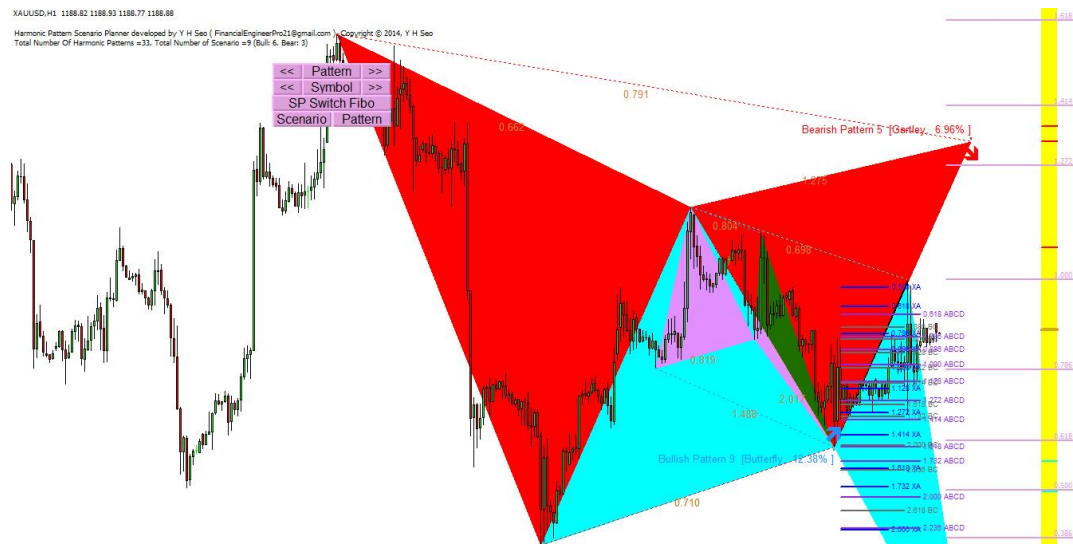# How to backtest Potential Reversal Zone with Harmonic Pattern Plus (or with Harmonic Pattern Scenario Planner)



10 May 2015

Note this manual may contains technical terms and this manual is intended for educational purpose only.

Brief Definition of Potential Reversal Zone (PRZ)

Potential Reversal Zone (PRZ) is an area where 3 or more Fibonacci numbers converges. When several layers of Fibonacci level are stacked up near to each other, this area should be treated very carefully. Using classic definition of support and resistance, this condensed area can act as both highly probable trend reversal area or as highly probable breakout area. In the picture below, area A act as a trend reversal area and area B act as a breakout area (trend continuation). Understanding this basic rules, you can use PRZ for many different purpose in your art of Harmonic Pattern trading. PRZ can be used to confirm the last point D in your harmonic Pattern. Also this PRZ can be used to place your stop loss or trail your stops or take profit targets.
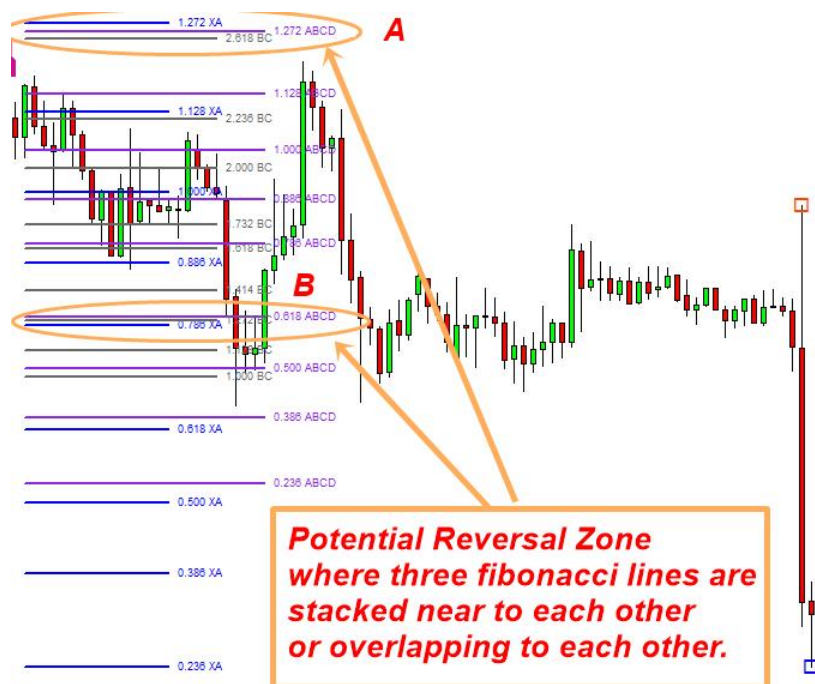

