4 Hour MACD Forex Strategy

Welcome to the 4 Hour MACD Forex Strategy. This strategy is aimed at simplicity as well as high probability trades. I have been in the equity market for almost ten years now and in the forex market for two years. I learned very early that forex trading is not for the shaky ones. One must have a tested and definite trading strategy as well as well organized discipline to follow the strategy and execute the plan as to the letter. One must be exact and precise.

Therefore I paper traded for almost two years and read everything I could lay my hands on. I bought books and courses. I attend a 5 day live web seminar. All this did not help me at all as it did not fit my style of personality and I just did not seem to connect with all this different strategies. Over two years of watching the graphs with different indicators, moving averages etc. I started to get a feeling for the movement and motion of the market especially the EurUsd around certain moving averages.

It wasn't till late last year that I discover a setting with the MACD that gives easy to read signals on a regular basis on a 4 hour timeframe. I like the 4 hour timeframe as one are not glued to the screen full time.

If you look at **FIG 1** below you will see that there were 14 signals over a period of 5 weeks. Within that period of FIG 1 the signals given were pretty good. There are times when some signals does not produce positive results. I then had to work on a filter system to only let me take the best ones. I found that the MACD when moving in a certain way produces a 95% accuracy. I will show you later how the high probability trades look like.

In **FIG 1** the signals are shown and **FIG 2** shows that an entry is made after the 4 hour bar has closed and at the opening of the next bar.

In **FIG 3** another 19 deals were shown of which the last one was not finished yet so out of a total of 18 trades 5 were wrong and 13 were right.

As it is a 4 hour strategy it means sometimes setting the alarm clock to catch an entry in the early morning hours. What makes it nice is that one will know after the close of a 4 hour bar whether the next 4 hour bar might close as a signal by just following the MACD. Therefore one can set an alarm at that time.

Have a look at FIG 1 to 3.

Disclaimer:

As trading in the Forex market is very risky, the reader if going beyond this point and applying the concepts and methods describing in this document do so on his or her own will and risk. The writer and or anyone involved in the compiling of this document will not be held responsible for any losses incurred by using the methods described in this document as no money management nor stoploss levels are discussed as it vary from trader to trader according to there own risk and capital profiles.
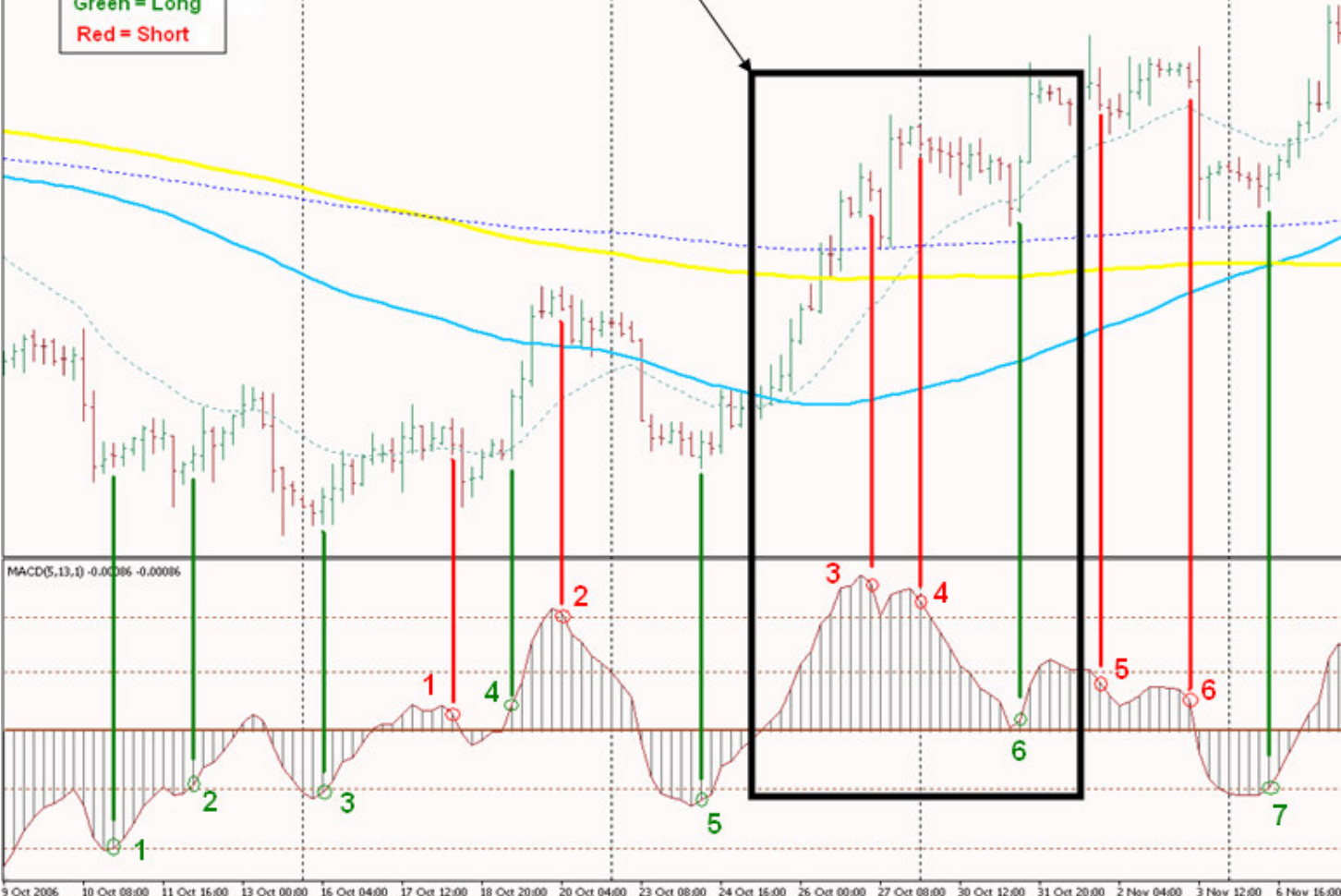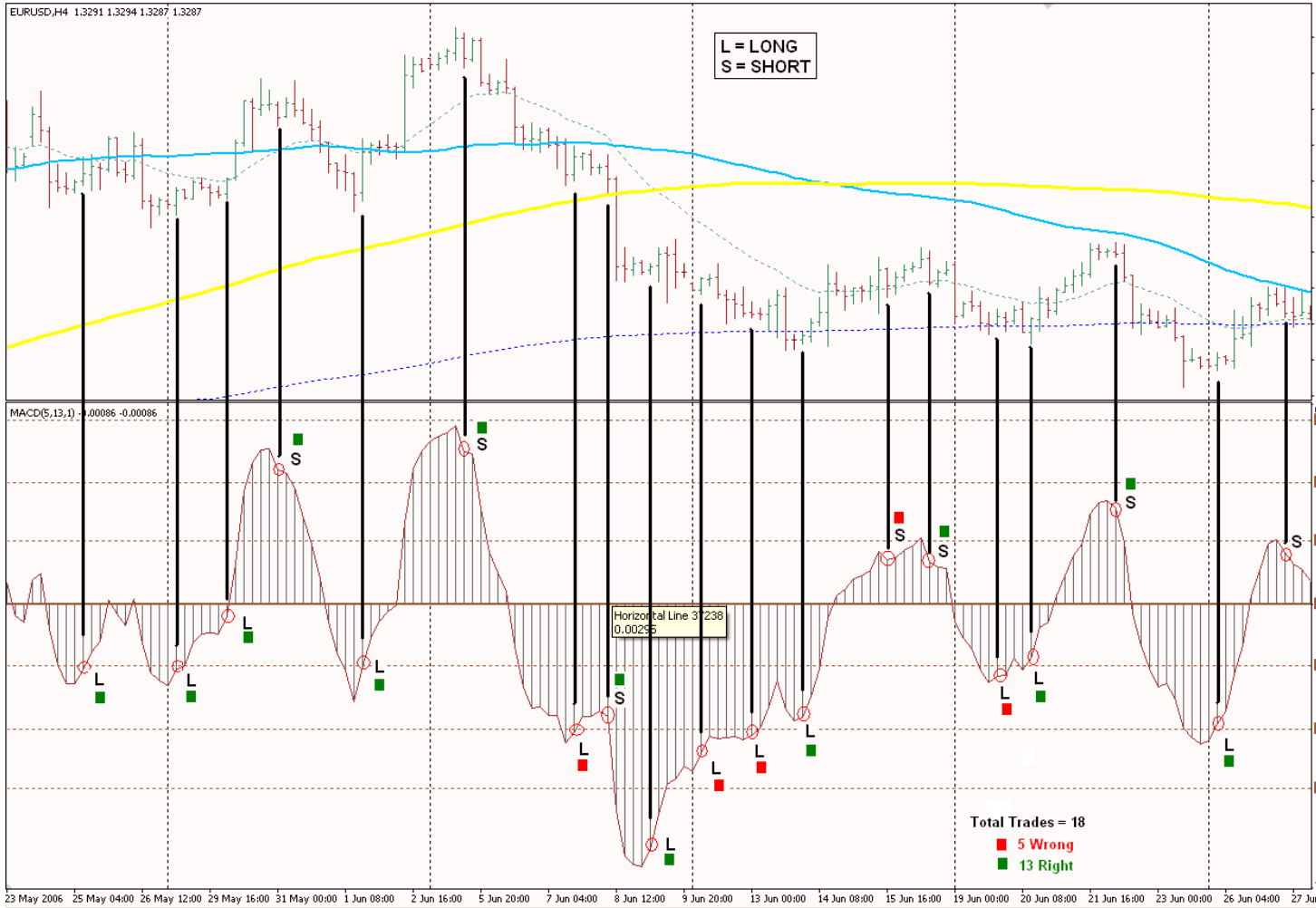
FIGURE 1

