



# Trading the Daniel Code Numbers

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## **INTRODUCTION**

This document is intended to be read in conjunction with the FAQs document found in the members' docs section of this website.

## **ABOUT THE DC NUMBERS**

The DC numbers provide high probability price turning points that markets recognise but others do not see. Please note that in itself, the DC numbers do not provide a trading system. We use these DC Numbers to trade reversals and continuations in the market.

## **BEFORE YOU START**

You need a good charting program. If you use your broker's free charting program make sure that if you are trading Forex you have these charts set to GMT. Otherwise your chart will look completely different from those posted on the website. Note that some brokers do not have settings in their charting packages to allow you to do this. We recommend you use the Genesis charting packages. [Click here for a free trial](#). Brokers and trading platform studies, particularly stochastics may not give the same readings as the Genesis program that we use.

We recommend that you start by using only the DAILY charts. The DC numbers are not designed for short term trading and while we provide 4 hour charts on the website, these do get out of date in fast moving markets.

## **GETTING STARTED**

Once you have selected a DAILY chart initially use only the blue DC numbers. The red and black numbers are for more advanced traders and indicate support and resistance lines.

To do this, first select the Blue DC number closest to the current price. Place this blue daily DC number into your charting programme. This DC number will provide a high probability turning point. If you only take those signals at, or very near the DC numbers, the probabilities of a successful reversal will increase dramatically.

It is important to have your own reversal indicators. We use the 14,3,3 stochastic as a base indicator and also the T3.0 turn indicator is recommended as well. An explanation of the T3.0 indicator is given further down in this manual. After identifying a possible set-up bar on the daily DC chart, use shorter term timeframe charts, such as the 4 hour chart, to assist entry and exit.

If the price trades through this first Blue DC line by more than the usual target variance then add in the next closest blue DC number.

It is important to update your charts with the new DC numbers whenever the website is updated.

## Set-Up Bars

A set-up is a precondition that alerts us that a high probability trade is imminent. This setup means having the market "recognise" the Daniel number sequence.

Recognition occurs when a high, low or close of a bar on whatever time frame you are operating in, finishes its sequence with one of these features in close proximity to the nearest Daniel number. "Close" means within 40 pips in Forex or within 3 points in S&P and Gold, 11 points in Silver and 30 points in DJ. Setup bars can occur on either the index (cash) or the futures. Either setup is valid and both have equal weight.

This range is called the action zone and on Chart 1 below, the action zone is between 1328.1 and 1322.2 which is 3 points either side of the nearest DC number, 1325.2.

If the market gives a qualified setup bar and a reversal signal ensues it is a high probability trade. If there is no reversal signal we assume that the prior trend remains intact.

In the S&P chart below, there was only one bar that met all of the DC qualifying setup bar provisions and it is highlighted with an arrow. This was the bar with its low at 1325.50 just 3 ticks from our DC Number 1325.2. With the stochastic severely oversold the conditions for a perfect DC number reversal and these were all met on one and only one bar. This trade netted \$12,200 per S&P contract from the reversal to the upside DC target.



Chart 1

Chart 2 (overleaf) is another example of a setup bar, this time highlighted by the red box.

"Recognition" of the DC numbers can take the form of a significant reversal or a mere vibration to acknowledge the number.

Note: The Danielcode says nothing about time. How you use the Daniel numbers is up to you.



Chart 2

## DC Number Sequences

The blue numbers on the charts are DC sequence numbers. Once a market starts following a sequence it can go on following it for days and weeks. On the monthly charts it can follow the same sequence for years. From a trading perspective, the sequence changes when we have a turn that is not made at the DC numbers on the chart. The charts are updated and a new sequence is identified. As markets can do anything at any time, including switching to a new DC number sequence, you should always use sound trading techniques such as moving your stop to protect profits.

We start with the prime DC numbers in blue. So long as they are on the chart they are valid in all time frames.

## Reversal Signals

You can use an indicator to identify the reversal signal.

