FOREX TREND BREAK OUT SYSTEM

If you are a part time trader, this is one system that is for you. Imagine being able to take 20 minutes each day to trade. A little time at night to plan your trades and set your entry points is all that is required to trade this system.

This type of system is actually one of the best ways to trade Forex. Since the system doesn't require you to sit in front your PC monitoring each trade you are much more likely to let your trades run and consistently earn profits with them. Simply allowing a trade to run is important to earning.

Many don't have the discipline to monitor their trades without getting actively involved (ie. ending the trade too soon to try to protect profits).

With the first system I am going to teach you that emotional element is taken out of the trade. Even if you are a full time trader, my suggestion is that you trade this system the way it is laid out:

Take the time to look over the charts at the end of the day, set your entry points, and then leave it alone until the trade is either profitable or has stopped out. If you use the correct stops and take profit levels, you will earn money consistently with this trading system.

System Overview and Chart Setup

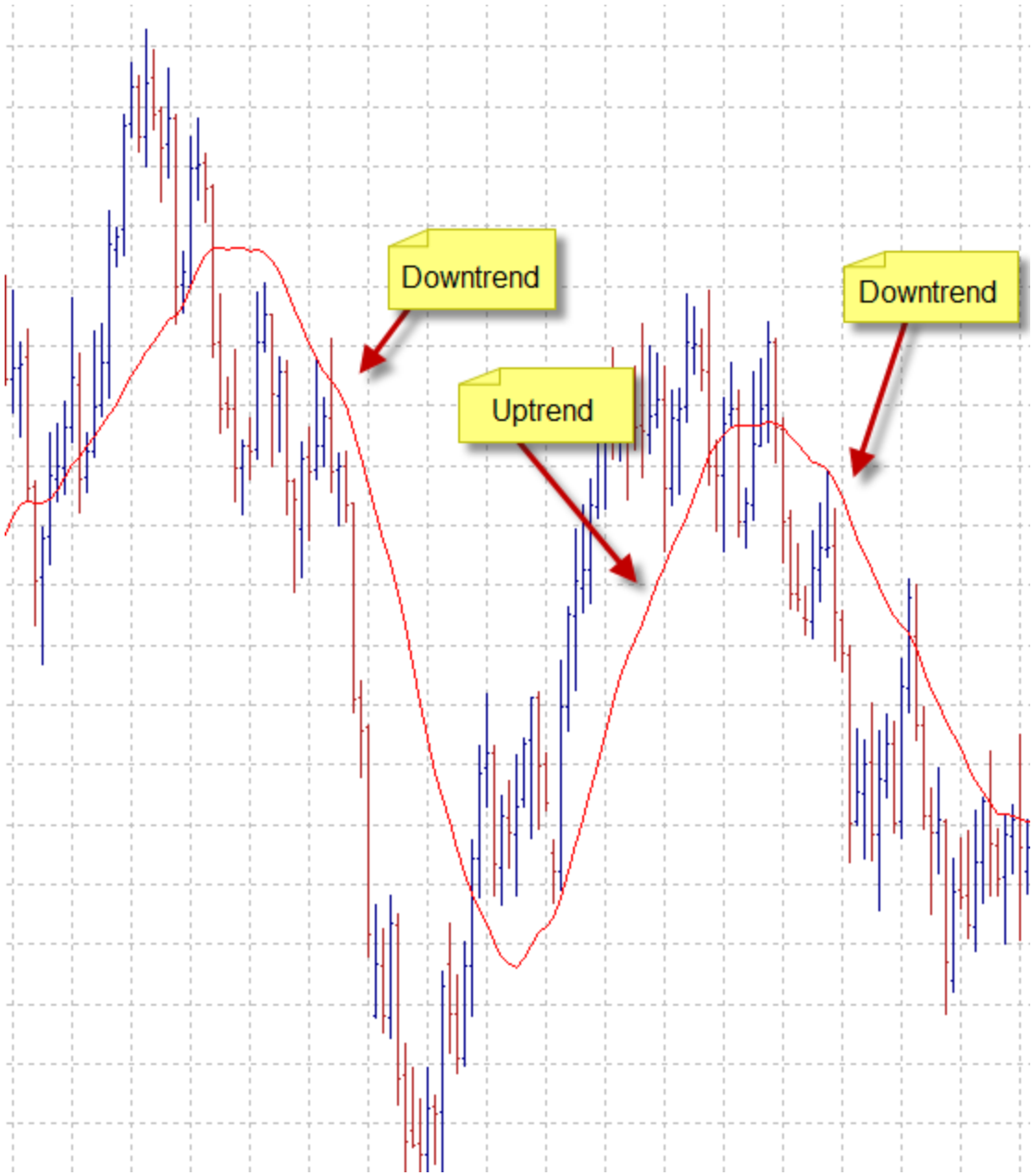
As the name suggests, the Trend Breakout system is a trading system that trades with the trends and focuses on when a currency breaks out and begins to strongly follow the current trend.

Trading with the trend is always a safe way to trade. Most currencies tend to trend strongly in one direction for long periods of time, and trading with that strong trend is always better than trading against it.

