



FOREX DIRECTOR

**FILTERING ULTRA BLUE TRADES FOR
BETTER RESULTS**

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FOREX MASONRY

FOREX DIRECTOR

HIGH RISK INVESTMENT

TRADING FOREIGN EXCHANGE ON MARGIN CARRIES A HIGH LEVEL OF RISK, AND MAY NOT BE SUITABLE FOR ALL INVESTORS.

Before deciding to trade foreign exchange, you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some, or all, of your initial investment, and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial adviser if you have any doubts.



**RISK
AHEAD**

FOREX DIRECTOR

INTRODUCTION

THE FOREX DIRECTOR IS MORE JUST A RELIABLE FILTER

The Forex Director is a plug-n-play addition to the Ultra Blue systems. We can add this indicator to the existing template, and from there we will look at the market through new eyes.

The Forex Director is designed to reduce the trades you take in the wrong direction.

With the Forex Director added to your Ultra Blue system, you will reduce the number of losing trades, but at the same time, it will provide a trading signal that might not otherwise have been seen before.

As you know, the market moves in a zig zag pattern, but it does this with a prevailing trend.

The market moves farther in the trending direction than against the trending direction. This isn't new information, it's a long established fact you can see on any chart you look at.

When the market moves with the trend in this zig zag pattern, the Director will identify the pullback direction and keep you from trading in that direction.

As we go, you will see how useful and powerful the Forex Director really is.

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TREND DIRECTION

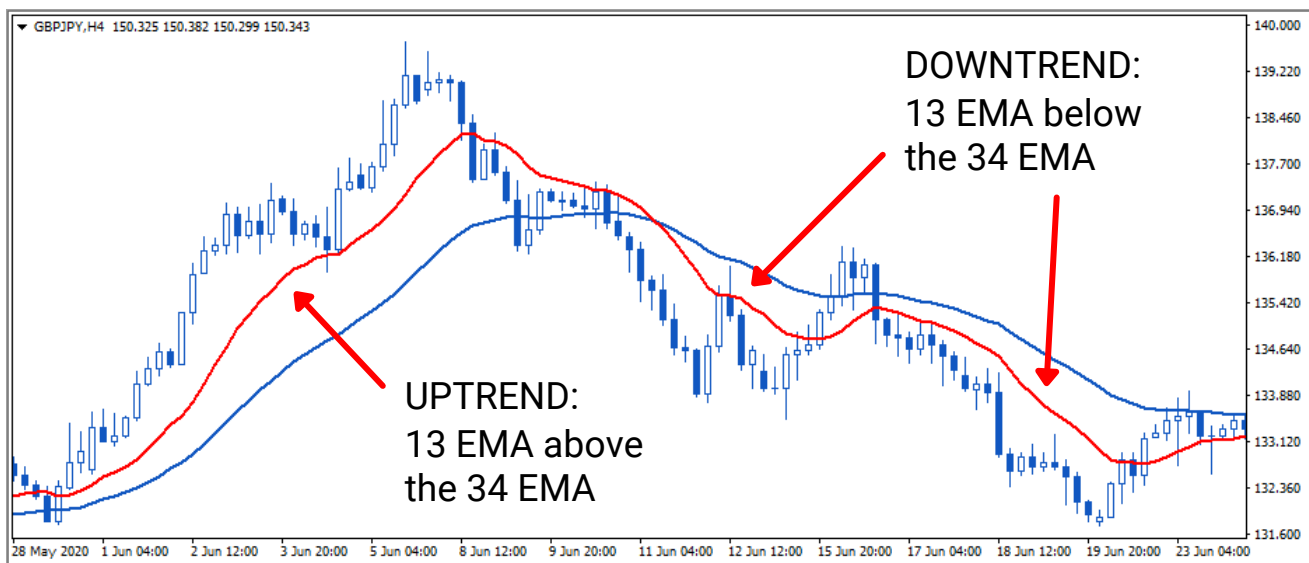
USING THE 13 EMA AND THE 34 EMA

We identify the trend direction using the 13 EMA and the 34 EMA. These moving averages are the backbone to the Ultra Blue Forex trading systems. Our trades are based on the direction of the trend, and this includes anything counter-trend. Once we know the direction of the trend, we can make the appropriate trading decisions.

IDENTIFYING THE SHORT-TERM TREND

These moving averages paired together will determine the short-term trend.

- When the 13 EMA is above the 34 EMA, the trend is up.
- When the 13 EMA is below the 34 EMA, the trend is down.



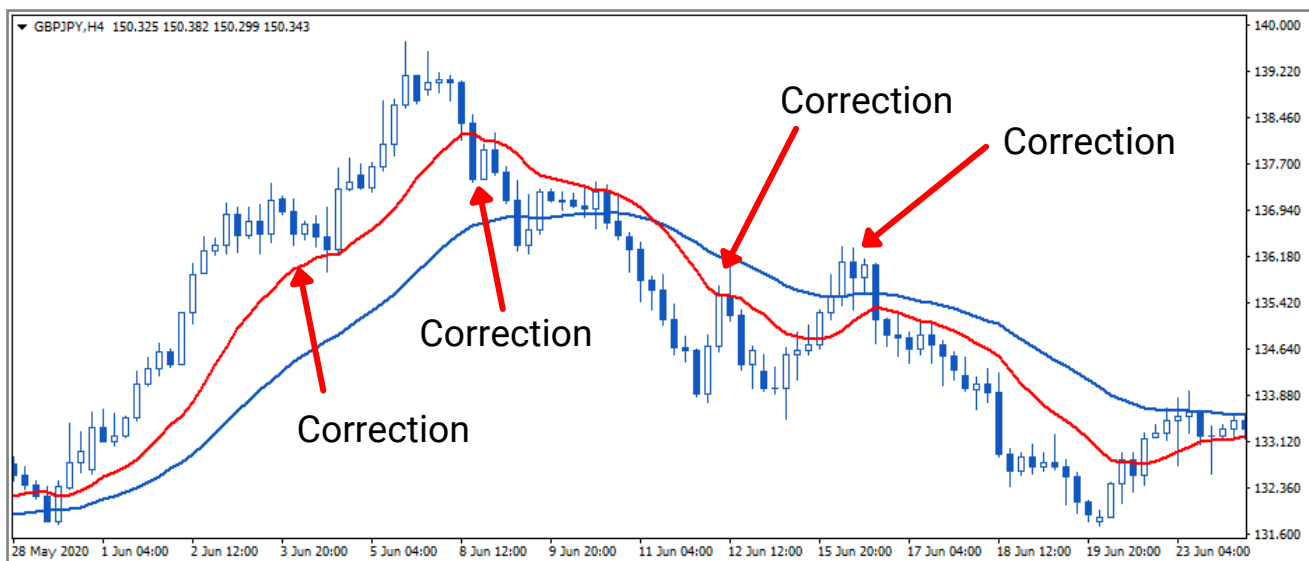
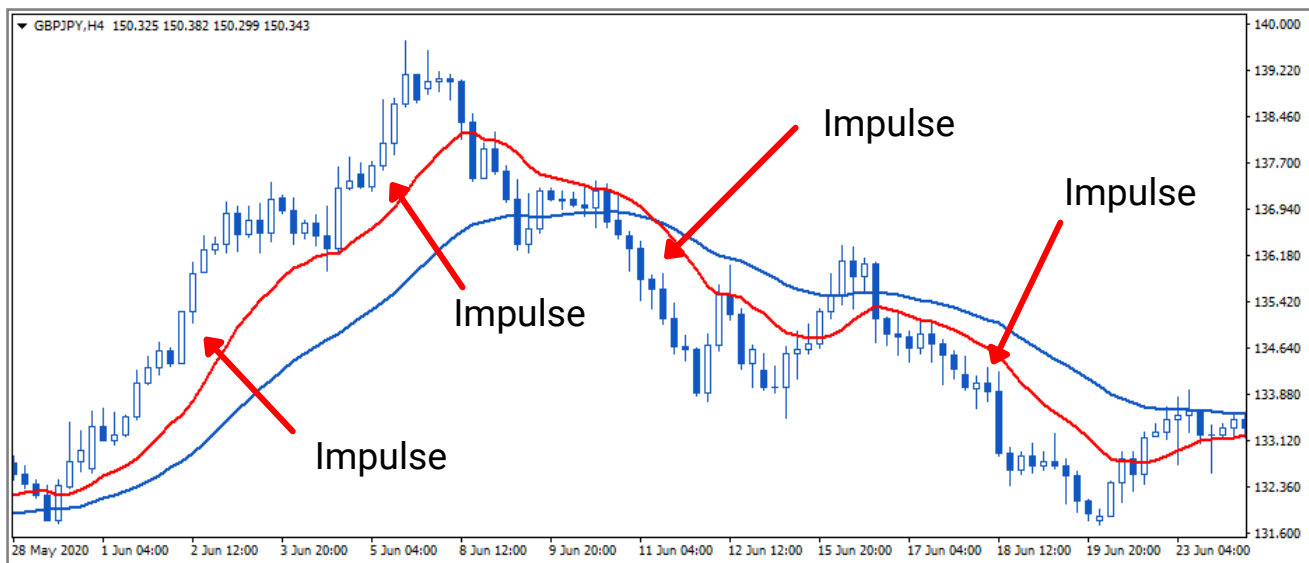
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THE MARKET MOVES MOSTLY WITH THE TREND

We want to trade with the trend for the simple fact the market moves farther and more consistently in the trending direction.

The market moves in waves.

- The big move in the trend direction is the impulse move.
- The smaller move against the trend is the correction (or the pullback).