In Chart 3 the market goes to 1.4749 just 16 pips from the next DC number at 1.4765. That is the first part of this setup that requires the price to be within 40 pips of the DC Number in Forex markets. The MACD is rolling over and crosses over on the little red bar just after the high. This is the second part of the setup where the indicator

provides an indication that there is a high probability of reversal. A trade below the red setup bar is your signal to sell. The market immediately dives away 115 pips to a lower DC number. The risk on the trade was just 18 or so pips for 115 pip profit at the present market price.

The settings on this MACD (which is straight out of the Genesis tool bar) are C, 8, 13 with exponential moving average of 9. If you are using indicators ensure that they are appropriate to the chart. This setting for the MACD is OK on this 4 hour chart but much too slow on a daily chart.

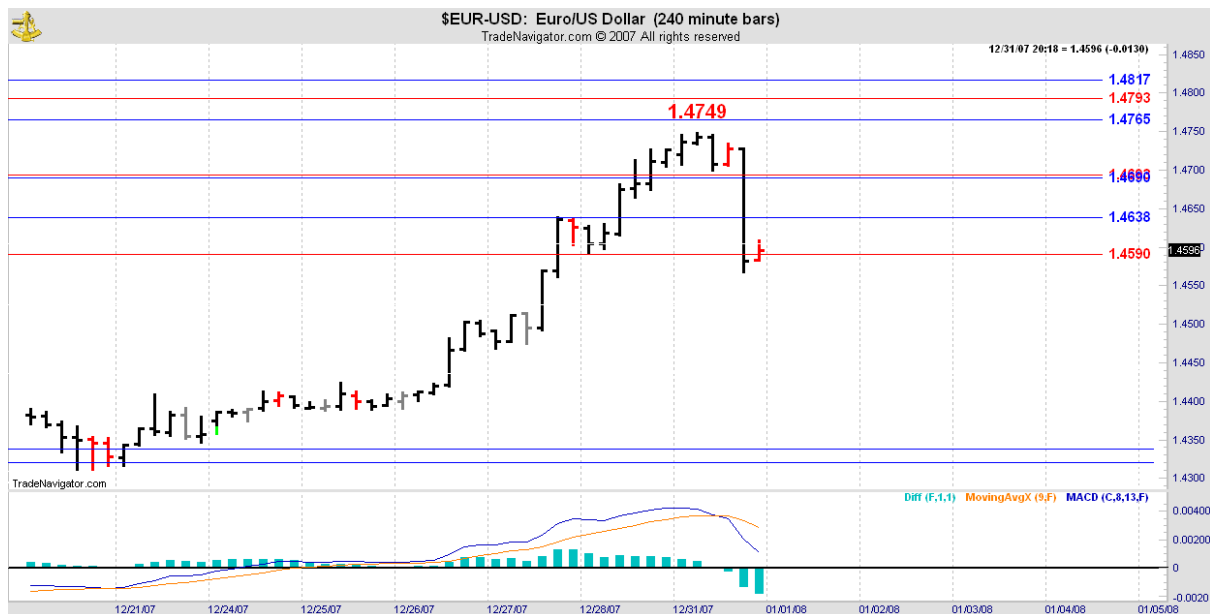


Chart 3

If the market doesn't recognise the Danielcode number and there is no reversal, then it is likely that it is a continuation and the previous trend is intact. Chart 4 is a continuation example.

