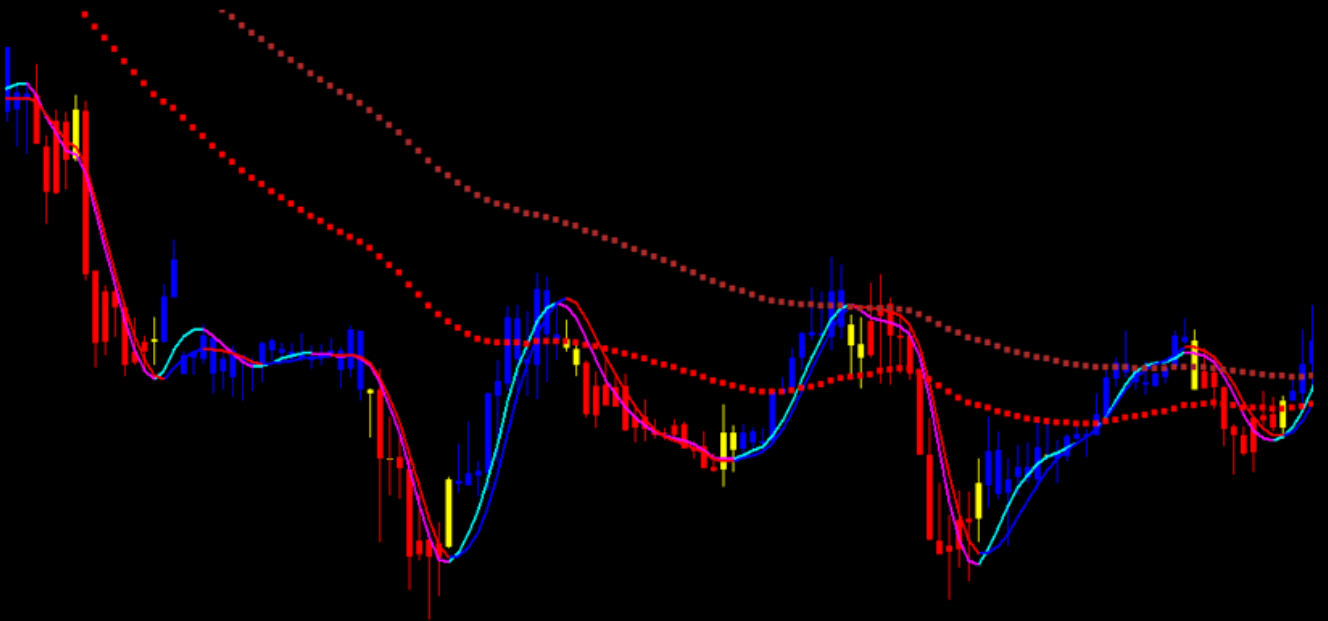




PBF Xtreme 2EMA & 3FMA User Guide



New! MetaTrader 4 Version

Welcome to the PBF Xtreme 2EMA & 3FMA User Guide

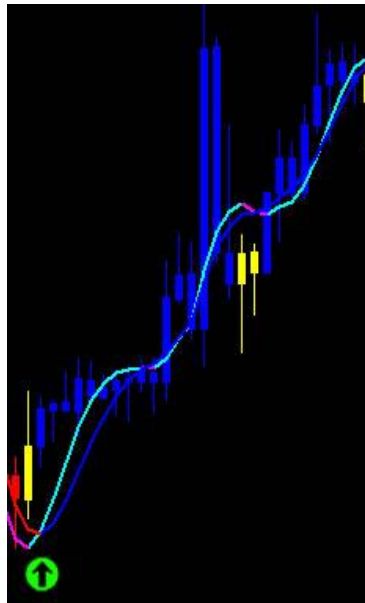
Using the 3FMA

Moving averages are lagging indicators. Quite often, they lag too much to be useful. Traders sometimes trade the moving average crossovers.

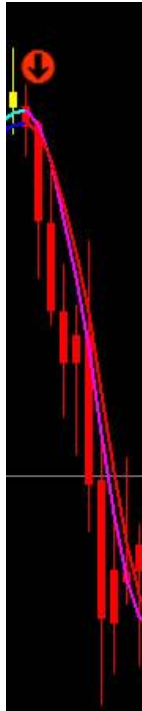
They buy when a faster moving average crosses over a slower one, and sell when the fast moving average crosses under the slower one. But by the time most moving averages experience a crossover, much of the move has already occurred.

