High Probability Trading Triggers for Gold & Silver

John Person

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U.S. Stocks About As Expected, but Wheat Crop Larger
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AG
interest rate
CBOT Fed Funds September Settlement
CBOT September 29, 2004 Treasury Conversion Factors
Liquidity, Depth, and Flexibility in CBOT Interest Rate
INTEREST RATES
Month Price Chg
04Dec 207'2 2'6
04Nov 526'2 2'2
04Oct 21.00 -0.05
04Oct 153.5 0.9
04Dec 302'0 -4'2
04Dec 144'6 1'6
Rice 04Nov 713.0 2.0
04Dec 207'2 2'6
04Nov 526'2 2'2
04Dec 302'0 -4'2
04Oct 500.3 3.7
04Dec 111'06 -0'17
10 Yr Note 04Dec 111'30.5 -0'12.0
5 Yr Note 04Dec 110'09.0 -0'08.5
2 Yr Note 04Dec 105'15.2 -0'03.2
Bund 04Dec
Bobl 04Dec
Schatz 04Dec
10 Yr Swap 04Dec 109'23 -0'16

CBOT Precious Metals
100% Electronic

Trading Hours: 7:16 pm – 4 pm Chicago time (21 hours)

GOLD
100 oz Gold – Ticker ZG
33.2 oz Gold – Ticker YG

SILVER
5000 oz. Silver – Ticker ZI
1000 oz. Silver – Ticker YI

- **“mini-sized” contracts launched Sept. 2001**
- **“Full-sized” contracts launched Oct. 2004**

Live Book

CBOT
100 oz
Gold

ZGG5
Last: 454.1
Change: + 0.7
Time: 08:19:56

BUY ORDERS		SELL ORDERS	
QTY	PRICE	QTY	PRICE
13	454.1	8	454.5
58	454.0	59	454.6
54	453.9	54	454.7
114	453.8	114	454.8
1	452.2	2	454.9
1	451.6	2	455.0
5	451.1	2	455.1
1	449.9	1	455.4
2	449.6	1	455.8
1	448.5	1	456.4

Dec 1, 2004 8:20:08 AM

CBOT
mini-sized
Gold

YGG5
Last: 456.9
Change: + 1.1
Time: 07:25:57

BUY ORDERS		SELL ORDERS	
QTY	PRICE	QTY	PRICE
1	456.5	118	457.0
112	456.4	204	457.1
207	456.3	219	457.2
220	456.2	1	457.3
3	456.1	1	457.7
1	456.0	2	458.0
1	455.2	1	458.3
1	455.1	5	458.5
3	455.0	6	458.7
3	454.7	2	458.8

Dec 7, 2004 7:26:08 AM

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High Probability Trading Triggers for Gold & Silver

John Person

June 16, 2005

Using Stochastics Combined with MACD for Pinpointing Reversals and Trade Entries Trading CBOT Electronic Silver and Gold

Presented By:

John L. Person
www.nationalfutures.com

Using Stochastics Combined with MACD for Pinpointing Reversals and Trade Entries

- Some traders believe MACD is one of the best indicators, others say that a Stochastic indicator is more useful during certain market conditions and for determining various signals such as divergences or convergences. So the old adage that there is no holy grail for any single one trading indicator or style makes sense.

- One reason this may be true is due to the fact that markets change, as do market conditions and people's perception of a product's or markets given value or anticipated value in any given time.

Using Stochastics Combined with MACD for Pinpointing Reversals and Trade Entries

- Looking at the gold and silver markets, I will demonstrate how traders can implement both Stochastics and MACD signals for pinpointing reversals and confirming trade entries.

- Combined with a specific change in chart patterns, this presentation will give you a better understanding of the concept in which each indicator is based on.

Trading Seminar Outline

- Hammer Reversal Trigger
- The Structure of a Trade Set-up
- Stochastics Signals For Confirmation
- MACD Setups

TREND TRADING TECHNIQUES

- Always remember that when trading with a set of rules you will never be 100% right.
- If you do not follow a set of rules you increase the odds of being 100% wrong in your trading.
- If you manage your trading risks and take every signal then you will be successful.
- It is the trader who says “I am tired of this”, and just then, as the next signal comes, that is when that decides not top take the signal, that becomes the big winner.

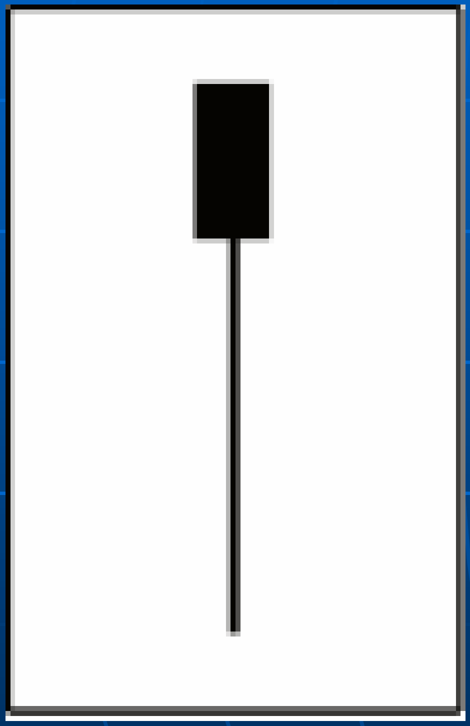
Candlesticks Identifies "pivot points"

Hammer Reversal Candles

- **The characteristics required to form a hammer candlestick are that the lower shadow should be at least two times the length of the body.**

- **There should be *little* or no upper shadow and the color, meaning a lower close than the open or a higher close than the open does not matter.**

Hammer Reversal Candles



- Named “Takuri”
- After a downtrend once a hammer forms, the next candle the following day with a higher close or strong close above the hammers high triggers a buy signal
- The longer the Shadow the more bullish the signal.
- Large Volume also indicates an exhaustion bottom has occurred.

