MTPredictor™

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

Introduction to MTPredictor and the automatic Trade Set-ups

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This help file is an introduction to MTPredictor. In particular, it outlines the main automatic trade set-ups found by the software and what you - the trader - have to check when considering these trades.

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…

Introduction

Successful trading is very 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 (by the way of profits) than you take out (by the way of losses). Sounds simple, doesn't it...?

The most common approach to this is using technical (or fundamental) 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 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 90% 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 their initial risk small achieves this first part – small losses.

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 professional traders 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 am amateur trader because one of the first questions they ask 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 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 mange the trade

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

MTPredictor has 5 main automatic trade set-ups: the TS1, TS2, TS3, TS4 and DP. These fall into two categories, Standard and Advanced.

Standard automatic trade set-ups

- TS3, general ABC correction
- TS1, abc as part of Wave 2 correction
- TS2, abc as part of Wave 4 correction

Advanced automatic trade set-ups

- TS4, larger-degree ABC correction (uses fewer history pivots)
- DP (Decision Point™) trade set-up

The reason we have two categories is that the TS4 and DP trade set-up 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 - for example, advanced manual analysis and pyramiding positions. This beyond the scope of this help file and will be covered in additional material.

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 ! The choice of time frame 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 very experienced and good at what you do, then some good profits can be made on 3 and 1 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 and 240min 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

Okay, on to the individual sections now …

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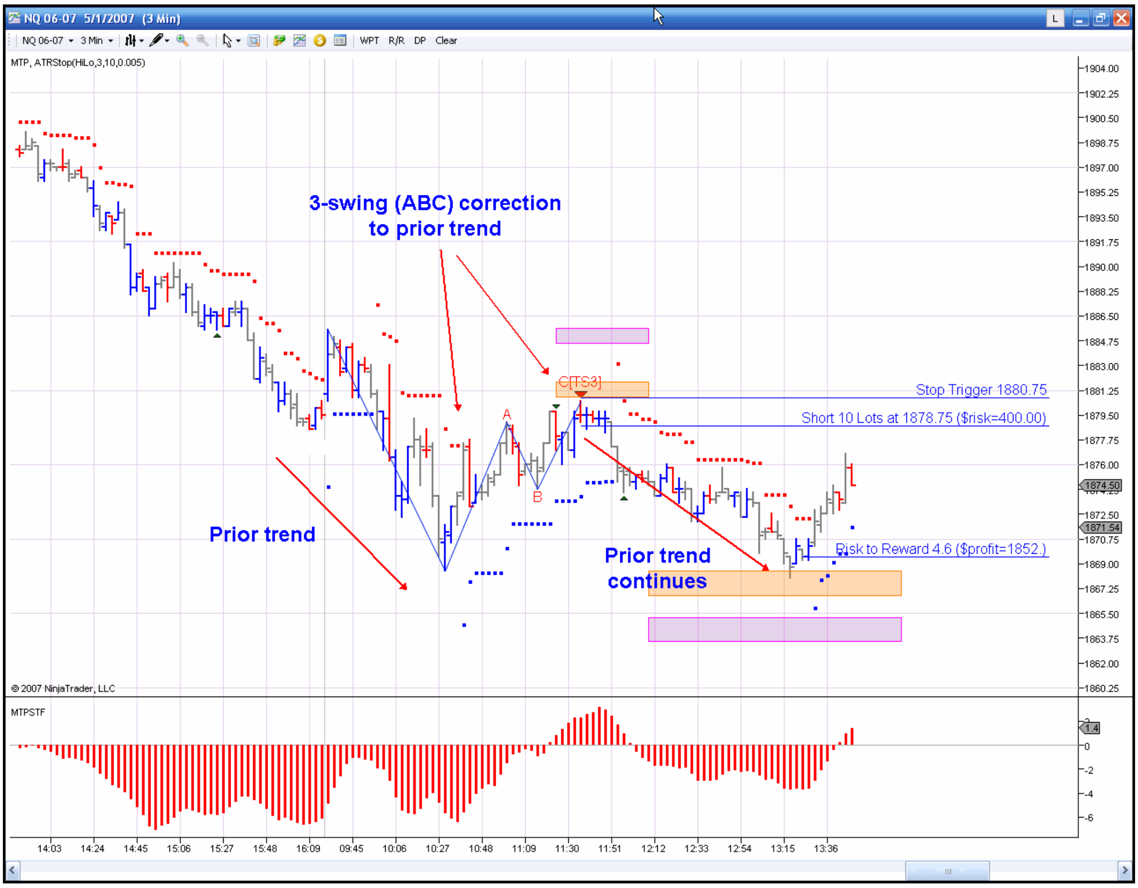
TS3 automatic trade set-up - *Standard*

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:

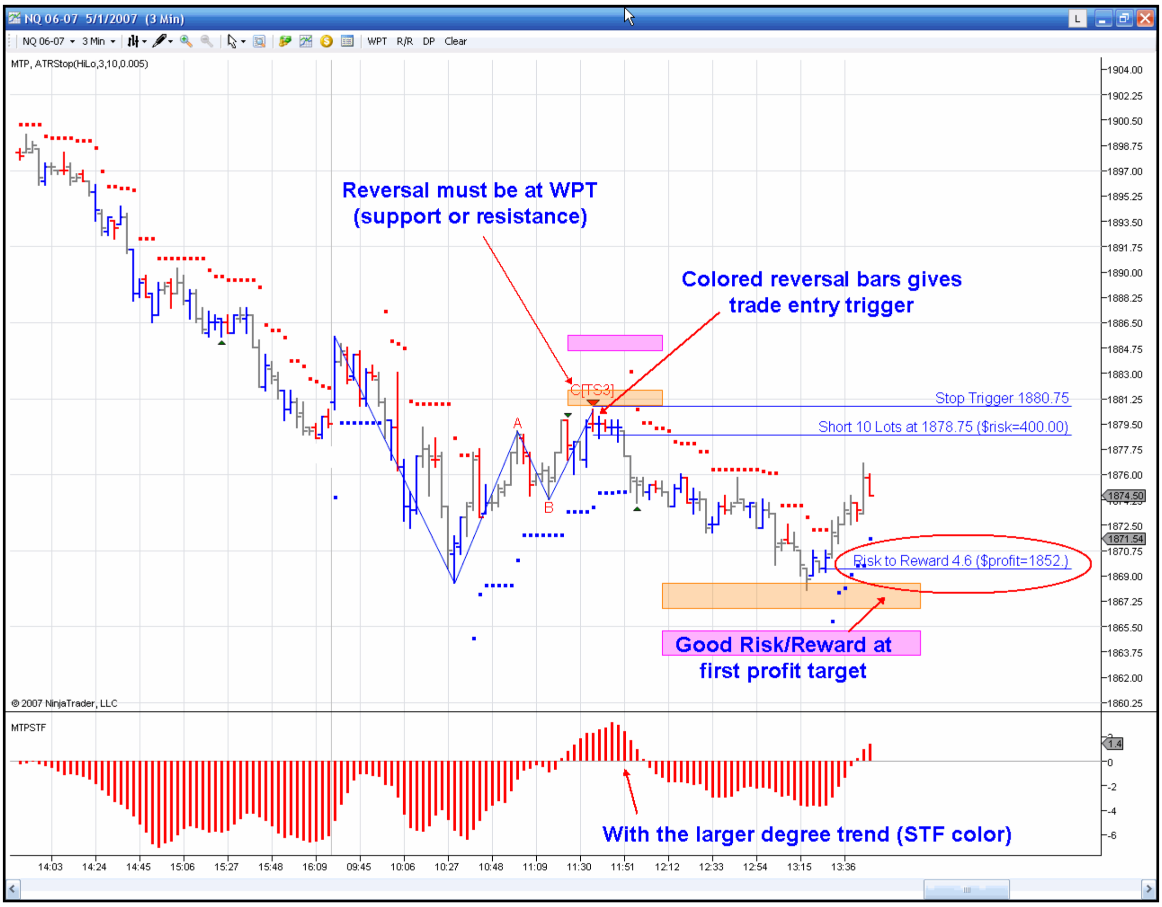


In this example, the market was moving down, then made a 3-swing (ABC) rally to reverse right at one of the coloured resistance zones (upper coloured rectangles on the chart above), where a red (sell) reversal bar unfolded. This was the indication that the ABC correction was over and the signal to enter 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).

