BASIC PATTERNS AND TERMINOLOGY

By
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THERE IS RISK OF LOSS IN TRADING FUTURES

First I would like to thank Jim O'Connell of PFG (Peregrine Financial Group and Peregrine Charities) for reworking this document. This was needed very badly as the original needed to be updated. Jim spent many hours and hard work putting together the correct info and CCI documentation so that traders worldwide would have something to help them in there trading careers and learning CCI. Jim has gone past "traders helping traders" excellent work, and hope all who read it and learn CCI will be successful and thank Jim – JIM WELL DONE

Woodie

We hope that after reading this text, you will get the basic idea of Woodies CCI system, an ability to recognize his entry and corresponding exit patterns. This will also serve as a reference for all of the vocabulary used in Woodie's community of traders, so you will be able to ask questions and understand the lingo throughout the trading rooms.
http://www.woodiescciclub.com/

Woodies goal is "Traders helping traders". It is my hope that this text will do just that.

Woodies CCI charts

Chart 1 below shows a single yellow horizontal line. This is called the Zero-line (**ZL**). It has a special meaning in the calculation of the **CCI**. You may think of it as the equilibrium of momentum over a given period. All of Woodies **CCI** system trade patterns are defined around the zero-line. The chart shows four other lines. The light blue are the 100/-100 lines and the white are the 200/-200 lines.

Chart 2 shows the **ZL** as a series of red and green segments. These segments reflect the 25 period Least Squares Moving Average **LSMA**. When the segments on the **ZL** are green, this means that the market price is higher than the **LSMA**. When red, the market price is below the **LSMA**. This is also called the moving linear regression curve. The **LSMA** will be used in trade confirmation of patterns and exiting positions. It is not important to understand how the **LSMA** is calculated.

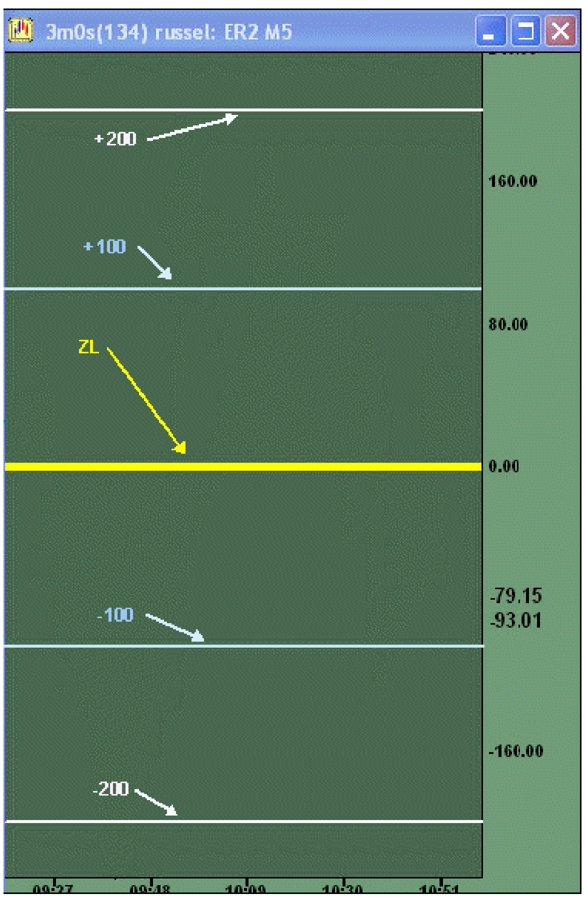


Chart 1

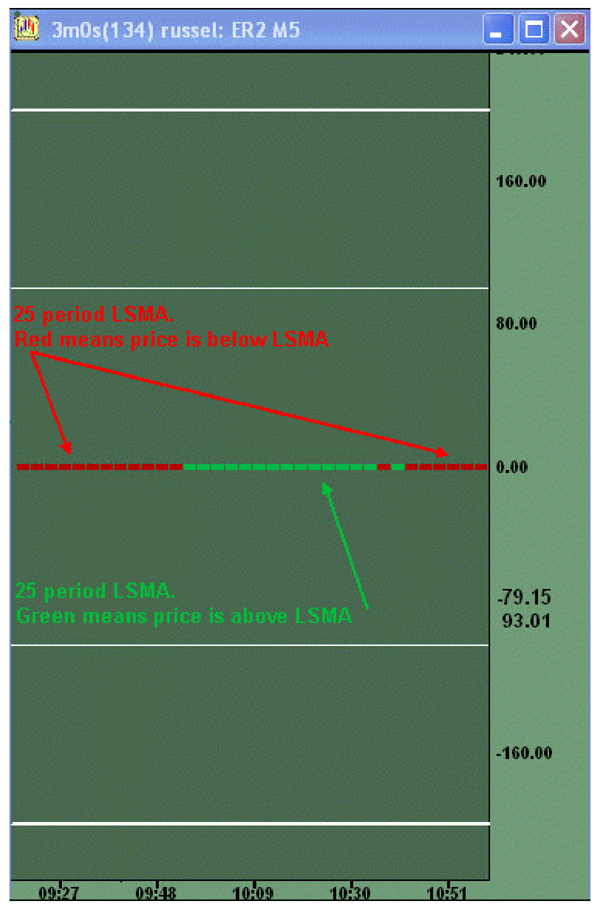


Chart 2

Zero-Line

It is the major support and resistance at this moment in time.

Amplification:

- "?at this moment in time", means that it does not represent a forward looking projection of where the support and resistance will be in moments from now, but where S/R is.
- This line will be tested and crossed several times throughout the trading day.
- While a trend is defined by six or more bars above or below the **ZL**, a cross by the **CCI** does not change the trend. You need at least six bars on the opposite side of the **ZL** to reverse trend. Cautionary note: A cross of the **ZL** in the direction opposite of the trend can indicate a setup for a trade with the trend or the possibility of a trend change.
- Do not take trades when a clear trend is not evident.
- Attention is necessary when the **CCI** crosses the **ZL**. These are important events during the trading day.

" It's breaking major support and resistance at this time...this will give you confidence that the trade is going our way"

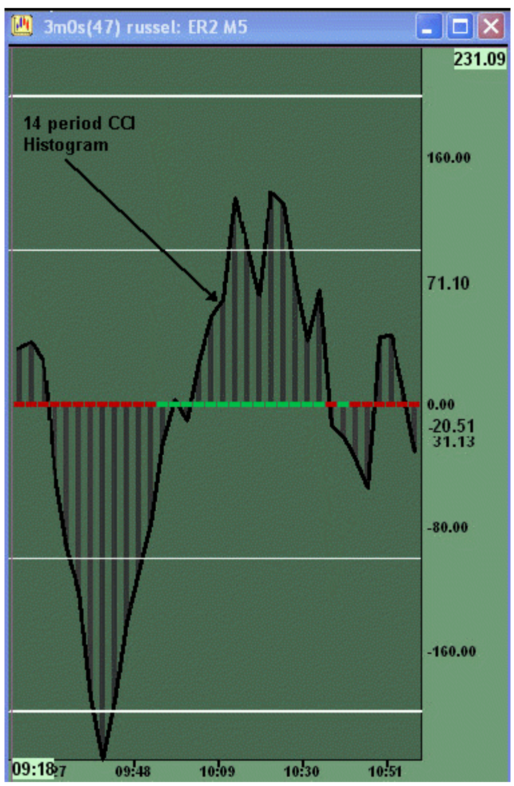


Chart 3

Chart 3 below shows the **CCI** line. It will always be the heavy black line on Woodies CCI Charts. This will be presented as a histogram. The vertical gray lines will be called time-bars It is not necessary to understand the calculation of the **CCI** line. However, for those who cannot help

themselves, the definition and calculation of **CCI** can be found at
www.stockcharts.com/education/IndicatorAnalysis/indic_CCI.html

Chart 4 shows the addition of a yellow line. Woodie only uses two CCI indicators to trade with. One is the CCI 14 period, shown as **BLACK**, and called **CCI**. The other is the CCI 6 period, shown as yellow and called Turbo CCI or **TCCI**. **TCCI** is used in the drawing of trendlines. **TCCI** can be used as a **warning** that a pattern might be occurring, or, in multiple contract trades, used in taking off part of the position.

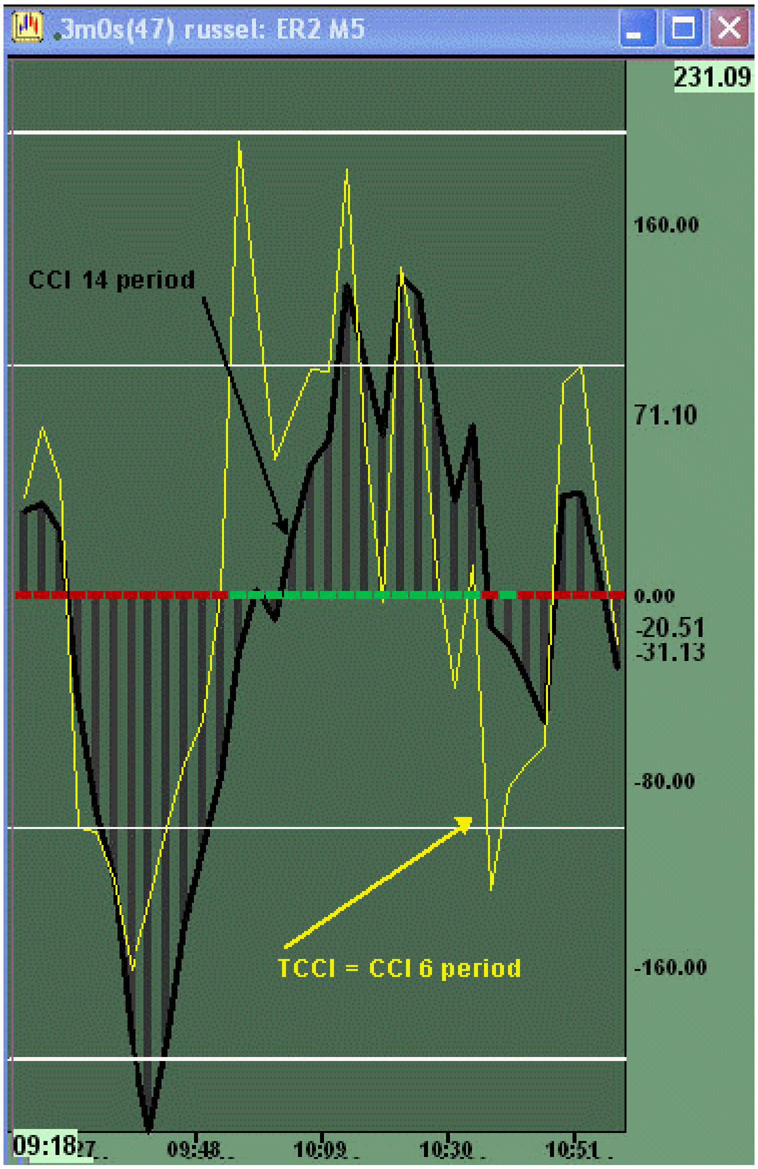


Chart 4

Chart 5 shows the addition of red, green and yellow **time**-bars. The yellow **time**-bars show the establishment of a **trend**, while the green bars show an uptrend, the red bars a downtrend.

