

## How to see the market context using CCI

*Written by Buzz*

Towards the end of September 2003, I decided to stop trading the S&P e-mini for a while and focus on the Russell 2000 e-mini. The swings seemed to be smoother and someone said that there is not as much “monkey business” in this market as has developed in the S&P. There also appeared to be twice the dollar range as compared to the S&P. With that said, if the market really trended better, provided twice the earnings potential and also allowed me to set smaller stops, I could not see the downside to trying this market.

Since I started to look at the CCI methods as taught by Woodie and many people in his site, I have come to appreciate how simple the CCI can be once you understand it. Many people have become so good at using the CCI method, they are able to just use the CCI indicators without showing price bars on their screen, and trade very profitable as a result. Their reasoning is that the CCI tells you everything you need to know. It is often one (1) price bar ahead of the actual signal provided by the price bar, and you do not get faked out by the minute price flicker that can be seen on some trading platforms. So in reality, these people have evolved into traders that can easily gauge the normal ebb and flow of the market. They have developed patience while trading and will reflexively react when a valid entry signal is given. They enter each trade with an open mind, knowing that their entry is based on probabilities and that they could get stopped out for a small predefined loss. If that happens, their loss was defined ahead of time and is not a reflection on them as a trader, but just a normal event that will happen everyday. But they are not concerned by these small losses because at the end of each day, their winnings are always greater than their losses and they have peace because they know that they traded their plan. This allows them to come back the next day with renewed excitement about trading and allows them to keep sharing what they have learned with others, so that more traders on the retail side, can make money.

When I first came to Woodies CCI Club on Based on some general comments made Woodie and other traders in Woodies CCI Club, I came up with my own spin on how to trade using parts of their message. I have no idea if they are the originators of these ideas, or even if they still use them today. But I will say again, that the end result of this document is a direct result of Woodie and those members of his room who shared some of their knowledge freely with others. My purpose is not to alter anything that Woodie or the other great traders say or do. My purpose is to give people new to the room a way that they can look at the larger market and have a better idea of a least which way the trend is going. To be able to measure the strength of the trend and to point out possible areas where to look for entries. The way I interpret the information on my screen allows me to see the market and to use the 14 CCI for my triggers with confidence. Now I am able to clearly see the ZLR (zero line rejects) and the TLBs (trend line breaks), Ghost and Shamu patterns and then act on them. I am even able to look at just my CCI indicators without the benefit of price bars, and to imagine very close what the price bars were actually doing. Was the price testing the 34 EMA, crossing the 34 EMA, or showing a change in trend. When you can get to this last step, you have come a long way to understanding the market context better. If after you have read this and it has had a positive impact on your trading, then I would ask that you send a periodic cash contribution to the Make a Wish Foundation, or other charities or church organizations as an expression of your gratitude. For me, I have set this as a personal

goal. In so doing, it has given my trading new meaning knowing that others will also benefit from any gain I am able to achieve.

Thank you in advance,

“Buzz”

The vast majority of traders would say that they prefer to trade with the trend. Most people would agree that there is nothing better than to enter a trade with multiple contracts in the early stage of a strong trend and then methodically scale out of your trade as it progresses. Once this is done and you have some nice profits to show for the day, you can seek to enter the trend a 2<sup>nd</sup> time, but this time hold your entire position longer and increase your profits for the day. But it is also safe to say that the majority of us have traded against the trend. Sometimes thinking we were trading with the trend, only to get stopped quickly as a result. Many of us are also guilty of trying to pick the top or bottom of a swing move, only to again get stopped out quickly for our mis-guided efforts. Maybe this is because people are too concerned with the popular adage that you need to “buy low and sell high” or “sell high and buy low”. Trying to pick these turning points is very hard and has ruined many traders. In my opinion, a smarter approach would be to buy near the bottom of an uptrend and sell the contracts back later at a higher price. I can not be concerned with picking the exact bottom or the exact top. I am content with just taking a good chunk out of the middle. The same is true for short trades. If the market is going down and you sell into it, and then the market falls another 75%, why not be happy with the large chunk of profit you were able to get and not worry about how the small amount you left on the table.

I use three sections on my main trigger screen. In the top section, I use normal candle stick price bars and two EMA's. The red dots represent a 34 period EMA line and the blue dots represent a 20 period EMA line. The middle section of my screen has a 50 period CCI indicator in use. The bottom portion of my screen has a normal Woodie CCI set up of two CCI indicators that overlay each other. The length of the black line is 14 and the red line is the 6 period turbo. I use a combination of data from E-signal and charting software from Ensign. I will show you the set up screens for each of these indicators at the end of this document. For those who use other software platforms, you might need to play with the settings if your charts do not match mine exactly.

### **Basic Function of 20 and 34 EMA dots**

The slope and color of the dual EMA lines will set the immediate trend. The 34 EMA line is shown as red dots and the 20 period EMA is blue dots. If the red dots are on top of the blue dots and both sets of dots are sloping downward, then this is a down trend. You will focus your trading attention on short trades. I do not use these EMA lines by themselves to identify the trend. I also use a 50 period CCI.

### **Basic function of 50 CCI**

The way I use the 50 CCI is for a trend indicator. The CCI has a zero line and Woodie has pointed out that this is where the support and resistance is for that index fund. When the 50 period CCI is above the zero and it looks like it is flat or rising, I will only look for long triggers. The opposite is true when it is below the zero line, there I will only look for short triggers. If this line is just hanging around the zero line I will sit out. I do not use the 50 CCI by itself to identify the trend. I use it along the 20 and 34 period EMA.