FIGURE 2

FIGURE 3

This was just to see and get a feeling for the graphs. Let us start to set-up our charts.

Moving Averages:
First of all are the moving Averages that we are going to use.

1. 365 Exponential Moving Average (365EMA)
2. 200 Simple Moving Average (200SMA)
3. 89 Simple Moving Average (89SMA)
4. 21 Exponential Moving Average (21EMA)
5. 8 Exponential Moving Average (8EMA)
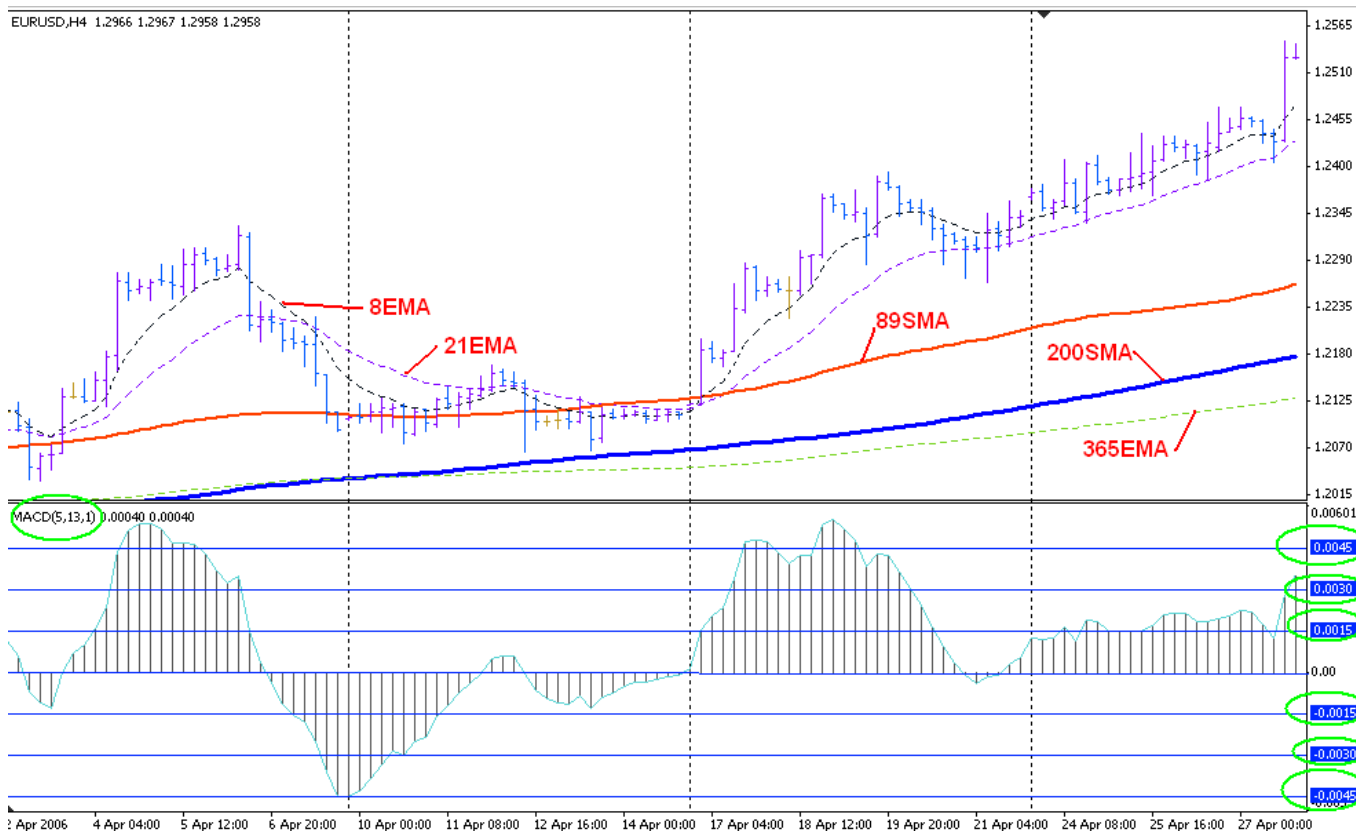
MACD:
MACD settings at