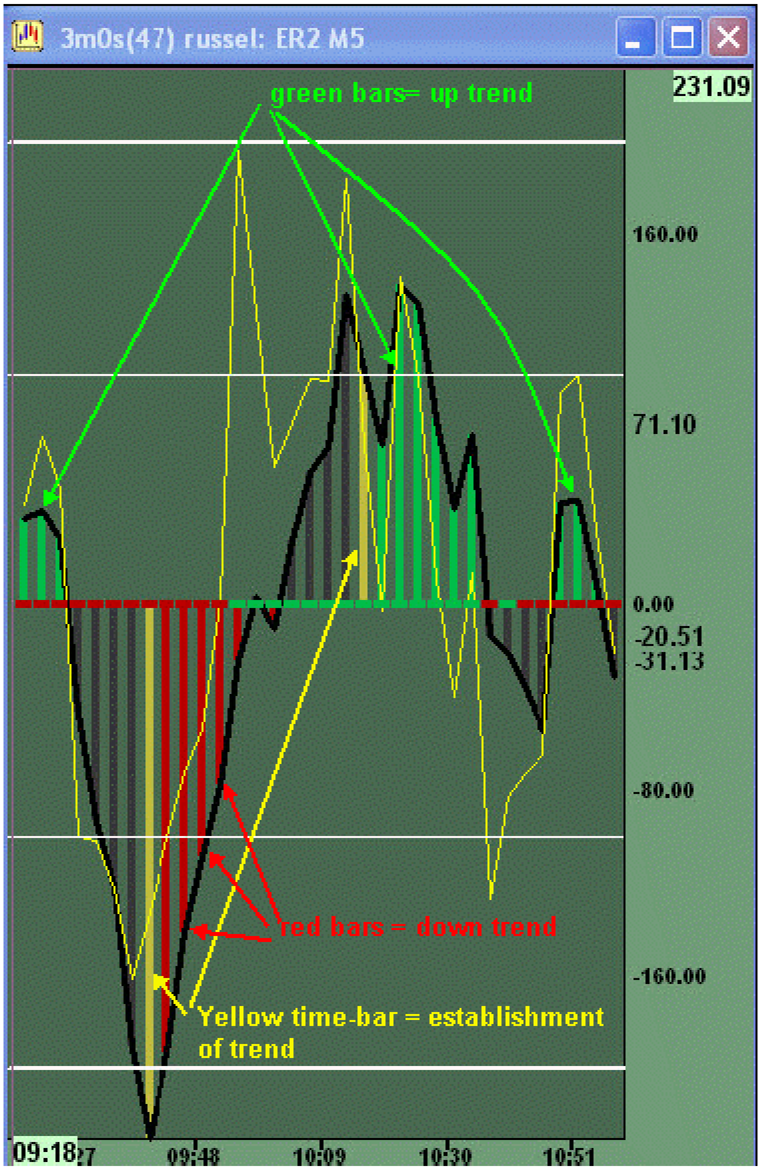


Chart 5

The Trend

trend n. - The general direction in which something tends to move
- A general tendency
- General line of orientation
- syn tendency
- syn course
- syn drift, movement
- syn vogue, style

Woodies CCI Trend (trend): A trend is established any time the CCI (black line) is either over or below the zero-line (ZL) for six or more time bars. If the CCI trades on the other side of the ZL this does not negate the trend. If above, trend is up, if below, trend is down. The word trend is used in bold print throughout this text when referring to Woodie's definition.

Amplification:

- Defines the trend using the CCI indicator only
- Does not use price bars to define trend
- Does not use any moving average to define trend
- Does not use a larger time frame to define trend
- Uses the same chart to define trend as to spot a CCI pattern for the market
- Each market will have its own **trend**. It is not to be considered when taking a trade on another market. You do not need any other charts, markets or indicators to see and define the **trend**. When learning **Woodie's CCI system**, **Woodie recommends that you trade with the trend. You do not trade counter-trend trades** until you have learned the trade **trend** patterns first.

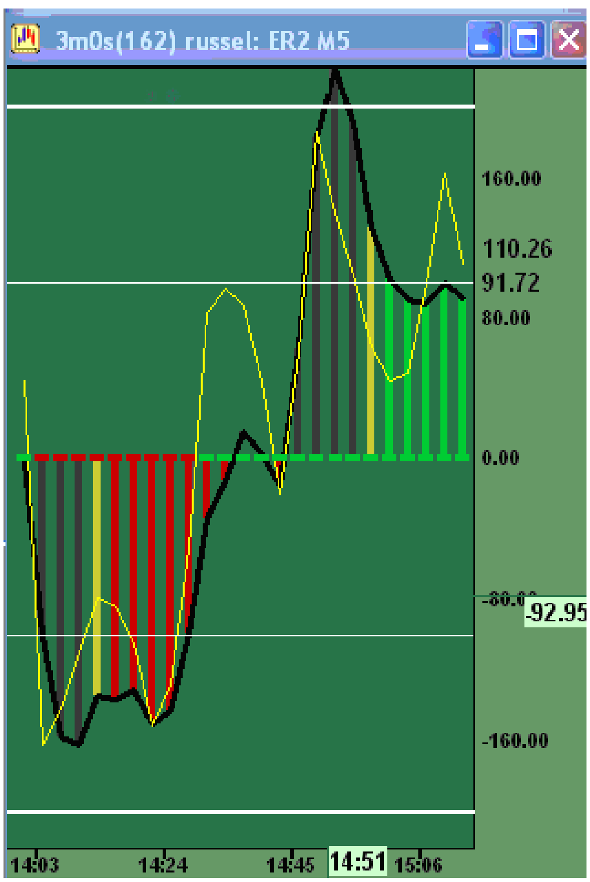


Chart 6

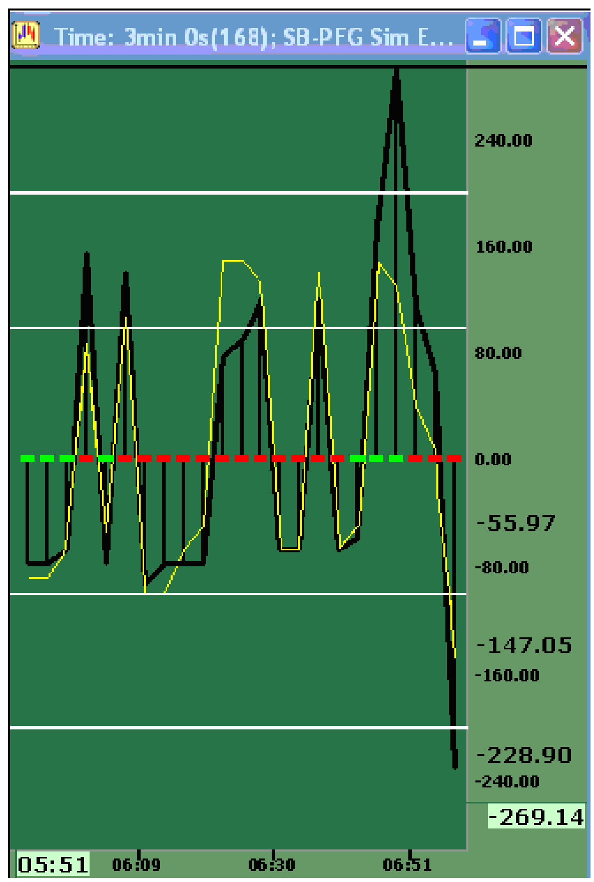


Chart 7

In **Chart 6**, we see that, after the yellow bar, we have a down trend. This is shown by subsequent red time bars. It is still in a down-trend printing above the ZL for one or two CCI bars (six maximum) but here we would be looking for shorts. But be warned that the more bars that register opposite the **trend** established, the more we should stay on the side line until the trend is redefined. Later, we see a second yellow time-bar above the **ZL**, showing a change to an up-**trend**.

Chart 7 shows a mix of bars above and below the **ZL**. There is no defined **trend**. No trade.

<u>Trend Agreement Trade Patterns</u>
Let us now look to **CCI** trade patterns that are trend-following (trade patterns that are in agreement with the established trend).

1. Zero-line Reject (**ZLR**)

The next three patterns involve **line breaks**, or **violations**, from chart peaks, sometimes described as bumps. In these three patterns, lines are drawn from peaks/valleys or bumps. We should refrain from using support, resistance, or, trend in describing the lines that are drawn. These words bring to mind "price chart terminology" and their meanings may confuse the reader with regard to the function of these lines when using Woodie's CCI system. You do not trade against these lines, nor target exits, with regard to these lines. They are only a visual aid to indicate when one of these patterns comes into effect.

2. Reverse Divergence (**RD**)
3. Trend Line Break (**TLB**)
4. Horizontal Trend Line Break (**HTLB**)

For the beginning trader, these four patterns should be all that you look for and learn to trade. It is highly recommended to first practice trading on a demo platform. This will help you recognize patterns and get some "screen time" without cost to you. When trading on a demo, treat it with the serious goal of trading your own money successfully.

Zero-line Reject (ZLR)

This is where the **CCI** line is traveling in a direction opposite to the established **trend** toward, or just through, the **ZL** and then, in a subsequent bar, reverses direction from that of the established trend. To be considered a **ZLR**, the movement back to the **ZL** should at least go back into the 100/-100 level then reverse back to **trend** direction. It is preferred by some to get within the 50/-50 level for best results.

