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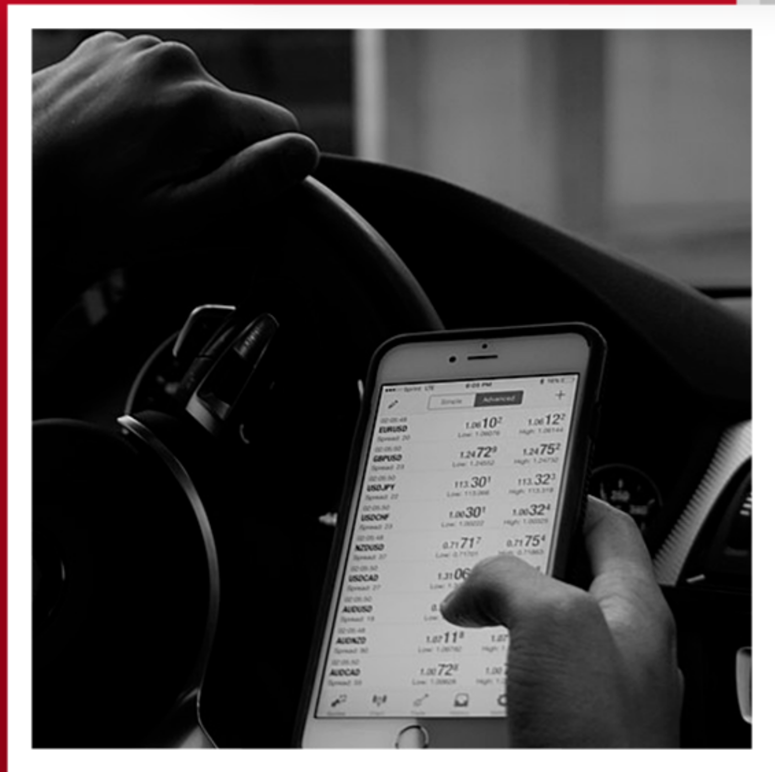

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Instant Forex Trading

TRADING COURSE: INTERMEDIATE LEVEL



READING THIS COURSE, YOU WILL LEARN ABOUT:

- Basic concepts of technical analysis
- Types of trends
- Fibonacci sequence
- Introduction to graphical analysis
- Trade patterns

WHAT IS TECHNICAL ANALYSIS?

As widely known, history repeats itself. Applying this saying to the financial markets, we can conclude that the history of price movements can also repeat. Indeed, quotes tend to move in cycles, and their past performance can help analysts to predict future dynamics. So, this is what the technical analysis is all about. Traders study price charts in order to forecast where the price will move next. The technical analysis is based on the theory of Charles Dow, an American journalist and co-founder of Dow Jones & Company. Here are the three main principles of this theory:

- The market discounts everything

This is the most important tenet. The current market price takes everything into account. In other words, all the numerous fundamental and spontaneous factors are already included in the price and each value of the price on the chart is the most fair and takes into account all of the above factors.

- Prices move in trends

This assumption is the basis of all methods of technical analysis since the market with its specific trends can be predicted, unlike the chaotic market. There are usually two possible scenarios: either the current trend continues and the market moves in the same direction or the trend reverses at some moment and the market starts moving in the opposite direction.

- History repeats itself

Technical analysis and studies of market dynamics are very closely related to the study of human psychology. Thus, graphical price models classified in the last century reflect the most important features of the psychological state of the market. If the price changed in a certain way in certain situations in the past, then there are good reasons to believe that the price will react in a similar way in the same situations in the future.

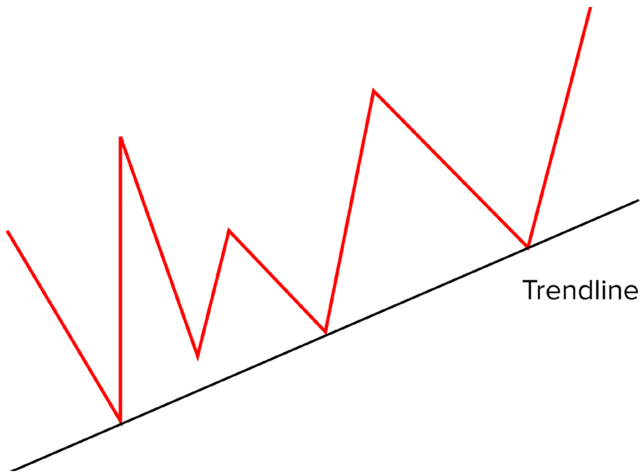
TYPES OF TRENDS

Trend is your friend. Many traders have heard this phrase but few beginners can give a correct definition of a trend, let alone identify it on a chart.