We use our Fast Moving Averages (3FMA) to overcome many of these problems. They are very fast *and* smooth. Trading with the FMAs is very simple.

For a long position, consider entering a trade after the first bar that closes above the cyan/blue FMA lines.

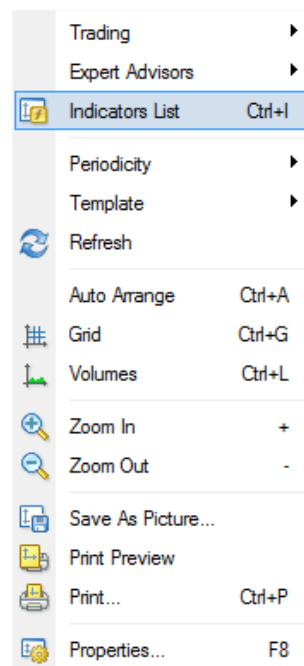


For a short position, consider entering a trade after the first bar closes below the magenta/red FMA lines.

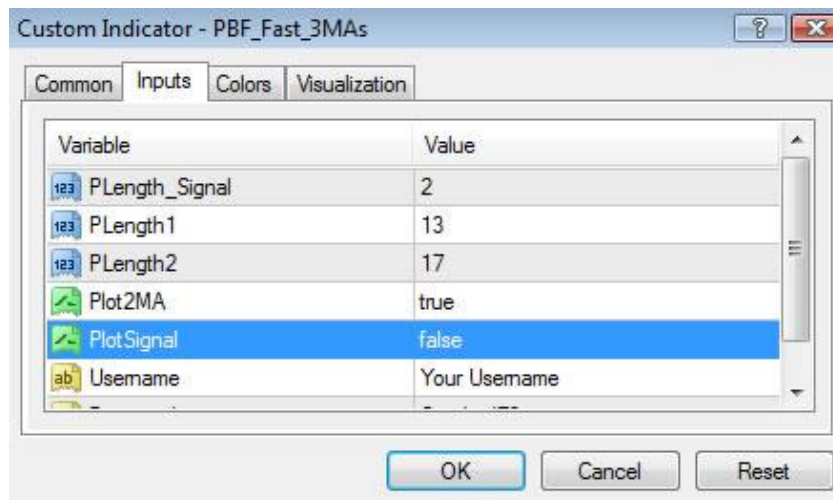


You want the PBF Direction to be in the "right" color as well!

You can change the settings for the Fast 3MAs by right clicking your chart with your mouse and selecting Indicators List:



Double click the "PBF_Fst_3MAs" and select the Inputs tab:



You have the option to plot one or two FMA lines, with or without the yellow signal line (to FMA1).

You can choose to use just one FMA (the cyan and magenta line) to signal the direction of the market base on the color change, or you can set "Show2MAs" to true and have the second FMA (blue and red) plot on your chart as well: the cyan line crosses over the blue line for a buy, and the magenta line cross under the red line for a sell.

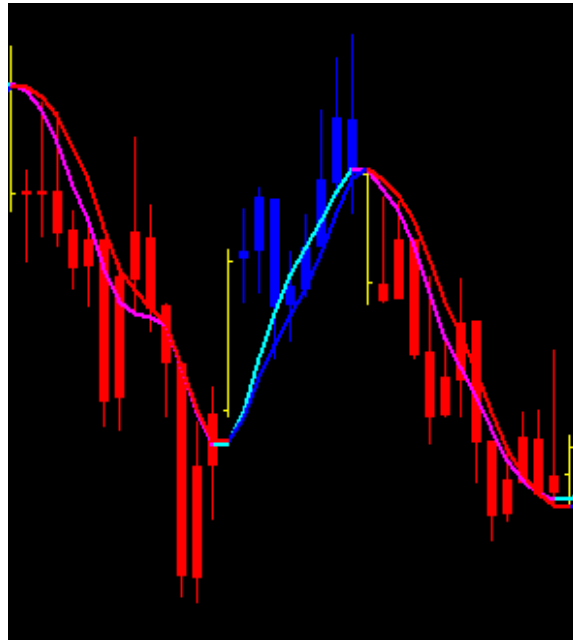
If the PBF Direction confirms these entry criteria, it makes the trade safer.

