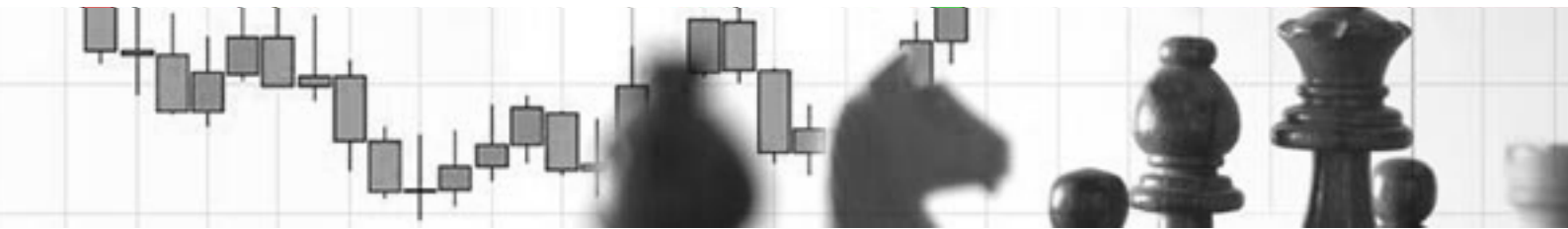


FOREX TRADING



STRATEGIES





One of the most powerful means of winning a trade is the portfolio of Forex trading strategies applied by traders in different situations. Following a single system all the time is not enough for a successful trade. Each trader should know how to face up to all market conditions, which, however, is not so easy, and requires a deep study and understanding of economics.

In order to help you meet your educational needs and create your own portfolio of trading strategies, **IFC Markets** provides you both with reliable resources on trading and with complete information of all the popular and simple forex trading strategies applied by successful traders.

The trading strategies we represent are suitable for all traders who are novice in trade or want to improve their skills. All the strategies classified and explained below are for educational purposes and can be applied by each trader in a different way.

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Trading Strategies Based on Forex Analysis

Perhaps the major part of Forex trading strategies is based on the main types of Forex market analysis used to understand the market movement. These main analysis methods include technical analysis, fundamental analyses and market sentiment.

Each of the mentioned analysis methods is used in a certain way to identify the market trend and make reasonable predictions on future market behaviour. If in technical analysis traders mainly deal with different charts and technical tools to reveal the past, present and future state of currency prices, in fundamental analysis the importance is given to the macroeconomic and political factors which can directly influence the foreign exchange market. Quite a different approach to the market trend is provided by market sentiment, which is based on the attitude and opinions of traders. Below you can read about each analysis method in detail.

Forex Technical Analysis Strategies

Forex technical analysis is the study of market action primarily through the use of charts for the purpose of forecasting future price trends. Forex traders can develop strategies based on various technical analysis tools including market trend, volume, range, support and resistance levels, chart patterns and indicators, as well as conduct a Multiple Time Frame Analysis using different time-frame charts.

Technical analysis strategy is a crucial method of evaluating assets based on the analysis and statistics of past market action, such as past prices and past volume. The main goal of technical analysts is not the measuring of asset's underlying value, they attempt to use charts or other tools of technical analysis to determine patterns that will help to forecast future market activity. Their firm belief is that the future performance of markets can be indicated by the historical performance.



Forex Trend Trading Strategy

Trend represents one of the most essential concepts in technical analysis. All the technical analysis tools that an analyst uses have a single purpose: help to identify the market trend. The meaning of Forex trend is not so much different from its general meaning - it is nothing more than the direction in which the market moves. But more precisely, foreign exchange market does not move in a straight line, its moves are characterized by a series of zigzags which resemble successive waves with clear peaks and troughs or highs and lows, as they are often called.



As we mentioned above, forex trend is comprised of a series of highs and lows, and depending on the movement of those peaks and troughs one can understand the trend's type on the market.



Though most people think that foreign exchange market can be either upward or downward, actually there exist not two but three types of trends:

- Uptrend
- Downtrend
- Sideways



Traders and investors confront three types of decisions: go long, i.e. to buy, go short, i.e. to sell, or stay aside, i.e. to do nothing. During any type of trend they should develop a specific strategy.

The buying strategy is preferable when the market goes up and conversely the selling strategy would be right when the market goes down. But when the market moves sideways the third option – to stay aside - will be the wisest decision.

