Trade the PATTERNS

The Revolutionary Way of Trading the CCI

KEN "Woodie" WOOD

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To my family, especially my wife, who has seen both sides of the trading arena but has always been there for me, especially in the down times (and there were definitely down times).

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FOREWORD

By Tony Holden

It is an honor to be asked to contribute to Woodie's book. I have enormous admiration for this man—a most generous man with a burning desire to help his fellow traders, offering newcomers and old hands alike the benefit of his immense trading knowledge, not to mention his wry sense of humor—a philanthropist in the best sense of the word.

Woodie's philosophy is simple: In fact, "K.I.S.S." (Keep it simple, stupid!) is his mantra. Do not weigh yourself down with too many indicators—decide upon a simple plan and stick to it. Do not get sidetracked, do not try to be too clever, do not try to run before you can walk. He says that trading is not the easy path—it takes time to learn how to trade. If it were easy everybody would be doing it. Learn how, before you go live. Stick to the plan. Don't try and predict the market. Stick to the plan. Stick to the plan. No helter-skelter trading!

Like many other traders, I came to Woodie's chat room purely by chance, after a long search for a path that would lead toward trading profitability. Woodie hosted a wildly popular public chat room focused on helping traders. The community in Woodie's chat rooms seemed like family. Trading is a serious business but, in the chop and quiet times, we would crack jokes, swap stories and, in some cases, listen to music—a very relaxed atmosphere.

After about a year Woodie announced a CCI conference in Florida. The cost was so small it was an absolute bargain and definitely not to be missed. I had been ripped-off big time by so many alleged gurus before, all demanding huge sums of money to impart their so-called wisdom and secrets that I was slightly cynical, to say the least.

Trader Tony, another U.K. trader, and I arrived a day early for the conference and thought we recognized the face we had seen on the Internet sitting alone in the hotel lobby—it was Woodie himself! He rose to shake my hand, towering above me and smiling broadly. He had been sitting there waiting for traders, and we were the first to arrive. We could not believe our luck! We had him to ourselves and we dare not even check into our rooms in case we never had this opportunity again. Gradually other traders joined us, and, eventually, we all trooped off to take over a restaurant and hang onto Woodie's every word, trying to suck up as much information and knowledge as possible. I sat spellbound through many hours of talk and started to look at charts in a totally different way. The CCI was being brought to life for Tony Holden.

Sitting in the audience just before the start of the Orlando conference, I noticed a certain lack of technical backup needed to produce a successful conference. In my past I had produced many conferences, working with live audiences of thousands and a large technical staff, integrating with radio and television, broadcasting live by satellite to the four corners of the earth, long before it became the norm. I thought I had better bring my expertise collating the quantum complexities of computers and conferencing (the alliteration alone makes that sentence worthwhile), otherwise this symposium was not going to get off the ground and I would miss out on the valuable information I had come so far to hear. Once the various technical glitches had been eradicated, what followed was a very successful conference.

At the conclusion of the conference, sitting on the same hotel lobby couches with Woodie as we had at the start of the conference, I was impressed by the honesty and simplicity of the CCI execution that Woodie was communicating. I came to the conclusion that this was the next stepping stone on my journey. As I had some experience in website production, I then uttered the immortal words to Woodie that I don't think he will ever let me forget: "Woodie, what you need is your own little website."

I flew home excited and rejuvenated about starting the next stage of my journey: creating the best website that I could and, in doing so, compiling information from all the sources possible regarding Woodie's CCI methods.

During the next end-of-year conference, Woodie and other trader moderators and speakers met for a breakfast meeting. After discussion about how it would be impossible for Woodie to continue moderating non-stop five days a week without seriously damaging his health, we agreed it was our collective responsibility to shoulder some of the burden. After a shocked silence, I, along with the others, stepped up to the plate by taking over the moderating, along with the administration and organization of the CCI Club.

"Traders Helping Traders" says it all. Moderators are regular traders; they are in charge of discussions in the chat rooms. They give their time freely, and the site could not be the success that it is without their selfless input. They do not give trading advice as such, as that is not allowed—Woodie's CCI Club is an educational site—but they do try to pass on their knowledge and practical experience in a pragmatic way so that traders who log in to the chat rooms can make their own way but with the most fantastic backup and in the knowledge that there is always someone, be it a moderator or a fellow trader, who can answer their questions.

So, Rocking Mondays took off with me, Tony Holden, at the helm. I learned quickly—when hundreds of questions are fired at you, speedily research and come up with the answers!

Now we had a stable chat room, a whole new breed of moderators and lots of enthusiasm: Up to 1,000 people a day piled into the chat rooms (sorry—logged in) to learn and become skilled at the art (or is it science?) of trading of the CCI in all its forms. Woodie's health improved now that he only had to moderate for the odd half day. And it worked! To see him at a conference six months later, the transformation was remarkable.

Spring was in the air and everything was rocking—and for the first time ever my trading turned profitable and continues to be so. The website was beating all targets with site hits, files downloaded and lectures broadcast. It had, seemingly, become the repository of everything that was required for an educational site to learn the CCI. One such product is the University bulletin board, known as "Woodipedia," currently linking tens of thousands of people worldwide with more than 12,000 articles of information contributed by those same people on how they trade the CCI.

Though what we have achieved so far looks great, it is only the tip of the iceberg of what is to come. Looking into the future we can see the expansion of "Radio Woodie," our own Internet radio station broadcasting 24 hours a day on many channels; "Watch with Woodie" a television site similar to YouTube; podcasting; and RSS feeds. Woodie's CCI Club is all about education and we are committed to using the Internet to teach all traders the benefits of the CCI—and all this with no budget. We are, in fact, a major corporation operating on a zero budget.

I was knocked for six when Woodie named the Tony Trade, a pattern of the CCI, after me. I was certainly not looking for any accolade as I believe strongly in the ethos of the CCI Club, which is "Traders Helping Traders."

The Tony Trade boasts a unique advantage by incorporating pattern recognition. This has never been done before, as set-ups for trades are normally taken on price movements, which makes the CCI system so easy to operate as it is pattern recognition that you need to master and you will hear time and again "one pattern, one time frame, one product."

Woodie asked me to create a chat room with desktop sharing, which has come to be known as Talkslive. There are now three rooms. The main room is the basic traders' chat room and it works for futures traders trading one set-up, one pattern and one time frame. The charts display only that one time frame, which is range bars. In this room no other time frame is discussed and no other products, such as stocks or options, are mentioned.

We have an advanced traders' room that does not have the restrictions of the basic traders' chat room. But be warned: beginners are not welcome here, and questions such as "What is a ZLR?" are not tolerated. You will be asked to go to the basic room for your apprenticeship.

The stocks and options room is, as it sounds, for discussions on stocks and options and using the CCI as a tool to trading these products. It is an active group of people.

There are so many traders behind the scenes, performing roles like calendar administrator, hotel conference manager, moderator, graphic designer, system trader, forum cleaner, autoresponder and contributors to Woodipedia and the website. The list is endless and yet we still need more help. This is a cry for freedom—to free all traders from the salesmen out there who rip off traders every day in our search for the perfect trading system. We all have a responsibility to build Woodie's CCI Club. My journey is complete, my trading has turned a corner, and I no longer need to chase a mythical illusion; I have found the answer! I do not want to go chasing other systems or spend another dollar on some alleged guru; I trust the people where I am right now. There is a wealth of talent here in Woodie's CCI Club for all the world to discover. Why would anyone want to go elsewhere?

Tony Holden has been trading in stocks and shares for some 25 years alongside owning and operating companies as diverse as film production, IT, event management, and a flight training establishment. He met Woodie a number of years ago and has been enthusiastically involved in supporting his activities and values ever since. Tony lives in the U.K. and is married with two grown children, a dog called Alice and a sheep called Dave.

ACKNOWLEDGEMENTS

I would like to thank the many people who have helped me to make the CCI Club what it is today. There are too many to list individually, but you know who you are!

Special thanks go to Tony Holden and Susan Drummond, who have been with me a long time and have done so much to help others and allow the CCI Club to grow and accomplish our motto, "Traders helping Traders." Their attitude and support is second to none and both do so much in the background to make this all happen.

I would also like to mention Dr. Brett Steenbarger, John Person, Dr. Richard Jacoby, and Barbara Schmit-Bailey of the CBOT and thank them for their help and encouragement. Neil Rogers and PFGBest merit a particular mention and much appreciation for sponsorship and support on many aspects of the publication of this book.

A big thanks to all, and I recommend this poem to you:

In my hands I hold a candle
whose flame is small to see.
And, if I give but one light to you,
my life is filled for me.
But...
in your hands you hold a torch
for many eyes to see.
So, hold it high that they may light
Their candlewicks from thee.
*--Daniel**

* Daniel, The Prophet's Candle (Versatility Press, 2003).

ABOUT THE AUTHOR

Ken Wood, affectionately known as "Woodie," has been an independent trader for a considerable number of years, many of which have been spent developing the CCI patterns and the use of momentum in trading. He currently spends his time mentoring traders, teaching the CCI method and running chat rooms for traders.

Woodie's CCI Club has thousands of followers in 22 countries throughout the world. He has conducted numerous seminars and has spoken at the Chicago Board of Trade, the Chicago Mercantile Exchange and at many trading conferences across the U.S. and in Europe. Woodie's work has been featured in SFO magazine, Active Trader and on a number of radio programs. Woodie has been a longtime supporter of Make-A-Wish Foundation, which grants the wishes of children with life-threatening medical conditions. To date, Woodie's CCI Club has contributed more than $120,000 to Make-A-Wish Foundation.

About Woodie's CCI Club

The purpose of Woodie's CCI Club is to offer support and educational information to traders of all ages and backgrounds from all over the world. The club is run primarily with committed volunteers who have established a unique interactive online community with a friendly environment to encourage the participation of both beginning and more advanced traders.

Woodie's CCI Club provides an exceptional platform for learning and interacting with entry to chat rooms at all levels as well as access to "Woodiepedia," the trading encyclopedia. The website (www.woodiescciclub.com) offers valuable trading information and a bulletin board full of posts containing quality data from traders around the world absolutely free of charge.

The principal motto of Woodie's CCI Club is "Traders Helping Traders." The club's philosophy is well illustrated in the adage, "A candle loses nothing by lighting another candle."

Nothing mentioned or written in this book should be taken as professional advice. The information provided is intended only to describe how Woodie's CCI trading system is used and is for educational purposes only.

1

THE REVOLUTIONARY WAY OF TRADING THE CCI

How it all started...

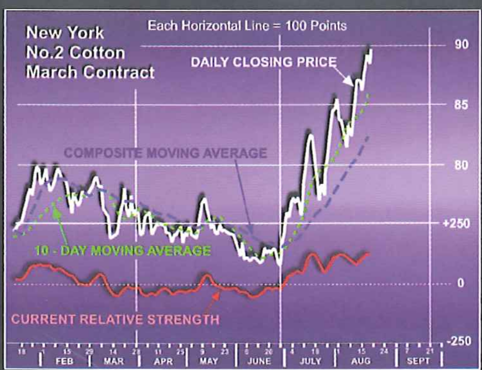
Back in the late 1970s I enjoyed working with technical analysis on commodity charts. I was a technical junkie; I enjoyed constructing charts and graphs and would spend time drawing and designing my own from information in the local newspaper, including the daily high, low, close and the open, along with open interest for each commodity. Every day I clipped the daily prices from the paper and applied the gathered facts to graph paper to form my charts. On these charts I would then conduct my analysis, which helped me learn the rhythm of the markets.

Today this is a lost art among traders. Life and technology has moved on. But, to me, this was fascinating, and hours would slip by without my noticing. In following years I would add the use of Quotrek, a product created by eSignal, to get intraday quotes for charts by means of an FM radio station. Depending upon where you were you had to adjust the antenna to obtain decent reception!

Five-minute charts were easy to construct, as all you needed was Quotrek, a pencil and a piece of paper to chart, and a watch. The watch was used to time the bars as each number represented five minutes, so when it went from one to two that was the end of a five-minute period. Trend lines were drawn and the analysis, like momentum or stochastics, was done in longhand and added to the chart. It sounds crude today, but it sure gave you a feel for the rhythm of the markets.

My first attempt at a live trade was a system I tested for some time, which

FIG. 1.1



Source: Commodity Research Bureau

This chart in cotton is similar to my first trade. I did not use the Current Relative Strength (CRS) momentum indicator, but I did study it and observed how it provided information.

appeared to work very well. On paper it did just fine—so I was eager to try it live as I believed then, as I do now, that systems must be tested live, in the heat of battle, and not after the fact. The system was simple and straightforward: Take the closing price on a daily chart, long and short, when it closed above/below a 10-day simple moving average. The filter I used was a 40-day simple moving average, and it had to be sloping in the direction with the 10-day average. Stop placement was close above/below the 40-day average, therefore creating a trade with trend. This system then had all the ingredients of the perfect trade: entry, trend following, money management and exit. Even today, I would not change a thing on this plan.

My first trade was in corn (figure 1.1 on the previous page looks similar to my corn trade). Corn moves slowly, is great to trade and works well with the system. I called my broker and put in an order to buy and at the same time put in an order for a stop. Trading my plan, I submitted my order as, "Buy five Christmas corn at $2.20 on a buy stop, and an order to sell on sell stop five Christmas corn at $2.15 when filled on buy stop." This was easy—getting the order correctly to the broker was the hardest part. So, now I had an order in to buy. This was exciting! Adrenaline flowed! I called the broker five minutes later to ask if it was filled. "Nothing yet," was the answer. OK, no problem. I asked him what the last corn price was. It was trading a couple of cents below my buy stop, so we were golden! About a half-hour later I called the broker back and I was told "Got filled on stop to sell but no fill on buy but it traded through buy price so should be filled on buy." What?! Filled on sell stop first and don't know fill on entry. My heart beat faster and faster. This could not be happening. It never happened on the paper testing.

This was an eye opener for me as I received, a couple of minutes later, my buy stop order fill that was triggered before sell stop trigger. Net was, I went long corn before it reversed and I was stopped out for a loss.

Deflated, confused and sad—all these emotions came out. On my first live trade I learned so much. Over the next few years trading I recalled, many times, the harsh lessons learned about live trading from that heart-stopping experience. Today traders complain if the fill is not made within a second or two!

This event set me on my way to find a better system—something that worked! Never mind that it was only one trade—I had to tinker and make it better right away.

For many years I used every setting on every indicator that was available, as well as combinations of those indicators, in the search for the one unique thing that would help me conquer the markets. However, I always found myself returning to momentum indicators. Looking again at the posted chart and the momentum indicator, current relative strength, I noticed a turn in it before prices; it also formed divergences very well. From that point on most of my technical analysis was on momentum and momentum indicators. Momentum gave me a definite edge and I pursued that aspect of analysis.

Notice the turns and the divergences on figure 1.2 below; this was key for me.

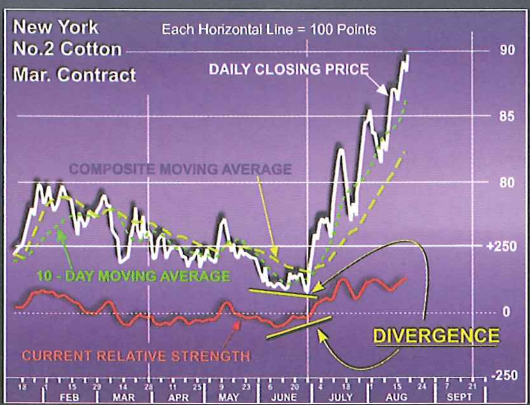
What makes trading the CCI revolutionary?

As a technical analysis junkie, I started to see patterns develop on momentum type indicators. In the late 1970s there were very few books or magazines on trading. And of course there was no Internet available for research. Around this time I came across an article in *Commodities* magazine, currently known as *Futures*, on the Commodity Channel Index, written by a person named Don Lambert.

After reading this article and starting to use the CCI I noticed shapes, or

FIG. 1.2

1981 NO. 2 COTTON WITH DIVERGENCE



- Rising 10 and 40 Moving Averages (MA's) and rising positive
- Rising 40 MA and positive CRS
- Rising 40 MA and positive CRS
- Declining 10 and 40 MA and declining Negative CRS
- CRS crosses zero base line
- Closing price crosses 40 MA after a prolonged move
- 10 MA crosses 40 MA
- CRS indicates if trend is gaining or losing strength
- CRS indentifies strongest and weakest acting commodities

Current charts of 10- and 40-day (composite) weighted moving averages and momentum oscillators for each of 26 commodities.

patterns, showing up on the CCI every day, regardless of what time frame. This is where the revolutionary part comes into play. I found that there was nothing written or documented about the patterns that formed on an indicator. Again, all I could find was information about price bar patterns.

The longer I tested and applied the CCI, the more it showed that the patterns worked with trading, not 100 percent of the time, but with a good probability of success.

I was then faced with creating names for these patterns. There was nothing written about patterns on an indicator so I went ahead and named them myself. I had wanted to find an approach that had never been used or traded before and this was it!

I chose "Ghost" as the name for my first identified pattern because it looked like a ghost, with the head and shoulders raised like a Halloween phantom. Price bars have the "Head and Shoulders" and now we have the "Ghost" on an indicator. It was completely revolutionary compared to what had come before.

The next pattern I tried and tested became known as the "Zero Line Reject" (ZLR). The more time I spent evaluating and trading the ZLR and watching ONLY the CCI the more I realized that the patterns had a psychological aspect. The ZLR showed the "buy the dip" and "sell the pullback" mentality. Everyone tells you to do this—but no one tells you *when* to do this. The CCI ZLR did! From that point on I found that every pattern I developed told a story.

Perhaps you can now see why trading the CCI along with my patterns is ground-breaking. Many people are using it and it has helped a considerable number of traders around the world.

While working with the CCI, I found myself watching only the CCI and not the price bars. This led me to stop monitoring the price bars altogether—along with those mind games they play on all traders. I teach this now to traders, both experienced and those new to trading, and tell them, "We don't need no stinking price bars!" This method was completely new and totally different from standard techniques, and those traders using it discover a big difference in their trading. Trading becomes less stressful and using the CCI allows them to make good trading decisions.

Another factor that is revolutionary to technical analysis with the CCI is the use of the key value lines on the CCI panel. The 100 lines and the zero line will show support or resistance.

Support and resistance signify important points in time where the forces of supply and demand meet. In the trading markets prices are driven down by excessive supply and up by intense demand. Supply equals selling (the bears) and demand equals buying (the bulls).

The zero line is major support or resistance at this time; I mean real time, not projected time. Many things happen around the zero line and if you watch the CCI you will see this. The CCI tells a story and gives great insight as to what is happening. The 100 lines are minor support and resistance and again, by observing the CCI, you will notice this. No other indicator can you show this. Add the Turbo CCI to the trading panel to complete the story of what the CCI can tell you but also note the warnings it will give you. No other indicator has this capacity or can show you what is going on in the trading or investment world. This is the reason that the CCI has proven exceptionally helpful for many traders.

A new, revolutionary way of trading the CCI

Using the CCI is a revolutionary way of trading my patterns on an indicator. The CCI can be used in any market and in any time frame, including forex, the stock market, indexes, futures and commodities.

Many charting packages now have Woodie's CCI patterns incorporated into their charts, and it is being added to others all the time. These include eSignal, Trade Navigator by Genesis, Sierra and Ninja.

There is much written about the CCI and how I teach it, as more and more traders use it. For example, in July 2006, the basic CCI document was downloaded from the Woodie's CCI Club website 38,000 times.

This phenomenal growth in interest in the CCI continues unabated, and many traders are taking advantage of our marvelous website. There is so much to be learned from this ever-expanding goldmine. The information available includes access to the Trading University, which holds more than 10,000 articles on trading contributed by some of the 3.5 million people who have visited the site to gain knowledge and to offer nuggets of wisdom to help their fellow traders, new and experienced – there it is again: "Traders Helping Traders"—our constant mantra.

The CCI comes to life

Donald Lambert developed a fascinating indicator called the Commodity Channel Index in 1979. Don was not a trader but a mathematician and statistician who was brilliant at developing programs for trading. His business, Lambert Programming Service, supplied programs to traders using two calculators, the HP-41 and the TI-59. He was the authorized programmer and distributor for a number of well-known trading system originators.

The CCI can be used in any market and in any time frame.

The CCI was developed to test the computing capabilities of a portable calculator, not to trade with it. In fact, Don has never used the CCI and does not intend to use it. Interestingly, however, he wrote the article for *Commodities Magazine* that I had seen on how he thought it could be applied and traded in the markets.

Don and I have become well acquainted over the years as I have developed patterns on the CCI and grown my own "Traders Helping Traders" business. He has given me a lot of his original work because of the techniques I have created with his indicator. My strategies with the CCI are completely different from what Don originally thought was possible, and he is pleased the CCI is helping traders. Don has delivered excellent presentations at my CCI seminars—he is a great speaker—and I am sure Don will be seen at future CCI events.

I have included much of his work in the following pages, including the article he wrote back in 1980 that piqued my interested in the CCI. That article is still listed today in most charting packages, along with the calculation of the CCI as Don originally did it. Calculations are also listed for those who prefer to use spreadsheets.

There is not much written about the CCI, other than Don's work, much of which has been reprinted here. I will explain and identify the setups that are traded now, which have evolved over the years into something completely different from the strategies and trades of the early years.

COMMODITY CHANNEL INDEX: TOOL FOR TRADING CYCLIC TRENDS

by Donald R. Lambert, October 1980

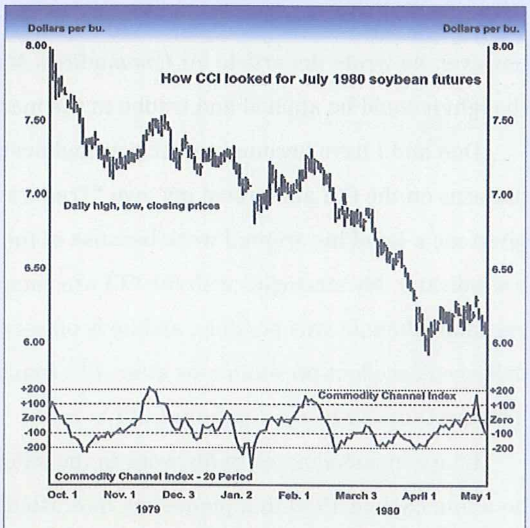
(This article first appeared in Commodities Magazine, October 1980. Reprinted with permission of Futures Magazine, 222 S. Riverside Plaza, Suite 620, Chicago, IL 60606.)

Many commodities exhibit some type of cyclical or seasonal price pattern. But, the commodity trader still faces the problem of detecting when these regular price movements begin and end because climate and other real world conditions may affect their timing.

One method that can help spot these turns is the Commodity Channel Index (CCI), a recently developed index which is somewhat akin to a "standard score" in statistics. The CCI doesn't calculate cycle lengths—you must determine them yourself or rely on an advisory service—but is a timing tool that works best with seasonal or cyclical contracts.

To be useful in cyclical markets, an index must examine current prices in the light of past prices but must not allow data from the distant past to confuse present patterns. For this reason, the CCI uses a moving average rather than an exponentially smoothed average as a benchmark against which to measure current prices.

The comparison of current prices to moving averages



Summary of trading results

Trade	Opening Date	Position	Opening price	Close Trade	Closing Date	Price	Approx. result
A	Oct. 2	Long	$7.90	B	Oct. 3	$7.75	$-0.15
C	Oct. 10	Short	7.62	D	Oct. 26	7.255	+0.365
E	Oct. 29	Short	7.125	F	Oct. 30	7.22	-0.095
G	Nov. 13	Long	7.38	H	Nov. 25	7.44	+0.06
I	Dec. 7	Short	7.18	J	Dec. 12	7.27	-0.09
K	Dec. 31	Short	7.18	L	Jan. 15	7.02	+0.16
M	Feb. 5	Long	7.24	N	Feb. 12	7.18	-0.06
O	Feb. 19	Short	6.94	P	Feb. 28	6.88	+0.06
Q	Mar. 10	Short	6.69	R	Mar. 20	6.62	+0.07
S	Mar. 21	Short	6.52	T	Apr. 8	6.13	+0.39
U	Apr. 26	Long	6.25	V	Apr. 29	6.19	-0.06
Source Donald R. Lambert			Total simulated trading gain				$+0.65

solves one problem by providing a moving reference point. But, it leaves another problem for the trader: while some commodities typically move only a few cents each day, daily moves in others might be hundreds of cents. Rather than develop separate rules to determine each commodity's fluctuations, some standardization technique had to be found.

A very simple solution to this problem would be to divide the difference between the current price and the moving average by the daily limit for the contract, thus producing a measure whose dimension would be contract-independent. But, a final consideration—that a given price movement of a contract will not always have the same significance—rules out the daily limit move as a divisor.

A divisor should adjust to price action. It should be relatively small when prices are oscillating but should become larger when a breakout occurs. In short, the divisor should reflect not only a contract's possible trading range but also the contract's actual

Four steps to calculate CCI

1. Compute today's "typical" price, using high, low and close:

$$X_1 = 1/3\ (H + L + C)$$

2. Compute a moving average of the N most recent typical prices:

$$\overline{X} = \frac{1}{N} \sum_{i=1}^{N} X_i$$

3. Compute the mean deviation of the N most recent typical prices:

$$MD = \frac{1}{N} \sum_{i=1}^{N} \left| X_i - \overline{X} \right|$$

4. Compute the Commodity Channel Index:

$$CCI = \frac{1.5\ (X_1 - \overline{X})}{MD}$$

where
N = number of days in data base
X_1 = today's typical price
X_2 = yesterday's typical price
X_3 = day before yesterday's price
X_N = oldest typical price in database

$\sum_{i=1}^{N}$ stands for the sum of items following the symbol, starting with 1 and ending with N, e.g.

$$\sum_{i=1}^{N} X_i = X_1 + X_2 + X_3 ... + X_N$$

$|\ \ |$ signifies "absolute value"; difference should be added as if all were positive numbers.

CCI action signal points for long trades with 10-day data base

	Commodity cycle length in days				
	30	60	90	120	180
Entry, days after bottom	6	6	6	6	6
% above bottom	34.55%	9.55%	4.30%	2.45%	1.10%
Exit, days before top	0	1	2	2	1
% below top	0	0.25%	0.50%	0.25%	0.05%
Percentage of move captured	65.45%	90.20%	95.20%	97.30%	98.85%

CCI profit efficiency

	Commodity cycle length in days				
Length of data base	30	60	90	120	180
5 days	92.35%	94.60%	97.45%	98.30%	99.25%
10 days	65.45%	90.20%	95.20%	97.30%	98.85%
15 days	43.65%	83.20%	91.90%	95.45%	98.30%
20 days	15.45%	75.00%	87.80%	92.70%	96.75%

recent trading pattern. In statistics, such numbers affected by both the size of data and fluctuations in data are called "measures of variability."

Not by hand

Most current trading methods were worked out by hand originally. But with the availability of low-cost, high-capacity programmable electronic calculators today, systems originators no longer are bound by pencil-pushing limitations.

Using a TI-59 programmable calculator to test various divisors, I chose the mean deviation as the divisor for the Commodity Channel Index. It has never been calculated by hand, and for all practical purposes, cannot be done by hand on a day-to-day basis because of the time-consuming nature of the methods used.

The first two steps are easy—finding each day's "typical price" by averaging the high, low and close and computing a moving average of those typical prices. Step 3 is the most difficult—computing the mean deviation for the number of days desired from the new moving average each day. Once the mean deviation is known, however, you can compute the CCI quickly.

The use of a 1.5 constant in the CCI formula scales the resulting CCI value so 70% to 80% of the random fluctuations fall within a +100% to -100% channel. If the CCI goes above the +100 line, that is a signal to establish a long position. When the CCI drops below the +100 line, the long position is closed out. The same techniques apply to short positions at the -100 line. You can modify the CCI to set your own parameters.

Probably the most critical factor in using the CCI is the choice of data base length. Too short a data base will produce whipsaws as the index interprets daily price fluctuations as being cycle tops or bottoms. Too long a data base, on the other hand, slows response time to such an extent that breakout indications are given later than is desirable.

Comparison studies were done on the interaction of data base length and cycle length for a theoretical "perfectly cyclic contract" (PCC). While the 10-day data base CCI detected cycle tops for various cycle length PCCs well, its ability to detect a breakout suffered for short-cycle length PCCs [see first table on previous page]. Similar studies using 5-, 15-, and 20-day data base CCIs [see CCI profit efficiency table on previous page] suggest the data base should be less than one third of the cycle length to produce a reasonable level of theoretical efficiency.

A rather remarkable result was finding that the CCI always gave for all PCCs an exit signal either at or before the extreme price, never after the extreme price.

While the 5-day data base CCI has the highest theoretical efficiency level for all cycle lengths studied (table 2), it probably would be susceptible to whipsawing. Based on that assumption, 20 days was set as the standard length of the data base in the TI-59 calculator program although any period between 5 and 25 days can be used.

Donald R. Lambert has degrees in mathematics, statistics and accounting and has been teaching these subjects on a private basis for 25 years. Lambert is not a commodity trader himself but runs a programming service from his home in Los Angeles. He is the authorized programmer and distributor for a number of well-known trading system originators.

The following is a letter I received from Don Lambert when I started corresponding with him after reading his article in Commodities Magazine:

Dear Trader:

The Commodity Channel Index is an original development of the Lambert Programming Service. It has never been traded.

Tests on historical data have produced mixed results, since in each case a trader would have to decide whether to use it for trend following or channel trading.

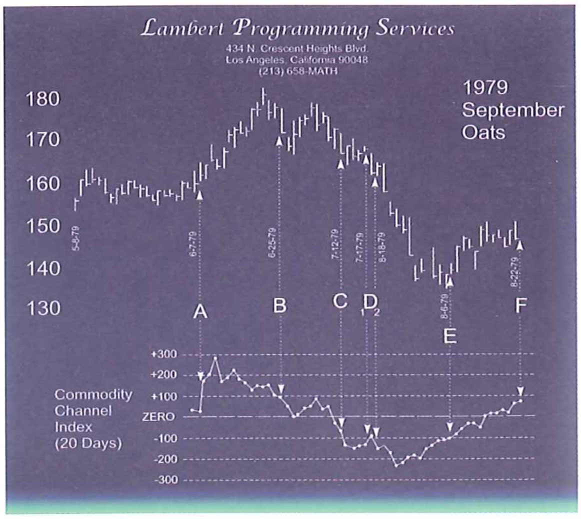
Attached in a graph (September 1979 oats) in which it could have worked for either. I have assumed that the trend follower takes a position when the index passes out of the channel and closes out when it re-enters the channel. The channel trader, on the other hand, was assumed to take a position when the index enters the channel and to close out when it exits the channel. For purposes of this example, 100 and -100 were taken as the channel boundaries. Results, with actions taken on the openings, might have been as follows:

	DATE	ACTION	PRICE	RESULT
Trend Follower:	Jun 8	BUY	162.25	
	Jun 27	SELL	178.50	+16.25
	Jul 13	SHORT	166.00	
	Jul 19	BUY	167.75	-1.75
	Jul 20	SHORT	163.00	
	Aug 7	BUY	139.75	+23.25
	TOTAL (ignoring commissions)			+37.37

	DATE	ACTION	PRICE	RESULT
Channel Trader:	Jun 27	SHORT	178.50	
	Jul 13	BUY	166.00	+22.50
	Jul 19	BUY	167.75	
	Jul 20	SELL	163.00	-4.75
	Aug 07	BUY	139.75	
(end of data base)	Aug 22	SELL	150.00	+10.25
	TOTAL (ignoring commissions)			28.00

As with any system tested only on historical data, actual results could have been far different due to market conditions, and these results do not necessarily indicate future expectations.

