# *The Floor Trader System*

("Forex Strategies Revealed" - Advanced System #13)
http://forex-strategies-revealed.com/

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## The Floor Trader System (Scalping)

This is a retracement-then-continuation trading method. It identifies entries by combining trend identification (by using moving averages) with the technical analysis technique of price candle pattern-recognition. Despite all the narrative below, this is a relatively simple system for L1 & L2.

The primary candle pattern to look for is called the "Price Reversal Candle" - in conjunction with a retracement within the current trend.

| | |
|---|---|
| **Currency pairs:** | Any (Try EUD/USD, GBP/USD, EUR/GBP, USD/JPY) |
| **Chart Time frame:** | 3-minute & 5-minute, 1-hour (for support & resistance), daily (for trend) |
| **Indicators:** | 8 EMA, 18 EMA (Set to closing price). Some traders prefer 9 & 30 EMA<br>Bollinger Bands are used on some of the charts |
| **Trading Time:** | 0730 – 1230 GMT (EUR/USD) |
| **Risk:** | 1% (2% maximum) |

**Suggestion:** Only take the Level 1 signals.

**Trade Entry Signals**
There are three types of entry signals (which are explained in detail later in this document):

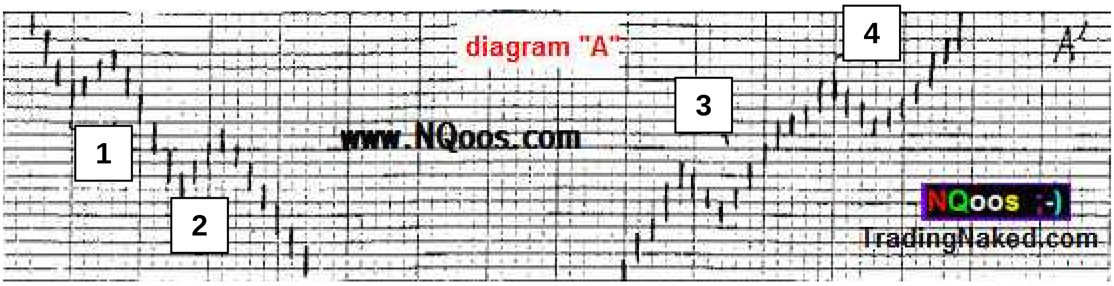
- Level 1 (L1) (a suggestion is that inexperienced traders confine themselves to L1 and L2)
- Level 2 (L2) (L2 signals may appear before L1 signals and may be utilised for same)
- Level 3 (L3) (L3 signals are not common)

**Stops**: Place a stop above or below a swing high or swing low, but no less than 15 pips away for the entry. Placing stops behind high or low swings is a good idea for any time frame *if you can manage the risk.*

## System Overview & Basics

**Retracements:**

- A retracement within a downtrend is a minor rally.
- A retracement within an uptrend is a minor decline.




In diagram "A", the areas 1 and 2 are <u>rally</u> retracements in the overall downtrend - minor rallies that ended with descents to new lows. A rally retracement has candles with higher lows

Similarly, the areas 3 and 4 are <u>decline</u> retracements in the overall uptrend - minor dips that ended with rallies to new highs. A decline retracement has candles with lower highs.

**The Price Candle Reversal after a decline retracement**: This is a BUY signal.

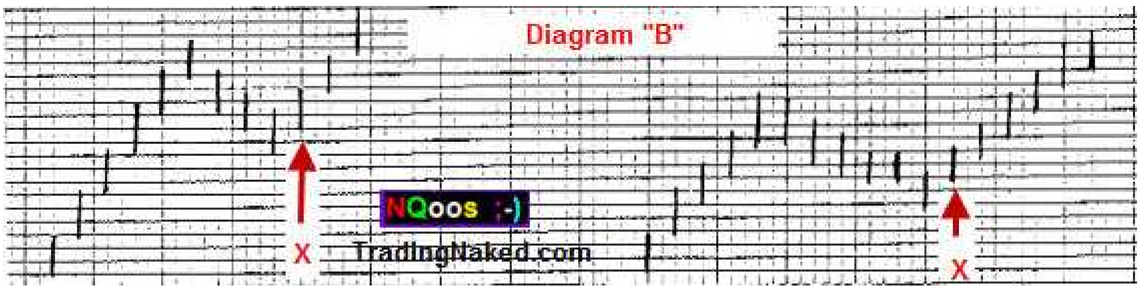


Diagram "B" shows two examples of decline retracements. The two candles marked "X" are the first candles that rally above the high of the previous candles in each of the decline retracements.

