

FOREX BEGINNERS GUIDE

Your future starts here



**Written According To Forex Intelligence
Guide Book**

What is forex?

Forex, also known as foreign exchange, FX or currency trading, is a decentralized global market where the entire world's currencies trade. The forex market is the largest, most liquid market in the world with an average daily trading volume exceeding \$5 trillion. All the world's combined stock markets don't even come close to this. But what does that mean to you? Take a closer look at forex trading and you may find some exciting trading opportunities unavailable with other investments.

Opportunities in forex:

Just like stocks, you can trade currency based on what you think its value is (or where it's headed). But the big difference with forex is that you can trade up or down just as easily. If you think a currency will increase in value, you can buy it. If you think it will decrease, you can sell it. With a market this large, finding a buyer when you're selling and a seller when you're buying is much easier than in other markets. Maybe you hear on the news that China is devaluing its currency to draw more foreign business into its country. If you think that trend will continue, you could make a forex trade by selling the Chinese currency against another currency, say, the US dollar. The more the Chinese currency devalues against the US dollar, the higher your profits. If the Chinese currency increases in value while you have your sell position open, then your losses increase and you want to get out of the trade.

Three Types Of Market Analysis

To begin, let's look at three ways on how you would analyse and develop ideas to trade the market , There are three basics types of market analysis

- **Technical Analysis**
- **Fundamental Analysis**
- **Sentimental Analysis**

There has always been a constant debate as to which analysis is better, but to tell you the truth, you need to know all three

Technical Analysis

Technical analysis is the framework in which forex traders study price movement.

The theory is that a person can look at historical price movements and determine the current trading conditions and potential price movement.

The main evidence for using technical analysis is that, theoretically, all current market information is reflected in price.

If price reflects all the information that is out there, then price action is all one would really need to make a trade.

Well, that's basically what technical analysis is all about! If a price level held as a key support or resistance in the past, traders will keep an eye out for it and base their trades around that historical price level.

Technical analysis look for similar patterns that have formed in the past, and will form trade ideas believing that price will act the same way that it did before.



In the world of currency trading, when someone says technical analysis, the first thing that comes to mind is a chart.

Technical analysts use charts because they are the easiest way to visualize historical data!

You can look at past data to help you spot trends and patterns which could help you find some great trading opportunities.

Fundamental Analysis

Fundamental analysis is a way of looking at the forex market by analyzing economic, social, and political forces that may affect the supply and demand of an asset.

If you think about it, this makes a whole lot of sense! Just like in your Economics 101 class, it is supply and demand that determines price, or in our case, the currency exchange rate.

Using supply and demand as an indicator of where price could be headed is easy. The hard part is analyzing all of the factors that affect supply and demand.

You have to understand the reasons of why and how certain events like an increase in the unemployment rate affects a country's economy and monetary policy which ultimately, affects the level of demand for its currency.

The idea behind this type of analysis is that if a country's current or future economic outlook is good, their currency should strengthen.

Sentiment Analysis

Sentiment analysis is important. Each trader has his or her own opinion of why the market is acting the way it does and whether to trade in the same direction of the market or against it.

Each trader's thoughts and opinions, which are expressed through whatever position they take, helps form the overall sentiment of the market regardless of what information is out there.

The problem is that as retail traders, no matter how strongly you feel about a certain trade, you can't move the forex markets in your favour.

Even if you truly believe that the dollar is going to go up, but everyone else is bearish (down) on it, there's nothing much you can do about it.

As a trader, you have to take all this into consideration. You need to perform sentiment analysis.

It's up to you to gauge how the market is feeling, whether it is bullish (up) or bearish (down).

Then you have to decide how you want to incorporate your perception of market sentiment into your trading strategy.

If you choose to simply ignore market sentiment, that's your choice!

Being able to gauge market sentiment can be an important tool in your toolbox.

3 Type of Forex charts

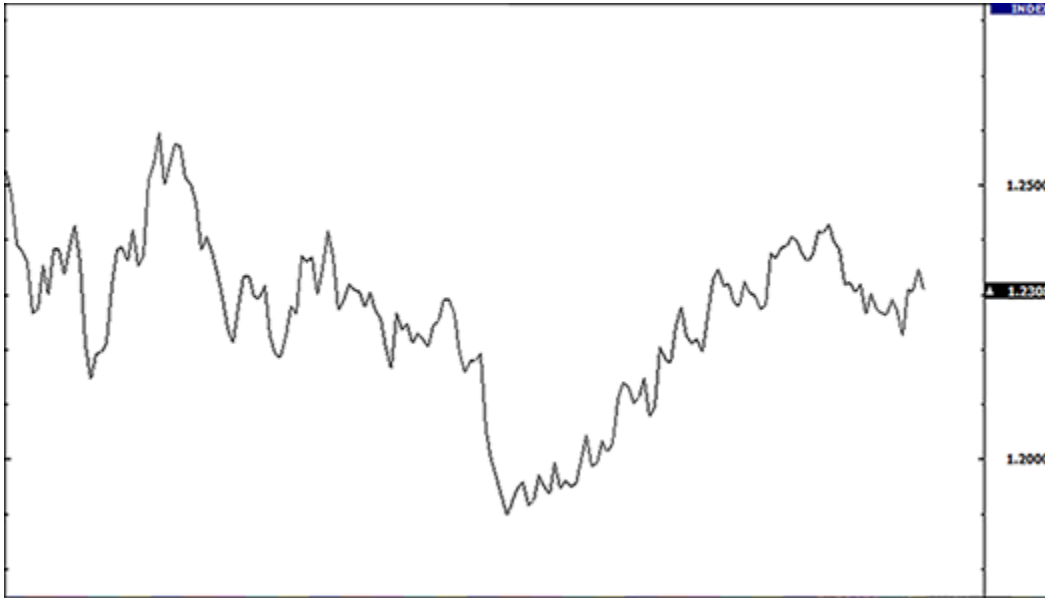
1. Line chart
2. Bar chart
3. Candlestick chart

Line Charts

A simple line chart draws a line from **one closing price to the next closing price**.

When strung together with a line, we can see the general price movement of a currency pair over a period of time.

Here is an example of a line chart for EUR/USD:



Bar Charts

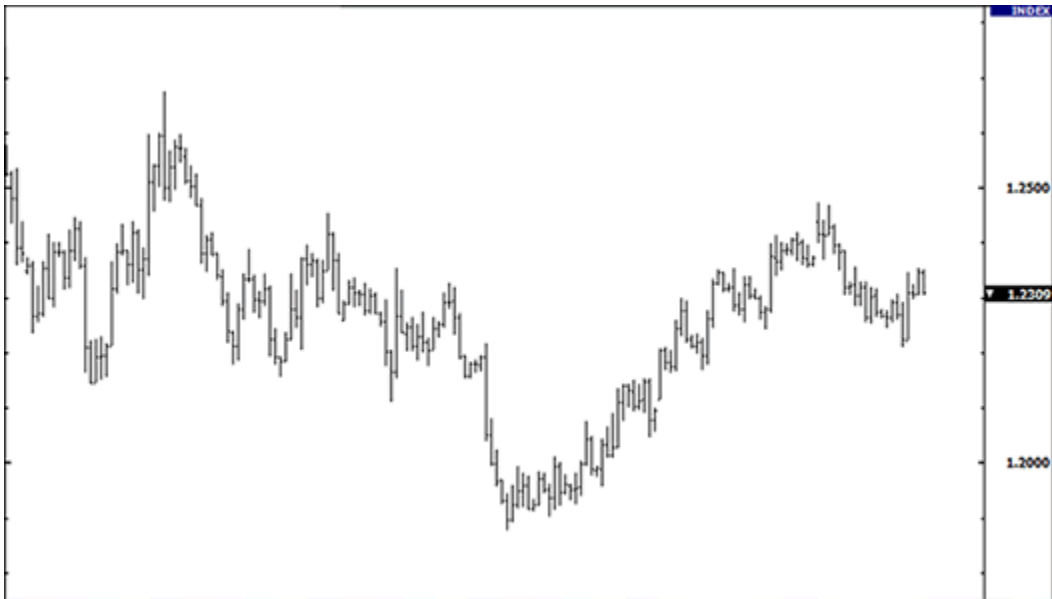
A bar chart is a little more complex. It shows the **opening** and **closing** prices, as well as the **highs** and **lows**.

The bottom of the vertical bar indicates the lowest traded price for that time period, while the top of the bar indicates the highest price paid.

The vertical bar itself indicates the currency pair's trading range as a whole.

The horizontal hash on the left side of the bar is the opening price, and the right-side horizontal hash is the closing price.

Here is an example of a bar chart for EUR/USD:

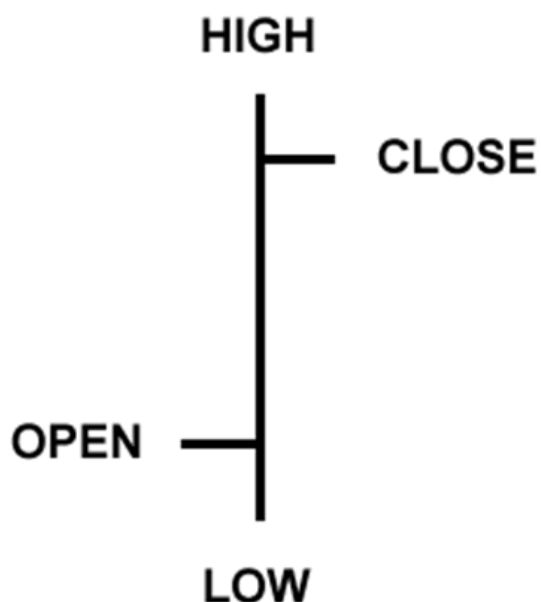


A bar is simply one segment of time, whether it is D1, W1 or H1

When you see the word ‘bar’ going forward, be sure to understand what time frame it is referencing.

Bar charts are also called “**OHLC**” charts, because they indicate the Open, the High, the Low, and the Close for that particular currency.

Here’s an example of a price bar:



Open: The little horizontal line on the left is the opening price

High: The top of the vertical line defines the highest price of the time period

Low: The bottom of the vertical line defines the lowest price of the time period

Close: The little horizontal line on the right is the closing price

Candlesticks Charts

Candlestick charts show the same price information as a bar chart, but in a prettier, graphic format.

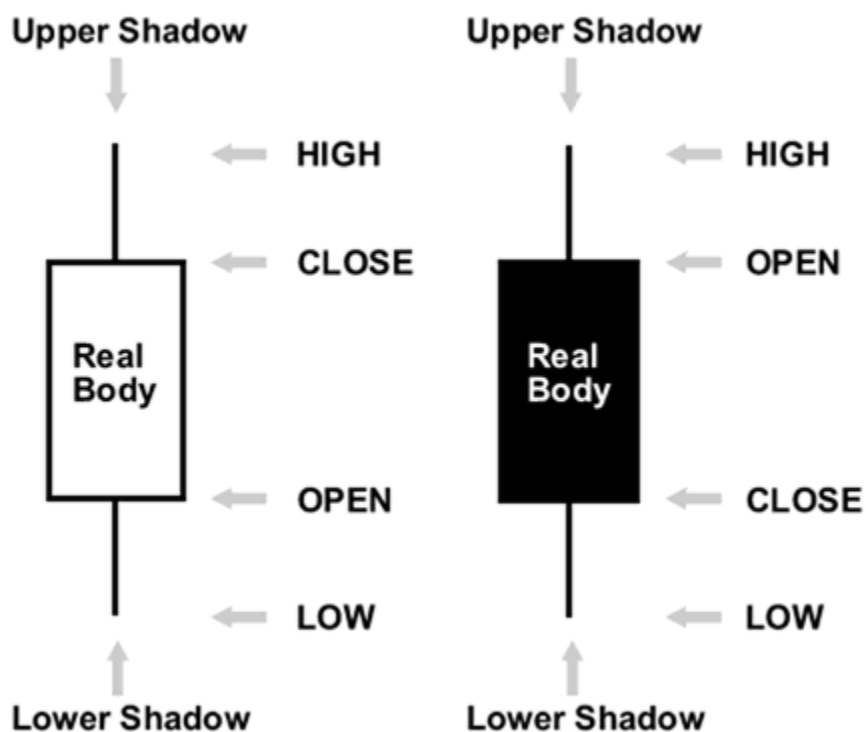
Candlestick bars still indicate the high-to-low range with a vertical line.