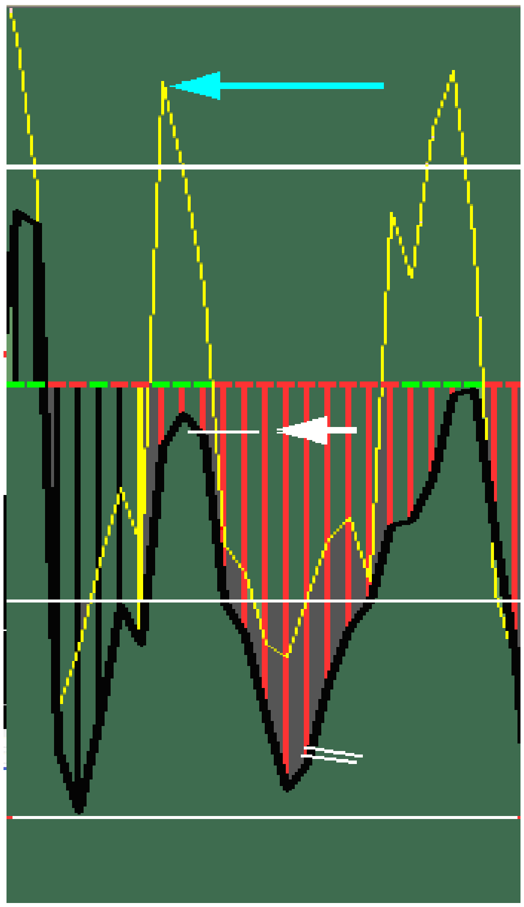


Chart 8

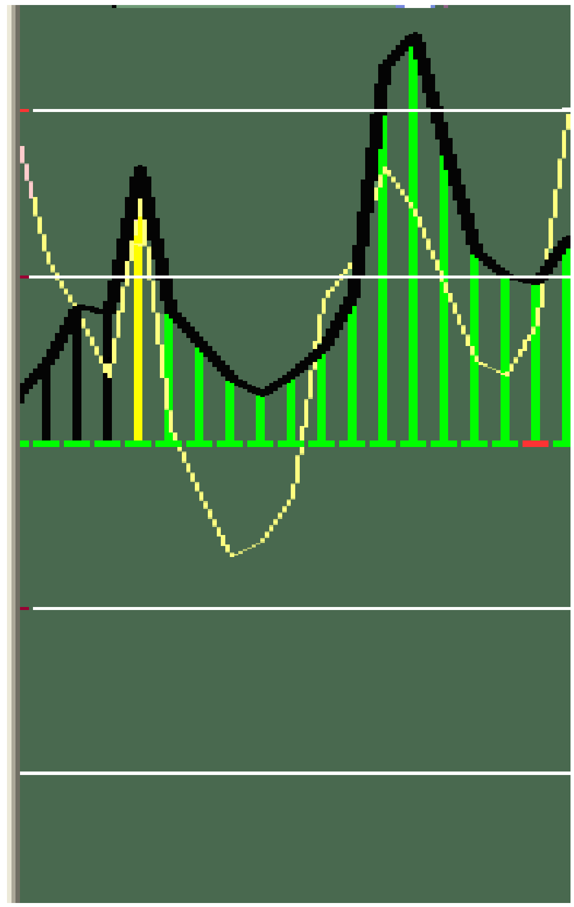


Chart 9

Chart 8 shows two **ZLR** lines. **Trend** is established down (six or more bars below the **ZL**). **CCI** is moving back towards the **ZL** then reversing back in agreement with the established trend. These two **ZLR** would command a short in both instances. We will have a full discourse on how to execute the trading system later on. The important thing now is to recognize the pattern.

Chart 9 shows a **ZLR** to the upside.

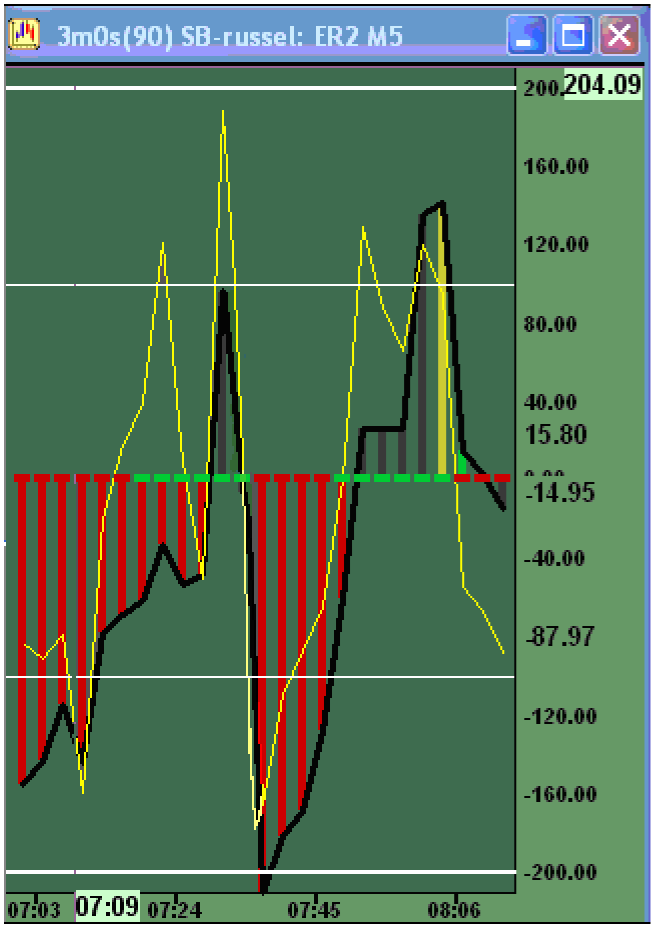


Chart 10

Chart 10 shows a **ZLR** where the **CCI** actually crosses the **ZL** then reverses back to trend.

> "I always wait until it crosses back over the zero line – it really hasn't rejected it until it crosses back over."

Reverse Divergence (Rev Diver-RD)

This is the second of the **trend** agreement trade patterns (also called a **trend continuation** pattern). As such, the trade pattern must give a trade signal which is in agreement with the **trend** as defined earlier. After the **trend** has been established, either up or down, we look to see peaks/valleys on the **CCI** line. If we get two peaks/valleys from the **CCI** line where the second peak/valley is more pronounced than the first, we draw a line off the peaks angling towards the **ZL**. Where the **CCI** crosses the drawn line (trend line) it is a trade signal. You can use **TCCI** and or **CCI** in construction of drawn lines.

"You have to have something to confirm the Reverse Divergence, either crossing a major line (100/-100), or crossing a drawn trend line."

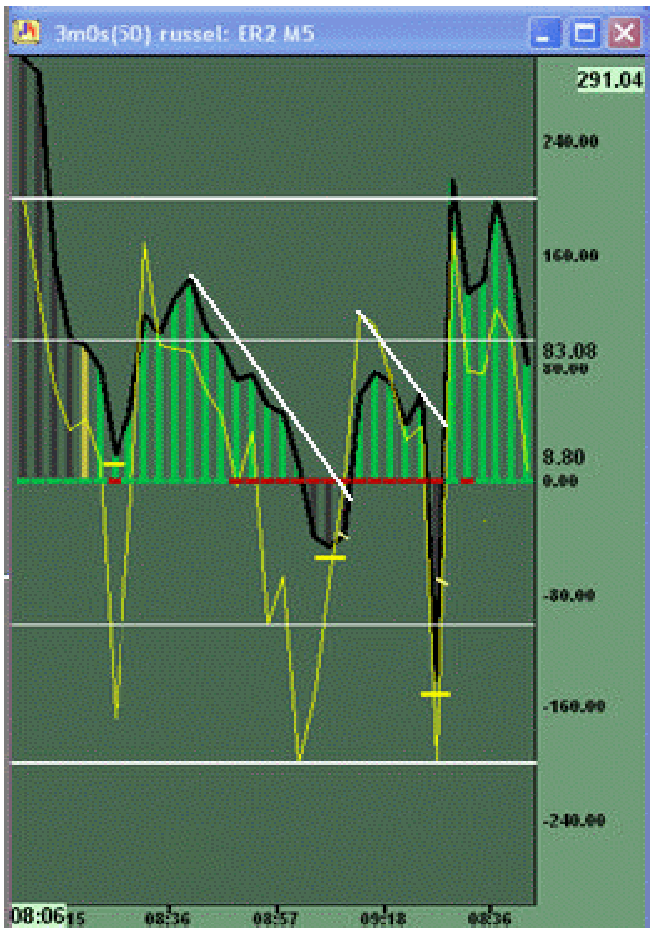


Chart 11

Chart 11 shows two Reverse Divergence (**RD**) trades. The first trade shows that the trend is up. We have a valley (an inside bump) where the second is closer to the **ZL** than the first. A line is drawn connecting the two tops and extending into the future. The violation of the line gives a trade signal (long). The second **RD** trade occurs with the trend also being positive. We have two valleys, the first being less pronounced than the second. A line is drawn connecting the two tops.

When this line is violated by the **CCI**, it is a trade signal(long). It should note that both trades were **ZLR** with a **RD** confirmation.

Trend Line Break (TLB)

This is the third of the **trend** agreement trade patterns. Although this pattern is called the Trend Line Break pattern, please try to put out of your mind any knowledge you have with regard to price chart patterns and their trading techniques. This pattern can be either trend agreement or counter-**trend**. We will look at this pattern when the **trend** is in agreement. The trend line must originate from a peak/valley above/below the100/-100 line, and it is preferred if the peak/valley is above/below the 200/-220 line. This pattern is usually a confirmation of a **ZLR**. When more than one of Woodie's patterns is in agreement, the signal has a higher probability of success. **TCCI** can be used in construction of trend lines but **CCI** is preferred. When the CCI line crosses the trend line a trade is signaled.
"The closer the actual trend-line break to the zero line the better."

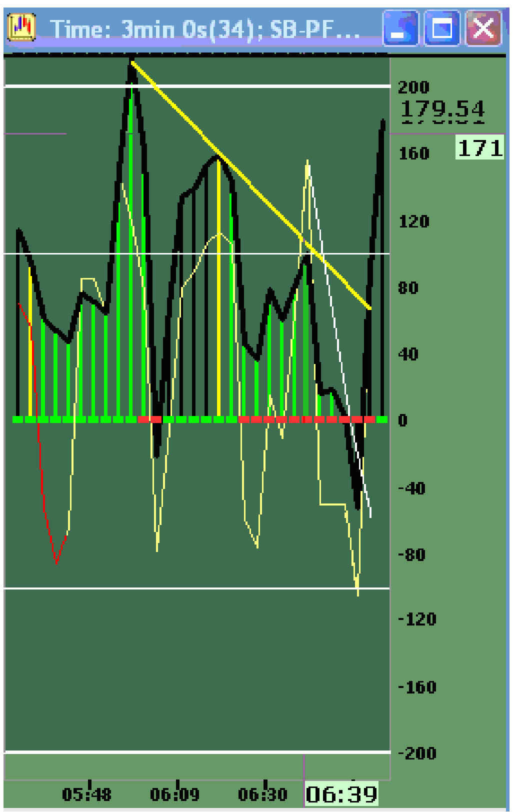


Chart 12

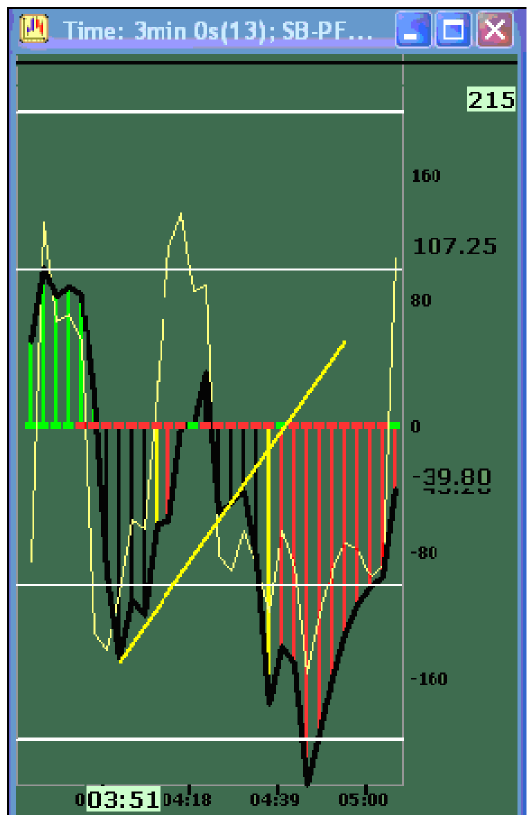


Chart 13

Chart 12 shows a **TLB** uptrend. The trade signal is the crossing of the yellow line by the **CCI** line. A white trend line is also drawn on this chart using the **TCCI** in its construction. This is acceptable and usually draws a sharper line.