The key is to look at both the 50 CCI and the EMA dots when you determine which way you think the trend is moving and how strong it appears to be. For now just follow along and study the examples that I have included here. After you have read through this a few times, then you can set up your own charts and look at some historical data on your computer and then watch a

live trading session and see if your understanding is better. I would also like to point out that this is not an absolute science; it is more like an art form. It is not like saying  $1+1=2$ . There will be times when the indicators will give you a buy or sell signal and they will fail. You will lose money. Other times they will give you a buy or sell signal and you may elect to stay out of the market and it will do exactly what it should do and you will still lose some money. Not in the actual cash sense, but you will know that you could have easily made some money on the last signal and you did not. Oh well this is what trading is all about.

For now, we need to look at some examples and get a deeper understanding on how to view market context by using some simple indicators. I will present this one step at a time and then build upon the previous example by adding one more element for you to consider.

Trend —what is it and how do we know which way it is going?

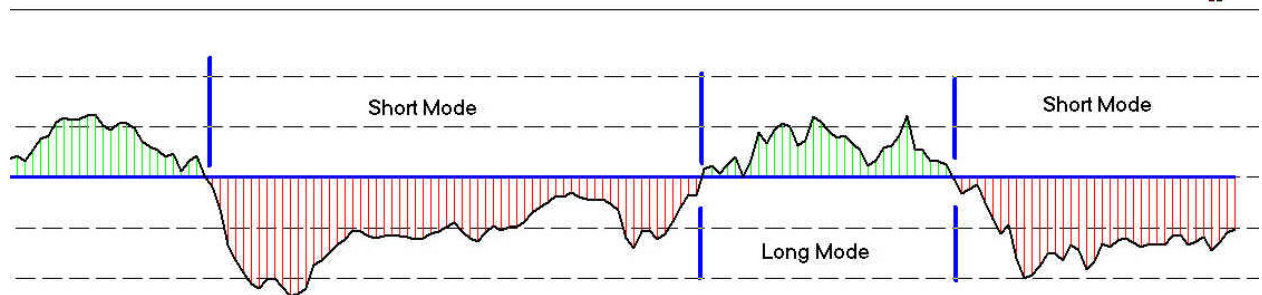


Let's start to look at trend by using just the 20 and 34 EMA lines. I said earlier if the slope of the lines is going upwards with the blue dots on top of the red dots, then the trend is heading upwards. Classic price action will also tell you that you should also see higher highs and higher lows. Notice how the same is true in a downtrend as shown in the screen shot to the right. The same is true. The slope of both EMA lines is going downward with the blue dots falling faster than the red dots and the price action is making lower lows and lower highs. It would be nice if this was all that we needed to stay on the correct side of the trend but another indicator can prove to be useful as well.

**IF THE 34 EMA LINE IS FLAT DO NOT TAKE THE SIGNALS. THE MARKET IS IN CHOP.**

Now let's add the 50 CCI to the above to strengthen our understanding of trend.

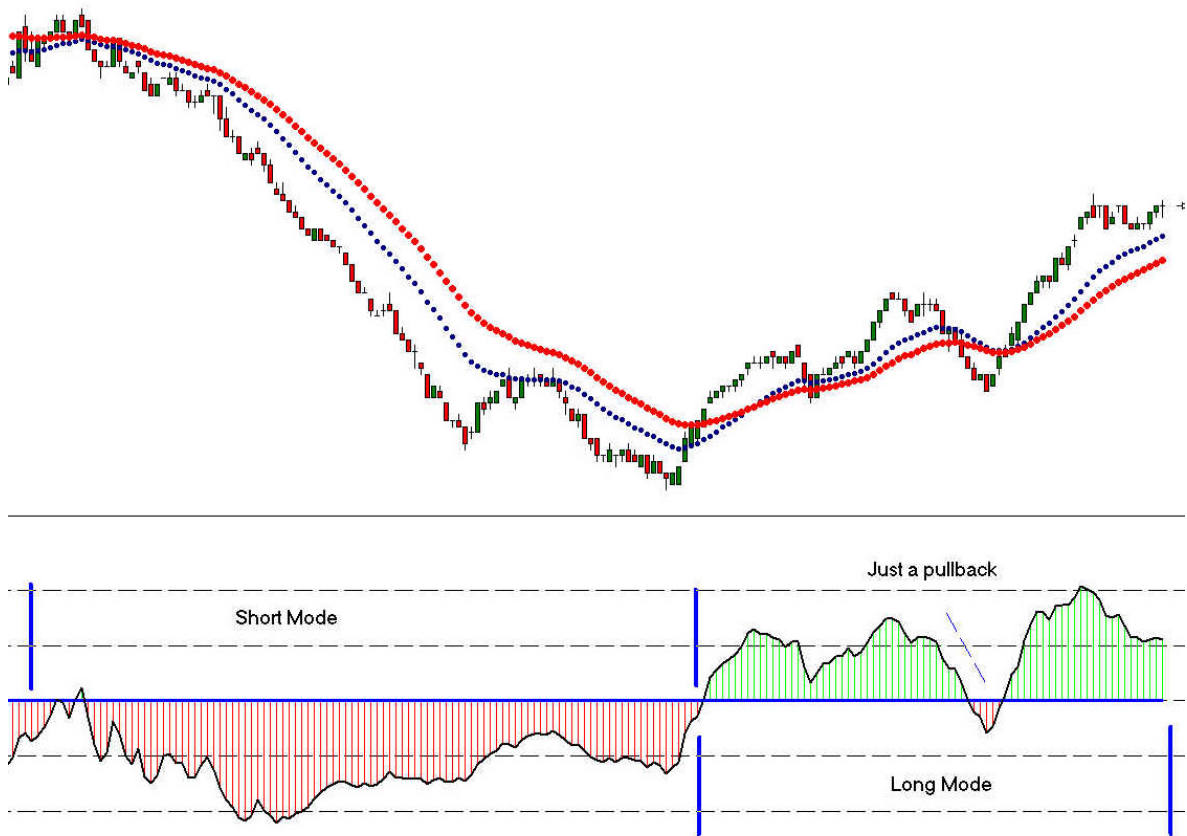
The CCI has a zero line and Woodie has pointed out that this is the mean, or where the support and resistance is for that index fund. When the 50 period CCI is above the zero and it looks like it is flat or rising, I will only look for long triggers. I have color coded the spread on this indicator so that visually you know you are in long mode when the spread color is green. Green means you are in long mode and you should only be looking for long triggers if your goal is to follow the trend. If you compare the point at which the 50 CCI crosses through the zero line to the point on the price chart where the 20 period EMA crosses the 34 period EMA you find them to be almost the same. The opposite is true when it is below the zero line. There I will only look for short triggers. Again the spread on the 50 CCI has been color coded to show red when you are in short mode. Look at the next few screen shots and just concentrate on the points where the 50 CCI crosses through zero and the points where the 20 EMA crosses the 34 EMA. Next look at what the price action is revealing at the same time. Given the choice, would you rather be in a short position when both EMA lines are falling and the 50 CCI is below zero or a long position?



