

Nicktrader and Jeff Explaining Reverse and Regular Divers Woodies CCI Club Discussion From January 15,16 2004

Edited by Folls

INTRODUCTION

{editor} This discussion was held late one night in Woodies CCI Club. It helped me understand divers without prices and how to trade them with CCI. The text started out approximately twice the size it is now. It was edited to make it more readable and easier to understand. It is important to note that although both reverse and regular divers are discussed, Woodie advises being mainly concerned with reverse divers. They are typically used together with zlr and tlb to give a higher probability trade. Jeff and Nicktrader also make this point in the text.

This discussion was broken into the following three sections:

- 1) You Don't Need No Stinkin Prices
- 2) Trading the Regular Diver
- 3) Trading the Reverse Diver and Zero Line Reject

WOODIES CCI CLUB ACRONYM DEFINITIONS

For those new to Woodies CCI Club, the following acronyms are used in this discussion:

zl = the zero line on the CCI chart

zlr = zero line reject. This is a pattern that Woodie defined where the 14 CCI approaches the zero line and then retreats back away from it.

zlx = zero line cross (the 14 CCI crosses the zero line).

tlb = trend line break (the 14 CCI going through a trend line which was drawn on the CCI chart).

hfe = hook from extreme. This is a pattern that Woodie defined where the 14 CCI hooks back toward the zero line from extreme levels. Extreme is defined as at least +200 or -200.

diver = a pattern that Woodie defined that is explained in the discussion

shamu = a pattern that Woodie defined. This is a double rejection of the zero line. CCI appears to be doing a zlr but then reverses again and continues through the zero line. It looks like a z or s at the zero line. This is a counter trend trade and is explained briefly in the discussion.

SECTION ONE: YOU DON'T NEED NO STINKIN PRICES!

23:04:06 {jeff} forget price

23:04:10 {jeff} forget why

23:04:17 {jeff} woodie say it works

23:04:46 {jeff} for seeing divers quickly

23:05:01 {student} uhm, but how do you recognize diver if you forget price?

23:05:23 {jeff} woodie says it works

23:05:48 {student} so, when you enter a trade, how much 'room' do you give it

23:05:58 {student} if you're just basing on cci?

23:06:13 {jeff} first you need learn how to spot rev divers

23:06:22 {student} but how do you do that without price? :)

23:06:27 {jeff} we are only talking about divers

23:06:59 {jeff} but i can see you are struggling with all the things that books taught you. so did I.