In other words, buy the first blue/green paint bar that closes above the cyan/blue FMA, and sell short the first red/magenta paint bar that closes below the red/magenta FMA line.

If you use two FMA lines, look at charts from the past and pay attention to the distance between the two FMAs when the market turns.

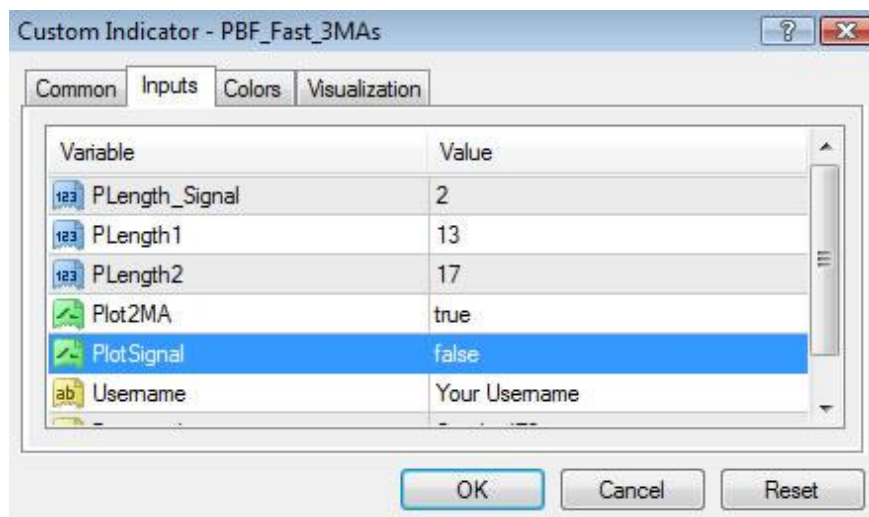
The best signals occur when both lines turn almost simultaneously or within one bar, and the lines are almost overlapping each other, while in some small, "lazy" retracements when the price moves against the trend and doesn't go too far, the slower FMA tends to be left behind and lag by a bit more, so you will see more space in-between the two FMAs.

Let's look at some examples on the next page:



While this indicator can be used alone to take trades, we recommend that you use it in combination with our other indicators and methods, especially with the Squeeze and the Direction indicators.

Once you see a lot of different indicators giving you the same confirmation about which way the market is most likely to move, then you can have the confidence to take the trade. The confluence of indicators is what we believe constitutes a high probability trade. This puts the odds considerably in your favor.



The current settings we are using are as follows: "Plot2MAs" is set to true, and 21 and 27 periods are the input values (cyan/magenta for 21 and blue/red for 27).

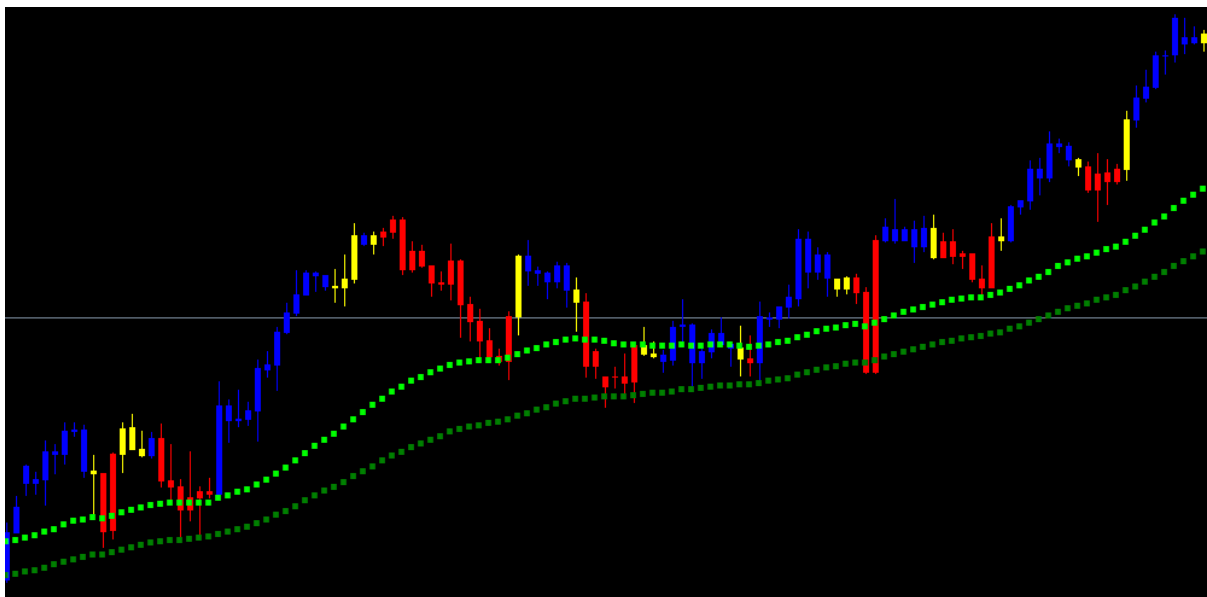
This combination has been working out well for us.

