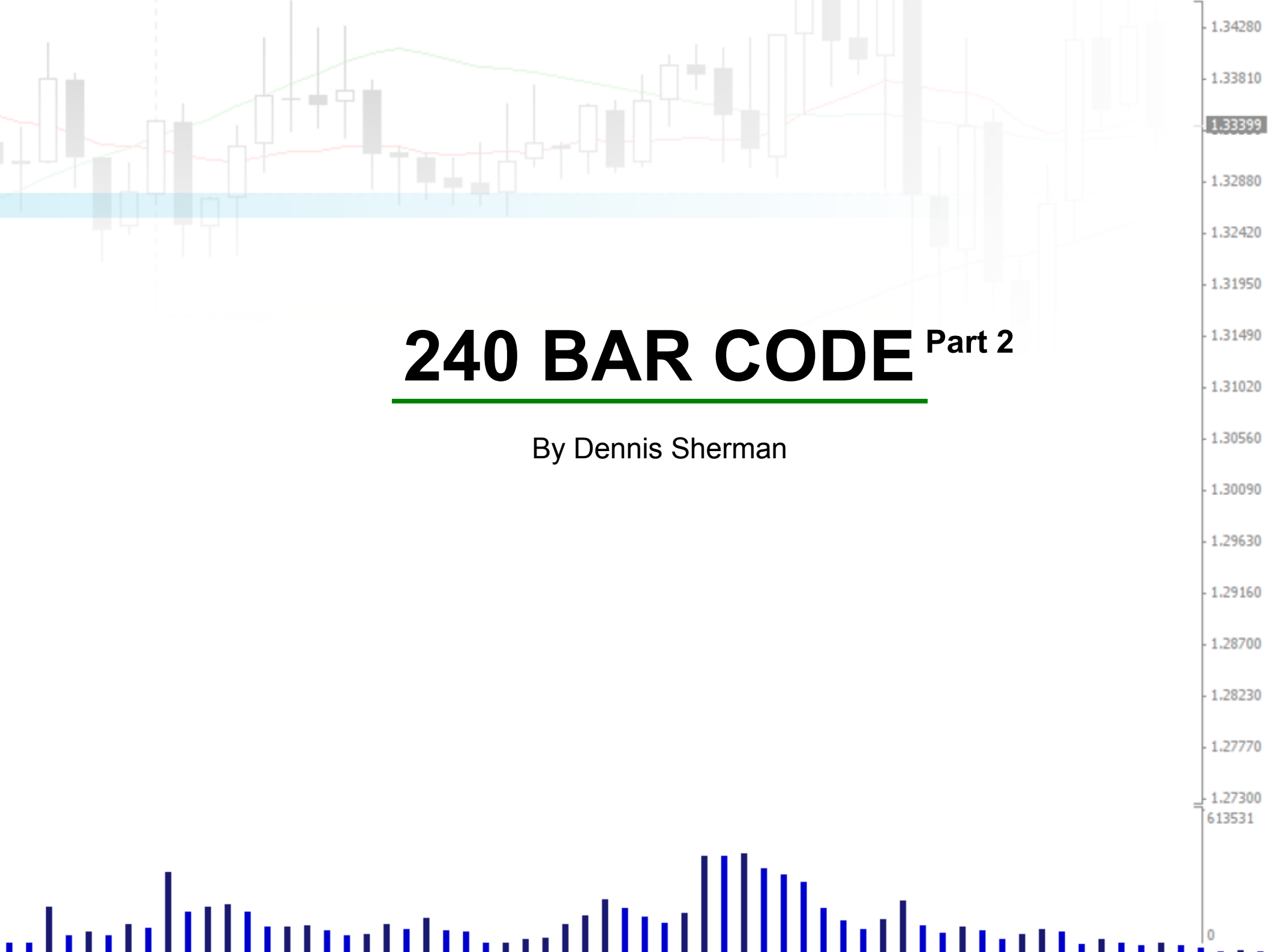
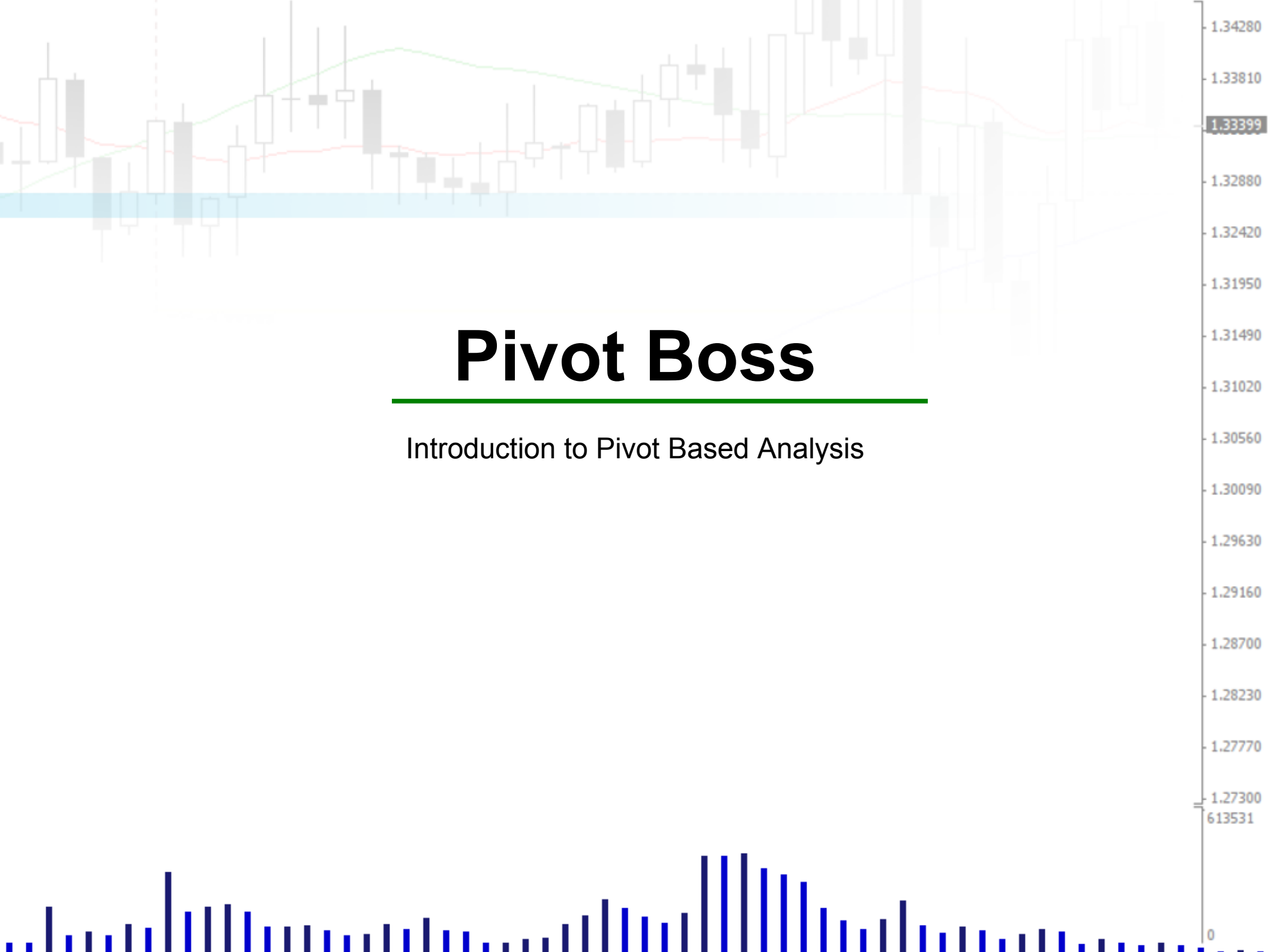


240 BAR CODE Part 2

By Dennis Sherman



Pivot Boss

Introduction to Pivot Based Analysis

Pivot Boss

2-Day Pivot Range Relationship (Recap)

TWO-DAY PIVOT RANGE RELATIONSHIPS

Two-Day Pivot Relationships	
Higher Value	Bullish
Overlapping Higher Value	Moderately Bullish
Lower Value	Bearish
Overlapping Lower Value	Moderately Bearish
Unchanged Value	Sideways/Breakout
Outside Value	Sideways
Inside Value	Breakout

TABLE 6.2: Two-Day Relationships

HIGHER VALUE

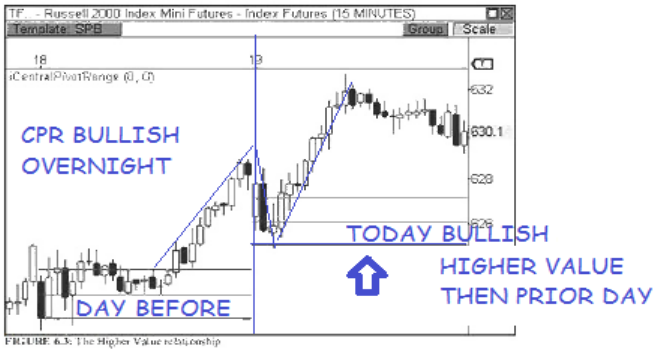


FIGURE 6.3: The Higher Value relationship

LOWER VALUE

FIGURE 6.5: You must let the market prove each relationship through the day's opening price.

OVER LAPPING HIGHER VALUE

FIGURE 6.6: The Overlapping Higher Value relationship

2 DAY UN-CHANGED VALUE

FIGURE 6.11: Unchanged Value relationship

OUTSIDE VALUE

FIGURE 6.12: Outside Value relationship

LOWER OVER LAPPING VALUE

FIGURE 6.8: Overlapping Lower Value relationship

INSIDE VALUE

FIGURE 6.13: The Inside Value Relationship is the most explosive relationship.

Pivot Boss

The Central Pivot Range (CPR)

The CPR is the heartbeat of Floor Pivots. Mark Fisher introduced the Concept of CPR in His Book the Logical Trader and he gave relevant's to the daily central Pivot (PP). Frank Ochoa added another dimension to the daily Pivot where TC is top central pivot and BC is bottom central Pivot and Pivot is central pivot point (PP)

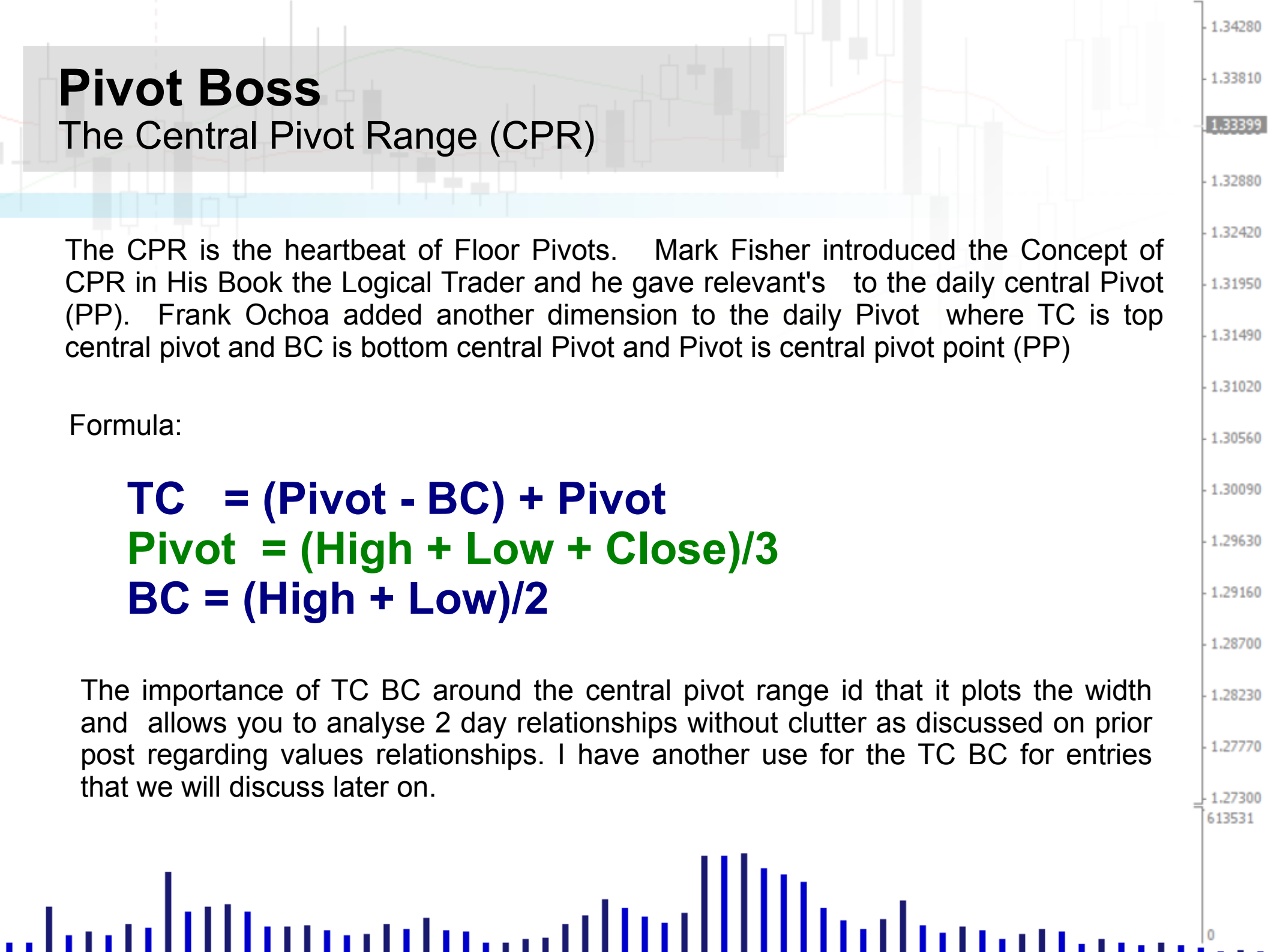
Formula:

TC = (Pivot - BC) + Pivot

Pivot = (High + Low + Close)/3

BC = (High + Low)/2

The importance of TC BC around the central pivot range id that it plots the width and allows you to analyse 2 day relationships without clutter as discussed on prior post regarding values relationships. I have another use for the TC BC for entries that we will discuss later on.



Pivot Boss

Higher Value Relationship

Figure 6.3 shows a fifteen-minute chart of the E-Mini Russell 2000 futures contract when a two-day Higher Value relationship developed.

Notice that the TF closed the prior day above its pivot range and opened the current day above the central pivot point and pulled back early in the day. This pull-back was met with responsive buying participation at the bottom of the pivot range, which sparked another move to new highs within the current uptrend.

This is a textbook "buy the dip" opportunity using the central pivot range to trigger your entry. Once in the trade, you are looking for price to reach a new high, usually at RI or R2 resistance.

FIGURE 6.3: The Higher Value relationship

Pivot Boss

Higher Value Relationship

In Figure 6.6, First Solar, Inc. clearly opened the day with a gap above the day's central pivot range, which was clearly bullish. Typically, you will look to buy a pull-back at the central pivot range ahead of a push to new highs.