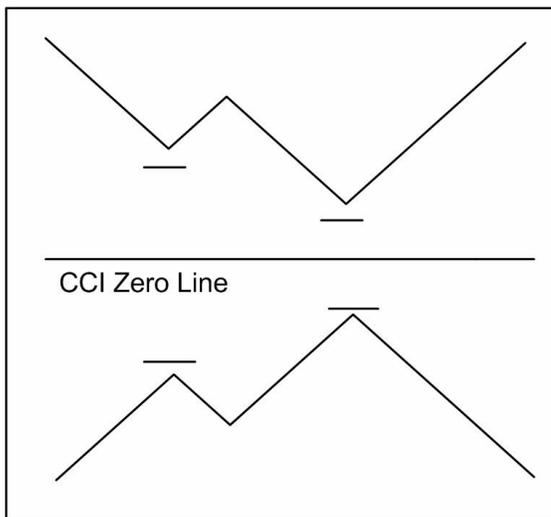
23:07:04 {jeff} it makes it harder

23:07:20 {jeff} so forget all that

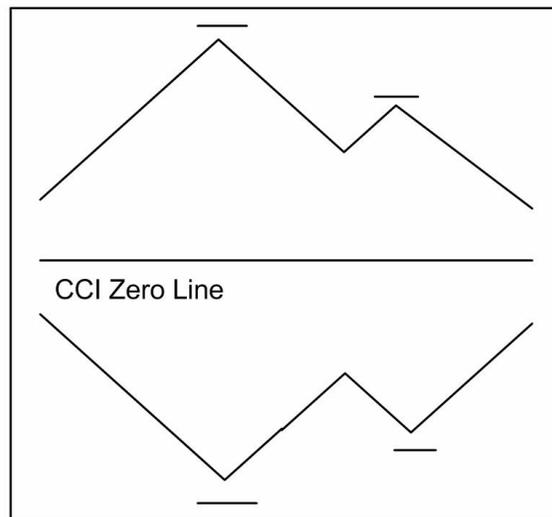
23:07:25 {student} *poof*

23:07:28 {student} k, no price
 23:07:28 {jeff} great
 23:08:04 {NickTrader} i dont care about price, if the CCI looks like a diver, be it regular or reverse, I will assume that it is one and take the trade as such
 23:08:08 {jeff} looking for what a diver is?
 23:08:19 {jeff} just another pattern that woodie has defined as a diver
 23:08:26 {jeff} thats all
 23:09:03 {NickTrader} I'm looking for a pattern that looks like a diver.... if it looks like a diver, then it is a diver... :-)
 23:11:04 {student} how do I id a reverse diver? that is the question of the morning :)
 23:10:55 {jeff} for reverse diver, if cci is above zero line, look for two lower bumps
 23:11:25 {jeff} if cci is below zero line then look for two higher bumps
 23:11:18 {student} base of the bump, or top of the bump?
 23:11:42 {jeff} inside, always closest to zero line for reverse diver
 {editor} outside, always furthest from zero line for regular diver
 23:11:47 {student} k
 23:11:55 {student} and trend lines are drawn furthest from it
 23:12:09 {student} btw, INSIDE, *click* good way to phrase it!
 23:12:10 {jeff} so, if you HAVE to use outside language then for reverse diver, two lower lows if above the zero line
 23:12:24 {jeff} and two higher highs if below the zero line (for reverse diver)
 23:13:46 {student} so if I can detect a rev diver, chances are zlr will happen, yes?
 23:14:32 {jeff} student, in general yes, so its that simple
 23:13:51 {jeff} for rev diver, if cci is above zero line then look for two lower lows, or bumps inside
 23:14:11 {jeff} for rev diver, if cci is below zero line then look for two higher highs, or bumps inside
 {editor} for reg diver, if cci is above zero, look for two lower highs, or bumps outside
 {editor} for reg diver, if cci is below zero, look for two higher lows, or bumps outside
 {editor} here is a simple diagram to illustrate Jeff's point

Reverse Divers

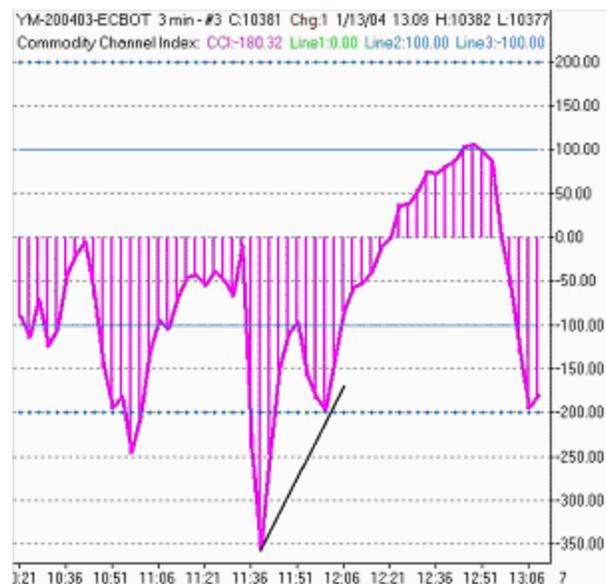


Regular Divers



SECTION TWO: TRADING THE REGULAR DIVER

23:14:54 {NickTrader} k here is a pic of a reg diver...



23:15:05 {NickTrader} but how do i know that?

23:15:13 {NickTrader} because it's a pattern

23:15:20 {jeff} if our purpose is to understand a simple pattern that woodie has defined as rev diver, then i only talk about what the pattern looks like to keep it simple

23:15:33 {NickTrader} simply look for this pattern

23:15:39 {student} okay

23:15:39 {jeff} exactly nick, its a pattern

23:15:45 {jeff} who cares why?

