

Condensed Notes From 3xSMA Summary - How to Trade It.

See Glossary at bottom for abbreviations. Pronouns in the copy are referring to the originator of the post - NightMoves. This summary was prepared for the purpose of bringing some clarity to the spread-out message that exists in the various FF forum posts by NightMoves mainly for a friend in the USA who is not a great fan of reading. I thought it would help him as well as give me a way to internalize the strategy and understand it better.

Summary

- If done correctly, this system is incredibly simple and extremely effective and it always keeps your risks low because you are looking for low, risk high probability trades with very little drawdown in case things do go the wrong way. There are times when they will. But there will always be very little at risk.
- Three SMA lines, set up as 30sma, 50sma and 100sma (*he uses 30sma where I have also experimented with the 20 & 25 in place of the 30sma. On some currpairs those MAs provide a better fit to the harmonic moves*). All of the lines must be parallel and pointing in the same direction. (*No reference yet to how mature that trend should be*)*Note: Actually Hector does provide some help with this question in his free videos.*
- He avoids pairs/timeframes that show a confusing criss-crossing of the lines.
- He looks for trends on any TF M30 and larger. The longest he has held any position is about 6 weeks. Any trend works for him as long as the trend meets the criteria of the system. He really like to see the harmonic bounces of the area of dynamic S/R which are between the 30 SMA and 50 SMA.
- But once price starts getting near the 100 SMA it may be time to rethink before taking any positions in the direction of the main trend. He really likes to see the price in between the 30 SMA and 50 SMA and to look for all the S/R to come together in that one area. However that does not always happen and sometimes if it is near that area and the Confluence of S/R happens in the same area he will take the trade as well.
- Sometimes it takes a while for the setups to take place but the wait can certainly be worth it.
- He is using SMAs as his primary lines because they are dynamic, unlike drawn TLs (although he says he will be using TLs as well supplementally, as they do have their place).
- He states that the MA lines can tell you a lot about the **health of a trend**. By how healthy the trend is, he means as long they are all pointed in the same direction, parallel, in their proper order and price is swinging nicely in the areas of the 30 and 50 MA and not playing with the 100 MA then the trend is looking pretty darn good. If the lines start crossing back and forth, then he waits until it gets organized again. He pays particular attention to the 100sma - if it is tested by price action (PA) there is a possibility that the trend is running out of gas. (*My question is are there other aspects of the behavior of trend lines that indicate trend health, such as specific angles, or when the 30 and 50 are converging/diverging from each other or from the 100 SMA. Hector DeVille gives much better treatment of thisquestion.*)

- Look for the PA to "harmonically" bounce off of the 30 MA TL. Market will always come back to those (*reversion to the mean*) and those are where he looks for entries.
- Of course trends are marked by higher swing-highs and higher swing-lows (the reverse for down trends). If the PA is far away from these MA TLs, he will always wait for them to come back before looking for an entry.
- His first charts shown are his **Setup** charts and he does not trade off of those. Smaller TF charts are used for entries and he refers to those as his **Trigger** charts. He talks of selecting the Trigger chart TF by dividing the Setup chart by about four.
- He also draws TLs on the setup charts, both angled and horizontal for S/R levels. He is using these to show a confluence of S/R from recent PA and meetups with angled TLs. He calls this one of the "keys to this system". He looks for confluence of these along with previous swing highs/lows, fib levels and Big Numbers.
- He claims to need at least 4 confluences of S/R on the Setup chart in the area where the PA has come back to the SMAs before he even thinks of taking an entry to go with the trend. When to trigger a trade comes next.
- After ensuring that **the PA is in the area of the MA lines** AND he has a **confluence of S/R in that same area**, he then switches to the smaller TF (approx divide by 4). Being aware of the trend underway from the higher TF (**Setup chart**), he now watches for a small countertrend (CT) move on the lower TF (**Trigger chart**).
- He draws a TL for the short term move that is going against the major trend seen on the **Setup chart** (on bottoms of an up move, on tops of down move). His charts show that his TLs are drawn to reflect the main tops/bottoms, not necessarily the wick ends if they are a break of his general TL direction. He calls that line the **Counter Trend Line (CTL)**.
- He waits for the price to break the **CTL** and then he waits **AGAIN** for a pullback (*ideally testing the CTL*). In this pullback move he wants to see 3 or 4 bars before it returns to and goes past the start of the pullback. He calls this entire confirming move **Breakout, Pullback & Continuation (BPC)**. It is at the breach of the pullback start point that he uses for his entry. (*This should work well for pending trade entries where the order can be put in before hand*).
- This BPC entry technique is also referred to as 1-2-3 in posting #38. The chart in that same posting also makes it clear that he does not always get a PB to the CTL before the PA turns and breaks above the top of the breakout move. The PB on that chart only returned about 38% before turning.
- Sometimes the price will go into a sideways pattern once you have moved to the Trigger chart. The sideways markets are the easiest to trade **as long as BPC happens in the direction of the main trend**. He thinks they are easiest to spot and the easiest to trade.
- Now for his **StopLoss**. He puts his S/L right in the area where the pullback (of the **BPC**) ended or a few pips beyond (*this looks to be a very tight stop indeed*) and he **DOES NOT MOVE IT**. If it backs up and triggers the stop, so be it.
- Be sure to set the stop loss behind the event that got you in the trade. If the StopLoss is going to fall on a RN, he goes a few pips past it.
- If the BPC or 1-2-3 forms near but below the round number when entering long, he will wait to

