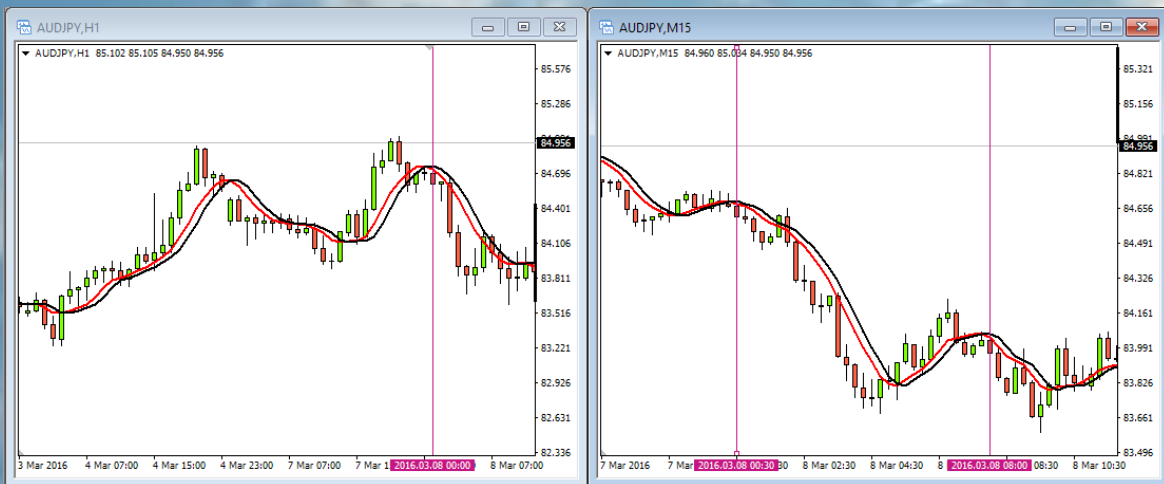


# RIBBON TRADING

## ON

# MULTIPLE TIMEFRAMES



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## SECTION 1 - General

### Introduction

Whilst not an original trading technique, this guide has been put together by a group of traders who have been using the method and sharing their experiences, findings and results. The guide includes setting up the charts, selecting suitable timeframes, instructions on use and various trade examples. The guide is intended as an ongoing project and will be regularly updated with new chart views, examples, tips and comments that emerge along the journey.

### Before you trade

This method is used by numerous forex traders who have reported their successes with it on the forum. But there are also others who have reported their difficulties and failures. Each newcomer to this method should first practice with a demo account until they are satisfied they understand its principles and that it suits their trading style.

This method will certainly help with getting the direction right but, as with any trading strategy, in order to be profitable it must be combined with a sensible money management policy that controls risk exposure and is based on realistic risk/reward analyses.

The forex market is complex and volatile. It is essential that traders learn the nature of the product and the market as well as their chosen analytical tools before risking their own funds. There are no educational qualifications required before starting to trade one's own funds and there are consequently many examples of failed attempts and lost capital. Forex trading is a profession like any other and only succeeds when one devotes sufficient time and resources to really learning and practising the principles involved.

It should also be remembered that technical indicators like moving averages are not some kind of magical constructions that dictate what the market will do next. Markets are driven by the actual underlying supply and demand for the currencies concerned. Moving averages only look at historical data and try to filter out the "noise" in the movements and identify a possible underlying trend. In other words, they try to make visible what is otherwise invisible and *suggest* what *might* happen next - they do not *know* what will happen..... even in the following minutes.

## General method description

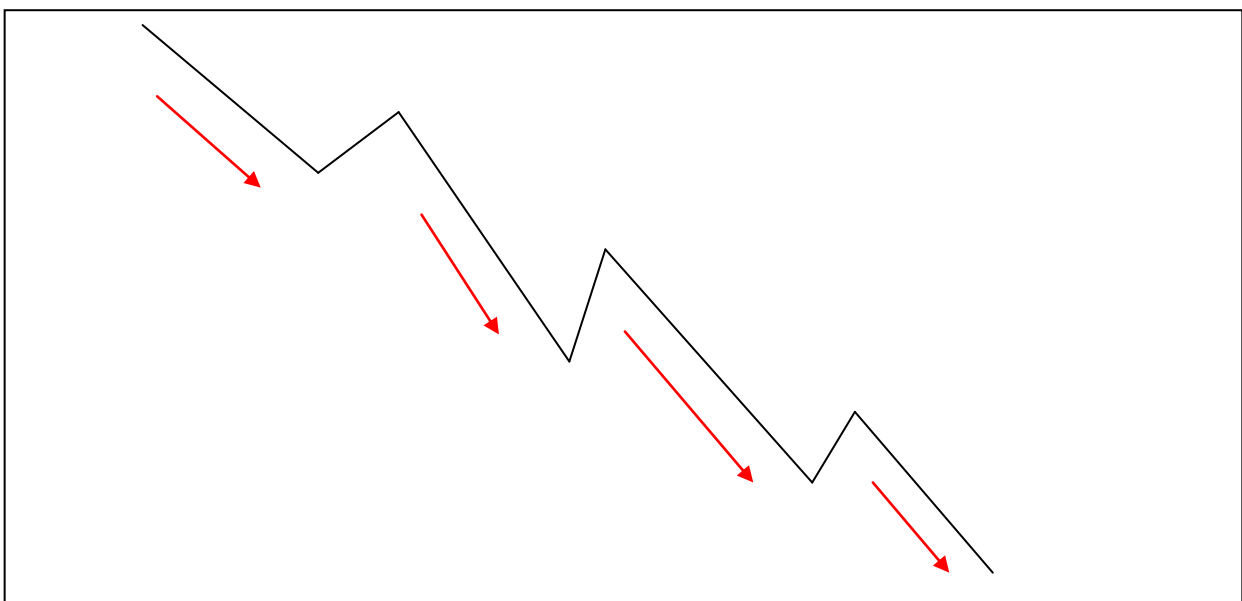
For any method based on moving averages to succeed it requires two things. First, that it can successfully identify the underlying direction, and second, that the identified direction continues far enough to gain a profit before reversing. The first requirement is fulfilled by the ribbon and the second requirement by appropriate risk/reward management that is related to the timeframe used.

The ribbon method utilises multiple timeframes (TFs). It uses the higher timeframe(s) to identify the start and direction of a move and a lower timeframe to generate trade entry signals in the same direction as the identified trend. It is not intended for range trading or long term positioning.

The method is based on the direction and crossovers of a pair of 6-period simple moving averages (SMAs), one of which is shifted forward by one period. These two SMA's form a ribbon on the chart along which the price "rides". The same pair of SMA's is placed on each chart used.

Although this is a somewhat mechanical method it still relies on personal input to decide whether the signal makes sense with respect to overall price action and/or other indicators. In addition, the entry, target and stop-loss levels, as well as relevant support/resistance levels are all based on the trader's own decisions.

The method does not try to ride an entire trend but to profit from the separate, shorter term legs of the main trend. Diagrammatically this can be represented as follows:



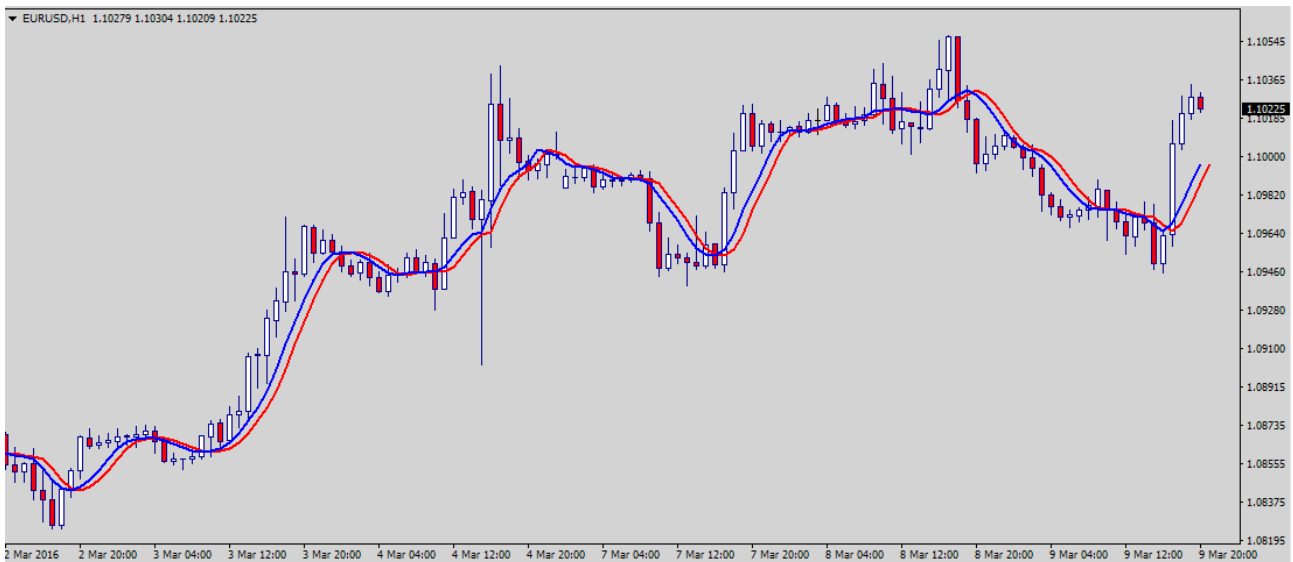
The red arrows identify the legs traded on the short timeframe within the overall trend of the higher timeframe.

## SECTION 2 - Setting up the charts

First decide which timeframes you wish to use for the strategy. Choose one or more higher TF(s) to identify the trend direction and its current phase, and a suitable lower TF to provide the actual trade entry signals. These TFs should not be too distant from each other, nor too close, in order work in unison and provide good trade opportunities. Suitable TF combinations are:

- 5min with 30min parent
- 15min with 1hr parent
- 30min with 4hr parent
- 4hr with daily parent
- daily with weekly parent
- weekly with monthly parent

Place two moving averages with different colours on each chart to be used. These moving averages are both 6-period Simple Moving Averages (SMA's) calculated using the "typical price" (i.e.  $(High+Low+Close)/3$ ). Using the typical price gives a smoother line than using the close. One SMA is set with Shift= 0, and the other with Shift= 1. The chart should look similar to this:



The combination of these two averages forms a "ribbon" on each chart which is then monitored and compared. The trend is identified by the ribbon on the higher TF(s). Possible trade entry signals are generated on the short TF whenever the SMA's cross into the direction of the trend on the higher TF(s).

## SECTION 3 - Trading the ribbon

### Choosing timeframes

This trading method works best when there is a good trend present on the higher TF(s). This can be identified by the relative position of the two MAs, the slope of these lines and the position of the current price action with respect to the MAs. It also works better when markets are active, for example, between the London open and NYT close.

Any timeframes can be used but the higher timeframes will generally give more reliable signals and bigger profit target levels (TL), but normally with more distant stop-loss levels (SL). The smaller TFs like 15 min and 5 min offer more trading opportunities but are more unpredictable and give smaller gains per trade. The TFs of 30 min and above usually have smoother and longer movements. It is better in the beginning to stay on 30 or 60 min charts until one is familiar and consistent with the method.

Even where, for example, the daily or 4-hour chart is used for the longer TF chart, it is useful to also look at the higher daily, weekly and even monthly charts to mark off the major and closest levels of support and resistance with horizontal lines on your chart.

In practice, this method works equally well with either a "top down" or "bottom up" approach.

### "Top down" trading

Start by monitoring the higher TF chart(s). Once a suitable trend has been identified on the higher TF, look for price to break the ribbon on the lower TF and for its two SMA's to cross each other into the same direction as the high TF. This crossing of the lower TF SMA's gives the trade "signal". For example, if price on the 1hr chart is below a downward sloping ribbon, then look for crossover sell signals on the 15min chart.

After the crossover, look for follow-through separation of these two averages on the lower TF during the next candle, at which point the trade can be initiated. It is not necessary to wait for the close of the following candle before entering the trade. However, if the signal candle that breaks the ribbon is exceptionally long then either ignore the trade or wait for a pull-back of around 50% of the signal candle before entering.

### "Bottom up" trading

Start by watching for a ribbon crossover signal on the low TF, for example, on the 15m or 30m charts. Then check the ribbon on the next timeframe up for confirmation of the direction together with recent price action and possible candle formations. If further confirmation is preferred then also check the next time timeframe up and so on.

If on the higher timeframes the market direction is opposite to your signal then wait for confirmation from them first before trading.

### Setting target and stop levels

Set the profit target with regard to the typical length of moves on the lower TF being used and do not look for too much. Profit targets are typically 15-50 pips. Also, the corresponding risk/reward ratio should typically be 1:1 or 1:1.5 on lower TFs, although higher ratios of 1:2 or more may be possible on higher TFs or if there is reason to believe that a bigger move is underway.

In general, it is good to give the trade room to "breathe" and not place the stop too close to the entry level. The stop distance should also relate it to the typical candle ranges in the TF concerned. In most cases putting the stop initially just beyond the ribbon may be sufficient, but it is always best beyond the recent high/low. So, for a risk/reward of 1:1 the distance from entry to stop level will equal the profit level.

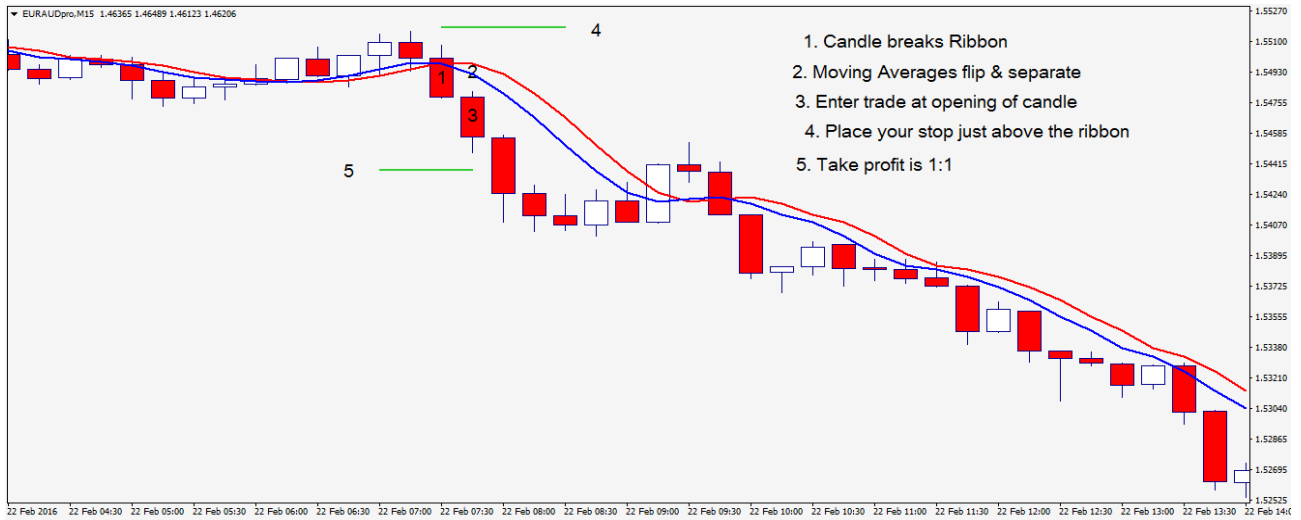
After setting the initial target and stop levels it is always wise to then fine tune both the levels with regard to nearby support/resistance levels, Fibonacci levels, or whatever methods one prefers.

As a general rule, the stop level should be at the point where, if reached, the reason for having entered the trade has been nullified.