23:15:49 {jeff} learn that later

23:15:49 {student} that's a REG diver?

23:15:53 {student} looks like a trendline to me

23:15:56 {jeff} search for pattern now

23:16:32 {jeff} and dont forget, forget about reg divers imo until you understand rev divers

23:16:54 {jeff} cuz you will twist your mind when you see both patterns at the same time and say "but i see them both" lol

23:17:07 {student} exactly

23:17:08 {jeff} they happen at same "time" all the time

23:17:20 {student} ok, rev diver is what I'm looking for

23:17:40 {student} you could have a rev diver there in that chart too nick

23:18:01 {NickTrader} student... I'm getting there :-)

23:17:41 {NickTrader} my long entry would be on the diver and 100cross

23:18:32 {NickTrader} k, u all got that.... it's the pattern i look for... don't need no stinkin price

23:19:13 {student} thats a reg diver cause it's outside, and a rev diver is inside

23:19:32 {NickTrader} u can be aggressive on the entry and take it as soon as the diver is formed, or take it when the the cci crosses the 100 line to confirm it.... however...

23:20:31 {NickTrader} if u wait for the 100 cross, it has a probability that it will reject it and we then have a rev diver with zlr for a continued down move

23:20:38 {NickTrader} on the other hand ...

23:22:33 {NickTrader} on the other hand, if u take the trade early when diver is formed, u have to react fast to get in and take the scalp and possibly get out as it approaches the 100 line for the possible reject i mentioned before...

23:22:25 {student} nick, you lost me right there
23:22:52 {student} if you wait for 100 cross, it pass a probability that it will reject and then a rev diver with zlr and we go down
23:23:07 {NickTrader} y student
23:22:54 {NickTrader} follow me?
23:22:58 {student} but in this case, we passed 100 and it went up to the sky
23:23:21 {NickTrader} y again
23:23:18 {student3} nick do u take immediately or on x100?
23:23:32 {NickTrader} student3, it depends
23:24:11 {NickTrader} if the trend is strong i take it when diver forms... to scalp the pullback cause the probability is high it will reject at 100 line
23:24:54 {student3} like this was strong
23:25:06 {NickTrader} u have to weight the probailities of success... that's what it's all about, probabilities
23:26:08 {NickTrader} k on the same chart u can c another diver earlier...
23:26:13 {NickTrader} from extreme
23:27:13 {NickTrader} there is always a possibility of a zlr, that's why i normally exit at the approach of the zl
23:27:45 {NickTrader} the 100 line and the zl act as support/resistance levels
23:28:55 {NickTrader} so... on that diver, if the cci breaks through the 100 line (a resistance level) there is a higher probability that the counter trend trade will be successful to the next resistance level which will be the zl
23:28:28 {student} nick, you said, " if u wait for the 100 cross, it pas a probability that it will reject it and we then have a rev diver with zlr for a continued down move"
23:28:39 {student} lemme try to rephrase that and see if I got it, please?
23:29:21 {student} if we wait for the 100 cross, there is less chance to reject the 100 line. if we reject the 100 line, then we have rev diver with probablity for zlr
23:29:47 {NickTrader} y because that zl is the next resistance level
23:30:01 {student} so you buy long at that second bump
23:30:13 {student} when it crosses the 100 line
23:30:17 {NickTrader} y the formation of the diver
23:33:04 {student} agrressive entry would have been at the diver, @ cci -200
23:33:29 {student} and this is countertrend trade
23:33:57 {NickTrader} y counter trend
23:33:29 {NickTrader} there are a lot of examples of these trades here.... study them ...
<http://www.talkstox.com/forum/showthread.php?s=&threadid=268&perpage=10&pagenumber=1>
23:34:22 {student} so that's why we go long with cci 6+ bars under
23:34:25 {NickTrader} all such reg divers are counter trend trades, lower probability because they are against the trend
23:34:48 {NickTrader} the best trades are with the trend,
23:35:04 {student} so better to hunt down the rev diver
23:36:00 {STUDENT2} so can I sum this trade setup as: condition 1) cci at an extreme. condition 2) regular diver condition 3) buy when cci crosses the -100. now watch what happens at the zero line. .. if it make it past that then watch what happens at the cci +100 line
23:37:34 {NickTrader} STUDENT2, yes
23:37:49 {NickTrader} however...
23:38:43 {NickTrader} condition 1 may or may not have to exist, it is usually a higher probability if it's from extreme, but a reg diver does not always have to be from extreme
23:38:54 {STUDENT2} in this setup rev diver plays no role in this trade.
23:39:02 {NickTrader} correct
23:39:33 {NickTrader} rev diver is with the trend trade while reg diver is counter trend
23:39:55 {NickTrader} and this is a counter trend trade we talking about
23:40:31 {NickTrader} so now u have the pattern, u don't need price anymore
23:40:41 {NickTrader} price just scares you