During an uptrend, traders should be alert for the formation of a decline retracement. If the Moving Averages (see later) indicate that the uptrend should resume, then the trader should buy the upside breakout (candles at "x" above) of the temporary decline.

The entry is achieved by noting the high of the previous candle relative to the current candle (x). The trader should BUY when the price of the current candle rallies above the high of the previous candle by one or more ticks.

**Stops:** a trailing sell stop would be placed and adjusted to the high of each successive descending candle - at a distance of no less than 15 pips.

**The Price Candle Reversal after a Rally Retracement**: This is a SELL signal.

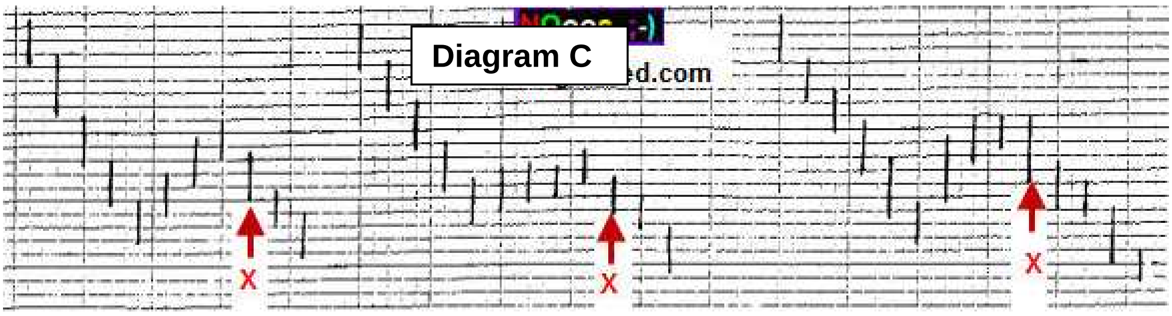
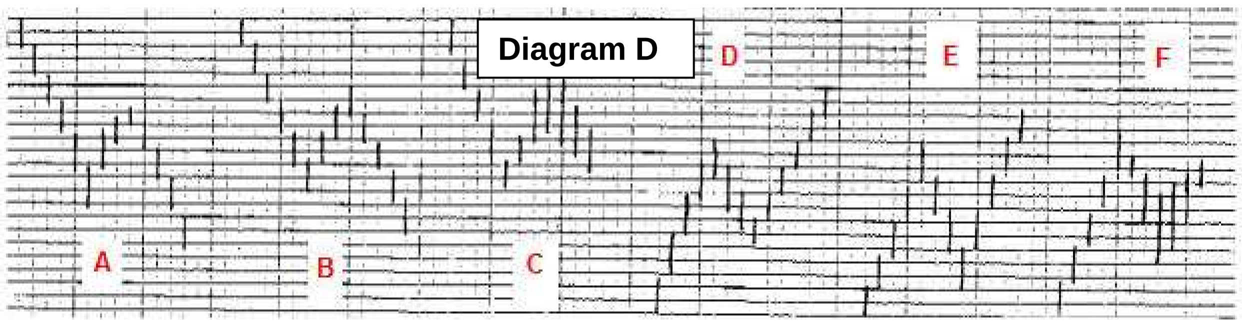



Diagram "C" shows examples of three rally retracements; the candles marked "X" trigger a short sale.

During a downtrend, traders should be alert for the formation of a rally retracement. If the Moving Averages indicate that the downtrend should resume, then the trader should sell the downside breakout (candles at "x" above) of the temporary rally.

The entry is achieved by noting the low of the previous candle relative to the current candle (x). The trader should SELL short when prices within the current candle fall below the low of the previous candle by one or more ticks.

**Stops:** a trailing sell stop would be placed and adjusted to the low of each successive ascending candle - at a distance of no less than 15 pips.




**The Number of Candles in the Retracement**

The best retracements opportunities will contain 2-5 candles before the reversal occurs. In volatile price moves a 1-candle retracement is sometimes valid.

In general, rally retracements in a downtrend will be steeper and will contain fewer candles than decline retracements in an uptrend. *A rally retracement lasting longer than six candles must be considered suspect as it could form a new uptrend*.

(Comment from forum: The only requirement is for a retracement to have a length of over 4 candles. After that it could be 6, 7 or 8, it doesn't matter. Note that more candles will generate fewer signals and, hopefully, better accuracy.)

Chart 1 below shows an example of counting the candles in a retracement.

On the chart, the letter "B" indicates the lowest low in the downtrend. However, in order for the candle at point "B" to be the lowest on the chart, we have to wait for the next candle to make sure it does not reach, or equal, the lowest price level of the previous candle (B).