If you are a scalper or if you would like a faster signal (at the risk of having false ones), you may keep the default values at 13 and 17. You may also use these shorter periods on higher time frame charts to compensate for the natural time lags.

Using the 2EMA

The exponential moving averages provide your charts with structure and help you to identify whether the market is in an uptrend, a downtrend, or has no dominant trend. More importantly, they are also used to identify areas of support and resistance. When the market is in an uptrend, price often bounces off of the EMAs and moves higher, and it often retraces up to the EMAs and then heads lower when is in a downtrend.

EMAs as support in an uptrend:

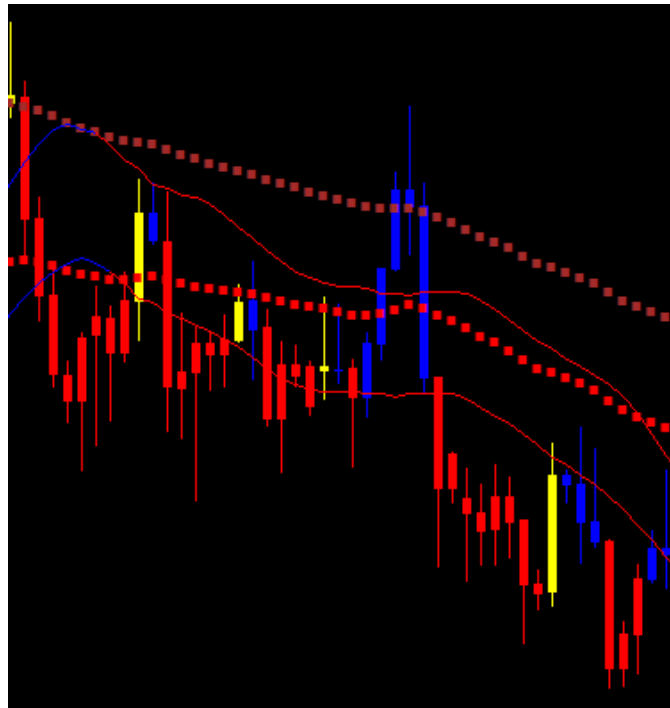


EMAs as resistance in a down trend:



When the EMAs are green and angling up, we are in an uptrend. When they are red and angling down, we are in a down trend.

When the market is in a choppy condition, the price will be congested around the EMAs level, sometimes the EMAs will sit inside the iTunnel. Sit on your hands when you see this and do absolutely nothing!



In a trending market, the iTunnel will be completely separated from the EMAs.



The conservative trader should wait for the EMAs to turn to the new color before taking any trades in that direction (Trend Trade).

The aggressive and more experienced trader can take a trade when the EMAs are in the "opposite" color, as long as there is a divergence setup on the Squeeze or Holy Grail (Counter Trend Trade).

Since we know that price often finds support or resistance at the EMAs levels, if you are taking a counter trend signal from the Squeeze, make sure there is enough room between your entry price and the EMAs.

The reward has to justify the risk before we can enter the trade.

