

The Stochastic Kiss Pattern

A unique way to utilize the stochastic indicator

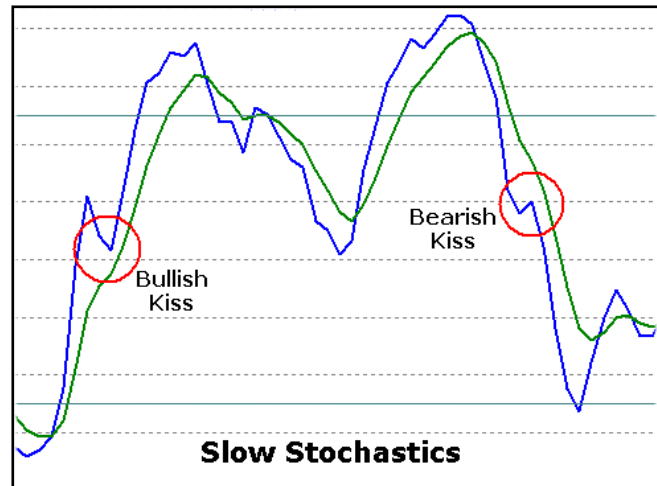
Here is a simple technique I devised some years ago and introduced to the institutional market. It takes one of the markets' favored indicators Stochastics and identifies a pattern that when used in conjunction with other analysis can provide great trades.

It is called the "Stochastics Kiss" simply because of the appearance of the fast stochastic line dipping towards the slow line (in a move higher) or blipping higher towards the slow line (in a move lower) and then reversing the next bar.

It looks like this:

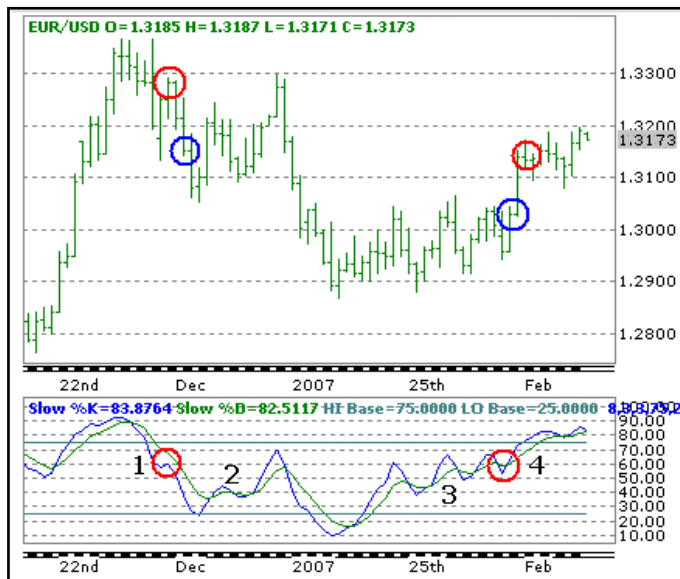
The image shows a section of slow Stochastics, the blue line being %Fast D and the green line %Slow D. Note that during the strong rise in %SlowD on the left how the %FastD pulls back and then rises again the very next bar. It is effectively showing that price has corrected lower within the range but failed in the decline and caused a reversal back higher.

Equally, on the right we have the opposite. During the strong decline in %SlowD the %FastD pulls back higher and then drops again the very next bar.



These can often provide good trades that can be held for one or two bars at least and occasionally longer.

When looking at this pattern the very best examples are those where the %SlowD maintains the same



direction as at Point 1. The %Fast D line moves up towards the %SlowD line and then reverses lower and a sale can be made on close. Note that after two bars profit is taken on close.

Point 2 is not a valid example with the rally higher and reversal in %FastD occurring while %SlowD has no direction.

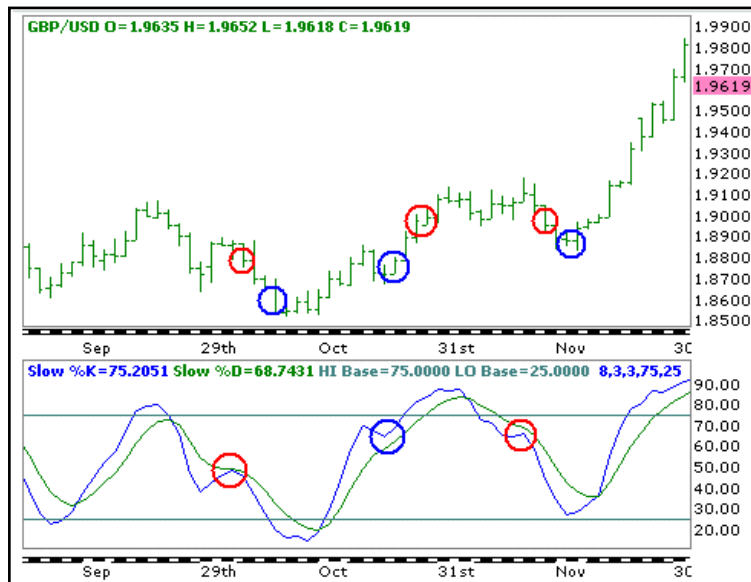
At Point 3 the same thing happens as at Point 2 so should not be used.

However, at Point 4 we see a valid pattern. It is not as clean as the first example since as %FastD dips and reverses higher %SlowD does the same but recovers to be higher again and more importantly higher than two bars prior. Again, a two day trade reaps profit.

What is important with this type of strategy is that price action is also scrutinized. It is important that the price extreme on the single bar move in %FastD does not penetrate a previous swing high or low. Remember the definition of an uptrend is that both highs and lows are moving higher and vice versa in a downtrend.

This most certainly occurs at Point 1 with the sharp correction in price remaining below the previous swing high. Equally, at Point 4 the corrective dip in price remained above the previous swing low and thus the underlying directional move remained intact.

Here is a second example of where this pattern has worked well:



This is the daily chart of the Pound versus the U.S. Dollar where we have seen two good sell signals and one buy signal, all making good profit.

I should add a few instances where it would be wiser to be cautious and possibly not take the trades. There are basically two things to look for:

- (1) Where the Stochastic is either overbought or oversold. These could be considered but will require confirmation from price movement. However, quite frequently because of the extreme reading of the Stochastics there is a higher instance of the pattern breaking down.
- (2) Where the reversal bar that completes the kiss pattern has seen a strong reversal that takes out the extreme of the last two bars then there is a risk of a delay to follow-through. Again any positions taken should be well guarded by a close stop loss.

You may also find that using the support and resistance levels from The Daily Forecaster, available through the fx-forecaster site may also provide guidance to when to use this pattern.

Good luck with your trading

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