Yours for good trading,
Donald R. Lambert



1979 oats, September contract

2

INTRODUCING THE CCI

The psychology of patterns

Each pattern has its own story to tell. By this I mean that each pattern describes what is happening in the market at a particular point in time. I educate traders not to watch the price bars but to watch the patterns being formed by the CCI and learn from the patterns themselves what they are revealing. Basically they tell you what the rest of the "herd" is doing, which way market is moving. Herd mentality is part of the world of traders. Imagine a huge herd of buffalo roaming the Great Plains of North America; it often only takes a couple to get wind of some predator to make the entire herd stampede in one direction or another. This is just the way of the trading world.

The CCI is a momentum indicator that measures the acceleration of prices over a period of time. This measurement describes what is happening with the movement of the vehicle being traded.

The CCI is a momentum indicator that measures the acceleration of prices over a period of time. This measurement describes what is happening with the movement of the vehicle being traded. Each story is created by the patterns being formed on the CCI. These patterns form over and over again on a consistent basis.

As a trader trading with the CCI this story can be translated into a trading decision. By understanding what each pattern is telling you, you can make an effective decision when to enter and when to exit the market using the patterns as a guide.

Each pattern will explained here, along with exactly what story that pattern describes, with the sure knowledge that it will help traders trade their own strategic plans.

The CCI trading system platform

Along with the help of many "traders helping traders," I have designed a trading panel upon which the CCI patterns can be observed developing, giving you, the trader, signals as to when to enter and exit trades in line with your trading plan and the CCI patterns.

This trading panel was created with five "value" lines upon which the patterns, in the form of histograms, develop in real time with the various markets. Different colored dashes stacked upon these value lines and different colored vertical bars within the histograms give you warning as to what is about to happen in that particular market.

If you are a new to the trading business I always recommend that you stick with one pattern, learn its quirks, follow it and keep stats on it until you can recognize it and the nuances that lead up to it on any chart. This will help you become a successful trader.

CCI zero line

The zero line is shown as a single yellow horizontal line in the center of Woodie's trading panel. This is the line by which all Woodie's CCI system trading patterns are defined. The zero line shows major "support and resistance" at this moment in time, which means that it does not represent a forward-looking projection of where support and resistance will be in the future but what is happening at this precise moment in time.

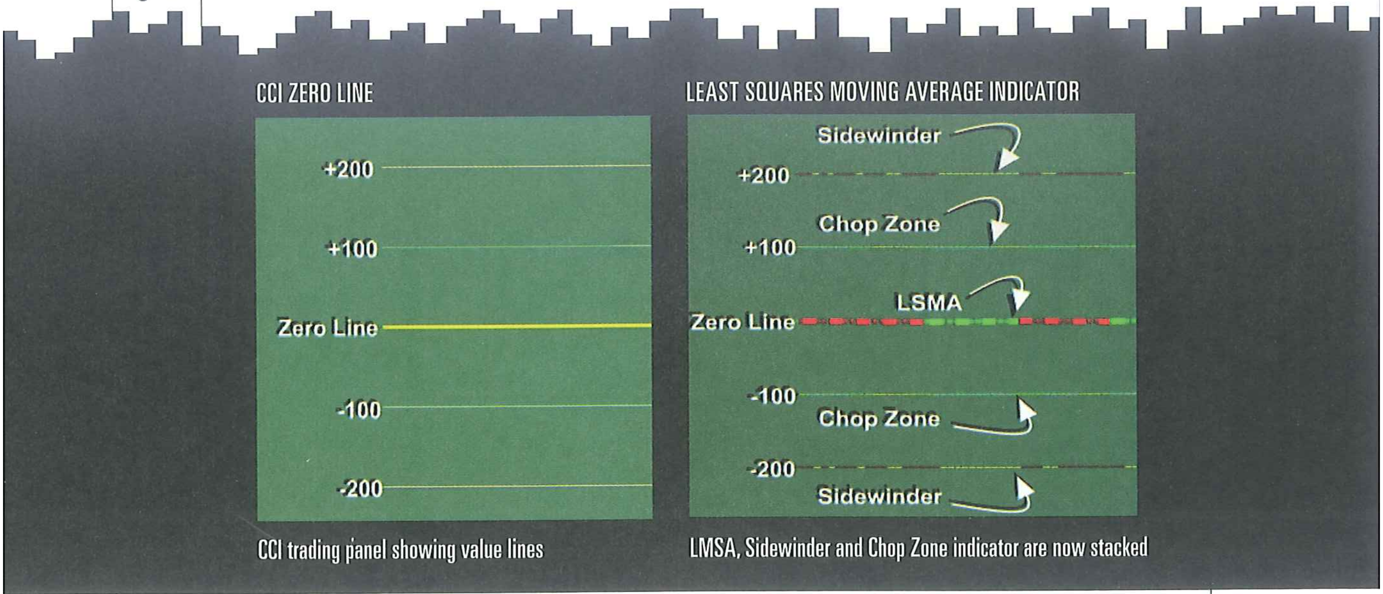
This line is the axis of all CCI patterns and will be tested and crossed several times during the trading day. It is important to pay attention when the CCI line crosses the zero line.

CCI value lines

Four other lines are to be found on the trading panel and these are known as the CCI value lines (see figure 2.1 below).

Light blue lines appear above (+100) and below (-100) the zero line and are known as the "100 lines" and white lines above (+200) and below (-200) which are known as the "200 lines."

Fig. 2.1



CCI trading panel showing value lines

LMSA, Sidewinder and Chop Zone indicator are now stacked

The +/-100 lines show minor support and resistance in the market. The +/-200 lines indicate extremes which point toward the market being overbought or oversold.

Least Squares Moving Average (LSMA) indicator

It is on this zero line that a series of red and green segments appear. These segments show the 25-period Least Squares Moving Average (LSMA). When these segments on the zero line show up as green this means the market price is higher than the LSMA. When they show as red it means that the market price is below the LSMA. The LSMA is also known as the "linear regression curve." The LSMA is used to confirm trade patterns and exiting positions.

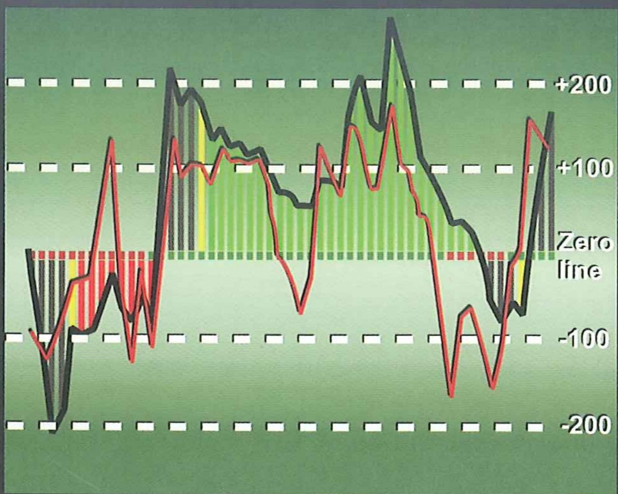
Sidewinder and Chop Zone indicators

The Sidewinder and Chop Zone indicators are designed as a revolutionary way of trading and are plotted on top of the CCI +/-100 value lines and the +/-200 lines.

Both the Sidewinder and Chop Zone indicators are color coded to allow the trader to REACT by their sense of sight. These are unlike all other indicators, as there are no numbers to look at and no lines crossing. Colors are the primary way of reading the indicators. Both the Sidewinder and Chop Zone indicators are used as nuances for the ZLR (ZLR) trade only at this point.

Fig. 2.2

A TYPICAL CCI PANEL



The CCI patterns are always shown as histograms made up of vertical gray lines bordered by heavy black lines. The thin red line shown denotes the Turbo CCI.

Using the Sidewinder, the three colors are red, yellow and green. The red color indicates no trend strength, while the yellow color shows a trend developing and the green color shows a strong trend. The Sidewinder shows trend strength both up and down. On the ZLR you must have yellow or green printed, which is plotted on the 200 lines on Woodie's trading panel.

The Chop Zone is also color coded. The key colors for this are cyan (turquoise) and brown. Cyan showing for three bars or more indicates an up market, and brown showing for three bars or more indicates a down market. Multiple colors indicate a sideways market or consolidating market. This indicator is plotted on the 100 lines on the panel. The three-bar rule is important.

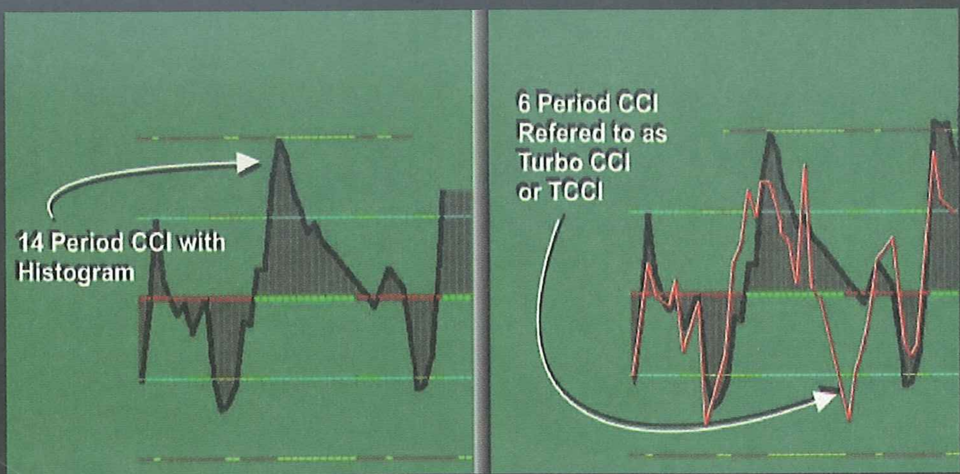
Both indicators must be used together along with ZLR nuances on the CCI, as one shows direction (Chop Zone) and the other shows strength (Sidewinder). All nuances must agree, along with the nuances of the ZLR. If only one agrees, then a trade should not be initiated. How they are coded is not important but applying them correctly is critical. Both are mathematically correct.

These indicators, once again, allow the trader to use their physical faculty of sight to recognize what is happening in the market at that point in time.

I would like to thank both Earl Zausmer and Bernie Schoch, who put them

Fig. 2.3

TWO EXAMPLES OF TYPICAL CCI CHARTS



CCI settings of 14 are used for charts up to 60 minutes, and a 6-period CCI is used for the Turbo CCI.

together for me so that we could help other traders with this trade, keeping up with our theme of "traders helping traders."

CCI histograms and settings

The CCI patterns are always shown as histograms that start with vertical gray lines bordered by a heavy black line. These histograms turn into different colors as the market trend changes. Green bars indicate an uptrend, red bars a downtrend and a yellow bar, as the fifth bar after four gray bars, warns of a new trend being established (see figure 2.4 below).

The CCI settings of 14 are used on all the charts up to 60 minutes and a CCI setting of 20 is used for all charts 60 minutes or above.

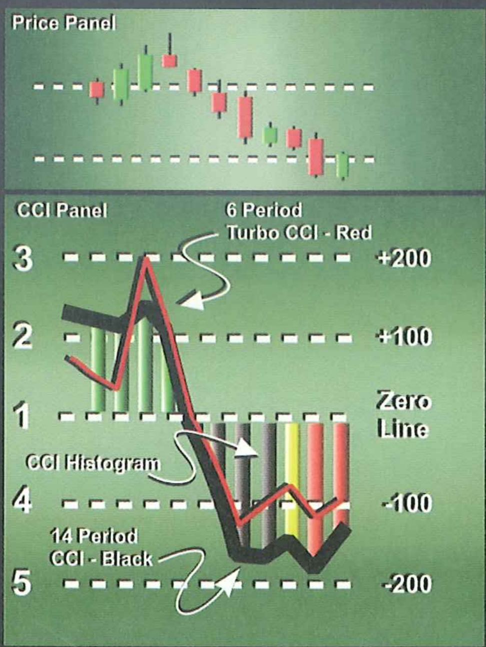
The CCI can be used on all charts: tic, volume, range, daily and weekly. They can be applied to any trading vehicle, such as indexes, stocks, commodities and forex.

The Turbo CCI has a setting of six and registers on the trading panel as a thin red line.

All of the CCI patterns in all trading vehicles, as mentioned before—indexes,

Fig. 2.4

CCI PANEL WITH PRICE



- Line #1 is the zero line and has the 25-period Least Squares Moving Average (LSMA). On this LSMA red dots signify the prices below and green dots signify prices above the line.
- Lines #2 and #4 are the +/-100 value lines. Woodie's Chop Zone indicators (CZI) are plotted upon these lines.
- Lines #3 and #5 are the +/-200 value lines. Woodie's Sidewinder indicator (SW) is plotted upon these lines.

stocks, commodities and forex—are defined around the zero line. All of the charting packages offering the Woodie's CCI trading system have the same layout.

CCI extremes

The market is said to "go to extremes" when the CCI line passes above or below the + or –200 value lines. These value, or support and resistance, lines initially show up as white lines on the CCI platform, as shown on the previous charts, with the Sidewinder Indicator stacked on top (see figure 2.5 below).

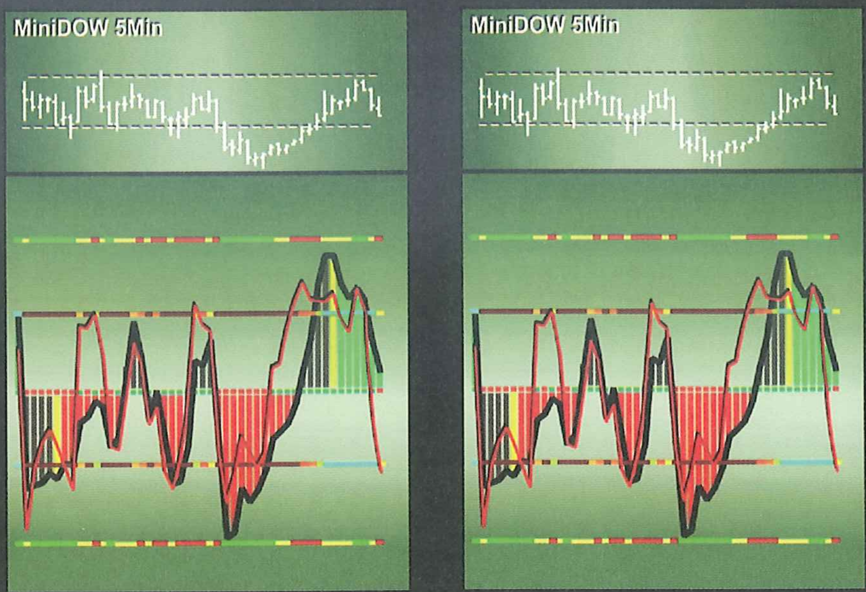
The +/-200 lines indicate extremes which point toward the market being overbought or oversold. When the CCI line has continued past the +/-200 line (gone to extremes) and then reversed back toward the zero line, this is known as "hook from extremes."

CCI angles

When working with the CCI the angle of return on the CCI line is important. A

Fig. 2.5

CCI GOES TO THE EXTREMES



The CCI breaks through the -200 line with the EuroDollar FX.

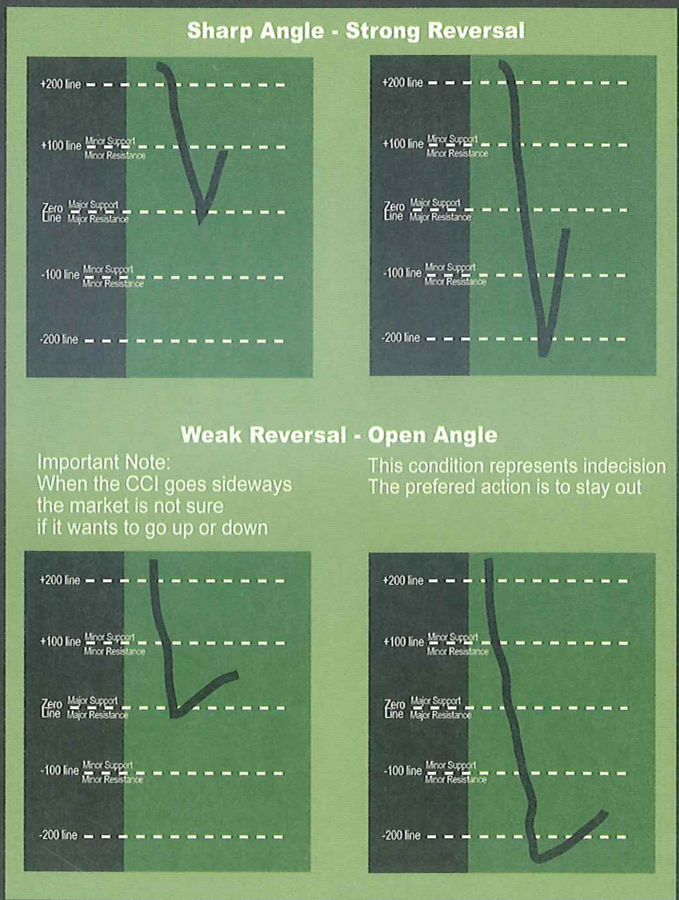
The CCI breaks through the -200 line with the mini-sized Dow in this example strong reversal after heavy selling with some buying creates the angle and shows momentum. Because this is a momentum indicator, you would expect the indicator to be "momentuming." Conversely, a weak reversal will show up as a flattened angle with little conviction of movement (see figure 2.6 below).

A good angle, for instance, is important with the Tony Trade; the CCI should then cross back over the zero line at an acute angle. However, it should be noted that the sharpness of the angle does very much depend upon the scale of the charts. The angle is the inverse tangent of the amount of vertical deviation, or tics, over the amount of bars.

It is a good idea to look at angles over a long period of time in your stats, which

Fig. 2.6

CCI ANGLES



A strong reversal after heavy selling creates the angle and indicates momentum. When the market is overbought or oversold, has "gone to extremes," passes through the +/- 200 value lines and then reverses back up sharply, it is also known as a "hook from extremes." A wide open angle indicates is hesitant about where it will move next, and you should think of staying out of the trade opportunity.

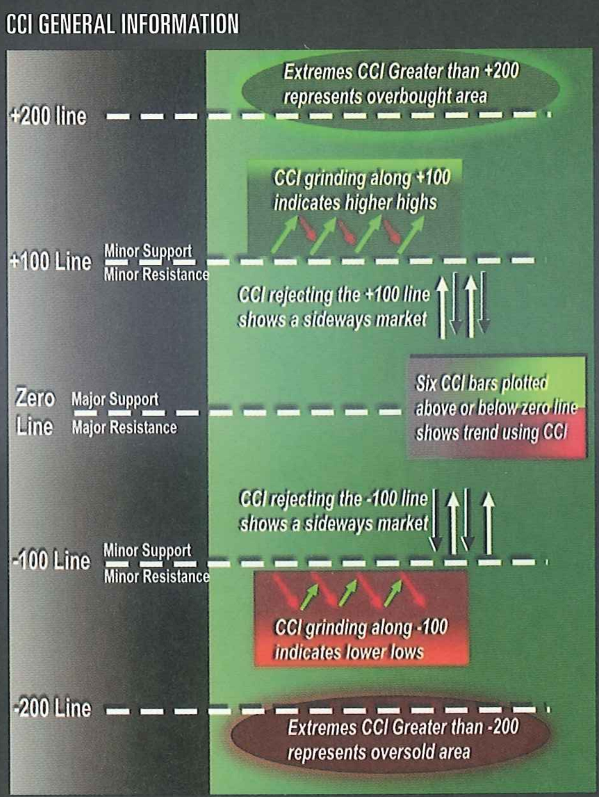
will give you greater confidence recognizing a good angle in relation to the scale of your charts and knowing the minimum slope needed for various patterns.

Turbo CCI (TCCI)

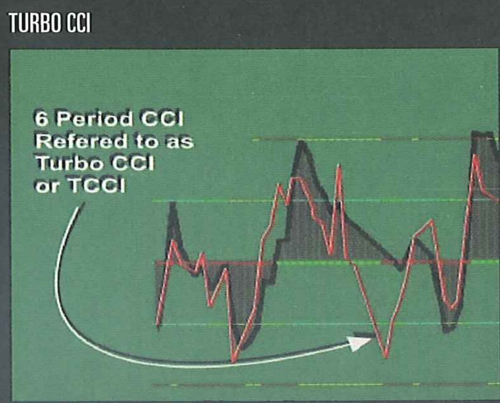
There are two indicators used in Woodie's trading panel: the first is the CCI 14-period mentioned earlier, shown as a heavy black line on the trading panel. The other is the CCI six-period, and is designated the Turbo CCI, or the TCCI. The TCCI registers on the trading panel as a thin red line (see figure 2.7 below).

The TCCI is used for two reasons:

Fig. 2.7



Recognising what CCI movements indicate will help your trading.



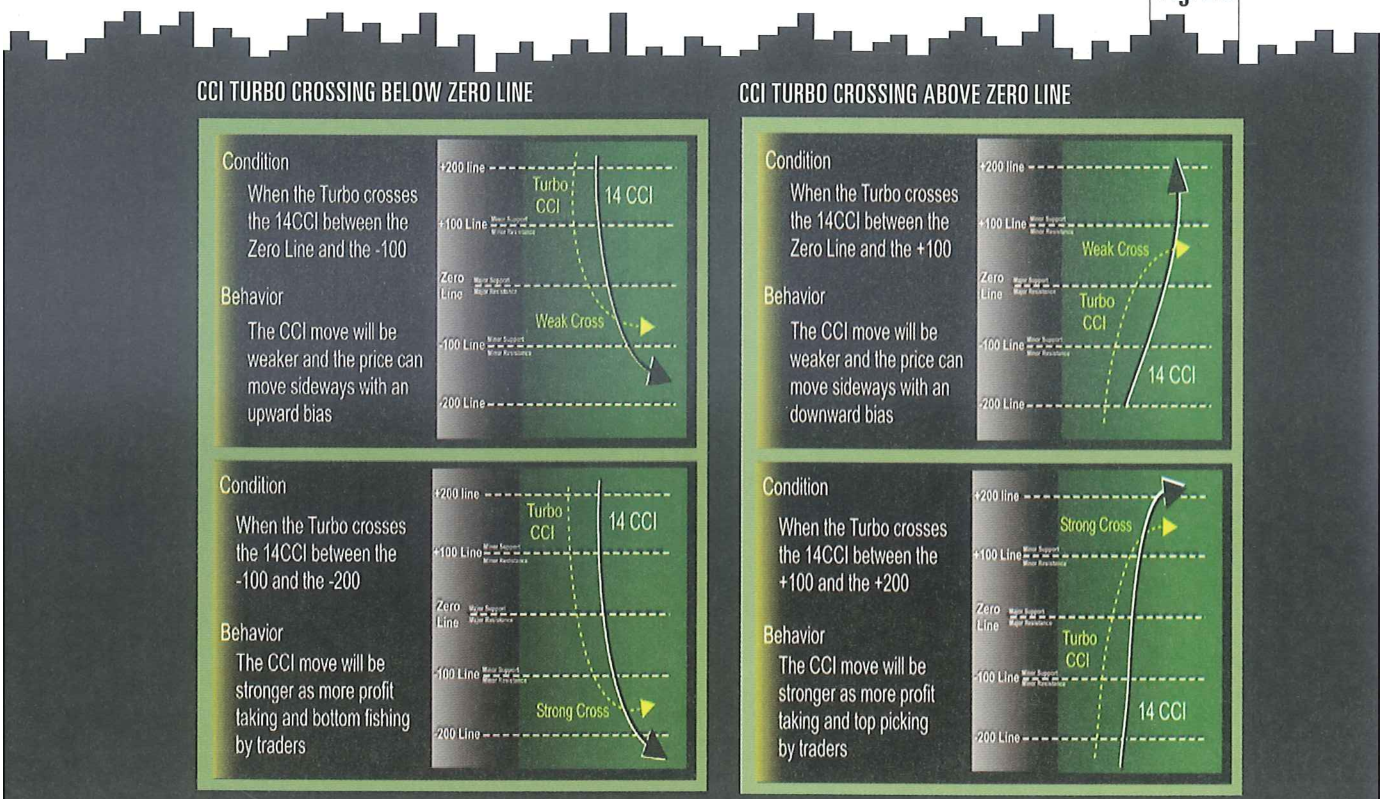
The thin red line on the CCI panel displays the movement of the Turbo CCI.

1. It gives warning when, after a move, it hooks inside the 14 CCI. This warning says that prices will go sideways to an opposite bias. However, we do not know how much or how far. This is an area that those trading multiple contracts will exit some positions. It is not used for entries or in the use of patterns. It is popular because it is the only indicator that provides a heads up. Again, this is completely different from what has been written or used in technical analysis to the present date.
2. It can be used to draw trend lines and in combination with the CCI to draw trend lines on the CCI indicator. This helps because trend lines can be drawn on the CCI in areas where you are looking for patterns.

Trend

The trend is defined as six consecutive bars above the zero line or six consecutive bars below the zero line. This establishes the trend regardless of what chart time frame is being used.

Fig. 2.8



The Turbo CCI is used in the drawing of trend lines and is considered a warning that a pattern might be occurring.

If the CCI trades on the other side of the zero line the trend has not changed until six bars have printed. We do not use any other method to establish the trend—no moving averages are used nor are larger time frames or price bars used. We do want traders to trade with the trend, especially new traders. When the fifth bar on the trading panels is yellow, this gives traders the heads up that the next bar will set the trend (see figure 2.9 below).

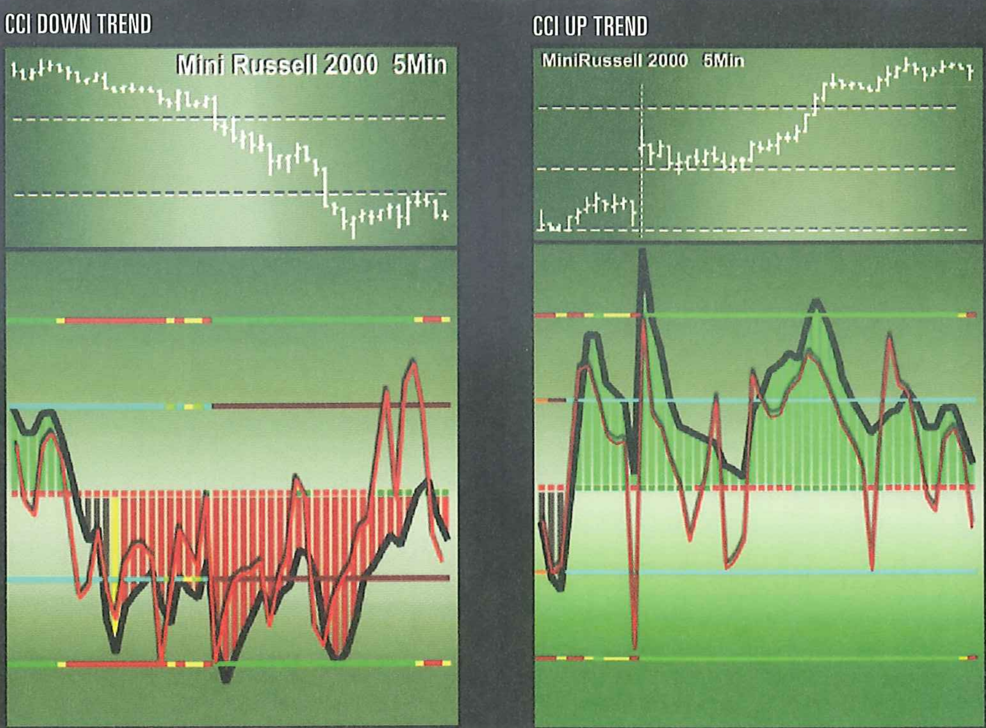
The trading panel can be downloaded from twelve charting packages that are accessible through our bulletin board on the website. More and more charting packages are making our information available to their traders every day.

If you are new to trading, I recommend that you trade with the trend and not use the trend-changing patterns we discuss until you have learned to trade the trend patterns first.

Trend patterns include the ZLR, the Trend Line Break, the Tony Trade and the GB100.

Trend-changing patterns, including the Famir, the Vegas Trade and the Ghost Trade, should be used by more advanced traders.

Fig. 2.9



Red-colored CCI histogram bars below the zero line show the down trend.

Blue/green-colored bars indicate an up trend.

3

PATTERNS ON THE CCI

I will explain each of the patterns that form on the CCI in the following pages. Charts are included to help illustrate the patterns on the CCI. Beginning traders are strongly advised to stick with these patterns and practice them rigorously on a demonstration trading platform until they feel they can recognize the patterns easily and feel confident that they understand all the skills, rules and nuances necessary to trade in a live environment.

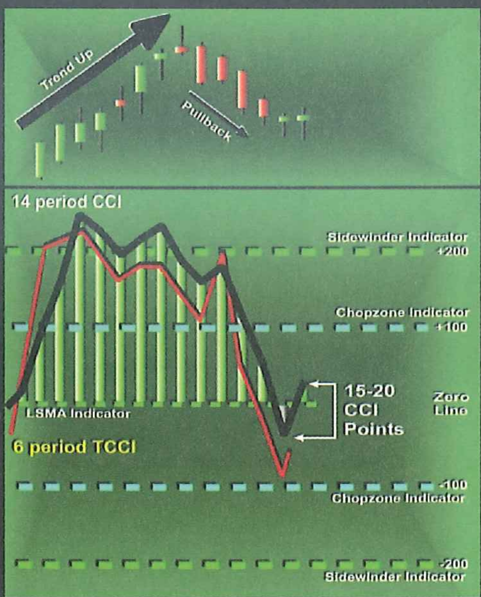
Trend-agreement trade patterns

Trend-agreement trade patterns, or trend-continuation patterns, as they are otherwise known, are trade patterns that are in agreement with the established trend. The following patterns are examples of trend-continuation patterns:

1. Zero Line Reject
2. Trend Line Break (TLB)
3. The GB100 (GB)
4. The Tony Trade (TT)

Fig. 3.1

ZLR LONG: THE SETUP



- The CCI must have six bars above the zero Line
- The Chop Zone indicator must have three bars or more of cyan color
- The Sidewinder indicator must be yellow/green color
- The CCI must have gone above the +100 line
- The CCI must then come back within the +100 line
- The CCI must hook up at a good angle and have a long hook up 15-20 or more CCI points on the 14 CCI

Once these conditions are met the setup is in place.

