

Remarkable Results with Renkos

Years ago, when I first began trading futures, I remember my struggle to find a system that I could depend on to consistently generate the income level that would support the lifestyle I was accustomed to. Electronic online trading was in its infancy and turnkey retail trading systems were popping up like Whack-a-Moles. The fact that nearly all of them have since gone the way of the dodo bird speaks for their ability to produce a consistent profit for the long haul. I was sure that a robust trading system capable of generating consistent profits did exist. Because I couldn't find it, meant that I had to build it.

Trading Totally Mechanical

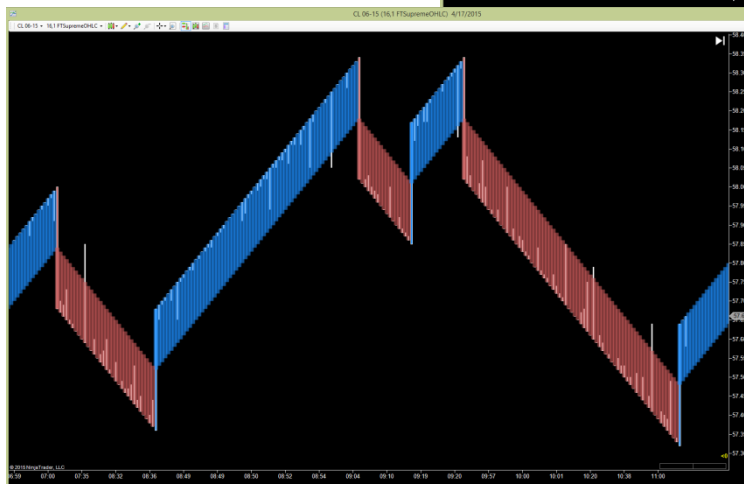
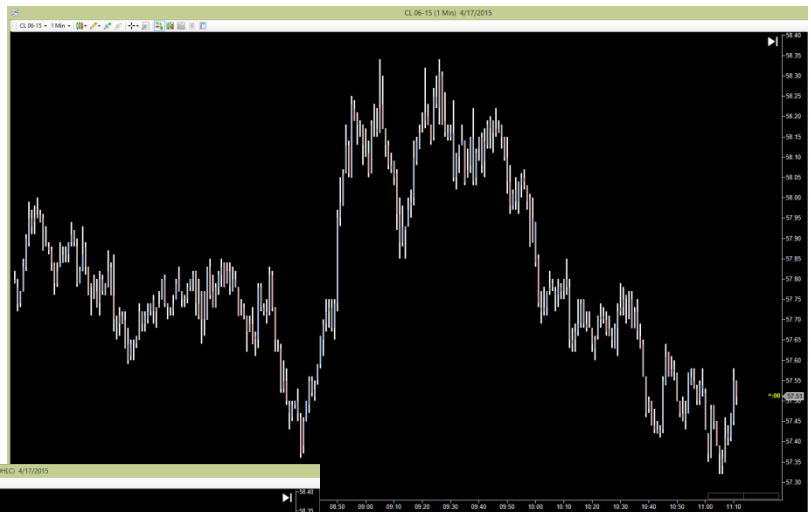
The following are a couple of simple techniques that I've been personally trading as well as teaching for quite some time. They are consistently accurate because they are based on what nearly all markets do most of the time (Price Action) and traded on bars that have a natural ability to filter noise and enable any trader to trade with no subjectivity whatsoever.

One of the reasons most common bar types are so ineffective is they almost always generate too much noise and it's market noise that often creates trader confusion. It's a huge advantage to have bars that automatically self-filter market noise. This enables traders to keep their charts clean and simple with a minimum of indicators and signal filters.

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 together very far before reversing direction.

This constant jerky hither and yon price movement is typical of the huge amount of market "noise" generated by time based charts. It's this massive noise that often confuses traders into making mistakes.

