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

MTPredictor DP Help File

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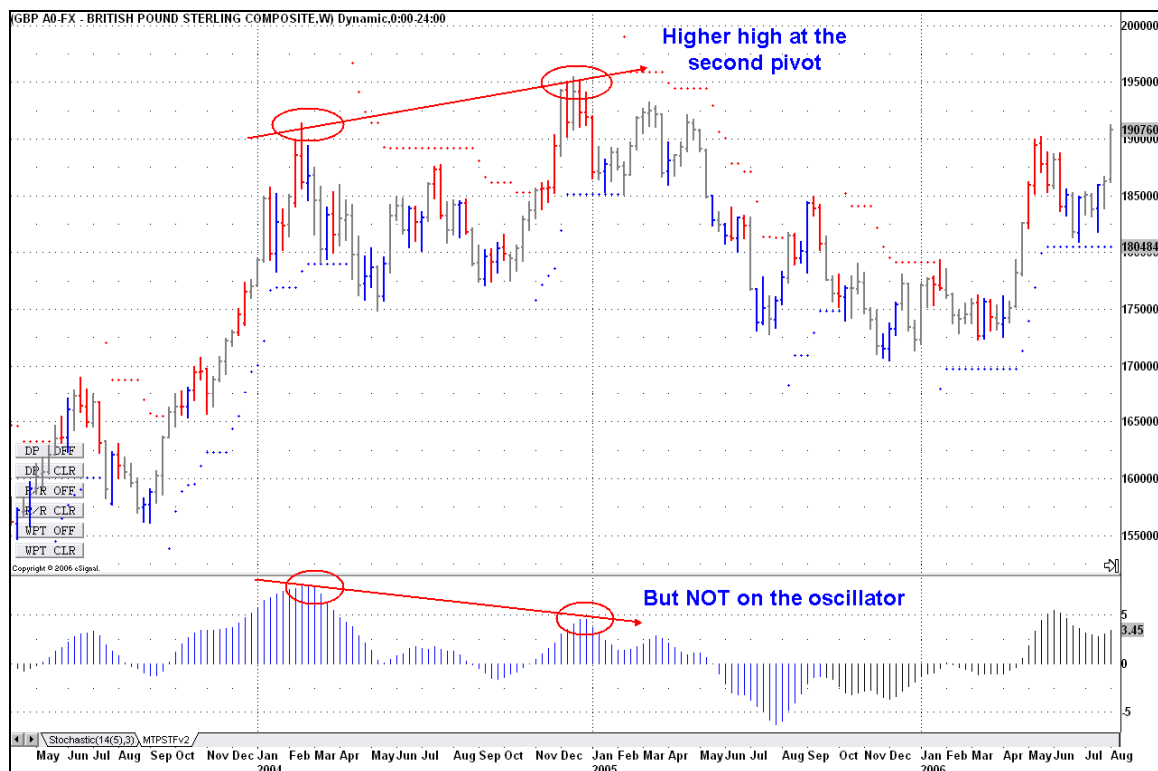
8 Jan 2007

DP (Decision Point)

This help file introduces the new DP or “decision point” strategy.

The concept behind the strategy is simple, we are looking for the current minor trend to end and to help us do that we use oscillator divergence. Oscillator divergence is a standard technical analysis technique where you look at the peaks on the Price chart and then at the same (corresponding) peaks on the oscillator to see if there is divergence. Divergence is when the second peak on the price chart is “beyond” the first peak, but is **NOT** with the corresponding oscillator peak.