SECTION THREE: TRADING THE REVERSE DIVER AND ZERO LINE REJECT

23:35:06 {NickTrader} now we get to rev divers

23:35:09 {student} the one that will get us a zlr

23:35:12 {student} and we stay up/down

23:35:45 {NickTrader} rev divers are with the trend trades, high probability trades

23:36:26 {NickTrader} reverse diver then a zlr with a TLB is a high probability trade... with the trend

{editor} Nick then posts a chart with two reverse divers. The chart also includes the regular diver from previous chart. The two rev divers with tlb's are marked on the chart.



23:48:03 {NickTrader} 2 rev divers... 1st is a triple rev diver

23:48:37 {NickTrader} and both are followed by zlr

23:48:48 {NickTrader} and then a tlb

23:49:14 {student} tlb is like a break of reg diver isn't it?

23:50:03 {NickTrader} y

23:50:40 {NickTrader} these are the highest probability trades..... u can just trade these all day and do very well

23:50:51 {student} so you can be aggressive and sell at the 2nd rev diver point, or, wait for the tlb to confirm

23:51:42 {NickTrader} i would wait for the zlr at the least for an aggressive trade... the tlb will be the confirmation

23:52:17 {NickTrader} however...

23:52:27 {NickTrader} there is always a but lol

23:52:28 {student} so you enter on the bar that bounces downwards from the 0 line, just after 10:39 for example

23:52:39 {NickTrader} y student

23:52:33 {STUDENT2} nick, is this one trade or multiple short sells

23:54:20 {NickTrader} STUDENT2, u can either add at each zlr for the continued trend or u can exit at the hfe and re-enter at the next pattern

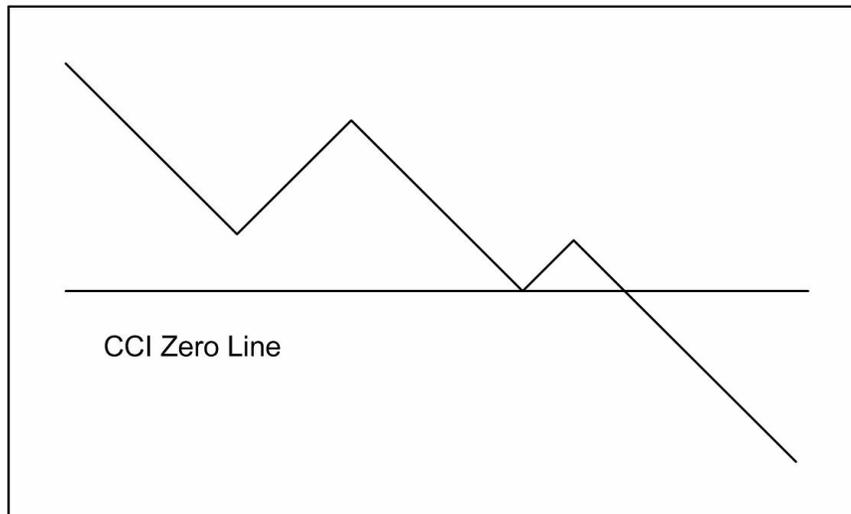
23:54:11 {student} nick, is this where the but comes in?

