4 Hour MACD Forex Strategy

Welcome to the 4 Hour MACD Forex Strategy. This strategy is aimed at simplicity as well as high probability trades. I have been in the equity market for almost ten years now and in the forex market for two years. I learned very early that forex trading is not for the shaky ones. One must have a tested and definite trading strategy as well as well organized discipline to follow the strategy and execute the plan as to the letter. One must be exact and precise.

Therefore I paper traded for almost two years and read everything I could lay my hands on. I bought books and courses. I attend a 5 day live web seminar. All this did not help me at all as it did not fit my style of personality and I just did not seem to connect with all this different strategies. Over two years of watching the graphs with different indicators, moving averages etc. I started to get a feeling for the movement and motion of the market especially the EurUsd around certain moving averages.

It wasn't till late last year that I discover a setting with the MACD that gives easy to read signals on a regular basis on a 4 hour timeframe. I like the 4 hour timeframe as one are not glued to the screen full time.

If you look at **FIG 1** below you will see that there were 14 signals over a period of 5 weeks. Within that period of FIG 1 the signals given were pretty good. There are times when some signals does not produce positive results. I then had to work on a filter system to only let me take the best ones. I found that the MACD when moving in a certain way produces a 95% accuracy. I will show you later how the high probability trades look like.

In **FIG 1** the signals are shown and **FIG 2** shows that an entry is made after the 4 hour bar has closed and at the opening of the next bar.

In **FIG 3** another 19 deals were shown of which the last one was not finished yet so out of a total of 18 trades 5 were wrong and 13 were right.

As it is a 4 hour strategy it means sometimes setting the alarm clock to catch an entry in the early morning hours. What makes it nice is that one will know after the close of a 4 hour bar whether the next 4 hour bar might close as a signal by just following the MACD. Therefore one can set an alarm at that time.

Have a look at FIG 1 to 3.

Disclaimer:

As trading in the Forex market is very risky, the reader if going beyond this point and applying the concepts and methods describing in this document do so on his or her own will and risk. The writer and or anyone involved in the compiling of this document will not be held responsible for any losses incurred by using the methods described in this document as no money management nor stoploss levels are discussed as it vary from trader to trader according to there own risk and capital profiles.

FIGURE 1

FIGURE 2

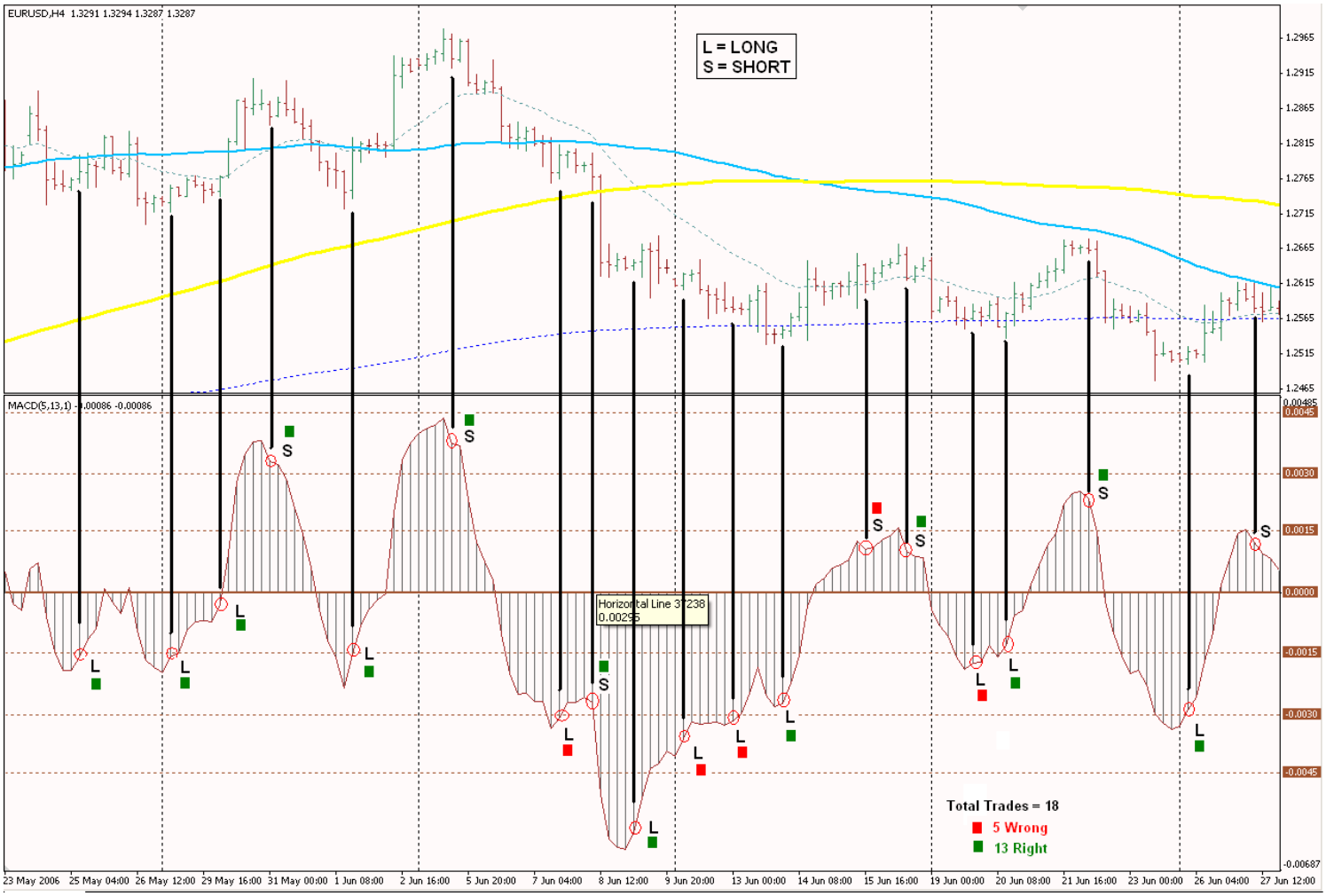


FIGURE 3

This was just to see and get a feeling for the graphs. Let us start to set-up our charts.

You will see later on when dealing with the different MACD signals that in the examples used I did not marked every signal. There are signals not marked and the reason being that the intention was to let you see the different type of signals and not to indicate everyone.

THE MACD ON ITS OWN IS NOT ENOUGH OF A TRADING SYSTEM AND OR INDICATOR TO BE SUCCESSFUL USING IT ON ITS OWN.

Therefore to understand the system as a whole you need to go to Page289 from Post 4335 and study the 13 Lessons given. Study the Lessons on Market Rhythm by heart as that is the heart of this system. It will let you filter the trades that can hurt you.

Moving Averages:

First of all are the moving Averages that we are going to use.

