# Understanding How The Market Moves With MTF Stochastics

### Trading the Upward Trend and Catching the Downward Reversal

Stochastics are always moving in a cyclical pattern between being over bought and over sold. The longer the time period for the stochastic the less cycles appear compared to a shorter stochastic time period.

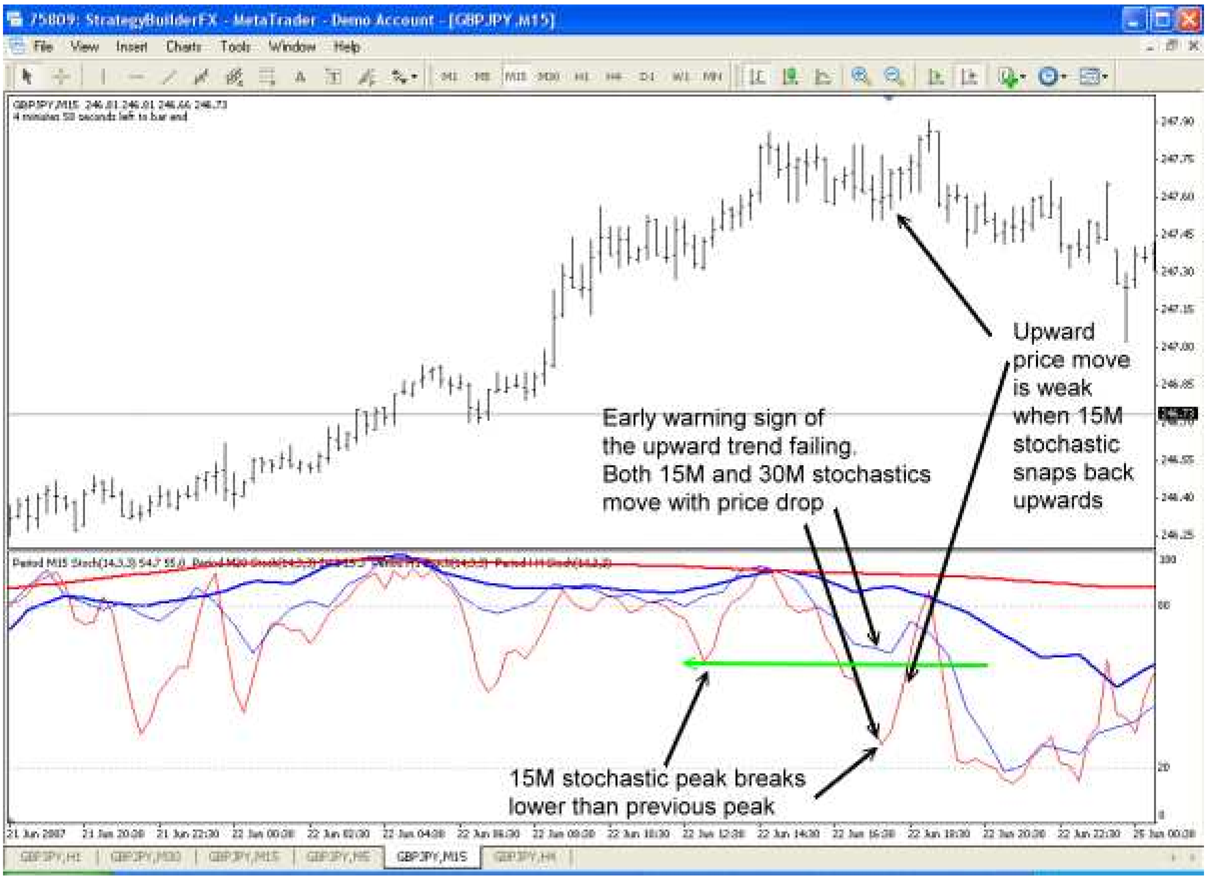
It is the shorter time period stochastics that continually tug at the longer time period stochastics trying to change their direction. Of course many times the shorter time frames fail before they are successful. As traders we can take advantage of the successes and failures of these shorter time period stochastics trying to move the long-term stochastics.

The 15M time period chart below shows the 15M (thin red line), 30M (thin blue line), 1H (thick blue line) and 4H (thick red line) stochastics. We can see that the 4H and 1H stochastic firmly in the over bought area above the 76.4% level. Notice how each time the market price begins to fall the 15M stochastic falls. However, notice that the 30M, 1H and 4H stochastics barely move during these short sell periods. Each short sell period is a failure by the market to move the price downwards from the upward price trend.


