



# ZoneTraderPro

## NinjaTrader

## Forward

ZoneTraderPro was created out of a need for something different. After attending seminars and reading books, it seemed that every trader had the same questions, and used the same indicators, and I was one of them. It also seemed that traders wanted that guru to hold their hands through every trade. Traders, myself included, paid large sums of money, for that Holy Grail black box system, only to find, there was a reason the seminar was held on a weekend. The reason was under real-time trading conditions the black box doesn't work. And there were no refunds. The guru has sold you a seminar, and showed you cherry picked examples about why his system is so great, so you buy the software. He has only had to perform one time, and on a weekend when the market is not moving.

I was constantly frustrated when I took a trade, watched it go against me, and then be stopped out. What was even more frustrating was that after being stopped out, the market instantly reversed. I would also set an arbitrary profit target based on what would be a "good" amount of profit. In other words, I was letting fear and greed drive my trading. I was also letting my preconceived ideas about what the market should do, affect my trading. That is another mistake. And I was using old and outdated indicators to guide my trading. In other words, I was losing money, along with the other retail crowd, by using the same indicators, going to the same seminars, and letting emotions be my guide to trading. It was out of this frustration that ZoneTraderPro was developed.

In developing ZoneTraderPro the main objective was to eliminate the fear and greed from the trade. If you know where the market should statistically trade at, for both the buy and sell areas, the emotions that drive your trading are reduced. And when you see the market reacting to the Zones as you expect they would, there will be less stress in your trading. This also eliminates any preconceived ideas about how the market should be trading.

The main advantage to ZoneTraderPro is that you do not need other common indicators that every other trader is using and you may have used in the past. ZoneTraderPro is all about recognizing 5 simple patterns. When you recognize the patterns you will read the short and intermediate term market direction.

The average maximum favorable excursion for a ZoneTraderPro trend trade is over 11 ticks. If you have a \$10,000 account, and you trade one contract in one trend trade and just get the average MFE (less commissions), you have over a 1% account gain, which is outstanding for a day's trading. Now look at the website and see how many trend trades ZoneTraderPro averages per day, and what percentage of trades end in a loss. Losses can and will occur, however by studying the manual and taking the lower risk trend trades, you can minimize the losses and maximize the gains.

It will be obvious when ZoneTraderPro says the market is bullish, and when it is bearish. If you have a bullish view of the market, but ZoneTraderPro says it is bearish, simply avoid the trade. If you are correct, ZoneTraderPro will give you a logical bullish entry.

This manual is meant to answer your questions by making you think. How do I trade the open? Where do I enter a trade? Where do I exit a trade? Where do I find the lowest risk, highest reward trades? The manual will also detail unusual circumstances and how you can read the market and understand that something unusual is occurring. Understanding and avoiding unusual circumstances prevents losses.

There is a difference between the NinjaTrader and eSignal versions of this manual. NinjaTrader is a simplification of the ZoneTraderPro theory of pattern matching. Everything in the eSignal manual applies to NinjaTrader. The NinjaTrader version simplifies the complexity of developing a trading plan by introducing the TICK filter and removing higher risk patterns.

## **ZoneTraderPro Introduction**

ZoneTraderPro is a revolutionary new way to trade, bringing to the trader a new tool providing a high degree of confidence in the trades. ZoneTraderPro allows the trader to visually see high probability trading zones develop ***in advance of the market that zone***. ZoneTraderPro will define when a trend is established, where to enter a new trade, and most important, give the trader a high probability target to exit at.

When ZoneTraderPro was first created in the eSignal version, emphasis was placed on identification of patterns and their statistical probability. In the shift to NinjaTrader, emphasis was shifted to producing a higher quality of trade and simplifying the process. The same patterns that were created for the eSignal version were further refined and simplified for the NinjaTrader version. Filters that were not possible in the earlier version of the software are now incorporated into the NinjaTrader version.

## **The Purpose of ZoneTraderPro Software**

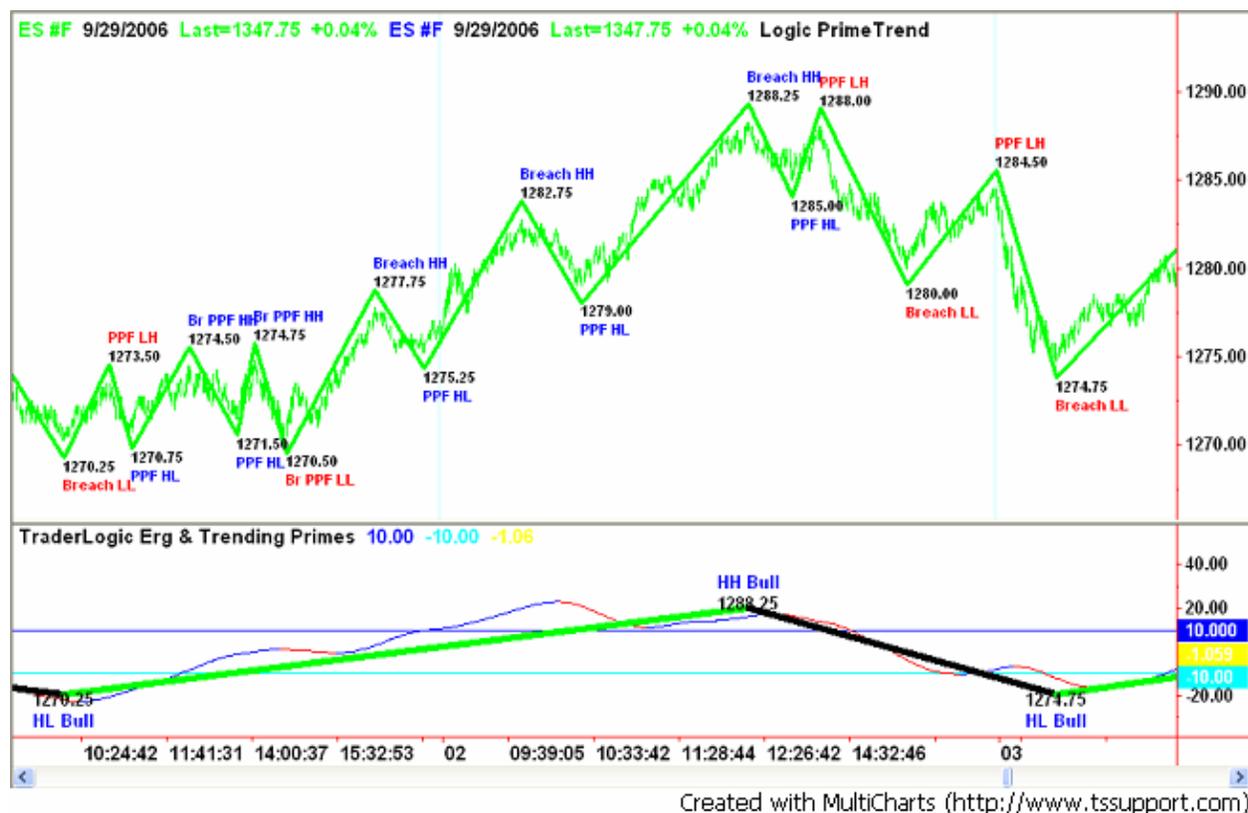
1. Education, by teaching the trader to understand the markets intent through price and volume. This is accomplished through the visual display of trading zones in ZoneTraderPro.
2. Reducing risk by developing high probability entry and exit profit zones.
3. Reducing risk by clearly defining high probability pattern trades.
4. Reducing risk by clearly defining when not to trade.
5. To identify the 5 commonly repeated market patterns. These patterns define the current trend in a markets' price, whether a market is reversing trend, or whether a market is under accumulation or distribution, and identification of TICK divergence.
6. Apply simple yet sophisticated market filters to develop high probability setups.

The difficult part about trading is knowing when and where to trade. What makes ZoneTraderPro different is that it will tell you where those pivot zones are, in advance. That information, about where the pivots will form in advance, is the most valuable part of information a trader can have. The ZoneTraderPro user will then have the information necessary to enter trades in the direction of the trend and at the proper pivots for lower risk trading opportunities. Additionally ZoneTraderPro will identify potential trend reversal areas. Notice in the chart below how trends and reversals are identified and the market trades within the zones.



No market will ever go straight up or down, it will move in waves, with retracements followed by resumption in the trend. In a bull market trend, higher highs are made, along with higher lows. The opposite is true for a bear market.

Notice on the below chart, the trend is bullish, because higher highs and higher lows are being made, until midday when a reversal occurs.



But the difficult part is knowing when and where to trade. The pivot lines on the above chart are drawn *after the fact*, and not when the highs or lows were being made. ***What makes ZoneTraderPro different is that it will tell you where those pivots are, in advance.*** That information, about where the pivots will form in advance, is the most valuable part of information a trader can have.

What is also important to note is that the historical trade record for ZoneTraderPro accounts for all trades, including those trades that occurred pre-market, during economic and breaking news events, and the release of economic indicators or fed announcements while the market was open. All trades that could be initiated between 0800 hours EST and 1615 hours EST were documented. It is not advisable to be trading during these news or economic events, as it is a 50-50 coin toss which way the market will trade based on the event. But so that traders can see ZoneTraderPro in all market conditions, all trades were documented and included in the daily statistical analysis.

***The ZoneTraderPro website statistics about favorable and adverse excursion are also based on the worst possible entry point, not the best.***

It should also be noted why only the ES contract is charted in the examples. ZoneTraderPro will work on all instruments, Russell, Dow, Nasdaq, stocks, Euro Futures, and most important, **the 10 year bonds**. The ES contract is the most liquid and has greater market depth than other indexes. There are also fewer excursions outside of the intermediate and trend zones. This is important and you will understand why when reading further, but the standard trend trade looks to take profit between the intermediate and trend zones, because it is the most predictable and lowest risk trade. Other instruments such as the Russell 2000, Nasdaq, and Mini-Dow, trade out of the trend zone more frequently. These instruments also **have less liquidity** and fewer traders, which allows for market manipulation by a few larger traders.

## The ZoneTraderPro Learning System

ZoneTraderPro has a learning curve like anything else in trading. But ZoneTraderPro is different. You will not be asked to choose indicators, try and optimize them, and then make a guess using real money to see if that worked.

### If trading was easy

- Wall Street would be losing money to day traders
- A certain red light / green light system that looks to make wise trading decisions would be demonstrated when the market was open
- Traders would sit down in front of Tradestation, put 3-4 indicators on a chart, hit the optimize button, and come back 5 hours later, and see a box that says "You have found the Grail!"
- Goldilocks would not be lost
- You could listen to a trading room and successfully make the same money the guru claims to be making.