place his entry until it clears that round number. Because BNs really act as strong S/R and the smaller the drawdown the better. Then he places the S/L about 15 to 20 pips below the RN. Does the reverse when doing short entries.

- He says to always remember that the higher TFs will prevail over the smaller TFs.
- In regards to spreads, he does not trade any currpair with a spread higher than 7 pips.
- His rules for the system when looking for an entry:
 1. SMAs must be parallel and pointed in the same direction
 2. No other patterns conflicting with setup
 3. PA must be in the area of the SMAs for an entry
 4. Must be S/R confluence in that area - Fib, FibExp, Big#, Swing H/L, TLs, etc.
 5. Wait for BPC on Trigger chart with entry as the extent of the breakout move.
 6. Set S/L beyond the PB.
- He makes a list of currpairs with trading opportunities each morning (Daily Picks) - that is his watch list for the day. This is the only system he uses and has for 4-5 years. Uses MT4 for charting and trades on another platform. He has one screen with 21 miniature charts on it which he can enlarge if he wants to see more.
- *(An idea here would be that after the 5-6 or so currpairs have been identified as the good setups for the day, then save that profile as "Daily Picks (date)". Then dump all of the currpairs which are not part of the group that meets the setup requirements and save it again as Daily Picks (date). Now you will only have the best ones for today on your screen. The previously saved profile for all of the 21 monitored pairs will still exist for tomorrow. Tomorrow you would save a new group as the Daily Picks (date) for that new day.)*
- He just scans the charts in the morning on his market status template. He looks for the trends on all of those pairs. Then he picks out the ones that look like they have the best chance of offering a trade. Sometimes the setups get blown through and there is no trade. He is very picky about his setups. Once in the trade he lets it run until it runs out of gas. He just keeps following it with a S/L and once it looks like it is running out of steam he tightens it up a bit.
- Use the ADR plus Big#s regularly to ensure that you have enough room for the trade in the direction of the trend.
- Make it a constant practice to check the higher TFs for conflicting signals. S/R on higher will affect the smaller trends.
- If a winning trade begins to show weakness, pull the profits. Don't turn a winning trade into a losing trade. In other words do not forget intratrade management.
- He shows a down trending pair (UJ) in posting #18 and he is waiting for a PB up to a recent previous low (support) that was just now breached, for an entry. At the same time he has drawn a Fib from the start of that most recent move down so that the retrace (RT) back up to the breached support area can be measured. Looks for RT back to a window of 38.2 and 68.1 for his entry area, not too shallow, not too deep. He is also looking for other S/R confluences there.
- He uses fibs and previous swing lows/highs in this system as well, but he's not looking for a

bounce off of a particular fib number. Instead he is looking at a window between the 38.2 & 61.8 fibs. He does not pay attention to the higher or lower Fib numbers. Once price reaches that window then he looks for the confluence of the S/R to come together. If all those confluences come together at the same area he considers that is a pretty strong defense for the currpair and he starts looking for the reversal formation. If that level gets wiped out (breached) then he passes on the setup and waits for another opportunity to come around ... and it will.