The trigger is the bar close or 20 to 30 seconds to bar print for the more aggressive trader. If the signal bar closes outside of 120 do not chase the trade, so if this is about to happen you may want to wait until bar close. The psychology of this pattern is to "buy the dip."

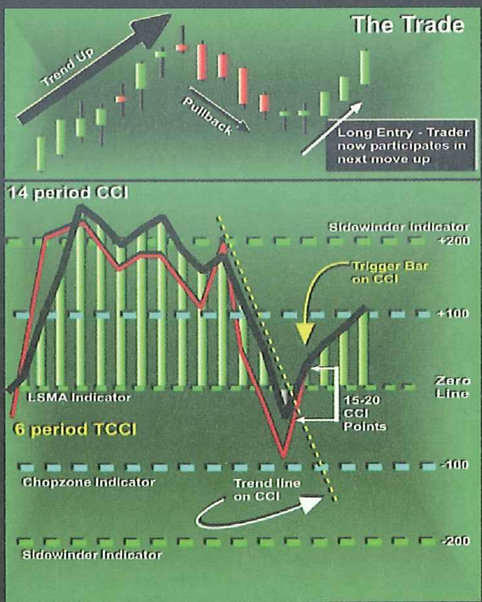
Zero Line Reject

This pattern is a trend-continuation pattern that is particularly recommended for beginners. The conditions needed to recognize a ZLR pattern or set up on the CCI is to see a trend established with the required minimum of six bars above or below the zero line, reaching at least the + or –100 line. These six bars validate the trend. On the trading panel, when the fifth bar shows as a yellow color, it will give traders the heads up that the next bar will set the trend. The bars in a long trade will then turn green or, if it is a short trade, they will turn red.

A ZLR long trade must have six bars above the zero line and a ZLR short trade must have six bars below the zero line (see figure 3.1 on the previous page). At some point on these six bars the CCI line must have reached at least the +/-100 value line and then have travelled in the opposite direction to the established trend to below the +/-100 line or just through the zero line. I, personally, always wait until it crosses

Fig. 3.2

ZLR LONG: THE TRADE



The psychology of the ZLR is "buy the dip" and "sell the pullback."

- The CCI hooks up at a good angle as described in chapter 2.
- Apply all nuances listed in the setup.
- The CCI can be below the zero line for five bars but not six, as that indicates the start of a new trend.
- This trade can be applied to any time frame or chart setting.
- Entry depends upon what type of trading style you practice: aggressive, moderate or conservative.

back over the zero line; I really don't feel it has rejected until it crosses back over.

During this time the Sidewinder Indicator must be colored yellow or green and the Chop Zone Indicator must have three or more cyan bars showing for a long trade, or three of more brown bars for a short trade.

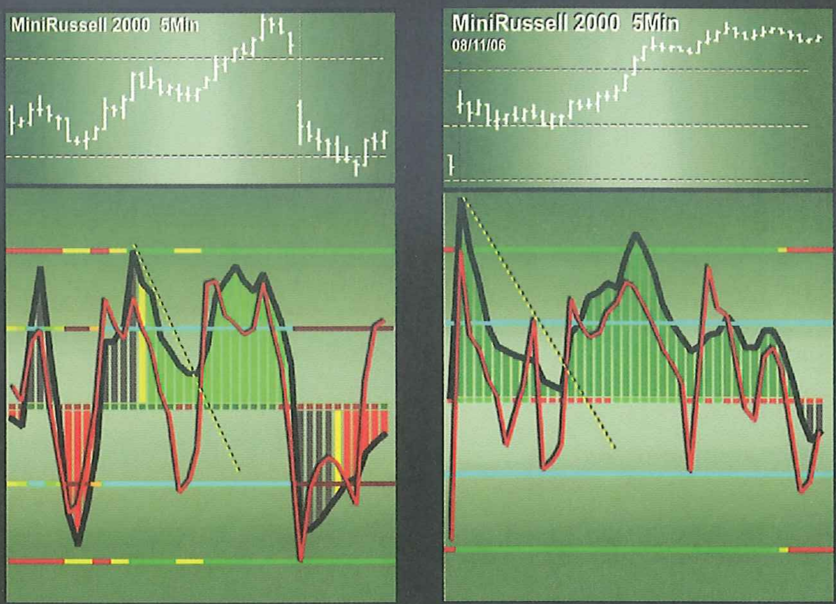
The CCI line must then reverse back (this is also called "hook up") in the direction of the established trend. It is important that the angle of the hook up is at least 15 points on the CCI line.

Once these conditions are met, a set up is in place. You have recognized a ZLR. Congratulations! I will cover executing a trade once all four trend-continuation patterns have been explained.

One additional consideration, if the signal bar closes outside the CCI +/-120 levels, do not chase the trade as this is a sign of an overbought and oversold market. And keep in mind, a trend does not change until you have a minimum of six bars above or below the zero line.

Fig. 3.3

A ZERO LINE REJECT LONG TRADE



ZLR long trade must have six bars above the zero line and have reached at least the +/- 100 lines.

A word to the wise with ZLRs: Buy the dip and sell the pullback! Many traders are told to "buy the dip and sell the pullback" but not exactly when to execute this. It has been left up to the trader to enter when he or she feels the time is right. This, however, can cause immediate loss or drawdowns as it is all a discretionary entry.

This is where the ZLR pattern comes into play. It tells you when it is time to "buy the dip" or to "sell the pullback." The CCI is measuring when buying is coming into the particular market being traded—time to "buy the dip!" It also shows when selling is dominant so the trader can "sell the pullback." You will help your trading by reading and understanding the ZLR. There is no other indicator that can give you this great advantage in trading or investing. Although, as we all know, nothing is 100-percent certain in the world of the financial markets!

The CCI is measuring when buying is coming into the particular market being traded—time to "buy the dip!" It also shows when selling is dominant so the trader can "sell the pullback." You will help your trading by reading and understanding the ZLR.

Trend Line Break (TLB)

This trend-continuation pattern can be either a trend in agreement with the current trend or a trend-changing pattern. Figure 3.4 on othe following page shows examples of trend agreement.

A TLB with the trend is a line that shows when support or resistance is broken and a move can be expected back with the previous trend. When drawn on the CCI indicator it shows, the majority of the time, a break before a trend line on prices appears. This is why we draw them and what gives us the advantage ahead of the herd.

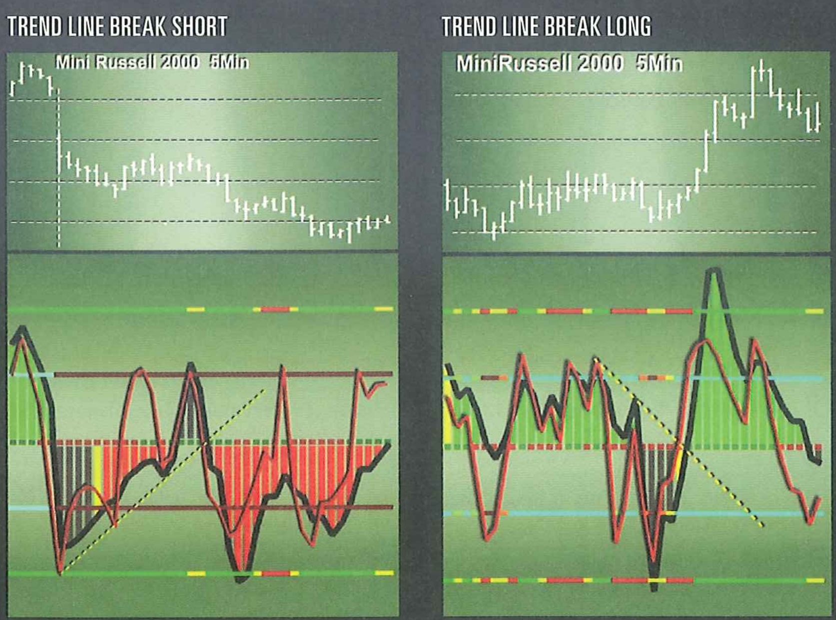
When constructing a trend line it must originate at the peak of the CCI above or below the +/-100 line, although it is better if the peak is above or below the +/-200 line. This trend line must touch the CCI in at least two places—in fact, the more times it touches the CCI line the stronger a signal it becomes. The TCCI can be used when creating a trend line and often creates a sharper trend line, but I do favor the CCI line itself. Drawing a trend line is an art and following these guidelines along with plenty of practice will help you immensely.

When the CCI line crosses the trend line a trade is signalled and the closer the actual TLB is to the zero line the better.

The TLB is usually a confirmation of a ZLR, but not necessarily—it does stand on its own as a trade signal. However, when more than one of our patterns are in agreement there is a higher probability of success!

A TLB with the trend is a trend trade, the trend being six bars above/below the zero line as outlined in the piece about the trend using the CCI. The following charts show this and the second chart shows a trend line break with five bars below the zero line—as long as there are not six bars it is still with the up trend.

Fig. 3.4



The trend line must "touch" the CCI in at least two places, and the TCCI also can be used when constructing a trend line.

GB100 (GB)

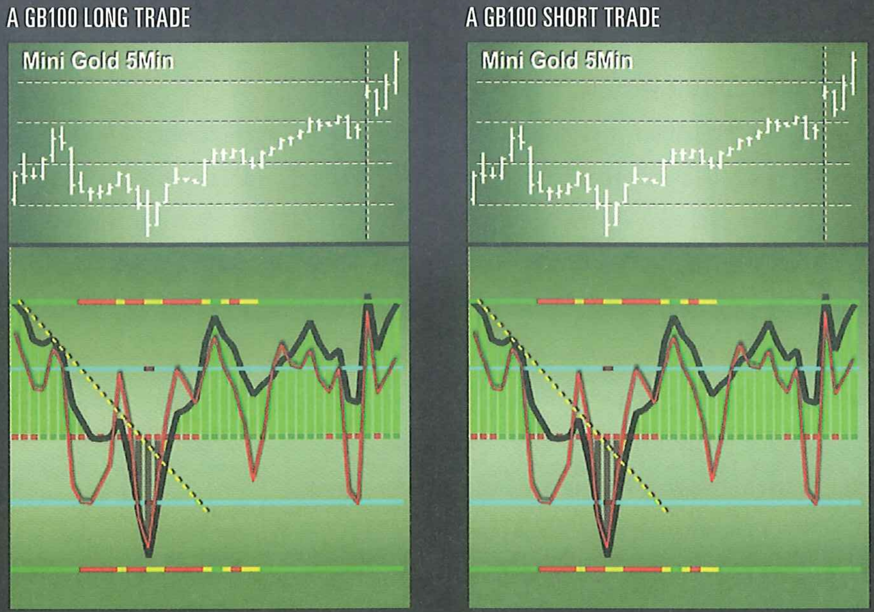
This next configuration is also a trend-continuation pattern and is another pattern recommended for novice traders. The GB100 is named after a longtime trader in the chat room, GB007.

The GB100 pattern is "the ZLR that went too far." It is a ZLR that continued on past the zero line and then on past the +/-100 lines in the opposite direction to the trend and then decides to return back to the original trend, showing an acute angle on the return.

It has all the same psychological aspects of the ZLR, however some of the nuances change: with the GB100, as the 100 line is such a strong support and resistance line, two things are slightly different to the ZLR:

1. The CCI line has to break the trend line.
2. The CCI line has to come back through the 100 line.

Fig. 3.5



For a trade to be called a GB100 there must be a Trend Line Break and the pattern must be triggered before six bars are printed.

To be a GB100 there must be a TLB and the pattern must be triggered before six bars are printed. See the example chart on the previous page.

A good signal that a GB100 is likely is when the Chop Zone Indicator shows a long line of cyan (long)/brown(short) color for a good period of time. This signifies that any moving average will have a good slope up/down. The Sidewinder, in this case, does not have to be in agreement.

If you have decided to trade a GB100 you should enter the trade when the ZLR hooks back up, once it has crossed the +/-100 line with a sharp angle on its way back. A GB100 must trigger before the CCI prints the sixth bar. It should then continue back up to the original trend, through the zero line, and onward past the +/-100 line, which is where you should exit the trade.

Figure 3.5 on the previous page shows both a long and a short GB100.

Tony Trade (TT)

The Tony Trade is named after Tony Holden, or TonyUK as he is known in the chat room. Tony manages the Woodie's CCI Club website and is the technical director at all our seminars and Trade-a-Longs. He puts in countless hours sorting out the technical problems of the site for me and for a large number of individual traders who need technical support on the website.

What makes this pattern special is that the CCI is a momentum indicator and the TT shows this perfectly. The pattern is formed by a lack of momentum after a prior trend has been in place. The pattern is shown by the histogram of the CCI going above/below the zero line for at least four bars, and no more than nine bars, but none of the bars have the momentum to go above/below the +/-100 lines. This shows a real lack of interest in the opposite direction of the previous trend when the CCI cannot even make the +/-100 lines.

To confirm this pattern as a TT you should look for other CCI patterns within the configuration of the TT—for instance you might see a Ghost, which is a trend-changing pattern that you will learn about in a later chapter.

To use the TT, there must have been a preceding trend. The CCI should then cross the zero line for a minimum of four bars, or a maximum of nine bars, none of which will have gone above/below the +/-100 lines. The CCI should then cross back over the zero line at a good angle. Angles are very important when you trade the CCI. This is where I would enter the trade.

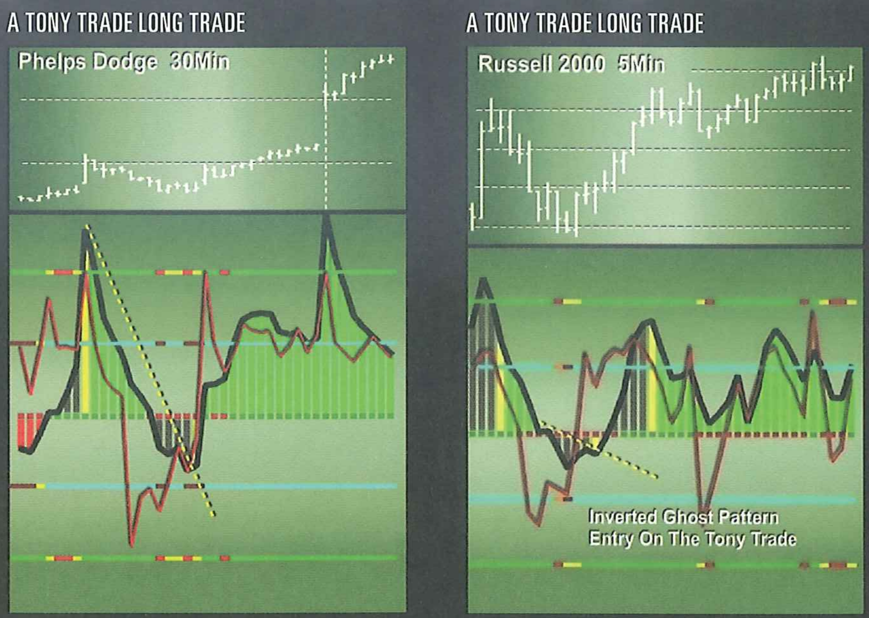
A trader can be aggressive with this trade as it is with the trend and there is a lack of momentum to establish a new trend. I do expect movement after crossing the zero line to be aggressive.

The CCI should continue to move in the direction of the preceding trend, hook over and, once the CCI has crossed back over the +/-100 line, the trade should be exited.

There are some clues to watch out for in the TT:

- There will be a solid cyan line on the Chop Zone Indicator located on the +/-100 lines.
- There should be a solid green line on the Sidewinder Indicator to be found on the +/-200 lines. If the Sidewinder Indicator is not solid green then it means there is not a lot of interest in buying.
- There is a trend line break.
- There are between four and nine bars opposite to the current trend, none of which have gone above/below the +/-100 lines.

Fig. 3.6



A Tony Trade is confirmed when there has been a prior trend that crosses the zero line for a minimum of four histogram bars and no more than nine, none of which have gone above/below +/- 100 lines.

You should look out for other patterns to confirm the trade. A trader can be aggressive with this trade as it is with the trend and there is a lack of momentum to establish a new trend. As I say, I do expect movement after crossing the zero line to be aggressive. Figure 3.6 on the previous page shows examples of long TTs. This Woodie pattern appears on all trading platforms.

Trend-changing trading patterns

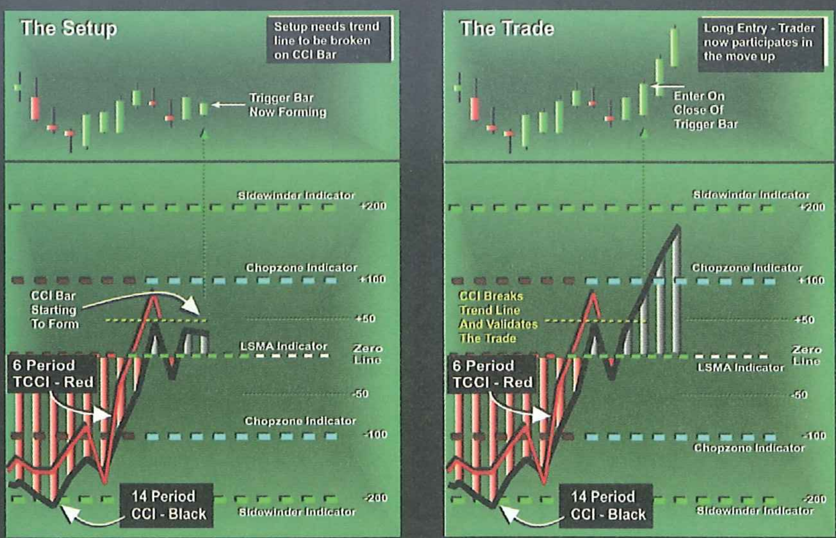
Another unique aspect of trading the CCI and the patterns is the existence of trend-changing patterns. In the world of technical analysis there are trend and counter-trend trades. Because the CCI is a momentum indicator, the patterns develop when more buying or selling occurs, showing that a trend change is possible. Hence, the trend-changing patterns. These patterns occur in a counter trend area, but as I describe, they show the trend change possibly coming. This is one of the revolutionary aspects of trading the CCI—you won't find it written about anywhere else but here.

Trend-changing patterns include the Famir Trade, the Vegas Trade and the Ghost

Fig. 3.7

FAMIR LONG: THE SET UP

FAMIR LONG: THE TRADE



The Famir is a trend-changing CCI pattern.

Trade. I strongly suggest that these indicators should only be used by more advanced traders.

1. The Famir Trade
2. The Vegas Trade
3. The Ghost Trade
4. Horizontal TLB

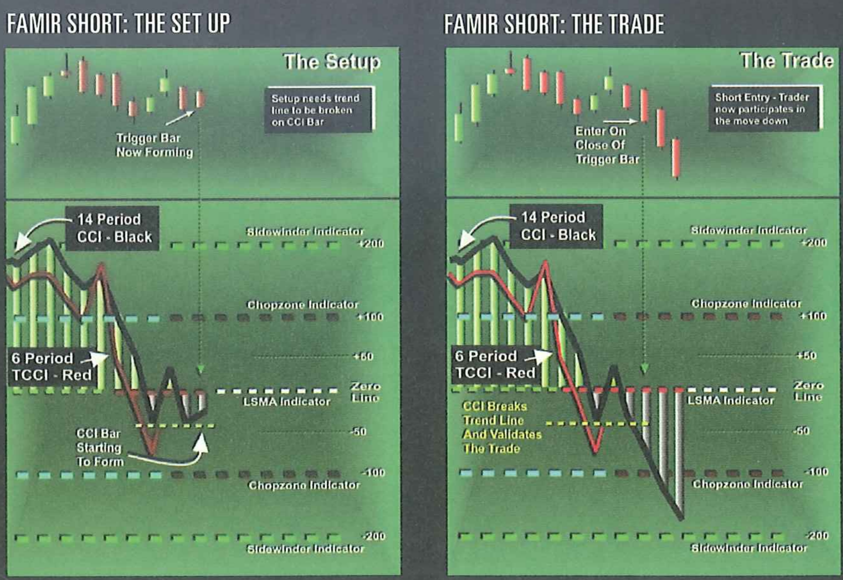
The Famir Trade

The Famir pattern is named in honor of a very dear friend of mine, Dr. Famir.

It is a pattern that tests and retests the zero line—thereby testing and retesting support or resistance. The Famir could be deemed a ZLR or a Double ZLR! The zero line shows major support and major resistance and if this testing of the zero line fails, then a Famir pattern is developing and can be traded. As with the ZLR pattern, the Famir has the most success within the +50 and -50 limits.

As I have said, the Famir Trade is not a trade for the beginning trader. Stick with the trend-continuation patterns until you are truly confident with your trading

Fig. 3.8



The Famir tests and retests the zero line. The LMSA will be colored red with a short Famir trade.

techniques. Having said that, for you advanced traders, the Famir is one of the most prolific patterns with a high probability of success.

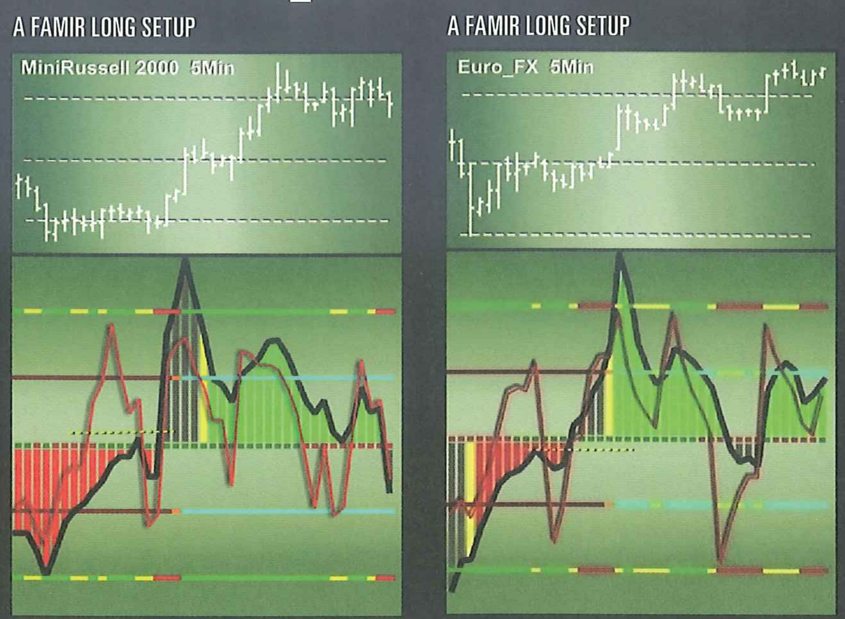
A Famir pattern often develops after another trend-changing pattern, such a Ghost or a Vegas trade.

So, with a Famir pattern, the 25-period LMSA must be in agreement with the trade—that is, if it is a short trade the LMSA will be colored red and if it is a long trade the LMSA will be colored green. All movement must take place within the +/-50 area as this gives strength to test and retest the zero line.

The up or down trend must be above or below the zero line for more than six bars. I think that no more than four or five bars works best and I will not take a Famir if the LMSA is not in agreement. There must be a ZLR and a retest with a sharp return angle.

The trigger I prefer for the Famir is the taking out of the zero line. The exit should be as the CCI crosses the +/-100 lines.

Fig. 3.9



The ZLR must be within the CCI 50 lines, with the LMSA showing green for a long Famir trade.

Hints that show this is a trend-changing pattern are:

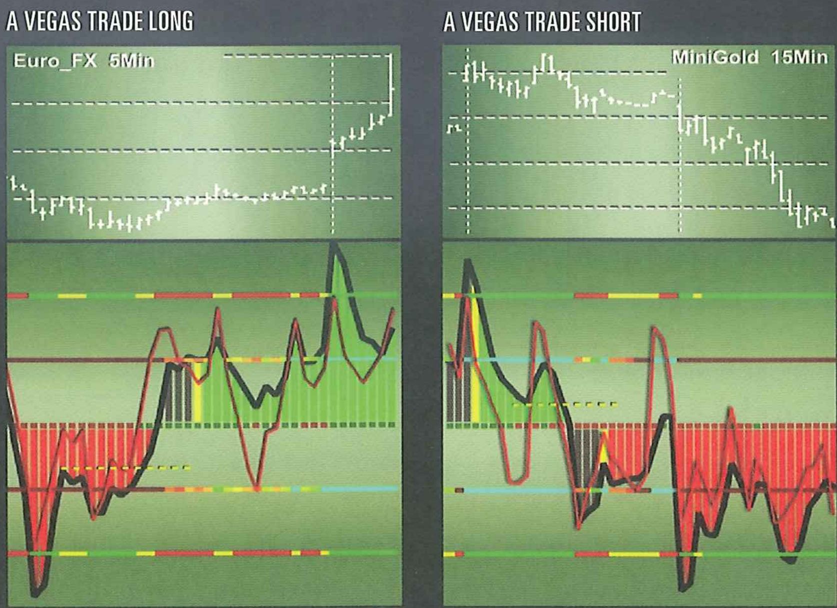
- A solid brown Chop Zone Indicator that suddenly changes to light brown and/or a good strong down trend with a green Sidewinder Indicator suddenly changing to yellow.
- A possible ZLR without enough CCI points to be a ZLR that we would take.
- The Sidewinder Indicator showing red indicates prices below.
- The angle of the CCI.
- A reject zero line within the +/-50 lines that is not necessarily the zero line.

Vegas Trade (VT)

The Vegas Trade is a trend-changing pattern that was released at a Las Vegas Trade-A-Long in 2004.

The Vegas configuration develops after the CCI line has extended up to, or past, the +/-200 line in agreement with the trend. This is known as "going to extremes." On the CCI this indicates that the market is either overbought (long trades) or oversold

Fig. 3.10



The Vegas Trade forms a "rounding" or sideways action, which is called the "battle of the bulls and bears."

(short trades). Once the CCI goes to extremes, profit taking comes into play and also "bottom or top picking" traders enter the fray.

When traders are unable to make much headway they will start buying or selling out, which, in turn, forces those with longs or shorts to cover their trades, which drives the CCI to take out prior swing high/swing low thus triggering the entry into the VT.

OK, as they say in Vegas, "Showtime!" The VT is another of our trend-changing patterns and has a few significant basic principles.

The CCI line must have continued past the +/-200 line (gone to extremes) and then reversed back toward the zero line (otherwise known as "hook from extremes") retracing to at least the +/-100 line.

Having done this, the CCI creates a "swing high" or "swing low," depending on whether you are long or short, and then forms a rounding, or sideways, action, with a minimum of three CCI bars with the fourth bar breaking and a maximum of 10 CCI histogram bars. This is caused by the "johnny-come-lately," who missed the initial move, jumping on the bandwagon and trying to push the market either up or down. This is called, "the battle of the bulls and bears."

This sideways action can appear as cup shaped (with a long VT) or dome shaped (with a short VT), consequently the designation "rounding," or as peaks and valleys, and it tells us that there is a high probability that this will be a Vegas pattern (see figure 3.10 on page 45).

This pattern will become valid as the CCI line turns back toward the zero line and crosses the horizontal trend line drawn off the swing high/swing low points.

There are several clues that will suggest to you that a VT pattern is "in the cards," as they say, and these are:

- A yellow color on the Sidewinder Indicator showing that the trend to the downside is weakening;
- The ZLR failed;
- The LSMA shows green bars for a long trade and red bars for a short trade.

The trigger to enter a VT is when the CCI breaks the trend line and takes out the swing high/swing low. The exit point would be when the CCI comes back through the +/-100 line or hooks from extreme.

It is exciting to watch these patterns develop on the CCI and, as you learn to read the market, the patterns will help you to trade your plan.

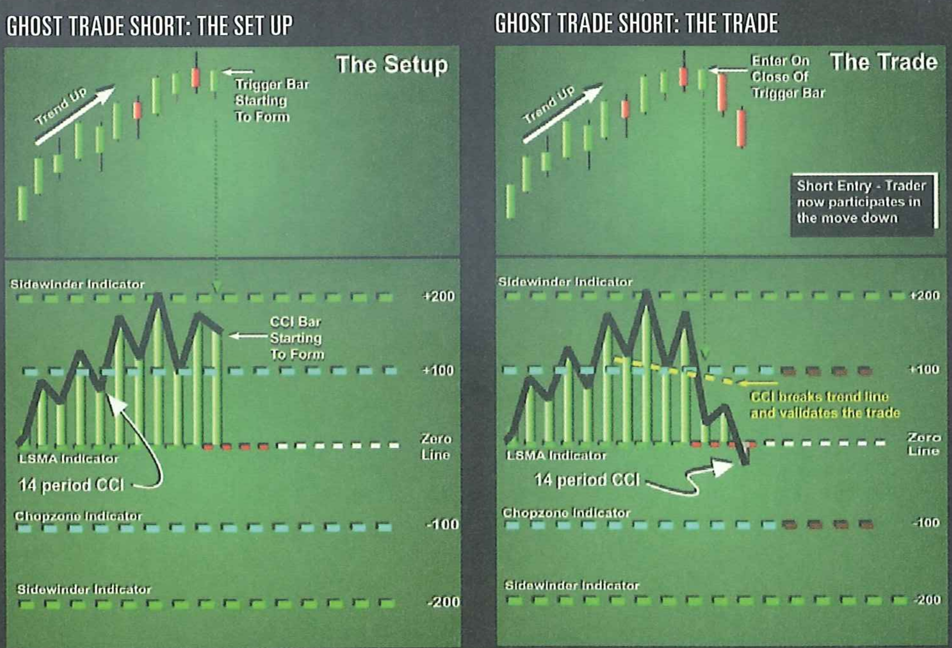
The Ghost Trade (GT)

I always say "You gotta love the Ghost!" It is my favorite pattern.

The Ghost Trade is a trend-changing trade and the name originates from the actual pattern itself—it looks like one of those Halloween phantoms you see around the end of October each year. The pattern includes three peaks in the CCI line, which form the head and two shoulders of the Ghost. This is in agreement with the trend.

The trigger to enter a VT is when the CCI breaks the trend line and takes out the swing high/swing low. The exit point would be when the CCI comes back through the +/-100 line or hooks from extreme.

