



## FX-forecaster Trader Indicators

*Powerful indicators to provide guidance and understanding...*

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### **DISCLAIMER:**

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## Introduction

Most charting packages boast about the numbers of indicators they provide. The majority provide the standard indicators that were created 40 or 50 years ago when calculations had to be made by hand. Clearly this restricted them to daily and weekly charts. Of course much has changed over those 40 – 50 years and has recently culminated in platforms that were only available to professional traders now being used by retail traders.

Long ago I became disenchanted with the common indicators which through their basic formula fail to really capture what traders need to know. Over the years I have designed new indicators to show me what I want to see and I hope provide a different perspective on price action.

I like to take indications from different elements of price.

- FX-f RSI represents a raw form of momentum, the direction and speed of a move in price
- FX-f Trend Stochastics is an adapted form of the original and is designed to behave differently in trending moves
- FX-f Equilibrium Cloud has been designed to try and dynamically react to price movement and identify broad areas of support or resistance in trends while act as an equilibrium point in consolidation
- FX-f Trailing Stop is intended to provide stop level in an uptrend or a downtrend. When price is considered to have stopped trending then it is color coded to highlight this but does not switch from above or below price as Parabolic does.
- FX-f PVO is a useful tool that takes the broker's volume and indicates the percentage change in volume.
- FX-f Valley Peak has been designed to identify potential swing lows and highs in price at an early stage.

NB. FX-f PVO and FX-f Valley Peak have been designed by Tomasz Thiede.

By taking indicators that provide different, but complimentary information about price development, along with the support & resistance it is possible to identify lower risk trades.

I hope you find these of great use and find your losses reduced and profits elevated.