With our system of trading, we will be trading off of the daily charts, and it is a night before type of system. That is, the trades you make in the morning will be based off of chart data from the end of the day prior to the one you are trading. A trade will typically be held for a day or two, and sometimes can last up to 1 week.

This trading system only uses one indicator. We use a 21 period Simple Moving Average. This indicator is really just used to ensure we are on the right side of the trend, and our trades will be made off of the bars on the charts themselves.

To setup for this trading system, fire up a daily chart of any currency pair, and add a 21 SMA. Your chart should look like this:



The most important thing to notice on the chart above is simply the trend using the SMA. When the line is pointing up, it's an uptrend, when it's pointing down it's a downtrend. Simple, right?

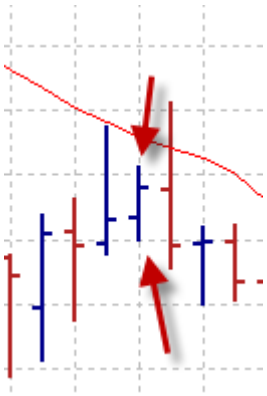
You also need to be able to gauge the momentum of a trend. Again this is done with the SMA. If the line has a strong slope to it, then it is a strong trend. As the line flattens out it tells us that either the trend is slowing down, or it's about to change directions. In either case we consider this a weak trend, and we don't want to trade with a weaker trend.

If this isn't clear, take some time looking over some charts with an SMA 21 on them. Learn to identify when a trend is strong, and when it is weak or about to change directions. Then move on to the Entry Signals and Stops sections.

One important note before we move on: This particular trading system is well suited for any currency pair that is currently in a trend. You will be much better off working with 7 or 8 currency pairs to identify the strongest trends and the best trade setups. When you look at the end of day data, using more currencies will allow you to choose the best trades. When you start with this system trade 2 or 3 currencies, but as you learn it well start checking all 8 charts each day.

Entry Signals and Stops

Our entry signals for the Trend breakout system are based on the candles or bars themselves. What we are looking for is an inside bar. That is the bar (or candle if you use candle charts) for the day must be inside the bar from the day prior.



Looking at the screenshot to the left, the smaller blue bar closed the day inside the prior day's bar. The high for the day was lower, and the low for the day was higher than the previous day – making the small candle engulfed by the prior day.

This is our entry signal for this system.

If we are currently in a downtrend, then our entry point would be set to five pips below the low point of the inside bar. If we are in an uptrend our entry point would be set to five pips above the high of the inside bar (smaller bar in the screenshot).

To summarize our entry rules:

1. Use only daily charts and identify inside bars with end of day data (looking at a chart in the evening when the bar has closed)
2. Identify the trend using the SMA 21. We only trade in a trend and not when the line is flat.
3. Look for an inside bar that is engulfed by the previous day's bar.
4. For a long trade in an uptrend- Set your entry point 5 pips above the high of the inside bar when in an uptrend
5. For a short trade in a downtrend - Set your entry point 5 pips below the low of the inside bar when in a downtrend.
6. One last rule – don't use a Sunday bar as an inside bar – these bars do not count.

Stops

For this trading system we are going to use stops based on the currency pair we are trading. This allows us to set stop levels that fit with the typical daily range and allow us breathing room when we enter our trades. At the same time, these stop levels allow us to manage our risk to an acceptable level.

- For the EUR/USD use a 50 pip stop
- For the USD/JPY use a 50 pip stop
- For the USD/CAD use a 60 pip stop
- For the EUR/JPY use a 90 pip stop
- For the GBP/JPY use a 100 pip stop
- For the USD/CHF use a 50 pip stop
- For the AUD/USD use a 50 pip stop
- For the GBP/USD use a 60 pip stop

Exit Rules

The exit rules for this trading system are also quite simple. When we set our entry point, and our stop level, we also set a take profit level.

The take profit level should be set to 2 times whatever your stop was. For example if you were trading the GBP/USD and you set your stop at 100 pip, you would set your take profit at 200 pips.

Of course you can adjust your stop and let the trade run a bit when you near your take profit level, but in my experience setting a take profit level with this system works the best.