### But trading is not easy

- Wall Street makes money using proprietary trading desks
- Simple red light / green light systems cannot work in a complex stock market. You might get lucky because you still have a 50/50 chance of getting it right, which are the same odds without the software \$4,495 software
- Tradestation strategies are available to everyone and do not consistently make money, because everybody is using the same old ideas, and every market day is unique. The S&P will not be optimized using a moving average, CCI, and Stochastic system
- "If you're looking for Goldilocks, you can find her face on the side of a milk carton." - Art Cashin
- Trading gurus do not show you their rooms profit and loss, if they are even trading for themselves

## What will you be asked to learn?

Because ZoneTraderPro is nothing you have seen before, it is unique. You are going to visually recognize commonly repeating patterns. These patterns identify when a market is behaving normally, and when the patterns suggest increased risk. It is also important to know some historical statistics and create a trading plan based on that knowledge.

After identifying the patterns, you will make decisions based on real time indicators. There are several proprietary trading methods and real time supply and demand. The proprietary methods involving supply and demand and the e-mini premium will be disseminated upon purchase of ZoneTraderPro. That is all. These indicators are unique, just like the ZoneTraderPro system.

This next step is the hardest. It is not hard because you will be asked to do complex math that you have forgotten years ago. It is hard because most traders have never done it. That is creating a trading plan. A trading plan is nothing more a detailed look at each type of trade. There are 4 types of trades. You need to study each trade, and have a detailed plan for each. **The first part of creating a trading plan involves the most important table on the web site.** That table is the Maximum Adverse Excursion table.

TOTAL WINNING TRADES	MAE = 0	MAE 1-3	MAE 4-5	MAE = >6
2755 TREND	1533 / 55.6%	889 / 32.2%	232 / 8.4%	101 / 3.6%
1836 COUNTERTREND	921 / 50.1%	686 / 37.3%	164 / 8.9%	65 / 3.5%
4591 TOTAL	2454 / 53.4%	1575 / 34.3%	307 / 8.6%	166 / 3.6%

There are 2 important statistics in this chart that will directly affect your trading of this system. The first is the Countertrend MAE = 0. MAE = 0 simply means that a counter trend trade had zero adverse excursion. Most trades have a small 1 tick entry window. So that means if you entered a normal trend trade, the system says you have a 50.1% chance that the counter trend trade that will follow will have no adverse excursion. The counter trend trade pattern occurs as the market reaches the blue counter trend zone.



A counter trend trade pattern is in the eSignal version but is not coded into the NinjaTrader version due to poorer risk-reward. But the counter trend trade statistics give us an insight into exiting a NinjaTrader trade. Why would you plan to place any profit target at or below the light blue trend support/resistance zone? What have you just done? You have started to create a plan.

There other important statistic that is important is when the Trend Trade MAE goes against you. Out of 4591 winning trend trades, only 307 or 8.6% turned into a winner if the MAE went 4-5. That number drops to 3.6% if the MAE goes to 6. If you have only an 9% chance to have a winning trade, you can make the decision to move your profit target to breakeven and wash the trade. This statistic is also what makes the NinjaTrader reversal trade so powerful! The reversal trade is based on trend trade adverse excursion, and its theoretical stop is placed where the trend trade would be considered a winner.

The goal of this system is to give you the confidence to read the market and evaluate the risks, and not allow indicators that do not work, or a guru with a mythical black box system to guide your trading decisions.

Do not be discouraged by the amount of work you will need to do to learn the system. If trading was easy, everybody would do it and our trading execution platform would just be a picture of an ATM machine with buttons to denote how much we want today.

## Chart Setup

Setting up ZoneTraderPro is very simple. You will be sent an executable file and with **NinjaTrader not running** in the background simply execute the file. **You do not use the NinjaTrader import dialog.** After you have run the file restart Ninja Trader and open a new chart. After you have imported the ZoneTraderPro files you should then download the three templates so you can set up your charts very easy. The templates are [downloaded](#) from the support section of the website under the video tab.

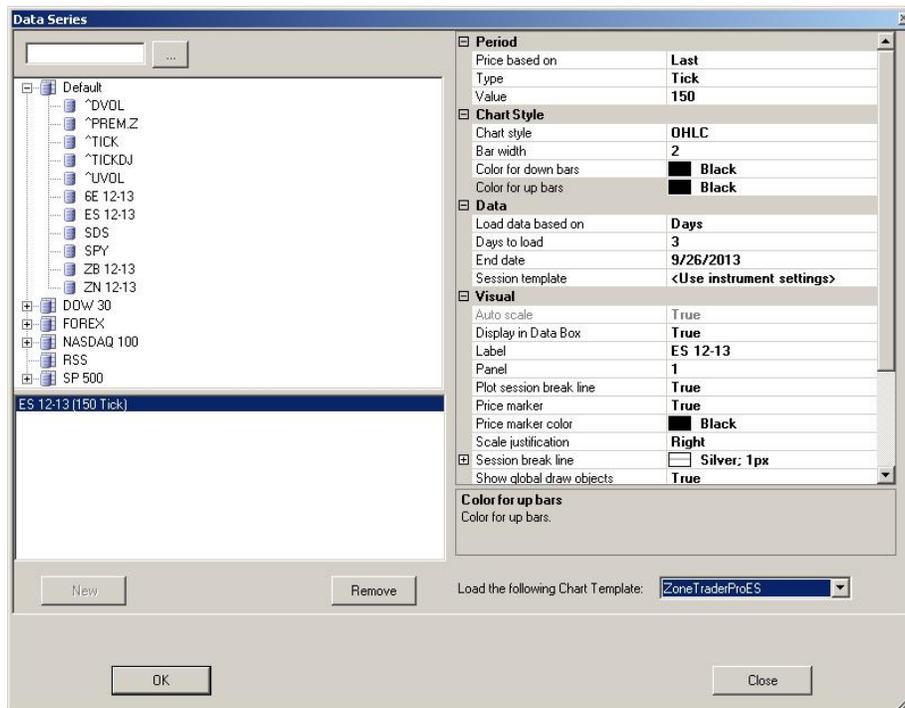
<http://zonetraderpro.com/video-library.html>

It is suggested that for the ES chart you use a 150 tick setting for the chart. This is because ZoneTraderPro requires that the bar close before forming the next zone and it is extremely important that you know where the next zone is going to form. If this is set

even to a one minute bar the zones would not print properly in a fast market. It is also preferable because with a 150 tick setting you can see volume created at the zone. If you use a minute chart the zone is not going to print until the bar completes.



After setting the interval, choose the appropriate template from the drop-down menu. It is also suggested changes the chart style to OHLC and the bar colors to black.



The individual indicator settings for a particular trade will be discussed in that section.

## Definitions

In order to define a trade ZoneTraderPro looks for a pattern and the patterns develop between the zones. So in order to understand what a pattern looks like you first must understand how the zones are coded and colored.

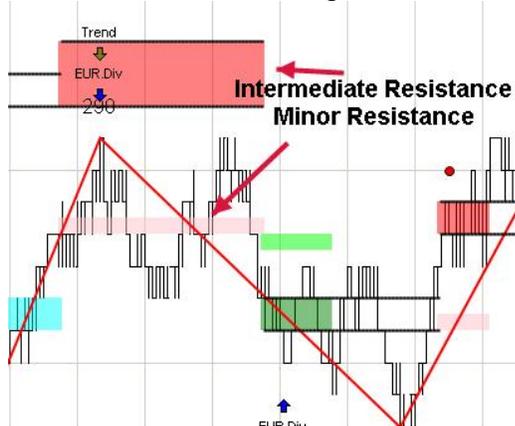
ZoneTraderPro categorizes support and resistance as

1. Minor
2. Intermediate
3. Countertrend
4. Strong trend

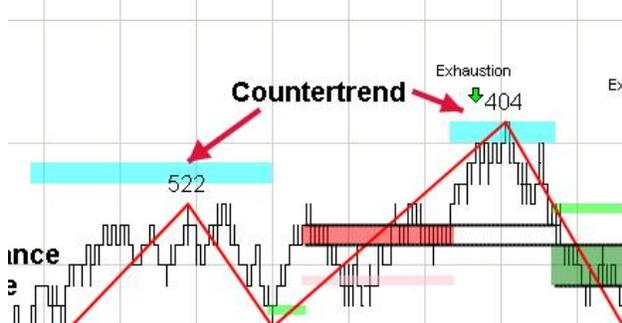
Minor support is light green and intermediate support is green.



Minor resistance is a light red and intermediate resistance is red.



Countertrend zones, regardless of support or resistance, are always blue.

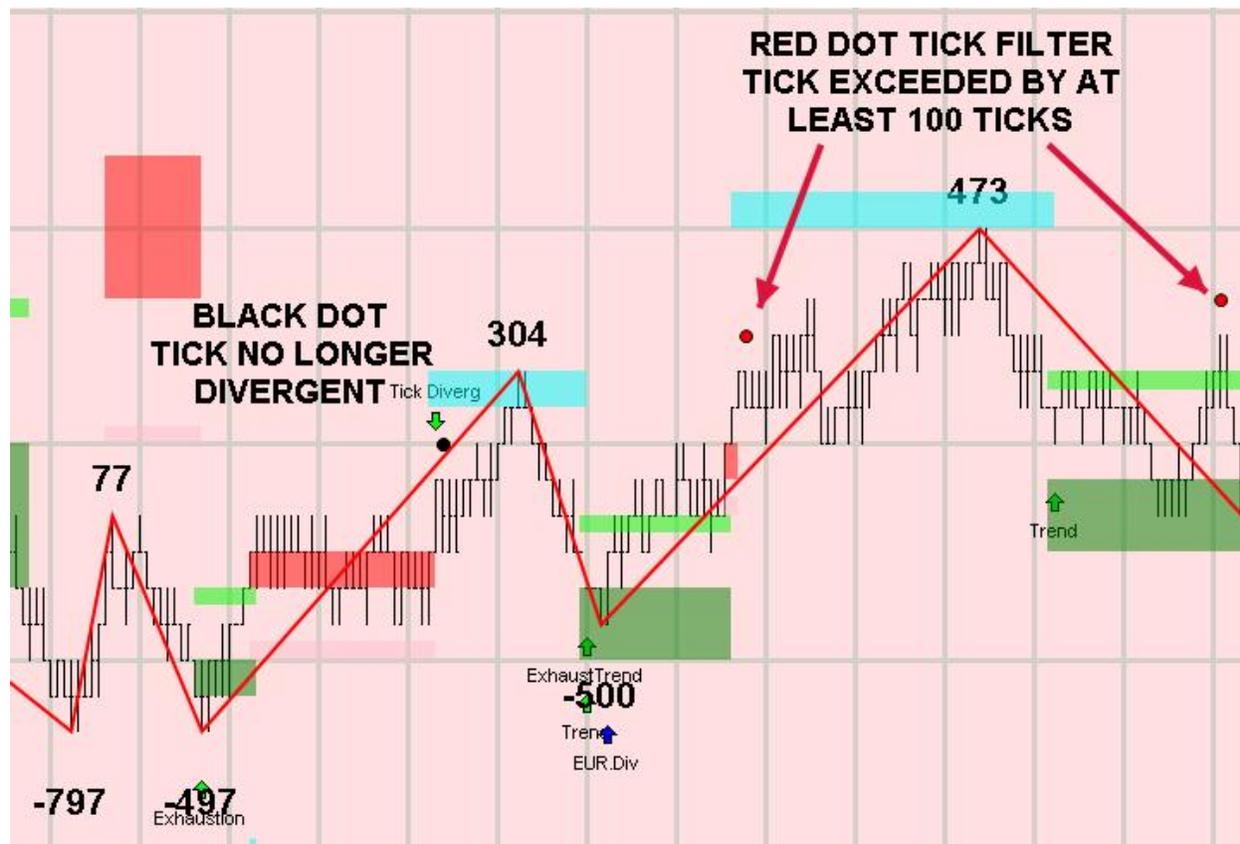


A strong trend zone, regardless of support or resistance, is always pink.



