

The Strat Fundamentals & The Strat HAMMER platform tools

Trading methodology based on multiple
time frame chart analysis



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I. The Strat method

“**The Strat**”, derives from “The Strategy” and is a logical framework for analysis of the price charts of financial instruments that traces its roots back to work done by **Robert F. Smith**, several decades ago. Robert F. Smith’s original efforts were a result of extensive financial markets experience, persistence through trial and error and more than a decade of careful refinement. Since then, innumerable variations of this approach to analyzing and trading in the financial markets have been made, refined and popularized by traders worldwide.

In its essence, The Strat is based on the rules of formal logic. While adhering to them, it aims to explain and give structure to concepts about trading that have been overlooked by the industry even though they have been hiding in plain sight. When telling the story of The Strat, Smith has shared the key question in his mind: If investment returns ranging from 10% to 30% per year are widely accepted as above average or even exceptional, why is it that so that many trading vehicles are able to achieve those returns in a week? More to the point, there are stocks (and nowadays cryptocurrencies) that can appreciate hundreds and thousands of percent in a single same day. Smith wanted to know how to identify the stocks with such extraordinary returns. His search led him to go through every S&P 500 stock chart on the monthly, weekly, daily and hourly basis every day for years, in order to find out.



The answers that he uncovered had never before been pinpointed and compiled in such a way, and the simplicity and coherence in his observations has had a major effect on the industry. Smith started by considering certain fundamental questions which to then had eluded serious scrutiny, such as:

- What do the charts in front of me represent?
- How is the software that displays them distorting my perception?
- If I choose to use candlestick charts, what information are they providing me exactly?

Smith came to some conclusions – when a chart is green, it has been designed to be green when the current price (or the closing price) is a higher number than the opening price for the same time frame. For the current price to be a higher number than the opening price, trading orders would have to have been sent at that price. Those orders could be passively placed as a bid or aggressively sent to match the offer. Either way, the color of the chart that the software displays for us is the aggregate result of the prevailing buying or selling that is happening for the given time frame. So, for the yearly chart to be green it means that the aggregate result of the market participants' activity is that they have been buying since the start of the year. But if you are observing that same yearly chart in a particular week that happens to have a red weekly candle, you are going to see the opposition – figuratively speaking, so far this year everyone seems to be a buyer, but this exact week everyone seems to be a seller! It must be true, because otherwise it does not make any sense. That is the full time frame continuity concept which was not exactly a new concept, because traders have long known about the top-down approach in analyzing stock charts, but it had never before been analyzed and set out in such an objectively defined way.

Adding to that are his observations about the broadening formations and candlestick scenarios, but we will avoid getting bogged down in the specific detail on that. Suffice it to say that Smith blazed a trail to a new trading strategy. As Smith has remarked, at some point in the future all trading decisions will somehow refer to The Strat, because even if they do not explicitly reference it, they will still adhere to its rules. And as Pascal argued in his reasoning about the benefits of believing in God and finding out He does not exist as opposed to the harm in not believing in God and finding out that He does, we feel it is beneficial for everyone to believe in The Strat now.

Thus, [Alaric Securities](#), recognizing the enormous value that The Strat possesses, has incorporated in the [HAMMER trading platform](#) several tools based on multi-generational refinement of its logic and rules in order to be of service to clients all types – from beginners and veterans to analysts and professional [traders](#).

1. The Strat Fundamental basics

The Strat can be both briefly explained and fully covered by mentioning its three fundamental ideas about price action:

1. Time frame continuity
2. Broadening formations
3. Candlestick scenarios and actionable signals

By standing on the logic of these three concepts, we have developed several functions for our [HAMMER platform](#) in the form of **chart indicators** and **watch list market scanners**.

1.1. Time Frame Continuity

Time Frame Continuity is the method of simultaneously taking into consideration the color of the candlesticks for several time frames. The color is based on the difference between the opening price and the closing price (or the current price) for the respective time frame. [Full time frame continuity](#) (FTC) is the appearance of absolute synchronization – when the Yearly, Quarterly, Monthly, Weekly, Daily and 60-minute candles are all green or all red.

Depending on the individual time horizon of the observer the synchronization of Monthly, Weekly, Daily and 60-minute can also be considered FTC. The idea behind it is that the aggregate result of all the market participants acting within their respective time horizons is either the price going up or the price going down as affected by their passive or aggressive buying or selling. It is an immediate indicator of the direction in which the price changes, making it the purest form of trend following - if something is green, it is going up.

An important aspect to mention here is the concept of being “In control”. It states that whatever is happening now, through the development of the current 60-minute candlestick that we’re in, has more weight as an evidence of what might the price action evolve as, than all of the higher time frames. That means that even though the chart might be showing red Yearly, Quarterly, Monthly, Weekly and Daily candles, if the 60-minute candle is green, we have to respect it. Another concept is that of the size of the colored candle - a big red one has a statistically higher probability of staying red, the same is true for a green one.

1.2. Broadening formations

The broadening formations, as Rob Smith likes to point out, are not as uncommon as technical analysis books suggest. Actually, every two trend lines that connect higher highs with lower lows are showing a broadening formation. They are the visual representation of price discovery and tend to grow in size by either trending out of the formation or by going through the triangle itself and expanding it in the other direction. Important note to make here is that an outside bar on a higher time frame is by definition a broadening formation on a lower time frame visualization of the same chart. Below is a textbook example on the chart of SPY for the 2019-2020 period (Figures 1 and 2). We’ll add to that when we talk about the scenarios.



Figure 1



Figure 2

1.3 Candlestick Scenarios and Actionable signals

The **Scenarios and actionable signals** are logical interrelationships between the candlesticks when such are used as a chosen method of visualization of a price chart.

The number of relationships between one candlestick and the following candlestick can be narrowed down to three scenarios (Figure 3).



Figure 3

Scenario One (1) being the situation when a candlestick has both a lower high than the previous candlestick's high and a higher low than the previous candlestick's low.

Scenario Two (2) exists in a duality – it is broken down to its variants of Two Up and Two Down. Two Up being the situation when the low of a candlestick is higher than the low of the previous candlestick and the high of that candlestick is higher than the high of the previous candlestick. Respectively Two Down is defined as a candlestick that has a lower low than the previous candlestick and a lower high than that previous candlestick.

Scenario Three (3) represents the phenomenon of the Outside bar – a candlestick that has both a higher high and a lower low than those of the previous candlestick for the same time frame.

These 3 scenarios are basically an extremely narrowed down explanation of:

- price action staying in an objective price range(Scenario One);
- price action trending upwards (Scenario Two Up) or downwards (Scenario Two Down);
- price discovery through range expansion (Scenario Three)

They are combined with the **Actionable signals** which are types of candlesticks or types of combinations of candlesticks that add some statistical advantage for determining what the price action would be if they are to come in force. Most widely used ones are the hammer or shooting star(shooter) candlesticks and their variants based on whether they are confirming the trend (momentum hammer or momentum shooting star) or they are forming while countering the trend (reversal hammer or reversal shooting star). There are also combinations of candlesticks such as the side-by-side hammers or shooters, shooter-counters-hammer, as well as the so called RevStrats (reversal strategy) which are three-bar formations that have more or less strictly defined criteria depending on the individual trader's preferences.