From point "B" count the candles 1, 2, 3, 4 . . . these are the retracement candlesticks.


### Retracement Shape & Candle Shape

The characteristic that makes the retracement patterns ideal is their "V" shape when the candle reversal occurs. The best trades are usually from symmetrical "V" patterns.

The size of the candles in the retracement is important. The optimum formation consists of candles which become shorter in their price range as the retracement progresses. (See example "A" in diagram "D" above, for SELL entries.)

Candles of equal size are also valid, as in "B" above (Dia. D).

*Patterns with lengthening candles, as in "C" (Dia. D), are less reliable and any entry signals should be ignored. This is an area where individual judgment is needed.*

When BUYING into an uptrend, examples "D" and "E" (Dia. D) are ideal formations; however example "F" is questionable.

### Moving Average Indicators (Exponential)

Uptrends and downtrends can be identified by examining the candle formations in conjunction with two EMA's, one 9-period and one 18-period. Once the trend is identified, the trader then waits for the retracement to appear.

Recall from Basic Strategy #1, when a fast MA crosses up through a slow MA, an uptrend is expected; whereas, when the fast MA crosses the slow MA downwards, a downtrend is expected. Always check for the trend first.

**An Uptrend** is identified by:

1. The fast EMA crosses the slow EMA upwards,
2. Prices trading above both EMA's
3. The 9-EMA line is above the 18-EMA line.
4. The slope of one or both of the EMA's is upwards.

(Exception: occasionally the 9-EMA will be under the 18, but curving upward and about to cross it. This formation is allowed.)

Number 1 above is the primary identifier; prices must first trade <u>above</u> both EMA lines - subject to the two conditions below:

1. Trading above the lines should last for at least 3 candles, or
2. Trading should take place at a "significant" distance above the lines (before retracing to touch the EMA lines).

**A Downtrend** is identified by:

1. The fast EMA crossing the slow EMA downwards,
2. Prices trading below both EMA's,
3. The 9-EMA line is below the 18-EMA line.
4. The slope of one or both of the EMA's is downwards.

(Exception: occasionally the 9-EMA will be above the 18, but curving down and about to cross it. This formation is allowed.)

Point number 1 above is the primary identifier; prices must first trade <u>below</u> both EMA lines and then comply with the two conditions below:

1. Trading below the lines should last for at least 3 candles, or
2. Trading should take place at a "significant" distance below the lines (before retracing to touch the EMA lines).

**ENTRY SIGNALS**

**Trade Entry Signals**
There are three types of entry signals:

- Level 1 (L1) (a suggestion is that inexperienced traders confine themselves to this level)
- Level 2 (L2) (L2 signals may appear before L1 signals and may be utilised)
- Level 3 (L3.)

**The LEVEL 1 Buy signal:**

After determining that there is an uptrend and a decline retracement is identified, then watch for:

- Prices to trade lower and enter the zone between the 9 and 18 EMA lines, and
- One or more candles touch the 18-EMA line (or penetrate slightly below it)

Once the 18-EMA has been touched, watch the price for a rally that breaks above the high of the preceding candle by one or more ticks (the Price Candle Reversal), <u>*this is the L1 buy signal.*</u>

**The LEVEL 2 Buy signal:** (similar to the L1 signal and may appear before it)

After determining that there is an uptrend and a decline retracement is identified, then watch for:

- Prices to trade lower and they enter the zone between the 9 and 18 EMA lines, and
- However, In the L2 method, a Price Candle Reversal buy signal occurs before the 18-EMA is touched.

That is, the market begins to rally <u>without touching</u> the 18-EMA (which would normally trigger the L1 signal).

However, Level 2 buy signals are subject to the following condition:

- <u>Do not act on</u> an L2 buy signal immediately after a Cross-back Top (see below), instead, wait for a Level 1 entry signal.

**Cross-back Top** means, "If a candle's close makes a new high and the next candle reaches higher but "crosses back" and closes under the previous high".

**Cross-back Low** means, "If a candle's close makes a new low and the next candle reaches lower but "crosses back" and closes over the previous low".

**The LEVEL 3 Buy Signal:**

After determining that there is an uptrend and a decline retracement is identified, then watch for:
- Prices to trade lower but they DO NOT enter the zone between the 9 and 18 EMA lines, or the price just touches the 9-EMA line.

In this case, the market begins to rally <u>above</u> both EMA lines (or just touches the 9-EMA line) after a shallow retracement.

