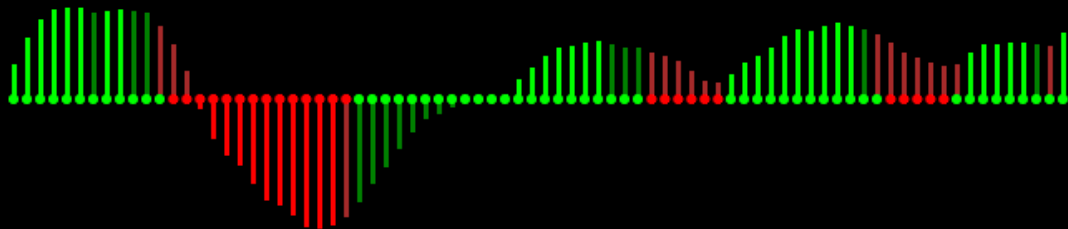




PBF Xtreme Squeeze User Guide



New! MetaTrader 4 Version

Welcome to the PBF Xtreme Squeeze User Guide

Using the Squeeze

The PBF Xtreme Squeeze Indicator is probably the most single powerful indicator we have ever encountered so far other than our Xtreme Direction. It is fast, responsive, and accurate. This indicator, along with the Xtreme Direction, 2EMAs and 3FMAs, are the core of our trading system.

As we mentioned before, we have a profitable trading system first, then we designed indicators and paint bar studies for that system. Everything works together as a whole. They hardly ever give conflict signals.

They are not just some random indicators which have little or nothing to do with one another. When everything aligns, the probability of winning is very high.



Trend Trade: The very basic way of taking signals from the Squeeze

indicator is to enter positions when the Squeeze gives a signal in the direction of the trend.

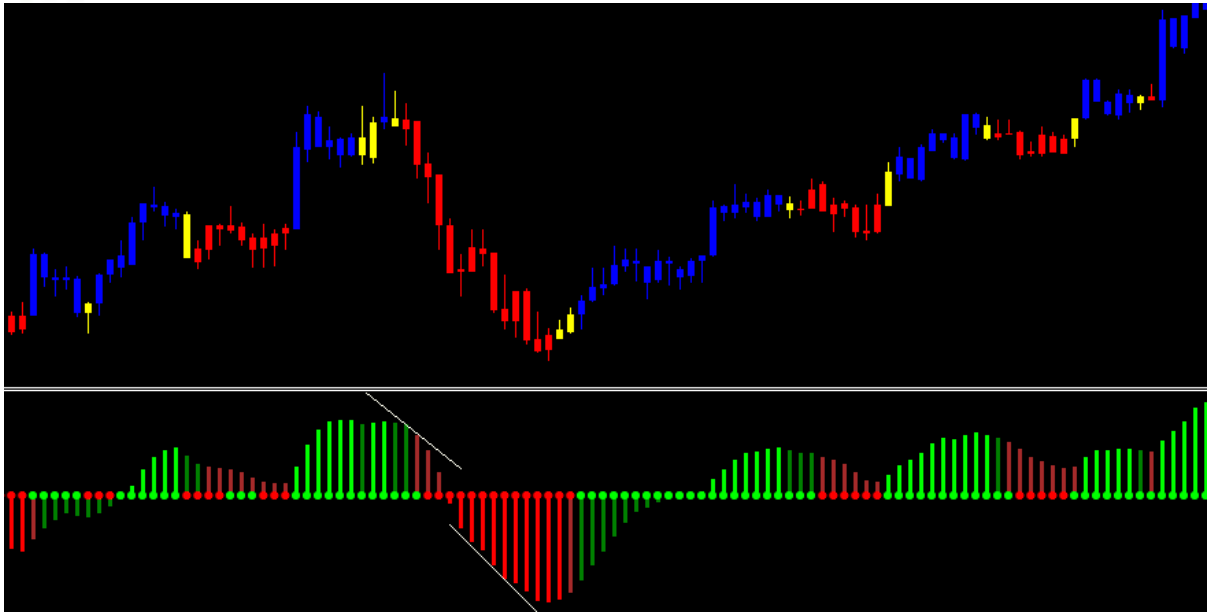
The middle Bias line will have to confirm this. In other words, both have to be in green or red to enter a position. In most cases, the Bias line will turn to the appropriate color before the Squeeze changes color in a trend.

This type of signal is most accurate when the market has been quiet for a while, or when the market is trending strongly, where you can reenter or add to your positions when the Squeeze turns from dark green back to green for long, or dark red to red for short.

Personally, I only take this type of signal as a reentry signal to reenter the market or add to my positions to go with the trend, as the other two types of signals often get me in a position before this type of signals.

Pay attention to the relationship between the Squeeze and the EMA's. Often, if the price pulls back to the EMA's area, it coincides with the Squeeze histogram pulls back to the 0 line.