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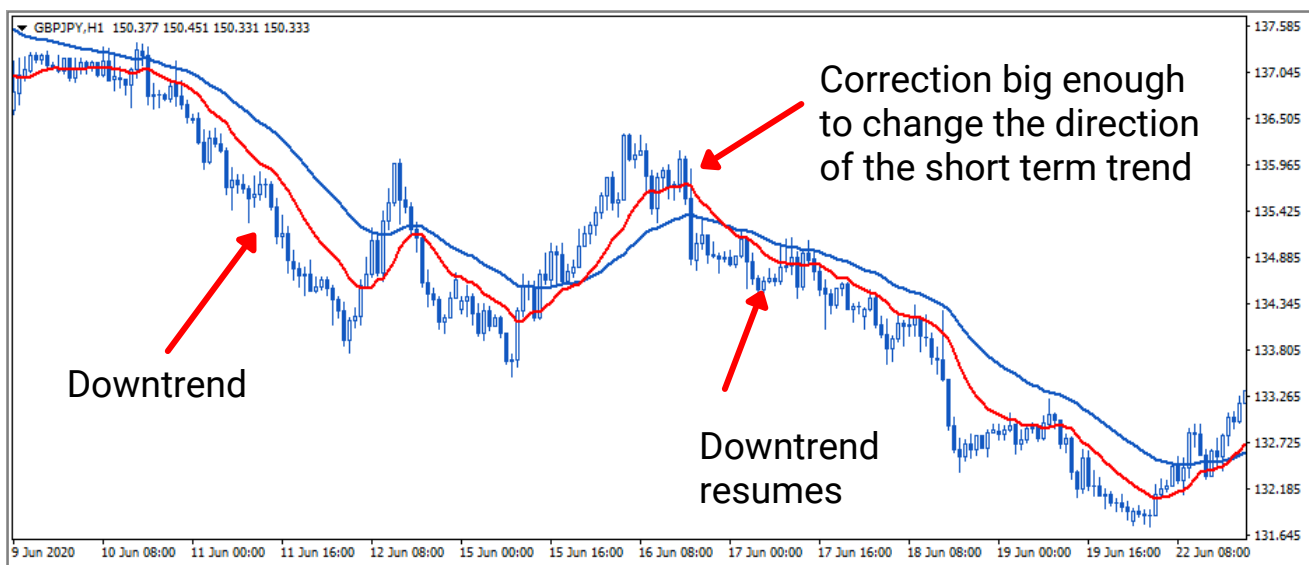
SOMETIMES THE CORRECTION FAKES US OUT

The correctional phase of the market can sometimes be large enough to change the indicators to show us that the trend has changed direction.

This makes trading the new trend direction unprofitable. The overall trend direction hasn't changed, the longer term trend is still intact, but the short-term 13 and 34 EMAs have been influenced into thinking the trend direction has changed.

The market needs to move quite a ways in order to change the short-term trend, but even so, this move is just a bigger correction and not a change in the direction of the trend.

In the image below, the trend is down. The middle of the chart shows us a correction large enough to change the direction of the moving averages, but attempting to trade this direction would be a struggle. After the pullback is finished, the downward trend direction resumes.



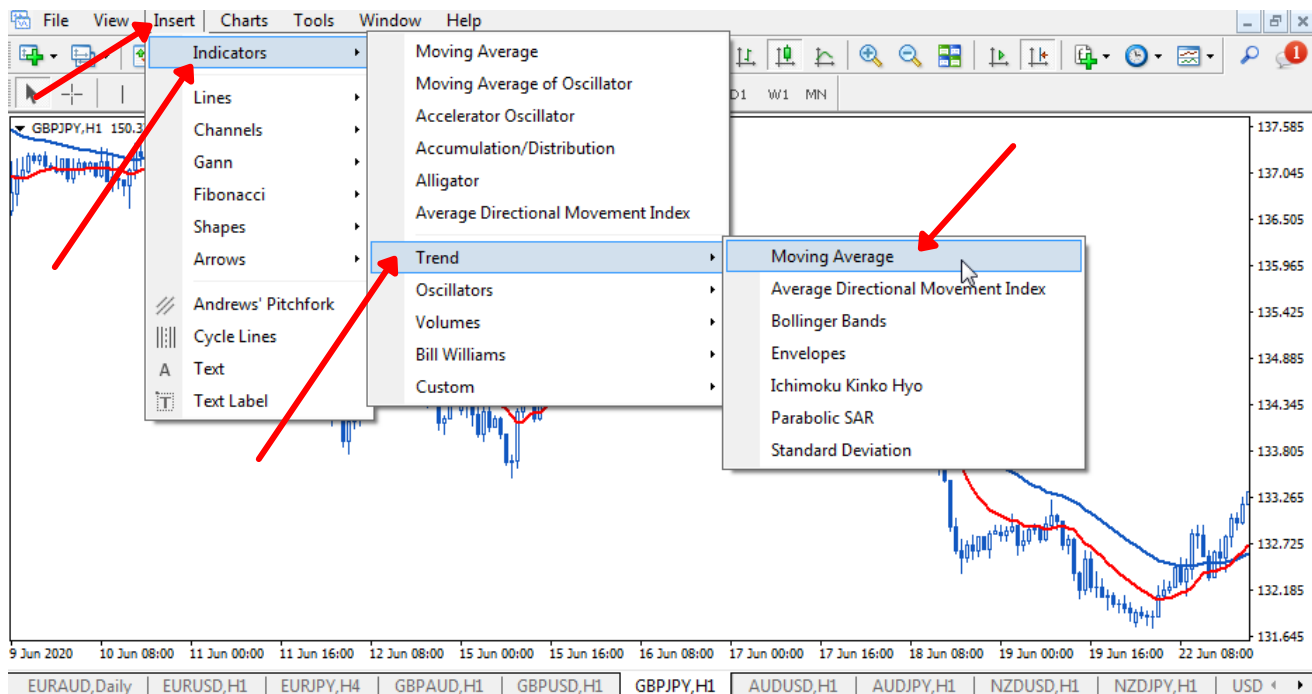
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THE DIRECTOR

ADDING THE 136 EMA

To get around the false changes in trend direction the short-term trend can sometimes show us, we will add the 136 EMA to the charts.

1. Click: **Insert**
2. Hover over: **Indicators**
3. Hover over: **Trend**
4. Click: **Moving Average**



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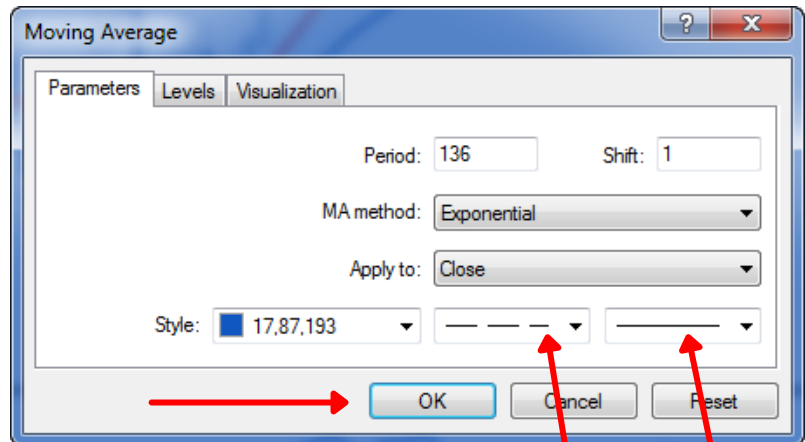
We will make the changes to the moving average properties box to reflect the image shown below.

Under the
Parameters tab:

- Period: **136**
- Shift: **1**
- MA Method: **Exponential**
- Apply to: **Close**
- Style: **17,87,193**
- Chose Line Thickness:

Mine is the thinnest and the dashed

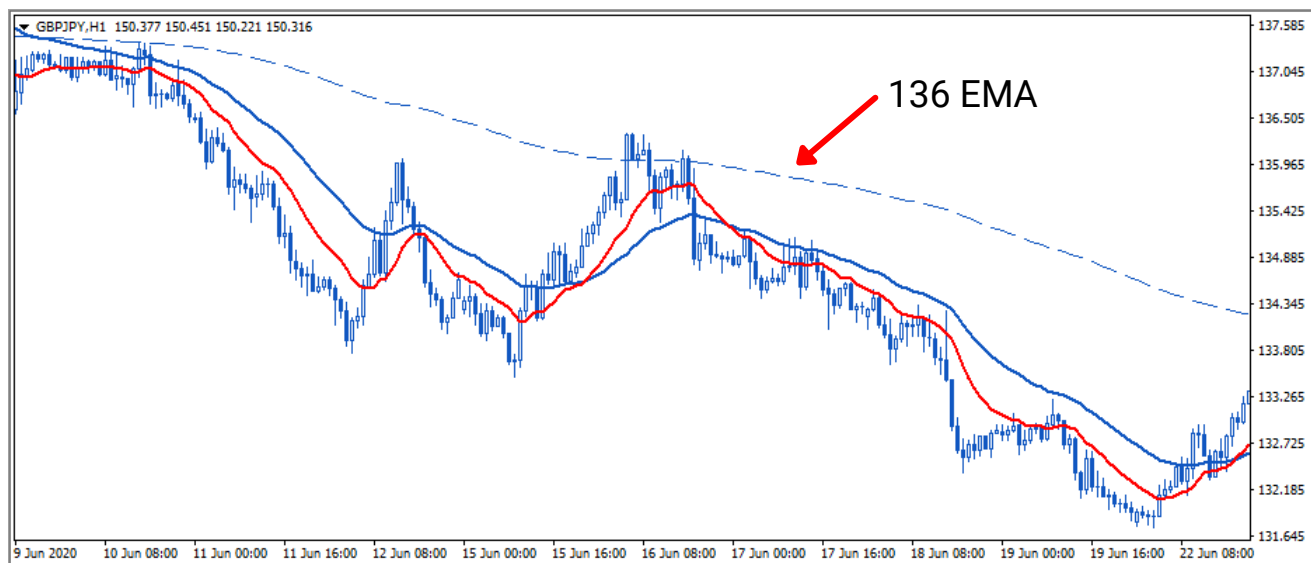
- Click: **OK**



Dashed

Thinnest

What we will end up with is a chart that has a moving average the looks like the image below. (The image shows off the moving averages, it is missing the RSI and the OSMA simply for the purpose of the examples.)