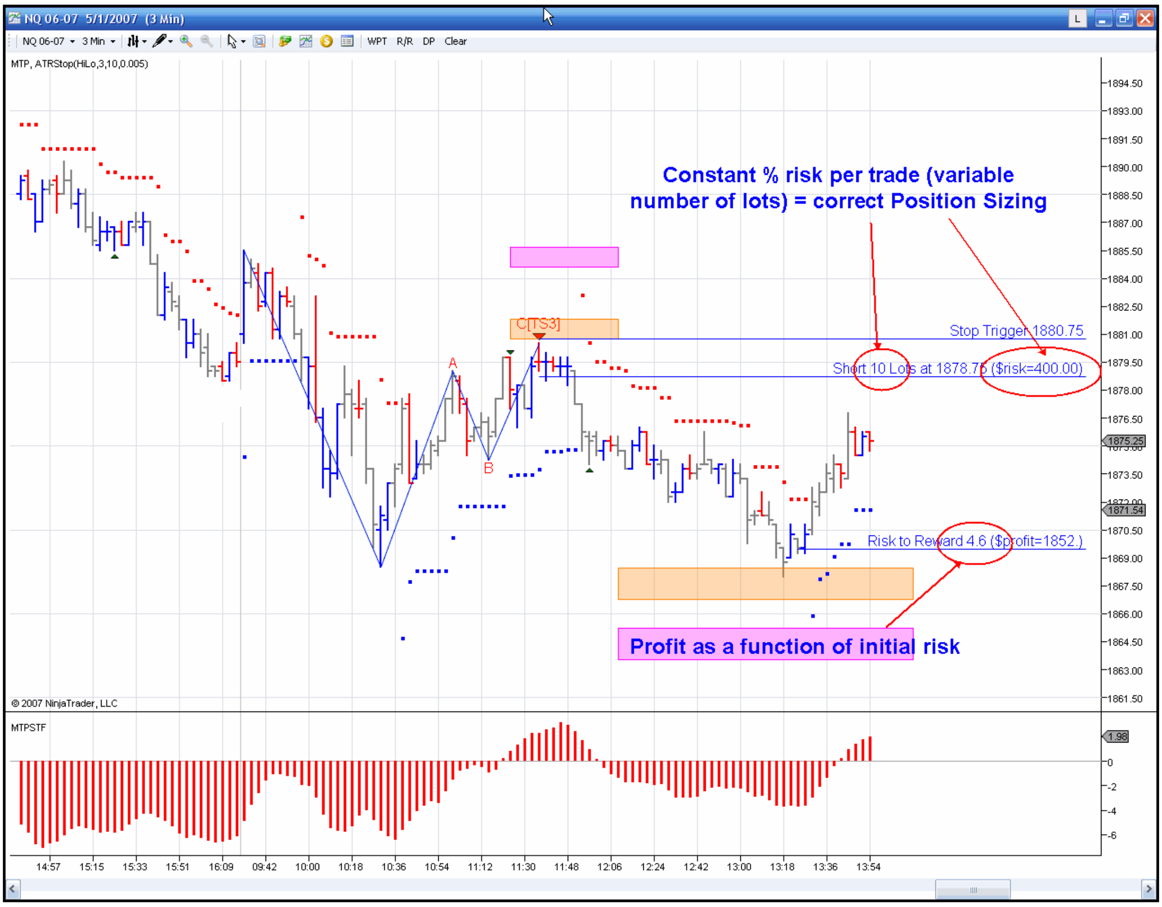


This trade set-up met all three of these initial requirements,

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.

Here, the profit was approximately 4.6x greater than the initial risk required to take the trade (excluding slippage and commission). 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 10 futures lots.

Again, the software calculates this for you.

<u>Summary - TS3 automatic trade set-up – *Standard*</u>

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.

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 allowing 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…

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In more detail:

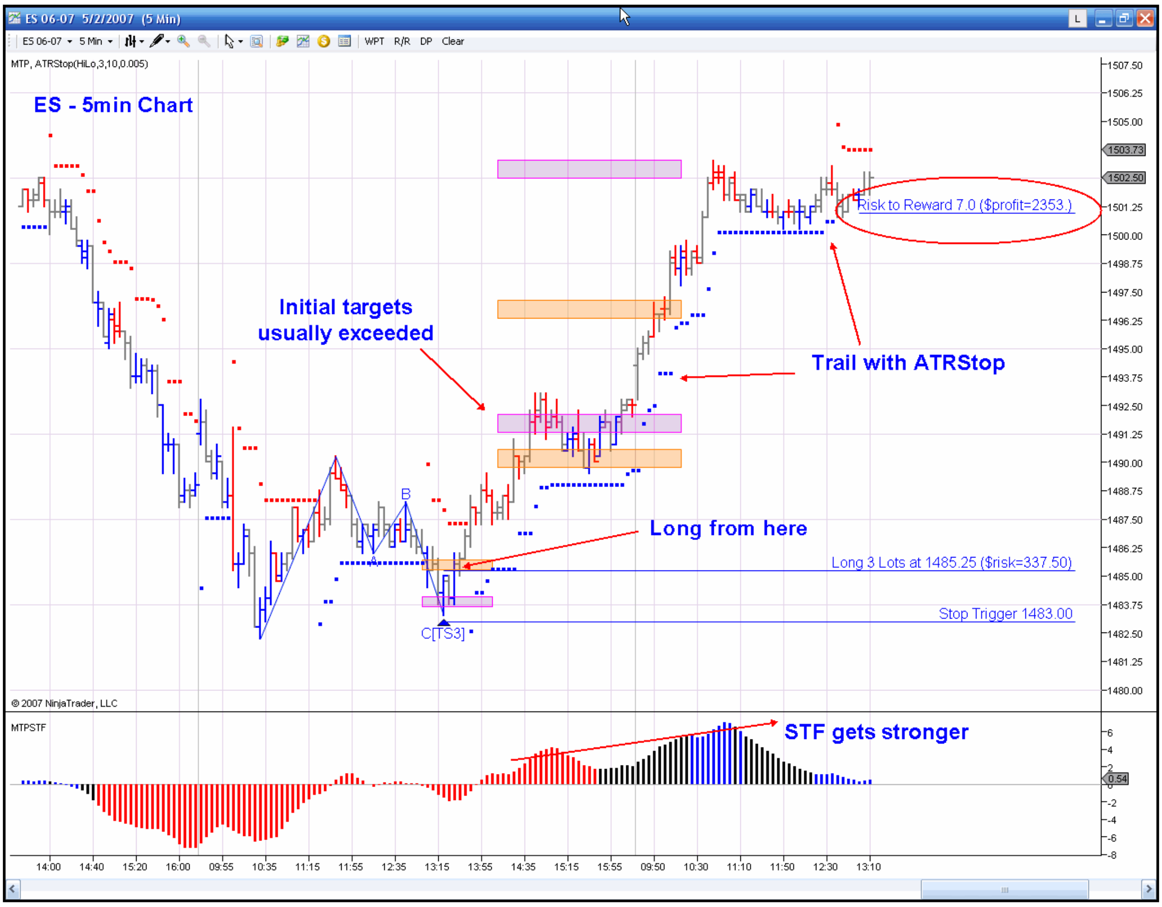
Here you can see how the market made a *major low*, followed by an *initial rally* (Wave 1 swing), which was followed by an *initial correction* (Wave 2 correction), that sub-divided into a lesser-degree ABC (3-swing) pattern. The market then took off from the Wave (2) low to make a very strong Wave (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 Pivot. 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 among you but it does show you what you can progress towards as you become more experienced.

