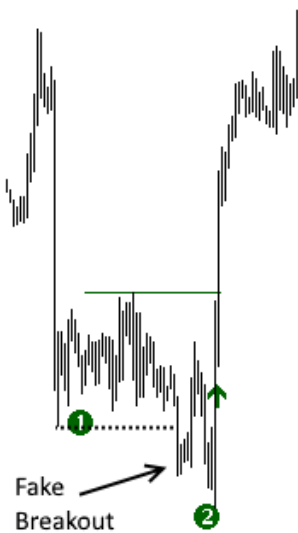# Why is this indicator so profitable?

This indicator is based on sound trading logic. It exploits the always recurring behavior of the smart money (in forex the mega banks). The smart money produces double tops and bottoms with fake breakouts. Then the smart money reverses the trend very sharply.

The following screenshots are showing a double bottom and a double top with fake breakout:
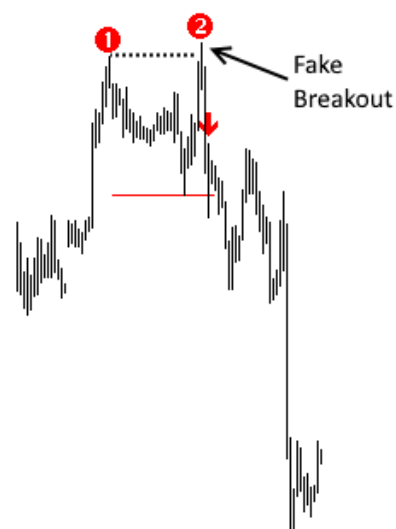
The fake breakout is the move behind the left leg (labeled with 1) followed by a sharp reversal. With this pattern, the smart money makes a final accumulation of its position before it reverses the trend.

This is a recurring behavior which you can exploit!

Why does this pattern happen?

The forex market has at its core the interbank market. It's a network between the mega banks Citicorp, JP Morgan Chase; Deutsche Bank, HSBC etc. All smaller networks are attached to the interbank market. The 8 biggest mega banks are responsible for 70% of volume which is traded in the forex market every day. These mega banks are the smart money and the driving forces in the forex market.

If we look at the huge volume of the 8 biggest banks then we can agree that the forex game is more or less a battle between 8 big market participants (the smart money) and millions of smaller market participants (the herd). You can guess who will win the fight every day.

Every buyer needs a seller and every seller needs a buyer. This means that for every position that is taken in the forex market there needs to be a counter part of this position.

Now let's assume that most members of the herd jump on a trend when it starts to develop, they enter on pullbacks or scalp during fast moves in direction of the trend etc. Most members of the herd seek trends and want to profit from them.

If this is true, then an imbalance within the herd will develop during trends. This means e.g. during an upward trend the herd will throw more long orders than short orders into the market. During a downward trend the herd will throw more short orders into the market than long orders.

So, what happens with this imbalance? Who takes the counterpart of the imbalance of millions of market participants? It's the smart money (the mega banks). The smart money is therefore taking positions against the direction of the prevailing trend.

Lately I heard that the mega banks are NOT charity organizations. They are indeed acting in the markets to make profits for themselves. What a shock! 😊 So, what do the mega banks do if they take positions against the direction of the trend and their entire position is in a deep drawdown?

They need to drive their position into profit and give the position back to the herd (of course with profit)! And this special action of the mega banks is detected by the Double Top/Bottom Indicator!

The following charts show what I mean with the explanations above. The smart money takes the imbalance of the herd and therefore must take the position against the trend. The average price of the position of the smart money is in loss at this moment:

Downward Trend

Average Price Of Position Of The Smart Money?
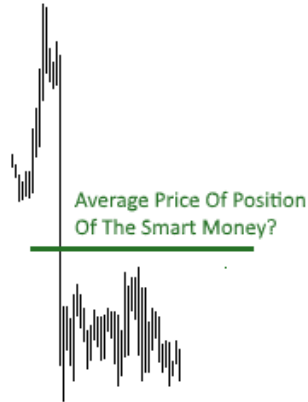
The Majority Of The Herd Is Selling
While The Smart Money Is Buying

Upward Trend

Average Price Of Position Of The Smart Money?

The Majority Of The Herd Is Buying
While The Smart Money Is Selling

The position of the smart money is in loss. And for whatever reason, the smart money decides that NOW is a good time to reverse the trend and to drive the position in profit again. But as you can see in the charts above the average price of the position of the smart money is far away from the actual price and maybe they want to accumulate an even bigger position before they reverse the trend to make even more profits.

Therefore, the smart money decides to drive the price into the next liquidity zone where stops of the herd are placed and where new entries of the herd in direction of the trend can be expected. Such liquidity zones are directly below the recent low (in a downward trend) and above the recent high (in an upward trend).

