My Favourite Trading Strategy
Commodity Channel Index

- Donald Lambert 1980
- Identify new trends or warns of volatility
- Developed to identify cyclical turns in commodities
- CCI measures a current price level vs. an average level over time
- CCI is high when price is above average
CCI Calculation

• CCI = (Typical Price - 20-period SMA of TP) Divided by (.015 x Mean Deviation)

• Typical Price (TP) = (High + Low + Close)/3
• Constant = .015
Commodity Channel Index

• Lambert set the constant at .015 to ensure that approximately 70 to 80 percent of CCI values would fall between -100 and +100.

• The smaller the CCI period (look back period), the smaller the number of values between -100 and +100.
Commodity Channel Index 20 period
Commodity Channel Index 40 period
CCI Interpretation

• A coincidental indicator – surges above 100 show strong price action and could signal the start of an uptrend.

• A leading indicator – overbought or oversold conditions with bullish and bearish divergence.
CCI - Coincidental
CCI - leading
Stochastic Oscillator

• A momentum indicator developed by George Lane in the 1950’s.
• Does NOT follow price or volume.
• Follows SPEED or MOMENTUM of PRICE.
• As a rule, momentum changes direction before price.
Fast Stochastic

• \( \%K = \frac{(\text{Current Close} - \text{Lowest Low})}{(\text{Highest High} - \text{Lowest Low})} \times 100 \)

• \( \%D = 3\text{-day SMA of } \%K \text{ (trigger line)} \)
Fast Stochastic
Slow Stochastic

- Slow %K = Fast %K smoothed with 3-period SMA
- Slow %D = 3-period SMA of Slow %K
- I use 8-period SMA and 4-period SMA of Slow %K
Slow Stochastic
Slow Stochastic Interpretation

- Overbought – above 80
- Oversold – below 20
- Ignore Overbought/Oversold when trending.
- Divergence
Slow Stochastic Interpretation
Slow Stochastic with Trend
Putting it together

• Slow stochastic - 13, 8, 4

• Commodity Channel Index – 20

• Trigger line
Putting it together
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Current Trades
Current Trades
Current Trades
Current Trades
Current Trades
Current Trades
In closing

Questions and open discussion