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

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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 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. These levels are automatically displayed on the chart for you, along with the number of lots or shares to trade, in a similar way to the TS3 automatic trade set-up…

As you can see, this TS1 buy 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 (1-5) 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 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. These levels are automatically displayed on the chart for you, along with the number of lots or shares to trade, in a similar way to the TS3 and TS1 automatic trade set-ups…

As you can see, this TS2 buy set-up met all of these initial criteria. In fact the market went on to reach the second projected profit target where a profit of approximately 9x the initial risk (excluding slippage and commission) was available (see chart on prior page).

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-up in that it uses the same degree of swing, but 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 pivots 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 thwarts 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

Here the minor *wiggle* would have invalidated this as an automatic TS3 trade set-up, when in reality the decline form 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.*

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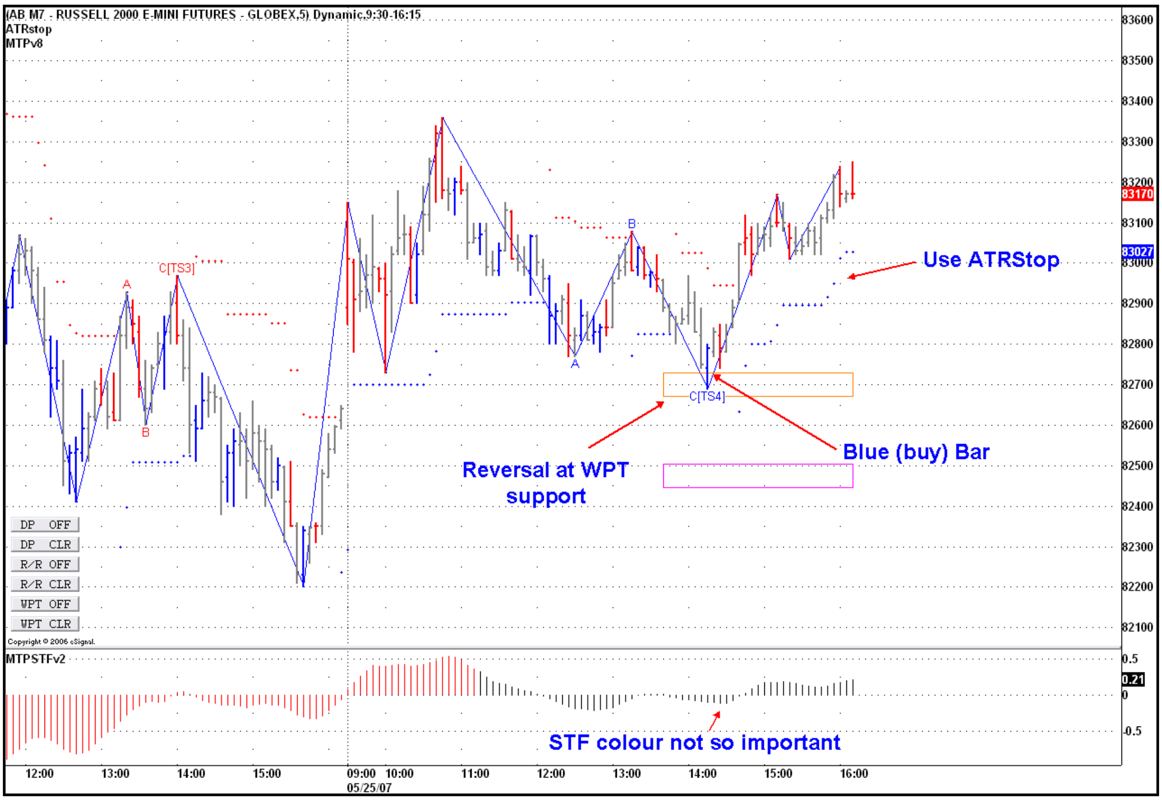
So, assuming the TS4 trade set-up is *corrective,* you now need to check also that the reversal is at one of our price support/resistance areas (WPTs, Wave Price Targets).



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.

Unlike the TS3 trade set-up we do not have any initial *profit targets* - because the software does not know the length of the prior main swing, so cannot perform this calculation for you automatically. It is also for this reason that we use the ATRStop for trade management.

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 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 - *Standard*

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 backed up 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 green 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 important points to check before trade entry:

- The reversal is at the DP (Decision Point) support/resistance zone.
- There is clear divergence on the STF oscillator.

In this example, the new long trade was entered as the as the high of the blue (buy) reversal bar was exceeded.

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

This is the upper green zone in the chart above. As you can see, the Risk/Reward at this *initial* target was approximately 3.7x the initial risk (excluding slippage and commission). As you will known from earlier, we consider anything above 2:1 a good risk and worth considering.

<u>Summary - DP automatic trade set-up - *Standard*</u>

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).

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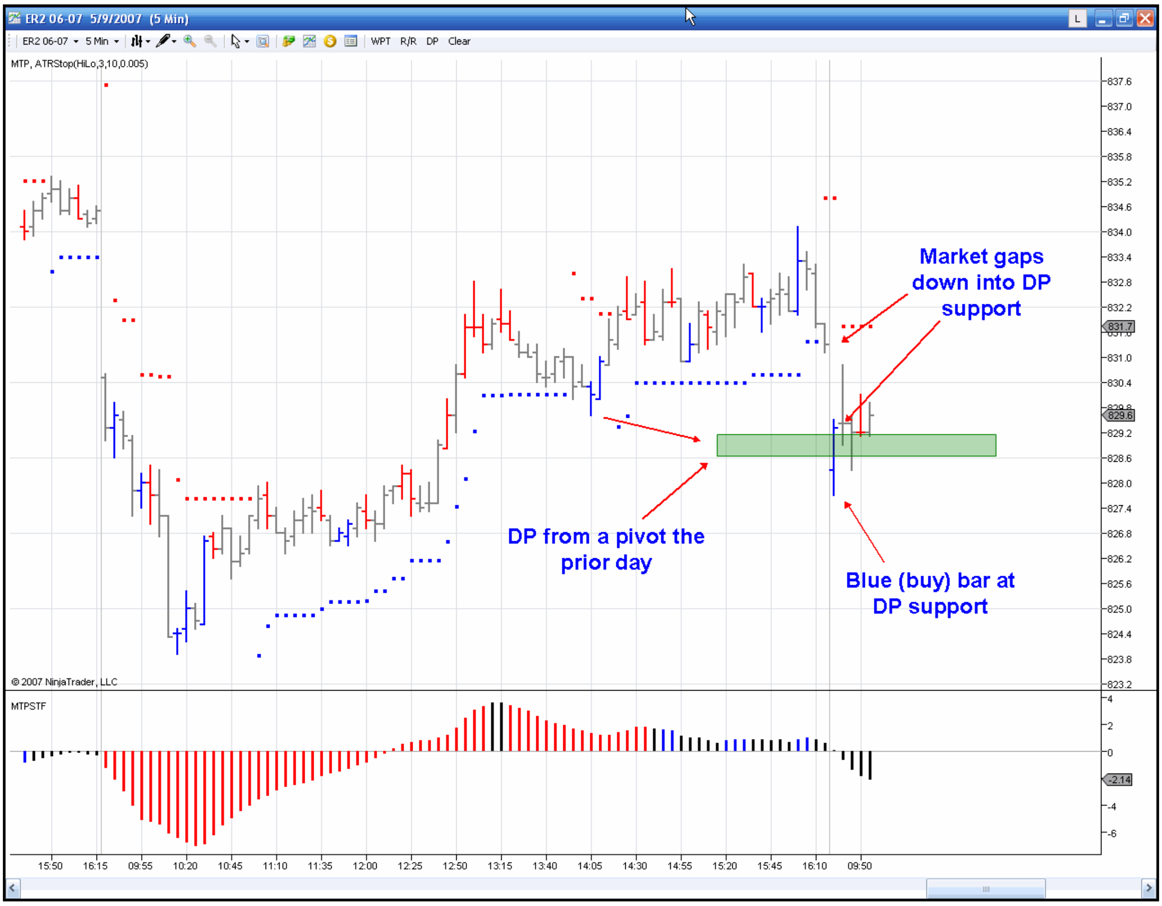
DP trade set-up - *Advanced #1*

This applies to day-trading on short-term charts only.

