

# ZONETRADER PHILOSOPHY

Slides from Matt Reynolds  
Derivative Concepts

- **Green 1 = HIGH VOLUME / HIGH MFI (TRENDING MARKET TRADES FAVOR THE CURRENT DIRECTION)**
- **Blue 2 = HIGH VOLUME / LOW MFI (PRICE MOVEMENT IS SLOWING COULD INDICATE A CHANGE IN TREND OR CHANNELING)**
- **Red 3 = LOW VOLUME / HIGH MFI (LOOK FOR PRICE MANIPULATION FROM THE LARGE SPECULATOR AS THEY WILL ATTEMPT TO PUSH PRICES AS FAR AS POSSIBLE IN THE OPPOSITE DIRECTION OF THE CURRENT CHANGE AT HAND)**
- **Magenta 4 = LOW VOLUME / LOW MFI ( THERE IS A BATTLE UNDERWAY BETWEEN THE BULLS AND THE BEARS AS THEY ARE FIGHTING TO CONTROL THE FUTURE DIRECTION OF THE MARKET)**

- **MFI = THE HIGHEST HIGH OF THE LAST TWO TRADING DAYS MINUS THE LOWEST LOW OF THE LAST TWO TRADING DAYS DIVIDED BY VOLUME OF THE LAST TRADING DAY.**
- **MFI = HIGH – LOW / VOLUME**
- **TRUE RANGE TAKES INTO ACCOUNT GAPS**

- **MFI IS HIGH OR LOW FOR MARKET CONDITION APPLICATION**
  - **COMPARE THE CURRENT MFI READING TO AN 89 DAY MEDIAN**
- **MEDIAN = THE MEDIAN OF A FINITE LIST OF NUMBERS CAN BE FOUND BY ARRANGING ALL THE OBSERVATIONS FROM LOWEST VALUE TO HIGHEST VALUE AND PICKING THE MIDDLE ONE. IF THERE IS AN EVEN NUMBER OF OBSERVATIONS, THE MEDIAN IS NOT UNIQUE, SO ONE OFTEN TAKES THE MEAN OF THE TWO MIDDLE VALUES (WIKIPEDIA, 2008).**

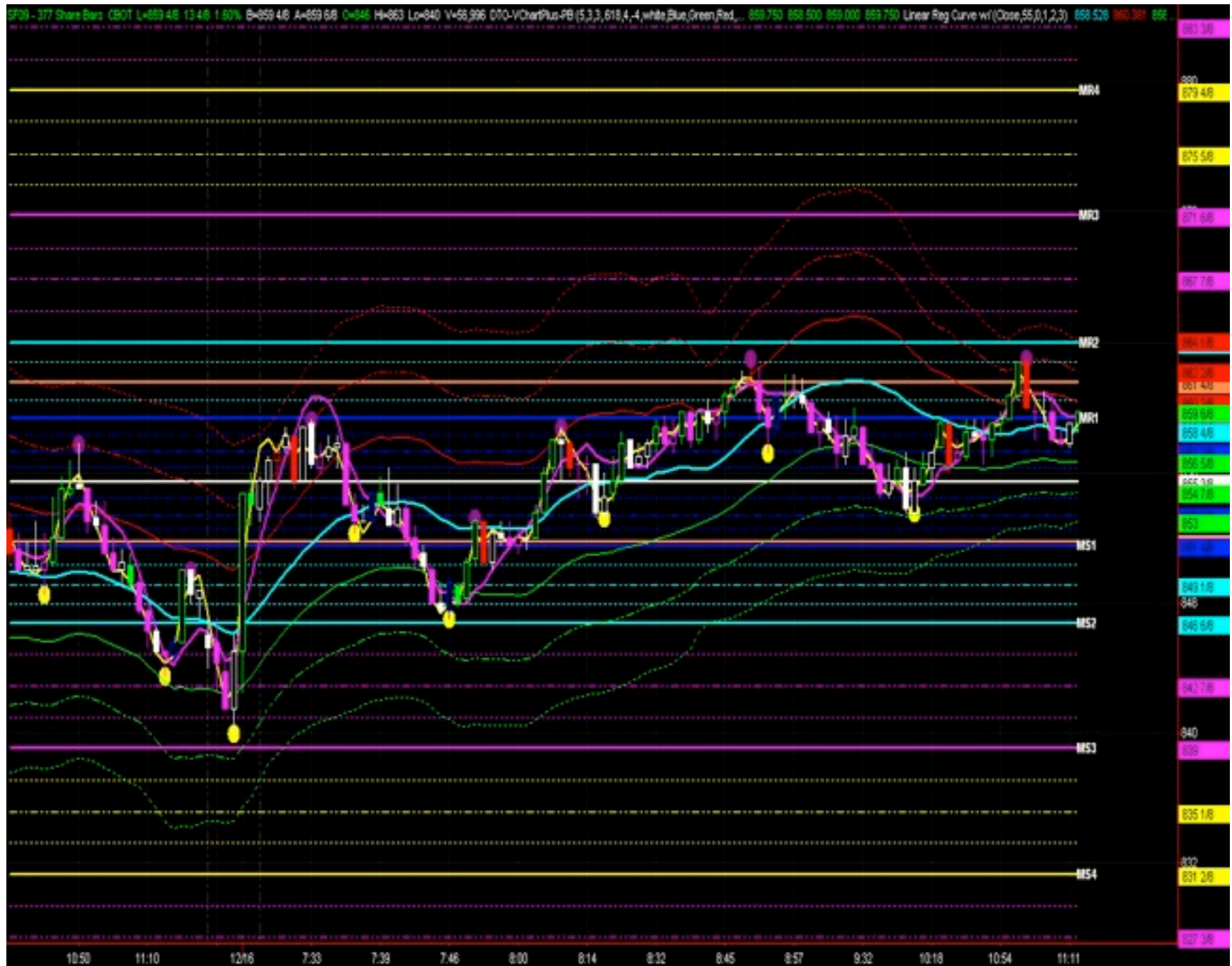
- **THE ZONE-TRADER IS A PREDEFINED MARKET ARENA FOR TRADING THAT SEEKS TO UTILIZE TRADING ACTION IN ORDER TO DETERMINE FUTURE MARKET DIRECTION.**
- **EACH ZONE IS NUMBERED AND SPECIFICALLY LABELED IN ORDER TO PROFILE AND INTERPRET THE UNDERLYING PSYCHOLOGY OF THE MARKET AND GIVE THE TRADER A SPECIFIC DESCRIPTION OF WHERE THE MARKET IS AND WHAT IT IS TRYING TO DO,**
- **THE ZONE-TRADER IS PARTITIONED INTO 13 ZONES USING SUPPORT AND RESISTANCE LEVELS.**
- **EACH ZONE IS ALSO NAMED, RELATIVE TO THE ANTICIPATED MOVEMENT OF THE MARKET PRICE ACTION.**

1366.75 Hi=1369.50 Lo=1355.75 V=1,348,322 Average True Range (22,22) 14.89



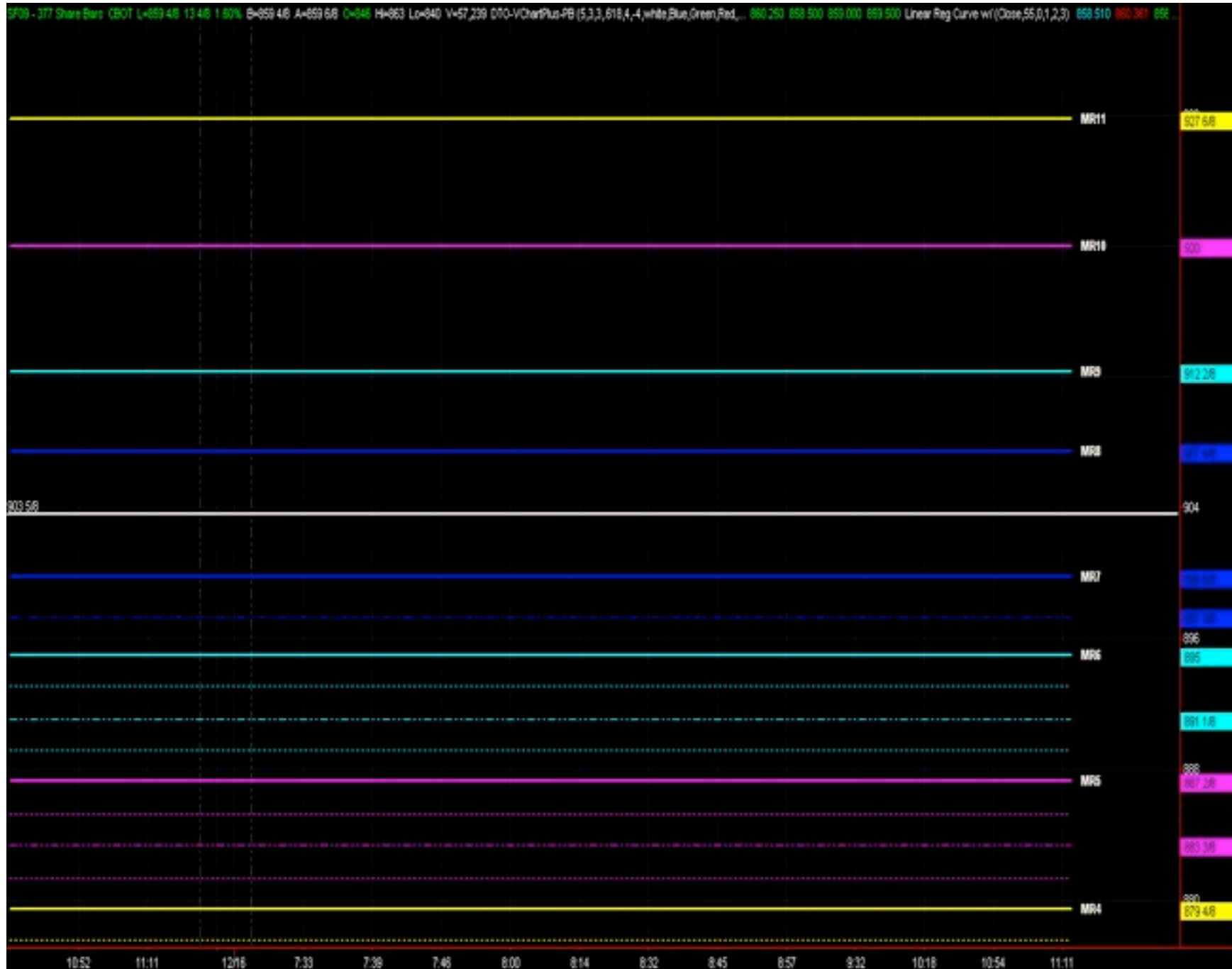
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- **THE ZONETRADE CREATES 3 PROFILES**
- **PROFILE 1 = MR4 TO MS4**
- **PROFILE 2 = MR4 TO MR11**
- **PROFILE 3 = MS4 TO MS11**
- **EACH PROFILE HAS ITS OWN DEFINED ZONES**
  - **NEUTRAL ZONE**
  - **BREAKOUT ZONES**
  - **CONFIRMATION ZONES**
  - **EXTENSION ZONES**

