FS Taylor Indicator

TECHNICAL TOOLS

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Taylor Trading Technique

George Douglass Taylor was a veteran trader from the WWII era. Throughout his career he had studied the markets thoroughly and thus had developed a sophisticated strategy for trading them. One of his main points was clearly outlined in his book as "a good trader must understand the fundamentals of manipulation since manipulation enters into the market at all times." He believed that the market was on a pretty regular cycle of buying, auctioning to sell out longs, a transition to short selling, short covering, and then buying again to start the cycle over.

He stuck to the idea that this phase changed daily, and made enough rules with careful exceptions to allow for variations in the phase. The core idea of the Taylor Trading Technique is that there is a Buying Day, followed by a Selling Day or Neutral Day as some shops call it, and then a Short Sale Day. The market cycles repeat with variations on price action quite regularly. Taylor had been observing these patterns long after he identified them and he formulated a complete set of rules for his method of trading. He was able to filter out virtually all the noise in between to get down to the meat and potatoes of what the current session had to offer. He diligently pursued opportunities to make big profit hits. He always put himself into the action at the critical points and never traded anything else. He believed there were only one or two good trades possible on any given day and did not bother with taking what he felt were unnecessary risks.

He focused on the highs and lows of the sessions, and measured the excursions respective to those highs and lows depending on what kind of day it was. He then kept track of the average ranges and how the market explored major objectives, such as keeping track of which high or low was made first and adjusting his plays accordingly. It is highly recommended that each prospective user of this technique should educate themselves thoroughly by obtaining a copy of the original book and reading it multiple times. The user is also encouraged to seek out a service that will provide the various markets with the generally accepted cycle days in play. There are many reputable services available that will do this for a reasonable cost and some have been around for a long time. This product will focus on generating the relevant price levels and data so that the user does not become bogged down with tons of calculations. The trader then will be ready and waiting to strike at the next opportunity. Many of Taylor's charting rules have been incorporated and carefully implemented to maximize the ease of identifying what critical points should be focused on with each new phase.

This manual will not go too deep into the specifics of the actual book strategy but it will outline clearly what is being displayed on the chart and why it is there. For more detailed strategy techniques and further implementation of the recommended trading rules please refer to Taylor's original book which is available in PDF download or in hard copy from Amazon. There is no right or wrong way to trade these levels. Taylor formulated his plan for the grain market almost 100 years ago and the basic laws of supply and demand still prevail. He was an expert in his field. The markets of today offer similar but nonetheless unique opportunities. These are professional tools of the trade and can be employed however the modern trader wishes given that the objectives will provide solid insight into how trades may be constructed. Understanding the fundamentals of playing about the highs and lows of the day are the main focus of this technique and all surrounding ideas will tie into that core focus of this trading strategy. For all practical purposes the price of the BDL or "buying day low" is widely considered by many traders of this method to be the most important price and a majority of calculations contained within this indicator have the BDL as an input variable to their formulas.

The Buying Day

The BD is the day where the market seeks value (in theory goes lower until a price is hit that is cheap enough for long side players to get in). The market then reacts to this point and proceeds to climb until it hits something attractive enough for players to start selling.

The book definition of how to play this is to buy when the low is made early and to sell short if the high is made first. The buying objective for the buying day is the previous day's low. This short sale day low area is where the trader can start getting into the market. The BU is the projected "buy under" or the average excursion below the SSD low. The average decline is the average distance from the SSD high to the next BD low. The BH is called the "buying high" and is the average penetration of the SSD high. Taylor kept a record of these so he would know in advance the possible excursions about these levels.

The above example displays very typical market behavior that makes the high first around the BH and then proceeds to crash through the SSD low and nearly hit the BU. It is also worth noting the symmetry of the average decline right in the middle of the range. This suggests that although the move seems steep that it was well within the range of possibilities by studying the recent relevant price action.

