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[www.fxtradeblog.com](http://www.fxtradeblog.com)

Forex Trading Disclosure:

Trading Foreign Exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage associated with Forex trading can work against you as well as for you. Before deciding to trade the Forex markets you should carefully consider your investment objectives, level of experience, and risk tolerance.

The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with Foreign Exchange trading, and seek advice from a registered financial advisor if you have any doubts or concerns.

The following information is to be used for educational purposes only.

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All the methods here are those developed by Phillip Nel that are posted on the FF threads.

If you are not familiar with the Market Rhythm 4 Hour Forex Strategy, please take the necessary time to review that method before attempting to trade the lower timeframes. This information assumes that you are familiar with that strategy.

For the past few weeks I've been posting about using the 4hr chart as a footprint for trading the 5min chart. This document deals, for the most part, with attempting to get in earlier per the 4hr trend direction or supplementing the 4hr charts with a 5min timeframe. Please refer to the FF thread or website for the 5min information.

Before trading on a lower timeframe such as the 1hr or 5min, or another timeframe faster than the 4hr, it's imperative that the principles of the 4hr rhythm are understood. This does not mean that trading can only take place when the 4hr rhythm is strong, but rather recognizing the fact that depending on what the 4hr rhythm is doing (strong, ranging, pullbacks, etc.) the 5min can be traded accordingly to the 4hr rhythm.

Again, if you're looking at this document you should be familiar with the 4hr method. If not, please review the materials on the FF thread or on the [FX TradeBlog](#) website. Spend a lot of time there if you are new to this. **One very important point to mention here is the following: Just because this information is being presented here, please don't think that you must trade the lower timeframes; the 1hr and 5min. The 4hr charts are really all that is needed to trade successfully.** The lower timeframe entries are simply additional strategies to have in your trading arsenal should you choose to go that route. Finding a method that fits your trading style is extremely important and we all have different styles.

This information is considered as a supplement to the 4hr strategy and there is no thread on the FF that specifically deals with trading the 5min with using the 4hr as a map. Please do not post questions in either the 5min thread or the 4hr thread regarding 'how to' or 'why'. Those threads should be kept specific to those strategies and posting questions regarding this supplement would take away from the intention of those threads and possibly lead to confusion for new folks showing up. My plate is 100% full here and there is no extra time to take part in another thread or start a new one.

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I realize that all of these charts are after the fact and so is every history book ever written so this is the only way to do this for example purposes. History has a tendency to repeat itself and charts do as well so enough said about that.

For those persons that continue to drive the message home that "all indicators are lagging and are useless" then do us all a favor: stop reading this and please post no useless remarks or send any emails regarding this. They will be ignored either way.

**Note: These entries are very aggressive per the 4hr trend. This means more trades with the possibility of getting stopped out more often. Only attempt to trade the lower timeframes when you have a full understanding of the Market Rhythm 4 Hour Forex Strategy. It is up to you to determine the strength of the 4hr trend and determine the risk associated with trading the lower timeframe.**

Some old notes that are heard often so here they are again:

- 1) Pay attention to the economic news release calendar for the currency pair you are trading. These releases can spike your account in a big way, the wrong way.
- 2) The London and New York sessions are the heaviest volume trading sessions. There is movement in the Asian session but heavier volume means more fluid movement.
- 3) Even the 5min charts can range for hours so there is a patience factor for that timeframe as well.
- 4) Study.

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My intention here is to look at three different areas for using the 4hr as a footprint for entering on the shorter timeframe. These three areas are:

- Strong rhythm
- Pullbacks
- Consolidation

First we'll look at a chart example of each pattern and then break it down into the lower timeframes for possible entries. If a chart shows a bullish or bearish pattern, simply reverse the logic for an opposite market condition. All of these charts are from the EURUSD pair and the chart dates will be noted in each example.

- **Strong rhythm:** the moving averages are flowing with the trend and price is reacting to the moving averages. Here the trend is in a strong bearish pattern with price 'riding the 8', rarely closing above it. Price comes back to the 21 for a trend continuation pattern and then resumes its original direction.