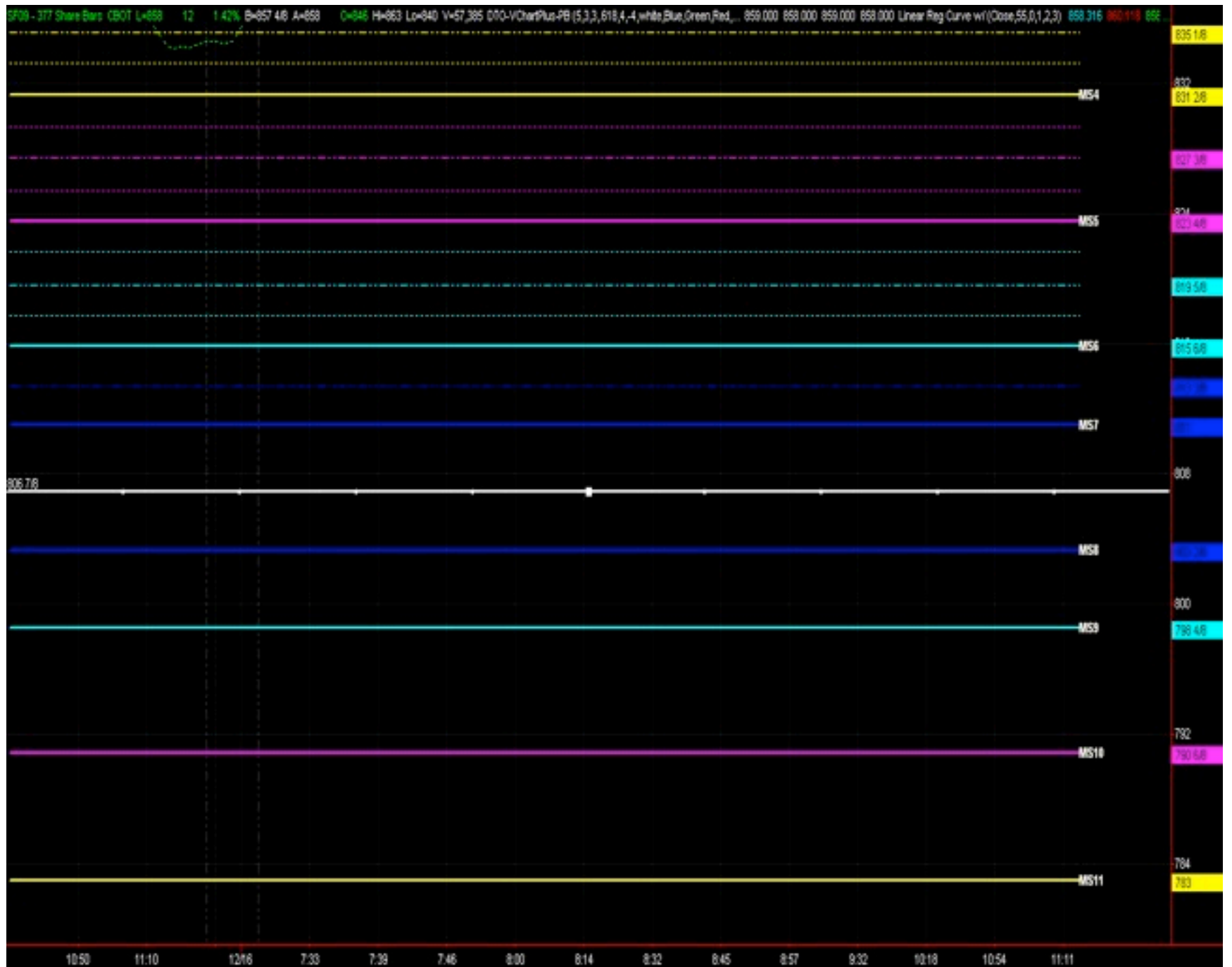


Friday, March 30, 2012

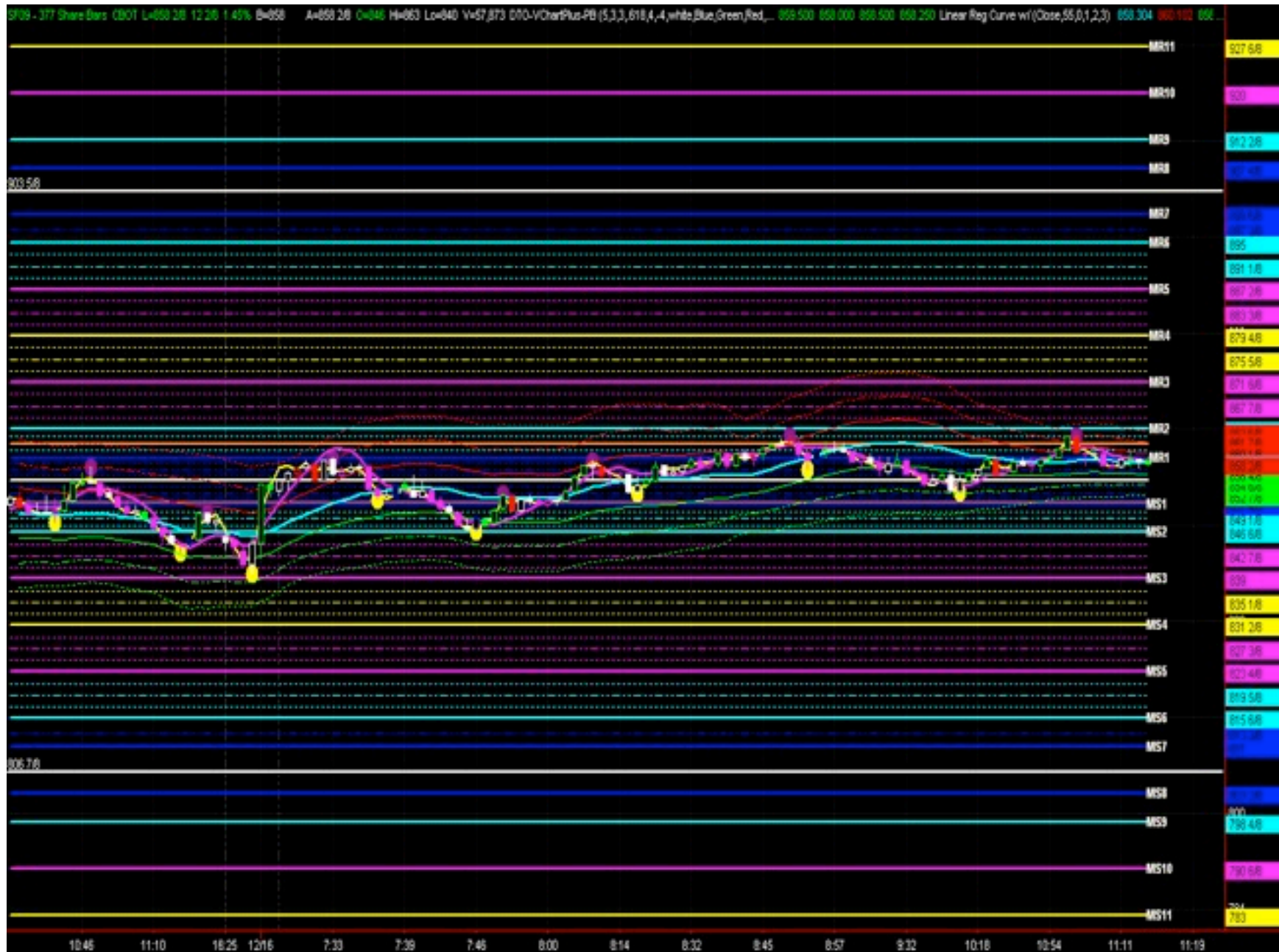




Friday, March 30, 2012



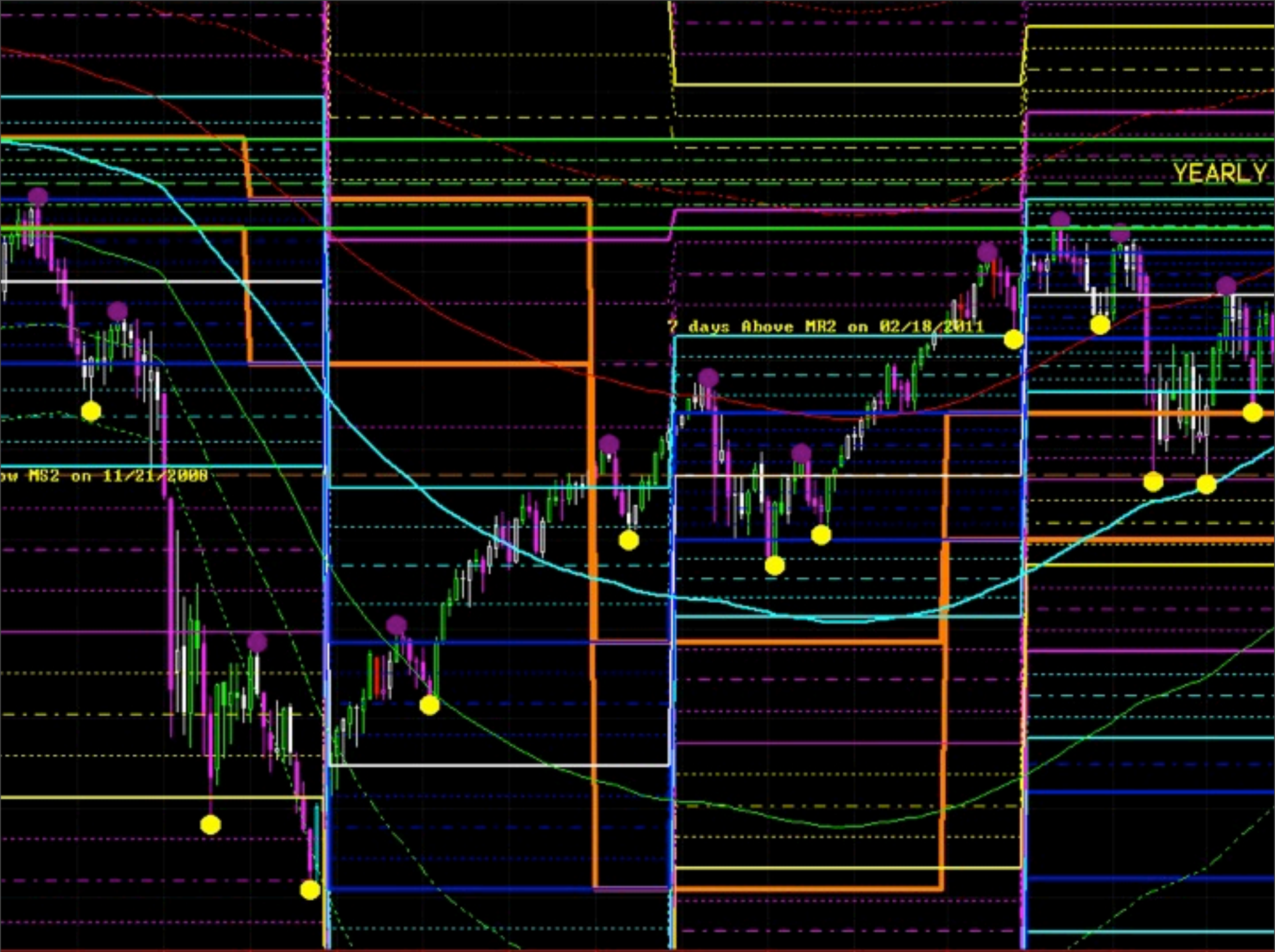
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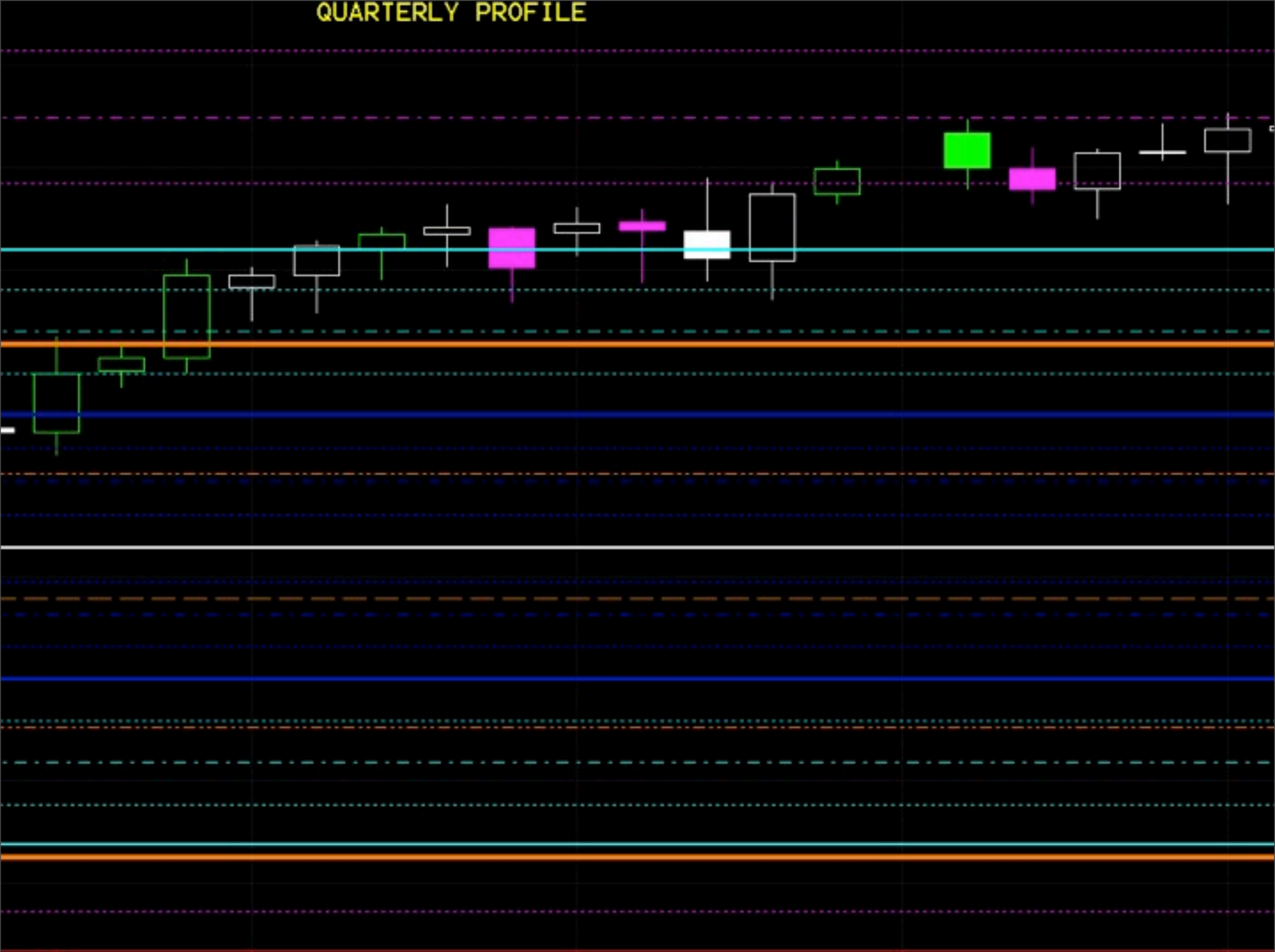
Friday, March 30, 2012

# PERSISTENCE ZONE

- ZONE-TRADER USES TIME TO DETERMINE THE PERSISTENCE ZONE.
  - THE PERSISTENCE ZONE UTILIZES DAY SESSION DATA, ON A TIME CHART
- ZONE-TRADER DEPICTS THE ZONE THAT THE MARKET TRADES WITHIN FOR THE LONGEST PERIOD OF NON-CONTINUOUS TIME AS THE PERSISTENCE ZONE.
  - TAKES PRICES OF THE TOP AND BOTTOM OF THE IDENTIFIED ZONE AND CREATES THE PERSISTENCE ZONE FOR THE FOLLOWING DAY
- ZONE-TRADER USES TIME BECAUSE WHEREVER THE MARKET TRADES FOR THE LONGEST PERIOD OF TIME IS WHERE THE FIGHTS THE GREATEST BETWEEN THE BULLS AND THE BEARS ON AN INTRADAY BASIS.

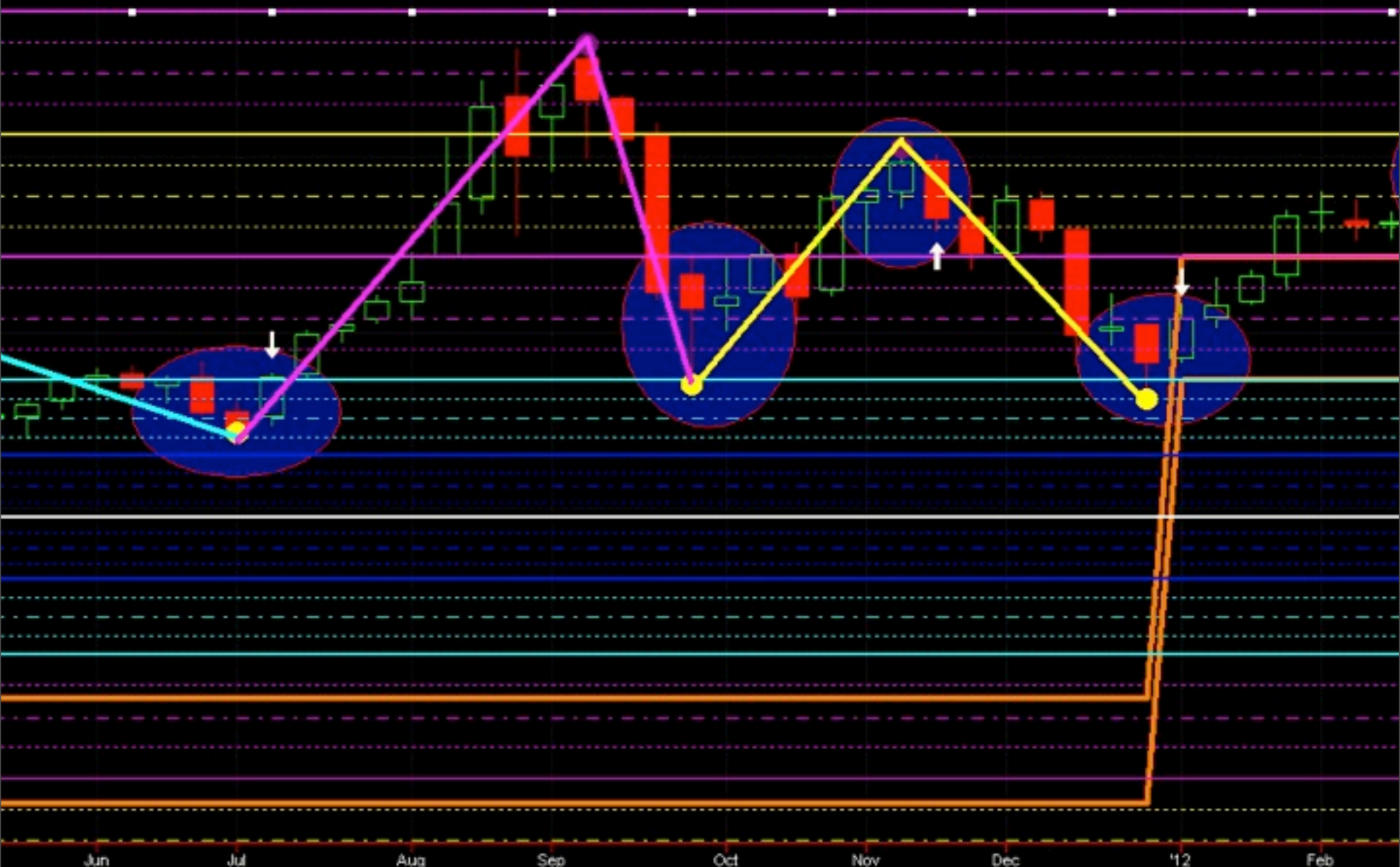


# QUARTERLY PROFILE



+1775.00 -0.10 -0.01% B=1608.20 A=1962.00 O=1773.60 Hi=1775.60 Lo=1768.10 V=147 Pivot High (High,5,5) 1809.90 Pivot Low (Low,5,5) 1523.90 Yearly-baseMati615 (13,1800,7,true,true)