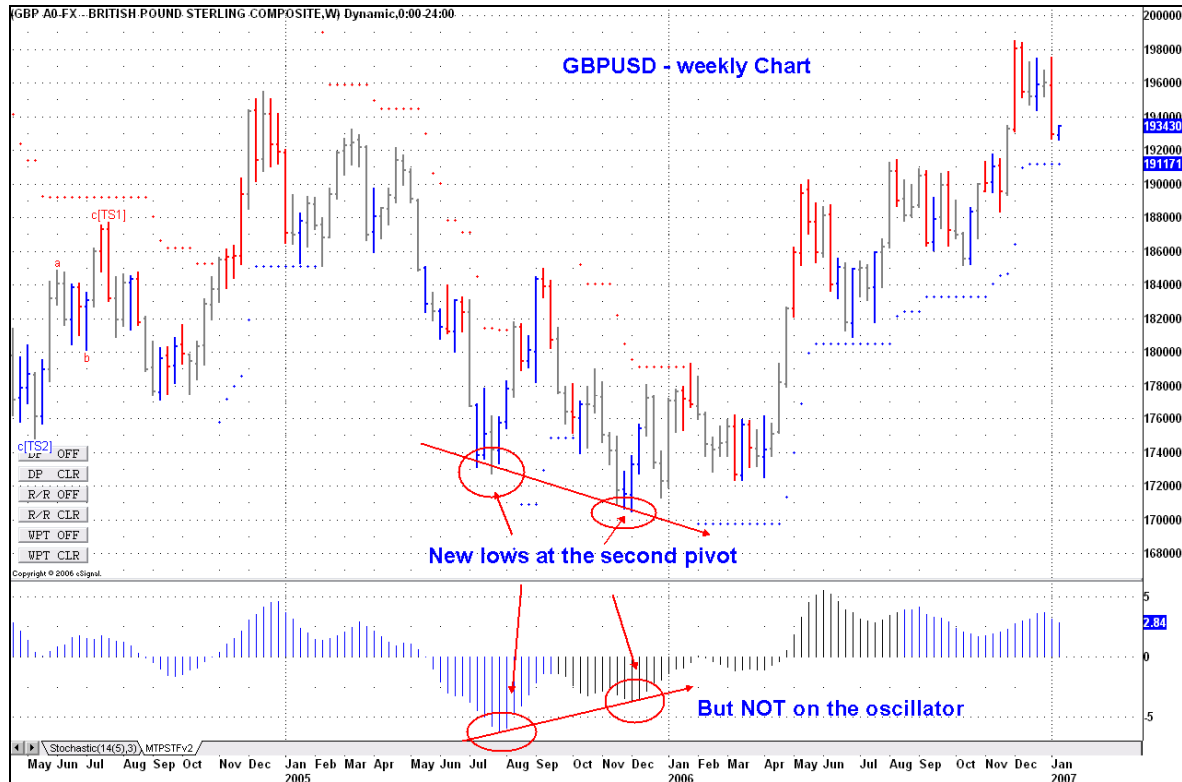
This is actually easier to see on a chart, so let’s look at what I mean..... Here is an example of a high on the GBPUSD weekly chart going into Dec 2004.



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Can you see how the second high I have marked on the chart is actually “higher” in price than the first high, BUT the corresponding second high on the oscillator (STF in this case) is actually lower. In other words, the oscillator is making a lower price extreme *at the same time* as the market is making a higher price extreme, in other words the value of the oscillator is weakening or “diverging” with the price action at this point. This is usually a sign of weakness and a sign that the current trend is weakening.

That was for a possible high; now let’s see what this looks like going into a low. This is very similar; you just apply the same guidelines but in reverse, for this let’s look again at the GBPUSD weekly chart going but this time going into the Dec 2005 low.



Can you see how the second low I have marked on the chart is actually “lower” in price than the first low, BUT the corresponding second low on the oscillator (STF in this case) is actually higher in value. In other words, the oscillator is making a higher price extreme at the same time as the market is making a lower price extreme, in other words the value of the oscillator is weakening or “diverging” with the price action at this point. This is usually a sign of weakness and a sign that the current trend is weakening.

