# TACTICAL FX TRADING

By Daryl Guppy

Tactical FX trading recognises that the FX market is not the same or even in many ways, similar, to the equity market. Superficially there is some resemblance but traders need to be very careful to avoid confusing something that looks similar with something that is genuinely similar.

The key unique features of the FX market are:
- The FX market is not an equity market on speed – different trading techniques are required, not just faster application.
- Around half of the FX participants are unwilling participants in the market – psychological behavioural analysis is of limited use. Chart patterns are not useful.
- It's a 24 hour market with multiple opens – using daily charts for analysis and strategy has limited trading success. Opportunities are identified using different styles of chart analysis.
- It offers correlated trading opportunities –trade analysis is reliably applied to associated correlated trades. Success comes not from the number of trades, but the size of trades.

These differences drive the development and application of chart analysis indicators to the FX market. We start the development of this FX trading approach by looking at the problems we want to solve. But first a small but important diversion because we will be using candlestick charts for all of this development.

How can we use candle stick charts? We spent some time in the previous article showing how daily candle sticks are unreliable. That's true and it hasn't changed. However, intraday candles are a different matter.
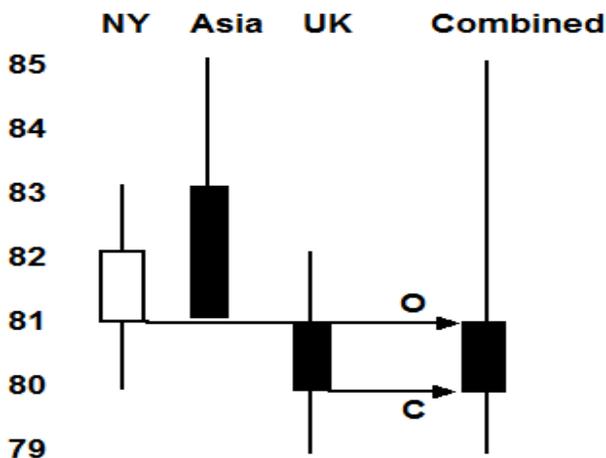
Daily FX candle chart

NY 14.00 -14.01
Asia 22.00-22.01
UK 18.00-18.01

**1 minute FX candle chart
same in all time zones**

On an intraday FX chart the candle remains the same in all time zones. It may be 14.00 in New York, 22.00 in Asia and 18.00 in the UK, but the next minute of price activity is exactly the same in all time zones. This is a very significant feature because it allows the application of well proven analysis methods to the intraday FX chart. For these examples we are using a one minute chart where each candle represents one minute. It's a foundation that validates the application of the analysis techniques. In the next article we introduce a modification to the underlying candle construction and display that sits at the foundation of the ANTSSYS approach. Here the relevance of trend identification uses the same principles.

Our starting position for tactical FX trading is based on the understanding that psychological pattern analysis is not useful. Additionally holding overnight positions increases the risk in the trade because the trade is open for every hour of a 24 hour day. This means that our analytical focus is on the probability of price behaviour and not crowd behaviour. This has an important impact on the way we approach news events in the FX market and we will look at this in a later article.

We apply GMMA analysis and CBL analysis to understand the behaviour of price, volatility clustering and trending behaviour. We use the GMMA as a means to define the volatility ranges of price rather than assigning a psychological value to the long term and short term averages. In some ways this takes the GMMA back to its original roots.