## The ZoneTraderPro TICK Filter

There are two dots that will appear on the chart, a red and black dot. The red dot is the ZoneTraderPro TICK filter. The black dot is only present after the TICK Divergence pattern logic has been triggered.



The red dot is telling you that the previous up or down \$TICK move has been exceeded by at least 100 ticks. So in the picture above, the 1<sup>st</sup> high tick was a 77. The TICK Divergence logic starts and where you see the arrow it is still divergent. On the next bar, the 77 is exceeded by at least 100, both dots printed, but the black dot painted second and on top of the red dot and the \$TICK makes a 304 high. On the next up move, the 304 is exceeded by at least 100, and we see a red dot and TICK high of 473. The 304 on the chart is telling me the highest \$TICK number reached between the apex low at -497 and the apex high at 304. The numbers that you see on the chart appear in real time and the dots appear exactly on a static chart, where they would have been on a live chart.

The TICK Filter is meant to tell you when there are buyers and sellers in the NYSE cash market and to provide a filter for a trade. In the example above, we see an exhaustion trade with a higher low \$TICK of -497, but the 77 didn't represent a higher high. The following trade, the exhaustion trend trade, saw a higher high of 304, and essential an equal amount of sellers, -497 to -500, giving you a reason for the trade. In other words,

a market making higher highs and higher lows should be a good market for taking longs. A market making lower lows and lower highs should be good for a short trade.

There is a setting for the red dot \$TICK Filter. Under the parameters there is a setting called TickWiggleRoom = 100. This means that the \$TICK can be exceeded by 100 before the red dot is printed.

01: EUR Symbol	<b>6E ##-##</b>
02: Enable EUR Trend Background	<b>True</b>
03: Enable EUR Divergence	<b>True</b>
06: Enable EUR Trend Alerts	<b>True</b>
07: EUR Time Frame Type	<b>Tick</b>
08: EUR Time Frame Value	<b>30</b>
10: Plot Ticks Numbers	<b>True</b>
11: ExTrade Enable Sound Alert	<b>False</b>
BuyArrow	 <b>Green</b>
BuySellSeparation	<b>3</b>
ExTradeEarlyWarning	<b>Alert4.wav</b>
MarkerSeparation	<b>3</b>
SellArrow	 <b>Red</b>
TICKwiggleRoom	<b>100</b>
ZigZagTicks	<b>5</b>

The TICK Divergence black dot will be explained further in that section. The TICK Filter is also built into the trend trade and the functionality will be discussed there.

## The ZoneTraderPro Patterns

### Trend Trading Pattern

The ZoneTraderPro trend trading pattern is the basic trading pattern of the system. The theory behind the trend trading pattern is that when a trend is established the market will continue in the direction of that trend, following the pattern of profit taking and trend resumption.

ZoneTraderPro prints these areas of support and resistance in advance of the market trading at these zones. If you know where those zones are in advance, you can set limit orders at these zones. The blue counter trend zones are defined in advance of the market trading there. This is important because traders will want to place the target to take profit from the trade. It is extremely important to note that 50% of the time the market approaches a blue countertrend zone, price does not trade through the zone and the market retraces at least 6 ticks. Why give up 6 ticks of profit because you didn't know the zone?

In the picture below, the three trend short trades are easily identified as the market moves from the blue counter trend zone back to the intermediate red zone. The blue countertrend zone is the typical area where the smart money will start to cover the bets they made when the trend initiated. At this point, the retail traders finally have a trading signal, but quickly find out they are the dumb money and weak hands, as the institutional traders cover their trades.



## Trend Trade Pattern Setup

The trend trade pattern has 4 setup options for the pattern.

- Enabled – True/False
- Tick Filter default = 0
- Show Stop Loss – True/False
- Stop Loss Line – Sets the color of the line

## The ZoneTraderPro Trend Trade TICK Filter

ZoneTraderPro has the TICK filter built into this pattern. In a long trading pattern, with the TICK filter set at 0, the logic looks for higher-highs and higher-lows going into the trade. The filter setting can be adjusted to allow for minor adjustments to the rule. In the picture below we see two trend trades. The first short trend trading pattern has lower \$TICK lows and lower \$TICK highs going into the trade. The market trades into a second trend trading short pattern. There was a significantly lower tick low, but the tick high was exceeded by 50 ticks.



The Tick Filter is preset to 0. A Zero means that the trend trade has the strongest \$TICK filtering. That means for a short trade the \$TICK would need to be a lower low at the blue counter trend zone and a lower high at the intermediate resistance zone. If a 100 is placed as the value, that would allow both values to be exceeded by 100 ticks. If you wanted to see all trend trade patterns, regardless of filtering, put in a number of 500 or more. What is important that before trading this pattern is that you test the value you are going to put in and understand that odds involved with having a 0, a 100, or a 500.

Trend Trade Pattern	
22: Enabled	True
23: Tick Filter	0
24: Show Stoploss	False
25: Stop Loss Line	Blue; 2px
Data	

Show Stop Loss is preset to false. If it is enabled the theoretical stop is placed 6 ticks from the entry of the trade. ZoneTraderPro does not endorse this theoretical stop as the stop that a trader should use. Again the trader must test this pattern and determine what the real time trading stop should be.

## Reversal Trading Pattern

The ZoneTraderPro Reversal trading pattern is a low risk high reward trade. In a typical reversal, a trend trade will trade through the opposing intermediate zone and the market will reverse.

The example below is the perfect setup into a reversal trade. The TICK strategy and the web site statistics from the web site will make the trade setup a low risk trade. The TICK strategy for this trade starts at the blue counter trend zone that has a TICK of -401.

The next important point of this setup comes from the web site statistics. If there is a 4 tick adverse excursion from a failed trend trade, there is less than an 8.4% chance the trend trade will succeed. Five ticks have less than a 6% chance, and 6 ticks or more have less than a 4% chance of success. In this example the trend trade has 4 ticks of adverse excursion and the TICK is making a higher high at 403.

The market trades to the green intermediate support zone, where the reversal trade is indicated, the risk in this trade was 4 ticks. The statistics indicate that in about 8.4% of the time, this stop will be hit. The \$TICK has made a higher low of -343. The green background indicates the Euro-dollar classification system became bullish for stocks.



Another very common pattern, and very profitable pattern, is the reversal trade that follows an exhaustion pattern. Because an exhaustion pattern normally marks a market top or market bottom, this trade is a test of the top or bottom. In the following illustration we can see back to back reversals that were both preceded with exhaustion trades that also had \$TICK divergence.



## Reversal Trade Pattern Setup

The reversal trading pattern has 4 setup options for the pattern.

- Enabled – True / False
- Min Distance from Counter Zone
- Trade through Intermediate Zone
- Show Stop loss – True / False

The minimum distance from counter zone is the setup for the 1<sup>st</sup> leg into the trade. In the above picture this is the -549/463 leg for the long and 638/-302 leg for the short.

The preset value is 3 ticks, and the value can be increased to include more patterns. The second value, Trade Through Intermediate zone is important. When you look at the following statistics table, a trend trade has only an 8.4% chance of succeeding if there is a 4-5 tick adverse excursion. The number goes down to 3.6 when there is a 6 tick adverse excursion. This is the value you are setting. A lower setting of 3 will result in more patterns, but statistically it will result in additional losing trading patterns. The theoretical stop loss is based on were the 6 ticks of trend trade profit. This is why the reversal trades have such good risk/reward. The risk can be as low as 3-4 ticks in this trade.

TOTAL WINNING TRADES	MAE = 0	MAE 1-3	MAE 4-5	MAE = >6
2755 TREND	1533 / 55.6%	889 / 32.2%	232 / 8.4%	101 / 3.6%
1836 COUNTERTREND	921 / 50.1%	686 / 37.3%	164 / 8.9%	65 / 3.5%
4591 TOTAL	2454 / 53.4%	1575 / 34.3%	307 / 8.6%	166 / 3.6%

You can also enable and disable the warning sound that will go off as the trade is setting up. You will hear a warning when the adverse excursion of the trend trade has occurred, thus alerting you if you were not in front of the computer.

Reversal Trade Pattern	
12: Enabled	True
13: Min Distance from Counter zone	3
14: Trade Through intermediate zone	4
15: Enable Sound Alert	True
16: Alert Sound File Name	Alert4.wav
17: Show Stoploss	False
18: Stop Loss Line	 Blue; 2px
19: Alert Email Address	
Tick Divergence	

## Exhaustion Trading Pattern

The ZoneTraderPro Exhaustion Trading Pattern is a pattern that usually occurs after a strong market move without any retracement. This first retracement is the opportunity for retail traders to enter the perceived trend. Unfortunately for them the program trade that started the trend is over. The market found value and profit taking has started.

In the below picture the trade occurs after the market open. The first exhaustion trading pattern occurs on the open and would be avoided as there is no prior TICK information. The TICK opened strong at 630. However as the market trades into the second exhaustion trade there is a TICK divergence, the market tops, and this leads to a successful exhaustion short trading pattern.