In **Chart 13**, the trend is down. The more peaks or bumps the stronger the signal. Note in both charts that we had a **ZLR** trade first. The **TLB** usually gives confirmation to the **ZLR**.

Horizontal Trend Line Break (HTLB)

This is the last of the **trend** agreement patterns. It is also a **line break** pattern. The pattern is where you have two or more bumps, or peaks/valleys, that are approximately the same height on the same side as the **trend**. **HTLB** can also be a counter-**trend** trade. This is discussed later. A line is drawn between the peaks extending out into the future. This line must occur within the 100/-100 boundary and can be constructed with **TCCI**, **CCI**, or both. When the **CCI** crosses the **HTLB**, the pattern is in effect. It is a stronger signal when two or more bumps, or peaks, are used in the construction of the **HTLB** line.

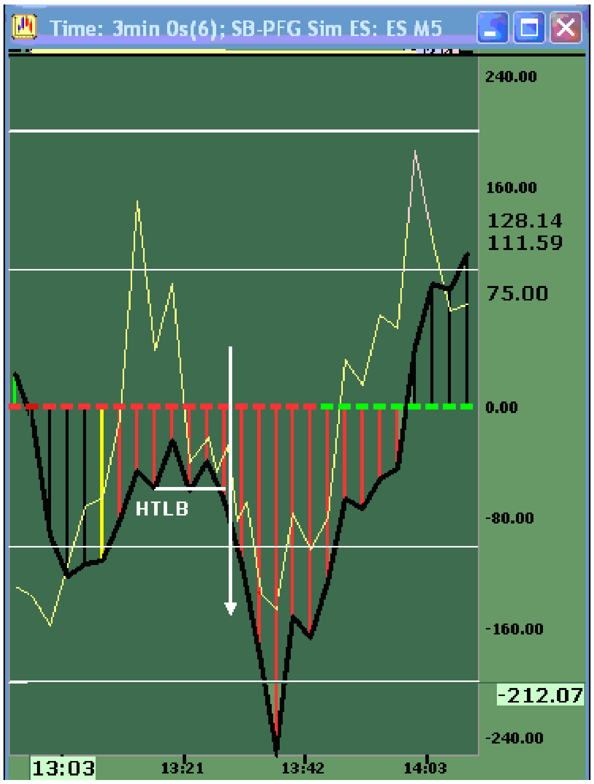


Chart 14

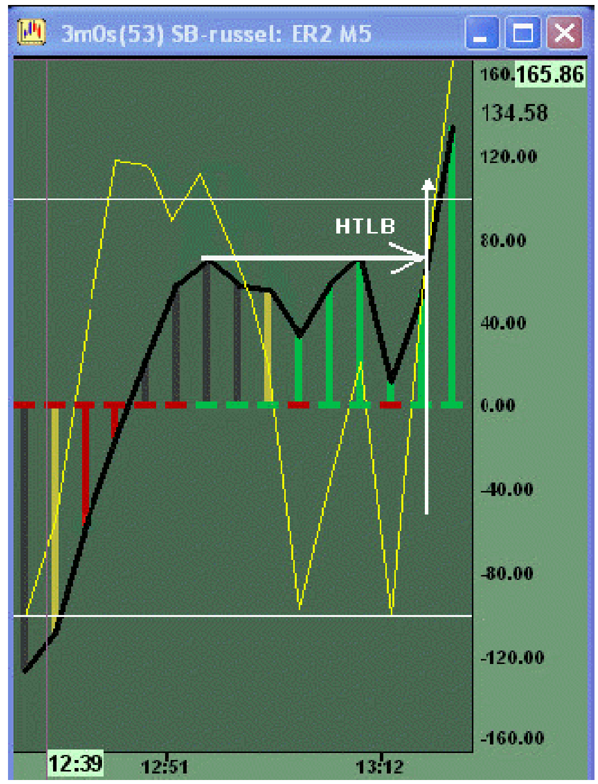


Chart 15

Chart 14 shows a **HTLB** to the downside.

Chart 15 shows a **HTLB** to the upside.

Getting Started

There are patterns one should learn to recognize when first learning **Woodie's CCI**. These are the patterns which agree with **trend** as defined earlier. There are some successful traders who use only these basic patterns. Once again, it is advisable to obtain a demo platform to watch patterns develop. You will, after a time, be able to anticipate these patterns.

After you get comfortable identifying patterns and watching them set up, it is time to learn the rules of trading **Woodie's CCI**.

Returning to the **ZLR** pattern in **Chart 8**:

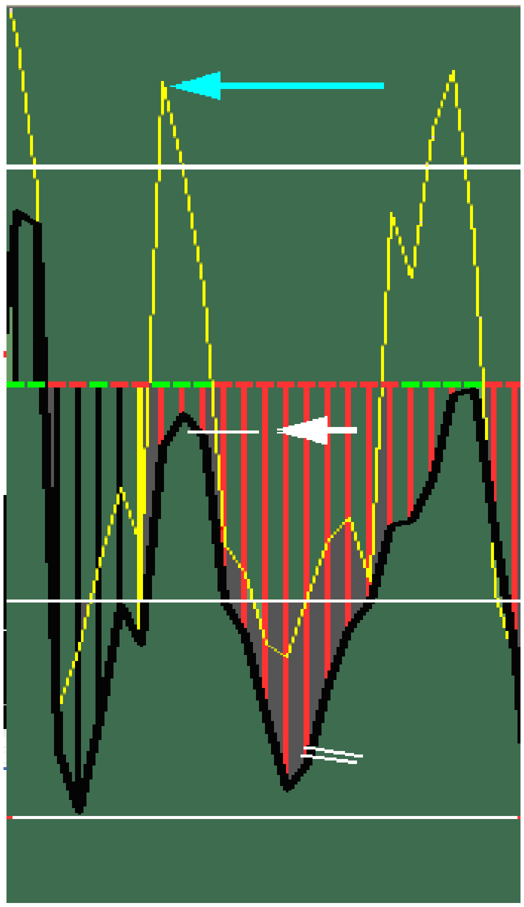


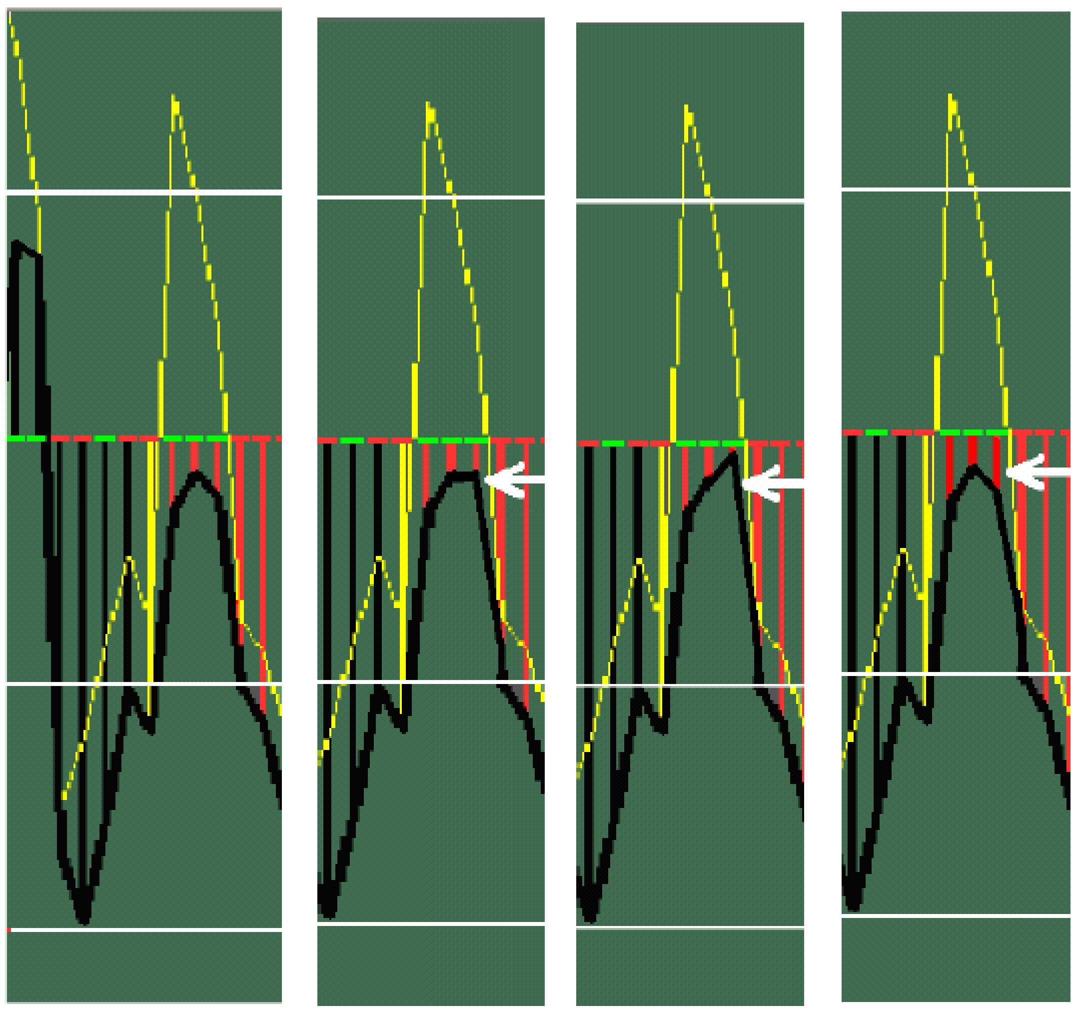
Chart 8

The time bar where the **CCI** reversed back to **trend** is the entry signal (white arrow). Here, you would sell at the market. The exit would be the bar that reversed back towards the **ZL** (see rules for exiting trades below).