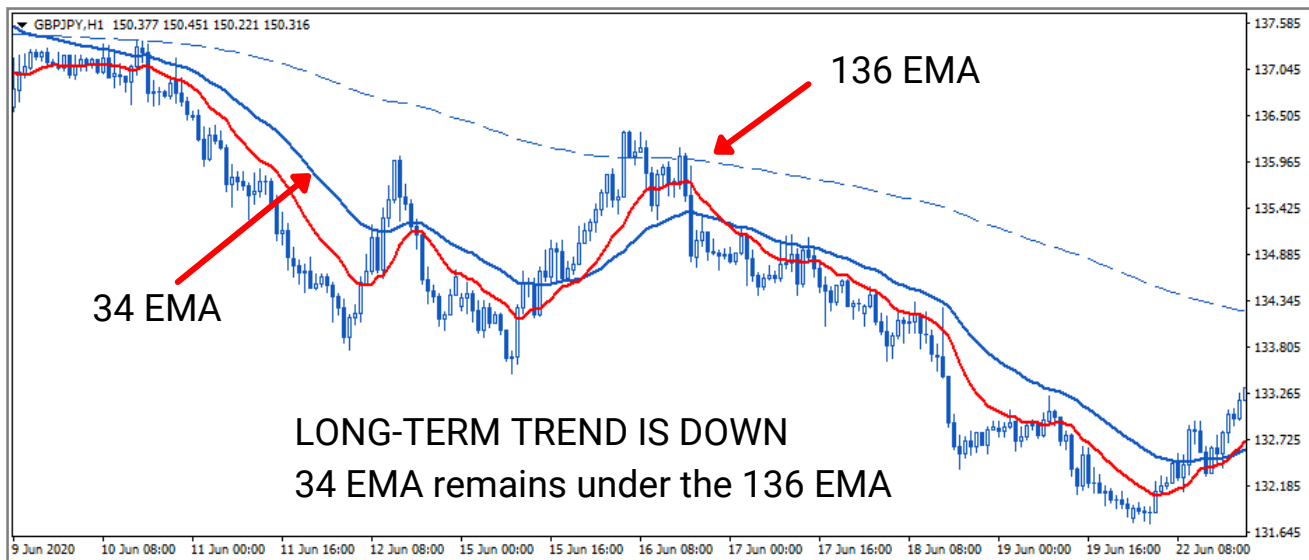
LONG-TERM TREND

USING THE 34 EMA AND THE 136 EMA

Now that we have added the 136 EMA to the charts, we can identify the longer-term trend.

Trends are relative to each other, and since we have the 13/34 combination reacting quicker to market moves, they would be the short-term trend.

The combination of the 34 and the 136 now would be the long-term trend.

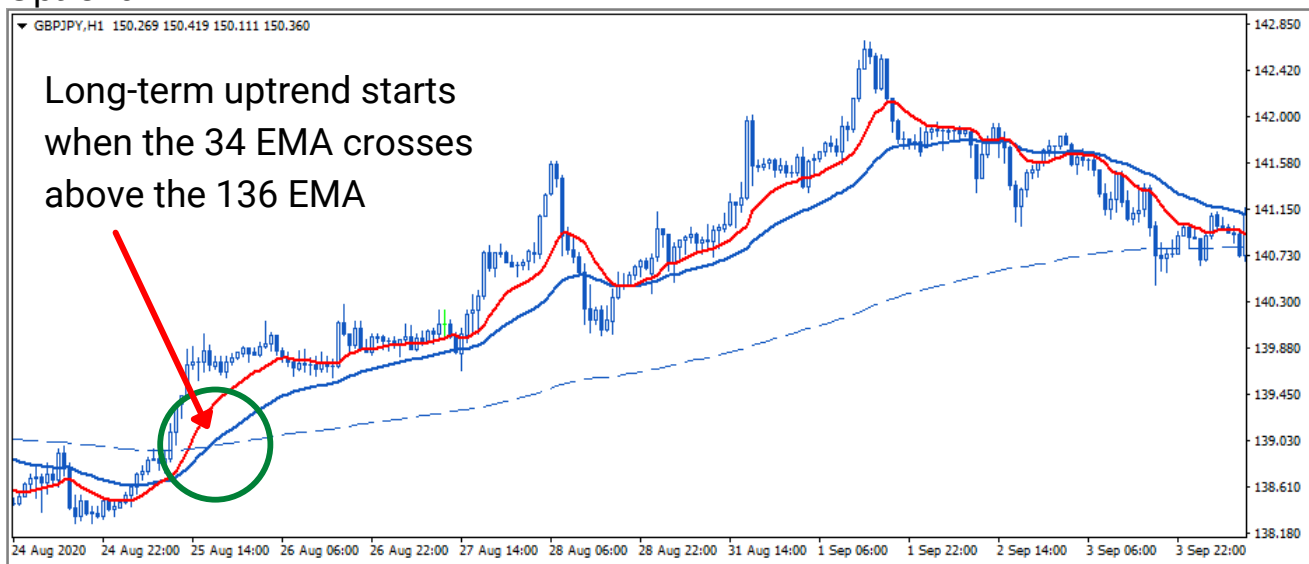


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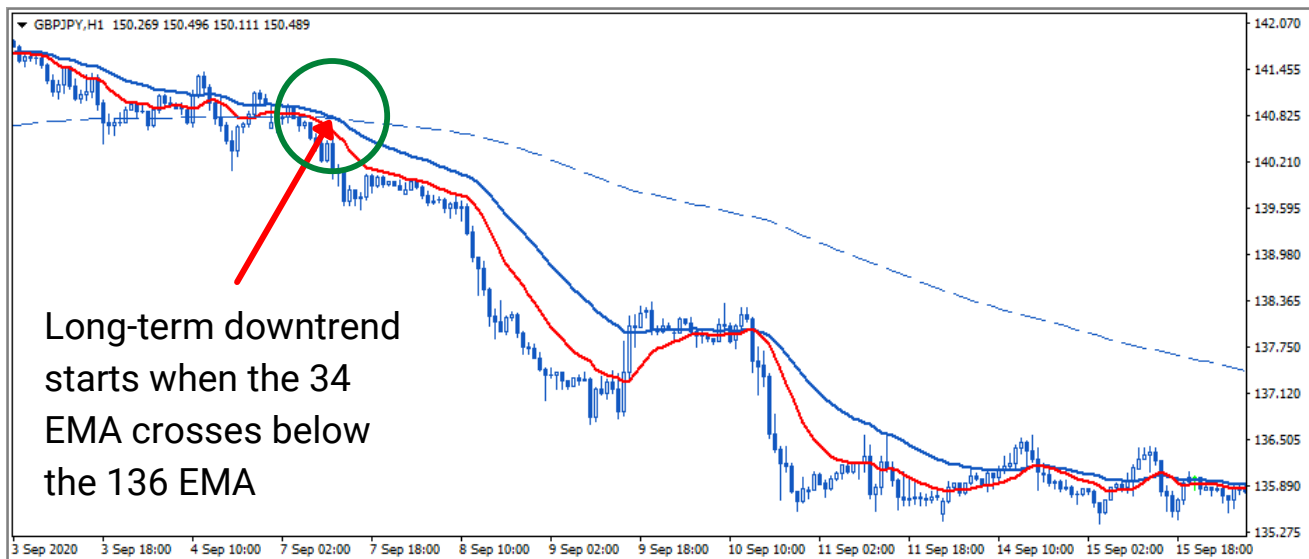
No matter what the 13 EMA is doing, the long-term trend is decided by the the side of the 136 EMA the 34 EMA is on.

- Uptrend when the 34 EM is above the 136 EMA
- Downtrend when the 34 EMA is below the 136 EMA

Uptrend:



Downtrend:



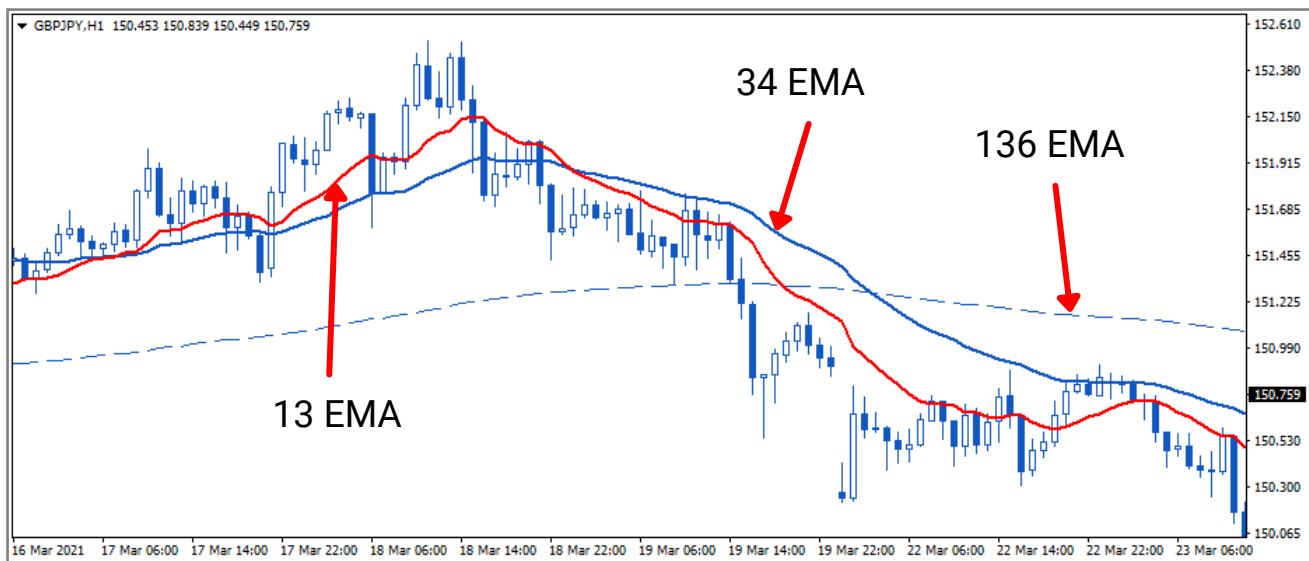
TREND PHASES

The order of the moving average are important.