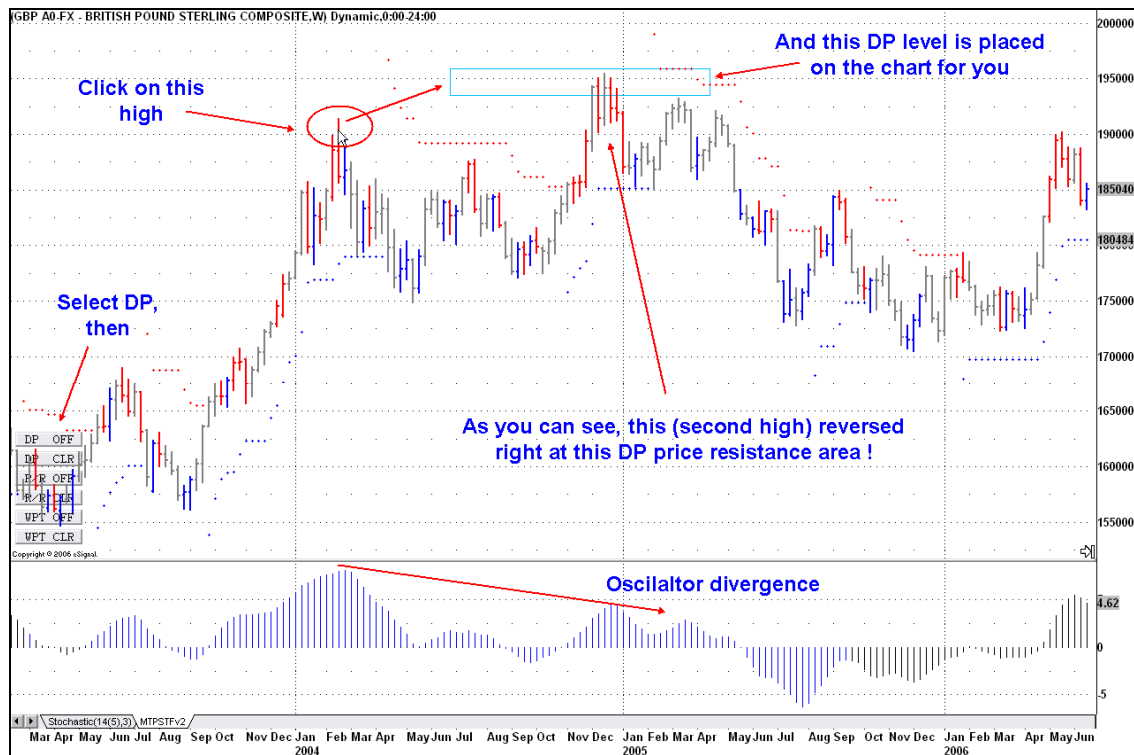
Easy really..... isn't it ☺

The tick is looking at the value of the oscillator at the same (corresponding) peak or pivot points as on the price chart and see if “divergence” exists. If it does we can then move onto Part 2 – anticipating where the second swing high (or low) will end...

OK, now we have an “indication” that the current trend is weakening or nearing an end, we must now narrow down the price area where this swing is likely to end down to a small range, this is to keep our initial risk small on the trade entry, which as you all know is absolutely vital for long term trading success. For this we use the DP study.

This is really easy, we simply select the DP button then click on the first swing pivot (does not matter whether it is a high or low) the DP level is then drawn on the chart for us. This is the “ideal” price range where the second (higher high or lower low) swing pivot is likely to end. This can be drawn even “before” the market has reached the DP level, therefore preparing you well “*in advance*” the of price level of where to “anticipate” this reversal.....

Let's take a look on the first GBPUSD weekly chart:

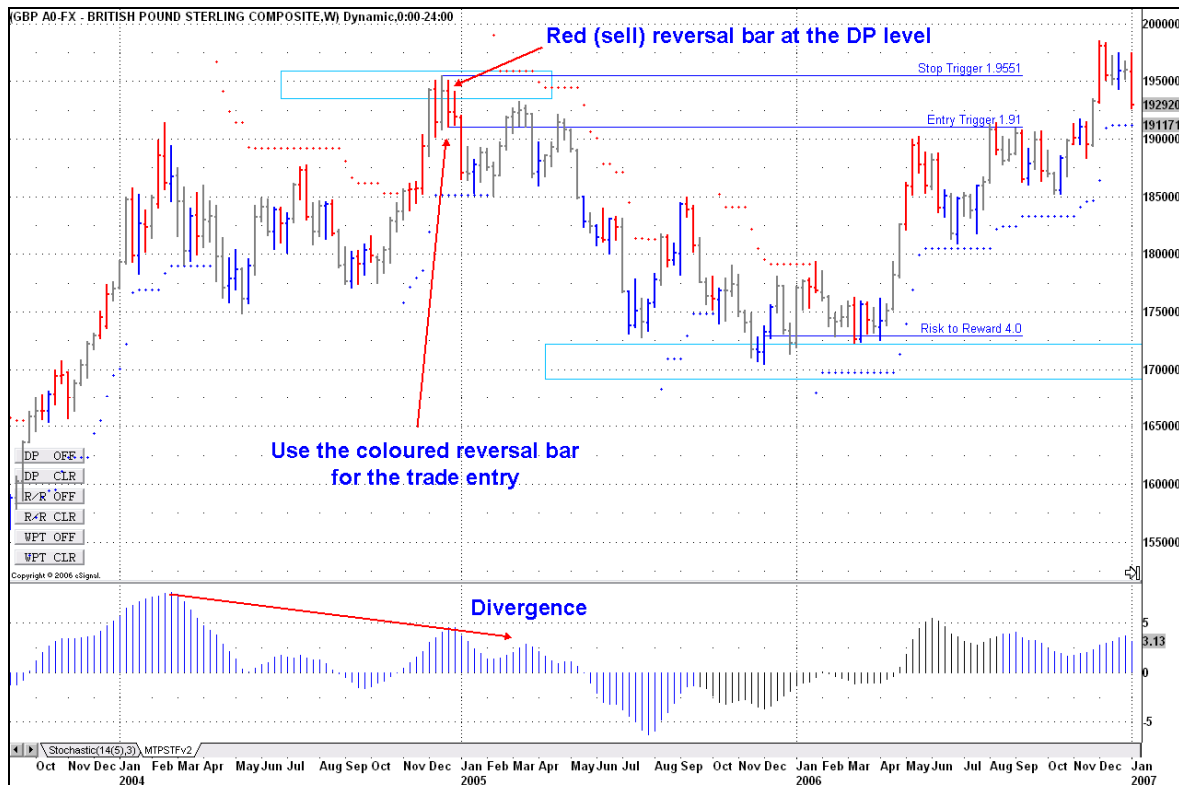


As you can see, this produces a price resistance (or support) area on the chart. As I have already said, this is the “ideal” area price area where the second pivot should end and as such is the place to start to look for a new trade.....

For this we use the coloured reversal bars. Again this is really simple, where we have **red** for a potential **sell** and **blue** for a potential **buy**. BUT, they are only relevant if they fall at the DP support or resistance level.

Continued on the next page...

As you can see, we did indeed have a red (sell) reversal bar at the high in Dec 2004 and that high was right at the DP level:



This allowed you to enter a new short trade right at this high, just before the GBPUSD started to decline. As I have said before, this enabled you to keep the initial risk on your trade as small as possible.

So as you can see, this is a very easy technique to apply.....

