



Books & Trades # 191

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The Impulse System ... Education/ Traders' Camp ... New Software ... Special

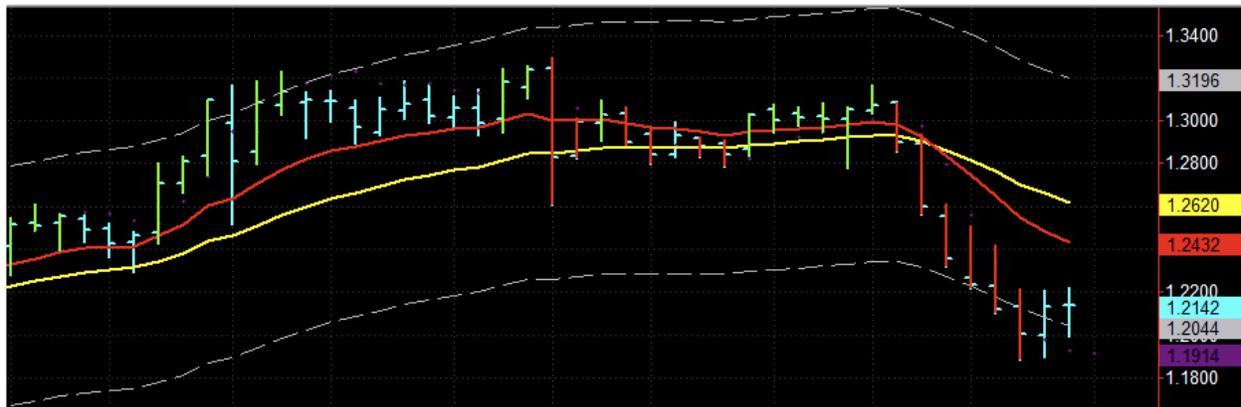
Dear Trader,

I've just returned from the Austrian Alps where I co-taught in a SpikeTrade workshop with live trading. Most of stayed in the mountains for a few days after the classes, skiing during the day and gathering to review markets in late afternoons, before dinner.

One of our workshop participants wrote: "It is a powerful thing to meet, and learn from others as well as from you and your guest instructors. Sometimes there are big pieces of information but often it is those little insights, how-to's and shifts that are so helpful. I love the diversity of people who show up at these events. It is really a special space that you create for growth in many areas."

I look forward to seeing readers of these letters in May at the SpikeTrade Reunion in Annapolis and then at our Pacific Traders' Camp in Macao, described below.

Let's now turn to the charts and explore one of the systems I use every day – the Impulse System.



The Impulse system was introduced in my 2002 book *Come into My Trading Room* and described in all my subsequent books. It's becoming more and more popular among traders, but many casual users misuse it. Some apply it to a single timeframe, while you must track at least two. Others think that green bars are to be bought and red ones to be short, which is a very lame interpretation. Let me clarify its rules...

The absolute key thing to keep in mind is this: the Impulse system is not a trading system. It is a censorship system. It does not tell you what to do. It tells you what you are not allowed to do.

Green means no shorting allowed. Red means no buying allowed. Blue is neutral.

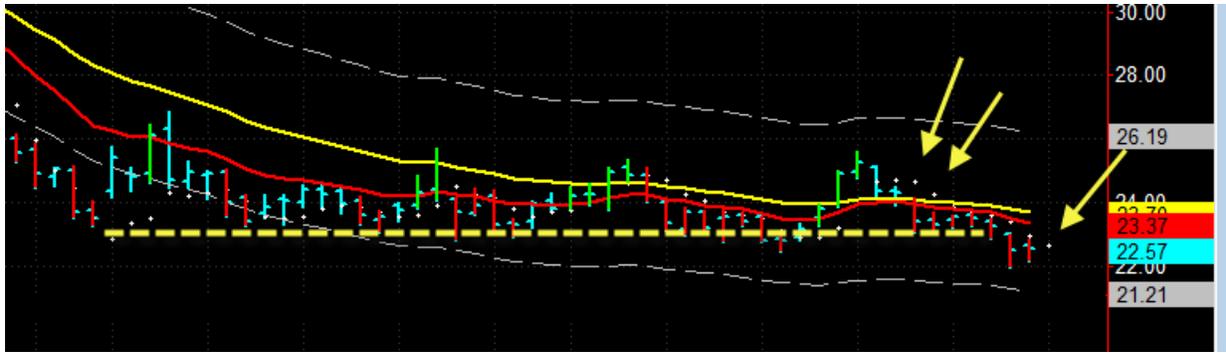
Let's review the Japanese Yen for example, although these rules apply to stocks, futures, and all timeframes. The yen had a horrific slide. When its weekly chart, shown above, slid below the lower channel line, I became eager to buy, expecting a bounce, but the Red Impulse forced me to sit on my hands – no buying allowed. As the weekly turned Blue, it released me to buy and I turned to the daily charts. I traded Yen long last week in the Alps and again this week in New York.

You see, the Impulse system did not tell me to go buy Yen – my other analysis did. The Impulse system simply kept me out of trouble, not letting me “catch a falling knife.” When it released me I turned to the dailies.



Here you see that on Tuesday the daily bar was Red – no buying permitted. On Wednesday it turned Blue – OK to buy. On Thursday it turned Green – and in my view it is no longer the time to buy but to consider taking profits into strength.

If you want to take the Impulse to the next level of sophistication, you can calculate at what level the Impulse color will change. I often use those levels when angling for entries and exits.



Take a look, for example, at this daily chart of Ultra Petroleum Corp. (UPL). The stock is building a bullish divergence on the weekly chart (not shown). The daily has cracked below support and stopped declining – a potential false breakout, one of the strongest buy signals. The Impulse system is Red, prohibiting buying. Do you see faint yellow dots above the bars? I marked some of them with slanted arrows. Those dots are drawn by an indicator called MACD XOver – it shows at what level the Red or the Green color will disappear and change to Blue. That might be a good level for a buy order. If you would like to follow up on this, MACD XOver is included in all of our [elder-disks](#).

Best wishes for successful trading from all of us at elder.com

Dr. Alexander Elder & staff