1. 365 Exponential Moving Average (365EMA)
2. 200 Simple Moving Average (200SMA)
3. 89 Simple Moving Average (89SMA)
4. 21 Exponential Moving Average (21EMA)
5. 8 Exponential Moving Average (8EMA)

MACD:

MACD settings at

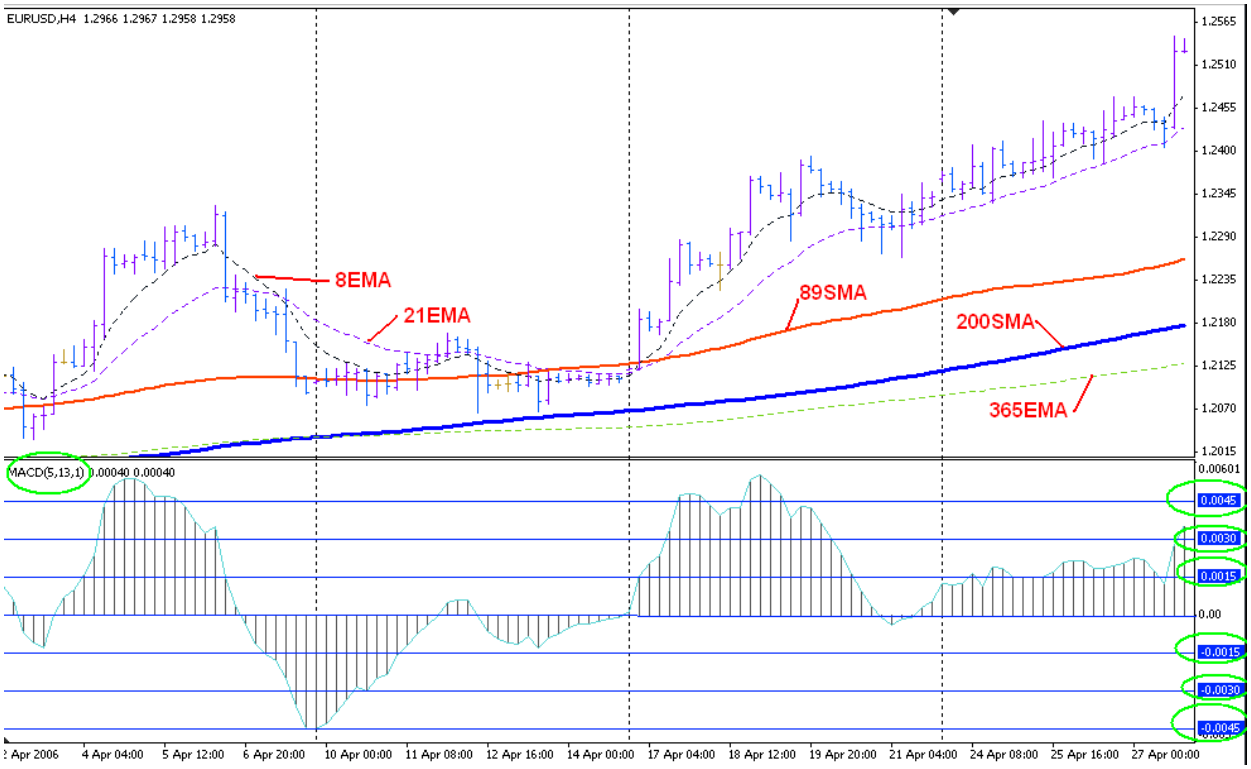
1. Fast EMA 5
2. Slow EMA 13
3. MACD EMA 1

Horizontal Lines:

Three sets of horizontal lines above and below zero should be drawn on the MACD window at levels as well as one on zero

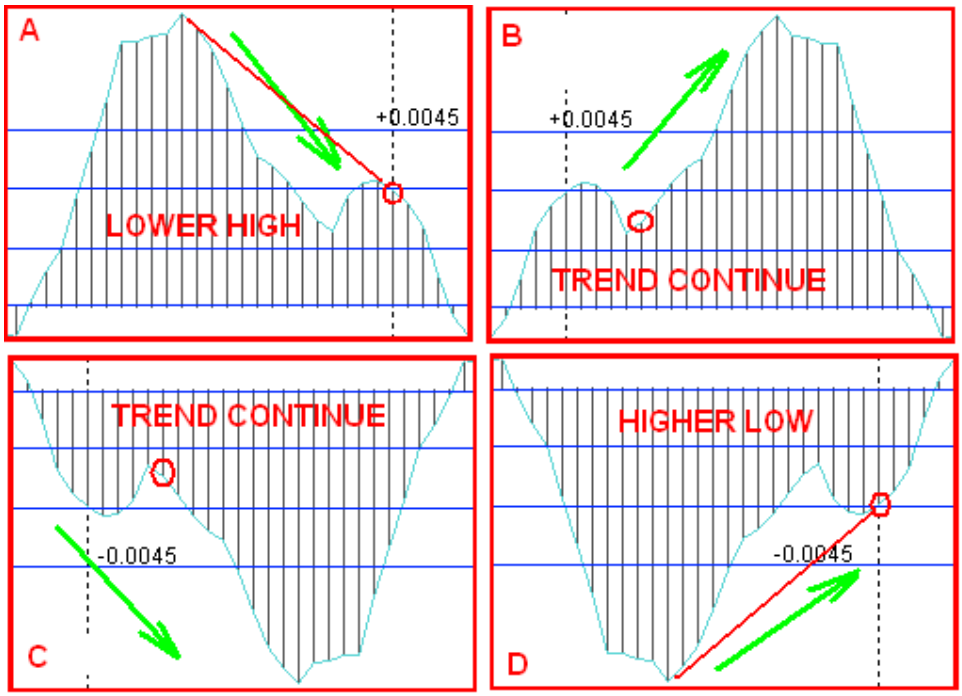
1. Level +0.0015
2. Level +0.0030
3. Level +0.0045
4. Level –0.0015
5. Level –0.0030
6. Level –0.0045

Your Graph should look like this: (Choose your own colour and styles)

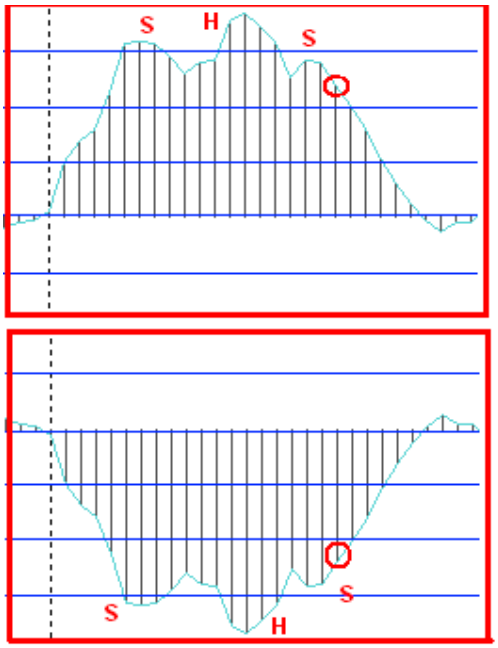


The MACD moves in certain patterns that when recognized can be very profitable trades. Let me show you the very important ones first. By not following every signal but only the ones that gives high probability trades through certain MACD patterns serves as a filter. The ones not familiar are not taken. This is the filter.

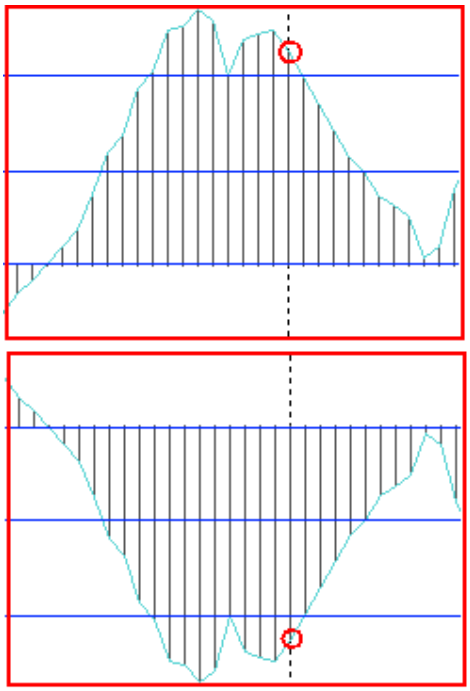
Countertrend trades can be dangerous as it involves going against the trend. When going countertrend determine the resistance



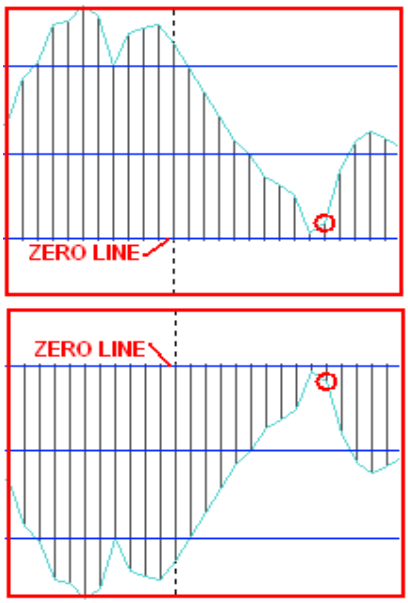
This pattern comes very regular especially A and D as the MACD has moved beyond the 0.0045 level and are due for a correction and or trend reversal. B and C are trend continuing patterns and are entered in the direction of the trend. **Red circles indicates entry signal and entry is made on the opening of the next bar.**



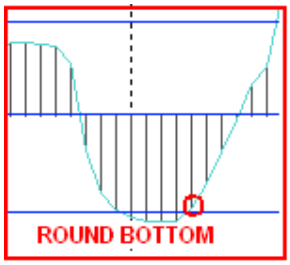
The head and shoulder is another definite.