How to use PRZ in Harmonic Pattern Plus and Harmonic Pattern Scenario Planner

Harmonic Pattern Plus will shows all the available Fibonacci Projection lines from the following lags:

1. Internal Price Retracement (XA)

2. External Price Retracement (BC)

3. Correction Price Projection (ABCD)
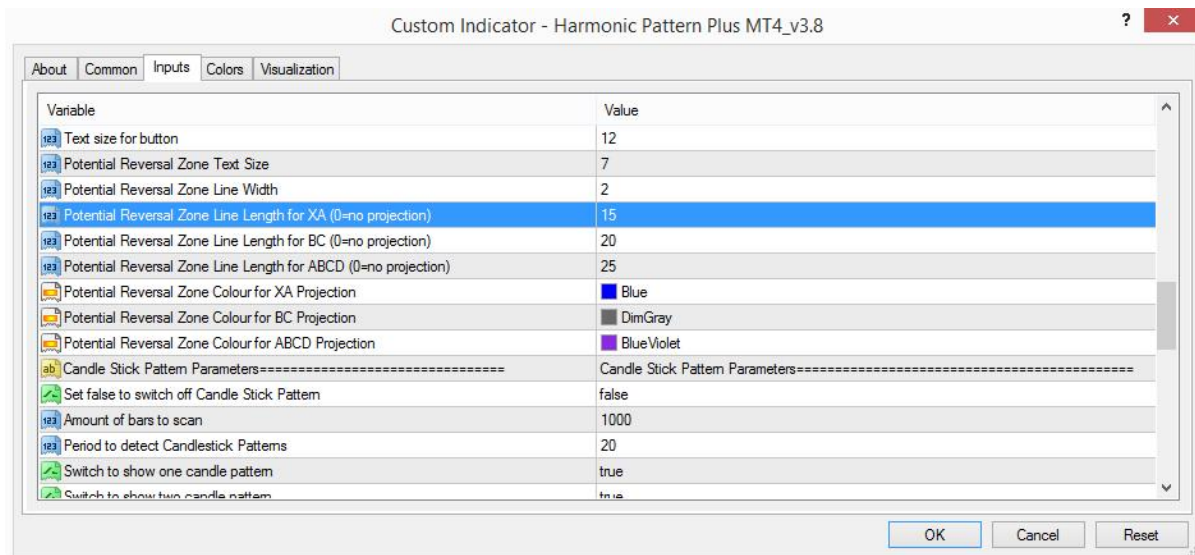
4. Future Price projection (CD).

For beginners in Harmonic Pattern Trading, name of points and each lags are shown in the picture below. For Harmonic Pattern, the most of patterns will start from point X except ABCD pattern and few others. At point D, traders need to make entry decision.
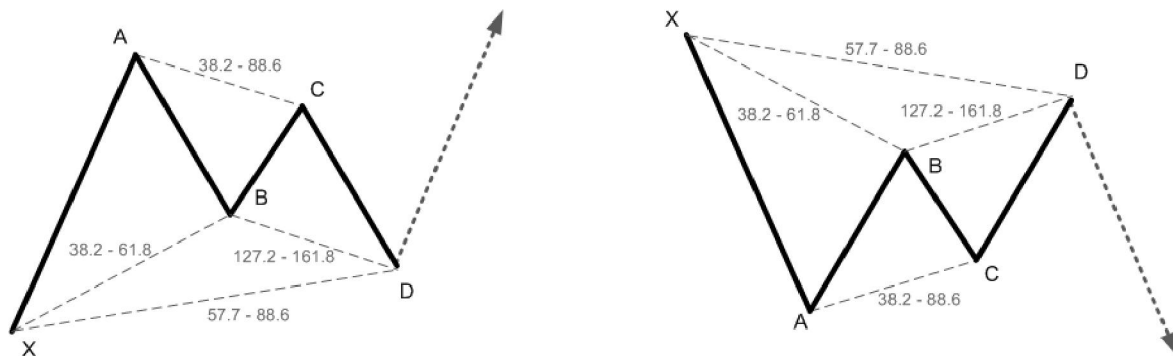
Drawing complete Fibonacci retracement levels from all four lags can make your chart extremely complicated to interpret. In Harmonic Pattern Plus, there are many flexible option in controlling PRZ density in your charts. The controlling of density of PRZ lines are controlled by Potential Reversal