Both the scenarios and the actionable signals have their value as logical concepts regardless of their affiliation with the Time frame continuity. That means, for example, that for a hammer candlestick to be a momentum hammer in an uptrend it makes no difference if it is a red or a green bar. Let's take a look at some visual examples of the above-mentioned candlesticks and formations of such (Figure 4).

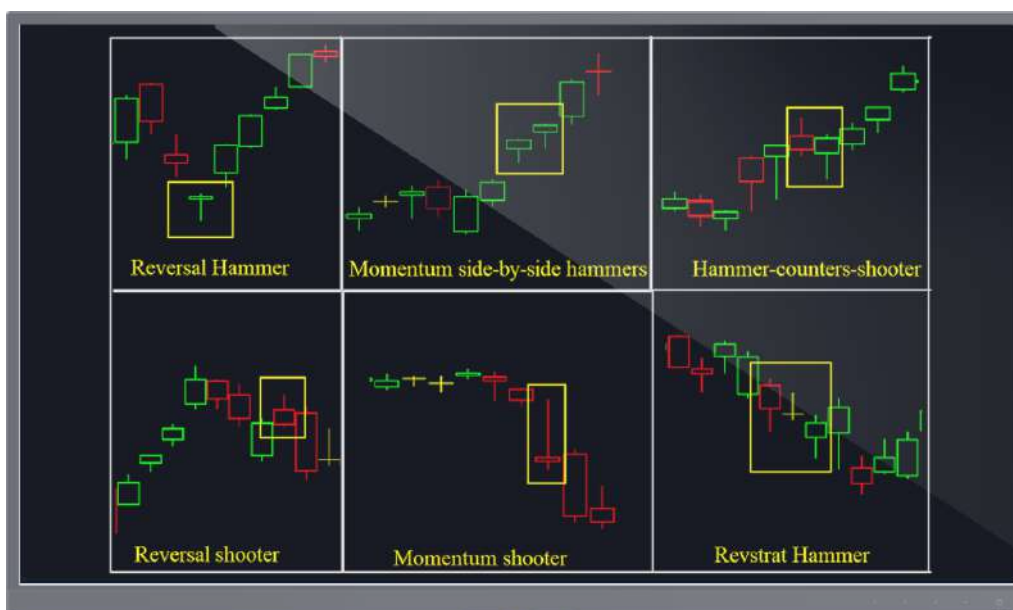


Figure 4

If you don't already know that, as you gain more knowledge about The Strat, you will find out how it is not at all strange that a Reversal Shooter can at the same time be a Scenario One, Two Up, Two Down or Three, that Side-by-side hammers can also appear as Scenario 1, 2 or 3, as well as how logical all of the other possible combinations between the Scenarios, the Actionable signals and the Candlestick formations are.

II. The Strat HAMMER platform capabilities

HAMMER has recognized the value that The Strat possesses and has incorporated several tools based on its logic and rules, as refined by innumerable market participants over past decades, - beginners and veterans, analysts and traders.



As we have already mentioned, The Strat consists of the following fundamental ideas about price action:

1. Time frame continuity
2. Broadening formations
3. Candlestick scenarios and actionable signals

By standing on the logic of these three concepts, we have developed several functions for our HAMMER platform in the form of [chart indicators](#) and [watch list market scanners](#).

1. The Strat historical and real-time Scanners

Let's start with the Scanners. HAMMER has a very versatile scanning functionality. We talk in depth about it on our website, but here we are going to focus only on those scanners that are built based on The Strat rules.

We have the following built-in The Strat scanners:

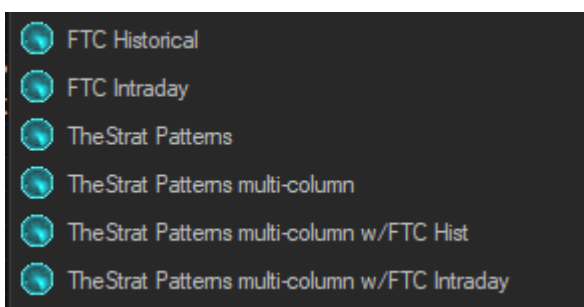


Figure 5

We are going to explain the logic behind each one and show how they can be used.

HAMMER differentiates between historical and real-time market data and that is why we have the **Historical** and **Intraday** options for all of the scanners.

1.1. FTC Historical

FTC Historical is a scanner that searches for **Full time frame continuity** on all the historical time frames supported by HAMMER – daily, weekly, monthly, quarterly, yearly.

Once you've selected this scanner from the list and chosen the Historical option on the panel you can open the **Params** function (Figure 6) that allows you to pick your preferred parameters for this scanner. If you are familiar with The Strat, you already know that you have to choose either the Full-time frame continuity to the upside or to the downside. This happens by marking the box **Close > Open (for FTC Up)** or the box **Close < Open (FTC Down)**. By design these two do not work simultaneously. When you have one of those selected, you can pick the time frame on which you are going to scan – they can all be marked simultaneously for Full time frame continuity or you can combine them by your preference.

Here is an example of how this scanner would work. If you have selected **Close > Open and Weekly and Monthly**, the scanner will find for you all the symbols out of your watch list, that have a closing price (or current price) that is higher in value than the opening price for both the weekly and the monthly time frames. In other words, you get the symbols that have made a green Weekly and a green Monthly candlestick. This updates in real time, so you might lose or gain new scan results by the changes in price for your watch list symbols.



You must have the Auto-Backfill box checked and, if you prefer, the Filter button (Figures 7 and 8) switched on. By having the Filter button on, you are going to see only the results from your scan. Otherwise, you are seeing all the symbols in the Watch list and you have to arrange them by the Scan Result column to see the results shown at the top of the list. For your convenience, here are some visuals of what we have talked about in the previous paragraph.

Choosing the scanner Params.