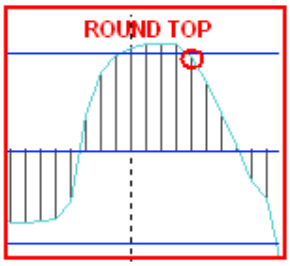


Double top and bottom does not need any introduction as it speaks in any timeframe.

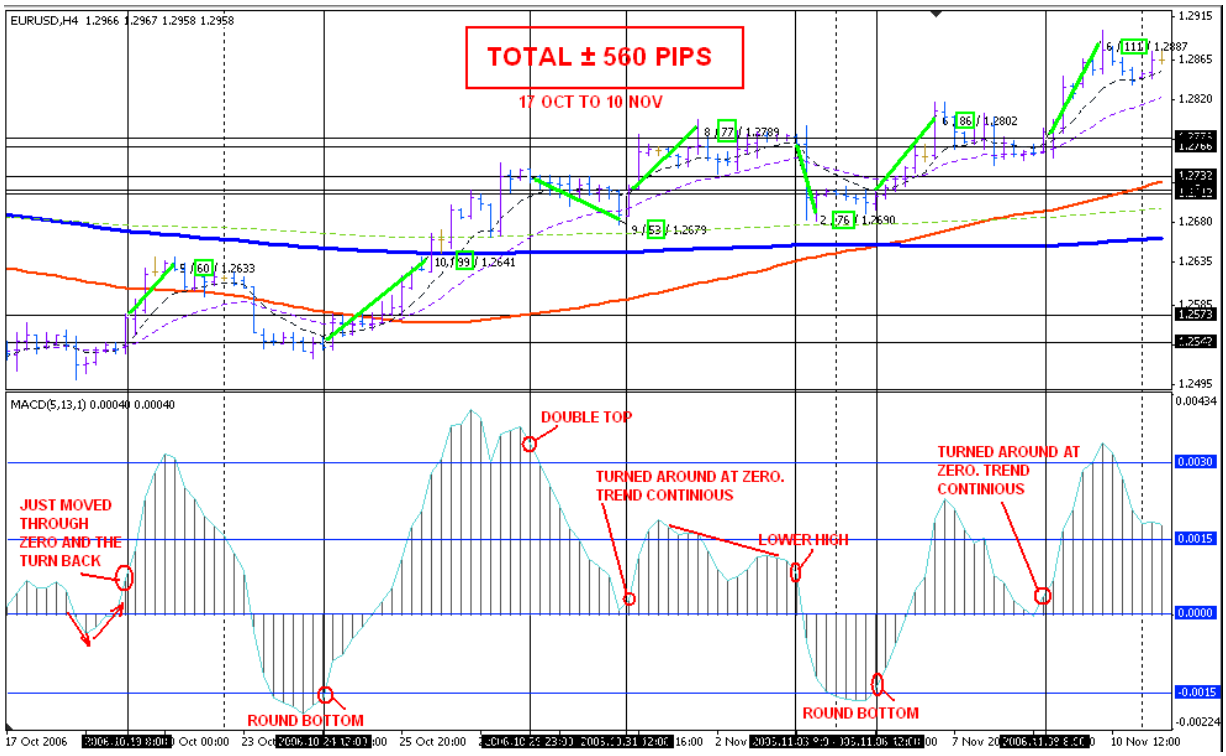


When the MACD comes down towards the Zero line and turn back up just above the Zero line it is normally a trend continuing and should be taken and are normally a strong move.

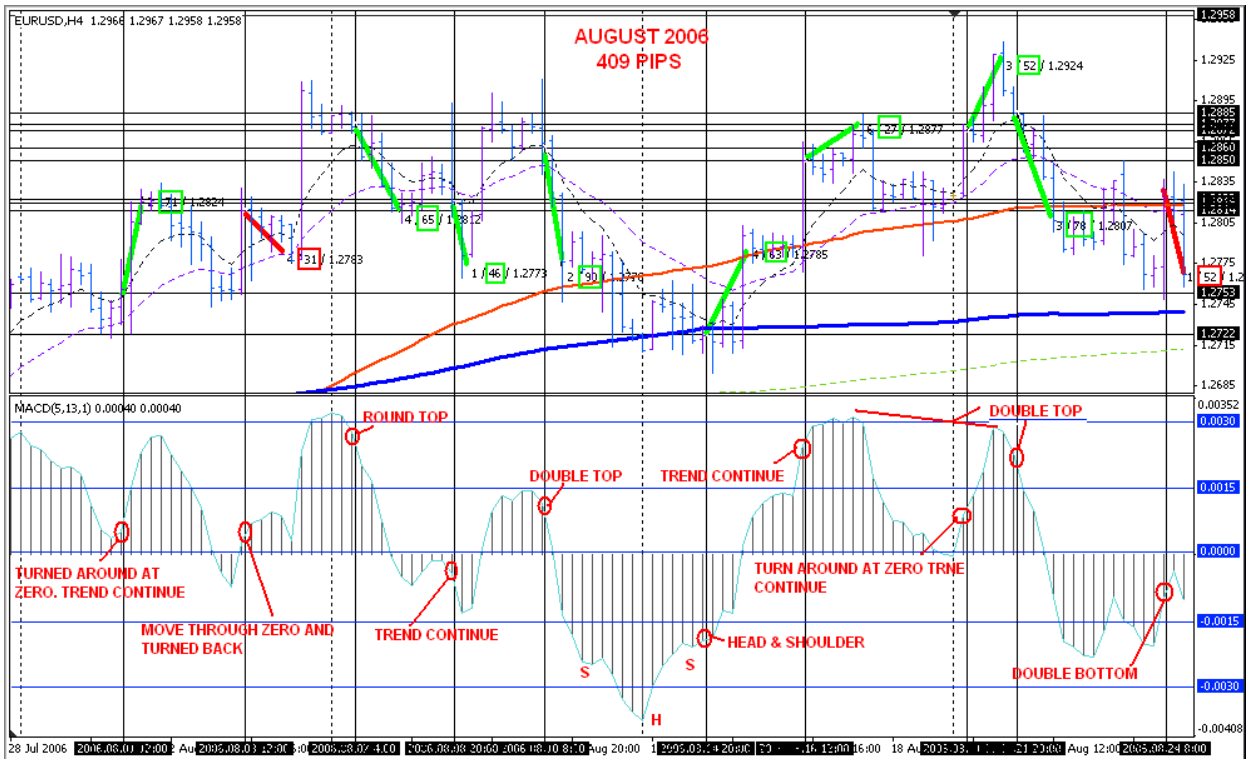




Round tops and bottoms are for sure. Just be careful when within the first zone 0.0000 to 0.0015 above or below the zero. I like the rounding to be formed over at least 5 bars.


