A Winning System That You Can Master in a Day

Ah, you found it. The trading article you've been seeking for years. You knew it had to be hiding someplace. You've traded so long and struggled so hard that somebody had to eventually "spill the beans" and let you in on the greatest trading secret ever revealed. You paid your dues and now you're ready, right?

Well, not so fast. Of course I'm going to share a simple, accurate, powerful and teachable trading system with you. Possibly one of the most mechanical and consistently profitable trading systems you'll ever see. But (yes there's a "but") no trading system exists (or ever will exist) that is any better than the trader behind it pushing the buttons. Before we examine that statement, let's make sure we all understand what a trading "system" actually is and is not.

A trading system is not a means by which a timid trader (who has been spanked so many times in the market that they have lost all faith and trust in their own ability to make sound trading decisions) can miraculously make a desired income level by letting a machine make their decisions for them. These traders have deep mental scars that can take a long time and a lot of work to heal. A trading system should be seen as nothing more than a tool to assist traders with the mundane tedious job of measuring, figuring, anticipating, filtering and data-crunching duties that computers can do much better and faster than any human.

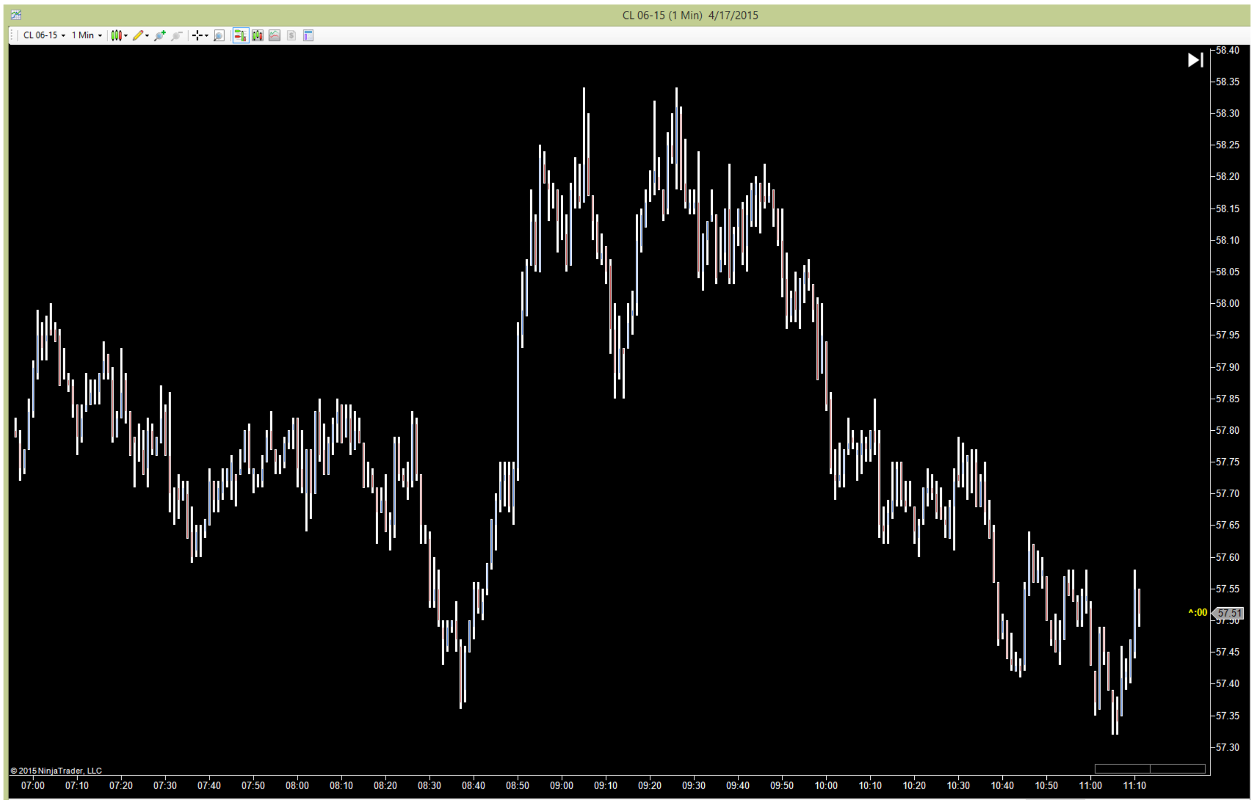
A trained human trader, however, should always make the final decision to enter a trade. Humans can easily see many things that even the most intricately coded software would easily miss. For the same reason, when it comes to Trade Management, nothing can begin to equal the ability of a well-trained trader. So it's the trader behind the system that really counts. A system alone is like a plane without a pilot, clubs without a golfer or a saw with no carpenter. Just a useless tool regardless of its potential ability to help do great things.