The first advanced DP trade set-up is where you use a DP level from a pivot on the prior day to project a level today that is reached within the first few bars of trading, very often as a result of a gap opening.

Here is an example:



As you can see in the chart above, here the market opened down and then reversed right in the DP support zone taken form an important pivot the prior day.

The idea is that orders filled on (or near) the open often drive the market immediately higher or lower. However, once these *initial* orders have been filled, the market does not have enough new buying or selling pressure to continue and a sharp reversal often occurs.

When this reversal occurs at a DP level it gives you the opportunity to enter a new trade as the high or low of the coloured reversal bar (at the DP support/resistance zone) is exceeded.

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The initial profit target for the trade is the *opposing* DP level:

This is what happened in this example, where the market rallied (after the initial gap open lower) to reach the opposing DP level where the trade would have been stopped out for a profit of approximately 2.8x the initial risk (excluding slippage and commission).

<u>Summary - DP trade set-up - *Advanced #1*</u>

This trade works best when the DP level is reached in the first few bars of the session, and when new highs or lows are made (though not strictly necessary).

The idea is that a reversal occurs quickly after all the initial orders have been filled on or just after the open. Then the move created by these initial orders cannot be sustained. Very often the DP level will nail this reversal and allow a trade to be taken as the market reverses and moves in the opposite direction.

DP trade set-up – *Advanced #2*

There is a second *advanced* way to use the DP level. As the name suggests, this is a level where the market will make a *decision* whether to reverse or not, enabling advanced traders to use this as a level for a *trend continuation* trade set-up. In other words, this is when the market makes the *decision* to continue though the DP level rather than reverse at it. The great thing about this DP level is that even when the market goes through it, very often it pauses and makes a minor high or low at the DP level. Advanced traders can made use of this minor pause to enter a *trend continuation* trade.

Let's take a look at an example:

As you can se here, the STF is looking strong and is above the strength band, indicating that the market is in a strong move. At this point in time, the market appears to pause and makes a very minor high at the DP level. As outlined above, if the market now breaks above this minor high, this suggests that the strong uptrend will continue much higher. Therefore, this can be used as a trade entry for a new long position. The initial protective stop would be placed just below the last minor low.

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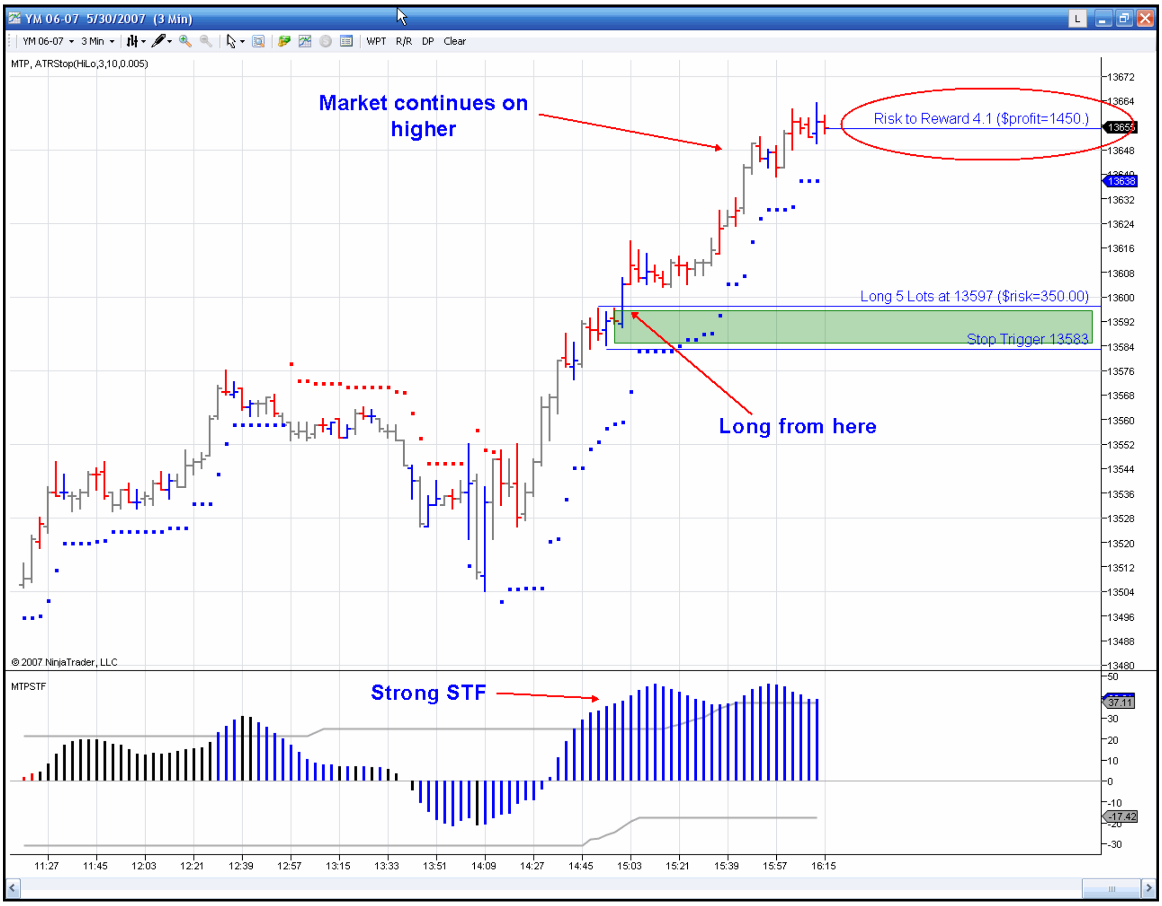
Here is the outcome:



As you can see, this allowed a low risk trade entry to take advantage as the strong trend continues on much higher.

The good thing about this trade is that you will know very quickly whether you are right or not. Once filled, the market usually never looks back, so these types of trades (when they work out) are very rarely ever in a loss. This allows for a very close protective stop as you know the trade will either work immediately or you should look to get out quickly.