EURUSD,H4 1.2966 1.2967 1.2958 1.2958
TOTAL ± 560 PIPS
17 OCT TO 10 NOV
MACD(5,13,1) 0.00040 0.00040
DOUBLE TOP
TURNED AROUND AT ZERO. TREND CONTINIOUS
LOWER HIGH
TURNED AROUND AT ZERO. TREND CONTINIOUS
JUST MOVED THROUGH ZERO AND THE TURN BACK
ROUND BOTTOM
ROUND BOTTOM

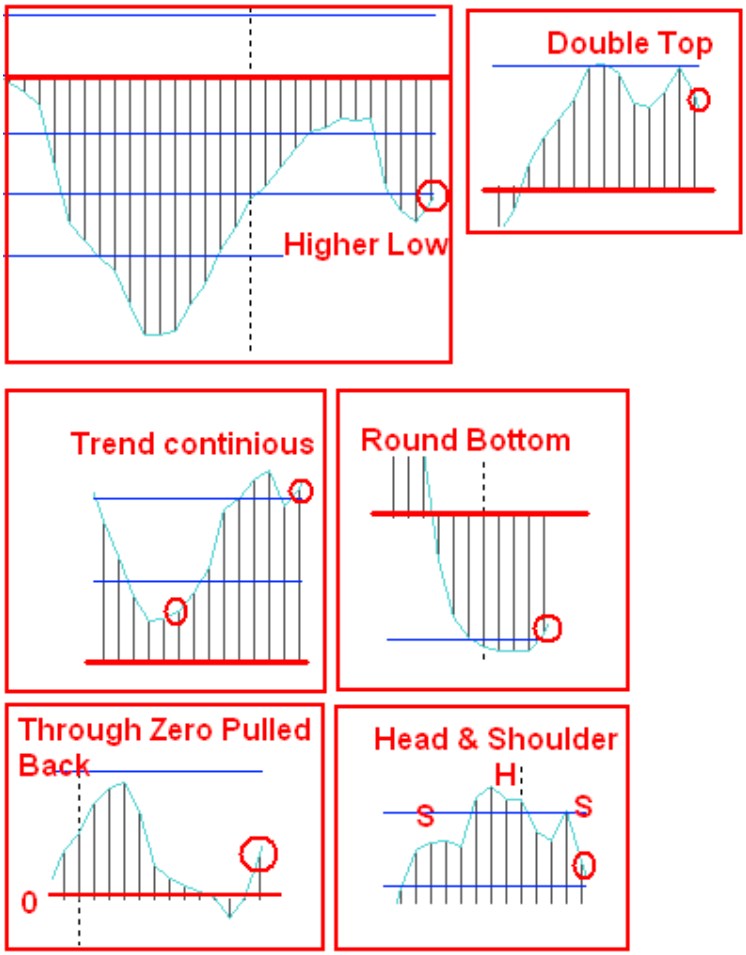
EURUSD,H4 1.2966 1.2967 1.2958 1.2958
350 PIPS FOR DECEMBER 2006
MACD(5,13,1) 0.00040 0.00040
ROUND TOP
JUST MOVED THROUGH ZERO AND TURN BACK
TREND CONTINUE
HEAD & SHOULDER
JUST MOVED THROUGH ZERO AND TURN BACK
HIGHER LOW
S
S
H

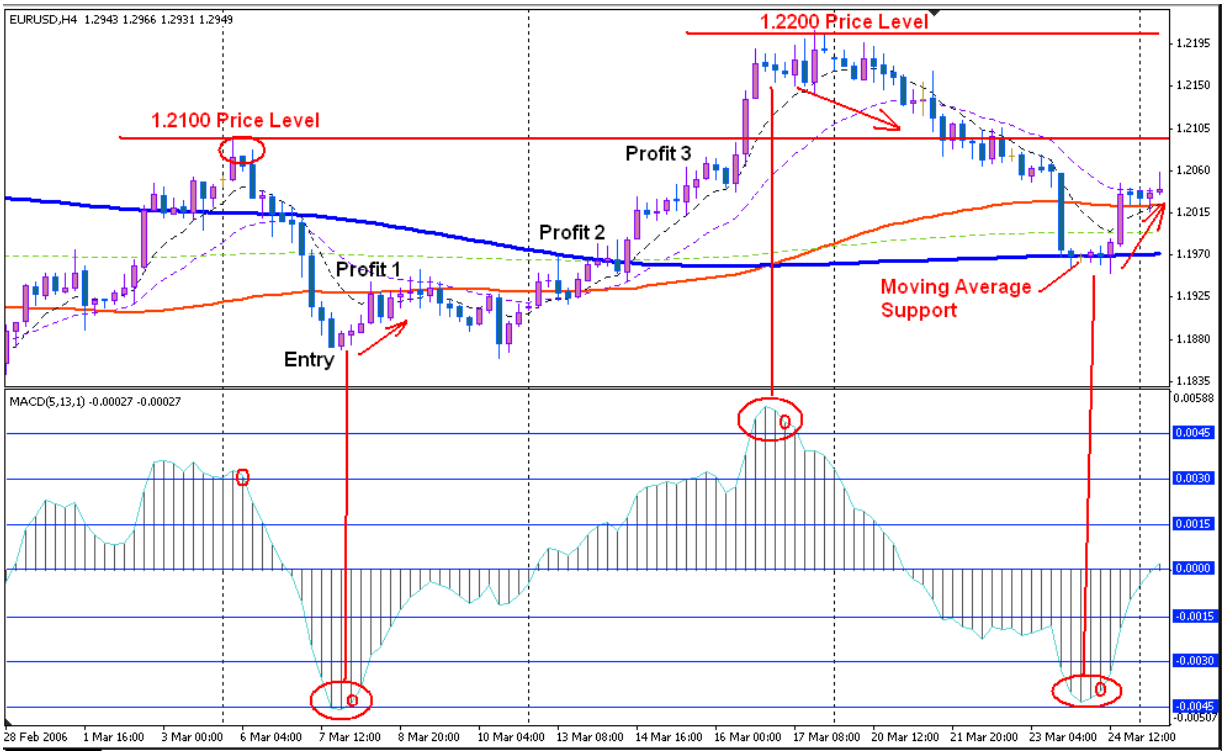

EURUSD,H4 1.2966 1.2967 1.2958 1.2958
AUGUST 2006
409 PIPS
MACD(5,13,1) 0.00040 0.00040
ROUND TOP
DOUBLE TOP
TREND CONTINUE
DOUBLE TOP
TURNED AROUND AT ZERO. TREND CONTINUE
MOVE THROUGH ZERO AND TURNED BACK
TREND CONTINUE
TURN AROUND AT ZERO TRNE CONTINUE
HEAD & SHOULDER
S
S
H
DOUBLE BOTTOM

EURUSD,H4 1.2943 1.2944 1.2935 1.2938
TRENDLINE
1 JAN TO 22 JAN 2007
+190 PIPS
+110
COULD HAVE STAYED IN THE TRADE
+37
-40
????????
?????????
MACD(5,13,1) -0.00058 -0.00058
ABOVE 0.0045 WITH STRONG TRENDLINE FINDING RESISTANCE
TREND CONTINIOUS
???????
TURNAROUND TREND CONTINIOUS
MOVEMENT AROUND ZERO. TAKE SMALL PROFITS OR LOSSES IF INVOLVED
HIGHER LOW
?????????
BELOW 0.0045 AND DOUBLE BOTTOM

This was a difficult month (Jan 2007)up to now but already 190 Pips up and a great move is coming as the price is within a range for almost 8 days. Lets see if that will happen.