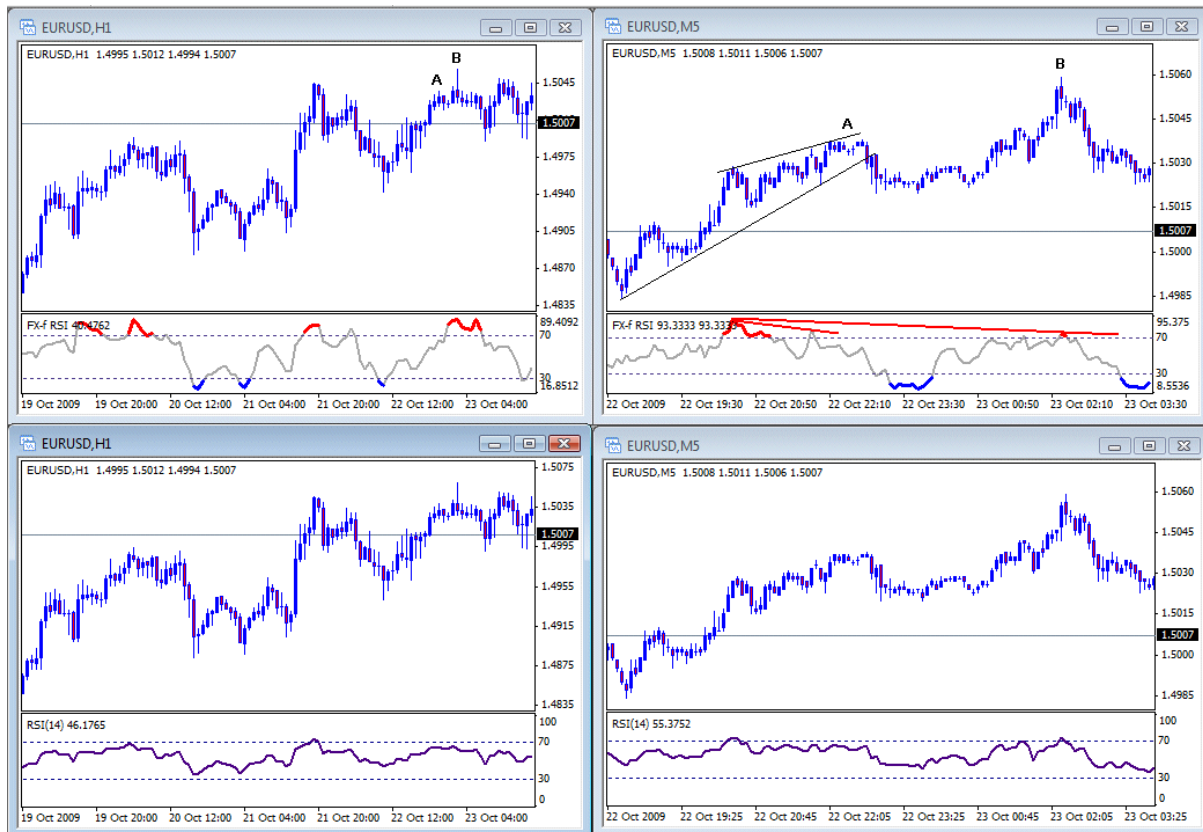
Ian Copsey

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## FX-f RSI

The FX-F RSI has been developed to overcome the deficiencies of the original Welles Wilder version, provide a greater understanding of price momentum together with more accurate indications when there is a risk of reversal in the underlying direction.

The chart below displays the hourly 5 minute charts of EURUSD. FX-f RSI has been applied to the upper charts while the original RSI has been plotted in the two lower charts.



From the hourly charts to the left the differences can be seen immediately. Welles Wilder's RSI at the bottom rarely reached overbought and never reached oversold. In comparison the FX-f RSI has seen both overbought and oversold conditions on several occasions.

One of the features of any momentum indicator is that an extreme reading can often be seen but does not match a price extreme. By using two different time frame charts such as the hourly and 5 minute above greater information can be extracted.

For example, at point A in the hourly chart FX-f RSI had not reached overbought. However, in the 5 minute chart to the left price has been rallying and has developed a bearish divergence, a warning that the trend is slowing and may therefore indicate a potential reversal or just correction.

The final rally came as a rising wedge, a bearish price reversal pattern. The final price peaks saw a divergence against FX-f RSI. Thus it has supported the wedge pattern so that we could sell on break of the wedge support line to take advantage of a move lower.

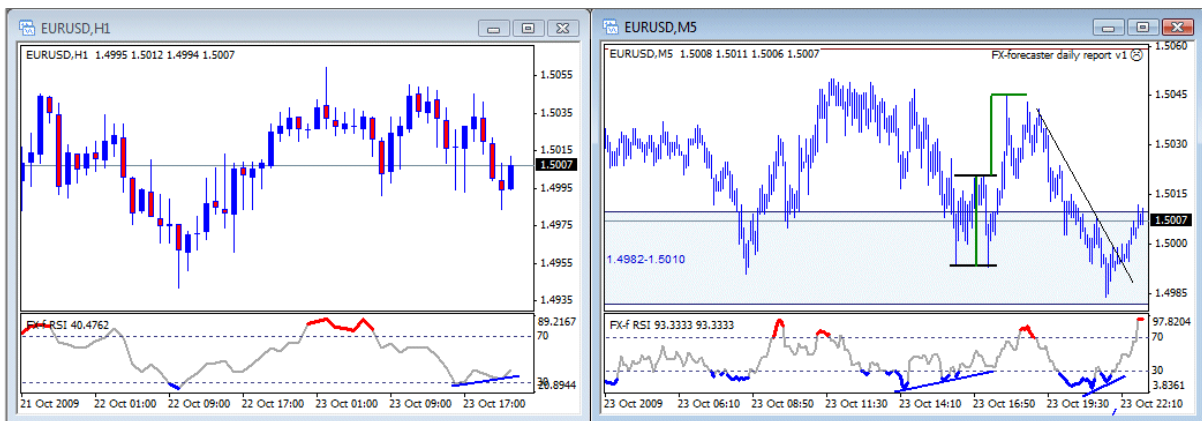
However, since hourly FX-f RSI had not reached overbought the decline was unlikely to be sustainable and a new price high possible. As FX-F RSI registered oversold profit could be taken.

Indeed, price then rallied to a new high at point B. There was no pattern or trend line to trade on but the bearish divergence from the peak at point A is very clear. What is more, at point B the hourly FX-F RSI had reached overbought and this again strengthens the signal. Additionally the 5 minute FX-f RSI had just reached overbought.

