



# MTPredictor™

Software & training for Risk/Reward trading with Elliott wave

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## ***MTPredictor Help File***

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8 June 2006

### **Trend**

This help file introduces the concept of ***Tend***.

The idea being is that if you trade in the direction of the main trend, it is like swimming in a river but you go *with* the flow off the river. As you can imagine trying to swim against the main flow, in other words upstream would be difficult. The same can be said trying to trade against the main trend, as this would firstly increase the likelihood of your trades failing, and secondly, trades are very unlikely to “run”. This is why it is always better to try and position your trades to go with the main trend because then you have not only a greater probability of success in your trades, but also the trades have a higher likelihood of running further, both of which, should help add to your bottom-line profits.

So, at the outset, the idea of being able to trade in the direction of the main trend appears to be the answer to all your trading worries, and as such will allow you to make every trade a winning one and therefore never make a losing trade again.

However, there is one major point that I have to stress from the outset, and that is by definition a “trend” can only be considered a trend once it has been established. What this means is that while the market is moving strongly in one direction, yes it is very easy to identify that as a major trend, however, the problems will always arise as one trend ends and a new trend starts, in other words at a turning point in the market.

It is such an important point, that I would like to stress it again. Any trend analysis will only be applicable and as such reliable in the middle of a strong trend. Any trend analysis (no matter how you calculate the trend) will always be in the wrong direction as a market turns and a new trend in the opposite direction starts, this is normally the point at which most traders struggle, and as such, have problems.

There has been much work done in the past on trend analysis, and many different systems and approaches have been developed to tackle this very question. However, myself, I believe that some of the oldest and simplest methods are still the most applicable even in today's markets. I have already covered the use of the 20 period moving average which does a good job however, in this help file I like to introduce an alternative approach.

Again, this alternative approach is not a new indicator it is just my personal slant on a classic and simple **price oscillator**. So why do I like to use such an old and standard indicator ? Well, very often the old and standard approaches are the best, as long as they are used correctly.

So for this, I have taken a standard price oscillator and added different colours to help determine the trend. So put very simply, when the oscillator is **Blue** the main trend is up, when the oscillator is **Red** the main trend is down, and the oscillator is **Black** the main trend is flat. As you see, a very easy and simple concept.

So let's take a look at an example on a Daily Chart of the QQQQ (NASDAQ tracking stock):



As you can see, this helped confirm the recent fall on the QQQQ very nicely indeed.....

So is that all there is to this indicator - just looking at the different colours ?

Well no, this is why I have decided to use an oscillator as opposed to a straightforward moving average (the old 20 period ma) because you can do far more things with an oscillator.

So let's take a look at what you can do with this new trend oscillator, the new STF (or Steve's trend filter). Please note, this new oscillator will replace the old STF in the EOD program in the next few weeks.

Firstly, a price oscillator is very good at picking out a very strong trend, as you should all know by now, the strongest trend in a completed Elliott Wave sequence is normally the Wave (3). This can only be seen very clearly on a chart:



As you can see from the chart above, the strongest oscillator peak on this weekly chart of the QQQQ corresponded to the Wave (3) swing. Therefore the strength of the current trend can be gauged by the strength of the oscillator peaks.

This then leads nicely onto the next thing you can do with an oscillator which is called “divergence”. In other words, as a trend is weakening, the oscillator will normally only make lower and lower peaks. In Elliott Wave terms, this is normally the Wave (5) swing.

As such, instantly you have added information to consider over the old 20 period moving average in that not only can this oscillator help define the strongest (Wave 3) swing, but can also give you an indication that the current trend (Wave 5) may be nearing an end. I will look at some more examples on this later in this help file.

So far so good, and we now have an indicator that not only can tell us the direction of the trend by its colour, an can also give us an indication, of the strength of the current swing, but also an indication that the current trend may be coming to an end as the oscillator starts weakening..... this as I mentioned on the first page of this help file is where most trend indicators start to get into trouble. So how can we make use of this with MTPredictor ?

Well, if you just looked at the price oscillator all you would see that it was making lower highs, against new price highs and as such all you would be able to say is that the current trend is weakening.

As I have already said, a weakening trend is typical of a Wave (5) swing in Elliott wave terms, so the question we have to answer, is do we have any tools in the MTPredictor software that helps us identify the likely the areas where a wave 5 swing could end ?