*(50 CCI only for trend)*

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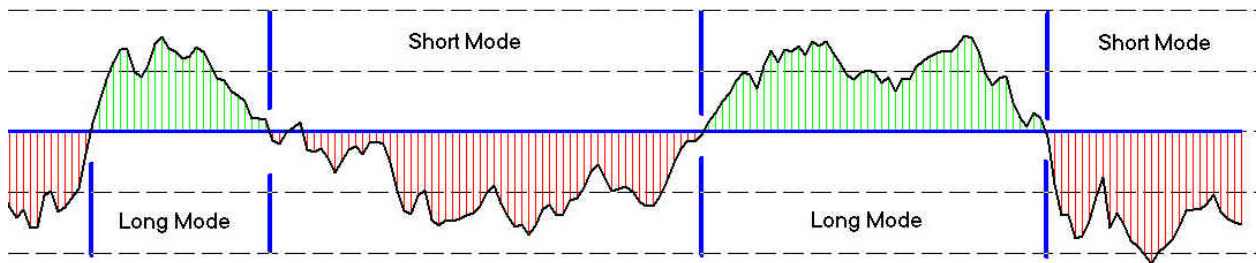
Here is another example of how the 20 and 34 EMA lines work together with the 50 period CCI to show you the market trend. The 20 period blue EMA is leading downward and the 34 is on top. When the spread color is red on the 50 CCI, the market is short mode. See how the two indicators work well together.



This screen shot also shows a very nice pullback as the market reverses and moves higher. This is really the 2<sup>nd</sup> pullback and it goes through the 34 EMA and also through the 50 CCI, but only for a little bit and then resumes its upward climb. We will talk more about these when we discuss entries later on. For now, just focus on where the trend changes.

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Here is the last screen shot we will look at to help you see the trend better. Again compare when the spread color of the 50 CCI changes from red to green and when the red and blue EMA dots cross. Also look at the direction of the price movement to confirm to yourself that you would be better off to be long or short in harmony with these indicators/



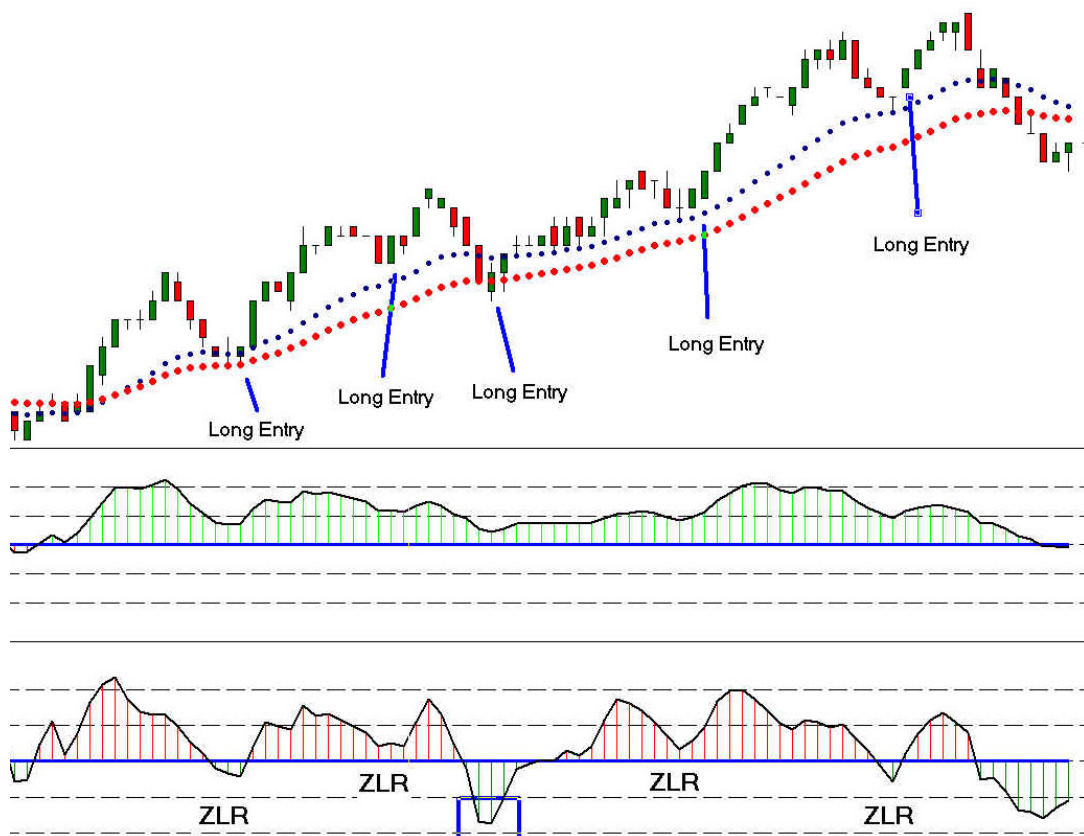
*(50 CCI in use for trend direction only)*

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You should have a good understanding of when to be long and when to be short now if you were able to follow the examples above. Now I will add another indicator for you to look at as we continue to build on what we have learned.