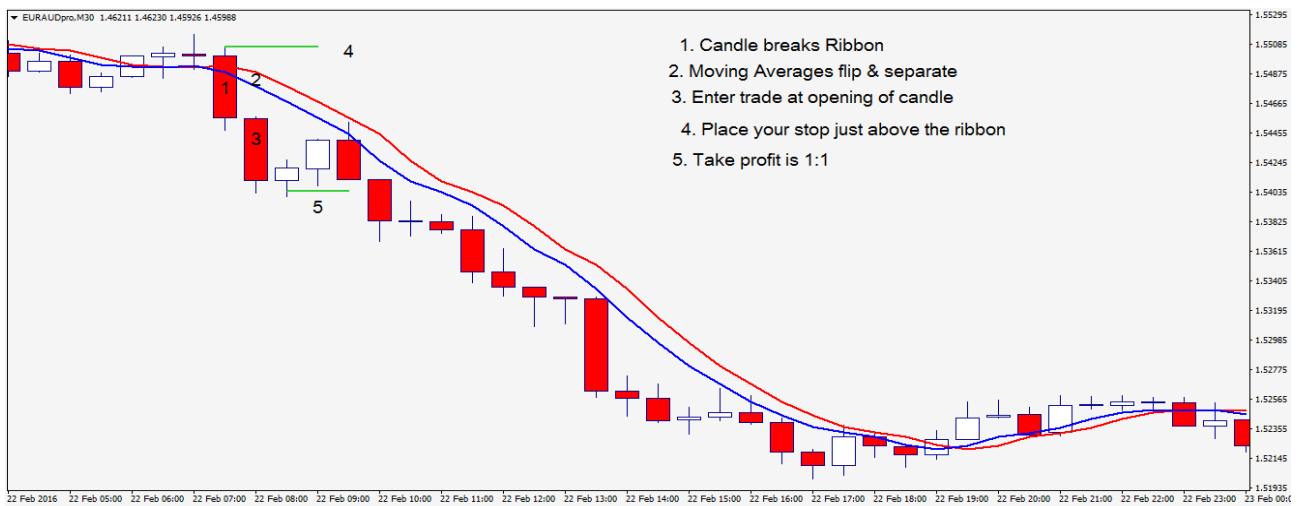
If the method is successful in 60-80% of its trades and the risk/reward ratio is 1:1 or more then the method is working. It is also important to keep the overall risk per trade to within the normal recommendations of 1-2% of available account equity.

Here are some examples of trade set-ups on various timeframes:

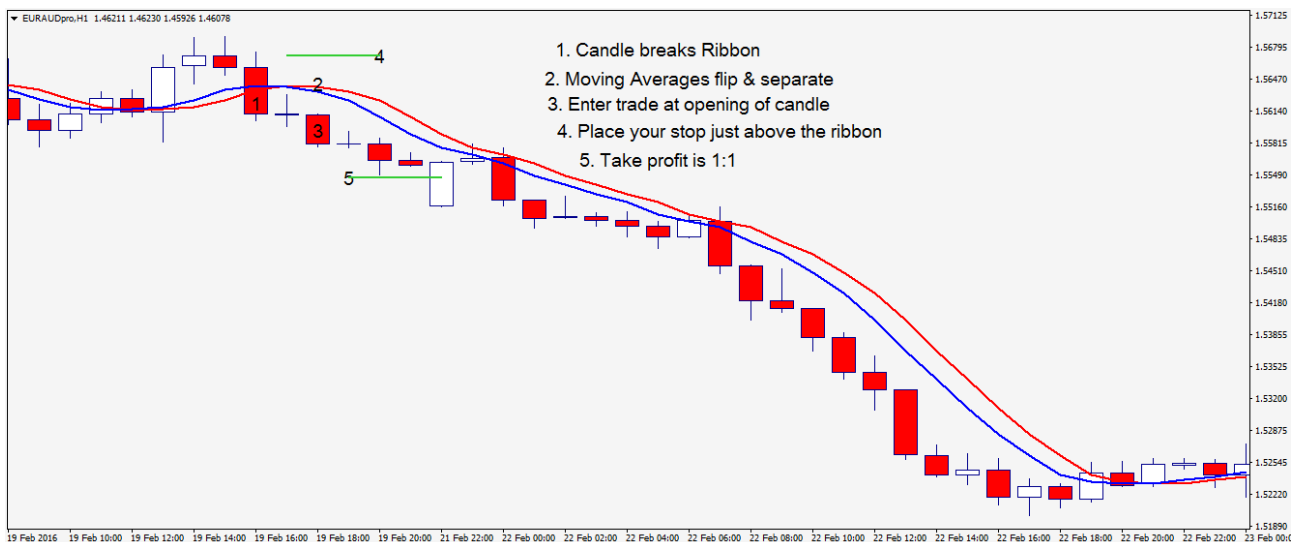
### 15 min chart



### 30min chart



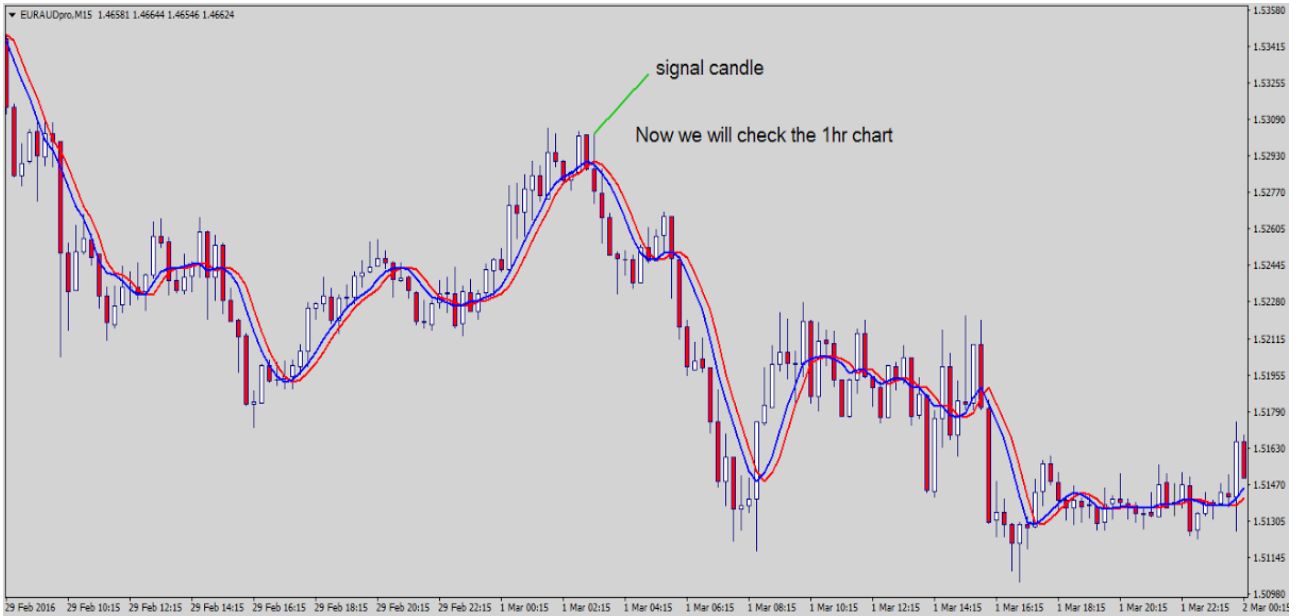
### Hourly chart





## Comparing two TFs

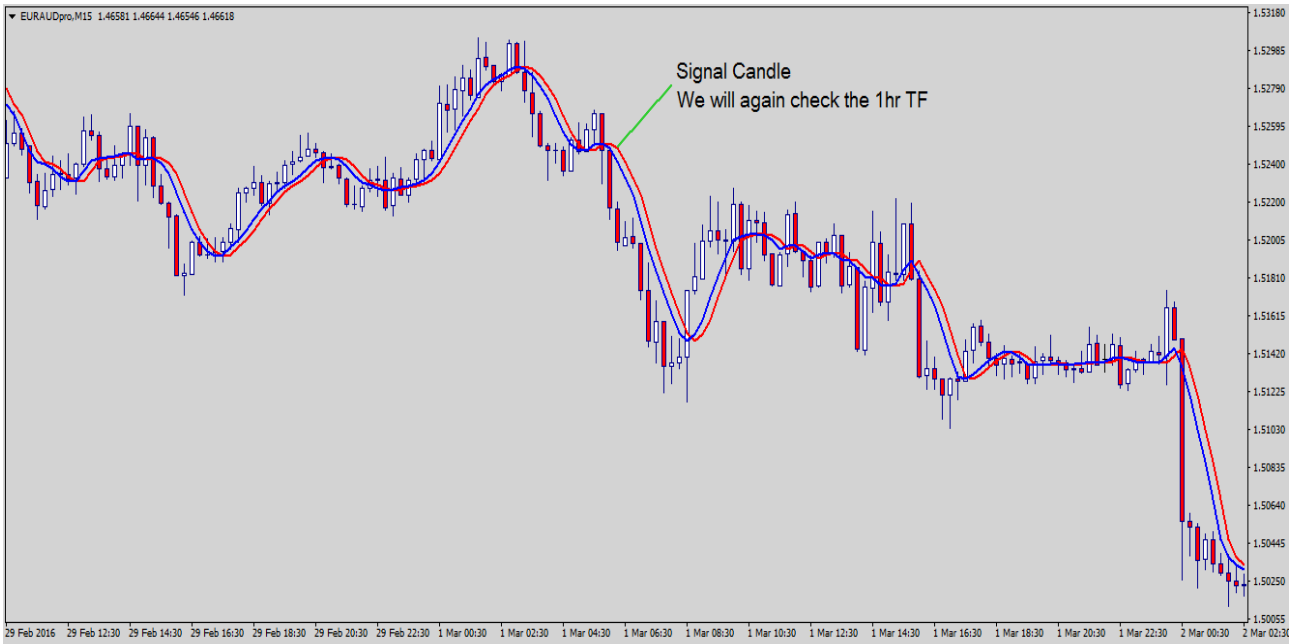
Step 1/4: A sell signal occurs on the 15min chart:



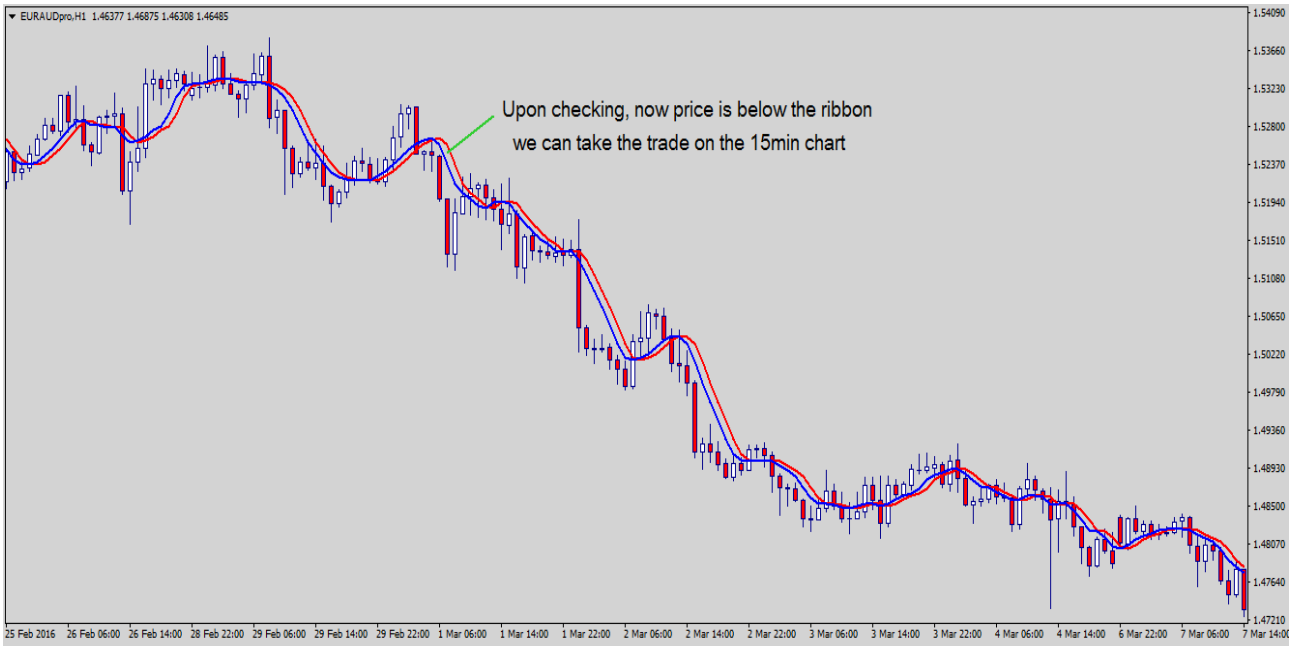
Step 2/4: But when looked at on the 1H the price is still above the MAs, which are still in upward direction and have not crossed down:



Step 3/4: Then MAs on the 15m chart then give another sell signal:

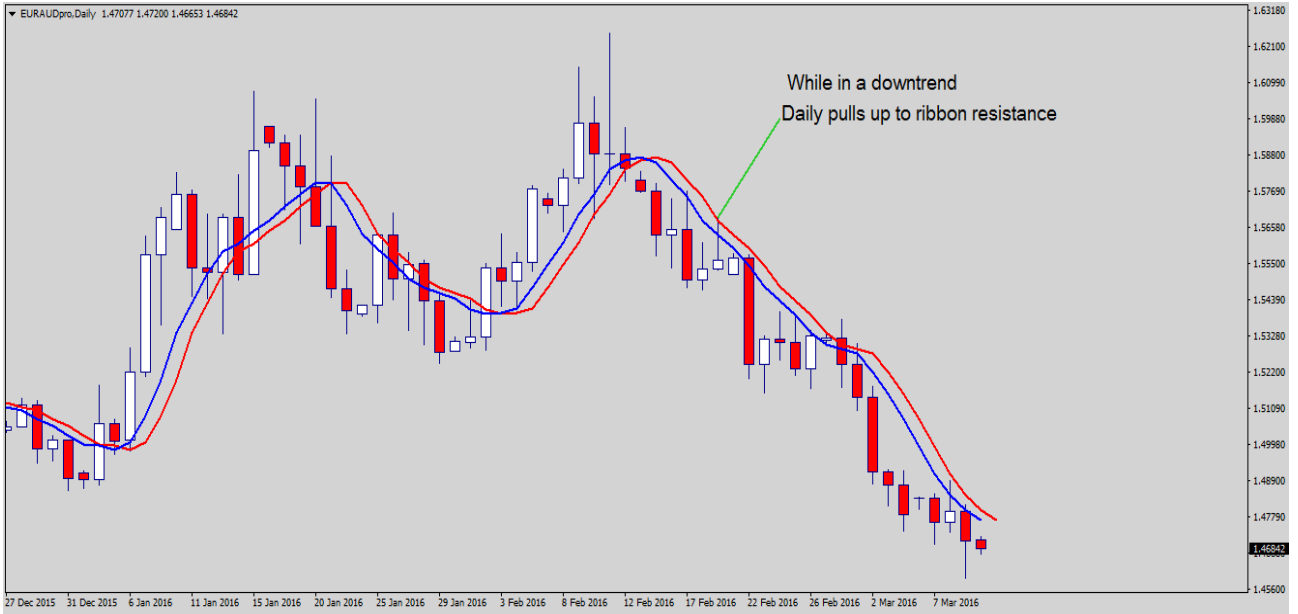


Step 4/4: This time the MAs on the 1H chart have also crossed and separated and the trade is entered:

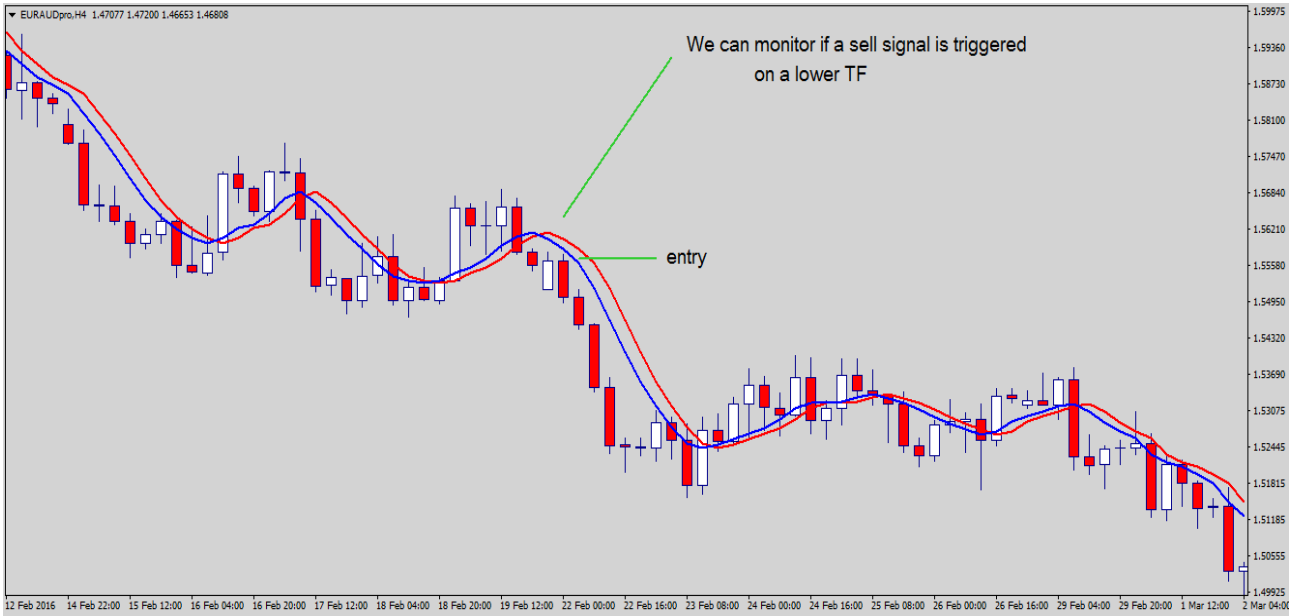


### Example of successive multiple timeframes

GBPAUD Daily: While in downtrend the price pulls back up to the ribbon resistance:

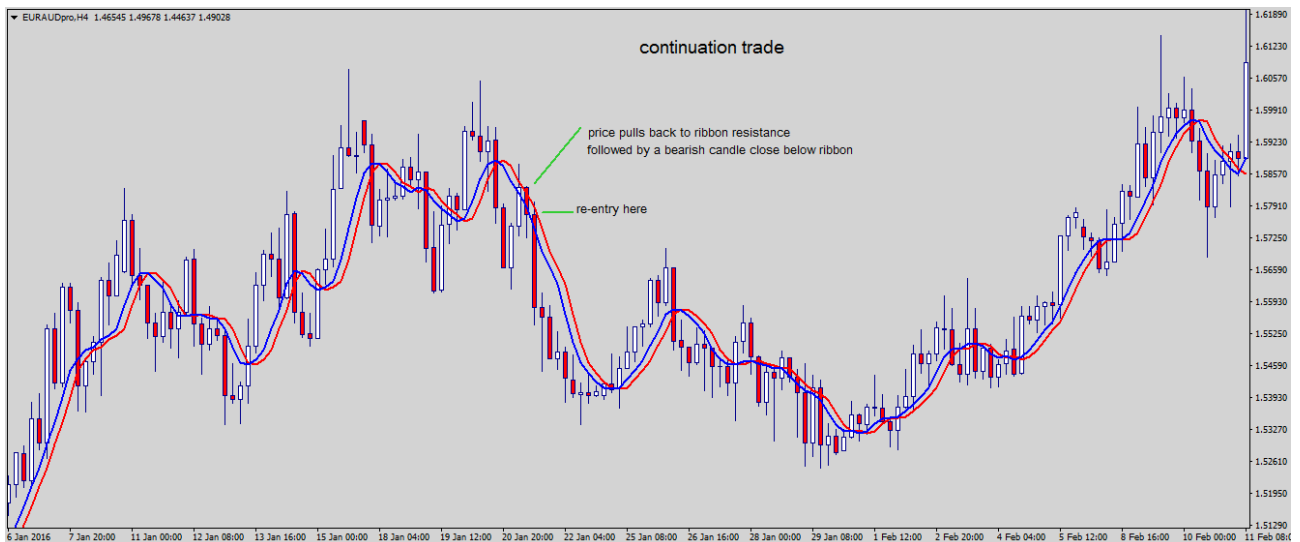
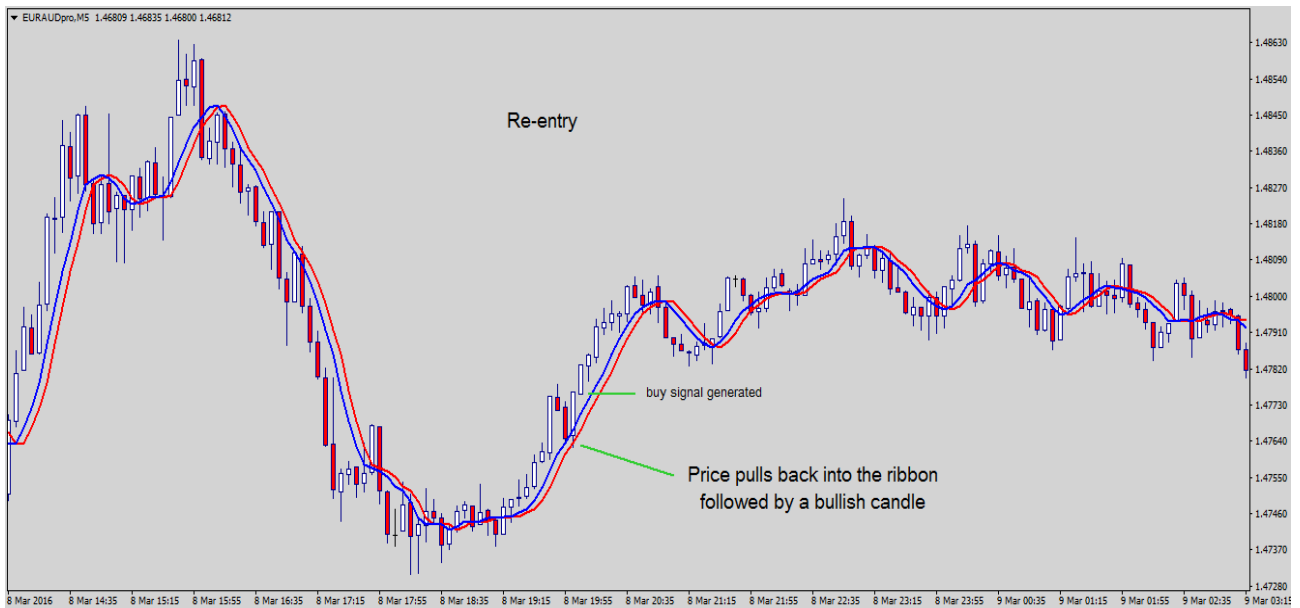


GBPAUD 4hr chart: Then a crossover and sell signal occur on the low TF giving the trade entry:



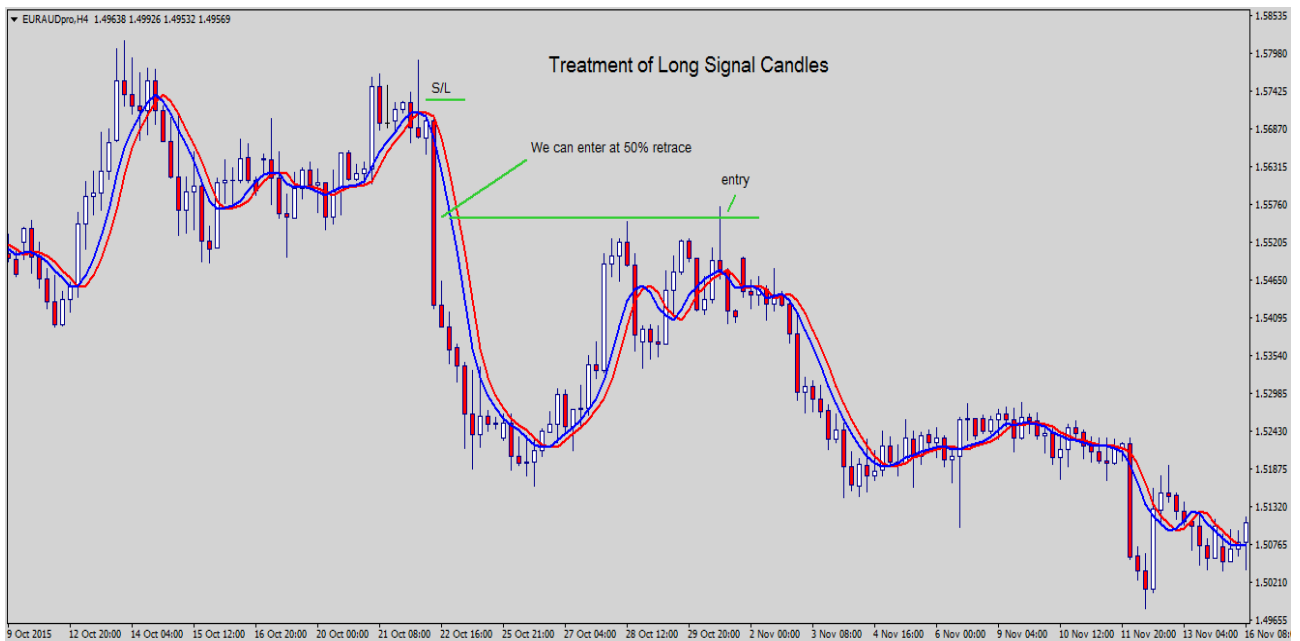
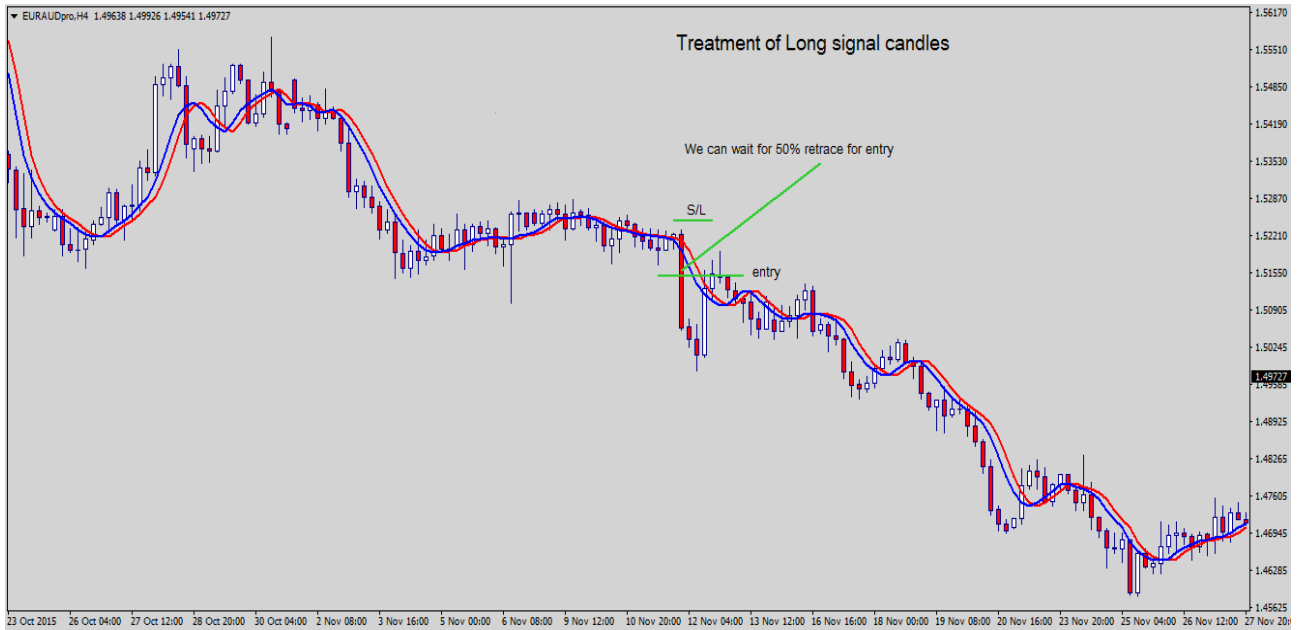
## Re-entry

If the trend on the higher TF is strong then the ribbon forms a kind of support/resistance level. Trade re-entries can be taken when the price retraces to the ribbon on the high TF and then gives a new signal on the low TF back into the same direction as the main trend:



## Signals from long candles

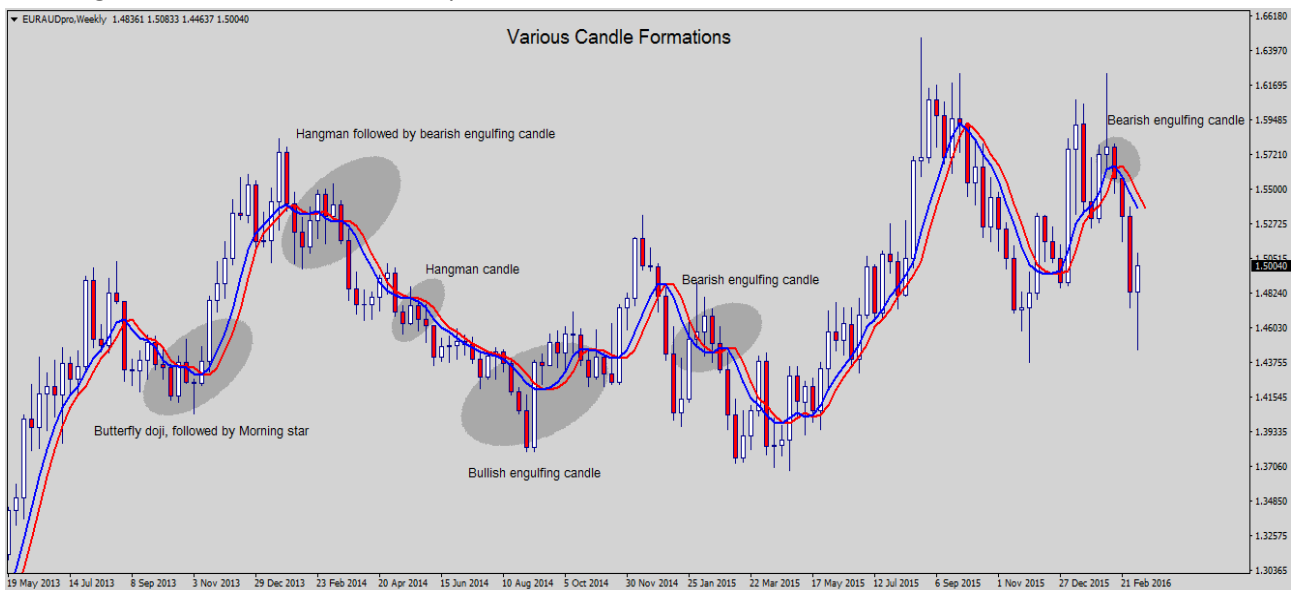
If the candle that breaks the ribbon is exceptionally long then either ignore the trade or wait for a pull-back of around 50% of the signal candle before entering.



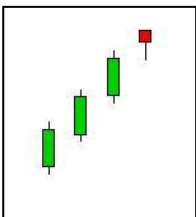
## SECTION 4 - Candle formations and the ribbon

Candle patterns are not an essential or intrinsic part of the ribbon method. However, they can add further confidence that a particular signal candle will produce a successful trade entry or re-entry. Here are a few candle formations to look out for in the signal candle, either alone or in combination with its preceding candles. More detail of the main formations is given below. Candle formations are generally considered more reliable on the higher TF's.

Some signal candles with identifiable patterns:

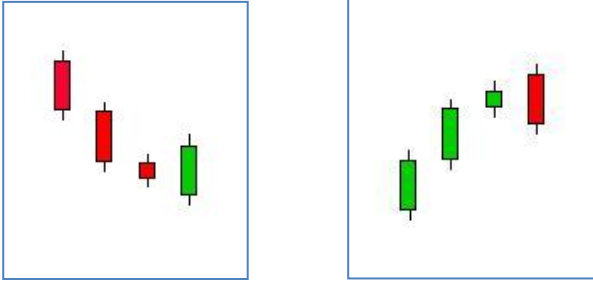


### Hanging man



Signals a bearish reversal at the end of an uptrend or bullish retracement. It has a small body (green or red) with little or no upper shadow. It is created by an initial significant sell-off which is repelled by later buying back towards the open price. But the initial early sell-off indicates that demand is weakening and a reversal is possible.