1. Fast EMA 5
2. Slow EMA 13
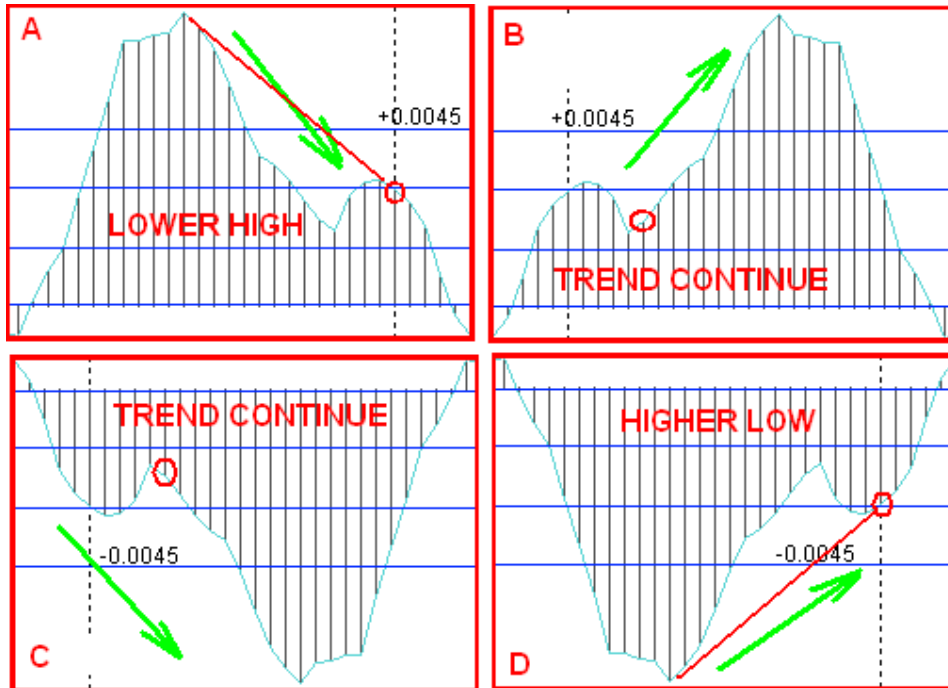3. MACD EMA 1

Horizontal Lines:

Three sets of horizontal lines above and below zero should be drawn on the MACD window at levels as well as one on zero

1. Level +0.0015
2. Level +0.0030
3. Level +0.0045
4. Level –0.0015
5. Level –0.0030
6. Level –0.0045

**<u>Your Graph should look like this:</u>** (Choose your own colour and styles)

The MACD moves in certain patterns that when recognized can be very profitable trades. Let me show you the very important ones first. By not following every signal but only the ones that gives high probability trades through certain MACD patterns serves as a filter. The ones not familiar are not taken. This is the filter.

A — LOWER HIGH — +0.0045

B — +0.0045 — TREND CONTINUE

C — TREND CONTINUE — -0.0045

D — HIGHER LOW — -0.0045

This pattern comes very regular especially A and D as the MACD has moved beyond the 0.0045 level and are due for a correction and or trend reversal. B and C are trend continuing patterns and are entered in the direction of the trend. **Red circles indicates entry signal and entry is made on the opening of the next bar.**
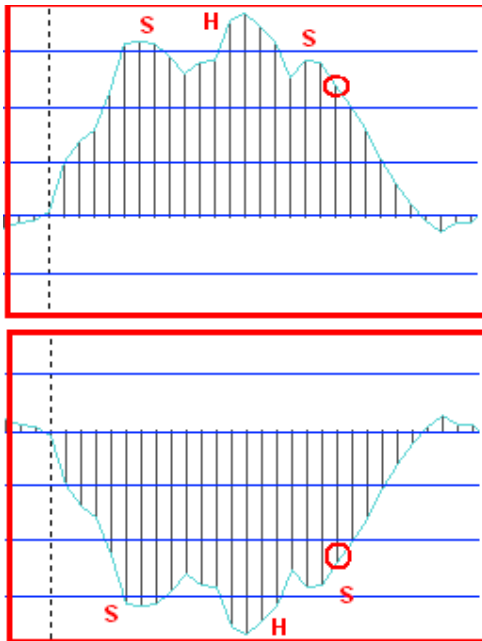
The head and shoulder is another definite.
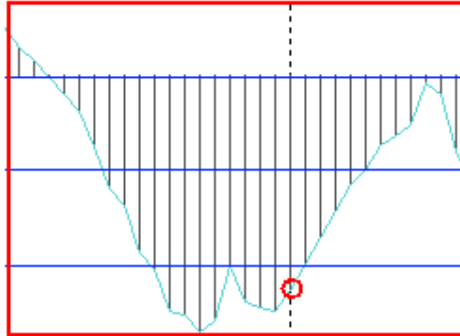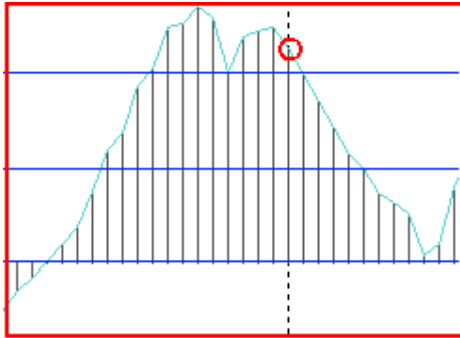
Double top and bottom does not need any introduction as it speaks in any timeframe.
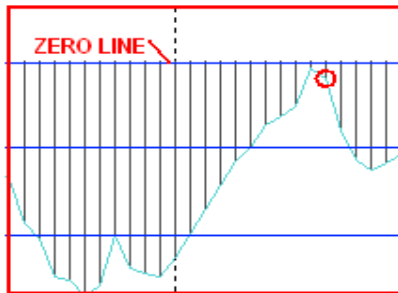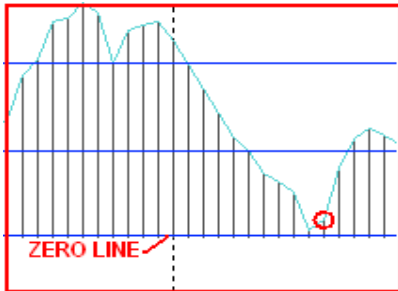
ZERO LINE

ZERO LINE

When the MACD comes down towards the Zero line and turn back up just above the Zero line it is normally a trend continuing and should be taken and are normally a strong move.