It's important that traders understand this symbiotic relationship between traders and their tools. If you are a trader looking for a "winning trading system", you must first look in the mirror.

But are there systems and methods that can help a trader who is already trained and experienced in the areas of Price Action, Trade Management, Technical Analysis and Self-Control? Absolutely! As long as you are aware of the imperative relationship between man and machine, so to speak, then let's take a look at a really easy to understand and master trading system that utilizes some basic Price Action and TA principles that I use every day. If you're willing to do the work, I think you'll like what you're about to learn.

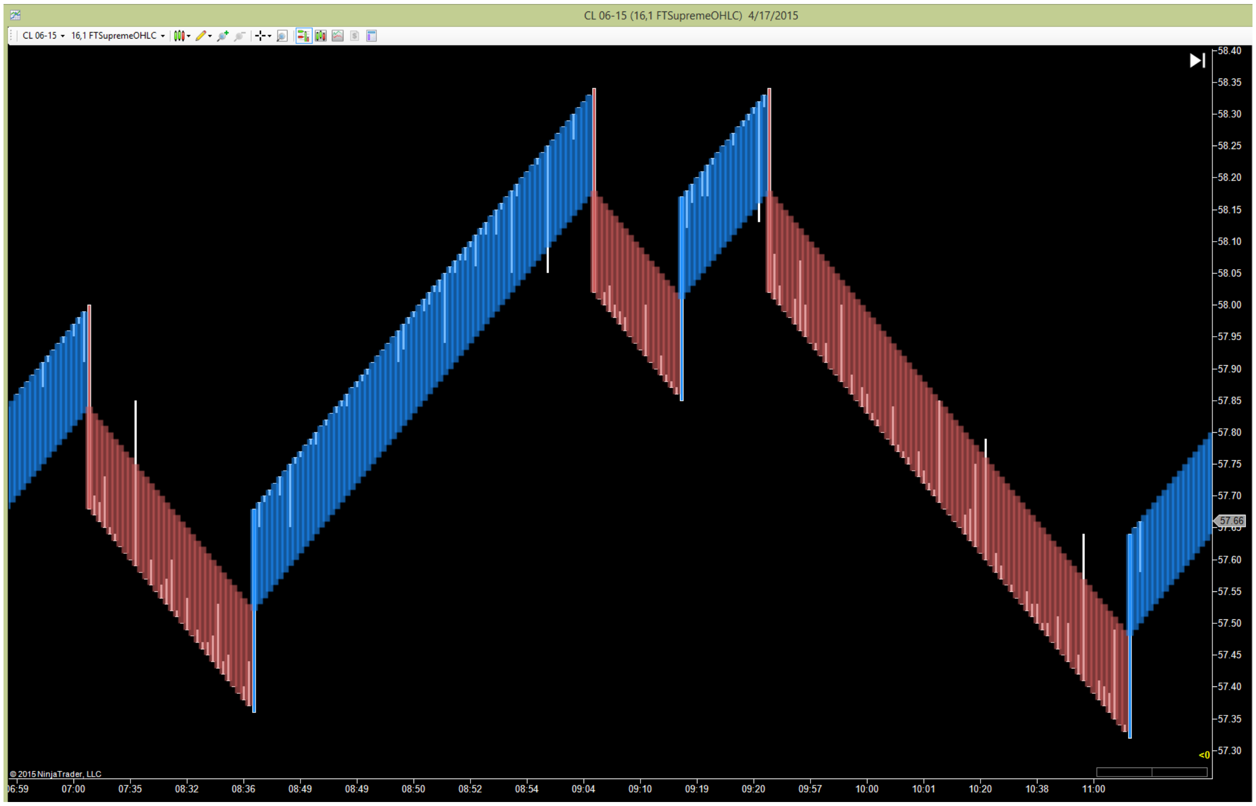
A good place to begin is with the way traders view markets. Think of your charts as your "eyes" to peer into the markets to try to determine what it's doing and, more importantly, what it's about to do. Well, if charts are our eyes than the bar type can be considered to be our "glasses". Whether it is tick charts, range charts, volume charts, time-based charts, etc. each is designed to perform the job of allowing us to best determine what a given market has done in the past and likely will do in the future. Unfortunately, these "glasses", if you will, don't all perform their duties equally well. Like using binoculars to read the newspaper or a magnifying glass to study Mars, there are some obvious drawbacks to nearly every bar type in existence. But it's all we have, right?