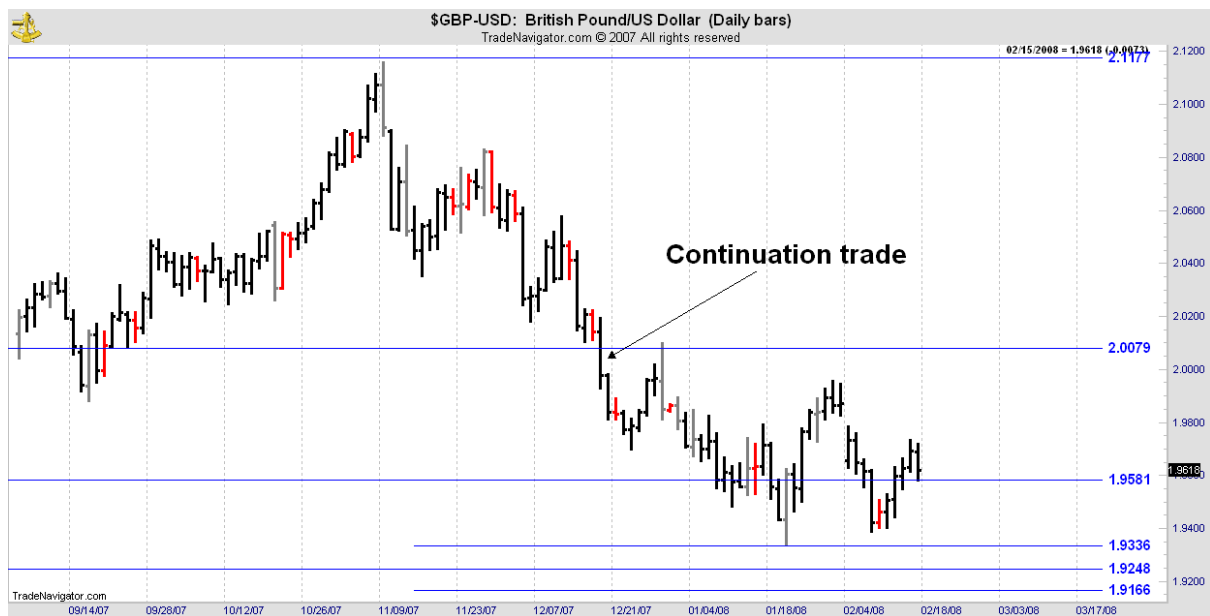


Chart 4

## DC TRADING METHODOLOGY

Every trade in regulated markets can be broken down into these 5 steps:

1. Identify the market setup for a high probability entry
2. Buy or sell?
3. What is the entry point?
4. Where do I put my stop loss?
5. Where do I exit?

And that's it! The rest is background knowledge and technique but every one way trade (as opposed to a hedge) comes down to these basic points.

### 1. Identify the market setup for a high probability entry

In Forex, from back testing, we know that 85% of market turns on the daily timeframe come within 40 pips of a DC number.

**On the daily charts we are looking for a "setup" bar.** That is initially any bar that has its high or low within 40 pips of the nearest DC number. In a falling market the low of the bar may be more than or less than the DC Number but it must be within that 40 pip limit.

Chart 5 identifies the DC setup bar as it is a low that is within 40 pips of the DC number. The two stochastics one fast and one slow are standard stochastics straight out of the Genesis charting package.



Chart 5

Let's examine this setup bar more closely on Chart 6 below.

Two dotted lines that represent the extremes for this particular setup have been added. This is called the "Action Zone". The 40 pip zone for Forex markets is not set in stone, different traders will have different parameters, but this is what we use. For this to be a valid setup bar, the low has to be inside this zone. The low of 1.9360 complies.



Chart 6

## 2. Buy or Sell

On Chart 6 there is a longer term and a shorter term stochastic. The market in conventional terms is oversold on two different time frames and this indicates we are looking to buy. Use your favourite indicators if you prefer.

As we are looking to buy this entry we need some assurance that the market is ready to recognise the 1.9324 DC Number by reversing and for this normal market indicators are used.

## 3. What is the Entry Point?

This question has many possible answers. You can use a stochastic entry on a 4 hour chart or shorter. For this we take the bar that creates the first cross on the stoch as the setup bar on that time frame and buy the high/sell the low of that bar. In a strongly trending market you need a stronger signal. In this case use a 720m chart or even the daily bars. Part time traders will use the daily high/low of the setup bar. In forex allow 5-6 ticks variance as different platforms have different data. An aggressive entry is to enter at the open of the bar following the setup bar. Personally I need to see some momentum to convince me that a turn is occurring.

On Chart 6 above we are long this market at the open of the bar after the setup bar is complete which is 1.9418.

## 4. Where do I put my Stop Loss?

The logical solution is to **put your stops at the point where the trade will fail**. In the chart above and the placement of the stop is at 1.9284 just below the action zone.