GMMA IN FX

The GMMA was originally developed in an attempt to answer a common question: How to get an entry signal as near to the pivot point low (or high) PPL of a trend and also avoid false entry signals. It's not a unique question. Every trader has struggled with this and it is the holy grail of indicator development.
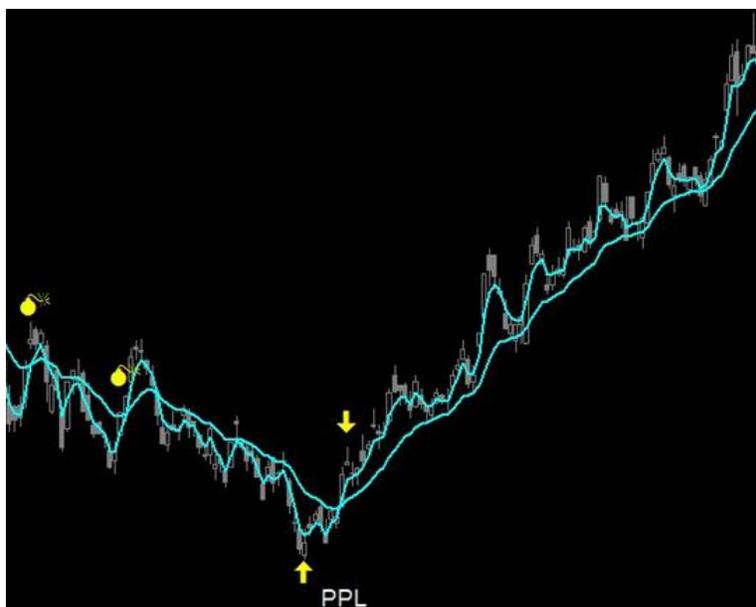
We started the search with moving averages. On this chart we use a 3 and 15 period moving average. The Pivot Point Low (PPL) is shown and the objective is to get the entry signal shown by the moving average crossover as close as possible to the PPL. The yellow arrow shows the entry point on the candle after the MA crossover. It is delayed significantly. The bombs show the other problem with these shorter moving averages. There are too many false entry signals. We need a method to weed out the false entry signals.
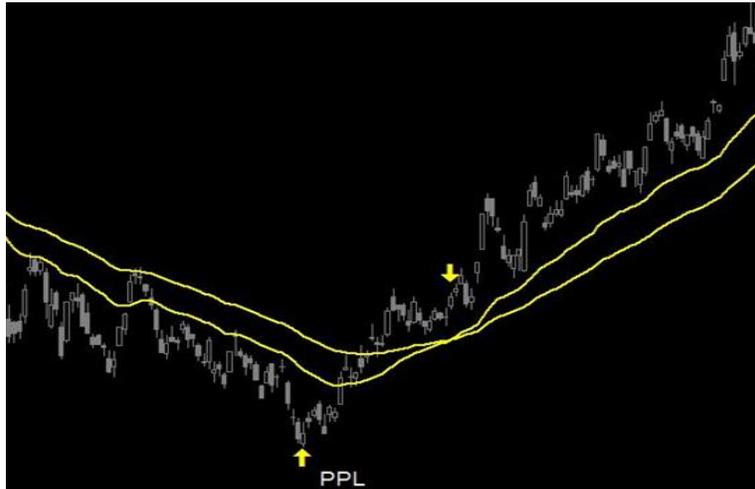

The solution to false signals is to extend the length of the averages, in this case to 30 and 60 periods. The false entry signals are eliminated, but the crossover point and reliable entry signal shown by the yellow arrow appears well after the PPL.

The first part of the GMMA solution is the use of six short term moving averages – 3, 5, 8, 10, 112, 15. This combination was chosen because 3 was about half a trading week, 5 was a trading week, 8 was a week and a half of trading etc. However the visual impact of volatility clustering occurs in all time frames as shown on this one minute chart. This creates an entry window as the group of averages compress, turn upwards and expand. The entry signal is the compression point. The key advantage is that the relationship in the group of averages gives information about the strength of the trend change. However, this still generates some false signals.
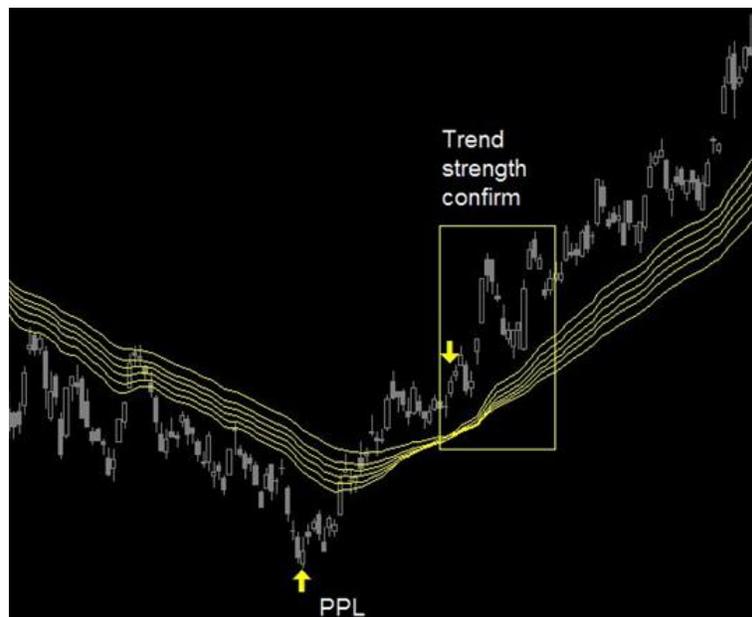
Using the long term group of averages – 30, 35, 40, 45, 50 and 60 periods – eliminates the false signals but moves the compression entry signal further away from the PPL. The original values were selected because they represented 6, 7, 8, 9 and 10 trading weeks. The 60 day moving average was used because this reflected the widespread use of a 60 day EMA as a signal on US trading charts. The trading widow for the long term GMMA was wider and too far away from the PPL. Over the long term GMMA confirmed the trend strength and reduces false entries.
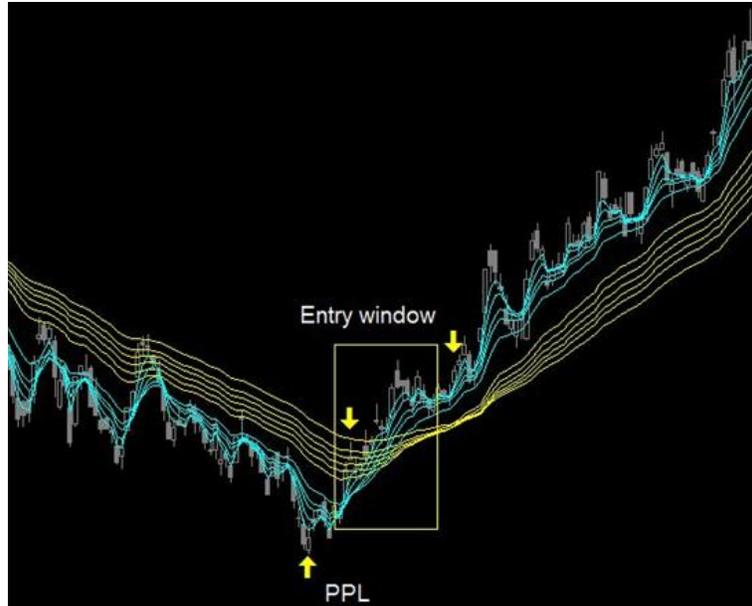
The combination of the two groups of averages created an entry window between the two compression points. This gave the best solution to an entry near the PPL. These relationships remain at the core of the development of tactical FX trading solutions using the GMMA. We no longer talk of traders and investors.