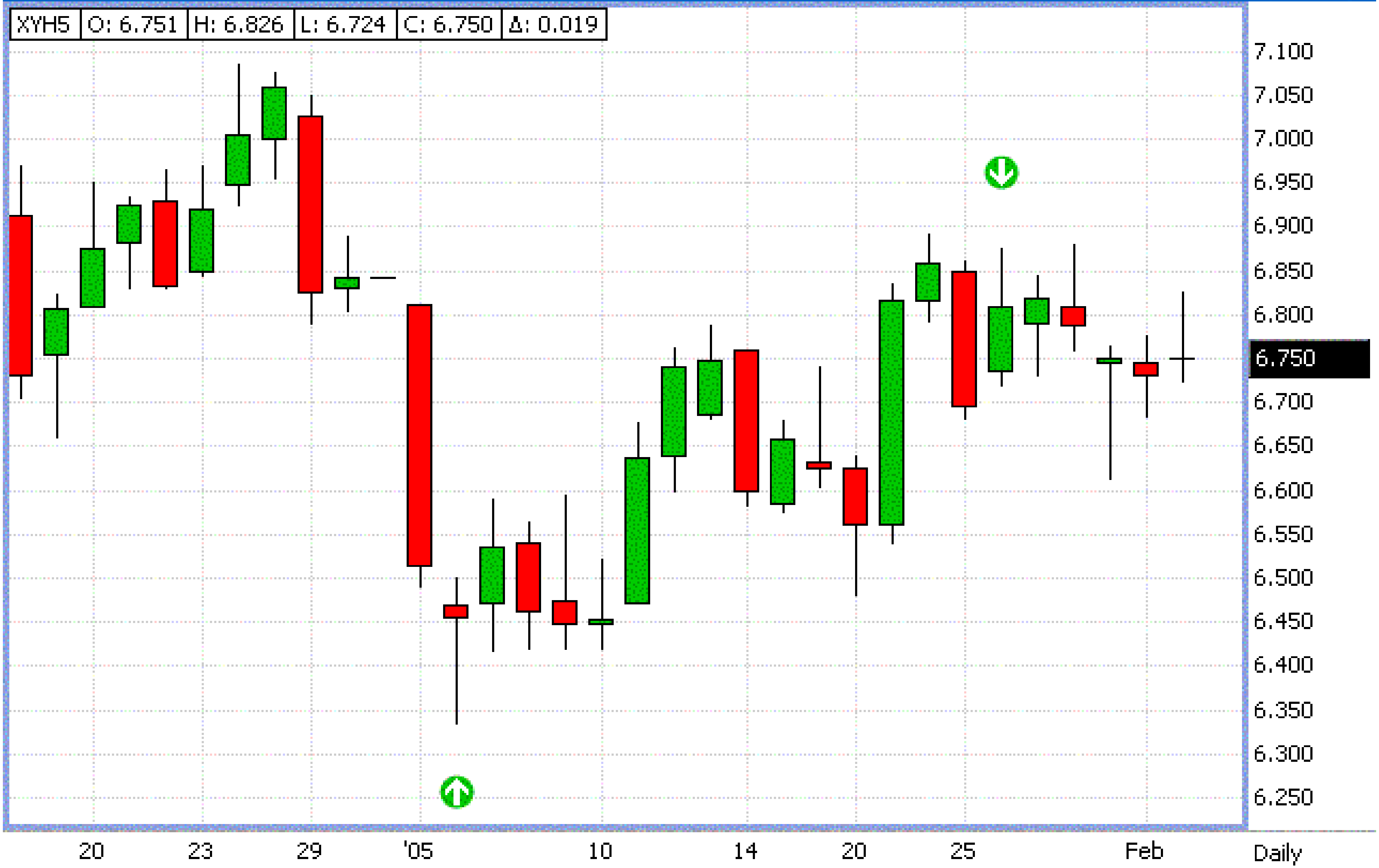
Bullish Trade Set-up Strategy

- Buy on the close or on the next open after a new <u>closing</u> high is made from a previous bullish candle pattern, especially a Hammer when it is against a key Pivot Point or Fib. Target number.
- Place stops below the lowest low point of the initial Bullish Candle.
- Sell or exit the trade on the close or the next open of a candle that makes a lower closing low near an important Key Pivot Point target number.
- One can use a "Filter" or back-up process to confirm the buy signal such as a bullish convergence Stochastic pattern & MACD Signal