Take a look at a typical 1-minute chart here in Crude Oil on 4-17-15 from about 7:00am to a little after 11:00am CST. For most traders using time-based charts, this should look fairly familiar with red and blue bars running helter-skelter with few areas able to string bars of the same color very far before reversing direction.



This constant hither and yon price movement is typical of the huge amount of market "noise" generated by, not only this bar type, but many others as well. It's this massive noise that often confuses traders into making mistakes. Is there a better way to see and trade markets? You bet.

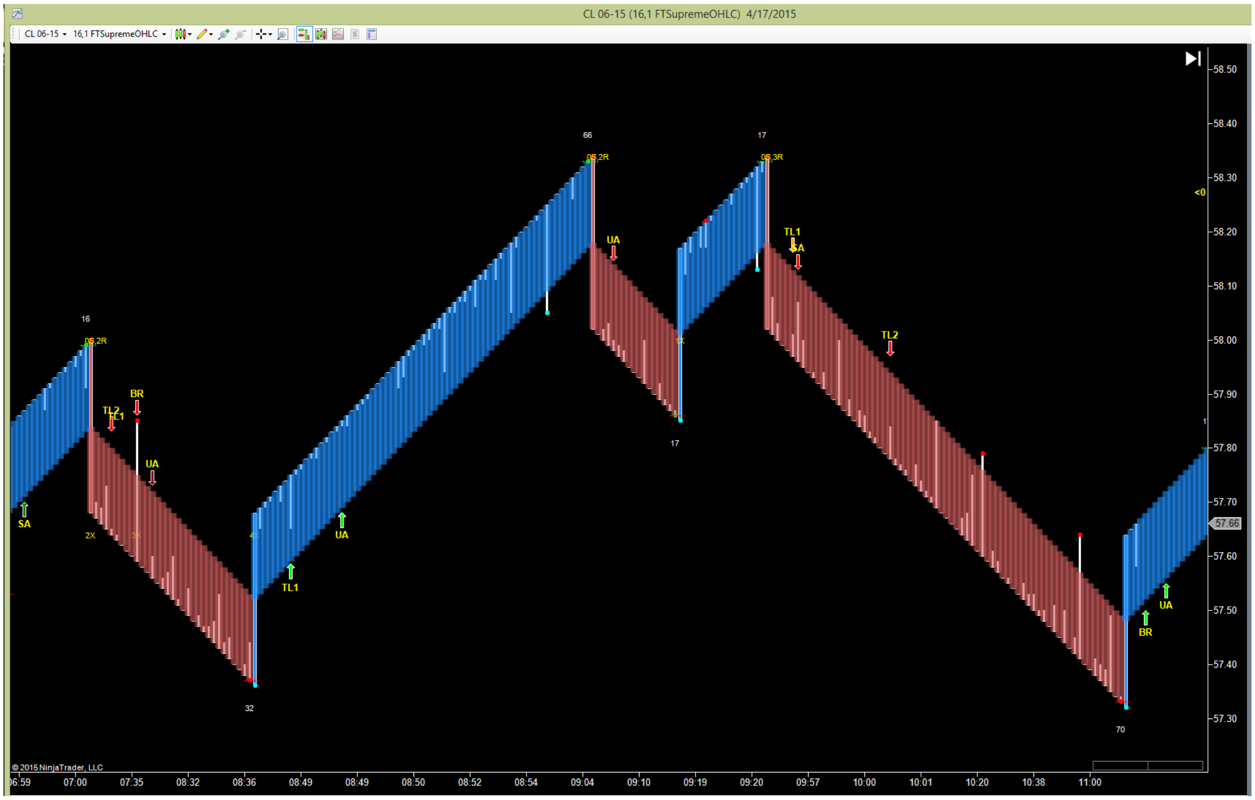
We could spend time and waste space showing similar price action in tick charts, volume charts and, to a lesser degree in range charts and line-break charts. But the end result would be the same in that a reliable indication of price direction would still be difficult to determine. If it wasn't, there wouldn't be such an overwhelming percentage of failed traders. So, let's observe something remarkably different and easy to understand.



