



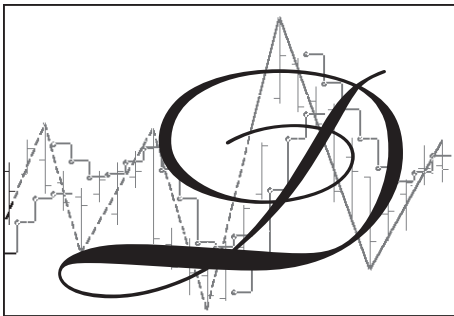
ROBERT
KRAUSZ'S

FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 12

THE ECO HISTOGRAM PART II



ear Trader,
Here we are, Issue number 12. That means that we have been publishing the Fibonacci Trader Journal for a year. One more issue will

make number 13, the final issue that I promised you .

You may have noticed that with each issue the techniques described have become a little more sophisticated, and that I laid out a smorgasbord of tools and concepts rather than precise strategies.

This was no accident. My goal with the Fibonacci Trader Journal was to show some of the unique and what I believe are some very special tools available in the program, and guidelines on how to use them. Within the guidelines I strive to give entries and exits, such as in the last two issues, and suggested strategies.

I believe that I have hit my target by the letters I receive. I've learned that there are many traders in different countries, trading different markets. It's very nice to hear success stories from using one or more of the tools described in these pages.

And speaking of letters, many thanks to those that have sent in their compliments and thoughts to Thom Hartle and me regarding the first two lessons from the Wizard On Wall Street home study course. Please keep the letters coming, even the critical ones.

The driving concept of the Fibonacci Trader Journal, as you already know, is we base our analysis and trading decisions on a *multiple time frame* approach. This concept is beginning to catch on. I understand that at the Omega Research seminar the multiple time frame concept was the flavor of the month. I guess being copied is actually the greatest compliment.

Often I am asked if I don't get somewhat annoyed when one of our ideas is copied by a technical analysis software seller, and probably someone who doesn't even trade at that. In reply may I quote the English poet and writer, Rudyard Kipling:

"And they asked how I do it,
and I gave them the scripture text,

You keep your light so shining a
little in front o' the next,

They copied all they could follow,
but they couldn't copy my mind,

And I left'em sweating and stealing
a year and a half behind..."

I wish you excellent trading,

Robert Krausz MH, BCHE

In the last issue we introduced an innovative way of applying the Ergodic Candlestick Oscillator (ECO) using a new setting of 3.618 and the histogram format. We will carry on with another example of this trading concept, but this time using American Online. We will use the same guidelines and combinations of indicators, the ECO and the HiLo Activator, plus later on we will incorporate the Balance Point Step.

Figure 1 is America Online daily with the 3.618 ECO histogram in the lower half of the

chart and the 13 period HiLo Activator set to a close of 8 ticks as our trading indicator. However, we look to the ECO as a confirmation tool. Therefore in order to buy based on the price closing above the falling HiLo Activator the ECO histogram has to have recently crossed from below the zero line to above.

Likewise, a sell signal triggered by the price closing below the rising HiLo Activator has to be confirmed by the ECO histogram having recently crossed from above the zero line to below. Let's



Figure 1: America Online Daily/Weekly/Monthly Plan. Here are seven trades based on the 13 period HiLo Activator and confirmation by the ECO histogram. The circled dots represent the Signal line dots moving out of the ECO histogram block, a early warning of a potential trend change.

walk through some trades in Figure 1. Trade 1 is a simultaneous situation where the price closed above the HiLo Activator, the ECO crossed above the zero line from below, and the dot (Signal Line) moved out of the ECO histogram block.

Trade number 2 occurs when prices close below the HiLo Activator. The confirmation had already occurred one daily bar before when the ECO histogram moved below the zero line. Notice the Flip, which is the circled dot, and indicates that the Signal line has moved out of the ECO histogram block, this occurred on the second bar after the peak bar, which is a Pivot High, for the previous uptrend. One cannot ask for more of an early indication than that.

