

Blue Wave Trading Precision Indicators

Developer's Note and Introduction: Many have written about what is the most important aspect of trading. One of my favorite books written in 1995, the best selling and immensely popular "Street Smarts" by Linda Bradford Rashke and Larry Connors, both legendary traders – the authors state that while there are 20 setups in the book, only one is needed to make a career trading. In fact they state the some of the best traders only trade one recurring pattern. The second most important thing they said was money management.

With that in mind there are two setups offered in this manual that are both very high probability. Uncomplicate your trading and study them, follow them, and look back at your charts and get familiar with the nuances of these indicators. Then learn to set money management rules AND realistic profit goals for your trades and trading. A general rule of the thumb is to not risk more than 2% of your account, and to seek 2% increase per day. The BWT Precision Volatility Stop can help you put money management and risk perspective into your trades. Let them become your system, because without a system and rules, you are guessing. I believe if you reach deep inside yourself, that you can become successful.

We understand that not all traders know Gann, Elliot Wave, Fibonacci etc. - there are many forces at play in the market at any time. Institutional, Hedge Funds and other large traders typically act when certain levels are breached. These forces move price in one direction or another. Markets constantly react to news and support and resistance. The BWT Precision Trend Indicator logic is based solely on price and does not contain any far out unsubstantiated theory, but instead a proven mathematical algorithm. The BWT Trend Indicators keep it simple as possible and will not try to pick tops and bottoms (a risky game at best) but instead, must go with the direction of the market. Because this indicator is efficient at getting into any move near the preceding pivot or swings high or low, lag is minimal and can be adjusted with the indicators single input: Sensitivity.

The BWT Precision Indicators were developed to let you see the direction of the market in a clean uncomplicated manner in any market or time frame. This includes Forex, Stocks, Commodities ETF's and anything else that plots bars on a chart.

The most important thing that **BWT Precision Indicators** do for you as a trader is to give you a clear picture of market direction. The indicators are:

- **BWT Precision Trend: Plots Blue Bars for direction to the upside and Red Bars for direction down.** In addition to the colored bars, the BWT Precision Trend indicator plots a dot, a signal arrow and displays text of the exact price (signal price) of the change of momentum along with a buy or sell stop after a swing high or low has been confirmed.
- **BWT Precision Stop:** A Trailing Stop and indicator that plot the reversal point at the open of each bar. This allows the trader to know where the bars will change from red to blue or blue to red at the open of each bar. The BWT Precision Stop should always share the same sensitivity as the BWT Precision Trend. This is because they share the same algorithm, just plotted differently. The BWT Precision Stop will plot a market the open of every bar – this allows you to know exactly what price the next reversal will occur, as a close above this level (for Long Trades) or close below (Short trades) will result in a trend change. The BWT Trend will change from red to blue or blue to red.
- **BWT Precision CCI:** A visually enhanced version using the standard CCI formula with the BWT Precision Trend plotted on the Zero Line, and a dot that plots when the CCI turns from an extreme oversold or overbought levels at +/-100. Also included is the **CCI Average**, which is quite accurate when crossovers occur.

- **BWT PctR Stochastic:** The BWT PercentR Stochastic plots a smoothed percent along with a dot that will plot when the Stochastic AND PercentR are both in agreement -meaning they are both overbought or sold at the same time.
- **BWT Precision MA :** The BWT Precision MA is plots blue when direction is up and red when direction is down. A dot is also plotted on the MA when direction changes.
- **BWT BBand Oscillator:** An indicator that plots standard deviation as an Oscillator that also plots when a “squeeze “(when Keltner Bands plot inside Bollinger bands, indicating consolidation followed by breakout). The Squeeze is indicated by red dots plotted on the horizontal zero line. The concept is that the price consolidates (the “squeeze”) and is then followed by a breakout. Bollinger Bands are an important indicator with many uses. Viewing them as an Oscillator is a new twist on a very popular indicator that we believe provides a number of new ways to view over bought and sold conditions As well as expansion and consolidation of price action.
- **BWT Tick Volume Oscillator:** The Tick Volume Indicator was originally conceived by Bill Blau in his book “Momentum and Price” We have re created this indicator in the BWT style which plots dots at crossover points. The market oscillates with the ebb and flow of upticks and downtick, The BWT Tick Volume details this activity and cycles closely with price. The oscillator also provides excellent divergences.
- **BWT Volume Profile:** The BWT Volume Profile plots a vertical display of price with a bar graph showing how much volume was traded at each price. This allows you to see the support and resistance in terms of price and volume. The interpretation of this information is the same as Market Profile, except TPO’s are not shown. The volume profile also shows the Value Area (aka VA - this is where 70% of the session’s volume occurred) and the Point of Control (aka POC – this is the price at which the most volume occurred). How is this information useful? The distribution of volume can help you to see where areas of support and resistance are, as the high and low of the VA and the POC from the current and previous sessions are often key levels that will can become entry points or targets for price as well as support or resistance. Auction theory is what Market profile is all about and is used by many professional traders and many floor traders at the exchanges. For a more detailed disussion see the support section of the BWT Website for links to articles and recommended reading list on Market Profile.
- **BWT Natural Bands:** As the market moves in Average True Ranges, the BWT Natural Bands Plots Bands that contain 90% or more of this movement. Our formula uses more efficient functions than the Keltner Channel

