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How are the 3,10,16 parameters superior to the standard parameters for MACD/PPO?

5

I have read that the 3,10,16 parameters are superior to the standard parameters for MACD/PPO, particularly for filtering the Elder Impulse System, and as a Swing Indicator. I have read the manual by Linda Raschke at the link given to us by LTT, at <http://www.lbrgroup.com/images/Linda%27s%20Trading%20Techniques%202011/TechnicaltradingManual-1.pdf>

2

In that manual I learned a great deal (I am still learning from it). However, I did not learn how the 3,10,16 parameters are better than the standard parameters, how they are better as a swing indicator or for filtering the Elder Impulse System. Could someone help me a bit with these advantages? An example or two would be wonderful. Thanks.

elder-impulse-system macd

asked Dec 20 '11 at 00:10

Bob S
603 • 1 • 31

6 Answers:

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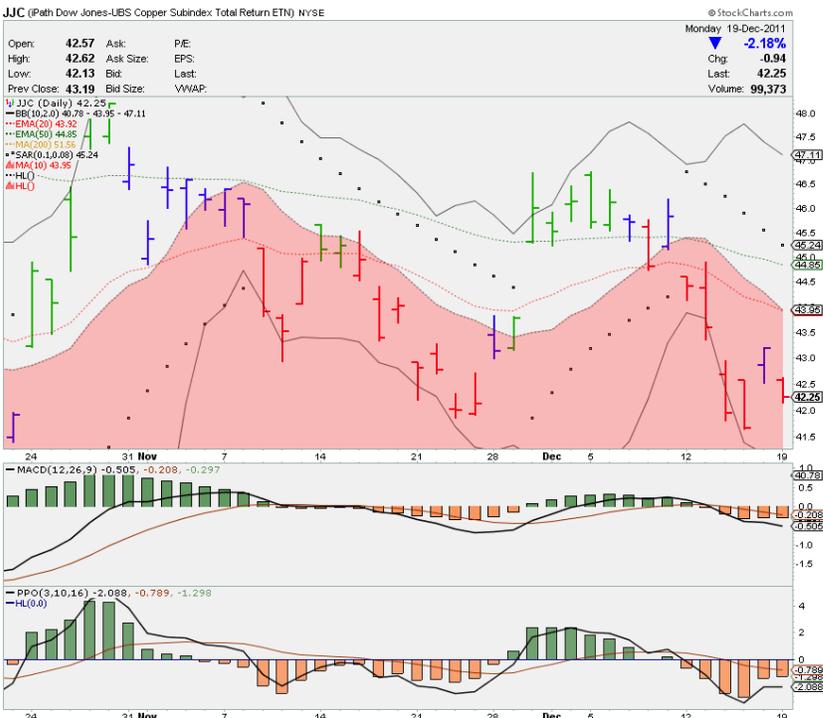
7

Just a quick chart here. Which signal would you want on copper. The 3/10/16 signal on the Nov 29th before the big 5% move on copper. Or would you like to buy copper on the next day of the big 5% move when the canned 12/26/9 signaled a buy signal.

Do yourself a favour and back test both settings and see which settings are superior in this market.

BTW RSI2 is another fantastic way to trade too. Do yourself a favor and buy the book to figure out how to use it.

Cheers & happy trading :)



link

edited Dec 20 '11 at 01:23

answered Dec 20 '11 at 01:13



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Asked: Dec 20 '11 at 00:10

Seen: 1,005 times

Last updated: Feb 16 at 01:05

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macd and moving averages

I am looking for a scan that includes a setup (long and short) using 3 indicators...

MACD HISTO (tough question)

How do you use the following indicators/overlays together (Bollinger Bands, EIS, Macd (3,10,16) and RSI(2)?

What chart can one use to determine sell signals?

Can I do a scan for MACD crossover using a monthly MACD?



LTT, can you explain what do you see that considers as a signal on Nov 29? Thanks in advance.

ekwong (Dec 20 '11 at 14:59)

1 There is a MACD crossover and the signal line is just a hair away from the zero line.

Love_To_Trade (Dec 20 '11 at 15:39)

1 There is also an EIS green bar.

Love_To_Trade (Dec 20 '11 at 15:42)

On RSI(2)...

4 I am not sure I can do it justice, but I will try. Essentially I use it as an oscillator.

Here's a scenario (insert your favorite 10 page disclaimer here):

1. I want to swing trade on the long side (holding time 1 - 5 days)
2. I want to by pull backs in larger uptrend (larger trend is defined as price being above the 65 day EMA)

I use the RSI(2) to find oversold conditions within the larger uptrend.

So the scan criteria looks something like this.

```
[group is SP500]
and [Volume > 999,999]
and [Close > EMA (65, close)]
and [RSI (2) < 5.0]
```

I would enter a buy stop somewhere just above the high of the last bar.