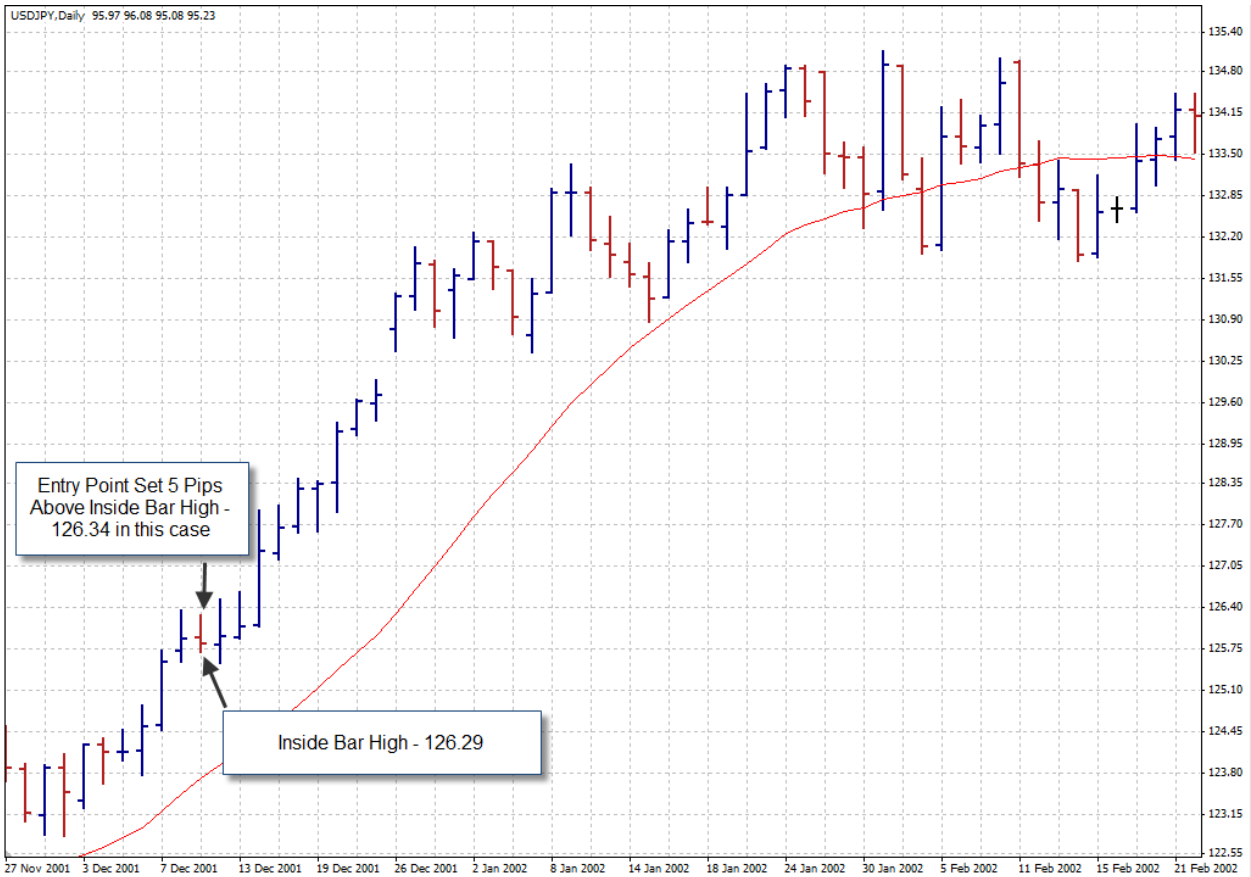
By setting your profitable exit point at twice what your stop level is, that means you only have to win on 33% of your trades to stay profitable. In many cases using both the suggested stop and the two times rule for take profits, your trades will get entered automatically in the morning, and when you check them that night you will already have hit your take profit level.

Trade Examples

To add clarity to this trading system let's look at two trade examples. We will cover a long trade and a short trade to give examples of each. This trading system is quite simple as long as you can identify trends and identify the inside bars.

Long Trade Example

In the USD/JPY chart show below, the currency is currently in a strong uptrend (and if I could show more chart it has been for a while). We have an inside bar forming after the currency pair had climbed for three days straight.



Looking at the bar, the high for the day was 126.29. From our entry rules we set our entry point five pips above the high of the inside bar at 126.34.

We are trading the USD/JPY so we set our stop at 50 pips behind the entry point: 126.34 – 0.50 = 125.84.

We set our take profit at 2 times the stop. In this case its 50 x 2 = 100 pips, and 126.34 + 1.00 = 127.34

Although it's impossible to see from the daily chart, this trade ended up hitting its take profit level. Zooming in to an hourly chart for a clearer view:

At the beginning of the trading day, the currency pair dropped back. It wasn't until about 7 hours later that our entry point was hit and then the currency pair made its way up and hit the take profit level the next day.

Short Trade Example

Looking at a short trade example, in the USD/CHF screenshot below we have an inside bar formation, and we are currently trending down.

This is a fairly new trend, but after the SMA has been flat for a time it is now pointing down, and the last 7 days closed below the SMA. We do identify this as a strengthening of the trend.

The inside bar had a low of 1.2450. Our entry point is set 5 pips below that at:

1.2450 – 0.0005 = 1.2445

We are trading the USD/CHF so we set a 50 pip stop:

1.2450 + 0.0050 = 1.2500

We set our take profit at 2 x 50 pips, or 1.2450 – 100 = 1.2350

In this case our entry point is hit about 2 hours into the day, and our take profit level was hit about 6 hours later.

Important Notes

A couple of final notes about this system. When you begin trading with this system it is suggested that you focus on 1 – 2 currency pairs (choose the pairs that currently have the strongest trends on the daily charts). This will allow you to familiarize yourself with the trend breakout system while focusing on just a couple of currency pairs. If you begin by trading a couple of currency pairs that are in a strong up trend or down trend then you can profit from those currencies by riding out the trends.