Note that the blue arrow points out that the **TCCI** turned back to trend two **CCI** time bars before the **CCI**. This is a good warning that a **ZLR** is going to happen. The **TCCI** has a strong tendency to lead the **CCI**.

It should be noted that the time bar on the example has been completed. With most charting software, the charts will assume that every second is the close of a bar. That means a signal could be given, then taken away, before the time bar actually closes, based on the prices during that time bar.

Again, in Chart 8:



A **B** **C** **D**

Your screen could show all these patterns based on the last price before the time bar closes. Chart A and Chart D show the **ZLR** pattern, but Chart B and Chart C do not. This is one of the wiggle room parts of this system. What to do?

Wait until the time bars closes to enter? (Conservative)
Enter as soon as bar indicates a signal during price bar formation? (Aggressive)

Woodie would like the beginner to enter the market, if with 20 seconds left in the bar, where a pattern presents itself. That sounds good, but how do you determine t-minus 20 seconds until close of time bar?

BESTDIRECT*fast*, along with others, have timers on their charts.

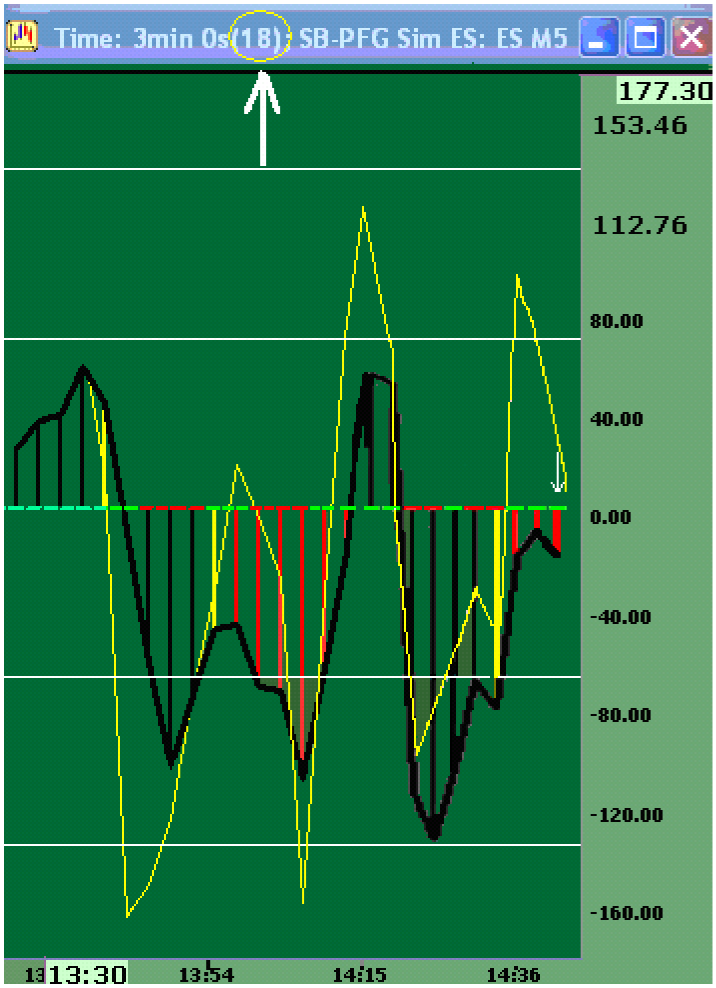


Chart 16

Chart 16 shows 18 seconds left in the time bar. All the rules are in place, so you sell the market. For the beginner, it is recommended to enter a trade at the market.

You are strongly urged to use the 20 second rule. Besides the **ZLR** pattern, the three other trade patterns will show CCI crossing the line break, and then not. They will all have the same timing issue.

When initiating any trade on any pattern, a protective stop should be place. For the beginner, it is strongly advised to use a price stop. (Note: This is the first time the word 'price' has been used).

"I place my stops one to two tics above or below the entry bar."

Rules for Exiting Trades using Woodies CCI

Woodie's exit signals are the same for all of Woodie's patterns. Below is a list of Woodie's exit signals: "The key is to find the one that meets your trading style"

- CCI hooking or going flat
- CCI Trend line break
- TCCI crossing into the **CCI**
- CCI crossing the ZL
- CCI hook from extremes (**HFE**)
- CCI not moving / no progress
- Profit about equal to hard-stop
- When the **LSMA** disagrees with the trade

(source: **Trading Woodies CCI System** by Jeff)
www.woodiescciclub.com/Trading-Woodies-CCI-System.pdf

We will be looking at only three for the beginner. The other exits are for counter-**trend** patterns and multiple entry and exits. They will not be covered in this text. Once you have digested this text and practiced the principles you can go to the chat rooms and inquire about the other exit rules.

CCI Hooking or Going Flat

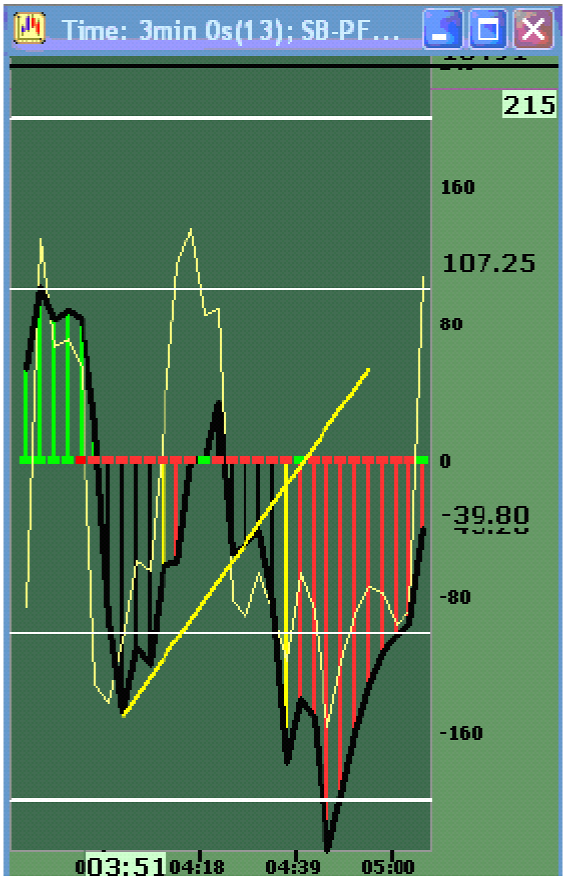


Chart 13 a

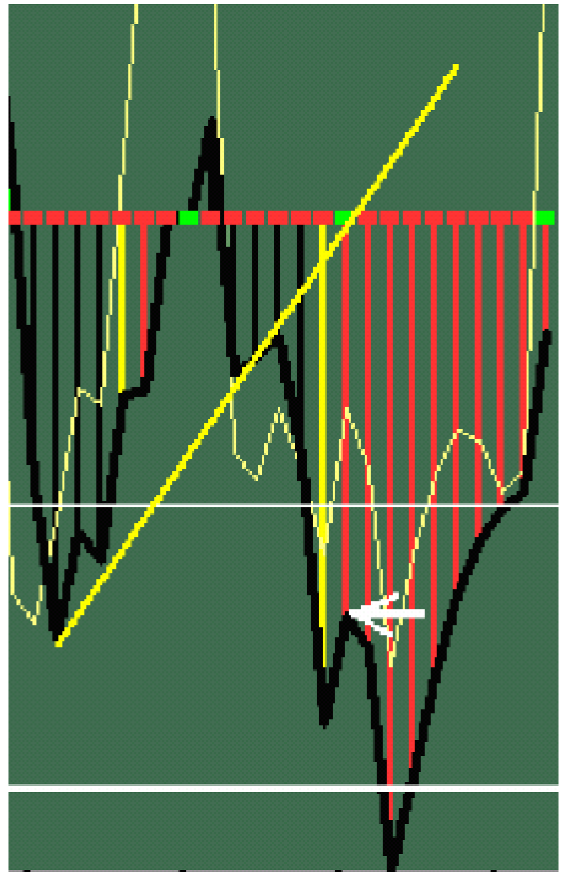


Chart 13 b

Recall, in **Chart 13**, we had a **TLB** with **trend** agreement. The entry was on the cross of the yellow line. We, at the time of entry, placed a price stop/loss order based on Woodie's rules. We stayed in the trade until the **CCI** hooked (**CCI** changed direction back to the **ZL**). Exit would be on the time bar close indicated by the white arrow (Chart 13b). We would also cancel our stop order.

TCCI crossing the CCI

Returning to Chart 10:

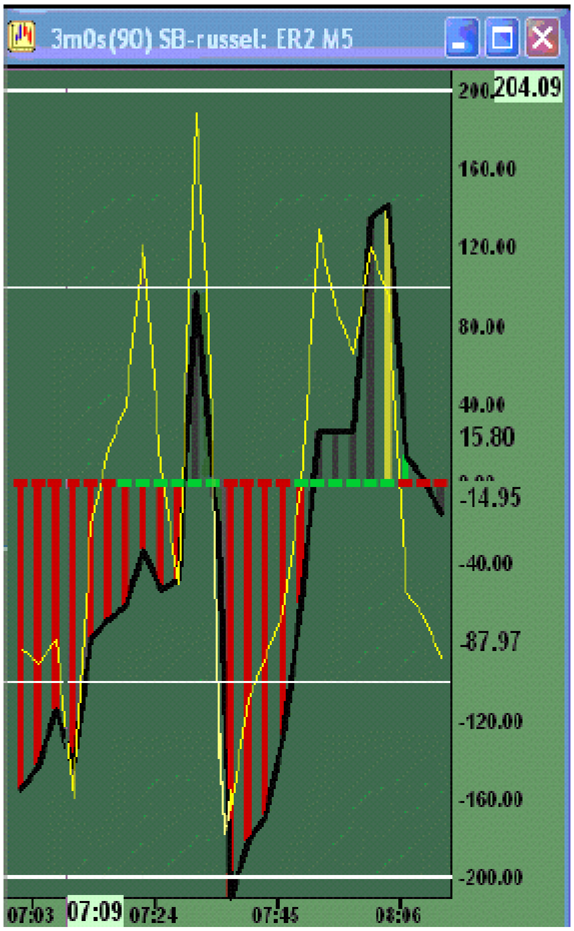


Chart 10a

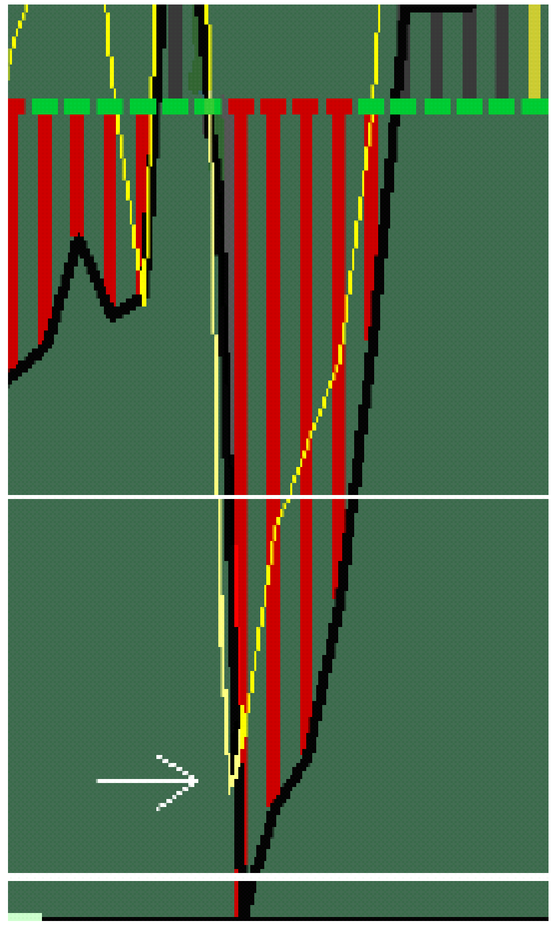


Chart 10b

Recall this Chart shows a **ZLR**. You enter the position when the **CCI** changed direction back to **trend**. Stay in the trade until one of the three exit rules comes into play. In this case, it is when the **TCCI** yellow line crosses the **CCI** black line, as we see on **Chart 10b** as indicated by the white arrow.

CCI Hook From Extremes (HFE)

This is the last exit rule that a beginner should learn. It is similar to the **CCI Hooking or Going Flat** rule. The difference is that the **CCI** is starting to change direction after it has crossed the 200/-200 lines. Here, we don't wait for the bar to close, or even 20 seconds prior to the close. We look to get out when **CCI** just hints a change of direction, long before the time-bar close. On **Chart 14b**, we go with the yellow arrow and do not wait until time bar close or even 20 seconds prior to close.

Going back to **Chart 14**:

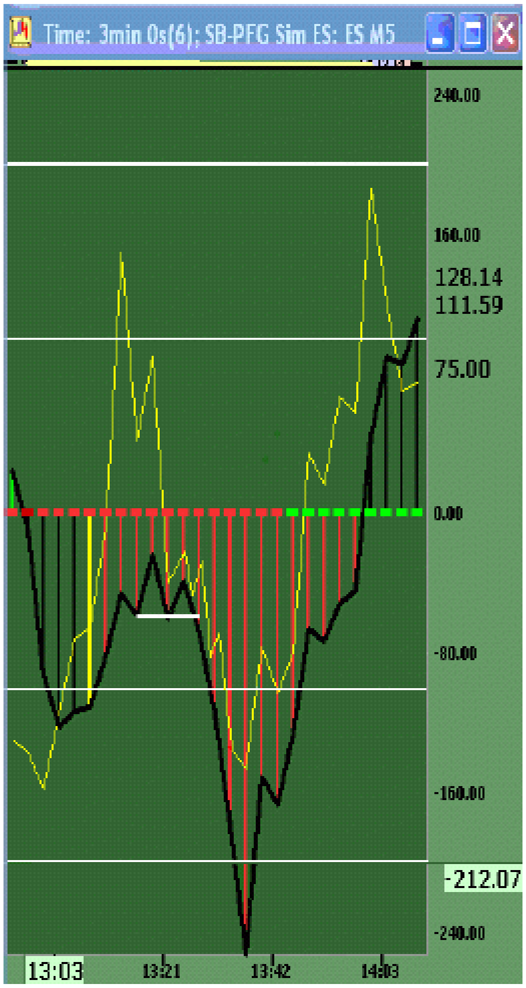


Chart 14a

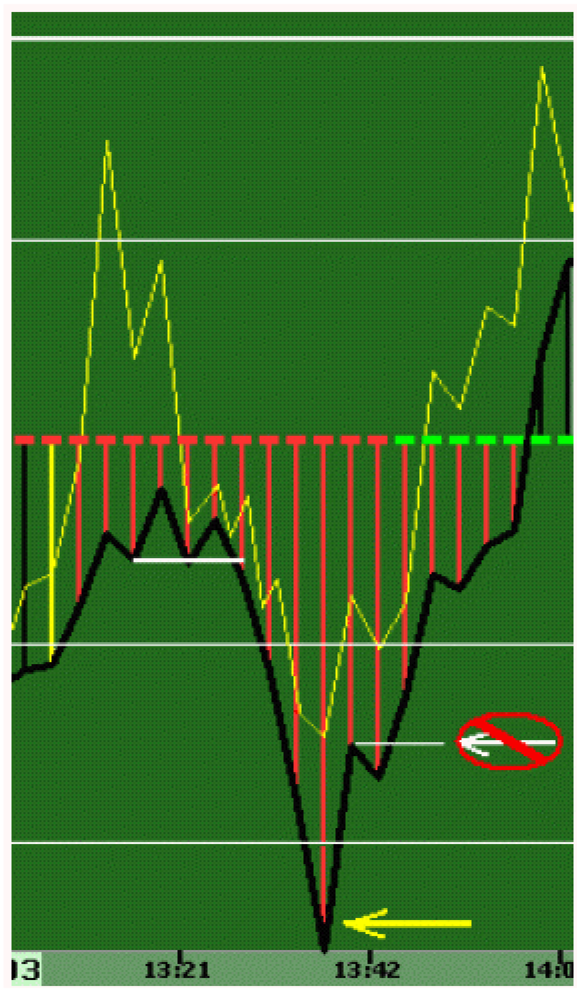


Chart14b

Woodie's CCI Patterns That are Counter-Trend or Trend -Changing Patterns:

1. The Famir Trade
2. The Vegas Trade
3. The Ghost Trade
4. Hook from Extreme

5. TLB counter-**trend**
6. HTLB counter-**trend**

<u>The Famir Trade</u>

The Famir pattern could be considered a **ZLR** pattern which immediately fails on the next or subsequent time bar(s). As with the **ZLR** pattern, Famir has the most success within the 50/-50 boundary of the **ZL**. It is a hard trade for beginners, not in seeing the pattern, but living with and feeling the trade internally. This is because the beginner has just suffered a loss on an executed **ZLR** and now has to reverse his position. This predicament can be further frustrating if the Famir trade pattern then fails, leaving the newcomer with a sense of total loss. That being said, the Famir trade pattern is very successful and popular among Woodie's system followers. Here, the **LSMA** comes into play. If the **LSMA** is in agreement with the Famir, it gives more confidence to the trade. The **LSMA** shows agreement-buy color; red for going lower and green for going higher. "I won't take them if the **LSMA** is not in agreement"

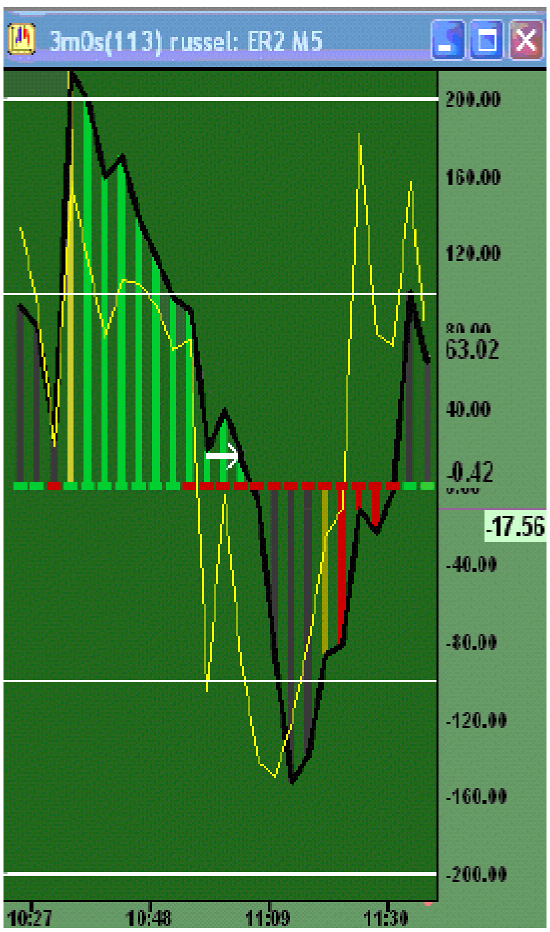


Chart 17

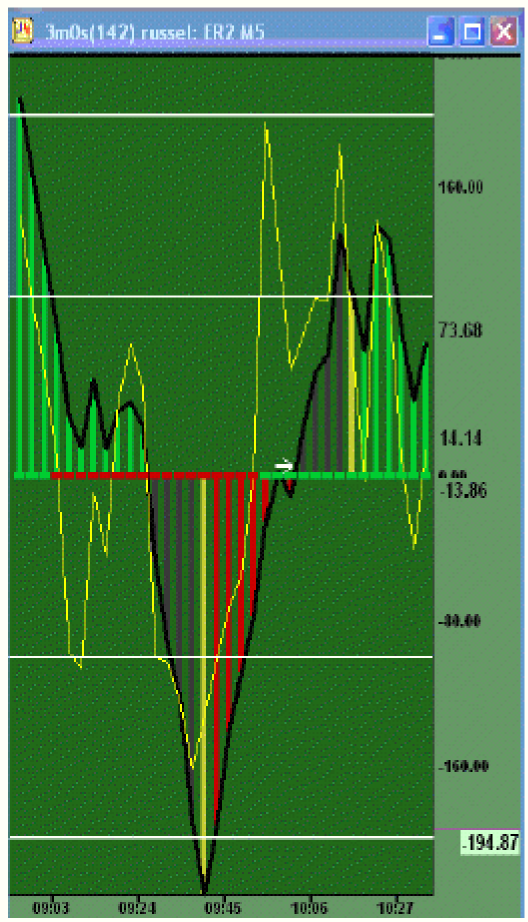


Chart 18

Chart 17 shows a **Famir** to the down side. Note that the **LSMA** is red during the **ZLR**. When the Famir pattern occurs, the **LSMA** is red, in agreement with the patterns trade signal. Note also that the creation of the Famir took more than one time bar.

