

Brooky Auto RSI Study Overview

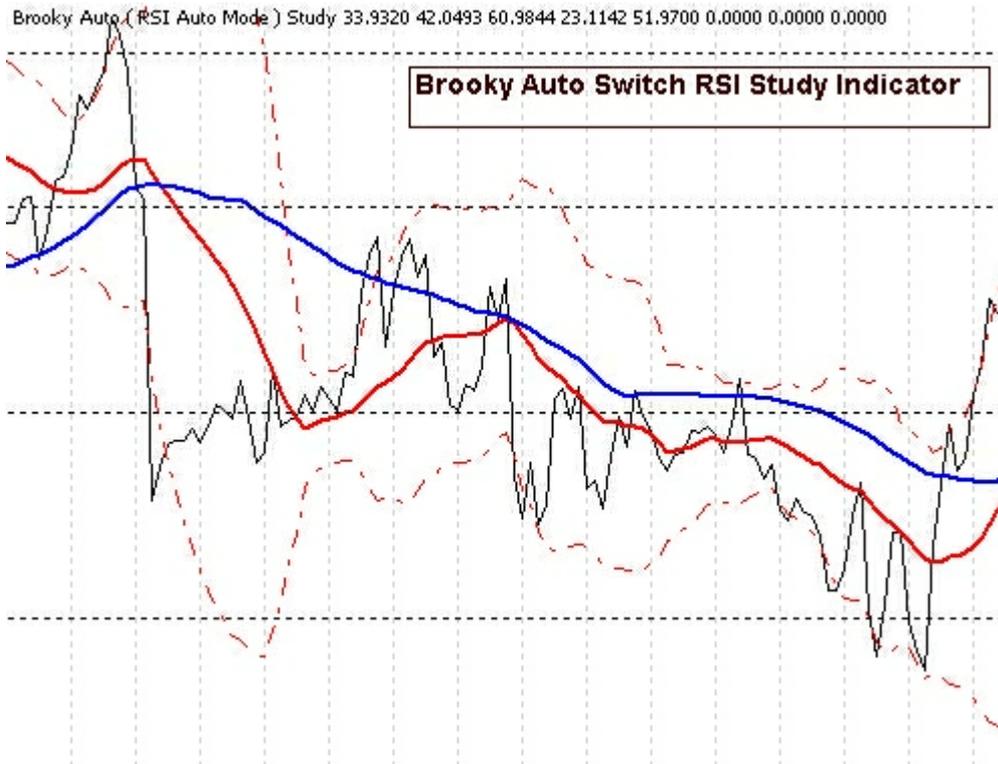


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1 Introduction

The **Brooky Auto Mode Switching RSI** indicator has been designed for the **MT4 Metatrader Platform**.

It has been compiled on Meta Editor 5.00 Build 887 and will function on MetaTrader Version 4.00 Build 600 and later builds.

Selecting Help and then About in your Metatrader Platform will show you the build you currently have as below.

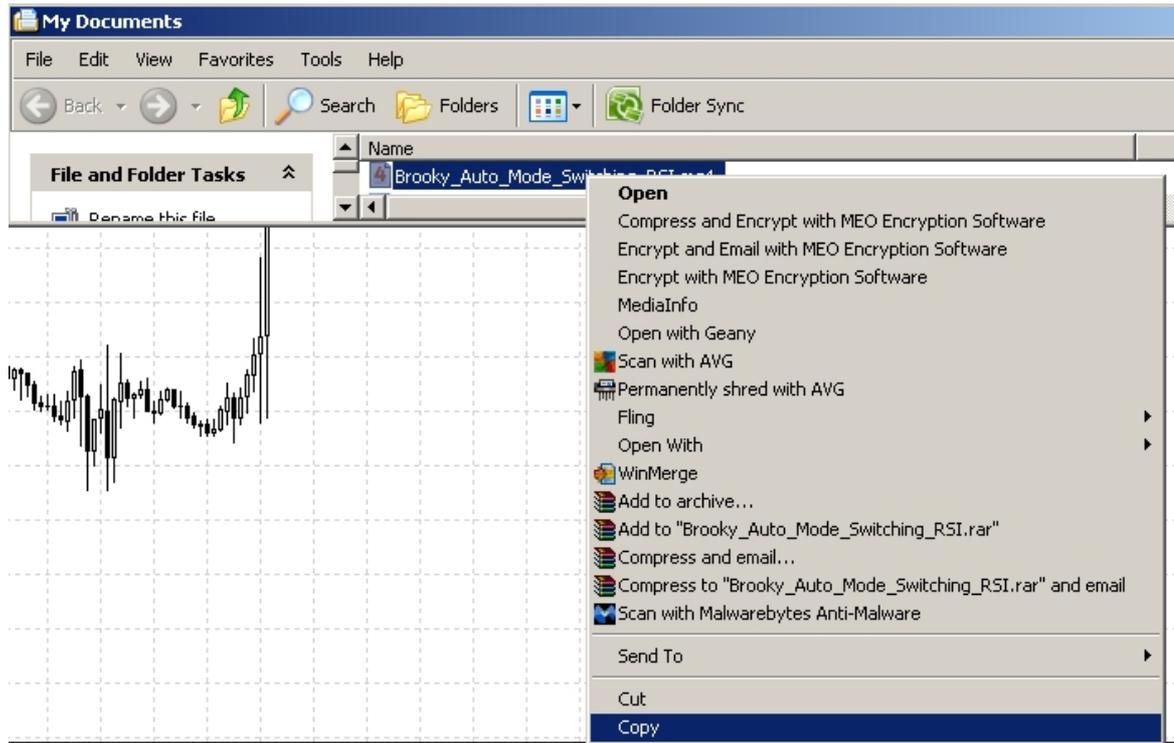


Will show Version Numbers.

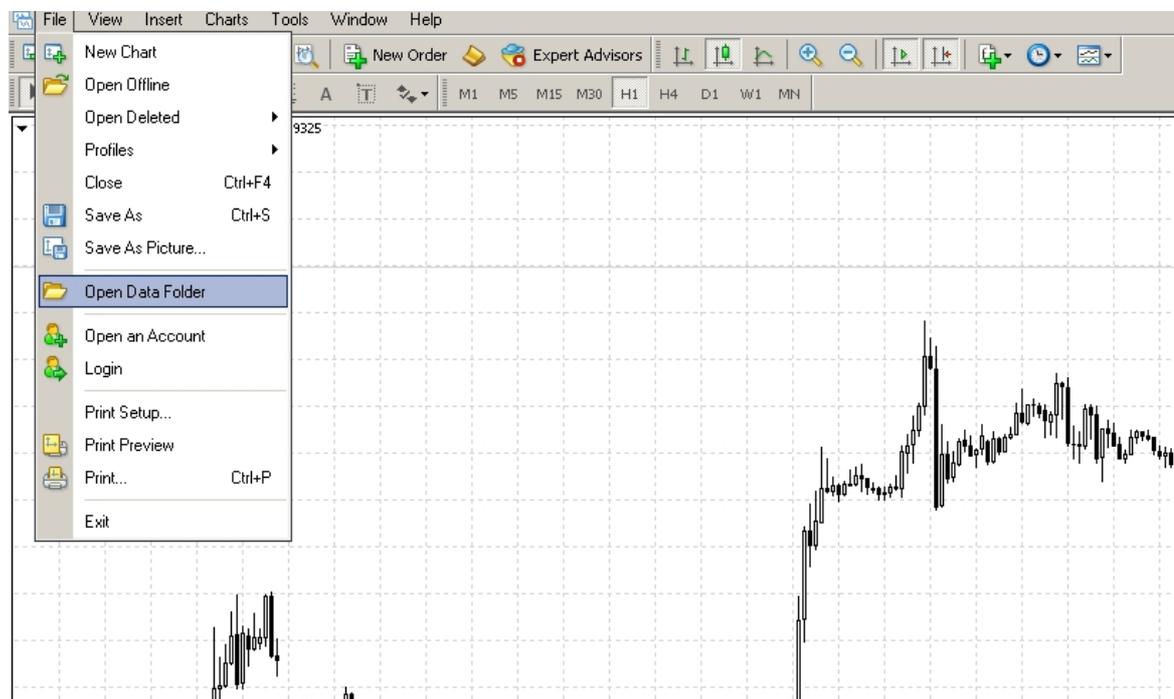
Version: 4.00 Build 610
(14 Feb 2014)