However, Level 3 buy signals are subject to the following conditions:
1. The Cross-back Top condition as with the L2 signal, and
2. Only ever take an L3 buy signal if it is the <u>first buy signal</u> in a new uptrend.

<u>Qualified L3 buys are not common.</u> The best ones form when the market is trading at new highs in a "runaway" rally, or in mid-range after a strong bottoming formation.

The following entry signal setups may be actioned in any order, although it is recommended for novices to act on Level 1 signals only.

**The LEVEL 1 Sell signal:**

After establishing that there is a downtrend and a rally retracement is identified, then watch for:
- Prices trade higher to enter the zone between the 9 and 18-EMA lines.
- One or more candles touch the 18-EMA line or penetrate slightly above it.

Once the 18-EMA line has been touched, watch for a price decline that breaks below the low of the preceding candle by 1 tick or more (the Price Candle Reversal), *<u>this is the L1 sell signal.</u>*

**The LEVEL 2 Sell Signal:**

This situation, when a Level 2 signal appears first, will occur during the rallies and selloffs when the price have a chance to fully retrace and touch the 18-EMA line.

- The EMA qualifiers are the same as with the L1 sell signal, and the price rallies in a retrace from below the EMA lines to enter the zone between the lines.
- However, in the L2 method a Price Candle Reversal sell signal occurs before the 18 MA is touched.

That is, the market begins to fall without touching the 18-EMA line (which would normally trigger an L1 signal).

However, Level 2 sells are subject to this condition:
- Do not act on an L2 sell immediately after a Cross-back Bottom (explained previously). Instead wait for a Level 1 signal.

**The LEVEL 3 Sell Signal:**

In this case the Price Candle Reversal takes place below both EMA lines or just touches the 9-EMA line after a shallow retracement.

Two qualifiers:
1. The Cross-back Bottom condition, as with the L2 signal, and
2. Only take an L3 sell signal if it is the first sell signal in a new downtrend.

Qualified L3 sells are the best when the market is trading at new lows in a "panic" decline or in midrange after a strong topping formation.

**Continuation Entry Signals**

Continuation <u>buy</u> signals are additional <u>buy</u> signals given after the first buy signal in the same uptrend.

Continuation sell signals are (the reverse) and are additional sell signals given after the first sell signal in the same downtrend.

*The rules are somewhat different for continuation buy and sell signals:*

**Continuation Buy Signals:** It is essential to closely monitor the first buy signal in a new uptrend for, regardless of whether or not it is taken, if this trade stalls, or returns to breakeven, DO NOT act on any additional buy signals in the current uptrend. Allow the decline retracement to develop into a confirmed downtrend and then wait for rally retracements.

If the first buy signal is a winner and a secondary buy signal appears, only act on it if its price pattern is well above the price pattern of the first buy signal, there must not be any "overlap". The trend should have a strong upward slope on the chart.

**Continuation Sell Signals:** Additional sell signals in the same downtrend can be taken with more freedom than in the case of continuation buy signals.

Continuation sell signal patterns may overlap as long as the EMA line qualifiers hold to the downtrend. However, once three Level 1 sell signals have taken place, DO NOT act on any more sell signals of any kind in the current downtrend. Wait for an uptrend cycle to occur, even if it is incomplete (discretionary?).

In general, the best trades are the first signals in a new trend. That is, the highest rate of success will be with a signal from the first retracement after an EMA crossover.

### Protective Stops

**Initial Stops:** On entry to a trade, the initial stop-loss is usually the Pattern Stop, which is the basic stop used in this method.

When a trade shows average follow-through into a profit position, the Pattern stop is placed.

A sell stop on a long position is placed 1 tick below the low price of the setup pattern.

A buy stop on a short position is placed 1 tick above the high price of the setup pattern.

If a trade "stalls" after entry, use a Pattern Extended stop, which is the width of the setup pattern multiplied by 2, in most cases. Sometimes the width is measured by the pattern before the entry, sometimes the pattern width is measured after trade entry, and includes the distance reached before the stall and reverse.

### Going to Breakeven:

Once the trade is in profit and moves a distance of two times the setup pattern, the stop is moved to breakeven.

### Profit Targets

### Conservative Strategies:

1. Once a trade is in profit, one exit method is to look for "V" reversals in the other direction to signal a possible exit.

To provide greater accuracy, these reversals may be monitored on a smaller time frame than that of the trade entry chart - especially if volatility increases after entry. For example, a profitable entry on a 5-minute chart may be monitored on a 3-minute chart for a reversal exit.