OVERVIEW

The **BWT Precision Indicators** were designed for the novice to the experienced trader. The less experienced traders will have a visually pleasing color coded depiction of market action, while the experienced trader will make use of more complex patterns, divergences and the like.

The BWT Precision Indicators will **NEVER miss a major move** or move of consequence. Our logic is more sensitive than competitor look a likes. This results in a greater degree of accuracy if desired.

The **BWT Precision Indicators** will give accurate signals on any time frame, any instrument from a 5 tick chart to a 5 minute chart, to a daily chart or higher.

The BWT “edge” is the power and simplicity of our indicators and a visually appealing tool that can be used in to compliment your existing rules and methods.

A carpenter has a toolbox with all types of tools for a specific job, but it his experience and wisdom that can set him apart in terms of quality of work from other carpenters. What makes one carpenter better than another is how he applies his tools, knowledge and experience. In the same way, the BWT Precision Indicators are indeed “tools of the

trade” and how you apply them and your success will depend on your skill and experience. This is why there is no “best” way to use the BWT Indicators; different traders have different ways of using them successfully.

That may not be what you want to hear, but in order to grow and succeed as a trader, you should find a way to use the indicators that is in line with your trading style and risk tolerance.

In Mark Douglas’s popular book, *The Disciplined Trader*, he specifically stated that every trader discover his own “trading system” meaning you find what works for YOU.

For the benefit of all traders we will provide two trading ideas – one has been disclosed and the **BWT “Universal Trade Setup”**, is shown at te end of this document, which is a very simple way to trade with the BWT Precision Trend Indicator and the BWT Precision MA.

There is one input on the main trend indicator – Sensitivity. The sensitivity input essentially affects how sensitive you want the indicator to reflect directional change. Lower setting – more signals and more sensitive. Higher setting = less sensitive.

Think of the trend in Major, Medium and Minor degrees. Depending on your trading style and objective, you should adjust the sensitivity accordingly.

A more sensitive setting will capture the change in direction/trend at the earliest sign, but will also react to minor vibrations in the market.

When setting up on your charts, adjust sensitivity so that your charts are showing the major swings with an acceptable amount of noise. I cannot over emphasize the importance of adjusting the sensitivity on the charts to a setting that suits your trading style. If fewer trades are desired, adjust the Sensitivity higher.

You will also want to adjust sensitivity depending on the instrument you are trading, as different markets have different characteristics. Do experiment with sensitivity AND Time Frames. You WILL get awesome looking charts with a little fine tuning.

A Sensitivity setting of 1 or 1.4 is most commonly used, while a Sensitivity of 2 will capture trend moves that are larger because it will not react to every retracement. A sensitivity of less than 1 can be used in small and large time Frames, which will result in the earliest signal, but potentially more noise. Again some experimentation will be worth your time.

Waiting for the next reversal is not money management...DO use your own common sense and money management when taking a trade.

You DO NOT have to take every signal. Be patient, and wait for signals and patterns that indicate higher probabilities. If you do not know patterns than get a book on Technical analysis and learn about patterns such as Double Tops and Bottoms, Rectangles, Wedges, Flags, Trend Lines etc... These are known as Price Action patterns. When the bars form a pattern on the chart such as a double bottom, and the BWT Precision Indicators confirm the direction implied by the pattern , it is often a high percentage opportunity .

Choppy or indecisive market is part of trading and cannot be avoided by any system or indicator. Try to avoid trading during these times, or switch to a lower time frame to catch moves, as they will show up as you go smaller in granularity.

Some excellent setups can occur after a long consolidation, the BWT Precision Indicators will not miss a breakout from this type of market action. For most of you however, try to avoid trading during these times and let the market

tip its hand with a good setup. Although many are aware, it still bears repeating, for day trading, the best action is in the first two and last two hours of trading.

The BWT Precision Indicators assist the trader in identifying trading opportunities by very clearly and graphically displaying color changes that correspond with changes in price and trend. Through thousands of hours of study, observation and actual trading we have created an indicator package that we believe is second to none. Why? Because less is more - having less lines, points, and objects on your chart gives a clearer picture of the only true no lag indicator - price.