1.1 Installation

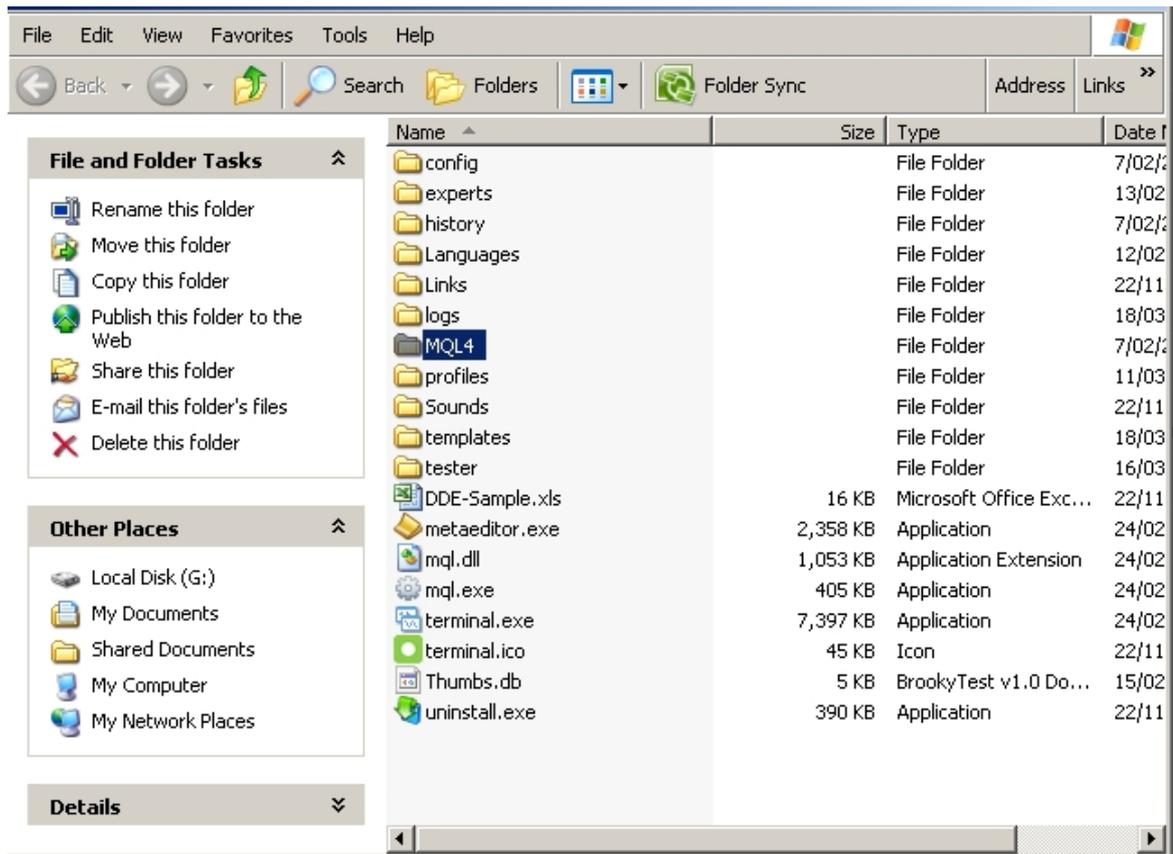
Step 1 – Go to the location you saved the **Brooky_Auto_Mode_Switching_RSI.ex4** file. Right click the file and select copy from the drop down menu similar to below.



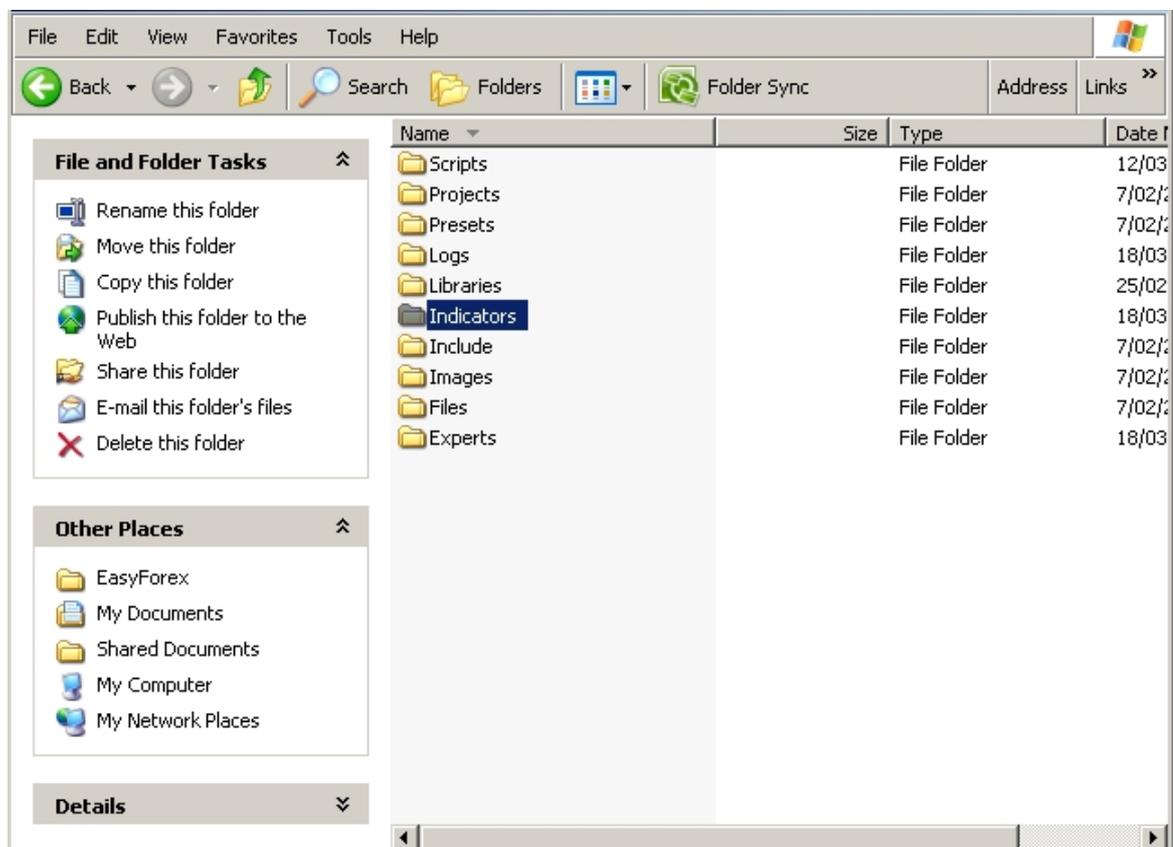
Step 2 – Open your Metatrader terminal then Go to **File** → **Open Data Folder**



