PREVIEW

Issam Algo

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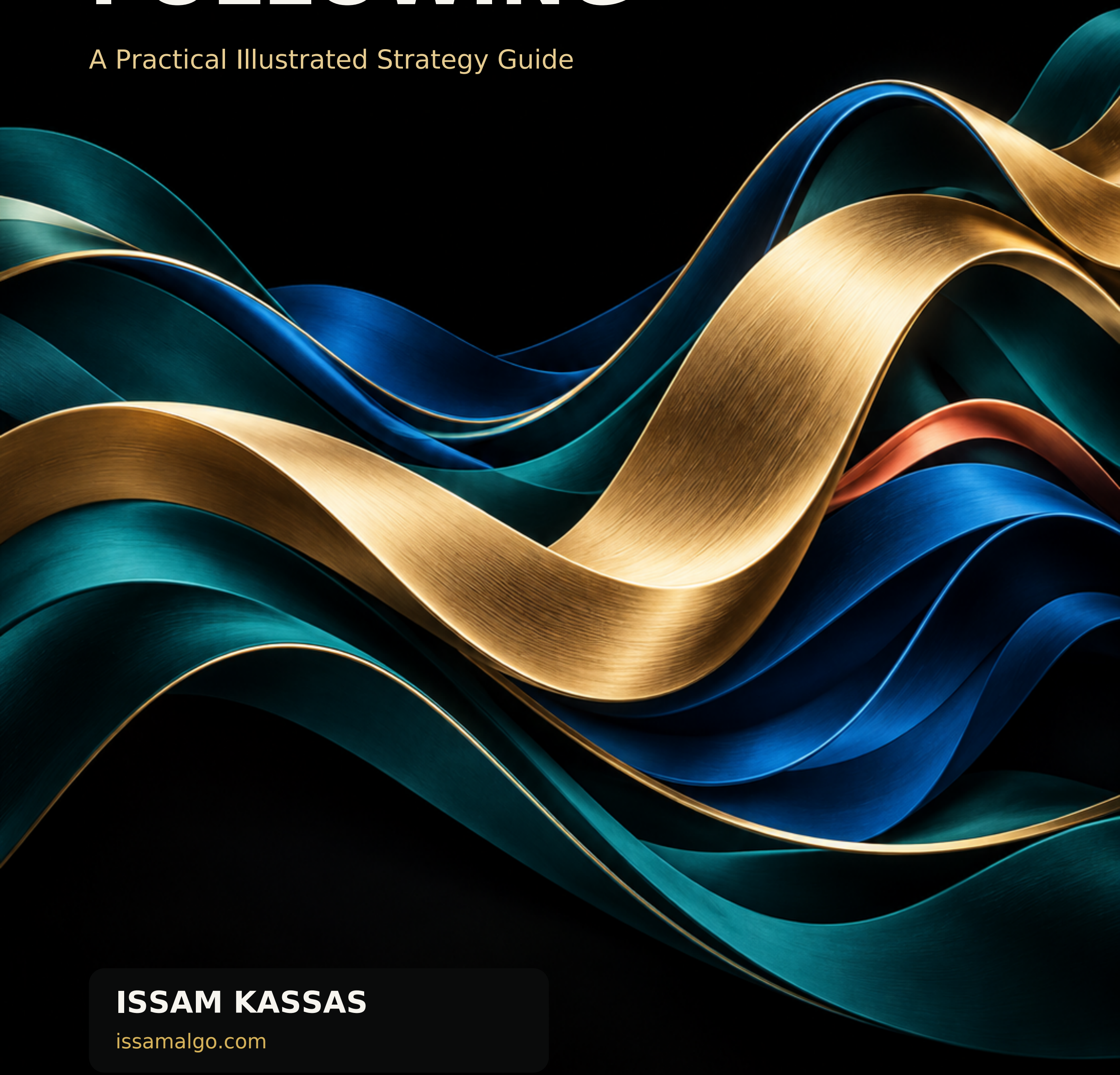
TREND FOLLOWING