23:55:24 {NickTrader} k the but part ...

23:55:57 {NickTrader} after the TLB in this rev diver zlr pattern there is a possibility for a shamu ...

23:56:41 {NickTrader} it can reverse after the tlb and possibly cross the zl for a reversal of the trend
{editor} here is a simple diagram of a shamu

Reverse Diver Turning Into a Shamu



23:57:35 {NickTrader} what to do what to do ...

23:57:36 {student} but that's "normal", not uncommon for a zlr to become a shamu

23:57:48 {student} so you play the zlr, and if it reverses, you reverse

23:57:52 {student} or just get out

23:57:55 {student} and catch the next one

23:58:13 {student} so here you short, if it reverses, you cover and go long, or just take your tiny lumps and wait till later

23:58:14 {student3} like on 2nd one it broke tl then looked like shamu

23:58:32 {student} student3, yah, but didn't confirm, came back down down down

23:58:51 {student} hey nick, have another question :)

23:59:07 {NickTrader} well, on that last chart the 2nd zlr worked, however, u can c that the 3rd one crossed the zl and if u look very very close, u can c a little jiggle on that crossing.... just a little insy winsy shamu ...

23:59:29 {student} first zlr more than likely will work rather than not nick?

23:59:44 {NickTrader} y higher probability

00:00:58 {NickTrader} as woodie said earlier today, the first is higher probability it will work, the 3rd has a much lower probability that it will do zlr and a much higher probability that it will do a zlz

00:00:26 {student} sometimes I see people play a zlr that actually crosses and comes back within a bar or two

00:00:46 {student} is that a lower percentage play? or not really a zlr to begin with?

00:02:14 {NickTrader} student, y the zlr can actually be within +/-50 cci

00:02:31 {student} nick, cool, just has to happen within 2-3 bars, right?

00:03:11 {NickTrader} so, therefore, on that cross there is still a probability that it will reject on the other side of that zl within the +50 zone

00:04:11 {NickTrader} student, 2- 3 bars is good, longer i would exit because there is no direction as cci moves along zl

00:02:47 {student} why is the first zlr higher probably than the third? just cause trend was trending so long?

00:05:32 {NickTrader} the 1st is usually the start of the trend.... the 3rd is usually the end of trend and perhaps due for a major pullback or reversal

00:06:01 {NickTrader} pullbacks usually happen in 3s

00:06:27 {student} so by the time that third one comes around, odds are in your favor it'll zlx

00:08:28 {NickTrader} student, y but it really depends on the strength of the trend.... sometimes u get a very controlled gradual trend with no major pullbacks.... sometimes u get more violent moves and these produce larger pullbacks on the 3rd.... there are nuances of the cci that u must learn by watching chart.... lots and lots of chart time is only way

00:10:53 {NickTrader} student, don't worry... took me 6 months to learn this... then another 6 months of honing the skills on trades, now after 1.5+ yrs it's starting to talk to me ...

00:11:19 {NickTrader} it takes lots and lots of chart time...

00:11:59 {NickTrader} don't expect to learn this in a few days or weeks

00:13:03 {NickTrader} it will come, just take the time to learn it.... the trick is to be able to do this in any kind of market on any symbol... on demand.... then u have earned your stripes ...

00:15:18 {NickTrader} student, study my charts on that site, there are 19 pages of them.... an evolution of how i started using cci with other indicators, then finally realizing that it was better to remove everything but cci.... i often look back at charts just to c and remind me how i did it ...

00:16:58 {NickTrader}

<http://www.talkstox.com/forum/showthread.php?s=&threadid=268&perpage=10&pagenumber=1>

00:20:29 {student} forget countertrend trades, and just look for trend trades, they'll be plenty

00:20:35 {NickTrader} y

00:20:57 {student} then, when you do the trend trades in your sleep, expand your pattern filter for countertrend, etc

00:21:04 {NickTrader} counter trend stuff is more for experienced folks, and they still bite

00:22:00 {NickTrader} just take rev diver zlr tlb trades and u will do well