ROUND BOTTOM
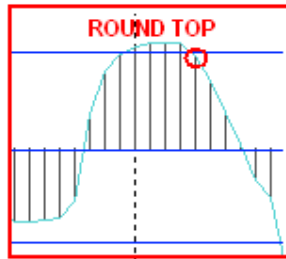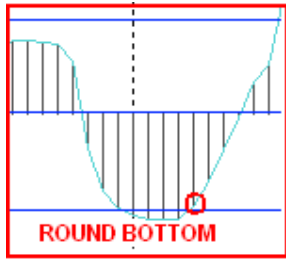
ROUND TOP

Round tops and bottoms are for sure. Just be careful when within the first zone 0.0000 to 0.0015 above or below the zero. I like the rounding to be formed over at least 5 bars.

TOTAL ± 560 PIPS

17 OCT TO 10 NOV

EURUSD,H4 1.2966 1.2967 1.2958 1.2958

MACD(5,13,1) 0.00040 0.00040

DOUBLE TOP

TURNED AROUND AT ZERO. TREND CONTINIOUS

TURNED AROUND AT ZERO. TREND CONTINIOUS

LOWER HIGH

JUST MOVED THROUGH ZERO AND THE TURN BACK

ROUND BOTTOM

ROUND BOTTOM

17 Oct 2006 · Oct 00:00 · 23 Oct · Oct 00:00 · 25 Oct 20:00 · 2 Nov · 7 Nov · 10 Nov 12:00

350 PIPS FOR DECEMBER 2006

EURUSD,H4 1.2966 1.2967 1.2958 1.2958

MACD(5,13,1) 0.00040 0.00040

ROUND TOP

JUST MOVED THROUGH ZERO AND TURN BACK

JUST MOVED THROUGH ZERO AND TURN BACK

TREND CONTINUE

S
S
H

HEAD & SHOULDER

HIGHER LOW

1 Dec 2006 · 5 Dec 00:00 · 6 Dec 08:00 · 7 D · 23:00 · 12 D · 20:00 · Dec 08:00 · 20 Dec · 25 Dec 08 · 28 Dec 04:00

EURUSD,H4 1.2968 1.2967 1.2958 1.2958

AUGUST 2006
409 PIPS

MACD(5,13,1) 0.00040 0.00040

ROUND TOP

DOUBLE TOP

DOUBLE TOP

TREND CONTINUE

TURNED AROUND AT
ZERO. TREND CONTINUE

MOVE THROUGH ZERO AND
TURNED BACK

TREND CONTINUE

TURN AROUND AT ZERO TRNE
CONTINUE

HEAD & SHOULDER

DOUBLE BOTTOM

S   S

H

28 Jul 2006

EURUSD,H4 1.2943 1.2944 1.2935 1.2935

TRENDLINE

1 JAN TO 22 JAN 2007
+190 PIPS

????????

+110

COULD HAVE STAYED IN THE TRADE

-40

????????

MACD(5,13,1) -0.00098 -0.00098

ABOVE 0.0045 WITH STRONG
TRENDLINE FINDING
RESISTANCE

TREND CONTINIOUS

???????

TURNAROUND TREND
CONTINIOUS

HIGHER LOW

MOVEMENT AROUND ZERO. TAKE
SMALL PROFITS OR LOSSES IF
INVOLVED

BELOW 0.0045 AND DOUBLE
BOTTOM

?????????

