Hurst Signals - Introducing the FLD Trading Strategy

This FLD Trading Strategy began as a trading plan to be used with our Sentient Trader software, but in response to popular demand, we have launched Hurst Signals which is based on the FLD Trading Strategy.

The FLD Trading Strategy is founded on Hurst's Market Cycles Principles and is based on many years of observing and trading Hurst's Market Cycles by David Hickson, the creator of Sentient Trader.

This is a mechanical trading system, which gives you, the trader, a fixed set of rules to determine trade entries and exits. With a little discretionary input from you, the strategy gives you clear trading guidance every step of the way. For the purposes of formalizing this strategy, it has been both back-tested and live tested in real-time and achieves reliable and consistent trading results.

This FLD Trading Strategy is specifically about trading the 20 Day Hurst Cycle, because it is the most convenient cycle for you to trade as you learn this strategy. Because of Hurst's Principle of Harmonicity, the FLD Trading Strategy will scale to the shorter time-frame trading of day traders (Intraday) as well as the longer time-frame trading of position traders.

All you need to get started is our Hurst Signals service and a brokerage account.

There are three main components to the FLD Trading Strategy :-

1. FLD Trading Methodology
2. Position Sizing
3. Money Management.

Let's look at each of those components in turn.

FLD Trading Methodology

Before you begin to trade this strategy, it is essential that you have a good understanding of Hurst's Market Cycles Principles and these concepts:

- Phasing analysis
- Hurst diamonds
- Underlying trend
- Nominal model.

The FLD

Hurst defined a Cyclic Tool called the **Future Line of Demarcation** (FLD). This is a simple line that is plotted into the future on a chart. It is the price shifted half a wavelength to the right for the Hurst Cycle you are interested in. For example, a 20 Day Cycle FLD is the price plotted 10 days to the right on a chart.

FLDs provide three pieces of information, which are used in the FLD Trading Strategy.

- When price crosses an FLD the formation of a trough or peak in price is confirmed.
- When price crosses an FLD a price target can be generated to the next peak or trough of the cycle you are interested in.
- When the FLD itself forms a peak it indicates an area (of time) where price is likely to form a trough and vice versa.

Here is a simplified diagram of price crossing an FLD, with the three pieces of information shown graphically:

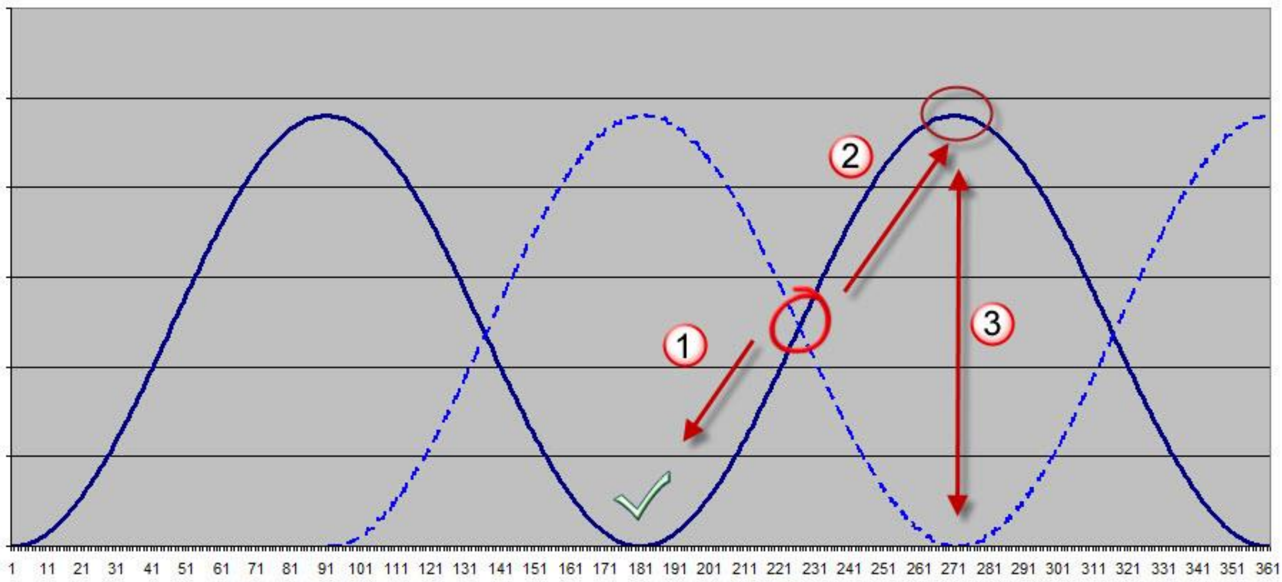

Figure I: Simple FLD and Price interaction

This information can be used to make trading decisions (as JM Hurst taught in his "Cycles Trading Course" in the 1970s), in terms of defining entry and exit levels, and calculating targets for moves that you are trading.