However, in this case, price opened beyond the prior day's range and value, which is clearly a breakout opportunity. When this occurs, you look for signs of bullish confirmation and enter the trade in the direction of the break in hopes of riding the trend as long as possible

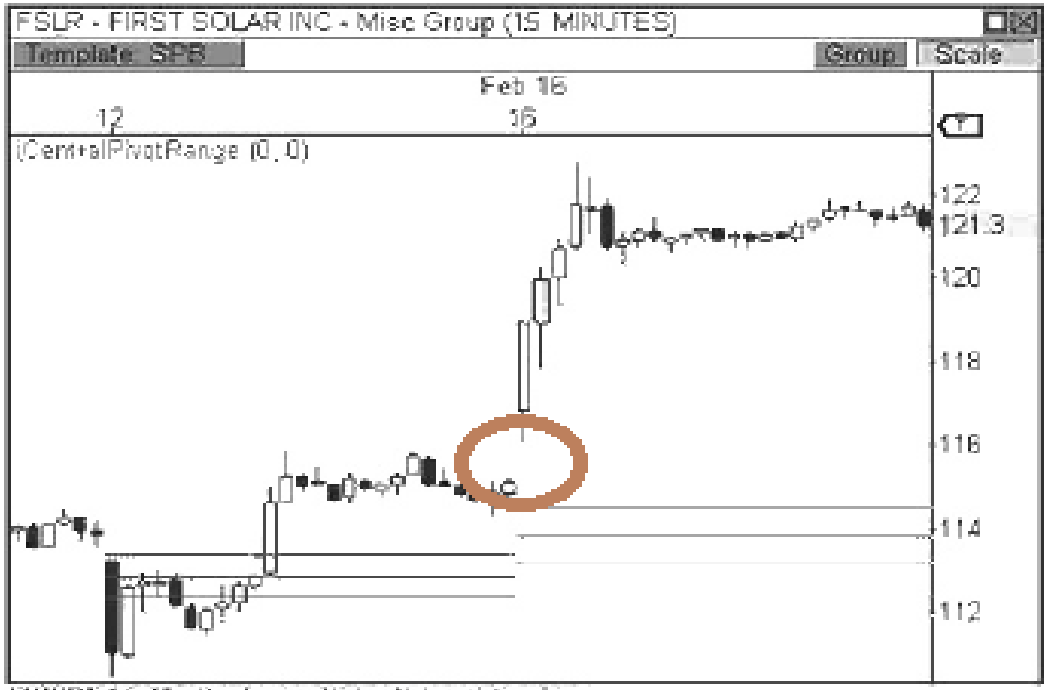


FIGURE 6.6: The Overlapping Higher Value Relationship

Pivot Boss

Failed Higher Value Relationship

Figure 6.5 shows a fifteen-minute chart of the E-Mini NASDAQ 100 futures contract on a day when a Higher Value relationship is present in the market.

FIGURE 6.5: You must let the market prove each relationship through the day's opening price.

The fact that price closed above its pivot range in the prior session in addition to the Higher Value relationship indicated that continued strength should be seen the following day, as long as price opened above the bottom of the pivot range. However, the opening print rejected the bullish directional bias by opening well below the pivot range, adding a very bearish tilt to the morning. When this occurs, you must observe price to pivot behavior as a test occurs at the pivot range. A rejection at the pivot range should yield another round of selling pressure that pushes price to new lows, which was the case in this instance.

Pivot Boss

Lower Value Relationship

The next type of pivot range relationship is the Lower Value relationship, which occurs when the current day's pivot range is completely lower than the prior session's range. This is the most bearish two-day relationship and typically leads to further weakness should the current day's opening price confirm the directional bias. If price opens the session below the central pivot range, you will look to sell any pull-back to the range ahead of a drop to new lows within the current trend. Let's take at look at

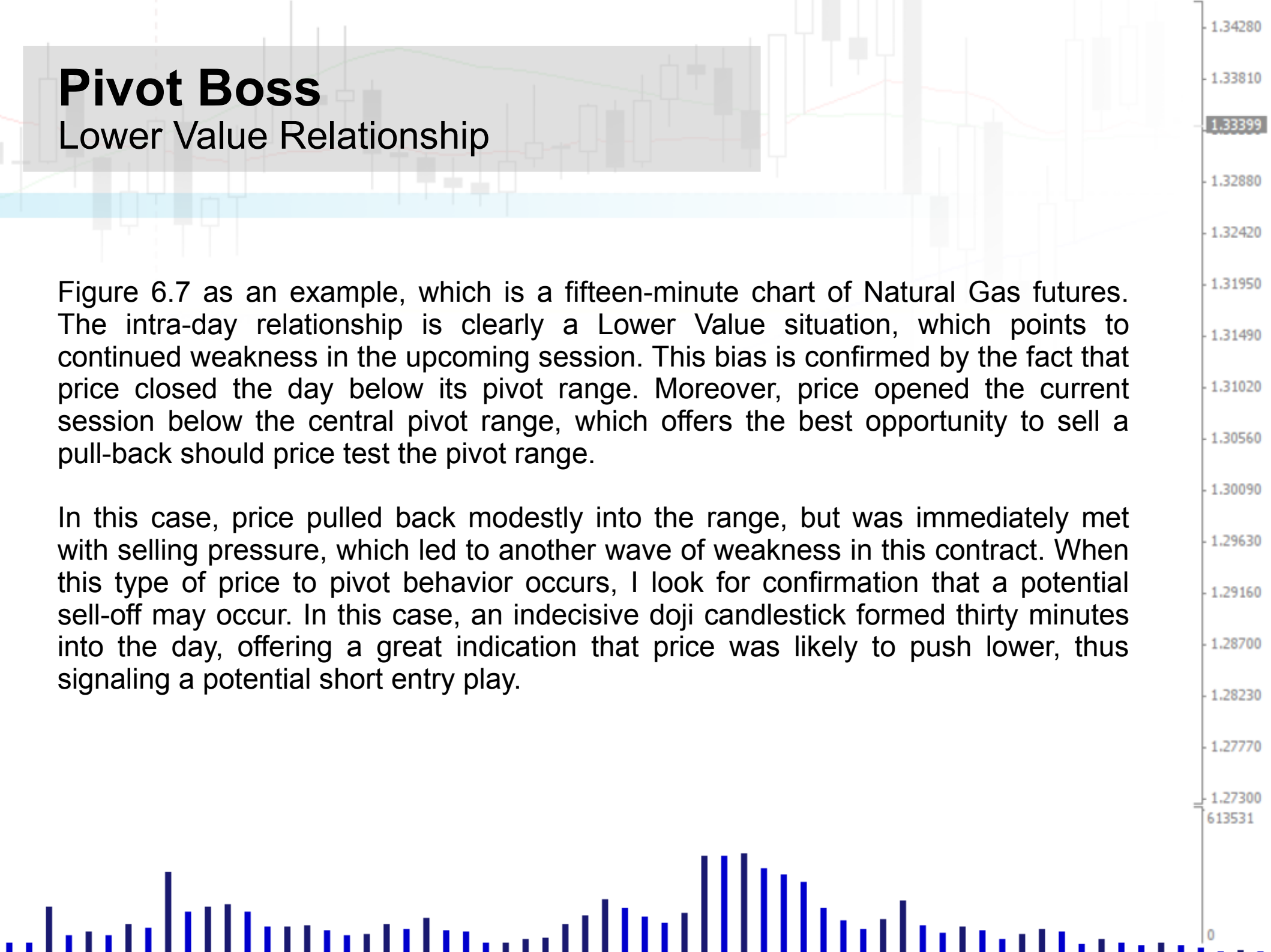
FIGURE 6.7: The Lower Value relationship

Pivot Boss

Lower Value Relationship

Figure 6.7 as an example, which is a fifteen-minute chart of Natural Gas futures. The intra-day relationship is clearly a Lower Value situation, which points to continued weakness in the upcoming session. This bias is confirmed by the fact that price closed the day below its pivot range. Moreover, price opened the current session below the central pivot range, which offers the best opportunity to sell a pull-back should price test the pivot range.

In this case, price pulled back modestly into the range, but was immediately met with selling pressure, which led to another wave of weakness in this contract. When this type of price to pivot behavior occurs, I look for confirmation that a potential sell-off may occur. In this case, an indecisive doji candlestick formed thirty minutes into the day, offering a great indication that price was likely to push lower, thus signaling a potential short entry play.



Pivot Boss

Failed Lower Value Relationship

Take a look at Figure 6.9, which is a fifteen-minute chart of Research In Motion, Ltd. It shows a two-day Lower Value relationship. Notice that the opening print did not confirm the bearish directional bias of the two-day relationship. Instead, price opened the day above the central pivot range and beyond the prior day's price range, which is emphatically bullish. This is a perfect example of a drastic shift in market sentiment occurring overnight.

When this occurs, initiative participants are extremely eager to push price to new value, which sparks a major move in the direction of the break, which was up in this case.

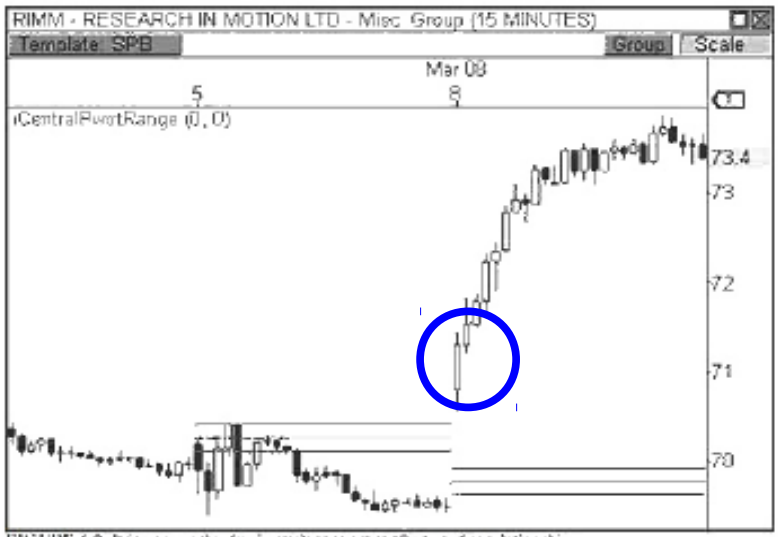


FIGURE 6.9: Price opens the day in stark contrast to the two-day relationship

Pivot Boss

Overlapping Lower Value Relationship

Take a look at Figure 6.10, which is a fifteen-minute chart of Baidu, Inc. (ticker: BIDU) that shows a clear Overlapping Lower Value relationship. In this case, price opened the day below the pivot range, essentially accepting a bearish directional bias. If price were to rally into the pivot range, there is a good chance that the advance would be met with selling pressure, thus allowing you to sell a pull-back ahead of a potential push to new lows.

FIGURE 6.10: Overlapping Lower Value relationship

In the chart, BIDU opened the day with a highly bearish gap that occurred beyond the prior day's price range, essentially sparking a bearish breakaway opportunity, which confirmed the bearish nature of the two-day relationship.

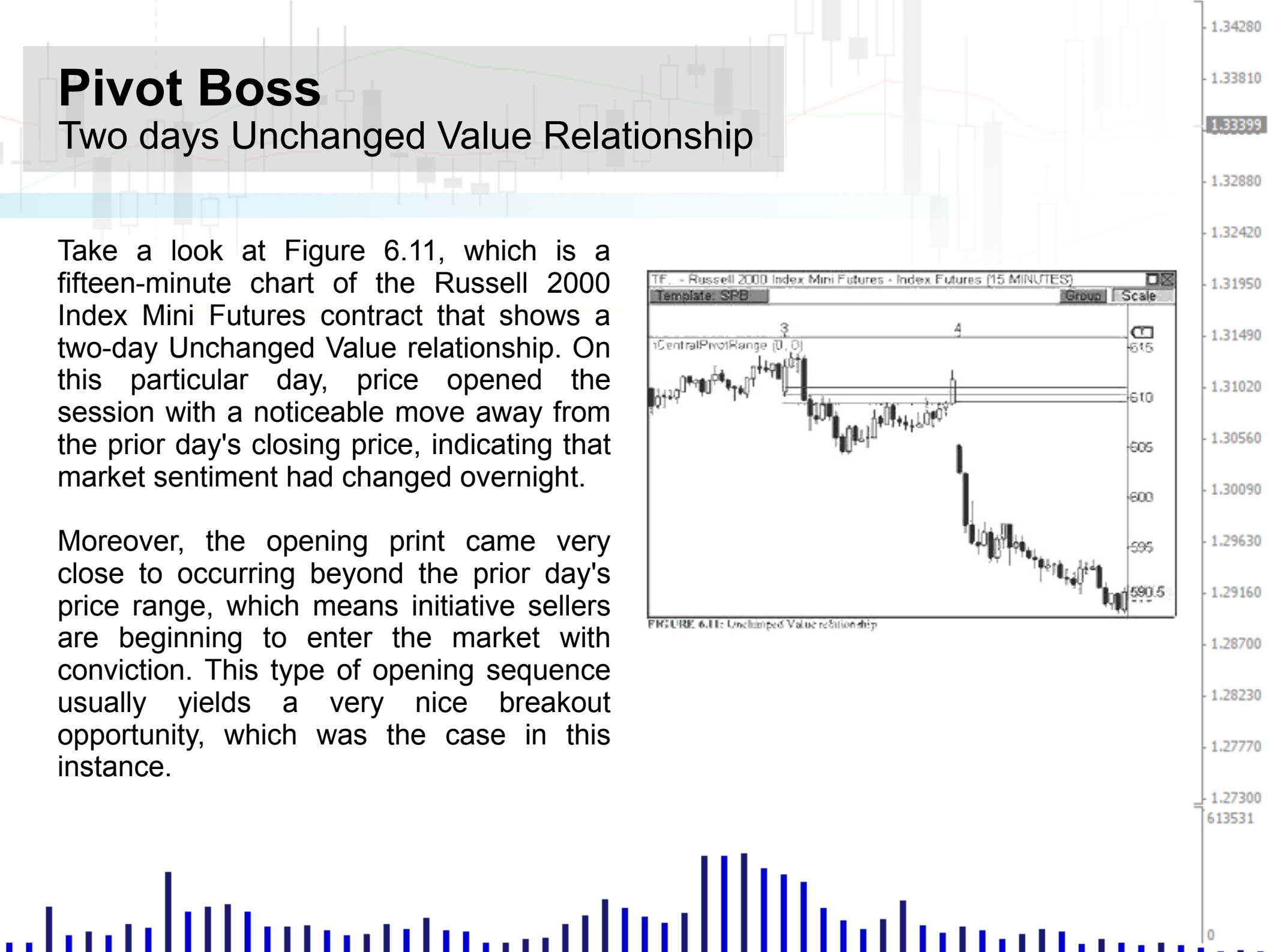
Pivot Boss

Two days Unchanged Value Relationship

Take a look at Figure 6.11, which is a fifteen-minute chart of the Russell 2000 Index Mini Futures contract that shows a two-day Unchanged Value relationship. On this particular day, price opened the session with a noticeable move away from the prior day's closing price, indicating that market sentiment had changed overnight.

FIGURE 6.11: Unchanged Value relationship

Moreover, the opening print came very close to occurring beyond the prior day's price range, which means initiative sellers are beginning to enter the market with conviction. This type of opening sequence usually yields a very nice breakout opportunity, which was the case in this instance.



Pivot Boss

Outside Value Relationship

Figure 6.12 shows a fifteen-minute chart of Silver futures on a day when the pivot range completely engulfs the prior day's range. Notice that price basically traded quietly sideways throughout the day, as opposed to the wide-ranging day in the prior session. When this two-day relationship develops, I will usually stand aside and look for a better opportunity in a different market, as the conviction necessary for intraday movement is clearly not present.

FIGURE 6.12: Outside Value relationship

The lone exception is when a clear trading range environment has formed, which can then offer nice intraday moves within the boundaries of an established range. One last thought, this relationship is much more telling if the current day's pivot range is significantly wider than the prior day's range. Otherwise, merely engulfing the prior day's range without the necessary width may lead to the same result, but with less accuracy.