The Selling Day

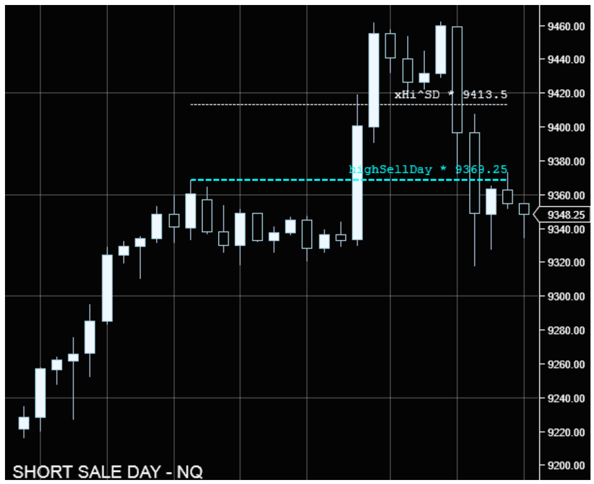
The day after the buying day naturally is the selling day. The players that have bought on the buying day seek to push the market up so they can unload their inventory. This auction functions much like a property or car auction where the community keeps bidding up the price until a match can be found. The selling typically starts to take place above the buying day high and proceeds up to the average rally point from the buying day low. This has been designated as the BDT or "buying day target". The "xHi^BD" is the average excursion above the buying day high.

The buying day low from the previous session is the centerpiece of the whole Taylor method of trading. If the market tests this low from above the textbook play is to buy this price when it crosses back above after a violation. The BV is designated as the "buying violation" and it is the average excursion against the buying day low on this day.

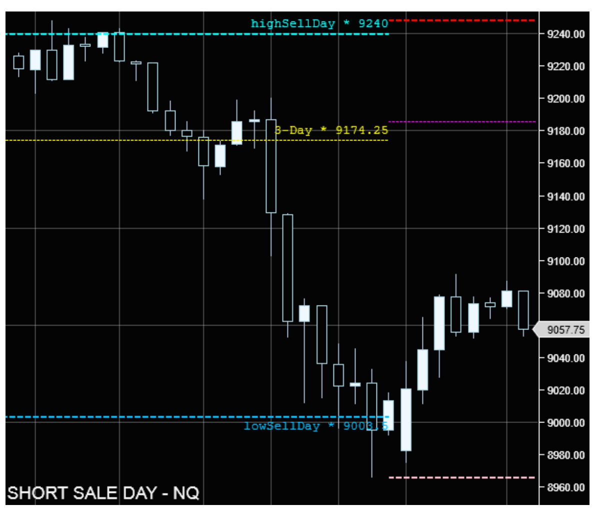
The market found support in this scenario in between the buying day low and the average violation excursion. When price crossed back over the BDL and followed through on the next period a very strong rally developed. This textbook play is one of the most powerful setups in the Taylor trading method and should be studied meticulously. There is big opportunity to be harnessed in this type of setup.

The Short Sale Day

The SSD is the day where the market finds a high point and players start selling it short. The long plays have been converted fully by now and the pendulum begins to swing the other way. The minimum requirement of the price exceeding the high of the selling day must be met in order to qualify a valid short sale attempt. The “xHi^SD” is the average excursion above the selling day high.

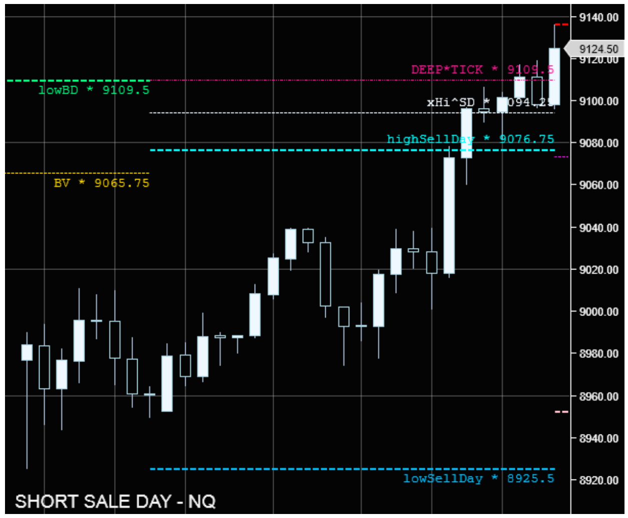


The book definition of how to play this is to sell when the high is made first. The book presents the idea that when the high on the short sale day is made late towards the end of the session that the market is strong and may likely continue the rally cycling into the new buying day. Players that had sold would be wise to exit shorts if no reasonable profit objectives were hit. If the market comes off as expected the new buying day would be seeking value and traveling lower. The short sellers would then have a chance to convert at advantageous prices.