Trade 3, which was suspect from the start because even though the ECO did confirm the buy signal by crossing above the zero line, it only stayed above the zero line for one bar. But, according to our rules, the fact the histogram went below the zero line is *not* a signal for action. And sure enough, the market did ultimately edge higher and the ECO histogram moved back above the zero line. The advance was short lived however, as the market faltered and dropped back below the HiLo Activator. Notice again, that a flip occurred on the very high bar

Trade 4 was forewarned by the Flip we just discussed, and was confirmed by the ECO histogram on the same bar as the entry signal from the HiLo Activator.

Trade 5 is interesting from a number of aspects. First of all, the low near \$80.00 is a second test of major support established back

in August, so you should especially be on your toes at this point in time. And what happened? A Flip occurred on the very low bar! Next, the ECO histogram crossed over the zero line two bars ahead of the signal from the HiLo Activator. This is the kind of setup you would like to see when a market is testing major support.

The Signal line dot moved out of the ECO histogram block on the second bar after the peak bar... an early indication!

Trade 6 was short lived, only four days and the second loss in this series, as we always say there is no holy grail, nothing is 100%.

Our final trade, number 7 which is still open as of this writing, had a simultaneous Flip, crossover of the ECO histogram and buy signal from the HiLo Activator.

Clearly, this approach has some real benefits for traders looking for a technique to trade trends on the daily bars that can last up to a month. And, with a little money management technique we can improve upon the performance. We'll review these trades as an example of steps to take for your own work. Now, I have to stress that the sample size of this series of trades is too small to consider trading, as you need at least 30 observations, but will work as an example of the kind of research we do and you should too.

Recall from Fibonacci Trader Journals #8 and #9 we introduced the concept of Maximum

Favorable Excursion (MFE) and Maximum Adverse Excursion (MAE). To review, the MFE is the peak open profit each individual trade experiences between entry and exit. The MAE is the worst open loss for each trade between entry and exit. There are a number of valuable uses for this information. For example, you might be considering a trading system that had a nice return on a closed profit basis, and perhaps the worst closed loss seemed acceptable to you. However, if you analyses the MAEs of the individual trades you might conclude that the method is not suitable for you because of the amount of heat you would constantly feel.

The MFE is valuable because you can develop a target strategy for partial profits. No one likes to see a good trade turn into a mediocre trade, so by having a set target based on the average MFE for a series of trades you increase your opportunity to consistently make profits. Finally, all of this information is generated by the combination of the attributes of the system and how it matches the rhythm of the markets. There is no guesswork of arbitrary influence from the trader's emotions.

Let's say that you trade a stock that is around \$100/share and every time you enter into the market via your signals, long and short, the market goes at least \$10 your way for every trade, and you have no losers (please call me at once!). A \$10 move is a 10% return if the original price of the stock is \$100. I point out using percentages because in today's stock market some of these high tech stocks can double in price or lose 50% in a matter of days, so using percentages gives you a more accurate representation. Plus you can then compare different trading methods on different stocks.

Figure 2 is our table of the trades for America Online we discussed from Figure 1. We have set it up by trade number, long or short entries, the entry price, the maximum favorable excursion (both the extreme price and open dollar profit), the maximum adverse excursion (both the price and open dollar loss) and the price the trade was reversed as there were no trades that did not have confirmation.

By reviewing the MFE we can see that five of the seven trades exceeded a profit of more than eight dollars, and most of the traders were near \$100 so

TRADE#	L/S	ENTRY PRICE	MFE		MAE		REVERSE PRICE
			PRICE	\$	PRICE	\$	
1	Long	110-00	129-04	19-04	0	0	113-09
2	Short	113-09	76-00	37-09	117-06	4-00	96-14
3	Long	96-14	105-00	8-02	93-03	3-10	93-04
4	Short	93-04	80-08	12-12	98-10	5-06	97-08
5	Long	97-08	124-02	26-10	0	0	109-00
6	Short	109-00	105-02	4-02	118-00	9	118-00
7	Long	118-00	125-10	7-10	0	0	Open

Figure 2: Trading Results. For each trade track Maximum Favorable Excursion (MFE), which is the peak open profit and the Maximum Adverse Excursion (MAE), which is the largest open loss to better understand your system.