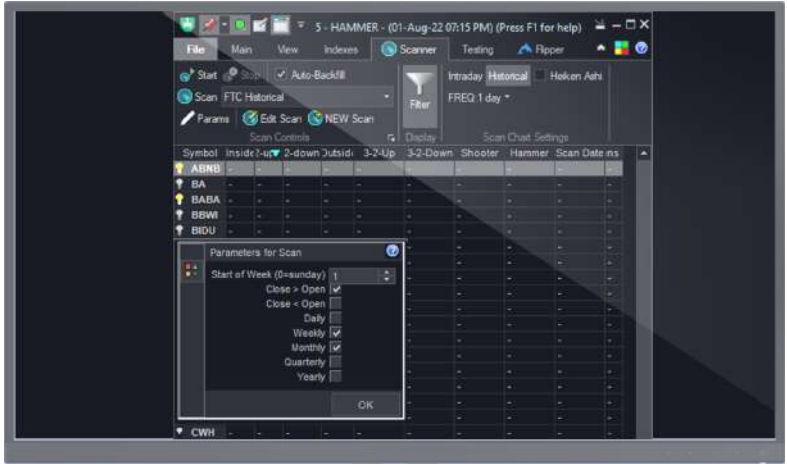


Figure 6

Results with Filter button On

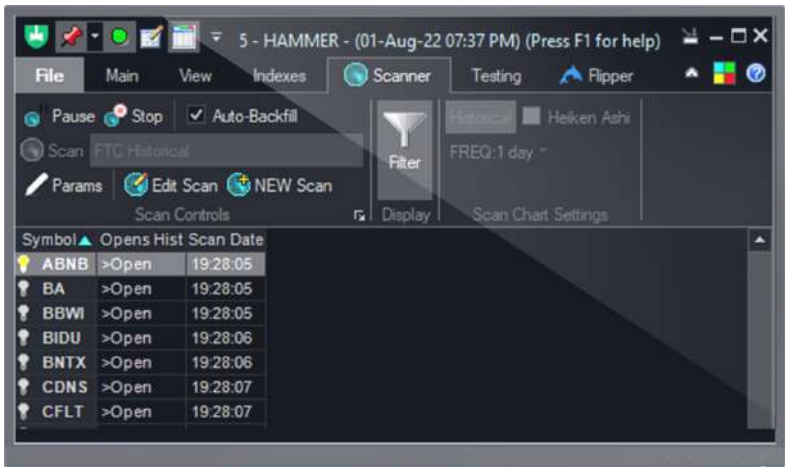


Figure 7

Results with Filter button Off

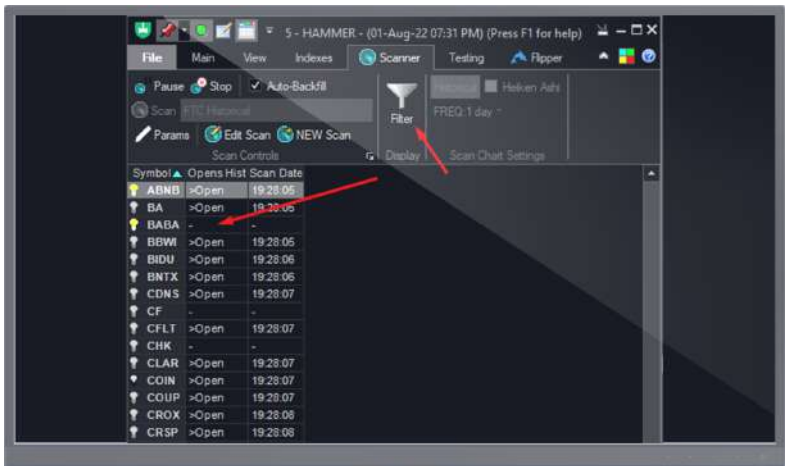


Figure 8

It's going to be exactly the same if you choose to scan for FTC to the downside by having the Close < Open box ticked.

1.2.FTC Intraday

Next is the **FTC Intraday scanner**. The logic is the same as the FTC Historical and you should be able to navigate it with ease.

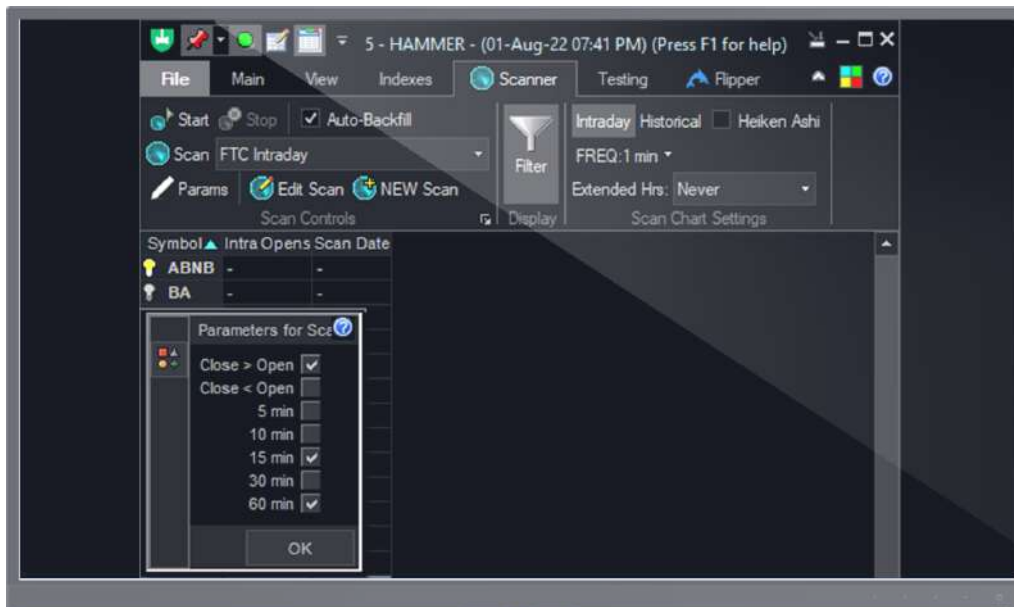


Figure 9

Again, you have to choose the corresponding option on the right panel (Figure 9), in this case Intraday. FREQ should be 1 min. regardless of the time frame you are scanning. Auto-Backfill should be selected and the Filter button works in the same way. In the given visual example, we are scanning for symbols that are both green on the 60 minute and on the 15 minute time frame. The column with the results would look the same as the one in the FTC Historical scanner.

1.3. The Strat Patterns scanner

We can't talk about The Strat without mentioning the Scenarios (One, Two, Three) and a few of the notable combinations they have. And of course, we have a scanner that tracks them - **TheStrat Patterns scanner**.

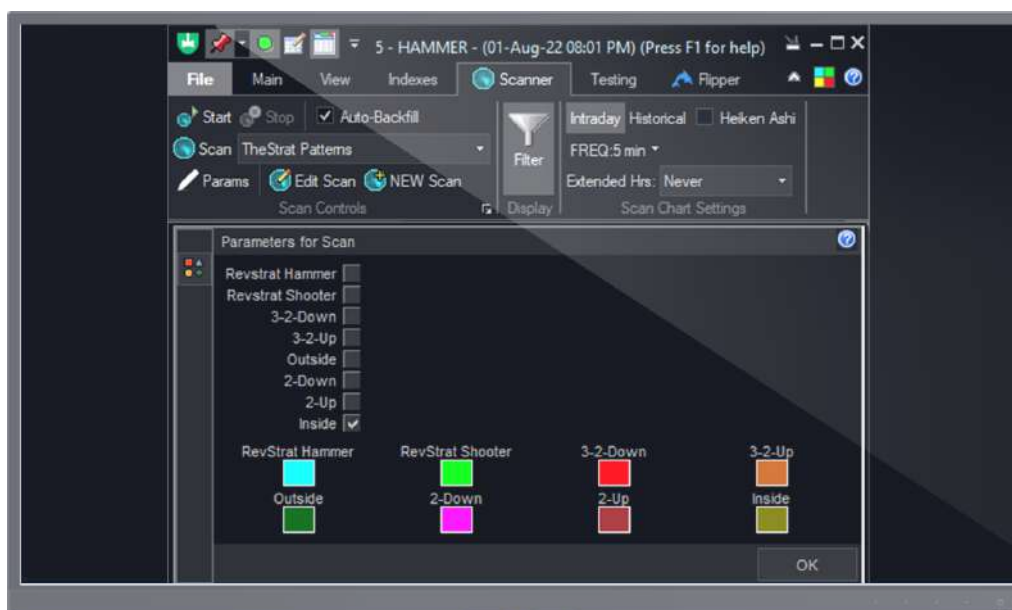


Figure 10

Let's get right to the point. When you are using **TheStrat Patterns scanner** you are able to scan for the following patterns - Inside bar (Scenario One), Scenario Two and Up, Scenario Two and Down, Scenario Three (Outside bar), Scenario combinations Three-Two-Up and Three-Two-Down as well as the "non-canonical" (meaning - we haven't assigned to these patterns preferences for the size of the mother bar or the breaking candle) Revstrat Hammer and Revstrat Shooter. For the last two - we've done that deliberately so the patterns can be used for as many purposes as they can. If you, as a user, want to narrow down your definition for those, or any other pattern, you can do that by copying and editing the scanner. This way we hope we have made something useful for the wider audience while still leaving open the possibility of making it as complicated as one wants.



