

Traders Workshop

Advanced Technical Analysis - are you getting the most from your e-FX toolbox?

By Raghee Horner

There is a mindset that permeates my personal forex trading. It is recognize, react, and repeat. These goals are only achievable through chart study and flexible order execution. The common fallacy is that there needs to be some "new" study or "new" order execution capabilities to accomplish this specifically in the forex market. Trading the forex market is not unlike trading stocks or futures; however there are the challenges that can only be presented by a market that trades 24 hours a day.

Almost any technical analysis tools can be an asset to trade set up if it is used in the proper market environment. Failing to do this is often why so many traders fail in their pursuit and continued use of technical analysis. There are plenty of charting providers that offer both entry-level and advanced charting and technical analysis.

The trend however seems to be to access these services from execution platforms. This can be problematic as some brokerages, certainly well equipped to execute orders, often are not capable of offering much more than entry level or intermediate charting and technical analysis tools at best. This is not to say they are not effective for traders. Simply put they are not necessarily effective for all traders.

Moving averages

There are tools that can easily be applied to most charts to allow traders to, for example, gauge the strength or weakness of a particular pair or time frame. One tool commonly used are moving averages. Moving averages are perhaps the best tool that any trader can apply to a trending

market. Every trader must understand that the market moves in cycles. These cycles transition constantly and in no set order from a quiet sideways channel, to an uptrend, to a wider ranging, more volatile sideways range, to a downtrend.

All this means is that in order to best gauge momentum, whether upside or downside, a trader must first identify the type of market cycle prices are trading within. This can be as easy as recognizing sideways market to trending markets. As simple as this may sound, it unfortunately is the single largest stumbling block for traders.

By multiple moving averages a trader can recognize market cycles and therefore employ the correct technical analysis. This analysis can be applied to almost any charting platform.

By applying multiple moving averages to any chart a trader can gauge the strength, weakness, or lack of trend by simply measuring the angle at which the moving averages are plotting. Another tool that can help a trader identify the onset, strength, or weakness of a trend is the MACD Histogram.



The ability to customize moving averages or use multiple exponential moving averages assumes that the charting platform we have access to can apply these studies to a chart. This is the most basic type of customization. Today's charting platforms have the ability to not only give a trader access to any number of well known technical studies but also "plug in" more advanced and very specific studies. The customized formulas can range from identify candlestick or chart patterns to Elliot Waves to optimizing existing technical tools like RSI, CCI, and Stochastics.



Visual trading

Visual trading is growing in appeal as more and more traders are being educated to the tools and strategies of technical analysis and charting. This is by no means a revolution as these strategies and tools have been available for well over a decade. What is changing is the affordability and accessibility.

With broadband internet connections becoming not only available but more affordable, a larger number of traders are subscribing to chart and data providers such as Metastock, CQG, and eSignal. While subscription costs vary from provider to provider, a trader will gravitate towards one or the other based upon not only price but scalability.

Chart and data provider eSignal has not only offers charting and technical analysis to beginning traders that may just venturing into the vast world of chart based trading, but also to the advanced and professional trader who needs multiple charts, independent floating quote screens, and the ability to formulate their own advanced studies. There is an entire industry of outsourced programmers dedicated to offering these advanced formulas for existing chart and data platforms. Even if the user has no interest in designing their own custom script or lacks the scripting knowledge to do so, a highly skilled programmer can write the script for them. The relationship between providers like eSignal and these aftermarket programmers is a strong one. This is not the case with all chart and data providers.

As one such programmer, Chris Kryza of Divergence Software (sr-analysyt.com) explains, "Many traders are looking at the flexibility of the programming aspect of their platform because they want a customized solution, or they have a need that is not already addressed in the platform." Some programmers, such as Kryza, will align themselves specifically with certain providers "due to data or the custom formula scripting application". There is also a certain degree of cooperation between the best outside programmers, such as Kryza, and the data and charting providers themselves.

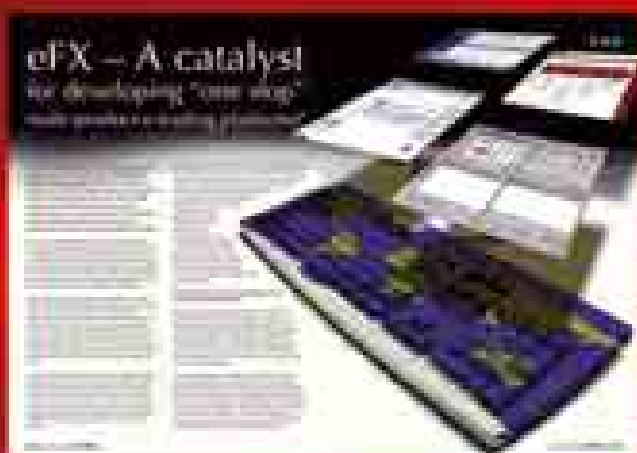
These companies will often consult with these outsourced programmers be they realize that they cannot keep every client happy. Kryza adds, "It also reduces the complexity on their end."

I personally will contract programmers to fill a need with my charting application and these types of add-on studies can make the difference between out-growing a charting platform or being able to scale it to the charting demands of the individual.



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For example, when trading using pivot points in the forex, it can be problematic for a forex trader to use the high, low, and close that might be scripted into an existing pivot point tool that is most likely geared toward the stock market.

Forex traders would certainly want some flexibility when designating the times for the open and close that the pivot point study would use to make pivot point, support, and resistance calculations. This might be a simple point, but it is certainly symptomatic of a greater need amongst forex traders.

There are a number of brokerages that have acknowledged the desire for this type of charting flexibility.

Rather than compete with established providers such as eSignal, brokerages such as Gain Capital are turning to these data and charting providers to offer an alternative and more flexible combination of tools to their traders. They have incentivized these platforms as optional tools that clients may utilize.

The ability to control the applications on a trader's screen has been relegated to multiple windows within an execution platform but with these cooperative efforts, traders are to use their charting platform, at reduced rates or free, to set up the trades within their methodology.

Thus a trader can use as sophisticated a set of tools as they are free to create and then utilize the order execution of their online execution platform to make their trading plan a reality.



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