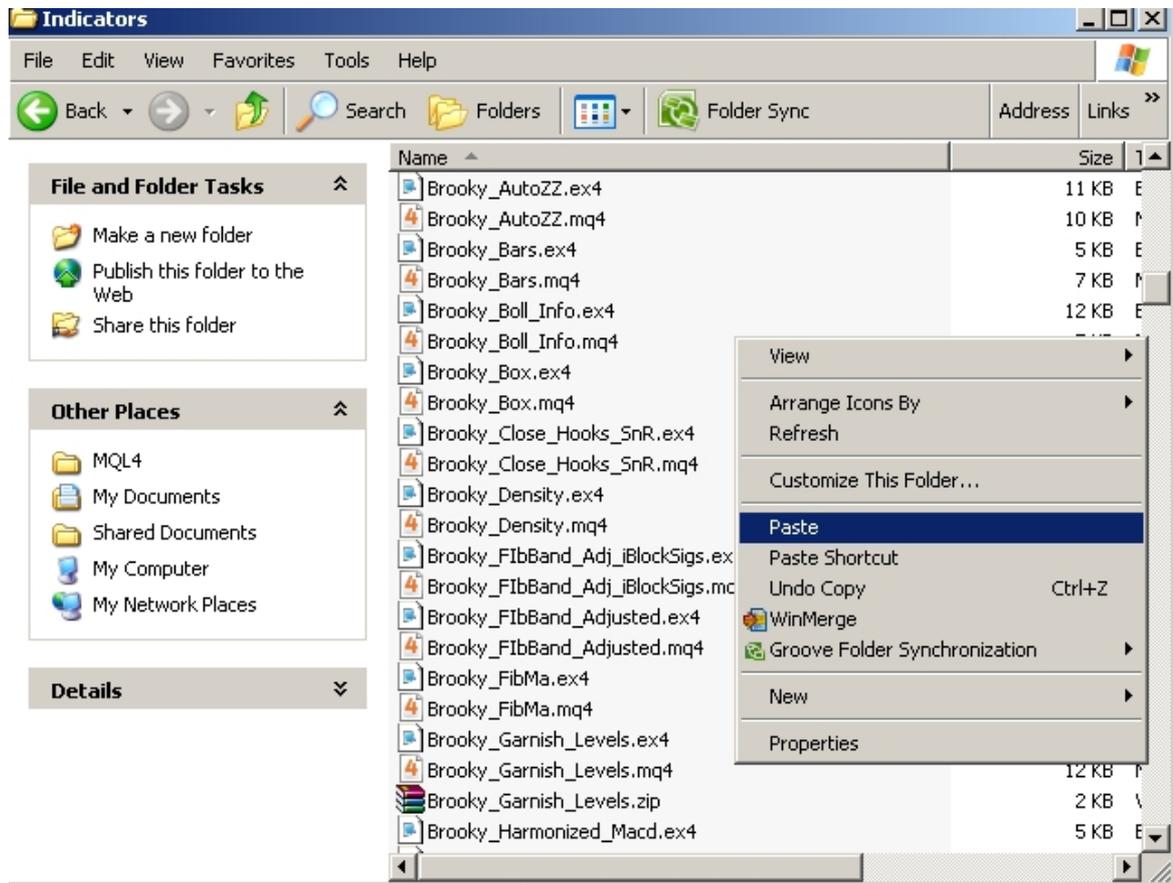
Step 3 – Double click on **MQL4**



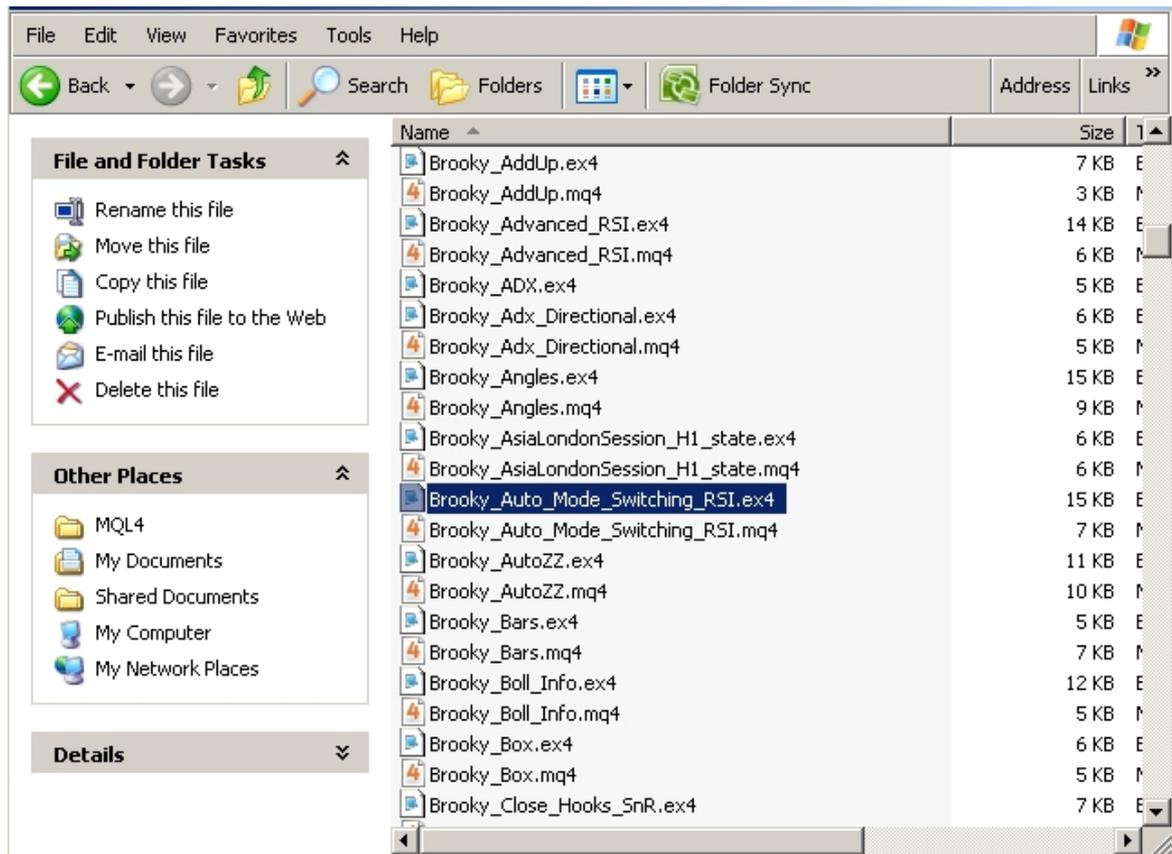
Step 4 – Double click on Indicators



Step 5 – Right click in empty space in the Indicators folder and select **Paste** to place the Brooky indicator into this folder.