However, in candlestick charting, the larger block (or body) in the middle indicates the range between the opening and closing prices.

Traditionally, if the block in the middle is filled or colored in, then the currency pair closed lower than it opened.

In the following example, the ‘filled color’ is black. For our ‘filled’ blocks, the top of the block is the opening price, and the bottom of the block is the closing price.

If the closing price is higher than the opening price, then the block in the middle will be “white” or hollow or unfilled.



The purpose of candlestick charting is strictly to serve as a visual aid, since the exact same information appears on an OHLC bar chart.

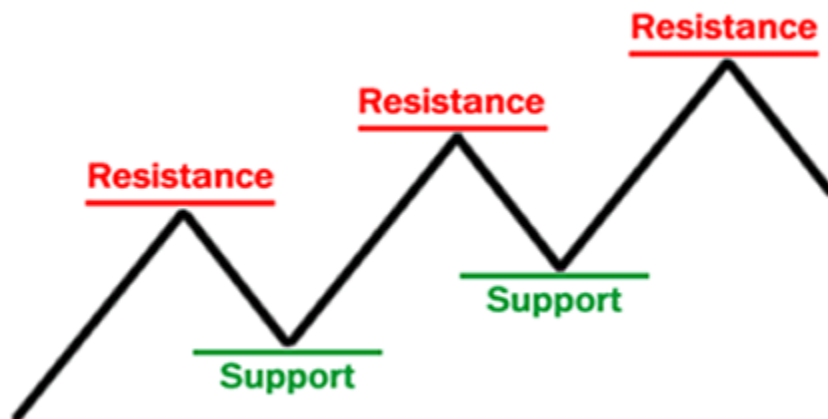
The advantages of candlestick charting are:

- Candlesticks are easy to interpret, and are a good place for beginners to start figuring out forex chart analysis.
- Candlesticks are easy to use! Your eyes adapt almost immediately to the information in the bar notation. Plus, research shows that visuals help with studying, so it might help with trading as well!

Forex support and resistance

Support and resistance is one of the most widely used concepts in forex trading.

Let's take a look at the basics first.



Look at the diagram above. As you can see, this zigzag pattern is making its way up (bull market).

When the forex market moves up and then pulls back, the highest point reached before it pulled back is now **resistance**.

As the market continues up again, the lowest point reached before it started back is now **support**.

In this way, resistance and support are continually formed as the forex market oscillates over time. The reverse is true for the downtrend.

Plotting Forex Support and Resistance

One thing to remember is that support and resistance levels are **not exact numbers**.

Often times you will see a support or resistance level that appears broken, but soon after find out that the market was just testing it.

With candlestick charts, these “tests” of support and resistance are usually represented by the candlestick shadows.



Notice how the shadows of the candles tested the 1.4700 support level.

At those times it seemed like the market was “breaking” support.

In hindsight, we can see that the market was merely testing that level.

So how do we truly know if support and resistance was broken?

There is no definite answer to this question. Some argue that a support or resistance level is broken if the market can actually close past that level. However, you will find that this is not always the case.

Let’s take our same example from above and see what happened when the price actually closed past the 1.4700 support level.



In this case, the price had closed below the 1.4700 support level but ended up rising back up above it.

If you had believed that this was a real breakout and sold this pair, you would've been seriously hurting!

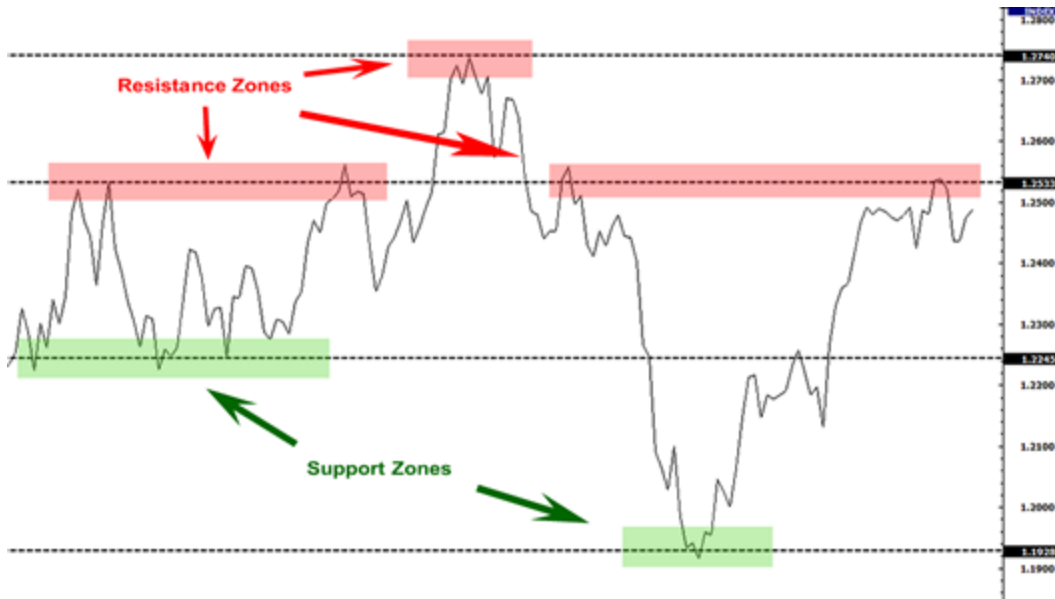
Looking at the chart now, you can visually see and come to the conclusion that the support was not actually broken; it is still very much intact and now even stronger.

To help you filter out these false breakouts, you should think of support and resistance more of as “zones” rather than concrete numbers.

One way to help you find these zones is to plot support and resistance on line chart rather than a candlestick chart. The reason is that line charts only show you the closing price while candlesticks add the extreme highs and lows to the picture.

These highs and lows can be misleading because often times they are just the reactions of the market.

Looking at the line chart, you want to plot your support and resistance lines around areas where you can see the price forming several peaks or valleys.



Other interesting things about forex support and resistance:

- When the price passes through resistance, that resistance could potentially become support.
- The more often price tests a level of resistance or support without breaking it, the stronger the area of resistance or support is.
- When a support or resistance level breaks, the strength of the follow-through move depends on how strongly the broken support or resistance had been holding.

Trend lines

Types of trends

Uptrend

Downtrend

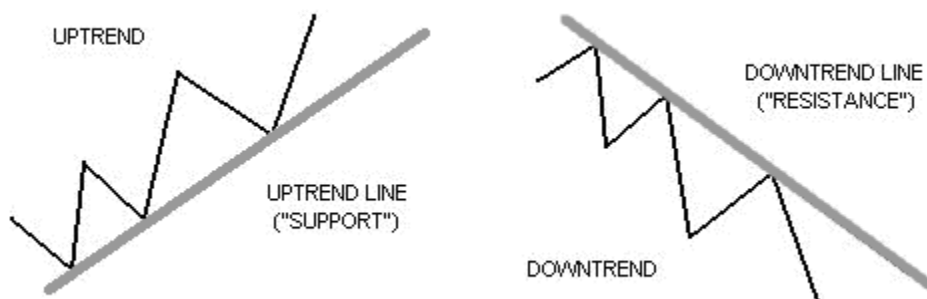
Sideways trend

Trend lines are probably the most common form of technical analysis in forex trading.

They are probably one of the most underutilized ones as well.

If drawn correctly, they can be as accurate as any other method.

Unfortunately, most forex traders don't draw them correctly or try to make the line fit the market instead of the other way around.



In their most basic form, an **uptrend** line is drawn along the bottom of easily identifiable support areas (valleys).

In a **downtrend**, the trend line is drawn along the top of easily identifiable resistance areas (peaks).

How do you draw trend lines?

To draw forex trend lines properly, all you have to do is locate two major tops or bottoms and connect them.

Here are trend lines in action! Look at those waves



How To Trade Channels

If we take this trend line theory one step further and draw a parallel line at the same angle of the uptrend or downtrend, we will have created a channel.

Channels are just another tool in technical analysis which can be used to determine good places to buy or sell.

Both the tops and bottoms of channels represent potential areas of support or resistance.



To create an up (ascending) channel, simply draw a parallel line at the same angle as an uptrend line and then move that line to position where it touches the most recent peak. This should be done at the same time you create the trend line.

To create a down (descending) channel, simply draw a parallel line at the same angle as the downtrend line and then move that line to a position where it touches the most recent valley. This should be done at the same time you create the trend line.

When prices hit the LOWER trend line, this may be used as a **buying** area.

When prices hit the UPPER trend line, this may be used as a **selling** area.

Types of channels

There are three types of channels:

1. Ascending channel (higher highs and higher lows)
2. Descending channel (lower highs and lower lows)
3. Horizontal channel (ranging)

Important things to remember about drawing trend lines:

When constructing a channel, both trend lines must be parallel to each other.

Trade with support and resistance

I have divided how to trade support and resistance levels into two simple ideas: the **Bounce** and the **Break**.

The Bounce

As the name suggests, one method of trading support and resistance levels is right after the bounce.

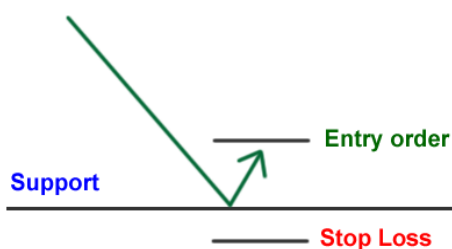
Many retail forex traders make the error of setting their orders directly on support and resistance levels and then just waiting to for their trade to materialize.

Sure, this may work at times but this kind of trading method assumes that a support or resistance level will hold without price actually getting there yet.

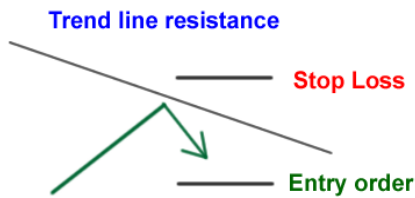
You might be thinking, “Why don’t I just set an entry order right on the line? That way, I am assured the best possible price.”

When playing the bounce, we want to tilt the odds in our favour and find some sort of confirmation that the support or resistance will hold.

For example, instead of simply buying right off the bat, we want to wait for it to *bounce* first before entering.



If you’ve been looking to go short, you want to wait for it bounce off resistance before entering.



By doing this, you avoid those moments where price moves fast and break through support and resistance levels.

The Break

In a perfect forex trading world, we could just jump in and out whenever price hits those major support and resistance levels and earn loads of money.

The fact of the matter is that these levels break... often.

So, it's not enough to just play bounces. You should also know what to do whenever support and resistance levels give way!

There are two ways to play breaks in forex trading: the aggressive way or the conservative way.

Fibonacci trading tool

Fibonacci is a huge subject and there are many different Fibonacci studies with weird-sounding names but we're going to stick to two: retracement and extension

Fibonacci Retracement Levels

0.236, 0.382, 0.500, 0.618, 0.764

Fibonacci Extension Levels

0, 0.382, 0.618, 1.000, 1.382, 1.618

You won't really need to know how to calculate all of this.

Traders use the Fibonacci retracement levels as potential **support and resistance areas**.