This is the Felton Trading Renko Supreme OHLC bar that we developed over 4 years ago. As I touted their many virtues of this modified Renko bar for years, we are now seeing other vendors and platform providers popping up with their own versions of this remarkable bar type. But, as of yet, I haven't seen others with the ability to display the actual Open, High, Low and Close of what price did inside each bar with historical accuracy. But that's really only necessary for back-testing purposes and not for what we are going to be learning today.

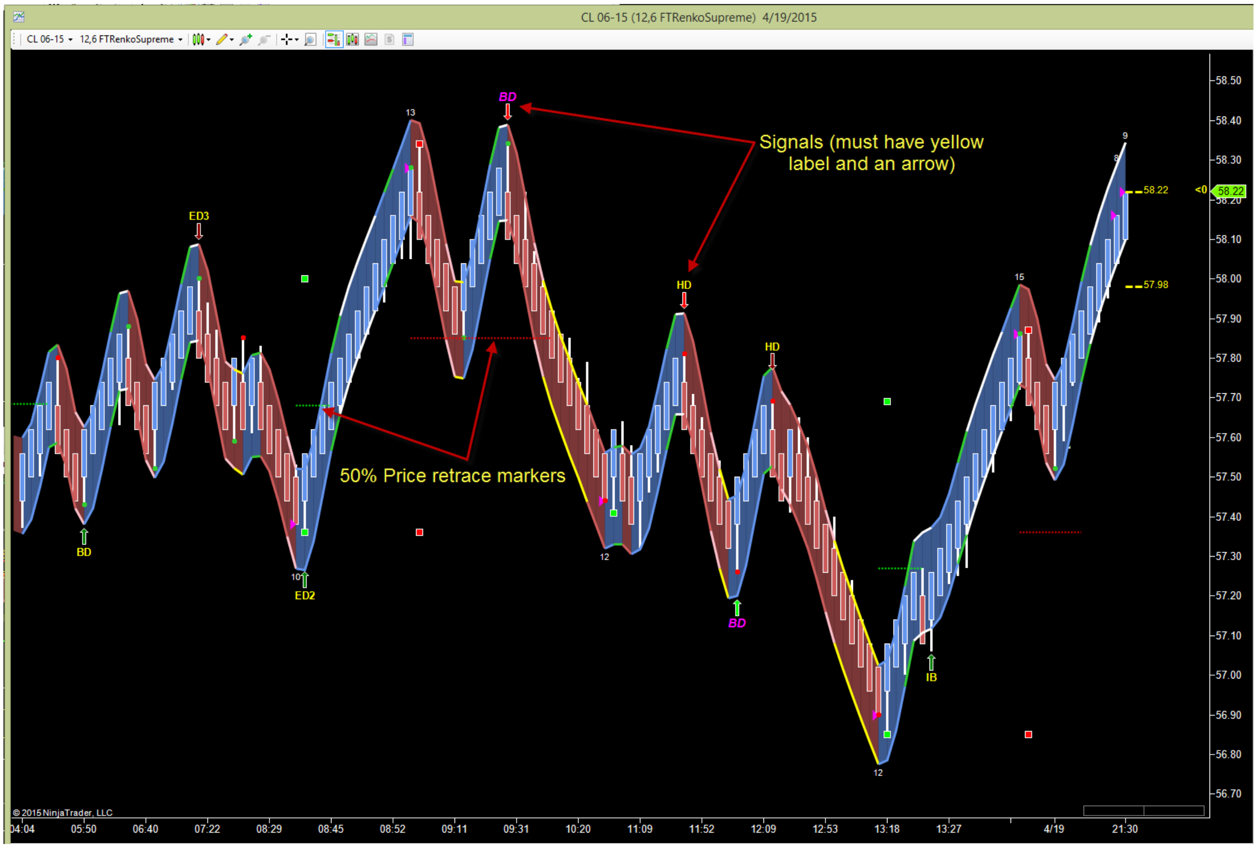
This example above is just one of an infinite number of variations that can be produced by any trader using them. This one is a 16,1 Renko Supreme chart that we call the "1-Step". That is, each of the red and blue bars (body only) are 16 ticks in size (turn bars are double) and the "step size" or, the difference between the close of one bar and the close of the next is one tick.