In other words, when the price bounces off of the EMAs, we often get a reentry signal from the Squeeze as well. More about the relationships between the Squeeze and Moving averages can be found in the manual for the Moving Averages.



Counter Trend Trade: The most powerful way to use the Squeeze is to identify the divergences.

This is the most common way of using this indicator, and it often gets you in before the crowd at the very beginning of a new trend.

When the price hits a higher high but the Squeeze forms a lower high, or when the price forms a lower low but the Squeeze has a higher low, it often is a signal that the market is about to turn around, pull back to the EMAs area, or go into consolidation mode.

It works exceptionally well when the market is trading in a range. In a strong trend, this setup might fail when the market moves absolutely sideways, consolidating and forming small waves with slight highs or lows. Remember that all indicators have one thing in common; they are "attracted" to the middle line.

When they have a chance, such as after the market has had an extensive run, when it rests and takes a breather, gathering energy for its next run,

the indicators tend to move toward the middle line, and a divergence may appear.

Under these circumstances, the divergences may not lead to a complete reversal, rather a correction in price. However, in most cases, the price will at least pull back to the EMA's area.

Use discretion and other indicators such as EMA's and iTunnel for this instance. All indicators require the traders to input a "period", so the indicators can take the data of the past X bars, calculate it with a certain mathematical formula and present us what is likely to happen next.

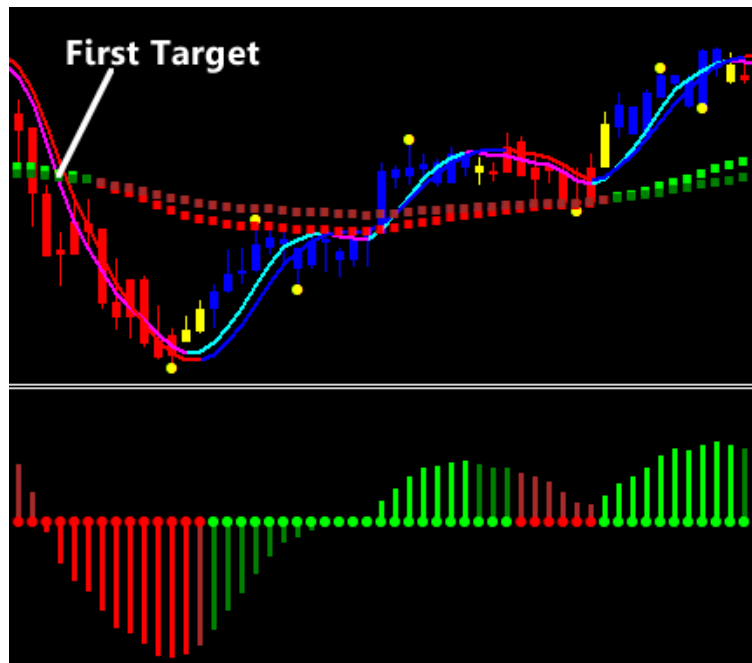
Because of this, the indicators can move towards the 0 line against the direction of the price, when the "momentum" of a trend slows down after an extended move.

This is how a divergence occurs. It is like driving a car. Before making a U-Turn, you apply the break and slow down. The car might still be moving in the original direction before reaching the point you want to make the turn. The Squeeze indicator, in this case, is the "break". By comparing the price and the Squeeze histogram, we can often see the points of turning before they happen.

Keep in mind, this setup is a counter-trend trade. And a counter-trend trade usually is more risky, but often yields great profits if it happens to be the beginning of a new trend.

Ideally, when the price forms higher highs in an uptrend or lower lows in a downtrend, the Squeeze should also form higher highs or lower lows to mimic the market movements.

When the Squeeze Indicator disagrees with the price, the market often turns. But since this is still a counter-trend trade, your first target should be the EMA's level.



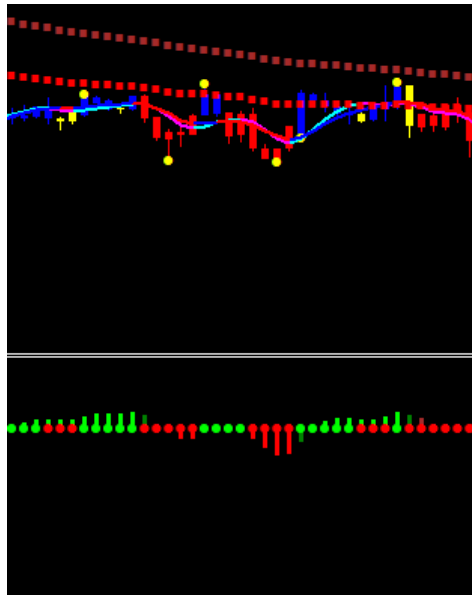
If the divergences occur when the price is already near the EMA's, skip the trade. There are opportunities throughout a trading session. If the train has departed, don't chase it. Taking only high probability trades is the key to survival. My motto has always been, if I can avoid mistakes and don't take any losing trades, all I will do is make money!