Figure 3: America Online Daily/Weekly/Monthly Plan. Here, the Balance Step Own is added for a slightly faster set of signals. Use the ECO histogram crossover of the zero line as confirmation.

we could set a target for partial or total profit of 8%. You can look to the MAE of each trade and determine what the typical open loss or heat you have to cope with while you are in a trade. If you reviewed, say some thirty or more trades, you probably will be able to determine a cutoff point or point of no return for a trade. That would be a typical open loss that never recovers to be a gain. The fact is most trades do go against you somewhat, but hopefully recover and go onto a profit. However, some are bad from the beginning, and you can use MAE analysis to exit a trade before the system does. Plus MAE analysis gives

you a better idea of your risk of each trade when you actually place the trade, and avoid having to wait for an indicator to reverse the trade.

If you would like to have a somewhat faster entry system then the HiLo Activator then work with the Balance Point Step “Own” set to five periods. Use the same criteria that a close past the Balance Point Step must be confirmed by the ECO Histogram. Figure 3 shows the same chart as Figure 1, except we have added the Balance Point Step Own (Daily on the Daily) for your perusal.

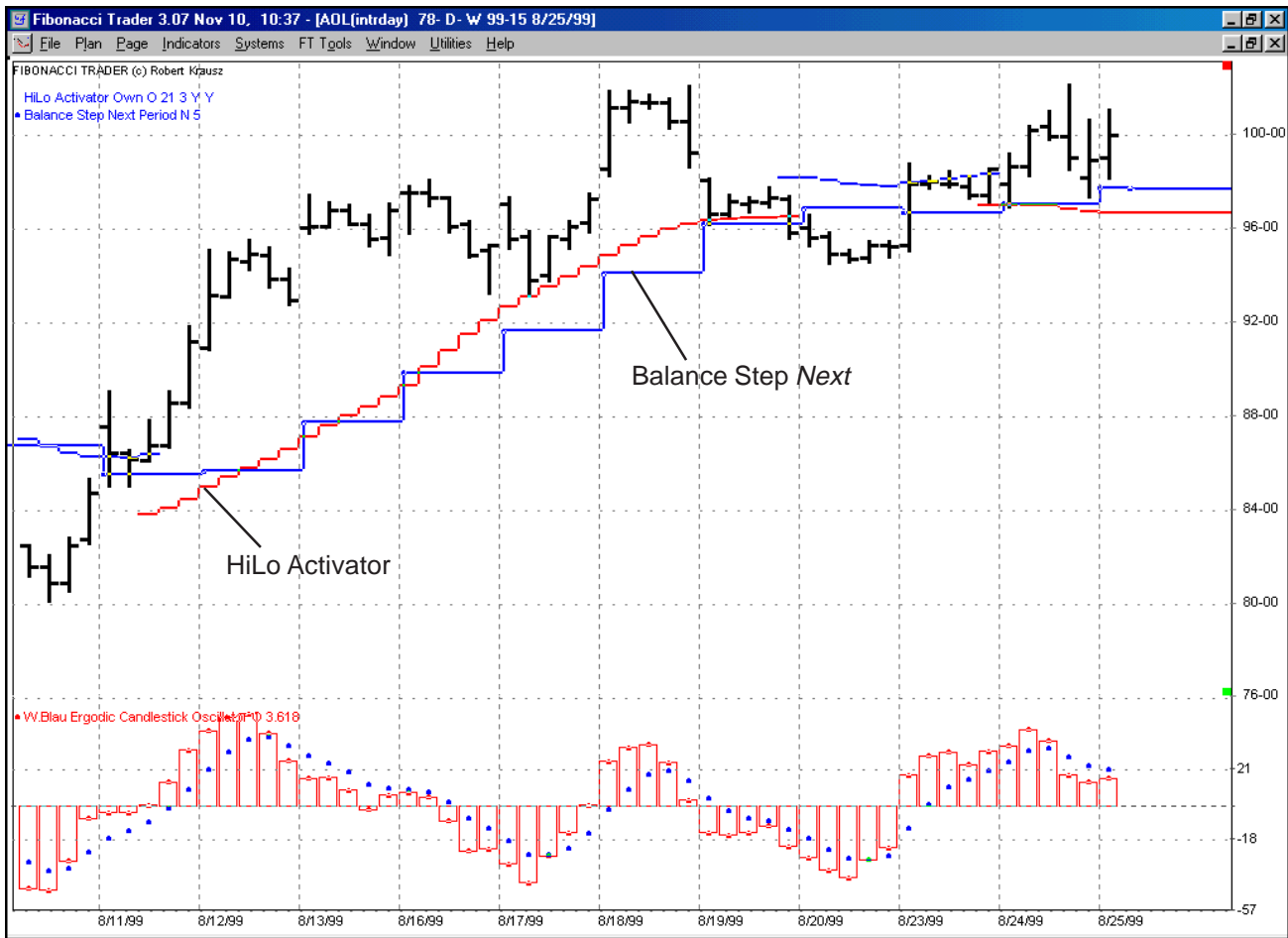


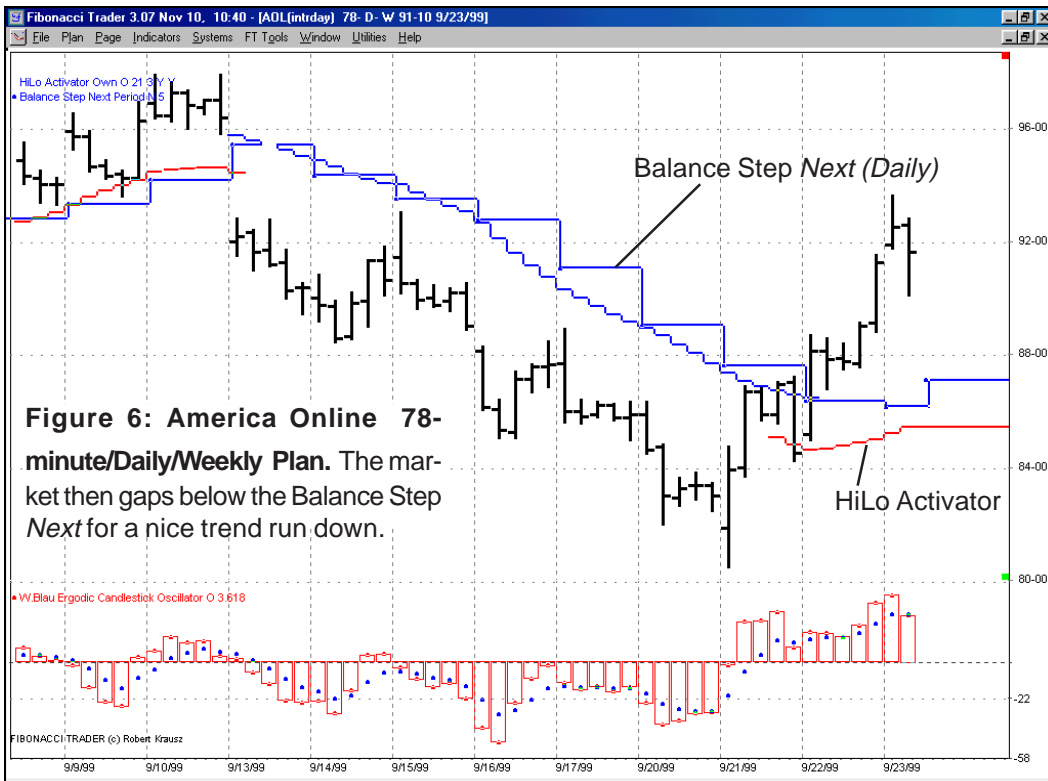
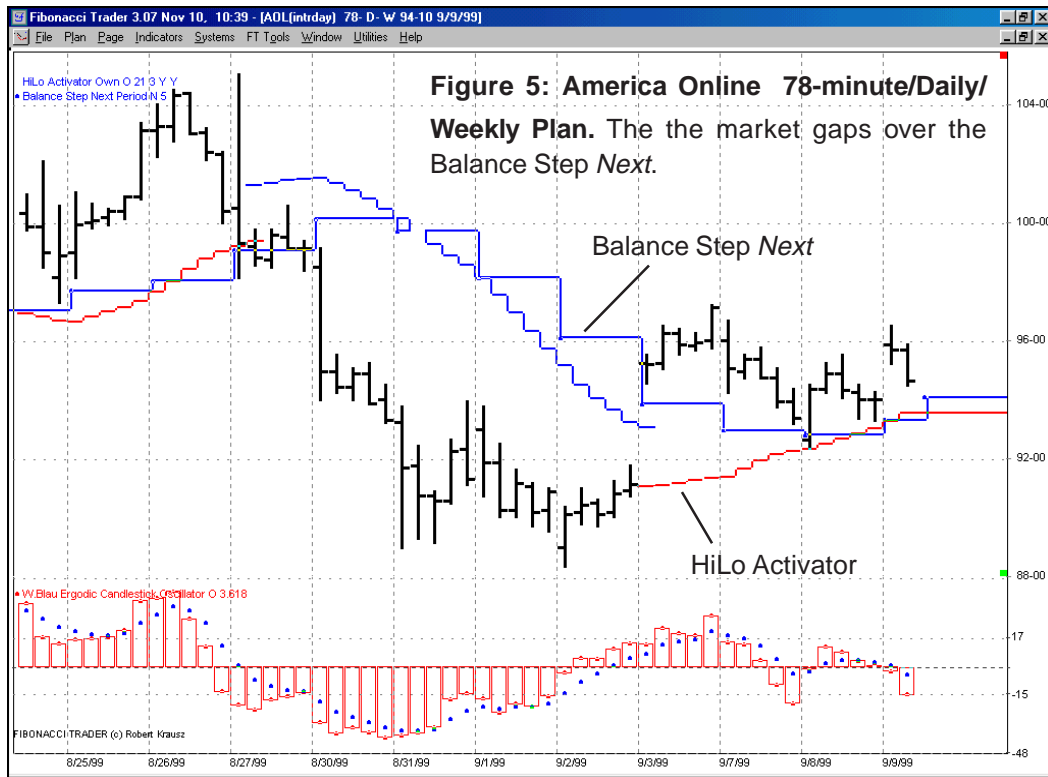
Figure 4: America Online 78-minute/Daily/Weekly Plan. The HiLo Activator is set to 21 periods and the Balance Step Next, which is the Daily Balance Step, can be used as part of an intraday trading plan.

There's a keen interest today for intraday trading strategies for individual stocks. So we have four charts here of American Online using a 78-minute/Daily/Weekly plan over some of the same time period as the Figure 1.

You can see by the individual intraday bars that there are sudden trends and then sideways trading that will last all day. Therefore, we want to lengthen the HiLo Activator for our purposes as an intraday trading tool.

Change the length to 21 periods from 13. Leave the ECO as it was, and then follow the same guidelines. This is only one possible setup among many. Spend some time with these indicators discussed in the last two issues, and try different parameters. Before you risk any capital do yourself a big favor and adequately test the idea over historical data.