In the visual example above (Figure 10) we are searching for Inside bar (Scenario One) Candle pattern on the 5 minute time frame. When we start the scanner, it is going to look like this:

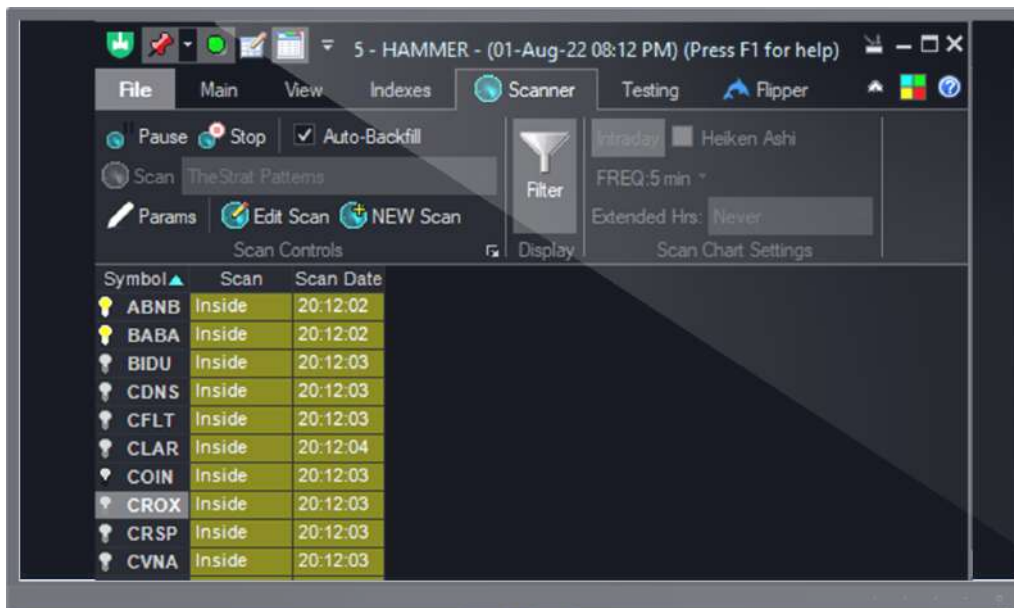


Figure 11

or like this, depending on the Filter button function being on or off:

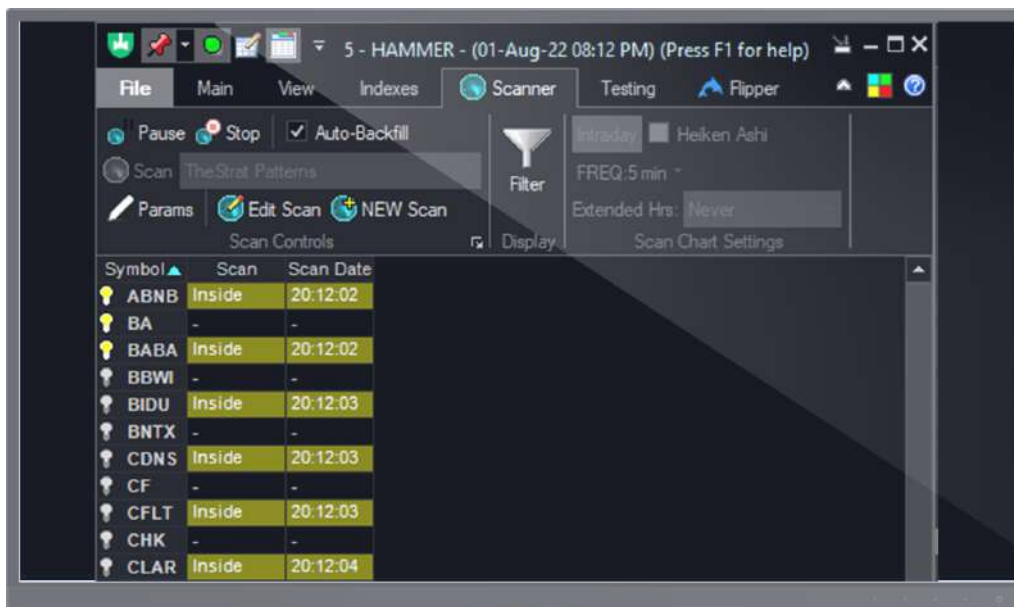


Figure 12

Of course, if you want to, you can choose another time frame and you can add to the patterns that you want the scanner to scan for. You can add columns and arrange your list by different criteria as well.

On the picture below (Figure 13) we are scanning for Inside bars and 2-Up formations on the 30 minute time frame. As always, the results are symbols from a list that we have already pasted in our Watch list window and the scanner is just narrowing them down by our desired criteria for our convenience.

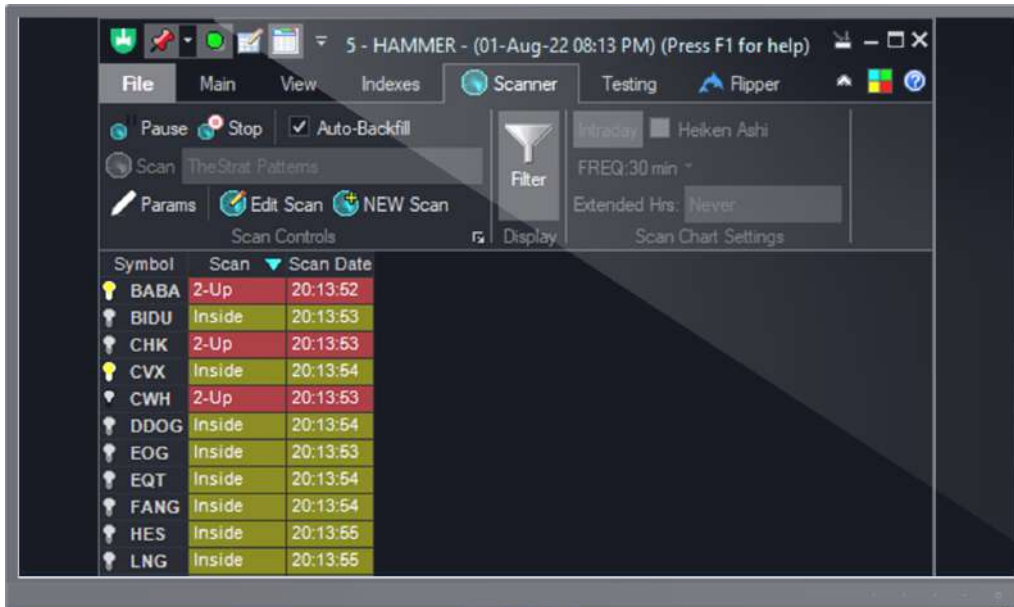


Figure 13

1.4. TheStrat Patterns multi-column

If you like this scanner, but you still need more in terms of functionality, we have a version of it that makes it even more useful. That is the **TheStrat Patterns multi-column** scan.