Hammer Reversal Candles

Hammer Reversal Candles

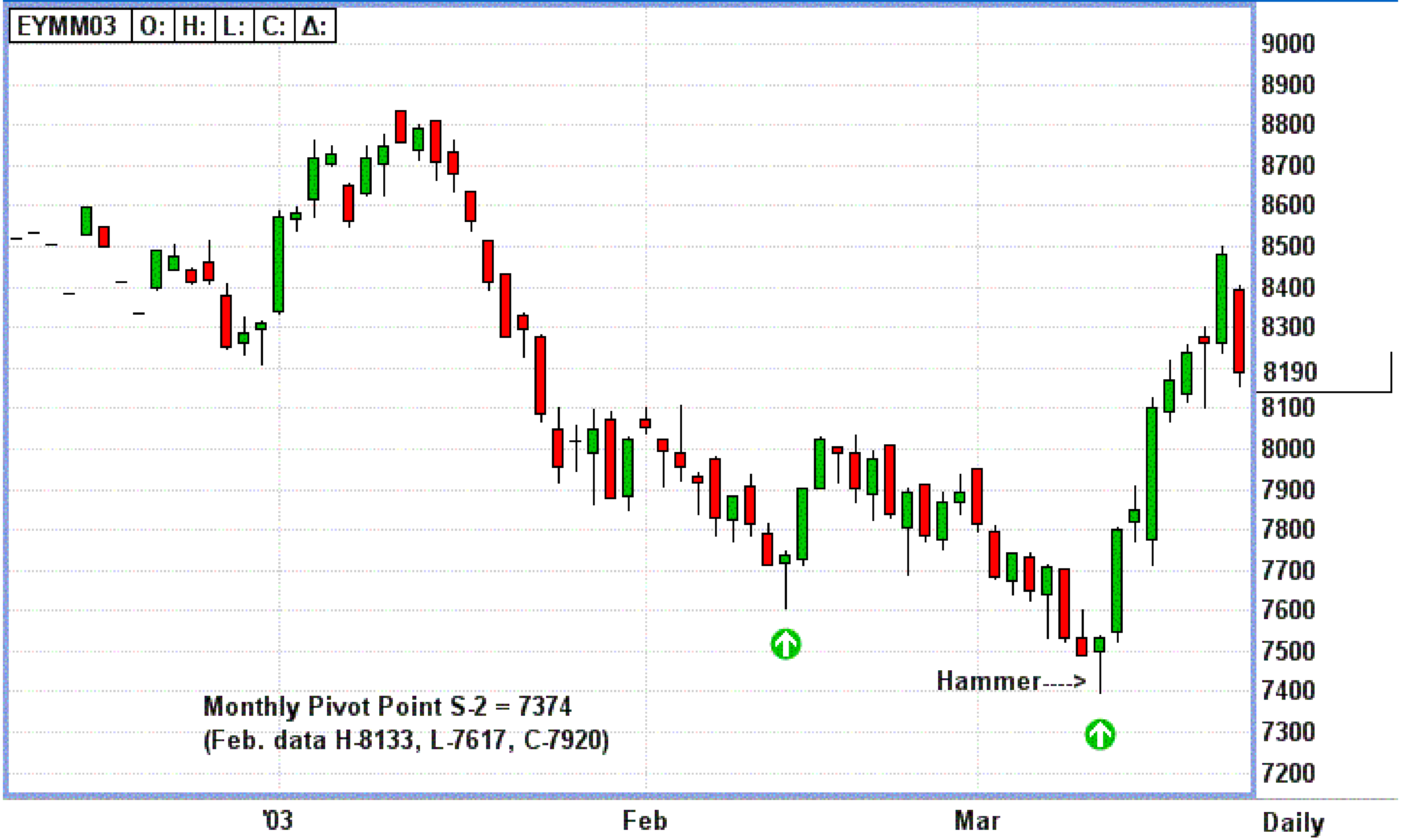
Hammer Reversal Candles



Hammer Reversal Candles

- Hammer Bottoms occur and form at major turning points it is a major signal.
- Generally it is a “secondary” low, that helps develop a Bullish Convergence on Stochastics or MACD.
- They work with all markets including the CBOT mini-size Dow!

Hammer Reversal Candles



Stochastics Range Based Oscillator

- Stochastics a range based oscillator it is also considered a momentum oscillator George C. Lane is credited with creating the formula. I had the privilege of working for George back in 1980.

- His indicator is a popular technical tool used to help determine whether a market is overbought, meaning prices have advanced too far too soon and due for a downside correction, or oversold, meaning prices have declined too far too soon and due for an upside correction

Stochastics Range Based Oscillator

- **Stochastics** is also considered a momentum oscillator indicator
- Remember momentum changes before Price turns occur. This indicator gauges the change in momentum.
- It is based on a mathematical formula that is computed to compare the settlement price of a specific time period to the price range of a specific number of past periods.

Stochastics Range Based Oscillator

- When the bullish momentum starts to slow, the settlement (***CLOSES***) price will start to fade from the upper boundaries of the range and the Stochastics Indicator will show that the bullish momentum is starting to change into an overbought state.

Stochastics Range Based Oscillator

- The formula to calculate the first component, %K: (14 period) The value of %K =c-Ln/Hn-Ln*100

- The second calculation is the %D (3 period) It is the moving average of %K.It is calculated by: %D=100(Hn/Ln) HN= the nperiod sum of (c-Ln).

- c=closing price of current period, Ln= lowest low during nperiod of time, Hn=highest high during nperiod of time and n=number of periods.

Stochastics Range Based Oscillator

- There are two lines that are referred to as %K and %D.