Support and Resistance Trading Strategy

In order to completely understand the essence of support and resistance trading strategy you should firstly know what a horizontal level is. Actually, it is a price level indicating either a support or resistance in the market. The support and resistance in technical analysis are the terms for price lows and highs respectively. The term support indicates the area on the chart where the buying interest is significantly strong and surpasses the selling pressure. It is usually marked by previous troughs. Resistance level, contrary to the support level, represents an area on the chart where selling interest overcomes buying pressure. It is usually marked by previous peaks.



In order to develop a support and resistance strategy you should be well aware of how the trend is identified through these horizontal levels. Thus, for an uptrend to go on, each successive support level should be higher than the previous one, and each successive resistance level should be higher than the one preceding it.

In case this is not so, for instance, if the support level comes down to the previous trough, it may signify that the uptrend is coming to the end or at least it is turning into a sideways trend. It is likely that trend reversal from up to down will occur. The opposite situation takes place in a downtrend; the failure of each support level to move lower than the previous trough may again signal changes in the existing trend.

The concept behind support and resistance trading is still the same - buying a security when we expect it to increase in price and sell when expecting its price to go down. Thus, when the price falls to the support level, traders decide to buy creating demand and driving the price up. In the same way, when the price rises to a resistance level, traders decide to sell, creating a downward pressure and driving the price down.

Forex Range Trading Strategy

Range trading strategy, which is also called channel trading, is generally associated with the lack of market direction and it is used during the absence of a trend. Range trading identifies currency price movement in channels and the first task of this strategy is to find the range. This process can be carried out by connecting a series of highs and lows with a horizontal trendline. In other words, the trader should find the major support and resistance levels with the area in between known as “trading range”.



In range trading it's quite easy to find the areas to take profit. You can buy at support and sell at resistance as long as the security hasn't broken out of the channel. Otherwise, if the breakout direction is not favorable for your position, you may undergo huge losses.

Range trading actually works in a market with just enough volatility due to which the price goes on wiggling in the channel without breaking out of the range. In the case the level of support and resistance breaks you should exit range-based positions. The most efficient way of managing this type of risk is the use of stop and limit orders as most traders do. They place stop limit orders when the currency price keeps dropping below the entry point and set the limit order to make profit when the security moves to the top of the range. In other words, while selling a range you should set limit orders down near the support level to take profit and while buying, you should place take profit orders at the previously defined resistance level.

Technical Indicators in Forex Trading Strategies

Technical indicators are calculations which are based on the price and volume of a security. They are used both to confirm the trend and the quality of chart patterns, and to help traders determine the buy and sell signals. The indicators can be applied separately to form buy and sell signals, as well as can be used together, in conjunction with chart patterns and price movement.

Technical analysis indicators can form buy and sell signals through crossovers and divergence. Crossovers are reflected when price moves through the moving average or when two different moving averages cross each other. Divergence happens when the price trend and the indicator trend move in opposite directions indicating that the direction of price trend is weakening.

They can be applied separately to form buy and sell signals, as well as can be used together, in conjunction with the market. However, not all of them are used widely by traders. The following indicators mentioned below are of utmost importance for analysts and at least one of them is used by each trader to develop his trading strategy:

- ▶ Moving Average
- ▶ Bollinger Bands
- ▶ Relative Strength Index (RSI)
- ▶ Stochastic Oscillator
- ▶ Moving Average Convergence/Divergence (MACD)
- ▶ RSI-Bars
- ▶ ADX
- ▶ Momentum

You can easily learn how to use each indicator and develop [trading strategies by indicators](#).

Forex Charts Trading Strategies

In Forex technical analysis a chart is a graphical representation of price movements over a certain time frame. It can show security's price movement over a month or a year period. Depending on what information traders search for and what skills they master, they can use certain types of charts: the bar chart, the line chart, the candlestick chart and the point and figure chart.

Also they can develop a specific strategy using the following popular technical chart patterns:

- ▶ Triangles
- ▶ Flags
- ▶ Pennants
- ▶ The Wedge
- ▶ The Rectangle Pattern
- ▶ The Head and Shoulders Pattern
- ▶ Double Tops and Double Bottoms
- ▶ Triple Tops and Triple Bottoms

You can easily learn how to use charts and develop [trading strategies by chart patterns](#).

Forex Volume Trading Strategy

Volume shows the number of securities that are traded over a particular time. Higher volume indicates higher degree of intensity or pressure. Being one of the most important factors in trade it is always analyzed and estimated by chartists. In order to determine the upward or downward movement of the volume, they look at the trading volume bars usually presented at the bottom of the chart. Any price movement is of more significance if accompanied by a relatively high volume than if accompanied by a weak volume.