2. Another strategy is to watch the market action as prior price wave tops (if long) and prior price wave lows (if short). If a "V" forms and prices reverse, an exit may be needed (at market).

### A Possible Method for Extended Profits:

If a long position shows an increasing profit, a strategy to take advantage of a possible large move is a sequential process as follows:

1. Leave the initial breakeven stop in place.
2. Hold on though the first "V" decline retracement (as long as the break-even stop is not reached).
3. Watch for the formation of ascending prices; higher highs with higher lows. When the first one forms, move the break-even stop up to a position 1 tick under the low of this rally; if another clearly-defined rally forms later, move the <u>sell</u> stop 1 tick under this one as well.
4. Watch the market action at the current day's high. Drop down to a smaller timeframe, say, a 2-minute chart, if day-trading indices (what about FX?).
5. If the market makes a new high, then "crosses back" to close below the high price candle, watch the low reached on this retracement. Move the <u>sell</u> stop to a position 1 tick below this low once it is formed. This strategy, though complex, will reduce of the desire to take profits prematurely.
6. If the day's high is surpassed (when?), check for important price tops (resistance) on longer-term charts, i.e., 15-minute, 30-minute, even daily, for highs reached on previous days. Apply the same cross-back <u>sell</u> rules to these levels as well.

Trading with multiple contracts gives more flexibility. Part of the position can be exited conservatively, while the remainder can be held to let profits run.

The "extended" strategy is nearly the same for winning <u>short</u> sales in a declining market. Make the appropriate substitutions in the above directions.

**One exception:** rally retracements in downtrends tend to carry further than decline retracements in uptrends. Buy stops should give the price more room to move in order to avoid exiting too soon on a temporary sharp and short rally.

**Examples of the system used on a daily chart** (On the forum, there have been adverse comments about the efficacy of the system on charts with time-frames greater than 1-hour).