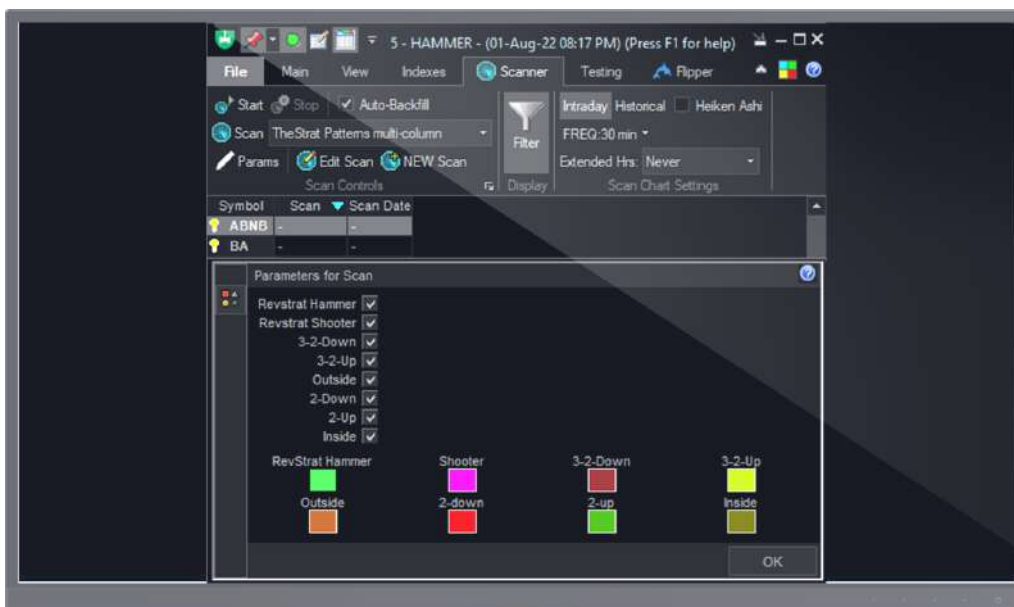


Figure 14

It gives you the ability to add all of the patterns as columns in your Watch list window (Figure 15). In the following example we are scanning for all the patterns from our capabilities and we are doing that for the Weekly time frame.

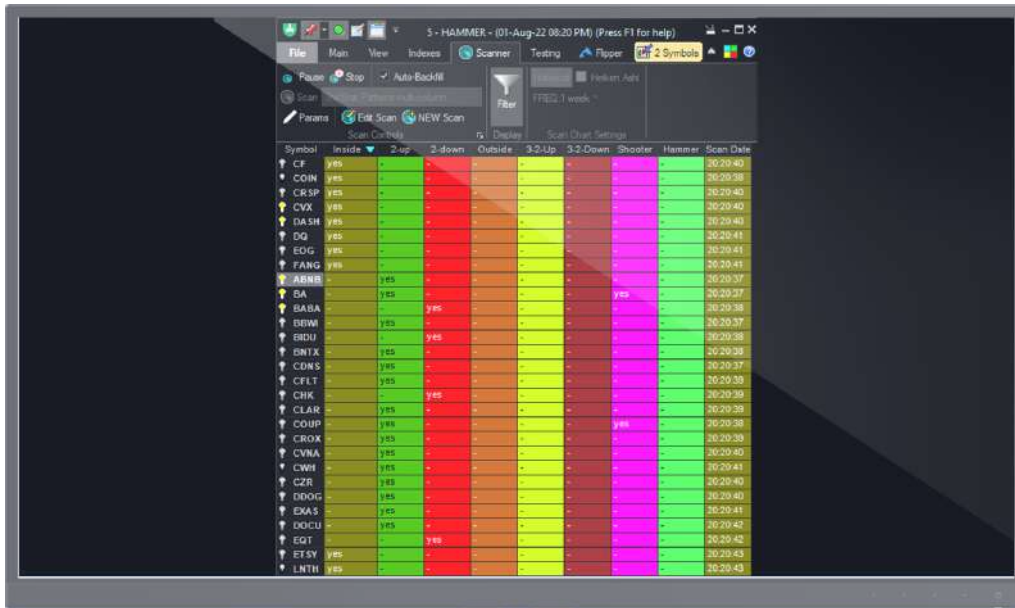


Figure 15

As you are becoming familiar with HAMMER'S scanning functionality, you might have correctly assumed that you can do that for the Intraday time frames as well.

Choose your specific time frame, add or exclude patterns, arrange the list the way you like it and as a result achieve your desired screening process.

In the example below (Figure 16), we are scanning for all of our available patterns that appear on the 15 minute time frame.

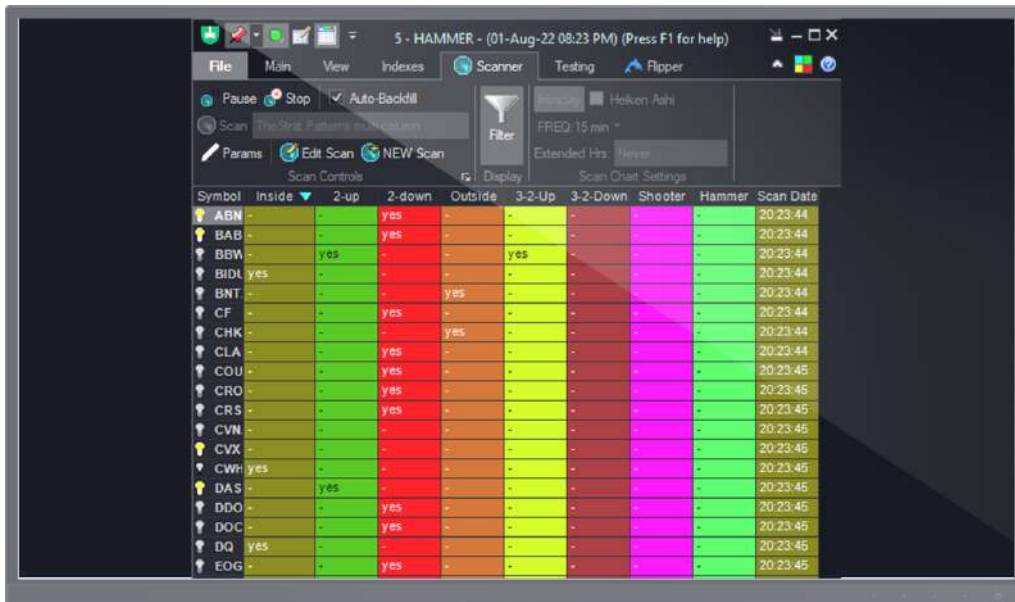


Figure 16



If that is not convenient enough for you and takes too much space on your desktop, you can always remove unnecessary columns (Figure 17) from your Watch list window and make it more suitable for your needs.