## Exhaustion Trading Pattern marking market tops and bottoms

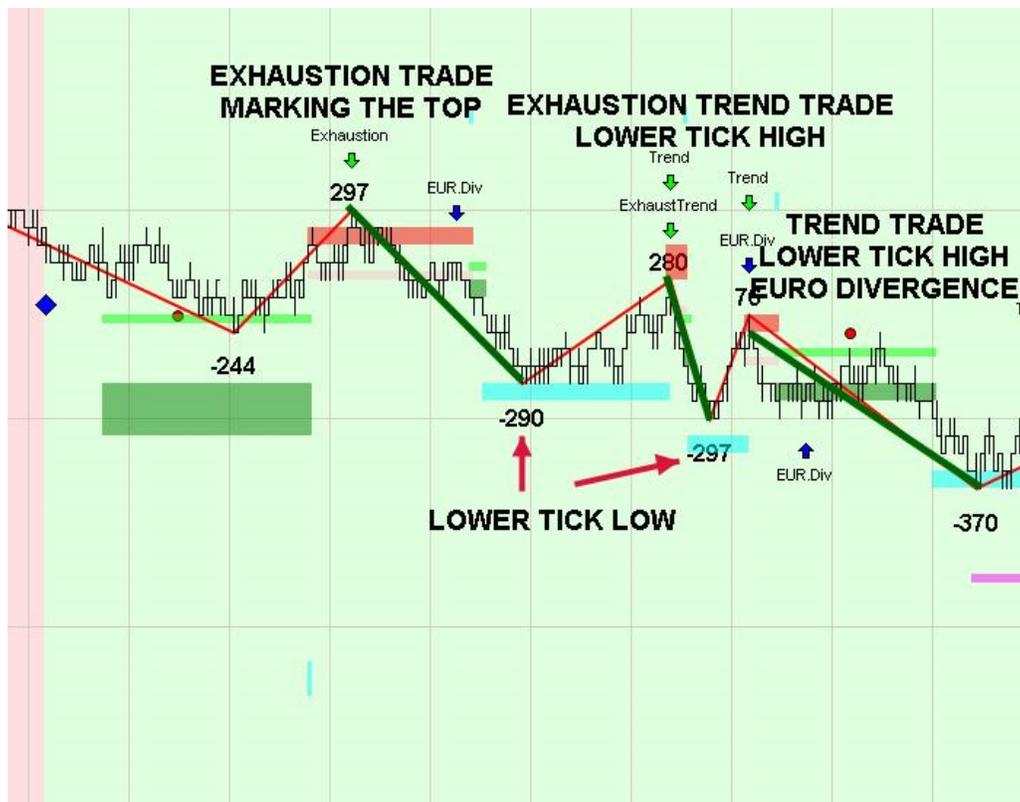
The exhaustion trading pattern also does an excellent job at calling a market tops and market bottoms. In the below described picture we see the exhaustion trade marking both a market bottom and a market top. The theoretical stop loss of 4 ticks of risk is also illustrated in the picture. Also note the TICK divergence on the market top.



## Importance of the ZoneTraderPro Theory

Here we see three successful consecutive trades with starts with the exhaustion trading pattern. After the exhaustion, we have an exhaustion trend trading pattern and a trend trading pattern. In those series of trades we see lower TICK lows and lower TICK highs.

What is the most important feature for users of ZoneTraderPro is the ability to use the zones and the statistics behind the zones. All three trades end at the blue counter trend zone. The statistics indicate that 50% of the time the market will not trade into the blue zone. So if the target was set one tick short of the blue zone, there would have been three successful trades. If the profit target had been set lower, you lost at least 6 ticks and were not able to re-enter the trade and take its' full profit.



## Exhaustion Trend Trade

The exhaustion trend trade pattern is a trend trade setup that occurs after an exhaustion pattern. The pattern is created after a successful exhaustion trade and the retracement back to the intermediate zone. In the example above you can see both a trend signal and an exhaustion trend signal. There is no significance in the above example to the fact there are two trading signals.

**The only two patterns that occur together and have additional significance are the Exhaustion pattern and the TICK Divergence pattern.** This is because the TICK Divergence pattern is essentially a real time indicator as it is measuring the strength of the market from the \$TICK. The Exhaustion pattern would be indicating a market top or bottom.

In the following example there is an exhaustion trend trade with no other patterns that developed. That is the reason why there is a specific pattern to identify the 1<sup>st</sup> pattern after exhaustion topping pattern.



## Exhaustion and Exhaustion Trend Trade Pattern Setup

Both patterns have a true / false enabled setting. The exhaustion trend pattern has a setting for Trade Through Intermediate Zone, which is defaulted to 2. In the above example the trade through intermediate is referring to the green support zone after the exhaustion trade occurred. The logic is looking to see if there was support at that intermediate zone, and if there is not, then the pattern is valid. The show theoretical stop loss is enabled from under the reversal trade menu. Enabling the function turns on the theoretical stop loss for the exhaustion, exhaustion trend, and reversal patterns. You can also turn off the early warning audible alert for the exhaustion trade.

<b>Exhaustion</b>	
26: Enable Exhaustion	<b>True</b>
<b>Exhaustion Trend Trade Pattern</b>	
20: Enable Exhaustion Trend Trade	<b>True</b>
21: Trade Throgh intermediate zone	<b>2</b>
<b>Parameters</b>	
01: EUR Symbol	<b>6E ###-##</b>
02: Enable EUR Trend Background	<b>True</b>
03: Enable EUR Divergence	<b>True</b>
06: Enable EUR Trend Alerts	<b>True</b>
07: EUR Time Frame Type	<b>Tick</b>
08: EUR Time Frame Value	<b>30</b>
10: Plot Ticks Numbers	<b>True</b>
11: ExTrade Enable Sound Alert	<b>False</b>

## TICK Divergence Trade

The TICK Divergence pattern is variation of the eSignal counter trend trading pattern. The counter trend trading was not included in the NinjaTrader version because the risk / reward was generally low, at about 1:1. However the counter trend trade is a statistically profitable pattern, with more winners than losers. The problem is the average win is smaller. In a “normal” counter trend trade, you can only expect 6-7 ticks of profit as the market returns to the intermediate zone and then resumes the trend. When there is a TICK divergence we can see higher risk / reward values making the trade both statistically viable with appropriate risk / reward.

Check out the blog for current trading examples.

<http://zonetraderpro.com/wordpress/category/tick-divergence/>

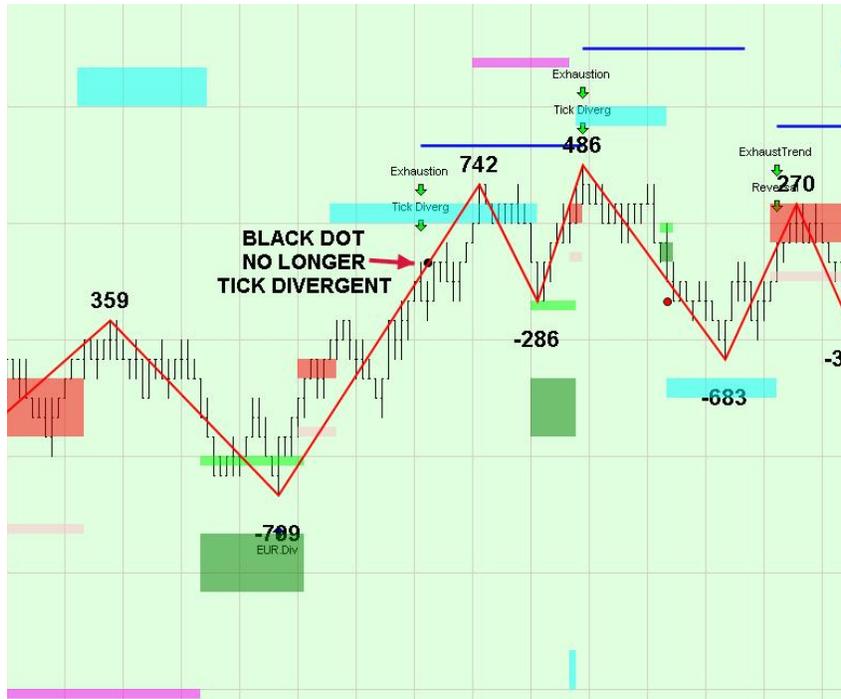
In the following example the market has made a strong move, which was then followed by an exhaustion trade with TICK Divergence. The market made a TICK high of 838 on the previous up move. As the ES makes a higher high and approaches the blue counter trend zone, the TICK has not, and will not make a higher high. The high TICK could only reach 753.



You can also see TICK Divergences calling a top and a bottom. You can see an eSignal counter trend trade pattern where the \$TICK high reached +547. The market retraced exactly to intermediate support and a successful trend trade occurred. But it then traded into a counter trend resistance zone with TICK Divergence, and what was the better trade?



The TICK divergence begins to evaluate the pattern when the market is 2 ticks from the blue counter trend zone. This number is adjustable in the settings. If the tick becomes non-divergent a black dot will print, and the signal will remain on the chart as in the example below.



If a trade is entered based upon tick divergence (and it is also not an exhaustion pattern) and the black dot appears the trade becomes an eSignal counter trend trade, and the trader must re-evaluate the risk / reward. If this occurs the consideration is that the market will trade back to the intermediate zone and a trend trade will happen next.



**IMPORTANT:** Once the market price touches the blue counter trend zone, the pattern marker stops moving and stays on the chart at that position. At this point the process for putting the black dot on the chart also stops. If a higher tick occurs, the number will update above or below the price in real time as it normally does, but **you will not see the black dot warning you there is no longer divergence.** Develop a plan to deal with this when it happens. It will obviously happen more often if the setting TicksFromCounterZone is increased above 2.



The E-mini Premium can be used as a real time confirming indicator. The E-mini premium is a value derived from the NYSE cash market and the futures price. If the premium goes to extremes, program trading arbitrage occurs. What also occurs is that you see the premium spike going into a trade. What is happening is that the futures traders are driving the market, and trying to draw retail traders into the wrong side of the trade. The cash selling (and also the \$TICK) does not support the lower futures price and the TICK Divergence trade is a winner.



Further information on the e-mini use and setup is available to ZoneTraderPro customers.

## TICK Divergence Pattern Setup

The TICK Divergence pattern has 3 settings. Enabled and show stop loss have a true / false setting. The third setting is Ticks from Counter zone and the default is 2. This setting adjusts when the trade will start to evaluate and print on the chart. With the default setting of 2, the pattern will start to print when it is 2 ticks from the beginning of the blue counter trend zone. This is measured from the beginning of a zone. For a short trade, it is the bottom of a zone. For a long trade it is the top of a zone. This is also how adverse excursion and favorable excursion is measured for any trade statistic.