We will be looking at the different phases of the market based on how the moving averages are stacked. They can be in order or out of order, and the phase the market is in will dictate how we trade (or don't trade).

We use 3 different moving averages now that the 136 EMA is added to the system:

- 13 EMA (red solid line)
- 34 EMA (blue solid line)
- 136 EMA (blue dashed line)



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PHASE #1

ORDERED MOVING AVERAGES

The ordered phase of the market is the one that we will actively be trading.
The ordered phase is the trending phase of the market.

The ordered phase of the market shows us the short term trend and the long term trend are moving in the same direction.

Uptrend:

- The short-term trend is up.
- The long-term trend is up.

The moving averages from top to bottom:

- **13 EMA**
- **34 EMA**
- **136 EMA**

Downtrend:

- The short-term trend is down.
- The long-term trend is down.

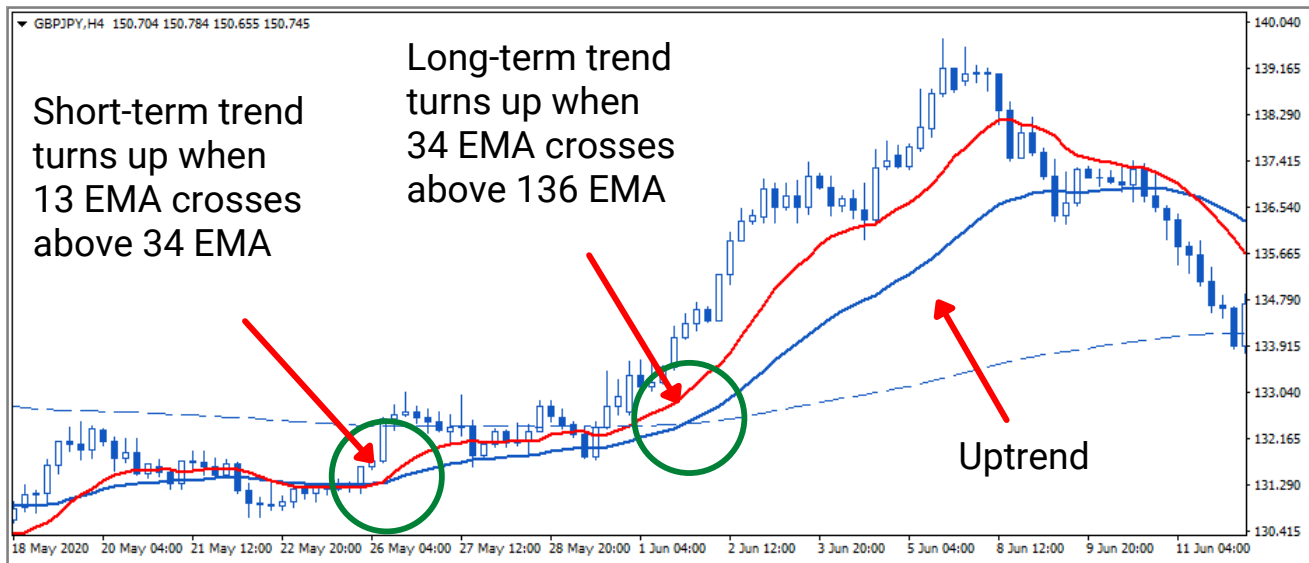
The moving averages from top to bottom:

- **136 EMA**
- **34 EMA**
- **13 EMA**

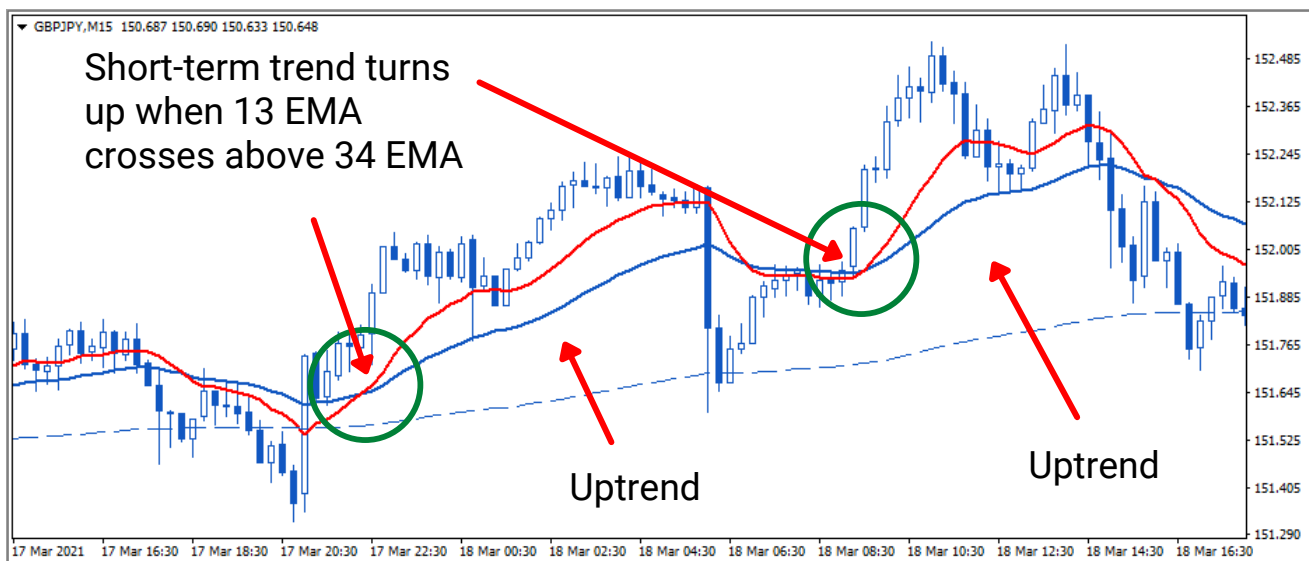
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ORDERED MOVING AVERAGES - UPTREND

Generally, as a new trend starts, the short term EMAs will order themselves first followed by the long term EMAs as in the examples below.



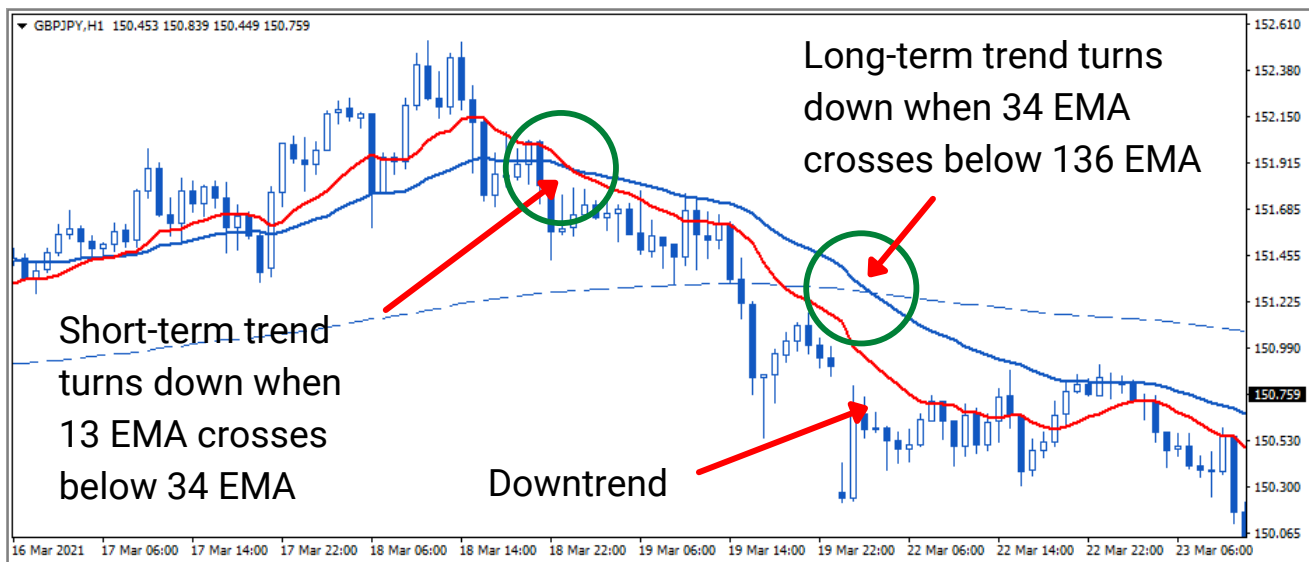
Below is an example of how the long-term trend is in order then the short-term trend follows after.