Now compare this with the information given by Welles Wilder's RSI. Hourly RSI never reached overbought and remained moving sideways. The 5 minute RSI did just manage to edge above overbought but gave no indication of a bearish divergence.

The stronger indications from the FX-F version provides traders with key information about the strength of the underlying price momentum. Welles Wilders' version does not.

The indicators can also be used in conjunction with the FX-forecaster support and resistance levels.



On this day the report had recommended to watch for Buy Trade Set Ups between 1.4982-1.5010 and this area provided support throughout the day. See how on the second occasion the low came along with a bullish divergence in the 5 minute chart and while hourly FX-F was oversold. If there was any uncertainty a double bottom then developed and the FX-f RSI readings supported the Buy Trigger Area together with the double bottom to provide an opportunity for 25 pips profit.

At the end of the day price had once again declined into the Buy Trigger Area and formed a bullish divergence again. This time it broke above a descending trend resistance line and provided a second trade opportunity.

Finally, FX-f RSI can also advise you when not to trade. In the first example we had used an overbought reading in the hourly chart to support a bearish divergence in the 5 minute chart to confirm a sale.

In the day's report the USDJPY analysis highlighted the 91.78 level as key to whether the rally would extend or stall.

With no bearish divergence and actually a still rising value there is no indication from FX-f RSI that there is any slowing in the bullish momentum.



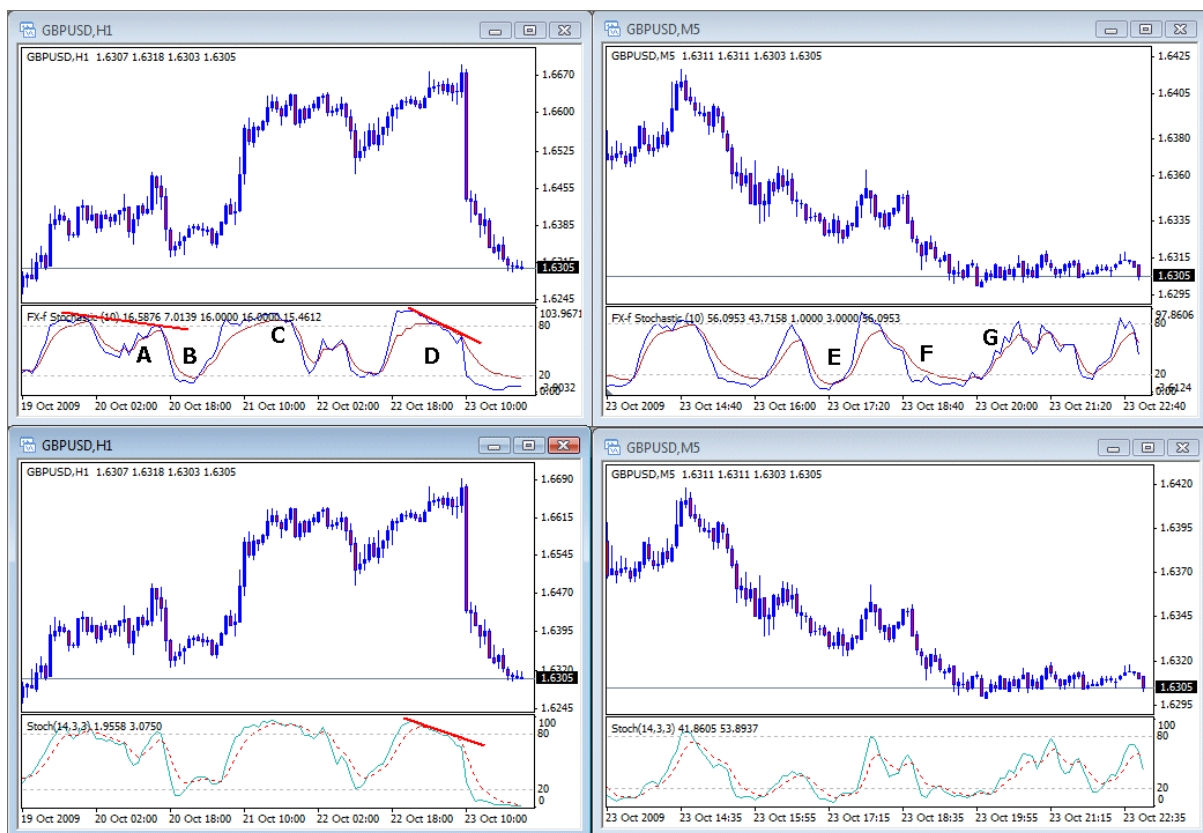
This would have highlighted that there was a strong risk that price would continue rallying. Indeed, that is exactly what happened. It is important to understand that an extreme reading in FX-f RSI can just mean that price is still extreme bullish (if overbought) or extreme bearish (if oversold.) Until there is any sign of a slowing in momentum as described in the first example by utilizing both hourly and 5 minute readings one must assume that the trend will continue.

