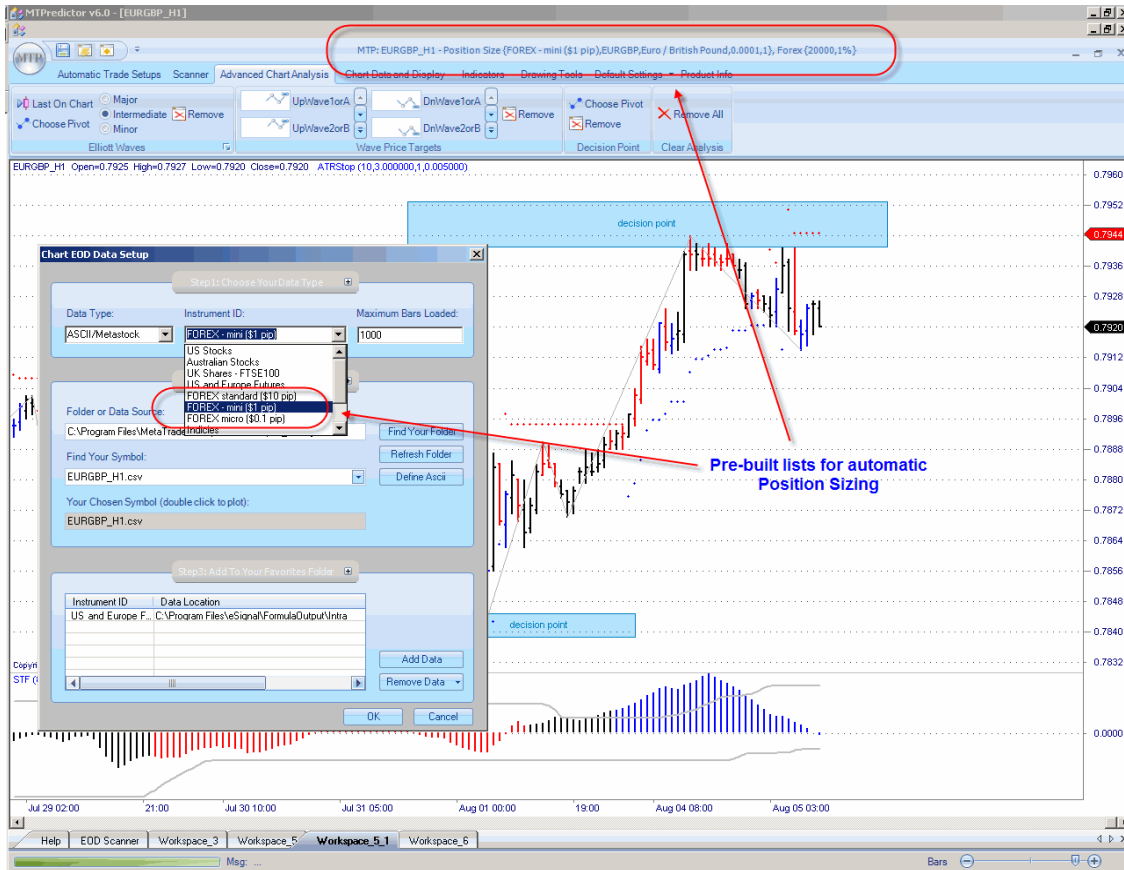
This may seem complicated but MTPredictor makes it very easy and performs this calculation for you.

Let's take a look at an example …

Pre-built Position Sizing lists for US stocks:

Pre-built Position Sizing lists for FOREX:

As well as for all the main markets worldwide, including UK stocks, Australian stocks, US commodity futures, index futures, Indian stock futures and so on...we are adding to this list all the time.

So what does this mean for you – the trader?

Let's take a look at an example from earlier on the 5min UK FTSE index future using a 2% risk on a £20,000 account

As you can see, *at the time* of the initial set-up, the number of lots, shares or contracts is calculated for you - this is the variable from trade to trade - to keep and maintain your small, constant % risk from trade to trade.

Here you can see, based on the trade entry level and the level of the initial protective stop, the software suggests you trade 2 contracts for a 2% risk on this sample £20,000 account. This kept the initial risk just below our £400 (2% of £20,000) level. This is what we refer to as *one risk unit* or 1R.

But now comes the really important part...how the profit *relates* to this initial risk...

Too many traders just look at profits in pure money terms and have no idea how this relates to their losses. This is what I was talking about on the prior page, and is one of the reasons most amateur traders are unable to make profits that are truly *large in relation to their losses*.