### YEARLY PROFILE



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Friday, March 30, 2012

775.00 -0.10 -0.01% B=1608.20 A=1952.00 O=1773.60 Hi=1775.60 Lo=1768.10 V=147 Pivot High (High,5,5) 1781.30 Pivot Low (Low,5,5) 1706.40 GRTLY-base615 (13,1800,7,true,true,true)



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Friday, March 30, 2012



Weekly FOREX L=1.34135 0.00162 0.12% B=1.34135 A=1.34151 O=1.33952 HI=1.34153 Lo=1.33901 V=0 Pivot High (High,5,5) 1.42468 Pivot Low (Low,5,5) 1.26233 Yearly-baseMatt615 (21,1)

# YEARLY PROFILE



Jul Aug Sep Oct Nov Dec '12 Feb Mar

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Friday, March 30, 2012

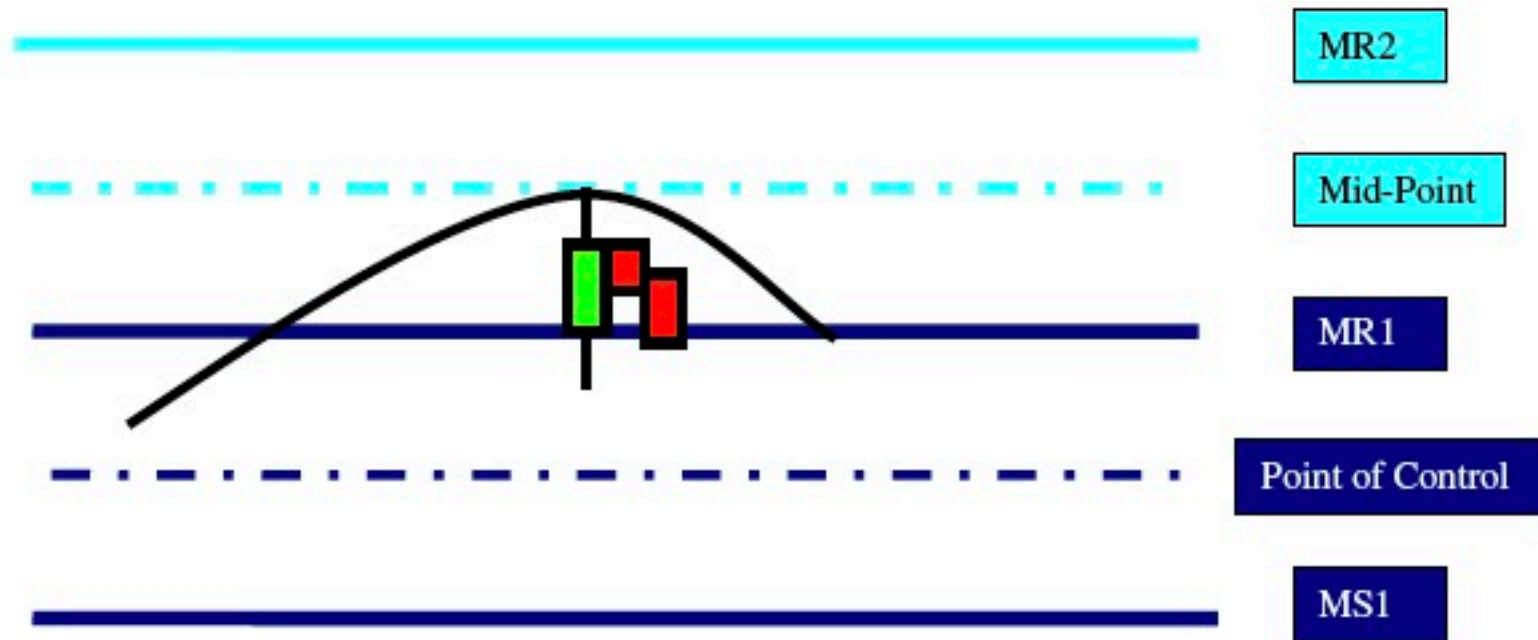
## **Rule # 1: Bullish Breakout Zone (MR1 – MR2)**

When the price is on an uptrend and the candle body closes above the midpoint of MR1 & MR2 we are in a bullish breakout and look to place a buy order at the first retracement. We need to see at least 2 candles close lower than the low of the prior candle for a true Retracement. Then look for a candle body close higher than the high of the prior candle to generate the buy signal.



## Rule # 2: Failed Bullish Breakout (MR1 – MR2)

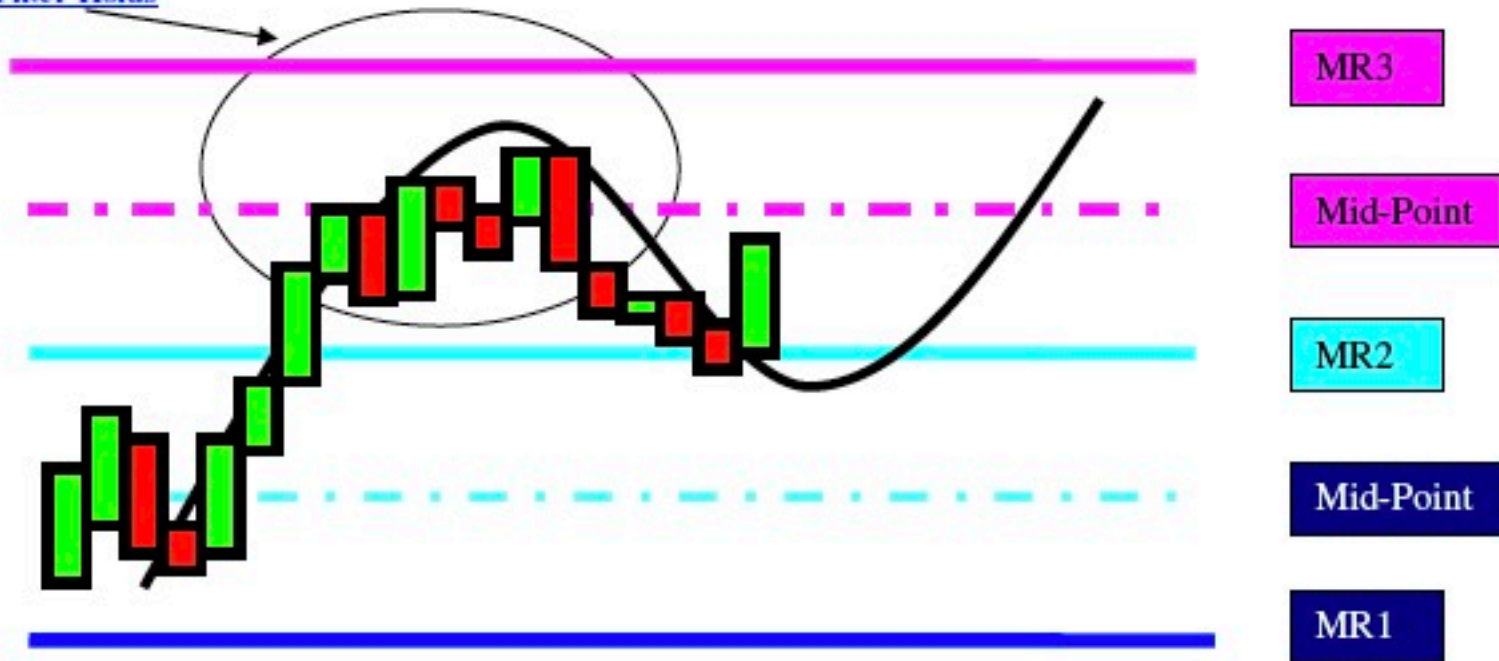
When the price is on an uptrend and the candle body fails to close above the midpoint of MR1 & MR2 and then a candle closes lower than the low of the prior candle. We are in a failed bullish breakout and expect the prices to move back to the point of control. Look to sell 1 tick below the low of the prior candle.



### Rule # 3: Bullish Confirmation Zone (MR2 – MR3)

If the price stays above MR2 for a specific amount of time (time filter) then a confirmed uptrend is established and we look to buy at the first retracement. Look for 2 closes lower than the low of the prior candle to be true retrace. Then look for close higher than the high of the prior candle to generate the signal.

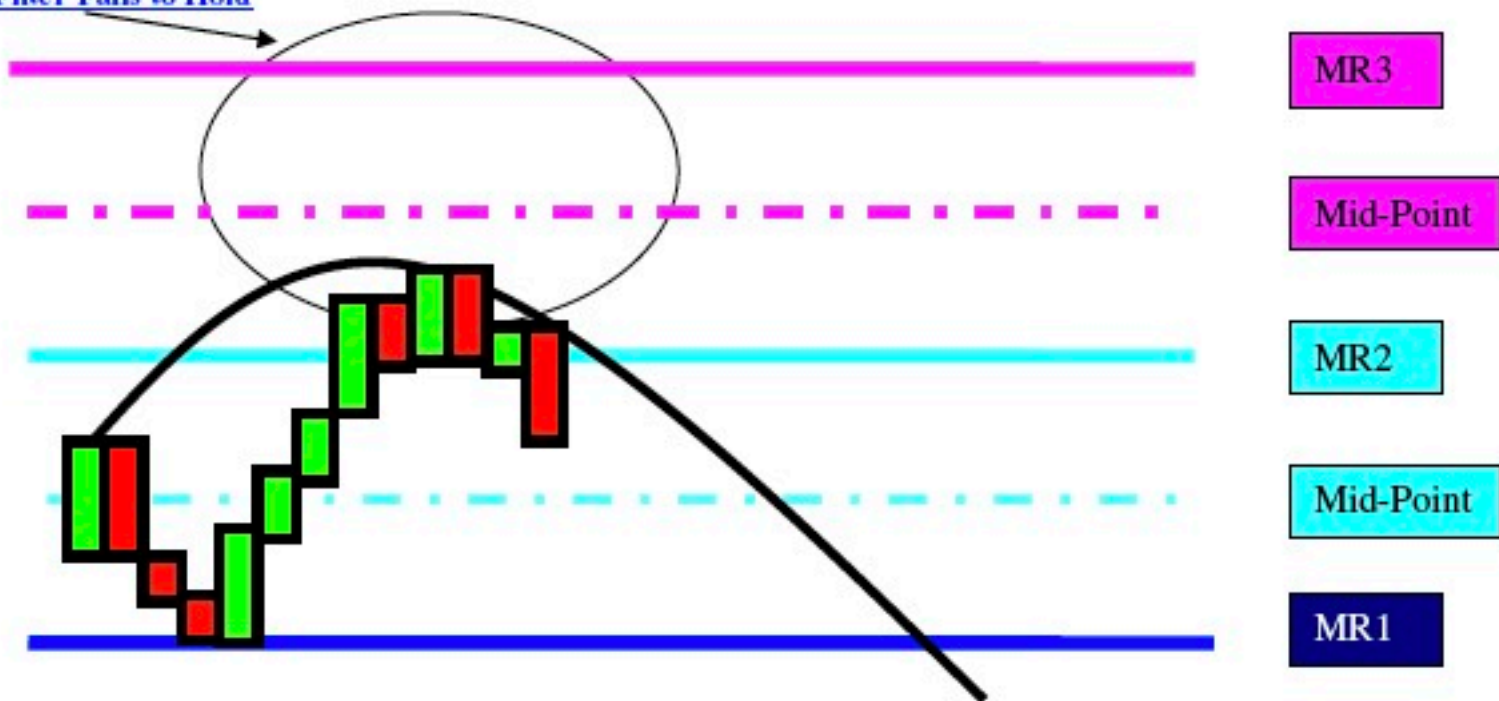
Time Filter Holds



## Rule # 4: Failed Bullish Confirmation (MR2 – MR3)

If the price breaks above MR2 and fails to hold above MR2 for a specified amount of time (time filter) and then a candle closes lower than the low of the prior candle it indicates failed bullish confirmation of an uptrend and we look to sell and for the prices to trend back towards the point of control or ZoneTrader Pivot.

Time Filter Fails to Hold



## Rule # 5: Bullish Trend Extension Zone (MR3 – MR4)

If the candle body closes above the midpoint of MR3 & MR4, it indicates the start of trend extension and we look to buy at the first retracement.



## **Rule # 6: Failed Bullish Trend Extension (MR3 – MR4)**

If the candle body fails to close above the midpoint of MR3 & MR4, and then a candle closes lower than the low of the prior candle it indicates a failed trend extension and we expect the prices to revert towards the point of control. We sell off the low of the prior candle once we get a close lower than the low of the prior candle.