Following charts show those liquidity zone:
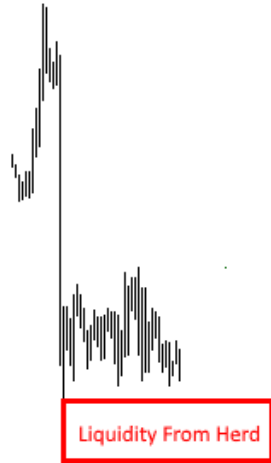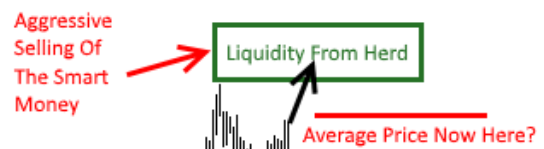
Downward Trend | Upward Trend

As soon as the liquidity zones are reached the smart money starts aggressively adding to its position. Through this aggressive adding to its position the average price of the position of the smart money comes nearer to the actual price, as shown in the following charts:

Downward Trend | Upward Trend

Within the liquidity zones the smart money absorbs all incoming orders from the her. As soon as the smart money has accumulated a big enough position it reverses the trend very sharply. The trapped traders of the herd who opened their position within the liquidity zones into the wrong direction are now in panic and exit or even reverse their position, as shown in following chart:

Double Bottom With Fake Breakout

Double Top With Fake Breakout

Trapped Traders Are Exiting

Smart Money Reverses The Trend

Smart Money Reverses The Trend

Trapped Traders Are Exiting

This is what happens in the markets every day, not only in the forex market. And this pattern is detected by the Double Top/Bottom Indicator which you can get for FREE:

Visual Filtering

To get an even better performance you shouldn't take every signal of the indicator!

Besides the look of the signal itself (how obvious is the fake breakout and the sharp reversal?) you should also look **where the signal occurs**.

The big picture analysis (where the signal occurs) imho can't be programmed into a fixed programmatic ruleset. Or at least a visual filtering is a lot better than a programmatic attempt. Therefore, I prefer a visual check for every signal.

How to visually check?

With the explanations above about the smart money in mind you can ask yourself the following questions:

For Double Bottoms

Is the double bottom signal at a low (did the smart money most probably accumulate a long position)?

Is there enough room to the upside for a good Risk/Reward? This means: Is the next resistance far enough away?

For Double Tops

Is the double top signal at a high (did the smart money most probably accumulate a short position)?

Is there enough room to the downside for a good Risk/Reward? This means: Is the next support far enough away?

Tips

I personally use the timeframes M30 and higher. They have less noise and you have usually more time to react. But of course, it's up to you which timeframes you want to trade. There are good signals on every timeframe.

Wish you a lot of pips and happy trading!

PS:

I know from my own experience that nobody can scan all trading instruments and timeframes without missing some of these good setups. Therefore, I have created an Alerter-Tool which checks up to 30 instruments and 8 timeframes for you. This tool is available for a small one-time-fee here: [Double Top/Bottom Alerter](#)

More on Visual Filtering

Besides the good feedback, the following question was asked most often:
Is there a way to further add to the profitability of the signals?

And the answer is:
Yes! You need to be selective which signals you choose.

So, how can you be more selective? As I mentioned in Post #4 (Visual Filtering) there are two areas where you can improve the profitability of the signals:

1. The smaller picture and the look of the Double Top/Bottom itself (for a higher winning percentage)
2. The bigger picture analysis (for bigger winning trades)

I will start with the smaller picture and how a good Double Top/Bottom should look like. Later I will post some tips how you can use a bigger picture analysis with which you can get very big winners on a regular basis.

Filter #1: The smaller picture and the look of the Double Top/Bottom itself

A good Double Top/Bottom should take out a recent Top/Bottom followed by a fast rejection. The fast rejection shows the strong momentum of the move. The strong momentum is a sign that the smart money has most probably finished its accumulation phase and starts its profit release phase (the big move).

Examples of <u>good</u> Double Tops/Bottoms with stop levels taken out:

Recent high is taken out, then fast rejection downward:
Attached Image (click to enlarge)

EURUSD.H1 1.17702 1.17707 1.17566 1.17647

Fast Upward Move

Smart Money Takes Out The Stop Level And Induces Long Breakout Traders
-> Smart Money Sells Into The Long Orders