- These are plotted on a horizontal axis for a given time period and the vertical axis is plotted on a scale from 0% to 100%.

Stochastics Range Based Oscillator

- What is important is the understanding the rules of how to interpret buy or sell signals. When the readings are above 80%, and %k crosses below the %D line and both lines are pointing down a “hook” sell signal is generated.

- The exact opposite is true to generate a buy signal when %K crosses above %D when the reading is below 20% and both lines are both pointing up.

Stochastics Range Based Oscillator

- There is Fast Stochastic's and Slow Stochastic's.

- The difference is how the parameters are set to measure the change in price. This is referred to as a ***gauge in sensitivity***. A higher rate of sensitivity will require the number of periods in the calculation to be decreased.
- This is what "fast" Stochastic's does. It enables one to generate faster and a higher frequency of trading signals in a short time period.

Stochastics Range Based Oscillator

- One other method to use the stochastic indicator is trading off of pattern’s called bullish convergence. It is used in identifying market bottoms.

- The market price itself makes a lower low (not a substantial one) from a previous low but the underlying stochastic pattern makes a higher low


GCZ03
O:
H:
L:
C:
Δ:
Bullish Convergence
374.5
370.0
365.0
360.0
355.0
350.0
345.0
340.0
335.0
330.0
325.0
320.0
STO (GCZ03, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
94.02
80.00
60.00
40.00
20.00
0.00
10
20
Mar
10
18
25
Apr
8
15
24
May
8
15
Daily

Stochastics range based oscillator

- Another signal is a trading pattern called bearish divergence. It is used in identifying market tops. This is where the market price itself makes a higher high from a previous high but the underlying stochastic pattern makes a lower high. This indicates that the second high is a “weak” high and can resort to a turn around for a lower price reversal.


SIN5 | O: 7.330 | H: 7.355 | L: 7.320 | C: 7.350 | Δ: 0.020
7.800
7.700
7.600
7.500
7.400
7.300
7.200
7.044
6.900
6.800
6.700
6.600
6.500
Bearish Divergence occurs with a Higher Price High, ususally not substantial, and prices fail to reverse lower. Notice the Lower closing Low at the top.
STO (SIN5, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
100.00
80.00
60.00
35.61
'05
10
18
25
Feb
8
15
Mar
8
15
22
30
Daily

Stochastics range based oscillator

- Short-term professional day traders to long term traders can and do use this indicator. Unlike moving average studies where volatile or choppy market conditions will not work well, Stochastics will.
- Double and even triple tops occur and using Stochastics can give you a high degree of confidence and a strong probability that a market reversal is ready to occur.

Stochastics range based oscillator

- **<u>Sell signal Setup:</u>**

- Sell a double top or higher High with a subsequent lower close.
- With a lower peak in Stochastics once the indicator turns down.
- When the market makes a lower closing low.

SIN5 | O: 7.330 | H: 7.355 | L: 7.320 | C: 7.350 | Δ: 0.020
STRONG INDICATION TREND HAS RUN IT'S COURSE
7.660
7.650
7.640
7.630
7.620
7.610
7.600
7.590
7.580
7.570
7.560
7.550
7.540
7.530
7.520
7.510
7.500
7.490
7.480
7.470
STO (SIN5, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
125.00
100.00
75.00
50.00
6.67
-25.00
7:15
8:25
9:25
10:25
11:25
12:25
13:10
14:30
5 min.

Moving Average Convergence/Divergence

- Gerald Appel developed this indicator as we know it today and it is my understanding that he developed it for the purpose of stock trading. It is composed of using three exponential moving averages.

Moving Average Convergence/Divergence

- In simplest terms is an indicator that shows when a short term moving average crosses over a longer term moving average.
- The initial inputs for the calculations were a 9 period, a 12 period and a 26 period.
- These settings can be adjusted.

Moving Average Convergence/Divergence

- MACD signals react quickly to changes in the market that is why a lot of analysts including myself use it. It helps clear the picture when moving average crossovers occur.
- It is considered a lagging indicator. MACD also has a zero base line. If MACD line is above the zero line prices are usually trending higher. The opposite is true if MACD is declining below the zero line.

