The Lindencourt Daily Forex System Manual

LINDENCOURT
Foreign Exchange Trading

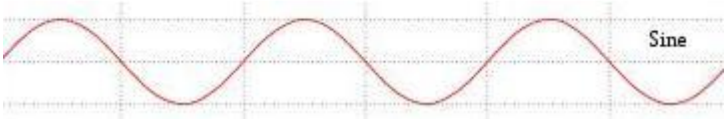
www.lindencourt.net

The Lindencourt Daily FX System

This is a very simple daily forex trading system that I have developed myself. I do not claim copyright or ownership of the system or method in any way. As it is so simple, I am sure many people “invent” the same system on their own computers on a daily basis; nevertheless I would like to share it with you as I have achieved quite a lot of success with it. I also use a modified version of this daily system with the **Lindencourt *FX* System**, which is my key intra-day trading system. This modification produces even better results and it is available to anyone buying my intra-day system.

I have written this simple manual on the basis that you know at least the basics of forex trading. However, if there is anything that you do not understand and want further information or explanation, please contact me via the contact page at www.lindencourt.net.

Introduction



We all know that price action of any currency pair moves in a continuous wave or cycle. Price starts to move up from the bottom of a cycle, then accelerates up, then starts to slow down until it momentarily stops at the top of the cycle, then it starts to go back down, and then accelerates down, and finally starts to slow down again …. You get the picture. Unfortunately, we all know that we never see this perfectly uniform sine-wave shape or pattern in the currency markets. Nevertheless, the Lindencourt Daily FX system simply tries to takes advantage of this wave formation that occurs with all currency pairs in one shape or another and aims to maximise any gains from price movement when price momentum is at its greatest. We do this by following the trend and short term price action.

Does the system work?

For me, the evidence is overwhelming, but you must judge for yourself. Try it out on your favourite currency pairs in a demo account and see if it works for you. The system works with any currency pair. To demonstrate the trading system in action I have recently applied it to the GBPUSD currency pair over the past 6 months, taking every relevant trade that the system has produced and the trading results are displayed below.

Opening Trade Date	Buy or Sell	Opening Price	Closing Trade date	Closing Price	Profit or Loss
19 Dec.08	Sell	1.5052	30 Dec 08	1.4461	+591
12 Jan 09	Sell	1.5073	16 Jan 09	1.4733	+340
11 Feb 09	Sell	1.4553	19 Feb 09	1.4244	+309
26 Feb 09	Sell	1.4206	5 Mar 09	1.4172	+0*
26 Mar 09	Sell	1.4551	1 Apr 09	1.4463	+88
15 Apr 09	Buy	1.4902	17 Apr 09	1.4795	+0*
30 Apr 09	Buy	1.4672	6 May 09	1.5130	+362
19 May 09	Buy	1.5322	26 May 09	1.5960	+638
10 June 09	Buy	1.6309	15 June 09	1.6271	+0*
26 June 09	Buy	1.6414	30 June 09	1.6473	+59

*Stopped out at Break even (but some personal profits taken mid-trade)

The system produced 2,387 pips from these 10 trades at an average of 238 pips per trade.

You will notice that there were NO LOSING TRADES, although not all trades above produced an excellent return. This is normal with any trading system, as you are always going to have winners and losers. I have been quite fortunate with this system on the GBPUSD pair over the past 6 months as it has shown a success rate of 70% winners and 3 trades breaking even.

I mentioned above that this is a system that takes advantage of price momentum, where price tends to move its greatest distance within in the price cycle. Therefore gains at the top or bottom of the price cycle are more likely to be smaller. The single loss and smaller gains on the GBPUSD trades in the previous table were when prices were at those junctures.

First of all, let's look at what is contained in the system and how it works, and then we will return to the previous GBPUSD trades for further graphical explanation and analysis. I will finally make a few comments concerning money management.

Components

This system is a very simple trading tool and can be adapted in any way to suit your own trading. My key elements are:

- Stochastic indicator (settings: 8,3,3 where %k =8). I use the stochastic indicator to inform me when to enter a trade and when to exit.
- 100-period exponential moving average (MA) or EMA (100). I use the moving average as my trend indicator. The gradient of the MA curve tells me if the trend is up or down.
- Daily chart for any currency pair
- Price action itself.