Fewer indicators means less confusion, and our indicators will assist you in identifying key reversals and trend continuation, as well as providing an adjustable risk trail stop indicator that will give you the confidence to stay in a trade until the market lets you know when to exit. These indicators, like anything, require a little practice by watching them unfold in real time, and having patience to wait for trade signals and price action patterns. **Depending on time frame, some adjustment to the indicators will be required to give you good looking charts** that show clearly defined swings with potential trading opportunities. I strongly urge you to learn to read price patterns such as tests and failures, Double tops, bottoms, wedges, channels etc. as price itself is a strong indication. Trading is not easy, and nothing in trading is as easy as it looks, including our indicators. Learning to read what the market is telling you takes time, practice and determination. The more you know how to read price patterns in the market, the more the BWT Precision Indicators will confirm what the market is saying, and the indicators will provide an invaluable aid in the interpretation of market action.

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Indicators and Inputs:

BWT PRECISION TREND:

1. **Sensitivity:** Lower is more sensitive, Higher is less noise. A setting of 1 or 1.4 is recommended.
2. **Paint Bar:** Set True to Color Bars
3. **Show Me:** Set True to show Dot, Arrow and Price
4. **Show Text:** Set False if you DO Not wish to show price.

BWT Precision Stop:

1) Trail Stop Type

- a) **ATR Stop:** Symmetrical looking plot creates dynamic support/resistance
 - b) **Volatility Stop:** This is the same logic as the Trend Indicator, except it plots as a dot above or below the bar, and indicates the exact reversal price
 - c) **Average Volatility:** An average of the Volatility Stop designed to smooth
- 1.

2. **ShowVolStop:** - Set to true to plot the same as the signals – they share the same algorithm. You can see the buy or sell stop one bar in advance with this setting. Set to false to plot an ATR stop. This will look more symmetrical in appearance. Set Sensitivity to the same setting as the Precision Show Me and Paint Bar studies.
3. **ShowVolAvg:** Set to true to plot the VolStop as an average. Plot as dots or a line to show another appealing visual way to contain price, and show you which side of the market to trade. The rule for reversal if using the stop is a CLOSE above or below

BWT Precision CCI

Most CCI Inputs are self explanatory..

CCI Average: Shows and Average of CCI

Show Congestion: Plots yellow bars histogram when range contracts

BWT Natural Bands: The BWT Natural Bands plot two ATR bands above and below a 20 period Exponential Moving Avg. Price usually stays within the outermost bands 80-90% of the time

Sampling Period : Length of the center line average. The center line is a 20 peroid moving average.

xBandAtr: Number of ATR's from the center line

yBandAtr: Number of ATR's from the center line

BWT BBand Oscillator: The BWT Precision ATR is an oscillator the turns with markets

Alert Line: Ignore

BBD_Sdev: Default is 2...It is the Bollinger Band Length for the Std Deviation. The horizontal indicator Tells when a “squeeze” is in play. (Bollinger Band inside a Keltner Channel). This indicates when the volatility has contracted and the market is consolidating.

KC_ATRs: Number of the Keltner Channel ATRs

Length: Length of the exponential moving average center line.