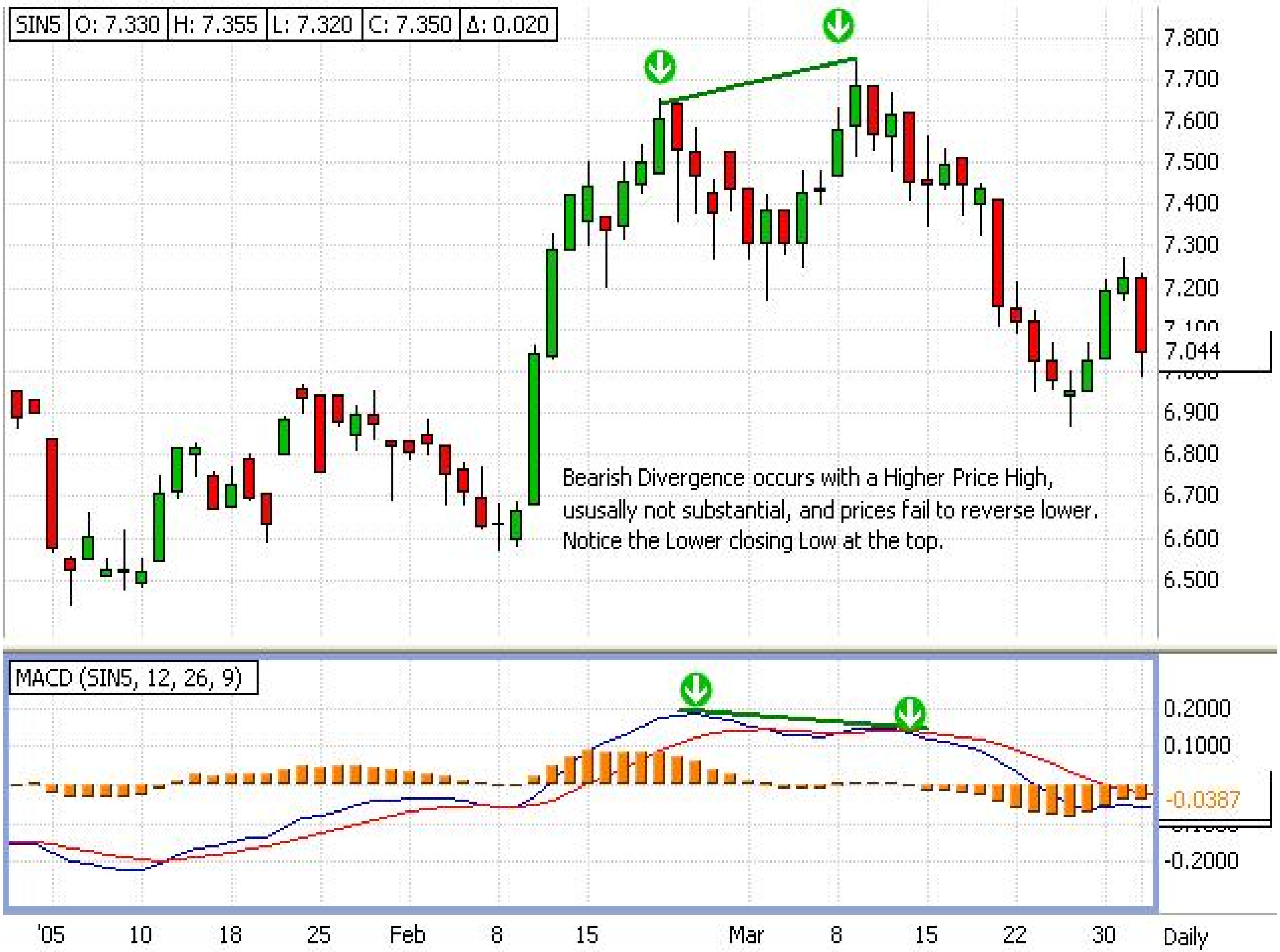
Moving Average Convergence/Divergence

- MACD is a lagging indicator it is based off of moving averages. One should avoid using this in combination with other moving average studies as a confirming trend indicator.

- The histogram component will give you Convergence and Divergence set-up signals.