If we have an 85% chance of a reversal at a qualified Daniel setup bar, the corollary is that we only have a 15% chance of a successful reversal outside these parameters. On these percentages you want to be out of the trade at the point that the percentages stop working for you.

As all trades have a theoretically equal chance of being a winner or a loser, we want to equalize our stops so that the risk on each trade is equal. We do this under our money management protocols by adjusting our position size so the risk on entry for each trade is as nearly as practical equal. If, for example 200 pips represented 1% of our account and our money management plan called for a 2% risk on each trade we would take 2 contracts on this entry. If we had got a more favourable entry that put the risk at 100 pips, bearing in mind that the stop placement always stays the same we would take twice the number of contracts and so on. In this way the risk on entry is always the same and the market decides the reward or failure.

At some stage it is a good idea to move your stop loss to break even. Once the stop is at breakeven you can then use the DC numbers as targets.



## 5. Where do I exit?

We have no idea where price is going in advance, so we use technique to compensate for our lack of foreknowledge. There are unlimited exit techniques.

Firstly, if the trade has moved in the wrong direction the trade will be stopped out. Always have stops in the market to limit your losses.

Secondly, you can use a number of profit targeting techniques. Some examples are mentioned below;

1. Use a moving average to give a profit target exit point.
2. Exit at the first profitable opening. It sounds simple but it has some quite sophisticated nuances. It has the benefit of giving a high success rate.
3. Once the stop is at breakeven you can then use the first DC number as a target. If the market doesn't react at that number, then you can use the next DC number in the sequence as a target. If the market is not going to react to the DC Number you have used as a target then you won't get a qualifying setup bar.

You will see these types of trades setting up again and again with the DC Numbers. If you can use methodology to limit draw downs you are on your way to success.

Chart 7 shows another trade that made 98 pips.



Chart 7

And Chart 8 shows another that had successive setup bars.

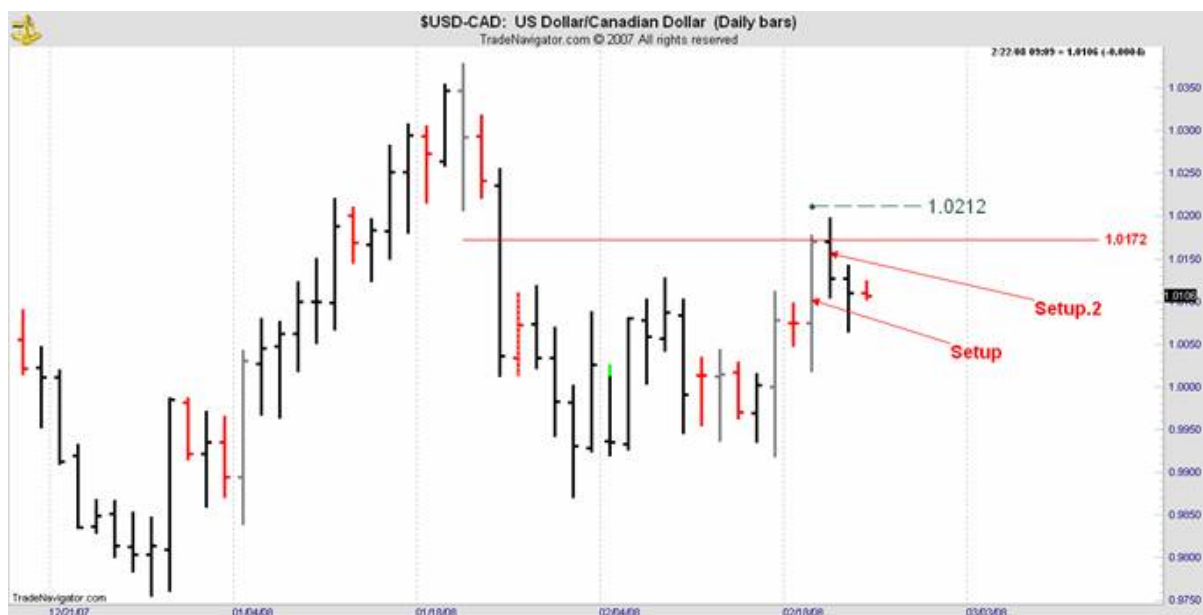


Chart 8

There are also a number of trading articles under the "Articles" tab on this site that have numerous examples which will help you to understand the DC Numbers.