See how angular and geometric they make the market appear? When a new direction starts, it usually stays in that direction for several bars, often for 100 or more. But as potentially great as these bars look, they aren't of much use without signals. This is where these Renko Supreme bars really leave others in the dust. Look at the following FT Renko Supreme OHLC chart with some signals added.



There are two very interesting things traders notice about the signals on these charts. Most have excellent profit potential and all of them are unheard of in the trading community. The TL1,2 and 3, the UA and SA, the BR and the SM…these don't exist outside of Felton Trading but their structures are easy to explain and, thus, they are easy to identify in real time. I developed a coded system called SignalPro that automatically identifies them, announces them and tells me if I'm trading on the best possible timeframe and instrument. SignalPro does lots more but, again, those capabilities are not necessary for what we'll be learning today.

Now let's look at a variation of the FT Renko Supreme called the "Half-Step" chart. It's called that because the "step size" is exactly one half of the bar size. This adds a new dimension in what you can do with these bars and a whole new world of unique signals that work tremendously well with them.



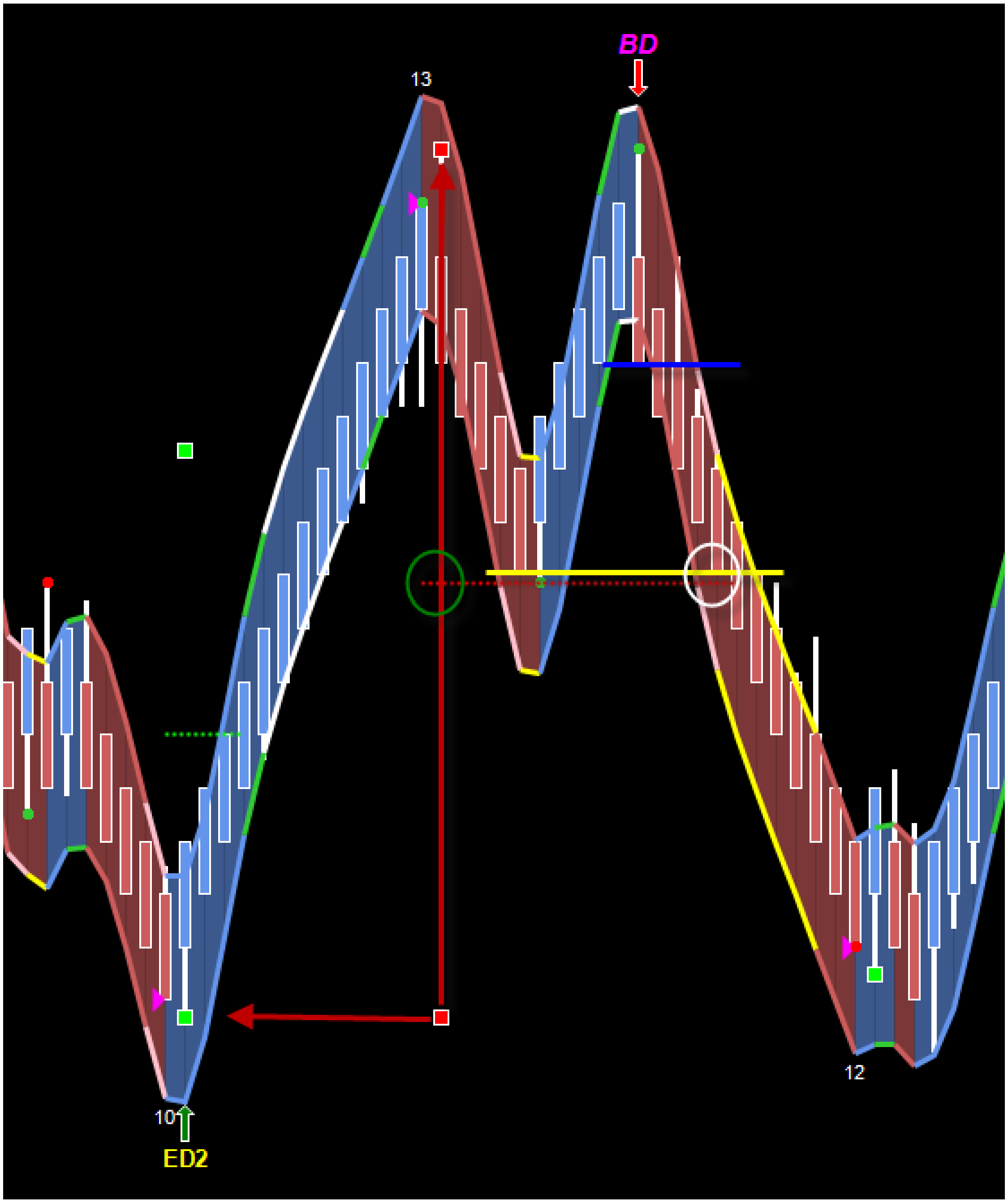
As a half-step chart, this is Crude Oil (CL) on a 12,6 FT Renko Supreme chart. This of course means that each blue bar and red bar (body only) is 12 ticks in size while the step size is 6 ticks. Crude Oil contracts are each worth $10 per tick so even if a trader entered on the close of one bar's signal and exited at the close of the next bar with just 2 contracts, the gross profit could be $120 if no slippage. We just as easily could be trading a 40,20 Renko Supreme where just one bar of profit could produce $400 gross profit. But most traders take advantage of the high probability of these charts and signals producing much more than one bar of profit and a trader might feel silly for exiting that early.

In the chart above, notice that rather large "M" formation between 8:30am and 9:30am on the timeline. On the second high of the double top, it has a magenta BD label and a red down arrow. Let's take a closer look at that for our first signal lesson.

Below we see a close up view of that nice symmetrical "M" formation what many traders might recognize as a divergence signal to go short in the market. That's correct and the computer generated BD signal validates the formation. Traders not familiar with Divergence as a trading signal can find plenty of information in an Internet search engine. But, basically, a divergence short is when a market forms a double top while a corresponding oscillator forms a lower high left to right. A bullish version would be the exact opposite from a double bottom in price and a higher low on an oscillator. The EDx signals simply identify larger divergence formations.