26 Dec 2006   27 Dec 20:00   29 Dec 08:00

This was a difficult month (Jan 2007)up to now but already 190 Pips up and a great move is coming as the price is within a range for almost 8 days. Lets see if that will happen.
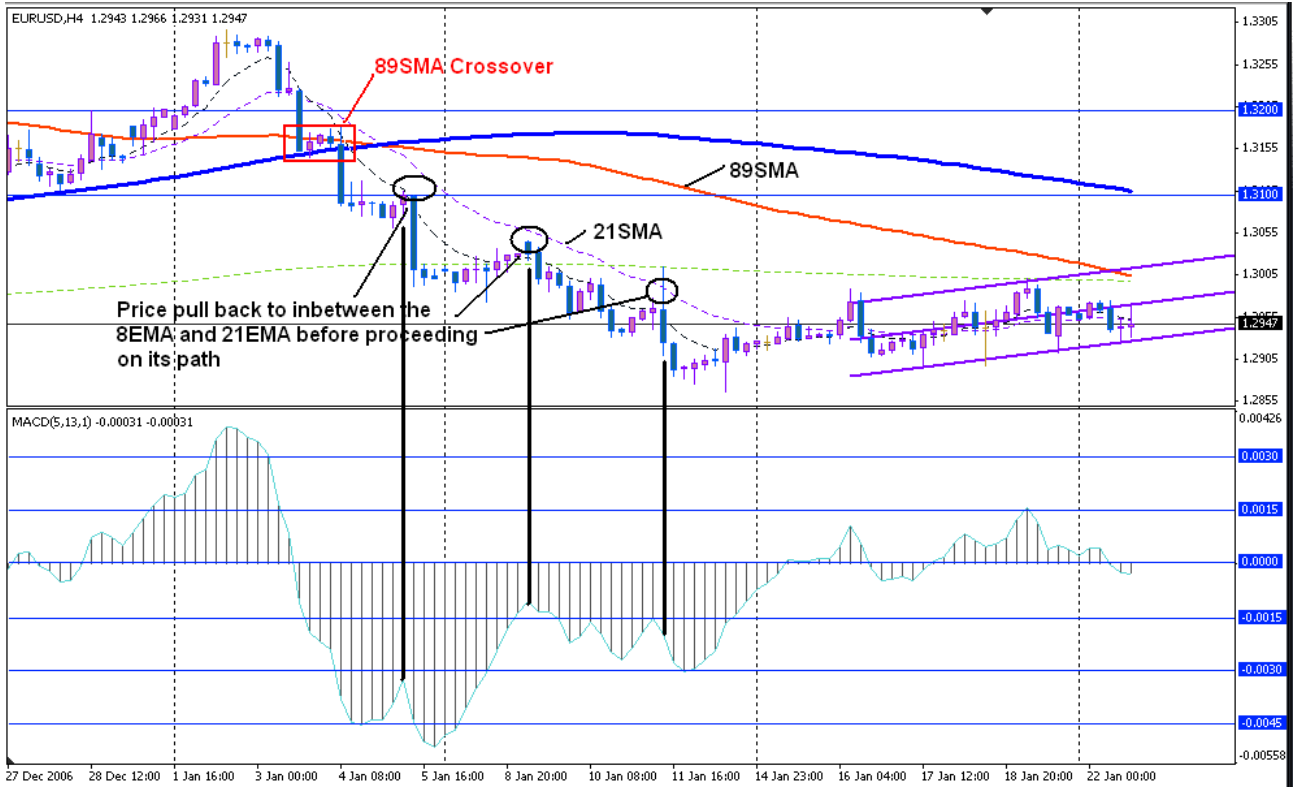
Up to now I have only concentrated to give the signal on the MACD window so that you will be able to recognize it. It is easy to see the formation after it has formed. It takes a bit of practice to recognize it while it is forming. Lets look at a couple just to see how they look when the trade is entered.
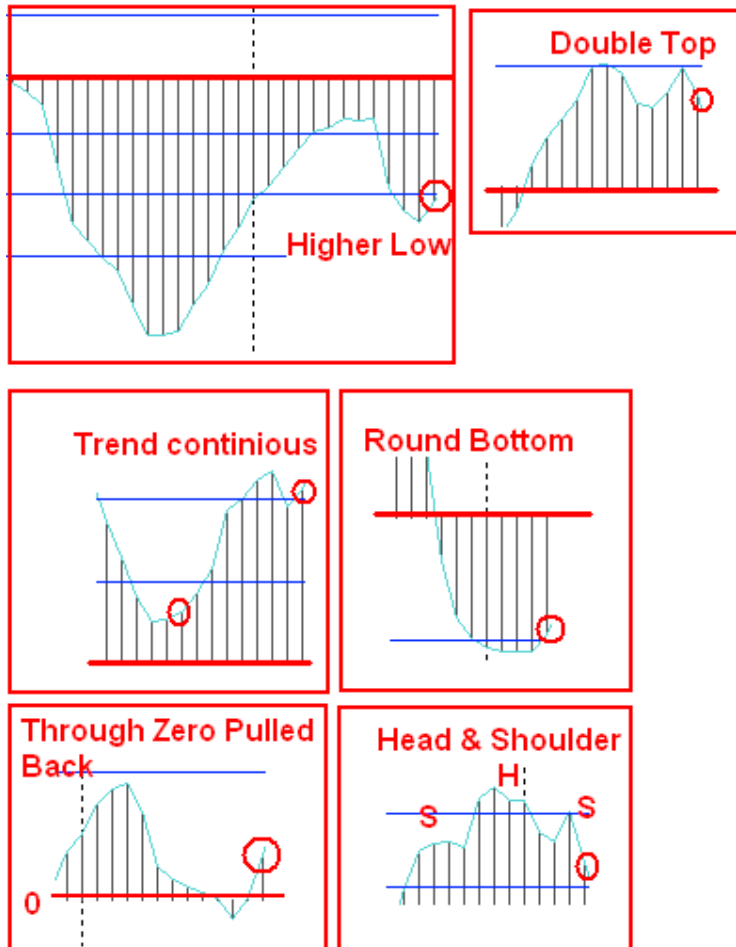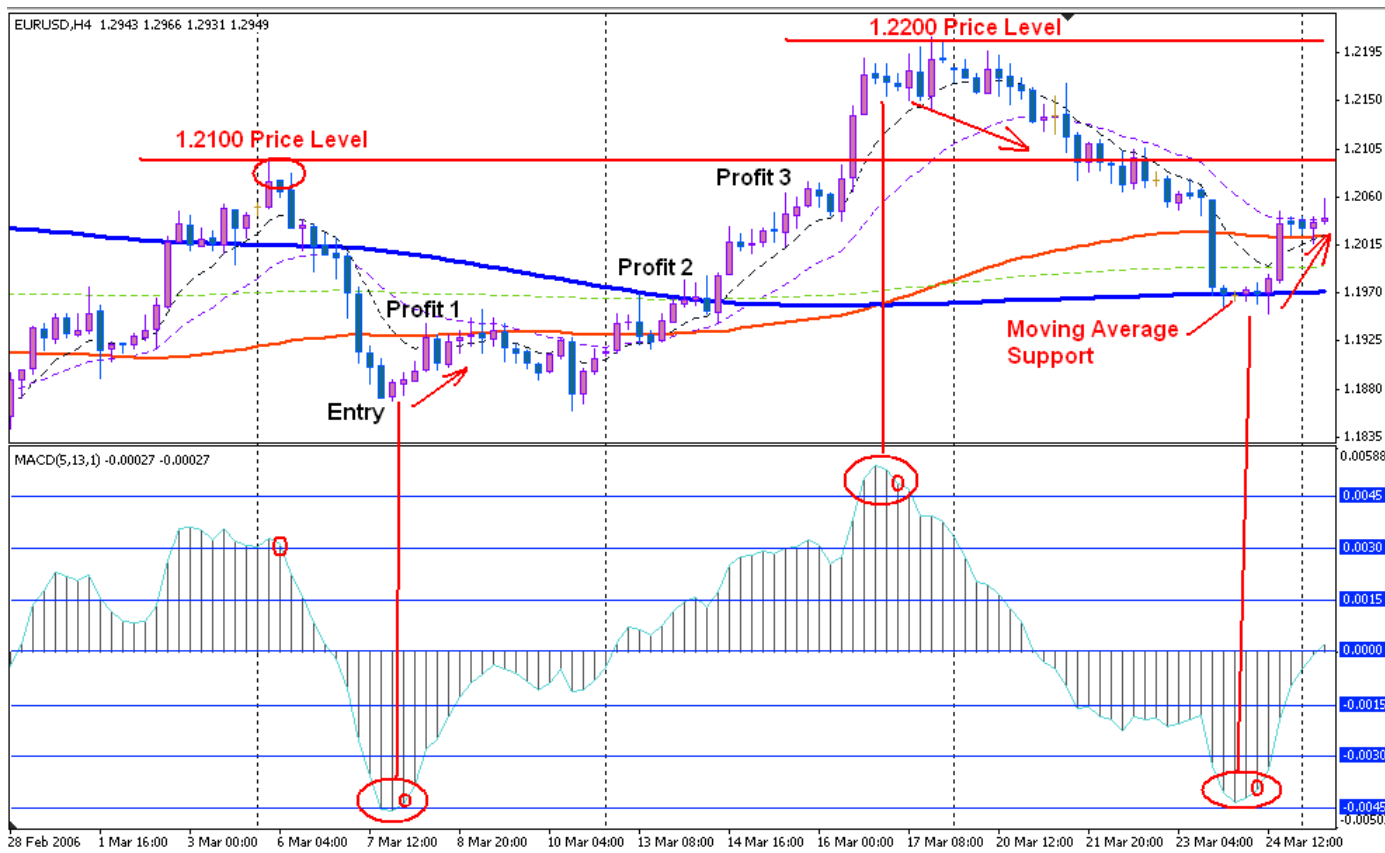
Let us look at the graph above. See how price levels play a roll in the support and resistance of the price movement. Say we entered the trade at Entry above. Our first profit target will be around our fast moving averages (8EMA and 21EMA). Our second profit target will be around the slow moving averages(89SMA and365EMA). Our third profit target will be at price level 1.2100 etc etc etc.