Wait for the inside bar, make your trade, and then repeat it when the next inside bar occurs. As you get more familiar with the system itself, start looking at 7-8 charts each night, and identifying the best 2-3 trades from all of those charts.

As a final note, always use sound money management principles and manage your risk levels to an appropriate amount for your account (usually means limiting your trade size to 2% of your trading float).

Forex Swing System

This trading system allows us to capitalize on highly profitable swings in any given currency pair. With this system we will be trading many currencies, and much like our last trading system, finding setups for this one only requires 10 minutes in the evening.

This particular trading system will usually only have around 12 trading signals per year for any given currency pair. For that reason we will be trading with 11 different currency pairs (more pairs mean more trade signals).

The currencies you want to trade with this one include:

- EUR/USD
- EUR/CAN
- EUR/AUR
- EUR/JPY
- AUD/USD
- AUD/NZD
- CAN/USD
- GPB/USD
- GPB/JPY
- USD/JPY
- NZD/USD

The Swing system will work equally well across all of these currency pairs. Checking the charts for all 11 pair's means that instead of 12 signals a year, you will get around 132.

Sometimes you will go a week without a signal, and then suddenly you will get 2 or 3 all in the same week.

System Overview

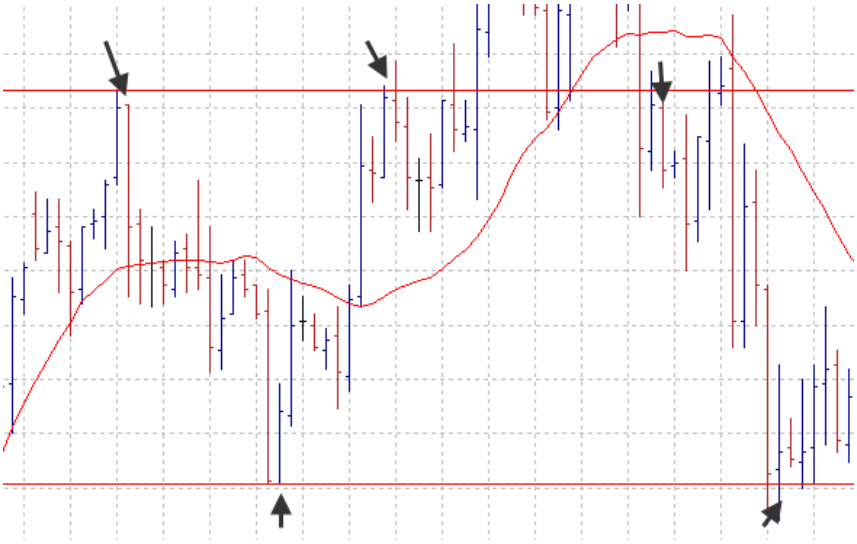
To trade the Swing system there are a couple of things you need to be able to do well. First you need to be able to identify support/resistance levels, and you also need a good understanding of what I call straight bars. Because these two areas are so important for this trading system, we will cover them first.

Support/Resistance

As you likely already know a support level is the point at which a currency pair turns around because the demand becomes great enough that the currency pair has trouble going below that level. By the same token a resistance level is the point at which enough traders start selling that it prevents the currency from going higher.

Some support/resistance levels are quite strong and it takes a big event for the currency pair to move through it. Because of this strength, most support/resistance levels are well suited for knowing when to trade.

Support/Resistance levels may be horizontal on a chart, but they also may follow a trend and move up or down as the trend does. To clarify this let's look at some charts.



Looking at the chart above, the top line indicates the resistance level. These are easy to spot because they tend to be a level on the chart where whenever the currency pair hits it, the pair immediately turns around and starts declining.

In the screenshot shown, the currency pair actually broke out above the resistance level for a time (likely triggered by a news event), and then dropped back down below it a couple of hours later.

The bottom line indicates support levels. This is the price point where the currency pair tends to hit and then immediately turns around and start to climb again.

With many charts, the support/resistance levels will be horizontal across the chart, but they don't have to be. In a strong up trend or down trend the levels can also move with the currency pair:

In the screenshot above the currency pair is in a strong down trend. From the steady decline, the resistance level is also declining with the currency pair. There are still definite points where the currency pair touches the resistance level and immediately retraces, but in this case each time the price point of the resistance level is lower than the time before.

This system makes heavy usage of support and resistance levels so if you are unfamiliar with the concept you should spend some time with some charts. Plot out support and resistance levels to get used to finding them quickly.

Straight Bars

The next thing you need to be able clearly identify is what I like to call a straight bar. You may also hear these referred to as pin bars. The basic idea here is a single bar where the open and close prices are close to the same point.

There are two types of straight bars. There are bullish bars where the price opened and closed above the midpoint of the bar, and there are bearish bars where the open and close points are below the midpoint of the bar.