Zone Project Depth variable in Harmonic Pattern Plus. Trader can choose the Potential Reversal Zone Project Depth between 0 and 8. If you set Potential Reversal Zone Project Depth = 8, then Harmonic Pattern Plus will draw a complete Fibonacci levels from all four lags. If you set Potential Reversal Zone Project Depth = 0, then Harmonic Pattern Plus will not draw any Fibonacci levels.
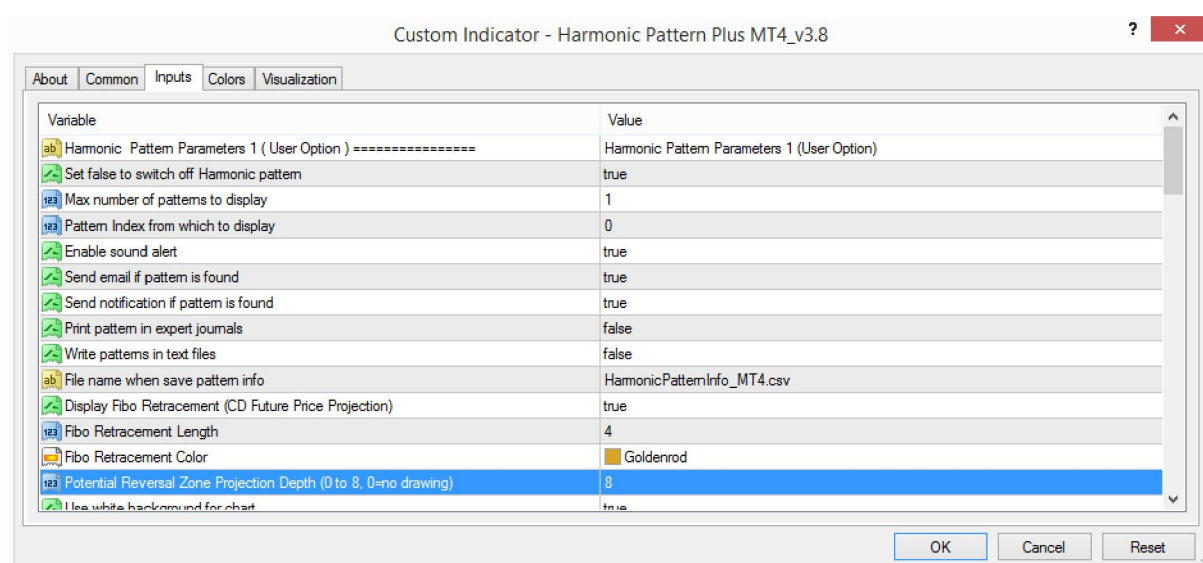
You can switch on and off Fibonacci levels from individual lag. These are controlled by PRZ line length variable for each lags. For example, if you set Potential Reversal Zone Line Length for XA = 0, then Harmonic Pattern Plus will not draw any Fibonacci levels for lag XA. One exception is that Future Price Projection based on CD lag is controlled separately. You can switch on and off this Future Price Projection Fibonacci level by setting Display Fibonacci option = true or false.
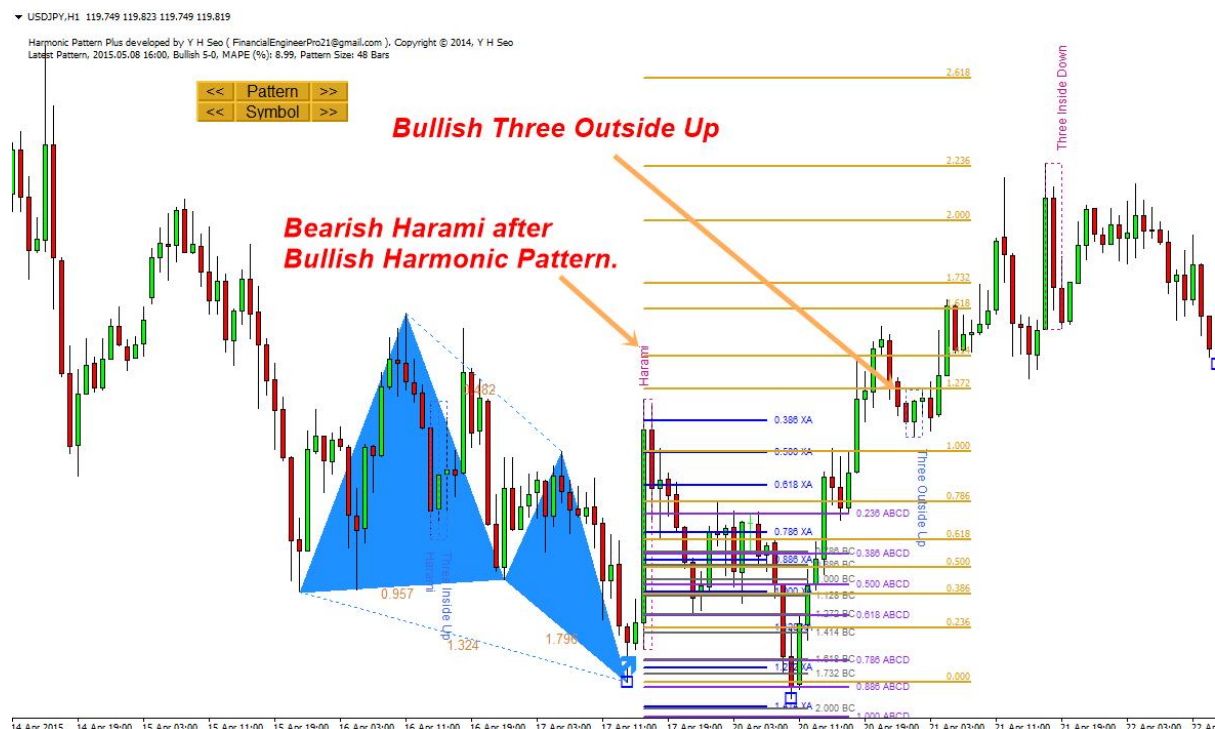