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## FX-f Trend Stochastics

Momentum indicators in general provide good signals in broad swinging, but consolidating markets while tend to suffer in trending markets. The original version was developed by George Lane in the 1950's and basically represents the percentage close within the recent range.

The FX-f Stochastic attempts to allow for trends to develop and to allow the indicator to avoid crossovers too early as well as reduce the number of whipsaws that the George Lane version suffers.



The indicator is intended more to provide information about price and the ability to maintain a position rather than initiate one. To cover some of the characteristics there are a number of areas where it differs from the George Lane version.

- Point A. Note that a bearish divergence formed at the higher peak in price while the George Lane version merely moved back to overbought.
- Point B. Note how FX-f Trend Stochastics formed a round bottom and maintained the bullish reading during the early stages of the recovery whereas the George Lane version suffered a break above, then below and finally higher.
- Point C. FX-f Trend Stochastics remained positive through the entire uptrend while the George Lane version peaked and crosses lower and towards the end of the consolidation at the peak area suffered a break higher then back lower.

- Point D. Again FX-f Trend Stochastics remains with the trend for longer. Both provide a bearish divergence and keep with the sharp decline quite well.
- Point E. Note how FX-f Trend Stochastics see wider swings reaching overbought while the George Lane version does not. The George Lane version suffers small whipsaw again in the recovery.
- Point F. FX-F Stochastics once again remains with the entire downtrend while the George Lane version suffers from a whipsaw at the dual peaks around the base of the decline.
- Point G. While FX-f Stochastics saw the Fast K% line whip up and down it never broke below the Slow D% line while the George Lane version did.