Since so many traders watch these same levels and place buy and sell orders on them to enter trades or place stops, the support and resistance levels tend to become a self-fulfilling prophecy.

Traders use the Fibonacci extension levels as **profit taking levels**.

Again, since so many traders are watching these levels to place buy and sell orders to take profits, this tool tends to work more often than not due to self-fulfilling expectations.

Most charting software includes both Fibonacci retracement levels and extension level tools.

In order to apply Fibonacci levels to your charts, you'll need to identify Swing High and Swing Low points.

A **Swing High** is a candlestick with at least *two lower highs* on both the left and right of itself.

A **Swing Low** is a candlestick with at least *two higher lows* on both the left and right of itself.

Trade with FIB

The first thing you should know about the Fibonacci tool is that it works best when the forex market is trending.

The idea is to go long (or buy) on a retracement at a Fibonacci support level when the market is trending up, and to go short (or sell) on a retracement at a Fibonacci resistance level when the market is trending down.

Finding Fibonacci Retracement Levels

In order to find these Fibonacci retracement levels, you have to find the recent significant Swing Highs and Swings Lows.

Then, for downtrends, click on the Swing High and drag the cursor to the most recent Swing Low.

For uptrends, do the opposite. Click on the Swing Low and drag the cursor to the most recent Swing High.

Let's take a look at some examples on how to apply Fibonacci retracements levels to the currency markets.

Uptrend

This is a daily chart of AUD/USD.



Here we plotted the Fibonacci retracement levels by clicking on the Swing Low at .6955 and dragging the cursor to the Swing High at .8264

The software magically shows you the retracement levels.

As you can see from the chart, the Fibonacci retracement levels were .7955 (23.6%), .7764 (38.2%), .7609 (50.0%), .7454 (61.8%), and .7263 (76.4%).

Now, the expectation is that if AUD/USD retraces from the recent high, it will find support at one of those Fibonacci retracement levels because traders will be placing buy orders at these levels as price pulls back.

Now, let's look at what happened after the Swing High occurred.



Price pulled back right through the 23.6% level and continued to shoot down over the next couple of weeks.

It even tested the 38.2% level but was unable to close below it.

Later on, around July 14, the market resumed its upward move and eventually broke through the swing high.

Clearly, buying at the 38.2% Fibonacci level would have been a profitable long-term trade!

Downtrend

Now, let's see how we would use the Fibonacci retracement tool during a downtrend. Below is a 4-hour chart of EUR/USD.

MPHO RAMOCHELA TREVOR



As you can see, we found our Swing High at 1.4195 and our Swing Low at 1.3854

The retracement levels are 1.3933 (23.6%), 1.3983 (38.2%), 1.4023 (50.0%), 1.4064 (61.8%) and 1.4114 (76.4%).

The expectation for a downtrend is that if price retraces from this low, it could possibly encounter resistance at one of the Fibonacci levels because traders who want to play the downtrend at better prices may be ready with sell orders there.

Let's take a look at what happened next.



The market did try to rally, stalled below the 38.2% level for a bit before testing the 50.0% level.

If you had some orders either at the 38.2% or 50.0% levels, you would've made some mad pips on that trade.

In these two examples, we see that price *found* some temporary forex support or resistance at Fibonacci retracement levels.

Because of all the people who use the Fibonacci tool, those levels become self-fulfilling support and resistance levels.

Moving Average

A **moving average** is simply a way to smooth out price action over time.

By “moving average”, we mean that you are taking the average closing price of a currency pair for the last ‘X’ number of periods.

On a chart, it would look like this:



Like every indicator, a moving average indicator is used to help us forecast future prices.

By looking at the slope of the moving average, you can better determine the potential direction of market prices.

As we said, moving averages smooth out price action.

There are different types of moving averages and each of them has their own level of “smoothness”.

Generally, the smoother the moving average, the slower it is to react to the price movement.

Chart patterns

I will teach you **basic chart patterns and formations**.

When correctly identified, it usually leads to an explosive breakout!

Remember, our goal is to spot big movements before they happen so that we can ride them out and make good money!!

Double Top

A double top is a reversal pattern that is formed after there is an extended move up.

The “tops” are peaks which are formed when the price hits a certain level that can’t be broken.

After hitting this level, the price will bounce off it slightly, but then return back to test the level again. I

if the price bounces off of that level again, then you have a DOUBLE top!



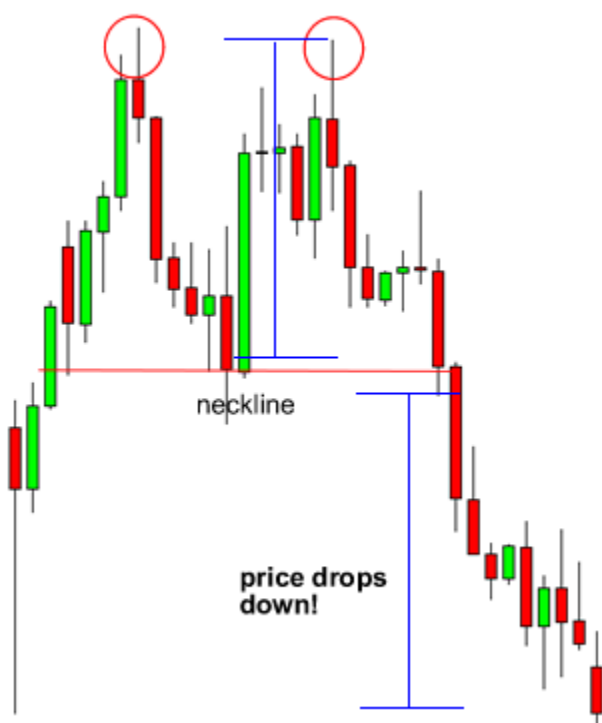
MPHO RAMOCHELA TREVOR

In the chart above you can see that two peaks or “tops” were formed after a strong move up.

Notice how the second top was not able to break the high of the first top.

This is a strong sign that a reversal is going to occur because it is telling us that the buying pressure is just about finished.

With the double top, we would place our entry order below the neckline because we are anticipating a reversal of the uptrend.



Looking at the chart you can see that the price breaks the neckline and makes a nice move down.

Remember that double tops are a trend reversal formation so you'll want to look for these after there is a strong uptrend.

You'll also notice that the drop is approximately the same height as the double top formation.

Keep that in mind because that'll be useful in setting profit targets.

Double Bottom

The double bottom is also a trend reversal formation, but this time we are looking to go long instead of short.

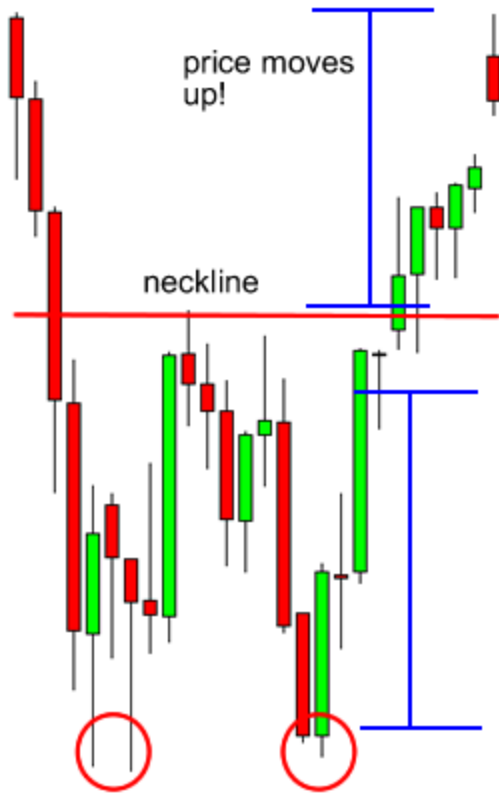
These formations occur after extended downtrends when two valleys or “bottoms” have been formed.



You can see from the chart above that after the previous downtrend, the price formed two valleys because it wasn't able to go below a certain level.

Notice how the second bottom wasn't able to significantly break the first bottom.

This is a sign that the selling pressure is about finished, and that a reversal is about to occur.



Will you look at that!

The price broke the neckline and made a nice move up.

See how the price jumped by almost the same height as that of the double bottom formation?

Remember, just like double tops, double bottoms are also trend reversal formations.

You'll want to look for these after a strong downtrend.

Head And Shoulders

A head and shoulders pattern is also a trend reversal formation.

It is formed by a **peak** (shoulder), followed by a **higher peak** (head), and then another **lower peak** (shoulder).

A “**neckline**” is drawn by connecting the lowest points of the two troughs.

The slope of this line can either be up or down. Typically, when the slope is down, it produces a more reliable signal.



In this example, we can easily see the head and shoulders pattern.

The head is the second peak and is the highest point in the pattern. The two shoulders also form peaks but do not exceed the height of the head.

With this formation, we put an entry order below the neckline.

We can also calculate a target by measuring the high point of the head to the neckline.

This distance is approximately how far the price will move after it breaks the neckline.



You can see that once the price goes below the neckline it makes a move that is at least the size of the distance between the head and the neckline.

We know you're thinking to yourself, "the price kept moving even after it reached the target."

And my response is, "**DON'T BE GREEDY!**"

Inverse Head and Shoulders

The name speaks for itself. It is basically a head and shoulders formation, except this time it's upside down.

A valley is formed (shoulder), followed by an even lower valley (head), and then another higher valley (shoulder). These formations occur after extended downward movements.



Here you can see that this is just like a head and shoulders pattern, but it's flipped upside down.

With this formation, we would place a long entry order above the neckline.

Our target is calculated just like the head and shoulders pattern.

Measure the distance between the head and the neckline, and that is approximately the distance that the price will move after it breaks the neckline.



You can see that the price moved up nicely after it broke the neckline.

If your target is hit, then be happy with your profits.

However, there are trade management techniques where you can lock in some of your profits and still keep your trade open in case the price continues to move your way.

WEDGE

Wedges signal a pause in the current trend. When you encounter this formation, it signals that forex traders are still deciding where to take the pair next.

Wedges could serve as either continuation or reversal patterns.

Rising Wedge

A **rising wedge** is formed when price consolidates between upward sloping support and resistance lines.

Here, the slope of the support line is steeper than that of the resistance.

This indicates that higher lows are being formed faster than higher highs. This leads to a wedge-like formation, which is exactly where the chart pattern gets its name from!

With prices consolidating, we know that a big splash is coming, so we can expect a breakout to either the top or bottom.

If the rising wedge forms after an uptrend, it's usually a bearish reversal pattern.

On the other hand, if it forms during a downtrend, it could signal a continuation of the down move.

Either way, the important thing is that, when you spot this forex trading chart pattern, you're ready with your entry orders!



In this first example, a rising wedge formed at the end of an uptrend. Notice how price action is forming new highs, but at a much slower pace than when price makes higher lows.



See how price broke down to the downside? That means there are more forex traders desperate to be short than be long!

They pushed the price down to break the trend line, indicating that a downtrend may be in the cards.

Just like in the other forex trading chart patterns we discussed earlier, the price movement after the breakout is approximately the same magnitude as the height of the formation.

Now let's take a look at another example of a rising wedge formation. Only this time it acts as a bearish continuation signal.



As you can see, the price came from a downtrend before consolidating and sketching higher highs and even higher lows.



In this case, the price broke to the down side and the downtrend continued. That's why it's called a continuation signal!

See how the price made a nice move down that's the same height as the wedge?

A rising wedge formed after an uptrend usually leads to a REVERSAL (downtrend) while a rising wedge formed during a downtrend typically results in a CONTINUATION (downtrend).

Simply put, a rising wedge leads to a downtrend, which means that it's a bearish chart pattern!

Falling Wedge

Just like the rising wedge, the **falling wedge** can either be a reversal or continuation signal.