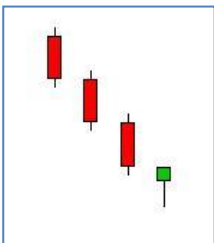
## Engulfing



An engulfing pattern can be either bullish or bearish. It is a candle combination where the first candle body is the same colour as the current trend. The next candle has a long body in the opposite colour that completely engulfs the preceding candle's body and signals a complete reversal in market sentiment.

They are most effective when the market is oversold or overbought following a substantial move. The bigger the previous candle being engulfed, the more effective the new trend signal will be.

## Hammer



The hammer is a bullish reversal candle which has a small body (red or green) at the top of the period's trading range with a very long lower shadow and little or no upper shadow. It occurs when price drops considerably from its open but rallies later in the period to close near the opening price.

When seen in a downtrend it signals a potential reversal in the market because the long lower shadow shows that sellers were initially in control but the buyers were able to reverse that control and drive prices back up to close near the high for the period.

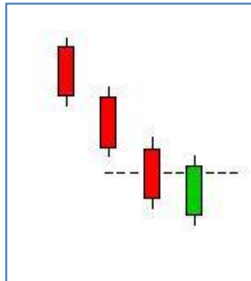
### Dark cloud cover



The dark cloud cover is a candle combination forming a "cloud" over the previous bullish candles in an uptrend. A long green candle is followed by a long red candle that opens above the prior green candle's high but closes well into the body of the green candle and below its mid-point of the open and closing prices.

Buyers start enthusiastically at the beginning of the period but sellers appear and the gap up is rejected and the price even closes over half way below the gains of the previous period. If this is followed by a crossover in the ribbon then this is a good confirming pattern for a reversal.

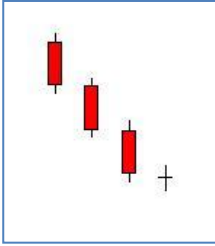
### Piercing pattern



A piercing pattern is a bullish reversal pattern and the opposite to the dark cloud cover. It is set up when a long red candle is followed by a gap lower during the next period. But this period finishes with a bullish green body which closes more than halfway into the previous session's body.



## Dojis

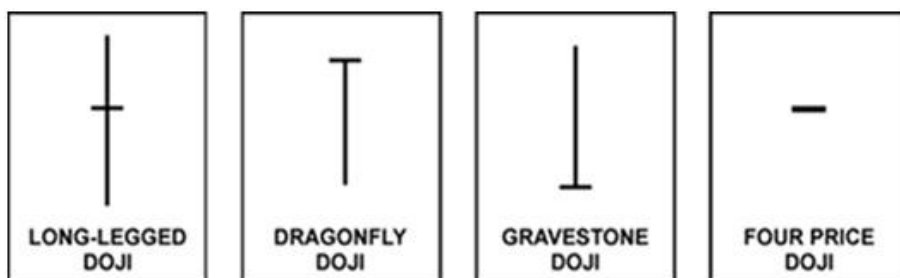


A doji candle forms when a period opens and closes at virtually the same price. The length of the upper and lower shadows can vary, and the resulting candlestick will look like a cross, inverted cross, or a plus sign. Dojis are often short candles.

The doji candle is a sign of indecision or balance between buyers and sellers. During the period prices move above and below the opening level but close at or near the opening level.

The doji candle is not itself a reversal signal and is not really significant if the market as a whole is directionless. But if it forms in an uptrend or downtrend then it can signal that the buying/selling pressure is fading and the next move could be a significant retracement or reversal. It is therefore worth looking for another crossover signal following its appearance in a good directional move.

There are a number of different doji patterns each with its own name and structure, for example:



## SECTION 5 - Combining with other tools and systems

Because this is a very simple method and the charts are very clean and uncluttered, it is very suitable for combining with other tools and/or systems.

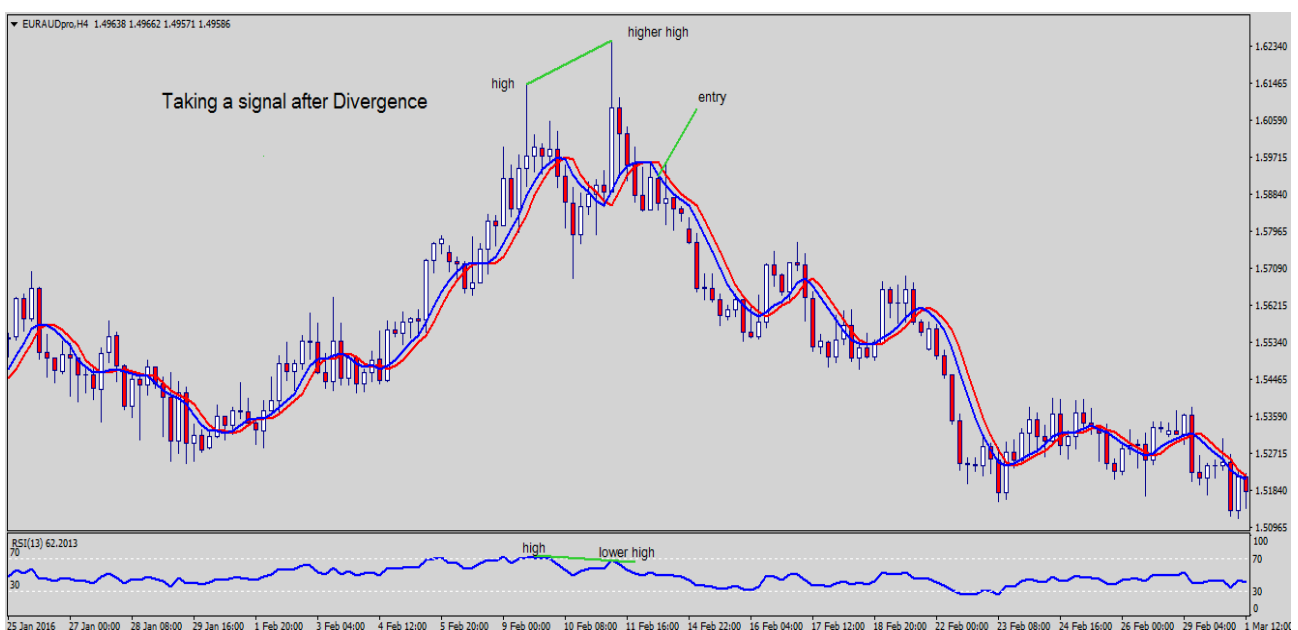
If one already has a trading strategy then the ribbon method can provide an excellent means for optimising entry timing within that system by overlaying it on the system chart.

Other tools can also be added to the ribbon charts to assist with filtering out false moves and to help trade in the proper direction, e.g. RSI, stochastics, MACD.

### Combining with RSI

For example, the RSI can be used to spot divergences between price action and the RSI line i.e. when price is doing one thing but the indicator is doing the opposite. For example, if price makes a new higher high, but the RSI makes a lower high, then there is divergence. Similarly, if price makes a new lower low, but the indicator makes higher low, then there is divergence.

Example of RSI divergence



The RSI can also be used with a line at 50 . Watching for this to be crossed whenever there is a ribbon crossover signal can help in confirming the validity of the signal.