The settings also allow you to disable the sound alert. The sound alert is not an early warning, as with the other alerts. This alert will sound when the logic is 1<sup>st</sup> evaluated and the setup is divergent 2 ticks away from the zone. If price moves to 1 tick from the blue zone, the alert will sound again. The alert sounds a third and final time when the price touches the blue zone and \$TICK is still divergent.

19. Tick Email Address	
<b>Tick Divergence</b>	
27: Enable Tick Divergence	<b>True</b>
28: Show Stoploss	<b>False</b>
29: TICKs from counter zone	<b>2</b>
30: Enable Sound Alert	<b>True</b>
31: Alert Sound File Name	<b>Alert2.wav</b>
<b>Trend Trade Pattern</b>	

## **Trade Management**

Trade Management is the most important aspect of ZoneTraderPro. In this section we will look at 3 aspects of trade management and how a trading plan is developed for ZoneTraderPro. Those three aspects are the trade entry, what you do once you are in a trade, and your trade exit. Nothing in this discussion is meant to endorse a trading plan or method. This is only a discussion of the relevant issues when making a trade. It is incumbent on the trader to test and develop any trading plan with trade management strategies before executing a live trade. The fundamentals of the pattern trading and filters used by ZoneTraderPro are continually repeating themselves and fundamental to Trade Management.

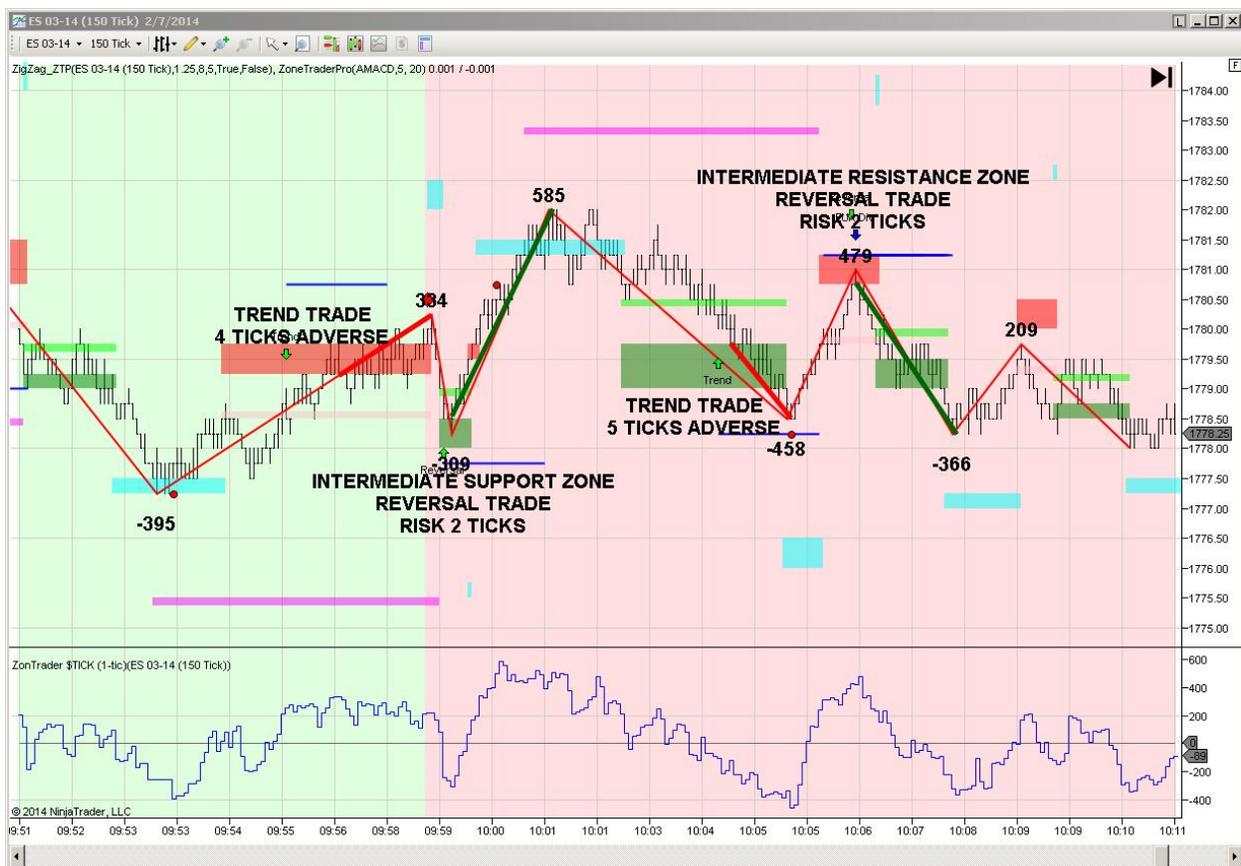
## **Risk and Reward**

There are 5 patterns that ZoneTraderPro is programmed to identify. Those are the trend trade, reversal trade, exhaustion trade, exhaustion trend trade, and the TICK divergence trade. Because each trade is different, there is different risk / reward for each trade. Generally I would like a 2:1 reward to risk ratio. ZoneTraderPro will place a blue line on the chart which is the theoretical stop. ZoneTraderPro does not endorse or support any specific stop and it is incumbent on the trader to develop a trading plan that includes stop placement.

## **Trade Management – Trend / Reversal / Trend Exhaustion Trade Entry**

The ZoneTraderPro software is set to display a trading arrow one tick from the (red/green) intermediate zone. The arrow may move 1 tick until it touches the intermediate zone, and then it will not move any further. The arrow will not disappear or redraw after it touches the intermediate zone. The TICK Divergence trade will start to draw 2 ticks away from the blue counter trend zone, and this is adjustable in the indicator presets. The TICK Divergence arrow will move until it touches the blue counter trend zone and stop. The signal will not disappear from the chart.

Here is a nice series of trades to illustrate the entry into two winning patterns and two patterns that would be classified as breakeven. Let us look at the entry and possible stop placement of these trades. The short trend trade is first. This trade had a good setup. The TICK filter was hit going into the trade with a lower TICK low and when price traded at the intermediate resistance zone the TICK basically matched the previous high. The Euro/dollar indicator was bullish, and turned bearish when the ES making a new high which is unusual. The chart is however bullish when the market trades 4 ticks through the intermediate zone, setting up the reversal trade. The trend trade was not stopped out using the theoretical stop. The theoretical stop was drawn 6 ticks from the entry of the trade. Six ticks was developed because at this point there is only a 3.6% statistical chance the trade will win, once there is this much adverse excursion. The theoretical stop for the exhaustion trend trade has similar reasoning.



The long reversal trade is next. The TICK high going into the trade is 334 and the previous high was 344, so we have basically a matching high. Going into the trade the TICK low was a -300, and the previous low was -395, so we have a higher low which is what we want to see. We see that the risk was two ticks.

How was two ticks calculated? There was a short trend trade that had 4 ticks of adverse excursion which setup the reversal pattern. Notice that there is a line drawn 6 ticks from the intermediate zone which had trend trade adverse excursion. The

statistics indicate that that when there is a 4-5 tick adverse excursion on a trend trade, there is an 8.4% chance that there will be a winning trade. So with 4 ticks of adverse excursion there is a pretty good reason for the stop to be drawn there.

<http://zonetraderpro.com/statistics.html>

The identical patterns (in reverse) are next identified on the chart. We have a long trend trade, that had a higher high (and \$TICK filter red dot) of 585 and a higher low \$TICK of -145. But as in the previous trend trade we immediately developed 5 ticks of adverse excursion. Additionally note the trend line of the \$TICK at the bottom of the chart. Not until the trend line was broken was there a reason to buy the market. This leads us into the last reversal short trade. This was again a perfect setup with a lower low \$TICK filter, and a lower high \$TICK. The dollar was still bearish.

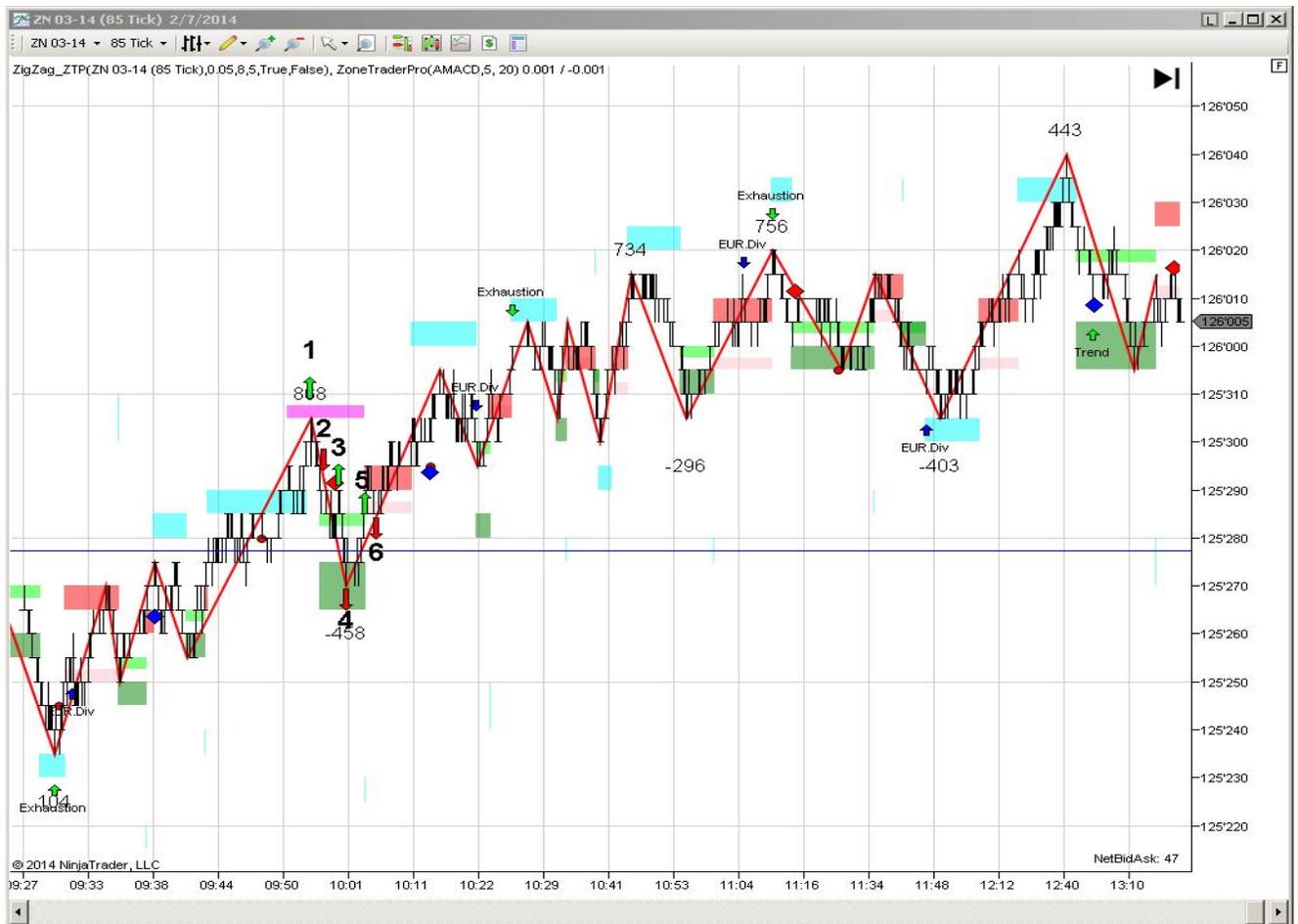
What was not discussed is the state of the Bond market in each trade, and it matters. The bond market is a correlated inverse of the S&P market. So when the bonds are at resistance we should look for a long trade. It is also an important ZoneTraderPro trade filter. There are 6 points of interest on the bond chart. I have placed arrows at the same spots on both charts. What is most important to take away from the bond chart is that from point 1, the bond market is trading at strong trend resistance. The bond chart then trades to intermediate support and we have a trend trade pattern.



