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.
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 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 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.

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 trend patterns first.

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.

**Trend Agreement Trade Patterns**

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* 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 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."

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**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 the 100/-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** 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 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:

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:

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\textit{fast}, along with others, have timers on their charts.

\begin{center}
\includegraphics[width=\textwidth]{chart.png}
\end{center}

\textbf{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 \textbf{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)

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.
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:

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:

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

The Famir Trade

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 17](image)

Chart 18

![Chart 18](image)

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.

**The Vegas Trade**

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 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 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 countetrend patterns, such as the TLB and HTL discussed earlier, and the TLB counter-trend trade pattern which is introduced next.

**Chart 23**

*Chart 23 shows HFE to the downside.*

**Chart 24**

*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** 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 shows trade to the downside.

Chart 28 shows trade to the upside.
BESTDIRECT\textit{fast}

Free 30-Day Simulator Setup Instructions. This simulator gives full unrestricted access to Woodie's charts with accurate historical and real-time tick data.

TradeMaven and PFG worked together to provide the BESTDIRECT\textit{fast} solution for traders. This includes everything you need to analyze and trade \textit{Woodie's CCI}.

Demo Registration & Software installation:
Go to \url{www.pfgkelly.com/fast.asp} and register for a free demo.

Call Neil Rogers at (800)546-9423 or (312)775-3543 \url{nrogers@pfmail.com}
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