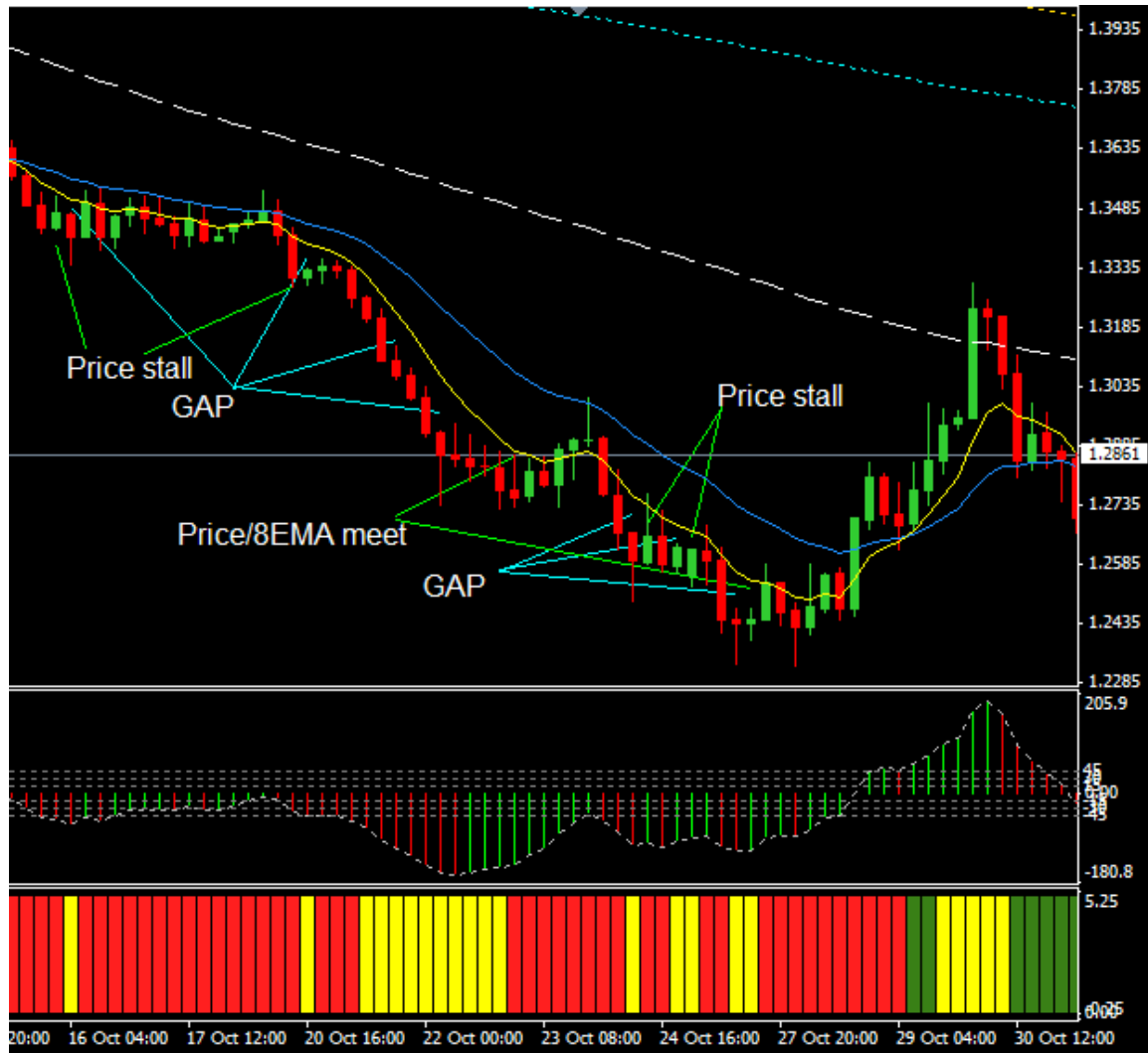
4hr chart



The indicator below the MACD is something that I came up with after noticing that when price pulls away from the 8EMA and forms a gap. In a downtrend, this gap is the difference in the value of the high of the bar (candle) and the value of the 8EMA. If this value is .0030 or greater a yellow bar is shown showing the gap. This color bar can change during the price bar if this value changes from .0030+/- since the color of the bar is based on the high of the bar and the 8EMA. In an uptrend, the low of the bar is used. Price will do one of two things to fill this gap: 1) Price will come back to the 8EMA and fill the gap, or 2) Price will stall and the 8EMA will catch up to the price filling the gap. The yellow bars represent where a gap is. The red bars simply show where the 8EMA is less than the 21EMA and the green bars show where the 8EMA is greater than the 21EMA. The 89SMA was not taken into account here and that will be detailed later.

Here's the chart again with the gaps labeled:

4hr chart



Now you see the strong rhythm of the 4hr. There are times when the price is moving really fast and finding an entry point can be difficult. You're thinking that you might be missing out and simply have to get in. You can simply close your eyes, click, and hope for the best but having a plan vs. guessing is always a better option. The plan might not work 100% the time but you still have a plan; something that is needed when trading. Look at the chart above where you see the 10 yellow bars in a row. This is where price is moving really fast and it can be difficult to find an entry. The first 4hr bar of that run of yellow bars is from 10/28/2008 @ 08:00. The next chart is the 1hr chart. The white vertical line is the beginning of that 4hr candle on the 1hr chart.

1hr chart



Lots of information here. The first window is our MACD with the method settings. The second is the average directional movement indicator, ADX set at 14 close, that is represented by colored bars as well. Red if the  $-DM$  is greater than the  $+DM$  and green if the  $+DM$  is greater than the  $-DM$ . Also, the ADX lines are overlaid on top of the same window. Simply drag and drop the ADX on (or into) the ADXColoredBar indicator window. You might want to make the ADX lines thicker and adjust the colors. The ADXColorBar indicator does not take into the account of what the ADX is doing. It's a good idea to get a little background of that indicator and you can find this on the [FX TradeBlog](#) website.