At point 1 the bond market is at strong trend resistance and the S&P is at countertrend support. You would expect the S&P to go up at this point, but it is a questionable trade because of risk/reward. It is not TICK divergent or an exhaustion pattern. At point 2 on

the charts, we answer the reason why the trend trade failed. It failed because the bonds were falling and still 3 ticks from intermediate support. For that trade to have worked, the bonds needed to at point 4 of the chart. At point 3 the bonds had almost touched intermediate support and traded up. The chart at this point does not favor the long trade, because price had traded within 1 tick of support, and then traded up. The long trade however had extremely low risk and \$TICK in its favor. At point 4 the bonds are now solidly trading in support and there are buyers meeting the sellers. The S&P is at countertrend resistance, and for exactly the same reason we did not take a long trade at point 1, the risk/reward is not favorable here either. At point 5 the bonds are now trading up and the ZoneTraderPro theory would suggest that you would expect the market to continue trading higher. That is what happens and the reason the long trade has adverse excursion. At point 6 the bond buying resumes and we have another extremely low risk short reversal trade. Full size charts of this trade are available on the [ZoneTraderPro blog](#).

The chart of the bond market was in bullish patterns from the open, with ZoneTraderPro marking the low with an exhaustion pattern and identifying additional exhaustion trades.

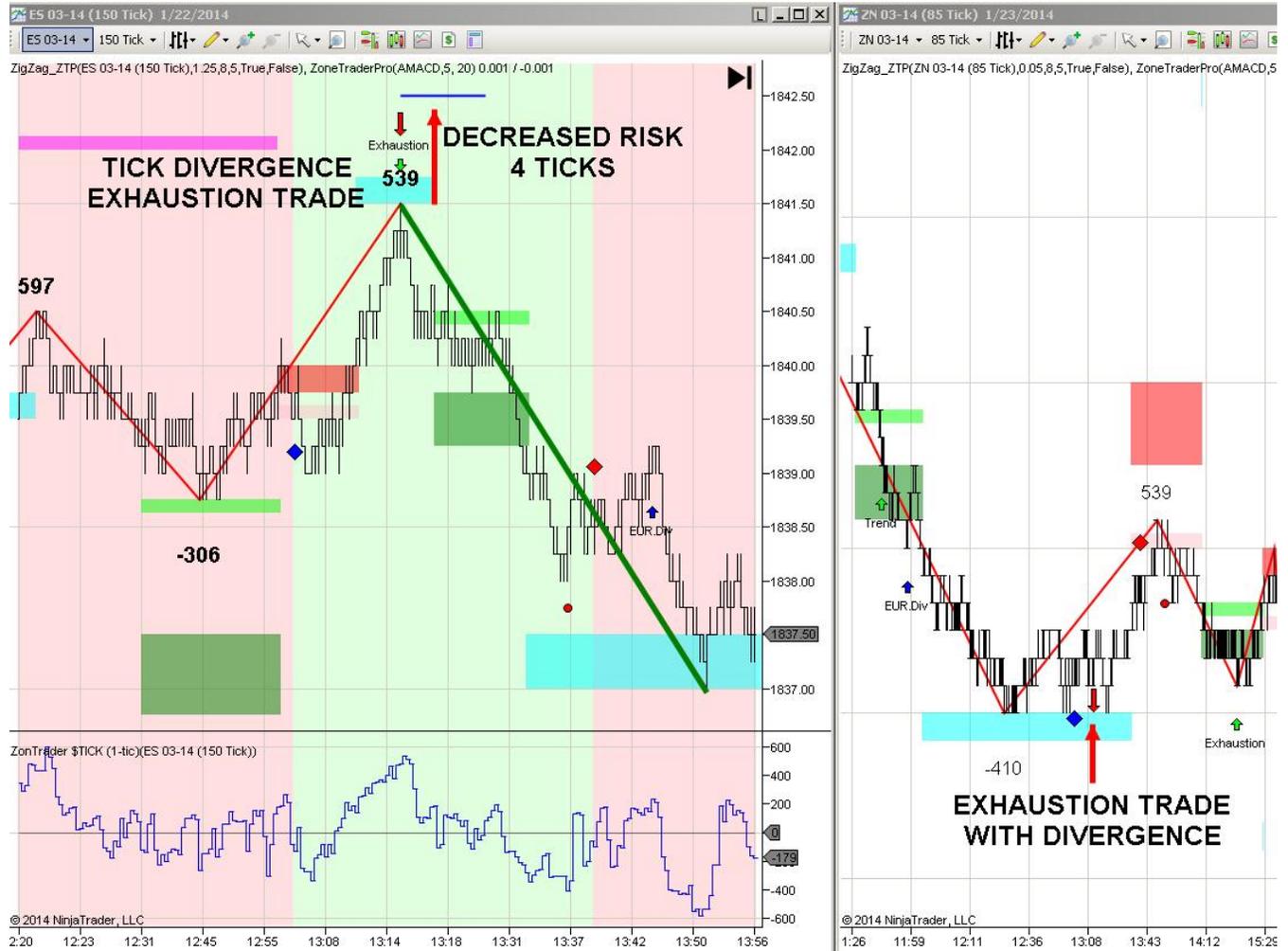


## Trade Management – Exhaustion Trade Entry

The exhaustion trading pattern has different considerations for entry. This is because the exhaustion trading pattern starts to print as a test of a high/low. The arrow will move until it reaches the blue countertrend zone. The reason that there is a wider entry margin is because about 30% of the exhaustion trades test the high/low and the test ends up holding, so by definition all of the high/low test trades are winning trades. The theoretical stop is drawn 4 ticks from the start of the blue countertrend zone. The logic behind 4 ticks is that once there has been that much adverse excursion, it is common that the market will trade to the strong trend zone, about another 4 ticks away.



The following example is an exhaustion trade that has traded to the blue counter trend zone, and illustrates the reduced risk. Additionally this trade also has TICK divergence. The bond market is trading at blue countertrend support and can be seen establishing a base leading up to the trade.



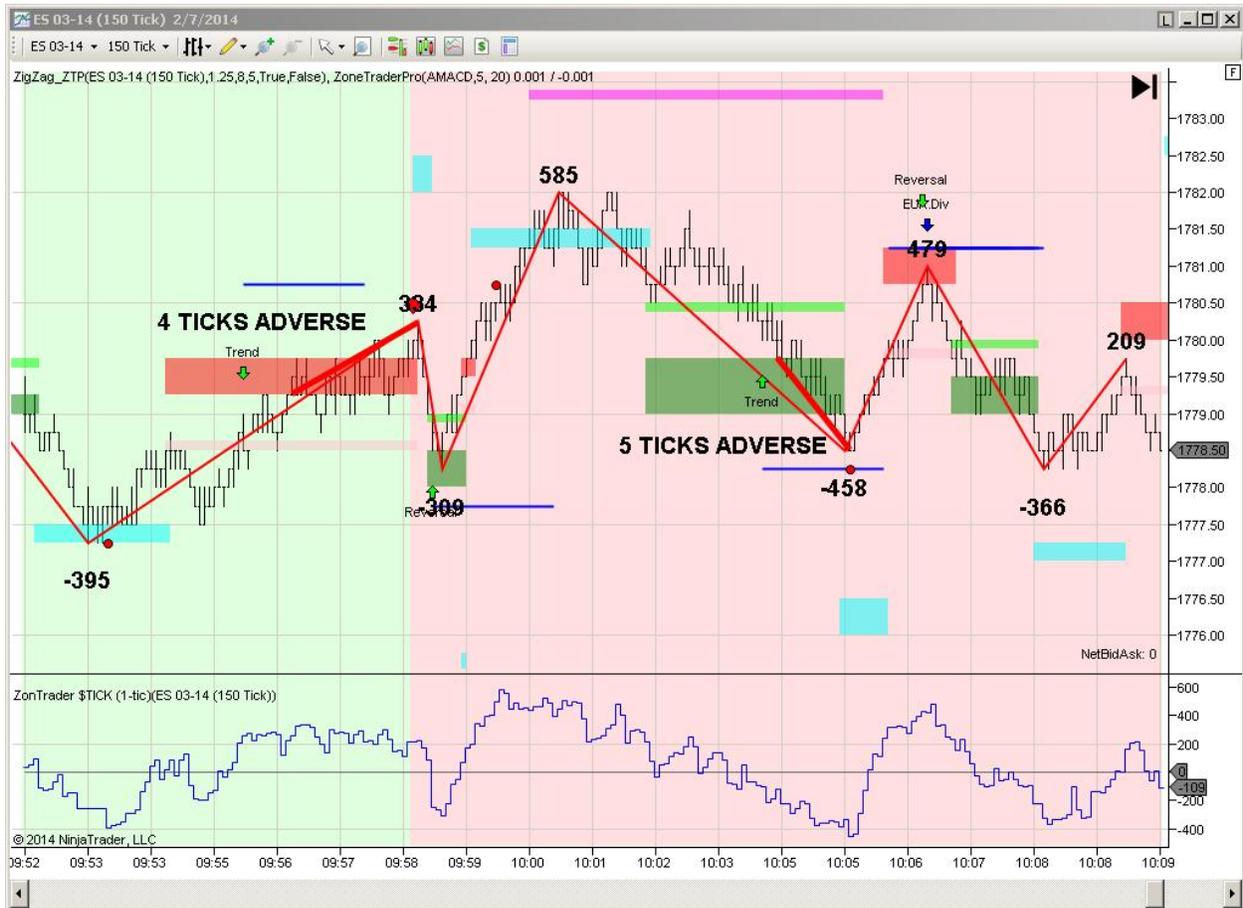


The next three outcomes are why you need a trade management strategy. Trade management is not just about entering and exiting a trade, it is dealing with what the market can throw you once you are in a trade.