Straight bars look like this:

Bullish Straight Bar

Bearish Straight Bar

It's important to note that they may not always be as straight as shown above. As long as the price has opened and closed above the midpoint or below the midpoint it can be considered a straight bar. In other words, they may also look like this:

Bullish Straight Bar

Bearish Straight Bar

These types of bars, when used in conjunction with a support/resistance level can be excellent indicators that a reversal is about to take place. If we have a bearish straight bar that coincides with a resistance level it gives us an indicator to sell. In the case of a bullish straight bar that has also reached a support level, we get a buy indicator.

This simple system is an excellent way to take advantage of swings (and/or reversals) in price of any currency pair.

Chart Setup

The chart setup for the Swing system is quite simple. There really is none until we've identified a pin bar. To start simply open a daily chart of all 11 currency pairs that we will trade this system with.

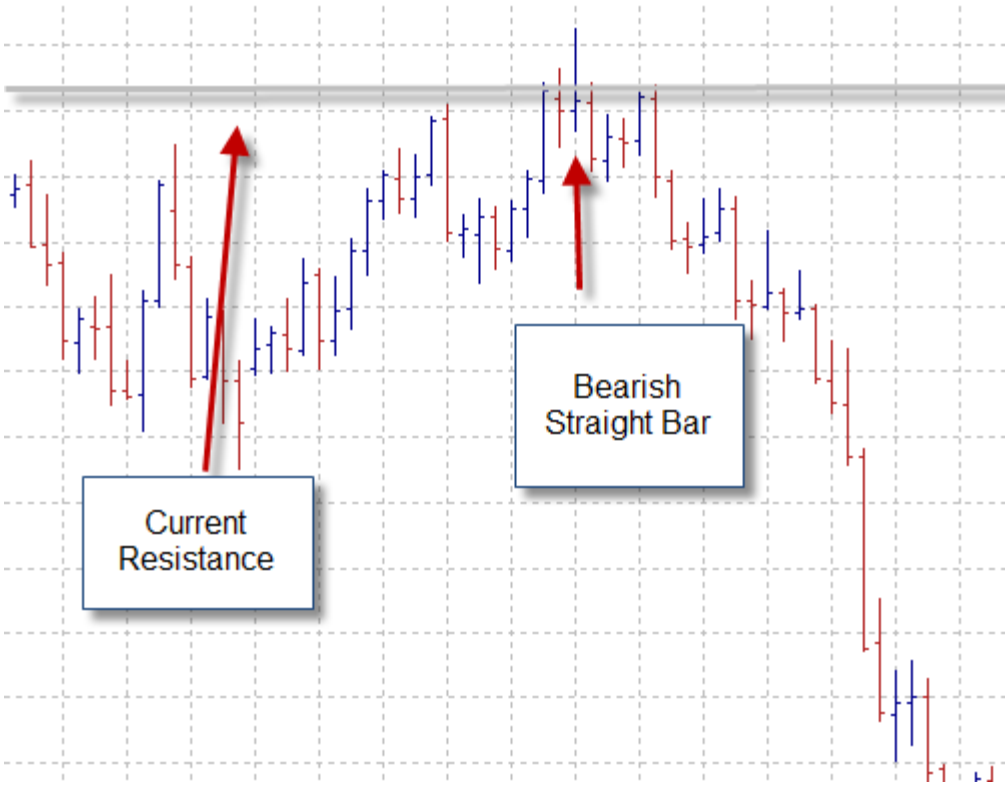
You want to look at the charts right after the trading day has closed. For most this will be midnight GMT. Some brokers do use midnight EST.

Looking at a chart, you want to determine whether the day closed as a straight bar or not. Then and only then we plot our support/resistance levels.

Really, if you are doing this daily, you will already know where the supports and resistance sit because you'll have a good idea of how all 11 pairs have been moving.

When you do find a day where the day has closed with a straight bar, you would then plot your resistance levels or support levels (whichever is appropriate), and if the straight bar and support/resistance levels coincide you get a trade signal.

In the chart below, the day has closed with a bearish straight bar. Plotting our resistance level we can see that the currency pair has also just hit that level. This is a clear indicator that a reversal (swing down) is about to happen.



Entry Signals and Stops

Since we are using both bullish and bearish bars with this trading system, and each coincides with a different type of trade, let's look at both long trade signals and short trade signals. The rules are basically the same for entry, just backwards for each type of trade (long or short).

Long Trade Signals

To get a long trade signal, three things must occur:

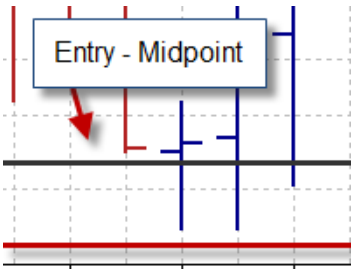
1. On the chart the previous day's close resulted in a bullish straight bar.
2. The currency has just hit a support level.
3. The currency has been moving down for at least 3 days prior.

Looking at the chart below:

The previous day closed with a bullish straight bar. The currency has also just hit a support level. If I could show the whole chart, this is actually a long term support level and the currency pair has been bouncing off it for about 2 months.

Also the currency pair has been trending downwards for about two weeks prior. This gives us an entry signal.