Chart 18 shows a Famir right at the ZL, with a one-time bar failure. The LSMA is green and in agreement with the **Famir** trade signal.

<u>The Vegas Trade</u>

The Vegas Trade (**VT**) is another counter-trend trade. The pattern has a few key elements. First, the **CCI** line must have extended to or past the 200/-200 line (gone to extremes) in agreement with the trend. It then should reverse back towards the **ZL** at least through the 100/-100 line. On this retracing back to the **ZL**, the **CCI** line then forms a rounding, or sideways, pattern (minimum of three time-bars) and then reverses back to trend. This rounding looks like a dome under the **ZL**, and a cup above the **ZL**. The subsequent return to **trend** is called "the Johnny-come-lately guys". The pattern is in effect when the **CCI** line reverses back again towards the **ZL** and exceeds the rounding swing low/high.

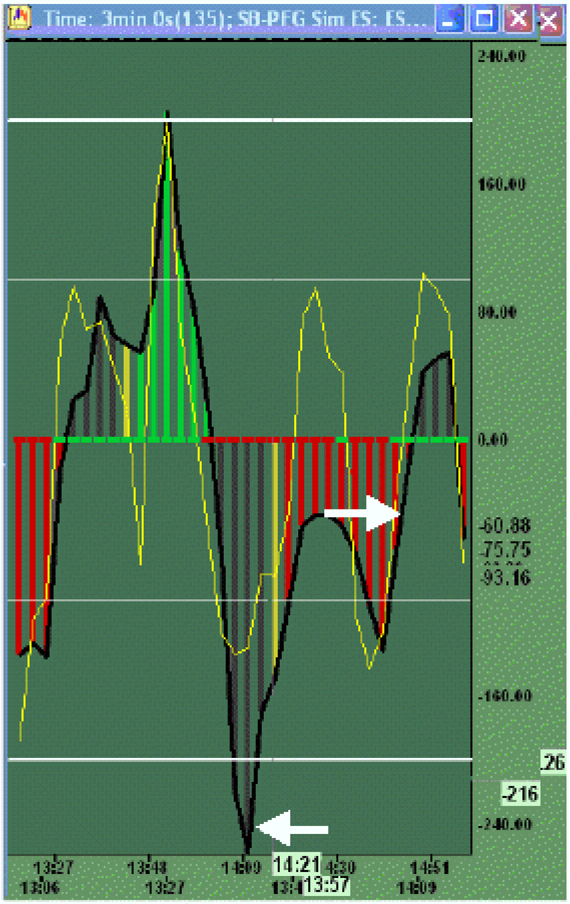


Chart 19

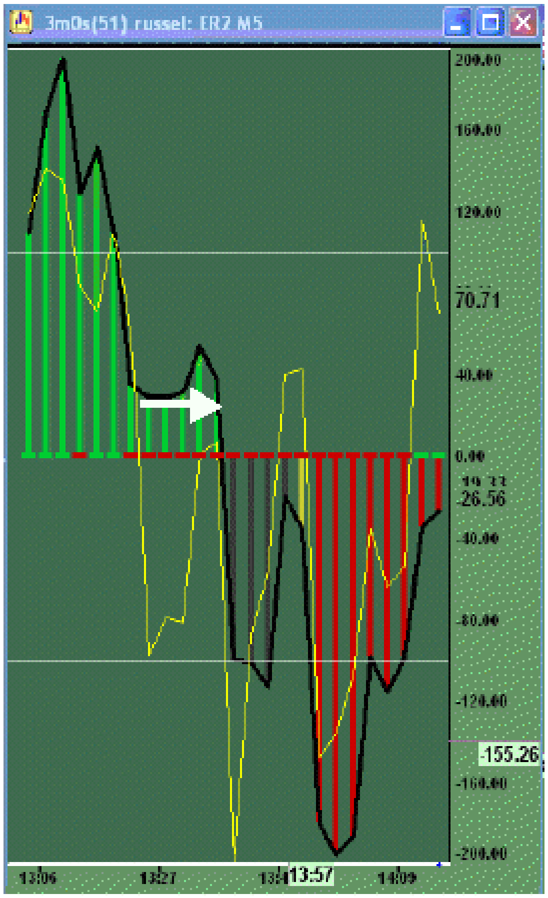


Chart 20

Chart 19 shows a **VT** to the upside.

Chart 20 shows a **VT** to the downside.

The Ghost Trade

The Ghost trade is a counter-**trend** trade which derives its name from the pattern created. It includes three peaks of the **CCI** which are in agreement with the **trend**. For a beginner, it is necessary that the middle peak be larger than the first and the third. To Edwards and Magee fans, this pattern looks like a head and shoulders, but is not limited to all of their rules. After the first and second peaks/valleys, valleys/peaks were created. These valleys/peaks are where the **CCI** line reverses back to **trend**. We draw a line break from the valleys/peaks and extend this line into the future. When this line is violated, coming off the third peak/valley, a counter-trend trade is signaled. It should be noted that the line-break (neckline if you prefer) can be horizontal or slant towards or away from the **ZL**. Woodie believes that the line slanting towards the **ZL** is favored, but all work well.

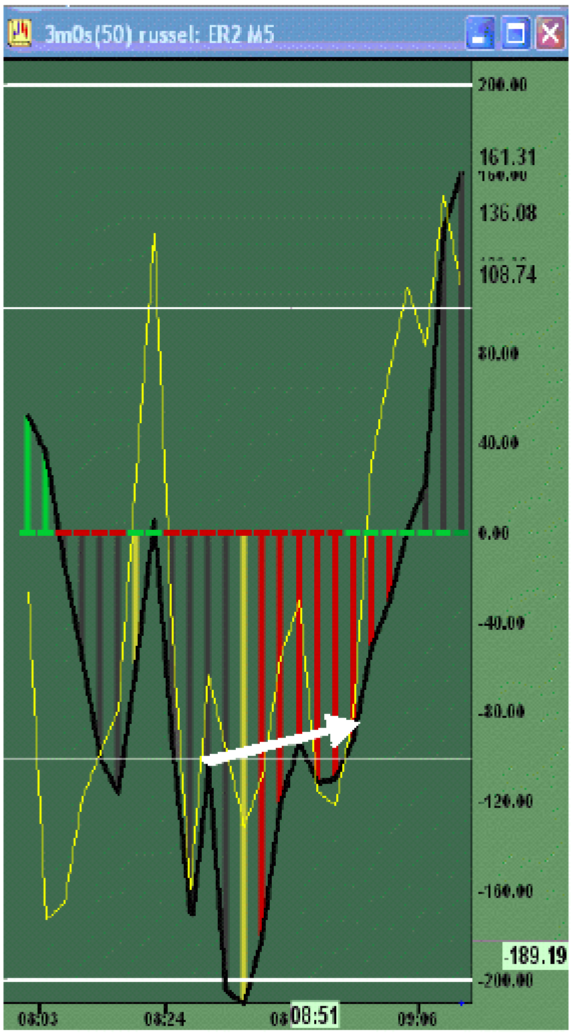


Chart 21

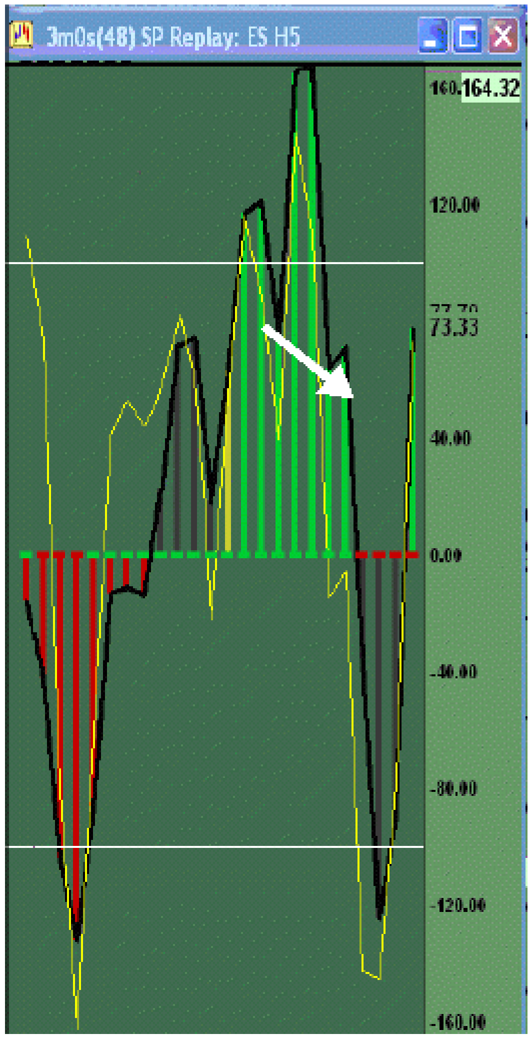


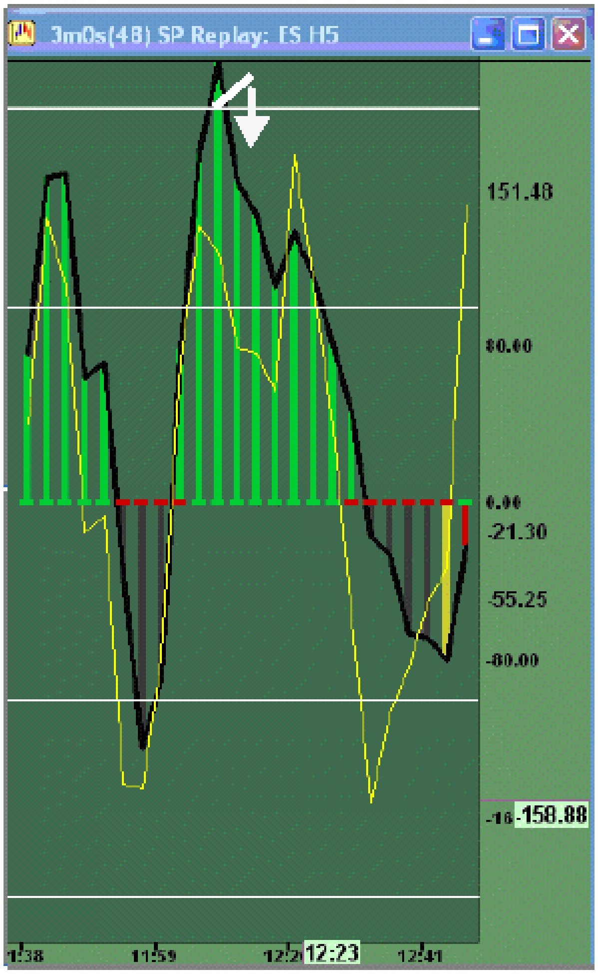
Chart 22

Chart 21 shows **GHOST** to the upside.