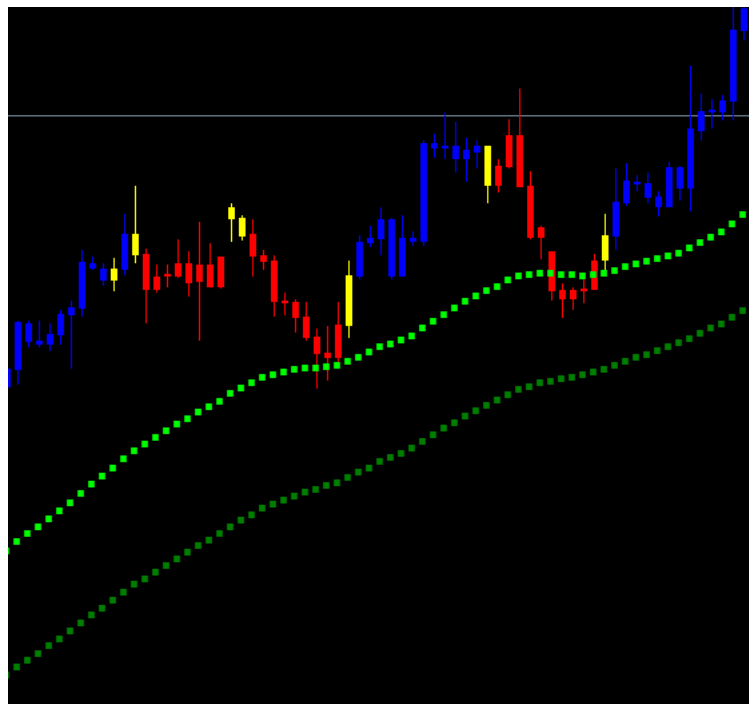
If the price is already too close to the EMAs, do not take counter trend setups. Rather, we wait for the retracement to be over, then take a position in the direction of the trend. Be patient and sit on your hands. Over trading is one of the main reasons why most traders fail.

The EMAs, in our system, are used as a target area for counter trend trades, a support/resistance area to initiate a trend trade position, and an indication of the trend. Like all trend indicators, they only show the trend once we are already in a trend. In other words, when the trend

changes, it takes time for the EMAs to catch up.

So for signs of a possible trend change, we watch the price action, count the "waves", watch for divergence on the Squeeze indicator, and monitor higher time frame charts.

When a trend change is underway, price often moves to the other side of the EMAs, then pulls back and re-tests this area before continuing its move.



In a new trend, if you take the first and second bounce-offs of the EMAs area after they have crossed over will stack the odds in your favor.

It often has a very high probability of working out. The market can continue in one direction, bouncing off the EMAs for a few times.

However, once you have already seen two, three or more bounces off the EMAs, you should become more cautious.

After the second bounce off, your chances of the trend continuing in that direction decrease, while the potential for a reversal increases, because on average, a trend usually has 5 "waves". If you choose to take trend trades after the third bounce off, just watch your charts closely. If you see signs of a reversal, then it is best to exit immediately or else tighten

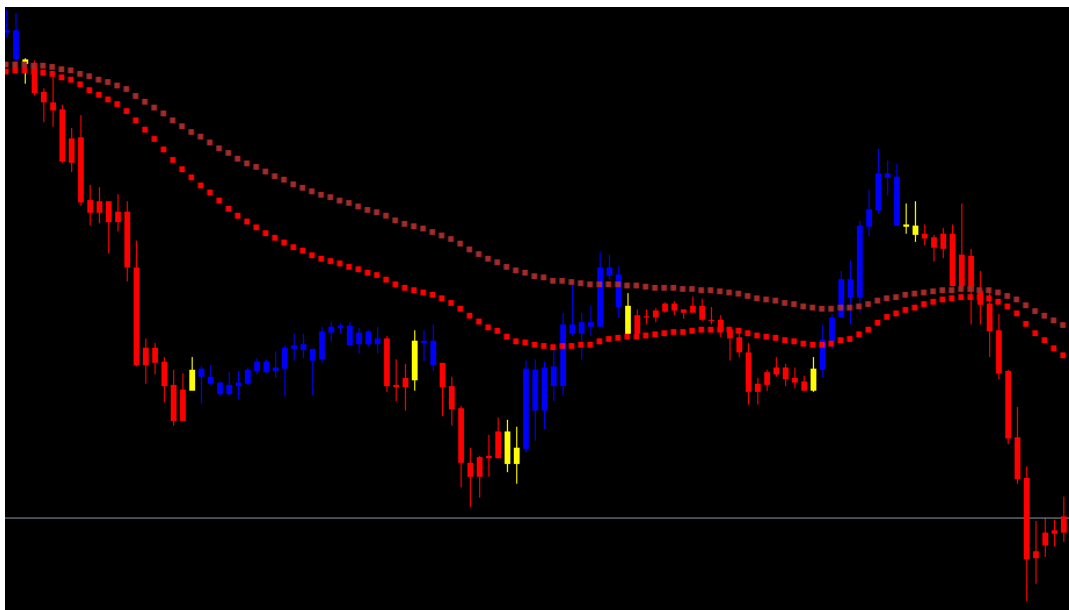
your stop.