The indicator under the ADXColoredBar is the same gap indicator. The only difference here is that the value is set at 0.0016 for the 1hr charts. You can see that the 1hr has gaps to fill as well.

What do all of those vertical lines mean? Again, the white vertical line is the same time on the 4hr chart where that run of the 4hr gap yellow bars begins; price is falling fast. Now look at the red vertical bars. This is where the MACD has turned back to red after

being green. Also, see how the gap gets filled. The 1hr gap indicator goes back to red (after being yellow), with the MACD turning green. **This is the price pullback or stall on the 1hr.** Now, with the MACD turning back to red on the close (red vertical bars) you could reenter a short here. This is the BladeRunner method that is on the website as well. Stops could simply be put somewhere between the 8 and 21 here per the 1hr or above the price highs on the 4hr moving them down with the trend. **Remember, this 1hr entry is using the 4hr as a map and we are trading the rhythm of the 4hr. Using the 4hr to determine where the stops are will more than likely keep you in the trend longer but will use a larger stop.** Again, it's your money so trade as you see fit.

The yellow vertical line shows where the +DM has now closed above (is greater in value) than the -DM. This should be a warning that price is either pausing or pulling back on the 4hr. The time of the yellow vertical bar on the 1hr is 10/23/08 @ 09:00.

Here's the same time of the 1hr on the 4hr chart (within that 4hr candle):



Referring back to the 1hr chart, there is another red MACD bar for another short entry after it was green and you could have squeezed some more out of that but price will pull back at some point as it is starting to do here. The trend (or run) always has to end at some point. The next candle after the yellow vertical bar, in the above chart, has price

closing above the 8EMA for the first time in a while, about three days. Remember, the 4hr gap has been filled so price has been **rising**. Now you need to be thinking that price might be coming back to the 21EMA for a possible trend continuation signal. It does three candles later at 10/23/2008 @ 20:00.