To enter the trade, we set an entry point using the midpoint of the straight bar. We set out stop 5 pips back of the low point of the straight bar (the red line shown below).



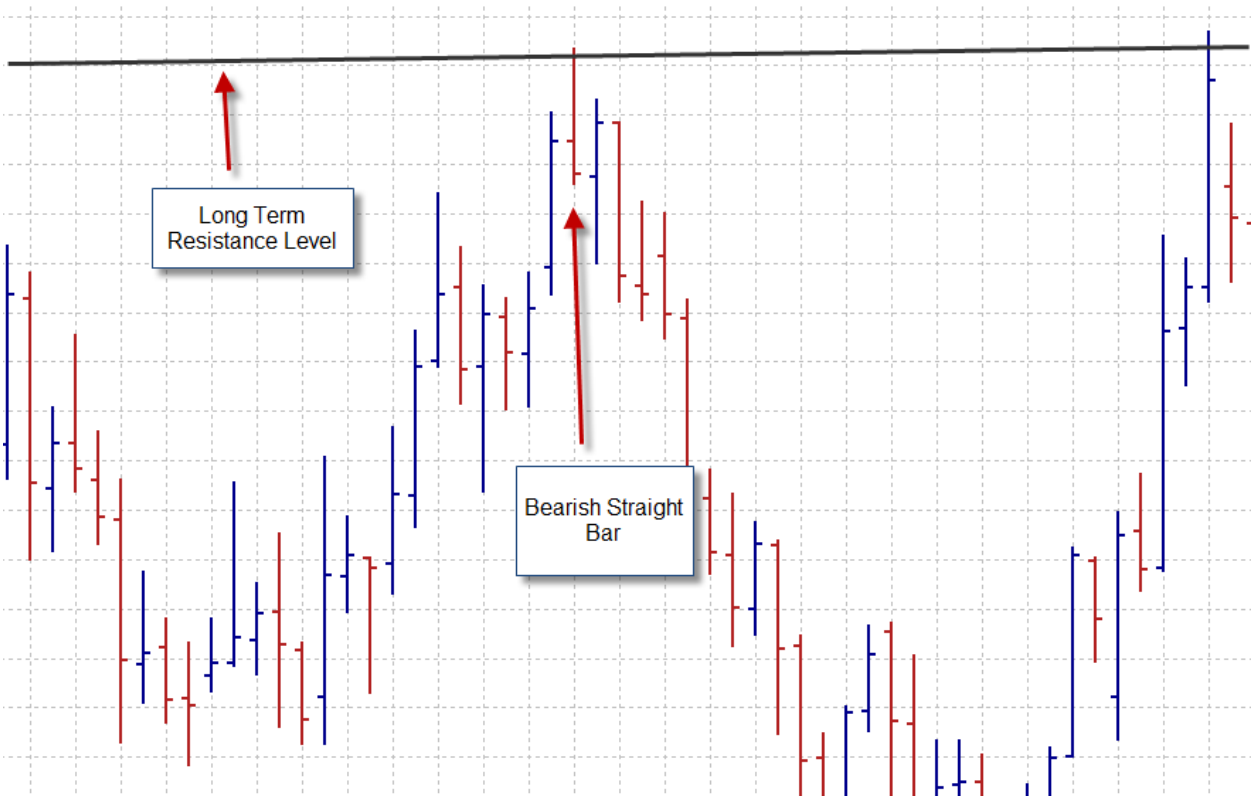
With the example shown above, the next day the price retraces a little, our entry point is hit, and then made its way up. This would have been a successful trade.

Short Trade Signals

For short trades our entry signals are the oppisite of a long trade. We are looking for:

1. Previous Day has closed with a bearish straight bar
2. Currency has just hit a resistance level
3. Currency has been in an uptrend for at least 3 days prior

To put it on a chart:



In the char above, the day has closed with a bullish straight bar. The currency has also just hit a long term resistance level (I also could have drawn the resistance line from the current uptrend).

The currency pair has been in an uptrend for about 2 ½ weeks. This gives us a clear sell signal.

Again we set out entry point for the midpoint of the straight bar that gave us the signal, and we set our stop 5 pips above the high of the same bar.

Exit Rules

To exit this type of trade I prefer to use a trailing stop. My stop would be set to trail at the same level as I originally set it. If I set a 50 pip stop from my entry point, then I would trail my stop at 50 pips.

In the example above, the bullish bar that gave me my entry signal is 80 pips in length. With a stop set five points above the bar, and an entry point sat at the midpoint that means I am risking 45 pips when my entry point is hit. To exit this trade I simply trail my stop at 45 pips until I stop out.