I am trying to catch the resumption of the uptrend.

If the buy was hit, I would add a trailing stop.

If it's not hit (the stock makes lower high) I would look to lower my buy buy stop just above price as it's dropping, keeping in mind that the larger uptrend must still be intact.

If you run this scan tonight, you will get nothing, but if you ran it last night you would have caught HRB, IBM, MHS & NKE (if you want some examples).

You can get even more aggressive and scan for RSI values less than 2.

Please keep in mind I am a discretionary trader, so I try to look at any chart holistically. I keep an eye on chart patterns, support and resistance, Fibonacci levels, major moving averages & momentum and how they may affect a trade.

Also I add more criteria to my scans not represented here, things like multi-day lows and so on, I also add Elder System criteria.

This book is worth it's weight in gold for this style of trading, and the RSI(2) is addressed in detail:

[Short Term Trading Strategies That Work - Larry Connors and Cesar Alvarez:](#)

<http://store.stockcharts.com/collections/top-ten-best-sellers/products/short-term-trading-strategies-that-work>

Trade safe.

[link](#)

edited Dec 21 '11 at 01:45

answered Dec 20 '11 at 18:09



1 That's really interesting, AT. Thanks for sharing it. In your experience, would it be too aggressive to enter on close, or next day's open, rather than waiting for the prior high? I see there are a lot of "false" and early signals, but assuming you have confirming indicators, from these few samples, it appears there are some gains from gap opens up, or better entries at gap opens down, that could be captured with entry on close or open. On the other hand, it might not pay if the signal is too often early in spite of confirming indicators. Just wondering, not sure I'd actually do it.

markd (Dec 20 '11 at 18:46)

Fantastic answer. Very helpful -- I agree it's best use as a collaborative indicator.

ekwong (Dec 20 '11 at 18:48)

markd, you can enter these trades end of the day on close, I prefer to let price action confirm the turn. There is great stuff in the book recommended above, including evidence and back testing on the various strategies.

I just scratched the surface for the sake of discussion.

For the record, Connors recommends waiting for RSI(2) to get under 2.

As he says... Is the 2 Period RSI the Holy Grail of Oscillators? In my opinion, it's pretty close. It does a solid job of identifying markets that are extremely overbought and oversold on a short-term basis. From there it can be used many ways...

 AgnosticTrader (Dec 21 '11 at 01:26)

Hi AT, you asked me the other day about LBFs writings on the 310. Here is an article on how she uses it trading 30 minute charts.

http://www.lbrgroup.com/images//raschke_pt2_0304.pdf

Cheers & happy trading :)

 Love_To_Trade (Dec 23 '11 at 16:19)

1 This is a late addition, but here's a simple explanation why RSI(2) works. [Click me](#)

 ekwong (Feb 11 at 23:08)

showing 5 of 9 [show all](#)

This is just an opinion, and not to be construed as an answer ;-)

7 To state the obvious, the 3,10,16 is more sensitive. Therefore it's signals, or confirmation of signals, may be better suited to a short term 'swing' trading as opposed to longer term 'position' trading.

But... and it's a big one... it's still **a lagging indicator**. If you are trying to catch the short term swings, you have to position yourself off price, first and foremost.

I use a standard MACD histogram to gauge market momentum and try not to trade against an obvious divergence between momentum and price movement.

I use it as weather-vane.

For short term trading, don't forget that RSI(2)... it's 'money' ;-)

This is a good question, I'll look forward to reading the answers.

Trade safe.

[link](#)

edited Dec 21 '11 at 01:41

answered Dec 20 '11 at 01:01

[AgnosticTrader](#)

 **7.0k** • **2** • **31**

AT, I don't understand RSI(2) either. Can you give me an example how/why it works?

 ekwong (Dec 20 '11 at 15:00)

[@AgnosticTrader](#): When you said "I actually use the longer term MACD/PPO histogram to gauge market momentum on a higher time frame", does that mean that on your weekly chart, you only have the MACD histogram, without the 2 MA lines?

Also, is there a way to just show the PPO histogram, without MA lines?

 Bob S (Dec 20 '11 at 23:37)

Made edits above, hopefully less confusing. No, we don't have an isolated PPO histogram. As long as you understand divergence, as outlined in the chart school, I hope this will make sense. RSI(2) covered below.

 AgnosticTrader (Dec 21 '11 at 01:44)

AT - Thank you for the clarification. After rereading (studying) the chart school article on divergence, I understand divergences much, much more now. I am in the process of setting up a 3 screen system. Do you use the MACD histogram on your daily charts as well as your weekly charts?

 Bob S (Dec 21 '11 at 14:59)

I use a histogram on the daily charts. I just use less sensitive settings.