You can probably see how this PRZ area act as reversal zone as well as breakout zone with your own eyes using Harmonic Pattern Plus. When you want to see impact of PRZ on the last point D, please switch off Fibonacci levels for CD Future Price Projection. This will help your chart looking less messy. For back testing purpose, we recommend to use Potential Reversal Zone Project Depth = 8. Below picture shows potential reversal zone (PRZ A) above the last point D of newly create patterns. As you can see this PRZ A can serve as your stop loss level. However it is very important that you add some margin over this level because normally market want to test such a zone several times before change its direction. Therefore it is no good idea to place stop loss right above PRZ area.

To check the impact of PRZ on last point D over many different patterns, click "<< "or ">>" on your chart. Then Harmonic pattern Plus will show next patterns on your charts. Also note that if you put month + day to "Change size of ray for line object" variable in your indicator setting. Harmonic Pattern Plus will use twice more historical price series to detect the patterns. For example, if today is 10 May 2015, then you need to put 15 (10 + 5) to "Change size of ray for line object" variable. You will see twice more historical patterns in your chart. This is very useful for you to study and develop your own trading strategy.

Once the study about last point D is finished. It is important to develop your entry and exit strategy. Again these PRZ analysis can give you very good ideas about your potential entry and exit places. You can construct some rules like "if price penetrate this PRZ area, then I will buy" or "if price is bouncing back from this PRZ area, then I will buy". Likewise, you can also set some rules for your exit strategy too. One example might be "exit if price start to test this PRZ area." The picture below just shows you one example entry and exit rules on nearly formed bullish patterns. Once again, click "<<" button to check as many cases as possible to study and to establish your entry and exit rules.

This manual can be used for both Harmonic Pattern Plus and Harmonic Pattern Scenario Planner. Harmonic Pattern scenario Planner is more advanced tool having ability of finding future patterns even before the last point D is completed. Therefore, this is very powerful feature which help traders to plan early on their stop loss and take profit targets. However, this might be little too complicated for junior traders to start with. Therefore, for junior traders, who just starting Harmonic Pattern Trading, we recommend Harmonic Pattern Plus. Inside Harmonic Pattern plus, there are also powerful Japanese candle stick detection function for 52 Japanese candlestick patterns. These feature is very helpful to use together with knowledge of PRZ area.