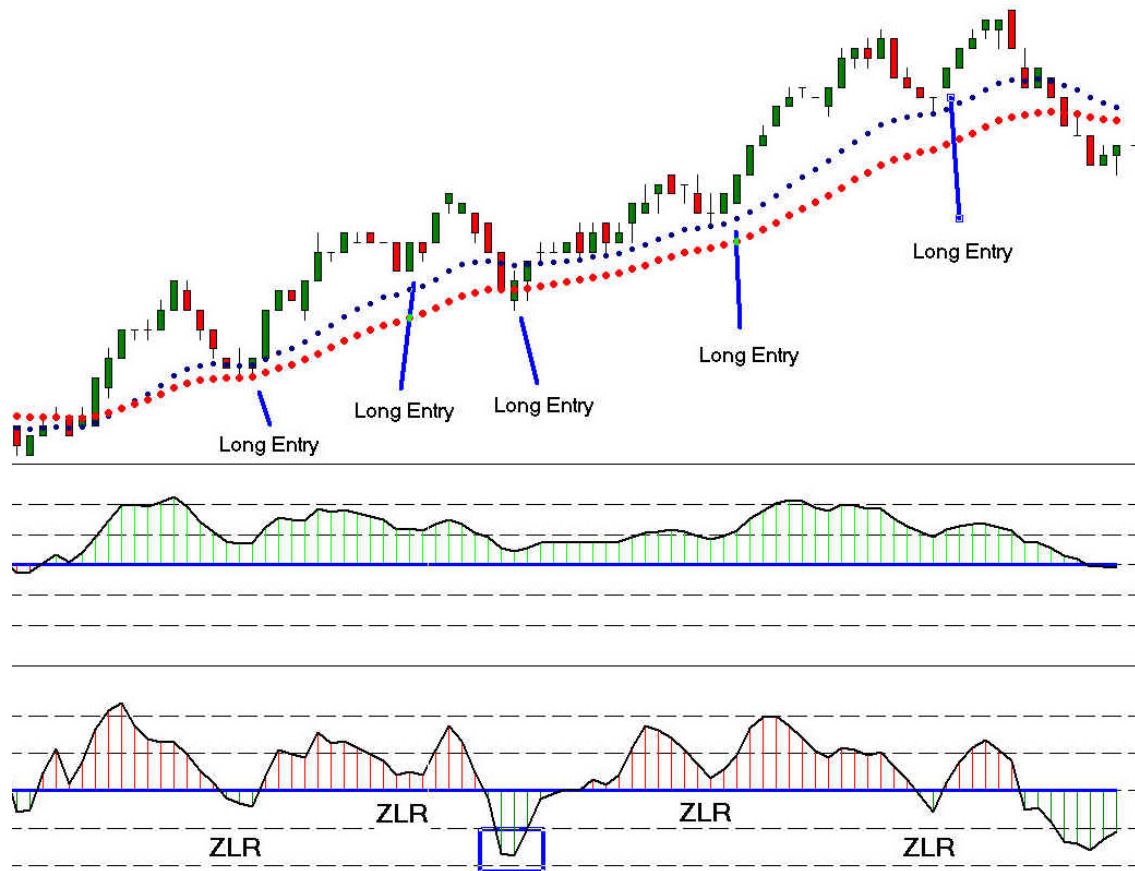
Woodie uses the 14 period CCI for every trigger signal. On his charts, he also shows other indicators but these are there mainly to help new traders and provide some common elements between moderators. These indicators are the 25 least squared line and the 34 EMA. Woodie also only enters trades with the trend and does not take counter trend trades at all. Using the 14 and 6 period CCI indicators has been proven to be very effective on any time frame, any futures contract or stock. In Woodies room, people trade using everything from a true 14 tick chart up to a daily chart with the majority using a range between 233 tick and 5 minutes. Some people trade the S&P, others trade the Russell 2000, the Dow, Nasdaq or bonds or whatever else suits them at the time. Again the 14 period CCI is the common thread that allows many of these traders to become very profitable.

In the following screen shot, I have added a very basic 14 period CCI indicator to the bottom of my chart. The top two sections provide the big picture and now we will focus on the triggers. On all of the charts you should also pay attention to the colors I have used in the spread of each CCI pattern. Remember when looking at the 50 CCI, when the spread color is green (above the zero line), it means the trend is up. This has been reversed on the 14 CCI on purpose. The key is to make sure the colors match on the 14 and 50 period CCI when you take a trade.



