The DecisionBar Strategy Indicator – Version 2.0

Catching the big moves, while avoiding big losses

Our new version of the DecisionBar Strategy Indicator is the ultimate trading tool. Not only does it generate Buy and Sell signals in real-time, but it also identifies virtually every identifiable reversal point.

The entire concept of DecisionBar trading is that a successful trade is made up of a series of successful decisions. The first decision in any trade is whether or not to accept a trading signal generated by the DecisionBar Strategy Indicator.

Once a trade is entered, version 2.0 of the DecisionBar Strategy Indicator generates a series of Secondary DecisionBar alerts at likely reversal points. A decision as to whether to hold the trade, exit the trade, or exit the trade and reverse your position should be made at every Secondary DecisionBar.

It is important to understand that Secondary DecisionBars are NOT trading signals. They are "Possible Reversal" alerts, and they are issued when the odds of a reversal are at an increased level.

In general, Secondary DecisionBars require confirmation. The basic method of confirmation is to require a subsequent bar to trade above the high of a long Secondary DecisionBar, or to require a subsequent bar to trade below the low of a short Secondary DecisionBar.

Version 2.0 of the DecisionBar Strategy Indicator identifies the two types of Secondary DecisionBars as previously discussed in the DecisionBar Trading Manual (see page 26).

1) Previous support and resistance levels can still provide support and resistance.

Long "Possible Reversal" alerts are generated when the last primary signal suggests a short trade, but the downward movement of the instrument you are trading appears to have found some support at a previous support or resistance level.

Short "Possible Reversal" alerts are generated when the last primary signal suggests a long trade, but the upward movement of the instrument you are trading appears to have found some resistance at a previous support or resistance level.

The number of Pivot levels the indicator looks back is adjustable from one to nine. (The default is four.) It takes into account both upper and lower pivots and starts counting from the pivot before the current (last changed) Pivot.

In other words if the input is 3 and the last changed pivot (current one) is upper, it takes into account two lower and one upper pivots.

The number of pivots the indicator looks back can be changed by going to "Edit Studies" in eSignal or by going to "Format Indicator" in MultiCharts. The software can look back at as many as nine previous pivot levels.

Keep in mind that there is a such thing as "too much information (TMI)." The nearest pivots are most likely to provide support or resistance. Setting the number of pivots the indicator looks back at to a high number will generate more alerts, but will likely hinder your trading. It is to your advantage to set the number of pivots the indicator looks back at to four or less until you get used to using Secondary DecisionBars. I would suggest a setting of two, which will take into account the nearest upper and lower pivots, as a good starting point.

2) New support and resistance levels are continually being created and broken. Our indicators cannot predict the future, but they are continually looking at past movement to recalculate current support and resistance levels. Sometimes a stock or other trading instrument will reverse at a specific level for no apparent reason. A few bars later, our strategy and pivot indicators will show a new support or resistance level where the reversal occurred.

Version 2.0 of the DecisionBar Strategy Indicator generates Secondary DecisionBars each time an upper pivot adjusts lower, or a lower pivot adjusts higher.

These signals are more important when the upper and lower pivots have a fairly wide separation. When your trading instrument is trading in a narrow range, the upper and lower pivots will adjust frequently and you will be once again faced with the problem of TMI ("too much information"). For that reason these alerts can be shut off by going to "Edit Studies" in eSignal or "Format Indicator" in MultiCharts, and changing the value of "Pivot Adjustment Signals" from true to false.

Example 1

This first example shows an unconfirmed Secondary DecisionBar (1). Looking at a 60 minute chart of YHOO, we are in a short trade when a Possible Reversal alert is generated. Note that subsequent bars never traded above the high of Secondary DecisionBar (1), and a couple of bars later another Secondary DecisionBar (2) was generated, reinforcing our original trade.

We wanted to show a failed alert in our first example to drive home the point that DecisionBars are more powerful than Secondary DecisionBars, and should be given more weight. In most cases you should require confirmation of Secondary DecisionBars, or consider them a “heads up” to set stops that protect profits or minimize losses.

This is how the same chart looks in MultiCharts. Note that Secondary DecisionBars are identified by those truncated arrows.