We have marked up this chart to point out some areas that you will want to pay attention to. First, there's that red horizontal dotted line (with the yellow one just above it). This is

SignalPro's way of marking the 50% retrace level of that first big run of blue bars. The red dotted line is exactly one-half of the distance between those two red squares marking the bottom and top of the string of blue bars. The green circle shows the intersection point.



The significance of this 50% level is apparent when you notice what price did on the two occasions when Price headed that way. On its first drop of red bars (which would be the 2nd leg of the "M" formation) Price came down and touched the 50% level to the very tick! Price finishes the 3rd blue leg of the formation and then heads downward on red bars that launched on the "trigger bar" market with the BD and red arrow. We would enter the trade at the close of the trigger which is market with the blue horizontal line.   I never enter a signal on a Market Order. It's always a Limit Order as I want Price to prove to me that it is already doing what every indication says it will. As the entry is triggered, the NinjaTrader ATM setting automatically places my stop at the top of the entry (trigger) bar's "tail" and my exit target will be one tick shy of the 50% marker (shown with the horizontal yellow line). Where Price and Target connected is shown in the white circle and, as you can see, a total of 4 bars were between the entry and the target. Each bar produced 6 ticks of profit for a total of 24 ticks for the trade.

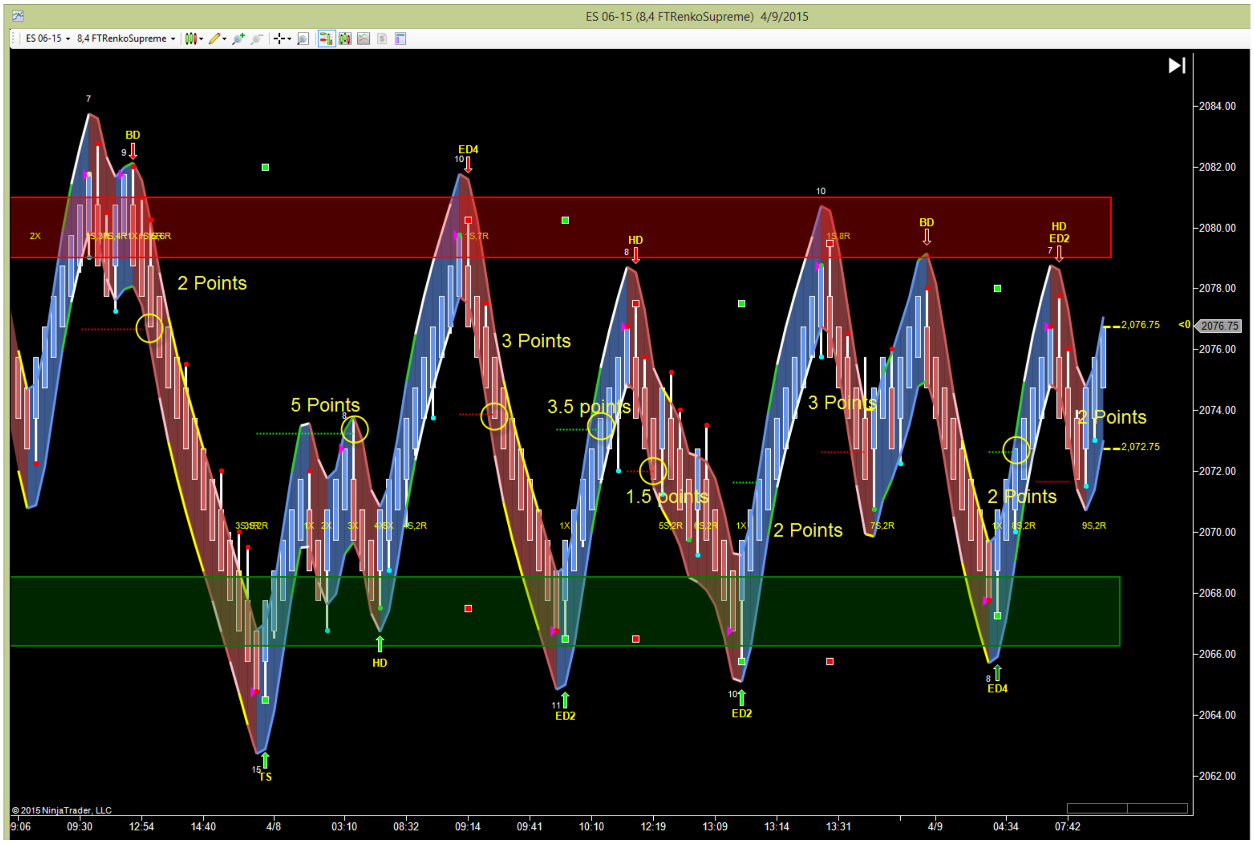
Again, trading just 2 contracts (as I do in my Trading Room), a trader could have made a gross profit of $480. If the earlier short had also been taken at the first peak of the double top down to the yellow marker, another $480 was possible for nearly $1000 in about one hour of trading on just two trades. Similar trading opportunities appear numerous times daily in any market that moves with reasonable volatility and liquidity. This includes Equities, FX, Options and, of course my favorite, Futures.