Fig. 3.11



- Ghost take a while to form.
- Ghost patterns come in many sizes and shapes
- Trade is invalid if CCI closes above right shoulder.
- Neckline should tilt in direction of zero line, but not absolutely crucial
- Enter when right shoulder breaks neckline

The Ghost pattern comes in two forms: the Regular Ghost and the Mittens Ghost. The difference between the two is that the Regular Ghost pattern features both arms below the head and the Mittens Ghost pattern shows both arms above the head.

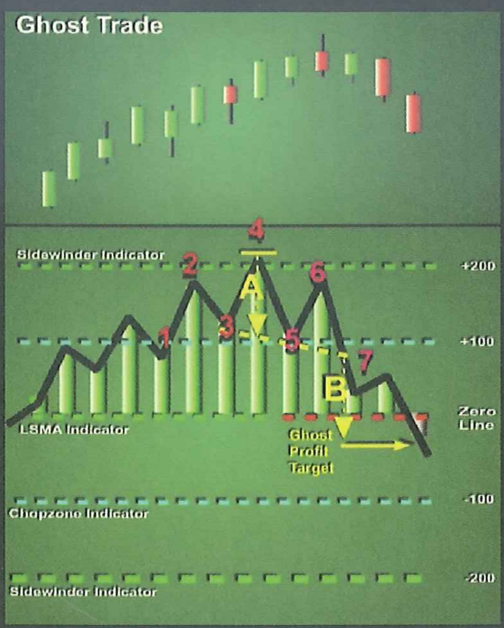
Having said that, we talk about a "Regular Ghost," where the pattern is formed above the zero line with the shoulders below the head; an "Inverted Ghost," where the pattern forms below the zero line with the shoulders below the head; and a "Mittens Ghost," where the shoulders show above the head.

I do feel that, for the beginner, however, it is necessary that the middle peak be larger than the first and the third.

The GT is the only trade that has a target. The target is calculated by calculating the number of CCI points between the neckline point below the central peak and the top of the head. Subtract these points from the neckline break to set your target. Neckline to top of the head in CCI points, CCI points from the neckline break down and this equals our profit target on the Ghost. People will normally use that when they are trading multiple contracts.

Fig. 3.12

A SHORT GHOST TRADE



GHOST PROFIT OBJECTIVE:

The target projection is the same distance as the Ghost head from A to B.

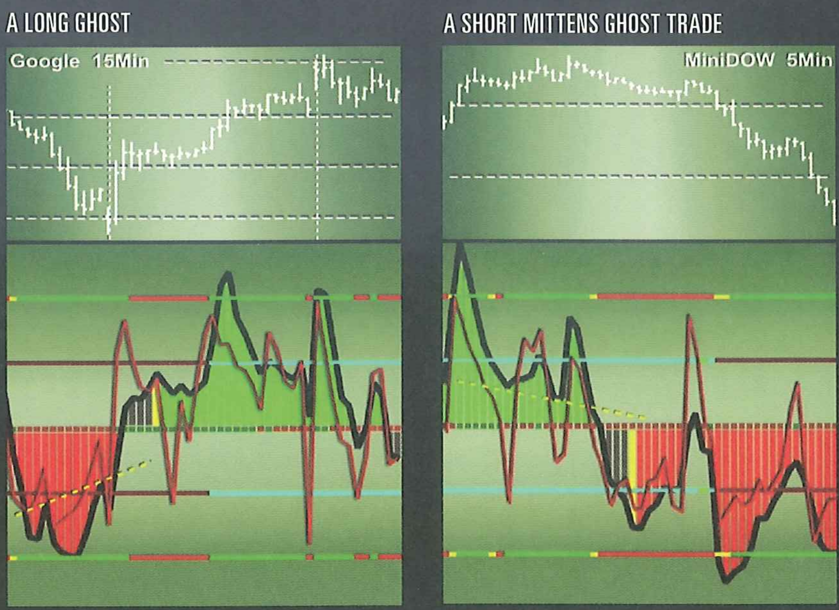
1. Buyers
2. Profit-takers run out of buyers
3. Buyers
4. Profit-takers run out of buyers
5. Buyers
6. Profit-takers run out of buyers
7. All of the buyers give up and sellers take over

Once the Ghost has formed its first and second peaks, a "neckline," or line break, should be drawn where the CCI line reverses back to the trend, extended so that when the third peak crosses this extended line a trend-CHANGING trade is signalled. A Ghost is a Ghost when you have either both shoulders above the head or both shoulders below the head—if these are not showing then it is not a Ghost! They come in all different sizes, big ones, small ones and itty-bitty ones—they are all Ghosts as long as they have the shapes I have described.

I, personally, favor a Ghost with the neckline facing the zero line. This is because I feel it is going to go my way, but remember—a Ghost is a Ghost is a Ghost! A Ghost is only a viable Ghost if you can see the background color or the histogram in the gap between the neckline and the peak. The trade exit should be taken when the CCI crosses the +/-100 line.

The psychology of the Ghost: We have an up trend, for instance, and suddenly we reach a point where we get some profit-taking. The momentum is slowing down a little and a shoulder is formed. Then we have some johnny-come-latelys come into

Fig. 3.13



The first long Ghost Trade shown is an "Inverted Ghost"; the short trade is a "Mittens Ghost."

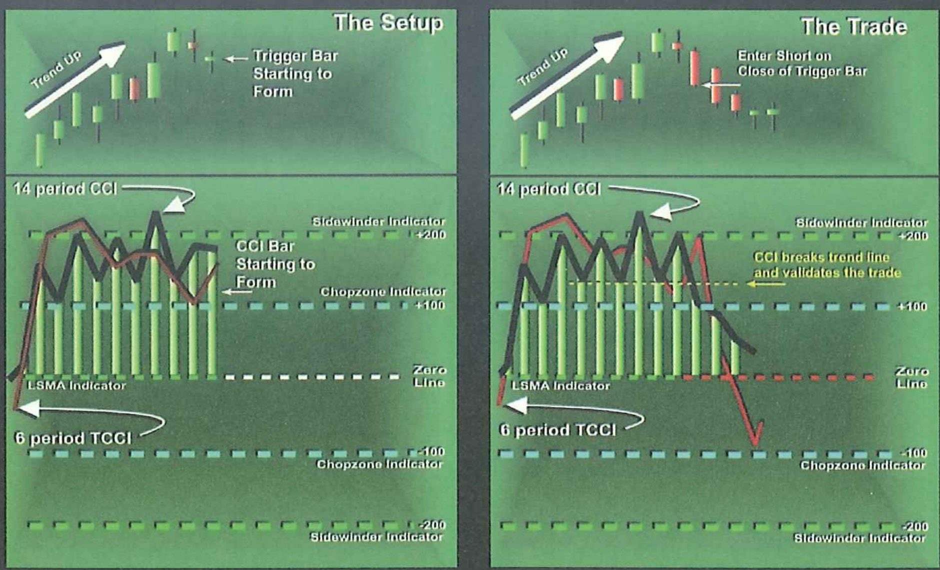
the trade—these are the people who missed the initial up. On this dip they buy in and try to push the trend back up, and this forms the head of the Ghost. Then we get some more profit taking and it brings it back down again! Then they decide that it is a good time to buy, and they jump in, but they can't quite get it to really go. So what happens here is the professionals and the CCI traders see this, and this forms the second shoulder of the Ghost and they take out the neckline which is the trigger.

This demonstrates my point about the CCI patterns beating those traders watching the price bars and their lagging indicators—the CCI trader gets into the trade one bar ahead of the rest of the world. This happens time and time again.

I would also mention here that, often, a Famir pattern will form after a Ghost. The neckline break is the trigger and it will depend upon what type of trader you are as to when you enter the trade: aggressive traders will take the trade immediately, as soon as they see the line crossing the neckline, while more conservative traders will wait until 20 to 30 seconds before bar close. The most conservative traders will wait until the bar prints to take their trade. None of these methods is incorrect; it merely

Fig. 3.14

HTLB SHORT: THE SETUP | HTLB SHORT: THE TRADE



The HTLB must touch the CCI line in at least two places.

When the horizontal trend line is broken by the CCI, it triggers the HTLB.

depends upon what style of trader you are and what you feel comfortable with. That is the key to good trading—you have to feel comfortable and confident when you trade.

The Ghost story shows that the CCI patterns are highly visible. Learning how to read the CCI patterns and applying that knowledge correctly will give you an advantage over the herd.

Horizontal TLB (HTLB)

The Horizontal TLB is a trend-changing pattern. I also use it as a money management line. If I am in a trade long, I can draw a horizontal trend line to stay in the trade much longer.

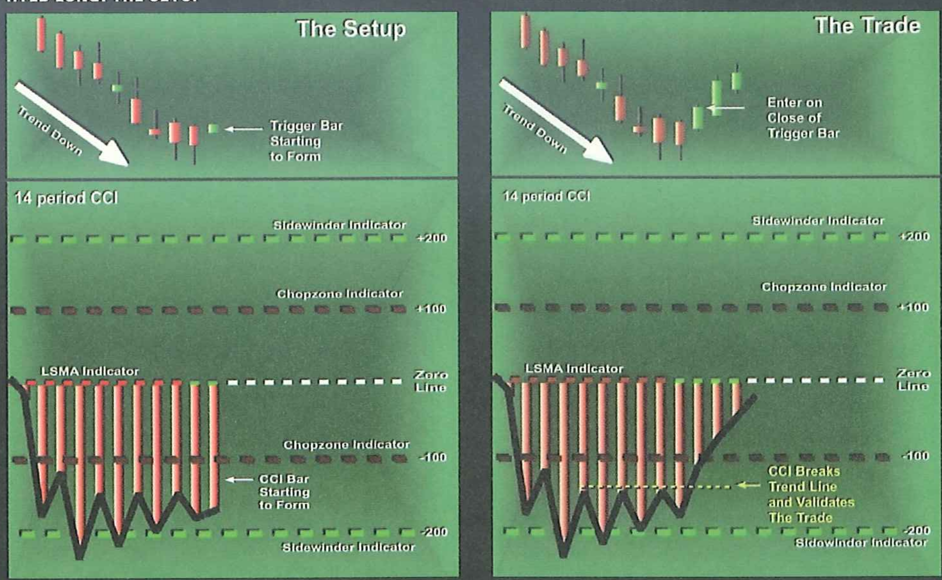
The HTLB must touch the CCI in at least two places, as stated before, the more touches the stronger the trend line. You can use the TCCI and the 14 CCI to draw the horizontal trend line. The trigger comes when the horizontal trend line is broken.

The HTLB can be used for two things:

Fig. 3.15

HTLB LONG: THE SETUP

HTLB LONG: THE TRADE



The HTLB is a trend-changing pattern.

The long HTLB line can be used as a Money Management line.

1. It can get you into a trade that might be a trend-changing pattern
2. You can use it as a money management trend.

Although the HTLB is a good trade to take, it is among the least popular trades, so we will not spend much time discussing this pattern.

Recognizing a trendless market

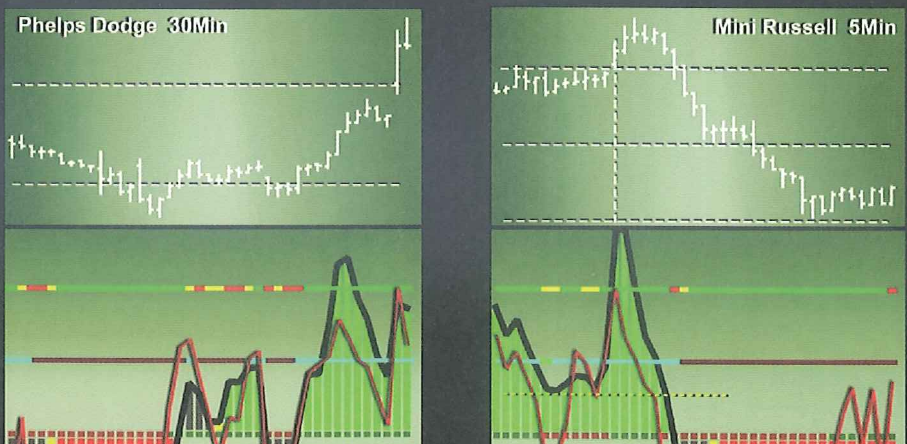
So, having seen the trend-continuation and trend-changing CCI patterns, there will always come a time when there is a "trendless" market. It is important to recognize this and know how to treat it. For a start, you should treat it with respect!

A trendless market can be recognized when the CCI stays between the +/-100 CCI lines, crossing the zero line with increasing frequency, with the Sidewinder showing

Fig. 3.16

AN HTLB LONG TRADE

AN HTLB SHORT TRADE



The more times the CCI touches the horizontal trend line the better.

Both the CCI and the TCCI lines are used to construct a horizontal trend line.

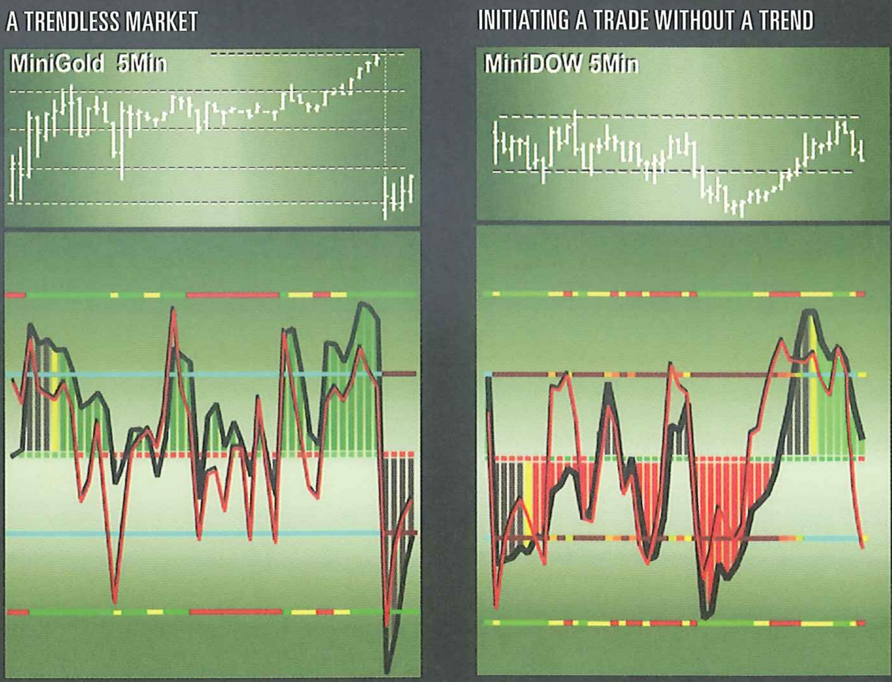
There will come a time when there is a trendless market.

as a red color and the Chop Zone Indicator showing multiple colors (see figure 3.17 below). Given these conditions you should not initiate a position.

When to initiate a trade after a trendless market

If you wish to initiate a trade after a trendless market you should wait until the CCI goes to extremes at the +/-200 lines. This shows that momentum has returned to the market and that you should again be looking for our patterns. This will also be reflected, most times, in the Sidewinder Indicator showing yellow/green.

Fig. 3.17



The CCI crosses the zero line many times but stays within the 100 lines; this is also known as a flat market.

The CCI trades within the 100 lines then goes to extremes and then into a trend.

4

MONEY MANAGEMENT

Money management is one of the most important features in a trading plan. In fact, the most important thing while trading, apart from trading your plan, is protecting your risk exposure and preserving your capital.

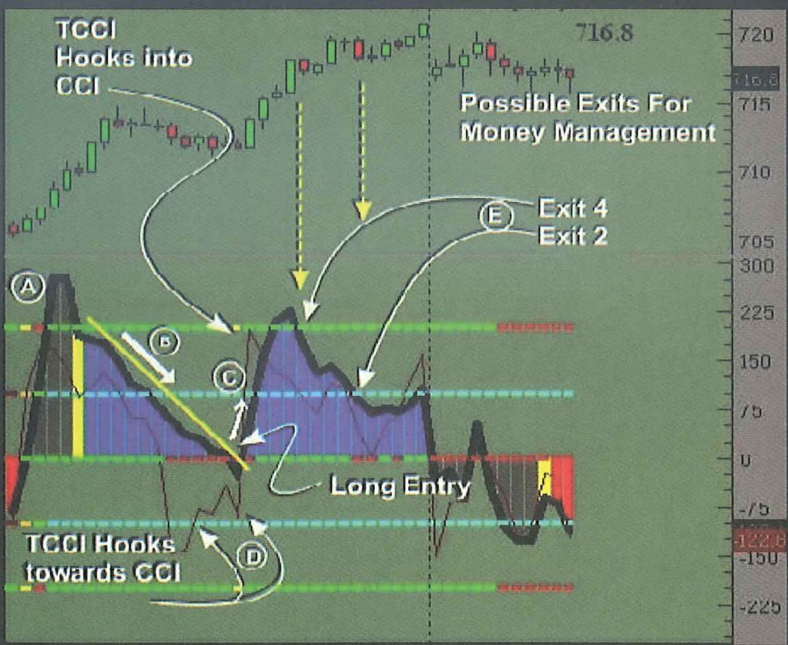
As I have indicated before, adequate capitalization is crucial when trading, because insufficient funds will badly impair your ability to trade without worrying about losing money on every trade. Even the most practiced trader will experience runs of losses and your account must be strong enough to withstand this.

When you begin to "paper" trade (long before you go live) you should record every trade you make. These statistics will enable you, among many other useful things, to calculate your winning percentage. If you are not profitable on paper you should consider going back to the day job!

A losing trade will in turn bring about a withdrawal from your account. From a capitalization point of view, your maximum withdrawal should never be more than 10

Fig. 4.1

TRADE ENTRY



A. The established trend; B. the CCI moves down toward the zero line; C. the CCI turns back up in agreement with original trend and triggers trade entry; D. the TCCI confirms move; E. possible exits percent of your account balance, and the maximum loss per trade never more than 2 percent of your account balance. This means that your maximum trading position must be related to the amount of money you have in your account and your stop loss positions.

Gains and losses should pan out at 2:1. This means that your winning trades must be two times the size of your losing trades. This is called the risk/reward ratio; I encourage beginners to use a 2:1 ratio.

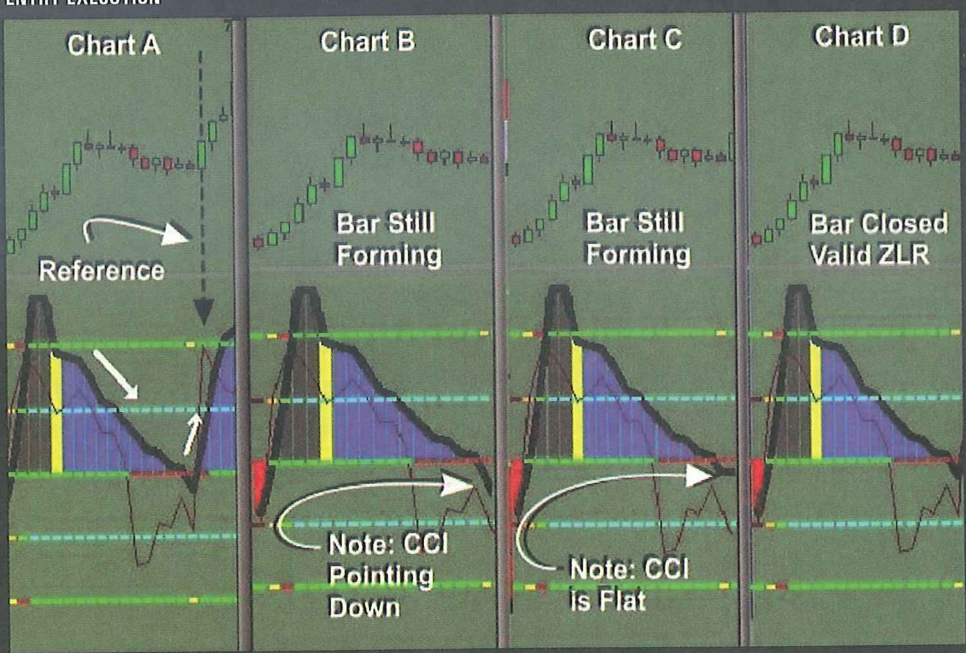
Remember also to include in your calculations slippage (the difference between estimated transaction costs and the amount actually paid) and your broker's commission.

Trade entry and execution

Your trade entry will depend very much on your style of trading. I've classified traders into three different types of trading:

Fig. 4.2

ENTRY EXECUTION



Your screen could show any one of the above charts. Charts A and D show a Zero Line Reject pattern, B and C do not.

6. **CCI forming a flat top formation.**

   On a flat top formation the CCI goes flat with a lack of momentum. A flat top usually shows a very definite stop in momentum to the upside/downside so some CCI traders will use that to exit.

7. **Crossing a horizontal trend line.**

   I use this especially when I have a good up day or good down day. Instead of using the crossing of the +/-100 line I like to draw a horizontal trend line as a money management line to hold me into the trade longer, so my horizontal trend lines are drawn inside the 100 and zero lines.

8. **LSMA disagrees with the trade, i.e., they will stay in a long trade, for instance with a long line of green dots, and exit when the LSMA changes to red.**

   That signifies that prices have gone below the 25 LSMA, which is the best fit moving average.

9. **CCI crossing the zero line.**

   Some traders feel that as long as the CCI stays below the zero line they can stay in their shorts, as long as the CCI stays above the zero line they can stay in their longs.

Market conditions vary each and every day

The Trading University on the website can give you up-to-date information on all the subjects I talk about in this book, including trade exits, and I cannot recommend it highly enough for those of you who genuinely want to learn about the CCI patterns and how to trade with them.

The CCI can get you in at least one bar ahead of the world!

As a trader, one of the most important aspects in trading is your entry into a trade—at least this is very much the case with day trading.

The CCI is known as a leading indicator among technical analysts. It does just that—leads other indicators—as the basic CCI patterns discussed in this book illustrate. This provides traders with an enormous advantage that most traders are not aware of—in fact, most traders do not even know this advantage exists.

One of the main reasons that I do not use moving averages in day trading is the long time lag. People who use them in day trading get into the trade late. This is one of the most significant reasons why so many traders lose in the day trading arena.

One must understand the advantage any momentum indicator provides, especially the CCI. This ability to lead allows those trading the CCI to get into trades ahead of those using lagging indicators. This one reason is, again, why so many CCI traders are realizing better results when using the CCI alone. Some traders try to use lagging indicators to confirm a leading indicator. This is completely pointless.

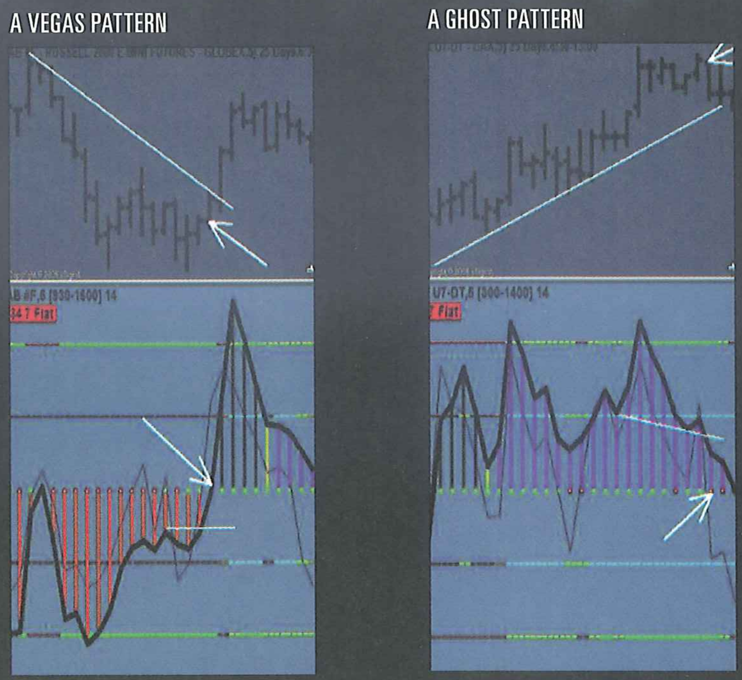
Why use lagging indicators to confirm a leading indicator?

Why use a minute chart when it takes you four minutes to get everything confirmed?

I feel very strongly that it is not beneficial to trading. However, many traders do this and then cannot understand why they are losing.

Fig. 4.3

Let's examine this advantage of the CCI.



A Vegas pattern triggered before standard trend line break

The Ghost is triggered 2, 3 bars ahead of trend line break on price bars.

Take a look at figure 4.3 on the previous page. Notice the entry on the pattern and notice the trend line that many use in standard technical analysis. You can see that the CCI traders are in the trade one bar, if not more, ahead of those using standard trend lines, which is subsequently ahead of those using lagging indicators.

This is the reason many CCI traders around the world are grateful to all the other traders who move the markets for them. We are in the trade and we let those using lagging indicators move the market after we are established.

What's better than that as a day trader?

Traders must find things that give them an advantage, and this is where the CCI steps up to the plate by letting you know entry and exit signals ahead of the crowd. Take a good look at the following charts, and then look at the charts with CCI patterns and see for yourself how the CCI can give you a leading edge.

Trading psychology

To become skilled in trading the CCI, it is critical to master the psychology of trading. This means thoroughly understanding your mental processes and emotional behavior while trading the markets.

The CCI patterns are easy to recognize once you have spent some time studying them. You'll learn to enter a trade when a valid signal appears. The challenging part is staying in until it is the right time to exit—whether it be because it is a winning trade or when the tide has turned against you—and exiting at that point and not hanging on in the hope mode. In addition, don't let yourself enter a trade that looks risky. All these things matter and are psychologically difficult.

You cannot afford to let sentiment enter into your decision-making process. That is why you have a trading plan! It is there to remove the emotions along with any second-guessing that might go on. Do as your trading plan tells you—don't pick and choose your trades. If you have decided to trade one particular pattern and you see another forming—ignore it!

Look at your master trading plan on a daily basis. Make a list of what you are going to do each day and follow it! Outline your plan like this:

1. This is what I am going to do today.
2. This is what I am going to trade.
3. This is how many points risk I am going to take.
4. This is how and when I am going to exit.

Don't make any other trade during the day. This is an area where newer traders are often unfocused and undisciplined and this is where they come unstuck. Leave your emotions on the doorstep and pick them up when you go out!

The trading plan

You cannot successfully learn to trade unless you have a trading plan. Trading is a serious business and not a computer game. Far too many people fail in the trading arena because they have not bothered to do their "apprenticeship" first. How long does it take to become a doctor? Eight years? How long does it take to become a lawyer? Seven years? Why do you suppose that you can become a successful trader in one day, one month or one year? New traders should go to our website and watch and learn. Make notes, research statistics and learn how to recognize the patterns by paper trading on a demonstration platform before hitting the real world of trading. It can be brutal, fast and unkind. Do you think you are up to it?

I find that the easiest traders to tutor are the ones that come in without any "baggage," meaning bad habits or ideas from previous trading experience, especially people who are completely new to trading. Some people come to the chat room who have already traded with a number of different systems and indicators. They find it very hard to leave them behind and focus on the CCI patterns. It really does not matter what age you are, it matters whether you can start afresh and leave any preconceptions you already have behind.

New traders, especially those from the younger generation, start trading with the expectation that they will become instant millionaires. They think they can open a brokerage account and instantly start successfully trading without putting in the "screen time" it requires to learn the system and build a good trading plan. This is the reason many new traders fail.

Trading takes time to learn. The banks and institutions hire the brightest and sharpest minds to trade on their behalves; they have the fastest computers in the world. We're all up against these people and so you need to feel totally confident in what you are doing and be able to recognize and anticipate the patterns you intend to trade, which is why I say, "You gotta have a trading plan!"

You would not go into business without a plan of how you intended to operate that business: how you would fund it, how you would make sales, how much profit you would anticipate each year and how you would go about making it. Well, that's trading for you—exactly the same. So it is essential that you sit down—once you have spent a lengthy time watching, researching, listening and learning from others—and work out how you intend to trade. Then go ahead and draw up your own trading plan.

What sort of trader are you? Aggressive? Conservative? Ultra-conservative? What pattern do you think you will trade to start with?

As a new trader I would recommend that you next decide upon the market where you will concentrate your trades. If you are just starting out, the mini-sized Dow futures market (YM), which allows a $5/point contract, provides excellent buying and selling opportunities during the trading day. In addition, the five-minute time frame gives you ample time to recognize your pattern and act accordingly.

Once you have chosen your market you should decide which pattern you feel most comfortable with. Once again, as an inexperienced trader, the ZLR is a good CCI signal to focus on, and the YM offers several ZLRs most trading days. So far, you have picked one market, one time frame, one signal and one contract.

Please remember the reason you are doing this—writing a trading plan and making decisions about how and what you will trade—is so you will stick with it, come what may. By all means, make minor adjustments as you go along. But your trading plan has to be based on not just one trade, one hour, one week or one month. It has to be based on strategies you have developed over a period of time so you understand the mechanics and the market and the trade.

The introduction of range bars has eliminated charts on time. Range bars are bars made of price increments and time is not a factor.

Outside distractions

One of the reasons I say, "Trade the damned patterns!" is because far too many people take notice of things going on in the outside world which distract them from following their trading plan.

For example, let's say the markets have been down for nine days in a row. You turn on your television set and some guy on CNBC says, "We are in a severely oversold market condition," which then influences your mental thoughts while trading. Don't do it! These biases will kill you! Trade with the charts, follow your trading plan and forget all those outside pressures.

If you have a trading plan that says you favor the Ghost, then you must take all the Ghosts. If you favor the ZLR, then you must take ALL the ZLRs.

When I open a new trading position it is because I have a good pattern on the CCI and my stats, taken over a long period of time, tell me that if I continue with my trading plan, I will make consistent profits. I feel confident that using the CCI momentum indicator is the way to go.

While we are talking about "distractions," there are other distractions that can pull your focus away from the actual job in hand, trading: the phone ringing, the family asking questions and, funnily enough, boredom when the market is flat—don't look for half-baked trades—wait until a decent one comes along!

Picking and choosing

I would also absolutely advise against "picking and choosing." If you have a trading plan that says you favor the Ghost, then you must take ALL the Ghosts. If you favor the ZLR, then you must take ALL the ZLRs.

Why?

Because your trading plan should be based on making every trade that the Ghost pattern turns up. If you allow your emotions to influence your trading by trying to pick and choose winners and losers, you know that you will pick the loser. You know that. And you will stay out of all the winners and you are going to say "Dammit" and you will end up in that "Dammit" mode automatically every time you pick and choose.

Stick to the rules of your trading plan at all times. Exit a trade if necessary. This will mean that, even if you have lost money this time, at least you haven't lost too much. Take it as a lesson that there will always be a better trade down the road.