When the price fails to sustain a downward move it naturally rebounds to return back to the upward trend it left. This rebound can be referred to elasticity of a stochastic as it is like pulling on the 15M stochastic band, stretching it down, and the band snaps back after we can stretch it

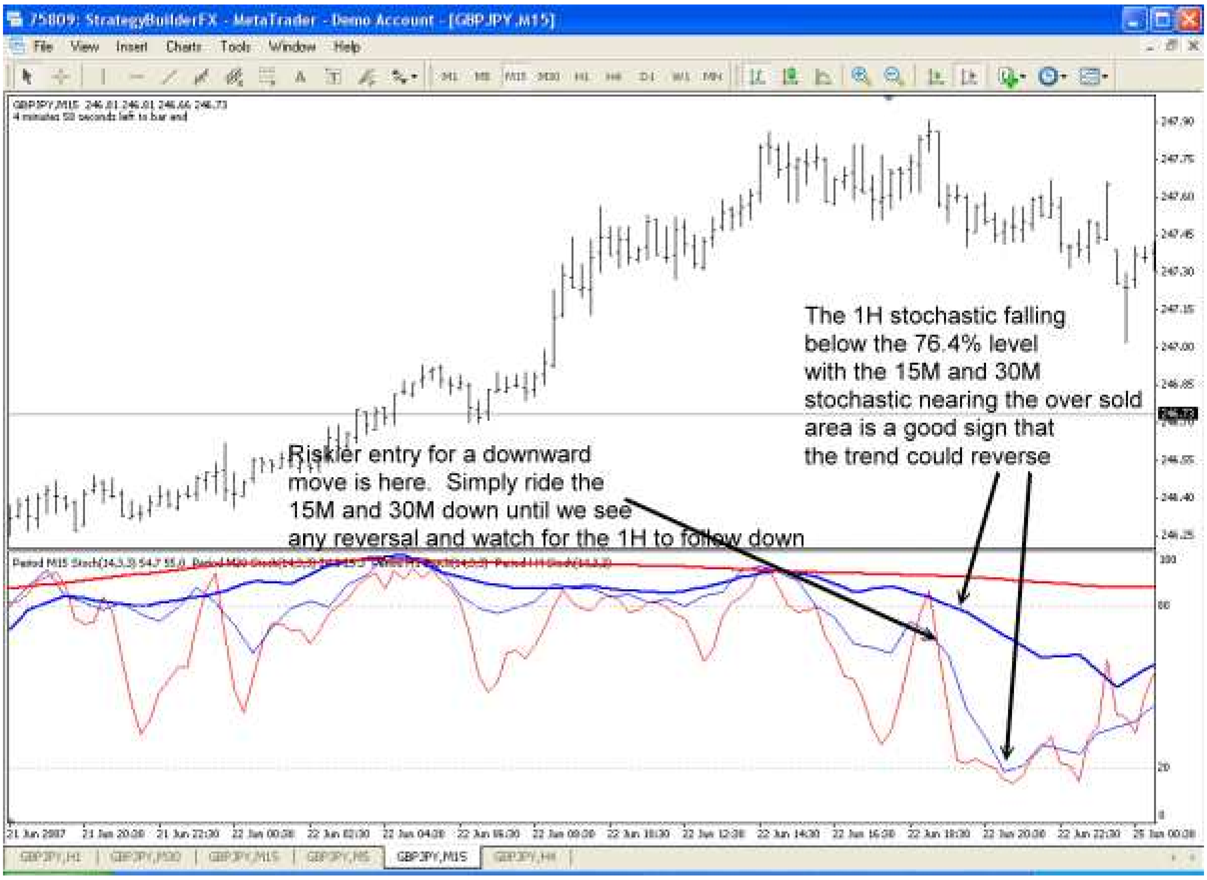
no further. When we stretch the band we are pulling slowly downwards and when we let go of the band the move is strong and fast upwards. The stochastic and price react the same way.
The chart below is the same as the previous chart but look at what happens to price and the 15M stochastic after the price failed to fall. The 15M stochastic moves back to the higher time frame stochastics and the price moves much more strongly upwards then the downward movement. In this chart we can see a progressively stronger upward move after each attempt by the price to fall but notice how the peaks of the 15M stochastics are not falling as low after each downward failure.
As we can see by the chart this pattern of movement clearly identifies a strong upward trend in price.


