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# **Pivot Candle Trading System**

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There will be no fluff, no hype whatsoever in this system. It's written in a straightforward, no-nonsense manner. The main components of PivotCandle System is a candlestick pattern called **hammer** and special types of price support and resistance known as **pivot levels**.

## 1. Hammer

You may already read about hammer candlestick pattern elsewhere. However, clear and concise methods of defining what a hammer is and how to trade hammers are rarely mentioned.

Here is how we define a perfect hammer pattern:

- a. The lower wick (the tail) is at least twice as large as the body and the upper wick.
- b. It's located at major support.



Figure 1 – Typical Hammer

The above photo shows a good hammer. Notice the lower tail of the candlestick is much bigger than the body and the upper wick.

Rules for defining an inverted hammer are just the opposite:

- a. The upper wick is at least twice as large as the body and the lower wick.
- b. It's located at major resistance

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Below is an example of a perfect inverted hammer:

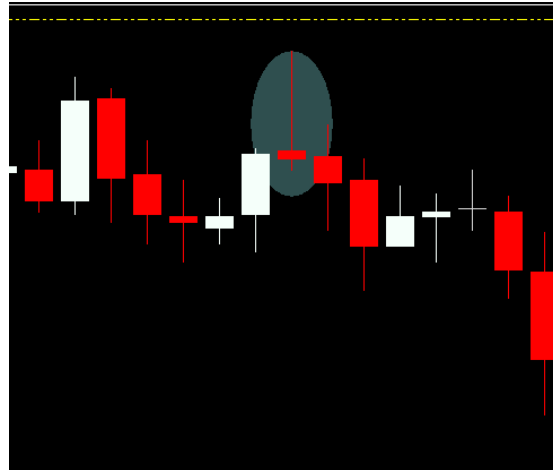


Figure 2 – Typical Inverted Hammer

## 2. Pivot Levels

Floor traders love pivot points. They act as magnet for price movements. If you observe how price move during any trading session, you'll notice that price often stalls or stops at pivot points before resuming its movement.

To calculate daily pivot points you need High, Low, and Close Price of the previous day.

Here are the formula for calculating daily pivot points:

Central Pivot Point (P) = (High + Low + Close)/3

Resistance Level 1 (R1) = 2xP – Low

Resistance Level 2 (R2) = P + (R1 - S1)

Resistance Level 3 (R3) = High + 2x(P - Low)

Support Level 1 (S1) = 2xP - High

Support Level 2 (S2) = P - (R1 - S1)

Support Level 3 (S3) = Low – 2x(High - P)

You can find a free pivot-point calculator at:

<http://www.trendforexsystem.com/pp2.htm>

To calculate weekly pivot points, apply the same formula, but using High, Low, and Close Price of the previous week instead of the previous day.

### **3. Put everything together and generate entry signals and exit signals**

This system is used on 15-minute and 4-hour timeframe. With 15-minute timeframe, daily pivot points are employed. Weekly pivot points are utilized when trading off 4-hour timeframe.

In this manual, I'll present the entry signals for swing trading off 4-hour timeframe. We use the same techniques to generate entry signals on 15-minute timeframe but using daily pivots instead of weekly pivots.

Okay, let's dive right in the meat of PivotCandle Trading System:

**Buy Entry Signals:** Three criteria must be fulfilled:

- a. Price must be above 20-period Exponential Moving Average (EMA20) and EMA20 must be above 50-period Exponential Moving Average (EMA50).
- b. Price moved past a pivot level (S1/S2/S3/P/R1/R2/R3) and retraced back to that level.
- c. A hammer formed.

When the hammer candlestick closed, we enter at market price with **three** lots. Stop loss should be placed 10-20 pips below the Low of the hammer depending on the volatility of the currency pairs we're trading.

**Exit Signals:**

- a. When price moves in our favor the same distance as our stop loss we take one lot out. For example, if our stop loss is 50 pips away from entry price, when we have 50 pips in profit we exit one lot.
- b. For the remaining two lots, we trail our stop loss a few pips (5-10 pips) below EMA20. We let our profits run and let the market decide when our positions are closed.

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For sell (short) entry and exit signals, the rules are obviously the opposite of the rules for buy (long) signals.

Here is an example of a long trade with clear entry and exit signals:



Figure 3 – Enter long at the close of the hammer

In this example, price was above EMA20 (green color) which was in turn above EMA50 (yellow color). The first requirement was fulfilled. Next, price moved beyond the pivot level and then retraced back and tested that level. Finally, a hammer formed. When this hammer candlestick closed, we entered at market price.