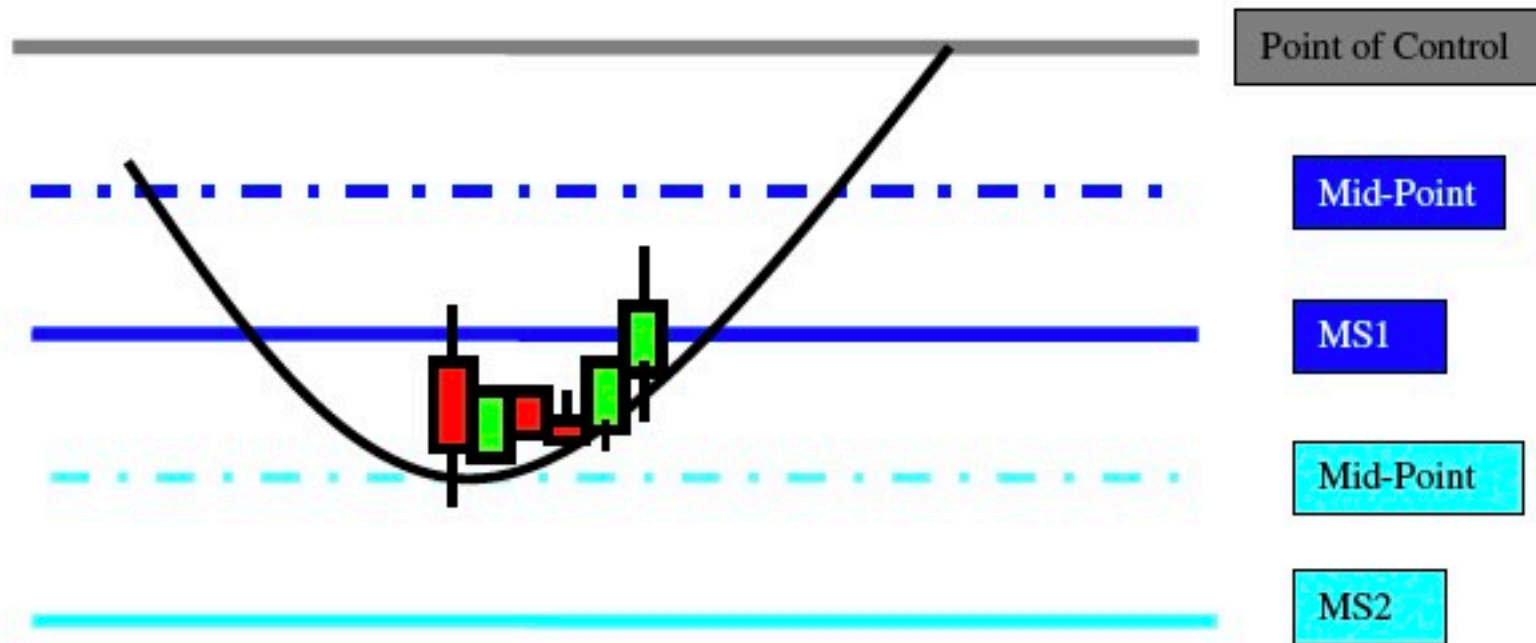






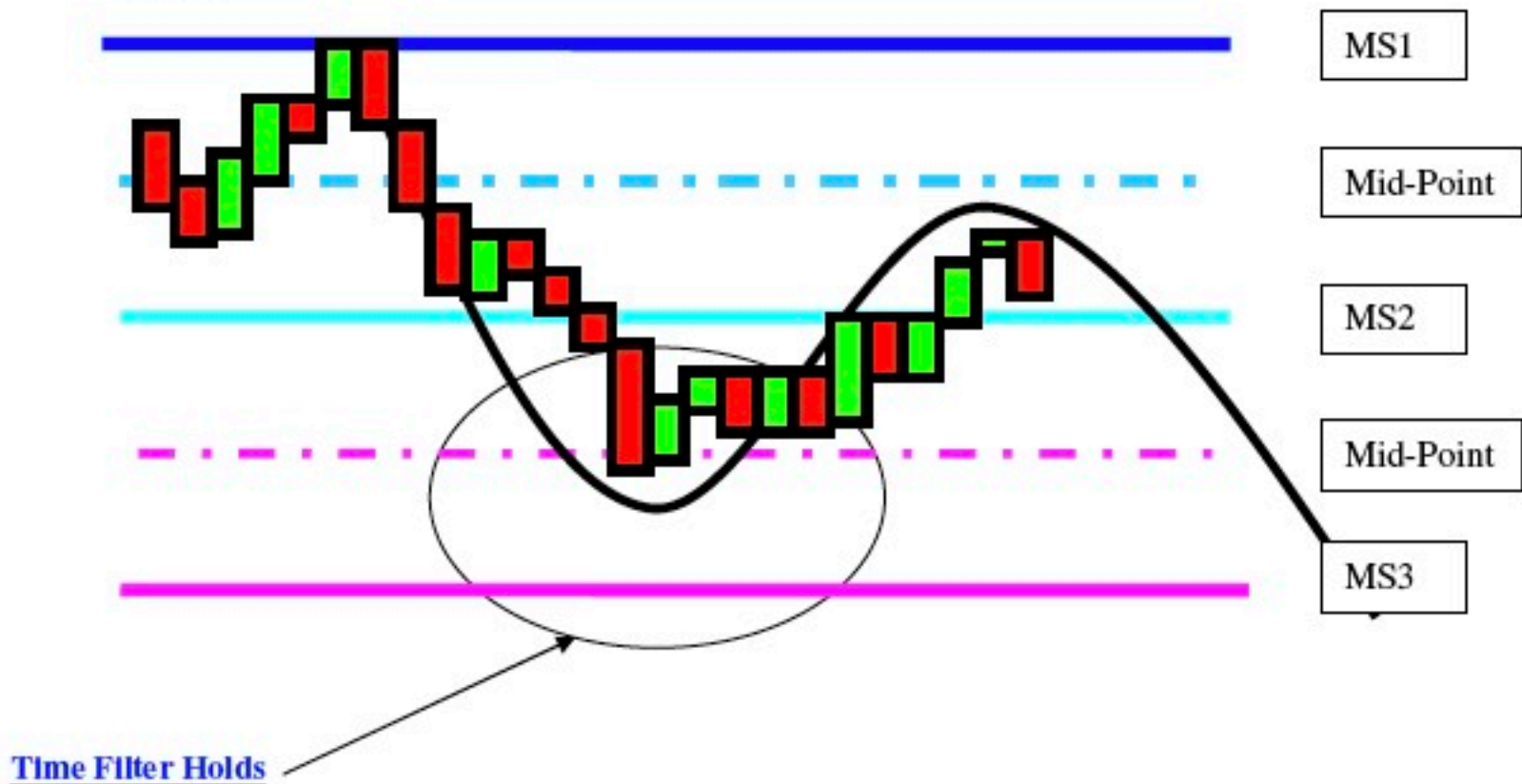
## Rule # 8: Failed Bearish Breakout (MS1 – MS2)

When the price is on a downtrend and the candle body fails to close below the midpoint of MS1 & MS2 and then a candle closes above the high of the prior candle we are in a failed bearish breakout and look to buy 1 tick above the high of the prior candle and we expect the prices to move back to the point of control or ZoneTrader Pivot.



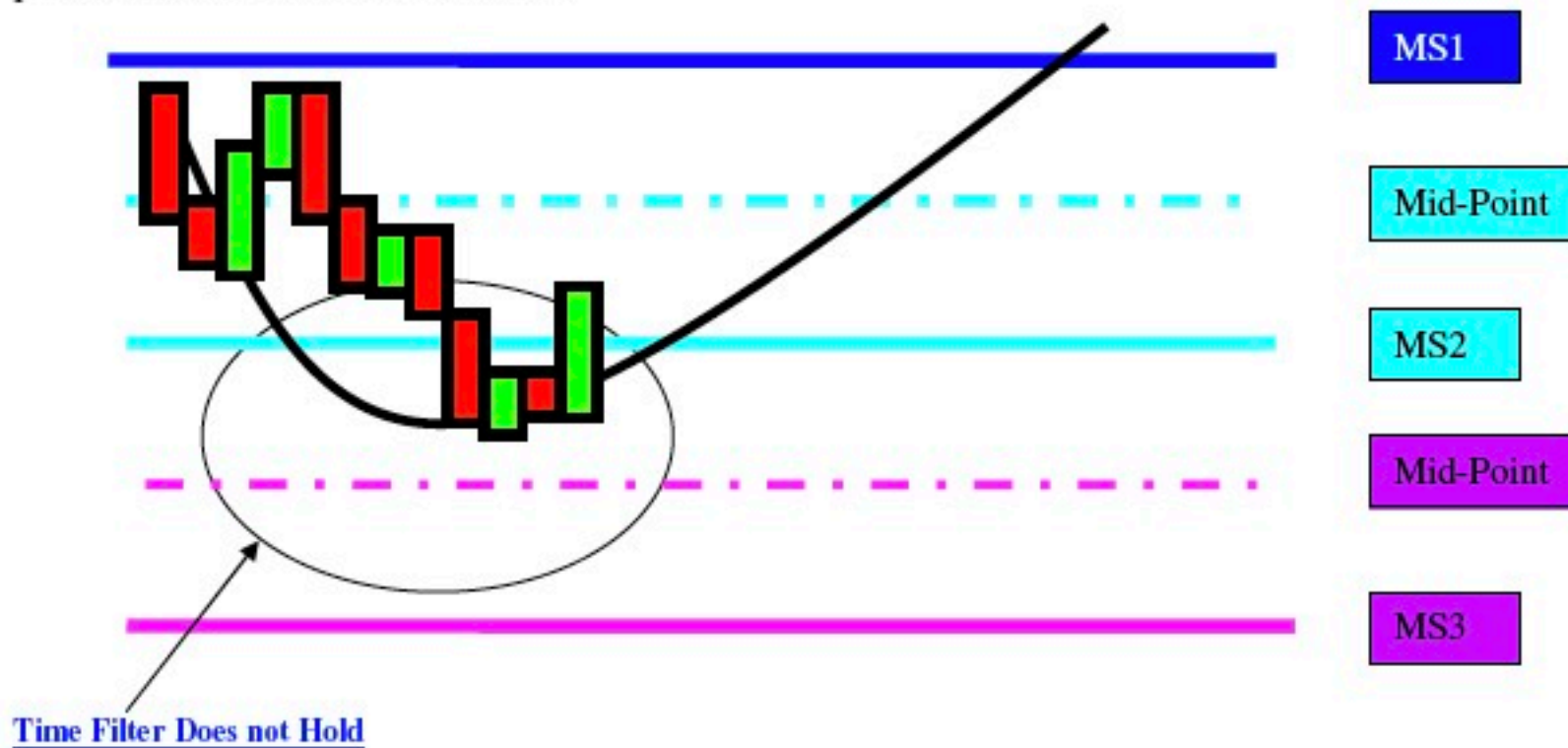
## Rule # 9: Bearish Confirmation Zone (MS2 – MS3)

If the price stays below MS2 for a specific amount of time (time filter) then the market has established or confirmed a downtrend. Look to sell at the first retracement waiting for at least 2 candle closes higher then the high of the prior candle. Once retracement criteria is achieved then look for the first candle to close lower then the low of the prior candle to generate the sell signal. Sell limit 1 tick below the low of the prior candle or at the market for testing purposes.



## Rule # 10: Failed Bearish Confirmation (MS2 – MS3)

If the price fails to hold the time filter below MS2 for a specified amount of time (time filter) and then a candle closes higher than the high of the prior candle this indicates a failed confirmation of a downtrend and we to buy limit 1 tick above the high of the prior candle or at the market for testing purposes. Then we look for the prices to trend back towards the point of control or ZoneTrader Pivot.



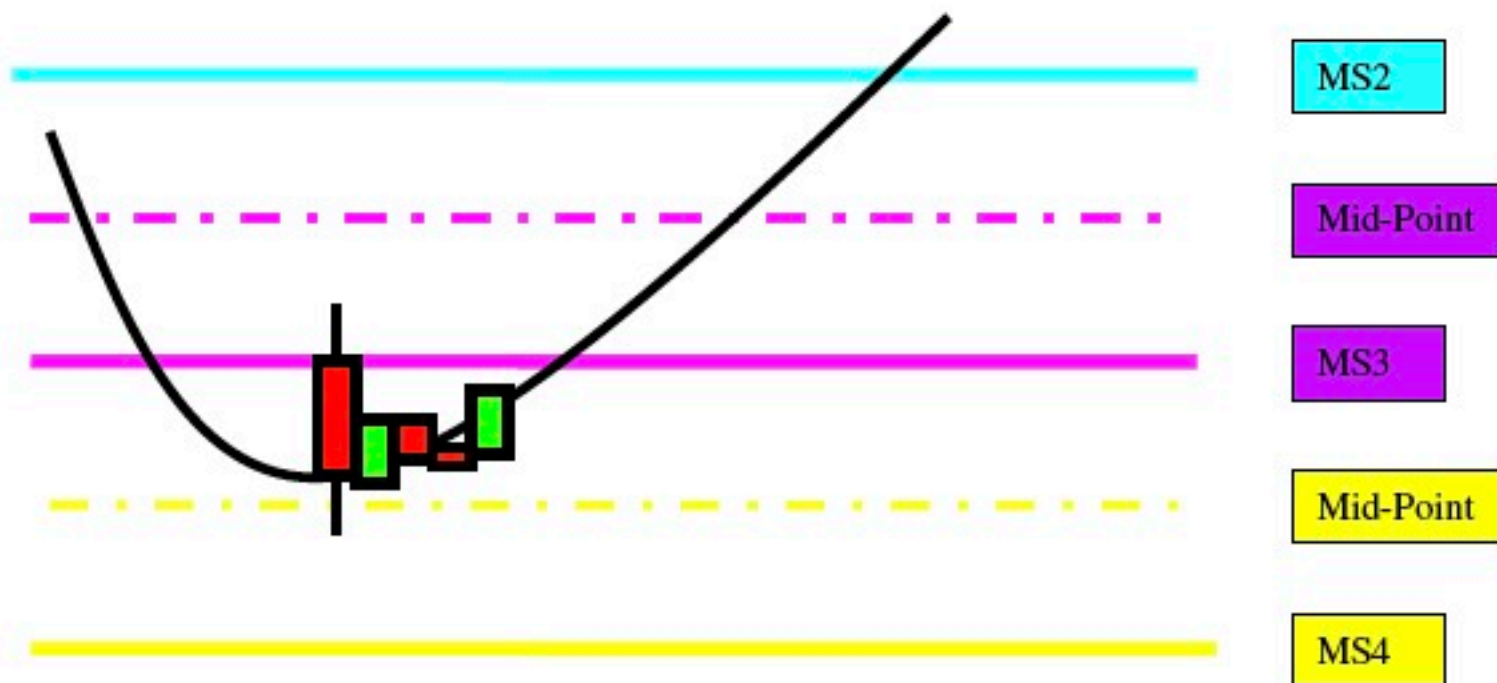
## Rule # 11: Bearish Trend Extension Zone (MS3 – MS4)

If the candle body closes below the midpoint of MS3 & MS4, it indicates the market has extended the trend and will attempt to break below MS4 on the next wave down. Look to sell the 1<sup>st</sup> retracement after the close below the midpoint. Need to see 2 candles close higher than the high of the prior candle for true retracement. Then need to see a candle close lower than the low of the prior candle to generate the sell signal. The reason for this is this suggest the trend is shifting back to the downside, which is what we expect, we just want to make sure that it does before we sell.



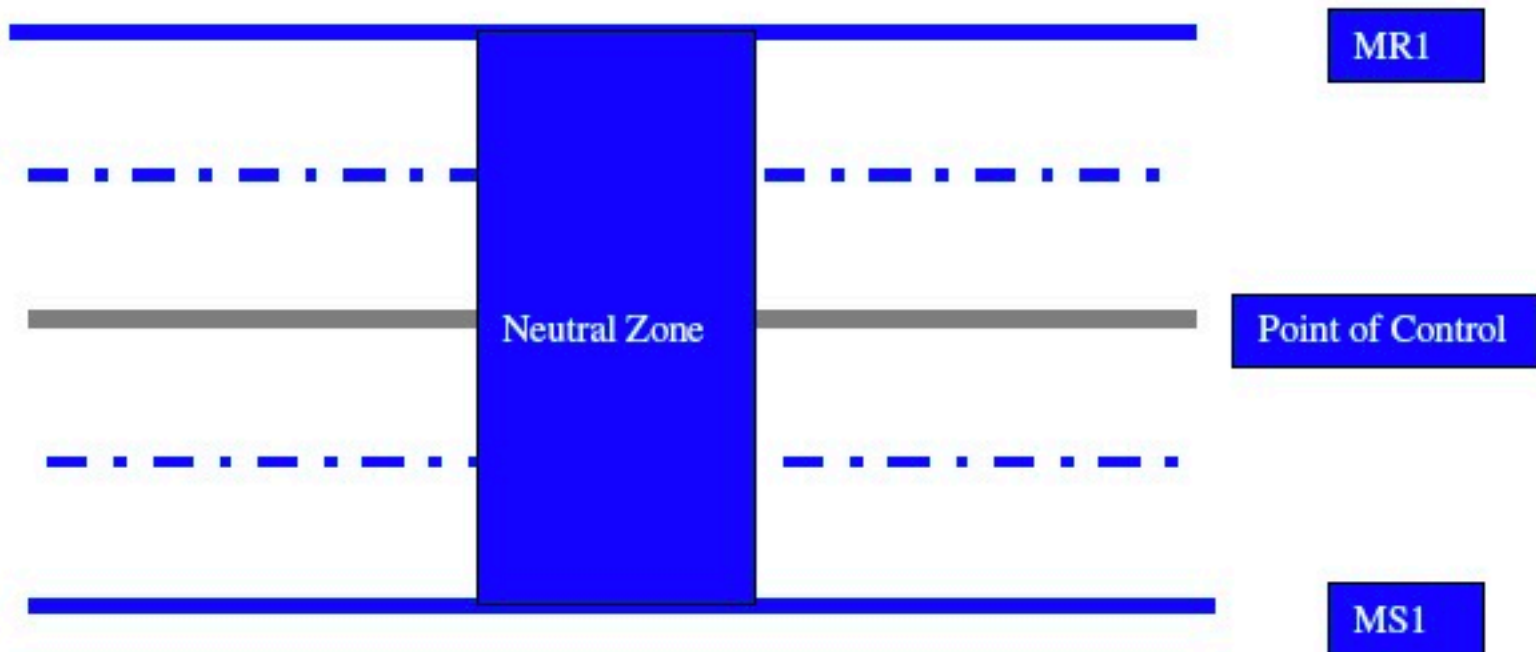
## Rule # 12: Failed Bearish Trend Extension (MS3 – MS4)

If the candle body fails to close below the midpoint of MS3 & MS4, and then a candle closes higher than the high of the prior candle this indicates a failed bearish trend extension and we look to buy limit 1 tick above the high of the prior candle or at the market for testing purposes. Then we expect the prices to revert towards the point of control or ZoneTrader Pivot.