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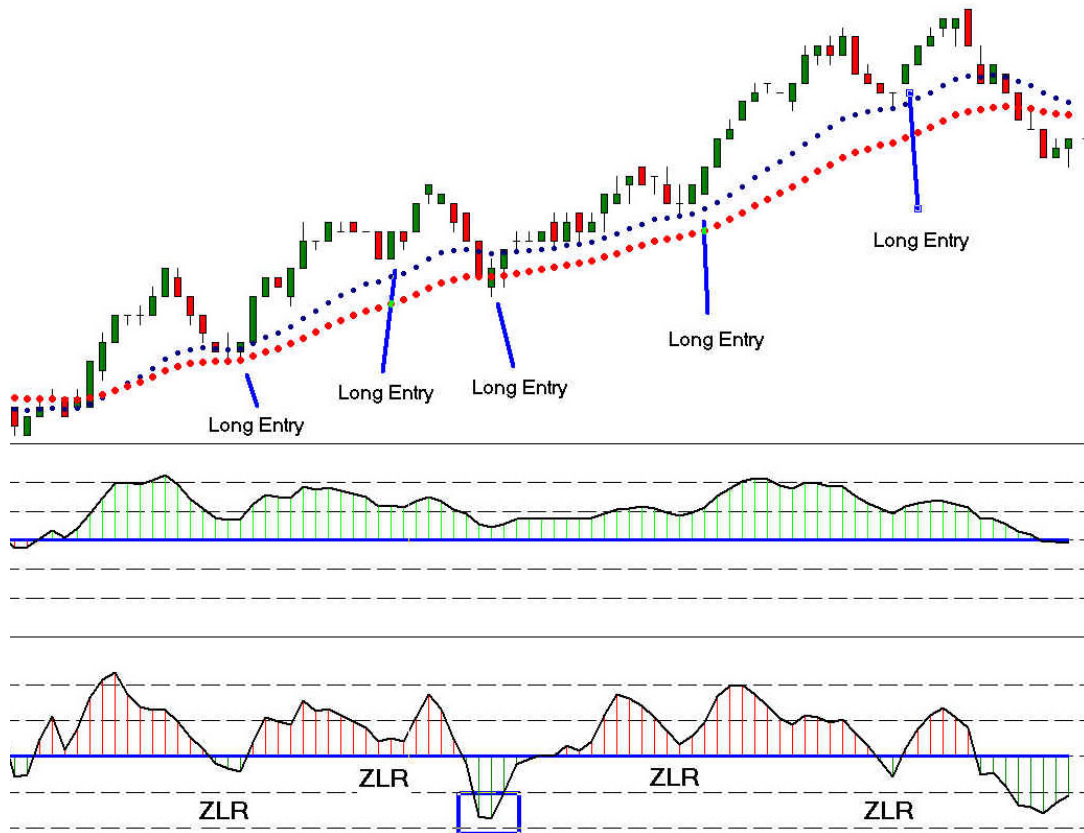




Here is the same chart again. Start by looking at the trend. Is it up or down and why? If you looked at the slope of the 20 and 34 EMA lines and noticed that the blue dots are on top of the red dots and the slope is going up you are partly correct. If you also noticed that the 50 CCI is predominantly green in color indicating an up trend you got the 2<sup>nd</sup> half correct as well. So if the trend is up, then we should only be looking for long triggers. The CCI method provides some basic patterns that you should look for along with peaks and valleys that you can use to draw in trend lines. By leaving the 6 period CCI turned off, you can see the basic patterns more clearly.

One such pattern is a ZLR or zero line reject. The basic premise behind this pattern is that the 14 CCI line must move from a high peak back towards zero and needs to reverse and head higher. The ideal turn around point for a ZLR long entry is between the +100 line and the -50 line. Of course the opposite is true when you looking for a ZLR to go short. These are basic ranges not absolute ranges. The following chart shows four (4) ZLR's that occurred during our up trend. Two of them occurred above the zero line and two of them occurred below the zero line and they are all equal by definition.