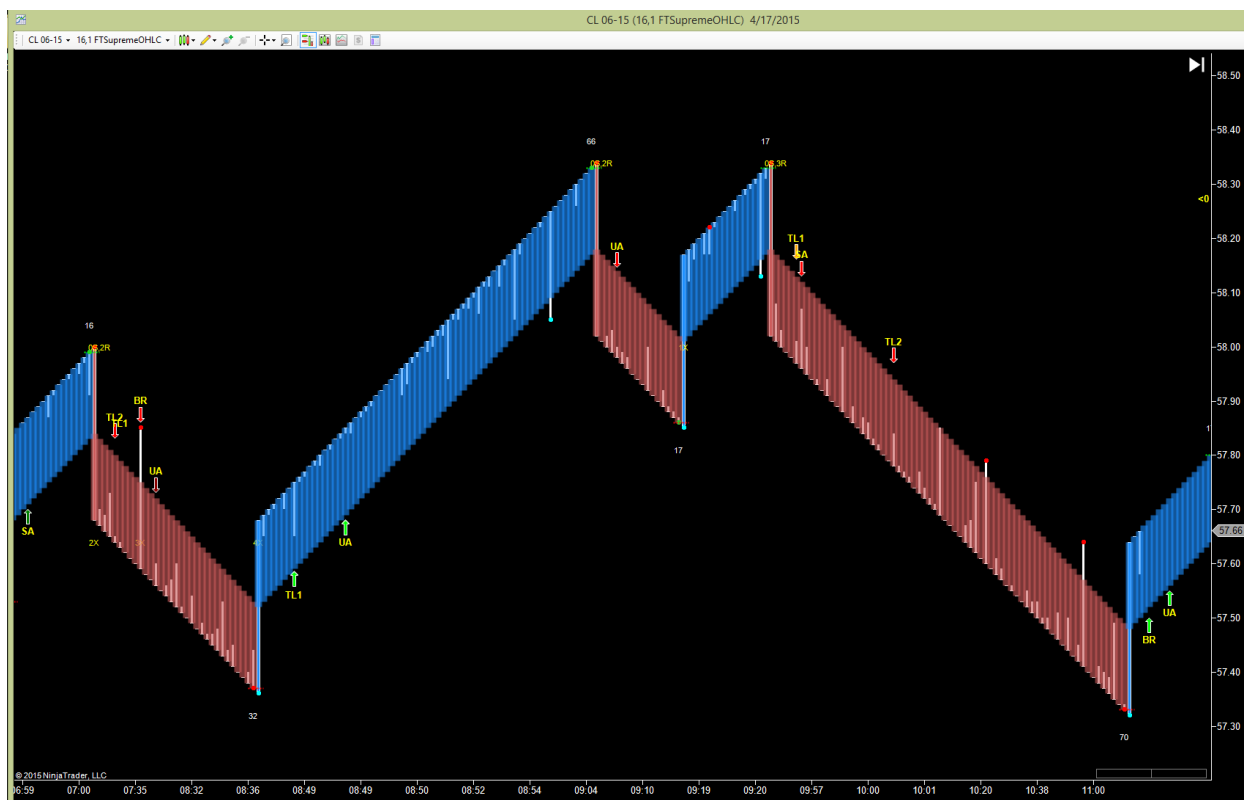
Let's take a look at a bar type that is remarkably different yet easy to understand.