Important Tips to become a Profitable Trader with Harmonic Pattern Plus

To make living on trading is exciting when you know how to trade. However, when you don't know how to trade or you are not disciplined yet, we recommend you to practice your trading skills on paper trading only. Here we provide important tips to improve your trading skills in fast track. While you are backtesting PRZ ideas with Harmonic Pattern plus, remember these important tips always.

1. Take profit and stop loss target must be clearly drawn in your head before trade.
2. Get the tradable pattern with Risk reward ratio greater than 1.0 (Take Profit/Stop Loss > 1.0)
3. Use oscillator like RSI, Stoch, CCI, VZO, etc as your insurance (PRZ idea is very powerful but nothing is perfect in this world. Use two different oscillators to back up your decision. You will know why when you do backtesting PRZ.)

4. Know how market spread, ask and bid prices can affect your live trading. These will affect more if you trade with small patterns and smaller time frame but relatively less for large patterns and larger time frame. MT4 chart will show bid price as default on your chart. So sometimes you might see that pending order become market order even if the price don't touch your pending order open price or your stop loss hit even before price move to your stop loss price.
5. Always get habit of trading accurate lot size not exceeding your risk allowance. Knowing your stop loss target, you can only risk certain amount of your balance for each trade. (Position sizing skills)

Note that position sizing skills will add extra works on your trading always. However, never skip this procedure. You can use this Order Risk Management tool to do this task for automated calculation of your lot size and order sending. This tools is free of charge and anyone can use it.

https://www.mql5.com/en/market/product/8586

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Real World Trading Examples

To find tradable patterns on your chart, all you need to do is repeatedly clicking ">>"" buttons next to the "Symbol". Harmonic Pattern Plus will keep change a chart for you as well as detecting latest patterns. To create these examples, we uses M5 chart for quick turn over. You will need quite fast hands to set up orders on M5 chart. M1 chart is little messy as there are a lot of incomplete candle bars. For junior traders, M15 or H1 or H4 time frames are recommended.

Pending Order Setup 1

Simply placed a sell pending order (sell stop) under PRZ where 3 lines are overlapping. Take profit target hit beautifully.


PRZ with 3 lines overlapping.
So I use it as potential breakout point.
Potential pending order setup.
It may look complicated at the beginning.
But in essense, it is extremely straight forwards.