Step 6 (Last) – Confirm that the indicator did indeed paste correctly, restart the Metatrader terminal and it will be available to use.



1.2 Options

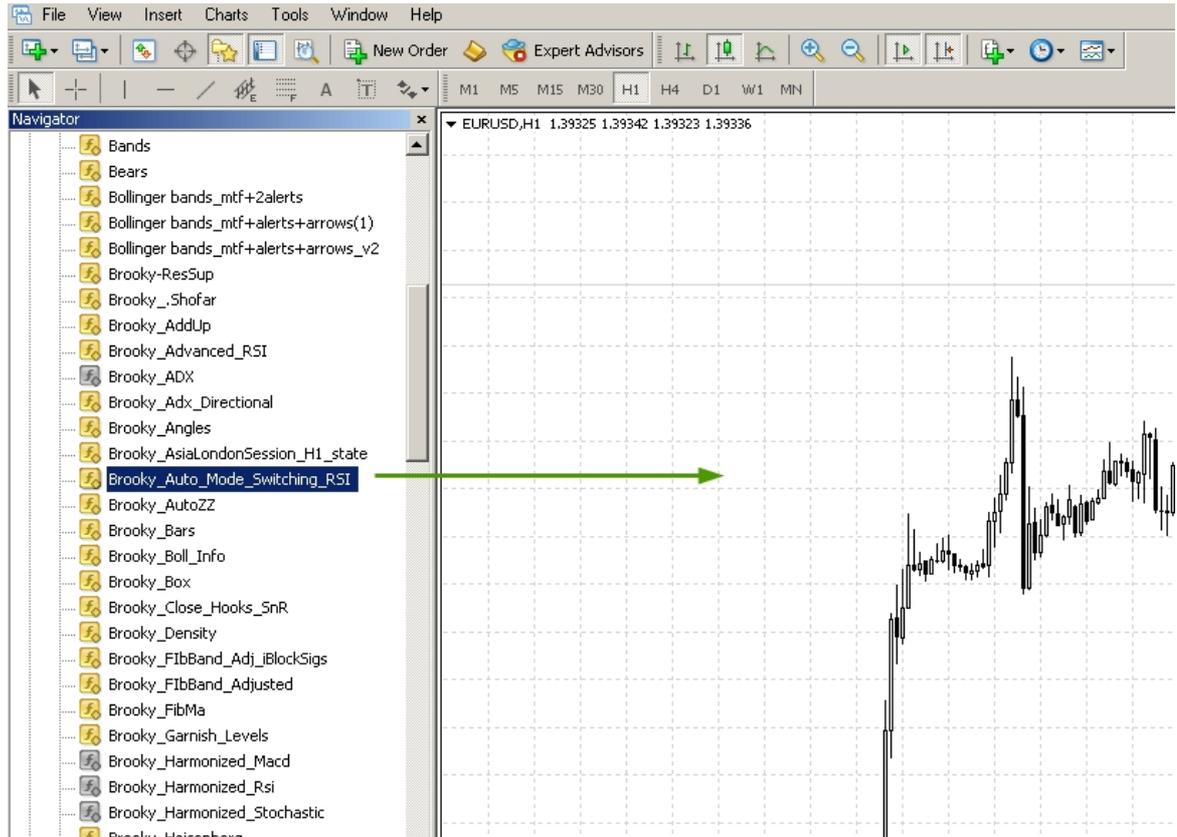
The Indicator allows many User Options to be set to tailor its behavior and appearance to best suit your desires.

Step 1 - Open a chart then select the indicator from the navigator pane of MT4 and drag it onto the chart.

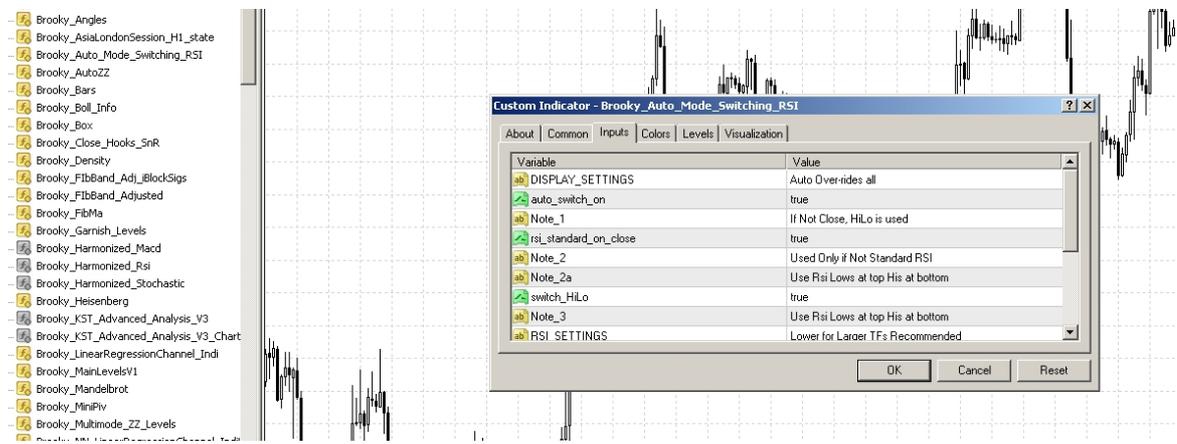
Doing so will open up the Options pane. You can elect to accept the defaults by selecting OK or change settings before selecting OK.

Selecting OK will present the indicator in a sub window under the chart.