As a reversal signal, it is formed at a bottom of a downtrend, indicating that an uptrend would come next.

As a continuation signal, it is formed during an uptrend, implying that the upward price action would resume. Unlike the rising wedge, the falling wedge is a bullish chart pattern.



In this example, the falling wedge serves as a reversal signal. After a downtrend, the price made lower highs and lower lows.

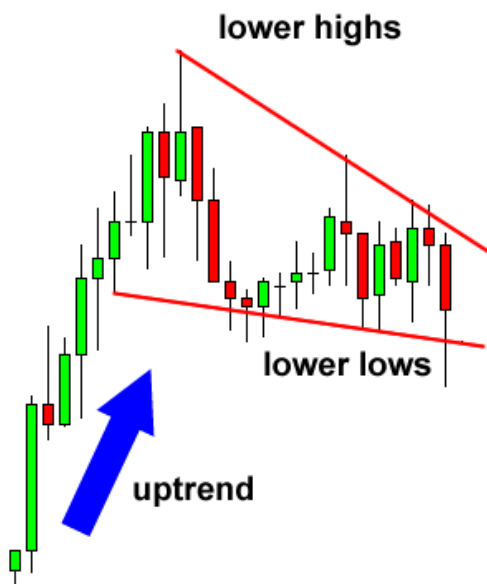
Notice how the falling trend line connecting the highs is steeper than the trend line connecting the lows.



Upon breaking above the top of the wedge, the pair made a nice move upwards that's approximately equal to the height of the formation. In this case, the price rally went a few more pips beyond that target!

Let's take a look at an example where the falling wedge serves as a continuation signal.

Like we mentioned earlier, when the falling wedge forms during an uptrend, it usually signals that the trend will resume later on.



In this case, the price consolidated for a bit after a strong rally. This could mean that buyers simply paused to catch their breath and probably recruited more people to join the bull camp.

Hmm, it looks like the pair is revving up for a strong move. Which way would it go?



See how the price broke to the top side and went on to climb higher?

If we placed an entry order above that falling trend line connecting the pair's highs, we would've been able to jump in on the strong uptrend and caught some pips!

A good upside target would be the height of the wedge formation.

If you want to go for more pips, you can lock in some profits at the target by closing down a portion of your position, then letting the rest of your position ride.

Rectangle (Breakout)

A **rectangle** is a chart pattern formed when price is bounded by parallel support and resistance levels.

A rectangle exhibits a period of consolidation or indecision between buyers and sellers as they take turns throwing punches but neither has taken over.

The price will “test” the support and resistance levels several times before eventually breaking out.

From there, the price could trend in the direction of the breakout, whether it is to the upside or downside.



In the example above, we can clearly see that the pair was bounded by two key price levels which are parallel to one another.

We just have to wait until one of these levels breaks and go along for the ride!

Remember, when you spot a rectangle: **THINK OUTSIDE THE BOX!**

Bearish Rectangle

A **bearish rectangle** is formed when the price consolidates for a while during a downtrend.

This happens because sellers probably need to pause and catch their breath before taking the pair any lower.



In this example, price broke the bottom of the rectangle chart pattern and continued to shoot down.

If we had a short order just below the support level, we would have made a nice profit on this trade.

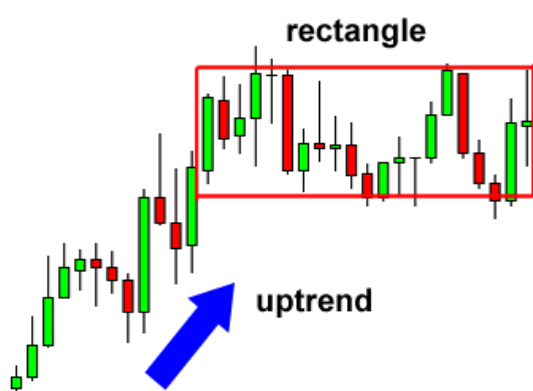


Here's a tip: Once the pair falls below the support, it tends to make a move that is about the size of the rectangle pattern.

In the example above, the pair moved beyond the target so there would have been a chance to catch more pips!

Bullish Rectangle

Here's another example of a rectangle, this time, a **bullish rectangle** chart pattern. After an uptrend, the price paused to consolidate for a bit. Can you guess where the price is headed next?



If you answered up, then you're right! Check out that nice upside breakout right there!



Notice how the price moved all the way up after breaking above the top of the rectangle pattern.

If we had a long order on top of the resistance level, we would've caught some pips on the trade!

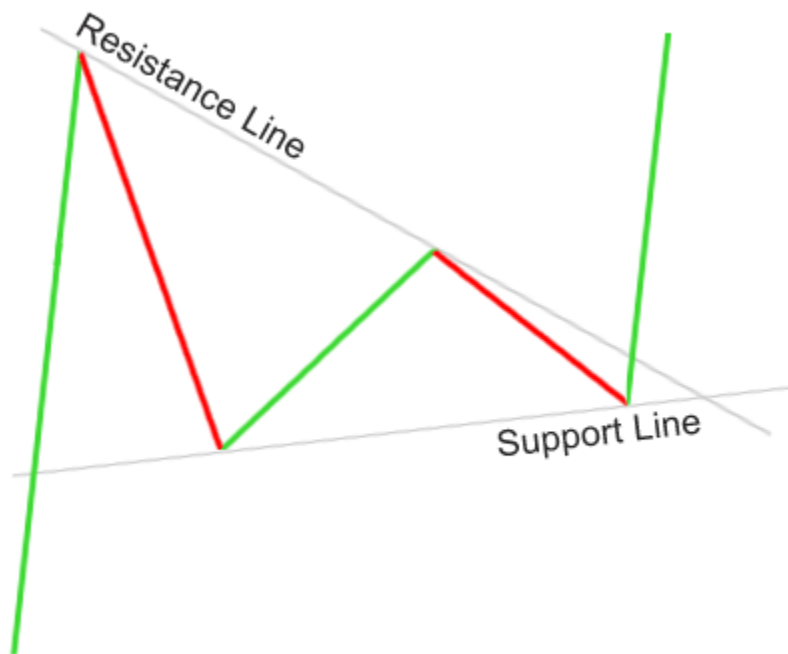
Just like in the bearish rectangle pattern example, once the pair breaks, it will usually make a move that's AT LEAST the size of its previous range.

Bearish and Bullish Pennants

Similar to rectangles, pennants are continuation chart patterns formed after strong moves.

After a big upward or downward move, buyers or sellers usually pause to catch their breath before taking the pair further in the same direction.

Because of this, **the price usually consolidates and forms a tiny symmetrical triangle, which is called a pennant.**



While the price is still consolidating, more buyers or sellers usually decide to jump in on the strong move, forcing the price to bust out of the pennant formation.

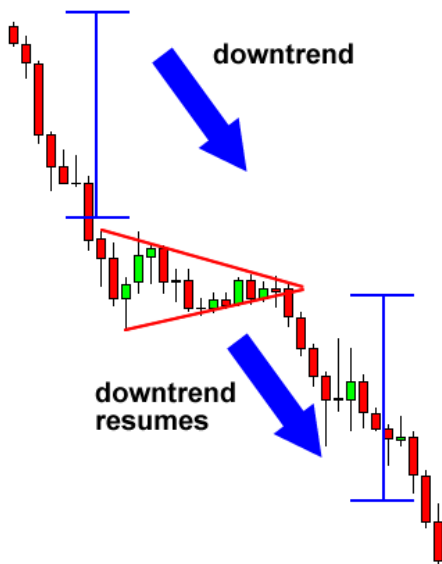
Bearish Pennants

A **bearish pennant** is formed during a steep, almost vertical, downtrend.

After that sharp drop in price, some sellers close their positions while other sellers decide to join the trend, making the price consolidate for a bit.



As soon as enough sellers jump in, the price breaks below the bottom of the pennant and continues to move down.



As you can see, the drop resumed after the price made a breakout to the bottom.

To trade this chart pattern, we'd put a short order at the bottom of the pennant with a stop loss above the pennant.

That way, we'd be out of the trade right away in case the breakdown was a fake out.

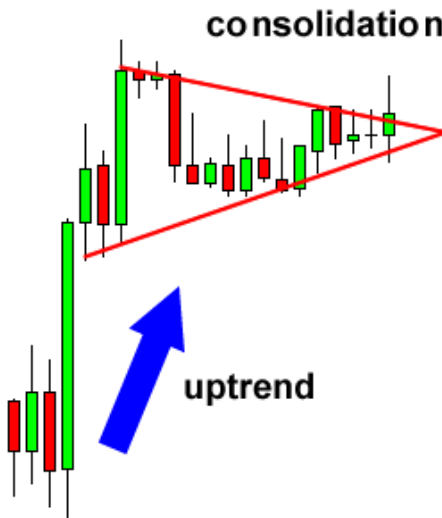
Unlike the other chart patterns wherein the size of the next move is approximately the height of the formation, pennants signal much stronger moves.

Usually, the *height* of the earlier move (also known as the *mast*) is used to estimate the size of the breakout move.

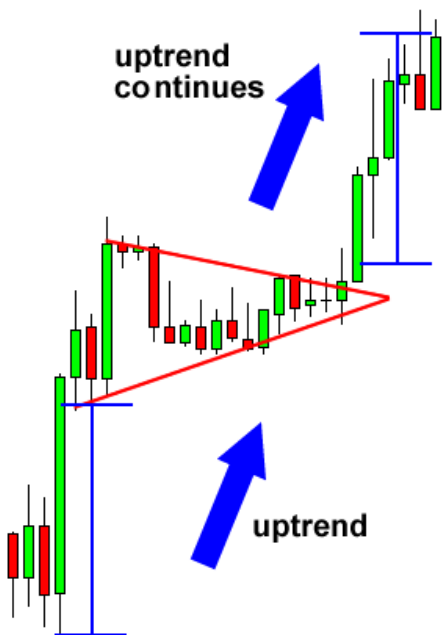
Bullish Pennant

Bullish pennants, just like its name suggests, signals that bulls are about to go a-chargin' again.

This means that the sharp climb in price would resume after that brief period of consolidation, when bulls gather enough energy to take the price higher again.



In this example, the price made a sharp vertical climb before taking a breather. I can hear the bulls stomping and revving up for another run!



Just like we predicted, the price made another strong move upwards after the breakout.

To play this, i had place our long order above the pennant and our stop below the bottom of the pennant to avoid fakeouts.

Like i said earlier, the size of the breakout move is around the height of the mast (or the size of the earlier move).

You see, pennants may be small in size but they could signal huge price moves so don't underestimate them.

Triangle patterns

A **symmetrical triangle** is a chart formation where the slope of the price's highs and the slope of the price's lows converge together to a point where it looks like a triangle.

What's happening during this formation is that the market is making lower highs and higher lows.

This means that neither the buyers nor the sellers are pushing the price far enough to make a clear trend.

If this were a battle between the buyers and sellers, then this would be a draw.

This is also a type of consolidation.



In the chart above, we can see that neither the buyers nor the sellers could push the price in their direction. When this happens we get lower highs and higher lows.

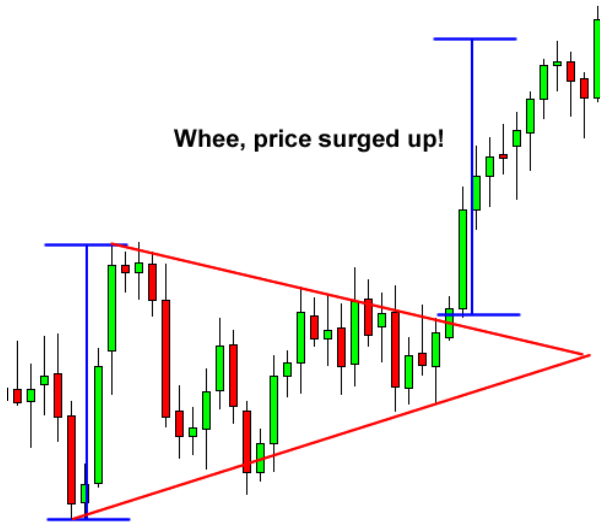
As these two slopes get closer to each other, it means that a breakout is getting near.