This is the Felton Trading Renko Supreme OHLC bar that we

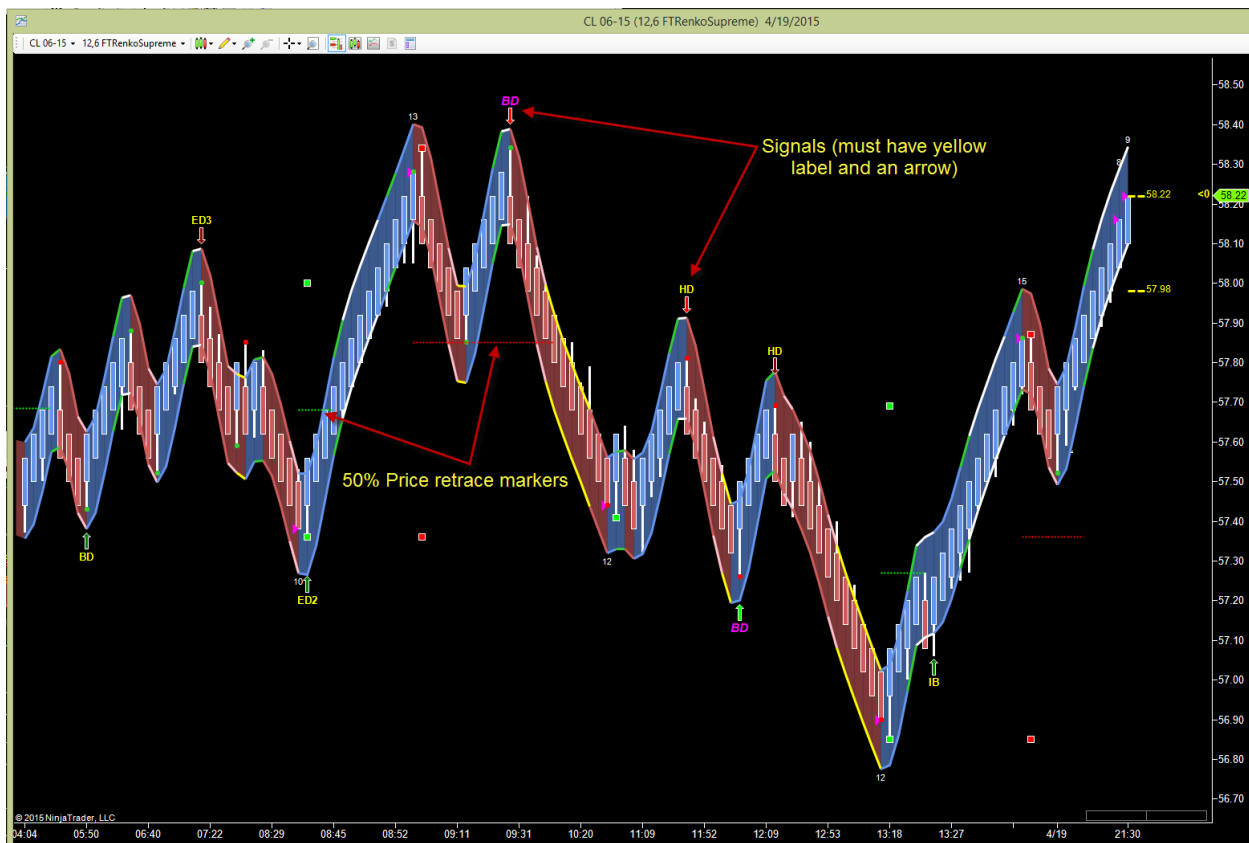
developed many years ago. The top left description says it's a 16,1 Renko Supreme chart. We call that a "1-Step". That is, each of the red and blue bars (body only) are 16 ticks in size (turn bars are double) and the "step size" or, the difference between the close of one bar and the close of the next bar of the same color is 1 tick. Notice also that the "skeleton bars" inside of each bar show us exactly what Price did bar by bar for as far back as we care to look. They are historically accurate.

When a new direction starts, the bar color usually stays in that direction for several bars, often for 100 or more. As great as these bars are for showing true price direction, they aren't much use without signals to enter on and make profit. So now, let's look at the following FT Renko Supreme OHLC chart with some signals added.