Multiple Cycle FLDs

Through observation and many years trading experience, David Hickson has long since recognized that the interaction between price and an FLD is more complex than the single cycle interaction presented in Hurst's original theory. This trading strategy is an elegant but natural extension of the ground-breaking ideas put forward by Hurst in the 1970s and which are widely accepted today as the cornerstone of modern market cycle theory.

So how does price actually interact with an FLD in the real world? When price bounces off an FLD, or tracks along with that FLD is that simply because "the markets aren't perfect"?

No, in fact it is the way that price interacts with FLD's, and it is not at all random or by chance. This interaction between FLD and price lies at the heart of the FLD Trading Strategy.

It is necessary to understand the interaction of only three Hurst Cycles to be able to make trading decisions using the FLD Trading Strategy.

We mentioned before that this strategy is based on the 20 Day Cycle. To trade the 20 Day Cycle, you need to only consider:-

- Price (solid blue line)
- 20 Day FLD (dashed pale blue line)
- 20 Day Cycle (pale blue line)
- 40 Day Cycle (pink line)
- 80 Day Cycle (yellow line).

Here is a graphic representation of how price, influenced by three cycles (20, 40 and 80 day), interacts with the 20 Day FLD:

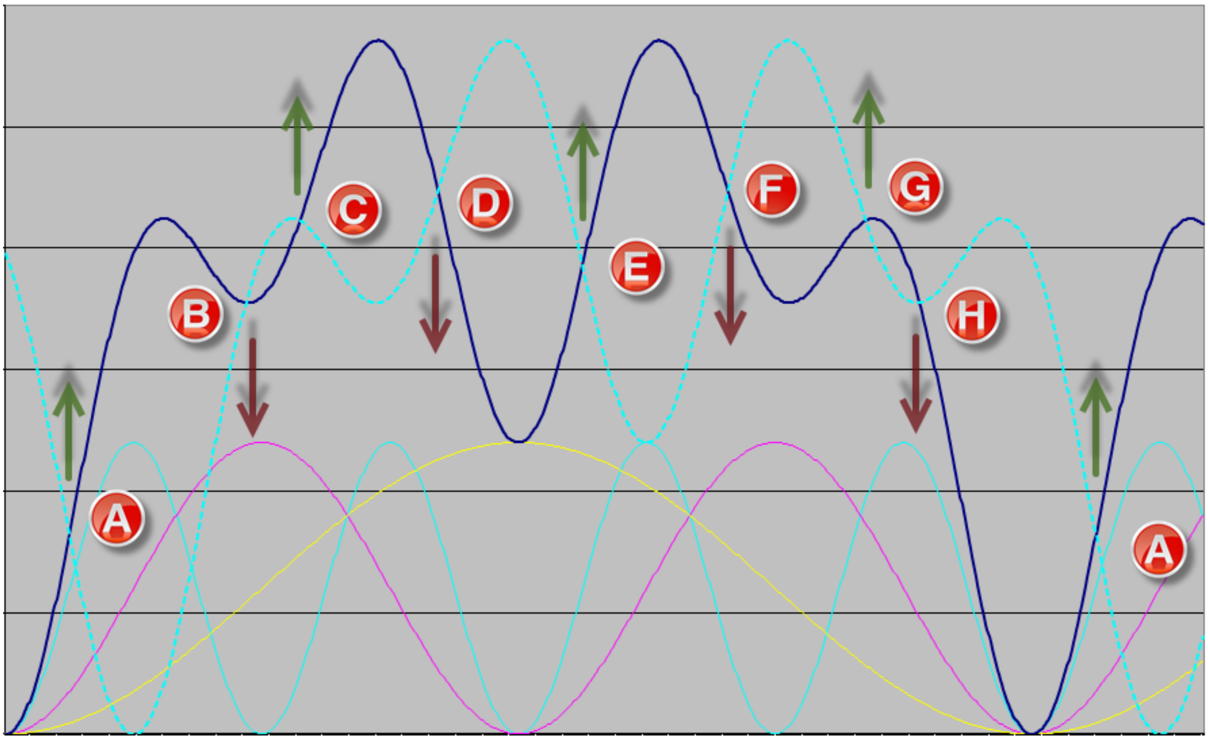

Figure II: Multiple cycle FLD and Price interaction

Each time price interacts with the FLD it has been marked with an arrow to indicate the direction of the interaction (the direction in which price is travelling) and each interaction, or FLD Cross, is labeled as Category A to H.