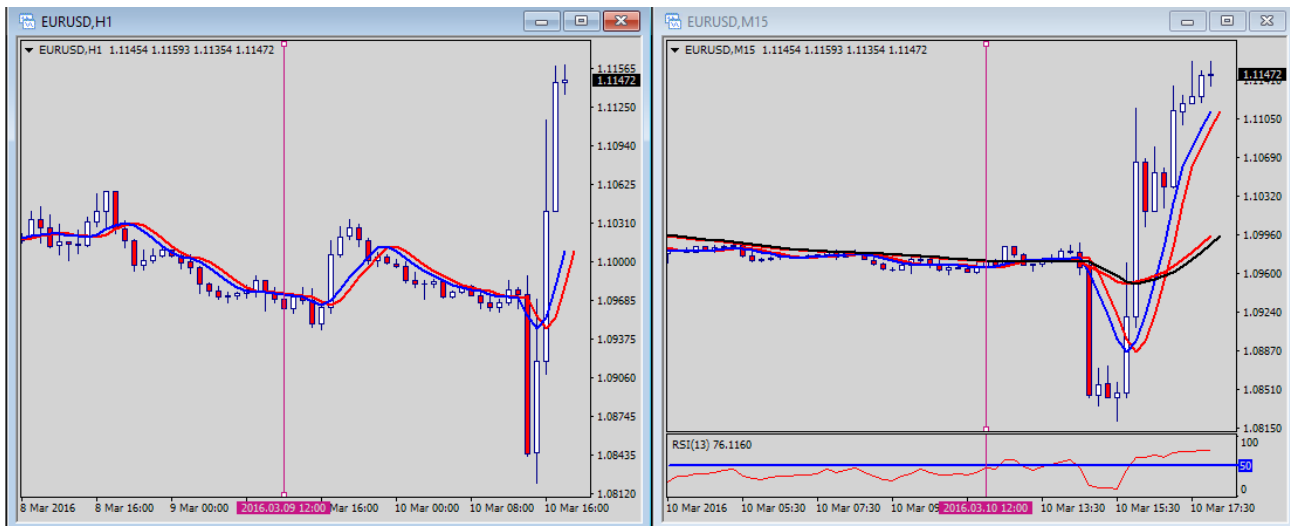
## SECTION 6 - Tips, hints and related issues

### Trading news events

The way to handle news is to wait for the time it is released, don't worry how the news came out, but once its released, the chart will tell you if it is setting up for the trade or not.

But take extra caution with big news releases like the US monthly Non-Farm Payroll data(NFP), which can be highly volatile in both directions in a very short time. In addition, actions and announcements by Central Banks can cause exceptionally volatile reactions in the market:

Market reaction to monetary policy decisions released by European Central Bank



## Two ribbons on one chart

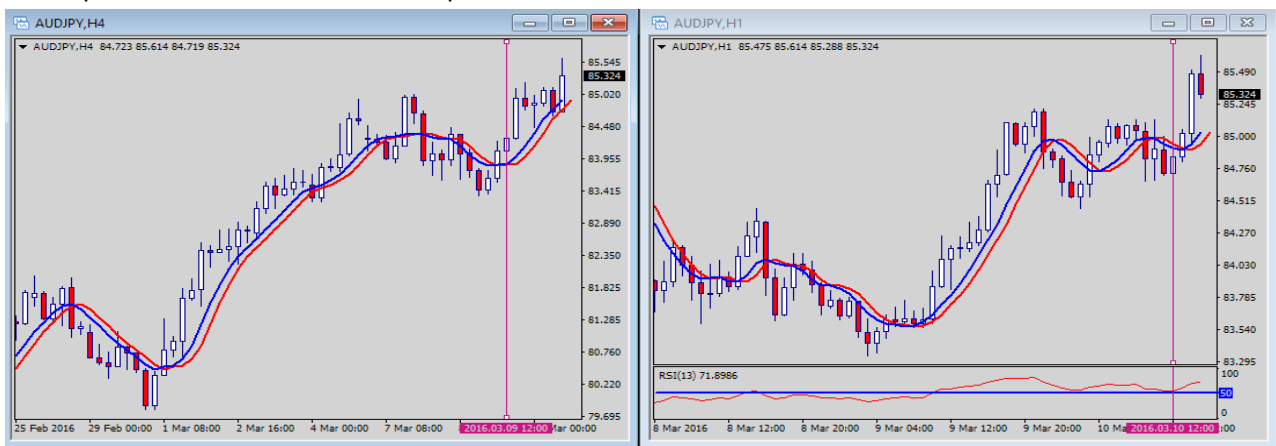
The ribbon method is constructed with each TF ribbon on its own separate chart. However, it can sometimes help to clarify their interrelationship and reinforce a trading decision if a simulated high TF ribbon is also added to the low TF chart.

The first example below shows separate 4H and 1H charts for AUDJPY. In the second example another ribbon is placed on the 1H chart with periods 24shift(0) and 24shift(1). This ribbon approximates to the ribbon on the 4H chart, i.e.  $6 \text{ periods} \times 4 = 24 \text{ periods}$ .

The combined ribbons in the second example clearly show the strong uptrend from the 4H ribbon and the crossover signal from the 1H ribbon as it bounces back off the 4H ribbon.

But note that a 24-period ribbon on a 1H chart is NOT exactly the same thing as a 6-period ribbon on a 4H chart - it is only a close simulation. The candle patterns and slope angle are different and the 24-period paints every hour, not every 4 hours.

Example 1: 4H and 1H ribbons on separate charts



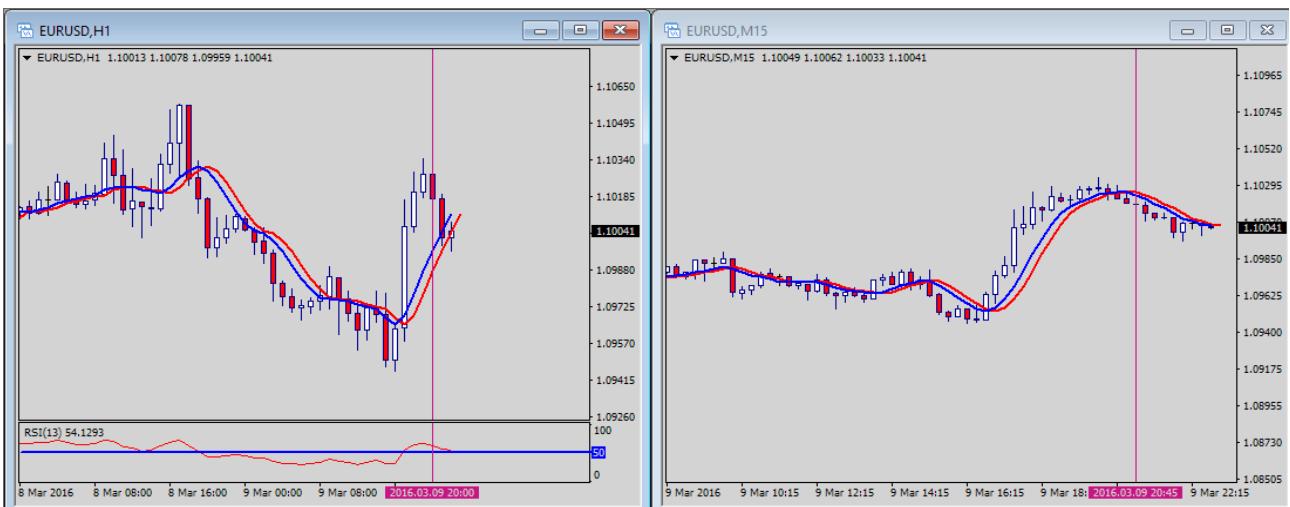
Example 2: 4H and 1H ribbons combined on the 1H chart



## Contrary moves

Sometimes it may be possible to apply the same method with a contrary move on the low TF following a sharp, strong move in the currency pair. In this case, the lower TF is showing that a retracement is underway. But this is only worthwhile when the price has moved significantly away from the ribbon on the higher TF. The target would then be for price to return close to the ribbon on the higher TF. However, this is a risky trade and susceptible to sharp reversals back into the direction of the main trend.

Contrary trade on 15m TF after strong market move.



## Trading platforms without the Shift indicator

If a platform does not have the Shift facility, it is possible to construct the same two MA's by using the Bill Williams Alligator indicator which is standard on most platforms. Set the smoothing method to SMA (or MVA) and calculation method to Middle-to-middle or typical. The “jaw” setting is then set to 6 with shifting period(0) and “teeth” then also set to 6 with shifting period (1). The “lips” are not needed and can be set to “no line” to hide it.