How it works

Essentially, we look to place a SELL trade only when price itself is below the MA(100) line and similarly, only look to place a BUY trade when price is above the MA(100) line. With this system if this first condition is not met, there is simply no trade. A major rule of successful trading is to follow your system. A good system has rules or conditions for a reason, and they are normally there to minimise risk and maximise gains, so obey them.

So, once the MA condition is met, we then wait until the fast stochastic line (the dark blue line in my template) crosses the slow stochastic line (the light blue line). However, we only enter a trade when the stochastic is at a value between 20 and 80. Once we are in a trade we look to exit the trade when the stochastic lines cross again, ideally at the other end of the indicator channel. I tend to find the best trades are when the stochastic lines are leaving the oversold/overbought regions of the indicator channel, ie crossing up from under 20 and crossing down from over 80.

Sell Trades:

1. Price must be below the EMA(100) line. Furthermore at least the previous candle must have closed below the EMA. As you will notice price does not cross the EMA very often, when it does it is quite significant and normally implies that a change in the trend is imminent. Therefore, as we want to minimise trading risk, we wait until price is established below the EMA.
2. Once the first condition has been met, we now focus on the stochastic indicator. The fast stochastic line must have crossed over the slow stochastic line from above and it must be between 20 and 80. If the cross has occurred between 100 and 80, we must wait until the stochastic crosses the 80 line.
3. Once the stochastic criteria have been met, place a sell trade at the opening of the very next daily candle.
4. Place a stop loss 150 pips above the entry price. If you are trading a more active currency pair like the GBPUSD, where price swings can be large, the stop loss should be at least 200 pips. Remember you are dealing with the Daily charts, not the 1H or 15M charts so the stop loss level needs to be appropriate for the time frame used.
5. Assuming that the trade is moving with the trend in the anticipated direction, price at some point will hopefully show a gain of +100 pips. When this has occurred, move the stop loss position to the entry price, to ensure the remainder of the trade is risk free.
6. Close the trade at the end of the daily candle when the 2 stochastic lines cross once again. For a trade close-out, it does not matter where the two lines cross on the stochastic indicator channel.
7. Congratulate yourself on a successful trade.

NB. Both EMA and stochastic conditions must be met before placing a trade. Should the stochastic cross condition be met before a daily candle has crossed and closed below the EMA, wait until a daily candle has closed below the EMA line and then enter a SELL trade at the start of the next daily candle. This situation mainly occurs at a time when a change in trend is imminent so be careful.