Now back to the 1hr chart where price is approaching the 21EMA on the 4hr chart:

1hr chart



The two white vertical bars here represent the 4hr hour candle where price came back to the 21EMA for a trend continuation signal. The first red vertical line is where the -DM crossed above (has a greater value) the +DM on the close. **This is the entry on the 1hr chart per the 4hr trend continuation signal.** See how the -DM was tracking back up (price falling) beforehand. The second vertical line on the 1hr chart shows where the MACD turned back to red for a trend continuation signal on the 4hr chart. Entering a short on the 1hr would have resulted in getting in about 30 pips sooner. Some of your position could have been already closed before the 4hr signal showed up. Again, it is up to you to determine your risk tolerance for getting in early. The 1hr gap indicator has no relevance in this entry.

The 5min chart.

Here, it is assumed that you already know the basics with the 5min method.

There are numerous opportunities to use the 5min chart to supplement the 4hr charts. I would suggest only taking positions in the direction of the 4hr trend especially during periods of strong rhythm.

Let's pick up where we left off with the previous trend continuation signal from the 4hr chart from above, now on the 5min chart. Aggressive stuff here so this warning number three I believe.

5min chart



The standard moving averages for the 5min method are shown here along with the MACD. Again, you can refer to the [FX TradeBlog](http://FXTradeBlog.com) website for more information. The indicator on the bottom is the well known Relative Strength Index set at 14, close. The colored bars are the RSIBar indicator and is formatted as follows: When the RSI is greater than 55 a green bar is shown. When the RSI is less than 45 a red bar is shown.

When the RSI is between 45 and 55 a gray bar is shown. Someone on the FF, I don't recall who, started using the area between 45 and 55 as a 'get ready for something' area. I started looking at this and decided to look at this a little closer and began thinking of the gray area as a transition zone (see gray box on the chart) or a 'get ready' when the RSI returns to the upside (turns green again after being gray) or returns to the downside (turns red gain after being gray).

The white vertical bar on this chart represents the high during the trend continuation on the 4hr chart. On the 5min chart you can see price coming back down from that high. There is still no solid indication here that price is coming back down from this high, especially on the 4hr chart. The only area that shows any 'systematic' weakness is the gray box on the 5min chart. Here, the moving averages are starting to move per a bearish trend and then eventually start moving per the method. The red vertical lines represent probable entries along the way with the MACD giving the signal. Note: entries on the MACD were added later in the 5min thread and not part of the original 5min method but do act as a solid entry signal here. The strong pullbacks here in the 'war zone' can be spotted with the RSIBar turning from gray, then back to red. What's the real difference here? If you take that first 5min entry, this gets you in about 120 pips sooner vs. waiting for the MACD trend continuation signal, red, bar, on the 4hr chart. That's huge.

Warning number four... This is real aggressive stuff here. But, remember: you're using the 4hr as a footprint. You know that there is trend continuation signal that is happening on the 4hr chart to the downside and the 5min is heading that way as well. This 5min entry is not by the book per that method because the slope of the 50SMA has yet to be established and now the RSIBar has been introduced. But, if there is weakness in the 5min that is leaning towards what you've learned about the 4hr method then the last thing to do is for you to have the confidence to pull the trigger. There are several more entries along the way (red vertical bars) and the 50SMA doesn't really show a good slope down until the 3<sup>rd</sup> or 4<sup>th</sup> entry but **remember you're using the 4hr as a footprint so you are expecting the 5min to continue down along with the 4hr.**

Stops and Profits:

Simple: it's your money and you can do what you want. But, if you want to play this by the rules you can put a stop a few bars back per the 1hr chart or on the 4hr chart accordingly. For profit taking you could exit 60 or 70% of the position per the 5min as a short term trade and let the remaining 30 or 40% play out on the 4hr trend.



**Pullbacks:** The overall trend (down in this example) is still in effect but price has come back to the 21EMA and closed above it. Per the method rules, price should come back down to the 21 and then return to the upside possibly targeting the 89SMA or somewhere in between.

Back to our 4hr hour footprint. Here's the 4hr chart showing a close above the 21EMA (first vertical line), coming back down (second vertical line), and then returning to the upside and possibly targeting the 89SMA. Sorry for choosing such a textbook example of the 4hr chart but I couldn't resist. Hey, this is free anyway so don't complain.

4hr chart.