This 50% retrace level is one I use every day because it is reached with such a high probability. In good volatility condition and with practically any signal to launch, Price will find the 50% line about 85 to 90% of the time. Whereas, the 80% is reached considerably less often and 100% is achieved only around 40% of the time.

Since such a nice profit can be realized with a simple 50% target, virtually no time would be necessary learning complicated and subjective methods such as Fibonacci and Elliott Waves. However, I do have students who are masters at these methods and they often trade beyond the 50% level quite successfully. But they took 10 years or more to hone that skill.

Now, using our 50% target level and the same entry point (close of the trigger bar) and the same stop placement, let's explore some more trade signals…this time in the ES.   I purposely chose the ES because it would be my last choice of markets that I personally would trade. Its compressed range, quarter-point tick and its infestation of HFT's (High Frequency Traders) make it a poor choice for most average traders. Its only advantage is its huge volume liquidity but that overkill is of no use to the little guy. Regardless, this system still comes through even if the number of bars the ES can produce in a typical day is small compared to nearly all other markets and indices.

For the ES here I chose the 8,4 chart. This would allow each bar to produce 4 ticks of profit which in the ES is one point ($50 per contract). Trading just 2 contracts per trade, the profit potential is still very impressive as we see in the next chart example.



Here we cover part of April 7th and 9th plus all of April 8th 2015. Taking every signal the code produced that also had a 50% target level printed, we see a total of 9 trades, both longs and shorts. Assuming that we had no real Trade Management skill yet and only traded for the 50% level and exited, we see a total of about 24 points generated in the ES on about 2 days of trading. This is only potential since the trader would have had to be trading around the clock unless he had a team or an auto-trader robot.

Auto-trader systems are notorious for inefficiency and huge drawdown even if they are profitable overall. However this system is 100% mechanical with no subjective reasoning required. The moment of entry is known, the stop is known (to the tick) and the exit is known and all before the trade is ever executed. Of course some trades do lose but in the vast majority of those events much of the trade's loss can be immediately recouped in the resulting breakout which is almost always good for two bars or so.

I will gladly teach any trader interested in any of the signals marked with the yellow label including the Turn Signal (TS), Basic Divergence (BD), Extended Divergence (ED), Hidden Divergence (HD), etc. free of charge. More information on their structure is available in the accompanying video to this article.

For most traders this method of trading is totally new. Traders aren't used to the idea of bars that self-filter market noise and produce such clean accurate signals. Many traders will have questions and, to be honest, I have a lot more to teach each of you. That's why we would like to invite you to a full free week in our trading room. It's a perfect way to see if how we trade and what we teach is for you…with no risk. You can register for that by going to our website www.feltontrading.com and clicking on the Free Trial button. If you have any questions or would like to learn more before making the trial commitment, I'd be delighted to speak with you personally anytime. Just send an email to Questions@FeltonTrading.com for any questions you might have or to schedule some time with me.