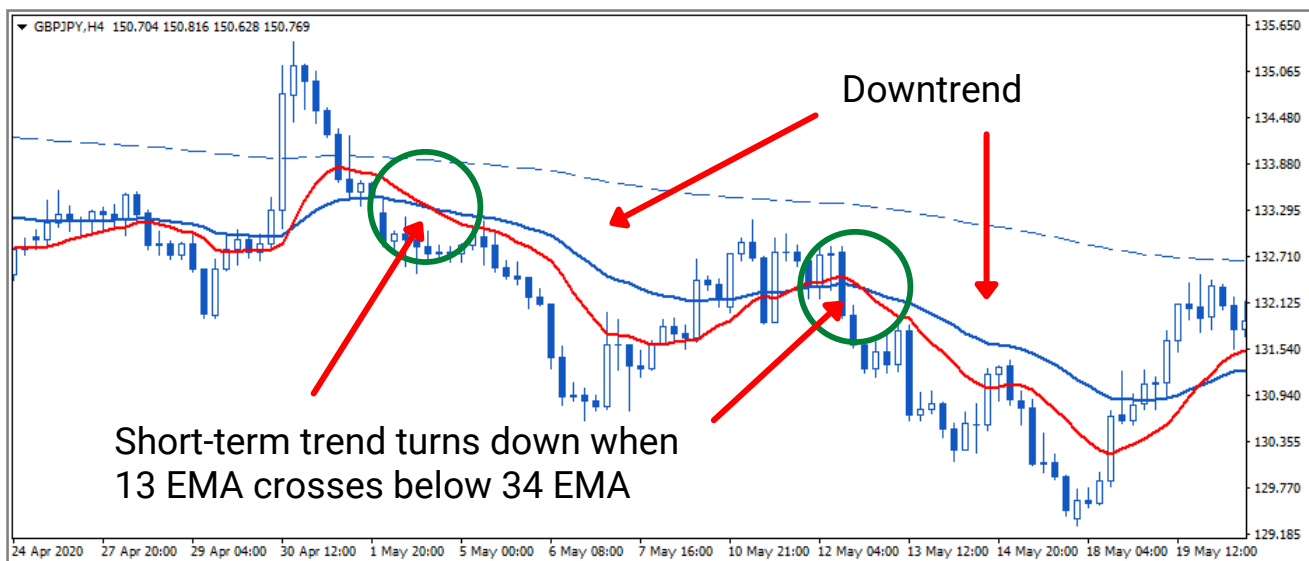
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ORDERED MOVING AVERAGES - DOWNTREND

Generally, as a new trend starts, the short-term EMAs will order themselves first, followed by the long-term EMAs as in the examples below.



Below is an example of how the long-term trend is in order then the short-term trend follows after.



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PHASE #2

UNORDERED MOVING AVERAGES

The unordered market phase is when the moving averages are in any order that is not either ascending or descending.

The unordered moving averages are transitional phases.

These are the phases the market needs to go through when the trending phases change direction.

When a market starts in a trend direction, it will go through 2 unordered phases as it changes to the other trend direction:

Transition from a downtrend to an uptrend

Unordered Part 1:

- 136 EMA
- 13 EMA
- 34 EMA

Unordered Part 2:

- 13 EMA
- 136 EMA
- 34 EMA

Transition from an uptrend to a downtrend

Unordered Part 1:

- 34 EMA
- 13 EMA
- 136 EMA

Unordered Part 2:

- 34 EMA
- 136 EMA
- 13 EMA

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TRANSITIONING TO AN UPTREND

There are two parts to the trend transition.

Part 1 is when the 13 EMA crosses above the 34 EMA.

Part 2 is when the 13 EMA crosses above the 136 EMA.

Transition from a downtrend to an uptrend

Unordered Part 1:

- 136 EMA
- 13 EMA
- 34 EMA

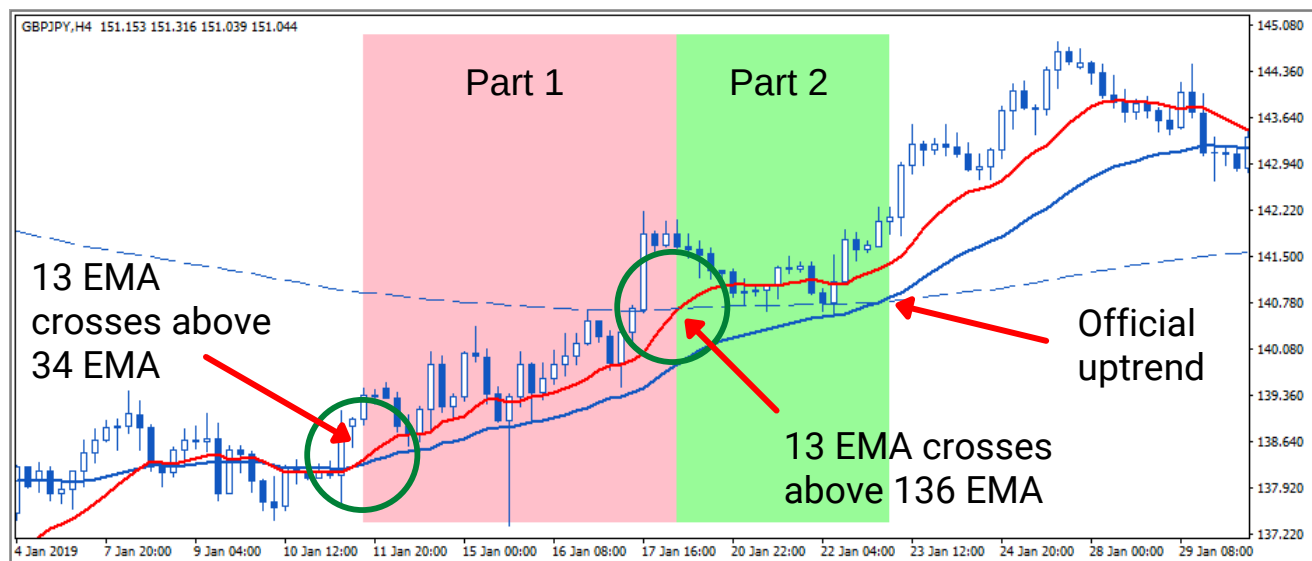
Unordered part 2:

- 13 EMA
- 136 EMA
- 34 EMA

The pink square in the image is part 1 when the 13 EMA crosses above the 34 EMA.

The green square is part 2 is when the 13 EMA crosses above the 136 EMA.

When the 34 EMA crosses above the 136 EMA, we are officially trending up.



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TRANSITIONING TO A DOWNTREND

There are two parts to the trend transition.

Part 1 is when the 13 EMA crosses below the 34 EMA.

Part 2 is when the 13 EMA crosses below the 136 EMA.

Transition from an uptrend to a downtrend

Unordered Part 1:

- 34 EMA
- 13 EMA
- 136 EMA

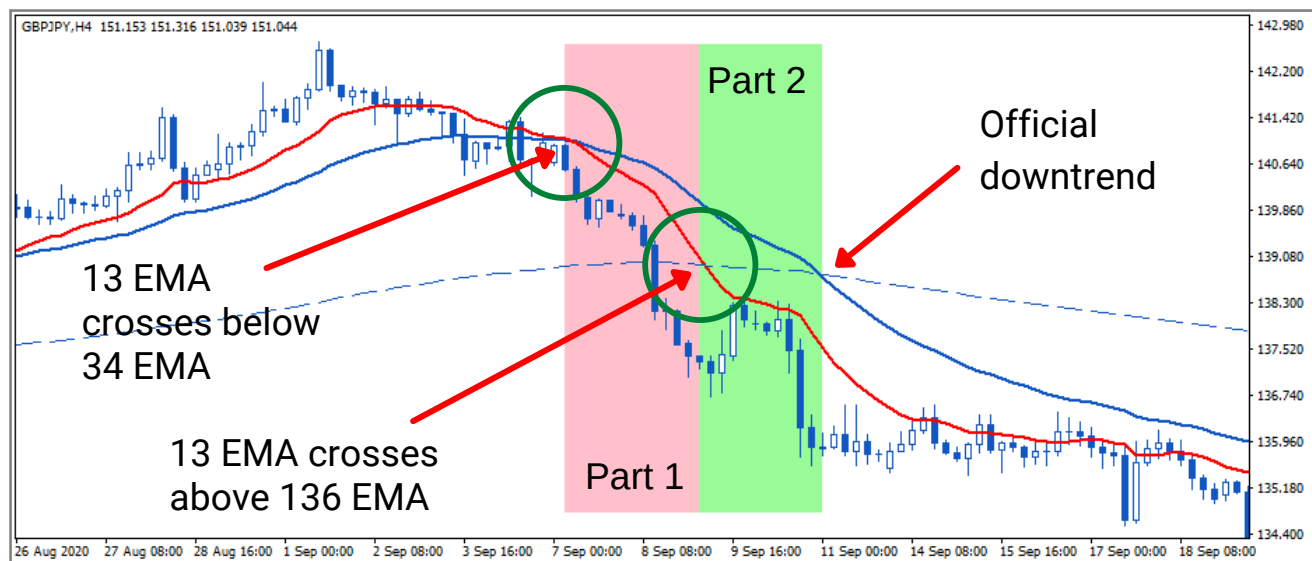
Unordered part 2:

- 34 EMA
- 136 EMA
- 13 EMA

The pink square in the image is part 1 when the 13 EMA crosses below the 34 EMA.

The green square is part 2 is when the 13 EMA crosses below the 136 EMA.

When the 34 crosses below the 136, we are officially trending down.



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PART 1 - NO TRADING

During part 1 of the unordered phase when the 13 EMA is in between the 34 and the 136 EMAs, **there is no trading**.

The short-term trend and the long-term trend are in disagreement and they will fight each other, usually resulting in very little market movement.

Trading in part 1 of the unordered phase doesn't always mean there is a trend reversal on the way, it can simply be a correction or a flat market. The trend can easily resume after part 1 without ever getting to part 2.

In the image below, there is a section of the chart that enters part 1 of the unordered phase. We don't know if part 1 will continue into part 2 or change back into the trend direction and become the ordered phase again.