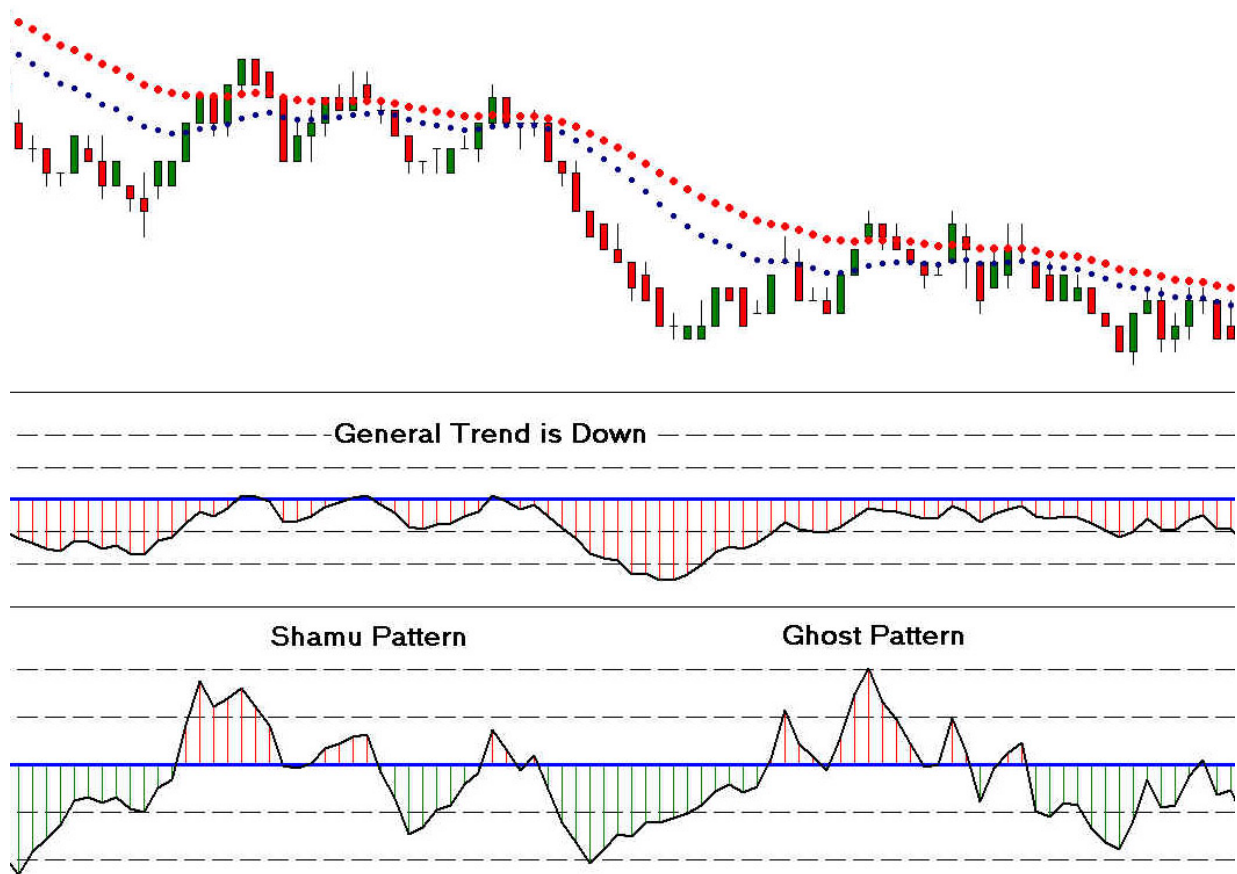
**IF THE 34 EMA LINE IS FLAT DO NOT TAKE THE SIGNALS. THE MARKET IS IN CHOP.**



The way I would view this set up is the trend is up. I want to enter it on a pullback since I did not enter earlier. I would like the price to retrace back towards the 34 EMA, but I do not want it to break through the 34 EMA and stay there for too long. I would be looking at the 14 CCI and waiting for it to drift back towards the zero line. I would like it to form a ZLR below the +100 line but above the -50 line. Once the 14 CCI hooks giving me a valid ZLR signal I will enter the market with confidence. The trend is up, my stop is in place and now I just need to sit back and let the market decide. The trade may work out in my favor like it has many times in the past, or it might fail and hit my stop. Regardless, this is just one trade of many I will make, and the outcome of this one trade will not affect my mental well being as a trader. I win either way.

I would view each of the four ZLR's the same as the above example. They are all they same.

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Here is another excellent example of two popular patterns. The first is a *Shamu* and the second is a *Ghost*. A *Shamu* is formed when the 14 CCI forms a peak and then drifts towards the zero line just like the previous ZLR. It bounces up and then quickly reverses and goes through zero continuing in the original direction. The *Shamu* pattern can work both ways and will have the same name. The ideal trigger point on a *Shamu* is when the CCI crosses through the zero line.

The *Ghost* pattern is very similar to a head and shoulder pattern, but is only viewed on the CCI and not the price bars. It has a head and shoulder on either side. The *Ghost* also works both ways but if the head is downward, they it is referred to as an *Inverted Ghost*. The ideal trigger on a *Ghost* pattern is when the 14 CCI line breaks through the neck line of the *Ghost*.

Looking at the above chart, it easy to see that the trend is down. The 20 and 34 EMA show a downward bias and the 50 CCI is red and below the zero line. The only triggers I would be looking for would be short triggers. There are other triggers visible on the above chart, but if you just took the *Shamu* and the *Ghost*, you would have taken two very nice short trades with the trend. Your money would not have been at risk very long and you would have been able to move your safe stop to break even very soon after entry. Then just sit back and manage your trade.

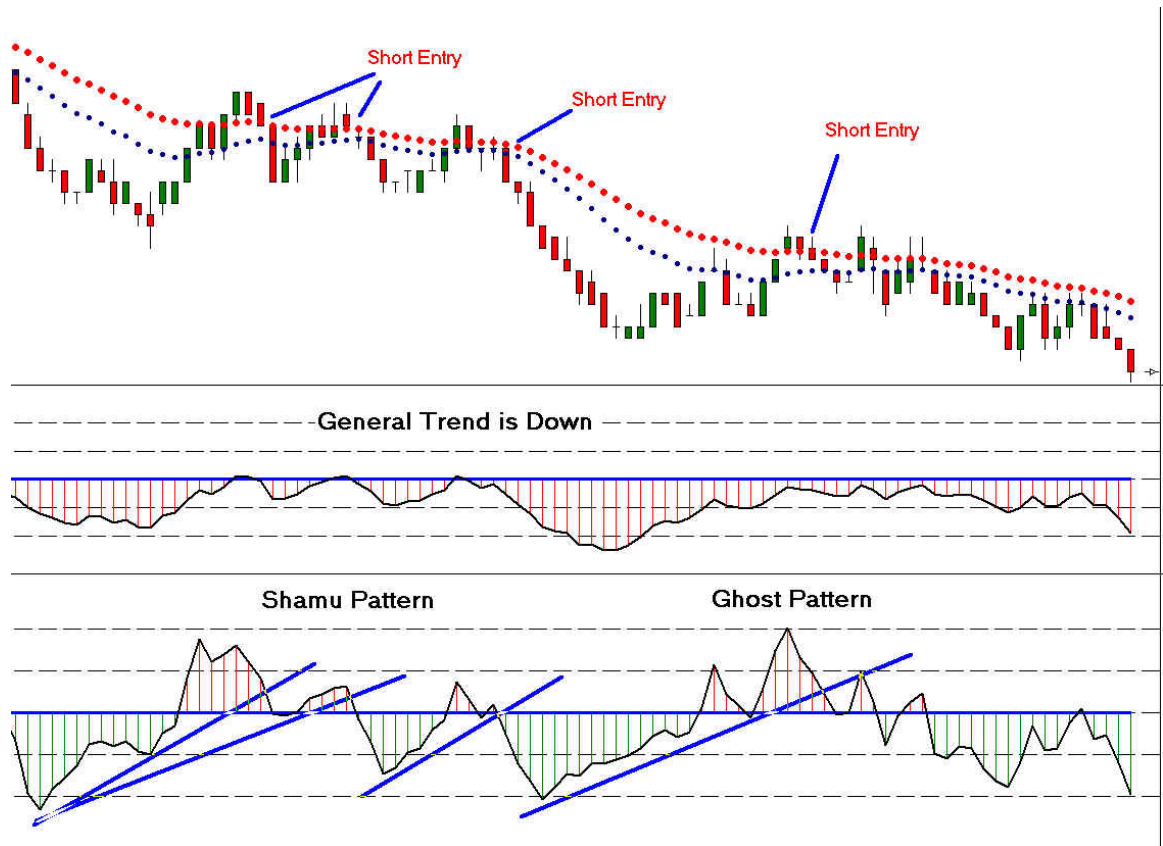
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Time to build on your new understanding again as we now move away from CCI patterns like ZLRs, Shamus and Ghosts for a bit and look at TLBs or Trend Line Breaks. For our purpose here, every example will only show you TLB patterns that are with the trend. Woodie likes to draw his trend lines from a peak or valley where the point is greater than -100 or +100, ideally as close to the -200 or +200 line as possible. It does not matter to Woodie if he draws it from a peak or valley based on the 6 period turbo or the 14 period CCI. For clarity again, I have the 6 period turbo turned off in the following examples.



