A Guide to Signals Generated by the Software and Suggested Trading Strategies

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A Few Notes About Our Charts

**Price Exhaustion Signals:** The software generates price exhaustion signals by inserting pink indicators on the charts that we share with you. These indicators are statistically significant for 15-25 bars, but are often relevant for as many as 50 or more bars. These signals show up on our charts when the software thinks a trend is coming to an end and often occur at the point when momentum starts waning. Sometimes that leads to an immediate reversal in price. Other times it will result in topping or bottoming patterns beginning to form as soon as those signals appear. For example: we quite often see these signals on the top (or bottom) of a left shoulder on a head and shoulders (or inverse head and shoulders) pattern. So it is important to understand that these signals do not always occur at the highest or lowest prices. They are more of an indicator of when the previous price move is coming to an end. We get these signals on charts as small as 1 minute charts, and as large as monthly charts. Each signal has a back-tested statistical significance of 15-25 bars. So if a signal appears on 5 minute chart, it is significant for 75-125 minutes (15-25 bars x 5 minute bars). If a signal appears on a 60 minute chart, it is significant for 15-25 hours. Please note that these timeframes are averages. Quite often these signals last much longer (as many as 50+ bars), and sometimes they are much shorter (as few as 2-5 bars). Some of the signals generated by the software provide us with a more precise signal duration (this is discussed below).

**Compression Signals:** The Software also attempts to identify the beginning of new trends by inserting blue indicators on the charts we share with you. These signals indicate that a big move is brewing and are also statistically significant for 15-25 bars, but are often relevant for as many as 50 or more bars. Straddles or strangles are very successful trading strategies to use with these signals. Additionally, trading the breakout above resistance or breakdown below support are also great ways to trade compression signals.

**Support and Resistance Levels:** The software displays historically significant support and resistance levels and attempts to identify when these levels will hold and when they will break. We have found that if price stops just shy of support or resistance, then for the next few bars, price has a significantly higher probability of NOT crossing over the line on a closing basis. This indicator is best used as a short term trading tool to fade the support or resistance level. Additionally, trading the breakout above resistance or breakdown below support are also great ways to trade using the support and resistance levels.

*A Sample Chart:*

- **Blue Bar:** compression – trend is about to begin
- **Pink Bar:** Extension – previous trend is ending
- **Dark Brown Dots:** support – currently at 1203
- **Red Dots:** resistance – currently at 1495

Notes: support and resistance levels are shades of **Green** during uptrends and red during downtrends. The “99” that appears above the blue and pink bars means that the software is 99% confident that the signal is accurate.
**Signal Durations**

Certain signals generated by the software provide a specific duration and others do not. If a signal (either a compression or an extension) has a magnitude number above the bar (between 1.0 and 7.5), then the software is able to tell us exactly how long the signal’s duration is statistically significant. On the two pages that follow, a conversion chart is provided to help subscribers convert the signal magnitude indicator into an estimated signal duration. If a magnitude indicator is not provided, then subscribers should assume that the signal will be valid for an average of 15-25 bars (so 75-125 minutes on a signal from a 5 minute chart, or 15-25 hours on a signal from a 60 minute chart).

Example:

In the above example, the software generated a magnitude 2.9 top signal which is valid for 7.5 trading hours – the top signal occurred at 12:30PM – exactly 7.5 hours later a bottom signal was generated at 8:00PM.
Signal Magnitude to Duration Conversion Chart for Stocks (trading between 9:30AM – 4:00PM EST):