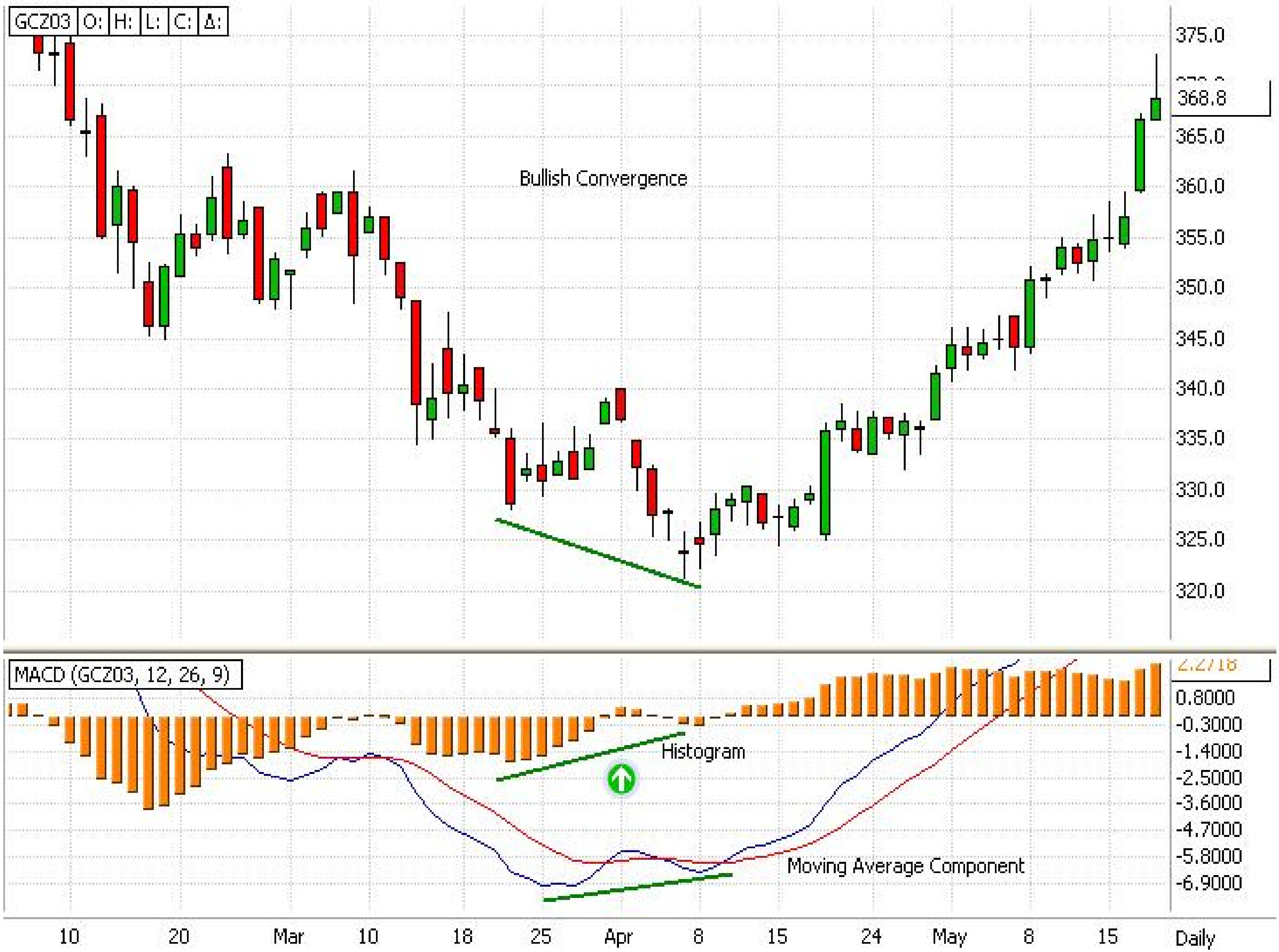
Moving Average Convergence/Divergence

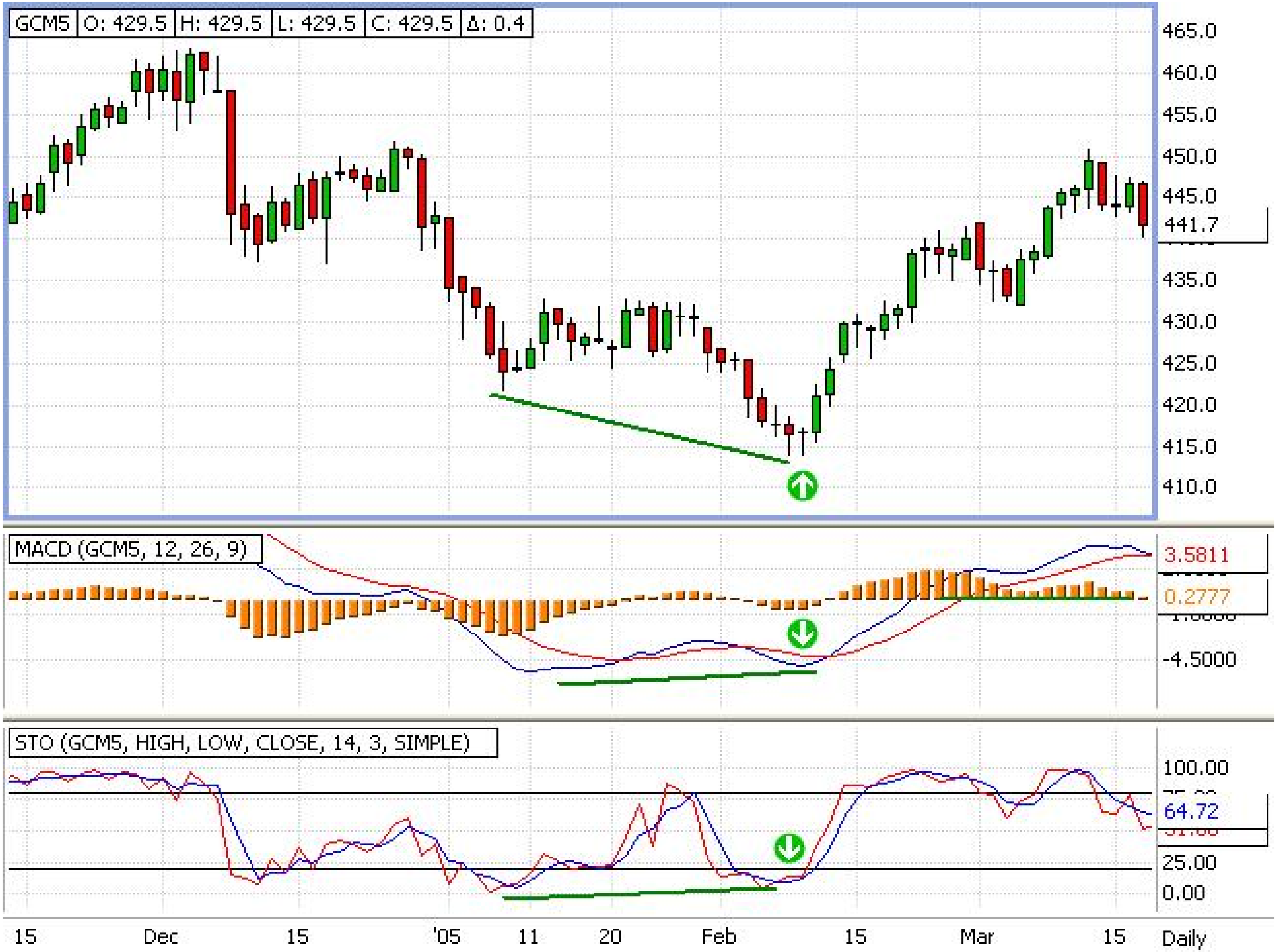
- **MACD Set-up & Trigger:**
- Look for the corresponding price to make a Double Top, the #2 point can be higher (Bearish Divergence).
- Sell on confirmation from a lower closing low and look for the MACD histogram to make lower lows or cross below the zero line.
- Also watch for lower peaks in the Moving average crossover feature.