Here is the 1hr chart with the white vertical line showing the same time that the 4hr chart above closed. Note the strength here in the 1hr trend to the upside during this time.

1hr chart



Remember, per the 4hr we are waiting for price to come back down to the 21EMA and then return to the upside.

Now the 5min chart. The white vertical lines here represent the same time period of the 4hr chart where price closed above the 21EMA, came back down and then resumed to the upside. The green vertical bars here represent valid 5min entry signals and these are extremely aggressive because we are assuming that a pullback will occur. Again, it's your money but we are using the 4hr as a footprint for the 5min entries.

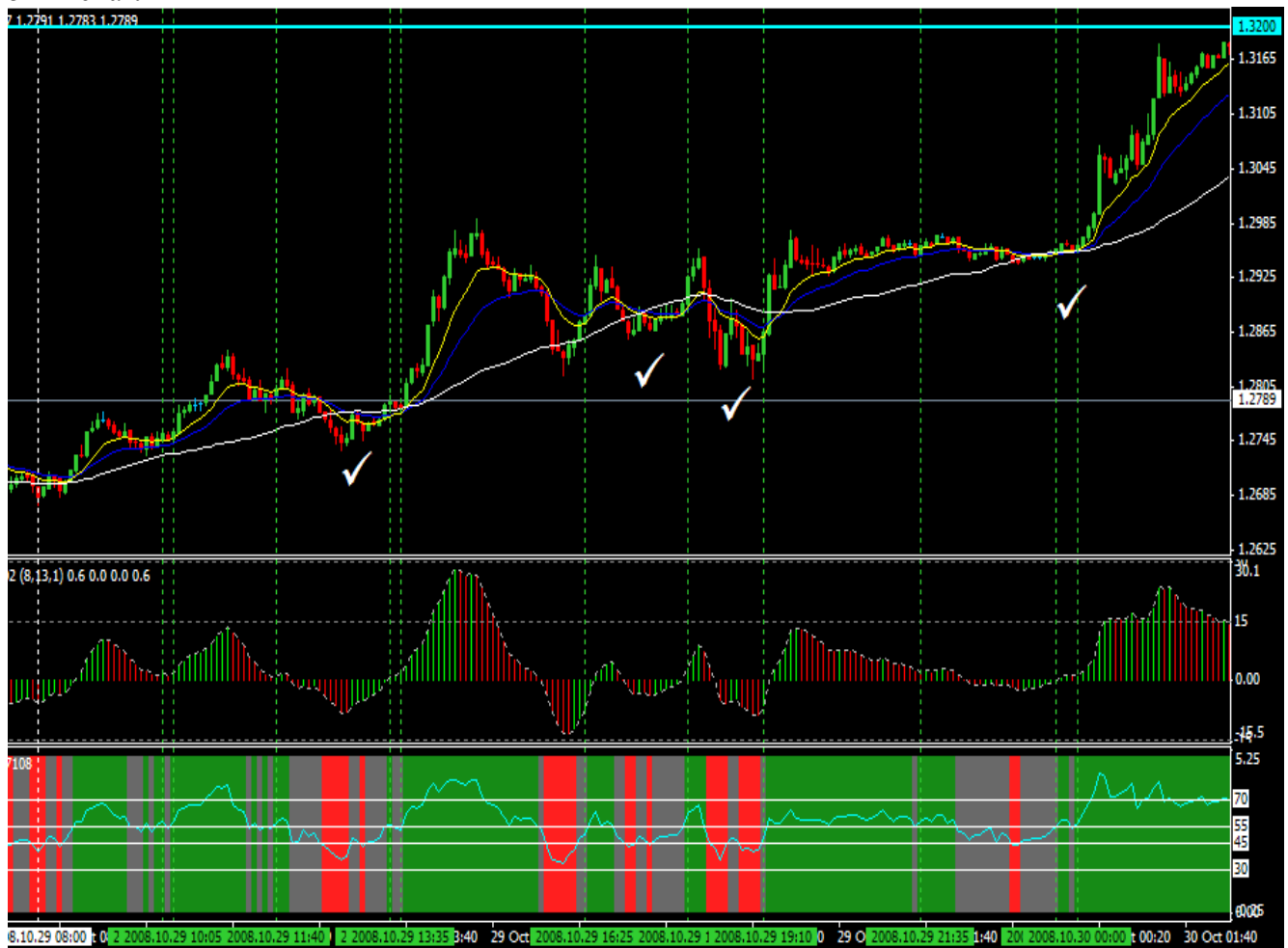
5min chart



Now the 5min moving averages are positioning themselves for a bearish trend; the gray box on the chart. Again, there are valid entries to the short side, red vertical lines, as well but now we are expecting price to move back to the upside to possibly target the 89SMA on the 4hr, our footprint. The 89SMA is around the 1.3200 level on the 4hr so that would be the number to keep in mind. But, it is always a good idea to identify profit targets on the way such as Fib#s and previous s/r areas on both the 4hr and 1hr timeframes. Just because the 89SMA is way up there it does not necessarily mean that price will get there. Having a plan includes having profit targets.

The aqua line here is the 1.3200 level and there are several things to keep in mind. I think the main thing here is that the overall trend on the 4hr is still down and that this is a pullback to the upside against the trend. Your 5min plan here is to try and ride some of that pullback to the upside and knowing that you are now trading against the trend. Warning number five here I think...