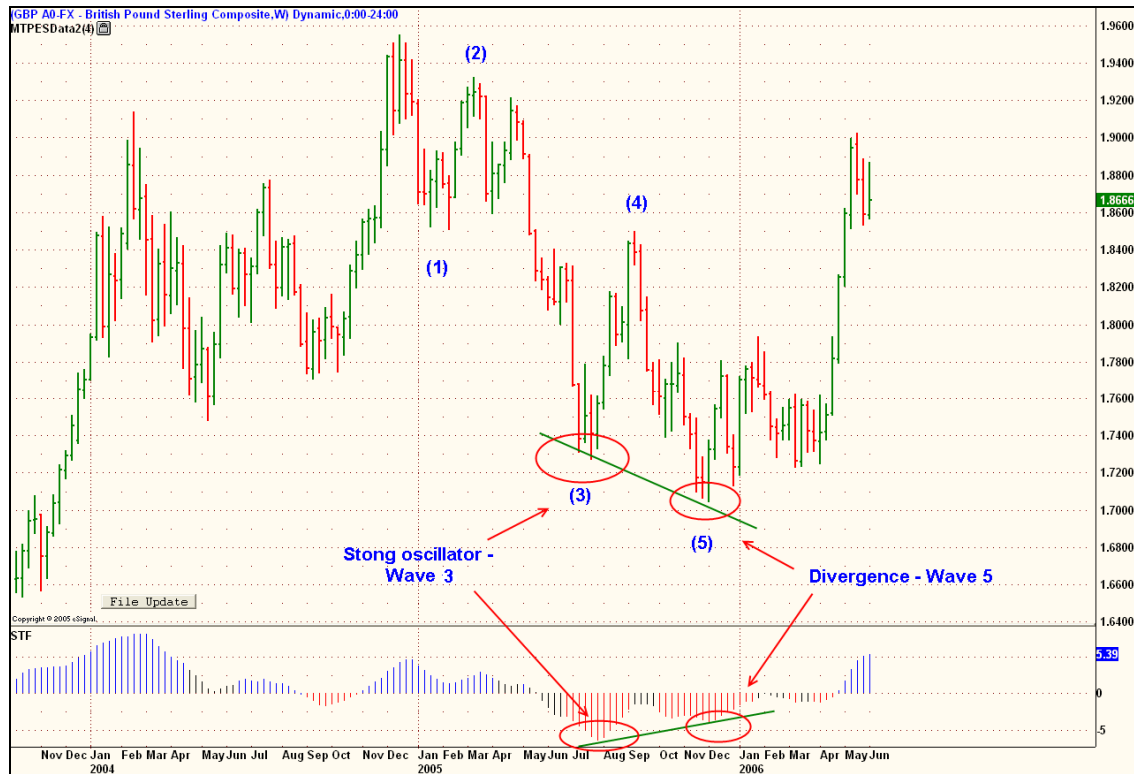
The answer to this question is YES.

As you can see from the chart above, I have added the Wave 5 WPT's to try and determine when this weakening Wave 5 swing was likely to end. And as you can see, the QQQQ tagged the typical wave 5 WPT perfectly in January of this year. The QQQQ has been declining ever since !

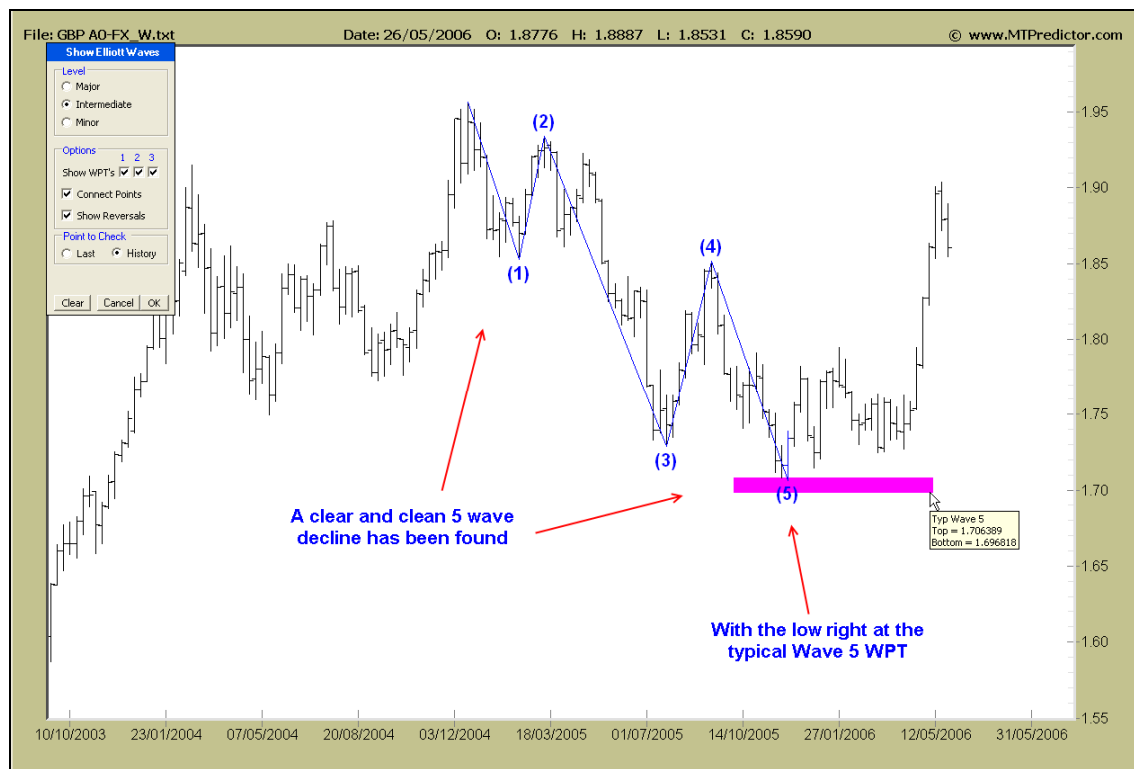
In this way, not only can we use the price oscillator to help determine that the current trend is weakening, we can also turn to the Wave 5 WPT in MTPredictor itself to get a more accurate idea of when this weakening Wave 5 swing is likely to end. In this way, we can often answer the most difficult question to do with trend, and that is - when is the current trend likely to end and a major turn unfold.