This is how you plan your trade in advance to take partial profits till you complete the trade. Should there be a moving average or price level nearby and below your entry level you must take note that the price might go and test them. So your stoploss must be aware of that.

Again I ask you to study the movement of the price around the moving averages. When the price are above the 89SMA the trend is normally up and visa versa. After the price crosses the 89SMA it tends to pullback to the 21EMA before it carry on its direction if it is a trend direction change otherwise it tend to test the 89SMA again and then it runs over and across the 89SMA till it finds direction and then it pulls back to the 21EMA before proceeding on its path.

EURUSD,H4 1.2943 1.2966 1.2931 1.2947

89SMA Crossover

89SMA

21SMA

Price pull back to inbetween the
8EMA and 21EMA before proceeding
on its path

MACD(5,13,1) -0.00031 -0.00031

27 Dec 2006 28 Dec 12:00 1 Jan 16:00 3 Jan 00:00 4 Jan 08:00 5 Jan 16:00 8 Jan 20:00 10 Jan 08:00 11 Jan 16:00 14 Jan 23:00 16 Jan 04:00 17 Jan 12:00 18 Jan 20:00 22 Jan 00:00

Here are a live trade I did for someone in explaining how I trade. This is actual e-mails that I did send. **25 January 2007   21:00 (GMT+2)**

Hi
*   I took it with 30 pip stoploss and hope I can add to the Gbp one earlier this week.*
Greetings

Target 1.2900

Zero

The MACD pulled back to the Zero line and then closes lower which indicate a down move.

"Got entry at 1.2955 and has set stoploss at breakeven at 1.2955 when price did hit 1.2935. I am scared for a false breakout below support but now the price can turnaround as I have a free ride."