Buy Trades

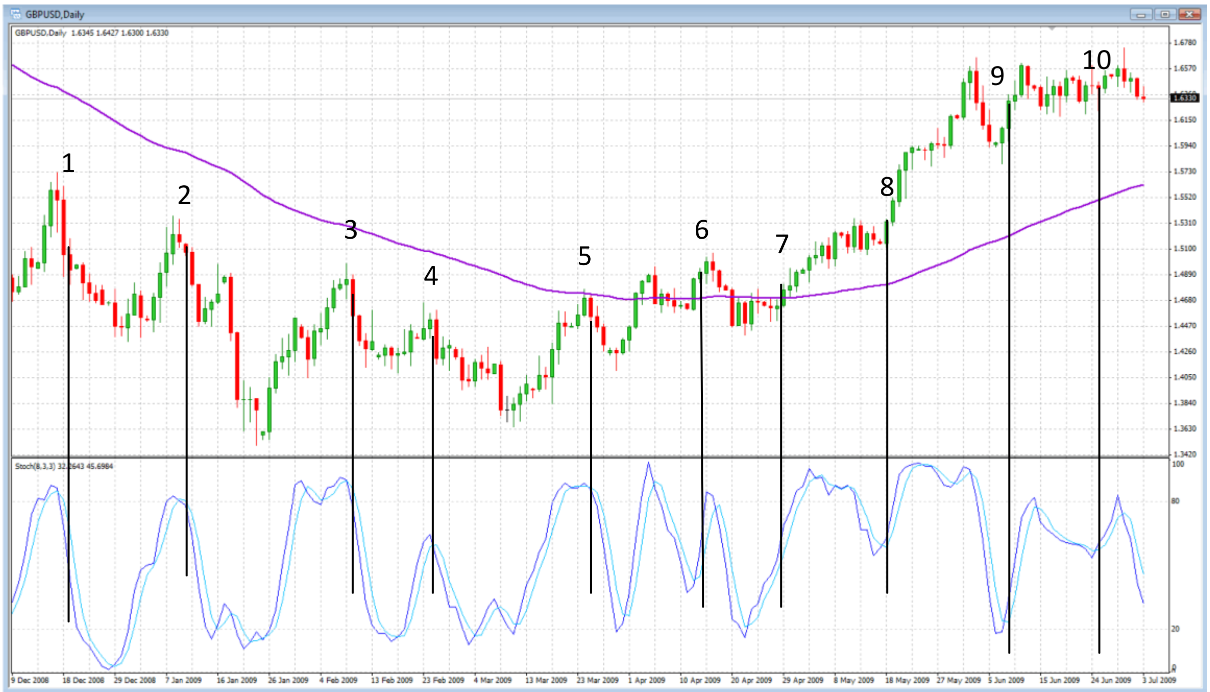
1. Price must be above the EMA(100) line. Furthermore at least the previous candle must have closed above the EMA. As you will notice price does not cross the EMA very often, when it does it is usually quite significant and normally implies that a change in the trend is imminent. Therefore, as we want to minimise trading risk, we wait until price is established above the EMA.
2. Once the first condition has been met, we now focus on the stochastic indicator. The fast stochastic line must have crossed the slow stochastic line from underneath and it must be between 20 and 80. If the crossover has occurred between 0 and 20, we must wait until the stochastic crosses the 20 line.
3. Once the stochastic criteria have been met, place a buy trade at the opening of the very next daily candle.
4. Place a stop loss 150 pips above the entry price. If you are trading a more active currency pair like the GBPUSD, where price swings can be very large, the stop loss should be at least 200 pips. Remember you are dealing with the Daily charts, not the 1H or 15M charts, so the stop loss level needs to be appropriate for the time frame used.
5. Assuming that the trade is moving with the trend in the anticipated direction, price at some point will hopefully show a gain of +100 pips. When this has occurred, move the stop loss position to the entry price, to ensure the remainder of the trade is risk free.
6. Close the trade at the end of the daily candle when the 2 stochastic lines have crossed once more. For a close-out, it does not matter where the stochastic lines cross on the stochastic indicator channel.
7. Congratulate yourself on a successful trade.

NB. Both EMA and stochastic conditions must be met before placing a trade. Should the stochastic cross condition be met before a daily candle has crossed and closed above the EMA, wait until a daily candle has first closed above the EMA line and then enter a BUY trade at the start of the next daily candle. This situation mainly occurs at a time when a change in trend is imminent so be careful. An example of this occurred in Trade 7 in the GBPUSD examples.

GBPUSD Analysis

Having now explained the conditions required for placing a BUY or SELL trade using this system, let's now look at the trades on the GBPUSD during the past 6 months. I will walk through all the trades making comments on each one. Hopefully this will make things clearer and will answer a number of questions.

Please refer to the screen graphic below of the GBPUSD Since mid December 2008. Each line indicates where I entered a trade.



Trade 1

Here's a graphic in close-up of my first GBPUSD trade. It can be seen that price was firmly below the MA(100) so I was only looking for SELL opportunities. The stochastic lines were in the overbought area and had finally crossed during the daily candle of 18 Dec. I therefore entered a trade at the start of the next new candle on 19 Dec @ 1.5052, placing my stop loss at 1.5202. Although initially a little hairy with large price swings on that first day approaching my stop level, price eventually continued down with strong momentum over the next few days. The stochastic lines can be clearly seen crossing during the 30 Dec 08 candle, so I exited at the close of that day @ 1.4461 for +591 pips.