All we want to keep in mind is when the market is in part 1 of the unordered phase, there is no trading. The market is bullish as the long-term trend is up but the short-term trend is down.

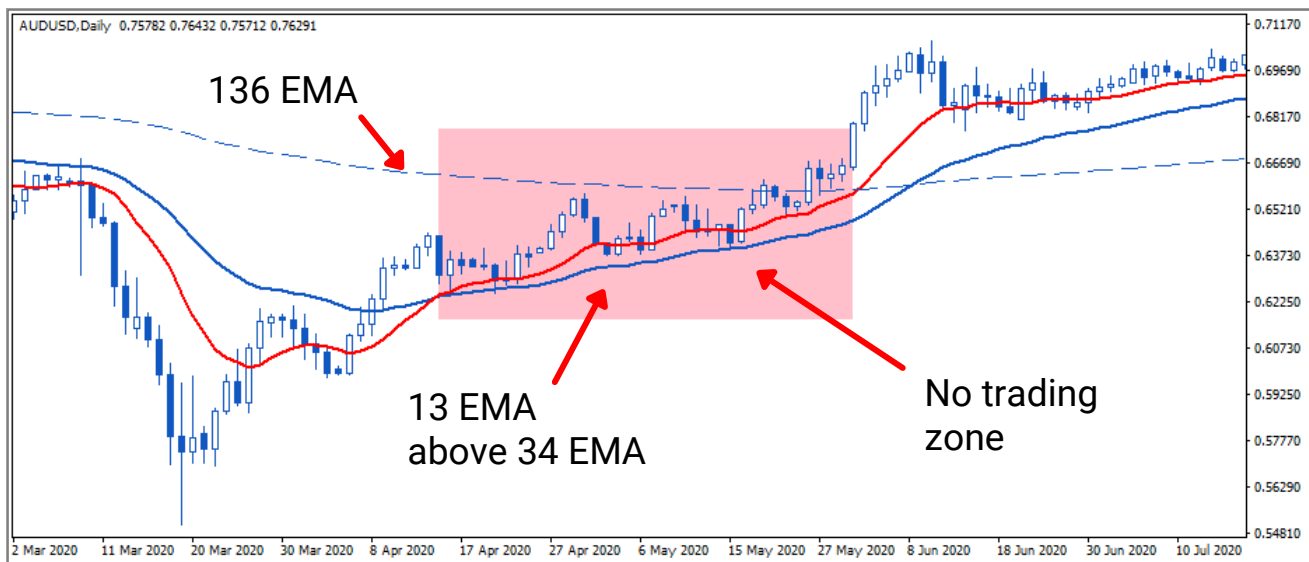


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PART 1 - NO TRADING

This is part 1 of the unordered phase in a bearish market. The long term trend is down, but the short term trend turns up.

Below is an example as the market follows though to a full trend reversal.



Below is an example as the market makes a small correction then resumes in the trending direction.



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PART 2 - CAUTIOUS TRADING

During part 2 of the unordered phase when the 136 EMA is in between the 13 and the 34 EMAs, **we can trade, but we will do it with caution.**

Part 2 of the unordered phase can often lead to the change in the market direction, and in doing so, trades will often be successful.

It's important to remember that in part 2, the market is not committed to changing the trend direction and it may turn back into the original trend direction.

Below is a chart example of a bullish market in the unordered phase as it reaches part 2. In this case, the unordered phase part 2 continues to move and change the trend direction.

The part 2 section of the unordered phase is tradable, but can be risky.



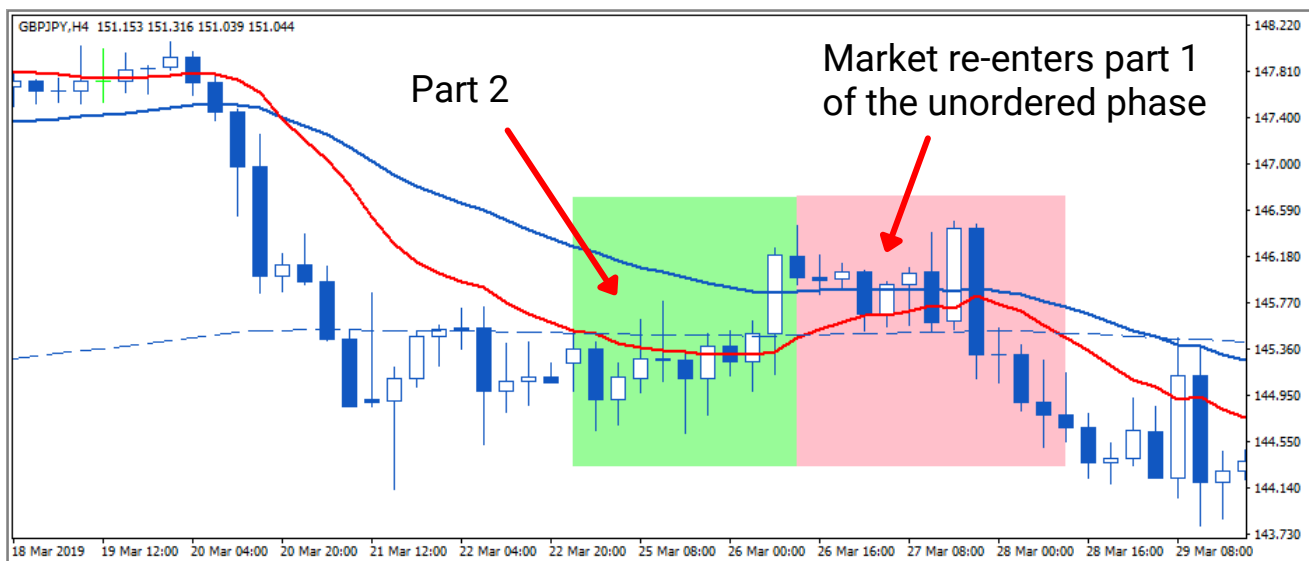
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PART 2 - CAUTIOUS TRADING

In the example below, the market is transitioning to a new trend direction. part 2 of the unordered phase leads into the new trend. This is ok to trade, but again, trade with caution.



Below is a market that enters part 2 of the unordered phase only to go back to the untradeable part 1.



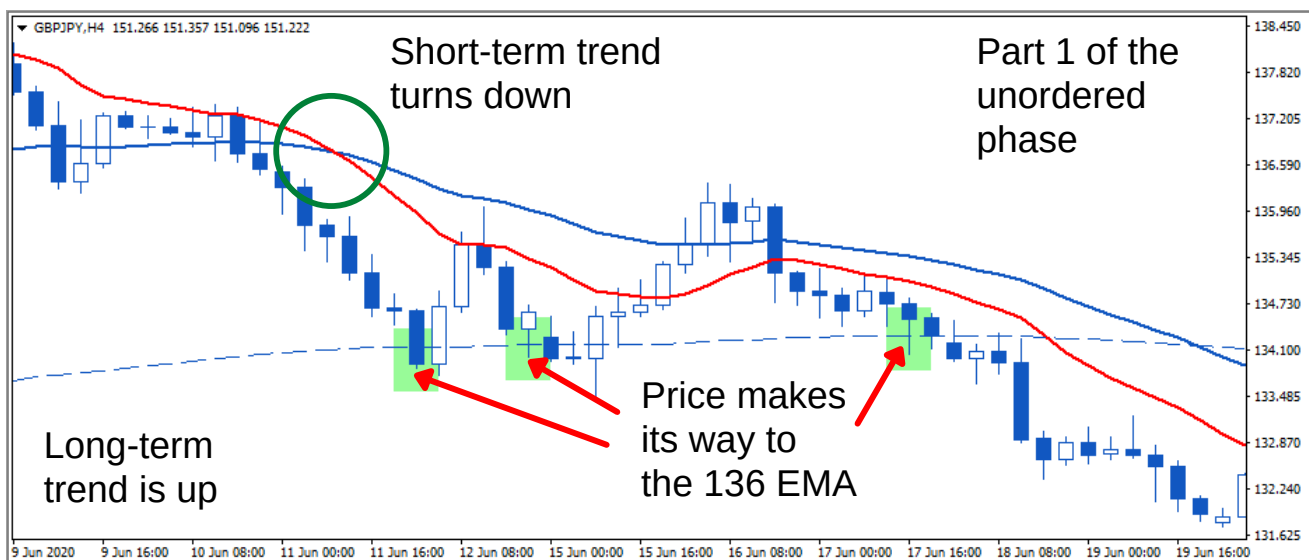
DIRECTOR'S CUT

THE MARKET MOVES BACK TO THE 136 EMA

There is an interesting move the market makes once the short-term trend changes direction.

When we have an ordered phase, all the moving averages are in order, then the short-term trend changes direction (part 1 of the unordered phase), the price will try to make its way to the 136 EMA.

The price will want to touch the 136 EMA as some kind of reassurance before it continues doing whatever it's going to do. Once the short-term trend turns against the long-term trend, either the trend will resume or the price will continue until a new trend takes over. In the middle of that, the price tries to touch the 136 EMA regardless of what it will ultimately end up doing.