| Mx | 20.00 | 23.57 | 27.77 | 32.79 | 36.87 | 45.46 | 53.57 | 63.14 | 74.41 | 87.69 | 103.34 | 121.78 | 145.52 | 165.14 | 196.33 | 234.91 | 276.84 | 326.25 | 384.48 | 453.11 | 526.25 | 592.18 | 658.63 | 731.38 | 823.09 | 920.96 | 1031.19 | 1153.85 | 1306.51 | 1485.85 | 1686.76 | 1918.78 | 2184.38 | 2510.80 | 2880.05 | 3300.04 | 3839.51 | 4548.38 | 540.19 | 685.61 | 768.75 | 896.74 | 1009.84 | 1205.00 | 1376.58 | 1710.15 | 2078.49 | 2505.05 | 3076.73 | 3695.08 | 4408.61 | 5285.58 | 6258.08 | 7367.08 | 8582.85 | 1022.59 | 1205.00 | 1421.74 | 1674.08 | 1975.15 | 2326.29 | 2741.20 | 3250.03 | 3807.26 | 4456.08 | 5285.58 | 6258.08 | 7367.08 | 8582.85 | 1022.59 | 1205.00 | 1421.74 | 1674.08 | 1975.15 | 2326.29 | 2741.20 | 3250.03 | 3807.26 | 4456.08 | 5285.58 | 6258.08 | 7367.08 | 8582.85 |
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- Mx refers to the magnitude of the signal.
- Duration (in minutes) is calculated for each Mx value.
- The table provides values for the duration of the signal magnitude for stocks trading between 9:30AM and 4:00PM EST.
Signal Magnitude to Duration Conversion Chart for Futures (GLOBEX trading hours):

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Note: The table continues with more entries, but it is truncated here for brevity.
Trading Strategies

In this section we will explain a number of trading strategies for the two primary signals we will be sharing with you: Price Extension Signals and Compression Signals.

Price Extension Signals:

As a reminder, price extension signals appear as pink bars on the charts that we will share with you. These signals show up on our charts when the software thinks a trend is coming to an end and often occur at the point when momentum starts waning. The two primary strategies to trade these signals are MACD crosses and Log Periodic Cycles. We discuss entry and exit strategies below.

Enter on MACD crosses: typically when we trade the signals provided by the software, we look for some kind of confirmation that the signal is accurate prior to entering the trade. One of the easiest ways to identify that momentum is shifting is to look for a MACD cross. For example, if we see a bottom signal on a 5 minute chart, we like to see a bullish MACD cross on a 1 minute chart prior to establishing a long position. If we see a bottom signal on a 10 minute chart, we like to see a bullish MACD cross on a 5 minute chart prior to establishing a long position. MACD will often confirm what the software is telling us by indicating that momentum is shifting.

Enter on Log Periodic cycles: you may have noticed that many of the charts that we post contain little “T’s” and “B’s” above and below certain bars. These signals illustrate the log periodic cycles (time-based interim tops and bottoms) that the software expects after a price extension signal is generated. One of the best strategies we can recommend is going long after the first or second “B” on a bottom signal or going short after the first or second “T” on a top signal – especially if the B is above the price level of the bottom signal or the T is below the price level of a top signal. This will provide some assurance that the signal is accurate and will increase the probability of a successful trade.

Note the chart below and the difference between going long on the bottom signal vs. going long on the first or second “B.” While the entry price is similar, the amount of heat taken going long on the second B is nil.
Stops:

The software provides great support and resistance levels which we suggest using for stops. In the example below, the software generated a top signal on TLT and provided a resistance level of $107.91. As a result, stops on this short trade should be placed around $108.00.

Exits: Knowing when to exit a trade is just as important as knowing when to enter. Two good exit strategies include exiting when an opposite signal appears, and scaling out at support and resistance levels. A good point to begin to exit a long trade that was purchased on a 10 minute bottom signals would be when a 5 minute top signal is generated. Using a 10 minute bottom signal to begin to exit a short trade that was initiated on a 20 minute top signal would be an equally good point. While it sometimes might make sense to wait until an opposite signal appears on the same scale as the signal that the trade was initiated on, more often than not we prefer to begin to exit the trade when an opposite signal appears on a scale that is slightly smaller than the scale that got us into the trade. Scaling out of a trade at resistance levels is also a good strategy. Quite often we notice that when a top signal is generated, the instrument will drop back to support and then reverse course. As a result, we employ this strategy because the software will not always generate a bottom signal before a trend reversal back up.
Compression Signals:

As a reminder, compression signals attempt to identify when new trends are beginning (in direct contrast to the price exhaustion signals that attempt to identify when trends are ending). The compression signals appear as blue bars on the charts that we will share with you and indicate that a big price move is about to occur. The two primary strategies to trade these signals are Entering on a Breach of Breakout / Breakdown Levels and Entering with a Straddle or Strangle. We discuss entry and exit strategies below.