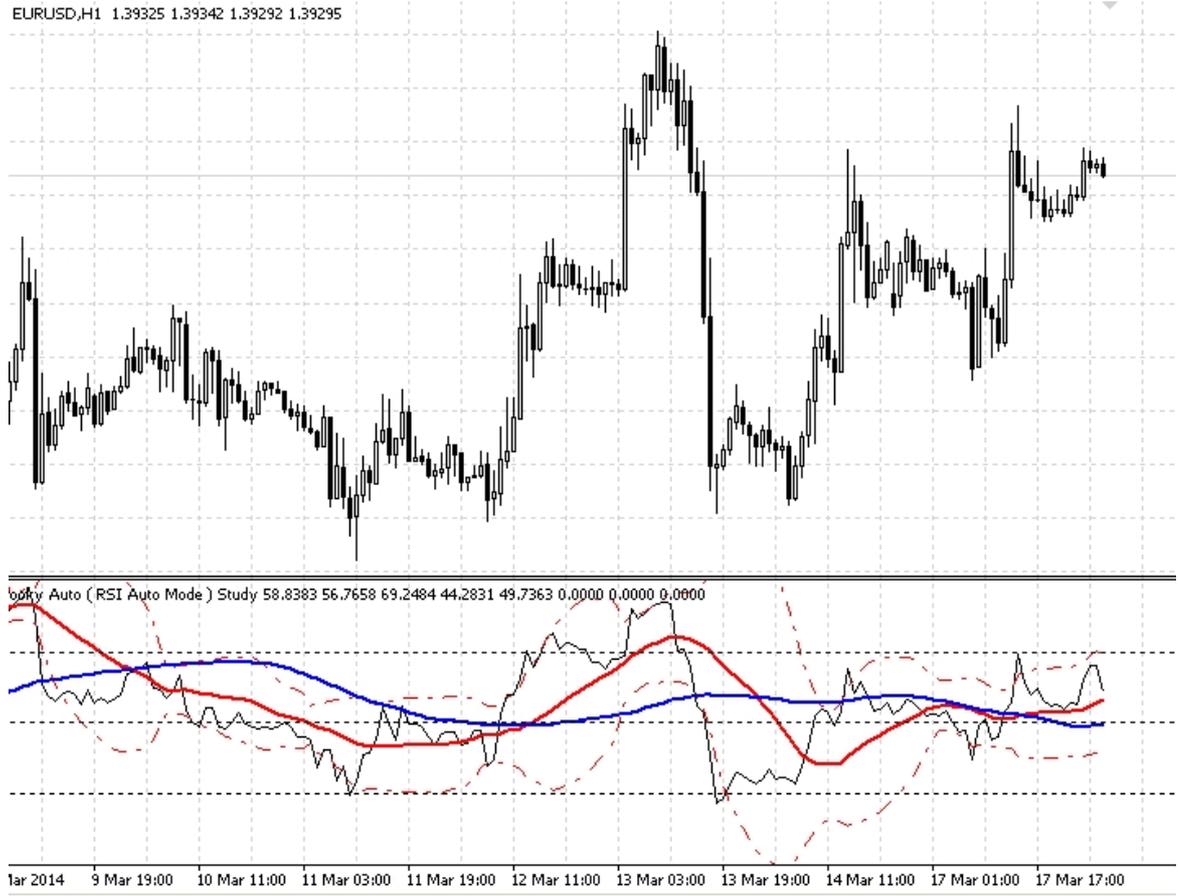
A



B

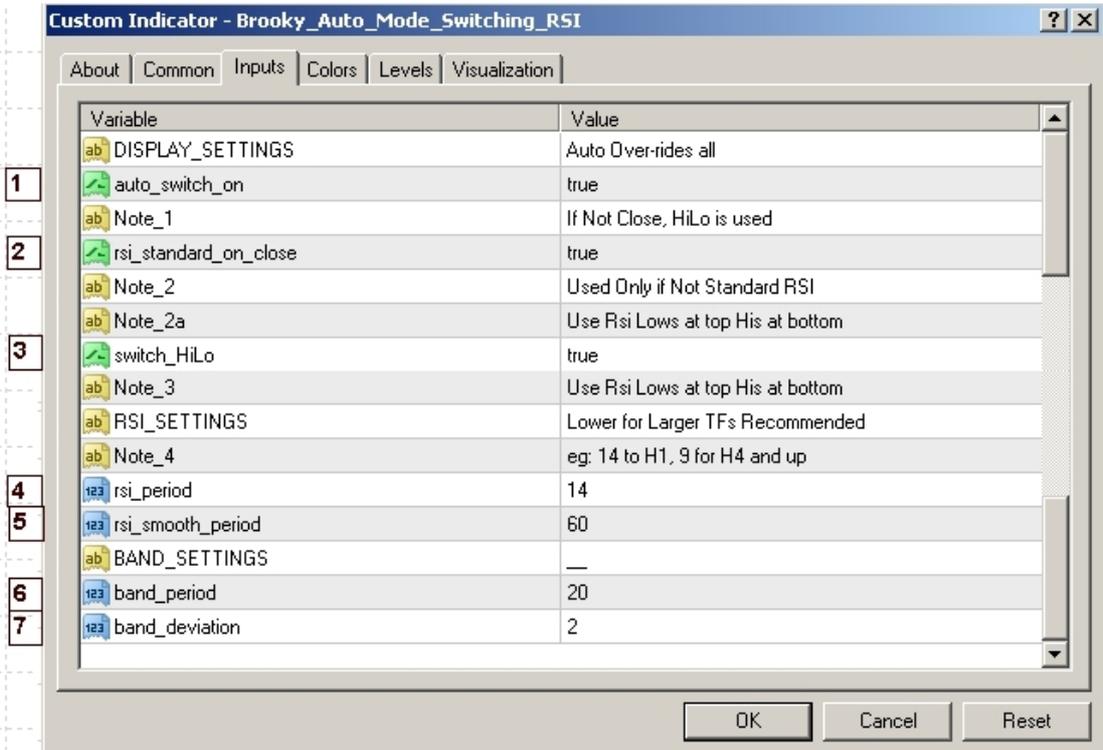


C



1.2.1 Option Details

The Options Available are explained below.



1 - auto_switch_on

- The indicator logic is such that the High, Low or Close Price modes are able to be selected to enhance the plot nearer to extremes.
- This switch if TRUE, will allow the indicator to decide which Price Mode to use depending on the level of the RSI at any given point in time.
- IF True, this switch *over rides* settings at option 2 and 3.
- It is set true by default.

2 - rsi_standard_on_close

- Option 1 must be False for this option to have an effect.
- If True, then the standard MT4 RSI on Price Close will plot.
- If False, the plot will use Low prices if under 50 and High prices if over 50 unless option 3 is True where High prices are used if RSI under 50 and Low if over.

3 - switch_HiLo

- Option 1 must be False for this option to have an effect.
- Option 2 must be False for this option to have an effect.
- If False, the plot will use Low prices if under 50 and High prices if over 50 unless option 3 is True where High prices are used if RSI under 50 and Low if over.
- If True, High prices are used if RSI under 50 and Low Price if over 50.

4 - rsi_period

- The main period of RSI against which all other plots are calculated.

5 - rsi_smooth_period

- A Simple Moving Average of the main RSI value.

6 - band_period

- The moving average period applied to the RSI data upon which the Bollinger Bands are calculated.

7 - band_deviation

- The amount of standard deviations of the main Bollinger Band moving average applied to the RSI data..

2 Logic

The following Topics discuss the logic and display characteristics of both the RSI and Brooky Auto Switch RSI.

2.1 RSI Overview

The basis of the Brooky indicator is the RSI.

To understand the effect of the options available, it is important to understand what the standard RSI calculations plot by default.

The “Relative Strength Index” Oscillator or “RSI”, was created by J. Welles Wilder to measure the relative changes that occur between higher and lower closing prices. It is generally used to determine overbought and oversold conditions.

Being an Oscillator, its values fluctuate between zero and 100.

Typically the “30” and “70” values act as warning signals of a possible reversal or consolidation phase in a trend.