### 5min chart



Always keep in mind that the trend can change at any time for any reason. The checkmarks here are showing where the moving averages are wanting to become bearish again. But remember, we are thinking in terms of the 4hr trend and are eventual target is the 1.3200 level. Profit can be taken out of some of the 5min entries along the way and let the remaining lots (or part of lots) ride the trend with a wider stop. The green vertical lines show where the RSIBar came back above the 55 line. Remember I said that this 5min entry method was not specifically by the book because we are keeping the 4hr footprint in mind.

Keep in mind the gaps in the 1hr too. Some of the pullbacks here on the 5min chart are a result of the 1hr filling the gap there.



**Consolidation:** Price has settled within its own trading range, approaching a trendline, or channeling up/down within a trend.

Here's the current EURUSD 4hr chart with a few trendlines drawn. Price has been consolidating here for a few weeks and the 4hr rhythm has not been that friendly and the 1hr chart is equally unimpressive. The white vertical lines represent where price came back to a trendline for at least the third time. As you can see price has approached these areas and did complete turnaround. Because of this, the 1hr might be a little slow to look for an entry even slower if the given range is getting narrower. Also, when the range is narrowing, like it is here, the 1hr might get stopped out more often.

4hr chart



Looking at the first vertical white line on the 4hr chart with the 5min chart this is what we have:

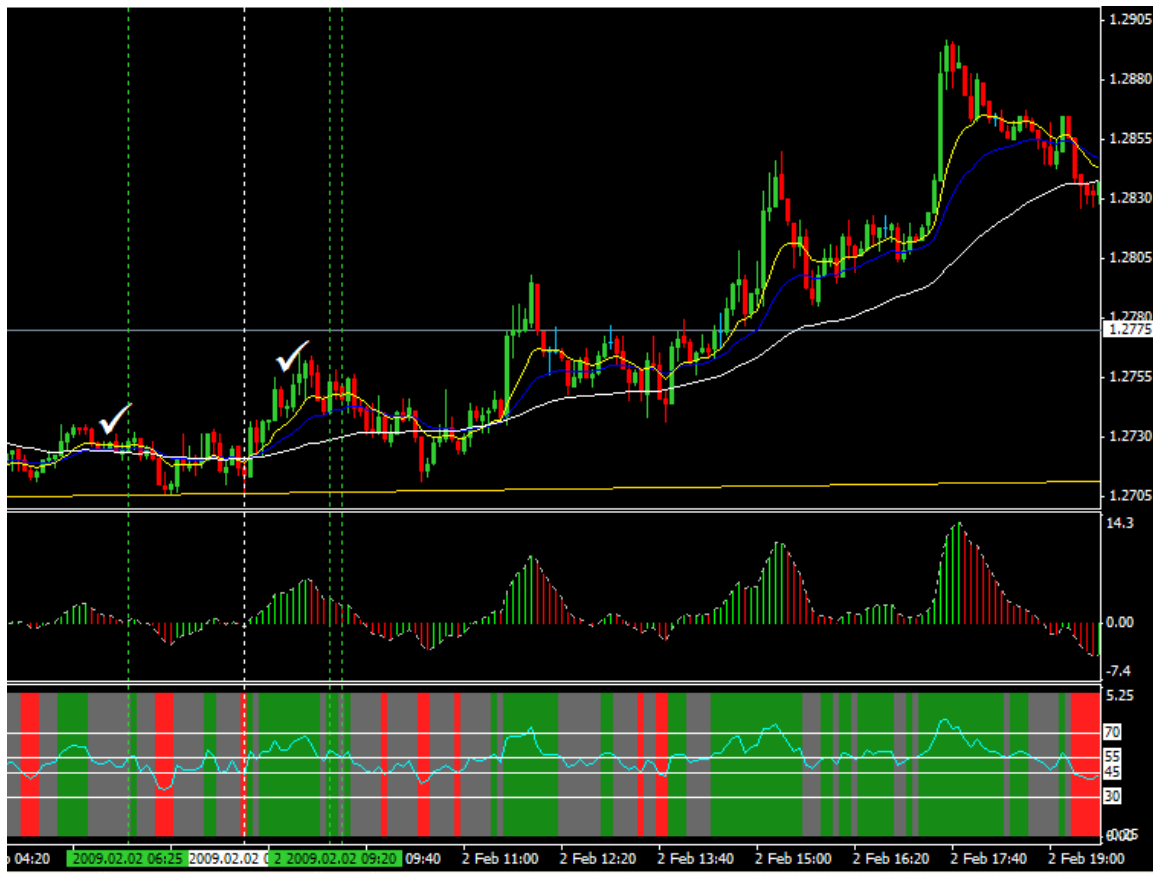
5min chart



The two white vertical lines here show the time period of the 4hr candles around that first vertical white line on the 4hr chart. The checkmarks show where the moving averages were wanting to become bullish. Note that there is a gap (yellow bars) showing on the 4hr chart that 'wants' to be filled too = price want to come back (up) to the 8EMA there. These were not the best entries even with the rules bent here on the 5min but keeping the 4hr in mind, and the support line there (drawn here as well) these entries would have worked using a stop below the support line on the 4hr.