In this example, when this trade was stopped out the profit was approximately +6R or 6x the size of the initial risk. This is what is important - not the £1,900 profit but how this £1,900 related to the £320 (excluding slippage and commission) initial risk required to take the trade. In other words, you should look at all your profits in *risk units,* not just money terms.

This is what is meant when we talk about a profit being +6R - it describes how big the profit is in terms of the initial risk of the initial set-up.

This is absolutely vital, however many people have never heard of Position Sizing, so why is this? Well, put bluntly, the vast majority of traders are not successful so have no idea how important correct Position Sizing is to long-term trading success…

This also leads on to one of the most misleading beliefs held by the vast majority of losing amateur traders - that you have to be correct or have a high % of winning trades to be successful. This is complete rubbish - sales propaganda generated by self-appointed gurus or sales people who have no practical trading experience themselves.

More on this in the next section…

Summary - Position Sizing

To apply correct Position Sizing to your trades you start by risking the same % of your trading account on each trade. To do this, you will have to vary the number of lots, shares or contracts you trade to keep this initial % risk constant from trade to trade.

We suggest a maximum risk of 1-3% for trading futures, 0.1-0.5% for stocks, 1-3% for Forex and 1-2% if you day-trade.

So, for a 2% risk on a US $20,000 account, this would mean an initial risk of approximately $400 for each of your trade set-ups. You then have to calculate how many lots, shares or contracts to trade for this $400 initial risk, based on the trade entry price and the price of your initial protective stop. As you have already seen, MTPredictor automatically makes this calculation for you.

Do you have to be right to make money ?

This is a very interesting question and one of the most misunderstood aspects to successful trading.

First, a little background. As human beings, we have grown up with the idea that we have to be *right* to get on in life. At school, 70% has tended to be the typical A grade pass rate and a fail was typically set at 40%. So, from an early age we have been taught that the higher the success rate the better we are. However, with trading things are very, very different and we cannot apply what we have learnt in our life so far.

However, there is a side message here, which gets in the way of most traders' progress. There are far too many software vendors and gurus preying on the amateur trader's desire to be right by selling software that they *claim* is designed to give the amateur what they want – a high success rate. But all is not what it seems on the surface.

Put bluntly again, trading is not about anticipating what is going to happen in the future. By definition, the future has not happened yet. So, no matter what many tell you it is IMPOSSIBLE to predict the future with any accuracy. If it were, 97% of amateur traders would not fail…but they do, confirming what I am saying !

Basically there are two ways to design a system:
Firstly, look to take profits early. This has the effect of giving a higher % of winners because you are not trying to look too far into the future. However, most systems like this have a major drawback - the profits are usually only small in relation to their losses. So, only a small upset in the system (such as bad fills) can send the system into a loss. This is why most *back-tested* profitable systems fail in the real word…

Secondly, design a system that works *in tune* with how the markets really unfold. Typically, markets will only have *big* moves about one third of the time, another third will be flat and the other third will be in smaller, choppy swings. This is just a fact of life and how all markets on all timeframes unfold over periods of time. Bearing this in mind, the best system (and the most profitable in the long run) should maximise its profits on the big moves - not look to come out early - and also look to cut losses early during the choppier periods. Basically, have *small losses and big profits*. To me, this is just common sense ☺.

So why aren't more systems designed to be in tune with how markets really work and, as such, designed for maximum profit?

Well, because as I have said, big moves only unfold about one third of the time in the real world, so your system might only have about 30% big winners, where the majority of your profits are made. Then, typically, another 10%-20% of small winners and the other 50% will be either break-even or small losses. Quite simply, the system will only have 40-50% winning trades…

So, because amateurs do not like a low % of winners many gurus and software vendors do not design systems like this because they do not sell well. They design systems that sell well (best for the vendor) and not that make the most money (best for the trader).

Put this alongside what most amateurs believe they need – incorrectly - and what many gurus teach – incorrectly - and you can see why 97% or so of amateur traders fail. They are going after the wrong goal, a high % of winners rather than a system that is designed to make the most money however the markets really unfold in real life…

This is not the fault of the amateur trader personally - they have been misled by software and service sellers designing for what customers think they want (wrongly) and not what actually makes them the most money.

Yes, the trading business is a very strange customer-led business in that most new customers do not know what is required to be successful. Hence we have the silly situation of products on the markets not designed to maximise profits for the trader but simply to sell well for the resellers.

So, is there an answer?