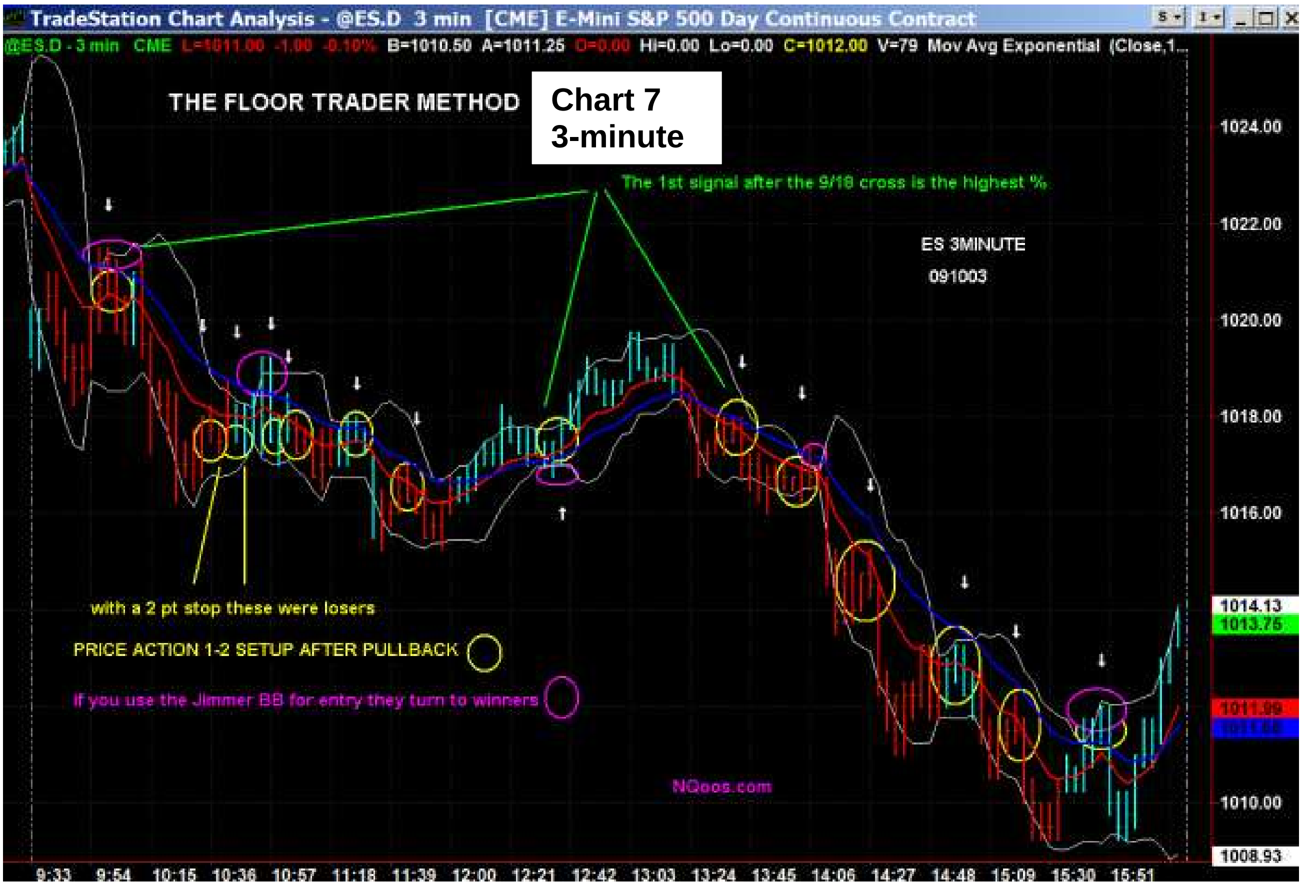
# Floor Trader System

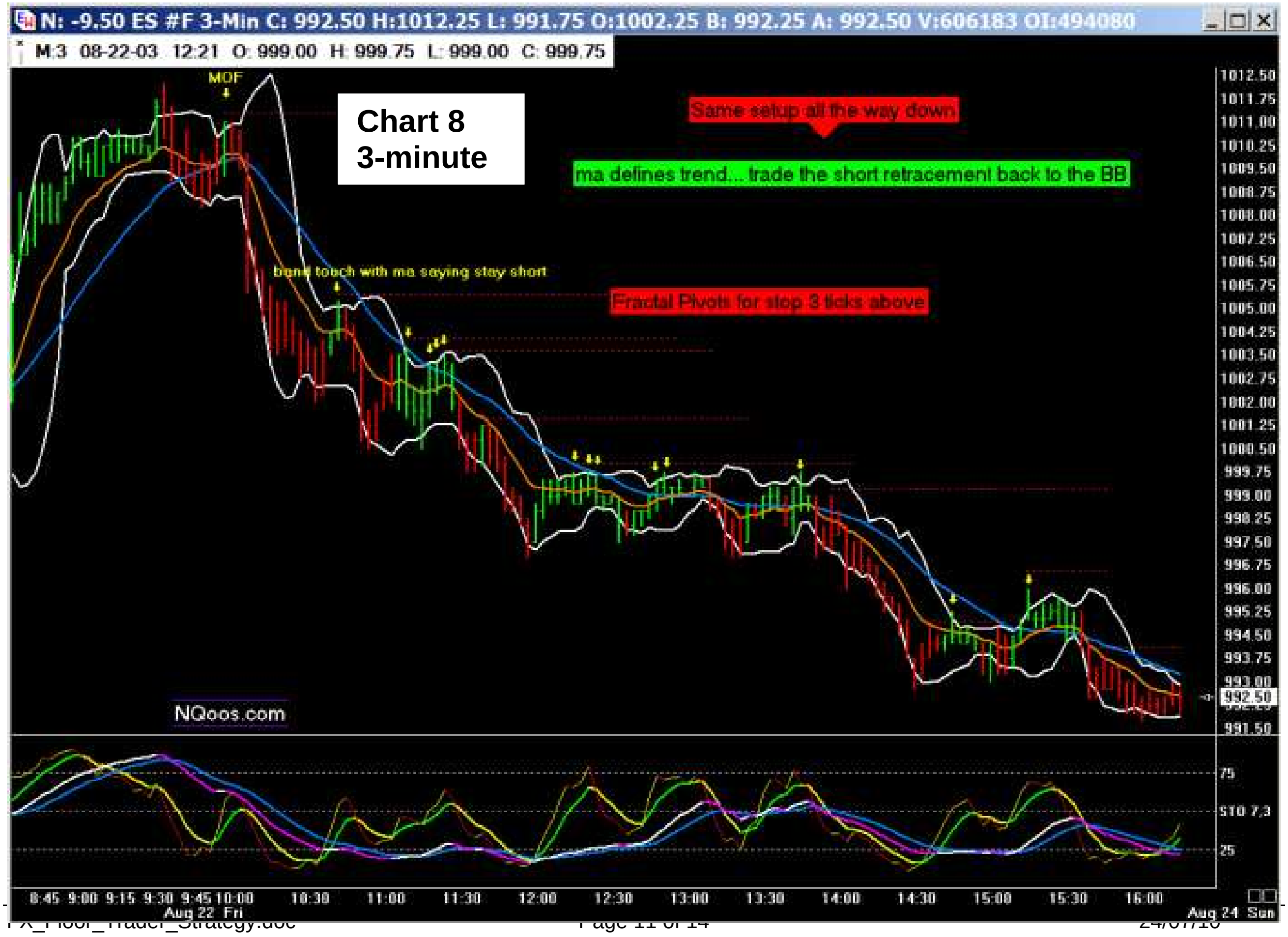
("Forex Strategies Revealed" - Advanced System #13)

Examples of "Pattern Stops" are indicated by the circles on the chart below. The stop is placed below the candles circled.