It is immediately obvious, by looking at this simplified diagram, that at times the interaction between the 20 Day FLD and price (FLD Cross) is very pronounced and at other times less so.

- Category A, D, E and F are all genuine Crosses.
- Category B and C and category G and H represent periods of time when either price will Track along the FLD, Bounce off the FLD, or Reach towards the FLD and then move away without Crossing.

Here is the same chart with correct proportionality applied, i.e. according to Hurst's Principle of Proportionality, the amplitude of a cycle is proportional to the wavelength of a cycle. Again, the solid blue line is price and the dashed pale blue line is the 20 Day FLD.

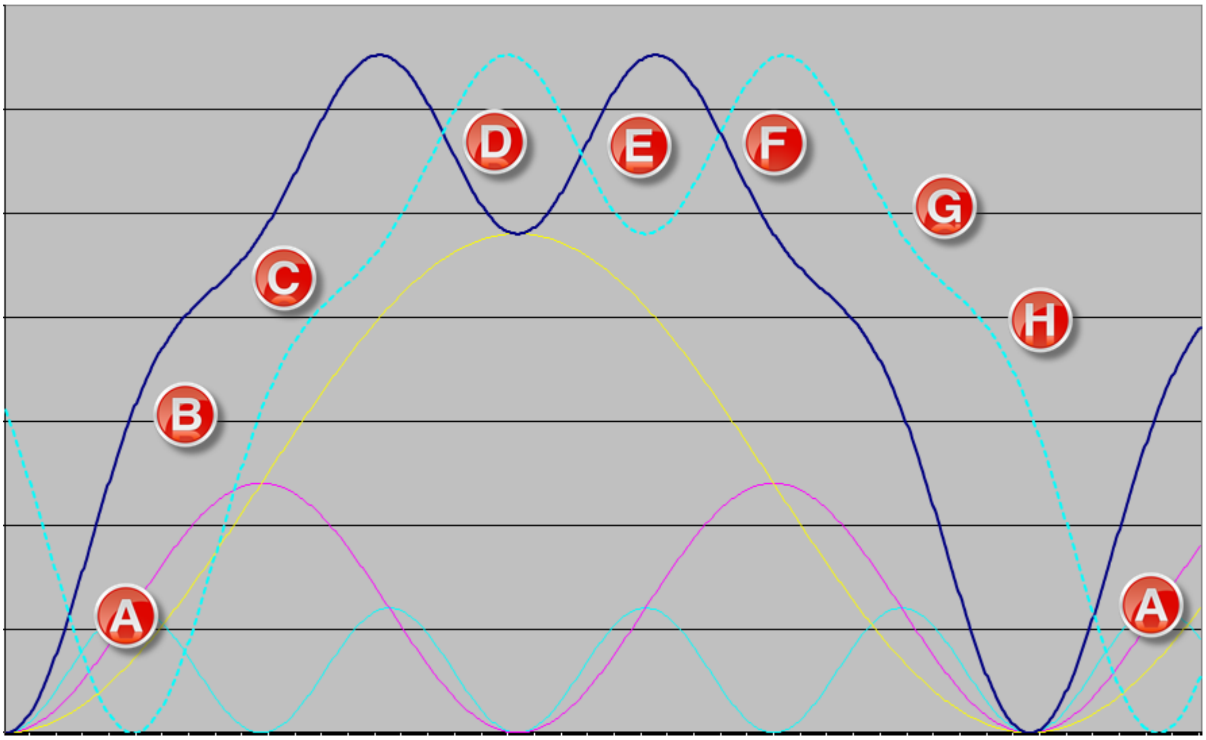

Figure III: Multiple cycle FLD and Price interaction with correct proportional amplitude

In this scenario, the FLD crosses for Category A, D, E and F are very obvious, but for Category B, C, G and H the price tracks along the FLD without crossing it.