Chart 22 shows **GHOST** to the downside.

Hook from Extreme

This trade pattern is the easiest to identify. We discussed this pattern earlier as one of the exit rules. As a counter-**trend** trade, it materializes when the **CCI** line exceeds the 200/- 200 line than reverses back against the trend towards the **ZL**. This is a very volatile trade. To Woodie, it is the least-favorite trade pattern. So, **CAUTION** is advised. For the beginner, it is advised not to trade it. It can be used a pre-signal for other countertrend patterns, such as the **TLB** and **HTL** discussed earlier, and the **TLB** counter-trend trade pattern which is introduced next.



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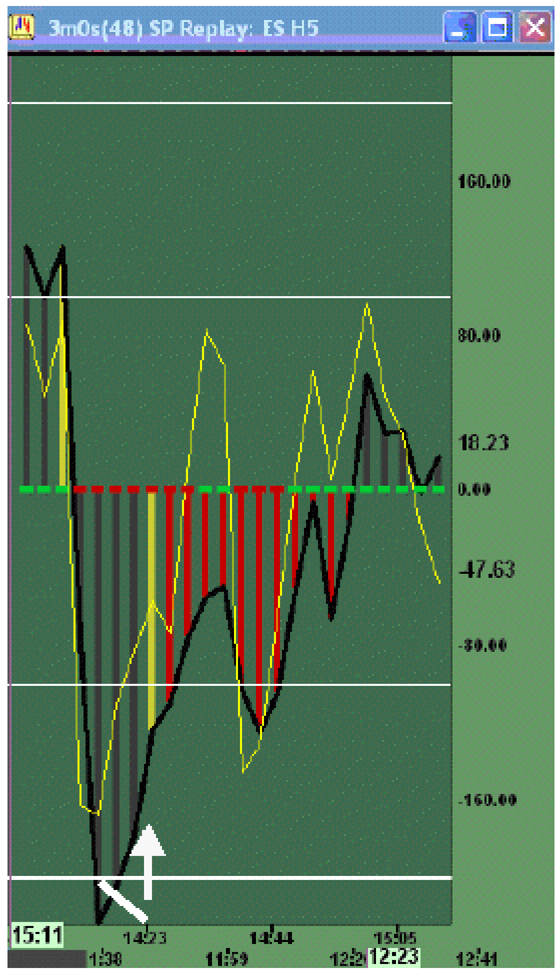

Chart 24

Chart 23 shows **HFE** to the downside.

Chart 24 shows **HFE** to the upside.

TLB counter-trend

The Trend Line Break counter-**trend** is a pattern that can be constructed by using **CCI** or **TCCI** peaks/valleys. The line break is drawn from upside or downside peaks/valleys. As oppose to trendlines in price chart terminology and practice, with **Woodie's CCI** we are only looking for violations, or crossing, of the drawn line by the **CCI**. The line should not be considered support or resistance. When a violation of the line occurs, a trade is signaled.

In both examples below, both **TLB** counter-**trend** were preceded by an **HFE**. This should be a sign of a stronger signal. Also, **TCCI** was used in the construction of both. Some traders prefer to use trend lines from the **CCI** line only, but both are acceptable.

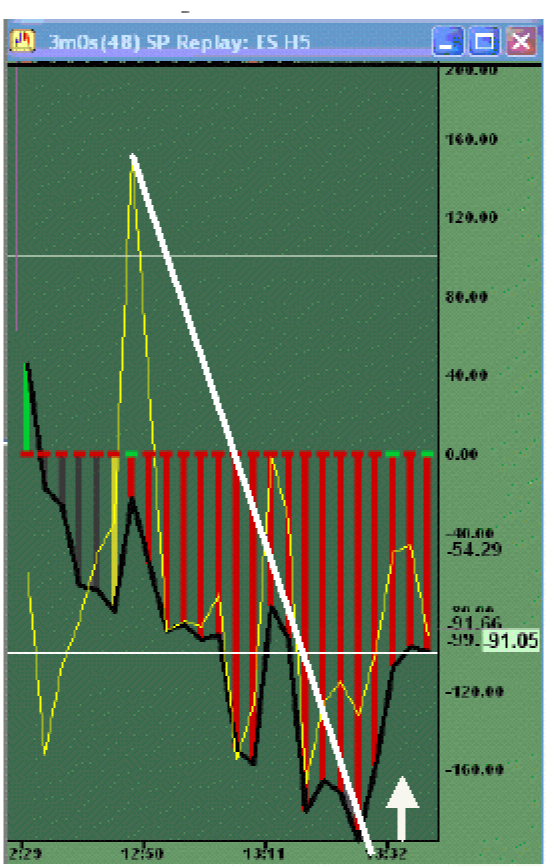

Chart 25

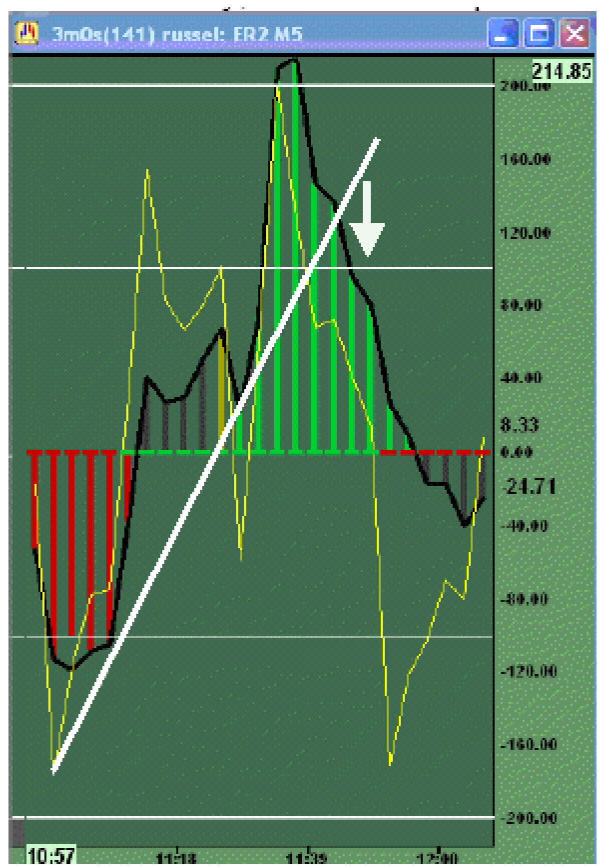

Chart 26

Chart 25 shows trade to the upside

Chart 26 shows trade to the downside.

HTLB counter-trend

This is another line-break pattern. This pattern is constructed by looking at either **TCCI**, **CCI**, or in combination, where valleys/peaks (or internal bumps) line up horizontally to form a line-break. Once this line is violated a trade is signaled. It is best to have these horizontal lines form within the 100/-100 lines. This signal could also occur in conjunction with a **HFE** or **TLB** pattern.

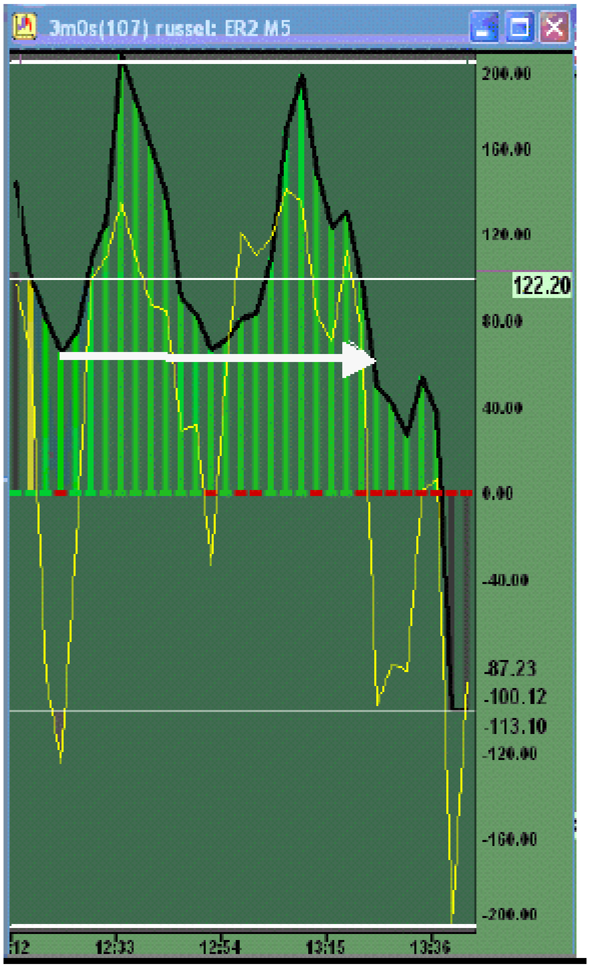

Chart 27

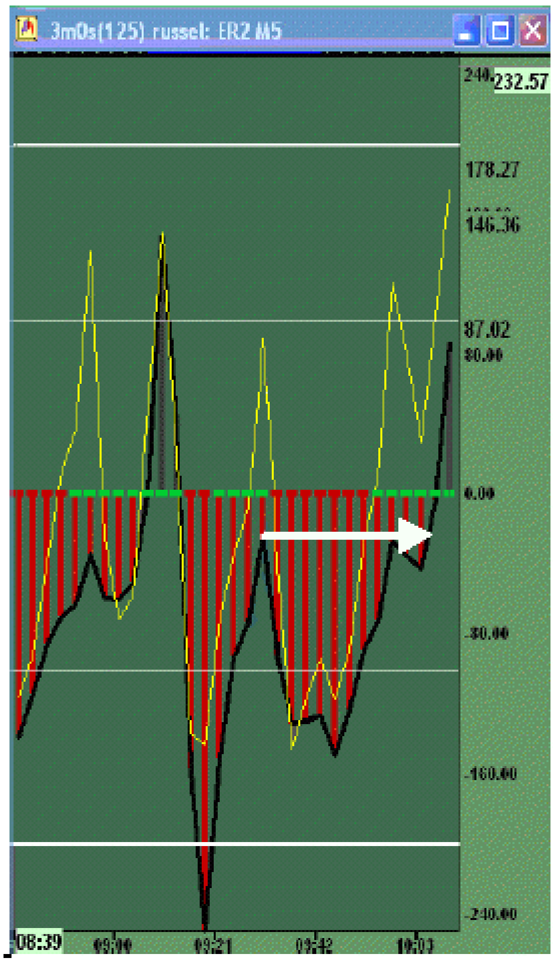

Chart 28

Chart 27 shows trade to the downside.

Chart 28 shows trade to the upside.

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