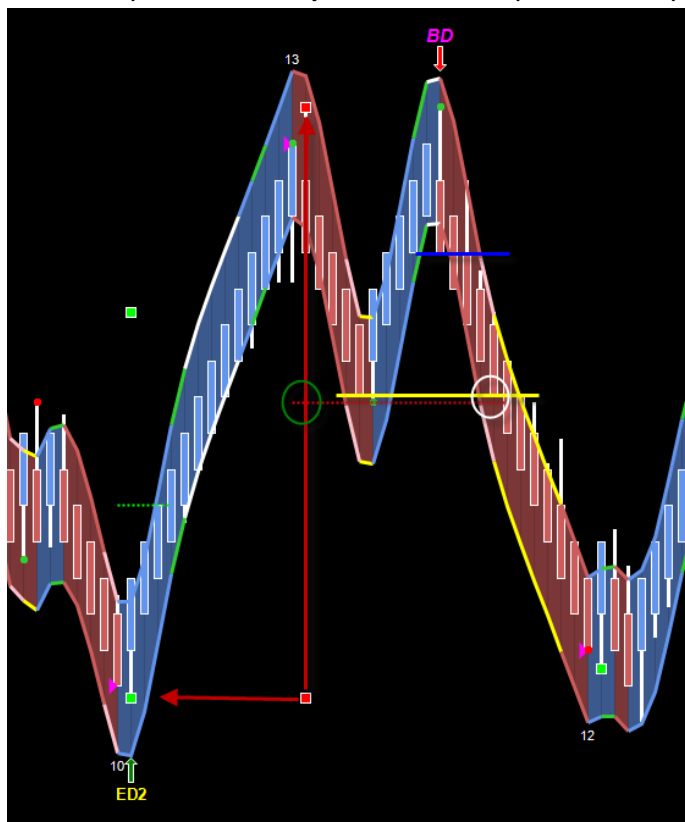


There are two very interesting things traders notice about the signals on these charts. Most have excellent profit potential and all of them are unheard of in the trading community. The TL1, 2 and 3, the UA and SA, the BR and the SM don't exist in any other trading chart or system but their structures are simple and easy to identify in real time. I'm constantly looking for new and better ways to make the trader's job simpler, easier and more accurate.

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 set of unique signals that work quite well.



This “Half-Step” chart is a 12,6 Renko Supreme of Crude Oil (CL). This means that each blue and red bar (body only) is 12 ticks in size while the “step size” (bar close to bar close) 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 (before any commissions, fees or slippage). Just as easily, we 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 producing much more than one bar of profit potential and a trader might feel silly for exiting a trade 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 lesson in how to trade these signals.

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 being correct, the computer generated the BD (Basic Divergence) signal to validate the formation. 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. ED (Extended Divergence) 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 bullish run of blue bars on the left. 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" marked 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 always enter trades with a Limit Order as I want Price to prove to me that it is already doing what every indication says it will do. 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.

Clear trading opportunities appear numerous times daily in any market that moves with reasonable volatility and liquidity. This includes Equities, FX, Options and, my favorite, Futures.

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

Since such a nice profit can be realized with a simple 50% target and it can be taught in 5 minutes, it's not necessary to learn complicated and subjective methodology such as Fibonacci and Elliott Wave. Certainly greater profit targets can be achieved, but mastery of Fib and EW to a profitable level of proficiency can take many years.

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 its characteristics make it one of the least desirable instruments to trade. Its compressed range, quarter-point tick and the infestation of HFT's (High Frequency Traders)

About Trading Pros

I have listed some of the main characteristics and comparisons of professional traders to the remaining majority. Take a look at these and see which group you most likely currently belong.

- A professional understands that a trading system is merely a tool to assist traders by enabling them to focus on what trained humans do far better than any computer code ever could – Trade Selection and Trade Management. A system gathers data, crunches it and delivers the necessary information to the trader so they can make the best, most accurate trading decisions possible. Many novice traders believe that the function of a trading system is to make all (or most) of the trading decisions for them.
- A professional trader never jumps from one system to another. Any system (or technique) being evaluated takes time to see how it performs through the ever-changing market dynamics. If profitability isn't achieved quickly, the amateur trader concludes that it doesn't work and the system is quickly abandoned.
- Professionals possess extreme confidence in both the system they use and their ability to trade it correctly. Negative human emotions will sabotage any trader's success but they cannot stand in the presence of unshakable confidence. The confidence of the average trader is fragile and quickly evaporates after a few losing trades.
- Because the skill of trading is notoriously difficult, nearly every one of the world's top traders had a mentor. When any trader stops learning, they stop winning so many still have an active mentor. They know 90% of traders try to succeed without a mentor and 90% of traders fail. Professional traders know there's a definite connection.

For no obligation detailed information and questions on signals, systems and techniques using the Renko Supreme bars, email: Questions@FeltonTrading.com.

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