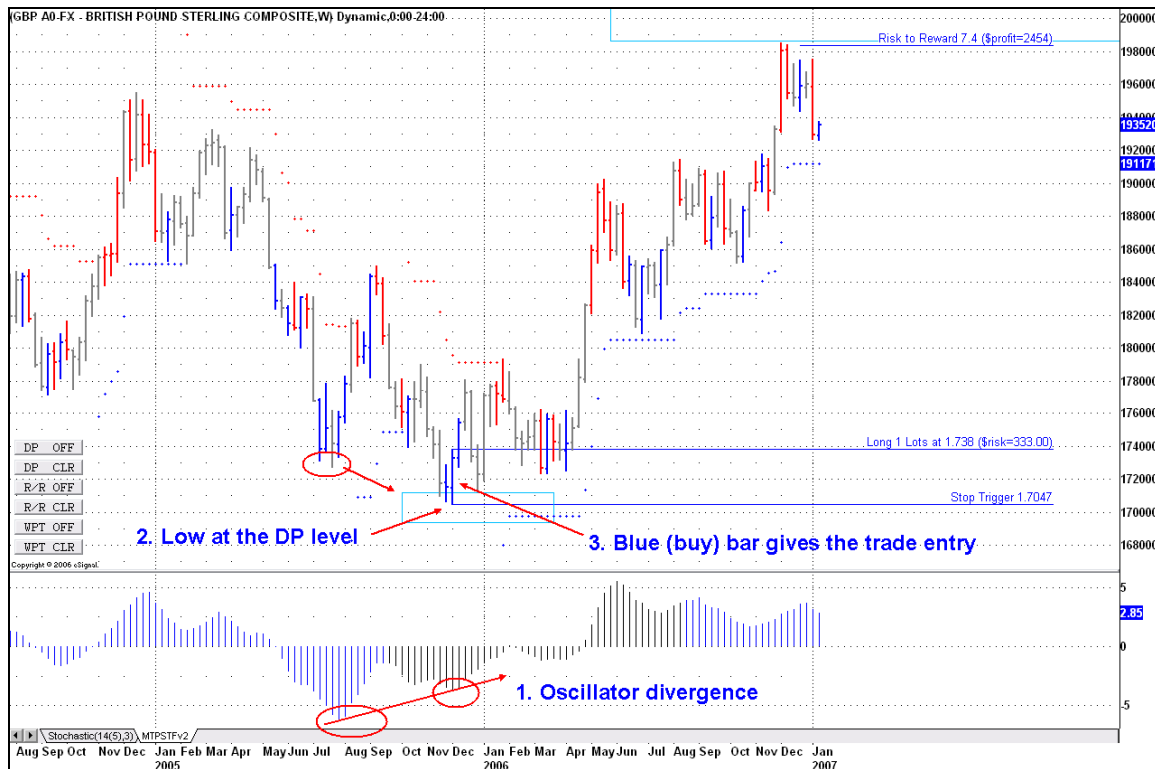
Trade Check list

For a DP oscillator divergence trade set-up you need

- Oscillator divergence (STF or another oscillator of your choice) at the corresponding price pivots.
- The second pivot to be at the DP level (price resistance or support level)
- The appropriately coloured reversal bar at the DP level - **red** for a potential **sell** and **blue** for a potential **buy**.

As with all techniques it is best to only work with the cleanest and most obvious patterns, if the set-up cannot be spotted immediately, then it is best avoided..... KISS – keep it simple, and most important obvious ☺

Let's take a quick look at the STF divergence going into the Dec 2005 low and see if we have all the criteria required for a new long trade.....



As you can see, all three basic requirements are coming together for an ideal DP trade entry,

- first the oscillator divergence at the new low in Dec 2005,
- secondly the new low was unfolding at DP support, and,
- thirdly, we had a blue (buy) reversal bar unfolding at the low.

As you can see, this allowed you to enter a new long trade right at the low, just before the weekly GBPUSD rallied strongly.....

Continued on the next page.....

OK, now you have the criteria required to enter a new trade, we need to look at how to manage the trade to maximise your profits.

The simplest and easiest method is to use the ATRStop, as this allows your trade to “run” as a new strong trend builds:



As you can see, this would still have you in a long position off the Dec 2005 low on this GBPUSD weekly chart.

As I have said, the ATRStop is the *easiest* method to use because all you have to do is adjust your protective stop at the ATRStop levels show on the chart. There are, however, other methods that the more *advanced traders* among you can look at, for example starting to protect your profits as the “opposing” DP level is reached. But in the early days, and to keep things as simple as possible, the ATRStop is recommended.....

As you can see, this is a very simple strategy indeed as long as you follow the basic guidelines of

- First look for oscillator divergence (STF or another oscillator of your choice) at the corresponding price pivots.
- Secondly, look for the second pivot to be at the DP level (price resistance or support level)
- And lastly, for the actual trade entry use the appropriately coloured reversal bar at the DP level - **red** for a potential **sell** and **blue** for a potential **buy**.

Summary

As you have seen, this new DP technique is used to help identify the end of the current minor trend using Oscillator (STF) divergence.

As with all techniques it is best to only work with the cleanest and most obvious patterns, if the set-up cannot be spotted immediately, then it is best avoided..... KISS – keep it simple, and most important obvious ☺

There are more advanced uses of this technique that will be covered in a future help file, but for now it is best to keep things simple and just look for clear examples that have clear STF divergence.

Thanks and good trading . . .

Steve Griffiths
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