With the Fibonacci Trader you can scroll
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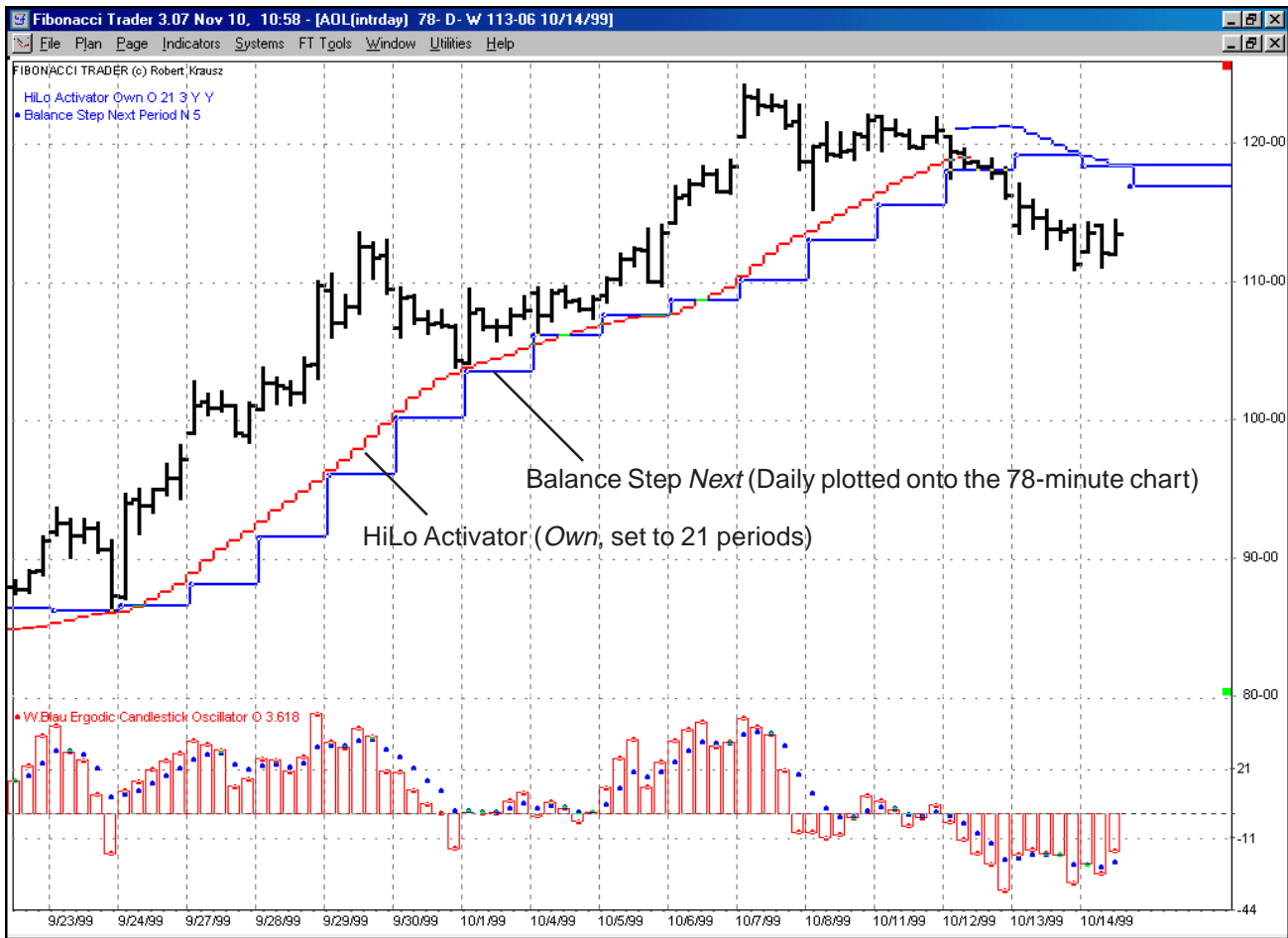


Figure 7: America Online 78-minute/Daily/Weekly Plan. From Figure 6 the prices close over the HiLo Activator near \$87 and then the Balance Step at \$88 and as you can see here the prices ran up to more than \$120 before reversing direction.

back through the data with your indicators presented. Hit the space bar to advance the program one bar at a time to simulate a more real time trading situation. Now you can train yourself to act according to the rules of your plan. If you find yourself suddenly unsure of what to do when a certain

condition arises on the screen you will know right then that you still need a more developed set of rules. Far better to make that

determination during a practice session then during real-time!

I wish you excellent Trading,
Robert Krausz MH, BCHE



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