Pivot Boss

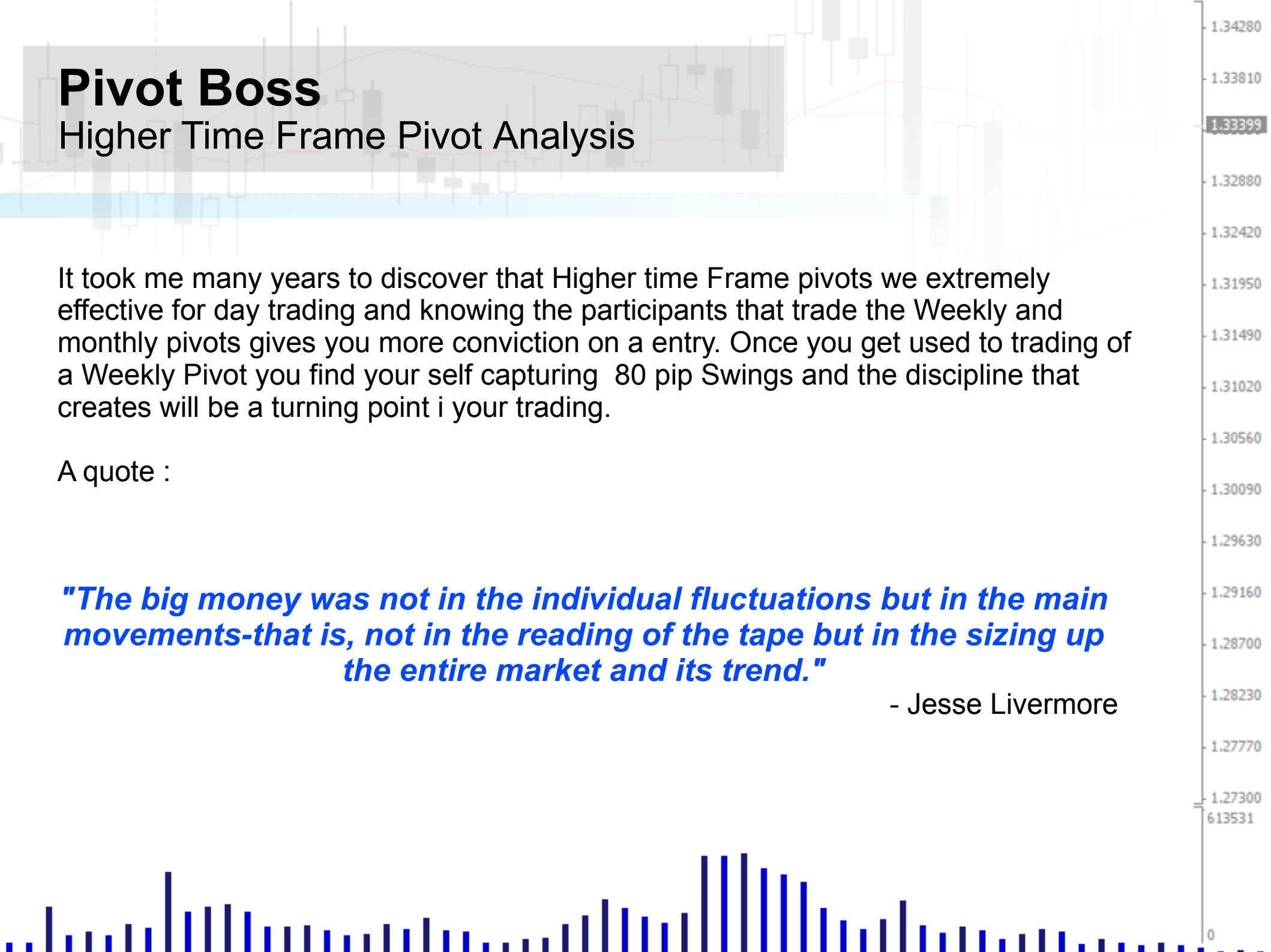
Higher Time Frame Pivot Analysis

It took me many years to discover that Higher time Frame pivots we extremely effective for day trading and knowing the participants that trade the Weekly and monthly pivots gives you more conviction on a entry. Once you get used to trading of a Weekly Pivot you find your self capturing 80 pip Swings and the discipline that creates will be a turning point i your trading.

A quote :

"The big money was not in the individual fluctuations but in the main movements-that is, not in the reading of the tape but in the sizing up the entire market and its trend."

- Jesse Livermore

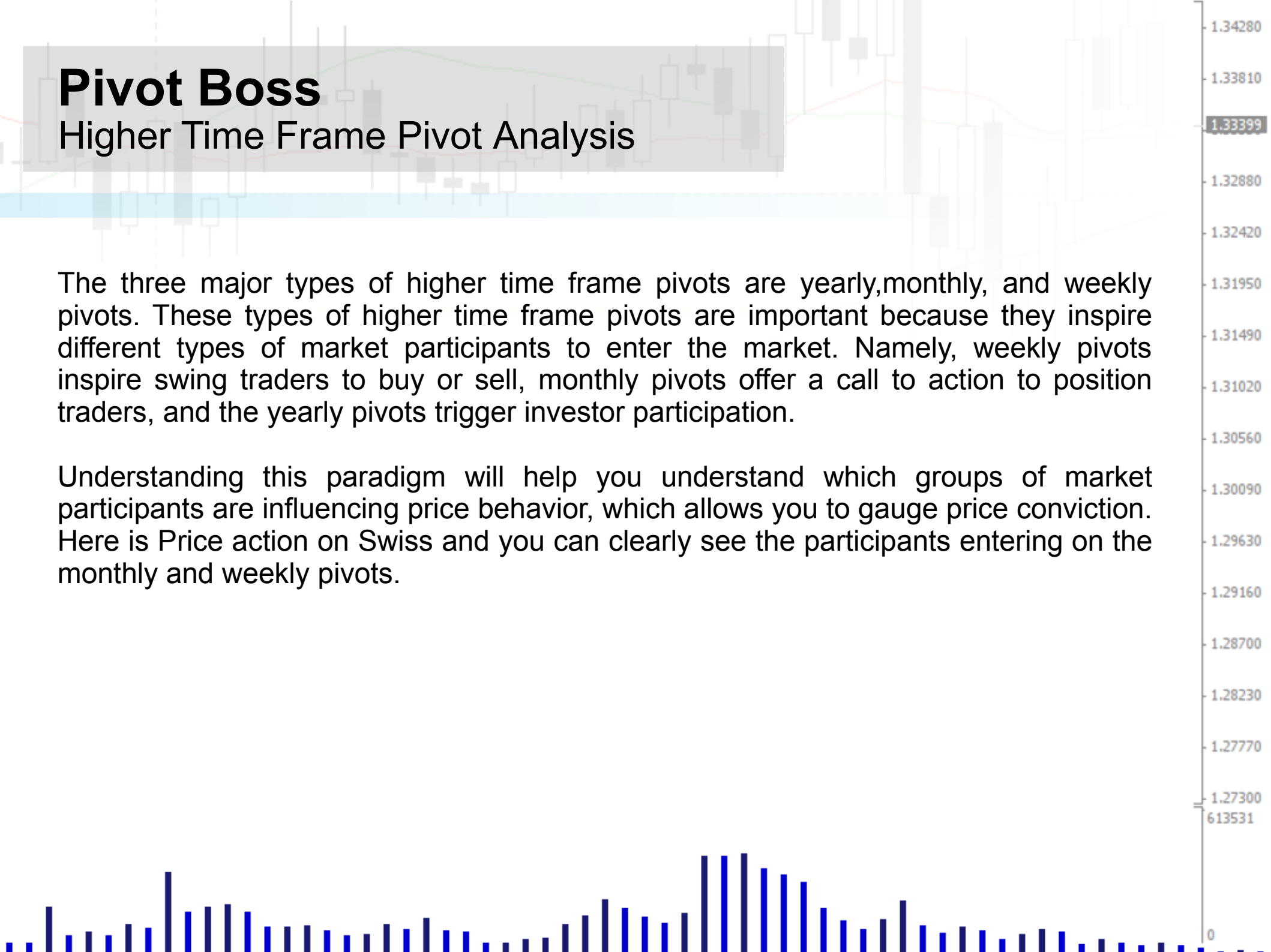


Pivot Boss

Higher Time Frame Pivot Analysis

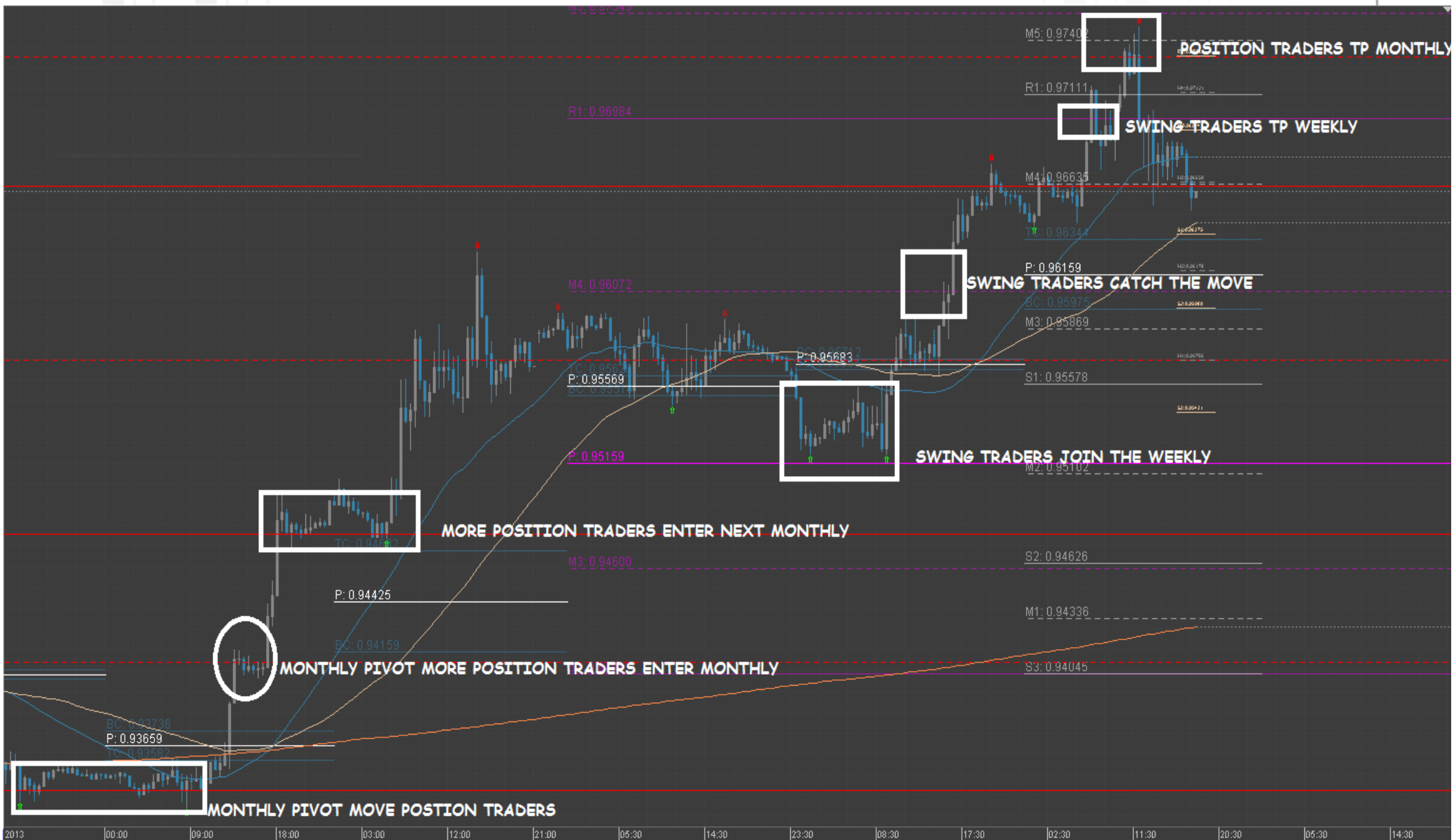
The three major types of higher time frame pivots are yearly,monthly, and weekly pivots. These types of higher time frame pivots are important because they inspire different types of market participants to enter the market. Namely, weekly pivots inspire swing traders to buy or sell, monthly pivots offer a call to action to position traders, and the yearly pivots trigger investor participation.

Understanding this paradigm will help you understand which groups of market participants are influencing price behavior, which allows you to gauge price conviction. Here is Price action on Swiss and you can clearly see the participants entering on the monthly and weekly pivots.



Pivot Boss

Higher Time Frame Pivot Analysis

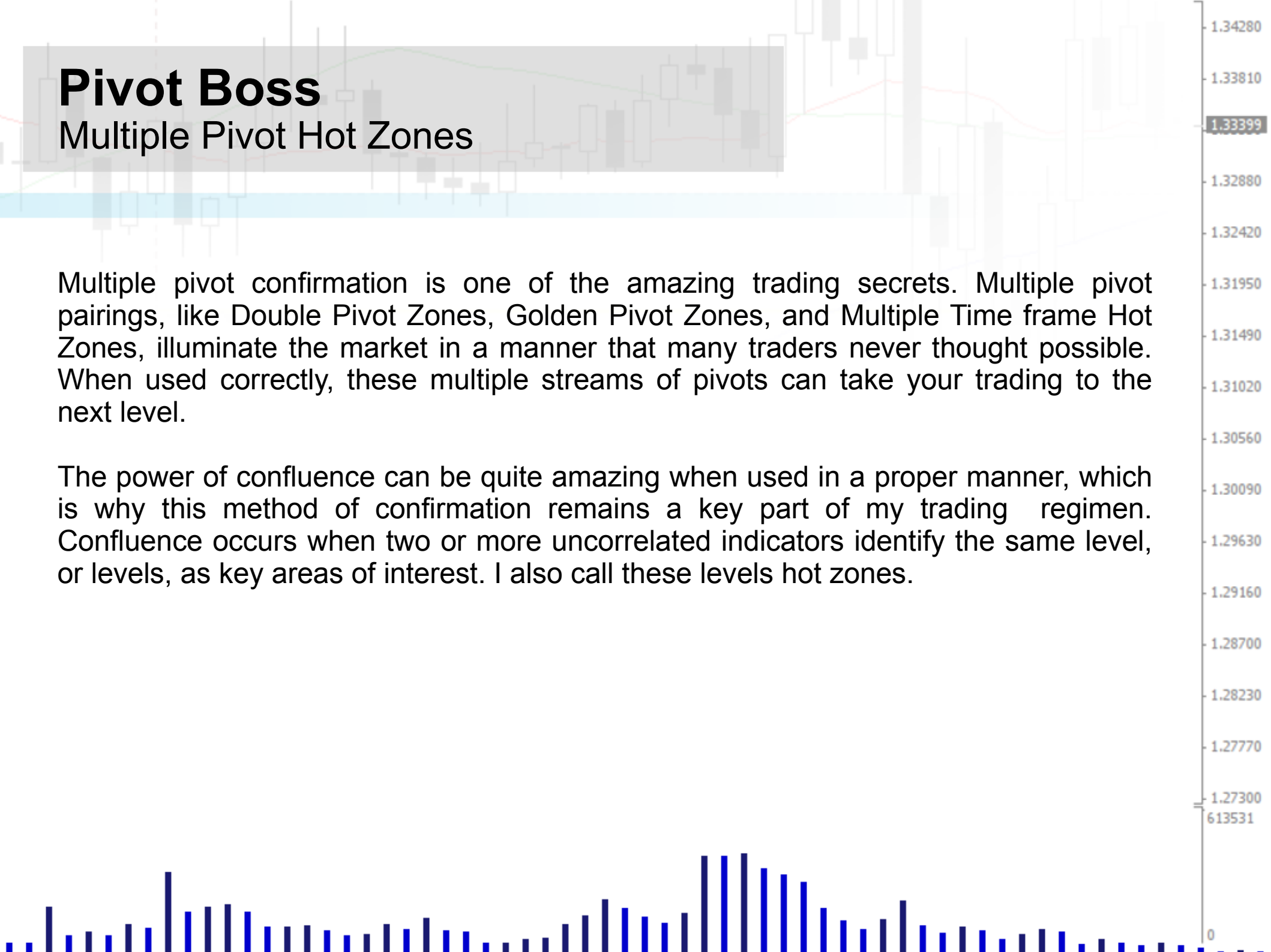


Pivot Boss

Multiple Pivot Hot Zones

Multiple pivot confirmation is one of the amazing trading secrets. Multiple pivot pairings, like Double Pivot Zones, Golden Pivot Zones, and Multiple Time frame Hot Zones, illuminate the market in a manner that many traders never thought possible. When used correctly, these multiple streams of pivots can take your trading to the next level.