Let me take a look at one more example.....

Here is a weekly chart of the British pound:



As you can see, we have price oscillator divergence going into the Nov lows, so what does MTPredictor make of this ?



As you can see from the chart on the prior page, just as this oscillator divergence was coming in, MTPredictor automatically found a nice clear clean and obvious 5 wave swing, but most importantly, the reversal came in right at the Typical Wave 5 WPT.

So how can you interpret this, well, by the red oscillator you would have determined that the main weekly trend was down, then as the oscillator divergence started to unfold in Nov, and the market was showing signs of reversing right at the typical Wave 5 WPT, you should have then realized that the current weekly downtrend was coming to an end. This would have helped you start to look for new major swings to the upside.

Please let me stress at this point that trying to pick the “end” of a strong trend is difficult to do, and as I outline in the main Trading Course, is not as reliable as we would all like. This is why I suggest that you only try and do this when you have a clear and clean Elliott Wave pattern. In other words – only work with the best and clearest patterns.

So far so good, as you can see, we now have a very simple way of not only determining the main trend by the colour of this oscillator, and an idea of the trend of the trend by the strength of the oscillator, but it can also can give us “early warning” that the current trend may be nearing an end as divergence starts to unfold. So what is the best way to use this ?

The best way to use this is to look to the main trend on a chart that is approximately 5 periods higher than the one you are currently trading on. So for example, if you like trading on daily charts, (for example daily stocks) then you should look to the weekly trend of the overall market:



As you can see from the chart above, we have been in a solid weekly uptrend for the last few years; however this trend is currently weakening.

Therefore, you should have mainly been focusing on long trades as these were in the direction of the main weekly trend.

If you are an advanced trader, then you can also look at the daily chart of either the stock you are actually trading or the main Index for “early signs” of trend change:



Here you can see, that although the larger-degree weekly is still up, the Daily Chart has given an “early warning” by the daily trend changing to down over the last week or so.

Continued on the next page.....

Let's take a look at another example, this time on a short-term 5min Chart:



Here is a very nice TS3 buy set-up on a 5min AB Chart.

BUT, the question is, “what is this in the direction of the larger degree trend”.

For this, we must turn to the 15min Chart.

Continued on the next page .....

And as you can see on the chart below:



Therefore, at the time of the 5min buy set-up the STF was clearly blue and strong on this 15min chart, therefore indicating that the larger degree trend was up. In this way you could have had added confidence in the 5min long trade.

This oscillator can also be used to help manage your current trade. For example, if you are currently in a trade and the oscillator continues to gain strength in the direction of your trade, you can use this as an indication that your current trade is more likely to continue, and therefore you could make the decision to run your trade past the initial profit targets into some further out targets. This would have the affect of increasing the profit on your current trade.

Continued on the next page.....

Let's take a look at this AB trade and see how it would have turned out:



As you can see, once the trade was entered and started to move in your favour the STF, Price Oscillator continued to gain strength. As such, this could be used as a signal for you to let your current trade run past the initial profit targets.

In this example, this would have meant that you would have held the trade much longer. As you can see, this would have resulted in a very profitable trade of approximately 9x the initial risk (ignoring slippage and commission). Or put another way this would have turned an initial risk of approximately \$400 (2% on a \$20,000 account) into a profit of nearly \$3,800 !

As you can see, there are many ways that you can use this oscillator to help gauge the strength of the current market move, both on the current time frame you are looking at and also to help confirm the “larger degree” trend on a higher time frame.

Continued on the next page.....

## Summary

As you have seen, this new STF price oscillator can be used in the following ways:

- As absolute value, when the oscillator is **Blue** the main trend is up, when the oscillator is **Red** the main trend is down, and the oscillator is **Black** the main trend is flat.
- The strength of this oscillator can also help show the strength of the main trend.
- Divergence can be used to help anticipate that the current trend is weakening and therefore nearing an end.

Ideally you should be looking at the main trend on a chart that is approximately 5 periods higher than the time frame you are trading. This would mean weekly trend for daily trades and 15min trend for 3 and 5min trades.

Thanks and good trading . . .

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