Values over “85” are interpreted as a strong overbought condition, or “selling” signal, and below “15”, a strong oversold condition, or “buying” signal.

Typical periods used are 14, 12 and 9.

Moving averages of the RSI and trend lines drawn on RSI values are typical trader additions.

Because of the way RSI calculates, it is a favored indicator for traders to see divergence which is often a Leading indication of future price movement.

Divergence near the extreme values are regarded as more important than center values around 50.

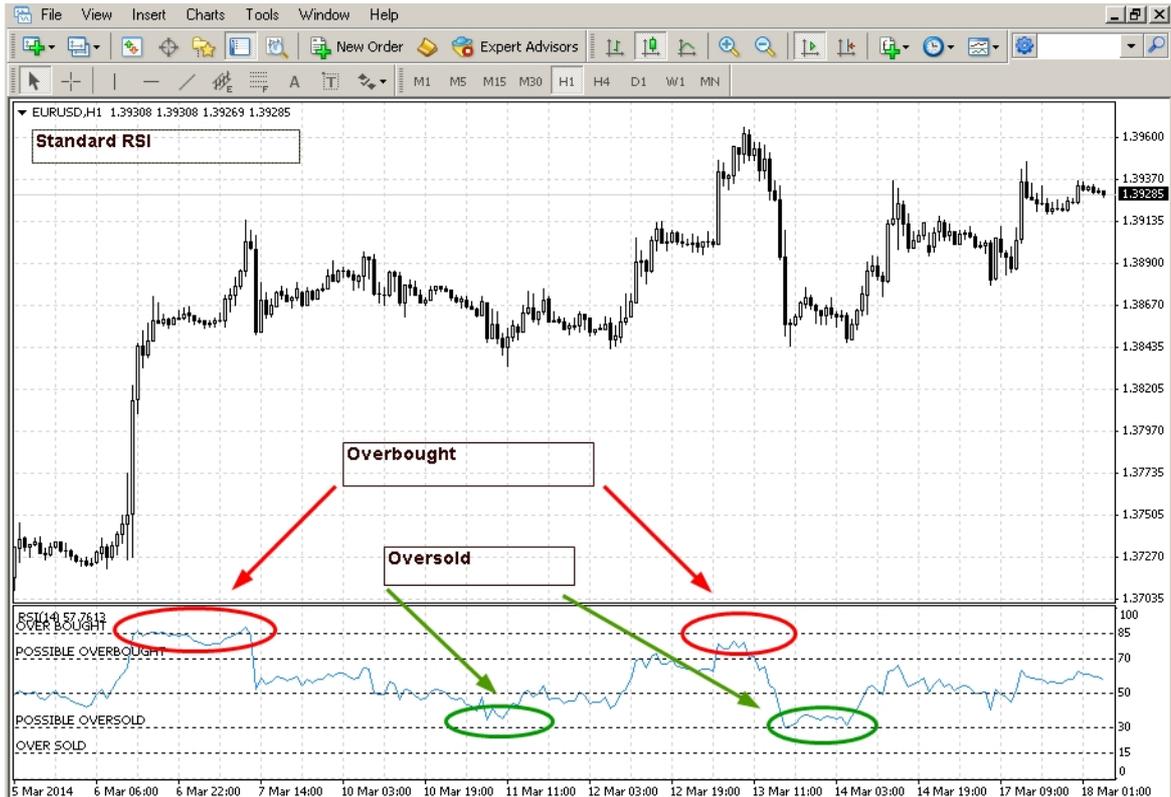
The standard MT4 RSI Formula is as below.

A certain amount of bars (X) to calculate is selected (RSI period);

$RS = (\text{Average of "X" periods up closes} / \text{Average of "X" periods down closes});$

$RSI = 100 - [100 / (1 + RS)]$

A typical Period 14 plot on H1 EURUSD looks as below.



2.2 Comparison To Standard RSI

Since RSI calculates by default the relative changes that occur between higher and lower closing prices, it is also possible to see the relative changes that occur between higher and lower LOW prices, and the relative changes that occur between higher and lower HIGH prices.

It is around the extremes that it becomes useful to use the Low and High prices as it allows the RSI to follow price closer than using just close values while still retaining its assistance in detecting Divergence.

The chart below compares the standard RSI and the equivalent period with Auto RSI using a variety of High, Low and Close price modes to plot.

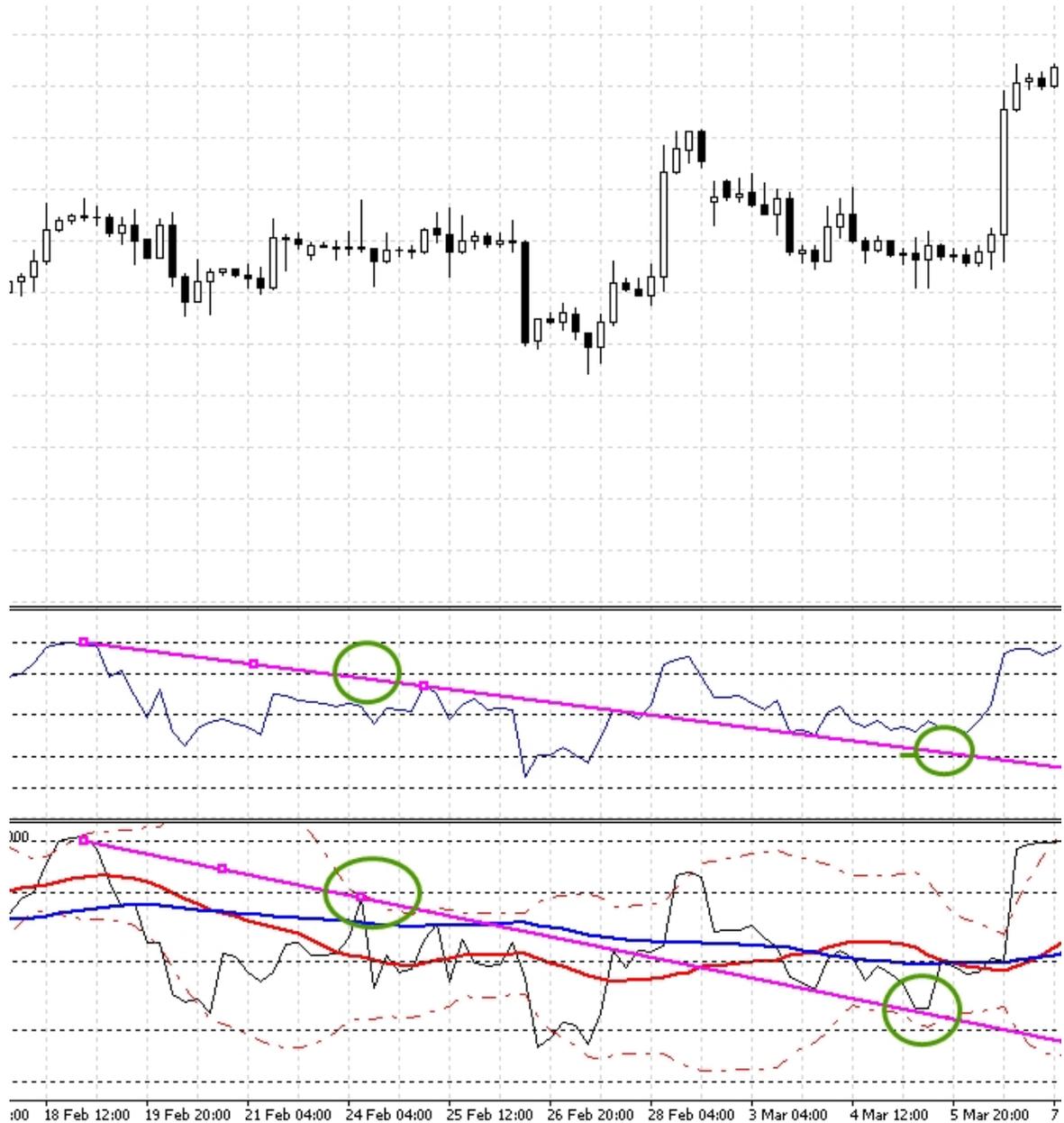
It can be seen that in this example that the Auto by changing its mode to plot Lows and not closes as it got closer to the overbought areas followed price a little longer and allowed a more accurate appraisal of where the actual top of the move may be.