The third possible outcome is a trade that initially goes in your favor by at least 4 ticks. In this trade example we see a reversal trade that has the TICK filter being hit as the market trades at the entry. This trade was chosen as an example for two reasons. First it illustrates how powerful the TICK filter really is. If you were in the trade, you were immediately given the opportunity to exit at a profit. This trade then illustrates a trade that goes 4 ticks of favorable excursion. At this point you need to make a decision to move the stop and reduce the risk, somewhere near the previous high.



The fourth possible outcome is a trade that has 4 ticks of adverse excursion but does not trade to the stop. Once there has been a 4-5 adverse excursion, you only have an 8.4% statistical chance of winning the trade. In each of the trend trades that saw adverse excursion on the chart below, the market traded back to breakeven, giving the trader the opportunity to exit without a loss, then turned into a loss. It is also important to remember that that the market does not care where you personally entered the market. When you back test this strategy you will be using the exact trade entry, the beginning of the zone. So if you entered 1-2 ticks short of the zone, where will the exit target be placed?



The last possible outcome is a trade that goes in your favor, but not to the blue counter trend zone, so that your target is not hit. This trade is a TICK divergent trade, which is followed by an excellent reversal trade. If your profit target was not hit on the first move down, do you adjust the profit target to the area of the next blue counter trend zone and adjust the stop to reduce risk?



The first two outcomes require no trader input, the targets and stops are simply hit. But the next three outcomes determine if your trade management strategy will be even more successful or will take unnecessary risks.

## **The Profitable Trade Exit**

The profitable trade exit is probably the most difficult part of a trading plan to accomplish and why proper trade management is important. In real time the trader is faced with greed. The trader will look at the target, no longer worrying about getting stopped out, and asking how much further will the market trade past the target that is already established. Then warning signs that the market will reverse and retrace are ignored, and that 3 point profit is suddenly only a 1 point profit, usually due to poor and/or no trade management. It is very common to hear a trader say, "If I could only just make two points every day." If this is what you have said in the past, then you need to understand that day trading is a job.

## **Do Your Job**

The job of day trading is hard because you are your own boss. If you allow yourself to deviate from your established trading plan, then you have not done your job. If however, you realize that you have six hours to sit and wait for a perfect setup, then you understand your job. If you set a profit target at 8-9 ticks, and don't move that target, then you understand your job. If after your first successful trade of the day, you either go to the beach or again only wait for high probability trades with great setups, then you understand your job. If you have created a trading plan that includes trade management and have you gone and done your own statistics, then you really understand your job.

There are three possible trade exit scenarios. The first trade exit scenario is the fixed profit target. The fixed profit target says that you want to get a certain number of ticks out of each trade. If you take this approach then you need to understand that the average winning trade statistics. Did you go back and create your own statistical database and know what the average winning trend trade was? Does the TICK divergence trade higher a higher winning average number of ticks?

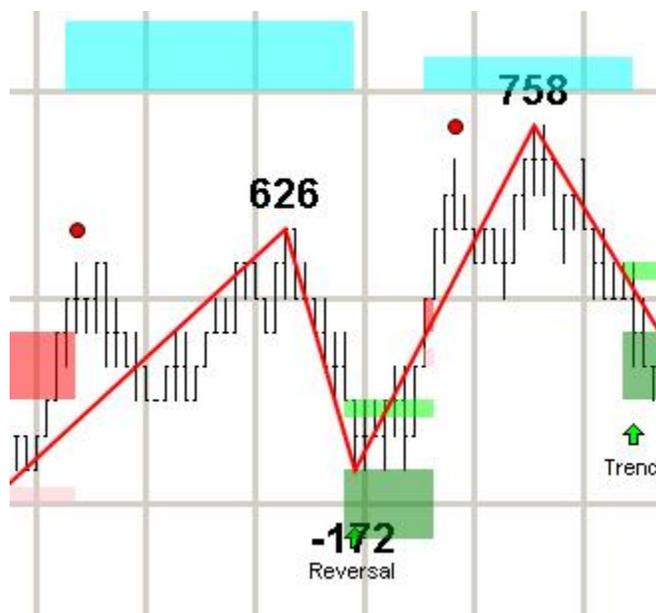


The second consideration is the [statistics that are found on the website](#). The eSignal version of the software had a counter trend trade pattern programmed. That pattern simply took a trade every time the market traded at the blue counter trend zone. While this trade was statistically a winner, it did not account for proper risk/reward because the average reward was just the retracement to the intermediate zone, generally just 6-7 ticks. The two exceptions to this in the Ninja Trader version is the exhaustion and TICK divergence trading patterns. But the counter trend trade does provide a very important statistic. That statistic was that 50% of the time there was not adverse excursion in the trade. This means that half of the time you are in a trade, and price is approaching that blue counter trend zone, the market will take back at least 6 ticks of the profit you just earned.

One justification that could be used to move a target would be if the TICK filter has been hit as the market approaches the blue zone.



But greed will also leave money on the table.



This trend trade illustrates the profit target problem. In it we see a perfect setup for a long trend trade. It has a perfect TICK setup and the dollar is favorable, and was good for a 2.75 point profit. Because of the way ZoneTraderPro works, you had 5 minutes to determine where to place the exit. ZoneTraderPro was painting the blue counter trend zone exactly 5 minutes before the market traded to exactly that price. Price did not trade through the blue zone, and if you placed the target 1 tick short of the zone, your contract would have been filled. Then if you evaluated the TICK divergence, that trade was good for another 3 points. In this instance however the TICK divergence didn't go to the opposite blue counter trend zone. So the point of looking at it is to ask yourself the question, is your strategy to take 3 points or do you hold out for the 4-5 points. The only way you can answer this is by doing the statistics, or instituting a hard profit target as described above.



The last possible exit scenario is what do you do if you get into a trade and it gives you 7-8 ticks but your target isn't hit and filled? This trade has exactly this problem, and one other. The price spikes 3 ticks in a single bar (very unusual and a sign of less liquidity) and the TICK filter is hit (Red dot is printing inside the 8 of 285). If you had moved the stop to the previous high +1, the stop would not have been hit, and then the market immediately reversed hard. Shortly after that, the dollar goes bearish and the TICK filter is hit to the down side, and the market trades to strong trend support.



If you found any of the pictures too small, you can go to the [ZoneTraderPro blog](#) for a full size version of the picture. The posts are found in the February 2014 section under trade management.

## The Dollar Classification Setting

The ZoneTraderPro logic automatically classifies the condition of the EuroDollar futures contract and displays the background on the chart as red or green. Because the Euro can enter strong trends for reasons that have absolutely no correlation to the US stock market it is not a completely correlated market. For that reason you should have a separate Euro chart up and check it for correlation to the current trade.

The following values are adjustable.

- EUR Symbol – This tells the logic to pick up the 6E contract information. If you wanted the Japanese Yen instead, it could be changed to 6J. The ##-## after the contract tells the logic to pick up the current contract.
- Enable EUR Background – Turns on the red / green backgrounds
- Enable Eur Divergence – This looks for divergence between the Euro and the chart.
- Eur Trend Alerts – no longer applies
- Eur Time frame and value – Preset to use a 30 TICK Euro chart value

Parameters	
01: EUR Symbol	6E ##-##
02: Enable EUR Trend Background	True
03: Enable EUR Divergence	True
06: Enable EUR Trend Alerts	True
07: EUR Time Frame Type	Tick
08: EUR Time Frame Value	30

To create a Euro Chart with all of the ZoneTraderPro patterns, start a new chart and add ZigZagZTP to the chart. Change the Deviation Points to .0005. Add the ZoneTraderPro indicator and change ZigZagTicks to 7.

Parameters	
BuyArrow	 Green
BuySellSeparation	3
ExTradeEarlyWarning	Alert4.wav
MarkerSeparation	3
Plot Ticks Numbers	False
SellArrow	 Red
TICKwigggleRoom	100
ZigZagTicks	7

Parameters	
DeviationPoints	0.0005
Visual	
FontSize	8
RectangleOpacity	5
ShowBoxes	True
ShowDistances	False
Data	

## Bond Chart Setup

Bonds are inversely correlated to the S&P 500, so when the 10 year bond is at support, that would setup a short ES trade. ZoneTraderPro works on bond chart just like on the ES. Bonds have sufficient liquidity to trade, however the daily range is less than the ES and there are fewer tradable patterns than the ES. But because of the inverse correlation they are extremely important.

To create a 10 year Bond Chart with all of the ZoneTraderPro patterns, start a new ZN chart and add ZigZagZTP to the chart. Change the Deviation Points to .075. Add the ZoneTraderPro indicator with no changes to the settings.

Note how ZoneTraderPro identifies patterns in ZN just like the ES and projects profit targets, support and resistance. I do not see an argument for any significance to the TICK Divergence pattern on a bond chart. However, the counter trend zone it is trading at is of significance, because that is a standard eSignal counter trend trade as explained above.