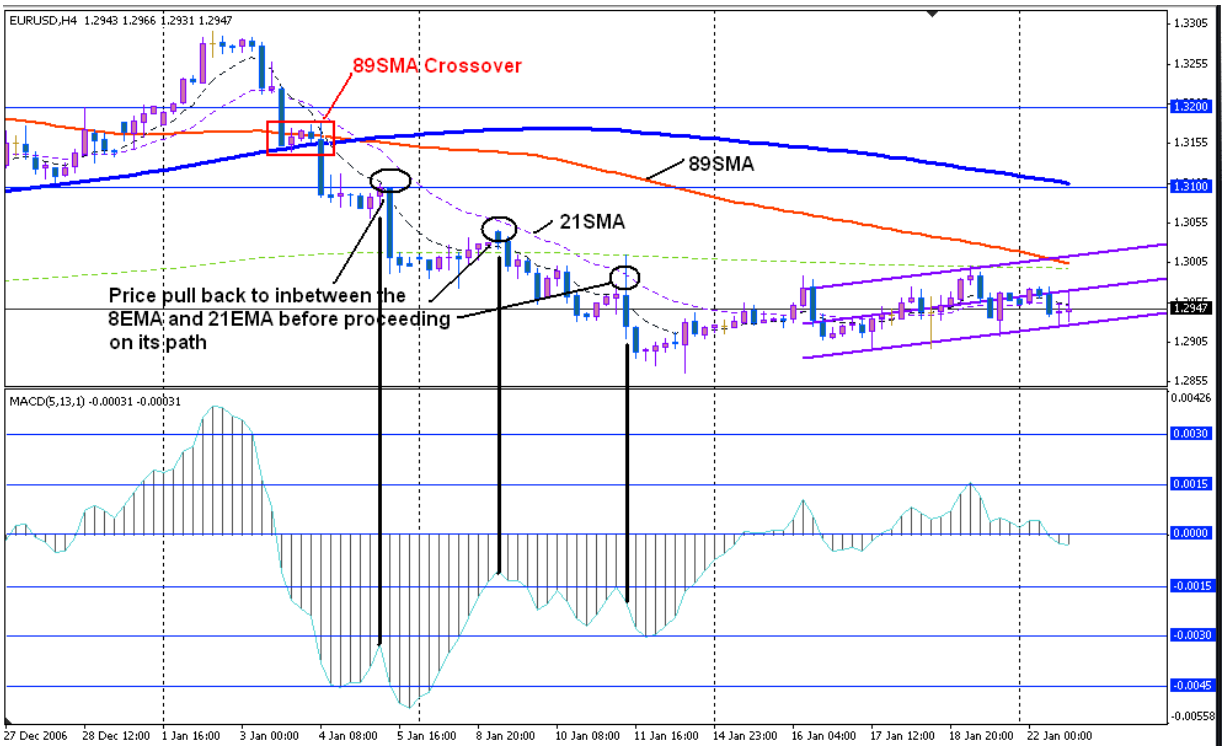
Up to now I have only concentrated to give the signal on the MACD window so that you will be able to recognize it. It is easy to see the formation after it has formed. It takes a bit of practice to recognize it while it is forming. Lets look at a couple just to see how they look when the trade is entered.





Let us look at the graph above. See how price levels play a roll in the support and resistance of the price movement. Say we entered the trade at Entry above. Our first profit target will be around our fast moving averages (8EMA and 21EMA). Our second profit target will be around the slow moving averages(89SMA and365EMA). Our third profit target will be at price level 1.2100 etc etc etc.
This is how you plan your trade in advance to take partial profits till you complete the trade. Should there be a moving average or price level nearby and below your entry level you must take note that the price might go and test them. So your stoploss must be aware of that.

Again I ask you to study the movement of the price around the moving averages. When the price are above the 89SMA the trend is normally up and visa versa. After the price crosses the 89SMA it tends to pullback to the 21EMA before it carry on its direction if it is a trend direction change otherwise it tend to test the 89SMA again and then it runs over and across the 89SMA till it finds direction and then it pulls back to the 21EMA before proceeding on its path.



This is Market Rythm

Here are a live trade I did for someone in explaining how I trade. This is actual e-mails that I did send. **25 January 2007 21:00 (GMT+2)**

Hi
I took it with 30 pip stoploss and hope I can add to the Gbp one earlier this week.
Greetings

The MACD pulled back to the Zero line and then closes lower which indicate a down move.

"Got entry at 1.2955 and has set stoploss at breakeven at 1.2955 when price did hit 1.2935. I am scared for a false breakout below support but now the price can turnaround as I have a free ride."

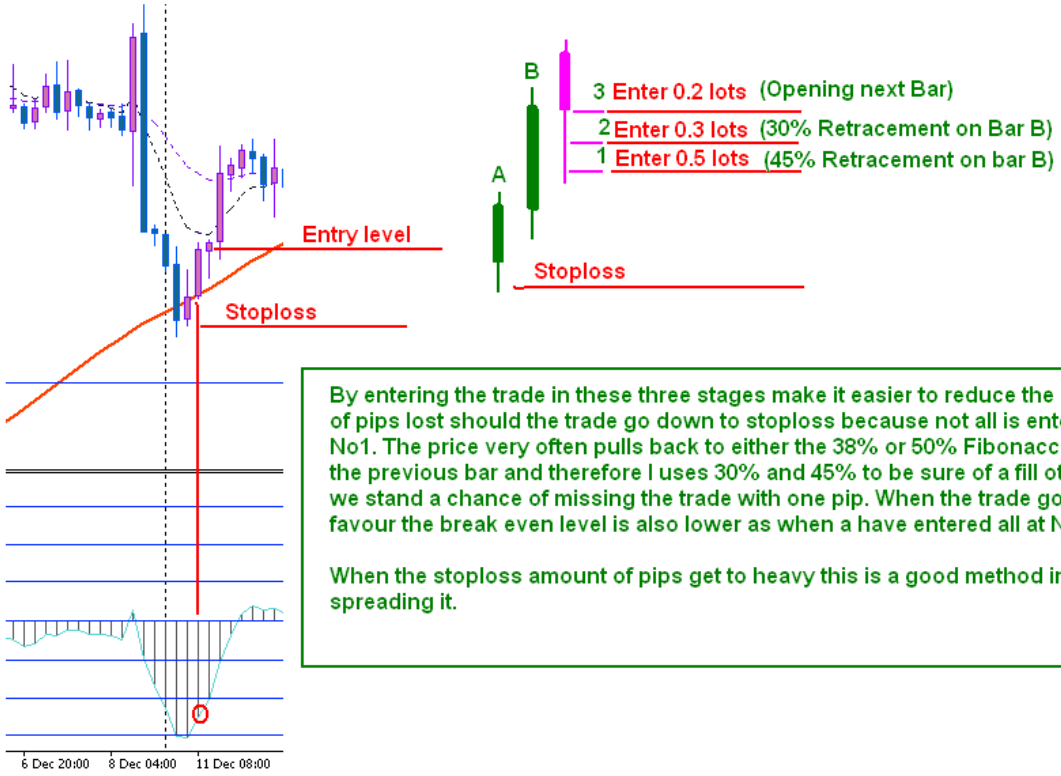
"Took 50% profit at 1.2920 and set other half stoploss at 1.2935"

"Hi
Amazing how it found support with Fibonacci. I wanted to do this trade with you as it developed so that you can see how I go about. I just had a feeling that the price is not going to go down to 1.2900 ***straight away*** *so I applied fibonacci as there was no other indicator between the entry price and 1.2900. One has to listen to that little voice inside as well. I was stopped out on the other have at 1.2935 so the total gain was 35 pips on 50% and 20 pips on the other 50% for a total of 27.5 pips on full lot.*
Not bad for an hour work.
Greetings"

This trade however was a bit risky as it was a breakout trade after ten days consolidation testing a trendline angling upwards. One has to evaluate the risk not only in terms of pips but also in terms of strategy and chart pattern. After a breakout the price very often turns back to test the breakout level and then that level becomes either support or resistance in this case it becomes Eur resistance.