By viewing the trend and volume together, technicians use two different tools to measure the pressure. If prices are trending higher, it becomes obvious that there is more buying than selling pressure. If the volume starts to decrease during an uptrend, it signals that the upward trend is about to end.

As mentioned by Forex analyst Huzefa Hamid “volume is the gas in the tank of the trading machine”. Though most traders give preference only to technical charts and indicators to make trading decisions, volume is required to move the market. However, not all volume types may influence the trade, it’s the volume of large amounts of money that is traded within the same day and greatly affects the market.



Multiple Time Frame Analysis Strategy

Using Multiple Time Frame Analysis suggests following a certain security price over different time frames.

Since a security price meanwhile moves through multiple time frames it's very useful for traders to analyze various time frames while determining the "trading circle" of the security. Through the Multiple Time Frame Analysis (MTFA) you can determine the trend both on smaller and bigger scales and identify the overall market trend. The whole process of MTFA starts with the exact identification of the market direction on higher time frames (long, short or intermediary) and analyzing it through lower time frames starting from a 5-minute chart.

Experienced trader Corey Rosenbloom believes that in multiple time frame analysis, monthly, weekly and daily charts should be used to assess when the trends are moving in the same direction. However, this may cause problems because time frames don't always align and different kind of trends take place on different time frames. According to him, the analysis of lower time frames gives more information.



Forex Trading Strategy Based on Fundamental Analysis

While technical analysis is focused on the study and past performance of market action, Forex fundamental analysis concentrates on the fundamental reasons that make an impact on the market direction.

The premise of Forex fundamental analysis is that macroeconomic indicators like economic growth rates, interest and unemployment rates, inflation, or important political issues can have an impact on financial markets and, therefore, can be used for making trading decisions.

Technicians do not find it necessary to know the reasons of market changes, but fundamentalists try to discover “why”. The latter analyze macroeconomic data of a specific country or different countries to forecast the given country’s currency behaviour in the nearest future. Based on certain events or calculations, they may decide to buy the currency in the hope that the latter will rise in value and they will be able to sell it at a higher price, or they will sell the currency to buy it later at a lower price.

The reason why fundamental analysts use so long timeframe is the following: the data they study are generated much more slowly than the price and volume data used by technical analysts.

Forex Trading Strategy Based on Market Sentiment

Market sentiment is defined by investors' attitude towards the financial market or a particular security. What people feel and how this makes them behave in Forex market is the concept behind market sentiment.

The importance of understanding the opinions of a group of people on a specific topic cannot be underestimated. For each purpose sentiment analysis can offer insight that is valuable and helps to make right decisions.

All traders have their own opinions about the market movement, and their thoughts and opinions which are directly reflected in their transactions help to form the overall sentiment of the market.

The market by itself is a very complex network made up of a number of individuals whose positions actually represent the sentiment of the market. However, you alone cannot make the market move to your favor; as a trader you have your opinion and expectations from the market but if you think that Euro will go up, and others do not think so, you cannot do anything about it.

Herein, the market sentiment is considered bullish if investors anticipate an upward price movement, while if investors expect the price to go down, the market sentiment is said to be bearish. The strategy of following Forex market sentiment serves as a good means of predicting the market movement and is of high importance for contrarian investors, who aim to trade in the opposite direction of the market sentiment. Thus, if the prevailing market sentiment is bullish (all the traders buy), a contrarian investor would sell.



Forex Strategies Based on Trading Style

Forex trading strategies can be developed by following popular trading styles which are day trading, carry trade, buy and hold strategy, hedging, portfolio trading, spread trading, swing trading, order trading and algorithmic trading.

Using and developing trading strategies mostly depends on understanding your strengths and weaknesses. In order to be successful in trade you should find the best way of trading that suits your personality. There is no fixed “right” way of trading; the right way for others may not work for you. Below you can read about each trading style and define your own.

Forex Day Trading Strategies

Day trading strategy represents the act of buying and selling a security within the same day, which means that a day trader cannot hold any trading position overnight.

Day trading strategies include scalping, fading, daily pivots and momentum trading. In case of performing day trading you can carry out several trades within a day but should liquidate all the trading positions before the market closure.

An important factor to remember in day trading is that the longer you hold the positions, the higher your risk of losing will be. Depending on the trading style you choose, the price target may change. Below you can learn about the most widely used day trading strategies.



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