The power of confluence can be quite amazing when used in a proper manner, which is why this method of confirmation remains a key part of my trading regimen. Confluence occurs when two or more uncorrelated indicators identify the same level, or levels, as key areas of interest. I also call these levels hot zones.

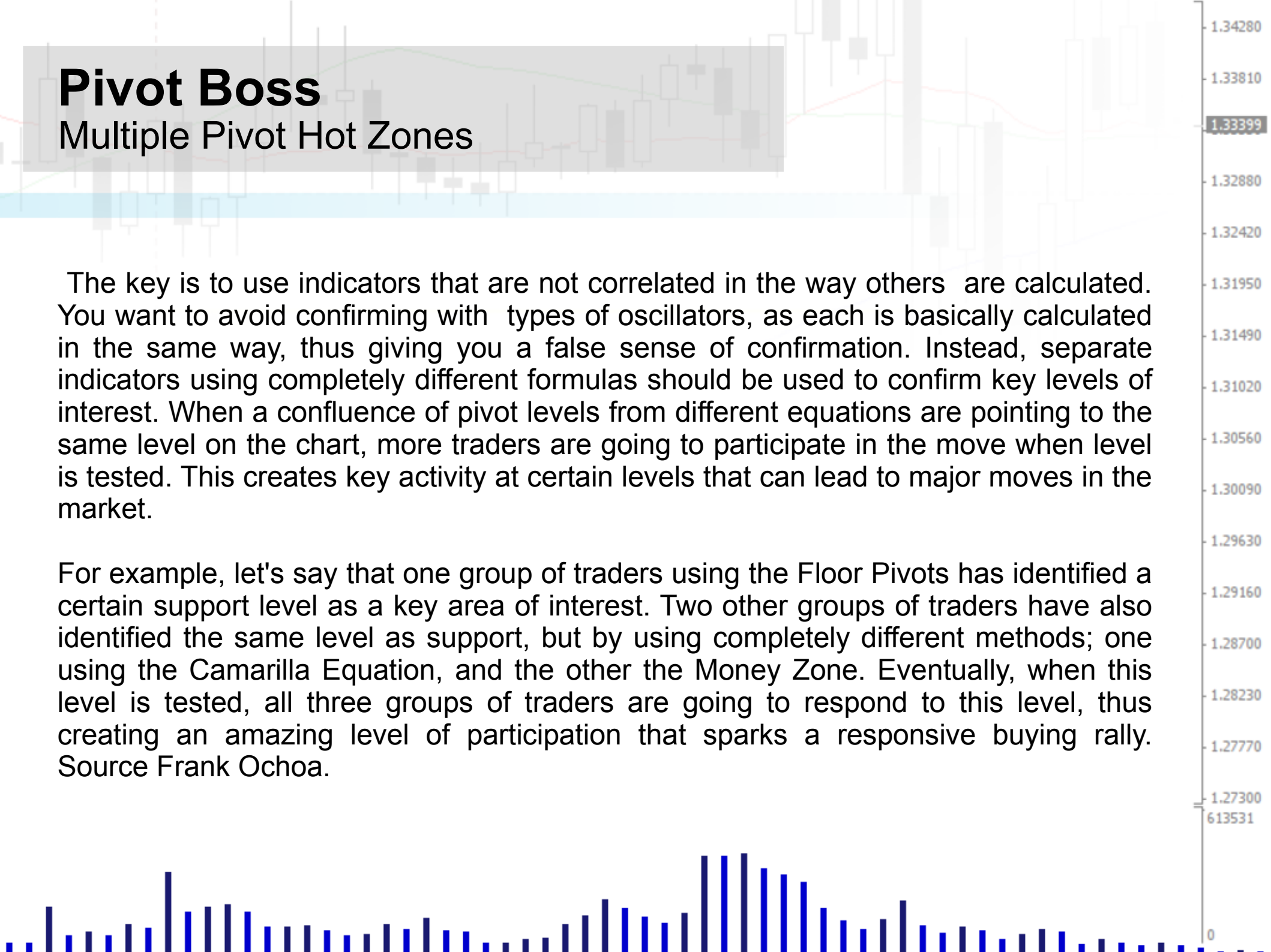


Pivot Boss

Multiple Pivot Hot Zones

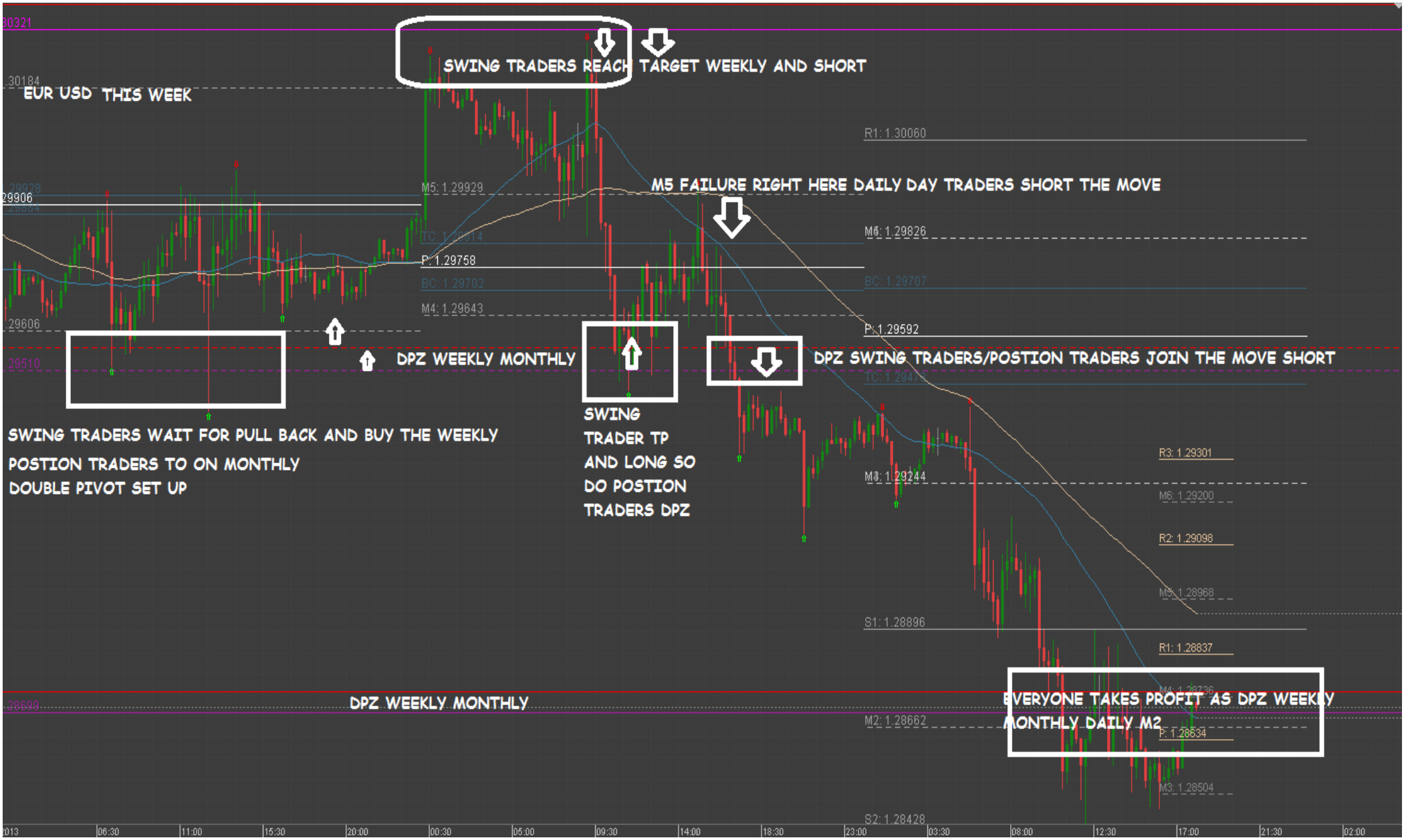
The key is to use indicators that are not correlated in the way others are calculated. You want to avoid confirming with types of oscillators, as each is basically calculated in the same way, thus giving you a false sense of confirmation. Instead, separate indicators using completely different formulas should be used to confirm key levels of interest. When a confluence of pivot levels from different equations are pointing to the same level on the chart, more traders are going to participate in the move when level is tested. This creates key activity at certain levels that can lead to major moves in the market.

For example, let's say that one group of traders using the Floor Pivots has identified a certain support level as a key area of interest. Two other groups of traders have also identified the same level as support, but by using completely different methods; one using the Camarilla Equation, and the other the Money Zone. Eventually, when this level is tested, all three groups of traders are going to respond to this level, thus creating an amazing level of participation that sparks a responsive buying rally. Source Frank Ochoa.