Applying the GMMA to FX charts has three analysis points. They are:

- Volatility clustering and compression as a leading confirmation of the PPL in a trend.
- Expansion characteristics as a method of defining dynamic support as the trend develops.
- Expansion behaviour as a feature for cushioning or arresting price corrections and confirming conditions for a rally rebound. This concept is further expanded with the addition of a Super Guppy in the ANTSSYS approach – but more of that in future articles.

The GMMA window tells us this is where we need to be to take early advantage of a trend change. A similar GMMA relationship helps confirm when it is safe, and profitable, to enter the trade in anticipation off a rally rebound after a trend retreat. Defining the entry window is a first step but we also need a method to select and manage the entry.
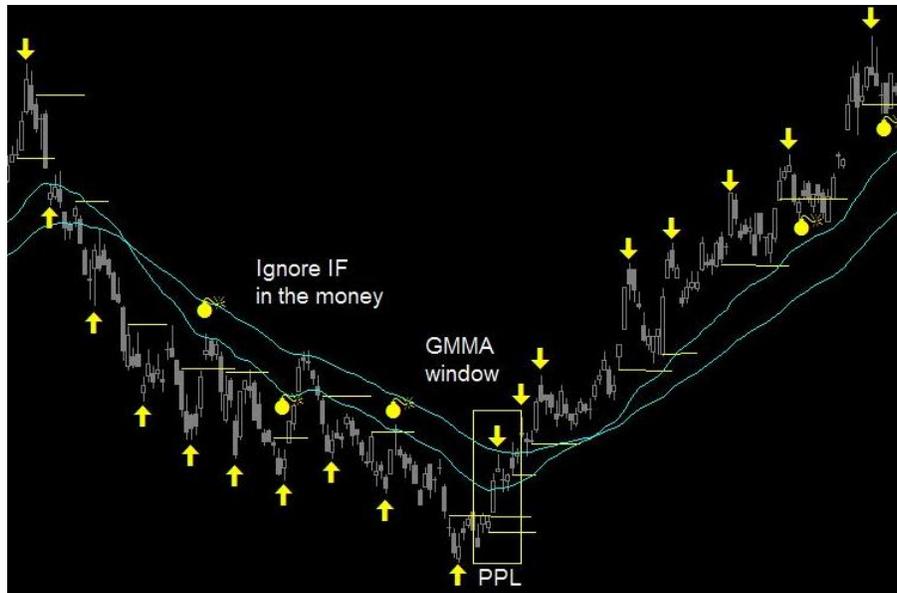
Traditionally we have used the count back line as an entry management method. It's also used as a trailing stop loss. Used by itself the CBL delivers a range of false signals, shown on the chart as bombs. These signals are ignored if the signal is inside the value of the long term GMMA cluster and the trade is in the money. However the CBL is not the best solution to the problem of more exact entry and trade management. The reasons for its failure have to do with the underlying chart construction in an FX market.

The ANTSSYS develops a two part solution to this problem and gives a robust and reliable but sensitive entry and trade management signal. The dimensions of the problem for FX turn out to be more complex than in the equity market. These problems drive the solutions at the heart of the ANTSSYS approach.

Before we can examine this in more detail we need to also consider FX volatility behaviour and by implication, is proximate cause, news events.