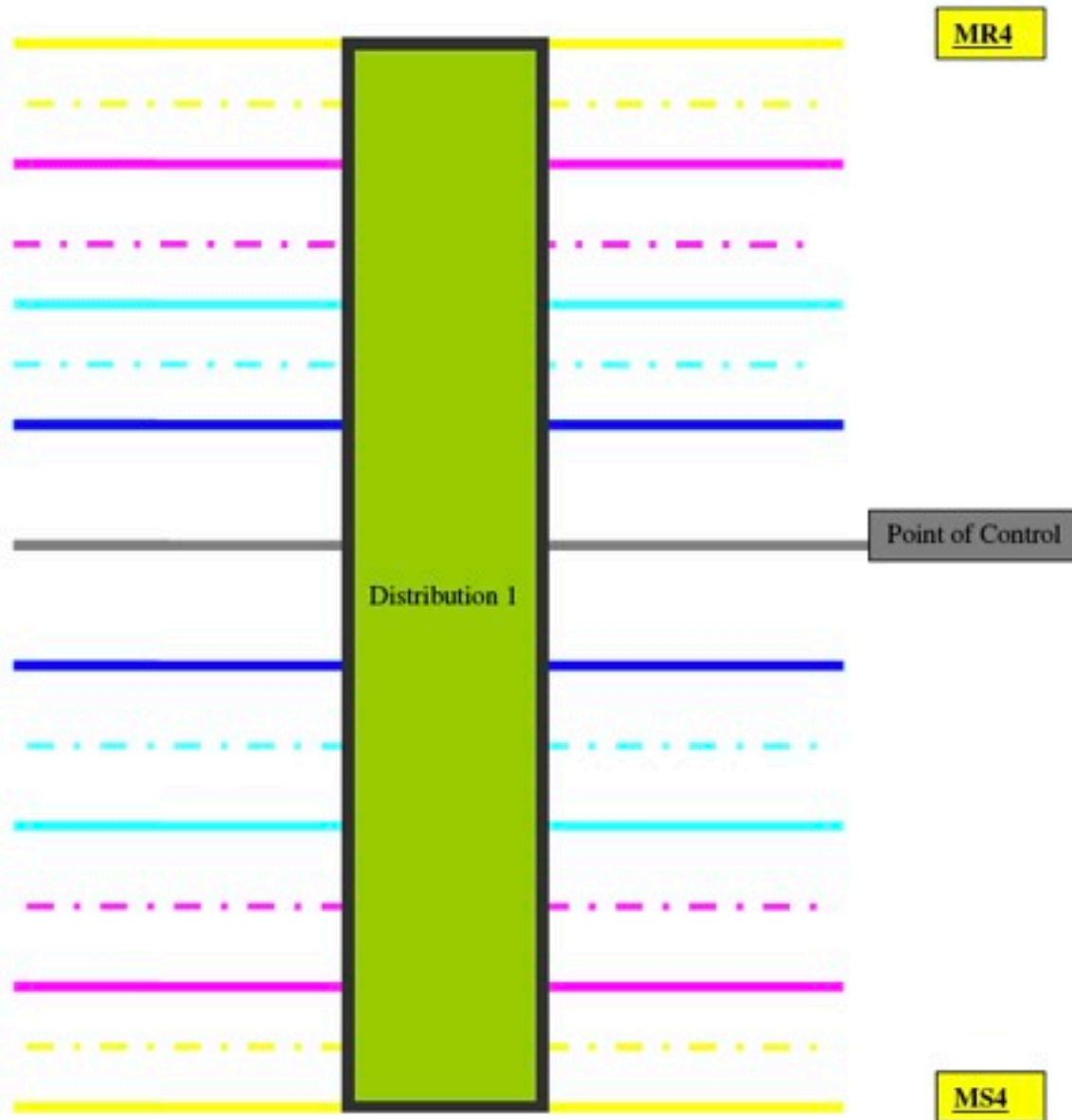


# Distributions

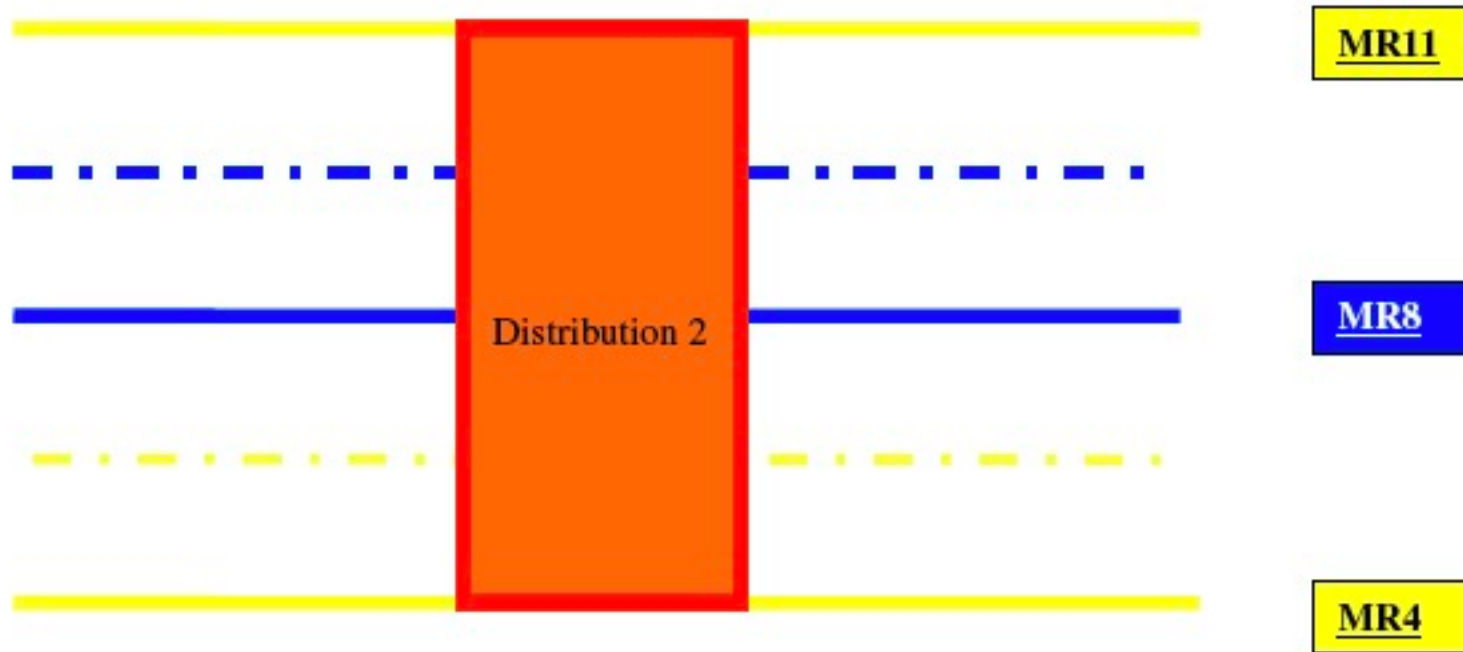
1) Neutral Zone : (MR1 – MS1; Neutral Zone)



2) Distribution 1: (MR4 – MS4)

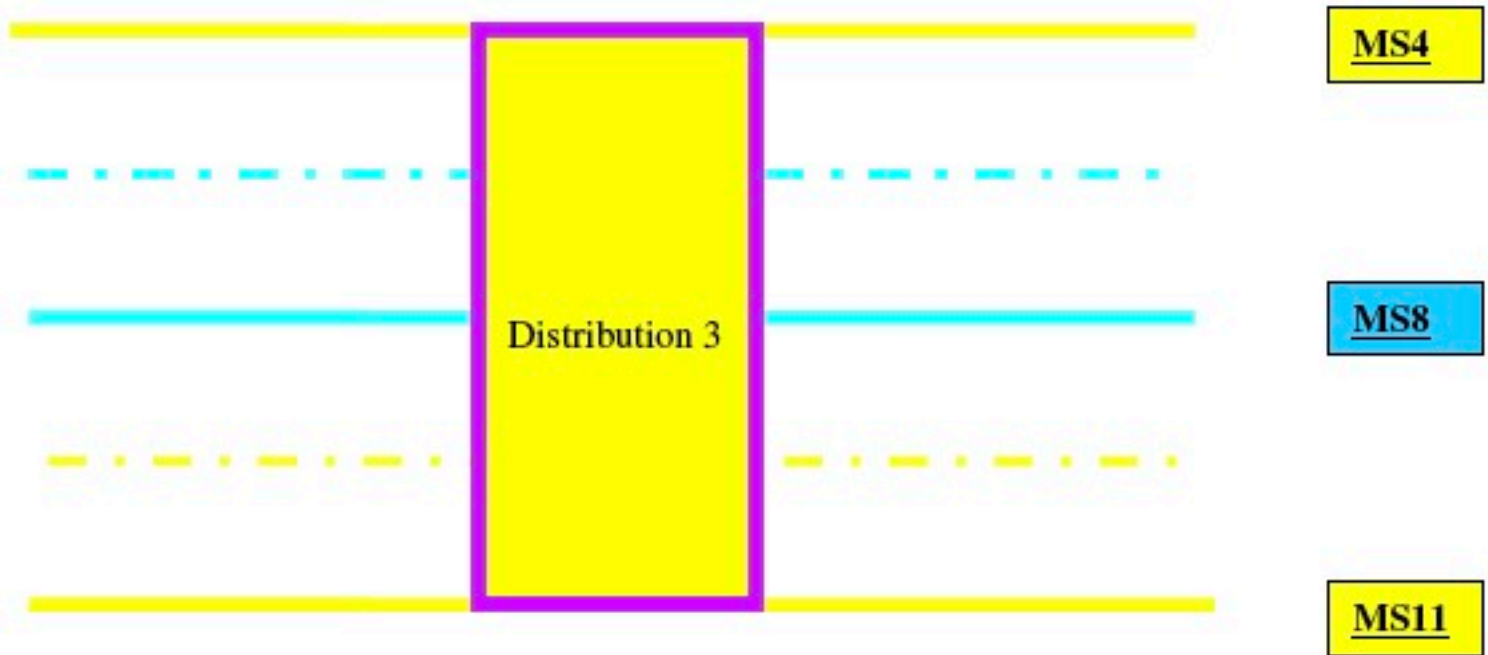


3) **Distribution 2: (MR4 – MR11)**





4) **Distribution 3: (MS4 – MS11)**



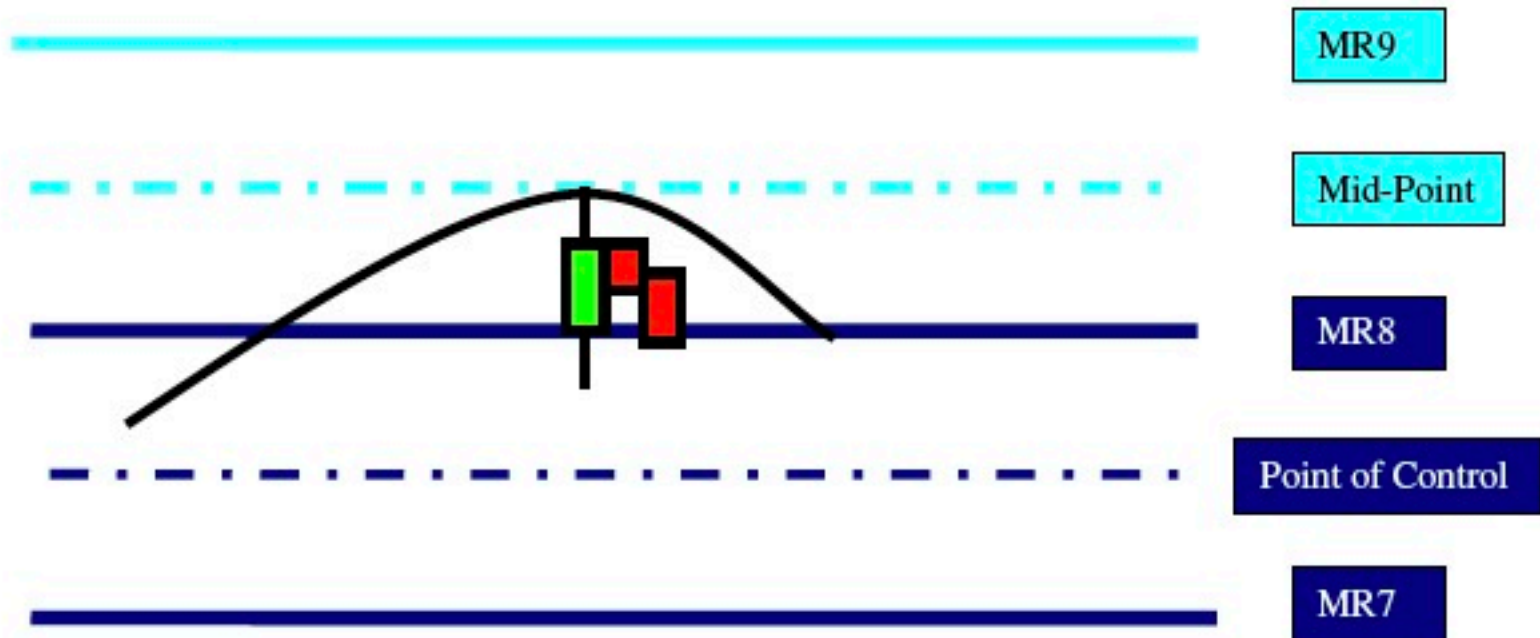
## Rule # 13: Bullish Breakout Zone; Distribution 2 (MR8 – MR9)

When the price is on an uptrend and the candle body closes above the midpoint of MR8 & MR9 we are in a bullish breakout and look to place a buy order at the first retracement. We need to see at least 2 candles close lower than the low of the prior candle for a true retracement. Then look for a candle body close higher than the high of the prior candle to generate the buy signal.



## Rule # 14: Failed Bullish Breakout; Distribution 2 (MR8 – MR9)

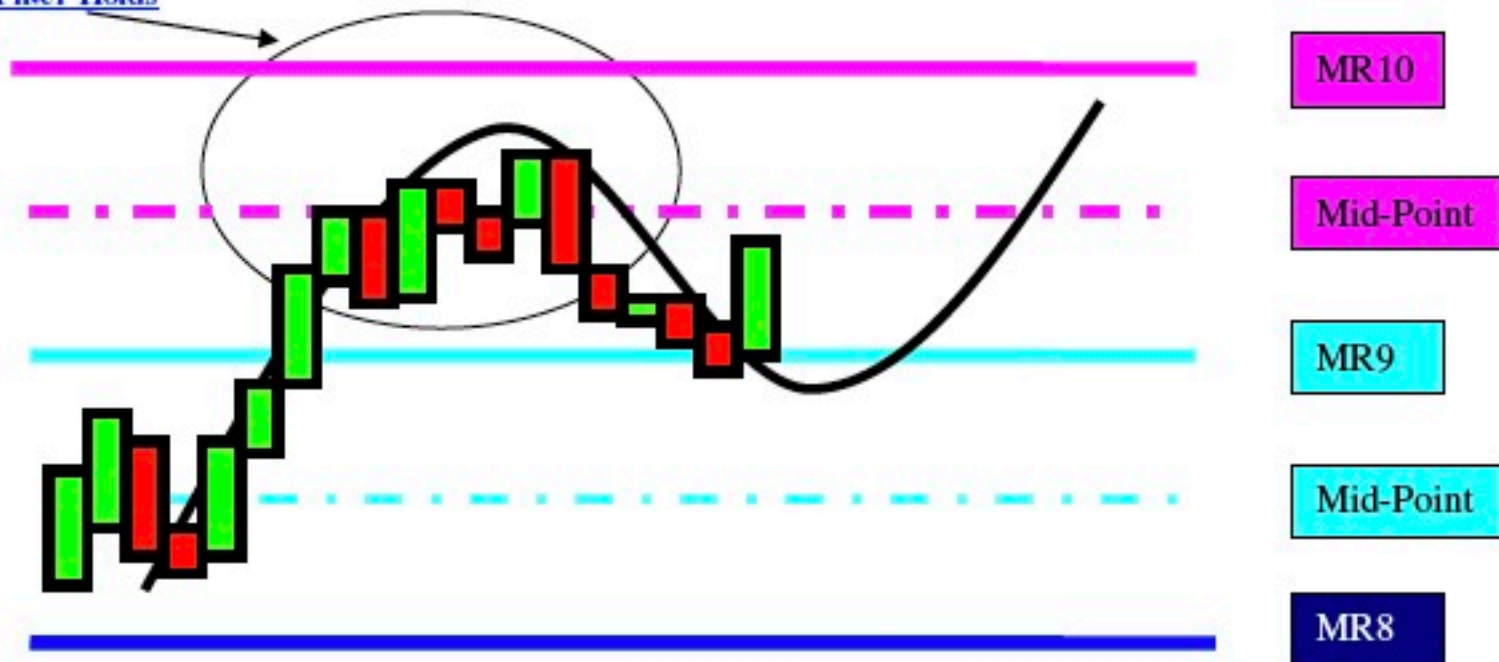
When the price is on an uptrend and the candle body fails to close above the midpoint of MR8 & MR9 and then a candle closes lower than the low of the prior candle. We are in a failed bullish breakout and expect the prices to move back to the point of control. Look to sell 1 tick below the low of the prior candle.