Summary - DP trade set-up *Advanced #2*

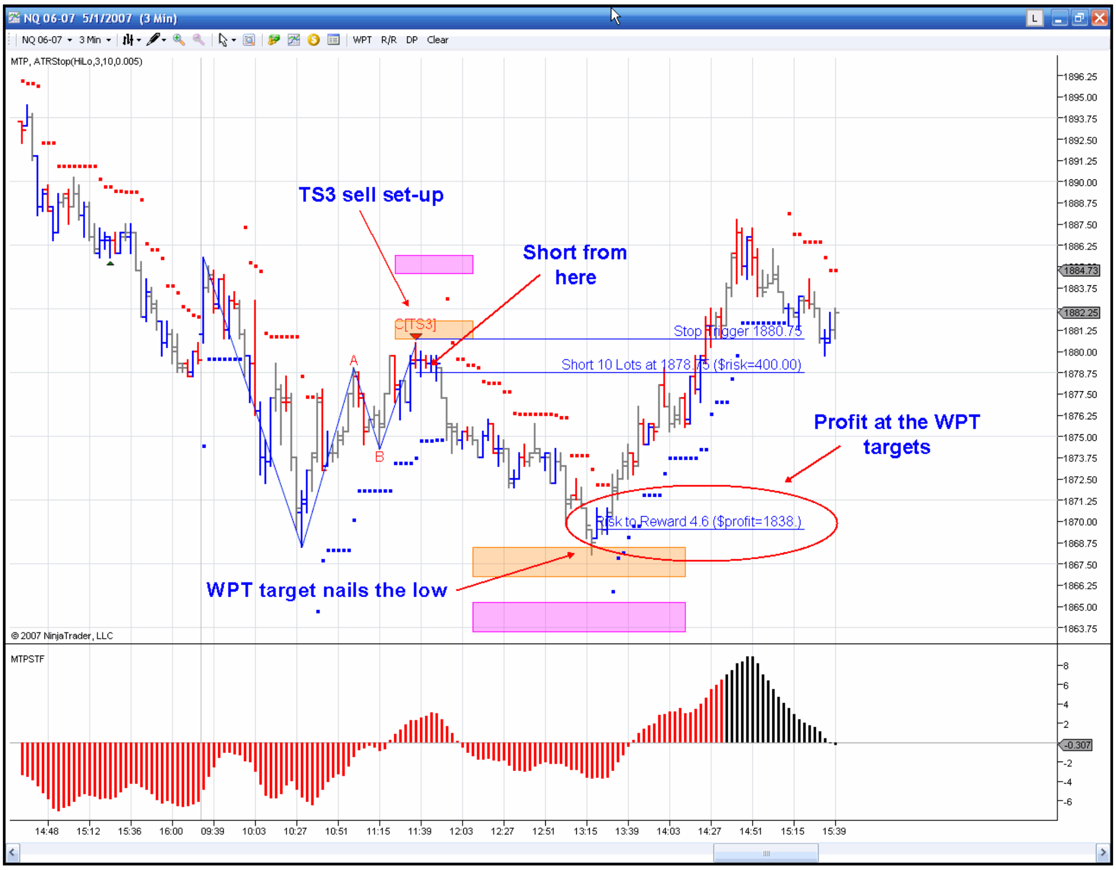
This trade works best when the market makes a pause at the DP level and when the market is in the process of making a strong move, as indicated by a strong STF. Advanced traders can make use of a minor high or low at the DP level for a trend continuation trade.

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 also that the profits are large - for this, we must have a good trade management strategy. However, markets are very dynamic and fluid 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 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, 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.

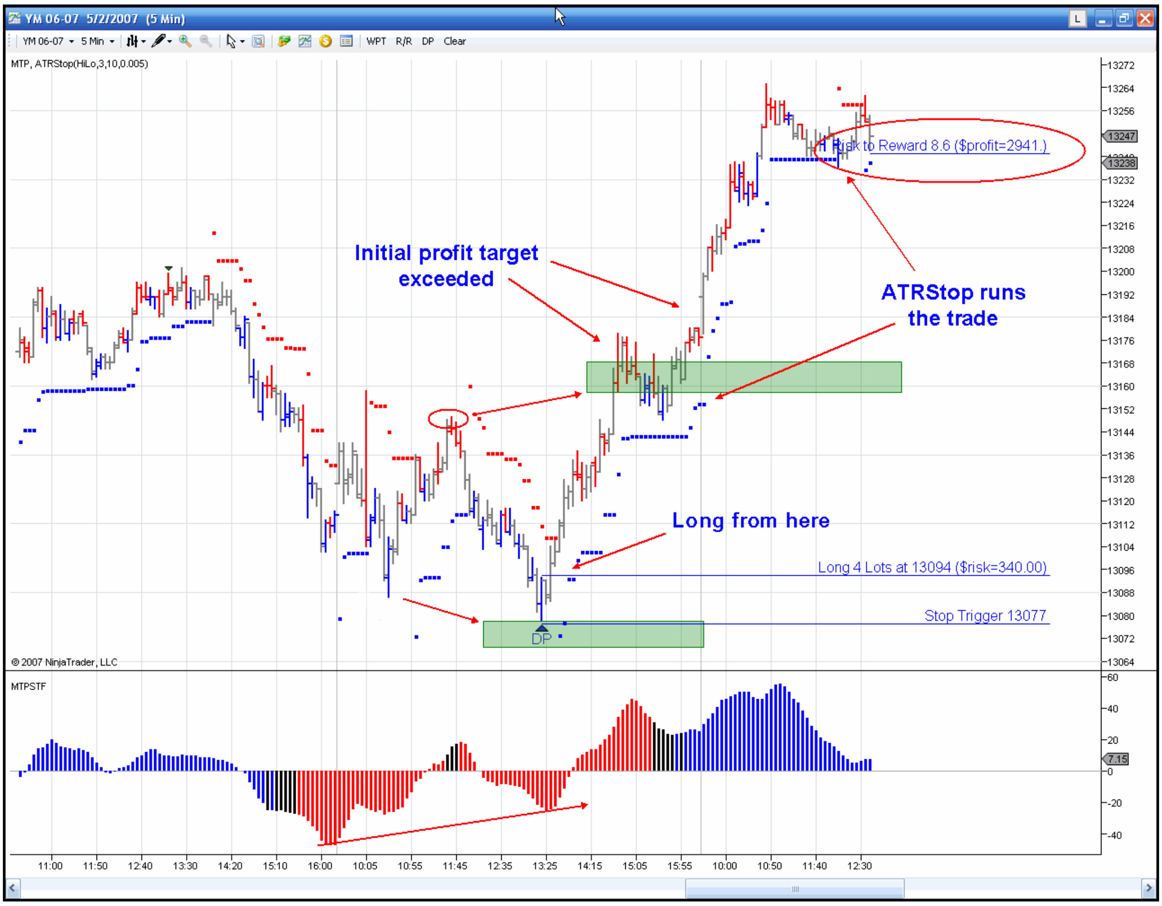
This is why we have two strategies specifically designed to maximise your profits in each of these scenarios. First, there are the standard profit targets (WPTs) - the coloured zones displayed on the chart for you and used for our *initial* R/R calculations. These do a great job of taking profits slightly 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…

Let's take a look at a couple of examples from earlier:



Here you can see how the WPT targets nailed the low perfectly, so this was the ideal place to look to bank your profits.

Here is another example:



In this example the initial profit target was exceeded and the profit was much larger by letting the trade *run* using the ATRStop.