We don't know what direction the breakout will be, but we do know that the market will **most likely** break out. Eventually, one side of the market will give in.

So how can we take advantage of this?

Simple.

We can place entry orders above the slope of the lower highs and below the slope of the higher lows. Since we already know that the price is going to break out, we can just hitch a ride in whatever direction the market moves.



In this example, if we placed an entry order above the slope of the lower highs, we would've been taken along for a nice ride up.

If you had placed another entry order below the slope of the higher lows, then you would cancel it as soon as the first order was hit.

Ascending Triangle

This type of triangle chart pattern occurs when there is a resistance level and a slope of higher lows.

What happens during this time is that there is a certain level that the buyers cannot seem to exceed. However, they are gradually starting to push the price up as evident by the higher lows.



In the chart above, you can see that the buyers are starting to gain strength because they are making higher lows.

They keep putting pressure on that resistance level and as a result, a breakout is bound to happen.

Now the question is, **“Which direction will it go? Will the buyers be able to break that level or will the resistance be too strong?”**

Many charting books will tell you that in most cases, the buyers will win this battle and the price will break out past the resistance.

However, it has been our experience that this is not always the case.

Sometimes the resistance level is too strong, and there is simply not enough buying power to push it through.

Most of the time, the price will, in fact, go up. The point we are trying to make is that you should not be obsessed with which direction the price goes, but you should be ready for movement in EITHER direction.

In this case, we would set an entry order above the resistance line and below the slope of the higher lows.



In this scenario, the buyers lost the battle and the price proceeded to dive! You can see that the drop was approximately the same distance as the height of the triangle formation.

If we set our short order below the bottom of the triangle, we could've caught some pips off that dive.

Descending Triangle

As you probably guessed, descending triangles are the exact opposite of ascending triangles (we knew you were smart!).

In descending triangle chart patterns, there is a string of lower highs which forms the upper line. The lower line is a support level in which the price cannot seem to break.



In the chart above, you can see that the price is gradually making lower highs which tell us that the sellers are starting to gain some ground against the buyers.

Now most of the time, and we do say MOST, the price will eventually break the support line and continue to fall.

However, in some cases, the support line will be too strong, and the price will bounce off of it and make a strong move up.

The good news is that we don't care where the price goes. We just know that it's about to go somewhere.

In this case, we would place entry orders above the upper line (the lower highs) and below the support line.



In this case, the price ended up breaking above the top of the triangle pattern.

After the upside breakout, it proceeded to surge higher, by around the same vertical distance as the height of the triangle.

Placing an entry order above the top of the triangle and going for a target as high as the height of the formation would've yielded nice profits.

Main group of charts patterns

Let's summarize the chart patterns we just learned and categorize them according to the signals they give.

Reversal Chart Patterns

Reversal patterns are those chart formations that signal that the ongoing trend is about to change course.

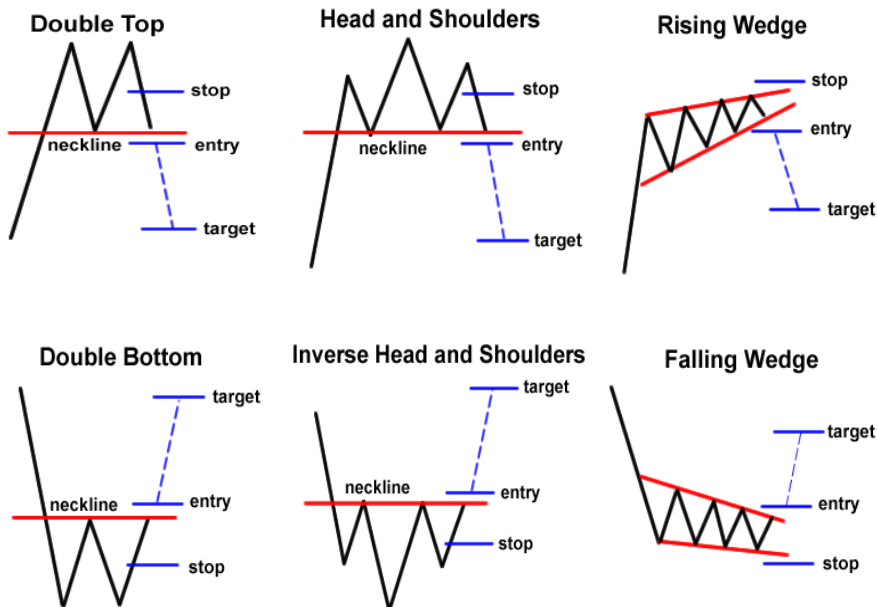
If a reversal chart pattern forms during an uptrend, it hints that the trend will reverse and that the price will head down soon.

Conversely, if a reversal chart pattern is seen during a downtrend, it suggests that the price will move up later on.

In this lesson, we covered six chart patterns that give reversal signals. Can you name all six of them?

1. Double Top
2. Double Bottom
3. Head and Shoulders
4. Inverse Head and Shoulders
5. Rising Wedge
6. Falling Wedge

If you got all six right, brownie points for you!



To trade these chart patterns, simply place an order beyond the neckline and in the direction of the new trend. Then go for a target that's almost the same as the height of the formation.

For instance, if you see a double bottom, place a long order at the top of the formation's neckline and go for a target that's just as high as the distance from the bottoms to the neckline.

In the interest of proper risk management, don't forget to place your stops! A reasonable stop loss can be set around the middle of the chart formation.

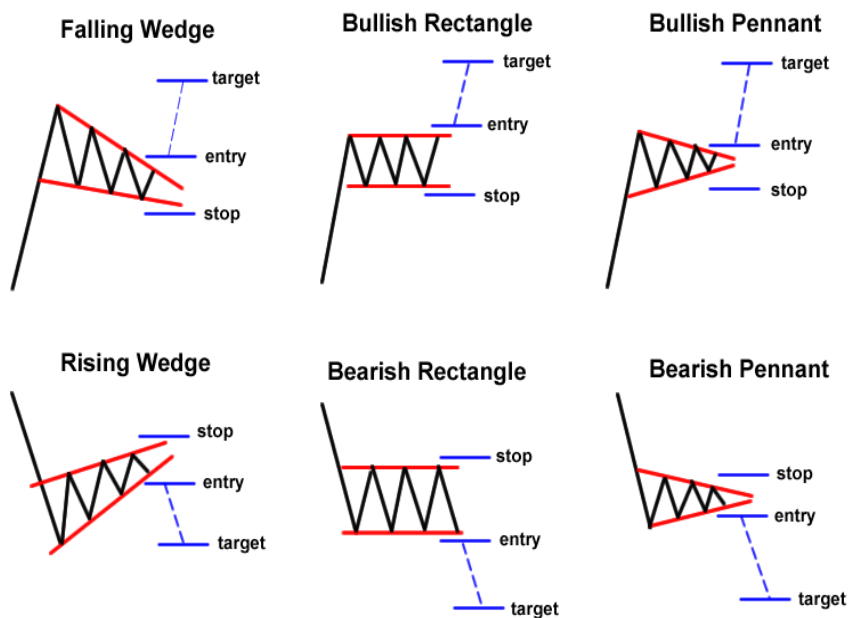
For example, you can measure the distance of the double bottoms from the neckline, divide that by two, and use that as the size of your stop.

Continuation Chart Patterns

Continuation chart patterns are those chart formations that signal that the ongoing trend will resume.

Usually, these are also known as consolidation patterns because they show how buyers or sellers take a quick break before moving further in the same direction as the prior trend.

We've covered several continuation chart patterns, namely the wedges, rectangles, and pennants. Note that wedges can be considered either reversal or continuation patterns depending on the trend on which they form.



To trade these patterns, simply place an order above or below the formation (following the direction of the ongoing trend, of course).

Then go for a target that's at least the size of the chart pattern for wedges and rectangles.

For pennants, you can aim higher and target the height of the pennant's mast.

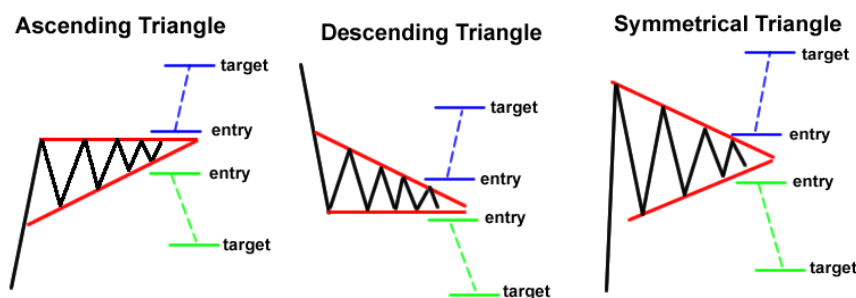
For continuation patterns, stops are usually placed above or below the actual chart formation.

For example, when trading a bearish rectangle, place your stop a few pips above the top or resistance of the rectangle.

Bilateral Chart Patterns

Bilateral chart patterns are a bit more tricky because these signal that the price can move either way.

This is where triangle formations fall in. Remember when we discussed that the price could break either to the topside or downside with triangles?



To play these chart patterns, you should consider both scenarios (upside or downside breakout) and place one order on top of the formation and another at the bottom of the formation.

REMEMBER THAT YOUR CANDLE NEED TO CLOSE ON THE BREAKOUT TO ENTER YOUR POSITIONS !

HARMONIC PATTERN

(ADVANCE COURSE)

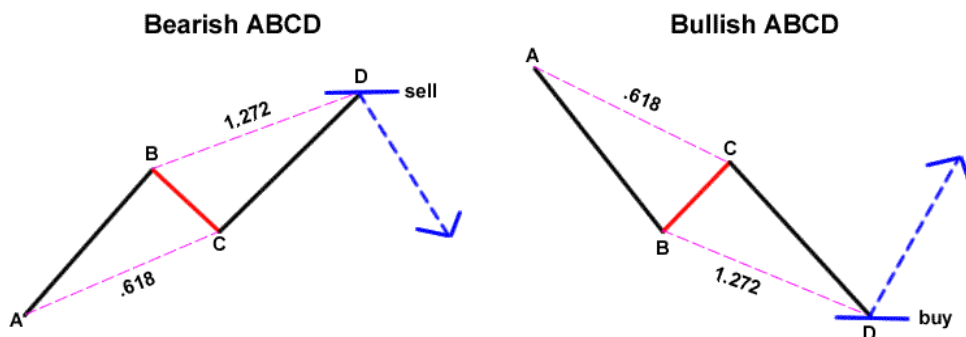
- ABCD Pattern
- Three-Drive Pattern
- Gartley Pattern
- Crab Pattern
- Bat Pattern
- Butterfly Pattern

The ABCD

For both the bullish and bearish versions of the ABCD chart pattern, the lines AB and CD are known as the **legs** while BC is called the **correction** or **retracement**.

If you use the Fibonacci retracement tool on leg AB, the retracement BC should reach until the 0.618 level. Next, the line CD should be the 1.272 Fibonacci extension of BC.

All you have to do is wait for the entire pattern to complete (reach point D) before taking any short or long positions.