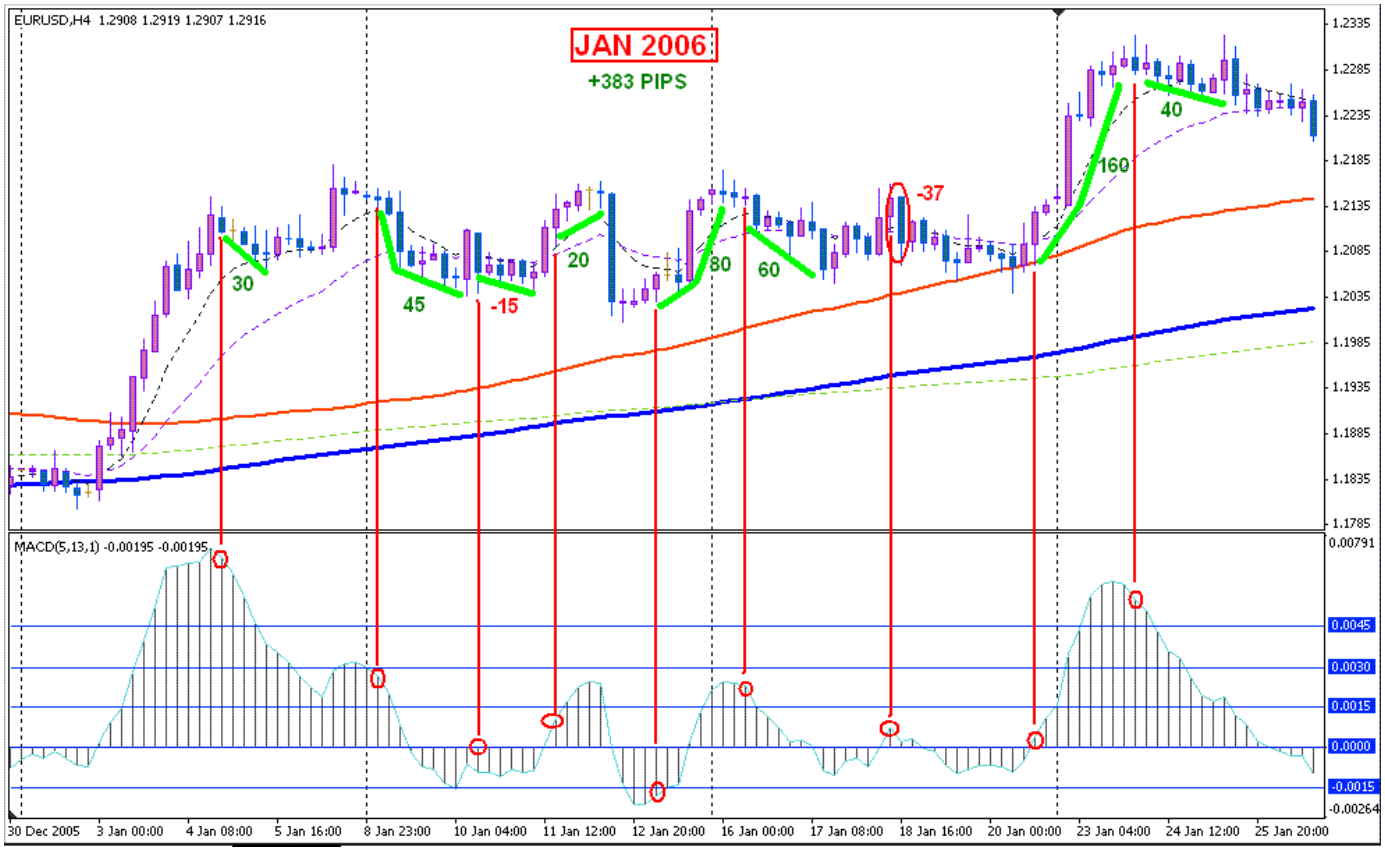
Stoploss have to be inside the breakout otherwise it can be triggered and then sometimes it can be very big before entry signal is given by the MACD.

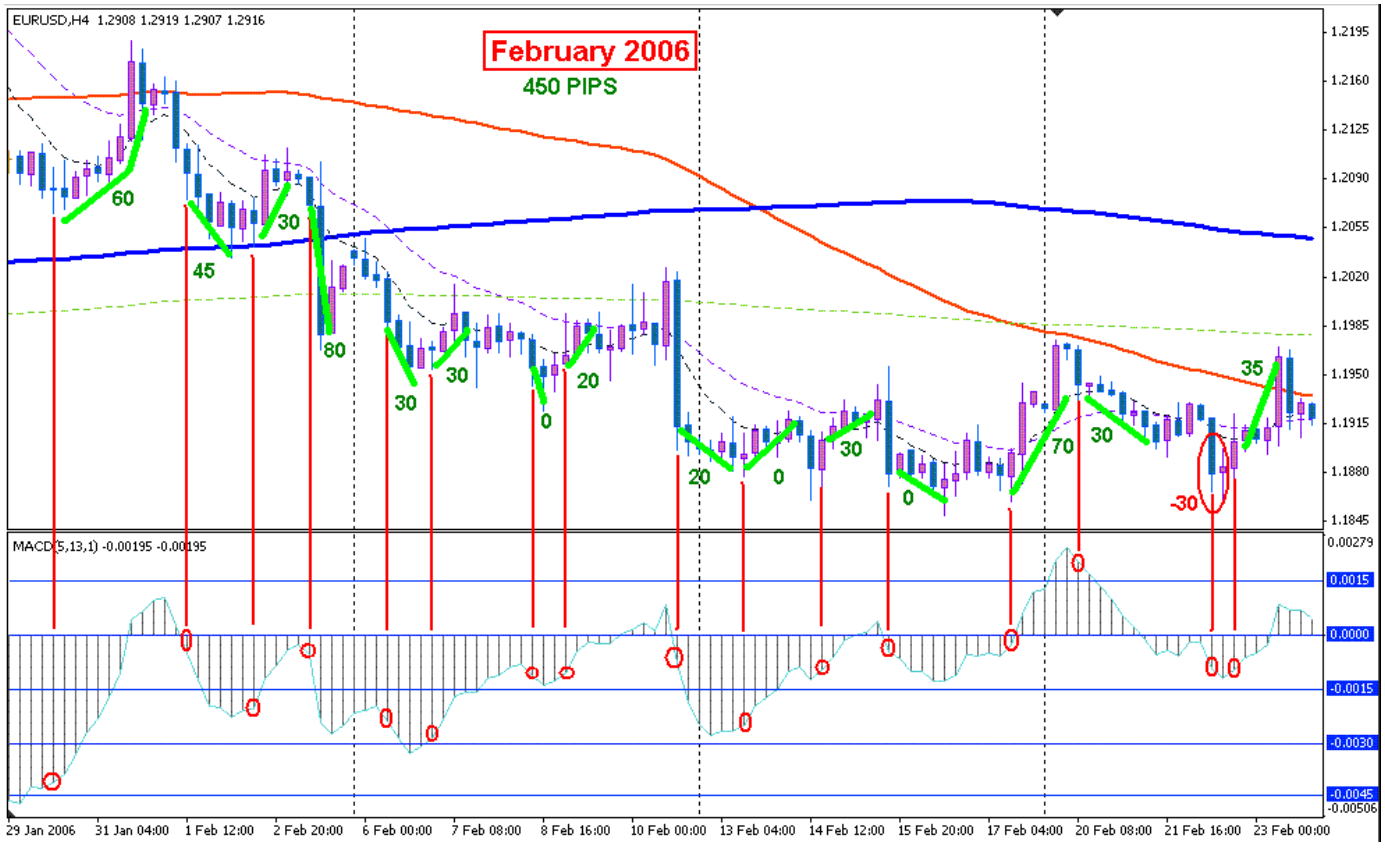
Here is what I normally do when the MACD shows a signal but the stoploss are to big in relation to my capital or what I am comfortable with. I enter the trade in three stages with my stoploss set at the same level.