**Entering on a Breach of Breakout / Breakdown Levels:** When we see compression signals in the software, it also provides us with a breakout or breakdown level for that signal. A great strategy to use on these signals is to go long on a breakout above the resistance level or go short on a breakdown below the support level.

**Enter with a Straddle or Strangle:** For options traders, one of the highest probability trades that this software can provide is to put on a straddle or strangle based on a compression signal. For 1 minute-scale, 5 minute scale and 10 minute scale compressions, this strategy is less effective. However when compression signals appear on 30 minute-scale, 60 minute-scale, daily-scale or weekly-scale charts, straddles or strangles are excellent strategies to trade those signals.

**Exits:** For compression signals, we prefer to exit the trade when we see a top or bottom signal on the same scale as the compression. Quite often the trend will continue until a signal appears on the same scale as the original compression signal.

A couple of shorter term and longer term examples of trading compression signals are provided below.

**Beware of Headfakes:** Compression signals are notorious for headfaking a move down before breaking higher or headfaking up before dropping. As a result, subscribers should be aware of this phenomenon and use stops prudently if playing a compression breakout or breakdown.
A Few Trading Tips

1) When trading these signals, it is critical to match your trade duration to the signal duration. Please remember that the signals are valid for approximately 15-25 bars. So if you are trading a 120 minute scale bottom signal on Google, you should be prepared to hold your trade for at least 30-50 trading hours (5-10 days). That means if you’re an options trader, don’t buy weekly calls - buy monthlies. However if you are trading a 5 minute scale bottom signal on Google, you should be prepared to exit your position after an hour or two. That means options trader shouldn’t buy calls that are two months out, but instead buy weeklies. Again, it is key to match your trade duration to the signal duration.

2) When you see a bottom signal, please remember that the signal may not mark the absolute lowest price. It will mark the end of a downward move. So price may bounce, then dip and form a double bottom, then skyrocket. It may go lower, and then bounce. And it may just keep going down if the signal is not accurate (or if there is a larger opposite signal – for example: if there is a 120 minute top signal and then a 5 minute bottom signal, the 5 minute bottom signal will often just result in a dead cat bounce – or no bounce at all). And please remember that these signals are often early. So how do you trade these signals? First, don’t go all in as soon as you see the signal. Second, look for some confirmation that the signal is accurate – like a MACD cross. Third, develop a trade plan for that signal. Scale into your position. Let the signal shape your bias. If it’s a bottom signal, start buying dips. If it’s a top, start shorting pops. Look at the chart of AAPL below. If you just went all in as soon as that first bottom signal appeared and set a 5 or 10 point stop, you would have been stopped out, lost money and would think that the software didn’t work. But if you waited, let it shape your bias to get long, looked for confirmation like a MACD cross, scaled into your position slowly with July or August calls, bought every dip, and scaled out of part of your position as it hit resistance, you would have done great.
Another great way to trade the signals in the software is to fade the support and resistance levels provided by the software. Conversely, buying breakouts above resistance and breakdowns below support is also a great trading strategy. You don’t even need top and bottom signals to do this. Here’s a great example, again with Apple. Look at the blue arrow on 7/16. Apple dropped to support (and note the software put that support level there a day earlier), and bounced heavily right off it. In just one day it bounced 7 points off that support level. There was no major bottom signal – it just hit support and took off. If you were looking to get long, that would have been a good entry point. Now look at the red arrow on 7/17. Apple hit resistance (again, that level was put there 2 days earlier), and then dropped 4 points. If you were long, scaling out at that resistance level would have been a smart thing to do. And if you were looking to get short for a quick scalp, that level would have been a good place to do it. Finally, look at the last red arrow on the chart. $422 was a support level that the software had in place from days earlier. Once that level broke, it dropped 3 points. With these techniques, you can use these support and resistance levels to help guide your trades.