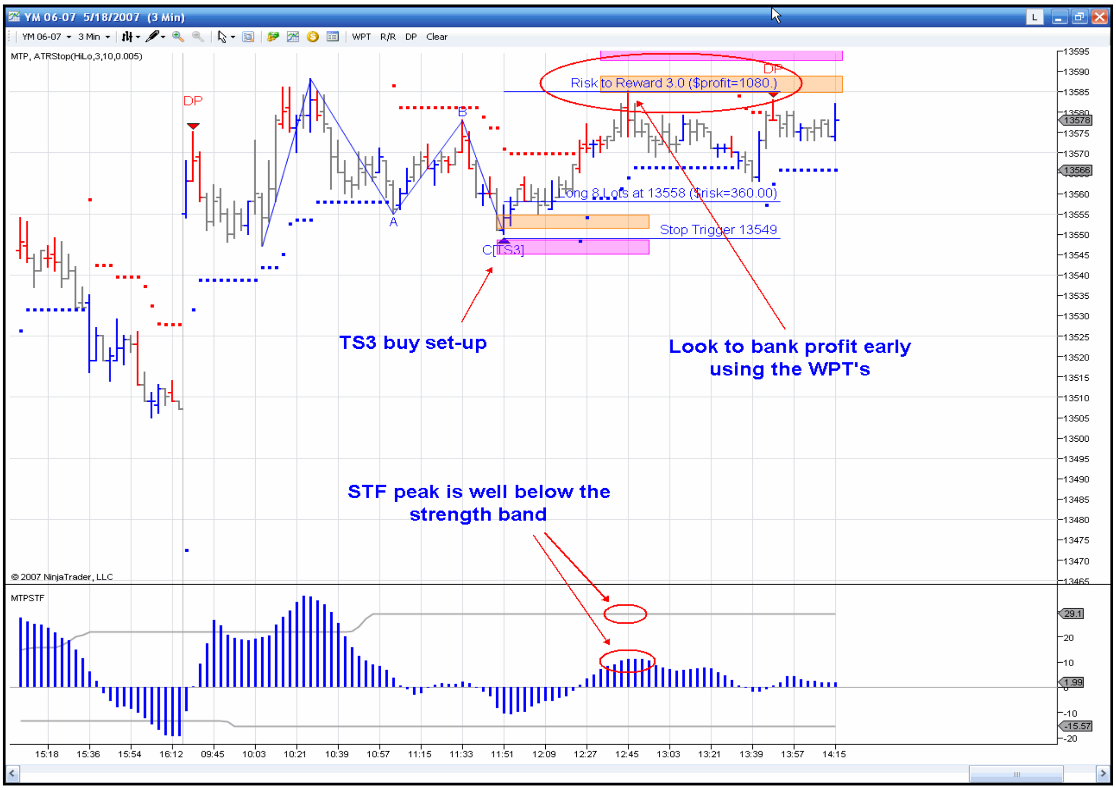
Okay, the question I hear you all asking is – "how do I know which method to use ?"

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 were 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:



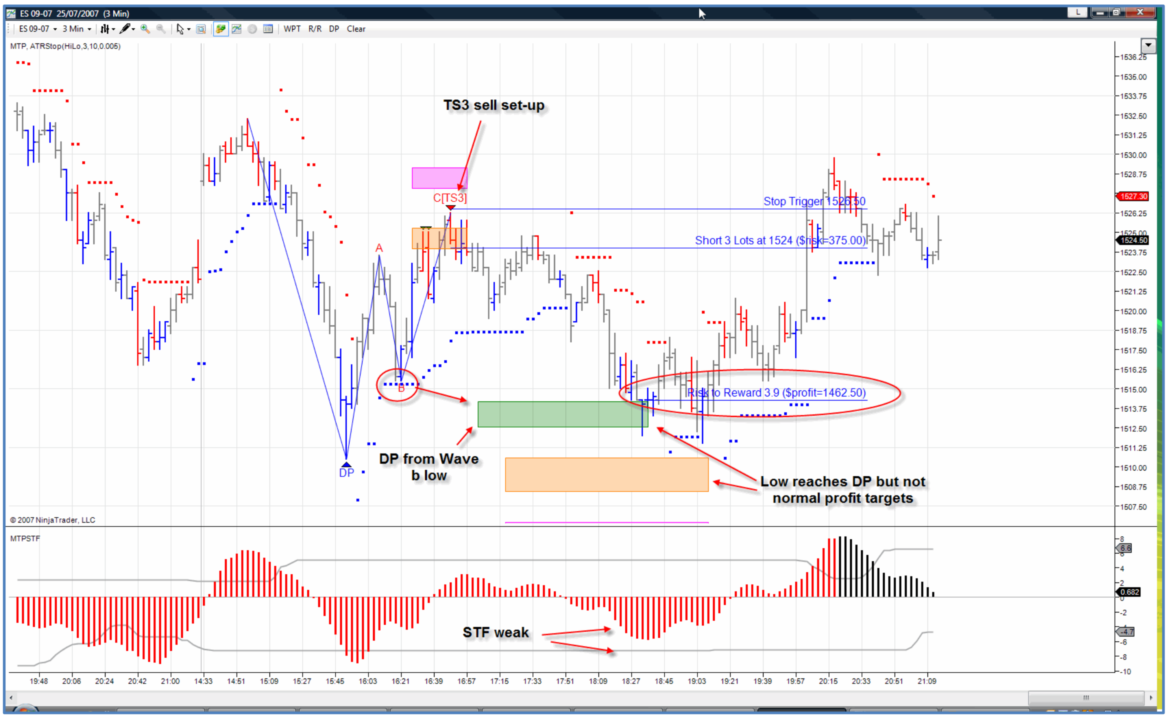
Strong STF example – use ATRStop to run trades further:

For the more advanced traders among you we have a second option when it looks like a weak move is unfolding, i.e. when the STF oscillator falls well short of the STF strength band.

On the prior page I suggested using the normal WPT profit targets in this scenario, however “if” you wish to take profits slightly earlier, then you can use the DP (decision point) from the prior minor Wave b (of the ABC correction) high or low.

From experience I have found that “if” a very weak market does not have enough strength to even reach the first WPT profit target then it will normally “at least” reach this DP level for the prior minor Wave b pivot.

Let’s take a look at an example:



Here you can see how the market declined from the TS3 sell nicely but only managed to reach the DP level (taken from the prior Wave b low) without reaching the normal first WPT profit target.

So this gives you a second choice when dealing with a weak move.

Continued on the next page …….

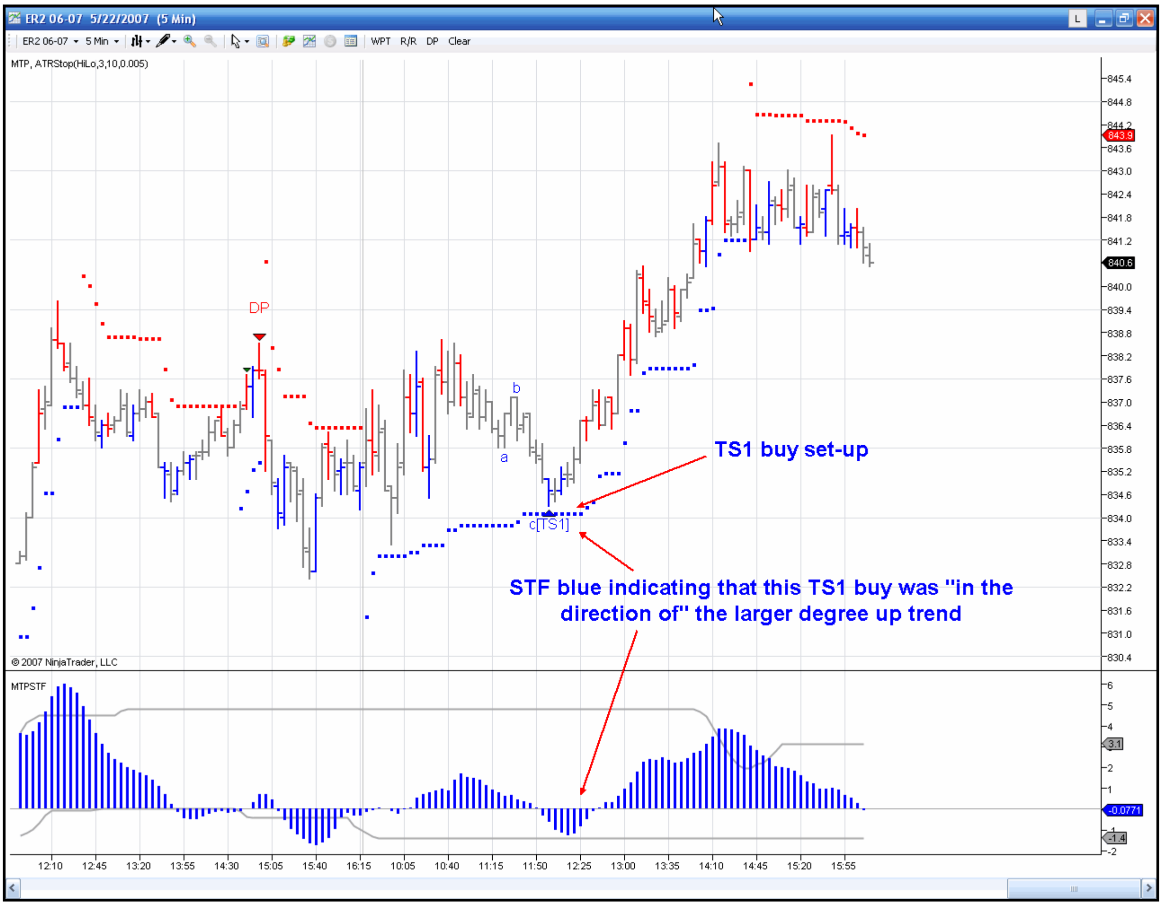
STF - larger-degree trend and divergence