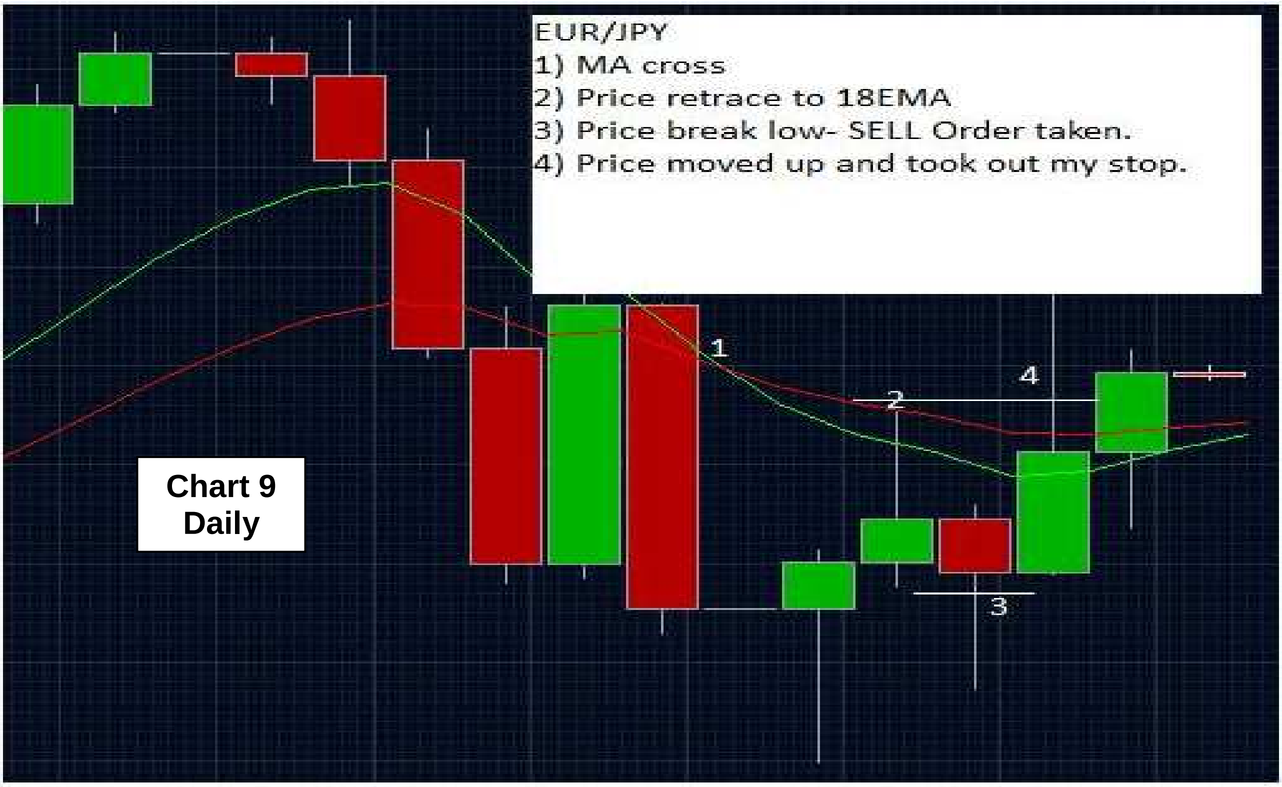


On the last two screenshots you can notice that Bollinger bands has been added to guide the entries. The settings for Bollinger bands are believed to be (8, 1.8)


TradeStation Chart Analysis - @ES.D 3 min [CME] E-Mini S&P 500 Day Continuous Contract
THE FLOOR TRADER METHOD
Chart 7
3-minute
The 1st signal after the 9/18 cross is the highest %
ES 3MINUTE
091003
with a 2 pt stop these were losers
PRICE ACTION 1-2 SETUP AFTER PULLBACK
If you use the Jimmer BB for entry they turn to winners
NQoos.com