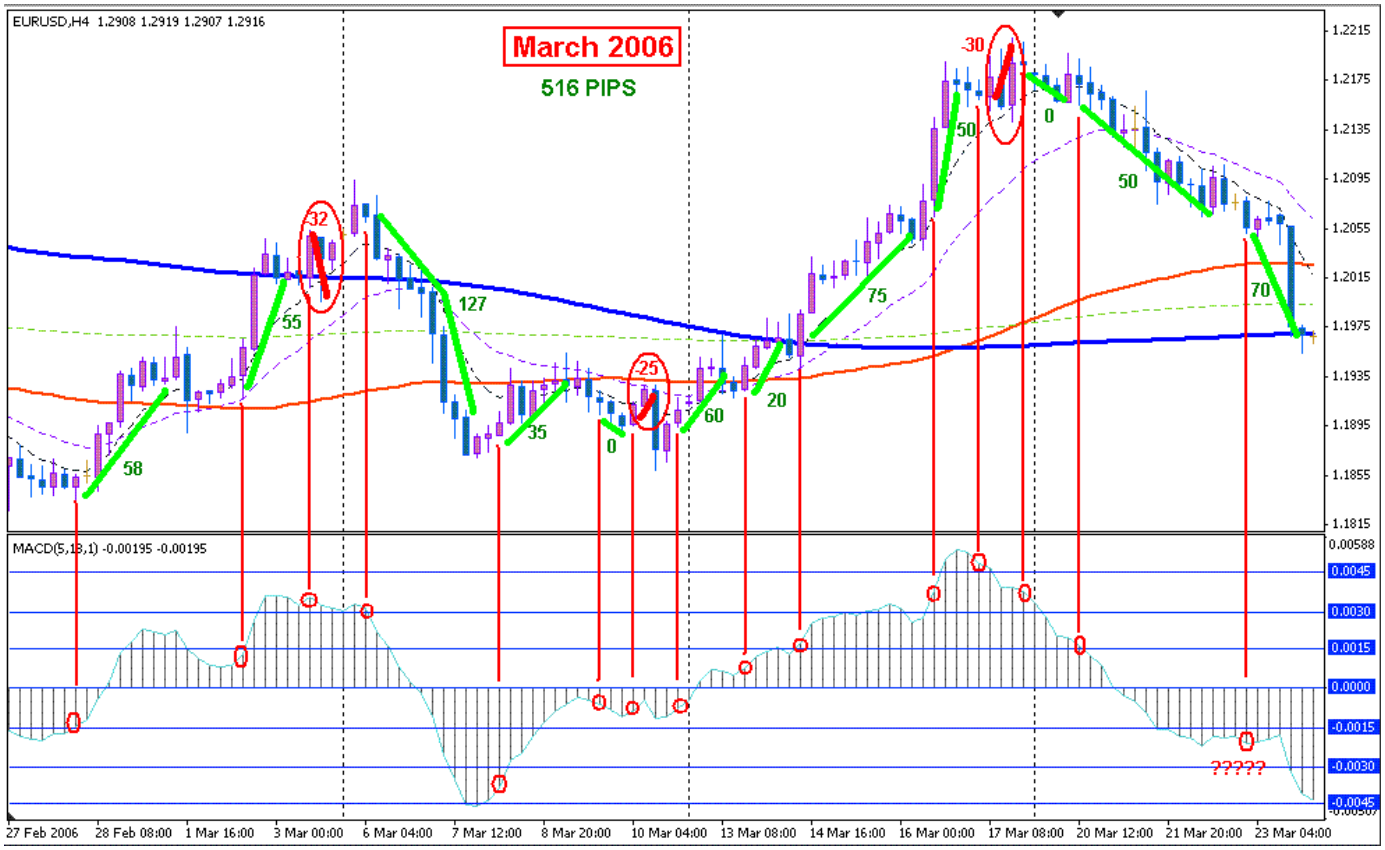


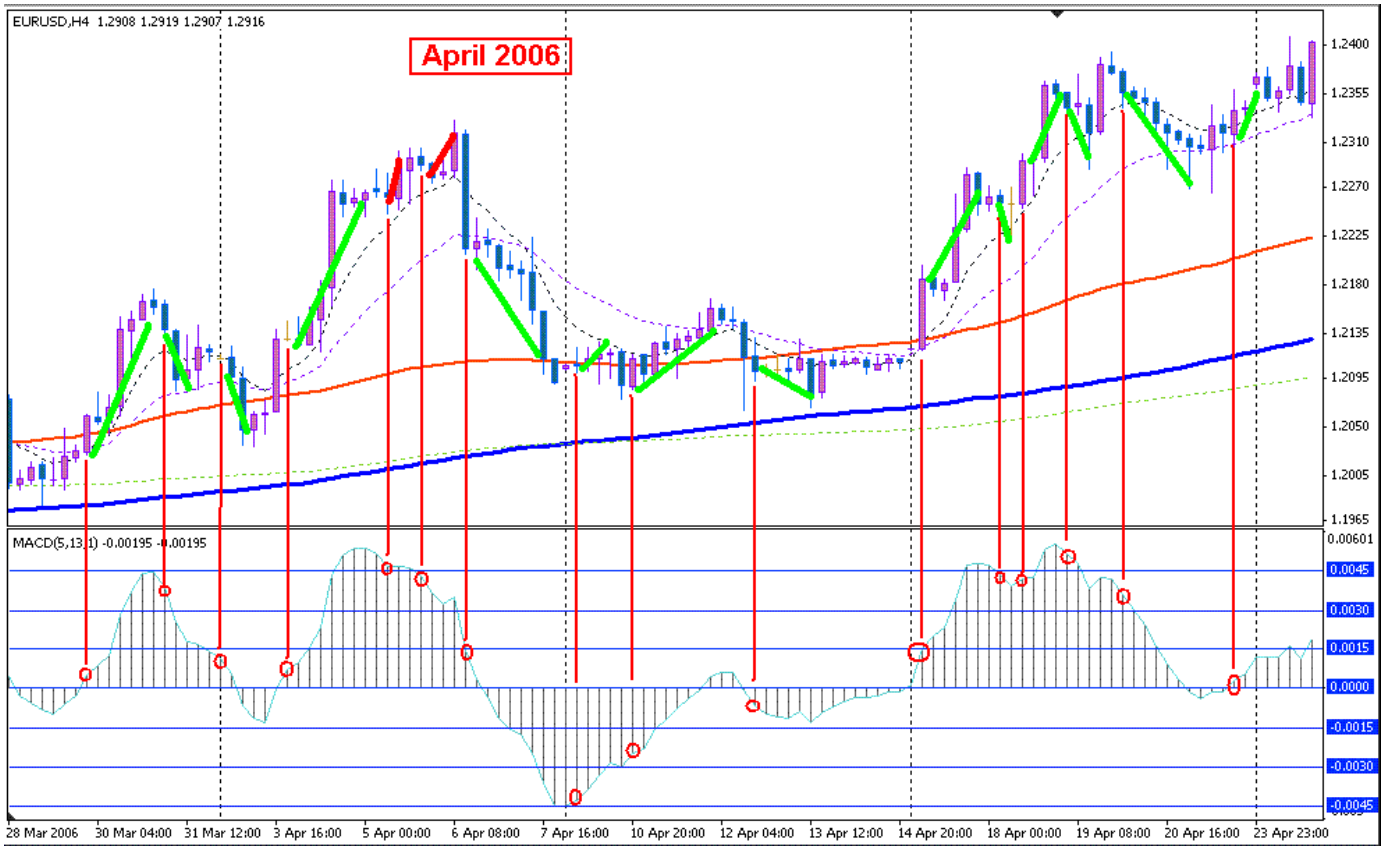
By entering the trade in these three stages make it easier to reduce the amount of pips lost should the trade go down to stoploss because not all is entered at No1. The price very often pulls back to either the 38% or 50% Fibonacci levels of the previous bar and therefore I uses 30% and 45% to be sure of a fill otherwise we stand a chance of missing the trade with one pip. When the trade goes in my favour the break even level is also lower as when a have entered all at No3.

When the stoploss amount of pips get to heavy this is a good method in spreading it.