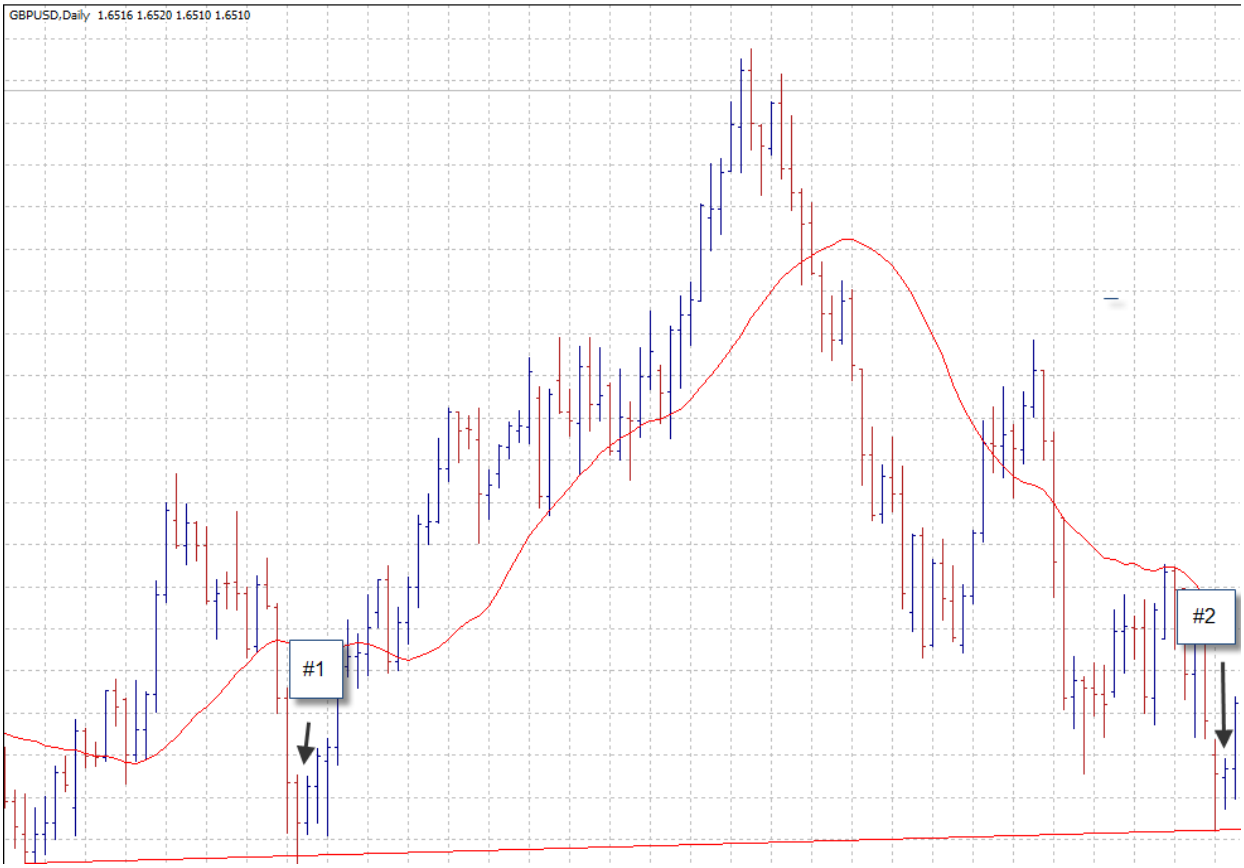
Using this exit method you will sometimes be able to squeeze 500 pips out of the market in just a few days time. Other times you will stop out the same day with a small profit, but it all works out to move your account forward.

Trade Examples

To add some clarity to the swing system, let's look at some trade examples.

Long Trade Example

To begin with let's look at some long trade examples. Just to point it out there are actually two entry signals on the chart below. We will focus on the first one.



Looking at the first entry signal above, we have:

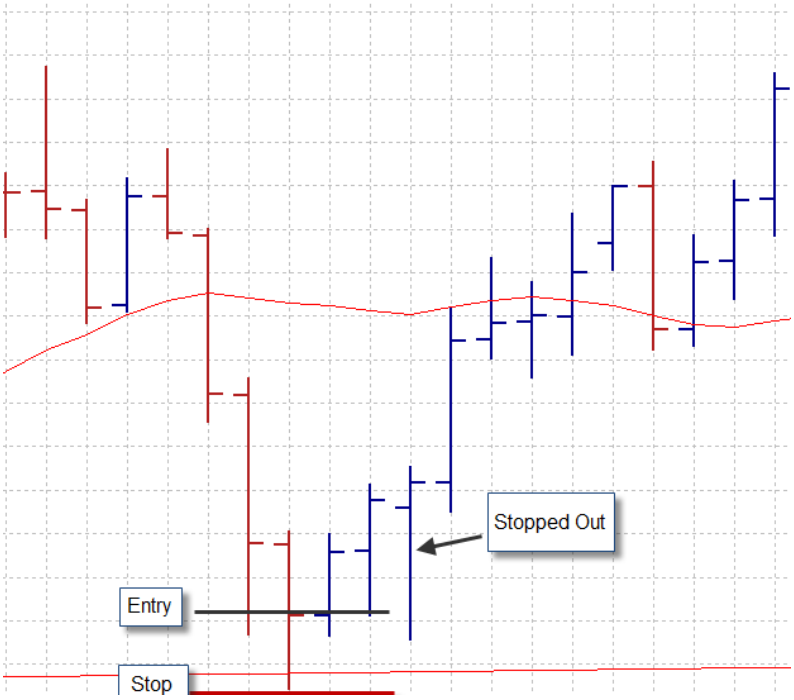
- The day finished with a bullish straight bar.
- The currency has just hit a long terms support level.
- The currency had trended down for about a week.