## Rule # 15: Bullish Confirmation Zone; Distribution 2 (MR9 – MR10)

If the price stays above MR9 for a specific amount of time (time filter) then a confirmed uptrend is established and we look to buy at the first retracement. Look for 2 closes lower than the low of the prior candle to be true retrace. Then look for close higher than the high of the prior candle to generate the signal.

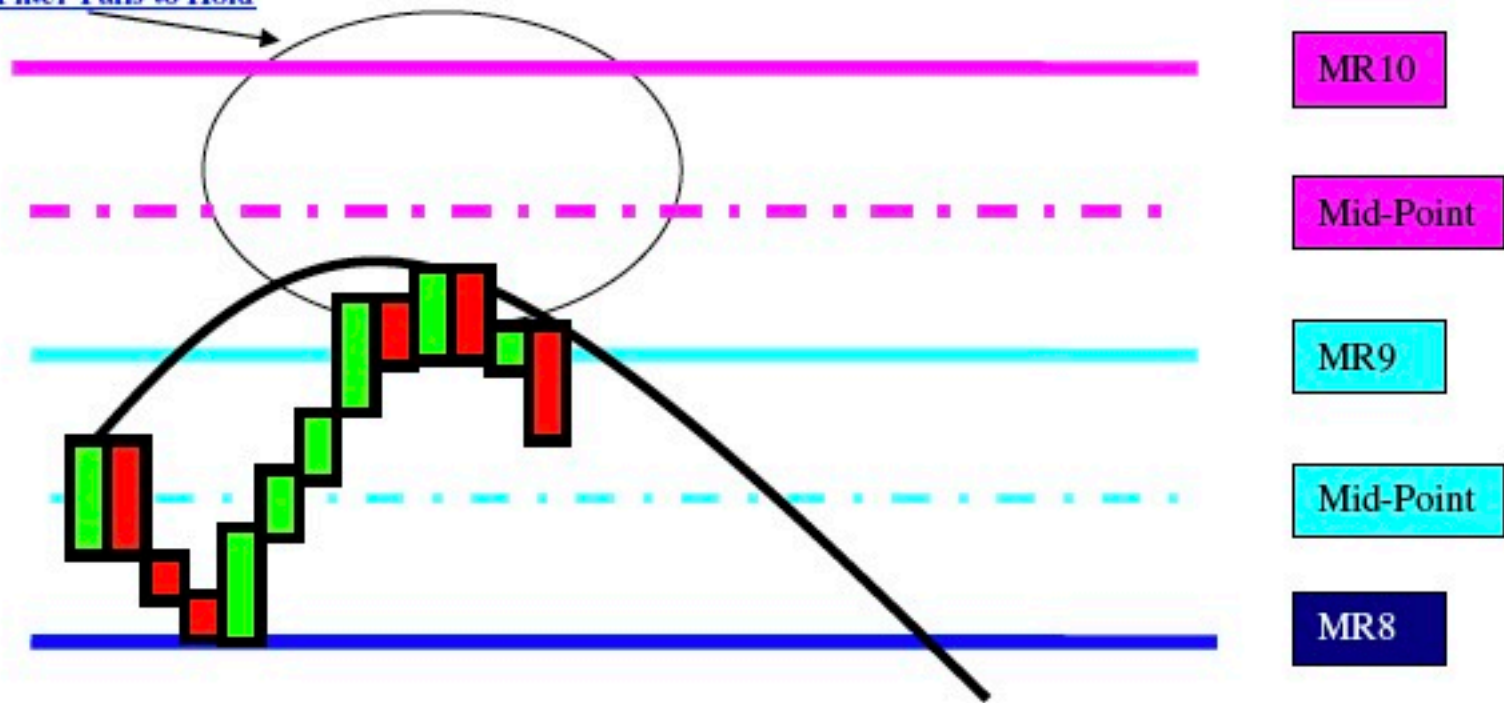
Time Filter Holds



## **Rule # 16: Failed Bullish Confirmation; Distribution 2 (MR9 – MR10)**

If the price breaks above MR9 and fails to hold above MR10 for a specified amount of time (time filter) and then a candle closes lower than the low of the prior candle it indicates failed bullish confirmation of an uptrend and we look to sell and for the prices to trend back towards the point of control or ZoneTrader Pivot.

Time Filter Fails to Hold



## **Rule # 17: Bullish Trend Extension Zone; Distribution 2 (MR10 – MR11)**

If the candle body closes above the midpoint of MR10 & MR11, it indicates the start of trend extension and we look to buy at the first retracement.



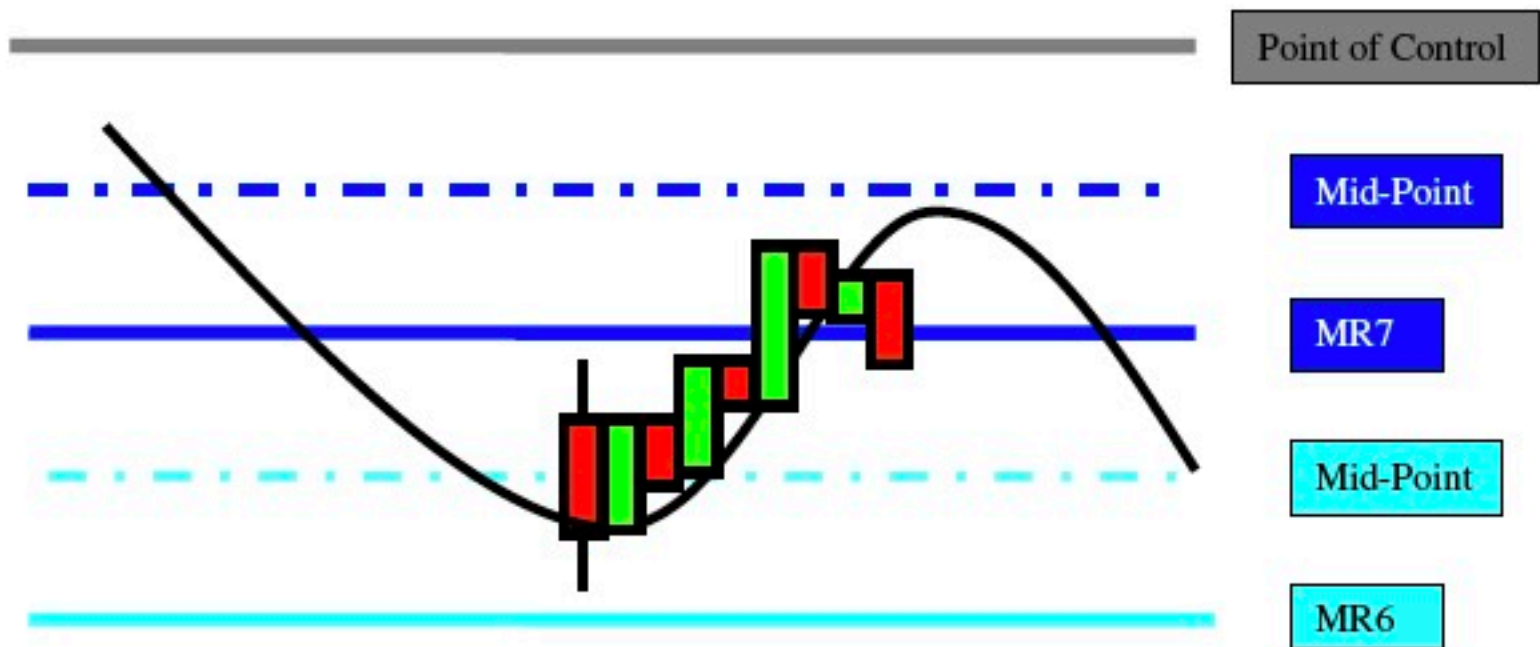
## **Rule # 18: Failed Bullish Trend Extension; Distribution 2 (MR10 – MR11)**

If the candle body fails to close above the midpoint of MR10 & MR11, and then a candle closes lower than the low of the prior candle it indicates a failed trend extension and we expect the prices to revert towards the point of control.



## Rule # 19: Bearish Breakout Zone; Distribution 2 (MR6 – MR7)

When the price is on a downtrend and the candle body closes below the midpoint of MR6 & MR7 we are in a bearish breakout and look to place a sell order at the first retracement. Need to see 2 candles close higher then the high of the prior candle for true retracement. Then a candle has to close lower then the low of the prior candle to generate the sell signal. Sell limit 1 tick below the low of the prior candle. We can also try market sell once this condition is met for testing purposes.





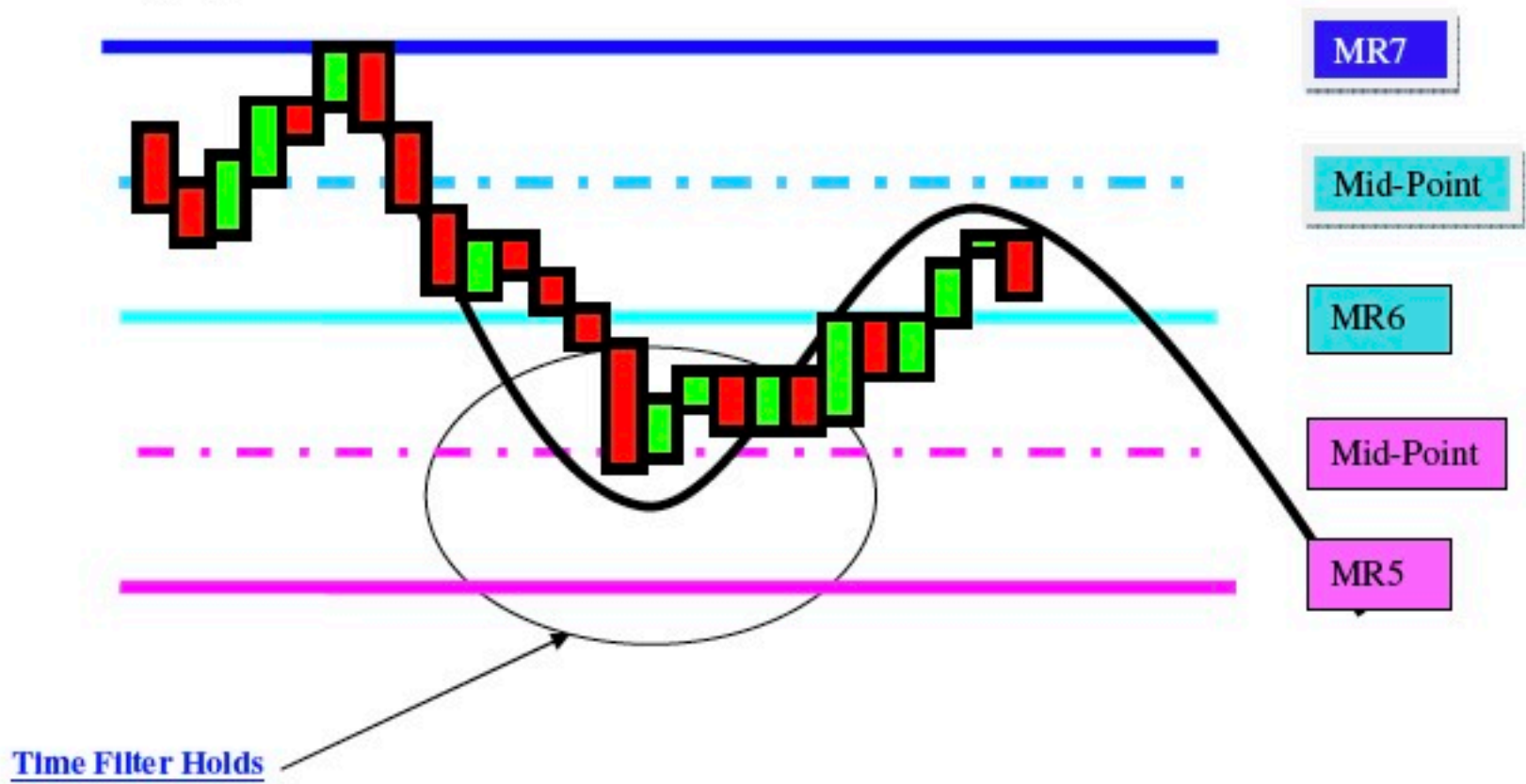
## Rule # 20: Failed Bearish Breakout; Distribution 2 (MR6 – MR7)

When the price is on a downtrend and the candle body fails to close below the midpoint of MR6 & MR7 and then a candle closes above the high of the prior candle we are in a failed bearish breakout and look to buy 1 tick above the high of the prior candle and we expect the prices to move back to the point of control or ZoneTrader Pivot.