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 or 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 TS1, TS2 and TS3 trades so they fall *in the direction of* the larger-degree trend.

Let's take a look at an example:



As you can see, at the time of this TS1 buy set-up the STF was blue, indicating that this buy set-up *was* in the direction of the larger-degree uptrend.

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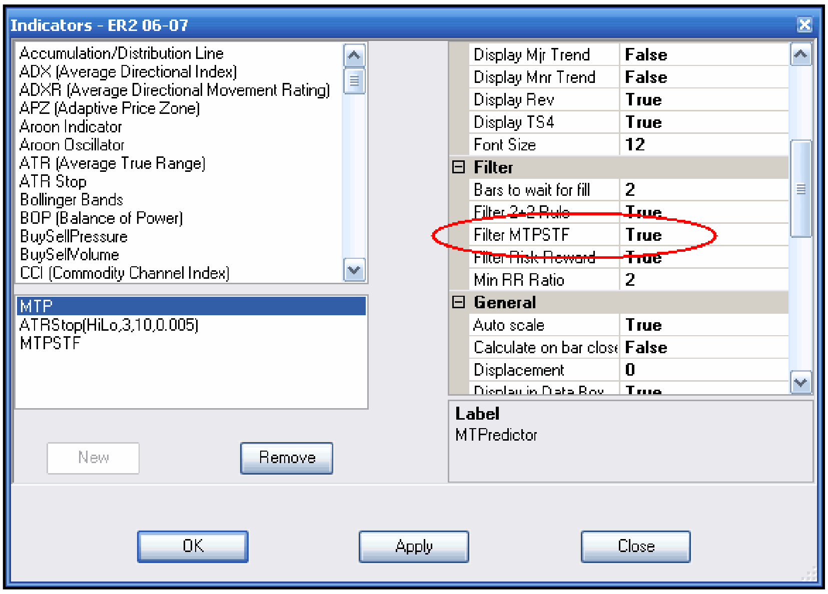
To make it easy for you, we have filters built into the software that can screen trades based on the STF colour, so only showing you valid trades that are *in the direction of* the larger-degree trend:



This makes it very easy for the new users among you 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 (not matter what some vendors say). They are all *lagging*, for instance they will give you a good idea of the larger-degree trend *once 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, deicide 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 can 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.

Continued on the next page …

Let's take a look at an example using the DP (Decision Point) trade set-up:

Here we can see that STF divergence was present as the market made a reversal right at the DP 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 trade stop positions for different trades. Different trades have different trade entries and different stop positions - sometimes the entry is close to the initial stop position, sometimes it is further away. If you always traded in a set number of lots or shares, 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 all 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 no more than risk the same % of your trading account on each trade. To do this, you will have to vary the number of lots or shares you trade - to keep this initial % risk constant from trade to trade.

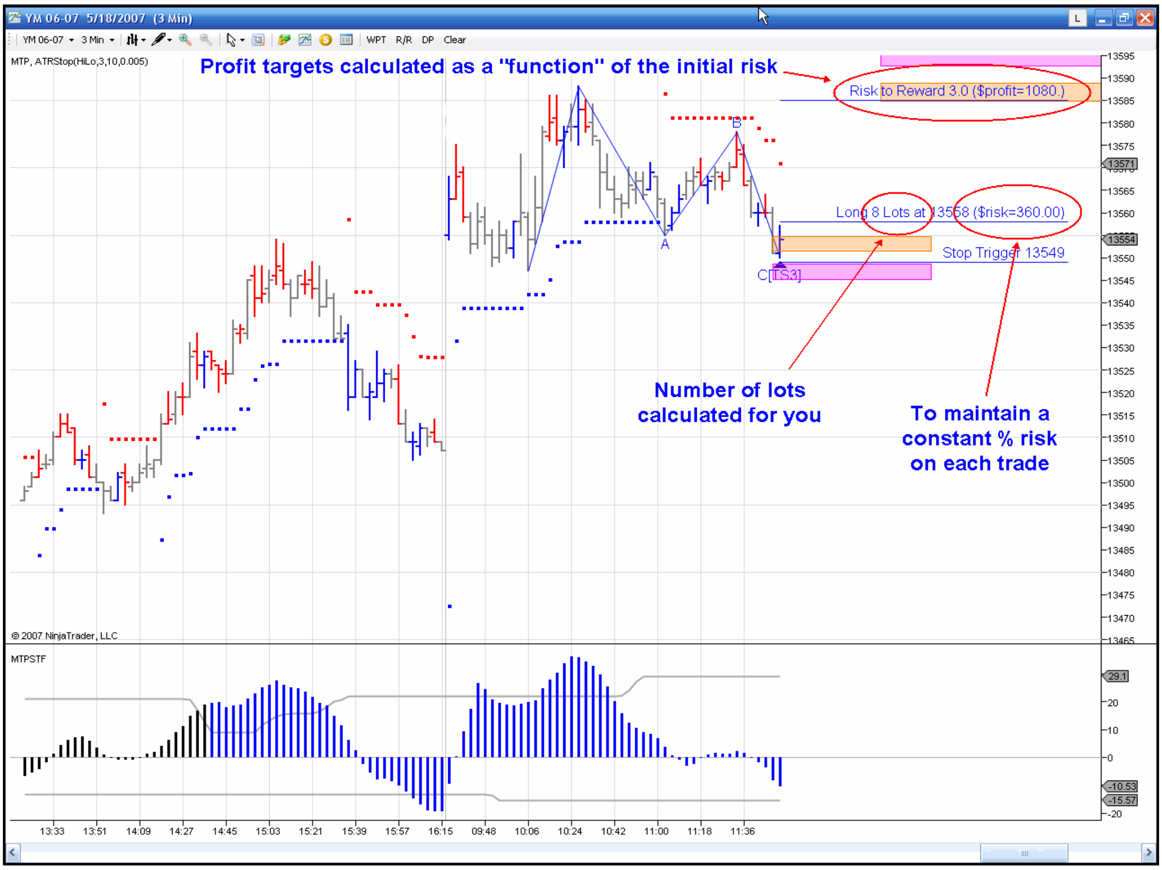
For example, we suggest a maximum risk of 2-3% for trading futures, 0.1-0.5% for stocks, 2-3% for forex and 1-2% if you day-trade.