If you want to be extra strict about it, here are a couple more rules for a valid ABCD pattern:

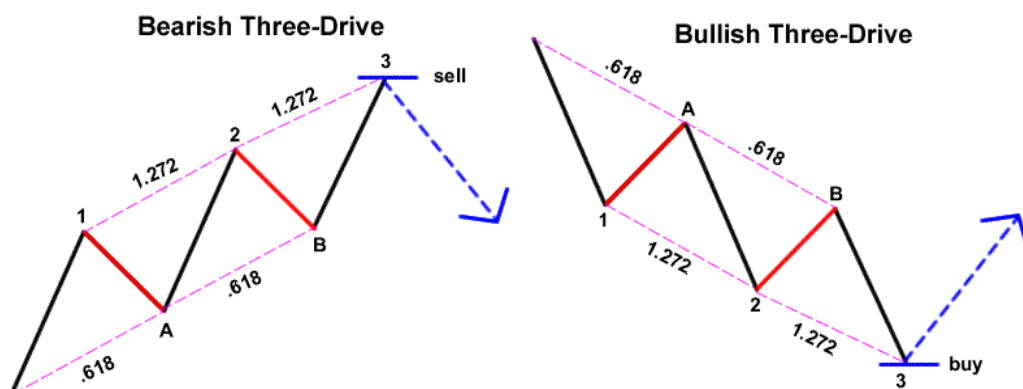
- The length of line AB should be equal to the length of line CD.
- The time it takes for the price to go from A to B should be equal to the time it takes for the price to move from C to D.

Three-Drive

The three-drive pattern is a lot like the ABCD pattern except that it has three legs (now known as drives) and two corrections or retracements.

Easy as pie! In fact, this three-drive pattern is the ancestor of the Elliott Wave pattern.

As usual, you'll need your hawk eyes, the Fibonacci tool, and a smidge of patience on this one.



As you can see from the charts above, point A should be the 61.8% retracement of drive 1. Similarly, point B should be the 0.618 retracement of drive 2.

Then, drive 2 should be the 1.272 extension of correction A and drive 3 should be the 1.272 extension of correction B.

By the time the whole three-drive pattern is complete, that's when you can pull the trigger on your long or short trade.

Typically, when the price reaches point B, you can already set your short or long orders at the 1.272 extension so that you won't miss out!

But first, it'd be better to check if these rules also hold true:

- The time it takes the price to complete drive 2 should be equal to the time it takes to complete drive 3.
- Also, the time to complete retracements A and B should be equal.

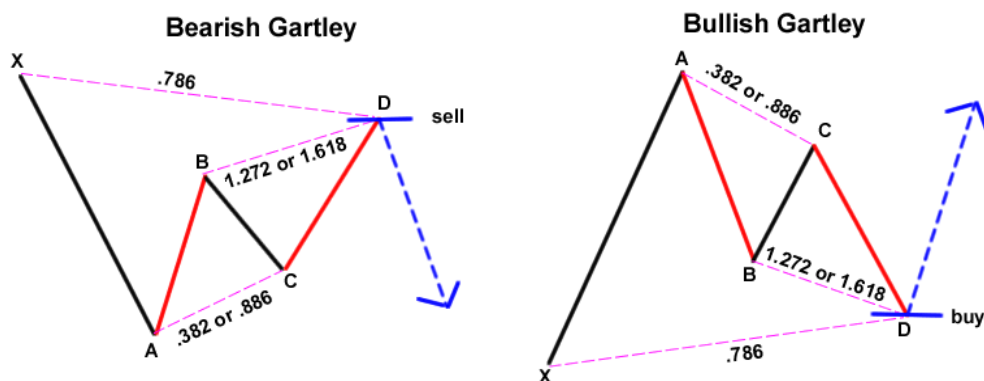
Gartley a.k.a. “222” Pattern

The Gartley “222” pattern is named for the page number it is found on in H.M. Gartleys book, *Profits in the Stock Market*.

Gartleys are patterns that include the basic ABCD pattern we’ve already talked about, but are preceded by a significant high or low.

Now, these patterns normally form when a correction of the overall trend is taking place and look like ‘M’ (or ‘W’ for bearish patterns).

These patterns are used to help traders find good entry points to jump in on the overall trend.



A Gartley forms when the price action has been going on a recent uptrend (or downtrend) but has started to show signs of a correction.

What makes the Gartley such a nice setup when it forms is the reversal points are a Fibonacci retracement and Fibonacci extension level. This gives a stronger indication that the pair may actually reverse.

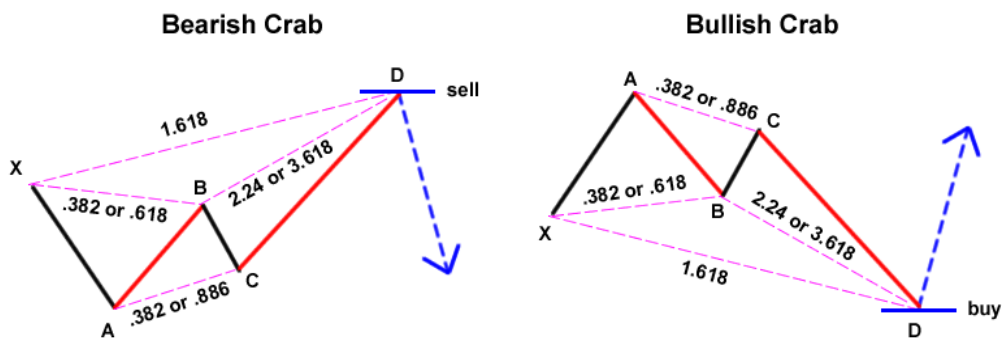
This pattern can be hard to spot and once you do, it can get confusing when you pop up all those Fibonacci tools. The key to avoiding all the confusion is to take things one step at a time.

In any case, the pattern contains a bullish or bearish ABDC Patterns, but is preceded by a point (X) that is beyond point D.

The “perfect” Gartley pattern has the following characteristics:

1. Move AB should be the .618 retracement of move XA.
2. Move BC should be either .382 or .886 retracement of move AB.
3. If the retracement of move BC is .382 of move AB, then CD should be 1.272 of move BC. Cons, if move BC is .886 of move AB, then CD should extend 1.618 of move BC.
4. Move CD should be .786 retracement of move XA

The Crab



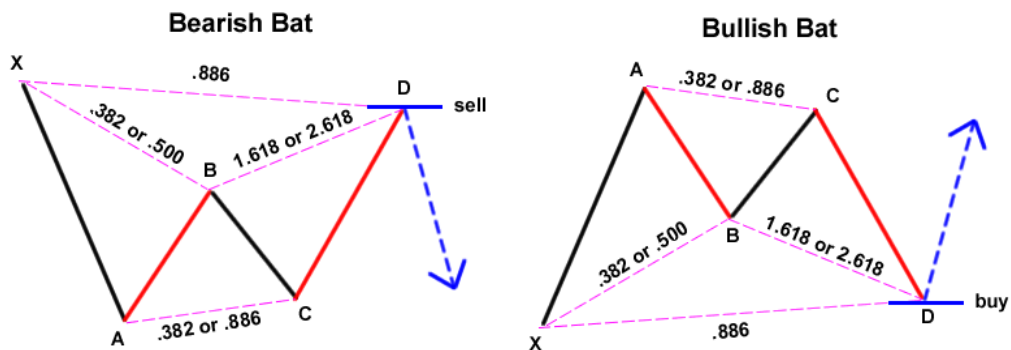
In 2000, Scott Carney, a firm believer in harmonic price patterns, discovered the “Crab”.

According to him, this is the most accurate among all the harmonic patterns because of how extreme the Potential Reversal Zone (sometimes called “price better reverse or imma gonna lose my shirt” point) from move XA.

This pattern has a high reward-to-risk ratio because you can put a very tight stop loss. The “perfect” crab pattern must have the following aspects:

1. Move AB should be the .382 or .618 retracement of move XA.
2. Move BC can be either .382 or .886 retracement of move AB.
3. If the retracement of move BC is .382 of move AB, then CD should be 2.24 of move BC. Consquently , if move BC is .886 of move AB, then CD should be 3.618 extension of move BC.
4. CD should be 1.618 extension of move XA.

The Bat

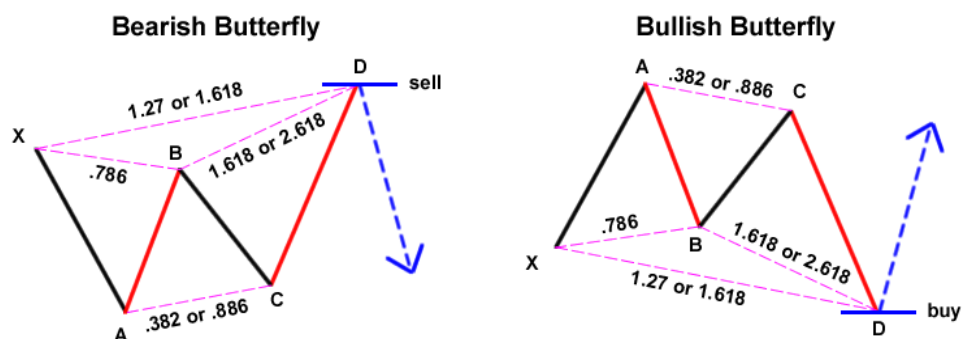


Come 2001, Scott Carney founded another Harmonic Price Pattern called the “**Bat**.”

The Bat is defined by the .886 retracement of move XA as Potential Reversal Zone. The Bat pattern has the following qualities:

1. Move AB should be the .382 or .500 retracement of move XA.
2. Move BC can be either .382 or .886 retracement of move AB.
3. If the retracement of move BC is .382 of move AB, then CD should be 1.618 extension of move BC. Consequently, if move BC is .886 of move AB, then CD should be 2.618 extension of move BC.
4. CD should be .886 retracement of move XA.

The Butterfly



Then, there is the **Butterfly pattern**.

Like Muhammad Ali, if you spot this setup, you’ll surely be swinging for some knockout-sized pips!

Created by Bryce Gilmore, the perfect Butterfly pattern is defined by the .786 retracement of move AB with respect to move XA.

The Butterfly contains these specific characteristics:

1. Move AB should be the .786 retracement of move XA.
2. Move BC can be either .382 or .886 retracement of move AB.
3. If the retracement of move BC is .382 of move AB, then CD should be 1.618 extension of move BC. Consequently, if move BC is .886 of move AB, then CD should extend 2.618 of move BC.
4. CD should be 1.27 or 1.618 extension of move XA.

There are three basic steps in spotting Harmonic Price Patterns:

- **Step 1:** Locate a potential Harmonic Price Pattern
- **Step 2:** Measure the potential Harmonic Price Pattern
- **Step 3:** Buy or sell on the completion of the Harmonic Price Pattern

By following these three basic steps, you can find high probability setups that will help you grab those pips.

Step 1: Locate a potential Harmonic Price Pattern



that looks like a potential Harmonic Price Pattern! At this point in time, we're not exactly sure what kind of pattern that is.

It LOOKS like a three-drive, but it could be a Bat or a Crab...

In any case, let's label those reversal points.

Step 2: Measure the potential Harmonic Price Pattern

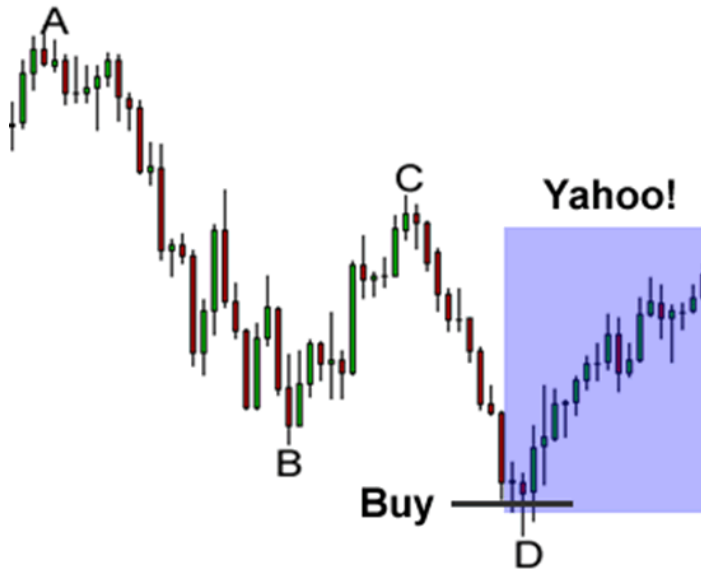
Using the Fibonacci tool, a pen, and a piece of paper, let's list down our observations.