What you have got to do, as part of trading your trading plan, is know that you have to take every trade in the pattern you have chosen. Don't fall into that pick and choose mentality, the Dammit mode. You must take each and every qualifying trade that comes along. Every trader goes through ups and downs, but if you stick to your trading plan, it will work out in the end. Don't make major changes to your plan when you're in the heat of the moment. The patterns do have a high probability of success. When I start to second guess my plan, I have problems. I have to stick with the plan and I will be OK.

Determine your risk

Next, you have to establish in your own mind how much you are prepared to risk in aggregate in your trading account, the risk you are prepared take each time you enter a trade and how far you are willing to let a position turn against you. This will help you determine when you should exit a trade that has turned against you. Discipline and good money management will ensure that you don't over trade and lose too much.

Both adversity and success can distort your judgement—you have to be unemotional and trade with your head, not with your heart. Stick to the rules of your trading plan at all times. Exit a trade if necessary. This will mean that, even if you have lost money this time, at least you haven't lost too much. Take it as a lesson that there will always be a better trade down the road.

As I have stated before: being undercapitalized only adds to the pressures you will find yourself subjected to when trading and, therefore, it is essential that you only trade with money you can afford to lose!

Discipline

Discipline is essential when trading. Once you have done your apprenticeship and written your trading plan you must stay with it. You cannot change your plan instantly because you read something in the newspapers, hear something on the radio or see a news flash that tells you that something has changed in the world.

Experience tells me that you must stick to your plan regardless and not digress because you recognize another pattern that is not part of your strategy. That is one of the reasons you should trade without following prices because if you watch prices jumping up and down they will scare you and you will change your plan. Don't do it! Watch for your chosen patterns, stick to the plan, and don't be distracted by anything else. New traders, especially, should learn and trade just one or two patterns.

Statistics

Understanding the market will help you with your trading. Your decisions should be based on statistics taken over a period of time so that you understand the mechanics of your market in detail. Research the patterns that you want to use, the exits you want to make, how you are going to handle the whole situation and stay with that trading plan in the heat of the battle.

Statistics are the bedrock of your trading strategy. Build up your data on a spreadsheet—it can be on a piece of paper next to your computer or an Excel spreadsheet in your computer.

Long before you go live with real money, start recording the patterns you are interested in with details of entry, stops, exit, drawdown, color of LSMA, TCCI, etc. Keeping track of these statistics will enable you, the trader, to examine why a trade won or lost. Why you lose is probably more important than why you win, because this is part of mastering your learning curve. Learning why you lose will help teach you not to make that mistake in the future—or at least why you made the mistake in the first place.

It is important that you work out your percentage win rate and average win and loss percentages:

1. **Percentage profitability:** This is the total number of winning trades divided by the total number of trades taken.
2. **Average size of your winning and losing trades:** This is the total dollar amount of your winning trades divided by the number of winning trades and the total dollar amount of your losers divided by your losing trades.
3. **Win-loss ratio:** Your average winner divided by your average loser.
   There is plenty of information later in this book and on my website about statistics and how to document them, and it is well worth taking some time to study how other, more experienced, traders keep statistics and use them.

Your average gain has to be more than your average loss—otherwise you should not be in this business.

Capitalization

I see far too many traders coming to the market place undercapitalized. The pressures of trading are hard enough. The pressures of trading and at the same time worrying about having to make a successful trade become unbearable, and this will show when making trading decisions. You should only trade real money if you are adequately capitalized. Otherwise fear and/or greed will destroy you.

5

HOW TO GET STARTED

Why Woodie's CCI Club?

My web-based trading club, Woodie's CCI Club, has many beneficial features for traders of all levels of experience—from support and encouragement for the beginner to plenty of lively interaction for the advanced trader looking for higher-level discussion.

There are chat rooms for all, covering subjects such as basic trading, stocks and options, advanced trading and forex, not to mention Woodiepedia, a trading encyclopedia and forum that boasts thousands of entries about trading the CCI from traders all over the world. Hundreds of traders gather every day to learn and support other traders and do so much more.

There is much more information, including market facts, observations and opinions given in the spirit of education, including charts and lectures on the trading platform. The site also includes valuable insights on trading stocks and options, money management, statistics and virtually every aspect of day trading. The website improves and expands every day.

This whole enterprise is only possible with the help of moderators experienced in trading the CCI, who enjoy helping other helping traders learn how to use the system. It is clear that everything available on the website and at any of the Trade-A-Longs and seminars is educational and it is not specific trading advice. The moderators and I just want to help traders survive in a very hard market.

Moderators use voice moderation as well as text chat. They post material that can guide people learning to trade, they answer questions and they swap data. Moderators inform chat room participants about upcoming events and issues that affect the trading community on a day-to-day basis.

Our goal is to develop traders, to help them make their own decisions but from an informed foundation. We hope to help traders survive in an arena where the churn is significant. In trading, where nothing is 100-percent certain, we are confident that our tutoring and methods on statistics, discipline and money management can give traders an edge and a higher probability of successfully staying in the game.

Woodie's CCI Club is designed for folks who are willing to put in the time to learn from other successful traders without having to pay large amounts of money for courses that claim to share the Holy Grail of trading. Funny though, people still seem to think you have to pay to get good information. Well, that may be case with some things in life but not when it comes to Woodie's CCI Club. We offer the opportunity to learn for free, but you do have to put in time and effort to reap the rewards. The help and support that traders receive is similar to that of going to a support group where you can talk to others in the same field and find answers from experienced and knowledgeable people who have "been there, done that" before.

I do not believe there is any other club that offers this unique combination of advantages at completely no cost to participants. We do have help from brokerage firms, such as PFGBEST, who give us assistance with printing, organization, and sponsorships, but the majority of the work is done through the sheer generosity of your fellow trader. It seems we are running a major "corporation" on a zero budget! The quality of the people involved is second to none. They are so many great individuals who want to give something back, both in the Internet chat rooms and also helping quietly in the background, that if I list them I might inadvertently leave someone out. They know who they are, and they know how much I appreciate them.

The CCI document, which explains the basic patterns and terminology (available at woodiescciclub.com), is translated into several different languages enabling as many people as possible to participate in our global community. We have traders joining in all over the world—all through the day and night—in my wildest dreams I never imagined it would be this popular!

As I write, there are four free chat rooms on our website. The basic trading chat room is where index futures are traded and we use range bars. With so many traders

TOP 5 TIPS FOR CREATING A TRADING PLAN

1. Take time out from day-to-day problems to clearly think through and articulate your trading plan.
2. Once you have clearly identified and expressed your strategy make a detailed plan for its implementation.
3. Revisit your trading plan and the execution of it often.
4. Resist the temptation to get distracted by looking at patterns that are not part of your trading plan.
5. Continue to calculate your statistics!

in attendance it helps to keep the room focused and eliminates the confusion of too many time frames being posted and discussed. This helps speed up the learning curve. Confusion creates frustration and we aim to, "Keep it simple, stupid!" We do not allow negative posts and we encourage people to keep their egos under wraps, so everything is geared toward the learning process, whether you're an experienced trader or a "newbie" (as beginners are called).

THE 25 BIGGEST MISTAKES TRADERS MAKE

1. Many traders trade without a plan. They do not define specific risk and profit objectives before trading. Even if they establish a plan, they second guess it and don't stick to it, particularly if the trade is a loss. Consequently, they overtrade and use their equity to the limit, which forces them to liquidate positions, and then they liquidate the good trades and keep the bad ones!
2. Many traders do not realize big news has already been discounted by the market.
3. After several profitable trades, many traders become over confident. They base trades on hunches or long shots, not sound reasoning.
4. Traders often try to carry too big a position with too little capital and trade too frequently for the size of their account.
5. Traders fail to pre-define risk and fail to use stops.
6. Traders frequently have a directional bias, for example, always wanting to be long.
7. Lack of experience in the market causes many traders to become emotionally and/or financially committed to one trade and unwilling or unable to take a loss. They may be unable to admit they have made a mistake, or they look at the market on too short a time frame.
8. Some traders overtrade. Overtrading stems from lack of planning.
9. Many traders will not take small losses. They stick with a loser until it really hurts, then take the loss. This is undisciplined and traders need to develop and stick with a trading plan.
10. Many traders break a cardinal rule: "Cut losses short. Let profits run." Emotion makes many traders hold onto a loser for too long. Many traders do not discipline themselves to take small losses and big gains.
11. Many people trade with their hearts instead of their heads. For some traders, either failure or success distorts their judgment. That is why everyone should have a trading plan and stick to it.
12. Many traders do not define offensive and defensive plans when taking an initial position. Failing to follow a disciplined trading program

Another chat room is the stocks and options room. Traders exchange ideas on trading stocks and options, and many specific option plays are discussed. The other chat rooms focus on relevant trades and are very active. You can join just one or all of these busy rooms but be warned, the advanced guys do not like being asked questions about material you should be learning about in the basic room.

There are many other features that are used regularly by traders in the chat

leads to taking large losses and making small profits.

13. Many traders trade slow markets. Trying to trade inactive markets is not a good idea.
14. Many traders take too many risks. Too big a risk with too little profit potential will lead to losses.
15. Some traders are looking too hard for the action. A lack of discipline includes trading without a plan, impatience, need for action, etc.
16. Some traders make a habit of trading against the trend. Trading against the trend without stops and insufficient capital and/or bad money management are major causes of large losses.
17. Some traders think their large trading account means they won't fail. A large capital base alone does not guarantee success.
18. Many traders have a habit of not cutting losses fast enough, and getting out of winners too soon. It takes discipline to trade correctly and this is hard whether you are losing or winning.
19. Many traders let their emotions influence their entries and exits. Greed, by trying to pick tops or bottoms, is a recurrent error.
20. Many traders jump into trading without adequate training. Not having a trading plan results in a lack of money management, which also leads to emotional trading.
21. Traders allow emotions to overcome their brains when markets are going for them or against them. A good plan must include stops.
22. Many traders don't have the discipline to stick to their trading guns. A lack of self-discipline on the part of the trader creates losses.
23. Most traders overtrade without doing enough statistics. They take too many positions with too little information.
24. Too many traders do not apply money management techniques. They have no discipline, no plan. Many do not pull out when the market goes against them, and will not limit their losses.
25. Many traders are undercapitalized. They trade positions too large relative to their available capital. They are not flexible enough to change their minds or opinions when the trend is clearly against their positions. They do not have a good battle plan and the courage to stick to it.

rooms; the most important of these are the live charts, which are used by the moderators to point out interesting topics, such as the CCI patterns are they develop in real time. Snapshot charts can be posted in the rooms for all to see, and many training tools are available for download, such as a money-management calculator, workbook spreadsheets for statistics records, charts clocks and Woodie's pivot calculator. These features are improved upon all the time and traders do not have to leave the room to use these interactive tools.

Every room is set up to facilitate learning. From time to time we invite special guests to conduct seminars on different aspects of trading. To list but a few, we have benefited from the wisdom of Dr. Brett Steenbarger, Mark Douglas and Robin Dayne. All these seminars are free and the idea is to help traders with different issues in

CCI TRADING TIPS

- On the CCI panel the zero line is the dividing point between the up (long) trend and the down (short) trend.
- The CCI zero line is the strongest point of support or resistance.
- The CCI 100 lines are support and resistance lines.
- When one or more patterns are in agreement, the signal has a higher probability of success.
- A trend does not change until you get six bars above or below the zero line.
- When the CCI is below the zero line for at least five or more bars, look to go short.
- When the CCI is above the zero line for at least five or more bars, look to go long.
- The CCI indicator measures momentum.
- Angles are most important in pattern trading.
- The greater the angle of the CCI line, the greater the momentum.
- Be careful if the CCI line is flat. A flattened CCI line means NO momentum.
- Trying to enter a setup with a flat CCI line will increase your chances of getting stopped out.
- Trend lines breaks with the trend that are close to the zero line are the most important trend line plays.
- When the CCI goes above +100 the market is becoming overbought.
- When the CCI goes below -100 the market is becoming oversold.
- Trend line breaks with the trend that are close to the +/-100 lines are riskier than those which are close to the zero line.

a variety of ways. Moderators and guest speakers cover many different subjects, including the use of spreadsheets, statistics and psychology.

Tick replays are shown after the market has closed, which enables people to practice and learn. There is a popular "newbie night" each week, where beginners and new traders can ask questions and moderators join in.

From time to time, Woodie's CCI Club hosts Trade-A-Longs where traders can meet other traders and participate in a live trading session. They are always so much fun! Most importantly, Trade-A-Longs give you the chance to work directly with me and the moderators you listen to every day, in addition to interacting with the people who learn alongside you in the rooms.

Getting started

There is an enormous amount of learning to do before you can begin to become even a passable trader and feel confident enough to make your first real trade. Perhaps you have traded before using some other trading system which claimed to be the Holy Grail but that failed you in some way, however, you still have the trading bug and think Woodie's CCI could be your answer and a way forward. Well, whichever category you fall into, the very first thing you must do is to clear your mind of any preconceived ideas and, once you have followed the setup action plan below: practice, practice, practice....and more practice!

However, before you can do that, you need to start by being prepared. There is no point in leaping, feet first, into the trading arena without "setting out your stall" first and making sure you have everything necessary on hand and you have a basic idea of what you have to do to get started, how trades work and what the terminology means.

So, if you are interested in learning about Woodie's CCI Club and this revolutionary technique of trading, I recommend that you begin by preparing an action agenda. This will be a list you should follow to start you off on the right track to trading success in an organized and logical way.

1. Find somewhere you can sit with your computer—well lit, comfortable and quiet.
2. Provide yourself with basic office essentials: for instance, depending on your personal preferences, a good computer with broadband Internet access, a printer, notepad, paper, pencils and files for keeping information and printed documents in

order so that you can refer back to them. There is no need to spend a lot of money; you can probably find these items quickly from things you already own.

3. Visit woodiescciclub.com, relax, tune in and become well acquainted with the website. To enter the main page you have to read the disclaimer and policy statement and, if you agree with the sentiments there, click on "I Agree." You can then look at what is available on this vibrant and busy website. Listen for several days or weeks to find out what is going on in the basic trading room with the different moderators. Watch the text chat in the trading room and see how other traders, both new and more advanced, react to what is being talked about, how questions are phrased, guidance offered and recommendations made. Remember, some of the text chat will be in Woodie's CCI shorthand, which you can make sense of by checking out Appendix II in the back of this book under "Woodie's CCI Club Shorthand."
4. Woodie's Bulletin Board, better known as the Forum, found on the Internet under www.woodiescciclub.com/forum, gives you access to the trading encyclopedia "Woodiepedia," which has many articles and much information that can answer many of your questions. To enter this particular section of Woodie's CCI Club and join this thriving community you first have to register with the forum administrator. This is easily accomplished by clicking on "register" when you enter the forum, then, having read the registration agreement terms, click the agreement statement that applies to you and, once this is done, you will be forwarded to a form which you should complete and submit. Having tendered the form, go into the basic trading room and introduce yourself and make a request via the text box for one of the moderators to approve your registration request. This will be done promptly and you will be given access to the forum.
5. The next action to make is to download the "Woodie's CCI Club Basic Patterns and Terminology" document which is available on www.woodiescciclub.com main page. Written by Jim O'Connell of PFGBEST, this document is a great reference text which will give you the fundamentals of Woodie's CCI system, explaining all the key layouts of the charts and the major patterns along with a bounty of information, tips and quick questions to help new traders make

sure they properly understand what they are reading. Having downloaded this great "aide de memoir," read it! Read it a couple of times, read it many times until you understand the basics of Woodie's CCI trading approach and the vocabulary used by the global community of traders who frequent Woodie's CCI Club. Please do remember, however, that this document and, indeed, any of the information you obtain from the website, is for educational purposes only and is intended to describe how Woodie's CCI system is used. None of the counsel, discussions or opinions can be taken as advice and you should always consult with your broker or financial advisor before placing any trade.

6. While reading "Woodie's CCI Club Basic Patterns and Terminology" and listening to the moderators in the trading room you will inevitably have questions. Make a list of these question and listen for answers in the chat room; the answers are sure to come up at some point. Queries can also be entered into the "search" function in the forum, once you are registered. You can be confident that most questions have been raised before, so there is likely to be a response on file. Be aware of website etiquette and, as a new member, only ask questions that are relevant to the discussion at hand. Keep them to a minimum during trading unless trading happens to be very slow. Questions on charts and technical issues should be kept for after trading hours. Guidelines for Woodie's CCI Club etiquette are listed later in this book.
7. Listen to the regular "tick replays" broadcast weekly, where you can ask all your questions live to the moderators and look back at the market to see how and why trading went as it did. You'll also find many interesting lectures available in the site archives.
8. Remember to visit the webcalendar, which will indicate who is moderating each session and when newbie tick replays can be heard.
9. Start to develop your trading plan, a sample outline of which follows this section. This will be the most important action you take in your quest to be a great trader!
10. The next step is to consider your charting options. Generic charts showing prices and indicators on range bars are available on Woodie's site. These are used by moderators to comment on market movements. To trade you will

need to set up your own front end platform to benefit from the ability to make simulated trades and use the data-reporting functions that integrate with these chart platforms, until you are ready to take the plunge with trading with real money! This service will require a separate monthly charge by the service provider, and fees differ depending on which charting package you choose. Some charting packages are offered free for a period before you start live trading, as long as you sign up.

11. Selecting a broker and opening an account is a step that should be taken concurrently with choosing a charting package. Many brokers will recommend a particular service that matches their brokerage operation. Do not jump into this decision. Make some inquiries first, carry out some research and ask in the trading rooms for the currently approved charting packages and brokers such as PFGBEST, Genesis and Ninja Traders.
12. Finally, in this action agenda, decide how you are going to record your stats. This is a very important part of trading. Keeping records of market movements and trades (simulated or real-time) is key to building a record of your trading. You will be able to look back and trace why something went down like it did; good and bad trades can be compared. As George Santayana said, "Those who cannot remember the past are condemned to repeat it."
13. And, just in case you feel you do not have enough to do, I also recommend that you review the lectures on psychology on woodiescciclub.com and read Mark Douglas' books on trading psychology, as you need to have a tight rein on your emotions if you are going to be a successful trader.

There are many links on the website that will provide first-rate information and facts about trading (www.woodiescciclub.com/book). There is also a DVD training set obtainable through the website.

The trading plan: why is this so important?

"How do I become a successful trader?" This is the $64 million question in every individual's mind when they contemplate taking up trading as a full-time money-making business. Many have tried, but not so many have succeeded. This may have something to do with lack of discipline and structure. This discipline and structure is bought into play when new traders create a business plan in order to accomplish goals they have set themselves.

On the face of it, trading may appear, to the novice, to be a relatively simple matter of selecting a time frame, choosing the market they feel would be the best for them, a pattern they can recognize and, since they have been told by those more experienced than themselves, placing only one contract at a time.

One time frame, one market, one signal, one contract—stop! Think again!

Regrettably, it is not that easy. For most people, making a successful living trading in the markets requires much more than this. A much deeper study must be made in order to develop a plan of action which will keep you on the disciplined and structured pathway to real trading success.

However, the physical act of trading has become immeasurably easier due to the computer age we live in. Trade tracking, technical analysis, performance and execution have been greatly simplified with the use of computers. Computer software is widely available and it's easy to use—especially with the readily available assistance of those of us at Woodie's CCI Club! Software can offer a multitude of benefits in the form of data generation which will, at the click of a mouse, give accurate and useful reports on trading stats, including win and loss rates, percentage profitability, average win and average loss, to mention but a few of the numerous spreadsheets that can be utilized by a tech-savvy trader.

Among the many important matters that should concern you when developing your trading plan are some crucial items that you should consider.

The first step to writing your trading plan is clearly defining and committing to paper your aims and objectives. Once you have done this you can then plot your strategy to becoming a successful, confident and profitable trader. You must carefully build the structure of your plan. Remember, you'll be working with this plan on a daily basis.

Of course, becoming financially profitable will be there at the top of the list, but to reach that goal you must have a solid understanding as to how you are going to become that successful trader. Hence, how you "aim" to achieve your "objectives" has to be carefully thought through and written down in this section of your personal trading plan.

For instance, you do have to decide on the "one time frame, one market, one signal, one contract" originally mentioned, but these decisions can only be justified by significant research into what works. You have to decide what makes a suitable buy and sell signal, along with your accompanying exit strategies and money management disciplines. This requires statistical testing carried out over a period of time and recorded and analyzed by you, once you have learned about the CCI system and all the different combinations it can offer. Through thorough and carefully analyzed research you can develop a comprehensive system that will give you a good chance of success—if you follow your list of rules, which must be adhered to at all times. Consistency gives you a better chance of success.

Some members of Woodie's CCI Club give themselves a daily goal of making so many dollars and, once they have reached that goal, they finish trading for the day, or turn to simulated trading to sharpen up their trading edge. Many members have a set percentage of their capital which they will not trade above, which is a good general rule. Making sure you always trade with a physical stop loss is another rule that should be on that list as we all know that a mental stop loss will fail you in times of stress.

To begin with, you should set an achievable target to aim for that, once attained, can be checked off and followed by more challenging benchmarks as you gain understanding, knowledge and experience. By creating more and more advanced goals,

PRE-TRADING CONSIDERATIONS

This is what I am going to do today: ______________________

This is what I am going to trade: ______________________

This is how many points risk I am going to take: ______________________

This is how and when I am going to exit: ______________________

If I find myself in a negative mood I will go for a walk, take some deep breaths and decide if I am in good enough mental shape to continue trading. If I am not, I will stop trading for the rest of the day and go back over my trading plan to find out if I have strayed from my aims and objectives or an adjustment needs to be made.

you will push yourself harder, thus increasing your understanding of the subject.

On the previous page there are questions you should ask every day before you turn on the computer and the craziness of trading starts (see page 139 for worksheet).

At the end of each trading period you should look back on your trading journal, after having updated the statistics and carried out any business administration required that day, and ask the following questions (see page 141 for worksheet):

POST-TRADING EVALUATION

Was I successful with my trading today? ______

Did I stick to my trading plan? ______

If not, what could I have done better? ______

Was my trade management correctly carried out? ______

If I made a loss did I refocus on the next trade without undue emotion? ______

Questions of this kind, if answered truthfully, can alert you to matters that need to be attended to, including making minor adjustments to the trading plan, doing more statistical analysis, or posing questions to the moderators or in the forum. This will help your trading practice grow and focus your trading energy into creating a successful and profitable trading business.

However, before you can sit down and write a truly complete trading plan, it is essential that you do your research. Check out the statistical legitimacy of your strategies. The more statistical research carried out on a chosen approach to trading, the more confidence you can have when trading.

Without this research, it's hard for the novice trader to determine which trades are most likely to succeed. Analyzing and refining your strategies over a period of time will give you some insight into what will give you an edge and, at the same time, help create a comprehensive system that can be written into a trading plan with conviction.

Strategies emerging from these extensive examinations should help you identify some techniques and guidelines you can be comfortable working within. Maybe you're inclined toward a scalping system—one where profits are taken little and often, or in longer-term trends. It will help to determine which investment strategy you feel at ease with, whether intra-day trade set-ups, day-trading or perhaps swing trading over a two- to five-day period.

You should not ignore one of the most difficult features of trading that you will have to learn to overcome: the draining psychological battles that have to be conquered on an almost daily basis. A great deal of discipline has to be displayed when faced with decision-making during the trading day.

When these important conclusions have been established, you must clearly profile the setups chosen, showing what produces an effective entry point, a valid exit position, and including the variables that can potentially be applied and how these trades will be managed. This statistical profiling will be of great assistance as a source of reference while in the heat of trading, giving added conviction to trading decisions.

Along with knowing where you want to be and defining the practical steps you will have to take to get there, you should not ignore one of the most difficult features of trading that you will have to learn to overcome: the draining psychological battles that have to be conquered on an almost daily basis. A great deal of discipline has to be displayed when faced with decision-making during the trading day. You cannot afford to let sentiment enter into this process—that is why you have written your trading plan, so you have a pre-defined route to follow. There can be considerable mental anguish involved in hanging on in a trade in the "hope" mode, not entering a trade that looks risky, or listening to a sensational newscast and not trying to build its consequences into your trades. If you have chosen to trade one particular pattern do not start picking and choosing, take all trades in that pattern and do not lose focus by following other types of patterns that start to form. Stick to the plan...do not deviate, hesitate or procrastinate; stick to the plan.

This is where discipline and structure come into play. Without a large measure of self-control you will find yourself falling into the ambushes frequented by the undisciplined trader: overlooking valid trade setups; becoming emotional about gains or losses in the form of fear or greed; and helter-skelter trading brought on by hunches, tip-offs, opinions and bias. Take a deep breath, go for a walk, have a cup of coffee—even stop trading for the rest of the day. There is no point in getting into a tailspin and not protecting your capital just because you cannot focus on your trading plan that day.

The "business" section of the trading plan is equally important as to how and what you are going to trade. This part of your plan is central to your success from a profitability point of view. This is where you give up trading as a hobby or a fun video game and take it seriously. This is where you commit not only the capital with which to trade but you commit to investing quality time—to the exclusion of everything else during your trading hours.

Here you should make sure you are aware of all the costs that are involved in operating a trading business. These will include costing out monthly charting and software options, brokerage commissions, Internet charges and other overhead expenses that will cost you money while you are trading, not to mention any hardware expenditure you may have to make to get yourself up to speed in the computer field. You do not need any surprises on the money front. One of the most frequent reasons traders fail is undercapitalization. So do not fall before you get out of the gate by underestimating the upfront cost of taking up trading as a career—even pencils cost money!

For traders not already familiar with business practices, spreadsheets are especially suitable for keeping track of business expenses, monthly expenditures, profits and losses, projected payments and overhead, and the all important capital account. By keeping careful account of finances, a trader can keep on top of performance success against projections and remedy situations before they become overwhelming.

Another good tip is to print out a list of important telephone numbers, such as your broker, the order desk, the after-hours desk and technical support for charting and order-entry software and tape it to the wall next to your computer so when a challenging situation occurs you do not have to waste time while getting help.

The essence of good business practice is discipline and structure: set aside a specific time each day to "do administration." Statistics must also be updated on a daily basis, along with filing hard-copy information and paying bills—if the Internet is cut off because of a forgotten bill the whole edifice crumbles!

Take it slowly, step by step. A well developed trading plan is the foundation to a successful and profitable trading life.

A SAMPLE OUTLINE OF A TRADING PLAN

Before you jump in at the deep end and start to trade it is essential that you write a trading plan. Sit down and focus on why you want to trade, what you hope to attain and how you are going to accomplish your objectives. The following broad outline should give you the tools to undertake what is the most important step toward becoming a successful trader. There are many posts regarding Trading Plans on Woodie's CCI Club website and it is worth checking some of them out.

1. WHY DO I WANT TO TRADE?

Only you can identify this!

2. WHAT SORT OF TRADER AM I?

There are generally three types of trader and none of them is better than another. It merely depends on which approach is most comfortable for you:

a) Conservative

Conservative traders tend to wait until the bar closes to enter a trade.

b) Conservative to Aggressive (Moderate)

Moderate traders will enter the market if a valid CCI pattern presents itself, with 20 seconds left in bar.

c) Very Aggressive

Very aggressive traders will enter trades as soon as the bar indicates a signal during price bar formation. This type of trading is for experienced traders, and I recommend that beginners start with a conservative or moderate style

3. WHAT ARE MY STRENGTHS AND WEAKNESSES?

Carry out a "SWOT" analysis on yourself. This acronym stands for strengths, weaknesses, opportunities and threats. Draw up a list with each of these headings and be truthful about yourself!

For instance, are you totally committed to becoming a successful trader? Are you willing to persevere even when the chips are down? Are you strong enough to follow through with your trading plan even if outside influences are pulling you in another direction? Can you take the time to focus on trading alone and ignore any disruptions going on around during your designated trading period? Will you be organized, keeps records, do stats and be patient? Can you hold your emotions in check?

4. WHEN SHOULD I TRADE?

You should only trade when you are able to focus on trading and you are not tired, stressed or distracted. You have to leave all other problems outside the trading room door.

5. **WHAT ARE MY INCOME TARGETS?**

Another question which only you can answer and which will, to some extent, depend upon your capitalization and investment objectives.

6. **WHAT ARE MY ANNUAL/MONTHLY/WEEKLY/DAILY TRADING GOALS?**

Once again, you should have some idea of what you want to make from your trading efforts. It is good to have something to aim for, and, as you become a more experienced trader you will be able to refine these goals.

7. **WHICH MARKET WILL I TRADE IN?**

The free generic charts shown on Woodie's CCI Club include the following. While you practice trading on a demonstration platform you should experiment and back test and log statistics in your chosen market to see just how it works. I suggest you research each market and decide upon the one you feel comfortable with:

INDEXES: Individual stocks, forex and commodities

YM—Mini Dow

TF—Russell 2000

NQ—E-mini NASDAQ

Gold—This market is definitely for more experienced traders!

8. **HOW MUCH MONEY WILL I PUT IN MY TRADING ACCOUNT?**

Undercapitalization can be very stressful while trading; worrying about HAVING to make a successful trade will affect your trading decisions. Making money is usually a slow business; however, losing it seems to happen very quickly! Make sure the resources you are trading with are enough to trade the contracts you want and can cope with drawdowns and slippage.

9. **WHICH CCI PATTERNS WILL I CONCENTRATE ON AND HOW WILL I FIND MY SET-UPS?**

Join the Woodie's CCI Club basic chat room and listen for awhile, research the different CCI patterns, watch trades on the generic charts, learn to recognize the different patterns, keep statistics and analyze them. You will recognize patterns that will suit you and then you can start to watch listen and learn, in earnest, about your chosen pattern on your chosen chart in your chosen market.

I suggest you pick out one setup—two if you absolutely must—and ignore everything else. Print them on a shipping label and paste it to your monitor. Monitor the charts. Set up alerts. If the setup does not occur on a given day, you do not trade. If your setup occurs you trade it every time. No picking or choosing. You will have great difficulty taking the trade following a loss. It will be virtually impossible after two or three in a row. And it will happen. But remember "plan your trade and trade your plan!"

10. WHICH STYLE OF MONEY MANAGEMENT WILL I EMPLOY?

Money management is one of the most important keys to becoming a successful trader. Think about trade entry, stops, trade exits and statistics. Find out all you can, it should be a very personal plan.

11. HOW WILL I ANALYZE MY TRADES?

It is important that you analyze your trades, so make sure that you keep a detailed record of every trade you make, including all the trades you learn about and watch and paper trade on demonstration platforms. These statistics will allow you to work out why you won or lost trades; keep track of your win and loss rate, percentage profitability and average win and average loss figures.

12. HOW WILL I RECORD HOW I AM DOING?

Excel spread sheets are an excellent method of recording statistics. You can use one of the stats workbooks available on Woodie's CCI Club website or you can build your own, listing the trade information you have decided is important to record, so you can look back and analyze trading on a daily, weekly, monthly and annual basis, along with win/lose information, profitability etc. Understand and get blank records ready before you start trading. This is important, so make sure you keep it up to date.