Note that the market CAN go in one direction all day long, however this doesn't mean we are in ONE trend all day long.

The popular definition of a "trend" is consecutive higher highs and higher lows for an uptrend, consecutive lower highs and lower lows for a downtrend (the Scalper dots in our indicator package does a good job identifying swing highs and lows without any effort on your side).

The market, however, doesn't move in a straight line. After an extended trend move, it may retrace deeper or begin to consolidate, taking a breather before its next move again.

In this case, we consider the trend has "ended". This doesn't mean the market will always reverse and the "new" trend will be in the opposite direction. It can continue to go in the direction of the "old" trend after taking a rest. In this case, we reset our counter and start counting the bounce offs again.



Sometimes price makes only a small retracement, and it does not pull back to even touch the closest EMA for support or resistance. This usually tells us the trend might be very strong. It is important to remember that when the trend is very strong, the odds are greater that the trend will continue and your counter trend trades will not work out. When the market is trending strongly like this, we should only look to

take trend trades. Taking counter trend trades in strongly trending markets can be extremely risky.

Keep in mind that since the EMAs are lagging indicators, a new trend can begin before the EMAs have the chance to catch up and change color. For this reason, you might be in the early part of a downtrend while the EMAs are still green, and vice versa for an uptrend. So the goal of taking counter trend trades should be either when the reward is greater than the risk and worth taking, or when it could possibly be the beginning of a new trend. Do not over trade.

We use the EMAs primarily for these three things:

- 1) As an area of support or resistance.
- 2) As a profit target for counter trend trades, and
- 3) As an indication of the trend.

In summary, moving averages are lagging indicators.

They are only going to show us the trend once we are already in that trend. In order to determine a change of trend while it is occurring, we watch the price action and market structure, look for divergence and observe higher time frames for clues.

When the market is trending, price often bounces off of the EMAs. The EMAs act as support when the market is trending upward, and as resistance when the market is trending downward.

When price is trending and experiences a pullback that does not go all the way back to the EMAs, it tells you that the existing trend is quite strong.

When you have a strong trend like this, you are better off taking only trend trades. This is especially true if the market continues to make new highs or new lows in the trend. That can signify an even stronger trend.

When the market slows down, the two EMAs will come closer to each other. When the market is choppy, the candlesticks will show areas of congestion near the EMAs, the EMAs might even be sitting inside the iTunnel. Stay away and do not over trade.

The Relationships between Moving averages and the Squeeze

Like we said, we don't just throw out random indicators while one has nothing to do with another.

Our indicators work together to form a trading system.

You have already learned how well the FMA and a Paint Bar Study work together to identify an entry, as well as the EMAs, Scalper Dots and the iTunnel work together to identify trending or choppy market conditions.

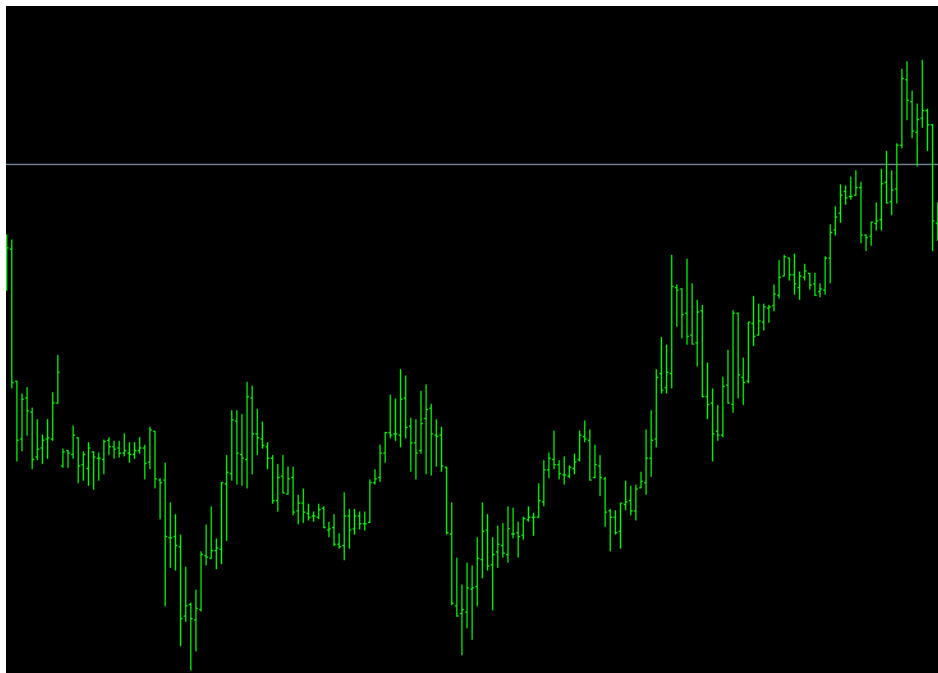
Let's look at the relationship between these two moving averages and the Squeeze indicator by examining a few charts.