 AgnosticTrader (Dec 27 '11 at 18:02)

showing 5 of 6 [show all](#)

4 This is in response to LTT. Here is why I think buying at that bar is not a good idea. It works but there is no indication at the time it will head higher.



link

answered Dec 20 '11 at 19:02



ekwong
 5.6k • 4 • 37

1 There are no certainties in trading EK. Where would you buy then?

Love_To_Trade (Dec 20 '11 at 19:09)

Can you suggest more responsive MACD settings?

Love_To_Trade (Dec 20 '11 at 19:13)

This is not my favourite setup, but my assumption is that it's range bound between 42-46, so if I were to take a chance on this I may buy close to 42 and have a stop right beneath it.

I am completely fine with 3,10,16 MACD setting, but I'm merely pointing out a completely different picture by what I see in this chart. I am not an expert chartist but hopefully this will spark a debate.

ekwong (Dec 20 '11 at 19:26)

1 Thanks for putting it out there. Very cool. Always interesting to hear about how others see things.

markd (Dec 20 '11 at 20:22)

3 Thanks LTT. Happy holidays to you and your family. Thoroughly enjoyed this conversation.

@Bob S: Sorry for hijacking your thread. I guess the best thing you can take from it is that you get a lot more signal (and prominent signal) for a shorter term MACD, but you gotta move quicker as well.

ekwong (Dec 20 '11 at 20:22)

showing 5 of 22 show all

2 @ekwong: As LTT says, if you are trading a system, you have to take all the trades. I really respect people who can do that. For myself, I prefer the illusion of control that a discretionary approach gives you. Using that approach, there is some reason to take the trade

- 1 Long term and intermediate MAs are down, which argue against the trade.
- 2 But, there has been climax volume, and new lows were made on much lower volume, so selling is exhausted and weak - positive
- 3 New very high volume with no new low and strong up close shows buyers are interested - positive
- 4 Renewed selling on high volume can't make a new low - positive
- 5 Rally on strong volume, decline on weaker volume - positive
- 6 K28 below 50, K7 below 20; these are buy points in a strong up trend; neutral in a downtrend I think.

So, bottom line, selling appears to be exhausted, buyers have shown strength, so the question is will buyers re-appear. $K7 < 20$ is a reasonable place for that to happen. Personally, I would pass because it's against the trend and I think there's more bottoming to be done, but for a shorter term, frequent trader, it's a reasonable bet with proper stops.

link text

Edit: apologies, I attempted to link an annotated chart, but messed up somehow.

[link](#)

edited Dec 21 '11 at 21:13

answered Dec 21 '11 at 18:12

markd
4.9k • 2 • 14

@Markd: I like your K7, K28, K63 and would love to learn what the maximum buy point would be for each of these, for an uptrend and for a downtrend. Could you help me with either or both of those?

Bob S (Dec 21 '11 at 18:24)

Well, there are no target values as for RSI(2). They are just a clue in a "weight of the evidence" approach. So, in an uptrend (e.g. MA50 above rising MA200) it's heads up when the Ks closely approach or cross below 50 or 20, separately or more or less together. Conversely, in a downtrend, crosses above 50 and 80 may be shorts (although shorting is perilous). Sometimes stocks seem to be waiting for something. Ks seem to say "hey, time is up, check this chart again, now". Note: this is a non-standard, "off label" use of %K, so do your research first to get a feel for this approach.

markd (Dec 21 '11 at 21:08)

I understand what you mean by no target values and getting a feel for the approach, like hearing the Ks say "Hey, time is up...". I can see it in the chart I am looking at. Thanks again for the coaching.

Bob S (Dec 21 '11 at 21:33)

Markd, appreciated your analysis. If you have to trade this stock where (or under what circumstances) will you put an entry (long or short)? (on the right side of the chart, of course.)

ekwong (Dec 21 '11 at 21:34)

@ekwong: well K28 under 20 just occurred, so that would have been an entry, buy stop above the high of that day. That's gone by. No chasing, but if it now drops into range of bottom day, another buy stop between drop day low and rally high. If instead buy volume picks up and K28 crosses at least 50, next decision point would be at K7 back below 50 or 20. Best if small volume off the top. But if rally buy volume stays weak, I'd probably wait for K63 below 20 and look for a test of a support level on smaller volume vs. prior support. But there should be some high volume up days on the way.

markd (Dec 22 '11 at 17:34)

FYI this thread is the 7th hit after googling "3 10 16 macd"

2 Simply amazing![link](#)

answered Dec 27 '11 at 16:28

Love_To_Trade
4.9k • 2 • 18**1** That is encouraging. Thanks LTT.

Bob S (Feb 15 at 20:08)

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