Fast Rejection = Strong Momentum
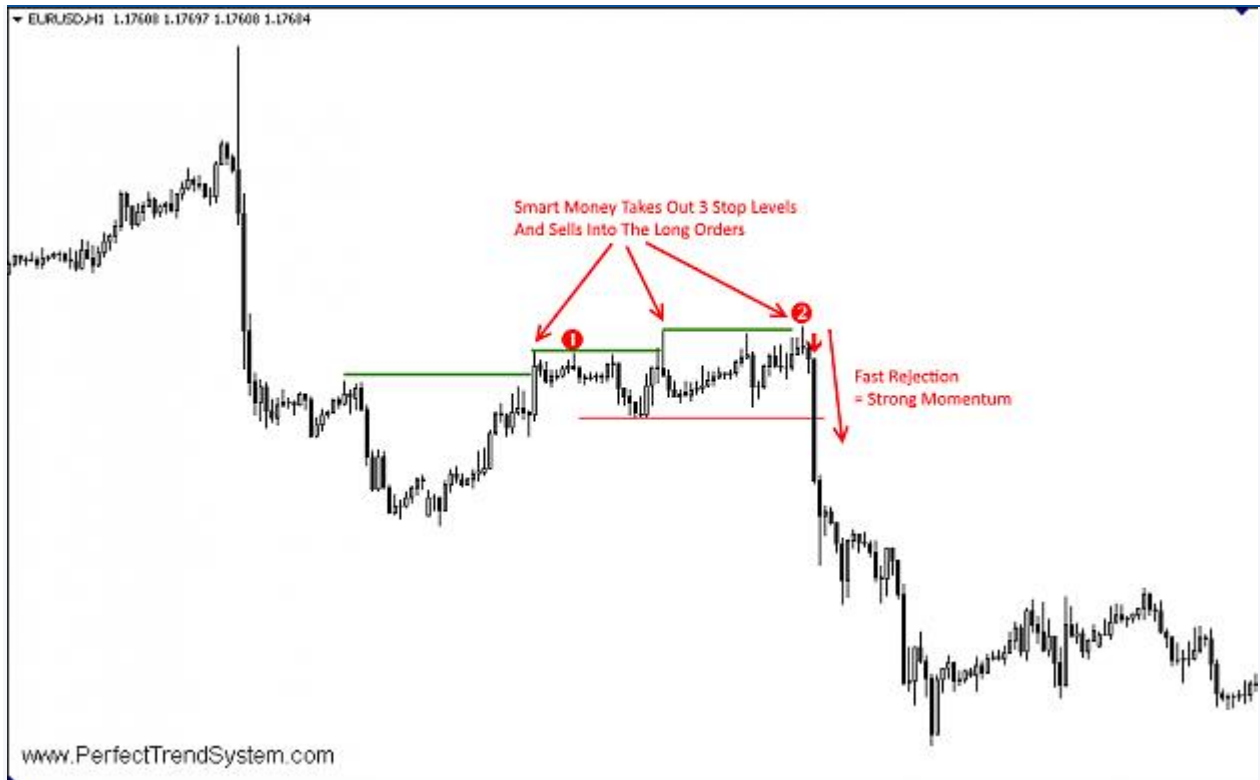
www.PerfectTrendSystem.com

Recent low is taken out, then fast rejection upward:

Attached Image (click to enlarge)

Trend continuation trade, but multiple recent (smaller) highs are taken out:
Attached Image (click to enlarge)

EURUSD,H1 1.17600 1.17697 1.17600 1.17604

Smart Money Takes Out 3 Stop Levels
And Sells Into The Long Orders

① ②

Fast Rejection
= Strong Momentum

www.PerfectTrendSystem.com

Example of a <u>bad</u> Double Bottom:

Bad Double Bottom -> no recent low is taken out:
Attached Image (click to enlarge)

Bad Double Bottom -> signal is not at the lower boundary of the trend channel:

Attached Image (click to enlarge)

Example of a <u>good</u> Double Bottom near lower boundary of the channel of the downward trend:

Attached Image (click to enlarge)

EURUSD,H1 1.17608 1.17739 1.17608 1.17696

Signal Near Lower Boundary
Of Downward Trend Channel
-> Good Signal!

①

②

www.PerfectTrendSystem.com

Example of a <u>bad</u> Double Top/Bottom:

No recent high/low are taken out. Signals are not within a trend / near outer boundary of channel. Although both signals reached 1R you should not trade such signals:
Attached Image (click to enlarge)

Filter #2: The bigger picture analysis

The following screenshot shows what i bigger picture analysis. This screenshot shows major support/resistance zones on the daily timeframe.

Often the direction of the trend will reverse within these areas. Now imagine how big your winners can get if you catch the reversal of the trend (e.g. the trend changes from downward trend to upward trend) near to the lowest point of the downward trend with a double bottom signal on the timeframe M30. You will have a tiny stop of e.g. 30 pips and a huge profit potential of several hundred pips!

Attached Image (click to enlarge)

This is professional trading with multiple edges:

Edge #1: High probability double bottom signal on lower TF
Edge #2: The big picture (the major support) adds to the quality of the signal of the lower TF

Soon I will release an Alerter-Tool with which you can trade exactly this trading style with major support/resistance zones. This Alerter-Tool will give you signals of all configured timeframes within the support/resistance zones.

Example Trade

Double Top on USDCAD on M30 could get a good trade:

Attached Image (click to enlarge)

Smart Money trapped long traders and hunted stops of short traders. Then the smart money runs away very fast to start its profit release phase:

Attached Image (click to enlarge)

My targets were reached very fast:

Attached Image (click to enlarge)

1.5 R winning trade. Pair this with a high winning percentage then ...