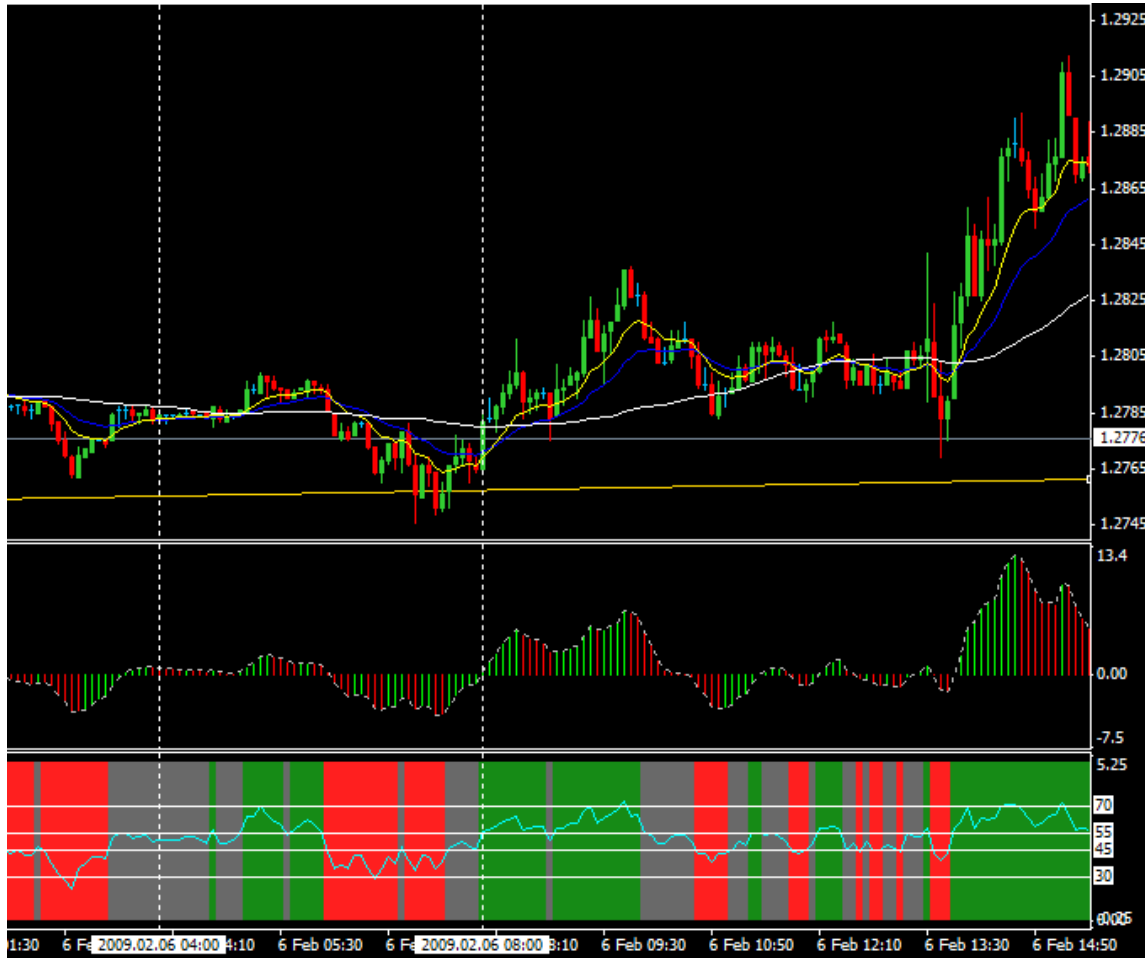
...and the progression of that bounce:

5min chart



Here's the second vertical white line on the 4hr chart above with the 5min time period also. Remember, you are using the 4hr as a footprint thinking of a bounce up. This is self explanatory by now I hope....

5min



And to the downside, the third vertical white line on the 4hr chart...

5min



That's about it. Remember you are using the 4hr and sometimes the 1hr chart as a footprint for the 5min. There are times when you are not specifically trading the 5min by the book (stops included) because you need to give the 4hr room to breathe. Also, there's no rule that states you can't take some off the table during the 5min and let the remaining run on the 4hr.

Important points:

The 4hr must be setting up by riding the 8EMA, gaps, trend continuations, closes above the 21, trendlines, etc. This gives you a **reason** to look at a lower timeframe.

If the 4hr chart is showing gaps (yellow bars) this means a very fast moving market. Getting in on the 5min for a pullback to fill the gap is very aggressive. Wait for the 5min to set up properly (the slope of the 50SMA is 'there' which might mean waiting for the 1hr to give a pullback signal) and trade that trend that might be the pullback on the 4hr if there is enough room left in that gap. Watch price around the 8EMA carefully since price has been 'riding the 8' for a while. Price might only make it back there before taking off again.

Even the 1hr and 5min can take time to give a proper signal and can start ranging as well. Lower timeframes need time to get going and you must have the **patience** to wait for things to set up there as well.

Study this (strong rhythm, pullbacks, consolidation) with one pair first.

Trade this method with one pair first if you decide to take on the lower timeframe entries. This opens up the possibility of trading more often so one pair might be all you need to follow.

**When watching/studying the 4hr charts think about what is supposed to happen per the method. This gives you a focal point as to when to monitor the lower timeframes.**

**Most important: You must understand what the 4hr chart is telling you before considering the lower timeframes.**

Trade well,  
-Palmer  
[FXTradeBlog](http://FXTradeBlog.com)  
[www.fxtradeblog.com](http://www.fxtradeblog.com)

This document and indicators are available for download on the website:

ADXColorBar  
RSIBar  
4hrGap  
1hrGap  
4hrGapUSDJPY  
1hrGapUSDJPY

USDJPY has its own Gap indicator because of the fewer decimal values in the pricing for this pair.