SIN5 | O: 7.330 | H: 7.355 | L: 7.320 | C: 7.350 | Δ: 0.020
7.800
7.700
7.600
7.500
7.400
7.300
7.200
7.044
6.900
6.800
6.700
6.600
6.500
Bearish Divergence occurs with a Higher Price High, ususally not substantial, and prices fail to reverse lower. Notice the Lower closing Low at the top.
MACD (SIN5, 12, 26, 9)
0.2000
0.1000
-0.0387
-0.2000
'05
10
18
25
Feb
8
15
Mar
8
15
22
30
Daily

SIN5
O: 7.330
H: 7.355
L: 7.320
C: 7.330
Δ: 0.000
7.700
7.650
7.600
7.550
7.525
7.500
7.450
7.400
7.350
7.300
7.250
7.200
7.150
7.100
7.050
7.000
MACD (SIN5, 12, 26, 9)
0.0800
0.0600
0.0400
0.0200
-0.0014
-0.0200
9:25
0:00
Mon
14:00
4:00
19:00
9:25
0:00
Sun
16:00
60 min.


SIN5
O: 7.330
H: 7.355
L: 7.320
C: 7.330
Δ: 0.000
7.650
7.625
7.600
7.575
7.550
7.525
7.500
7.475
7.450
7.425
7.400
7.375
7.350
7.325
7.295
7.275
7.250
7.225
7.200
7.175
7.150
7.125
MACD (SIN5, 12, 26, 9)
0.0400
0.0200
0.0023
-0.0308
9:25
0:00
Sun
17:00
7:00
22:00
14:00
4:00
19:00
9:25
60 min.


GCZ03 O: H: L: C: Δ:
375.0
368.8
365.0
360.0
355.0
350.0
345.0
340.0
335.0
330.0
325.0
320.0
Bullish Convergence
MACD (GCZ03, 12, 26, 9)
0.8000
-0.3000
-1.4000
-2.5000
-3.6000
-4.7000
-5.8000
-6.9000
Histogram
Moving Average Component
10
20
Mar
10
18
25
Apr
8
15
24
May
8
15
Daily



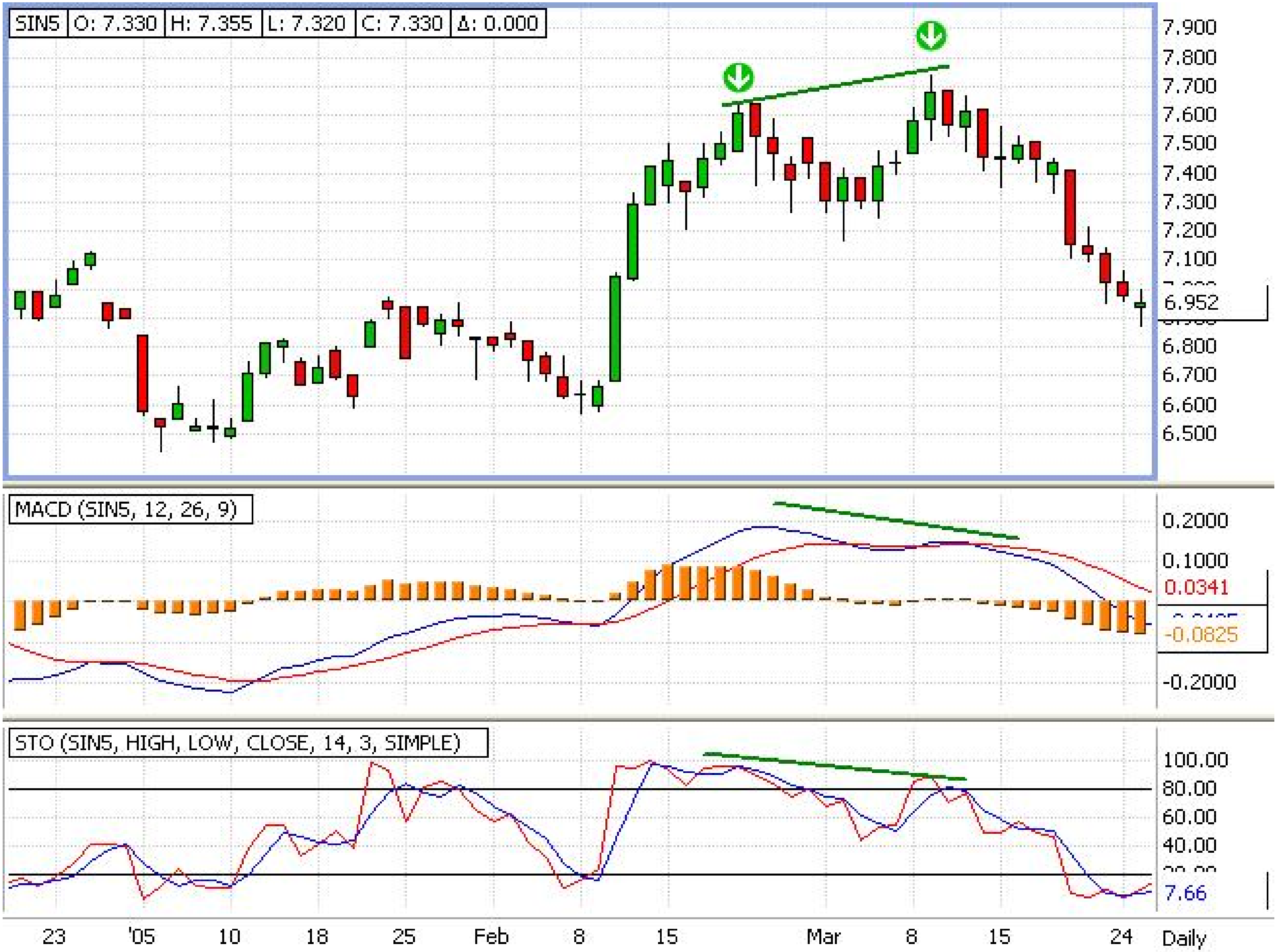
GCM5
O: 429.5
H: 429.5
L: 429.5
C: 429.5
Δ: 0.4
465.0
460.0
455.0
450.0
445.0
441.7
435.0
430.0
425.0
420.0
415.0
410.0
MACD (GCM5, 12, 26, 9)
3.5811
0.2777
-4.5000
STO (GCM5, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
100.00
64.72
25.00
0.00
15
Dec
15
'05
11
20
Feb
15
Mar
15
Daily