First profit target at 161% Fibonacci at 1.2920

This trade however was a bit risky as it was a breakout trade after ten days consolidation testing a trendline angling upwards. One has to evaluate the risk not only in terms of pips but also in terms of strategy and chart pattern. After a breakout the price very often turns back to test the breakout level and then that level becomes either support or resistance in this case it becomes Eur resistance.
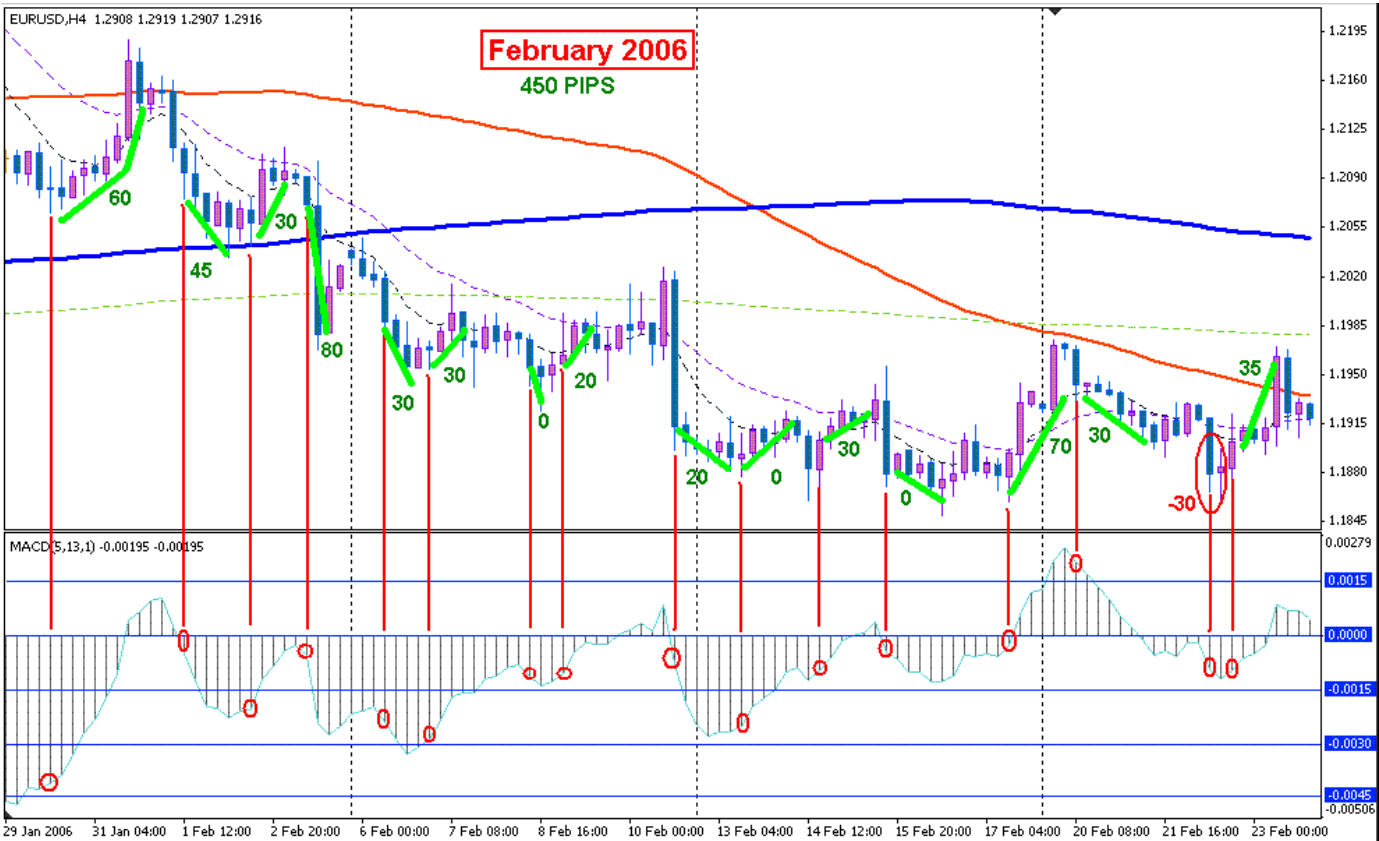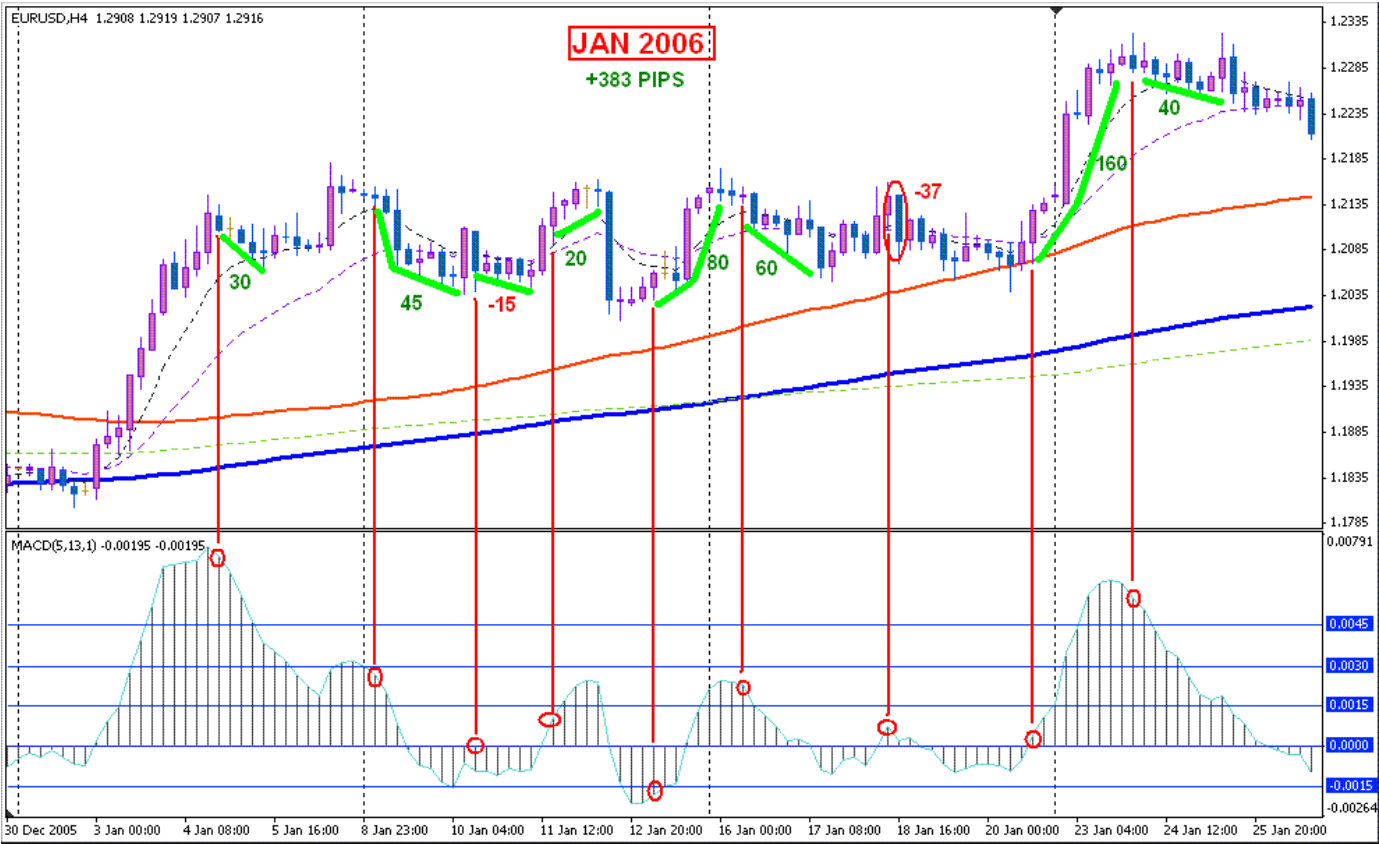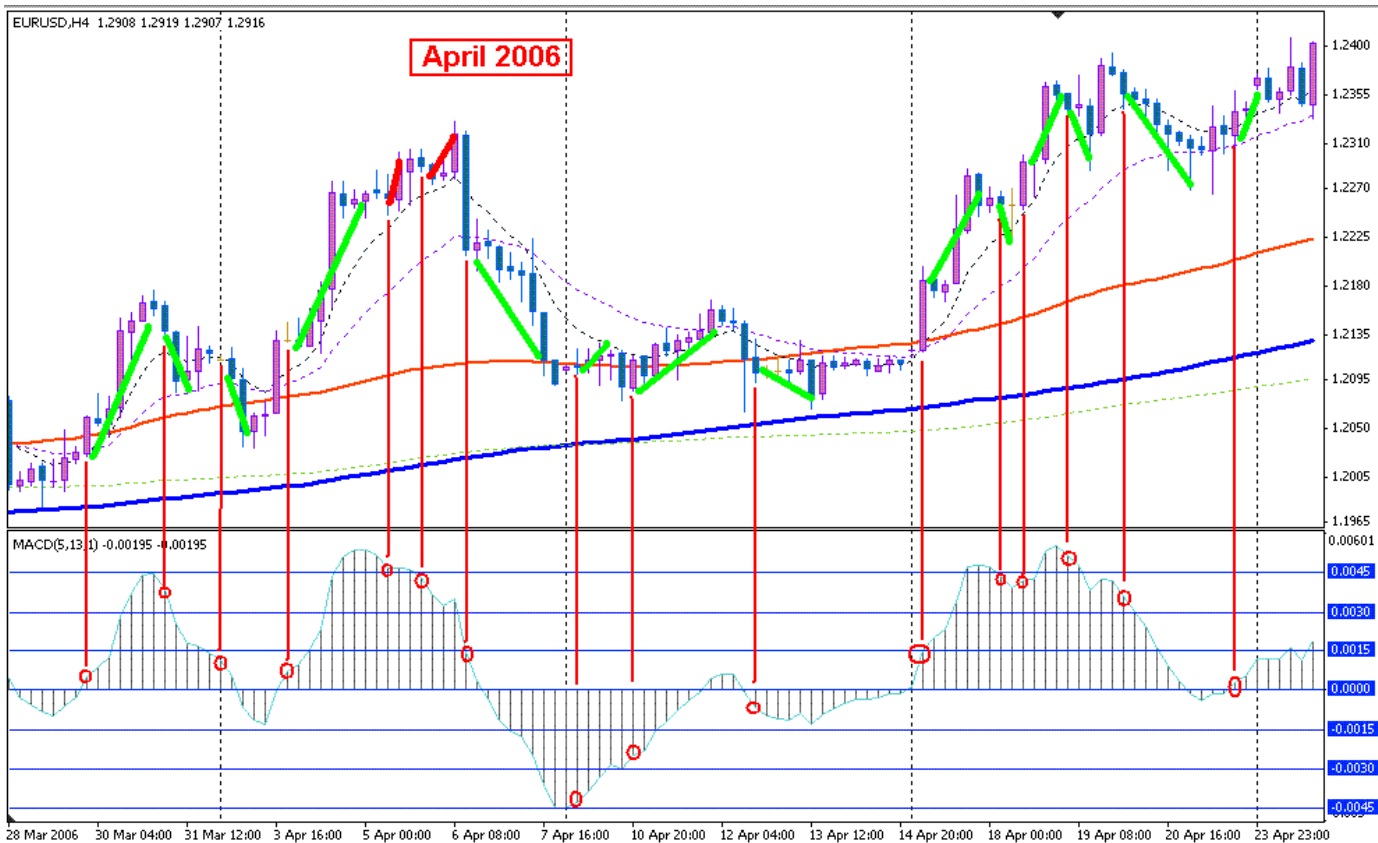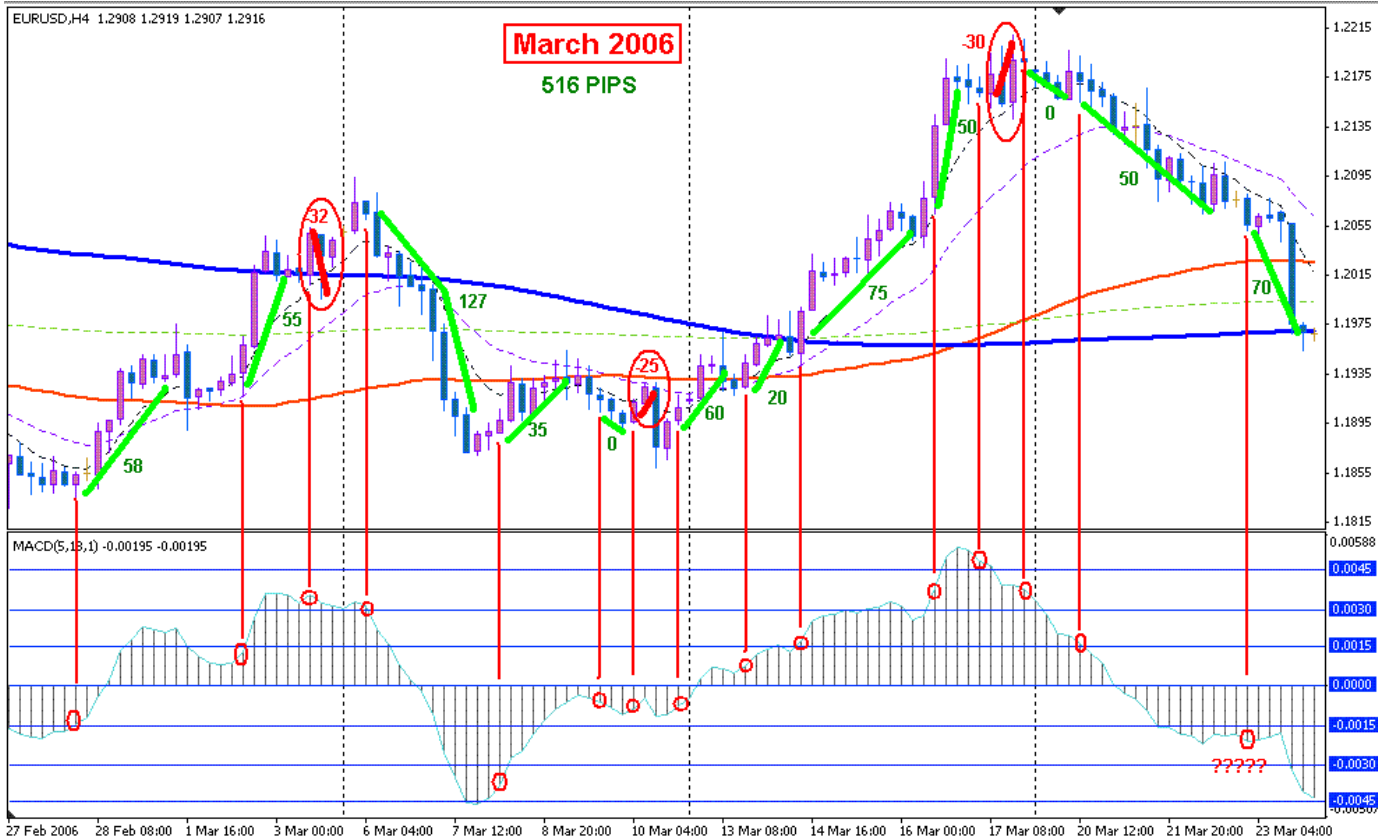
Stoploss have to be inside the breakout otherwise it can be triggered and then sometimes it can be very big before entry signal is given by the MACD.