Below is a chart without any indicators on it.

Kind of messy and no dominant trend.

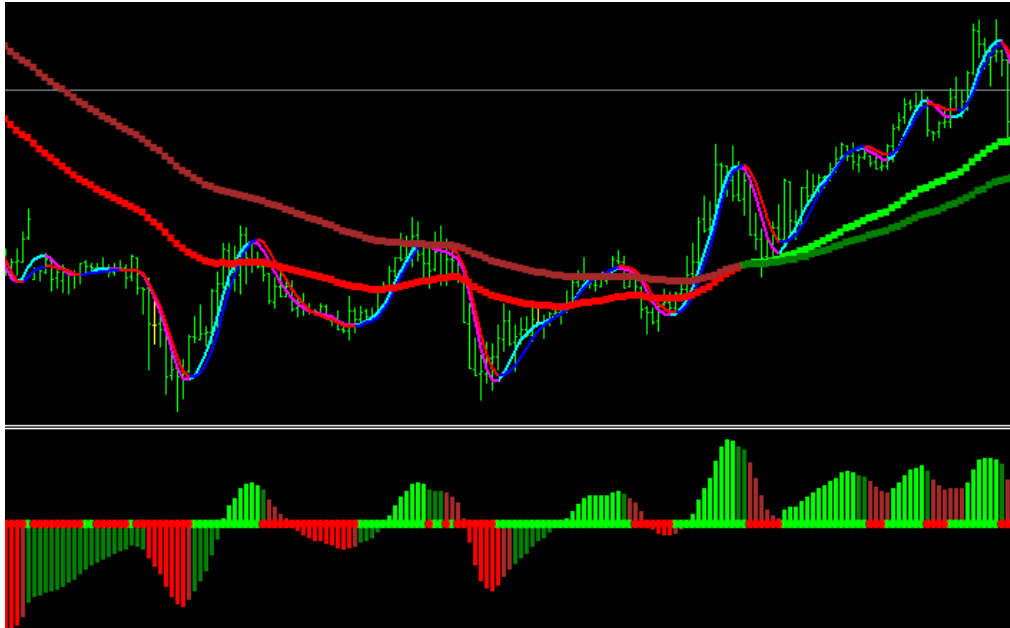
Non-trending markets are more difficult to trade. Our system will work no matter what market condition you are in. So let's use this more difficult chart as an example.

Do you know how to trade this chart without any indicators?