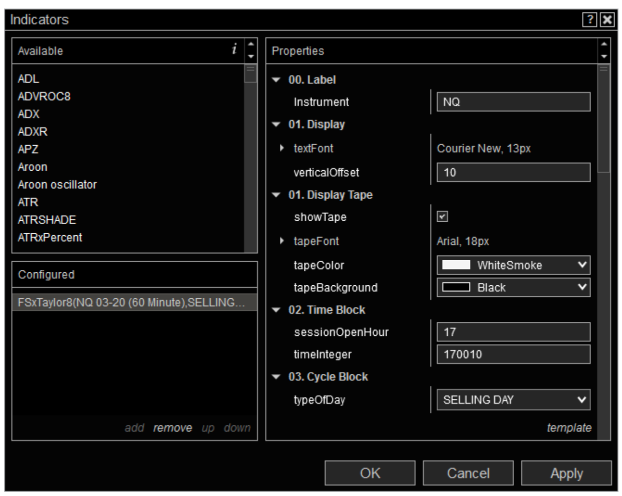


This example shows the market trading above the “3-Day” line which is the average 3 day range from the buying day low. The high is made first and proceeds to come off significantly by the end of the session hitting the low of the selling day. This is a good chance to convert shorts and reset for the buying day. There is no long trade on the short sale day.

There are cases where the market has fallen well below the low of the buying day by the short sale day. The “DEEP*TICK” line is used to represent this low as a pivotal resistance point. The market is considered to be severely under pressure in this scenario and prices are likely to continue lower unless this level can be recaptured.

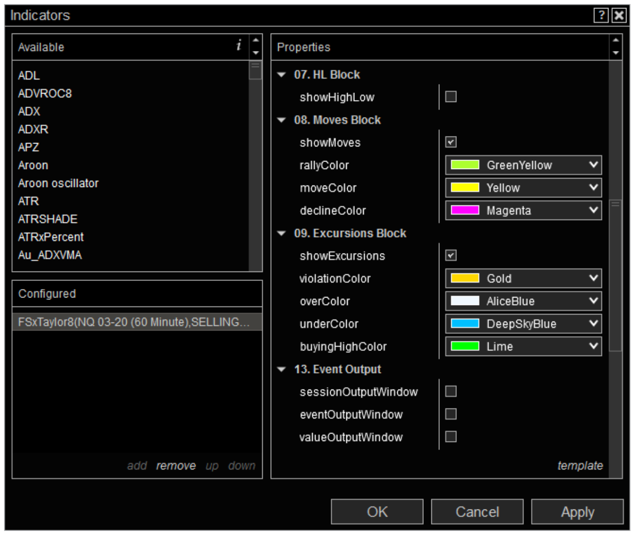


The “Instrument” label has been added to make the designation of the current day type easy to implement. The “showTape” will turn this label on and off. Set the beginning session time with the respective start time in 24-hour format. In this example 17 would be the new session for the central time zone. The “timeInteger” has been set for 10 seconds after the open to print relevant information about the specific day to the output window. Adjust the color and font of the tape with the tape controls.



Set the initial day type to begin the sequence on the first day and the “days to load” property in the “Data Series” tab from the main chart window. Adjust this parameter to get the right day and levels printing. It is recommended to have at least 10-20 days of data for the average calculations to balance out. The longer the data set is the more reliable the average calculations become.

The pretty colors can be adjusted with the display block. Set the indicator to display the desired levels with the “showHighLow”, “showMoves”, and “showExcursions” switches. The levels will display on the chart and the colors can be adjusted to taste.



The switches in the “Event Output” block will toggle the feed of relevant data to be sent to the output window. The “sessionOutputWindow” will print the day’s respective levels on the opening bar of the session. The “eventOutputWindow” will send the events of objectives being reached as they happen. The “valueOutputWindow” will send out the values of the level calculations.

END OF LINE.