Also, while the reversal occurs very often when a divergence is formed, sometimes the market does not turn around immediately, especially in a strong trending market.

The market has momentum and cannot stop on a dime. Sometimes it takes 2 or 3 divergences, in very rare cases, it could take up to 4 divergences with small “waves” in price for the market to turn around.

This setup works really well. It is my personal favorite setup.

When the market is choppy and moving sideways, you get short histogram bars that poke at both sides.



Stay away until one side clearly shows strength. Pay more attention to the newly developed Bias line in the middle when this happens. The Bias line itself is another indicator.

It will provide the directional bias for you. During sideways or choppy market conditions, the iTunnel will remain relatively flat with the Scalper Dots being plotted on both sides of the tunnel. In this case, don't take the signals from the Squeeze. The market is not in a hurry to go anywhere, so you shouldn't be.

Now, go plot the Squeeze on the charts you trade and see if you could spot the divergences with ease.

You will be amazed at how often a divergence leads to a change of direction in the markets as you probably have seen on the charts posted on our website.

If you are a scalper and only want a few pips here and there, place your target near the EMAs and you will win *very* often if you have a quick finger and trust the signals, or exit when you see two consecutive dark colored bars.

If you are an "intraday swing trader", you might want to hold the position until you see another divergence telling you the market is turning again. If you have a more conservative style, then wait for the last swing highs or lows to be taken out after a divergence to enter your position. If you enter a position after spotting a divergence and it doesn't work out right away, you may consider adding more to your position if the divergence occurs again in the next wave (the 3rd peak. It takes two peaks to display a divergence), or get out at breakeven when you can or with a small win/loss. If the second wave doesn't work out, usually the third wave will.

What I have described here is the many possible ways to use the Squeeze indicator, some of the most conservative ways of trading the signal, and the *worst case* scenarios, the "exceptions" or nuances if you

If it sounds complicated or scary, it really is not. Because most of the time the setups will work out the very first time. In that case, there is really nothing for me to write in the manual, is there?

Exits

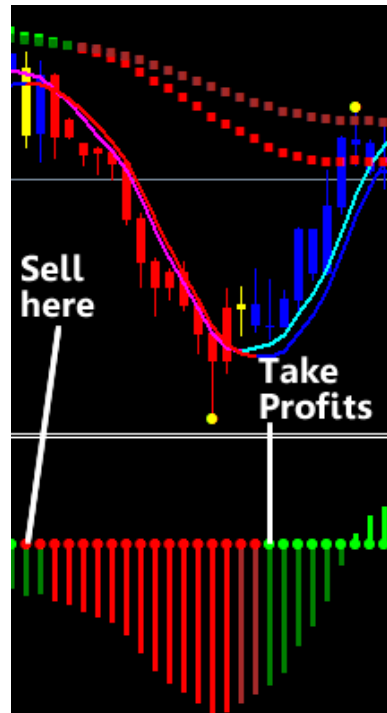
When to exit the market is often more difficult than when to enter. They say the trend is your friend. When a trend emerges, it is time for us traders to make huge profits. However, the problem I can see is that not many people, especially day traders, have the ability to hold their positions through all the minor corrections and ride it till the end of a trend.

This really depends on your personality, your experience, risk tolerance and money management skills. If you are trading only one contract, it is more difficult to manage your position. In this case, we think it's never too early to take your profit. There will be a ton of setups every day. Take what you can get and put it in the bank. Money on paper is not real money. Especially if you can't think clearly when the money is at stake.

For exits, we recommend:



1. Take off your first portion when you see signs of weakness on the Squeeze histogram. This, however, often results a premature exit. But since we will never know whether the market will go in our favor for one pip or 100 pips, this is the most conservative exit.



2. Take off your second portion of your position when the middle Bias line changes color. The Bias is more "stable" while the histogram is more "sensitive". The Bias line often keeps you in a trade longer.



3. After 5 "waves" on price and/or when you see a divergence between the Squeeze and the price, take off all your positions. We don't know whether the market will continue its move after the divergence, or reverse, or go into consolidation mode. It is better to get out and protect our profits. We can always get back in when things are clearer. Also, watch higher time frames for clues. If you get a divergence on your setup chart (the lower time frame chart) and your anchor chart (the higher time frame chart) at the same time, you should get out immediately.

Copyright © Paint Bar Forex 2011. All rights reserved.

Any redistribution or reproduction of part or all of the contents in any form is prohibited other than the following:

- You may print or download to a local hard disk copies for your personal and non-commercial use only;
- You may not, except with our express written permission, distribute or commercially exploit the content. Nor may you transmit it or store it in any other website or other form of electronic retrieval system.