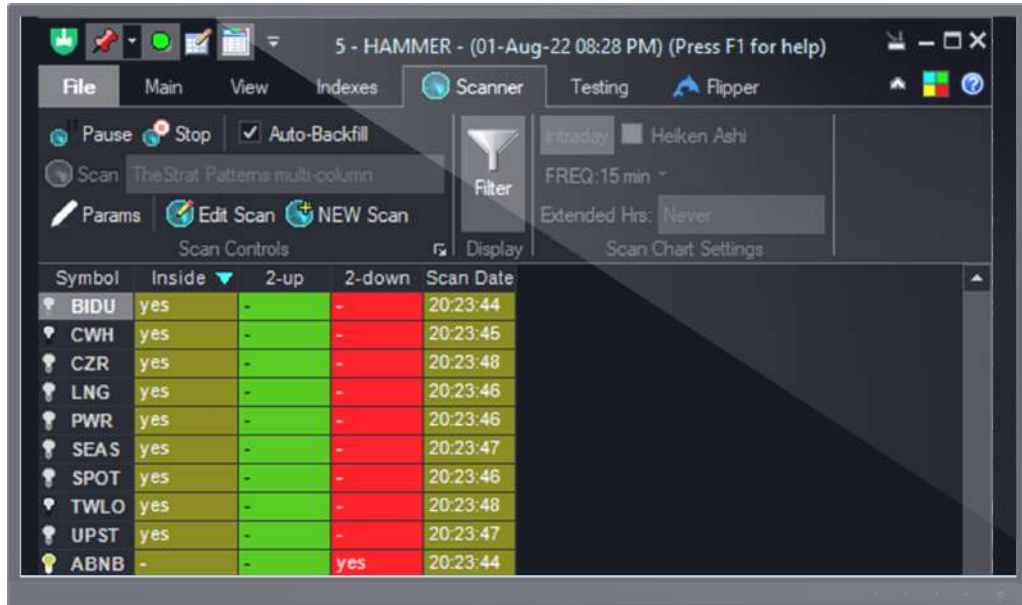


Figure 17

1.5. The Strat Patterns multi-column w/FTC

And if all of this is not enough, we also have **TheStrat Patterns multi-column w/FTC** scanners for both the **Historical and Intraday** time frames.

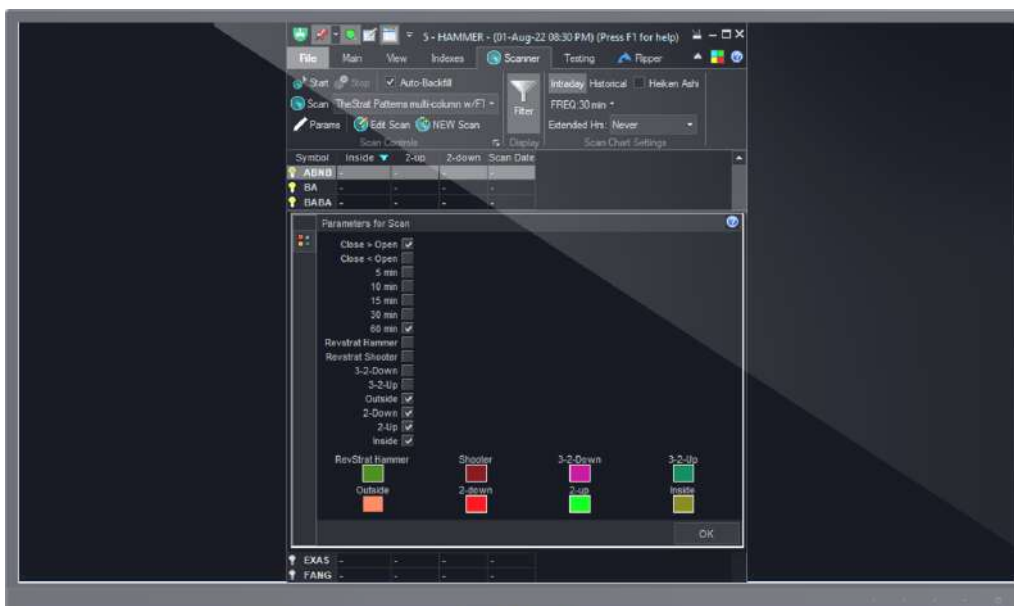


Figure 18



They work in the following way:

First, we choose our desired Time frame continuity - Close > Open (Green) or Close < Open (Red), then we choose the time frame for that continuity. Once we have these picked, we select the candle patterns that we want to scan for. From the Intraday/Historical Panel we choose the Frequency for the Pattern time frames. Using the example from the last picture, this is what it means - We are scanning for Inside bars, 2-Up, 2-Down and Outside bars on the 30 minute (Intraday) time frame. These patterns will only be shown as scan results if the stock symbol that they are derived from also has the condition Close > Open true for the 60 minute time frame. In other words, we have as scan results all of the patterns that appear while the 60 minute candle is green as well.

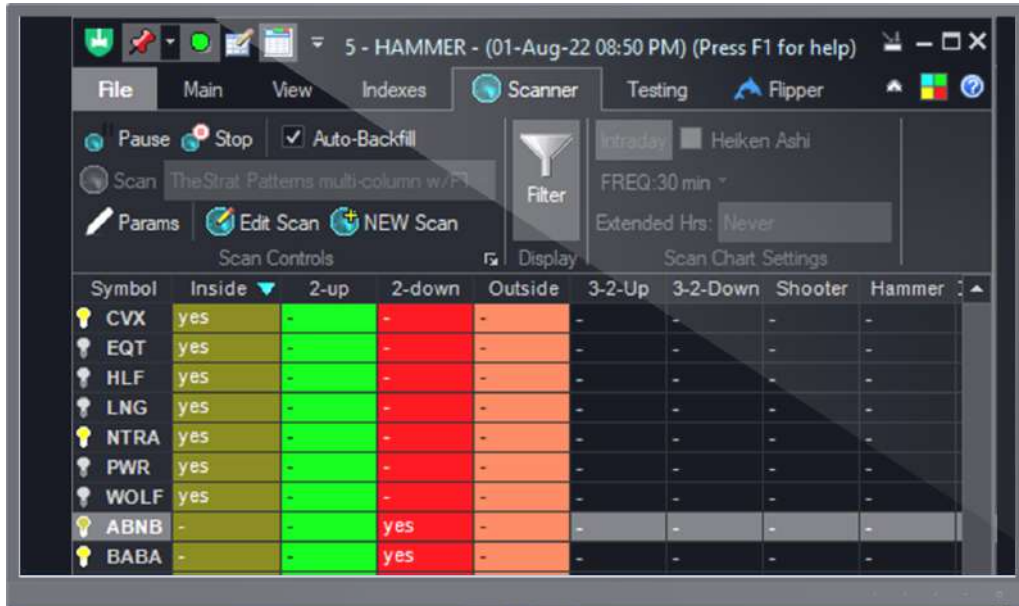


Figure 19

1.6. TheStrat Patterns multi-column w/Hist

The exact same logic is applied to the **TheStrat Patterns multi-column w/Hist**.