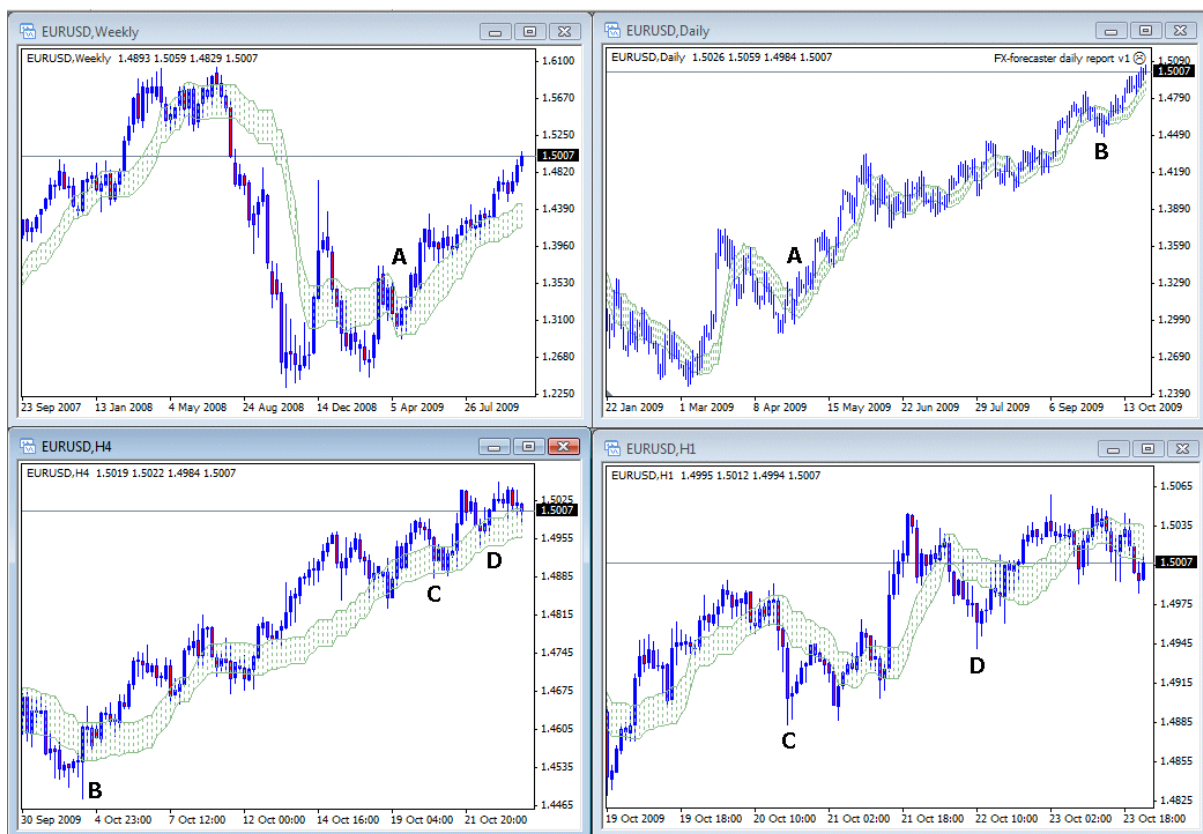
This is a signal that can, and should be, used in conjunction with other indicators to strengthen the trading signals.

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## FX-f Equilibrium Cloud

The FX-f Equilibrium Cloud was born from a Japanese technique called Ichimoku Kinkou Hyo, loosely translated as "One Glance Cloud Cover." There are many books to read to be able to interpret this technique and of course, none in English. For those who cannot access this information the general idea that when price moves above the cloud then the market is bullish and vice versa only takes into account one of the many rules. However, the Cloud in Ichimoku can deviate from price by some distance.

In creating the FX-f Equilibrium Cloud the intention has been to identify equilibrium price and an area of resistance in a downtrend or support in an uptrend.



The FX-f Equilibrium Cloud is best used by observation in multiple time frames. The chart at the top left is the weekly chart, to the right is the daily chart while below the 4-hour chart is on the left and hourly on the right.

Starting with the weekly chart it can be seen that the Cloud supported in the uptrend to the left of the chart and then acted as resistance in the sharp reversal lower. At the bottom we saw a period of volatility where the Cloud began to move sideways and indicating price equilibrium. This sideways move continued to Point A where price began to break higher. This also coincided with the daily price bars breaking above the Cloud.

A combination of the two provides a stronger indication that a new trend direction will develop. Indeed, price did continue rallying until the center of the daily chart. The daily Cloud supported

price until that point where it corrected below the Cloud and then extended the rally with the Cloud holding closely to price. However, note that while price did penetrate the daily Cloud low it was always supported by the weekly Cloud, thus retaining the weekly uptrend.

At Point D in the daily chart dipped below the Cloud but remained well above the weekly Cloud. We can see Point B in the 4-hour chart at the bottom left. Price then resumed the uptrend and pushed above the daily Cloud just before the first pullback in the 4-hour chart.

Following the 4-hour chart we can see that all corrections that dipped below the 4-hour Cloud were supported by the Daily Cloud. Price continued to rally, finally reaching Points C and D which are also seen in the hourly chart.

In the hourly chart we can see that all dips below the Cloud are supported by the 4-hour Cloud. The hourly Cloud is finally turning lower and it can be seen that the 4-hour Cloud is beginning to flatten out. There is no indication as yet that the daily and weekly uptrend has found exhaustion. However, the price rally has slowed allowing the daily Cloud to catch up with price and may indicate a potential correction may be due.

Should this eventually cause price to drop below the daily Cloud then the risk will turn for a correction to the weekly Cloud support in the 1.42-1.44 area. If price dips below the weekly Cloud then we will have to consider the support given by the monthly Cloud.