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TAKING ADVANTAGE OF THE DIRECTOR'S CUT

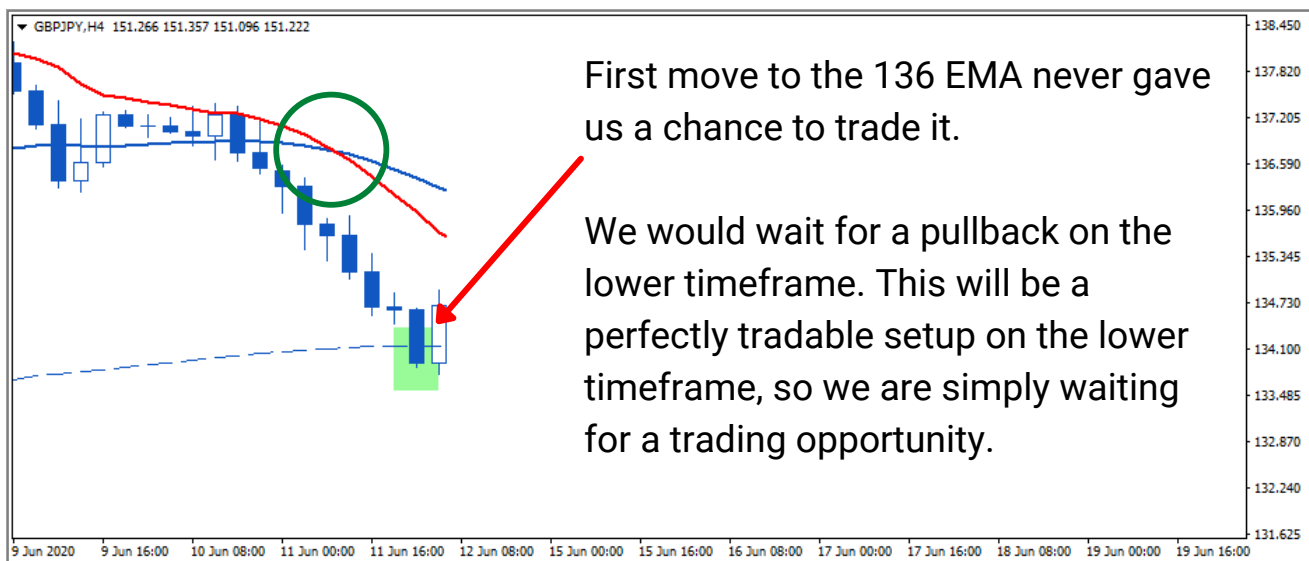
Many times there isn't a lot of space to trade to the 136 EMA, but there is a way we can take advantage of the move to the 136 EMA.

When we have part 1 of the unordered phase, we can move to the lower timeframe to look for a trading opportunity towards the higher timeframe 136 EMA.

The first touch to the 136 EMA is usually out of our hands if there is no pullback along the way, but following bounces or pullbacks can give us opportunities.

This will require a little flipping from timeframe to timeframe once the trade is placed, but it's not as bad as it sounds.

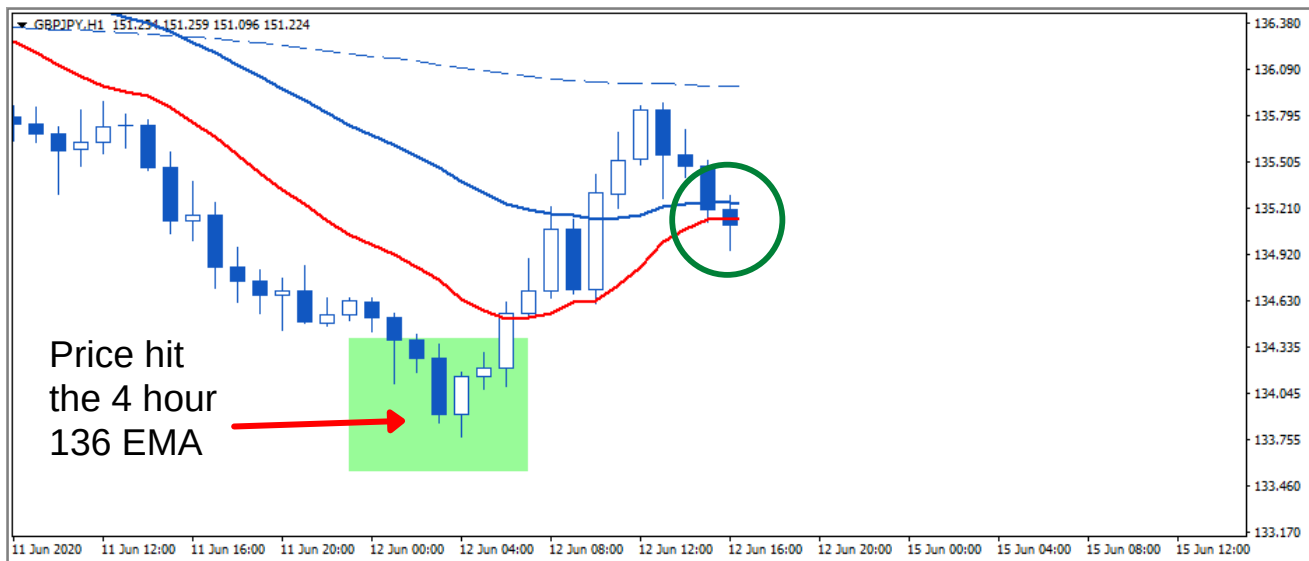
Once the trade is placed, we are looking for the price to touch the 136 of the higher timeframe. The way I do this is by drawing a trendline to approximate the position of the 136 EMA in the future.



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THE BEARISH DIRECTOR'S CUT

The market on the higher timeframe (in this case the 4 hour) has just turned bearish. The lower timeframe market (the 1 hour timeframe) wants to make its way up to the 136 EMA.



The chart below is the move back to the 4 hour 136 EMA. The 136 is not going to show on the lower timeframe in the right place, so we want to mark it off on the higher timeframe .



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THE BULLISH DIRECTOR'S CUT

I will do a walk-through of a trade and how I would go about it. I tend to draw lines on my chart to represent the higher timeframe 136 EMA, and I will show you the process I take.

Step 1.

On the higher timeframe, the bearish ordered phase turns into part 1 of the unordered phase. The 13 EMA crosses above the 34 EMA.

Step 2.

Draw a trendline on the chart to best extrapolate the 136 EMA. This line will show up in the right place on the lower timeframe.

Step 3.

Switch to the lower timeframe and look for a trading opportunity towards the line you drew on the chart (the representation of the 136 EMA of the higher timeframe).

It's important to note that during the trade, I will flip back and forth to the higher timeframe and occasionally adjust the trendline target.

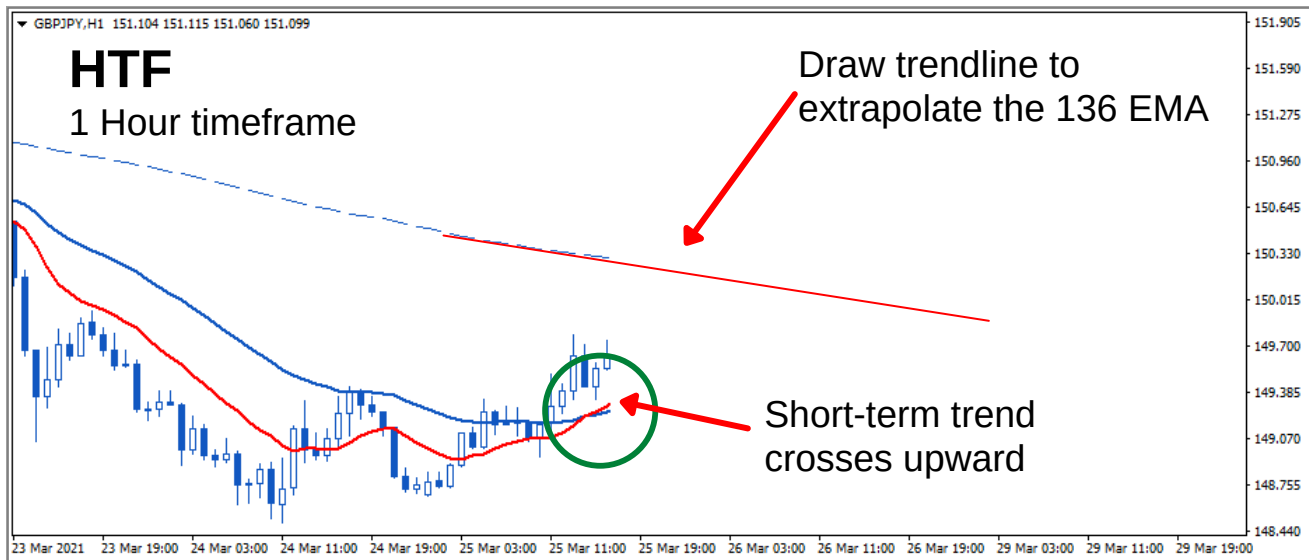
As the market progresses, the trendline you draw on the higher timeframe may need to be re-fit to the 136 EMA as it moves and slightly changes its direction. It's not a big deal at all, but it's something to be aware of if you want to get the maximum from your trade.