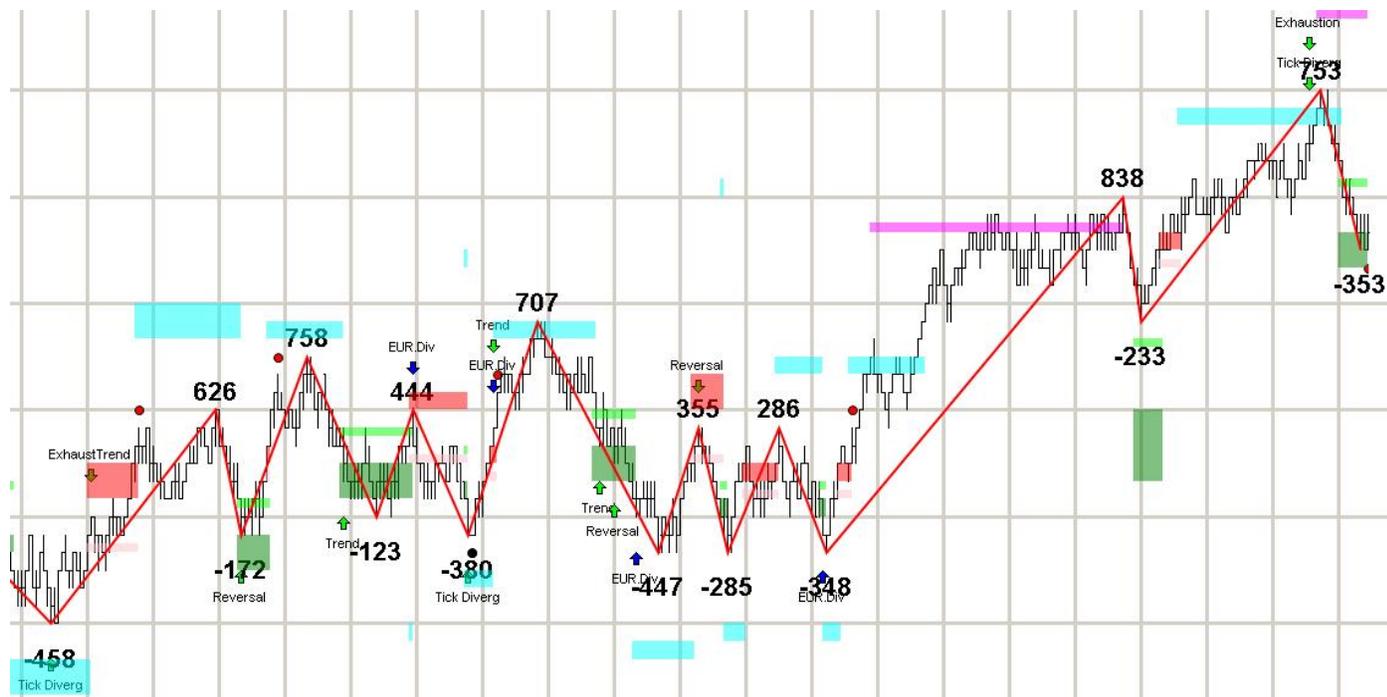
## Accumulation and Distribution

The market moving between red and green is an accumulation or distribution. It's easy to identify because it looks like a Christmas tree. It is also frustrating because you will see patterns develop that may be tradable, but rarely go to the blue counter trend zone for an exit. Then if you have not exited the trade, then there is a strong move. It is not advisable to guess the direction. There are additional examples of accumulation and distribution in the eSignal trading manual. You can see distribution on the bond chart above in the upper left.

Another Bond chart with identifiable distribution before a big move.

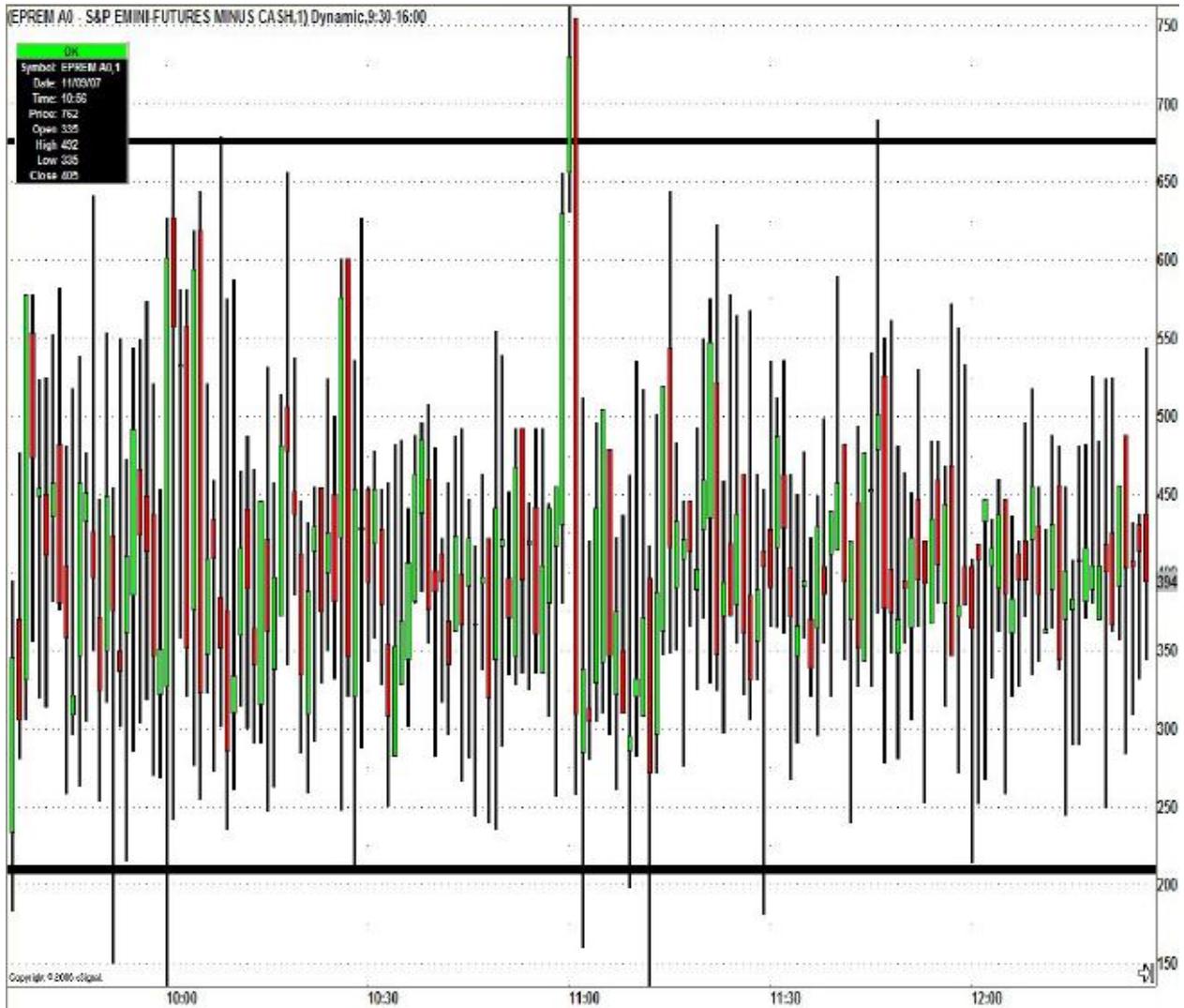


Here is accumulation on an ES chart. Three patterns, two of which were TICK Divergence were successful.

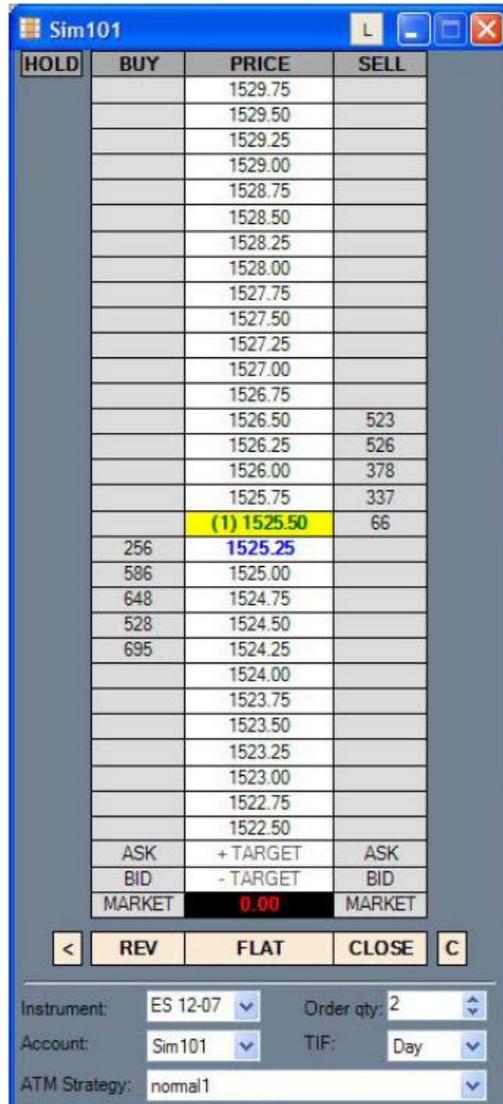


## Illiquidity Volatility

Illiquidity volatility is a term created by ZoneTraderPro to describe when a market does not have sufficient liquidity and as a result you would see smaller traders that could move the market and invalidate ZoneTraderPro patterns. This is common to see in markets such as gold, oil, the mini Dow, and the Russell 2000 futures. It is extremely important when this occurs in the ES contract. When there is illiquidity volatility in the ES, this is not craziness due to irrational exuberance. It is illiquidity caused by major news events. What you see in the ES are fewer number of contracts to be traded, a spike in the \$VIX, and the average daily range greatly expanding. Large traders are executing trades not based on the logic of their plan but because of the news of the day. You will also see the e-mini premium spiking from buy arbitrage to sell arbitrage in a matter of seconds. This presents the trader with an untradeable market because ZoneTraderPro is designed to trade a logical market, where the computers are providing the liquidity, and the stock market is not moving due to contemporaneous news events. Here is a picture of the e-mini premium during illiquidity volatility.



This is a picture of the SuperDOM showing small numbers of contracts on the ES bid / ask.



HOLD	BUY	PRICE	SELL
		1529.75	
		1529.50	
		1529.25	
		1529.00	
		1528.75	
		1528.50	
		1528.25	
		1528.00	
		1527.75	
		1527.50	
		1527.25	
		1527.00	
		1526.75	
		1526.50	523
		1526.25	526
		1526.00	378
		1525.75	337
		(1) 1525.50	66
256	1525.25		
586	1525.00		
648	1524.75		
528	1524.50		
695	1524.25		
	1524.00		
	1523.75		
	1523.50		
	1523.25		
	1523.00		
	1522.75		
	1522.50		
ASK	+ TARGET		ASK
BID	- TARGET		BID
MARKET	0.00		MARKET

Instrument: ES 12-07    Order qty: 2  
 Account: Sim101    TIF: Day  
 ATM Strategy: normal1

**DISCLAIMER:** The risk of loss in trading futures contracts can be substantial. You should carefully consider whether such trading is suitable for you. No representation is being made that any account will or is likely to achieve profits or losses. Past performance is not necessarily indicative of future results. The maximum favorable excursion of winning trades could never be achieved in real trading. The total loss is an absolute minimum. Both the MFE and loss are based on examination of the charts, after the trade has completed. Market conditions and trader experience may affect profits and losses. MFE and loss do not account for slippage and commissions. A break even trade is defined as when the market price on the exit trades at the entry price of the trade. It does not account for any commissions or if a limit order would have been filled at that price. This information contained in this document is opinion and not trading advice. Please refer to the [ZoneTraderPro Terms and Conditions](http://zonetraderpro.com) and [Disclaimers](http://zonetraderpro.com) found at <http://zonetraderpro.com>.