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 or shares 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 …

2% risk on a $20,000 account



As you can see, *at the time* of the initial set-up, the number of lots or shares 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 that you trade 11 lots 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 a *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 they 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, *if* the trade reached just the first projected profit target the profit would be approximately 3x the size of the initial risk. This is what is important, not the $1,000 profit but how this $1,000 profit is 3x larger than the $360 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 +3R or +8R - it describes how big the profit is in terms of the initial risk of the initial set-up.

This is absolutely vital as so many people have never heard of Position Sizing. 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 or shares you trade to keep this initial % risk constant from trade to trade.

We suggest a maximum risk of 2-3% for trading futures, 0.1-0.5% for stocks, 2-3% 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 or shares 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.

Continued on the next page …

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% was always 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 traders' 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 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 them) 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 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 fail. 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 extrememly 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 *standard* TS1, TS2 and TS3 trades set-ups as these three are totally automatic. Personally, 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…

Continued on the next page …

MTPredictor versions

MTPredictor comes in two main versions, a “stand-a-lone” End-Of-Day version that can read ASCII or Metastock daily data files as well as TC2007 daily data files.

Or, we have (at the moment) 3 real-time “add-ons” for NinjaTrader, as well as efs files for use in eSignal and eld’s for use in TS8, please see the screen shots below:

Add-ons for NinjaTrader:

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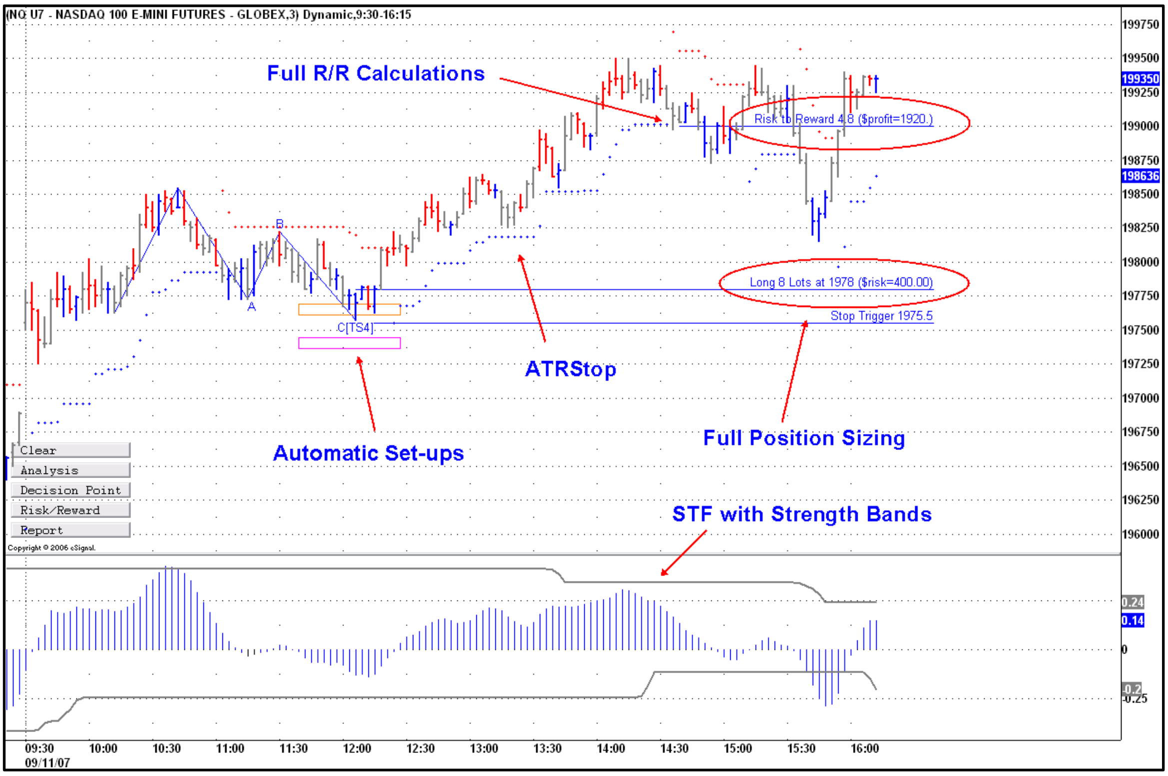
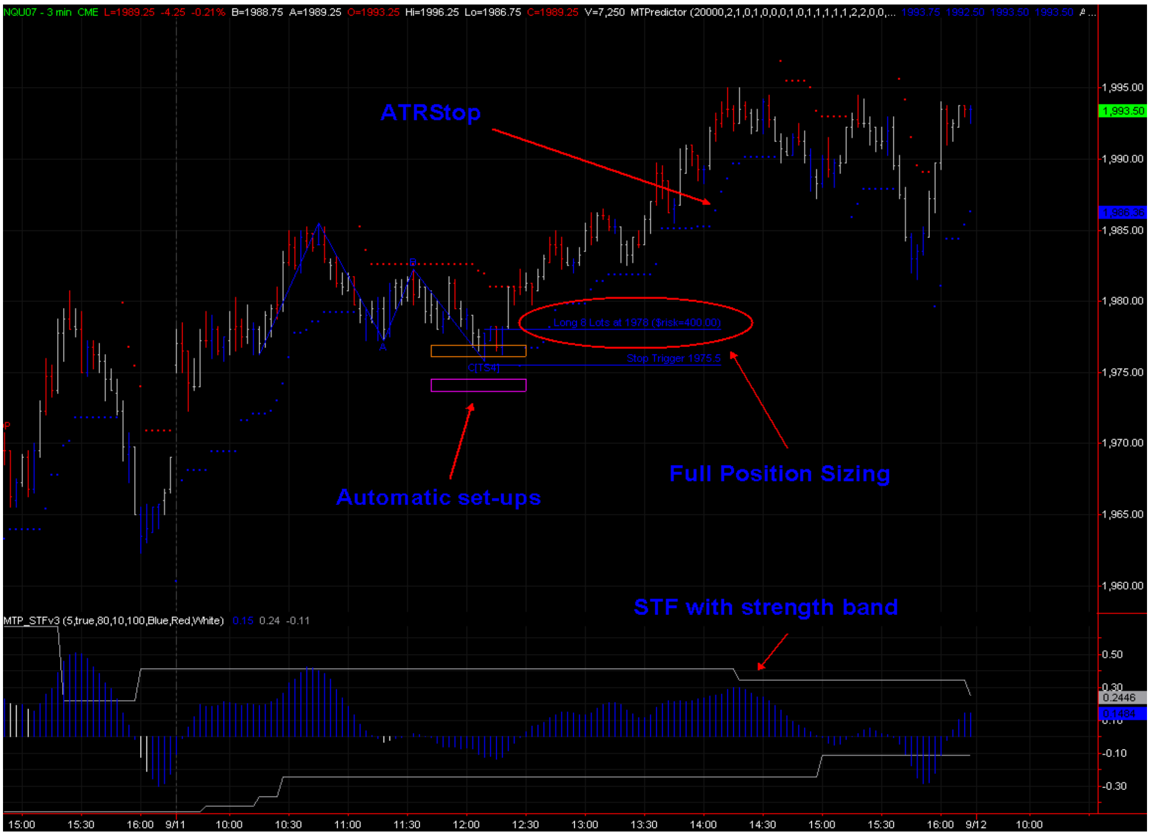
Efs add-ons for eSignal:



Eld add-ons for TS8:



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, I hope you do make the transition to winning professional. In MTPredictor you have the tools that will enable you to make this journey. The rest, now, is up to you …

If you have any questions or need any additional help, please ask us at support@MTPredictor.net

Thanks and good trading . . .

Steve Griffiths
Managing Director and developer of MTPredictor
MTPredictor Ltd.
www.mtpredictor.com