Take Profit target hit and trade exited.
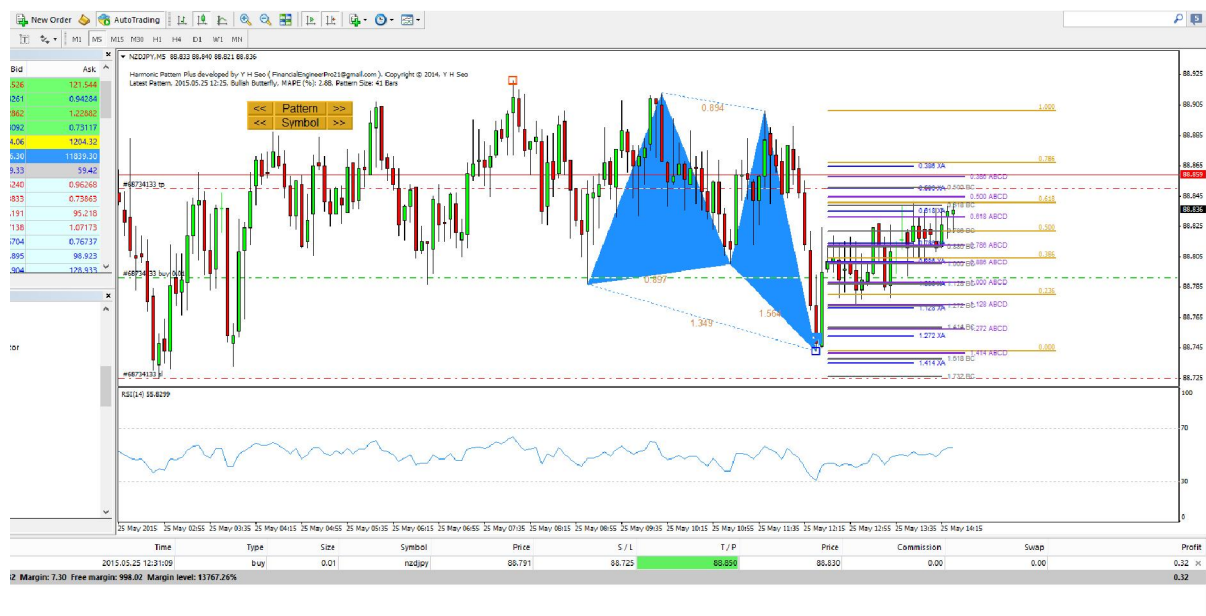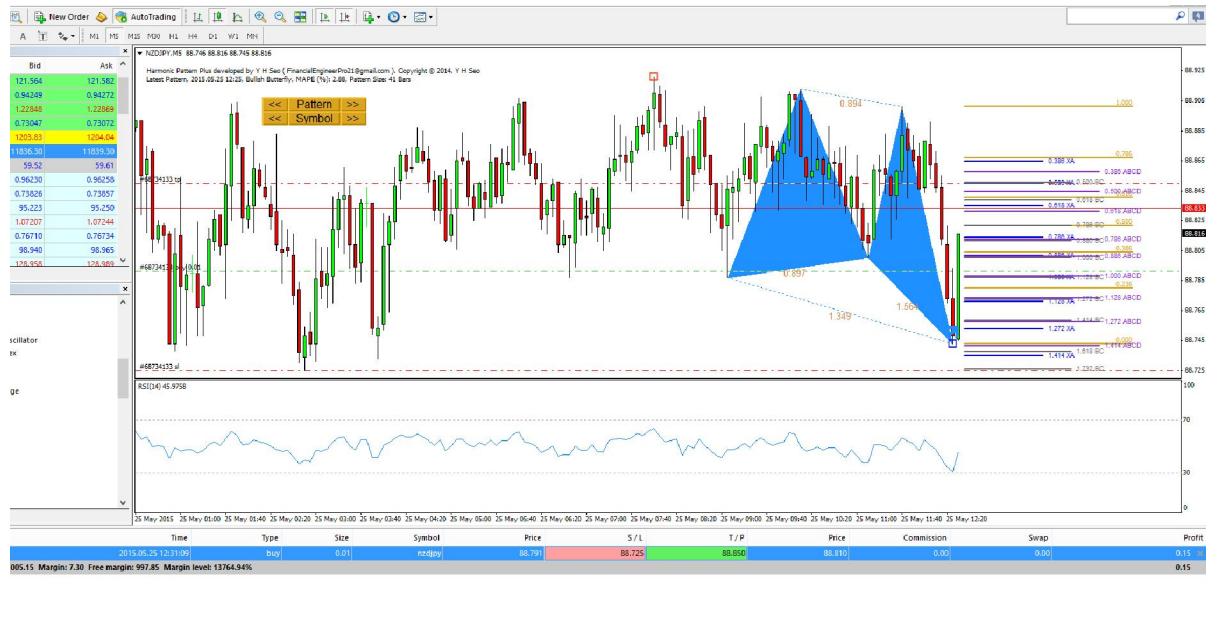*Again see how market treat next PRZ.*