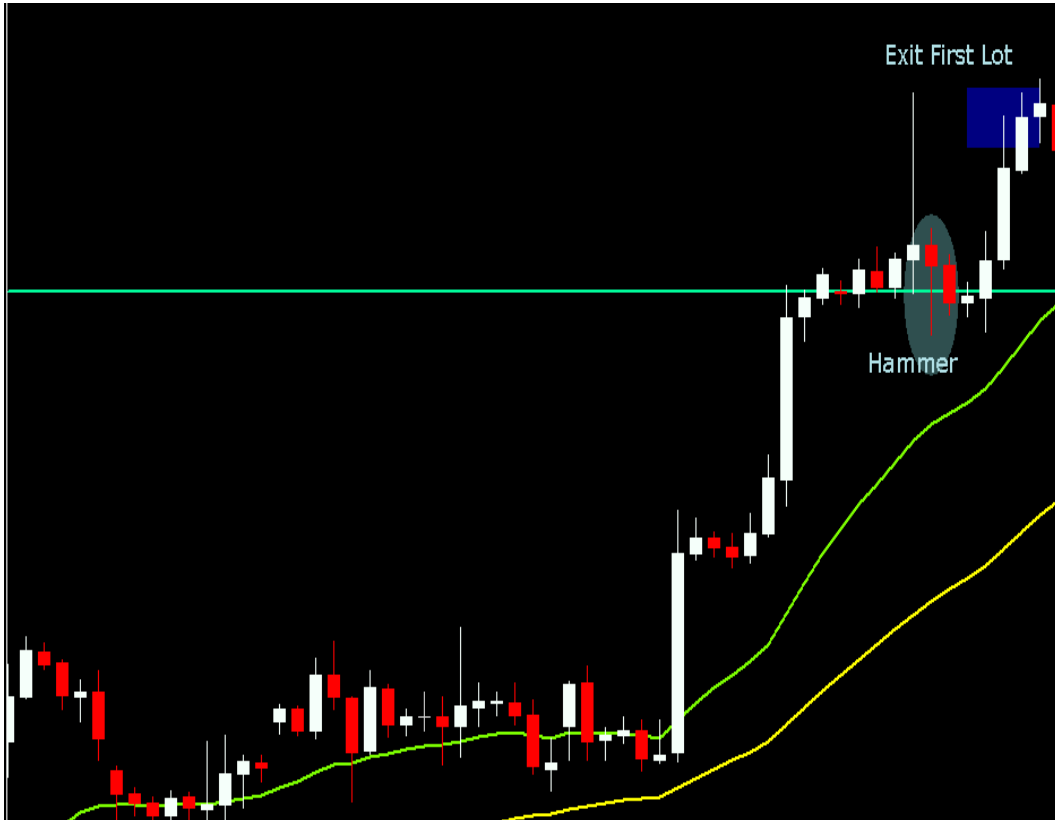


Figure 4 – Exit Our First Lot, Trail Stop Loss Just Below EMA20 (green color) for The Remaining Two Lots

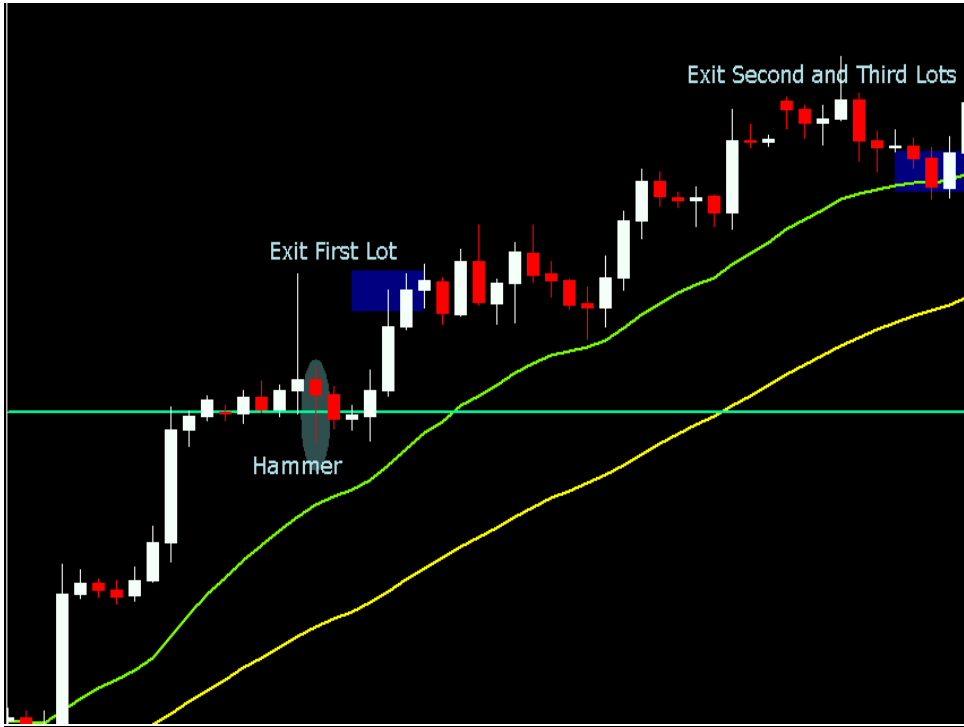


Figure 5 – Exit The Remaining Two Lots

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