This gives us a good buy signal so we set our entry point and out stop.

The bar that gave us the signal is 127 pips in length. It's midpoint (our entry point is 1.5475. From that we set our stop 127/2 = 63.5 + 5 pips back = 68.5 (or just 68) pips from our entry point.

Our initial stop is set to: 1.5475 – 0.0068 = 1.5407

The price then retraces and our entry point is hit:



In this case for two days the currency pair starts an upward climb. With our stop trailing at 68 pips, we end up stopping out on the third day at 1.5537. Our profit on this trade is 1.5537 – 1.5475 = 62 pips.

This actually wasn't a big trade, but it was profitable. It was a new event on the third day that caused a momentary swing back down for part of the day. When that happened the price hit our trailing stop.

Short Trade Example

To look at an example of a short trade, looking at the daily chart for the USD/JPY on the following page, we have:

1. The day closed with a bearish straight bar.

2. The currency has been in a climb for the prior 4 days.
3. The currency has just hit a long term resistance level.

From that we set our entry point for the mid-point of the bar. Our entry point is hit with a slight retracement (#2), and then we stop out a couple of days later (#3).

Taking a closer look at how this trade went:

Our entry point is set at 119.94, and our initial stop is set to 120.28 for a risk level of 34 pips. So we trail our stop at 34 pips.

In this case the currency pair made a steady decline for two days straight, and we end up stopping out at 118.23 on the third day for a profit of 119.94 – 118.23 = 1.71 or 171 pips.

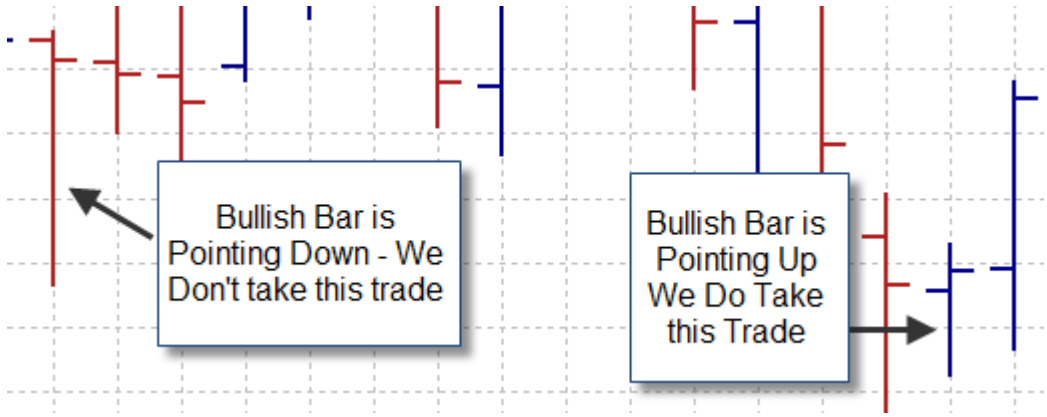
A Couple of notes on this Trading System

With this trading system there are some simple ways to help avoid false signals, and there is also an alternative exit strategy for less conservative traders.

Adding another Rule to Avoid False Signals

If you are a more conservative trader we can add another rule that will help you to avoid false trading signals. This is a simple rule that requires just looking closer that the bar that is giving you a buy or sell signal.

Looking at the two bullish candles below:



With the bar on the left, the price closed below the open price. We say that this bar is pointing down, and we don't take the long trade even though there is a legitimate buy signal on this chart.

With the bar on the right, the price closed above the open price. We say that this bar is pointing up and we do take the long trade.

By the same token for bearish bars, the bars must be pointing down in order for us to trade (closed lower than it opened).

If I had showed the whole screenshot above, either trade would have been profitable, but you will avoid more false signals by adding this rule to your entry rules (you may also miss out on some profitable trades).

Alternative Exit Strategy

As an alternative to using trailing stops you can also use another exit strategy. Instead of trailing the stop, wait until it a trade has moved in your favor the same amount of pips as your original risk level plus the spread (ie 33 pips if you had a 3 pip spread and your stop was originally set to 30 pips). Once it has, set the stop to the breakeven point.

From there just let the trade run. Monitor it a couple of times per day, and if the currency has moved a significant amount in your favor adjust the stop again to protect your profits.

Using this exit strategy can help you make some bigger trades as you allow yourself more breathing room. At the same time, you will end up with more break even trades where you could have squeezed a few pips if you had trailed your stops.

Final Note

One last note with this one, if you get an entry signal with this system and your entry point isn't hit within 3-4 days of the signal, be sure to remove the entry point. If the price is going to retrace and hit your entry point it is only a valid trade if it does so within the first four days of getting your buy/sell signal.