13. WHO WILL I USE AS A BROKER?

Do some research and ask around. It is up to you to decide who is going to be your broker. If there is ever a time I need or want to manage positions without the use of my computer, my broker's order desk helps me efficiently.

14. WHICH CHARTING SERVICE AND DATA FEED WILL I USE?

Many charting services offer the Woodie's CCI trading panel and it is up to you, after careful investigation, to make your own choice and sign up. I trade with the Trade Navigator platform and Ninja Trader, which is provided to me through PFGBest. This platform also provides me with backup charts that I can use in order to day trade. Trade Navigator, Ninja Trader have developed the Woodie's CCI Club pattern recognition showing possible patterns and pattern scanning in real time, the front end does automatics statistics. You can even set up alerts to earmark possible patterns forming—these alerts will sound a bell or show a pop-up or send you an email—whichever suits you best. They can show on the trading chart by code and color, for instance, "z" for a ZLR and a pink "t" on the YM signals a possible Tony Trade. These tools are not available anywhere else, they are tools to help traders.

15. DAILY ROUTINE

It is good idea to work out a daily routine. Have a specific place set up to trade, best with a door that can close out the rest of the world. Give yourself time to settle down before you head into the hustle and bustle of the markets. Make sure you have everything at hand that you will need for the trading day. Do this with time to spare so you are not stressed out before you even start trading. Get all your ducks in a row.

During the trading day you should give yourself breaks and leave your computer for five minutes, walk around, get some fresh air, some refreshment. To keep on top of your bookkeeping and stats make sure you update things as you go along—it saves time in the long run.

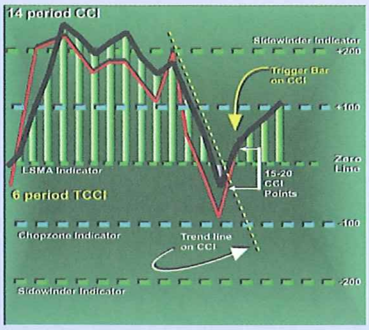
16. HOW WILL I DEAL WITH LOSING?

I have repeated time and time again: Nothing is 100-percent certain, and there are going to be times when you follow one losing trade with another, and another. This is going to knock your confidence and your capital account. This is *not* the time to abandon your trading plan. Try and analyze why your trades are losing. Go to the chat rooms and see if anyone else has suffered from the same problems. Get focused—one market, one pattern, one contract.

17. HOW AM I DOING?

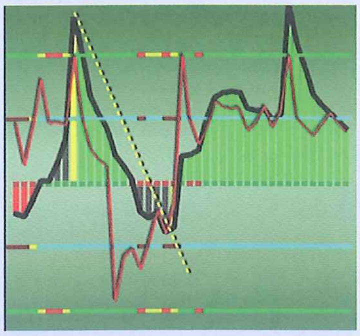
It is essential that you revisit your trading plan regularly and assess how you are doing. Are you sticking like glue to your trading plan? Are you keeping a strict record of all your trades? Are you going with every trade of the pattern you have chosen to follow? If not, why not? Do you not want to succeed?

ZERO LINE REJECT



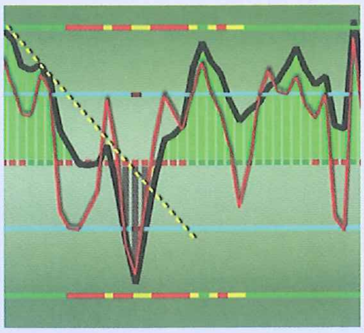
- Trend that goes past 100 line and back toward the zero line.
- Minimum 15-20 CCI point change away from the zero line.
- CCI not to exceed 120
- Chop Zone Indicator minimum three dashes cyan/long or brown/short
- Sidewinder yellow, green

TONY TRADE



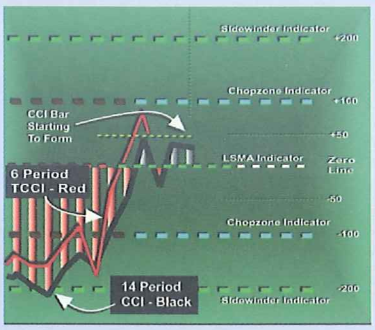
- Trend that goes past 100 line and back toward the zero line
- Crosses the zero line 4-9 bars
- Bars do not reach 100 line
- Crosses back over the zero line
- TBL not necessary but will confirm trade strength
- Sidewinder and Chop Zone Indicator are not necessary but confirm trade strength

GB100



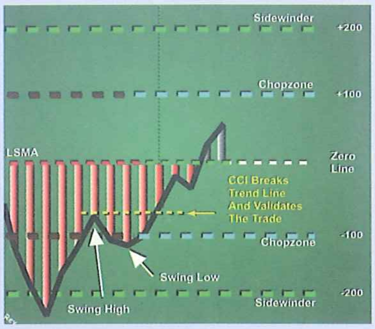
- Trend that goes past 100 line and back toward the zero line
- Crosses the zero line and passes 100 line with no change in trend
- Crosses back over the 100 line with TBL with no change in trend
- Must have long line of cyan/brown on Chop Zone Indicator. May have up to two bars of a different color

FAMIR



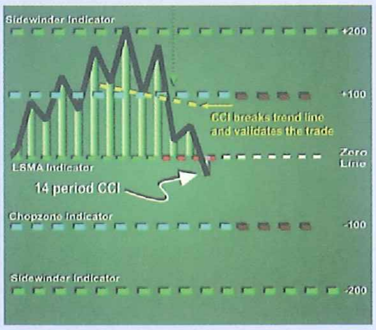
- ZLR must occur within 50 line boundary
- May take more than one bar
- Crosses the zero line and/or takes out the swing hi/lo
- LSMA must agree with direction of trade: green/long red/short

VEGAS



- CCI goes past the 200 line
- CCI heads back to the zero line through the 100 line
- Forms swing hi/lo and rounding for 3-10 bars
- Pattern triggers at crossing of swing hi/lo
- LMSA must agree with direction of trade: green/long red/short

GHOST



- Two shoulders and head
- Both shoulders/arms must be higher (Mittens Ghost) or lower (Regular Ghost) than the head
- Ghost must form on one side of the zero line
- Trigger is CCI crossing the neck line
- No other nuances needed for the Ghost

6

THE TECHNICAL STUFF

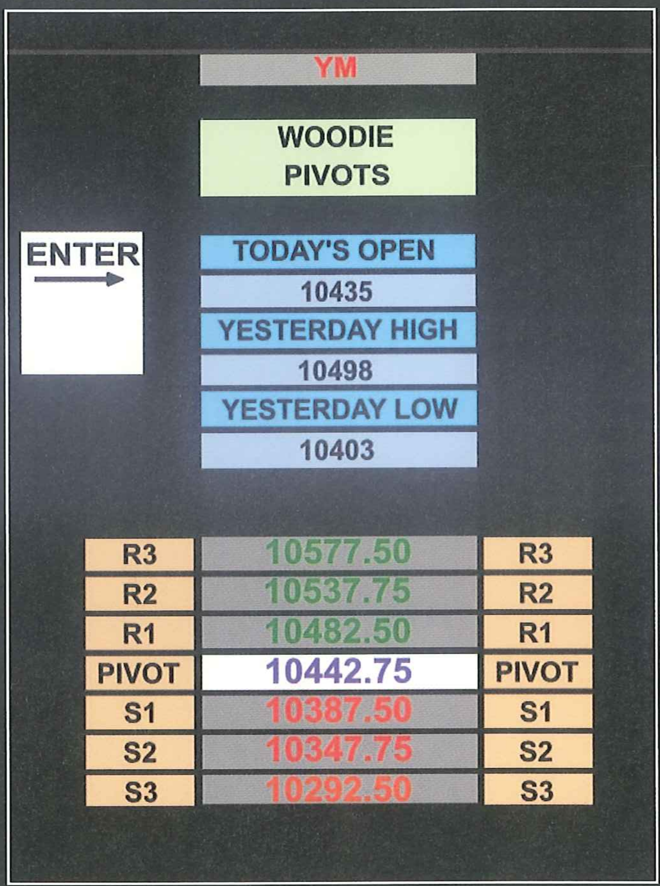
Woodie's pivot points

For years I have calculated pivot points in a different manner from the way they are normally calculated. In this age of mega-fast computers and the widespread availability of high-speed worldwide Internet access, news becomes instantly known, no matter where it is breaking geographically. This breaking news can change the mechanics of the markets, sometimes dramatically.

As I mentioned earlier, I like to find new tools, unlike anything that has been used

Fig. 6.1

WOODIE'S PIVOT CALCULATOR



The Pivot Calculator takes into account overnight events in the market in the past. My pivot points are different—not only do they work, but more and more traders are using them successfully.

In fact, I know some pit traders who use these pivot points and feedback from them indicates that they work very well. A number of traders in the chat room use them and are also obtaining good results. I use them myself, but for swing trading and not day trading. However, I am currently studying them from a day trading position, and I am developing a strategy to incorporate pivot points into a day trading system.

In the chat room traders can use the Woodie's pivot calculator without leaving the room or by downloading the Excel file onto their own computer. The floor trader's pivots are calculated on all that happen yesterday, and, as I have said, markets mechanics can change spectacularly overnight, leaving these pivots worthless, as they do not take into account any recent developments. Therefore, the calculations I employ in my pivot computations use the more up-to-date information and take into account the most recent current events.

I take yesterday's regular trading hours high and low, then incorporate today's open regular hours twice, and those four numbers are then divided by four to get today's pivots.

Using the open today takes into account the new mechanics of the market, as the markets will open having taken any fresh news into consideration. From there on, the standard way of calculating support and resistance is used. Many charting packages now incorporate Woodie's pivots. Figure 6.1 on the previous page shows the calculator I use, which is available free on my website.

Statistics workbook

Are you intimidated by stats? We have talked about the importance of statistics, and I cannot impress upon you enough the value of learning how to record statistics properly and in an organized manner. This next section explains the psychological importance of understanding, recording, analyzing and using statistics in day trading.

In the main chat room each day we record the basic CCI patterns and sum them up in an Excel worksheet, which is posted in the forum and is also available to download and use yourself. This is a great learning tool and can be used to help develop your own trading plan.

Many traders use the Trade Navigator charts. Trade Navigator also provides the opportunity to record statistics and analyze them. All the user has to do, at the end of the day when Trade Navigator indicates that a trade has been taken, is to insert the type of trade it was (for example a Ghost), and the calculations are done automatically. There are built-in statistics and reports; not only are reports broken down by pattern and/or vehicle but also with money management strategies. In addition, Trade Navigator can scan for patterns and the equity curve is similarly incorporated.

You must remember, though, that this process is for educational purposes only and your own results will be different. All the trades shown were posted in the chat room live as they happened. You should always consult your broker or financial advisor before placing any trade.

Gaining confidence through statistical analysis

There are three kinds of lies: lies, damned lies and statistics.

—Benjamin Disraeli

He uses statistics as a drunken man uses lamp-posts—
for support rather than illumination.

—Andrew Lang

Like dreams, statistics are a form of wish fulfillment.

—Jean Baudrillard

As you can see, there are many schools of thought regarding statistics. Technically, statistics is defined as the mathematical evaluation of a collection of data that has been organized to interpret the probability of the reoccurrence of a specific type of pattern. In simpler terms, statistics help you figure out the likelihood that a particular sequence of events might happen. Calculating your statistics will give you the hard data you need to help build confidence in your trading practice.

Failing to analyze your statistics is not an option when it comes to trading; it is an essential requirement which cannot be avoided. Statistical analysis is the only way for you to research and test a chosen trading strategy. It is your own personal primer and should be updated every single day and used as a reference for evidence to confirm your belief in your trading strategy. Updating your statistical reports daily will enable you to develop and modify your trading strategy as the markets evolve over time.

If, by chance, you decide you can trade without the benefit of researching, testing and re-testing your chosen trading style, you will probably become well acquainted with that cardinal trading sin: bias. Bias is the subtle and manipulative behavior our minds use to make us react with an emotional response while making decisions, rather than sticking to the application of a sensibly worked-out, reasoned and objective plan which has been proven to succeed by means of statistical analysis. It means you can be swayed by anything and everything that comes your way, including news reports of catastrophes, the president's recent speech, the football game last weekend, even something your dentist said! So, although keeping statistics is not the complete answer to winning or losing in the trading world, it will certainly help you understand what direction you should be moving in the ever-changing world of trading.

As I've mentioned before, physically keeping your data has become far less demanding than in the past when trades had to be manually entered into a spreadsheet. Computer software is, of course, now available to collect, organize and analyze data in any number of formats. Computer software packages that are connected to front end charting software are easily accessible to anyone. They can be set up to alert you as pre-flagged patterns form and work out just about any statistical data in any format you could wish for. Although, it should be noted that the convenience and expediency of these software packages add a monthly cost to the trading operation which has to be factored in to the overall cost of trading expenses.

Of course, there are less expensive methods. Manual record keeping, for example, is perfectly acceptable if you like mathematical calculations and prefer to enter the sample data by hand and then calculate the statistical analysis yourself. The other option available to the newcomer is to create an electronic spreadsheet with the necessary headings and macros, which will facilitate the input of data and the tracking of the required information with more speed than by hand. Woodie's CCI stats workbook is a good example of a set of ready-made stats spreadsheet templates that can be utilized once a trader has registered on the Forum. There are lectures on keeping statistics available on www.woodiescciclub.com and in the Forum, which will help newcomers understand and start to use this valuable accessory.

Headings for both the manual and spreadsheet formats should include captions such as:

- Date and time of entry—This will help you follow the progress of a particular trade at a later date.
- Trade setups—Each CCI pattern being studied should be monitored separately.
- Whether a trade went long or short—You'll need to know which direction the trade went.
- Maximum adverse excursion (MAE)—What was the drawdown of the trade?
- Maximum favorable excursion (MFE)—What the peak of the trade?
- Exits—You'll need this to calculate your bottom line.

In addition, the supposed entry price, along with profit stops and stop losses should be noted. All of these entries will make it possible for you to track the manner in which your chosen strategy will perform.

Studying your statistics will you a better understanding of your own edge. "Edge" can also be defined as "a high probability of success" achieved while applying a particular strategy within a trading system. The concentrated study and analysis of statistics using different approaches will provide you with a better idea of the combination of trading components that will work best for you. This, in turn, will give you a deeper knowledge of the CCI patterns and their many varied nuances.

The more scrutiny you give your statistics, the more confidence you will have in your trading system. The psychological strength you develop from truly believing in your investment strategy will alleviate the mind games that can destroy your focus. You have to believe in your strategy and trade consistently within it, or you will become easily distracted by outside events and lose the impetus required for the clear-headed decision-making needed in trading.

However, due to the seemingly limitless opportunities in the marketplace, it's important to define your parameters. These fundamental decisions: one contract, one time frame/range, one signal, one market, can be made once you have taken time to listen to the chat room, researched the Forum and read and understood the "Basic Patterns and Terminology."

Once you've made these choices you can decide how you are going to back-test your chosen variables and how you are going to record your data. If you begin recording your statistics in a disorganized manner, the results will be of no use, so plan carefully, with help from the website, especially the Forum where there is plenty of advice from experienced moderators and traders.

Statistical data should be categorized and examined to define the differences and performance of each strategy. This comparison will enable you to select a strategy, or series of strategies, that are more likely to succeed and give you your edge.

Deciding upon a particular set of working models to use on a consistent basis, either while in simulated trading mode on a demo platform or trading live in a marketplace, will remove the mental anguish that can happen when you have to make a quick decision on a trade in the heat of battle. Having analyzed the processes of a particular approach many times with statistical analysis, you will have more confidence in the likely outcome.

However, no matter how many times a certain method is tested, that well used axiom, "Past performance is no guarantee of future results," comes to mind and should be heeded at all times. Research and analysis will only give you a picture of what the "probability of success" might be, it will not guarantee success, only the likelihood of success!

To get constructive conclusions from recorded statistical data, you must ensure that the sample selected for testing is large enough to generate a reliable result. Some traders have been known to discard data that does not match their paradigm to make their results fit—otherwise known as "curve-fitting." This means that they quietly omit losing trades, even though they may correspond to their criteria, and include trades that win but do not exactly fit their trading benchmarks. This will not help in the long term, as it will produce inaccurate results and detract from the legitimacy of the findings. When utilizing their model for real-time trading, any conclusions drawn from the flawed statistical analysis will be worthless.

Back-testing can be defined as testing a strategy on historical data in order to see if the system works and is profitable. Back-testing allows you to analyze large chunks of records in a comparatively short period of time, when analyzing real-time data will take exactly that—the actual time during which a trade takes place. Back-testing allows you to evaluate various strategies on your own time, rather than adding to the already stressful nature of trading live in the marketplace. You have time to experiment with the results of different formulae which, in turn, will give you further confidence in your chosen approach when you go live.

Your sample size will vary based on your trading practice. If you follow a daily chart time frame, several years of back data should be analyzed, whereas if you trade a small range bar setting similar to a three-minute chart, you should take a smaller sample such as three to six months of data. As mentioned earlier, too small of a sample will distort the results, as deviations to the norm will not be properly highlighted.

Questions that should be resolved by back-testing include:

- Is the system being tested profitable?
- What is the maximum drawdown of the system?
- Is the system simulating slippage costs in a reasonable manner?
- How many trades are required per year to make the system profitable?
- How long is a typical trading position kept open in the system?
- What is the MAE and MFE?
- What is the ratio of the average winner to the average loser? (a.k.a. the "profit/ loss ratio")
- What is the ratio of winning to losing trades? (a.k.a. the "win/loss ratio")

In this list the terms MAE and MFE are used. These are two significant concepts that should be taken into consideration when back-testing data. The MAE represents the largest loss suffered by a single trade while it is open. For example, a trade may close with a loss of -2 but while it was open, if it was at one point down a maximum -5, then that would be the MAE, as long as no other trade in the back-test exceeded this loss. Although a system may seem feasible superficially, an exceptionally large MAE would expose a system's impracticality, because the MAE would be too large for the intended account size, which in turn could precipitate a margin call that would render the back-test results inaccurate and misleading. The MAE is also useful in setting stop losses. If you have calculated the MAE for most of your winning trades then you can use this knowledge to create a trading system with an auspicious risk/ reward ratio. For instance, if you find that most of your winning trades do not go against you by more than 30 points, you can then use this fact to cut your losses when they are more than 30 points. The MFE, conversely, is the maximum profit that a trade earns before the trade position is closed out. Both these values are important when examining the system being tested in its entirety, and it is a judicious trader who goes on testing past the assumed stop area so he or she is able to develop a better understanding of the average trade outcomes in the future. Comparing the MFE and MAE is key to developing a better grasp of your possible edge when applying the tested strategy in the sphere of trading.

The list of subjects to investigate includes "profit/loss ratio," which can be explained by the trading system's ability to generate profits over losses. You should aim for a ratio of at least 2:1 when determining a profit objective for a trading system.

The win/loss ratio is the ratio of total number of winning trades to the number of losing trades (i.e., a 2:1 win ratio would mean a trader has won twice as many trades as he or she has lost). It should be noted that although this sounds good, it does not show the actual cash amounts won or lost and could, therefore, mean the trader has a losing strategy if the two winning trades actually made less money than the one losing trade lost.

After studying the MAE and MFE, you should next analyze your trade exits. Woodie's CCI system lists nine potential trading exits, four of which are covered in Woodie's CCI stats workbook. These should be considered and the statistics should be analyzed to see which exit option or options best suit your style and risk tolerance. Statistical analysis will give you an idea of which exit philosophy works with which trading strategy.

Once you are satisfied with the back-testing findings, the next step is to "forward-test." This means taking the strategy that has been proved by back-testing and trying it out in a real trading situation, albeit simulated on a demonstration platform where no cash outlay is involved! Here, perhaps we should reprint the CFC Rule 4.41, which will remind you of the limitations of paper trading:

> *Hypothetical or simulated performance results have certain inherent limitations unlike actual performance record: simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under-or overcompensated the impact, if any, of certain market factors,*

such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight.

Forward-testing also presents a chance for you to discover other issues that come up in real-time trading, including other skills that have to be acquired in the hurly-burly of live trading, such as order entry, slippage and how to cope with the psychological effects of working in the active marketplace. This simulated trading may bring up problems that you had not foreseen in statistical analysis and give you the opportunity to go back and fine-tune your strategy with the advantage of hindsight.

When you are satisfied that you have enough raw data, the analysis and interpretation of the statistics can commence. The most widely studied aspects of these collected records will encompass appraisals of the overall performance of the system being tested; the win percentage (total number of winning trades versus losing trades in the researched sample);

Fig. 6.2

HOW TO READ LEGENDS ON A CHART

[This section is reprinted with the permission of Doug Pirro, also known as DougOH in the chat room, who originally published it on Woodie's website.]

Follow the numbers across figure 6.2 on the following page from left to right. The two black numbers are telling you the CCI 14 values that the tips of the two white arrows (at the right side) are indicating. This is a calculated value showing where the black CCI line will be when the price bar closes at either the top or the bottom of its range.

PC=716 is the previous closing price one bar back. This is helpful to check the value without having to use cross hairs and the data window. You might use this to more easily compute a stop loss value.

Light green and light pink numbers are projecting where the long or short trade is going to occur if there is a pattern triggering upon bar close. Note the number is preset to one tick beyond the bar's closing value. It can be adjusted to bar close if you prefer to place your order there. These numbers will adjust with the price action until the full range of the bar is established.

The yellow number acts like a timer would on a minute chart. However on range bars it counts down from the chart's range setting (e.g., 15 range on ER2), and when it is at zero (0) the bar has reached the full range. So one tick beyond the high would be the value shown in the light green that was discussed previously.

The next three numbers, colored green, white and rose, are all related in that they show us a value for the difference of the current CCI bar and the previous CCI bar at close. It is used with the Zero Line Reject pattern rules. The white number shows the

the profit-to-loss ratios of each approach along with many other variables.

As I have said, time and time again, you cannot become a successful trader overnight. It takes many hours of research, screen-time and effort on the part of an individual wishing to even start to understand the ins and outs of trading the market. It also takes great strength of mind and focus to stay in this business when you hit a run of losing trades. I can only reiterate that meticulous statistical analysis will help you learn why trades happen as they do and find their best possible probability of success.

Putting it all together

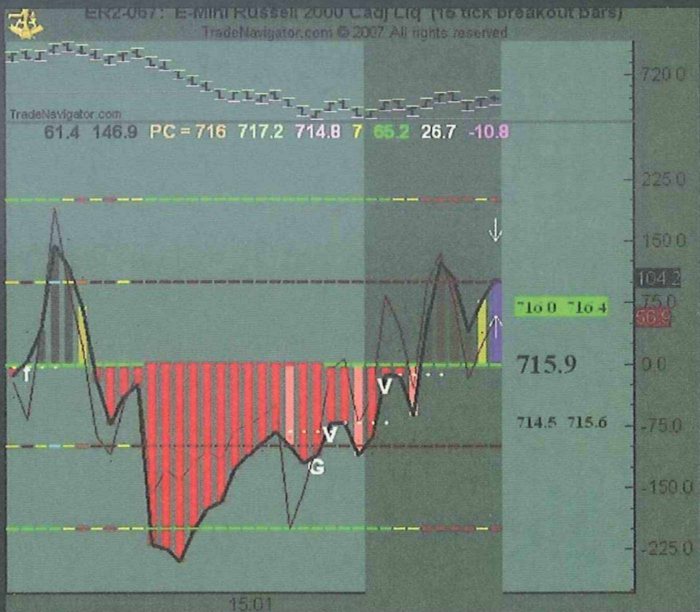
I have now outlined my trading strategies using the CCI indicator. Putting it in action will explain just how well this works combined with standard technical analysis. In turn it can show why many are using the CCI in their trading plan, primarily with CCI patterns.

Many traders make life difficult by using numerous indicators and moving

current CCI bar difference. The green number predicts what the CCI difference will be when the price bar it is linked to closes at the high. The rose number tells us the projected CCI difference if the price closes at the bottom.

The two white arrows at the right of the chart predict what the CCI will be if the price candle closes at the high or if it closes at the low. See the relationship discussed in the black numbers above.

The numbers on the right side show the current price, the highs of the previous and current price bar and the lows of the previous and current price bar. Note the previous values are the ones on the left of the side-by-side pairs.



averages, so that they are always having to overcome the massive mind games one plays with too much to analyze. This is an area where so many traders fail because most think more is better. However, in day trading particularly this is not the case. Keeping it simple is very important as it allows oneself to react quickly to a pattern and not waste time trying to get many things lined up, creating late entry into a trade.

Hence one of my favorite sayings is "to react is for kings, to predict is for the slaves." As I mentioned earlier, many traders do not have a trading plan and think that all that is required to be successful is to open a trading account. Many come to the realization—only after losing money in their trading accounts—that they need help. Do not be one of those traders—make sure you have a trading plan and stick to it.

One evening in the chat room there were some traders watching a live chart of the Hang Seng Index, which is really a mover and a great practice chart for those learning the CCI patterns. This is a common occurrence, to have people in the chat room when the regular U.S. markets are closed, because the more screen time you put in, the better chance you have of surviving the ups and downs of the market.

As I have mentioned before, I have a saying I use when I moderate in the chat room that says it all: "It takes about 10 years to become lawyer, 10 years to become a doctor and 20 years to become an Indian chief, why do you think in 10 minutes you can become a trader?" Far too many people think that trading is easy and then most admit that it is one of the most difficult things they have done. This brings up another thing I say over and over in the chat room: "In this arena you are up against the sharpest traders in the world. You are also in an arena where the biggest and best and fastest computers are being used, why do you think your $500 computer is going to get you in a winning mode? In order to survive, you have to be very sharp and very good." The problem with most traders is that their ego gets in the way, and trades are taken with no rhyme or reason other than their egos trying to guess the market's direction.

AN EXERCISE IN TRADING THE HANG SENG INDEX

Let's follow the CCI on some charts of the Hang Seng Index (HSI) from Hong Kong and put it all together!

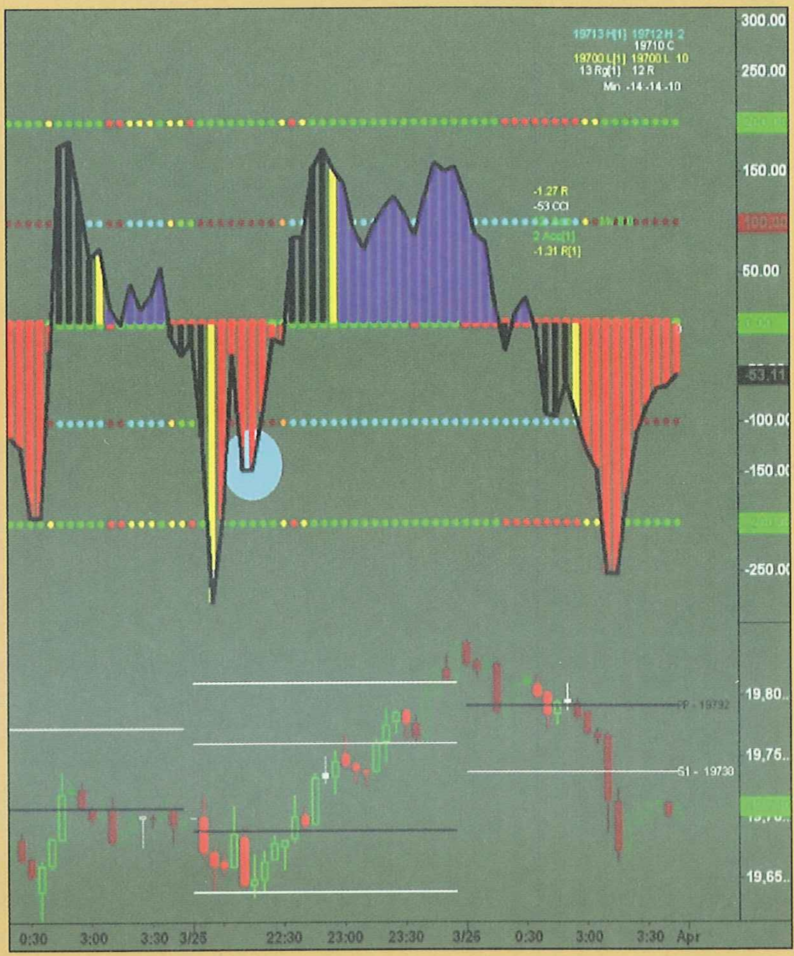
HANG SENG INDEX FIVE-MINUTE CHART

Looking at this five-minute chart of the HSI right after the opening, a Famir pattern developed to take a short. It was a break of the pivot point. This happens many times and I use my pivots in my swing trading with the CCI. Also note the horizontal lines on the price bars—the black one is Woodie's pivot and others are the S1, S2 levels of support and resistance—below prices and R1, R2 levels above. Notice how well they come into play.

HANG SENG INDEX FIVE-MINUTE CHART

The Famir pattern proceeded to go right to S1 and held exactly on S1. This area then was a place to take some profit and move the stop to break even +1 tick. Do not let a good trade get away! Notice the bounce from there that took us out of the trade at our break even +1 stop for a very nice trade. A tick value is about $6.40 (U.S.) on the HSI.

HANG SENG INDEX FIVE-MINUTE CHART

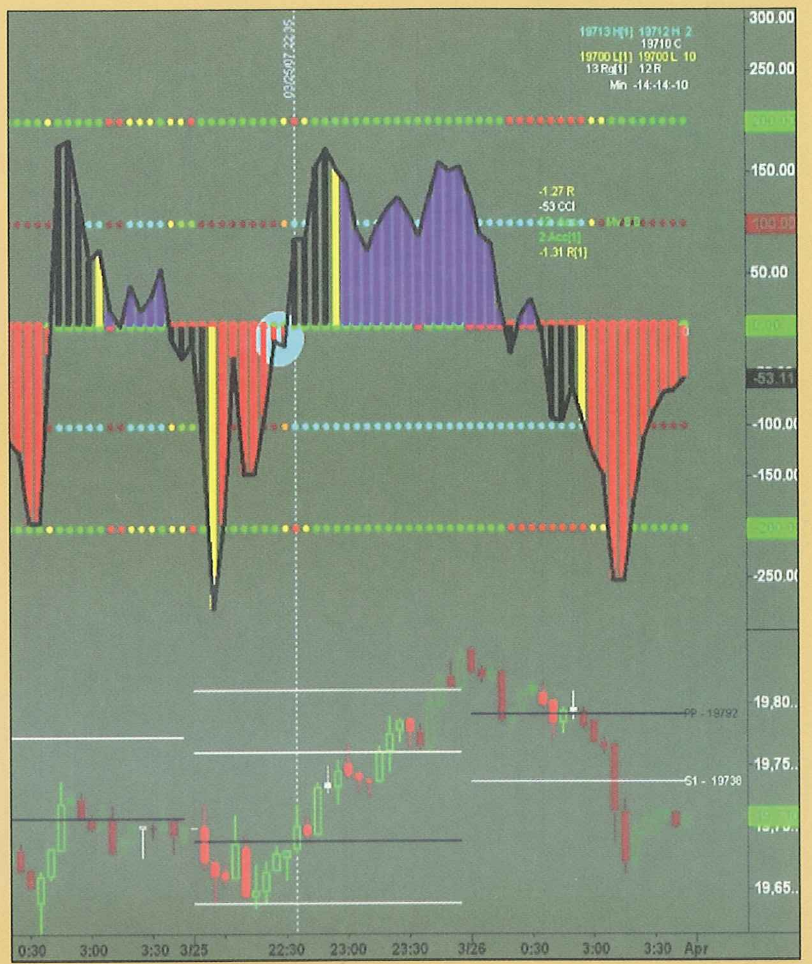


We now go down again to test our S1 area and it holds very well. At the same time, take a look at the CCI indicator and notice the flat bottom. This shows that the momentum to the down side is over and, as you can see, corresponded with the S1 holding. This concluded the first trade of the evening, and it was a winner! Most people practicing in the room at this time got the trade.

