Quarterly Theory + SMT Divergence Strategy

FX REPL▶Y

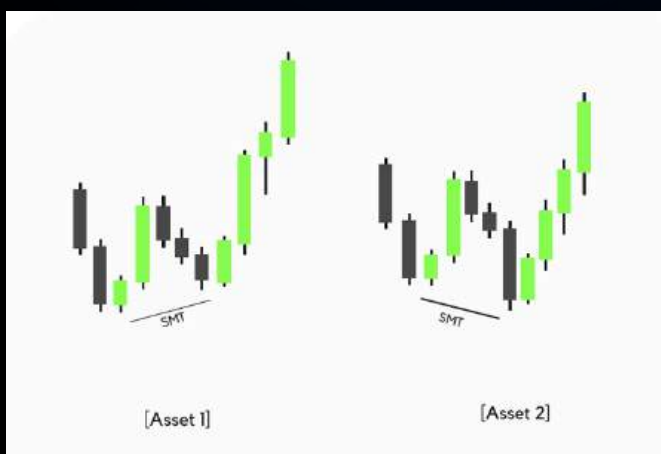Backtesting Reimagined

Educational Components

What exactly is Quarterly Theory? Coined by Trader Daye, one of ICT's students, he focuses on the element of *time* just as much as *price*. Simply put, time can be broken up into the following cycles:

- Yearly cycle: 4 quarters, 3 months each
- Monthly cycle: 4 quarters, 1 week each
- Weekly cycle: 4 quarters, Mon - Thurs starting at 6pm NY time.
- Daily cycle: 4 quarters, 6hrs each (think Asia/London/NY sessions)
- Session cycle: 4 quarters, 90m each (think ICT kill zones)
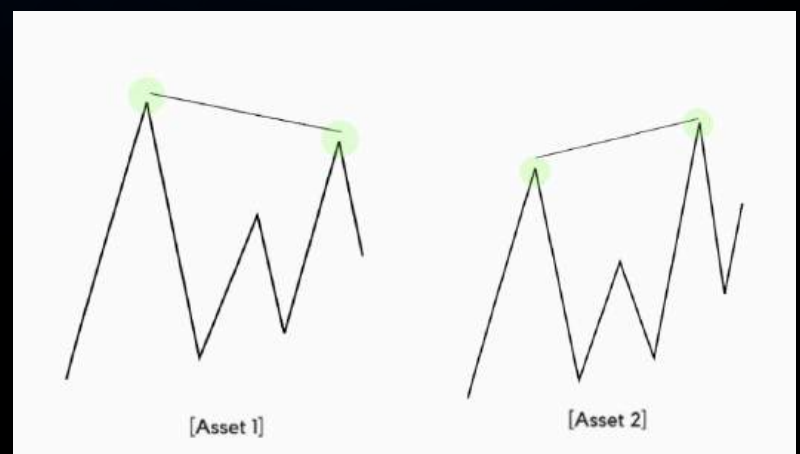- Micro cycle: 4 quarters ~23min each (scalpers)

SMT Divergence: 'crack in correlation' between highly correlated assets

- Most easily identified by comparing wick H/L between assets
- Can also occur by comparing candle bodies (this is called 'Hidden SMT')
- Sequential SMT (SSMT) takes place between two consecutive quarters

Bullish SMT Divergence   Bearish SMT Divergence

Precision swing points: Reversal candles of opposing colors with SSMT

Strategy Details

General parameters: (London session): 5m time-frame, 90m quarters, EU/GU, entries 2am - 9am ET. **For this specific LTF forex version, it will be important to use a *low spread* broker for forex pairs**; typically used more for live funded accounts vs. prop firm accounts.

(NY session): 5m time-frame, 90m quarters, ES/NQ, entries 9:35 - 15:30 ET. Can also consider using 15m candles/6hr quarters or 1hr candles/daily quarters for higher time-frame setups.

Indicators: In Tradingview, I like to use the indicator 'Quarterly cycles' by waffles_btc since it helps you visualize SSMT easier. In FX Replay, you can use the 'custom session indicator' and 'session indicator NY' to see the 90m and 6hr quarters. See specific settings below for London and next page for NY.