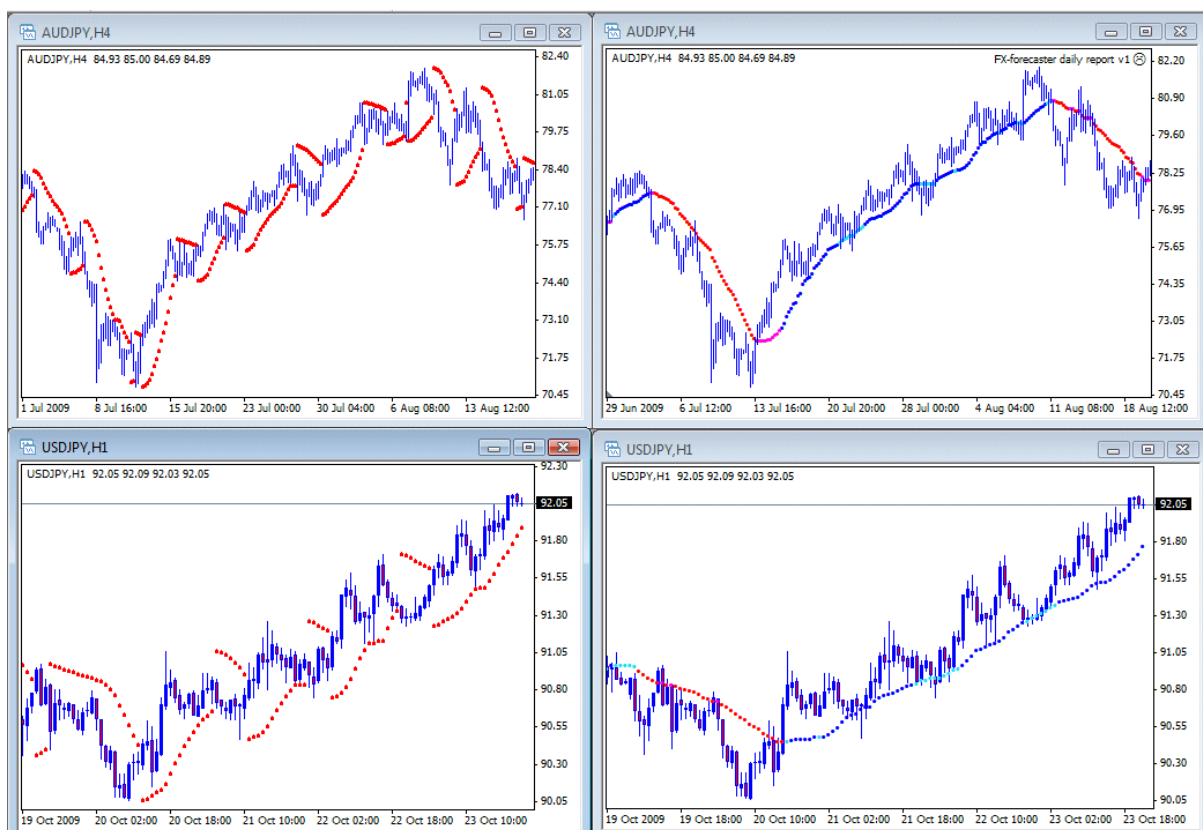
It can be seen that the FX-f Equilibrium Cloud dynamically reacts to price trends by providing support or resistance to the next lower time frame and confirms trend reversals once all time frames have shifted from one side of the weekly/monthly Cloud to the other.

Thus this is an excellent tool for recognizing both direction and where support or resistance will develop.

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## FX-f Trailing Stop

FX-f Trailing Stop is intended to find a solution to the manner in which Parabolic switches position even during a trend, but when there are a series of brief rallies with intervening minor corrections. Once again, the Parabolic was developed by J Welles Wilder Junior as a “stop and reverse,” implying a position at all times. However, this would generate considerable loss in consolidations and loss of profit in a less than direct trend.



Above are the 4-hour charts of AUDJPY above and USDJPY below. On the left a Parabolic has been applied and on the right the FX-f Trailing Stop.