The standard RSI showed divergence very early and you can see that the Auto RSI in fact plots very similar in the center then starts to extend a little lower as that move heads into oversold areas.

These plot areas around the extremes are the major difference between the Standard and Brooky Auto Switch RSI allowing cleaner price observations most of the time.



The example below shows how there are points along trend lines that appear and are useful when the Auto mode is used. While standard RSI hides these points in its plot, they become insightful when looking for RSI support and resistance.



2.3 Bands and MA Overview

Bands: The bands are calculated as a number of standard deviations of the simple moving average of the RSI data.

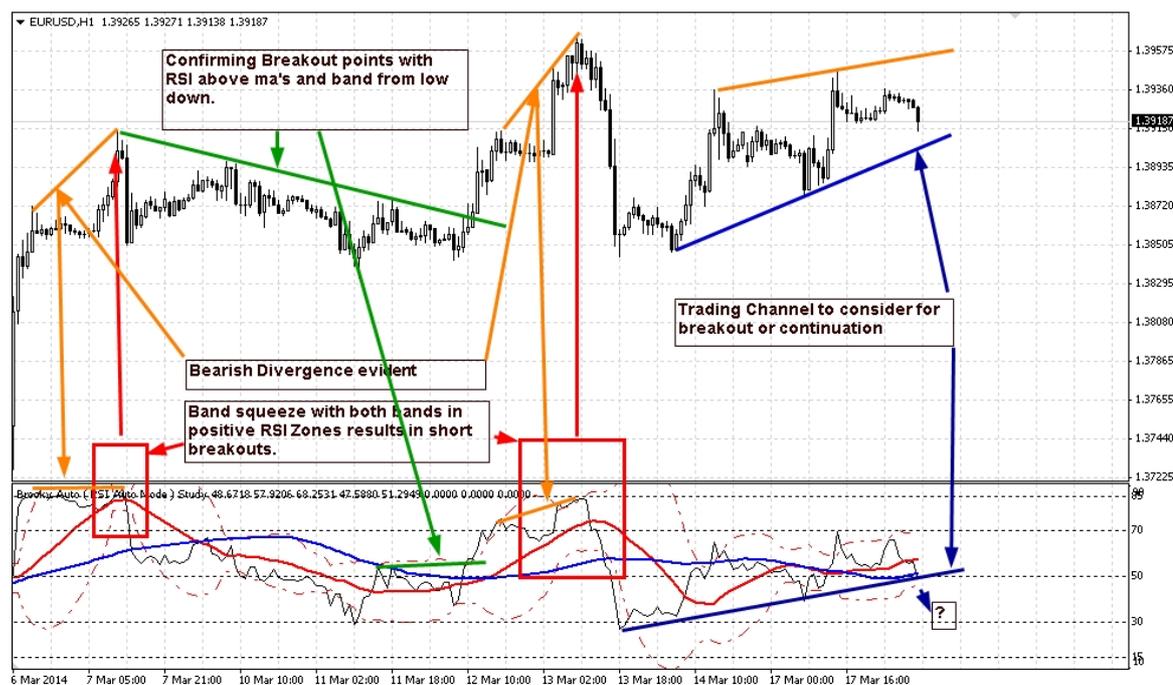
This is the same as the Bollinger Bands® that are commonly used on a MT4 chart.

The bands are used to display volatility, direction with their center moving average and assist with certain trading strategies.

Because the RSI is bound between 0 and 100, the RSI bands tend to provide more edge to edge trading opportunities than traditional on chart bands and also offer a unique visual and opportunity when highly compressed with both bnds above or below zero that are harder to spot on chart.

Moving Averages: The main or center moving average of the bands can be overlaid with a faster or slower moving average which can be constructed in certain strategies to be a trigger and/or an indication of direction. Depending on the periods used, they can also form a very useful leading function where they can detect divergence very early on.

Below are some general interest areas to note on chart involving ma's, RSI and bands.



3 Trading

Trading with technical analysis uses previous pricing behavior and attempts to forecast future prices using a variety of indicators and strategies as a preference and sometimes excluding any fundamental analysis at all. Past results are no guarantee of future performance as the market can be in many different states.

Generally stated though, prudent risk and money management principles combined with practice of RSI Technical Analysis will provide you with enough of an "edge" to be a profitable trader.

Common money management involves an assessment that a trade with a 1% risk factor should have targets available that return at least a 2% gain. That roughly means that if you are trading with lot sizes that account for 1% of your capital and you have a stop loss of 17 pips, that you will need a take profit of approximately 34 pips available to you to meet that criteria.

If a setup is not available, staying flat until the market meets your criteria is often regarded as wise trading.

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If a setup is not available, staying flat until the market meets your criteria is often regarded as wise trading.

3.2 A Strategy

There are a host of strategies that can be employed utilizing the Brooky Auto Mode Switching RSI and the following is just one example of a strategy that could be used.

The following system is for educational purposes only and past results are no guarantee of future performance.

Bearing that disclaimer in mind.

The Post Big Move Strategy.

This strategy uses a phenomenon found in all time frames which is a larger than normal abrupt move of price in either direction.

One big advantage of this strategy is that it works within a pre-defined range as opposed to predicting when historical new tops or bottoms are finished forming. This allows clearer Stop Loss and Take Profit zones to calculate potential risk.

It is also a strategy that is easily evidenced with the Auto RSI.