Obviously the trend is down. The EMA dots confirm it and so does the 50 CCI. The blue lines that I have drawn in over the 14 CCI are my trend lines. Since I only want to take short trades to match the trend, I will only take the trades the break through these lines. The first two TLB patterns along with the 4<sup>th</sup> TLB pattern to occur were each preceded by a ZLR. Your entry point would be as the 14 CCI line crosses over the trend line. The third TLB happened after a larger pullback. The 14 CCI actually went above the zero line and formed a nice hook at about the +150 line and then came back through zero and the trend line at the same time. The price also tested the over head resistance at the 34 EMA line and failed there as well. The last one was just a regular TLB. All of them worked. All of them were with the trend. All of them followed what Woodie has been teaching for years. Classic CCI!

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Here we see the same chart that we used previously with the Shamu and the Ghost pattern. Can we use TLB lines to enter the trade short to give more weight to our entry? Sure. Same logic as before. The trend is down so we will only take short triggers based on TLB and patterns. They all worked again.

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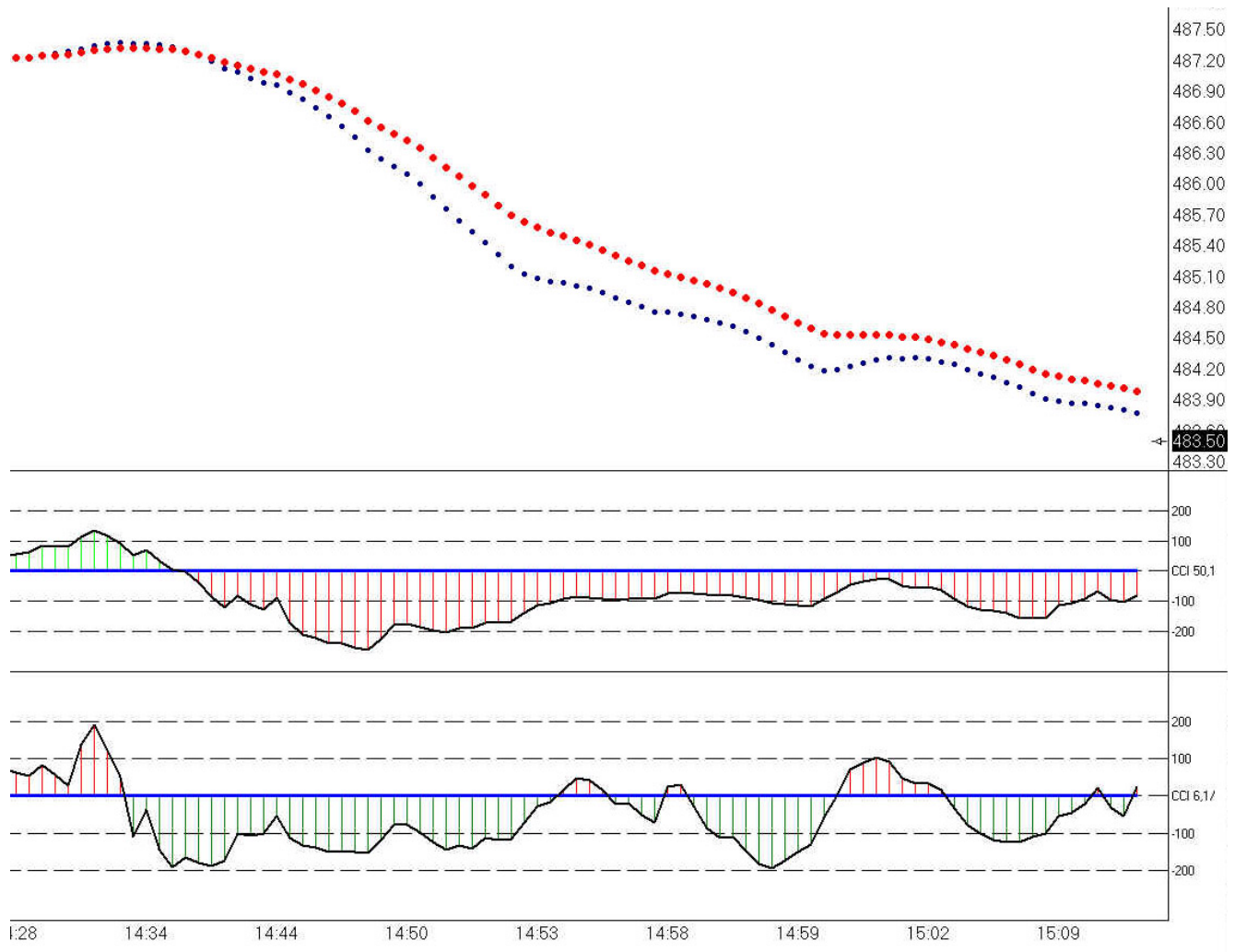


Here is another interesting example to look at. First establish what the trend is and why. Look at the 20 and 34 period EMA lines. They are showing a downward trend. Next look at the 50 CCI. The color is red so the trend is down. Next look for short triggers. The 14 CCI shows two nice ZLR trades which would also be trend line breaks with the trend. In the middle of the screen shot, if you are looking at the price bars, you will see a very nice example of strong resistance and the 50 CCI holding flat at the zero line as well. The best trade on this example is when the 14 CCI finally breaks through the zero line and the 50 CCI forms a small Shamu. A great CCI set up for a short trade.