FX Replay indicator settings for trading London Session:

90m quarters

Custom Session Indicator by FX Replay

Inputs   Style   Visibility

CUSTOM SESSIONS UTC-4

Session 1	00:00	–	01:30
Session 2	01:30	–	03:00
Session 3	03:00	–	04:30
Session 4	04:30	–	06:00
Session 5	06:00	–	07:30
Session 6	07:30	–	09:00

6hr quarters

Session Indicator NY by FX Replay   ✕

Inputs   Style   Visibility

NY Session (NY)	18:00	–	00:00
Asia Session (NY)	00:00	–	06:00
London Session (NY)	06:00	–	12:00

In the style tab, put 0% background opacity, 50% border opacity -->

Session Indicator NY by FX Replay ✕

Inputs   Style   Visibility

☑ New York
    Background
    Border

☑ London
    Background
    Border

☑ Asia
    Background
    Border

In the style tab you can customize the 'session' colors however you like. Additionally, if you want to add daily/weekly separators, use one of these:

Weekly Separator and Weekly Opens by FX Replay

Day of Week and Opening Price Indicator by FX Replay

Strategy Details

FX Replay indicator settings for trading New York Session:

90m quarters

Custom Session Indicator by FX Replay

Inputs   Style   Visibility

CUSTOM SESSIONS UTC-4

Session 1 06:00 – 07:30
Session 2 07:30 – 09:00
Session 3 09:00 – 10:30
Session 4 10:30 – 12:00
Session 5 12:00 – 13:30
Session 6 13:30 – 15:00

6hr quarters

Session Indicator NY by FX Replay ✕

Inputs   Style   Visibility

NY Session (NY)   00:00 – 06:00
Asia Session (NY)   06:00 – 12:00
London Session (NY)   12:00 – 18:00

In the style tab, put 0% background opacity, 50% border opacity -->

Session Indicator NY by FX Replay ✕

Inputs   Style   Visibility

☑ New York
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   Border

☑ London
   Background
   Border

☑ Asia
   Background
   Border

In the style tab you can customize the 'session' colors however you like

What to watch for:

- Identify SSMT between two consecutive 90m quarters.
- The trades will be placed on the relatively stronger pair for longs, and the relatively weaker pair for shorts, since those pairs have a higher probability of continuing in the trade direction. Aka the 'highest probability' pair.
  - When there's bullish SSMT, the relatively stronger pair is the one that forms a *higher low*.
  - When there's bearish SSMT, the relatively weaker pair is the one that forms a *lower high.*
- Then wait for either a PSP (precision swing point) or an engulfing candle on the highest probability pair.

"Trading is not about being right all the time, but about staying disciplined every time."

Strategy Details

Entry Trigger 1, Engulfing Candle: After identifying SSMT, watch for an engulfing candle on the highest probability pair at which point you'll place a market order.

Entry Trigger 2, Precision Swing point: After identifying SSMT, watch for a precision swing point candle, at which point you'll place a market order on the highest probability pair.

Stop loss: for both entry triggers, the stop loss will be at the recent H/L that formed the SSMT.*
- For longs, this is the higher low formed by the relatively stronger pair.
- For shorts, this is the lower high formed by the relatively weaker pair.
- *If the stop loss is *less* than 5pips using these levels, set it to 5pips.

SL at the recent high from Bearish SMT since > 5 pips

Since recent low is 3.8pips from entry, use 5pip SL instead

−0.00038 (−0.04%) −3.8

Take Profit: 3R is what I used during initial testing, but a more optimal TP could be a the first swing high/low that provides 2R+.

Optimization considerations:
- No trade management (win or loss). Sub 5-pip SL may improve results.
- TP optimizations could include trims, trailing stops, etc.
- Add higher time-frame SSMT consideration to increase win rate
- Other confluences: NWOG/NDOGs (Silver bullet indicator by FXR or Weekly opening gap by cryptonnnite on TV)

Strategy Details

Other rules:
- No trades right before NY pre-market news (usually 8:30am NY time)
- Avoid trades when assets are moving out of tandem (i.e. one trending up, one trending down)
- Avoid trades when there is conflicting SSMT before your entry

Trade Checklist

✅ *Identify SSMT between two highly correlated assets (i.e. EU/GU)*

✅ *Check for Invalidations ('other rules' noted above)*

✅ *Watch relatively stronger (weaker) pair for longs (shorts), with PSP/engulfing*

✅ *Market order on correct pair, SL larger of recent H/L or 5pips, TP 3R*

Remember, if any of the parameters are missing, the trade quality is reduced. Aim to only take A+ setups!

Examples

FX REPLAY

Now that you have a profitable strategy

it's time to practice! Luckily, we have a platform you can do that for FREE.

Start Backtesting Now ▶

What are you waiting for?

You have your strategy. Now all you have to do is test it! Start collecting data on your new strategy for FREE by clicking here