Trade 2

In this trade there was still a strong down-trend with the MA well above price action. On 11 Jan 09 the stochastic lines finally crossed to the downside so I entered at the start of the 12 Jan candle @ 1.5073, placing my stop at 1.5203. Price continued to move down nicely with strong momentum over the following two days, but then started to retrace on 14th. The stochastics finally crossed again during 16 Jan, so I closed out the trade at the end of that day @ 1.4733 for a gain of +340 pips.

Its worth mentioning that there was another potential trade here on 20 Jan, but I did not take it. You can see that the stochastic lines had crossed but I deemed that they were crossing too close to the "20" level and that there had already been a very strong downward movement in price during the previous two candles, thus making any trade too risky for me to take. You got to remember that it is us, the traders that are making the decisions, not the trading system or method. A trading system provides us with information but we decide whether to pull the trigger or not. If I decide to miss a trade and get it wrong, well there is always going to be another trade.

Trade 3

Again, with this trade there was still a strong downtrend. The stochastics had crossed during the 10 Feb so I entered a SELL position at the start of the 11th Feb @ 1.4553, with a stop loss placed at 1.4753. The stochastics and price action showed strong signs of slowing down on the subsequent few days. Candlestick of the 18th was a "doji" which indicated a change in short term direction was possible and on the 19th the stochastics finally crossed again, so I exited at the close of that day @1.4244 for +309 pips profit.

Trade 4

Although it cannot be seen in the graphic above, the MA trend line is still above price action, confirming that I was still only looking for SELL trades. We can see that the stochastic crossed to the downside on 25 Feb, so I entered a sell trade at the start of the 26 Feb @ 1.4206. Price action was a little choppy over the following few days, but it was still following the down trend until an inside bar day on 3 March indicated a short term change in direction was possible. Perhaps to seasoned traders, this type of candlestick pattern, coupled with the previous strong move downward was a good enough reason to close the trade out for a good profit. Anyway, in this instance, I did not and I remained in the trade. As price fell by over 200 pips on 2 Mar, I moved the stop loss level down to the original entry price ie, break even-point. The stochastic lines finally crossed over on 5 Mar, although price action on that day resulted in the trade getting stopped out at the entry price. At least no loss on this trade!

Trade 5

We can see here that price action has been going against the recent trend and rising for at least a couple of weeks. At one point, price can be seen breaking the MA(100)line, although no candle actually closed above that line. So, I was still looking at SELL trades, but was wary of price action now as a change in the trend was a real possibility. The stochastic lines crossed to the downside on 25 March so, following the system rules, I entered a sell trade at the start of the 26 Mar @ 1.4551 with a stop at 1.4571. Price continued, as expected, to fall over the next few days, and then on 30 Mar another "Doji" candle was formed. As with the previous GBPUSD trade, this was a strong sign that a change in short term price action was likely. On that basis I should have been happy to take profits, but instead I remained with the trade, after moving the stop to the entry price. Price continued to move up and the stochastics crossed on 1 Apr so the trade was closed at the end of that day for +88 pips profit.

Trade 6

Here's an example of not such a great trade. We can see that for the first time in many months the GBPUSD trend (according to my definition in this daily system) is changing to "up", although we can see that it is still pretty flat – ie it is at the bottom of the price curve, so it's a more risky place to be for placing trades, compared to when the trend is in full flow. Anyway, according to the system rules when price is over the MA and the stochastics have crossed to the upside there is a possible BUY trade. This was the case on 14 April, just after Easter, so I decided to take the trade at the start of 15 Apr @ 1.4902, with a stop at 1.4702. As can clearly be seen on the chart, price momentum was simply not there in the market and price failed to lift off. Having said that, price did actually rise over 150 pips during those two days so I placed the stop loss level up to break-even level. Unfortunately, price fell back to that break-even level on 17 April for a no win/no lose trade. On to the next trade.

Trade 7

This is a trade where unusually, the stochastic lines had already crossed to the upside, although a candle had not yet closed back above the MA(100) line. On 29 April, the daily candle finally closed above the MA, so I decided to enter the trade at the start of 30 April at a price of 1.4768, with a stop placed at 1.4568. Strong price action took the price up over the following few days until the stochastics became flat in the overbought area. On 6 May, the stochastics finally crossed over again so the trade was closed at the end of the day for a gain of +362 pips.