A Practical Illustrated Strategy Guide



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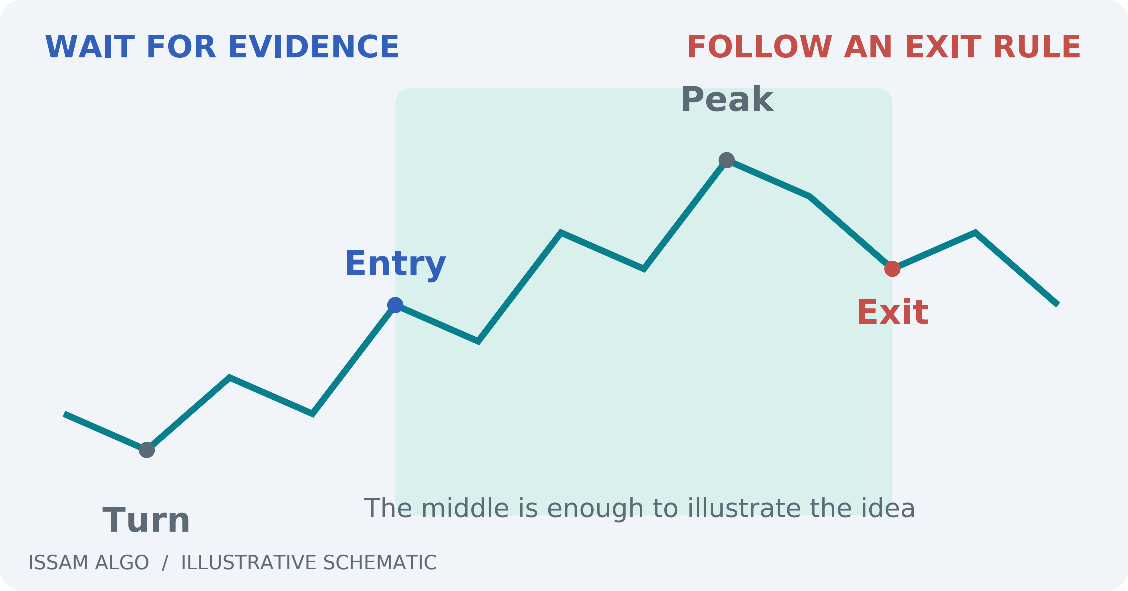
Follow the move.

Trend following means responding to movement that has already begun, then staying with it while an exit rule allows. You do not have to predict the first turn or capture the last point. [1]



Illustrative path: the entry comes after the turn; the exit comes after the peak.

A trend can continue far beyond what looks “too high” or “too low.” It can also stop immediately after your entry. The useful question is: what evidence permits a trade, and what event ends it?

Notice the middle portion of the move. Waiting for evidence gives up the beginning; waiting for an exit gives back part of the open gain. That trade-off is built into this approach.

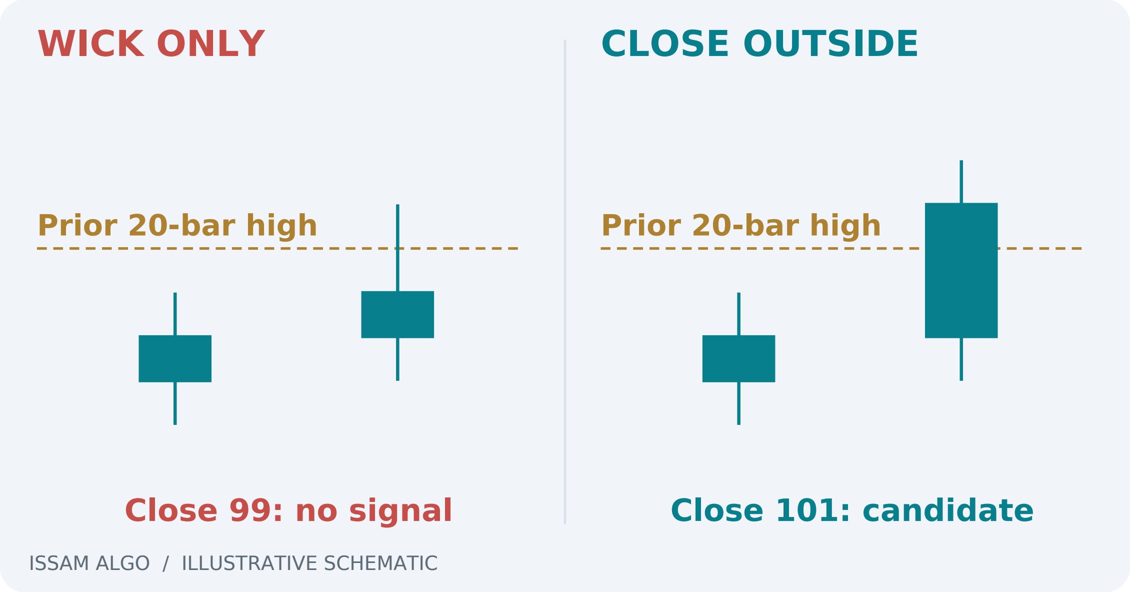
Our example uses price, one moving average and a volatility measure. These describe past data. They do not know the next candle. Research on diversified trend portfolios does not validate this booklet’s single-market rules. [1]

COMMON MISTAKE

Trying to buy the exact bottom and sell the exact top changes the task from following a move to predicting its turning points.

Wait for the close.

For our breakout, mark the highest high and lowest low of the previous 20 completed daily bars. Exclude the current signal bar. A close strictly outside that window creates a candidate signal.



Left: a wick crosses the boundary. Right: a close crosses it. Earlier bars are abbreviated.

A long candidate closes above the previous 20-bar high. A short candidate closes below the previous 20-bar low. A touch, an equal close or a wick alone does not qualify.

The moving-average filter must also agree at that close. A qualifying signal is permission to examine the next open, not permission to assume a fill at the signal close.

This window shifts forward one completed bar at a time. Include the signal candle when calculating the next day’s window, but never include it in the boundary it is currently trying to break.

COMMON MISTAKE

Including the current candle in its own highest-high test. Its close cannot be above its own high.