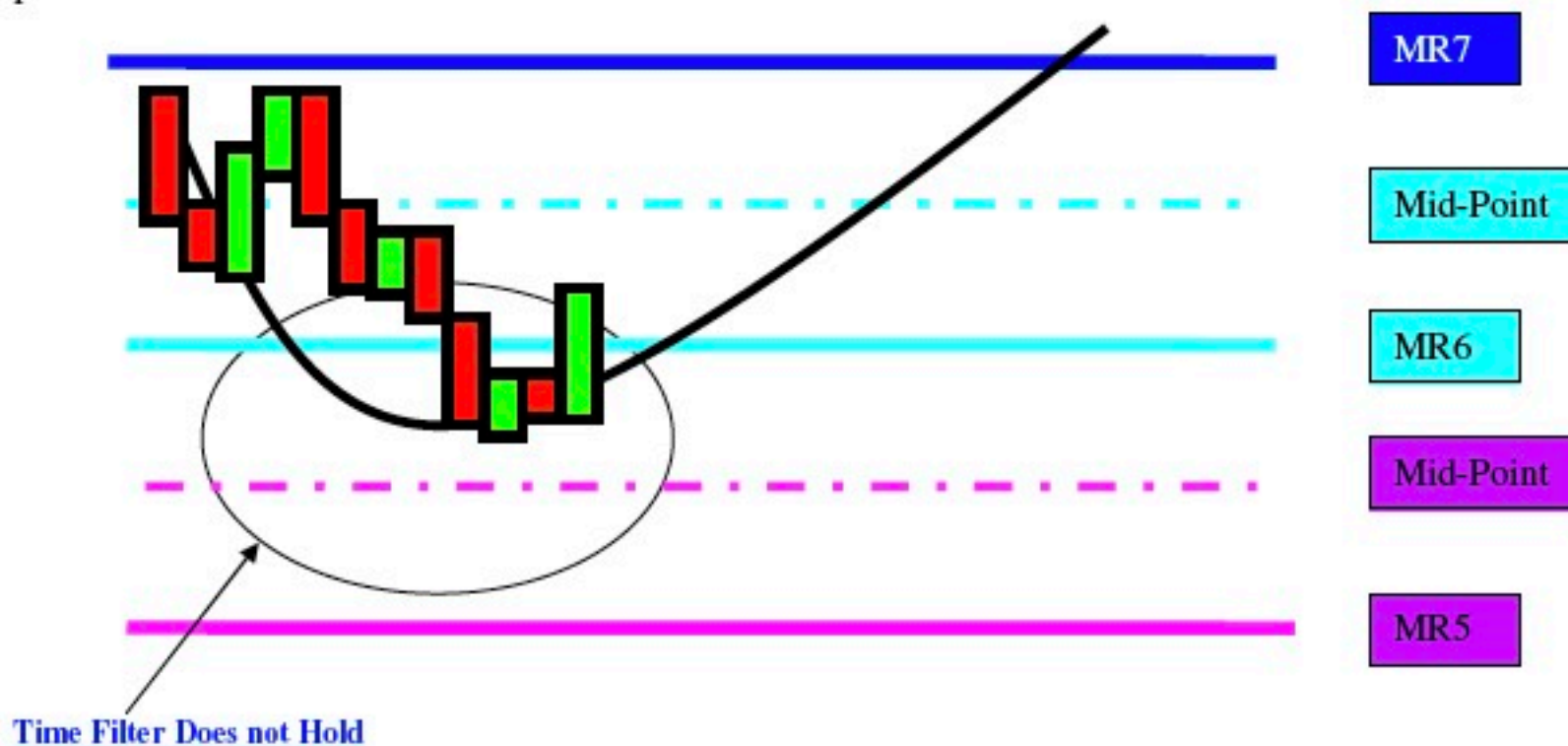
## Rule # 21: Bearish Confirmation Zone; Distribution 2 (MR5 – MR6)

If the price stays below MR5 for a specific amount of time (time filter) then the market has established or confirmed a downtrend. Look to sell at the first retracement waiting for at least 2 candle closes higher then the high of the prior candle. Once retracement criteria is achieved then look for the first candle to close lower then the low of the prior candle to generate the sell signal. Sell limit 1 tick below the low of the prior candle or at the market for testing purposes.



## Rule # 22: Failed Bearish Confirmation; Distribution 2 (MR5 – MR6)

If the price fails to hold the time filter below MR5 for a specified amount of time (time filter) and then a candle closes higher than the high of the prior candle this indicates a failed confirmation of a downtrend and we to buy limit 1 tick above the high of the prior candle or at the market for testing purposes. Then we look for the prices to trend back towards the point of control or ZoneTrader Pivot.



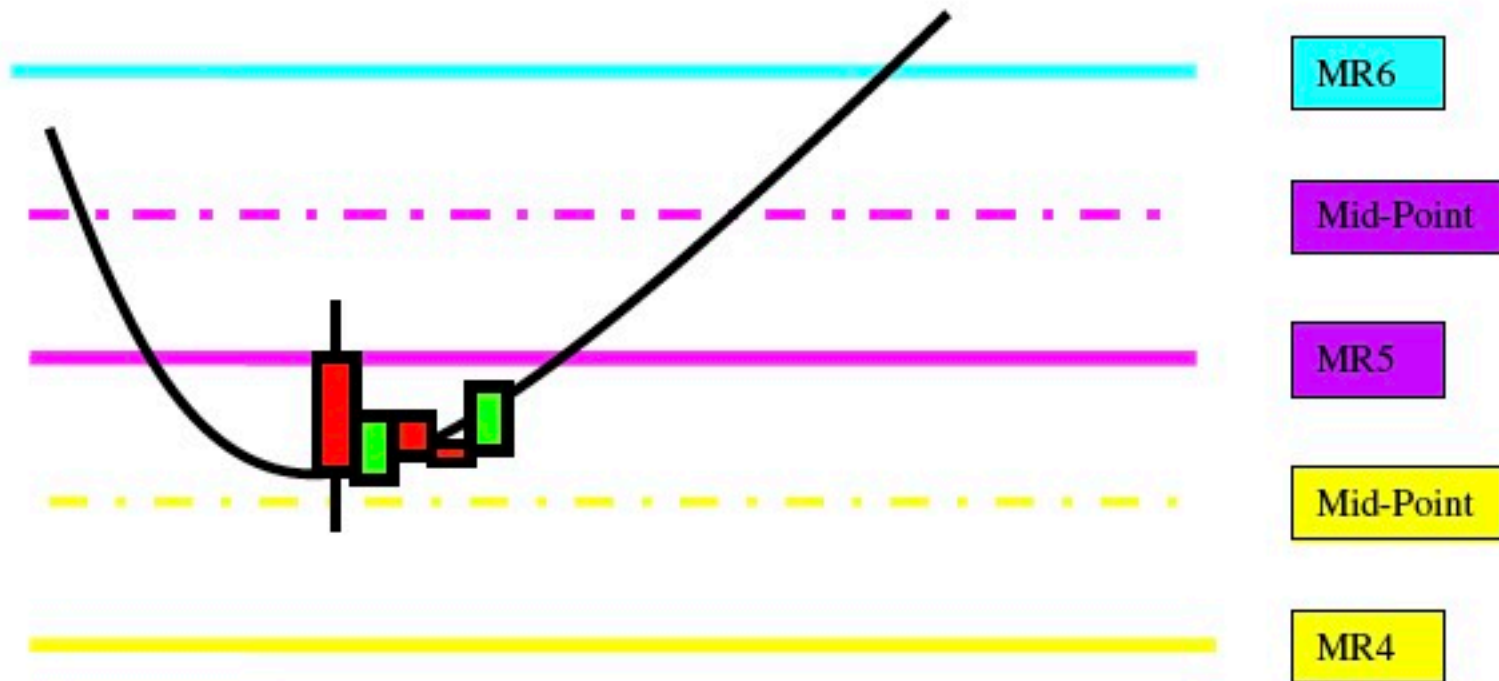
## **Rule # 23: Bearish Trend Extension Zone; Distribution 2 (MR4 – MR5)**

If the candle body closes below the midpoint of MR4 & MR5, it indicates the market has extended the trend and will attempt to break below MR4 on the next wave down. Look to sell the 1<sup>st</sup> retracement after the close below the midpoint. Need to see 2 candles close higher than the high of the prior candle for true retracement. Then need to see a candle close lower than the low of the prior candle to generate the sell signal. The reason for this is this suggest the trend is shifting back to the downside, which is what we expect, we just want to make sure that it does before we sell.



## Rule # 24: Failed Bearish Trend Extension; Distribution 2 (MR4 – MR5)

If the candle body fails to close below the midpoint of MR4 & MR5, and then a candle closes higher than the high of the prior candle this indicates a failed bearish trend extension and we look to buy limit 1 tick above the high of the prior candle or at the market for testing purposes. Then we expect the prices to revert towards the point of control or ZoneTrader Pivot.



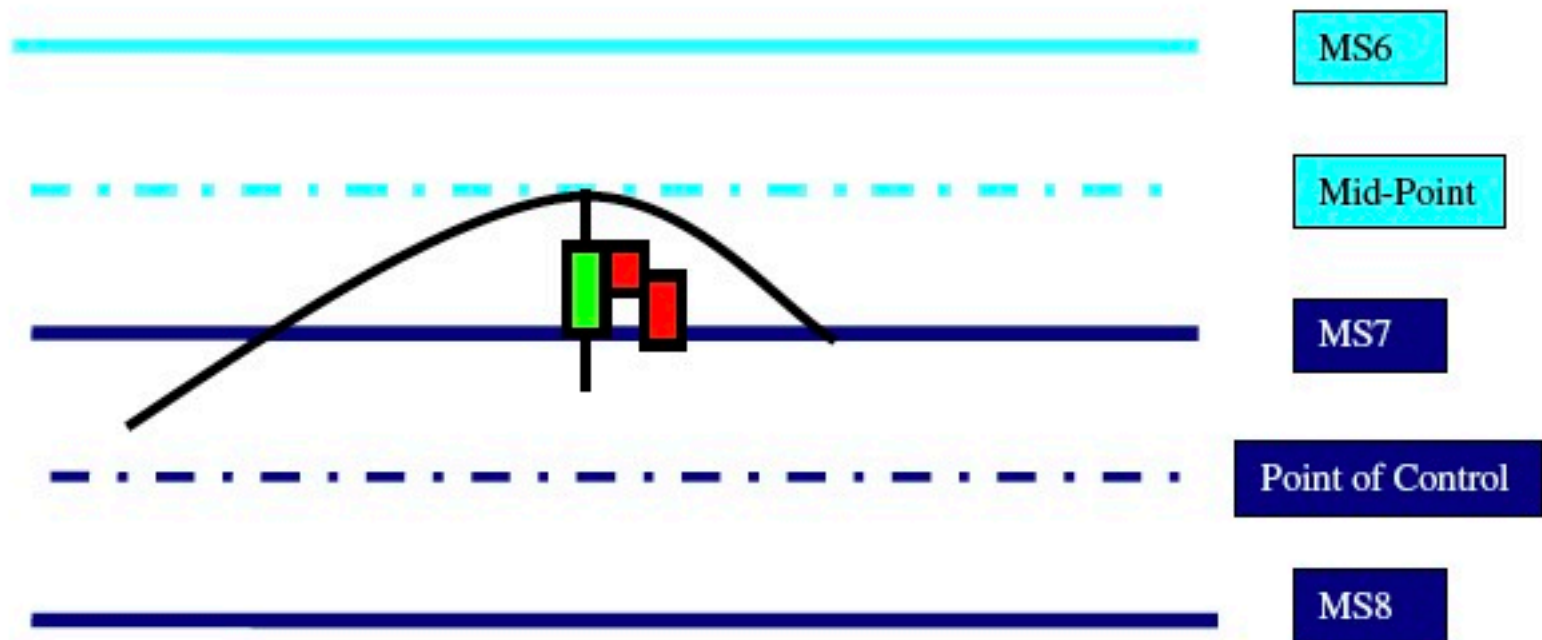
## Rule # 25: Bullish Breakout Zone; Distribution 3 (MS7 – MS6)

When the price is on an uptrend and the candle body closes above the midpoint of MS8 & MS9 we are in a bullish breakout and look to place a buy order at the first retracement. We need to see at least 2 candles close lower then the low of the prior candle for a true retracement. Then look for a candle body close higher then the high of the prior candle to generate the buy signal.



## Rule # 26: Failed Bullish Breakout; Distribution 3 (MS7 – MS6)

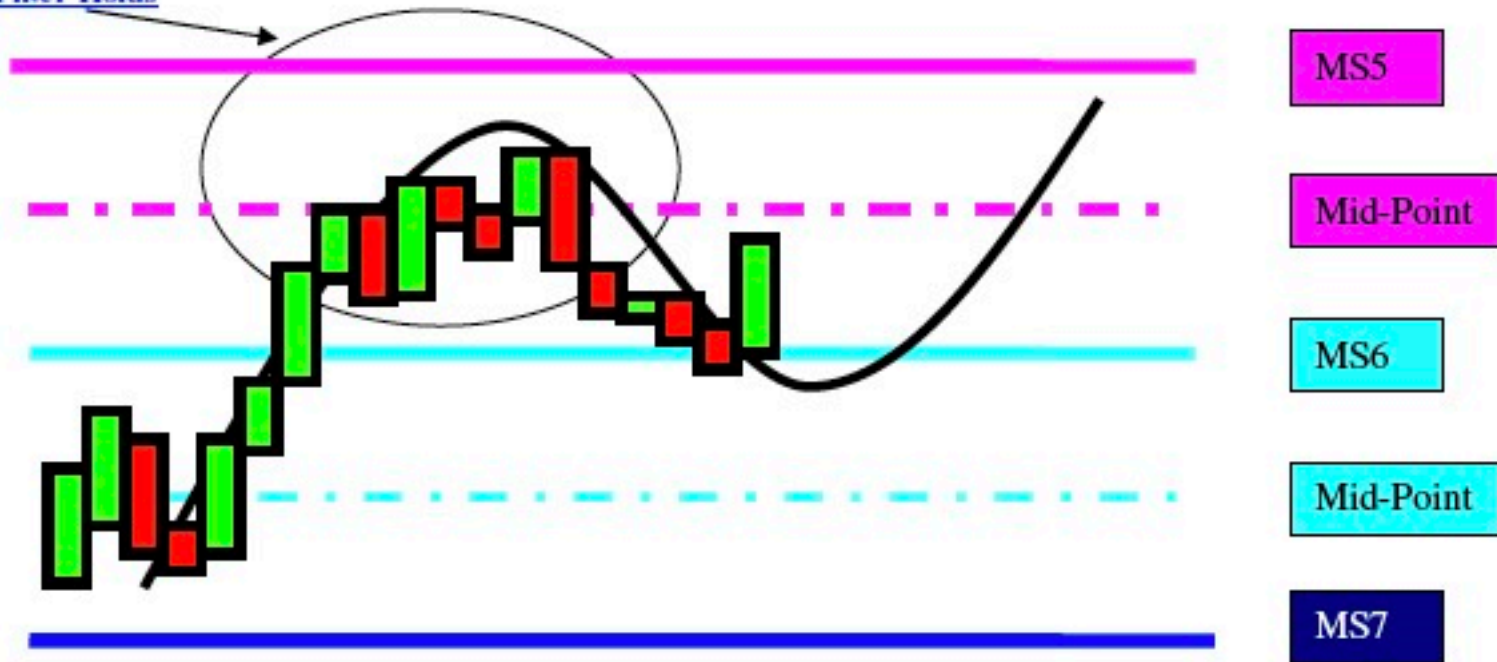
When the price is on an uptrend and the candle body fails to close above the midpoint of MS8 & MS9 and then a candle closes lower than the low of the prior candle. We are in a failed bullish breakout and expect the prices to move back to the point of control. Look to sell 1 tick below the low of the prior candle.



## Rule # 27: Bullish Confirmation Zone; Distribution 3 (MS6 – MS5)

If the price stays above MS9 for a specific amount of time (time filter) then a confirmed uptrend is established and we look to buy at the first retracement. Look for 2 closes lower than the low of the prior candle to be true retrace. Then look for close higher than the high of the prior candle to generate the signal.

