

## My Current Favorite Setup

Keep in mind that this report is going to describe my favorite current setup – it is not a system. The difference is that a setup describes a situation that will allow a trade to take place. A system consists of a setup, entry point, profit exit point and a stop. Every trader has a different risk tolerance and different account size. How I trade this setup will be different from how others will trade it. I suggest getting familiar with the setup and paper-trade until reaching a comfort level to put real money on the table.

Here is how the chart needs to be set up. The asset – stock, future, currency, needs to be in the top graph. Next in graph number 2 is the Moving Average Convergence Divergence (or MACD) indicator, and last in graph number 3 is the Average Directional Index (or ADX) indicator. Both the MACD and ADX are set to their standard options. MACD: 12 for the fast length, 26 for the slow length, and 9 for the MACD length. The ADX: 14 period length. The reasoning behind using the standard options is that the inventors of the indicators felt that those numbers work the best for their indicators. Feel free to experiment – I have and have not found any other options that work better and more consistently. Feel free to comment about this on my blog as well!

Here is an example taken from a 240 Minute chart of the Dow Futures (YM) from the middle of March 2011 – very current.



The setup is called the MACD/ADX squeeze. In the picture the ADX has risen while the MACD has fallen – the squeeze happens around March 17 when the ADX begins to drop and the MACD begins to rise. When the MACD begins to turn up and the ADX begins to turn down, it indicates that the underlying, in this case the Dow Futures, should go up. Which it did from a low on March 16 of 11492 up to a high on April 6 of 12399. A total move of 907 points – a great move! Now would I have gotten the entire move – no – but there was plenty of room in the move to take a nice profit.

My experience has shown that the MACD/ADX squeeze will work on all timeframes – short to long and on all asset classes. In general the longer the time frame, the greater the probability that a true change in trend will happen. The shorter time frames usually result in a reaction in the longer term trend.

Make sure to check out the daily charts of the major indices SPY, QQQ, DIA, and the rest: it amazes me how many profitable setups occur.

Now is the time to set up the charts as I have suggested and look and learn from the results. Paper-trade and then when comfortable use real money and trade these great setups! Any questions or comments go to my blog: [www.weeklyoptiontrader.info](http://www.weeklyoptiontrader.info) and post them there.