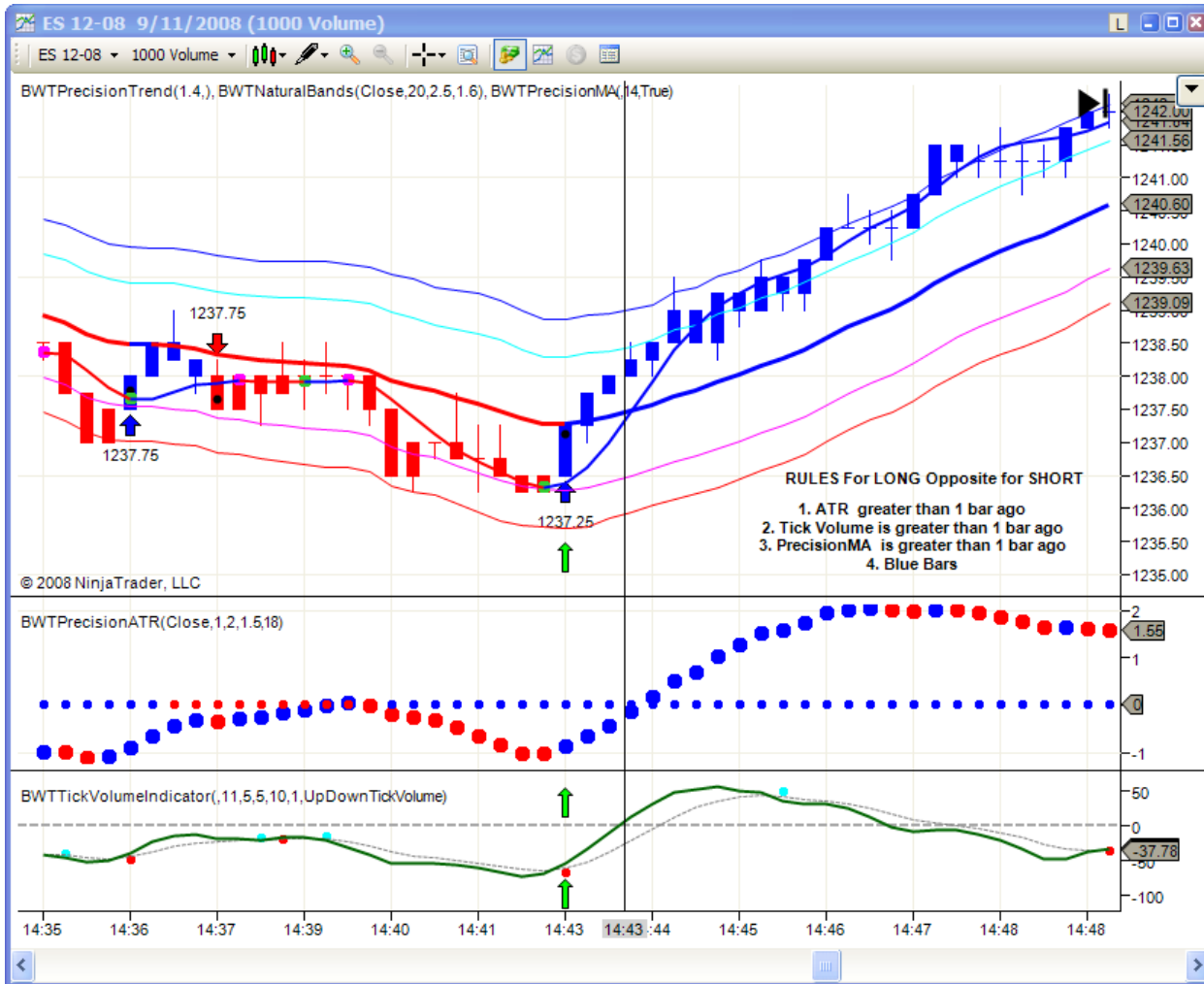
BWT Tick Volume: The BWT Tick Volume is an Oscillator of up and down volume the shows when volume is supporting price action. When price change direction the Tick Volume should match...This indicator shows excellent Divergences when price moves higher or lower and indicator shows volume exhaustion.. This usually signals the end of a move.

- If you are an experienced trader and you can execute with proficiency, the BWT Precision Indicators can be traded with a tight sensitivity. The Sensitivity above is set at 1 –A more sensitive setting will give you earlier signals, but may have more noise and whipsaws. If you are scalping, a sensitive setting would be appropriate. The CCI can be used to confirm overbought and oversold in all time frames.

TRADE SETUPS

1. The BWT “Precision Trade” *Note: BWTPrecisionATR has been renamed to BBand Osc*

A perfect setup with the BWT Precision Indicators:



RULES:

1. ATR is Greater than it was 1 bar ago
2. Tick Volume is Greater than it was 1 bar ago
3. Precision MA is Greater than it was 1 bar ago
4. Blue Bars are plotting

SHORT TRADE EXAMPLE:

1. ATR is less than it was 1 bar ago
2. Tick Volume is less than it was 1 bar ago
3. Precision MA is Less than it was 1 bar ago
4. Red Bars are plotting

2. We want a Blue Bar on the BWT Precision Trend Indicator and the BWT Precision MA turning from RED to BLUE. We need to see a candle to close RED to confirm our signal.

In the case of a buy signal the precision MA must turn from RED to BLUE (indicated by a blue dot). In order for our signal to confirm we need one of the following candles to close BLUE. At the close of this candle we place a buy @ market order. You may use a limit order and try to get filled on a pullback but you will miss some trades.
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Opposite of the above rules for a short trade applies. This is illustrated below.



A variation on the setup above is to take the entry on the next bar at **the signal limit price** or better. A mechanical rule based Automated System showed results of 85% winning trades on the Emini SP with a profit Target of 4-8 ticks.

**** Please feel free to contact us with your questions. If our tools work for you please let us know, you will receive a bonus indicator for your written and dated testimonial. We also welcome ALL your comments so that we may improve our products and service.**

To Your Successful Trading,

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