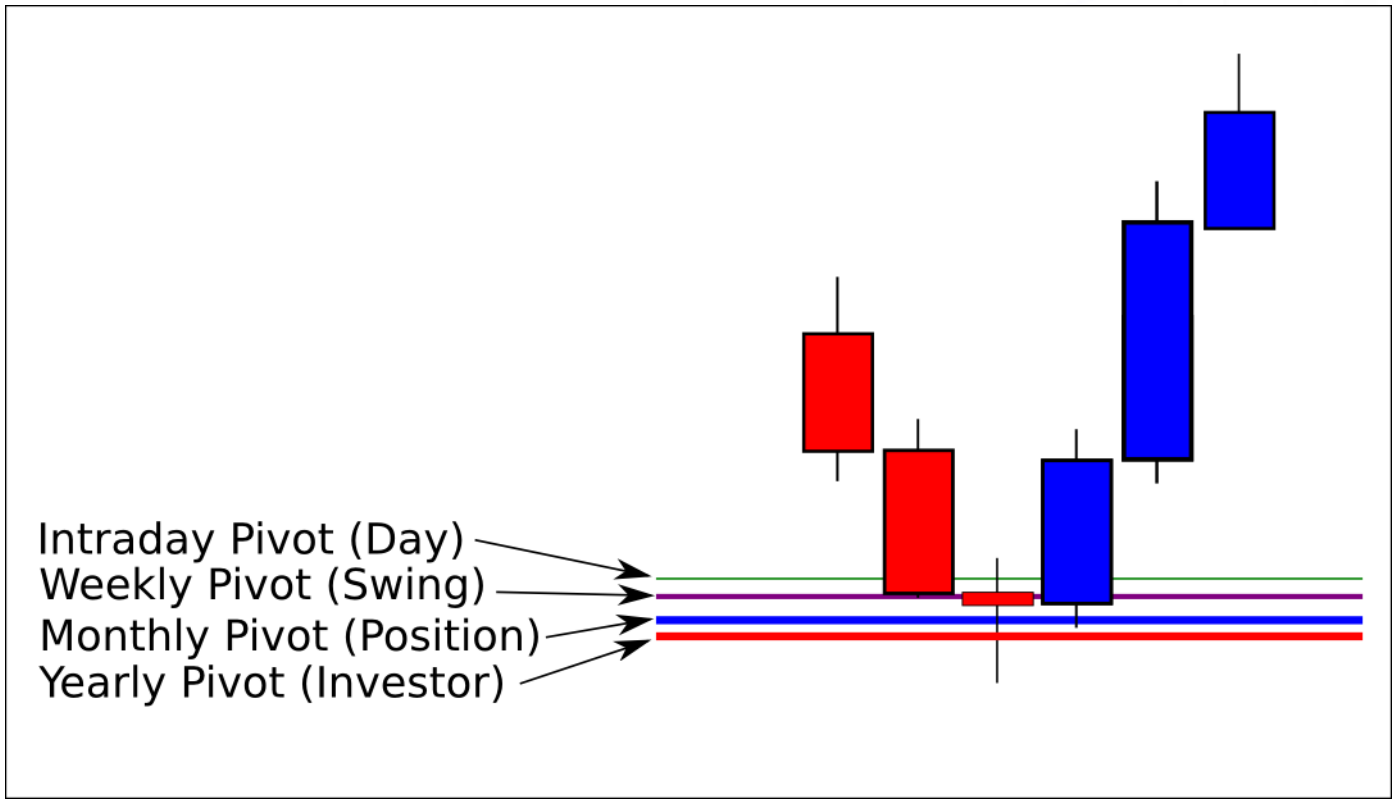
Pivot Boss

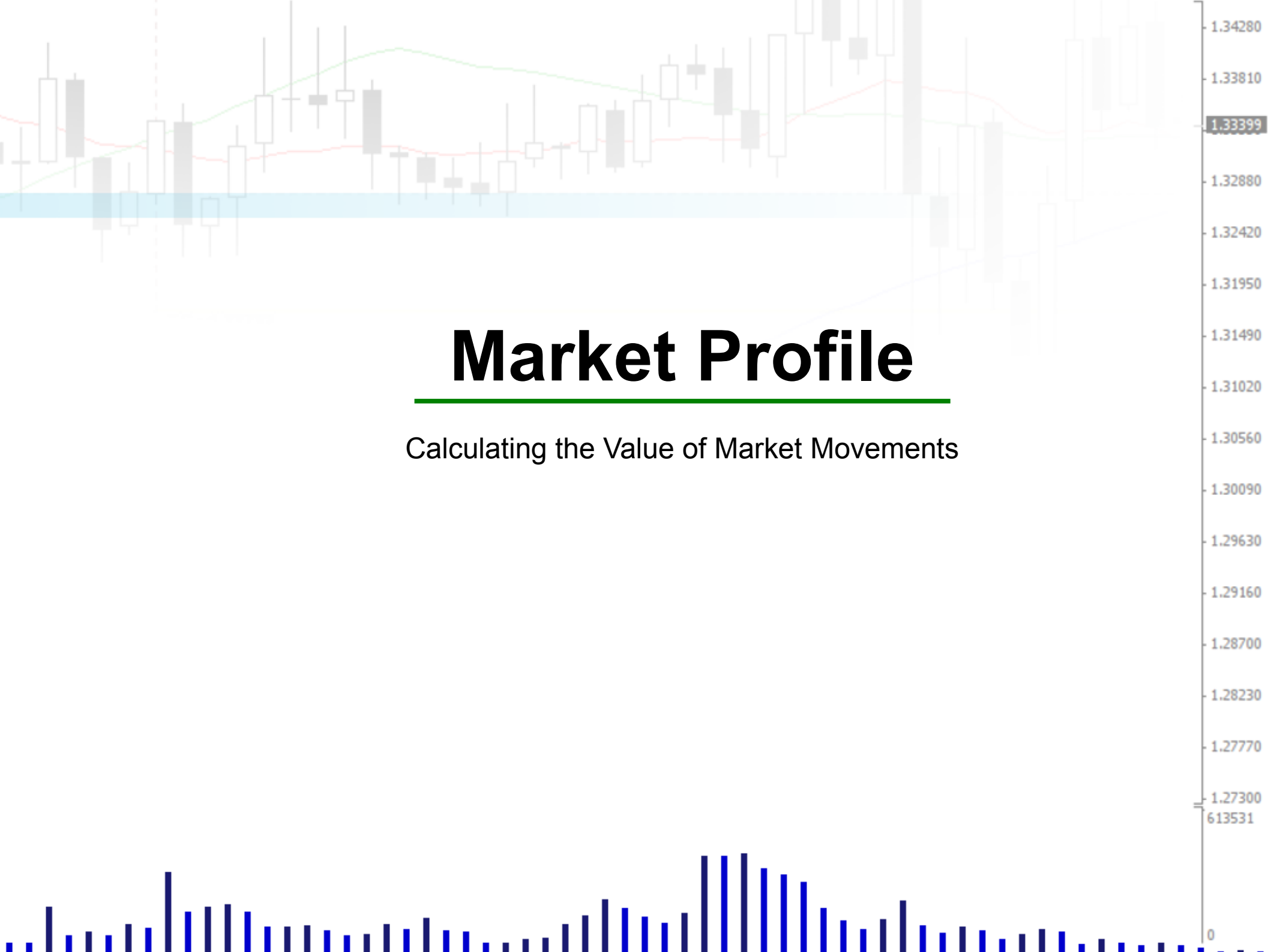
Multiple Pivot Hot Zones



Pivot Boss

Multiple Time Frame Hot Zone





Market Profile

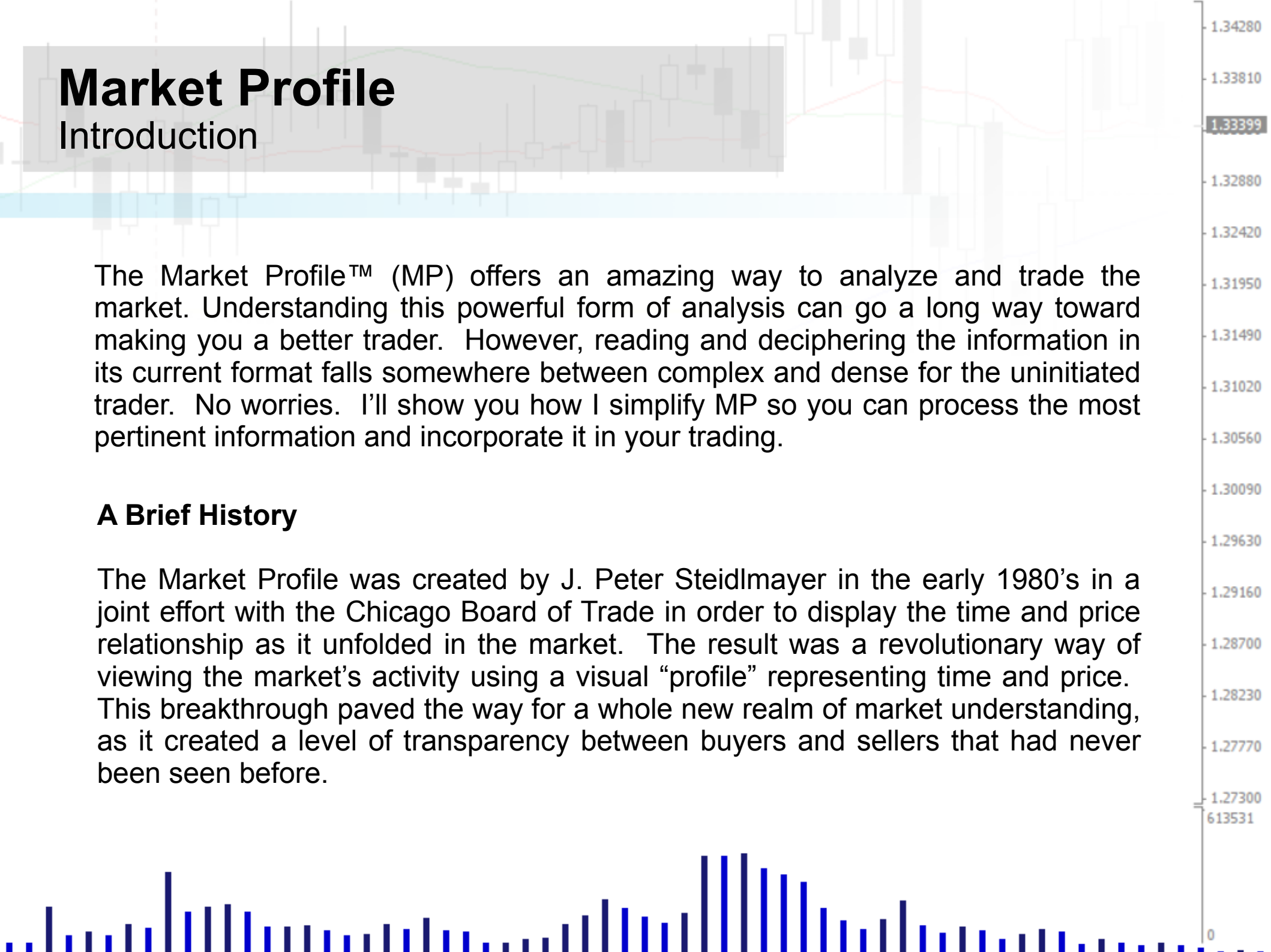
Calculating the Value of Market Movements

Market Profile
Introduction

The Market Profile™ (MP) offers an amazing way to analyze and trade the market. Understanding this powerful form of analysis can go a long way toward making you a better trader. However, reading and deciphering the information in its current format falls somewhere between complex and dense for the uninitiated trader. No worries. I'll show you how I simplify MP so you can process the most pertinent information and incorporate it in your trading.

A Brief History

The Market Profile was created by J. Peter Steidlmayer in the early 1980's in a joint effort with the Chicago Board of Trade in order to display the time and price relationship as it unfolded in the market. The result was a revolutionary way of viewing the market's activity using a visual "profile" representing time and price. This breakthrough paved the way for a whole new realm of market understanding, as it created a level of transparency between buyers and sellers that had never been seen before.



Market Profile

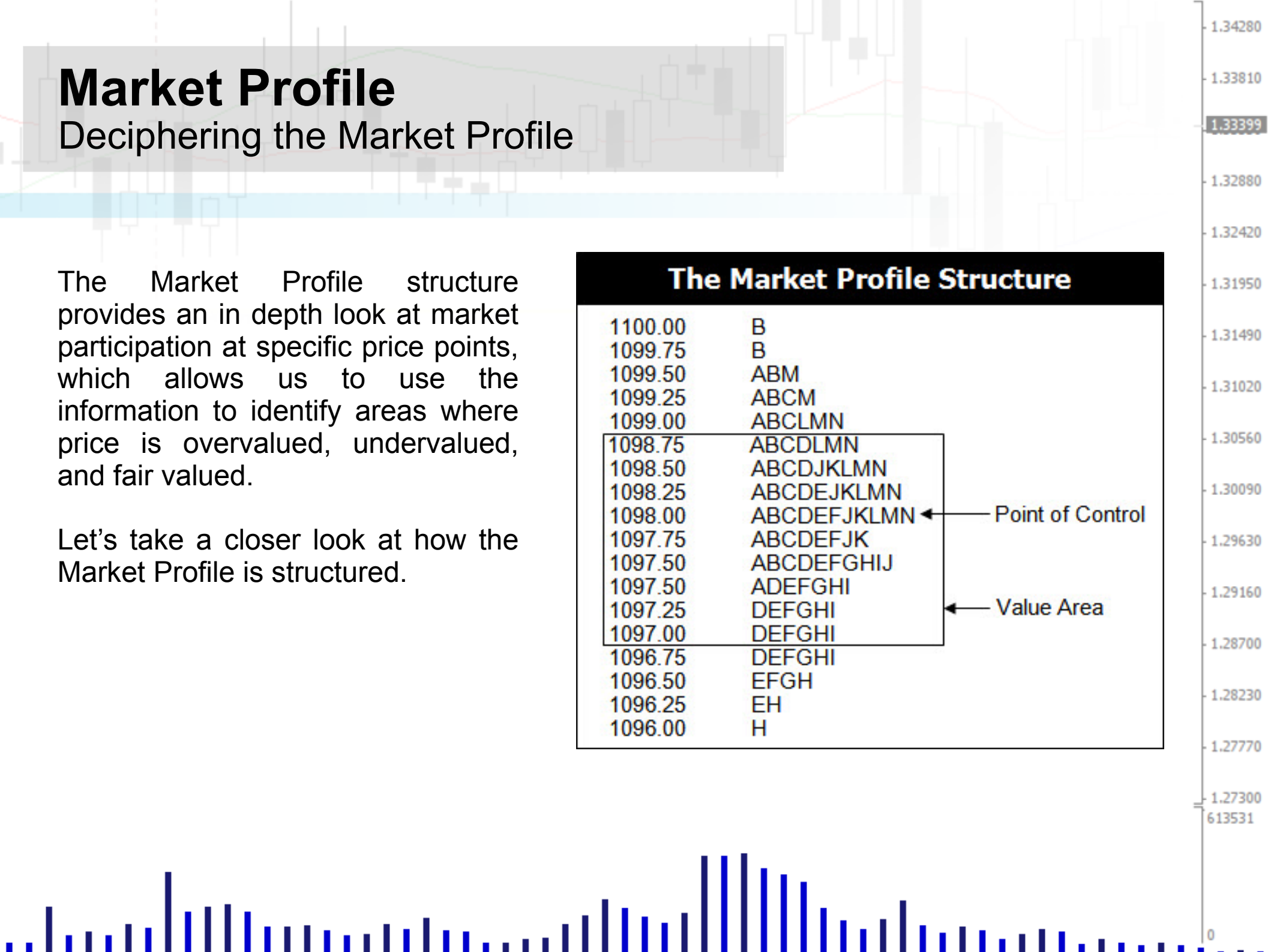
Deciphering the Market Profile

The Market Profile structure provides an in depth look at market participation at specific price points, which allows us to use the information to identify areas where price is overvalued, undervalued, and fair valued.

Let's take a closer look at how the Market Profile is structured.

The Market Profile Structure

1100.00	B
1099.75	B
1099.50	ABM
1099.25	ABCM
1099.00	ABCLMN
1098.75	ABCDLMN
1098.50	ABCDJKLMN
1098.25	ABCDEJKLMN
1098.00	ABCDEFJKLMN ← Point of Control
1097.75	ABCDEFJK
1097.50	ABCDEFGHIJ
1097.50	ADEFGHI
1097.25	DEFGHI ← Value Area
1097.00	DEFGHI
1096.75	DEFGHI
1096.50	EFGH
1096.25	EH
1096.00	H

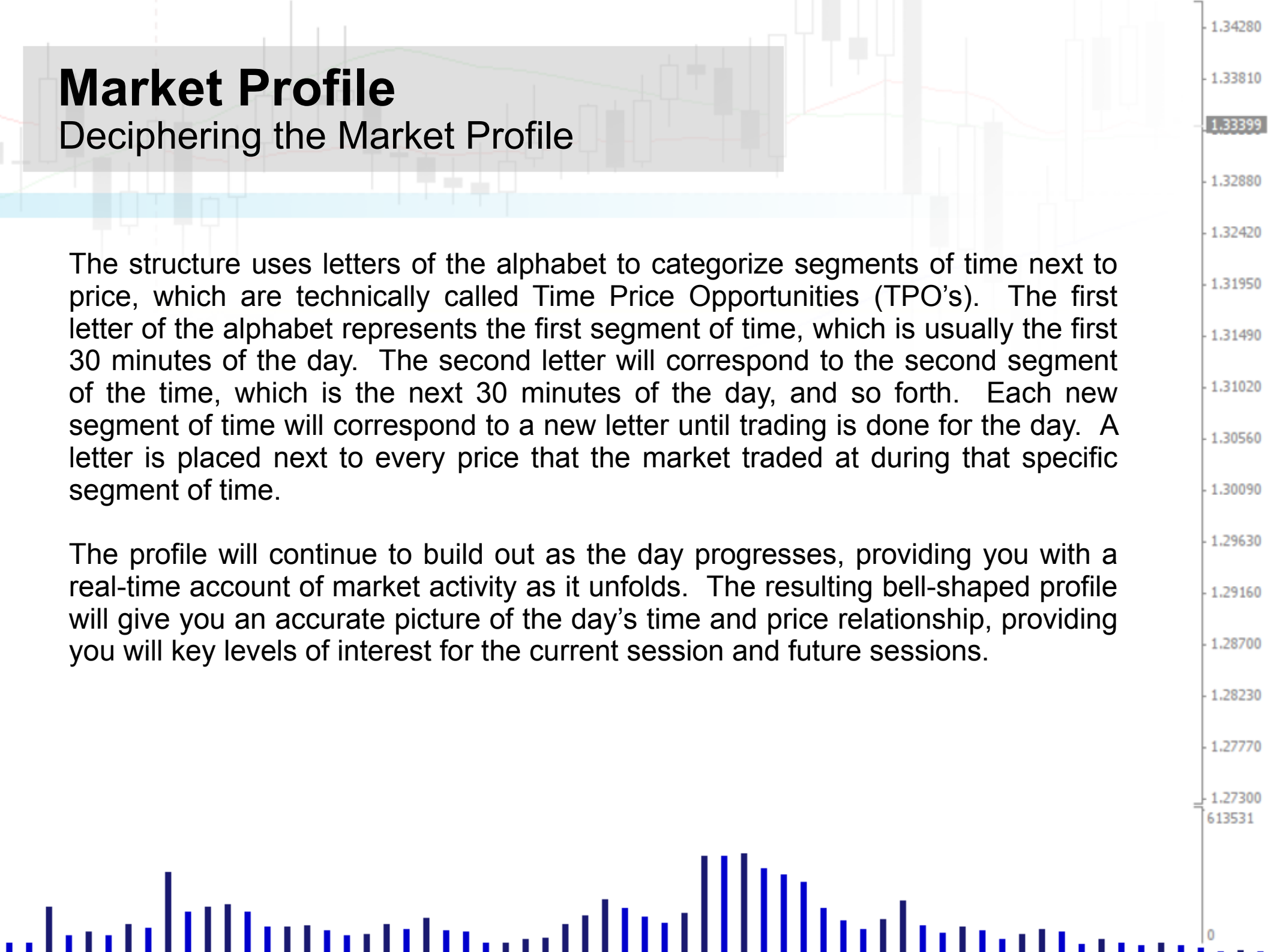


Market Profile

Deciphering the Market Profile

The structure uses letters of the alphabet to categorize segments of time next to price, which are technically called Time Price Opportunities (TPO's). The first letter of the alphabet represents the first segment of time, which is usually the first 30 minutes of the day. The second letter will correspond to the second segment of the time, which is the next 30 minutes of the day, and so forth. Each new segment of time will correspond to a new letter until trading is done for the day. A letter is placed next to every price that the market traded at during that specific segment of time.

The profile will continue to build out as the day progresses, providing you with a real-time account of market activity as it unfolds. The resulting bell-shaped profile will give you an accurate picture of the day's time and price relationship, providing you will key levels of interest for the current session and future sessions.