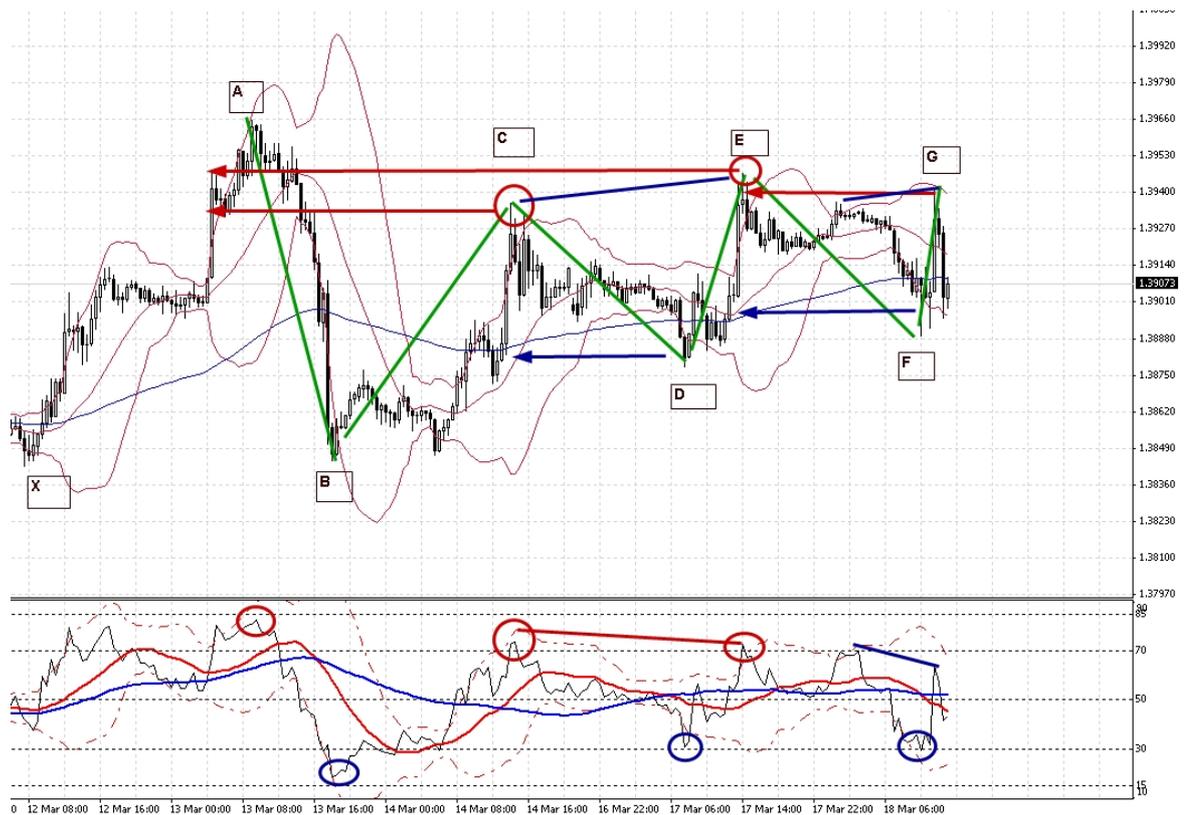
The main criteria is that the **Big Move must already have happened** and a retrace is under way.

The following chart is a EURUSD M30 chart that clearly shows potential trades and the setups. Patience in waiting for the big move to have occurred should bring rewards with these high probability trades with practice. Each trade on M30 had the potential to yield approx 30 pips each for a sum total of 150 pips which is more than the Big Move itself.

Generally the first three trades are highest probability and then one would stand flat waiting for another move or investigate another pair of time frame for potential setups.

The driving force behind this strategy is that traders who have missed the Big Move will attempt to rejoin it when it retraces. As time moves on, those who have missed that demand wave to rejoin will then join it and a diminishing supply demand bounce occurs until a clearance occurs in one direction or another later in time.

Explanation under the chart.



**This strategy requires one copy of the Brooky Auto Switch RSI indicator.
 MT4 Bollinger bands period 20, deviation 2 on chart.
 MT4 Moving Average Period 60 Simple**

NOTE. Bear in mind that off chart, the X A move is a continuation of a larger uptrend and the chart moving average had been moving strong upward prior to the Big Down Move. This tends to influence the following trades in the sense that the Long moves will generally occur quicker than short moves initially. The moving averages in the RSI are not used in this strategy nor explicitly the ones on chart.

Step 1 - Wait for the A > B move to have taken place with price heading toward the C area before considering the first C > D trade.

Step 2 - When RSI has entered the 70 zone and price is within the downward take off zone (Often close to a 60-70 Fibonacci level retrace), place a sell order with a target into the take off (demand) zone of the retrace. Calculate potential profit pips and place a stop loss at 1/2 that for prudent risk management.

Step 3 - Exit the short at D if RSI has come close to the over sold 30 area and has touched the outer low bands both on chart and RSI.

Step 4 - Enter a long at D either at initial touch (risky) or a few bars later when divergence is noted on the RSI and a long candle has formed on chart. In this trade the target is back into the supply zone of the initial Big Move and the trade is exited when RSI touches the top outer bands on chart and RSI as well as being close to the 70 level.

Step 5 - At this point it is important to see RSI divergence at the C and E points as a long trend continuation is always possible and this is now a second deeper thrust into the supply zone. IF divergence is evident, a short at E can be entered again with the demand zone of the D > E move as a target. At this point the movements can get smaller so calculation of risk reward becomes even

more vital.

Once again exit at TP or when both the Chart and RSI lower bands have been touched and RSI is oversold.

Step 6 - The next $F > G$ trade begins to get riskier because the demand zone has now been entered several times and could possibly fail as price falls lower to continue with the Big move and find a lower demand zone before going long again. If there is a long available and the market is still undecided, the reward moves become smaller and smaller. This trade is possibly not for the novice. The same criteria apply as before. Both chart and RSI bands need to have been touched with the RSI in oversold near 30 state.

Take profit target is also as before into a supply zone near the band edge.

It can be seen that this trade showed clear bearish divergence within one candle and did not behave quite like the others with a very sharp retrace back to previous demand.

Once it becomes less clear as to which direction is favored and supply and demand zones have been touched several times, it is prudent to stand aside and wait for the next Big Move.

ADDITIONAL NOTES.

Just as a point of interest, the chart below compares standard RSI of the same period with the chart discussed above. Obviously there are many similarities, but a point to note is how the Brooky Auto RSI gave an extra point in an area in between E and G that showed that the spike in the $F > G$ trade had not in fact broken into a continuation long as may have been interpreted with just standard RSI by some traders.

This coupled with the bands allows extra insights otherwise not available.



4 Conclusion

As evidenced by the notes throughout this explanation and the strategy outlined, the Brooky Auto Switch RSI once understood offers excellent analysis that can aid in trading.

There is an option within the indicator to see just standard RSI if one so wishes and still maintain the benefit of the bands and moving averages.

Any information included here is for educational purposes only and the required Government Disclaimers apply.

Good trading to all.

5 DISCLAIMERS

NFA and CTFC Required Disclaimers

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CFTC Rule 4.41

Hypothetical or simulated performance results have certain limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not been executed, the results may have under-or-over compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profit or losses similar to those shown. No representation is being made that any account will, or is likely to achieve profits or losses similar to those discussed within this site, support and texts. Our course(s), products and services should be used as learning aids only and should not be used to invest real money. If you decide to invest real money, all trading decisions should be your own.

Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

U.S. Government Required Disclaimer

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