1. Move BC is .618 retracement of move AB.
2. Move CD is 1.272 extension of move BC.
3. The length of AB is roughly equal to the length of CD.

This pattern qualifies for a bullish ABCD pattern, which is a strong buy signal.

Step 3: Buy or sell on the completion of the Harmonic Price Pattern



Once the pattern is complete, all you have to do is respond appropriately with a buy or sell order.

In this case, you should buy at point D, which is the 1.272 Fibonacci extension of move CB, and put your stop loss a couple of pips below your entry price.

The problem with harmonic price patterns is that they are so perfect that they are so difficult to spot.

News move the market

How to Trade the News Using the Straddle Trade Strategy

What if there was a way to make money quickly even if you had no idea whether the market would move up or down?

It's possible as long as there is sufficient price volatility.

And when can you get this volatility? When news like economic data or central bank announcements is released!

The first thing to consider is **which news reports to trade.**

Ideally, you would want to only trade those reports because there is a high probability the market will make a big move after their release.

The next thing you should do is take a **look at the range at least 20 minutes before the actual news release.**

The high of that range will be your upper breakout point, and the low of that range will be your lower breakout point.

Note that the smaller the range is the more likely it is you will see a big move from the news report.

The **breakout points** will be your entry levels.

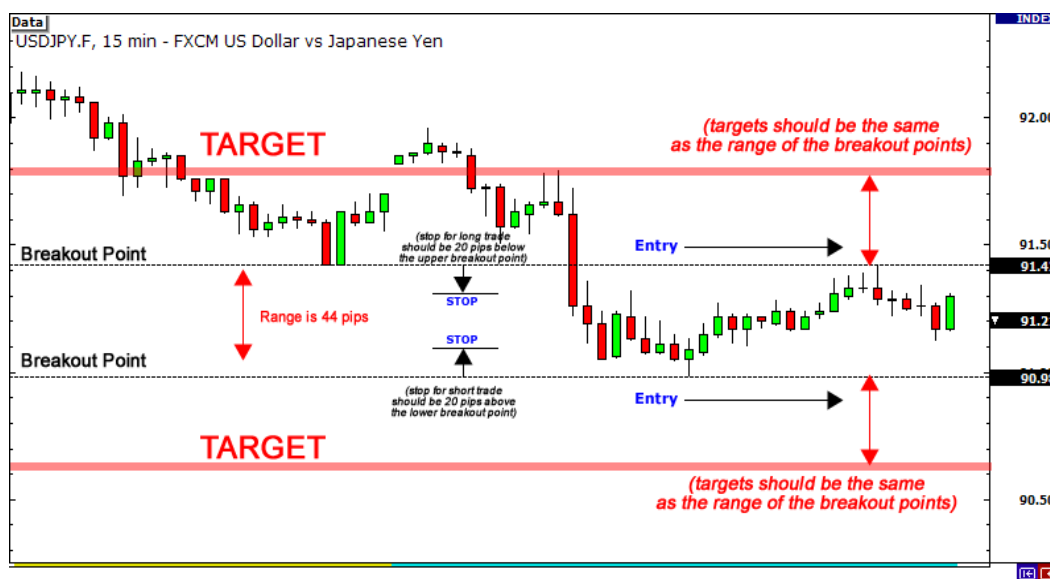
This is where you want to set your orders. Your stops should be placed approximately **20 pips below and above the breakout points**, and your initial targets should be about the same as the range of the breakout levels.

Straddle Trade

This is known as a **straddle trade**.

You are looking to play BOTH sides of the trades.

It doesn't matter which direction the price moves, the straddle strategy will have you positioned to take advantage of it.



Now that you're prepared to enter the market in either direction, all you have to do is wait for the news to come out.

Sometimes you may get triggered in one direction only to find that you get stopped out because the price quickly reverses in the other direction.

However, your other entry will get triggered and if that trade wins, you should recoup your initial losses and come out with a small profit.

A best case scenario would be that only one of your trades gets triggered and the price continues to move in your favor so that you don't incur any losses.

Either way, if done correctly you should still end up positive for the day.

One thing that makes a non-directional bias approach attractive is that it **eliminates any emotions**.

You just want to profit when the move happens.

This allows you take advantage of more trading opportunities because you will be triggered either way.

There are many more strategies for trading the news, but the concepts mentioned in this lesson should always be part of your routine whenever you are working out an approach to taking advantage of news report movements.

Trading plan

1. Scalper
2. Day trading
3. Swing trading

SCALPER

The main objective for forex scalpers is to **grab very small amounts of pips as many times as they can throughout the busiest times of the day**.

Because scalpers basically have to be glued to the charts, it is best suited for those who can spend several hours of undivided attention to their trading.

It requires intense focus and quick thinking to be successful.

It is not for those looking to make big wins all the time, but rather for those who like raking in small profits over the long run to make an overall profit.

You might be a forex scalper if:

- You like fast trading and excitement
- You don't mind being focused on your charts for several hours at a time
- You are an impatient person who doesn't like to wait for long trades
- You can think fast and change bias, or direction, quickly
- You have fast fingers

You might NOT be a forex scalper if:

- You easily get stressed in fast moving environments
- You can't commit several hours of undivided attention to your charts
- You'd rather make fewer trades with higher profit gains
- You like taking your time to analyze the overall picture of the market

Some things to consider if you decide to scalp:

Trade only the most liquid pairs

Pairs such as the EUR/USD, GBP/USD, USD/CHF, and USD/JPY offer the tightest spreads because they tend to have the highest trading volume.

You want your spreads to be as tight as possible since you will be entering the market frequently.

Trade only during the busiest times of the day

The most liquid times of the day are during the session overlaps. This is from 2:00 am to 4:00 am and from 8:00 am to 12:00 noon Eastern Time (EST).

Make sure to account for the spread

Because you enter the market frequently, spreads will be a big factor in your overall profit.

Be sure your targets are at least *double your spread* so that you can account for the times the market moves against you.

Try focusing on one pair first

Scalping is very intense and if you can put all your energy in one pair, you'll have a better chance at being successful.

Trying to scalp multiple pairs simultaneously will almost suicidal.

If you start to get accustomed to the pace of things, then you can start by adding on another pair and see how it works for you.

Make sure you follow good money management

This goes for any type of trading, but since you are making so many trades within a day it is especially important that you are sticking to risk management practices.

Major news reports can throw you off

Because of slippage and high volatility, trading around highly anticipated news reports can be very dangerous.

It sucks when you unexpectedly see price jump in the opposite direction of your trade because of a news report!

DAY TRADING

Day trading is another short term trading style, but unlike scalping, you are typically only taking one trade a day and closing it out when the day is over.

These traders like picking a side at the beginning of the day, acting on their bias, and then finishing the day with either a profit or a loss.

They DON'T like holding their trades **overnight**.

Day trading is suited for forex traders that have enough time throughout the day to analyze, execute and monitor a trade.

If you think scalping is *too* fast but swing trading is a bit slow for your taste, then day trading might be for you.

You might be a forex day trader if:

- You like beginning and ending a trade within one day.
- You have time to analyze the markets at the beginning of the day and can monitor it throughout the day.
- You like to know whether or not you win or lose at the end of the day.

You might NOT be a forex day trader if:

- You like longer or shorter term trading.
- You don't have time to analyze the markets and monitor it throughout the day.
- You have a day job.

Some things to consider if you decide to day trade:

Stay informed on the latest fundamentals events to help you choose a direction

You will want to keep yourself up-to-date on the latest economic news so that you can make your trading decisions at the beginning of the day.

Do you have time to monitor your trade?

If you have a full-time job, consider how you will manage your time between your work and trading. Basically....don't get fired from your job because you are always looking at your charts!

Types of Day Trading

Trend trading

Trend trading is when you look at a longer time frame chart and determine an overall trend.

Once the overall trend is established, you move to a smaller time frame chart and look for trading opportunities in the direction of that trend.

Using indicators on the shorter time frame chart will give you an idea of when to time your entries.

First, determine what the overall trend is by looking at a longer time frame.

You can use indicators to help you confirm the trend.

MPHO RAMOCHELA TREVOR



Once you determine the overall trend, you can then move to a smaller timeframe and look for entries in the same direction.



Countertrend trading

Countertrend day trading is similar to trend trading except that once you determine your overall trend, you look for trades in the opposite direction.

The idea here is to find the end of a trend and get in early when the trend reverses. This is a little riskier but can have huge payoffs.

MPHO RAMOCHELA TREVOR



In this example, we see that there was a long and exhausted downtrend on the 4hr chart. This gives us an indication that the market may be ready for a reversal.



Since our thinking is “counter-trend”, we would look for trades in the opposite direction of the overall trend on a smaller timeframe such as a 15-minute chart.



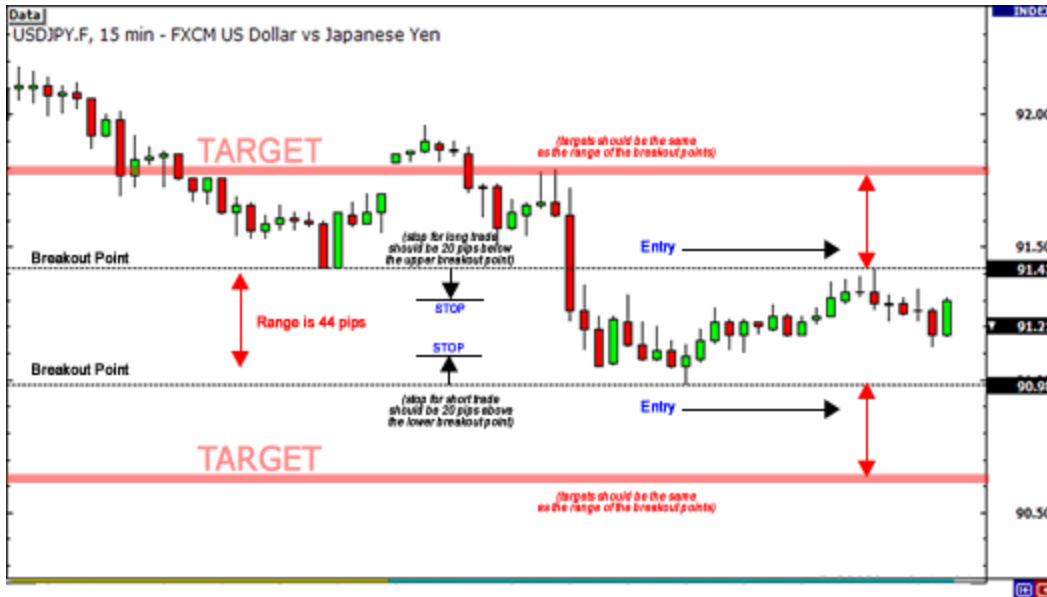
Remember that going opposite of the trend is very risky, but if timed correctly, can have huge rewards!

Breakout trading

Breakout day trading is when you look at the range a pair has made during certain hours of the day and then placing trades on either side, hoping to catch a breakout in either direction.

This is particularly effective when a pair has been a tight range because it is usually an indication that the pair is about to make a big move.

Your goal here is to set yourself up so that when the move takes place you are ready to catch the wave!



In breakout trading, you determine a range where support and resistance have been holding strongly.