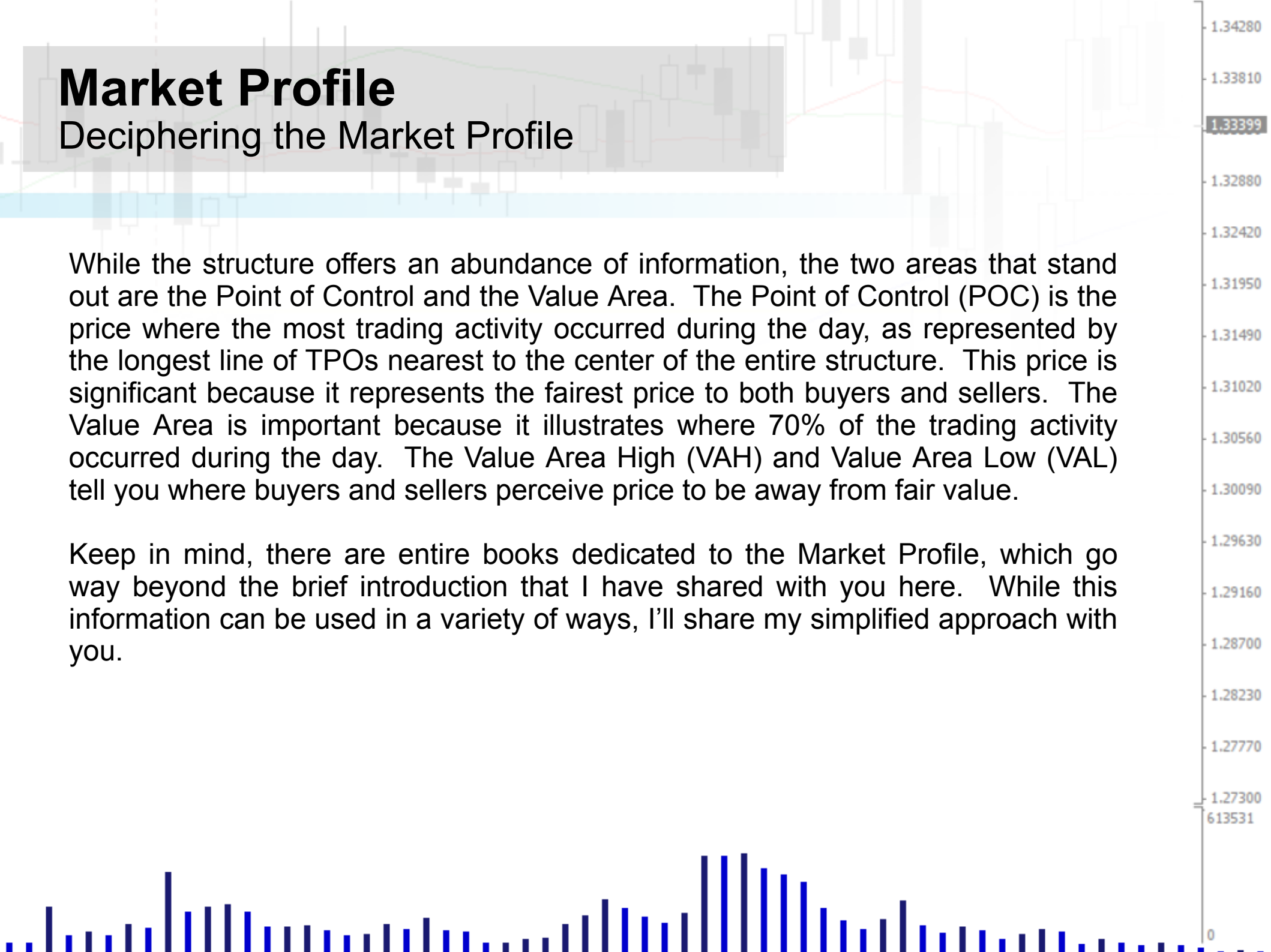


Market Profile

Deciphering the Market Profile

While the structure offers an abundance of information, the two areas that stand out are the Point of Control and the Value Area. The Point of Control (POC) is the price where the most trading activity occurred during the day, as represented by the longest line of TPOs nearest to the center of the entire structure. This price is significant because it represents the fairest price to both buyers and sellers. The Value Area is important because it illustrates where 70% of the trading activity occurred during the day. The Value Area High (VAH) and Value Area Low (VAL) tell you where buyers and sellers perceive price to be away from fair value.

Keep in mind, there are entire books dedicated to the Market Profile, which go way beyond the brief introduction that I have shared with you here. While this information can be used in a variety of ways, I'll share my simplified approach with you.

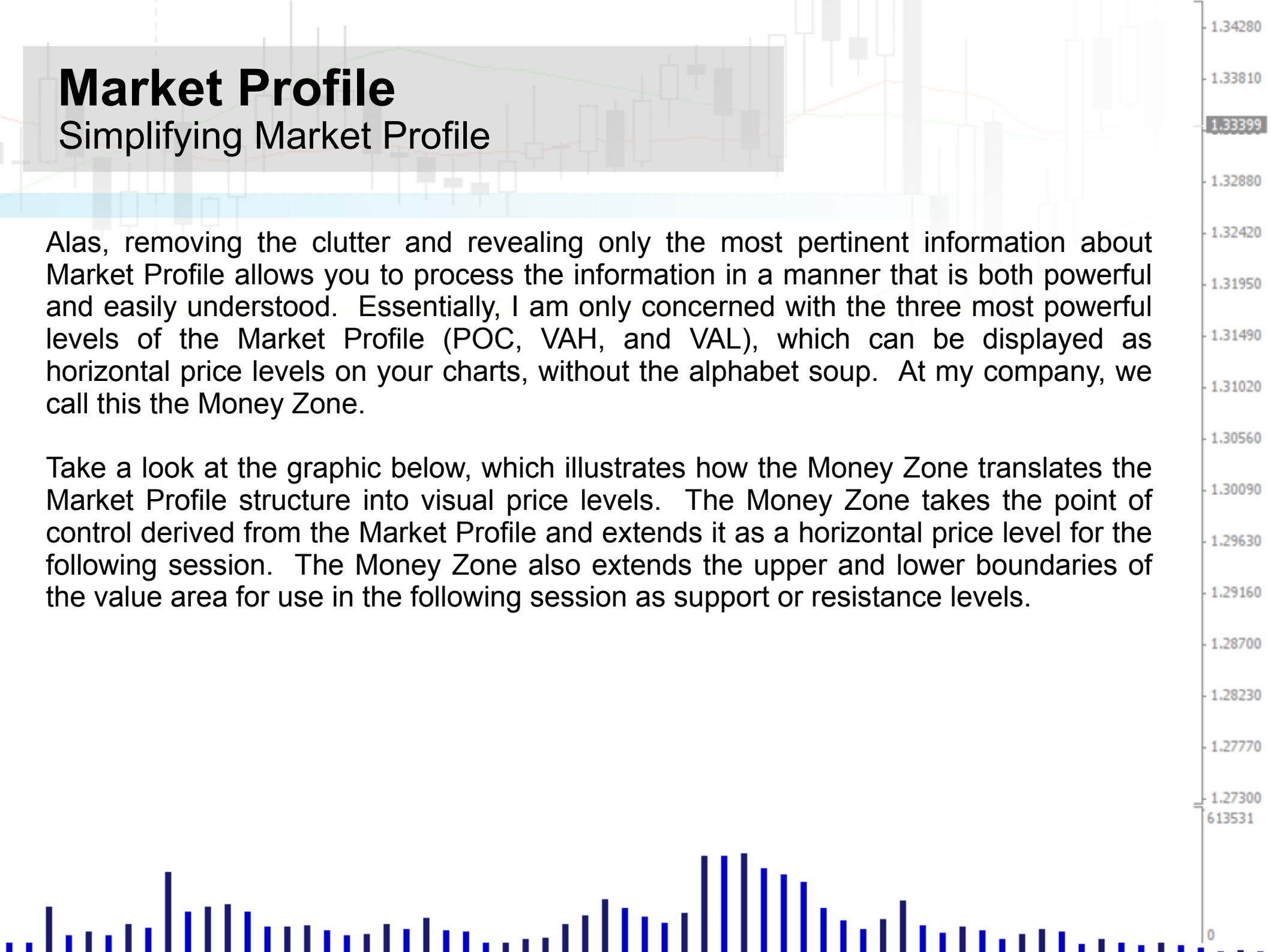


Market Profile

Simplifying Market Profile

Alas, removing the clutter and revealing only the most pertinent information about Market Profile allows you to process the information in a manner that is both powerful and easily understood. Essentially, I am only concerned with the three most powerful levels of the Market Profile (POC, VAH, and VAL), which can be displayed as horizontal price levels on your charts, without the alphabet soup. At my company, we call this the Money Zone.

Take a look at the graphic below, which illustrates how the Money Zone translates the Market Profile structure into visual price levels. The Money Zone takes the point of control derived from the Market Profile and extends it as a horizontal price level for the following session. The Money Zone also extends the upper and lower boundaries of the value area for use in the following session as support or resistance levels.



Market Profile

Simplifying Market Profile

The Market Profile Levels		
1100.00	B	
1099.75	B	
1099.50	ABM	
1099.25	ABCM	
1099.00	ABCLMN	
1098.75	ABCDLMN	VAH
1098.50	ABCDJKLMN	
1098.25	ABCDEJKLMN	
1098.00	ABCDEFJKLMN	POC
1097.75	ABCDEFJK	
1097.50	ABCDEFGHIJ	
1097.50	ADEFGHI	
1097.25	DEFGHI	
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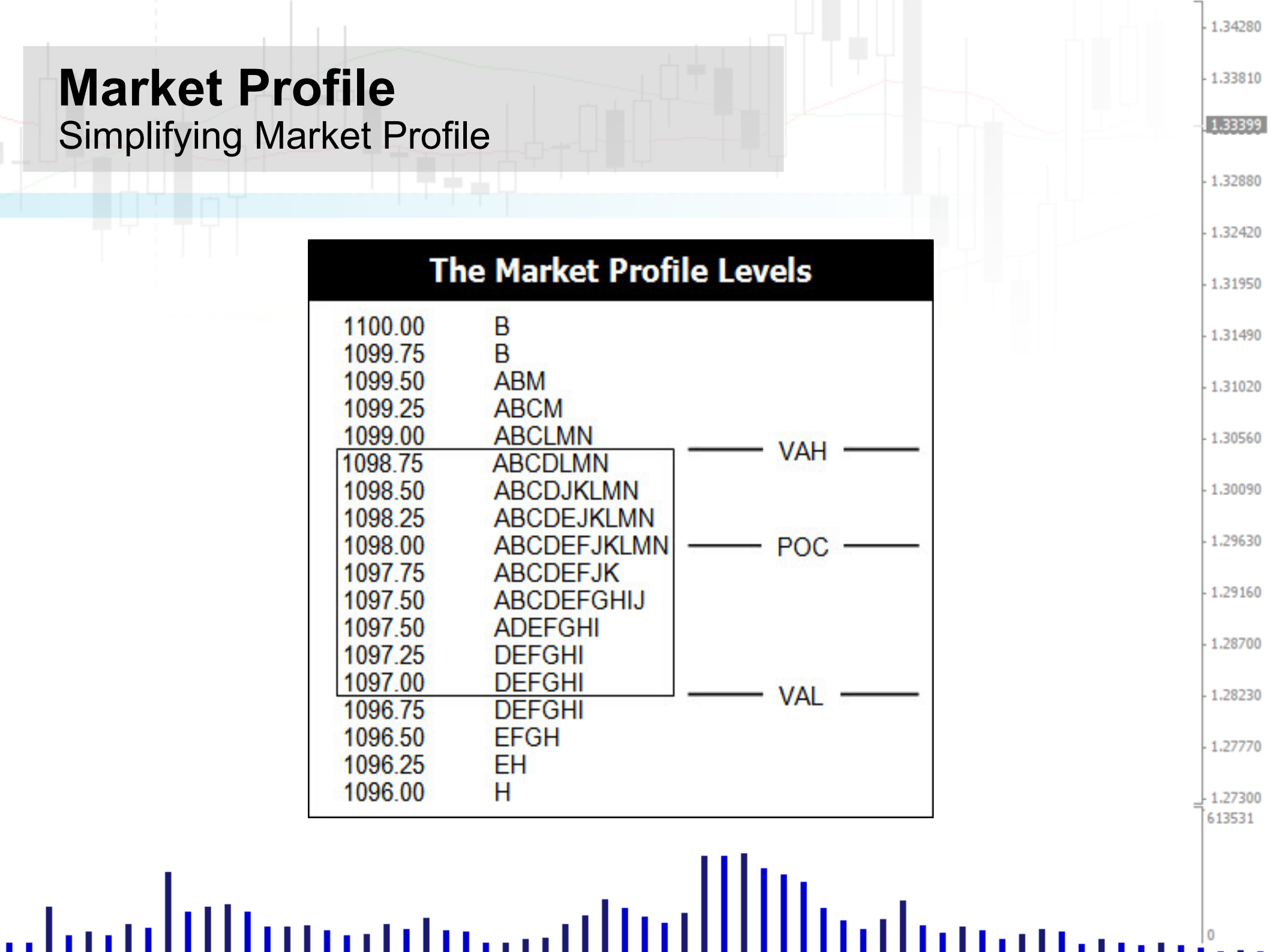
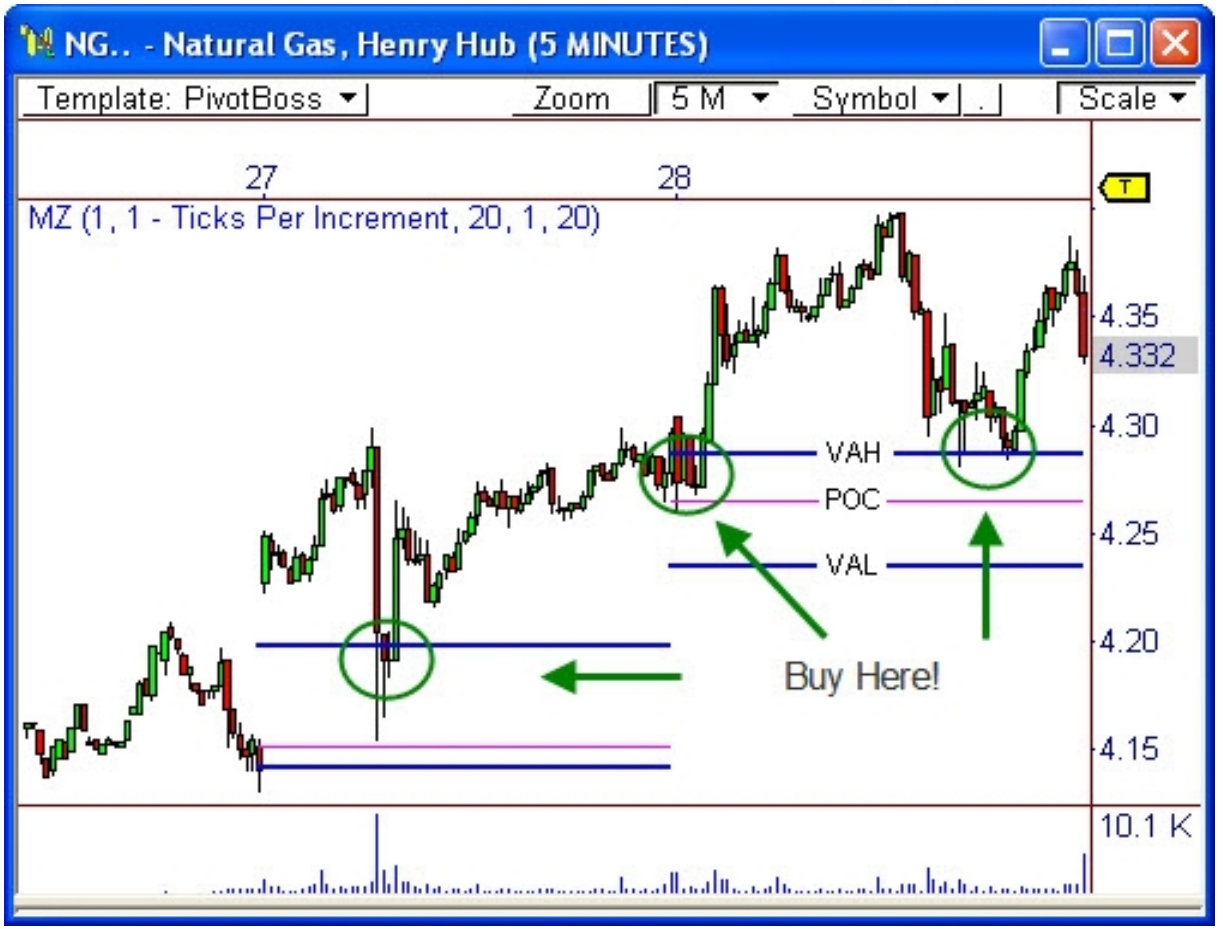
1096.00	H	



Market Profile

Simplifying Market Profile

Why are these levels relevant for the following day? Simply put, these levels show where market participants perceive prices to be overvalued, undervalued, or at fair value. Understanding this concept allows you to know when to pull the trigger in certain situations, like in the example:



Market Profile

Simplifying Market Profile

The Market Profile Levels		
1100.00	B	
1099.75	B	
1099.50	ABM	
1099.25	ABCM	
1099.00	ABCLMN	
1098.75	ABCDLMN	VAH
1098.50	ABCDJKLMN	
1098.25	ABCDEJKLMN	
1098.00	ABCDEFJKLMN	POC
1097.75	ABCDEFJK	
1097.50	ABCDEFGHIJ	
1097.50	ADEFGHI	
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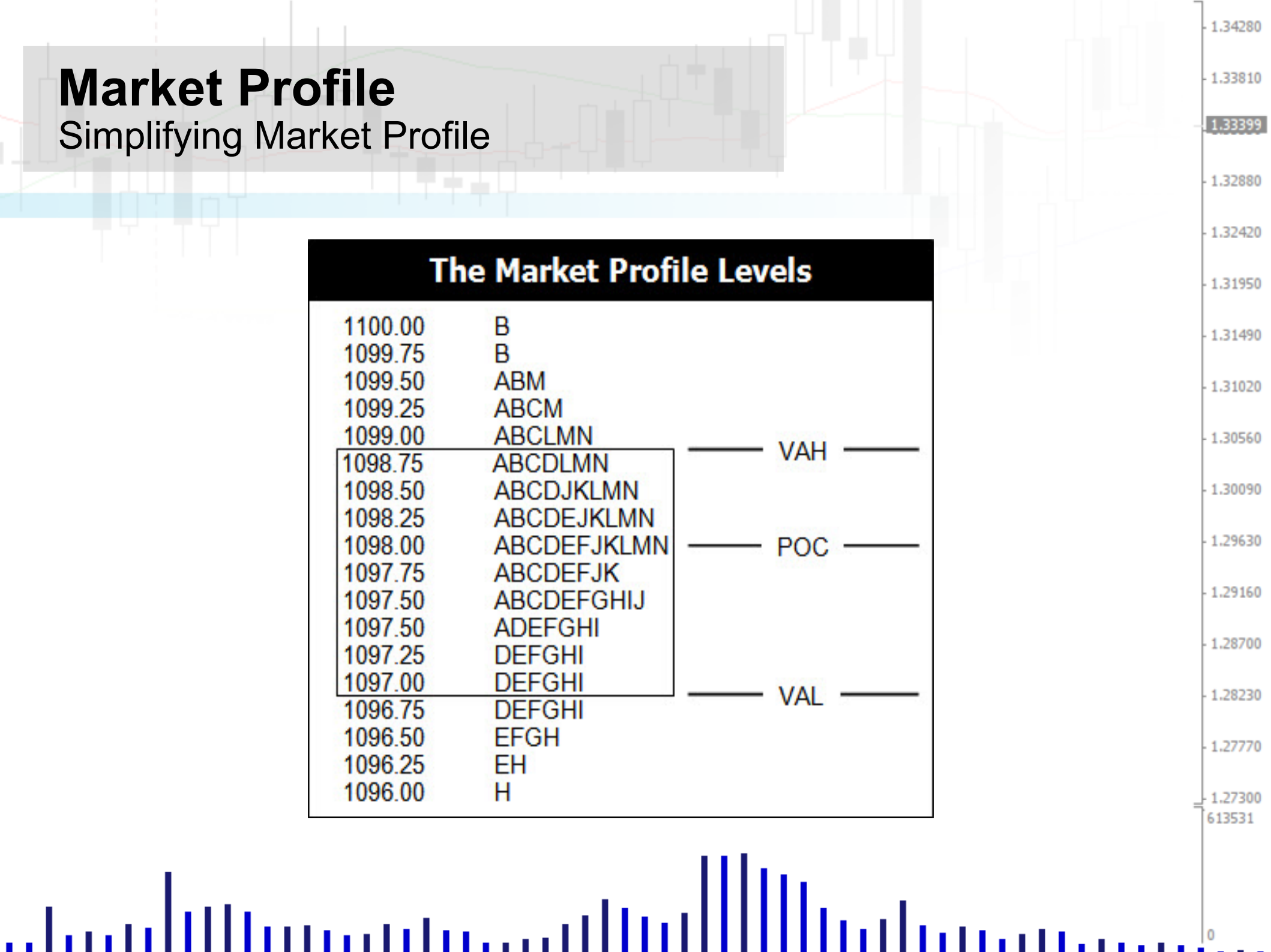
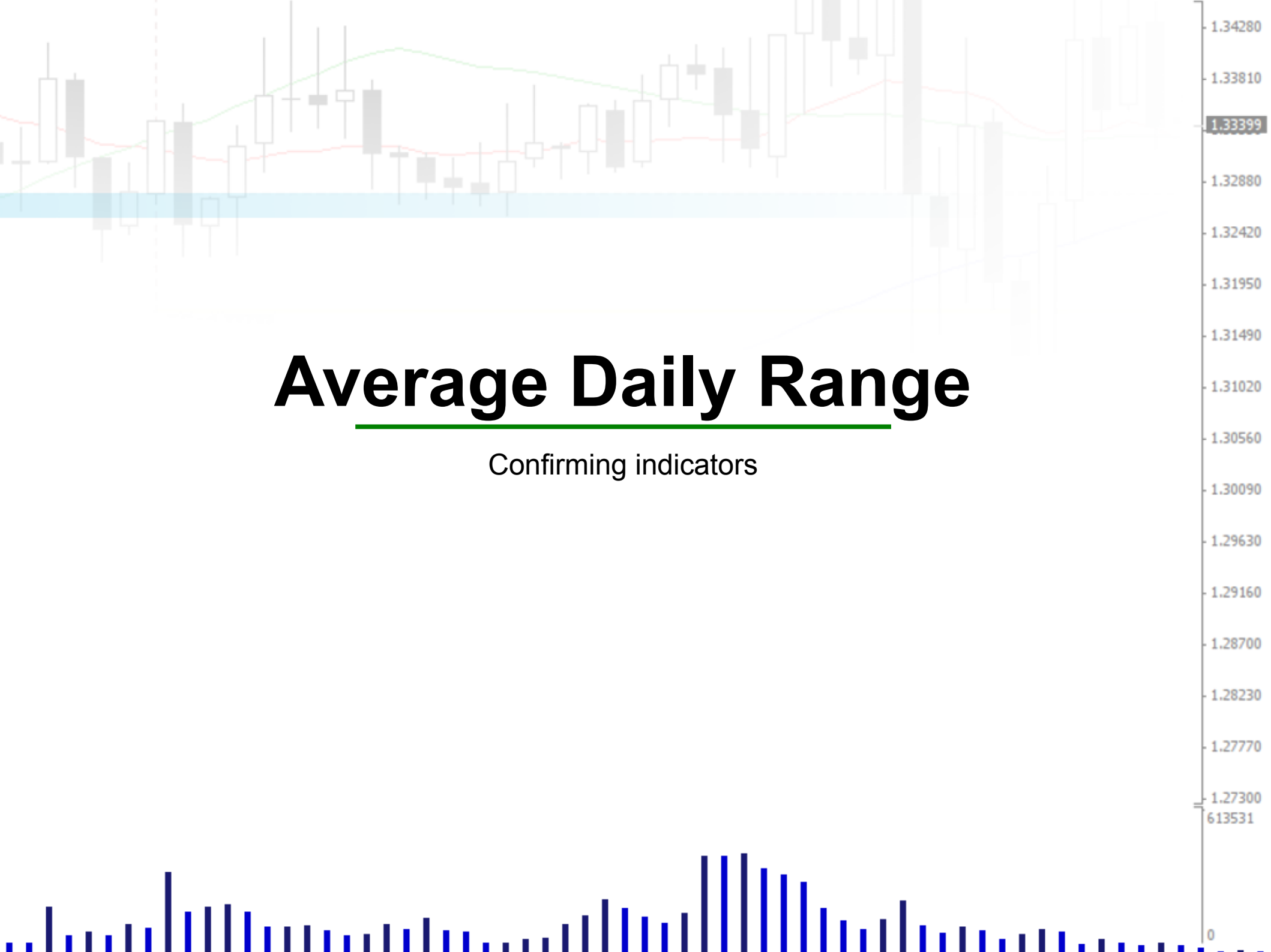
1096.00	H	





Average Daily Range

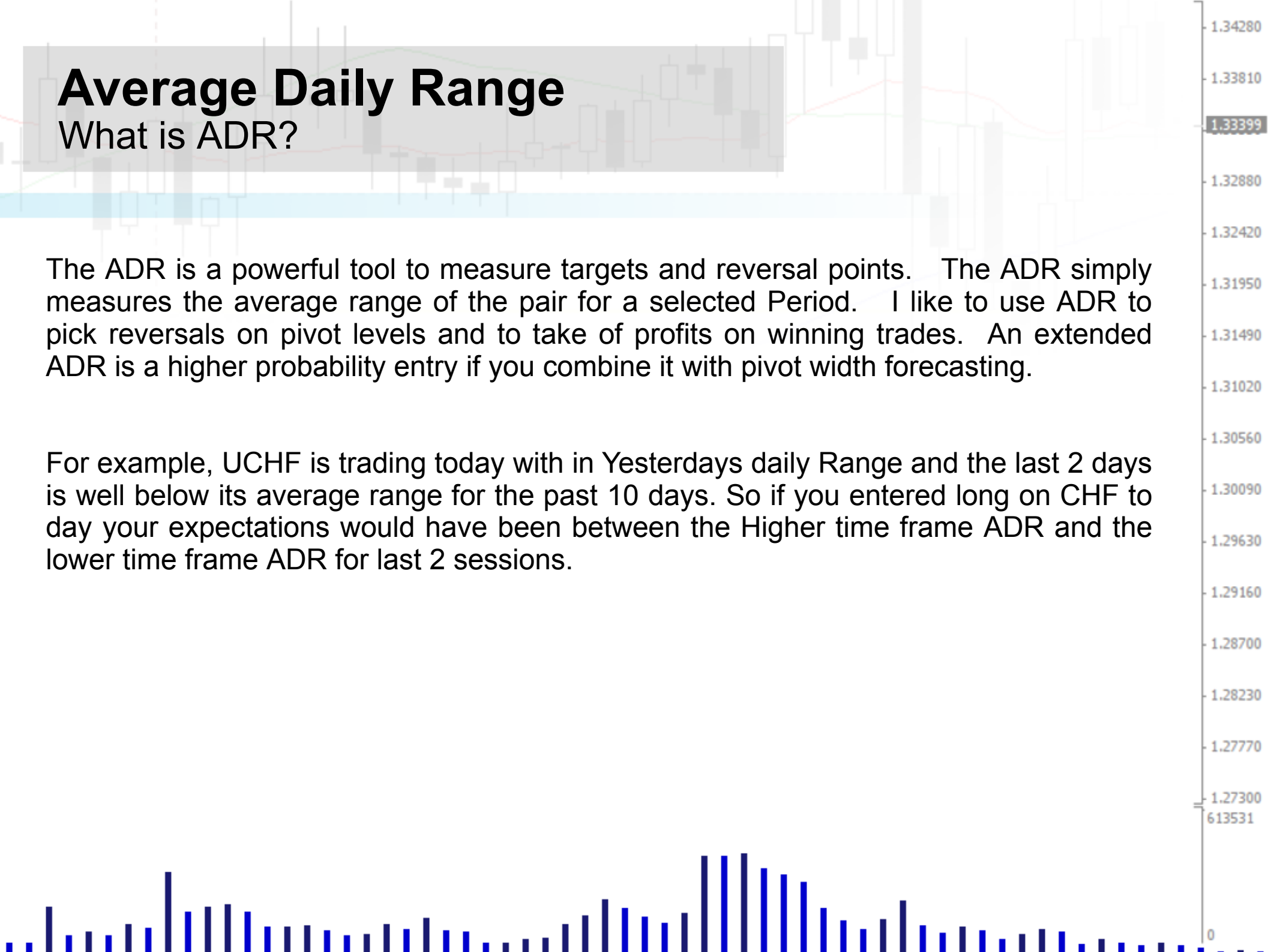
Confirming indicators

Average Daily Range

What is ADR?

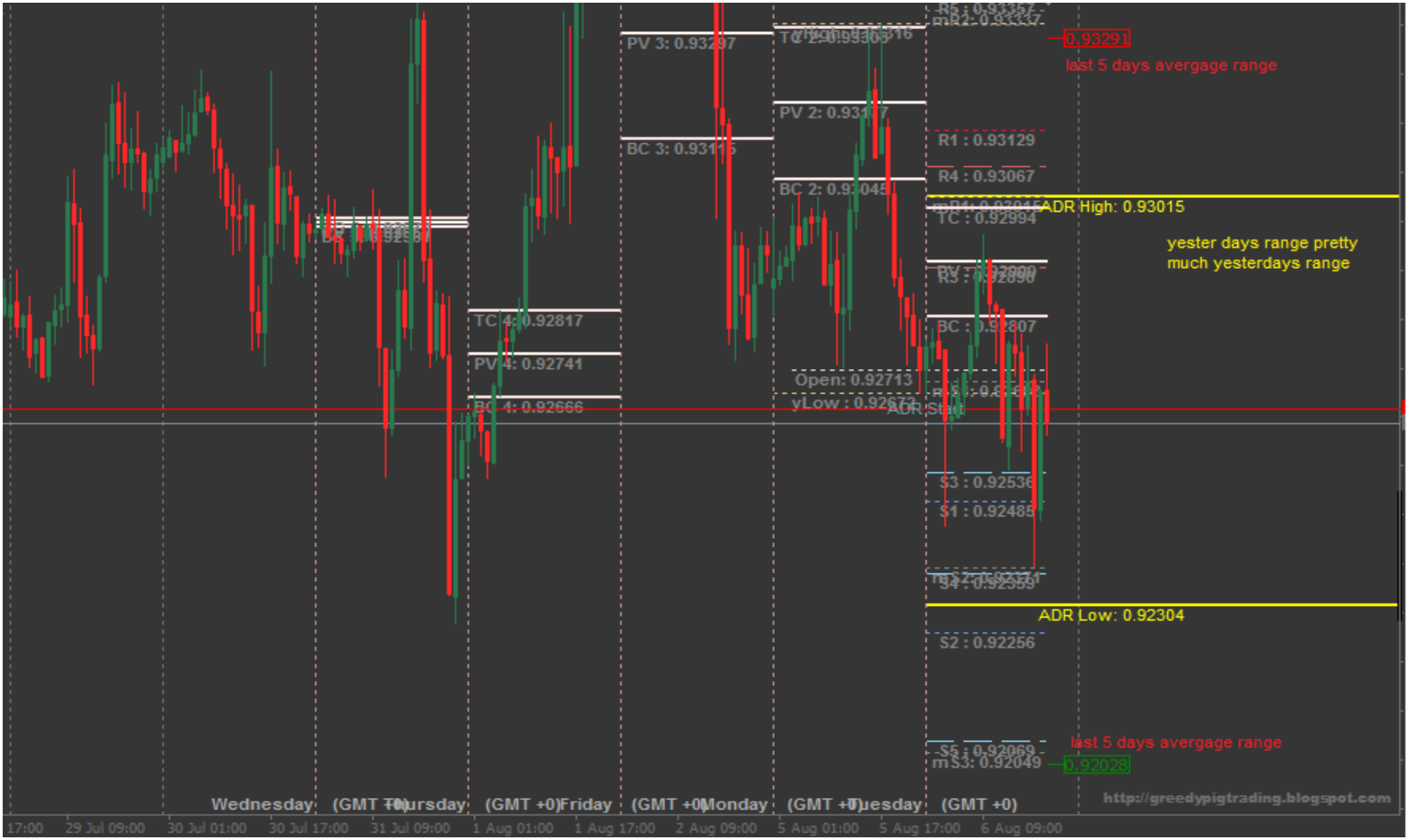
The ADR is a powerful tool to measure targets and reversal points. The ADR simply measures the average range of the pair for a selected Period. I like to use ADR to pick reversals on pivot levels and to take of profits on winning trades. An extended ADR is a higher probability entry if you combine it with pivot width forecasting.

For example, UCHF is trading today with in Yesterdays daily Range and the last 2 days is well below its average range for the past 10 days. So if you entered long on CHF to day your expectations would have been between the Higher time frame ADR and the lower time frame ADR for last 2 sessions.