HANG SENG INDEX FIVE-MINUTE CHART

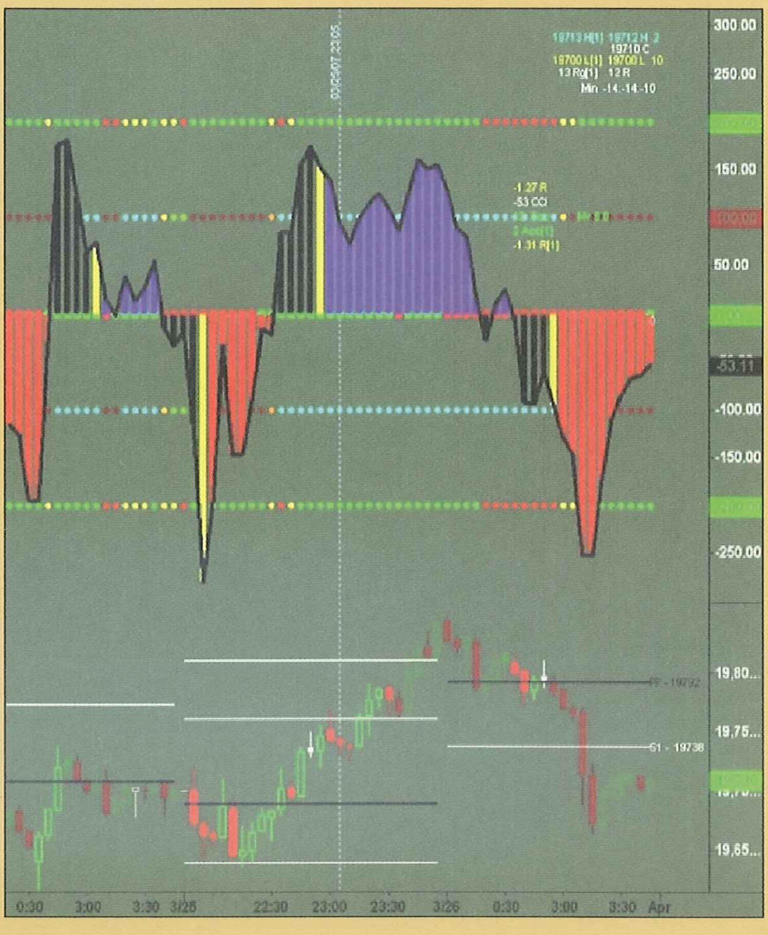
After our flat bottom on the CCI we went up and a Vegas pattern developed. Breaking through the swing high marked on the chart with trend line was the trigger to enter the trade. This is a trend-changing pattern to go long, further giving us the confidence that this trade was a good one. We stayed with this trade until it crossed back down through the +100 and used that as a great exit to a super trade. Note that we went up to the R1 level on Woodie's pivot and backed away just as we exited the trade. This concluded our second winning trade and we are up nicely. The combination of the CCI indicator, the Woodie's pivot and standard technical analysis worked together to form a high-probability trade.

HANG SENG INDEX FIVE-MINUTE CHART



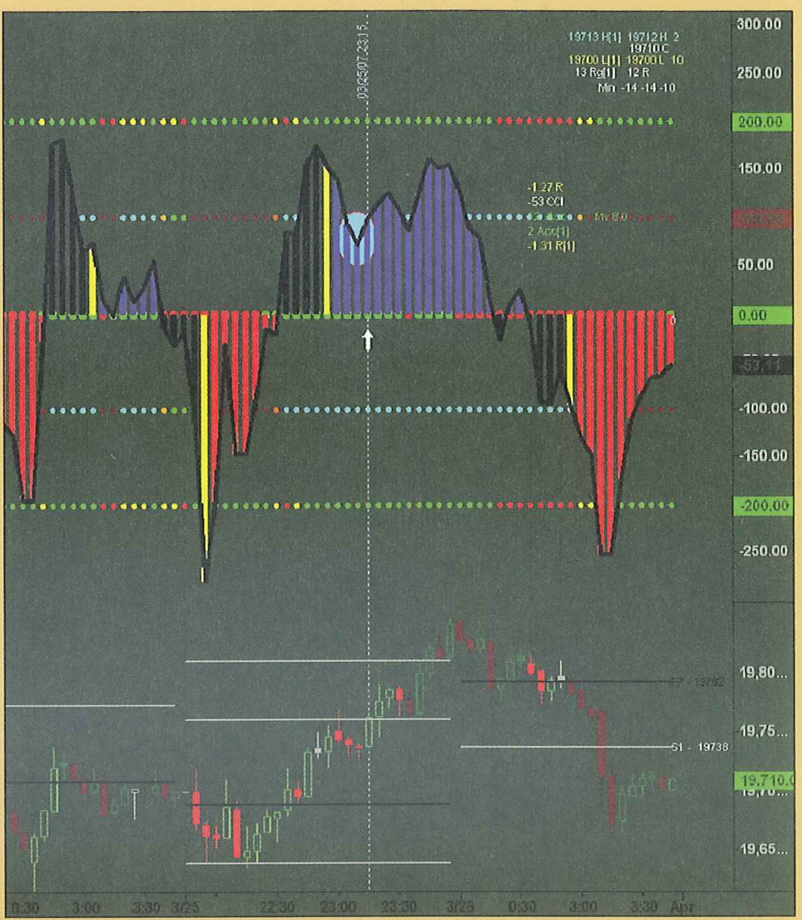
This shows the entry area with a Famir pattern as well as the signal to go long.

HANG SENG INDEX FIVE-MINUTE CHART



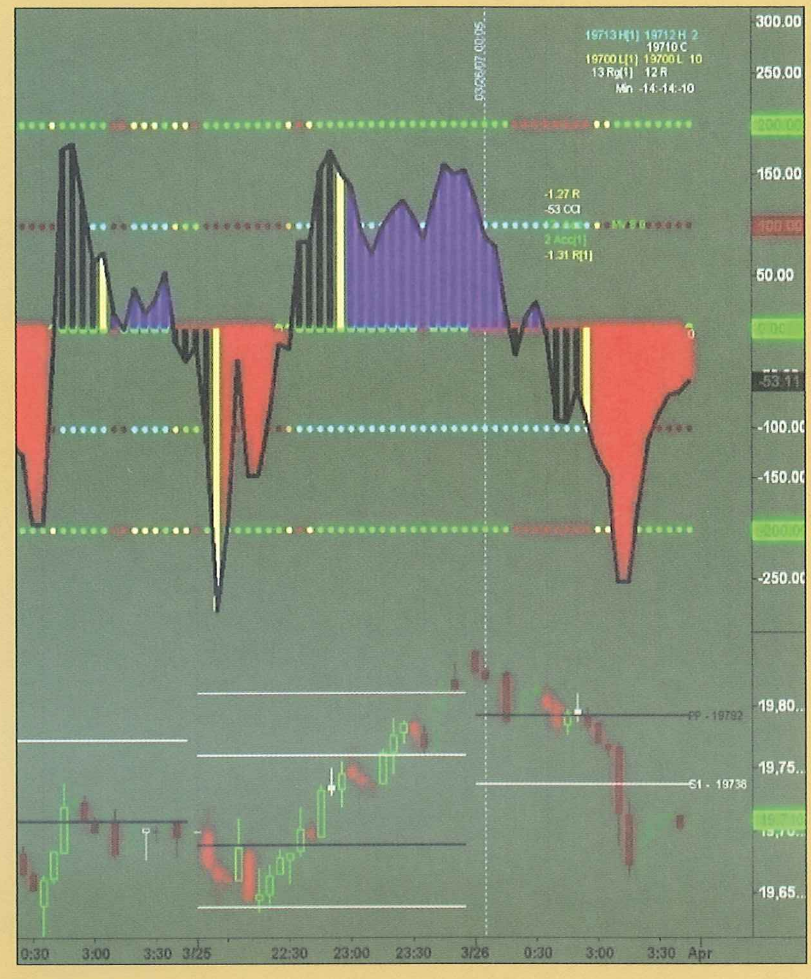
This shows exits crossing down through the +100 line.

HANG SENG INDEX FIVE-MINUTE CHART



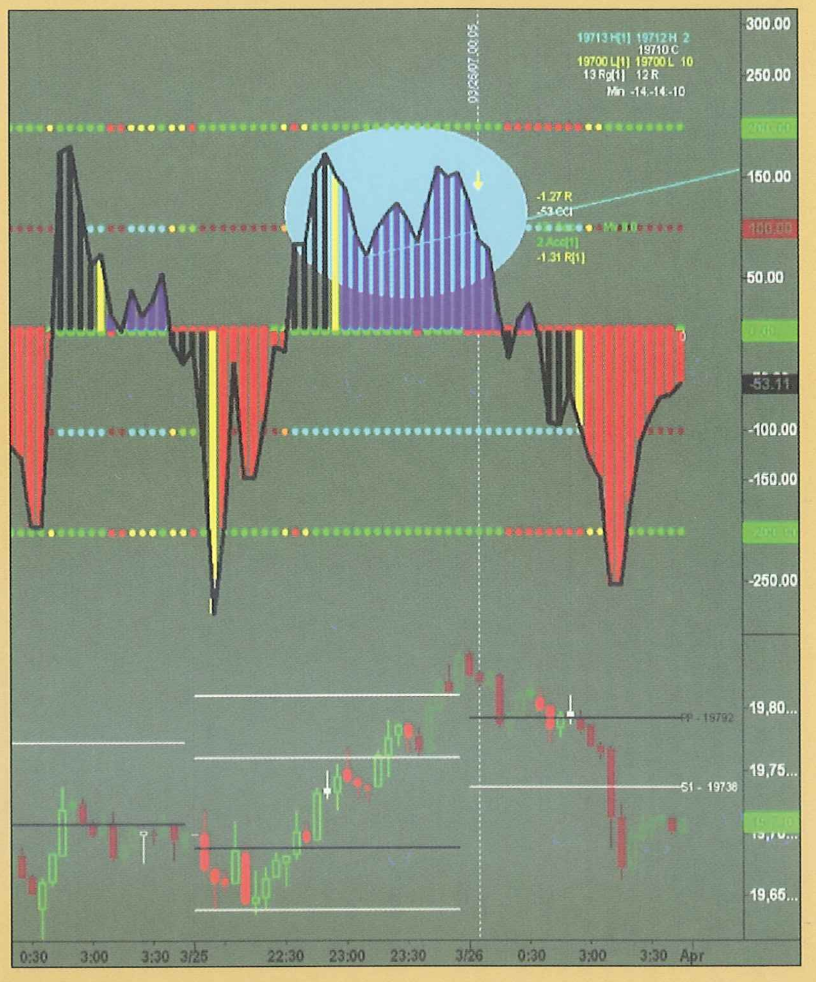
The next pattern we took was a ZLR. You'll remember this as buying the dip or selling the pullback. This pattern is buying the dip. All the nuances were there, so there was no question about making the trade. Notice also on the price bars, we broke R1 and continued up. We took some profit on our first target and were taken out of our runner at breakeven +1 tick, which was also the CCI crossing back through the +100 line. Standard technical analysis prevailed, as prices came back to test the breakout of the pivot—another great trade and a nice winner as well. Again the basic CCI patterns are successful, just "trading the damn patterns," as I always say in the chat rooms.

HANG SENG INDEX FIVE-MINUTE CHART



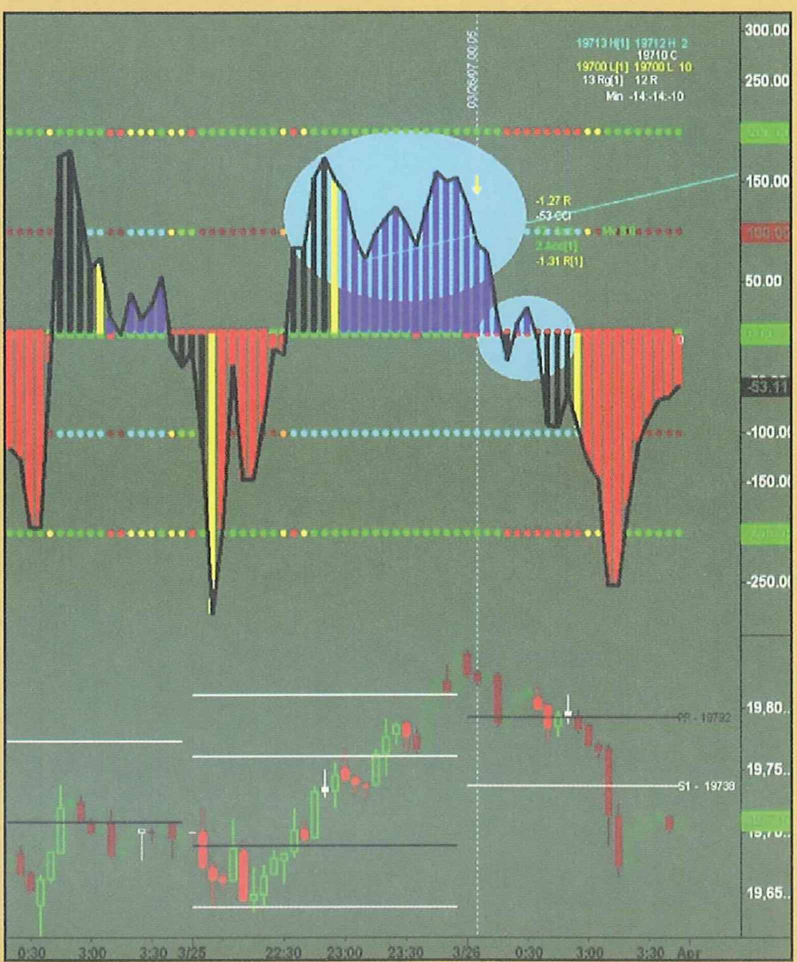
As you can see, it is midnight here on the East Coast, so there is a change in Woodie's pivots. Just after midnight a Mittens Ghost, another trend-changing pattern, developed. This chart shows the trigger short bar, which is the neckline, and also is our entry.

HANG SENG INDEX FIVE-MINUTE CHART



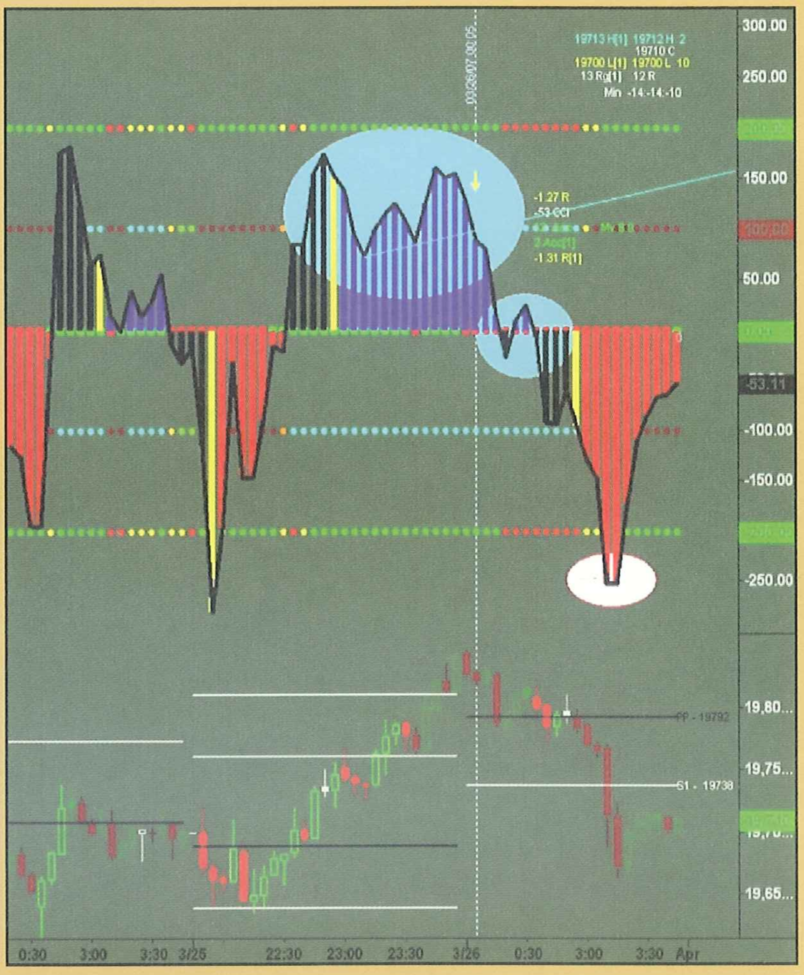
This chart shows the whole pattern outlined to make it easy to spot. We continued down and broke through the pivot where basic profit was taken, and we exited on the good hook back—yet another basic CCI pattern that works well with the pivots and standard technical analysis. Staying with our trading plan and trading the basic CCI shows us that, although our success rate is not 100 percent, it does give you a chance! Most people trading in the room at this time got the Mittens Ghost; those who did not were not trading that particular pattern in their trading plan.

HANG SENG INDEX FIVE-MINUTE CHART



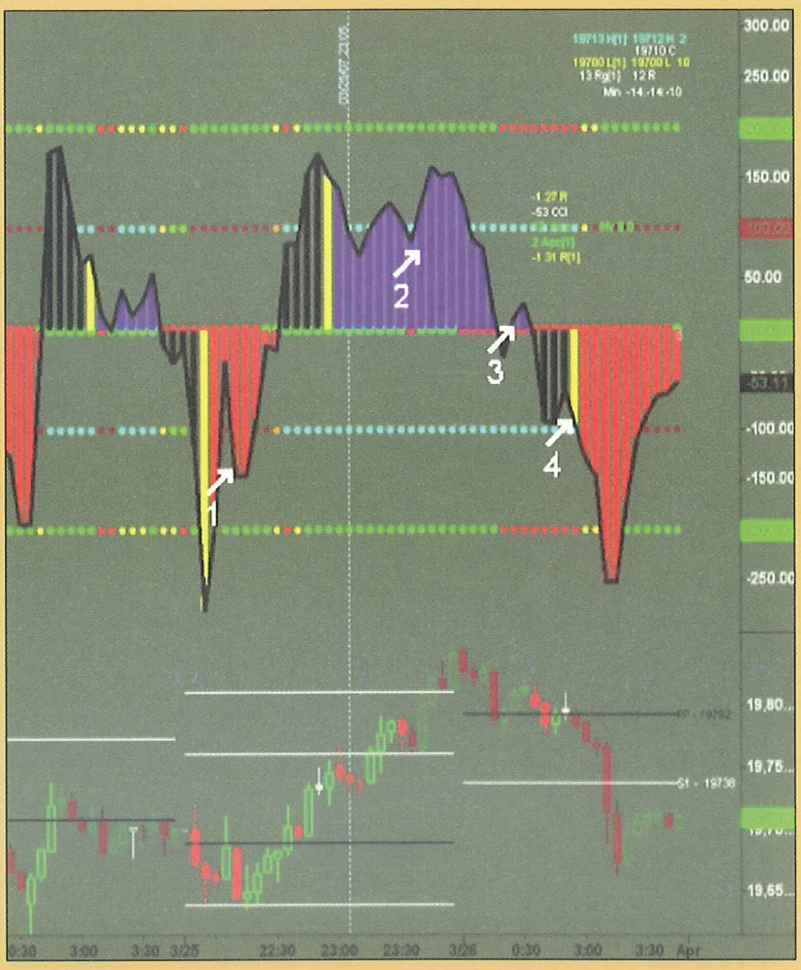
This shows a Famir pattern, which is a double reject of the zero line or, technically, a test and retest of major support/resistance. Our trigger is the CCI coming down through the zero line the second time. This corresponds with trying to break the pivot as well. Using our stop as one tick above the high, we were never stopped out. Using high/low entry of the entry bar is good for stops as well as the key support or resistance area that we used earlier. We stayed right around the pivot area and tested the -100 line, which was also minor support in this case until we finally went south for a beautiful trade. All the traders in the chat room, whether live or simulated, were in this trade. We broke through 51 and our exit was the flat bottom at extremes. This was a very nice basic CCI trend-changing pattern and a big winner as well.

HANG SENG INDEX FIVE-MINUTE CHART



In summary, for the night's trading, we took five trades with five winners. The key was that we traded the basic CCI patterns as outlined in this book and throughout the website. We also stayed with our trading plan. The flat bottom on the CCI could be an exit (shown above in white).

HANG SENG INDEX FIVE-MINUTE CHART



So is it always like this? No, but the CCI patterns give you the edge to make it as a trader. Maybe this is the reason we have many pit and professional traders in the room learning the CCI.

I hope this exercise has given you some insight on how we trade the CCI and how exciting trading can be, if done correctly. Is it always like this? No, but the CCI patterns give you the edge to make it as a trader. There were four other possible trades that we did not take. They are indicated on the chart above with white numbers and arrows. Perhaps you could work out why they were not taken. (The answers appear on page 113.)

EPILOGUE

Range bars: The new frontier

As you know by now, I am always trying to help traders improve their trading skills and I also always like to be ahead of the herd. I do not like to continue using the same old systems that everybody has been using for years and years. Candlestick charts, HLC price bar charts, tic bars, volume bars—the same old stuff that, so often, traders are not completely successful with. I like to continually look at and test completely new and radical methods.

Trading the patterns with the CCI, a momentum indicator, is indeed revolutionary and works very well. However, life does not stand still and I have been testing and re-testing my latest cutting-edge system, a new frontier in the CCI and day trading world: range bars.

In 1995 a Brazilian trader and broker named Vicente M. Nicolellis, Jr., developed a groundbreaking system of charting price bars. Due to the instability of the markets he worked with, he knew he needed to find a way to resolve their unpredictable nature, which included long periods of time in sideways or consolidating actions. He decided that eradicating the time factor from the equation and just concentrating on price would be an answer to his problems. Vicente, therefore, developed a price bar which ignored the time element altogether and involved only the price movement. These price bars became known as "range bars." Each range bar has the same price increment and each bar closes at either the high or the low, no matter where it opened.

Range bars, or as they are otherwise known, "break out bars," were officially released at the Woodie's CCI Club seminar in Las Vegas in November 2007. We have made some beautiful trades using them and they are working splendidly.

The great thing about range bars for traders already trading the basic CCI patterns is that all the patterns stay the same! There is nothing different in any of the pattern configurations at all; the ZLR, the Ghost, the TT and all the rest—they are identical to patterns you have been trading every day.

The formula used for the range bar values in each main market is as follows:

YM: 25, the Russell: 15, gold: 15, Dax: 10. Other settings used are the QM: 20, euro futures: 15, ES: 12, NQ: 15, crude: 20, Hang Seng Index: 30 or 40, stocks, FCX, GOOG-300 100, to name a few With soybeans I have been using 15, but you can play around with that.

Each range bars is made up of 15 price increments on the Russell and gold, or, as in the case of the YM, 25 price increments, the Dax 10 price increments and so on. Every bar is equal in size and I have tested all the settings and traded it live to make sure I am publishing the best settings to apply. However, do your own stats to find out what works for you.

Range bars have to be downloaded with your trading platform. I use the Woodie's CCI Club Trade Navigator charting package by PFG Best, along with Ninja Trader with Desertsoft software applied (www.desertsoft.com,) which, to my mind, offers premium benefits apart from the range bar (break out bar) settings which you can set the times on. For instance the Russell and the YM start up at 9:30a.m. EST and all you have to do is adjust the time frame on the new Woodie's CCI Club charts. Gold and the Dax are 24-hour charts, and settings do not change for 24-hour charts. There are at least eighteen other charting packages that have the range bars available and more companies are incorporating the new set up every day. You can use the Woodie's CCI Club charts and trade with whomever you wish.

Advantages of range bars

The superior benefits of trading with range bars over and above the basic CCI, in my opinion, include the following:

- All the patterns are the same—they are identical to those used in the original basic CCI setup. A bit of psychology on the range bar—you can see the patterns more easily!
- There is less noise. By that I mean that all the bars on the Russell, for example, are going to be 15 price changes and each bar is exactly the same size, so you will see much smoother patterns. It eliminates the market noise you get with minute bars.
- The range bars eliminate the sometimes misleading large movements in the CCI

during quiet markets. (Sometimes people say, "Wow! Look at the CCI move" but the prices hardly move at all.)

- Most times the range bars will show a turn before the regular CCI and the rest of the market turns.
- You will have bigger stops but more profit and fewer trades. In other words you are going to get much larger trades, stay in those trades for longer and it is going to help your risk/reward ratio and there will be fewer trades that do not get follow through.
- The CCI difference shows better on the ZLR and your stops are easier. You get one or two tics above/below the entry bar and everybody will pretty much have the same stops.
- The pattern triggers are the same as the regular minute bars. This means that, if you are a "bar close trader" you can do the same thing and if you trade with 20 to 30 seconds to bar close you can do that too. The tendency is to wait until the bar close and the new bar starts. This helps traders to put buy and sell stops in ahead of time, thus getting in first in line, or close to it.
- The range bars show a sideways market more clearly, which means you will not see as much choppiness in the market, making it more even.
- You can use the same money management techniques—it is no different than the basic CCI. I recommend that you still keep stats and analyze them.
- The angles of the CCI are enhanced, and we all know the importance I attach to the angle of return when working with the CCI!
- The range bars handle the zero line and the 100 value lines better. These are lines of major support and resistance and minor support and resistance, respectively.
- The Turbo warning is clearer.
- The LMSA is the same.
- You can use buy stops and sell stops to enter a trade because you can predict where the top or bottom is going to be. In other words, if you have the bar going up and you know what the low is, you can put a 15 (or whichever setting you are in) price change from the low; set your buy stop or your sell stop from the high or from the low and this will make it easier for you to enter. The only important thing you have to remember is to watch that, if you make a new high or low, then you might have to adjust your stop accordingly.

- The range bars show the trend more plainly
- Even if you watch candlesticks you will notice that there is less noise because each bar indicates the same amount of price change, eliminating the mind games that many traders experience.
- The range bars do not affect the Woodie's pivots.

There are a couple of minor differences when handling the range bars as opposed to the regular basic CCI:

- The Sidewinder settings have to change to 30 from 60.
- On the Chop Zone Indicator if you have solid blue for a time and then see one or two different colors then returning to blue you can take a ZLR. This is a little more lenient than the regular minute chart but gives you additional latitude for long trades.

Range bars will set the world on fire!

You will find the range bars and the new CCI setup tremendous—a completely new concept compared to the regular basic CCI. Even though the basic setup is still good to trade, I believe range bars will transform the world of trading.

As I mentioned earlier, range bars have actually been around for sometime but nobody has really determined how to use them effectively. So that is what I am doing for Woodie's traders now, and they work brilliantly with the CCI. Range bars will give you an edge to help you survive and be more successful in the trading arena.

Traders no longer have to rely on timing and do not need a clock on charts any more. Range bars are not predicated on time. It could take an hour to get a range bar or it could take 10 seconds due to the bars being price increments. There is no change in the interpretation of the CCI patterns. Nothing has changed from the entry pattern in the minute charts—all you have to be able to do is add and subtract the range bar values you are working in, i.e., add or subtract 25 for the YM, 15 on the Russell, and so on.

It is very easy to know when the bar is going to close: for example, if you are working with the Russell and you know what the high of the last bar is was, you add 15, or you subtract 15 if you know where the low of the bar is. This will only have to be amended if you make new highs or new lows.

Exit signals stay the same, nothing has changed there. Range bars are especially good for aggressive type traders because they can pick and choose their entry better, knowing where the bar starts. They can also help you effectively set buy and sell stops. For example, if you are looking for a short on the YM and you have a high on the bar of 13110 and you know that each range bar on the YM is 25, it's easy to calculate your stop. As long as the YM does not make new highs, the next bar would start at 13184 so you would put your buy/sell stop at 13084. These range bar statistics have been tested and re-tested. With back-testing you cannot replicate the same events as in live trading.

The range bars show the markets more clearly and they eliminate the mind games that are played when the candlesticks gyrate. Because the CCI is a momentum indicator, it makes no difference to what kind of market you are in; they tell you where the market is right now—it is not a projection. We now use only the range bars in Woodie's CCI Club basic room.

As I have indicated, I recommend the Woodie's CCI Club Trade Navigator and Ninja Traders charting packages with Desertsoft software (available at www.desertsoft.com), not only because of the range bar settings but because of the other brilliant features that are available. The front end can set stops automatically, set up trailing stops, and buy and sell. The reports and statistics it allows you to create can be put into your own document and printed. You can set the times for each market where necessary. The equity curve shown will tell if you should be trading or not.

Trade Navigator and Ninja Trader Desertsoft have developed the Woodie's CCI Club pattern recognition software that shows possible patterns and pattern scanning in real time, while the front end does automatics statistics. You can even set up alerts to earmark possible patterns forming. These alerts will sound a bell, show a pop-up or alert you by email—whichever suits you best. They can display on the trading chart by code and color—for instance "z" for a ZLR, or a pink "t" on the YM alerts a possible Tony Trade. These tools are not available anywhere else; they are tools to help traders. We also now have projectors, which predict the location of the Sidewinder, Chop Zone Indicator and the LMSA along with the CCI—either at the top of the bar or the bottom of the bar. This tool is not available anyplace else—you are given the point where the price will be you can place your entry ahead of time!

In the same way that trading the basic CCI patterns help keep you one bar ahead of the rest of the market, using range bars to trade the CCI patterns will help keep you that much farther ahead. I hope you enjoy trading the range bars.

Where do we go next?

Where is Woodie's CCI Club going in the future? Time for the new frontier: Autotrader!