Eventually the upward trend is going to fail and we can usually see the early warning signs in the MTF stochastics. The chart below is the same chart as the previous one. Notice how the 15M stochastic's low peak has fallen much lower than the previous 15M peaks. As well the 30M stochastic has started to fall following the 15M stochastic. We can also see that when the 15M stochastic moves back upwards that the price movement upwards is much weaker than the previous 15M stochastic moves upwards. This is an early warning that the current upward trend is likely to fail. However, it is just a warning we need to wait for a downward trade signal to make a proper short entry.




Catching the downward reversal requires recognizing the signs of the break in trend. As well we must be patient and wait for a downward signal before entry, otherwise we may get caught in the end of the upward movements before the downward movements begin.
The chart below is the same as the previous chart. Notice that we have two downward entry signals. The first is riskier because we are only relying on the two shorter time periods to signal the downward move. We can see both the 15M and 30M stochastics are moving down and are below 76.4%. In this type of entry we can follow the downward move of the 15M and 30M stochastic and decide to exit if the 15M stochastic turns up, the 30M stochastic turns up or both the 15M and 30M stochastic turn up.

All the while we are watching the 1H stochastic for any sign of it breaking and falling below the 76.4% level. If the 1H stochastic breaks the 76.4% level we have far more reason to stay in the downward trade even if the 15M and 30M stochastics should now turn up. This leads to the second entry where the 1H stochastic breaks and falls below the 76.4% level. It will be much harder for the markets to pull back now and we should now be using the 30M and 1H stochastics as our guide to any exit. What we are hoping for now is the 4H to break and fall below the 76.4% level to continue are downward trade. For an exit we need to watch for any combination of signals where the 15M, 30M and 1H stochastic turn against us. The more signals we wait for the higher the risk, so we must judge our pip reward we have earned as each signal appears.




Stochastic Elasticity

If you have read any of Bringing Sexy Back - Stochastics by BoxingisLife here at the Forex Factory then you have a good idea of what stochaatic elasticity is.

The simple definition is that a short term stochastic will move away from the longer term stochastics and then eventually return back to the long term stochastics.

We can easily make a living trading elasticity. It is almost so routine it honestly becomes boring making us look for some excitement and risk. What we want is the 4H stochastic to be either over sold or over bought. Better if we have both the 1H and 4H stochastic in an over bought or over sold position but we must have the 4H stochastic in the proper position.

When elasticity trading always think of an elastic band in that we slowly stretch it back and then let go and it quickly snaps back. So to should be our trading style....we enter the trade and ride the momentum of the snap.

The advantage of an elasticity trade is that we are almost always trading with the trend. The risk for any real loss only occurs if the trend reverses against us. Most elasticity trades (when I say most I mean 80%+) will either result anywhere from break-even to net positive pips.

There are numerous ways and opportunities to trade elasticity, however the action is always the same.

As always our signal levels are the 23.6%, 50% and 76.4% stochastic levels.

The key to successful elasticity trading is patience. If we are too early we'll be caught in the stretch and not the snap rebound. We want to enter the trade as the snap back starts moving. The good news is, even if we are too early we can usually recover as more often than not in an elasticity trade the price rebound is greater than the price stretch. Sometimes the snap back is too fast and we miss a trade. If that happens accept it and move on don't try to force a trade.

The chart below is the 15M chart. The stochastics are 15M, 30M, 1H and 4H. For this example we are only trading the 15M stochastic. Notice that the 1H and 4H stochastic are in the over bought position.

When the 15M stochastic moves all the other stochastics will follow to some degree. If the short term move away from the current trend is weak than the 15M stochastic will pull away much faster from the other stochastics and the other stochastics will be slow to follow. We can see that in the chart below, the 15M moves all the way down to an over sold position while the other stochastics barely move down. The 30M does move down near 50% but it lingers well behind the 15M stochastic.

Our entry is when the 15M crosses back up across the 23.6% line and we ride the 15M stochastic back up.
When we get past 50% we have a choice to get out of the trade or keep going to 76.4%. If the 30M is rising, the 1H and 4H are still over bought than let the ride continue.

When we reach 76.4% we have to look at several things for an exit. The most important is pip gains. If I have 5-20 pips gained I usually bail out. Elasticity is going to offer us numerous trades all day long so even if this is a long upward 500 pip trend, we'll gain lots along the way in numerous trades. We can also ride the 15M into the over bought region and exit when it turns to leave the over bought region and passes 76.4%.
Whatever you choose always protect what you made. The last thing we want is to do is go positive and end up negative...that kills the confidence and the pocket book.