Average Daily Range

Fresh ADR

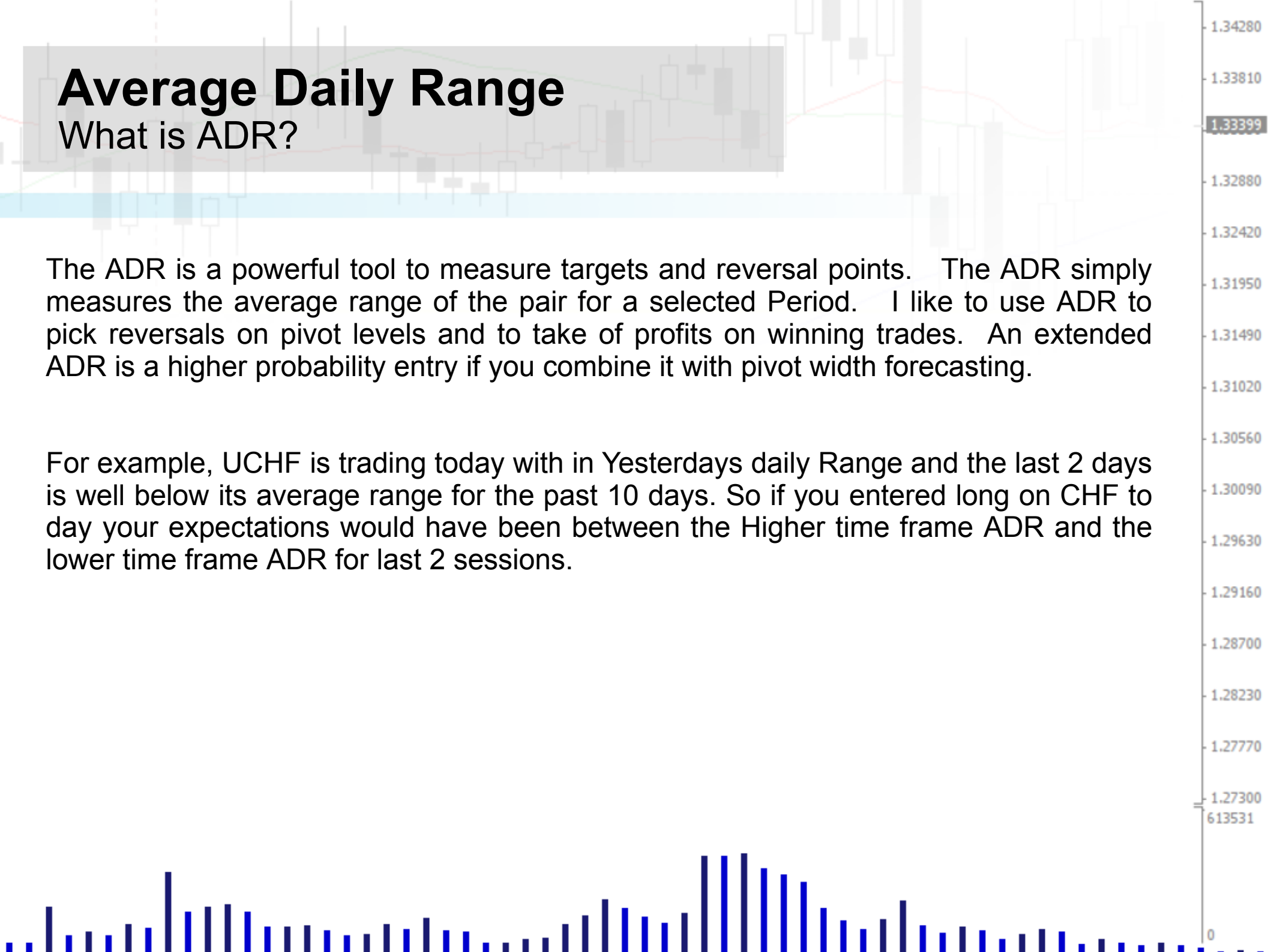


Average Daily Range

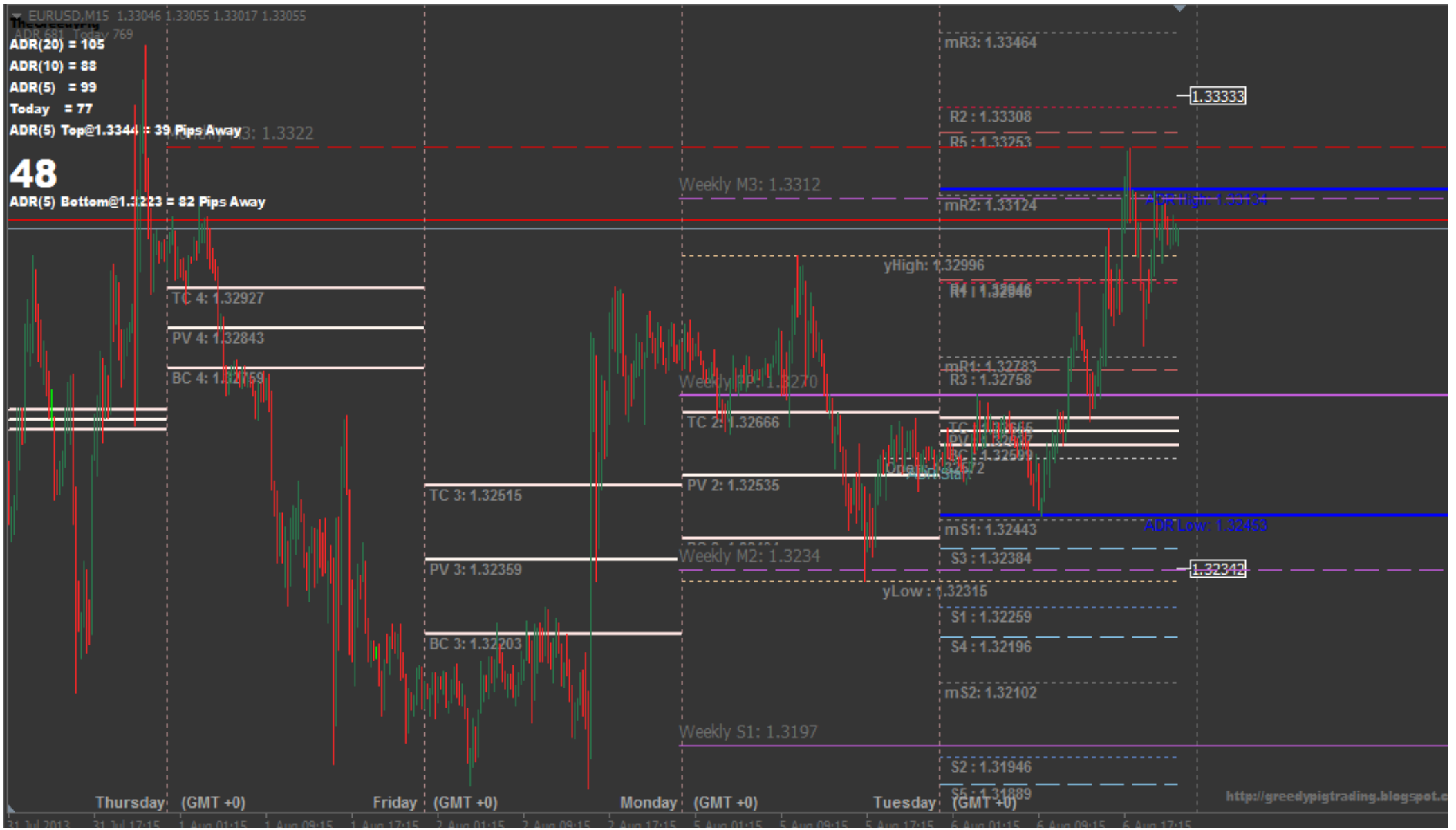
What is ADR?

The ADR is a powerful tool to measure targets and reversal points. The ADR simply measures the average range of the pair for a selected Period. I like to use ADR to pick reversals on pivot levels and to take of profits on winning trades. An extended ADR is a higher probability entry if you combine it with pivot width forecasting.

For example, UCHF is trading today with in Yesterdays daily Range and the last 2 days is well below its average range for the past 10 days. So if you entered long on CHF to day your expectations would have been between the Higher time frame ADR and the lower time frame ADR for last 2 sessions.

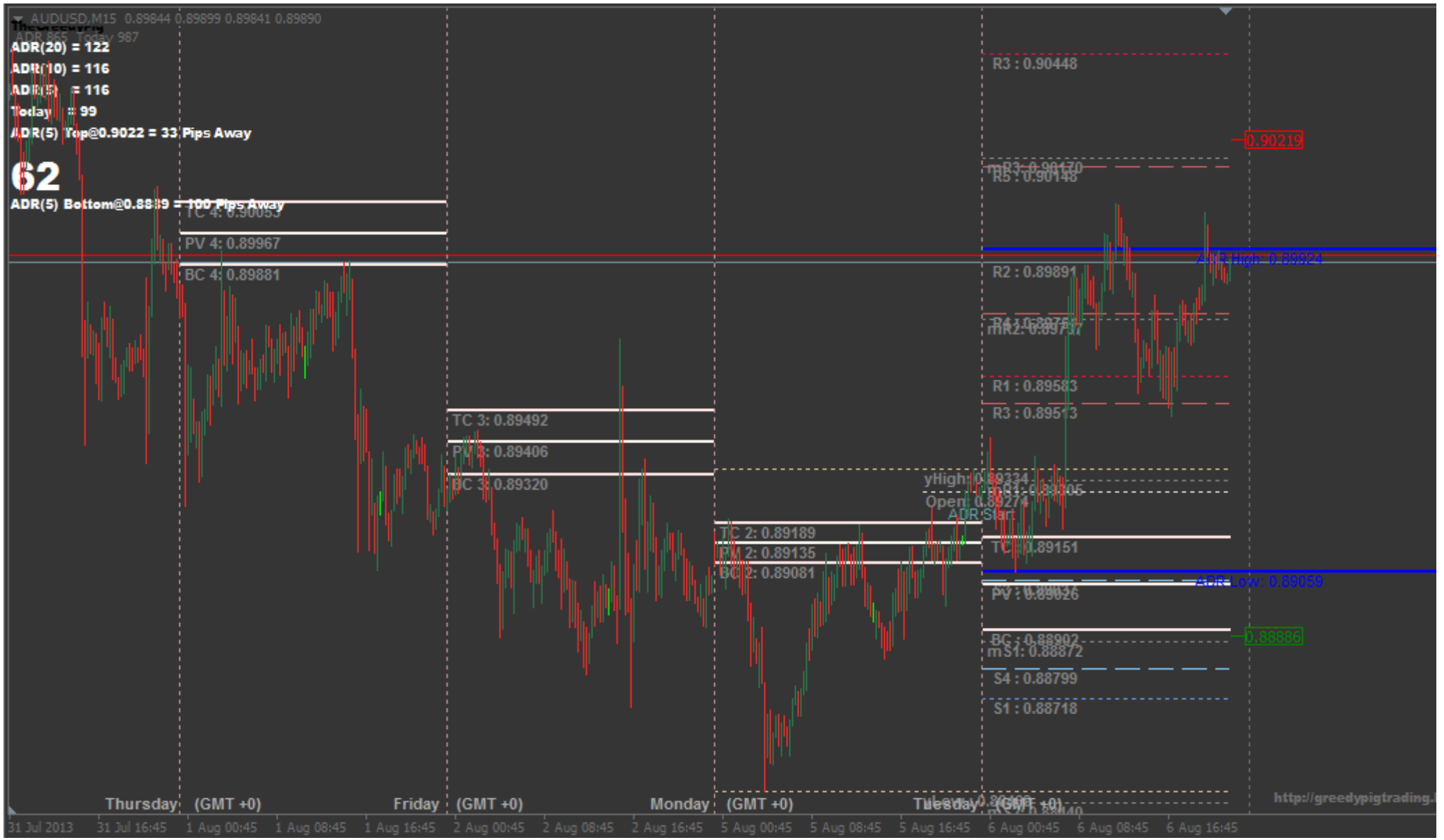


Average Daily Range
Touched ADR



Average Daily Range

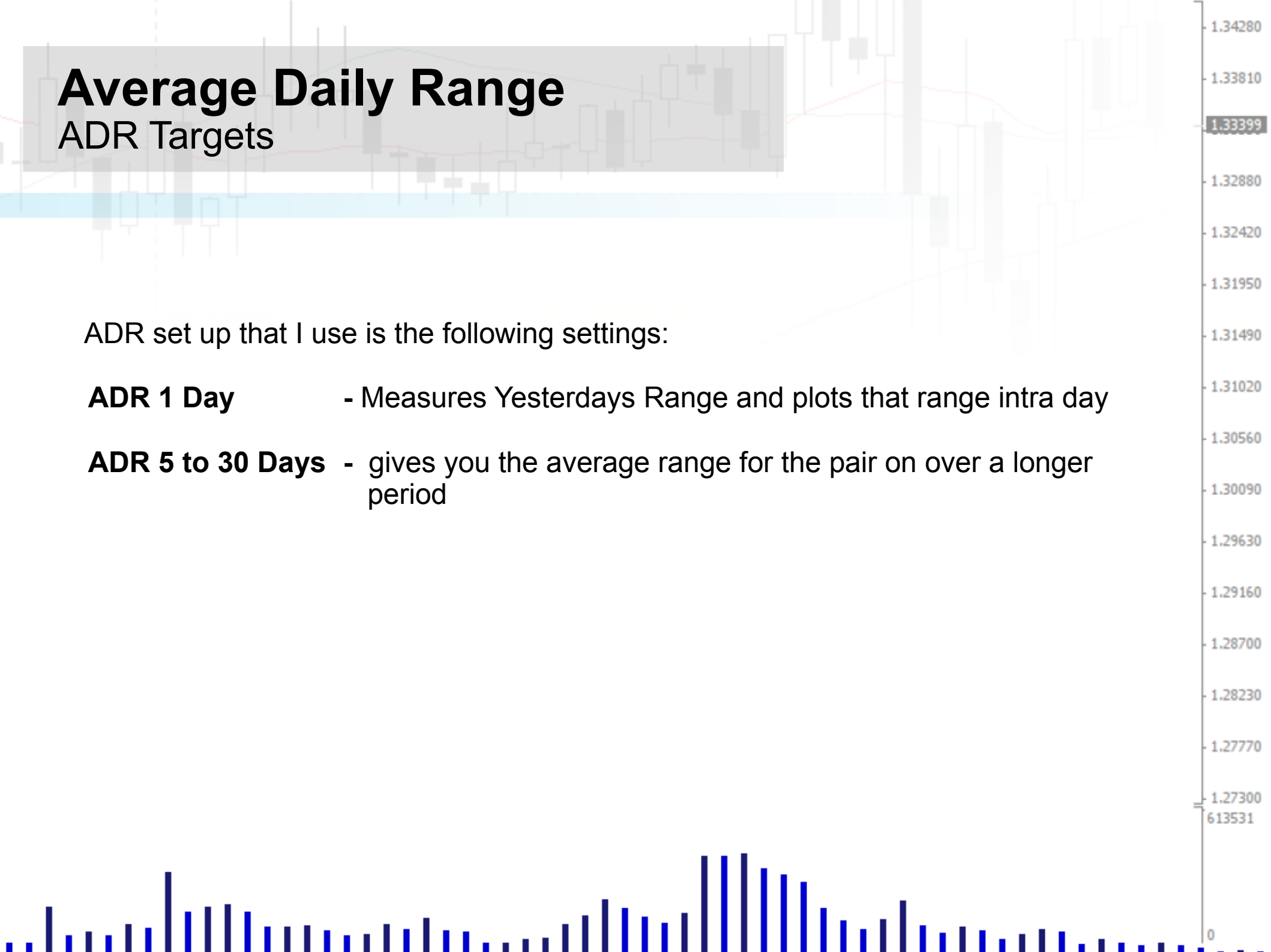
Touched ADR



Average Daily Range

ADR Targets

ADR set up that I use is the following settings:

ADR 1 Day - Measures Yesterdays Range and plots that range intra day

ADR 5 to 30 Days - gives you the average range for the pair on over a longer period