What is autotrading? Autotrading, by definition, is a trading strategy where buy and sell orders are placed automatically based on an underlying system or program. The buy and sell orders are executed in the market when certain set criteria are met.

It seems to me that many people find it hard to handle the emotions involved in trading on a day-to-day basis, and that is why a large percentage of people lose. They cannot handle the whole concept of trading without emotion, trading without being moved by outside events and personal disruptions. They simply can't focus entirely on the patterns.

With this in mind, I believe that Woodie's CCI Club must continue to move forward and evolve. We must always improve upon the way we do things and strive to offer people new options and ways of trading. Autotrading is the new frontier we have to conquer.

We have been moving in this direction for two years now, testing and re-testing new ways of trading and gradually developing new systems to enable members of Woodie's CCI Club to progress to a most advanced form of trading.

Using cutting-edge technology, the leading edge of technical analysis, DesertSoft, together with Woodie's CCI Club, has combined the Woodie's CCI pattern recognition system with a robust order routing engine. This has resulted, in conjunction with the NinjaTrader platform, in a strategy that completely automates the trading for Woodie's CCI system. This system offers orders automatically submitted on pattern trigger, stop losses actively entered, managed and adjusted, automatic break-even adjustments and automatic halting of trading during a sideways market. The system logs slippage on filled orders and incorporates all the features from the Woodie's CCI Club pattern recognition indicator, to mention but a few of the benefits.

It should be noted that this particular system is not a free service and would add an additional cost to a trading plan, which should be taken into consideration when weighing up the pros and cons of utilizing automatic trading.

I mentioned Woodie's CCI Club pattern recognition indicator. This is another add-on some traders are using, and it is designed to recognize all of Woodie's patterns as a stand-alone, apart from being used in the autotrading package. It includes the ZLR, Tony Trade, GB100, Famir, Vegas and the Ghost, to cite just few useful advantages. Once again, though, it will increase the operational costs of your trading plan and we can all, of course, trade in the regular manner without escalating our overhead!

Autotrading is just another example of how Woodie's CCI Club will always lead the way. Autotrading is the radical new path to follow, a natural progression in our field of vision. I hope you will join me in Woodie's CCI Club and on the path to the future.

Happy trading, and good luck!

On a final note, did you research what the four patterns were on page 106 and why there were not taken? Doing this will help you learn the patterns and the requirements needed. And you only get out what you put in.

Answers:

Arrow 1 is a good ZLR. However, it was not taken because the bar closed below the 120 line. As a result, we did not chase it—no trade.

Arrow 2 points to another ZLR, but again, the bar closed above the +120 so we do not chase. Everything else was good.

Arrow 3 indicates another ZLR, but the Sidewinder was red, so no go.

Arrow 4 was a possible ZLR, but it had only five bars. You need six, and one bar needs to be -100.

APPENDIX I: Chat Room Etiquette

Woodie's CCI Club chat rooms are popular and very busy places to hang out on the Internet if you are interested in learning about Woodie's CCI system. It is a great place to meet people from all over the world with the same interests. Like being on the telephone, at a party, or in any other social situation, chat room particpation requires that everyone uses the proper etiquette (or perhaps we should call it "netiquette!"). We all need manners to establish good communication and maintain good relationships with others—it also makes the chat room experience a positive and fun one.

The Internet has spawned a whole new batch of ethical dilemmas regarding how we all relate to one another. Unlike an e-mail exchange with a single person, the chat room means that many people will read the conversation. It's like talking loudly in a crowded restaurant!

Most of these guiding principles are simply common courtesy and ensure that all users remain respectful of other people.When entering the chat room of your choice, think of it as entering a room full of strangers from all over the world, with varying ages and backgrounds, and act accordingly. It is usually best to watch quietly at first from the sidelines to determine the tone of the room. If you decide to stay, introduce yourself, or, if you think this is not the kind of party you like, leave and do not waste other people's time. Every chat room has its own set of rules. With that in mind, I will first cover general rules and protocols that apply to all sites and then discuss what is acceptable in WoodiesCCIClub.com and what is not!

Here are some of the major "Do's" and "Don'ts" when chatting:

Do:

- Introduce yourself to the people in the room
- Respect the rules of the chat room, keep it clean and stick to the subject in hand
- Use proper judgment when selecting a nickname that you will use in the chat room, avoid using rude or inappropriate names.
- Remember, you are not talking to a computer, you are talking to real live people

with feelings and different opinions, who just happen to be communicating with each other by computer.

- Say hello to new arrivals. Try greeting newcomers to the chat room, it will make them feel welcome and encourage them to stay.
- Be patient with newcomers—they may not know all of the abbreviations used when chatting. You were a newbie once, you know!
- Let people know if you have to leave your keyboard for a few minutes. BRB means "be right back" or set your status to "away" so that people you are in conversation with will not feel ignored if you do not answer.
- If you do find yourself in the wrong, promptly correct yourself and apologize for any offense given.
- Remember everyone will not be in the same time zone as you.
- Remember not everyone will speak the same language as easily.
- Be yourself and have fun
- Always be respectful of others and their opinions, even if you do not agree with them.
- State your question clearly.
- Be civil to others, because only text is seen and you cannot judge by tone of voice or facial expression.
- Give the room a chance to answer you. Patience is a virtue.

Don't:

- Don't worry about spelling; typos and spelling mistakes are to be expected when chatting online. If you carefully proofread everything you type then you may find that your reply may be out of context by the time you hit the "enter" key.
- Do not interrupt. Be patient—you will get your chance to chat. Keep things short and to the point.
- Don't type in ALL CAPITAL LETTERS. This is considered "shouting" on the Internet and, just like in real life, is considered rude. Although the occasional use of capital letters can be acceptable to stress certain words, you can also use *asterisks* around a word to show emphasis.

- Do not use obscene, offensive or sexually explicit language. You really do not need to use this sort of language to get your point across.
- Don't be rude, offensive or engage in personal attacks (flames) or threats. This will usually cause you to be ejected from the chat room either temporarily or permanently. If you disagree with an opinion make sure your comments respond to the subject at hand, do not be tempted to make personal comments, no matter what is said to you. There are bound to be troublemakers from time to time, try to ignore them.
- Don't get angry with people who are rude or offensive. Humour may diffuse a situation or simply ignoring them may work even better!
- Don't repeatedly type the same thing over and over again or keep entering text in quick succession (called "scrolling"). This forces the chat room to speed up to keep up with your typing and disrupts the room by pushing other messages off the screen and making chat harder to read.
- Never pose as another person. Although the duplication of common nicknames often occurs, the deliberate act of pretending to be someone else will be seen as a violation of both their privacy and the chat room protocol.
- Don't use the chat room to advertise your product, website or service.
- Don't spam or flood the room with repeated questions, statements or links.

When you enter www.woodiescciclub.com you will come across the following disclaimer, after which you will have to click "I Agree" or you do not get to go any farther on the site:

Please format the remainder of this section in a different way – this last part is all a reproduction of a disclaimer from Woodie's website.

By remaining here, you acknowledge that:

This university website & room is for educational information and exchange of trading ideas only. Nothing mentioned by voice, chart, or in text chat is to be taken as trading advice. Trades taken here are strictly at your own risk. You should consult your broker or financial advisor before placing any trade!

Our Zero-Tolerance Policy

Absolutely NO Soliciting, Sexual Dialog, or Political / Religious Chatter in this Room! It is further acknowledged that this university website & room is comprised of traders, and students of trading, from all walks of life, both professional and non-professional. The opinions expressed in this website & room are those of the individual moderator or poster stating such opinions by voice, chart, or text, and are not to be construed as made or endorsed by any moderators or other club members.

This is a club made up of individual members. This is not a professional organization. Ken Wood (Woodie) opened this website & room to all who were interested, but am not responsible for the content or action of individual members. Though there are members who are professional traders and brokers who may trade accounts on behalf of others, the club neither endorses nor profits from these associations.

New members acknowledge they will not ask questions for the first two weeks in the chat room, and further acknowledge they have read through the materials at Woodiescciclub.com. Further, all chart questions will be held until after regular trading hours. Questions are not allowed to be asked of traders who are in a trade. We appreciate members posting their trades while providing reasons and we do not want to lose those members because they are inundated with questions. Inappropriate of any kind should be reported to a moderator.

Moderators are giving freely of their time and behavior should be treated with the utmost respect at all times.

Since we are all trading the CCI patterns, and due to the nature of the different trading styles including that of Woodie and the moderators, entries and exits to trades will vary and should not to be construed as attempts to front run any market.

Woodie founded this university website & room for the purpose of furthering the education of all traders, premised upon the slogan "Traders helping traders." This philosophy extends beyond trading and has become the cornerstone of the membership of this club. Members consider it a privilege, not a right, to be here.

It is within the sole discretion of any moderator to ban any person who may be disruptive to the website and room.

CFTC Rule 4.41

Hypothetical or simulated performance results have certain inherent limitations unlike actual performance record: simulated results do no not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or overcompensated of the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No presentation is being made that any account will or is likely to achieve profits or losses similar to those predicted or shown.

APPENDIX II: CCI Club Shorthand

Woodie's CCI Club members have developed their own distinct shorthand for chat room participants. Some of it is universal text shorthand, but some is specific to Woodie's CCI Club. You'll have a head start if you read through the most common abbreviations below before you start chatting live online.

ATR: average true range
BBL: be back later
BC: bar close
BRB: be right back
CCI: Commodity Channel Index
CT: counter trend
CZI: Chop Zone indicator
DD: draw down
EBH: entry bar high
EBL: entry bar low
EMA: exponential moving average
ER: E-mini Russell
ES: E-mini S&P 500
EUR: Euro
FWIW: for what it's worth
Gh: Ghost pattern
HFE: Hook from Extremes
HLX: hundred line cross
HOD: high of the day
HTL: Horizontal Trend Line
HTLB: Horizontal Trend Line Break
IMHO: in my humble opinion
LOD: low of the day
LOL: laugh out loud
LSMA: least squared moving average
MAE: maximum adverse excursion
MFE: maximum favorable excursion
MGh: Mittens Ghost pattern
MTL: management trend line
MTLX: management trend line cross
NL: neck line
NLX: neck line cross
NP: no problem
NQ: E-mini NASDAQ
P&L: profit and loss
RB: range bars
SOH: sit on your hands
SI: Sidewinder indicator
SW: sidewinder indicator
TCCI: Turbo Commodity Channel Index
TGT: target or T1
TLX: trend line cross
TL: trend line
TLB: trend line break
TLX: trend line cross
TM: trade maven
TN: Trade Navigator
TS: TradeStation
TT: Tony Trade
TY: thank you
VT: Vegas Trade
WT: with the trend
WCCI: Woodie's Commodity Channel Index
YM: E-mini Dow
YW: you're welcome
ZL: zero line
ZLR: Zero Line Reject
ZLX: zero line cross

WOODIE'S WORDS

A

angle of return: An angle is formed when a reversal of buying or selling occurs. An acute angle indicates momentum. A weak reversal will show up as a flattened angle indicating that there is little conviction in any buying or selling.

B

bar: A graphic representation of a stock's movement that usually contains the open, high, low and closing prices for a set period of time.
bar print: A sign that the price bar has closed and the market has moved on to the next price increment.
bear: An investor who believes that the market, a specific security or industry is headed downward. Bears are generally thought to be pessimistic.
benchmark: A basis of measurement such as S&P 500 used to compare stock performance.
break out bars: See range bars.
breakout: A price movement through an identified level of support or resistance.
broker: An individual or firm that charges a fee or commission for executing buy or sell orders submitted by an investor.
broker's commission: A service charge made by a broker or investment adviser in return for providing investment advice and/or handling the purchase or sale of a financial product.
bull: An investor who thinks the market, a specific security or an industry will rise. Bulls are generally thought to be optimistic.

C

candlestick: A price chart that displays the high, low, open and close for a security each day over a specified period of time.
capitalization: The amount of investment put into a trading account to enable traders to facilitate buying and selling of shares, commodities, etc.

CCI: Commodity Channel Index. An oscillator used in technical analysis to help determine when an investment vehicle has been overbought or oversold. The CCI was first developed by Don Lambert and quantifies the relationship between the asset's price, a moving average (MA) of the asset's price and normal deviations (D) from that average.

CCI line: Woodie's CCI uses two indicators to trade with and the CCI line is one of them. It is indicated by a heavy black line outlining the histogram of bars that represents movement in the markets.

CCI patterns: CCI patterns are formed on the CCI panel by the movement of securities in each market shown by histograms edged by the CCI line. These patterns are visible to the trained eye and have names such as Zero Line Reject, the Ghost, etc.

charting packages: This is otherwise known as a "trading platform" and is a display of market charts with capabilities of showing various indicators on those charts such as the CCI.

charts: Graphic representations of market information from various stocks and options markets.

chat room: A virtual area online where like-minded people can correspond with other members of a community in real-time.

Chicago Board of Trade (CBOT): Prior to the 2007 merger with the Chicago Mercantile Exchange, CBOT was the largest commodity exchange for trading of futures contracts. Established in 1848.

CME Group: The world's largest and most diverse exchange. The exchange was created by the 2007 merger of the Chicago Board of Trade and the Chicago Mercantile Exchange.

Chop Zone indicator (CZI): A color-coded indicator plotted on the +/-100 value line. The key colors for this are cyan (turquoise/blue) and brown. Cyan showing for three bars or more show an up market and brown showing for three bars or more indicates a down market. Multiple colors indicate a sideways market. Three bars of solid color is an important signal. This indicator is only used in Zero Line Reject (ZLR) trades.

close: The end of a trading session. The close of the New York Stock Exchange (NYSE) is marked by the ringing of a bell.

closing price: The final price at which a security is traded on a given trading day. The closing price represents the most up-to-date valuation of a security until trading commences again the next trading day.

Commodity Channel Index: See CCI.

commodities: An index of commodity products, such as foods, grains, oil or metals traded on the worldwide markets.

consolidating market: This market happens when either bulls or bears are prevailing in the price war. A consolidating market generally precedes a breakout.

counter trend: Trades against the current trend. It is also known as "counter-trend trading."

D

daily chart: A line graph that displays the intraday movements of a given security.

day trading: Trading completed during one day of business.

demonstration platform: A practice trading software package for simulated trading.

divergence: In technical analysis divergence is considered both positive and negative, signalling major shifts in the direction of the price. The price of stock and set of relevant indicators are moving in opposite directions.

down trend: Describes the price movement of a market when the overall direction is downward.

drawdowns: A reduction in account equity from a trade or series of trades.

E

entry: The controlled decision of when to enter a trade. The entry trigger is different for each of Woodie's patterns.

equity: Capital.

equity curve: This is arrived at by plotting personal equity statistics on a worksheet with an EMA. If you fall below that average you should sim trade and if above, real-time trade.

exit: The point at which a trader leaves a trade. Woodie lists nine exit strategies.

exponential moving average (EMA): A type of moving average that is similar to a simple moving average (MA) but reacts faster to recent price changes.

extremes: When the market "goes to extremes," which is indicated on Woodie's trading panel by a +/-200, it points toward a market being overbought or oversold.

F

Famir: A Woodie's CCI trend changing pattern that is not recommended for beginners. It could be considered a ZLR which fails immediately. The Famir pattern has most success within the +/-50 value lines.

five-minute chart: A chart in which each bar shows a five-minute period.

flat top/flat bottom formation: The CCI goes flat with a lack of momentum.

forex (foreign exchange): In this market, participants are able to buy, sell, exchange or speculate on currencies.

futures: A financial contract obligating the buyer to purchase an asset at a pre-determined future date and price.

futures exchange: The central marketplace where futures contracts and options on futures contracts are traded. The largest futures exchange in the U.S. is the CME Group.

G

GB100: GB100 is another of Woodie's patterns and is a Zero Line Reject (ZLR) that went too far and goes past the +/-100 value lines and then back to the original trend.

Ghost: This is one of Woodie's trend-changing trades which derives its name from the pattern created. There are three types of Ghost patterns: regular, mittens and inverted Ghosts.

H

head and shoulders: A technical analysis term used to describe a chart formation in which a stock's price rises to a peak and subsequently declines. The price then rises above the former peak and again declines, and finally rises again, but not to the second peak, and declines once more. The first and third peaks are shoulders, and the second peak forms the head.

helter-skelter: A helter-skelter trader trades without a trading methodology, trading in a haphazard way.

high: The peak reached by an indicator or an asset price.

histogram: A graphic representation, similar to a bar chart in structure, that organizes a group of data points into user-specified ranges. The histogram condenses a data series into an easily interpreted visual.

hook from extremes: When the CCI line has continued past the +/-200 line (gone to extremes) and then reversed back toward the zero line this is known as "hook from extremes."

hook up: When the CCI line reverses back.

horizontal trend line: A money management technique.

I

index: In the financial markets, this measures the ups and downs of the collective stock, bond and commodity markets, reflecting market prices and the number of shares outstanding for the companies in the index. Examples: New York Stock Exchange (NYSE), Standard & Poor's 500 (S&P), Dow Jones, DAX, FTSE, etc.

indicator: A technical measurement securities market analysts use to forecast the market's direction, changes in stock trend or price patterns. A lagging indicator is a technical indicator that trails the price action of an underlying asset. Leading indicators are used to predict changes in the economy but are not always accurate.

initial protective stop (IPS): When initiating any trade on any pattern a protective stop should be put in place. For the beginner, it is strongly recommended to use a price stop or stop loss order to limit any losses.

J/K

johnny-come-lately: a trader that misses the initial move in securities and enters the market to try and force the market up or down. This is known as the "battle of the bulls and bears."

L

least square moving average (LSMA): Also known as linear regression curve, this indicator is stacked on the zero value line in a series of green and red segments. The green segments indicate that the market price is higher than the 25-period LSMA, and red segments indicate that the market price is lower. The LSMA is used in to confirm trade patterns and exiting positions.

linear regression curve: See least square moving average.

live trade: Trades made in real time with real money while a chosen market is open for trading. The opposite of live trading is simulated trading, where a person will "pretend" to trade in a chosen market on a demonstration platform while learning trading techniques.

long trade: Otherwise known as long position, a trader will buy a security such as a stock, commodity or currency in the expectation that the asset will rise in value. These are trades taken above the zero line.

low: The lowest price traded during the course of the day.

M

market: The place in which shares are issued and traded through exchanges, also known as the equity market.

market noise: The smaller the time frame the more the bars whipsaw. Range bars solve much of this noise making smoother patterns.

mean deviation: An average of the absolute value of the difference between the last period's simple moving average of the typical price and the typical price for each of the last periods.

moderator: One who presides over a meeting, forum or debate.

momentum: The rate of acceleration of a security's price or volume.

momentum indicator: This is used in market analysis to quantify the momentum of upward and downward price movements. The CCI is a momentum indicator.

momentuming: Woodie's word to describe movement in the market.

money management: Money management is the most important aspect of trading: it is how you run your trading account, the protection of your risk exposure and the preservation of your capital.

moving average: An indicator frequently used in technical analysis showing the average value of a security's price over a set period. Moving averages are generally used to measure momentum and define areas of possible support and resistance.

N

neckline: The Ghost pattern is made up of three peaks; two shoulders and a head and the neckline is the line break of the two valleys formed in between these peaks.

nuance: A hint of change, a clue.

O

open: (1.) An unexecuted order that is still valid. (2.) The start of trading on a securities exchange. Different exchanges have different opening times. For instance, the New York Stock Exchange (NYSE) and the NASDAQ open at 9:30 a.m. EST, whereas the DAX and Gold Exchange trade 24 hours a day.

options: American options can be exercised anytime between the date of purchase and the expiration date. European options may only be redeemed at the expiration date. Most exchange-traded stock options are American options.

oscillator: A technical analysis tool that is banded between two extreme values and built with the results from a trend indicator for discovering short-term overbought or oversold conditions.
overbought (long trades): A situation in which the demand for a certain asset unjustifiably pushes the price of an underlying asset to levels that do not support the fundamentals. An asset that has experienced sharp upward movements over a very short period of time is often deemed to be overbought. Overbought is the opposite of oversold.
oversold (short trades): A condition in which the price of an underlying asset has fallen sharply, to a level below its true value. This condition is usually a result of market overreaction or panic selling. Assets that have experienced sharp declines over a brief period of time are often deemed to be oversold. Oversold is the opposite of overbought.

P/Q

paper trade: Simulated trading that investors use to practice mimicking trades (buys and sells) without actually entering into any monetary transactions. Paper trading is a good way to learn the ropes without risking any money. You can do it simply by pretending to buy and sell stocks, bonds, commodities and mutual funds and keeping notes of paper profits or losses. Or you can open an account with an online market simulator.
patterns: In technical analysis, the distinctive formation created by the movement of security prices on a chart. It is identified by a line connecting common price points (closing prices, highs, lows) over a period of time. Also known as trading patterns. Woodie's CCI patterns are some of the many different patterns that exist in technical analysis.
peak: The highest point reached when trading securities followed by a decline.
pit trader: Traders who operate on the market trading floors, also known as floor traders.
pivot: A price level established as being significant either because the market fails to penetrate it or because a sudden increase in volume accompanies a move through that price level. As a technical indicator, the pivot price is similar to resistance or support levels. If the price is exceeded, a breakout is expected to occur.
platform: A software package offering trading charts and requiring a data feed.
price bar: A horizontal histogram plotted on the chart of a security, which corresponds to the volume of shares traded at a specific price level.

protective stop: A strategy that aims to limit potential losses to a desired amount by using a stop-loss or stop-limit order. A trader may execute a protective stop by setting a stop-loss order for 10 percent below what they paid for the stock, therefore limiting the loss to 10 percent.
probability: The likelihood of an event or outcome based on the occurrence of a previous event or outcome.
projector: A signal that predicts where the CCI is going.
psychology: The sentiment or feeling that a trader experiences at any particular time. Greed, fear, expectations and circumstances are all factors that contribute to the trader's overall investing mentality or sentiment.

R

range bars: Otherwise known as break out bars, range bars are made up of a set number of price increments and are equal in size.
resistance: The price at which a stock or market can trade, but not exceed, for a certain period of time. Often referred to as resistance level.
risk: The chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. Risk is usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment.
risk/reward ratio: A ratio used by many traders to compare the expected returns of a trade to the amount of risk undertaken to make these returns. This ratio is calculated mathematically by dividing the amount of profit the trader expects to have made when the position is closed (i.e., the reward) by the amount the trader stands to lose if price moves in the unexpected direction (i.e., the risk).
rounding: Sideways action in the market caused by johnny-come-lately jumping in and trying to move the market initiating a battle of the bears and bulls.

S

screentime: Spending time concentrating on the charts on the computer screen watching and learning the charts.
securities: An investment instrument signifying ownership of stocks or bonds.
set up: When a pattern is emerging on a chart this is known as the "set up."

short trade: Otherwise known as "short position," a trader will buy a security such as a stock, commodity or currency in the expectation that the asset will fall in value. These are trades taken below the zero line.

sideways market: A market that shows no momentum and is not going up or down.

Sidewinder indicator (SI): This indicator is plotted on the +/-200 value lines and shows up in three colors: red, yellow and green. The red color indicates no trade strength, while the yellow color shows a trend developing and the green color shows a strong trend. The Sidewinder shows trend strength both up and down. This indicator is only used in Zero Line Reject (ZLR) trades.

signal: An indication on the charts of when to enter a trade.

signal bar: A bar which signals trade entry in a particular pattern.

simulated trading: The practice of trading carried out on a demonstration platform without using real money.

slippage: The difference between estimated transaction costs and the amount actually paid.

statistics (stats): The collection, organization and interpretation of data.

stochastics: A technical momentum indicator that compares a security's closing price to its price range over a given time period.

stocks: Shares in a company.

stop loss: See protective stop.

stop loss order: An order placed with a broker to sell a security when it reaches a certain price.

stop: See protective stop.

support: The price level which, historically, a stock has had difficulty falling below. It is thought of as the level at which a lot of buyers tend to enter the stock. Often referred to as the "support level."

swing: (1.) This term is most commonly used when referring to a situation in which the price of an asset experiences a significant change over a short period. These sharp shifts are often referred to as a swing. (2.) A short-term trading strategy in which a trader attempts to make gains by holding a security for only a few days. Also known as "swing trading." Swing trading is often used by individual investors.

swing high: A term used in technical analysis that refers to the peak reached by an indicator or an asset's price. A swing high is formed when the high of a price is greater than a given number of highs positioned around it. A series of consecutively higher swing highs indicates that the given asset is in an uptrend. Swing highs can be used by traders to identify possible areas of support and resistance, which can then be used to determine optimal positions for stop-loss orders. If an indicator fails to create a new swing high while the price of the security does reach a new high, there is a divergence between price and indicator, which could be a signal that the trend is reversing.

swing low: A term used in technical analysis that refers to the troughs reached by an indicator or an asset's price. A swing low is created when a low is lower than any other point over a given time period. Successively lower swing lows indicate that the underlying asset is in a downtrend, while higher lows mean it is in an uptrend. Swing lows are useful for an investor who holds a long position in an asset, because swing lows can be used to determine strategic positions for a stop-loss order. In the case of an indicator, if it fails to make a new swing low while the price continues to decline, a divergence occurs, which could mean that the downtrend is coming to an end.

swing trading: Swing traders use technical analysis to look for stocks with short-term price momentum.

T

target: A projected price level that a trader wishes to achieve in a trade.

technical analysis: A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts use charts and other tools to identify patterns that can suggest future activity.

tick: The minimum upward or downward movement in the price of a security.

time bars: Vertical gray lines that make up the histogram of Woodie's CCI Charts. Each bar shows a time scale of five minutes.

trading session: A period of time consisting of one day of business in a financial market, from the opening bell to the closing bell. Within the time frame of the trading session, all orders for the day must be placed, and buyers and sellers both participate in setting current market prices. Trading does occur after regular trading hours on the major exchanges and is known as the "after-hours market." If you are trading in pre-market or after-hours trading, you should always use a limit order.

Tony Trade: A trend continuation pattern that is recommended as one of the CCI trades for novice traders.

trade with the trend: A trading strategy that attempts to make gains through the analysis of an asset's momentum in a particular direction. The trend trader enters into a long position when a stock is trending upward (successively higher highs). Conversely, a short position is taken when the stock is in a down trend (successively lower highs).

trading plan: A personal plan of how you are going to trade, in which markets, with which patterns, money management strategies and how you are going to keep track of everything using statistical analysis. DO NOT start to trade without one.

trading platform: A charting software package which you will need if you are going to trade.

trading position: The trader is actually in the middle of a trade (he or she is in a trading position).

trading vehicles: The products or securities with which a trader trades.

trend: Movement of the market in a particular direction.

trendless market: This market can be recognized when the CCI stays between the +/100 values lines, crossing the zero value line with increasing frequency, with the Sidewinder showing a red color and the Chop Zone Indicator (CZI) showing multiple colors.

trend-agreement pattern: Otherwise known as "trend-continuation patterns," these are trade patterns that are in agreement with the established trend and include: the Zero Line Reject (ZLR), the Trend Line Break (TLB), the GB100 (GB) and the Tony Trade (TT).

trend-changing pattern: These patterns indicate the possibility of a change in trend direction and include the Famir, the Vegas Trade (VT), the Ghost Trade (GT) and the Horizontal Trend Line Break (HTLB).

trend line: A trend line is constructed by drawing a line from a peak above the +/-200 value line. This line must then touch the CCI line, or Turbo CCI line, in at least two different places. The more times it touches the CCI, the stronger a signal it becomes.

Trend Line Break (TLB): This trend pattern can be either a trend in agreement with the current trend or a trend-changing pattern. A Trend Line Break with the trend is a line that shows when support or resistance is broken, and a move back with the previous trend can be expected.

trigger: The point at which a trader will enter a trade.

Turbo CCI (TCCI): Woodie's CCI uses two indicators to trade with and the Turbo CCI is one of them. The CCI6 period is designated the Turbo CCI. The Turbo CCI registers on the Trading Panel as a red line.

U

up trend: This describes the price movement of a market when the overall direction is upward.

V

value lines: The five guide lines created on the trading panel consisting of the zero line, the +/-100 lines and the +/-200 lines.

variance: This measures the variability (volatility) from an average. Volatility is a measure of risk, so this statistic can help determine the risk an investor might take on when purchasing a specific security.

Vegas Trade: The Vegas Trade develops after the CCI line has extended up to or past the +/-200 line in agreement with the trend. This is known as a trend changing pattern.

volume: The number of shares or contracts traded in a security or an entire market during a given period of time.

W/X/Y

whipsaws: These occur when prices fluctuate, causing noise on the trading panel.

win/loss ratio: The ratio of the total number of winning trades to the number of losing trades. It does not take into account how much was won or lost—simply if they were winners or losers.

Woodiepedia: The encyclopedic trading forum on the Woodie's CCI website.

Z

zero line: Shown as a horizontal yellow line in the middle of the trading panel, the zero line is the line by which all Woodie's CCI trading patterns are defined. The zero line shows major support and resistance in real time.

Zero Line Reject (ZLR): This trend-continuation pattern is recommended for beginners.

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PRE-TRADING WORKSHEET

This is what I am going to do today:

This is what I am going to trade:

This is how many points risk I am going to take:

This is how and when I am going to exit:

POST-TRADING WORKSHEET

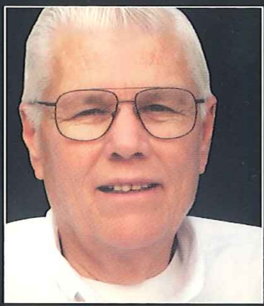
Was I successful with my trading today?

Did I stick to my trading plan?

If not, what could I have done better?

Was my trade management correctly carried out?

If I made a loss did I refocus on the next trade without undue emotion?



More than 30 years ago Ken Wood, also known as "Woodie," discovered a revolutionary way of trading on the CCI, a little-known moving average index. Woodie noticed that patterns forming on the CCI reveal how the market is moving. The CCI is a leading indicator, and Woodie figured out how it could help him get into a trade ahead of standard trend lines. Over the years, as Woodie perfected his techniques, he quietly built an online following of millions through Woodie's CCI Club.

Woodie is sharing his time-tested methods with the world because his personal philosophy and the CCI Club motto has always been, "Traders Helping Traders."

Unlike most trading clubs, participation in Woodie's CCI Club has always been free of charge, and countless traders have expanded upon Woodie's original ideas to create the systematic way of trading the markets illustrated here.

Woodie reveals the steps that led to his discovery of the CCI, including the original materials that inspired him. He walks you through, step-by-step, the process of learning to trade on the CCI. Woodie shows you here how to recognize and trade patterns on the CCI, starting with a basic trend pattern like the "Zero Line Reject," to a more advanced "Ghost" or "Vegas Trade." The CCI will keep you one bar ahead of the rest of the herd!

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