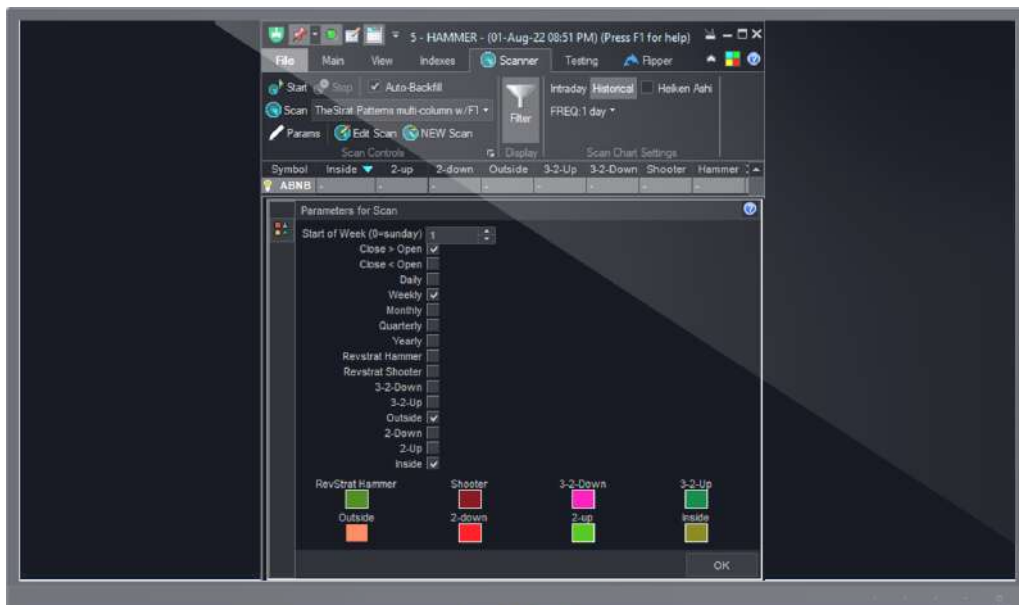


Figure 20

In this example we are scanning for all the stocks that are Inside or Outside on the Daily time frame (Historical) that are at the same time green on the Weekly time frame.



2. TheStrat Indicators and Paintbars

If you liked the scanners, we have some other perks for you as well. Check out the **TheStrat indicators** that can be used in HAMMER.

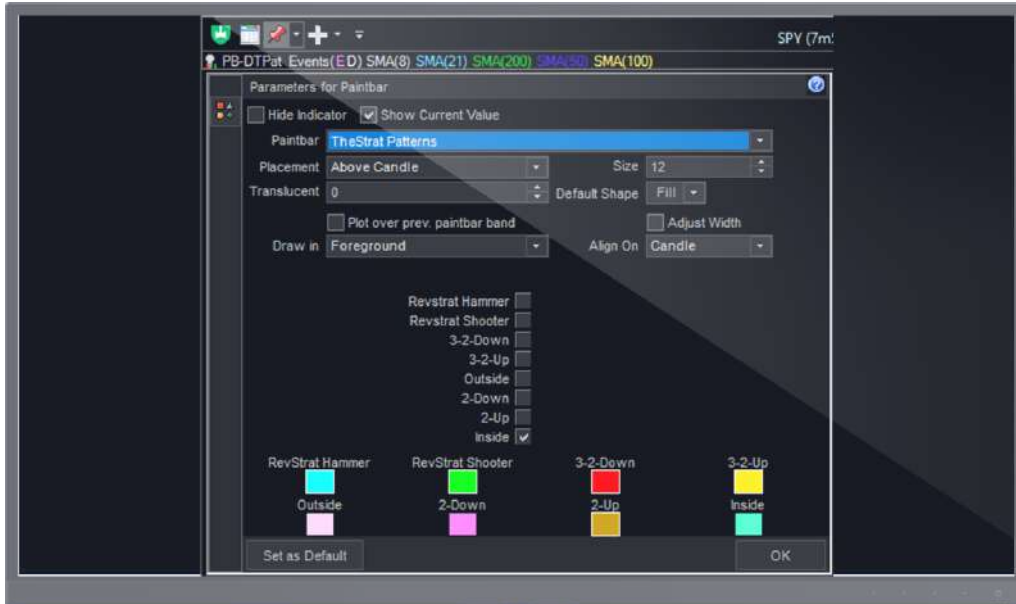


Figure 21

If you want to easily spot all of the candlestick patterns on the chart (Figures 22a and 22b), we have the **Paintbar functionality**. When you add one to your chart with **TheStrat Patterns** chosen, you can select any of the patterns that you want, as well as the visual way in which they are marked on your screen.

In this example we have selected the Inside bar pattern, we have chosen a color for it and a place on the chart where it should be marked.

If more of the patterns are selected, our chart would look something like this:

Figure 22a



Figure 22b



Not only that, but we have the **FTC Indicator** as well. When you add it to your chart, you can see with a glimpse if that stock symbol is green or red on any of the time frames that you want to fit those criteria.

On the images below (Figures 23 and 24) you can see that at the **bottom right** and **top right** corners the colors of the candlesticks of the respective time frames are shown as green or red capital letters. They will change real-time as the price of the monitored symbol changes. They are again available both for the Historical and Intraday time frames through the function of the Paintbar. You have to add the Paintbar as an indicator on your chart and choose one of the two functions - **Opens Hist PB** or **Opens Intraday PB**. You must use the Opens Intraday PB on an intraday chart with 5 minute frequency or less and the Opens Hist PB on a historical chart with a daily frequency. You can change the available options for the indicator to show the continuity for all the time frames or only for some of them. As any other chart indicator, you can attach them above, below or on the chart. Everything is shown on the images attached below but feel free to experiment.



Figure 23



Figure 24

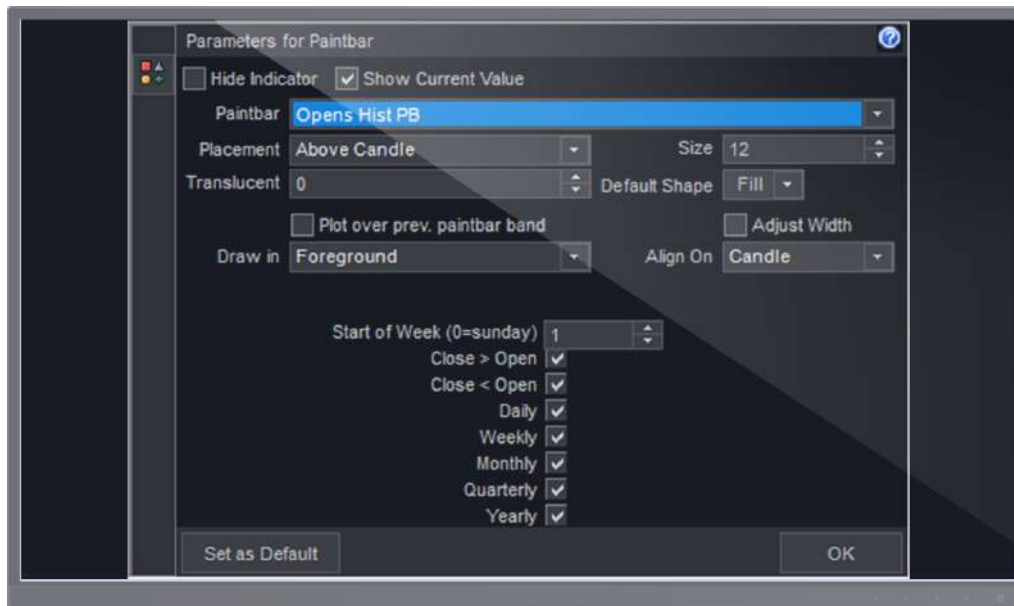


Figure 25

Below is a glossary with the logical structures behind the patterns in [HAMMER](#) platform scanners and indicators as well as visual examples (Figure26). For a seasoned stratter it wouldn't be needed, but if you are just starting your Strat trading journey, we hope this improves your learning curve. Best of luck from team HAMMER!