In both cases we have seen an uptrend but one that has developed with rallies and pullbacks. Indeed, taking the definition of a trend:

Up Trend = Higher highs and higher lows  
 Down Trend = Lower lows and lower highs

Very clearly both rallies are consistent with the definition of a trend. However, Parabolic does not take this into consideration and generates numerous switches from bullish to bearish during the course of the trends.

In comparison the FX-f Trailing Stop has maintained an upward line throughout indicating that the main trend remains higher.

It should also be noted that FX-f Trailing Stop is color coded:

<b>Blue</b>	= Up trend
<b>Light blue</b>	= Bullish consolidation
<b>Red</b>	= Down trend
<b>Pink</b>	= Bearish consolidation

This color coding is to highlight the different characteristics of price development. The blue and red trending colors are quite clear. The light blue and pink colors are a recognition that the pullback in price has been deep enough to suggest that the trend may be under threat but hasn't actually reversed as yet.

At times where the FX-f Trailing Stop is penetrated it acts as a warning to see whether there is any evidence of a reversal, possibly a bullish or bearish reversal pattern or possible a breach of a trend line. Due consideration should also be given to the last swing high/low in the up trend or down trend respectively.

In many ways this is not a true trailing stop where the position should be exited but one that recognizes more dynamically whether there has been an actual reversal in the underlying direction and is a signal to the trader to do due diligence.

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## FX-f PVO

Generally speaking there is no possible to measure the total volume trades each day in the Forex market. However, if your broker provides information on volumes of their trades we can measure changes in volume.

The FX-f PVO indicator was designed to measure percentage changes in volume.

**Green** – increasing volume  
**Red** – decreasing volume



Here in the 5 minute chart of EURUSD we have seen a rally which stalled at 1.4857. Clearly prices are rising but it can be seen that for the final few bars the speed of the rise in volume was slowing just as price reached key resistance. This may imply that traders' interest in buying has declined as price reaches resistance.

We cannot consider a trade solely on the evidence of a slow in the rise in volume but with a bearish divergence or perhaps a break of a trend line or pattern the signal would be much stronger.

We can, of course consider the next higher time frame to see if the larger picture is also providing a similar signal:



Indeed, at the high we saw the same drop off in volume and this would add to the signal.

Equally, a rise in volume as price rallies from a support level that breaks above key resistance levels may indicate that stop losses are being triggered and thus causing both volume to rise along with price.

Note that a FX-f PVO value above zero does not represent a rising price and equally that a FX-f PVO value below zero does not represent a decline in price. Thus, do not expect any correlation between price movement and the indicator.

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## FX-f Valley Peak

The FX-f ValleyPeak indicator is based only on price action.

- Blue arrows** – valley
- Blue dotted line** – price level where valley is confirmed
- Red arrows** – peak
- Red dotted line** – price level where a peak is confirmed

It helps to support signals from other indicators around key important support or resistance levels.



The FX-f Valley Peak indicator does not indicate a trade by itself. Trade decisions should always be made combining signals from different forms of analysis that provide complimentary information. As an example the above chart is showing FX-f RSI having developed a bullish divergence at the same time as FX-f Equilibrium Cloud has declined to cover the tops of the price candlesticks. FX-f Valley Peak has also identified a potential Valley having been formed at the support level.

These three indications together identify a lower risk Buy trade.

Always consider what the next higher time frame chart is indicating:



In the hourly chart the hourly FX-f Valley Peak has also provided a possible valley while FX-f RSI is low and bounced from around the oversold line which helps to support a Buy trade.

We can also see that the bounce from the 1.4807 support was just below the hourly FX-f Equilibrium Cloud which has begun to flatten out. This would imply the risk of either consolidation and for the Cloud to continue moving sideways or possibly a topping formation.

Therefore it doesn't look like a trade to hold for too long. At the peak of the recovery which managed to penetrate the top of the Cloud by a small margin we also saw that FX-f Valley Peak indicated a possible peak. (This would only be confirmed after the start of the next bar.) Thus, if we hadn't take profit then this was warning us that we probably should...

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