## More DC Trades

### SPX

The setup bar is highlighted with the red box. The upside target in this example was the nearest upside DC number at 1382.80 on the chart below.

By the time the market gets to the upper DC target the stochastic is in the overbought position and the bar completed its high at 1384.32 now 1.52 points past the DC number. The high of this bar is within our 3 point tolerance for the S&P so that identifies a sell setup bar and it is time to exit and bank almost 40 points between our entry and our exit.



Chart 9

Notice that in this trade we didn't have a VIEW about the market at any time. It was all mechanical.

1. We needed the market to tell us it was tracking our DC number sequence. We want this demonstrated in a relatively exact way. We identified this by ensuring that price finished in the "Action Zone".
2. We used a standard indicator to show that we were in an oversold position and increase our degree of comfort in taking the buy trade.
3. Finally we demanded enough price action to pull us into the trade i.e. a reversal of price beyond the set-up bar.
4. Optimally our target is the next DC number but DC retracements are also very useful as profit targets.

## Crude

Chart 9 below had an explanatory memo for trading crude: *The bars in the red boxes are "Setup" bar that is they have a high or low within 50 pips of the Daniel number. The stochs are or have been in the appropriate overbought or oversold position so we know what to expect.*



Chart 10

## DC RETRACEMENTS

DC retracements are points where support and resistance can occur and can be used to help with entering and exiting trades. The DC retracement percentages are 37.5%, 50%, 62.5% and in fast markets where price moves quickly in relation to time use 29.7%.

The retracements (red and black lines on the DC charts) unlike the prime blue numbers **change** as the swing progresses. Configure your retracement tool in whatever charting program you are using to show these retracements. As the market moves you will be replacing the retracements accordingly. So the prime numbers in blue never move and retracements move all the time. As the market moves, additional blue DC prime numbers are added.

When the charts are created there is an assumption that the High/Low has been formed. If we get a higher high (or lower low) then the retracements will be wrong as they must be drawn from the high/low. The blue DC numbers don't move but retracements will.

## PROPRIETARY TURN INDICATOR (JCN.T.03)

This is an indicator that just provides occasional icing on the cake for you. It is neither exhaustive or regular. Sometimes I just don't have time to post the signals so always do your own analysis.

The signal is made at the end of a daily bar and the signal is either "On" or "Off". The signal usually lasts for 2 days but can be just 1 day or extend to 4 days on occasions.

Think of T.03 as an indicator of interim highs or interim lows. When the indicator is "On" it is time to pay serious attention to that market with reference to its proximity to the nearest DC price level and your own turn indicators. When the T.03 indicator is "On" and the bar also has its high/low within the required variance to a DC number, odds favour a turn in 1-2 days.

Don't substitute this indicator for your other trading tools. Use it as an adjunct not an alternative. All indicators work some of the time and none work all of the time, but it does focus on the high probability time for turns. The turns can be as simple as a 1 day reversal or as important as a major change in trend, and nothing in this particular indicator tells us which it will be. As always, it is important to protect profits and use proper stop loss management.

This is a fairly fast indicator so is best suited to trades in daily or shorter time frames. Unfortunately, sometimes the turn will already have been made when the T.03 signal is activated so ensure that the market has not made a recent turn before relying on this indicator. Nothing is perfect!

Generally, US futures market signals are generated around 19:00 US CST or 24:00 GMT for the next trading session and Forex signals may be 30 minutes later. For those of you not running your Forex charts on GMT, the daily bar in Forex ends at 21:59 GMT.

***Once you have a trading edge with the DC numbers, the rest is largely technique. More experience traders will be comfortable using shorter term charts and getting into the reversals earlier. They will also get more false signals but they know how to handle that. Others will use daily and perhaps weekly bars to enter which will give less false signals and a higher probability of success.***

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