



Brought to by
www.surefire-trading.com

Day Trading With Trend Filters

As a trader I trade off the current price more than I do the chart, it is fairly instinctive trading style that requires good discipline and fast responses. It also, obviously, requires a direct access broker with a direct link to the exchange. When I was trading on the exchange floor, trading in this way, I had an edge on the market just by being on the floor. I could bid and offer the market, I got immediate fills (I just had to shout buy or sold and the deal was done), and my transaction costs were very low.

As a screen trader life is a little different. Although many traders do not utilise the advantages of a direct access broker, these services are available to all. So the edge I enjoyed on the floor is no longer an edge as everyone can participate in them. We all need an edge to trade successfully. Our edge now, is solely made up of our ability to read (anticipate) the market and our skill in implementing the opportunities we perceive.

I am skilled at reading the current price, which is to perceive opportunities on a very short-term basis, but I have sometimes found myself on the wrong side of a big and sudden move. (I expect everyone reading this knows what this is like given recent conditions!)

This is because in the past I have not filtered my trades to make sure I am in line with the broader trend. Take today for example, as a scalper or day trader, the main opportunities have been on the short side (in the first 2 hours at least). Anyone focusing only on selling opportunities would have had a great morning.

Looking at the broader market, it is obvious that it is in a downtrend and that therefore scalping on the short side is a good idea.

Determining the trend of the market, in a longer time frame than the one you trade in, is a very effective way of putting the odds in your favour (i.e. giving yourself an edge). So if you trade from 30-minute bars you could use daily or 60-minute bars to determine the broader trend. If you trade of 1 or 2-minute bars you could use 5 or 10-minute bars to determine the trend. Then only take trades in line with the trend.

In the recent market the trend has been fairly obvious, but this is not always the case. So it is useful to have a method for determining the trend objectively. You could use any one of the basket of indicators that come with a standard charting package, but I have found most of these to be either too late in their indications or work only intermittently. I have developed my own trend indicator, which I won't reveal here (as it is part of my online trading manual), but I will use as an example of the effectiveness of filters.

All examples below are hypothetical and are based on taking signals between 8 - 11 am in the FTSE September Futures on Wednesday July 24th

5-Minute Chart:

Trading the High/Low trend system on a 5-minute chart this morning would have produced a profit of 123 points for 3 trades (average 41 points per trade); but filtered by the trend of the 30-minute chart the result was 113 points for one trade (average 113 points per trade).

2-Minute Chart:

Trading the High/Low trend system on a 2-minute chart this morning would have produced a profit of 60 points for 5 trades (average 12 points per trade); but filtered by the trend of the 30-minute chart the result was 77 points for 2 trades (average 38 points per trade).

There are many creative ways of using trend filters to increase the probability of a successful trade and the average profit per trade. I hope I have stimulated some interesting thought as to the possibilities of trading the futures market. For more information about my online trading course visit my web site, details below.

Malcolm Robinson

Learn How To Trade The Futures Markets
The Online Course Is Now Available!

<http://www.surefire-trading.com/futures/index.html>