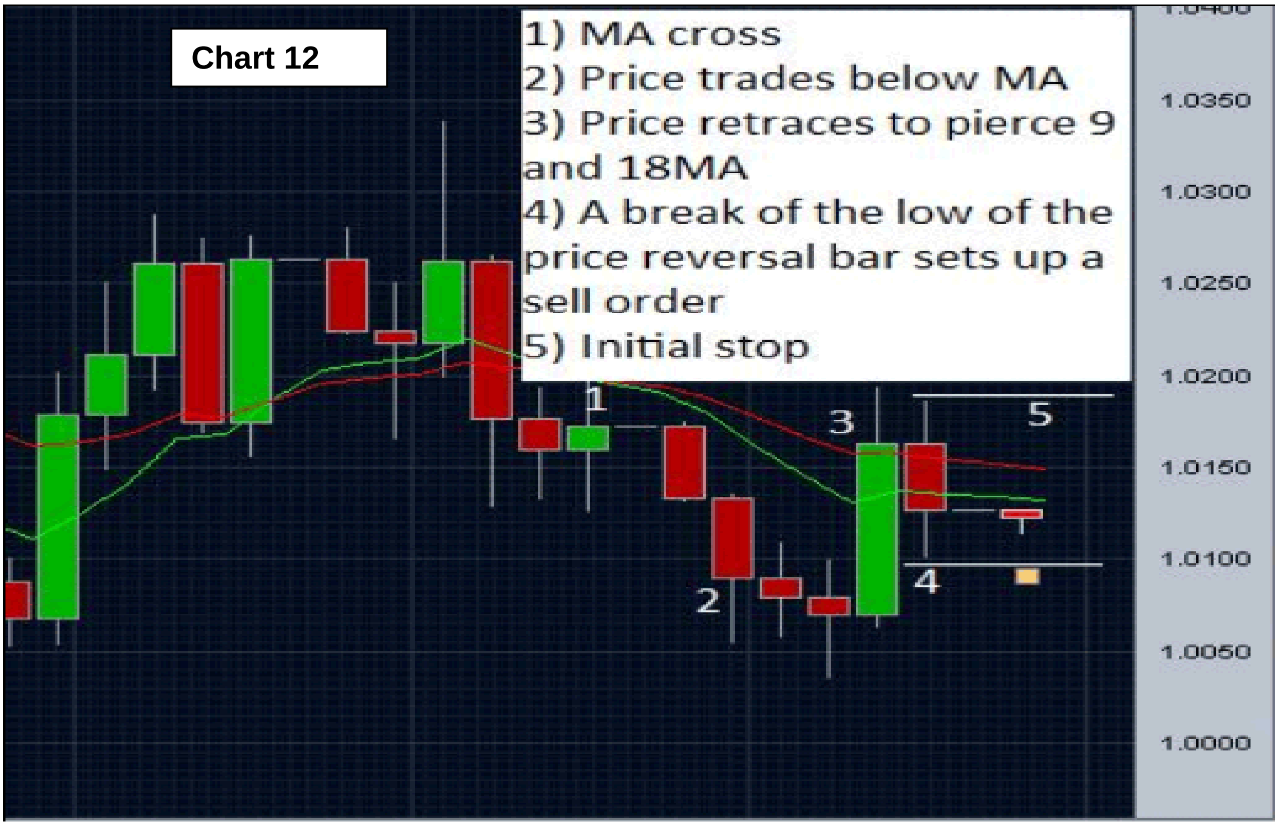

N: -9.50 ES #F 3-Min C: 992.50 H:1012.25 L: 991.75 O:1002.25 B: 992.25 A: 992.50 V:606183 OI:494080
M:3 08-22-03 12:21 O: 999.00 H: 999.75 L: 999.00 C: 999.75
MOF
Chart 8
3-minute
Same setup all the way down
ma defines trend... trade the short retracement back to the BB
band touch with ma saying stay short
Fractal Pivots for stop 3 ticks above
NQoos.com

Example of a trade that did not work on a daily chart – don't use daily charts, stick to 5-minutes.




Example of an active trade.

Examples of trade set-ups.


Oct 24
Oct 31
Nov 07
Nov 14
N
Chart 13
Daily
Notes: Daily time frame
USD/CAD
1) MA cross
2) Price trades below
9/18 MA
3) Price Reversal Bar-
pierced 18MA
4) Sell order placed
below low of PRB
5) Initial stop
1
2
3
4
5
1.1200
1.1100
1.1000
1.0900
1.0800
1.0700
1.0600
1.05240
1.0500
1.0400
1.0300
1.0200