It may not surprise you to know that Category B trades are never knowingly taken and that C, G and H trades need careful timing to get right. Conversely, A, D, E and F trades are obvious FLD Crosses and are generally very successful trades.

Summing Up about the FLD Trading Methodology

The FLD Trading Strategy is a mechanical trading system and with a little discretionary input, it gives traders clear instructions about how to handle each category of trade.

The FLD Trading Strategy concerns the interaction of three connected Hurst Cycles and an FLD, rather than a single Cycle and an FLD.

As you go on to learn more about the strategy, you will see how you can trade consistently and profitably using the FLD Trading Strategy.

Position Sizing

Position sizing is determined upon trade entry and is calculated by using this simple process:

- For each Trading Opportunity in the 20 Day Cycle, we risk a maximum of 2% of our portfolio value
- The Risk of a trade is calculated by working out the monetary value of the difference between the entry level and the initial stop loss level
- This position size is then adjusted according to Underlying Trend.

Underlying Trend is the influence on price of the cycles longer than the 20 Day Cycle. The strategy considers the influence on the price of the five Hurst Cycles longer than the 20 Day Cycle, namely: the 40 Day, 80 Day, 20 Week, 40 Week and 18 Month Cycles.

This table demonstrates the risk that you will actually take under different Underlying Trend conditions, assuming that your standard risk level is 2% of your equity:

UNDERLYING TREND	LONG TRADE	SHORT TRADE
+5	2 %	0.5%
+4	1.8%	0.6%
+3	1.6%	0.7%
+2	1.4%	0.8%
+1	1.2%	0.9%
0	1 %	1 %
-1	0.9%	1.2%
-2	0.8%	1.4%
-3	0.7%	1.6%
-4	0.6%	1.8%
-5	0.5%	2 %

A further subtlety of Position Sizing takes into account Hurst's Principle of Commonality which states that all financial markets tend to move with a great deal in common. You need to ensure that you do not take too much risk on the basis of similar analyses in highly correlated markets.

For example, the DJIA, S&P 500 and Nasdaq all move in a highly correlated way. If you enter a long trade in all three markets you will be risking the equivalent of up to 6% of your equity on what is effectively a ***single trading opportunity***, because of the correlation. If the trading opportunity turns out to be a loser then it will likely be a loser in all three markets, and instead of losing 2% on that opportunity you will lose 6%. The FLD Trading Strategy states that you should reduce your risk on each trade so that you are limiting your risk to an acceptable level for each trading opportunity in such correlated markets.

Money Management

Money Management is possibly the most important aspect of any trading strategy. The money management process that we use is absolutely vital to the profitable trading of the FLD Trading Strategy and so it is important that you understand it fully.

The money management side of the trading plan ensures that you will make consistent profits, even if the analysis you are working with is not always correct, and even if you incorrectly identify the category of trading opportunity that you are trading.

Our Money Management process is a Single-in, Scale-out process similar to that described in "The Gartley Trading Method" by Ross Beck.

We make **three trades** for every **trading opportunity.** Each of the three trades are entered at the same price and they are equal in size. This is Single-in. The three trades are potentially all exited (or closed) at three different levels, which is called S**caling-out**.

The three trades are often referred to as :

- Risk Reduction Trade
- Cycle Trade
- Lottery Trade.

For a Trading Opportunity that justified risking 2% of your trading fund, each of the three trades would be for 0.66% of your trading fund.

You will learn more about the Money Management process later on, but in summary:-

- The **Risk Reduction** Trade does just that. After reaching the trade's exit level (assuming the trade goes your way), you effectively reduce the total risk on the trading opportunity to one sixth of its original level, i.e. 0.33% of your trading fund (reduced from 2%)
- The **Cycle Trade** is exited at the target level for the trade (again assuming it goes your way), calculated on the basis of cyclic principles.
- The **Lottery Trade** means just what it is called. You let it run as far as it can go with a three bar trailing stop. This can lead to some spectacular returns.

Conclusion

The FLD Trading Strategy is based on Hurst's Market Cycle Principles and is able to deliver consistent trading profits from trading the 20 Day Cycle.

You can begin trading the strategy today. All you need is Hurst Signals and a brokerage account.

To learn more about the strategy:

- Watch out for emails about trading with the FLD Trading Strategy
- Visit our website regularly for updated information
- Look out for announcements about the Hurst Signals service and the FLD Trading Strategy training course.