

Great SMA, EMA and MACD systems

Contributed by Administrator
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Currency: GBP/USD (preferred) or any other.

Time frame: 3 hours (preferred) or 4 hours.

Indicators:

SMA 200, SMA 100 – these are two influential SMAs; you will find price “obeying” their boundaries.

SMA 15

EMA 5

MACD (12, 26, 9)

Trading Rules:

Since we are dealing with “unpredictable until set” indicators (EMA, SMA, MACD) we will always be using signals AFTER the current signaling candle is closed.

1. Never open a trade if price is less than 25 pips away from 100 SMA or 200 SMA.

2. Do enter the market when price has crossed either 100 SMA (expect large move) or 200 SMA (expect very large move) and only after the current candle has closed on the opposite side of the SMA. SMAs this big do not get crossed very often.

3. Set stop loss initially at 50 pips. Look for nearest support/resistance level and adjust it accordingly – it could grow up to 70-90 pips but it should not be less than 40 pips. Anyway this measure is taken only to save us from sudden “exploding market”, in all other cases it will not be hit as our system will take you earlier from the trade.

4. Enter in the direction of 5 EMA once two conditions are met:

1) 5 EMA crosses 15 SMA “permanently” – which means the current candle is closed and lines are “locked” and will not move misleading us.

2) MACD lines are crossed, and the current candle is closed.

The 2 crosses do not have to happen simultaneously. MACD lines can cross earlier than EMA and SMA or shortly after, but there should be no

more than 5 candles in between 2 crosses.

If "2-cross" condition is not met – no entry.

Exit rules: exit with the same rules as for entry: when two crosses are in place. If we have only one cross – we are still in trade.

Profit target:

- a) can be set to a desired amount of pips and followed with trailing stop further once the target is reached.
- b) or use 50 pips profit target – do start chasing the price with trailing stop after gaining 50 pips.
- c) or you may not use trailing stop and set no profit targets, then exit according to Exit rules – on the next "2-cross";.

Let's walk through the numbers:

#1 – EMA 5 crosses 15 SMA, MACD lines also crossed, price is not close to SMA 100 – we place Long order.

#2 – again we have 2 crosses: moving averages cross and MACD – we exit Long and immediately place Short order.

#3 – 2 crosses are in place, by the time our current signaling candle is closed we are already far enough from 100 SMA, so we close Short and open Long position. Yes, till this point we were trading in sideways moving market – so no profits here, may be some small negative results. Solution – trading only during active hours, for GBP/USD it is London and New York sessions.

#4 – As we were Long – this point is our exit ("2-cross" condition is met again) and immediately place Sell order.

#5 – moving averages on the chart have crossed, however MACD – does not, we stay in trade.

We watch price passing 100 SMA and closing below it – it is a good sell signal, but we are already trading it.

#6 – first appears MACD crossover, followed by moving averages crossover – at this point we close our Short position. Do we open Long position immediately? No, because we are very close to 100 SMA. We need to wait until candle passes and closes above 100 SMA to open a Long trade. Once it happens we are in trading Long.

#7 – MACD lines has attempted to cross, but nothing to worry as there is no second cross from moving averages.

#8 – same as #7.

#9 – time to finally close Long position and go Short.