Yes, but first you must adjust your attitude and belief system from what you may think is required to be successful when trading. Sadly, most amateur traders cannot do this and as a result end up failing. But most successful professional traders can make the adjustment and accept that trading is different from the rest of life and to be successful you must adjust to keep your losses small and maximise your profits. As a result, you will only have about 40-50% successful trades. But that does not matter because the winners will be far greater than the losses and that is what makes you money over time. In reality this is the true *Holy Grail* most traders seek, and now you can see why most of them fail to find it !

Successful trading is a relatively simple process. The difficult part is accepting what you (the trader) have to do to achieve it and, unlike most people's idea, this does not involve learning ever more complicated analysis techniques. What is needed is an adjustment in your believe system so you get *in tune* with how the market really unfolds in real life. You should accept trading as it really is and not how you, at the outset, thought it would be…

This is where the MTPredictor set-ups are invaluable. They have been designed not to keep you happy but to keep the inevitable losses small when they happen - they will - and maximise the profits when the market makes a good move. There are very few systems designed to achieve these two goals at the same time. This is achieved by keeping your initial risk small and then having two different trade management strategies to maximise profits both in sideway markets and trending markets - something very few other system can do. You then use correct *position sizing* to make sure these profits relate to your losses and are truly large in relation to these losses.

So the whole idea of this section is to get you to understand that to be successful – making money over time - you do not have to have a high % of winning trades. True, some traders can achieve this over short periods but doing it consistently, year after year, is extremely hard. That is why it is easier to accept a slightly lower % of winners and use the MTPredictor techniques to keep your losses small and profits large. Over time, this is a far easier approach…

SUMMARY

MTPredictor has been specifically designed to help traders answer the four main questions when trading:

- **How to find a trade** – *the software automatically finds trade set-ups*
- **How to assess the Risk/Reward** - *the software automatically calculates R/R*
- **How to determine the Position Size** - *the software automatically determines this*
- **How to manage the trade** – *the Profit targets and ATRStop are automatically displayed on the chart*

As you can see, the software is able to do most of this automatically for you ☺

When you first start with the software and you are new to MTPredictor, please just focus on the *automatic* TS1, TS2, TS3, TS4 and DP trade set-ups as these are totally automatic. Personally, I like the TS3 trade set-up, particularly when you can see a nice, smooth and obvious 3-swing pattern to the ABC.

Then, once you become more experienced, you can start to move on to the more *advanced* trade set-ups that are available within the software. But there is no rush…the markets will be here tomorrow so take your time and enjoy becoming a better and more successful trader…

A last word from the developer…

No matter what trades you consider, there is one thing that remains constant - only taking trades that have a low initial risk and, as such, produce profits much greater than the losses over time. The use of correct position sizing then ensures that these profits and losses relate directly to each other. Only then can you truly have a trading approach that enables you to have *large profits and small losses* which, as you should all know now, is the fundamental requirement for a successful approach to trading. In fact this is the real secret of trading that you should seek rather than trying to be correct all the time.

Once you rid yourself of the misconception that you need to *predict the future* or know where a market is going to make money, then you can truly be free to simply place trades and control your risk.

Most amateurs can never get past this common misconception and as such will remain in the 97% or so who fail. Those of you who do realise that successful trading is not about a high % of winners or being able to forecast future movement, but is simply about risk control and correct trade management, will progress to become a successful professional trader. Don't take my word for this…if you read about the vast majority of successful professional traders throughout history, this is what they have all done…

So you have a simple choice - continue trying to make a high % of winners in a vain attempt to try to predict something you cannot control…or make the change and start focusing on what you *can control* – your initial risk and position sizing. Then let trade management do the rest for you.

If you have been losing money and you wish to make the transition to winning professional then MTPredictor has the tools that will enable you to make this journey. The rest, now, is up to you …

Thanks and good trading . . .

Steve Griffiths
Managing Director and Developer of MTPredictor
MTPredictor Ltd.
www.mtpredictor.com | www.mtptrader.com

_____

Risk Disclaimer and Disclosure Statement

Trade at your own risk. There is risk of loss when trading speculative markets. This document is for information and educational purposes only and should not be considered trading recommendations. You should seek appropriate advice from your broker, or licensed investment advisor, before taking any action. All trading decisions are your own sole responsibility, and MTPredictor or S. E. Griffiths or A. P. Beckwith cannot be held responsible for any losses that are incurred as a result. Past performance is no guarantee of future results. © MTPredictor - www.MTPredictor.com 2001 - 2008.