- He will not guess what market is going to do. He reacts only to what it is doing in the main trend direction and waits for confirmation. If the setup does not make it, he is not in the trade. Only if price gets into certain areas will he trigger a trade.
- He strives for 1:3 RRR. Sets two targets, closes one half of the position at first target and moves S/L to B/E - then manages trade from there.
- He gives another recap of the rules in #34

1. Spot a valid trend per the rules
2. Find the level of strongest confluence where new swing may spring from
3. Wait for retrace to that level
4. Zoom down to trigger level at shorter TF
5. Observe price at decision-taking level. Breach thru? Consolidate? Bounce off?
6. Look for any possible reversal formation
7. Wait for Breakout from CTL, don't jump the gun
8. Look for completion of BPC and wait
9. Set trade plan: Entry, S/L, targets, News?, anticipated time for trade completion
10. As BPC (reversal formation) completes, enter market

- Use ADR to set expectations for trade target, but only on TFs that will allow you to be trading intraday. Longer TFs will not need the ADR. Also to help determine if there is enough 'room' for a trade use the ADR in conjunction with major numbers to set best exit points. He typically uses a setting of 20% less than the ADR for the day trade PT.
- He combines Round Numbers (00 and 50) and ADRs instead of Pivot Points as he finds RN more reliable. Those RNs are all that he has gridded on his charts. PA tends to bunch up, consolidate or go sideways around those RNs.
- Patterns that interfere with these setups should be monitored for their possible effect. An example of this is in a chart on posting #52 where an upside-down H&S has formed on an H1 with a good 3xSMA setup. He says he will not take that 3xSMA setup because the H&S is a reversal pattern.
- Many times he will just set an alarm to let him know when the price has reached a certain level. He has a trend line alerter as well, which turns the trend lines into alert signals when the price reaches the trendline (or how ever many pips above or below you have it set for). It also sounds an alarm.
- He is using certain C/S and their patterns, such as a Hammer or a Hanging Man much as others do but only when they form in an area where he is seeking additional confirmation to his setup.

- One of the key factors in this system is trendlines, not necessarily the handdrawn line but the MA lines. They are dynamic (meaning they will move with the market where straight hand drawn lines will not). The markets are not perfect and they will over shoot any trend line but knowing that the the market has to come back to those MA lines makes it a little easier to look for the reversal patterns and where the next impluse wave may start.
- This is a well thought out system and staying steadfast to the rules is paramount as it is in any system. Taking entries when too far away from any S/R and not waiting for the reversal formations and such will kill the value of any system.
- He states that he has traded this system for so long now because it has treated him good and will probably just keep trading the same way, although he does like to play with other systems on the Demo account. But he uses this system religously for trading live. He says sometimes it gets boring just doing the same thing over and over again...but hey it works.

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Glossary

1-2-3	Same as BPC
3xSMA	Three Times Simple Moving Averages (Strategy name)
ADR	Average Daily Range (An add-on indicator)
B/E	Break Even
BN	Big Number (prices ending in 00-20-50-80)
BPC	Breakout - Pullback - Confirmation (see also 1-2-3)
C/S	Candle Sticks
CTL	Counter Trend Line (drawn across candle bottoms/tops against trend)
DB	Double Bottom (Price action makes two or more lows in same area)
DT	Double Top (Price action makes two or more highs in same area)
MA	Moving Average
MN	Major Numbers (refers to BNs, RNs and MRNs as a group)
MRN	Mid-Range Numbers (prices ending in 10-35-65-90)
PA	Price Action (the actual price tracks left on chart as the pair moves)
PB	Pullback (price action reverses back in opposite direction for a short ways)
PT	Profit Target (The price level where your trade is targeted. See TP)
RN	Round Number (prices ending in 00 and 50)
RRR	Risk Return Ratio (Risk taken with S/L vs. planned for Profit)
RT	ReTrace
S/L	Stop Loss
S/R	Support Resistance (lines you draw that are at significant price turning points, or swings)
SMA	Simple Moving Average
TL	Trend Line
TF	Time Frame (Charting size based on candle stick duration)
TP	Take Profit (The price level where your trade is targeted. See PT)