Pending Order Setup 2

Simply placed a sell pending order (sell stop) under PRZ where 3 lines are overlapping. The entry was accurate in terms of direction but tight stop loss hit before take profits. This is typical example where spread, ask and bid price confuse trader in small time frame. When you trade on smaller time frame like M5, you need to be much more accurate than trading on larger time frame like M15, H1, etc because even if your entry is correct, you can still lose money. So recommend to use M15 or H1 time frame for junior traders.
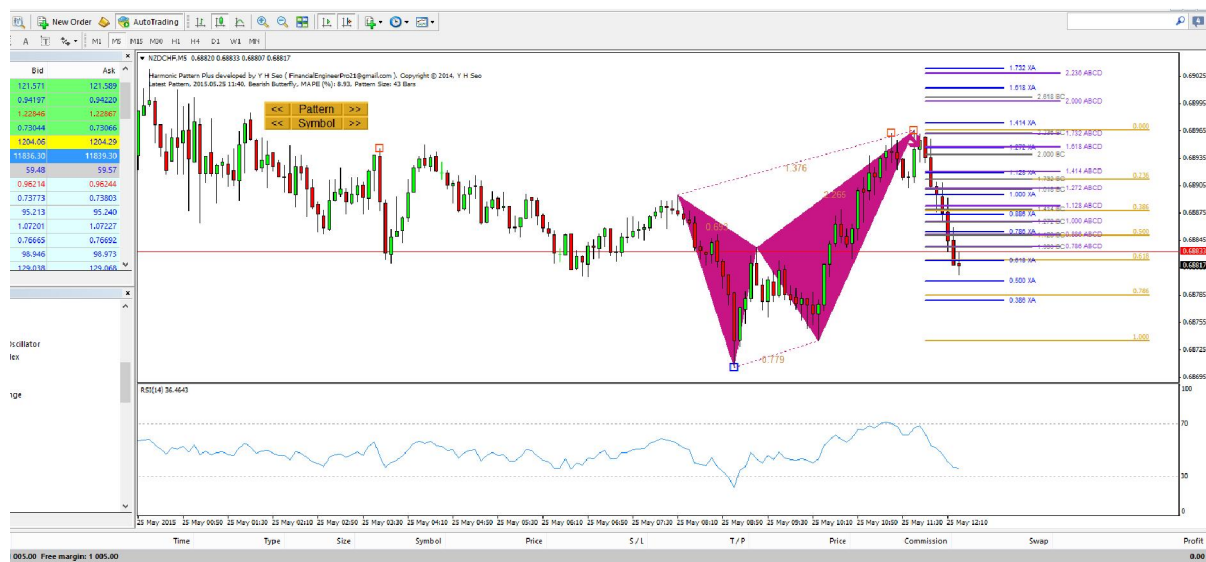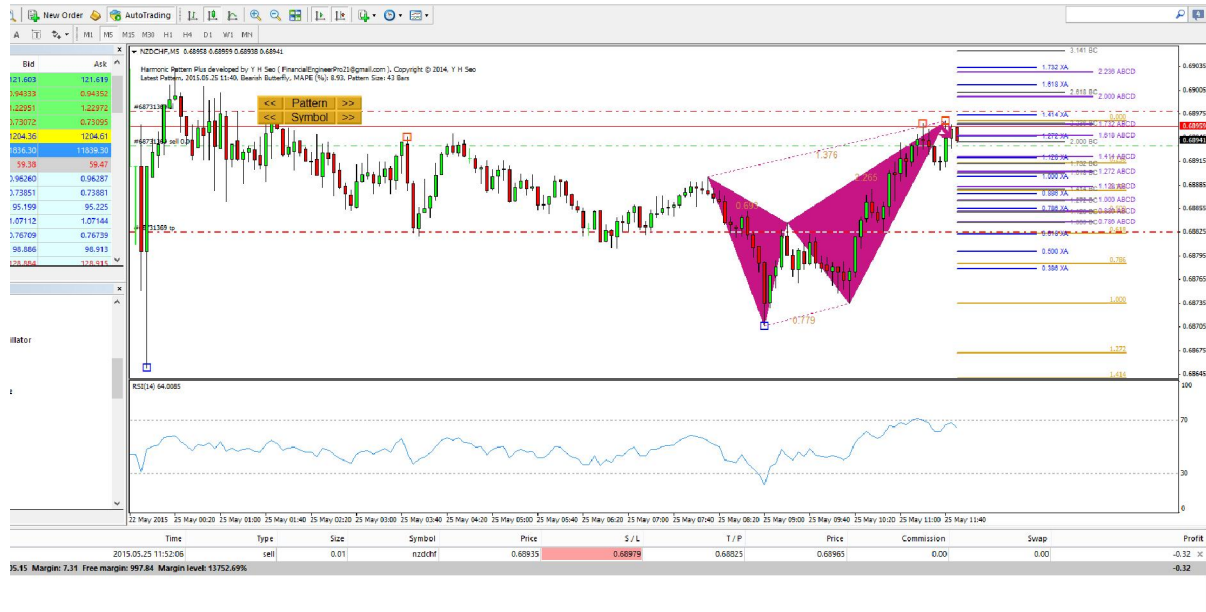
Pending Order Setup 3

Simply placed a buy pending order (buy stop) over PRZ where 3 lines are overlapping. Accurate entry and price followed up to 0.618 CD projection Fibonacci line. Final 1 pip before take profit could not be pushed due to the flat market during bank holiday. Manually closed trade in profit.

Harmonic Pattern Plus Link:

https://www.mql5.com/en/market/product/4488

https://www.mql5.com/en/market/product/4475

Harmonic Pattern Scenario Planner Link:

https://www.mql5.com/en/market/product/6240

https://www.mql5.com/en/market/product/6101

Also visit here for more information: http://harmonicpattern.ucoz.co.uk/