Time Filter Holds

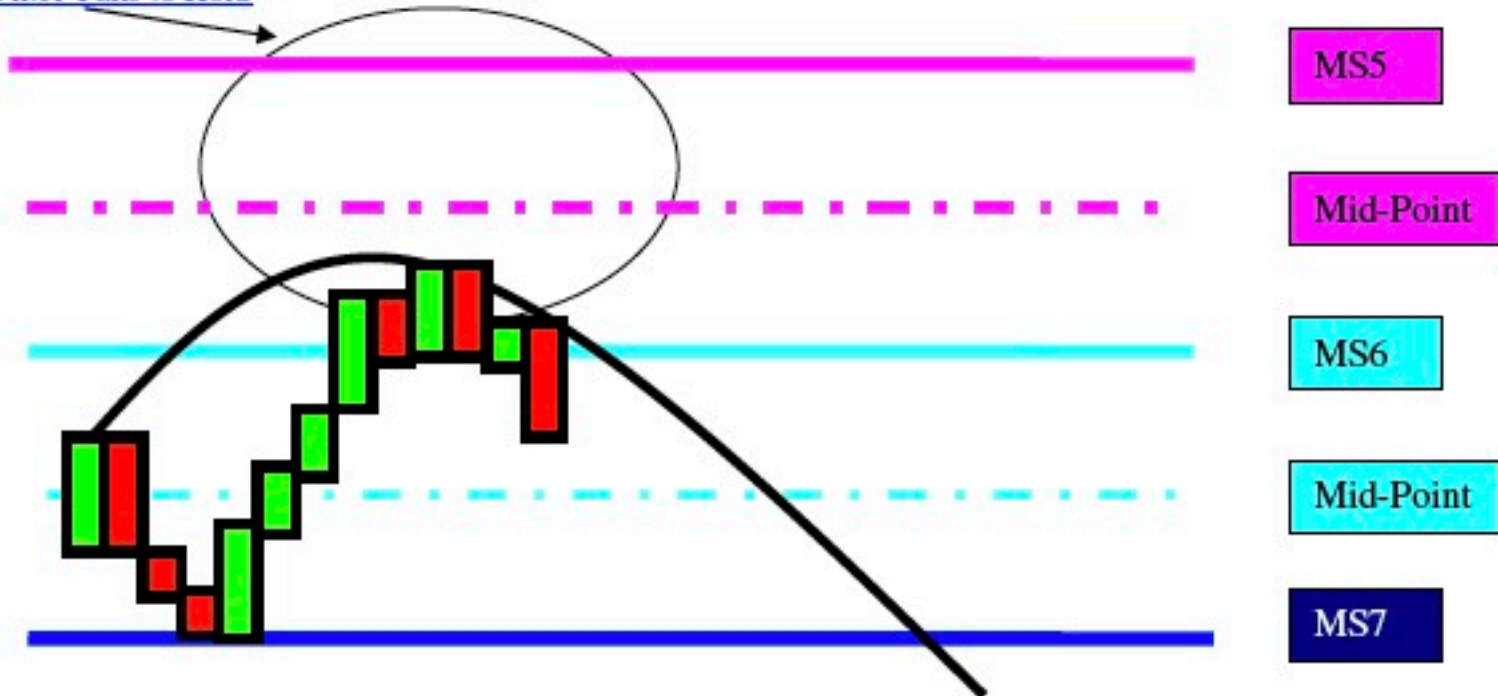




## **Rule # 28: Failed Bullish Confirmation; Distribution 3 (MS6 – MS5)**

If the price breaks above MS9 and fails to hold above MS10 for a specified amount of time (time filter) and then a candle closes lower than the low of the prior candle it indicates failed bullish confirmation of an uptrend and we look to sell and for the prices to trend back towards the point of control or ZoneTrader Pivot.

Time Filter Fails to Hold



## **Rule # 29: Bullish Trend Extension Zone; Distribution 3 (MS4 – MS5)**

If the candle body closes above the midpoint of MS10 & MS11, it indicates the start of trend extension and we look to buy at the first retracement.



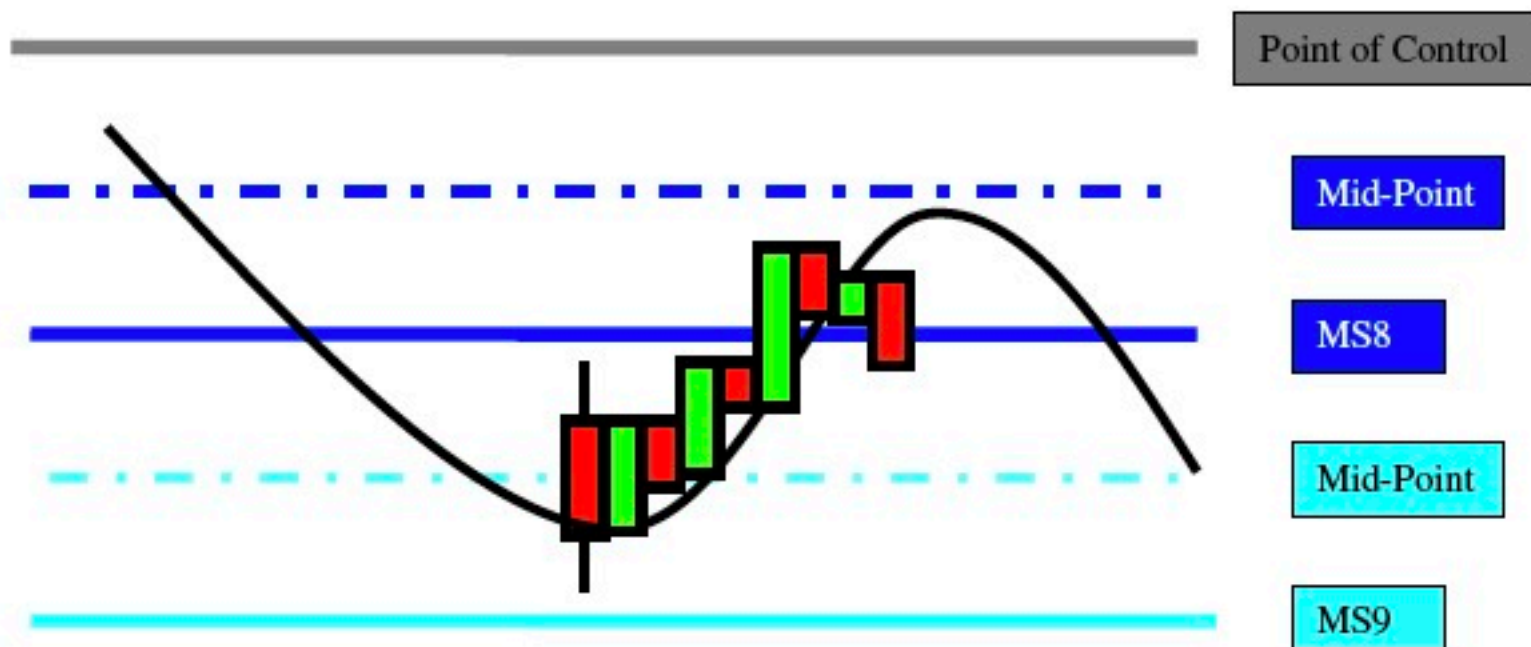
## Rule # 30: Failed Bullish Trend Extension; Distribution 3 (MS4 – MS5)

If the candle body fails to close above the midpoint of MR10 & MR11, and then a candle closes lower than the low of the prior candle it indicates a failed trend extension and we expect the prices to revert towards the point of control.



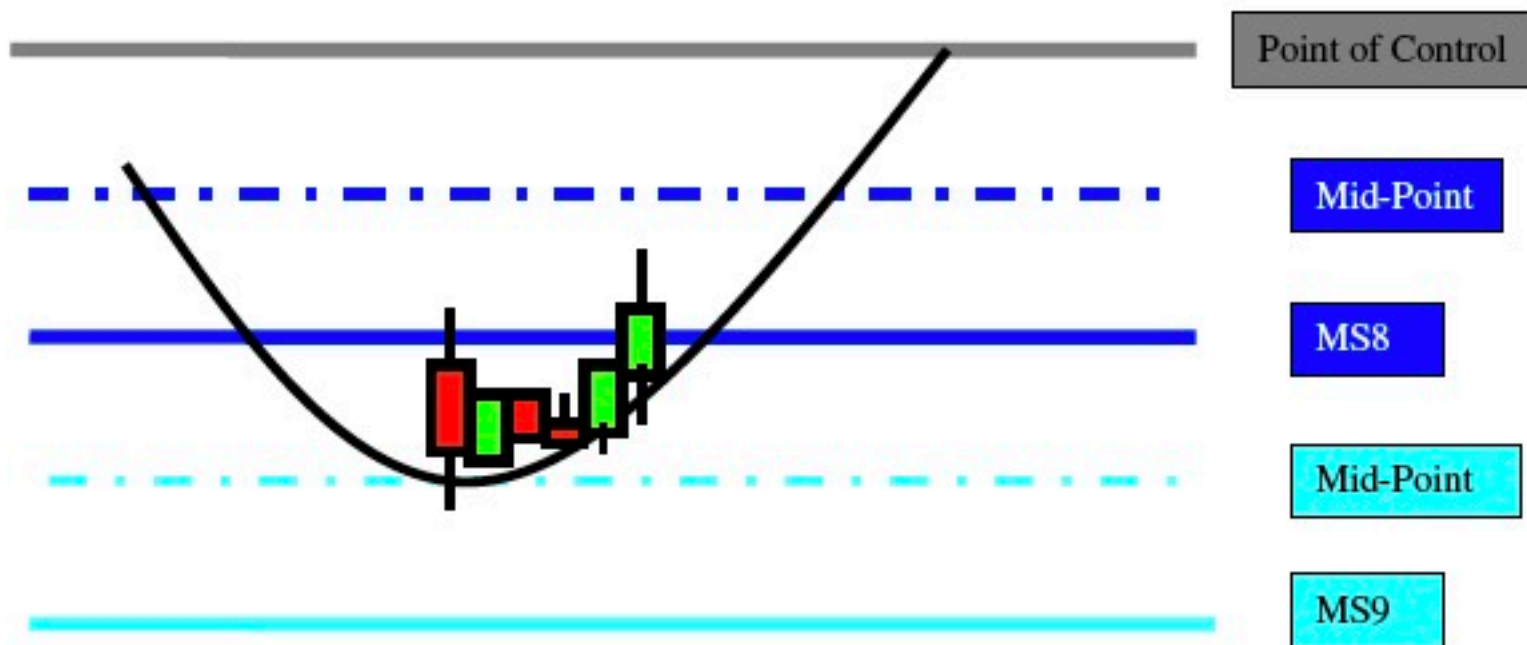
## Rule # 31: Bearish Breakout Zone; Distribution 3 (MS8 – MS9)

When the price is on a downtrend and the candle body closes below the midpoint of MS6 & MS7 we are in a bearish breakout and look to place a sell order at the first retracement. Need to see 2 candles close higher then the high of the prior candle for true retracement. Then a candle has to close lower then the low of the prior candle to generate the sell signal. Sell limit 1 tick below the low of the prior candle. We can also try market sell once this condition is met for testing purposes.



## Rule # 32: Failed Bearish Breakout; Distribution 3 (MS8 – MS9)

When the price is on a downtrend and the candle body fails to close below the midpoint of MS6 & MS7 and then a candle closes above the high of the prior candle we are in a failed bearish breakout and look to buy 1 tick above the high of the prior candle and we expect the prices to move back to the point of control or ZoneTrader Pivot.



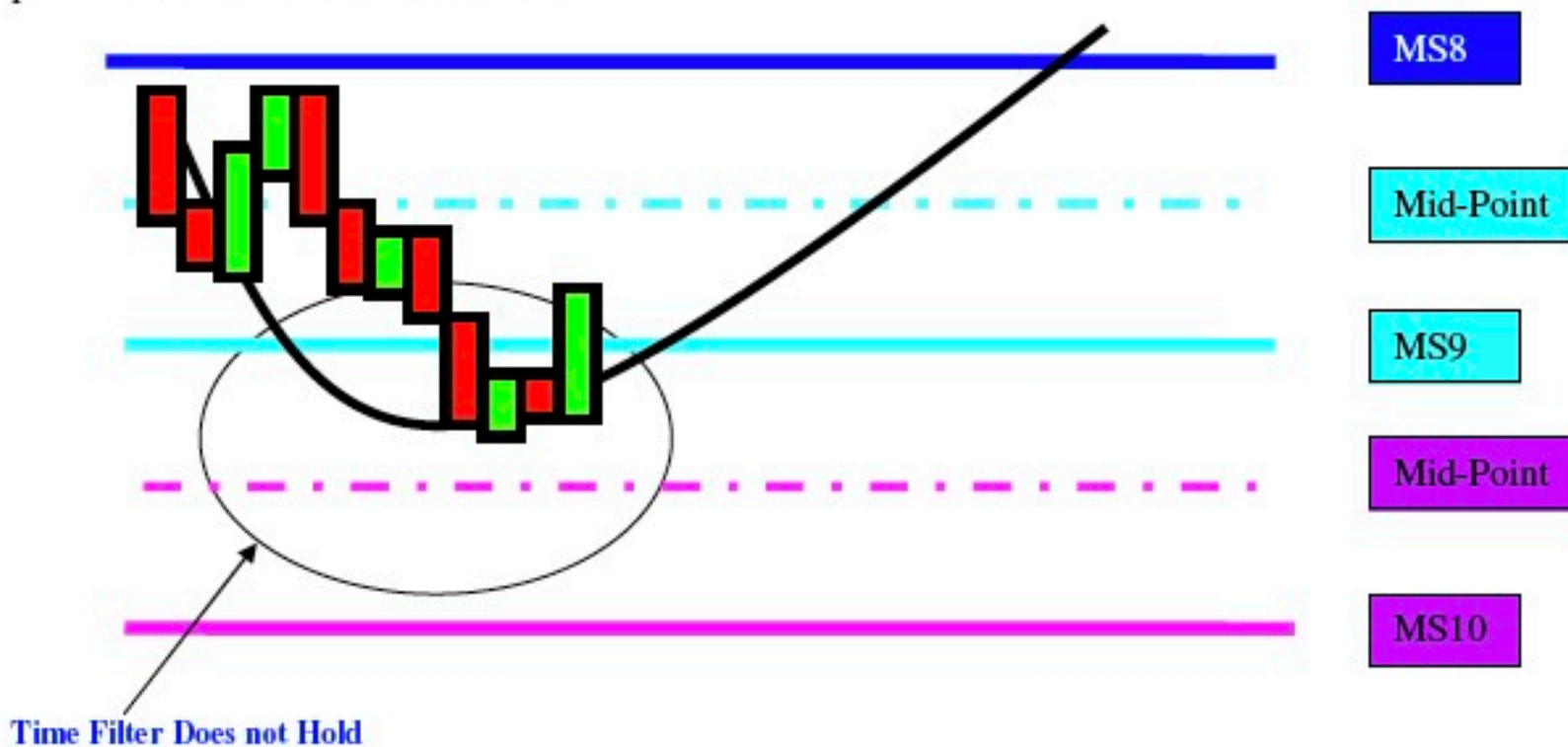
## **Rule # 33: Bearish Confirmation Zone; Distribution 3 (MS9 – MS10)**

If the price stays below MS5 for a specific amount of time (time filter) then the market has established or confirmed a downtrend. Look to sell at the first retracement waiting for At least 2 candle closes higher then the high of the prior candle. Once retracement criteria is achieved then look for the first candle to close lower then the low of the prior candle to generate the sell signal. Sell limit 1 tick below the low of the prior candle or at the market for testing purposes.



## **Rule # 34: Failed Bearish Confirmation; Distribution 3 (MS9 – MS10)**

If the price fails to hold the time filter below MS5 for a specified amount of time (time filter) and then a candle closes higher than the high of the prior candle this indicates a failed confirmation of a downtrend and we to buy limit 1 tick above the high of the prior candle or at the market for testing purposes. Then we look for the prices to trend back towards the point of control or ZoneTrader Pivot.



## Rule # 35: Bearish Trend Extension Zone; Distribution 3 (MS10 – MS11)

If the candle body closes below the midpoint of MS4 & MS5, it indicates the market has extended the trend and will attempt to break below MS4 on the next wave down. Look to sell the 1<sup>st</sup> retracement after the close below the midpoint. Need to see 2 candles close higher than the high of the prior candle for true retracement. Then need to see a candle close lower than the low of the prior candle to generate the sell signal. The reason for this is this suggest the trend is shifting back to the downside, which is what we expect, we just want to make sure that it does before we sell.





## Rule # 36: Failed Bearish Trend Extension; Distribution 3 (MS10 – MS11)

If the candle body fails to close below the midpoint of MS4 & MS5, and then a candle closes higher than the high of the prior candle this indicates a failed bearish trend extension and we look to buy limit 1 tick above the high of the prior candle or at the market for testing purposes. Then we expect the prices to revert towards the point of control or ZoneTrader Pivot.