Once you do, you can set entry points above and below your breakout levels.

As a rule of thumb you want to target the **same amount of pips** that makes up your determined range.

SWING TRADING

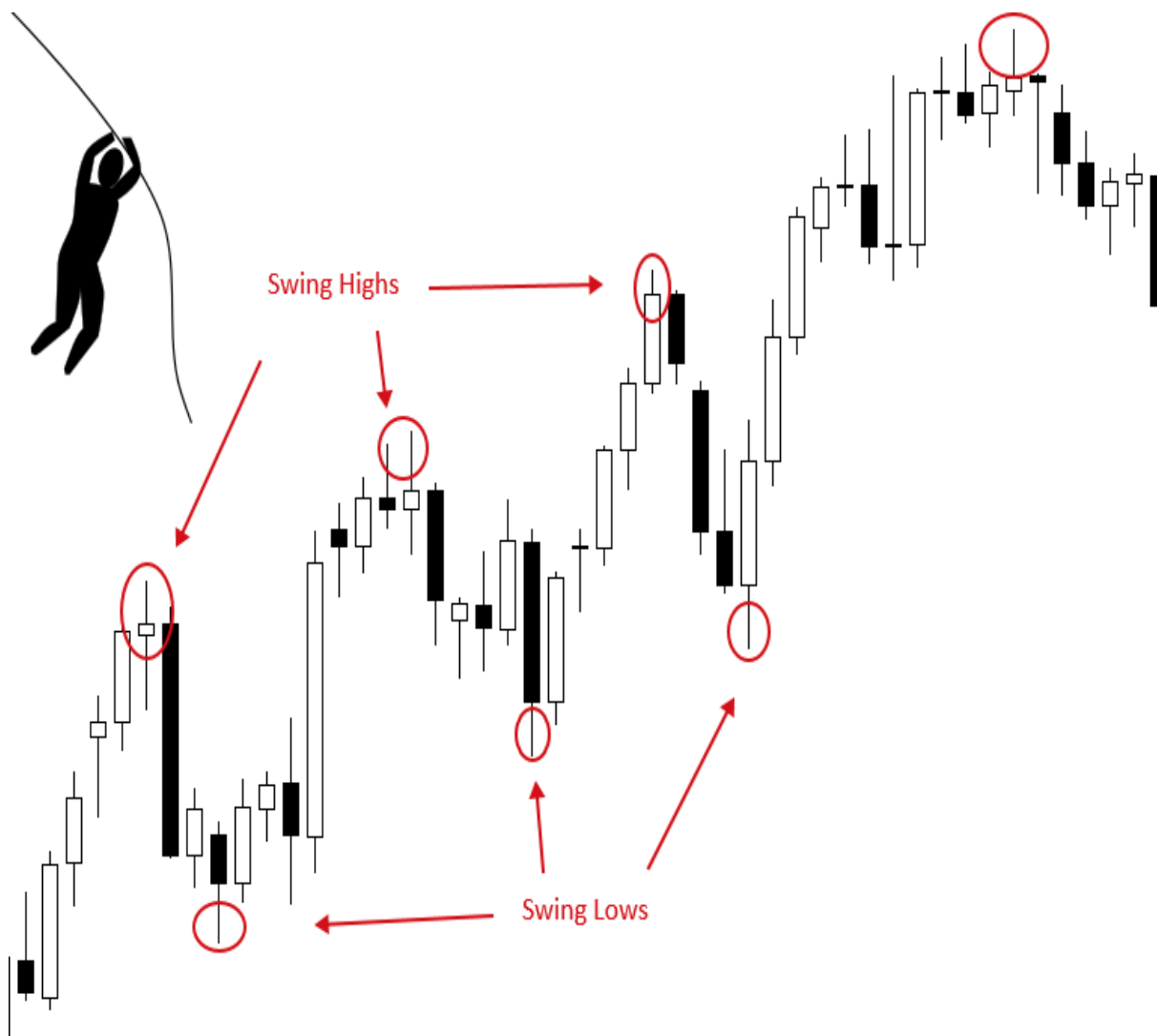
Swing trading is a longer term trading style that requires patience to hold your trades for several days at a time.

It is ideal for those who can't monitor their charts throughout the day but can dedicate a couple of hours analyzing the market every night.

This is probably best suited for those who have full-time jobs or school but have enough free time to stay up-to-date with what is going on in the global economies.

Swing trading attempts to identify “swings” within a medium-term trend and enter only when there seems to be a high probability of winning.

For example, in an uptrend, you aim to buy (go long) at “swing lows.” And optionally, sell (go short) at “swing lows” to take advantage of temporary countertrends.



Because trades last much **longer than one day**, **larger stop losses are required to weather volatility**, and a forex trader must adapt that to their money management plan.

You will most likely see trades go against you during the holding time since there can be many fluctuations of the price during the shorter time frames.

It is important that you are able to remain calm during these times and trust in your analysis.

Since trades usually have larger targets, spreads won't have as much of an impact on your overall profits.

As a result, trading pairs with larger spreads and lower liquidity is acceptable.

You might want to be a swing trader if:

- You don't mind holding your trades for several days.
- You are willing to take fewer trades but more careful to make sure your trades are very good setups.
- You don't mind having large stop losses.
- You are patient.
- You are able to remain calm when trades move against you.

You might NOT want to be a swing trader if:

- You like fast paced, action-packed trading.
- You are impatient and like to know whether you are right or wrong immediately.
- You get sweaty and anxious when trades go against you.
- You can't spend a couple of hours every day to analyze the markets.

If you have a full-time job but enjoy trading on the side, then swing trading might be more your style!

Stop loss setting

How To Set A Stop Loss Based On Support And Resistance From Charts

The previous lesson discussed how to set stop loss using a percentage-based amount of your account.

A more sensible way to determine stops would be to base it on **what the charts are saying**.

Since we're trading the markets, we might as well base our stops on what the markets are showing us.

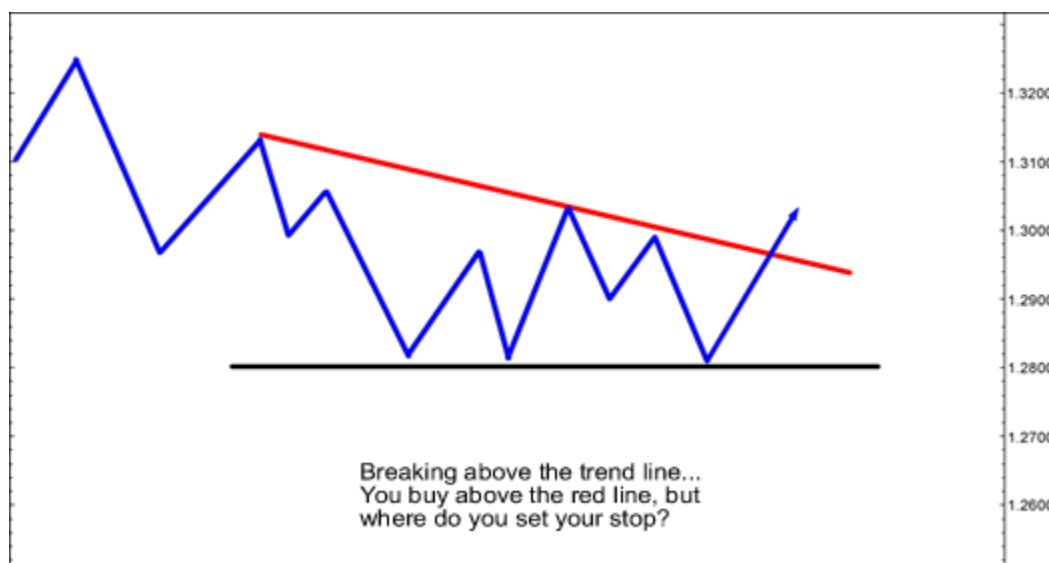
One of the things that we can observe in price action is that there are times when prices can't seem to push or break beyond certain levels.

Often times, when these areas of support or resistance are retested, they could potentially hold the market from pushing through once again.

Setting stops beyond these levels of support and resistance makes sense, because if the market does trade beyond these areas, then it is reasonable to think that a break of that area will bring in more traders to play the break and further push your position against you.

Or, if these levels **DO** break, then there may be forces that you are unaware of suddenly pushing the market one way or another.

Let's take a quick look at a way to set your stops based on support and resistance:



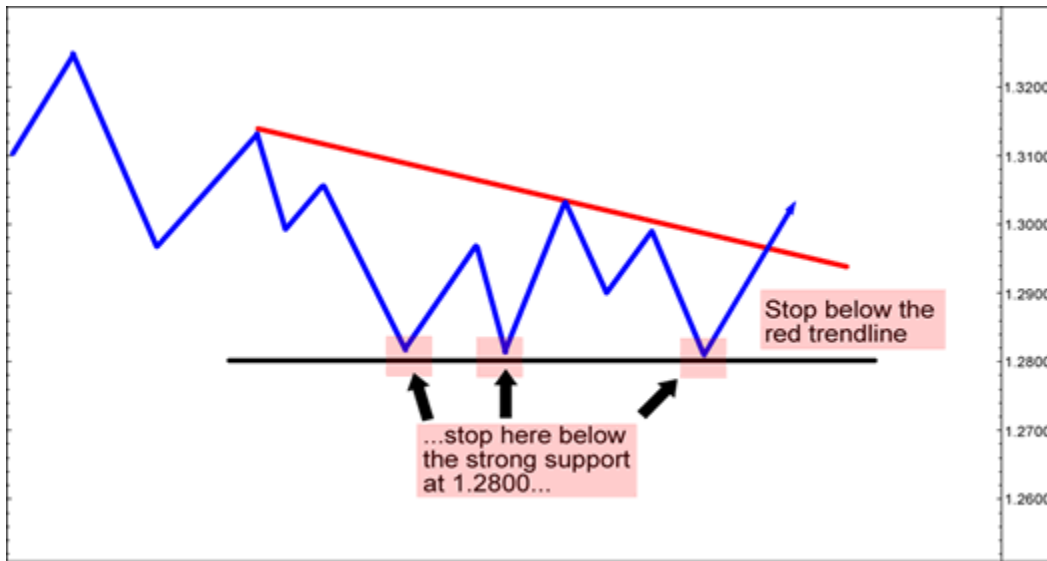
On the chart above, we can see that the pair is now trading above the falling trend line.

You decide that this is a great breakout trade setup and you decide to go long.

But before you enter your trade, ask yourself the following questions:

1. Where could you possibly set your stop?

2. What conditions would tell you when your original trade idea is invalidated?



In this case, it makes the most sense to set your stops below the trend lines and support areas.

If the market moves into these areas, that means the trend lines drew no support from buyers and now sellers are in control.

Your trade idea was invalidated and it's time you to suck it up, exit the trade, and accept the loss.

Example: Short EUR/USD

In the chart below, the EUR/USD has been trending down. Price has hit the falling trendline a couple times which makes for a nice resistance level.

You could place a short order right at the downtrend line (1.3690).

Now, where you would you place your stop loss?

Your **stop loss** would be placed at 1.3800.

Notice how this is above the resistance area: the falling trendline.

Let's set profit targets at 1.3530 and 1.3450.

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The trade is triggered. The trendline holds as resistance and price falls.

Your first profit target is hit. The second profit target is missed by a single pip but by that time, you had moved your stop loss to breakeven (where you entered short) so you lost nothing.



This is an example of using resistance as a guide on where to place your stop instead of simply using a fixed number.

GOOD LUCK AND GOOD TRADING

ENJOY PROFIT 😊

Final words

You made it through , well done

By now you have good understanding about forex trading techniques and tools .Of course this won't probably be enough to suddenly become a profitable trader ,but it's a good start

So what's next?

To get trading strategies with step by step explanations and signals

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