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As I mentioned earlier, Woodie and some of the other great traders can trade very effectively **without** the use of price bars on their screens. *They trade naked with just the CCI.* They only use the 6 and 14 period CCI to provide them with entry and exit signals. After getting this far, you should be able to do this yourself. Based on the indicators provided, you should be able to see the trend, know where the price is relative to the 20 and 34 period EMA dots. You should be able to label patterns like ZLR and Ghosts on the 14 CCI and draw in TLBs. You should also be able to see each pullback in the trend along with the triggers.

Try this simple exercise yourself. I have created a chart below and removed the price bars. Print a copy of this and try to sketch in where the price should be based on the indicators. When you are done, compare your results with the answer on the next page. Don't cheat. Just trust in your ability and do it. You will be surprised how simple it is after you do a few of these.



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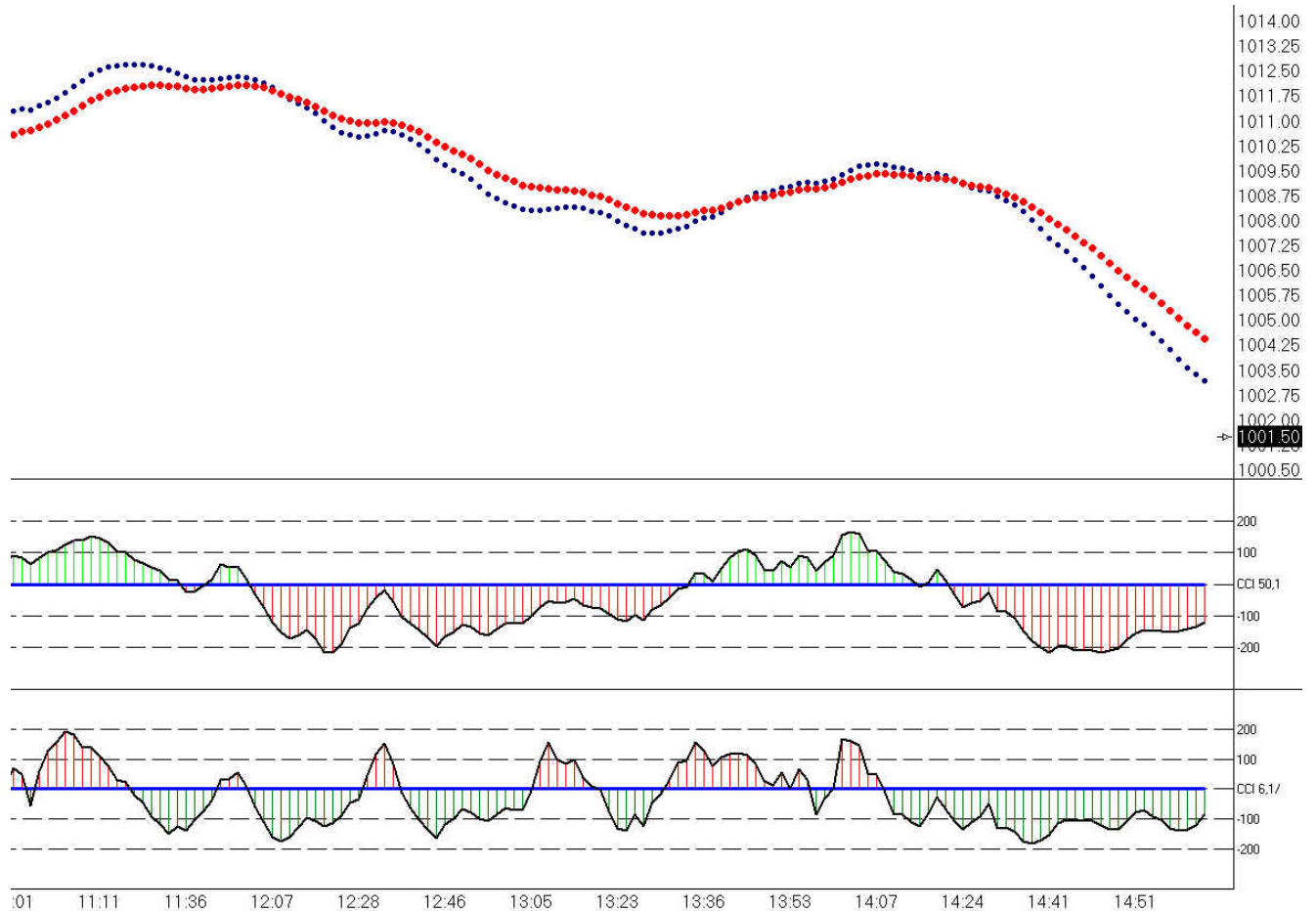
Here is the same chart but with the price bars added. How did you do? Probably better than you expected. Did you label the patterns and TLBs correctly? Did you have the trend correct?





Here is another exercise for you to try your skills on. Same rules as before. Print a copy, draw in where the price should be, label the patterns on the 14 CCI and where the TLBs should be. Make sure to focus on the trend. When you are done, compare your results with the chart on the next page.

Just for fun, look for the same patterns on the 50 CCI line. How many Shamus, Ghosts and ZLRs do you see? How do they relate to the EMA lines and with the 14 CCI?



Here is the same chart with the price bars added back in. I hope that you can see the market context better now that we have done some of these exercises.



The rest is up to you. This should give you a good start. Now listen to the real trading masters in Woodies room and learn how improve on this basis approach. When you are able to, help someone else out on their trading journey.

“Buzz”

# **How to see the market context using CCI**

*Written by “Buzz”*

The following manual has been written as a guide to help new traders succeed. It builds on the foundation that is encouraged in Woodies CCI Club that traders should freely help other traders succeed. I will say again that this is only a guide to further your understanding of the market context.

The reader is encouraged to go beyond this basic knowledge by using the people and resources available in Woodies CCI Club.