Stochastics & MACD

- A dual Convergence or Divergence signal is one of the most powerful and reliable set-ups.

- Watch for a Bearish Divergence to form and then look for the change in momentum to occur when a lower closing low triggers an entry. Stops should ***initially*** be placed above the secondary high.

- The opposite is true for Bullish Convergence set-ups.



SIN5
O: 7.330
H: 7.355
L: 7.320
C: 7.330
Δ: 0.000
7.900
7.800
7.700
7.600
7.500
7.400
7.300
7.200
7.100
6.952
6.800
6.700
6.600
6.500
MACD (SIN5, 12, 26, 9)
0.2000
0.1000
0.0341
-0.0825
-0.2000
STO (SIN5, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
100.00
80.00
60.00
40.00
7.66
23
'05
10
18
25
Feb
8
15
Mar
8
15
24
Daily


GCJ05 O: H: L: C: Δ:
465.0
460.0
455.0
450.0
445.0
439.1
435.0
430.0
425.0
420.0
415.0
A change in the sequence of events
Higher Closing High!
MACD (GCJ05, 12, 26, 9)
10.0000
Bullish Convergence In MACD Corresponds with Stochastiocs
3.5272
0.2781
-5.0000
STO (GCJ05, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
100.00
64.65
0.00
15
Dec
15
'05
11
20
Feb
15
Mar
15
Daily

Stochastics & MACD

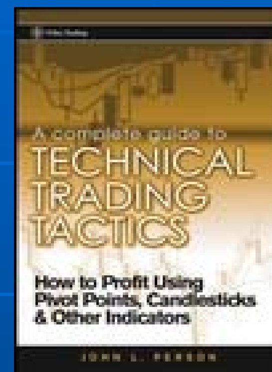
- Both Indicators at times do give Convergence and Divergence signals.
- Due to the nature of MACD usually Stochastics can and will generate a signal prior to MACD.
- MACD is a great confirming tool that a trending market condition exists.
- MACD Histogram also generates Convergence and Divergence signals

SIZ04 O: H: L: C: Δ:
MACD TRIGGERS THE SELL LONG AFTER THE MOVE!
Notice lower closing low?
<---
8.400
8.200
8.000
7.800
7.600
7.400
7.200
7.000
6.843
6.600
STO (SIZ04, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
100.00
80.00
60.00
40.00
11.52
MACD (SIZ04, 12, 26, 9)
0.2000
0.1000
-0.0145
5
11
15
25
Nov
5
15
23
Dec
10
Daily

SIZ04 O: H: L: C: Δ:
7.572
7.400
7.200
7.000
6.800
6.600
6.400
6.200
6.000
Trend Reversal occurs with sequence of Higher Closing Highs!
STO (SIZ04, HIGH, LOW, CLOSE, 14, 3, SIMPLE)
100.00
78.27
60.00
40.00
20.00
Stochastics gives trigger 1st!
MACD (SIZ04, 12, 26, 9)
0.1470
-0.0052
-0.1000
-0.2000
20
Sep
15
23
Oct
8
15
Nov
8
15
Daily

Nationalfutures Advisory Services

- **John is Editor of the Bottom Line Newsletter.**
- **Author of Technical Trading Tactics, How to Profit using Pivot Points, candlesticks and other Indicators.**
- **Author of "Trading Triggers" advanced home study trading course complete with workbook & multimedia CD**



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- **Go to www.nationalfutures.com for a free two week trial.**
- **Also, register for a free two week trial to my Weekly Newsletter that includes market analysis on Silver and Gold with specific trading recommendations.**

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