Here is what I normally do when the MACD shows a signal but the stoploss are to big in relation to my capital or what I am comfortable with. I enter the trade in three stages with my stoploss set at the same level.

B

1 Enter 0.2 lots (Opening next Bar)
2 Enter 0.3 lots (30% Retracement on Bar B)
3 Enter 0.5 lots (45% Retracement on bar B)

A

Stoploss

Entry level

Stoploss

By entering the trade in these three stages make it easier to reduce the amount of pips lost should the trade go down to stoploss because not all is entered at No1. The price very often pulls back to either the 38% or 50% Fibonacci levels of the previous bar and therefore I uses 30% and 45% to be sure of a fill otherwise we stand a chance of missing the trade with one pip. When the trade goes in my favour the break even level is also lower as when a have entered all at No1.

When the stoploss amount of pips get to heavy this is a good method in spreading it.

6 Dec 20:00   8 Dec 04:00   11 Dec 08:00

JAN 2006
+383 PIPS

February 2006
450 PIPS

March 2006
516 PIPS

April 2006

I stopped counting the pips for the April 2006 testing as it completely convinced me of the success of this method. I randomly tested it using previous years and the results were amazing. Average of 300+ pips per month and then I only trade the trades that gives signals at these times 17:00, 21:00 and 01:00 (GMT +2). It gives between 8-10 deals per month using the mentioned timeframes.. (I use Metatrader and data supply by MIG.)

If you use patterns in the MACD that occur regular that gives results and use them every time they occur you will most definitely make money.

I haven't discuss nor used trendlines so far in this document and when you add them it will most definitely helps you in defining your exit levels. The entry level are determine by the MACD but the exit or profit levels is determine by support and resistance levels. I use the moving averages as described earlier as well as Fibonacci levels and then most definitely trendlines and price levels. I normally take the daily graph and draw the trendlines according to it and then go to the 4 hour graph. I make them nice and thick so that I can see them. Then I draw the different price levels such as 1.2900, 1.3000, 1.3100 etc. It is amazing to see how the price find support and or resistance at these levels.

I hope that this document will help you on your way to financial independents.

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