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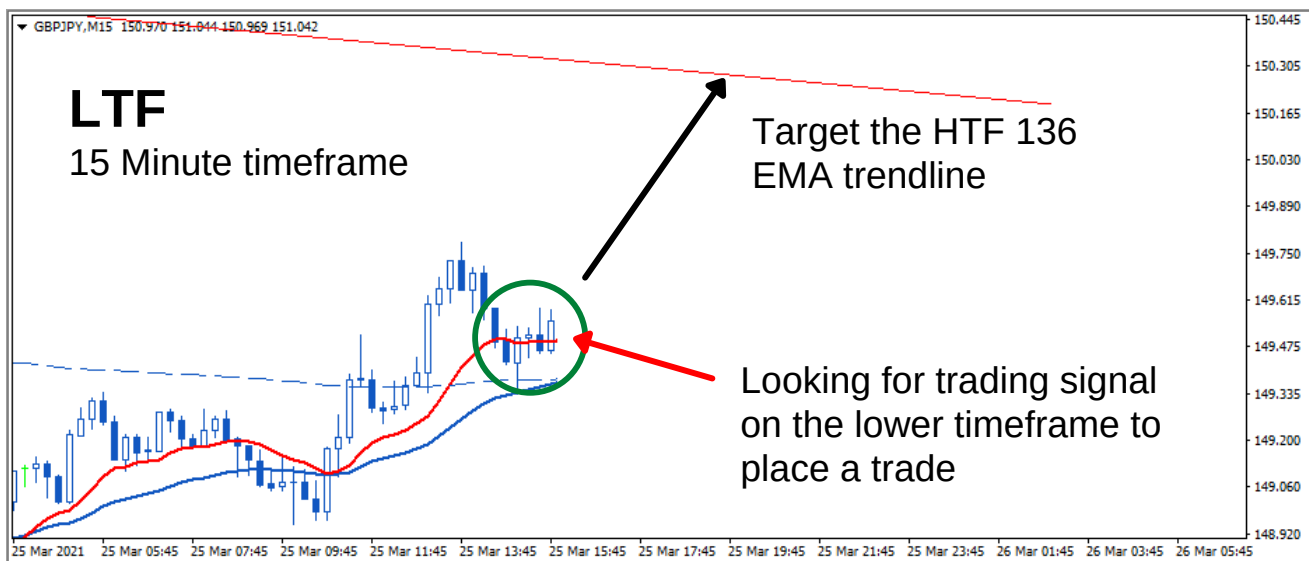
THE BULLISH DIRECTOR'S CUT

Step numbers 1 and 2 on the higher timeframe:

1. 13 EMA crosses above the 34 EMA to have the short-term trend turn up.
2. Trendline is drawn to extrapolate the 136 EMA



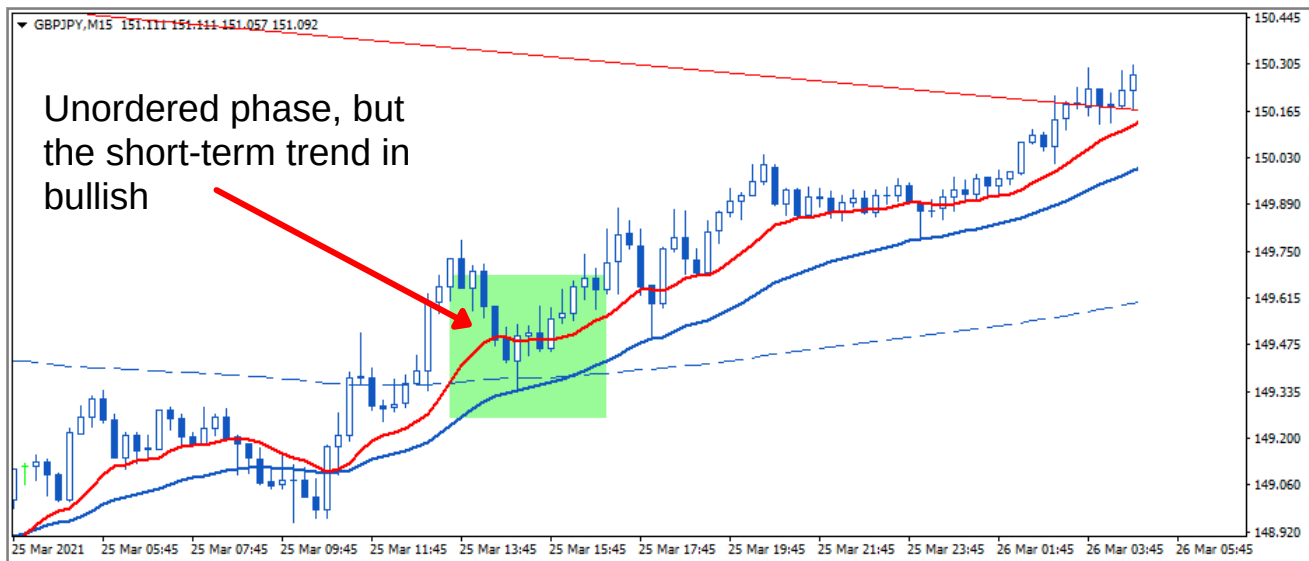
3. look for a trading opportunity in the direction of the 136 EMA trendline of the higher timeframe.



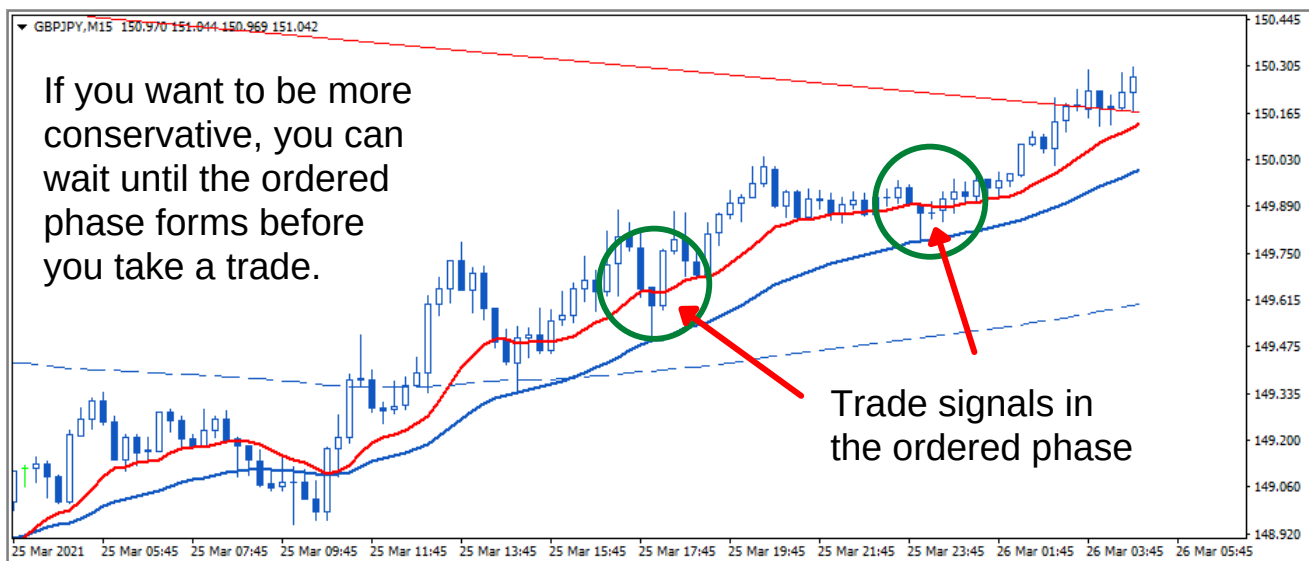
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DIRECTOR'S CUT NOTE

When looking for a trade on the lower timeframe, it's not important we have an ordered phase in place. As long as the 13 EMA and the 34 EMA are in order (the short-term trend), we can look to place a trade.



A more conservative approach is to wait for the ordered phase to happen before taking trades, but it's not necessary.



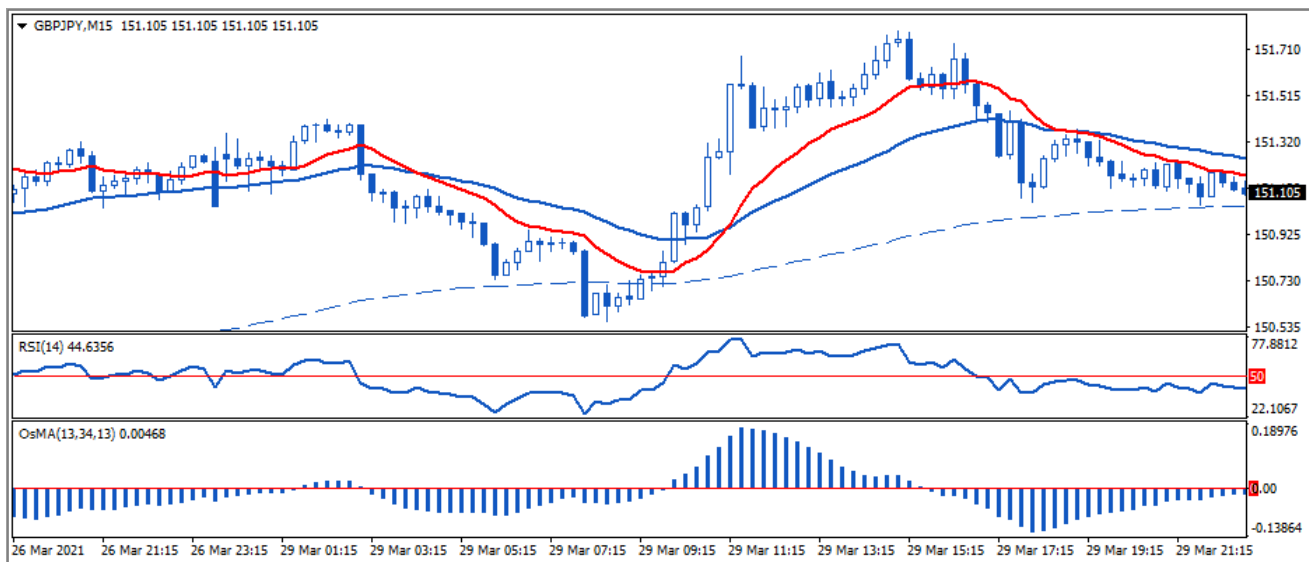
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CONCLUSION

MORE THAN JUST A FILTER

I always caution about adding too many filters to a trading system, but in the case, it's a welcome addition.

The examples in the manual were discussed without the use of the RSI or the OSMA indicators, and this was simply to get as much room for the chart examples as possible. The other indicators will indeed be a part of the trading systems you choose to use. A complete chart will look like this:



I hope you enjoyed the manual!

As always, best of luck to you, your loved ones, and your trading career!

Russ Horn