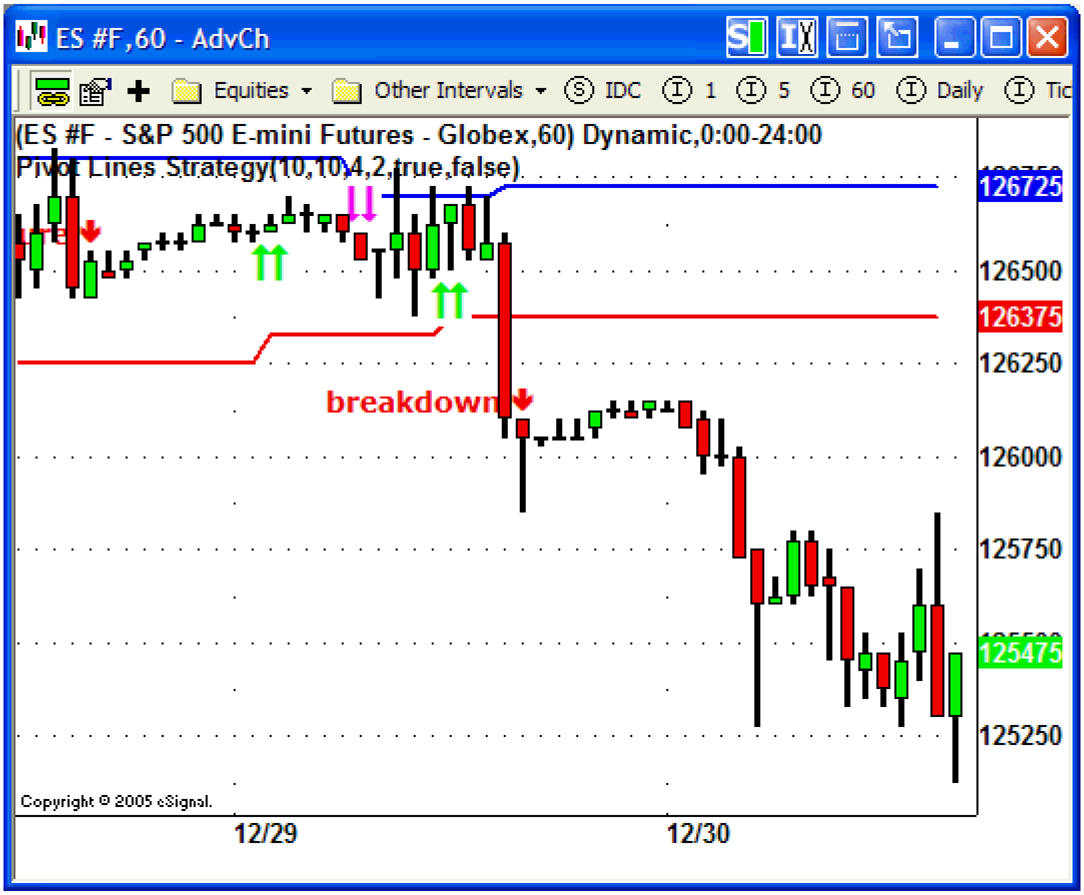
Example 2

A large part of trading is mental. The more stress you are under, the more likely you are to make a bad decision based on fear or greed. This 60-minute chart of RIMM shows an example of a trade you couldn't lose if you adhered to the DecisionBar signals. However, by using Secondary DecisionBars you are able to minimize the stress factor while increasing profit.

Following that exhaustion signal on the left of the screen, a Secondary DecisionBar (1) suggests a possible reversal on the next bar. Coincidentally, this is also the bar you might have entered the long trade, although your trading style might have kept you out since this was a negative bar. Secondary DecisionBar (1) is confirmed when the following bar trades below its low.

At this point you would exit your long trade for a small loss (if you entered at all), and aggressive traders might consider entering a short trade. RIMM’s downward motion is confirmed by Secondary DecisionBars 2 and 3, and then the Long Failure signal on 12/21 puts both conservative and aggressive traders in a successful long trade.

This sequence of signals for the Euro speaks for itself.



As we discussed earlier, when your trading instrument is trading in a narrow range, the upper and lower pivots will adjust frequently and you will be faced with the problem of TMI ("too much information"). In narrow range situation, ignore, or shut off, the previous adjustment signal and wait for a Breakout or Breakdown, as with this chart of the eMini.

If I were to put into one sentence what successful trading is all about, I would say, **"Successful Trading is the art of keeping yourself In Play to catch the big move, while avoiding big losses."** Version 2.0 of our DecisionBar Strategy Indicator allows you to do just that, and even affords you the bonus of profiting from intermediate moves. This five-minute chart of GOOG speaks for itself, but notice that unconfirmed Secondary DecisionBar at Point A. To the smart trader this is a "Heads Up" that the current downward move is weakening.

With the release of Version 2.0 of the DecisionBar Strategy Indicator, the DecisionBar Trading Method is now the ultimate tool to help you consistently profit from trading the market of your choice. You can look all you want, but it doesn't get any better than this. Is it the Holy Grail? Maybe, but only when combined with good common sense and unemotional trading discipline.