III. Glossary

1. Pattern 1: Inside candle

Comparing a candle to the previous candle. Let's call them Candle1 and Candle2. **Candle2** should be an **inside** candle compared to **Candle1**. (Regardless of the opening or closing prices for both candles.)

Name - One (1)

Criteria:

High of Candle2 is lower than or equal to **High of Candle1**
and

Low of Candle2 is higher than the **Low of Candle1**
OR

High of Candle2 is lower than the **High of Candle1**
and

Low of Candle2 is higher than or equal to **Low of Candle1**



2. Pattern 2: Trending UP Candle

Comparing a candle to the previous candle. Let's call them Candle1 and Candle2. Candle2 should be breaking only the high of Candle1. (Regardless of the opening or closing prices for both candles.)

Name: 2-UP

Criteria:

High of Candle2 is higher than the **High of Candle1**
and
Low of Candle2 is higher than the **Low of Candle1**

3. Pattern 3: Trending DOWN Candle

Comparing a candle to the previous candle. Let's call them Candle1 and Candle2. **Candle2** should be breaking **only the low** of **Candle1**. (Regardless of the opening or closing prices for both candles.)

Name: 2-DOWN

Criteria:

High of Candle2 is lower than the **High of Candle1**
and
Low of Candle2 is lower than the **Low of Candle1**

4. Pattern 4: Outside candle

Comparing a candle to the previous candle. Let's call them Candle1 and Candle2. **Candle2** should be breaking **both the high and the low** of **Candle1**. (Regardless of the opening or closing prices for both candles.)

Name: Three (3)

Criteria:

High of Candle2 is higher than the **High of Candle1**
and
Low of Candle2 is lower than the **Low of Candle1**



5. Pattern 5: Outside candle + Trending UP candle

Comparing 3 consecutive candles. Let's call them Candle1, Candle2 and Candle3. **Candle2** should be breaking **both the high and the low** of **Candle1**. While **Candle 3** should be breaking only **the high** of **Candle2**. (Regardless of the opening or closing prices for both candles.)

Name: 3-2-UP

Criteria:

High of Candle3 is higher than the **High of Candle2**
and

Low of Candle3 is higher than the **Low of Candle2**
and

High of Candle2 is higher than the **High of Candle1**
and

Low of Candle2 is lower than the **Low of Candle1**

6. Pattern 6: Outside candle + Trending DOWN Candle

Comparing 3 consecutive candles. Let's call them Candle1, Candle2 and Candle3. **Candle2** should be breaking **both the high and the low** of **Candle1**. While **Candle 3** should be breaking only **the low** of **Candle2** (regardless of the opening or closing prices for both candles).

Name: 3-2-DOWN

Criteria:

High of Candle3 is lower than the **High of Candle2**
and

Low of Candle3 is lower than the **Low of Candle2**
and

High of Candle2 is higher than the **High of Candle1**
and

Low of Candle2 is lower than the **Low of Candle1**



7. Pattern 7: Inside candle + Trending UP Candle

Comparing 3 consecutive candles. Let's call them Candle1, Candle2 and Candle3. **Candle2** should be an **inside** candle compared to **Candle1**. While **Candle 3** should be breaking only **the high** of **Candle2** (regardless of the opening or closing prices for both candles).

Name: RevStrat Shooter

Criteria:

High of Candle3 is higher than the **High of Candle2**
and
Low of Candle3 is higher than the **Low of Candle2**
and
High of Candle2 is lower than or equal to the **High of Candle1**
and
Low of Candle2 is higher than the **Low of Candle1**
or
High of Candle2 is lower than the **High of Candle1**
and
Low of Candle2 is higher than or equal to the **Low of Candle1**

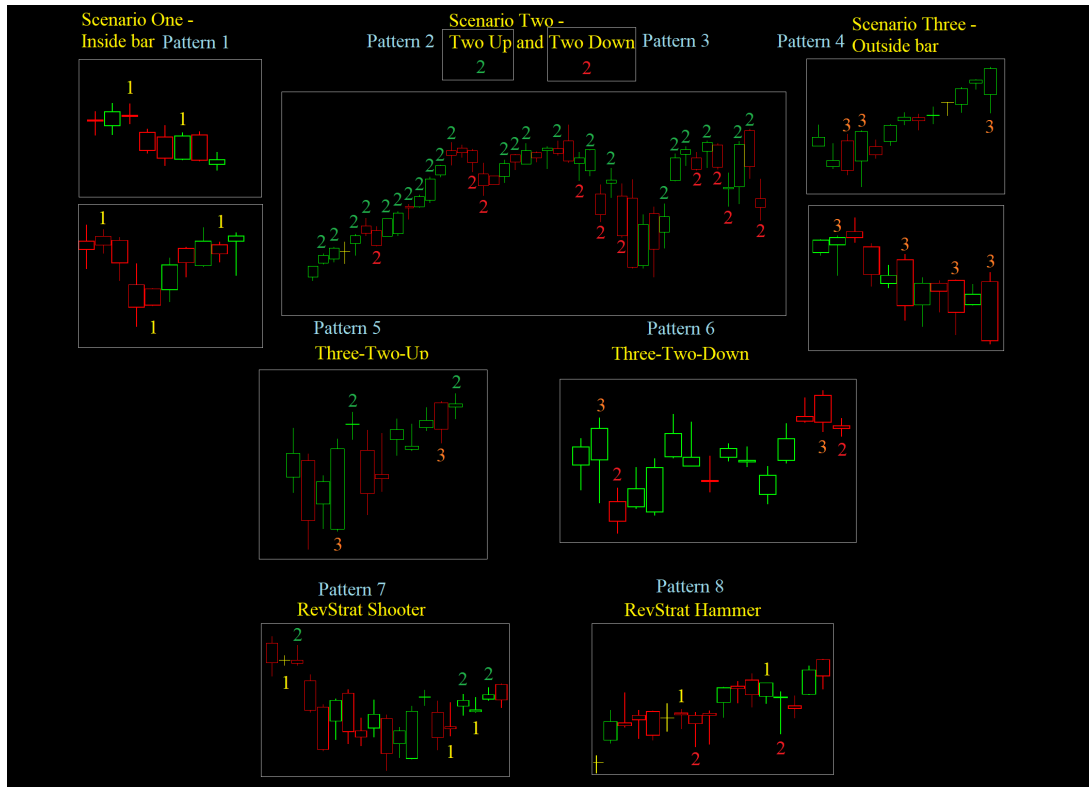
8. Pattern 8: Inside candle + Trending DOWN Candle

Comparing 3 consecutive candles. Let's call them Candle1, Candle2 and Candle3. **Candle2** should be an **inside** candle compared to **Candle1**. While **Candle 3** should be breaking only **the low** of **Candle2** (regardless of the opening or closing prices for both candles).

Name: RevStrat Hammer

Criteria:

High of Candle3 is lower than the **High of Candle2**
and
Low of Candle3 is lower than the **Low of Candle2**
and
High of Candle2 is lower than or equal to the **High of Candle1**
and
Low of Candle2 is higher than the **Low of Candle1**
or
High of Candle2 is lower than the **High of Candle1**
and
Low of Candle2 is higher than or equal to the **Low of Candle1**



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