EURUSD,H4 1.2908 1.2919 1.2907 1.2916
JAN 2006
+383 PIPS
30
45
-15
20
80
60
-37
160
40
MACD(5,13,1) -0.00195 -0.00195
30 Dec 2005
3 Jan 00:00
4 Jan 08:00
5 Jan 16:00
8 Jan 23:00
10 Jan 04:00
11 Jan 12:00
12 Jan 20:00
16 Jan 00:00
17 Jan 08:00
18 Jan 16:00
20 Jan 00:00
23 Jan 04:00
24 Jan 12:00
25 Jan 20:00


EURUSD,H4 1.2908 1.2919 1.2907 1.2916
February 2006
450 PIPS
60
45
30
80
30
30
0
20
20
0
30
0
70
30
-30
35
MACD(5,13,1) -0.00195 -0.00195
29 Jan 2006
31 Jan 04:00
1 Feb 12:00
2 Feb 20:00
6 Feb 00:00
7 Feb 08:00
8 Feb 16:00
10 Feb 00:00
13 Feb 04:00
14 Feb 12:00
15 Feb 20:00
17 Feb 04:00
20 Feb 08:00
21 Feb 16:00
23 Feb 00:00





You will notice that not all signals was taken. Sometimes I were already in a trade. I did not actually trade all these trades live. This was done on a backtesting scenario.

I stopped counting the pips for the April 2006 testing as it completely convinced me of the success of this method. I randomly tested it using previous years and the results were amazing. Average of 300+ pips per month and then I only trade the trades that gives signals at these times 17:00, 21:00 and 01:00 (GMT +2). It gives between 8-10 deals per month using the mentioned timeframes.. (I use Metatrader and data supply by MIG.). Due to working hours and the fact that that I don't have internet access during working hours I can only trade those hours.

If you use patterns in the MACD that occur regular that gives results and use them every time they occur you will most definitely make money.

For newcomers I suggest that you trade only Trend Continuous signals as well as RT and RB that occur above the 45Level Hor lines as that will give you a positive start. Less pips but mostly successful trades.

I haven't discuss nor used trendlines so far in this document and when you add them it will most definitely helps you in defining your exit levels. The entry level are determine by the MACD but the exit or profit levels is determine by support and resistance levels. I use the moving averages as described earlier as well as Fibonacci levels and then most definitely trendlines and price levels. I normally take the daily graph and draw the trendlines according to it and then go to the 4 hour graph. I make them nice and thick so that I can see them. Then I draw the different price levels such as 1.2900, 1.3000, 1.3100 etc. It is amazing to see how the price find support and or resistance at these levels.

I hope that this document will help you on your way to financial independents.

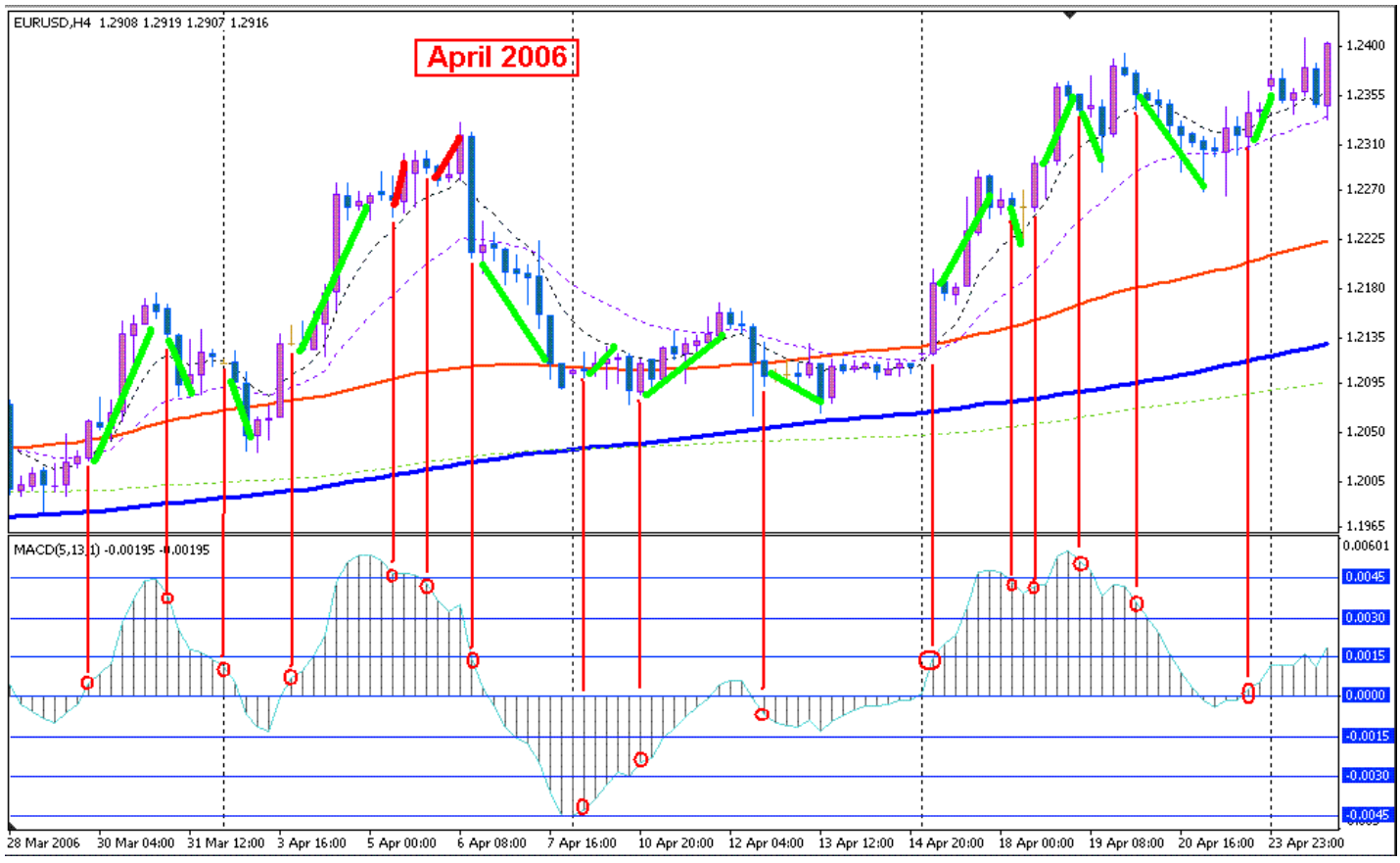
YOU MUST STUDY THE MARKET RHYTHM LESSONS AS THAT WILL PROVIDE YOU WITH THE RIGHT KNOWLEDGE.

Edited 2007/08/05

You also must read through the whole thread to obtain the right mindset. This is not a easy 1+2+3=4 type of system as it takes the Market rhythm into account and a study of these rhythm are essential to survive.

I could not post it all at once due to size limitations and the fact that everything was not documented when this document was placed. As the thread developed a lot of questions was asked and answered so it is of importance to go through the whole thread.

Don't trade very MACD signal. Make sure it is in harmony with market rhythm and Risk to reward Ratio is bigger than one (R:R>1). Trade only 2-3 pairs at a time. I focus on EurUsd, GbpUsd and EurJpy(risky) and lately I added the UsdChf.


EURUSD,H4 1.2908 1.2919 1.2907 1.2916
April 2006
1.2400
1.2355
1.2310
1.2270
1.2225
1.2180
1.2135
1.2095
1.2050
1.2005
1.1965
MACD(5,13,1) -0.00195 -0.00195
0.00601
0.0045
0.0030
0.0015
0.0000
-0.0015
-0.0030
-0.0045
28 Mar 2006
30 Mar 04:00
31 Mar 12:00
3 Apr 16:00
5 Apr 00:00
6 Apr 08:00
7 Apr 16:00
10 Apr 20:00
12 Apr 04:00
13 Apr 12:00
14 Apr 20:00
18 Apr 00:00
19 Apr 08:00
20 Apr 16:00
23 Apr 23:00