Now let's add the moving averages and the Squeeze. Before reading the

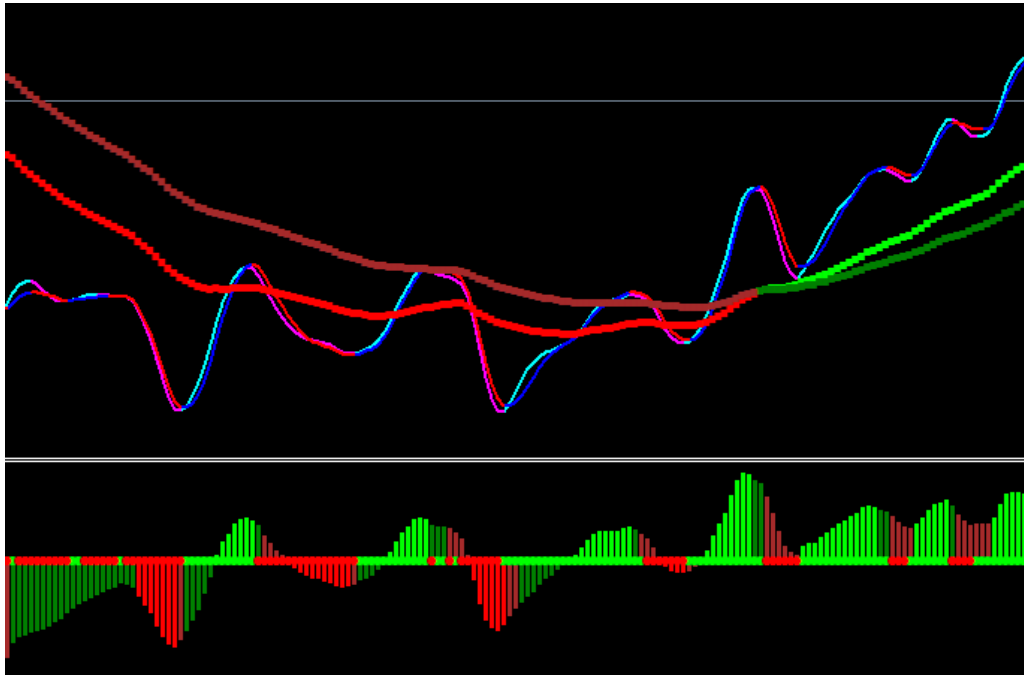
next paragraph, take a moment and see if you can see the relationships between these two moving averages and the Squeeze indicator.



The first thing we notice here is, while not always 100%, when the price touches the EMAs, it often coincides with the Squeeze histogram retraces to 0. When the price penetrates the EMAs from one side to the other, the Squeeze histogram often penetrates the 0 line around the same time.

In other words, we can almost see the price action on the Squeeze. The EMAs look almost the same as the Squeeze histogram, and the EMAs are equal to the 0 line of the Squeeze in this case. It is kind of putting a "3-D" price action into a more manageable "2-D" indicator for signals!

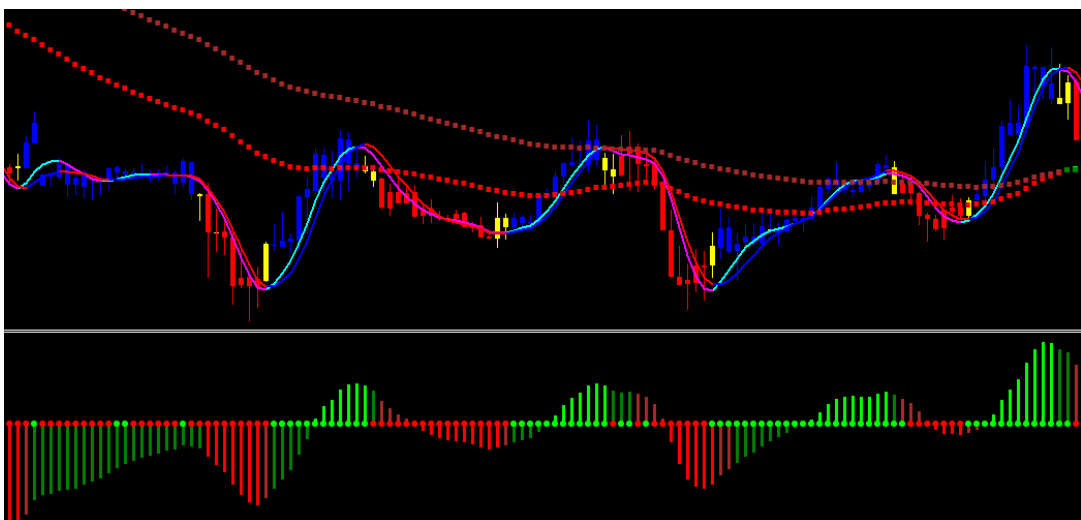
On the next chart, we leave all the indicators on the chart but remove the price candles. Now it is crystal clear!



We know by now that the EMAs show us the market structure, while the FMAs are fast and smooth without much lag. The Squeeze indicator resembles these two indicators.

The only difference is that the FMAs follows the price faithfully and goes where the market goes. The Squeeze indicator, in this case, becomes a "leading" indicator by showing us the convergence/divergence, hence generating high probability trading signals, even in a sideways market.

Now let's bring everything back to the normal settings. Voila! All signals worked out perfectly!



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