Trade 8

Following a number of days of price consolidation, we can see that price finally took off around 17 May. As price is clearly seen to be above the MA, I was only looking for a BUY trade. On 18 May, the fast stochastic line crossed the slow stochastic line from underneath so a trade set up was in place. A buy trade was made at the start of 19 May @ 1.5322 with a stop placed at 1.5122. The stochastics finally crossed again on 26 May, so the trade was closed at the end of that day for a gain of +638 pips.

Trade 9

Price here was still above the MA(100) so again only BUY trades were sought. On 9 June the stochastic lines crossed which provided a set up so a buy trade was made at the start of 10 June @ 1.6309 with a stop placed at 1.6109. Price rapidly continued to rise for over another 300 pips, before it started to decline. During this time the stop was placed at break-even. On 15 June, the stochastics finally crossed but during that day, price action was such that the trade was stopped out for zero gain/loss.

Here is another example of where commonsense can play a major part in helping a trader stay in the game, if he is prepared to accept that +300 pips is a large gain by any measurement. As the trade was over 300 pips in profit at one point, it may have been sensible to have closed half of the position to lock in some very good profits (the same goes for any trade where a good profit has already been made). Furthermore, as the stop had been moved to break even, there was no longer a risk of a loss, so there could have been a win-win situation – 300 pips in the bag and the remaining trade without any risk of a loss. See also my money management comments later.

Trade 10

You can see from the above chart the the GBPUSD has been chopping around without a clear trend for several weeks or it was perhaps a more riskier trade than some of the more recent GBPUSD trades. Nevertheless, the trend was still up (price still above the MA(100)) and the stochastic lines has crossed to the upside once again on 25 June. A BUY trade was opened at the start of 26 June @ 1.6414 with a stop placed at 1.6214. Price continued to move up and gained over +350 pips before falling back down. The stochastics had firmly crossed over again on 30 June so the trade was closed out for a +59 pip gain.

This is yet another example of a trade which achieved an excellent gain of over 350 pips at one point from when I entered the trade. Just like the previous trade (9) it is an example of when one should close out a good chunk of one's trading position to lock in some good profits, move the stop loss level to break-even and allow the remainder of the trade to run until either stopped out or until the trade is closed out by the system's rules.

Money Management

It is always worth mentioning something about money management, although I think the same basic money management rules must apply irrespective of which trading system is being used.

My general advice for forex money management is simple: trade a maximum of 1 – 2% of your trading capital on any one trade. Furthermore, do not trade more than 5% of your total trading capital at any one time over a number of trades. If at any time you are seeing a good profit on any single trade, it is always wise to take some profit off the table. Always be grateful for a profit (irrespective of profit size)

There are no hard and fast rules here, but if, for example, you were in a trade using this system and you had already over 100 pips in profit, it might be wise to close 20-50% of the trade and take the profits and let the other 50-80% remain until the system exit rules have been met, or alternatively to gradually close out further chunks of capital from the trade, eg in 20% chunks.

Money management is a personal thing, although there are a few golden rules which should be followed that I have mentioned above. In my view, the rest is at the discretion of the individual trader, as long as a little commonsense is applied. Please remember the primary aim of money management should be assist the trader with capital preservation, followed by maximising gains.

Conclusion

I hope these ten recent trade examples on the GBPUSD using this system has helped to clearly explain the Lindencourt Daily forex trading system. This is only a brief guide, although I have covered most of the salient points of the system. If however, you have any queries, please contact me at Lindencourt@Lindencourt.net.

As with all trading systems, this system is only as good as the trader who is applying it. If you let your emotions take over and rule your trading, rather than objectivity, logic and commonsense, your trading results will reflect this. Trading systems have rules or guidelines which should be followed, although some do allow you to apply discretion. What if your emotions tell you to do one thing and a system suggests you do something else? All I would say is that system rules are there to help you deal with the emotional aspects of trading. Good trading systems have evolved over time and their rules exist because they have shown over time that they offer the best way of dealing with the key subjective issues, like when to exit and when to enter. So, always try to stick to the rules of any trading system.

I wish you good trading.

Lindencourt Foreign Exchange Trading Co

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