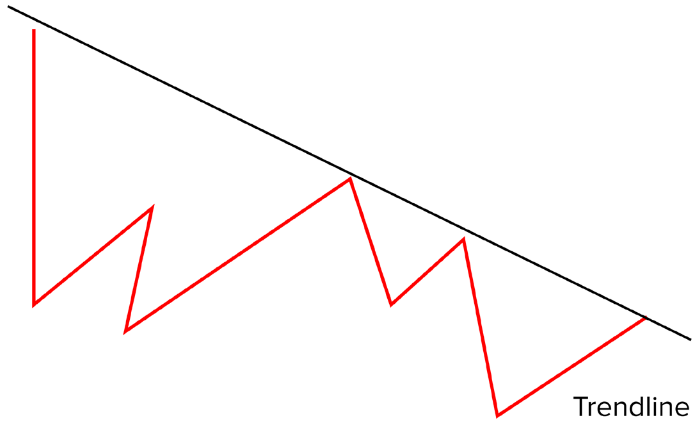
A trend is the overall direction of a market or an asset's price.

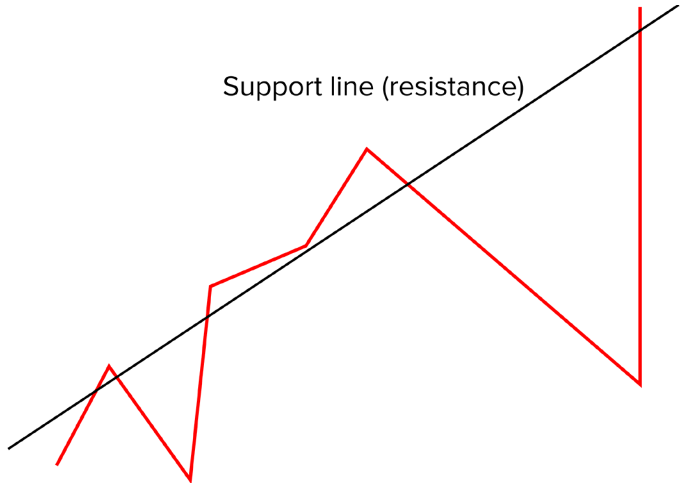
There are three types of trends.
Uptrend (bullish), downtrend (bearish), and sideway (flat).

If a trend is bullish, or upward, every next uprise and divergence are higher than the previous one. The line that confines the trend to the upside is the trend line. This trend line is plotted at the lowest prices.



If a trend is bearish, or downward, then the new peaks and divergences are lower than the previous ones. The trend line cuts the price chart on the upside and is drawn at the peaks.





These lines are called support and resistance lines.

Thus, a support line can be found under the price line, while the resistance level is above it. In the course of trading, the lines can change roles.
Channels are of particular interest when, for a clearly defined trend, there are good support and resistance lines at the same time.
When the trend is flat (sideways), there is no definite price direction, and the quotes move in a horizontal range.
This type of trend also has support and resistance lines, but there is no explicit movement of prices up or down.
Speaking about trend directions, what really matters is trend's strength or stability. One of the criteria to measure the trend strength is its behavior at or near resistance and support levels.
For example, if the trend is downward and the prices break below a support level, the trend is very likely to continue. However, if the trend touches the resistance or support levels several times and then reverses, it signifies a weaker trend. In such a way, we get more confirmations that the trend will reverse.

Support and resistance levels

Support and resistance levels are key price levels at which sellers or buyers enter the market with enough money to either continue or reverse the price movement. Traders use these price levels to determine who is most likely to take control of the market: bulls or bears.

Resistance

A resistance line is a level that restricts a further price increase.

At this point, sellers come into action. If they manage to gain an advantage over buyers, the price stops rising.
If the price returns to the already formed resistance level, then sellers are most likely to come into action again trying to turn the price down.
Thus, a resistance level can be used to enter the market with a short position or to set take profit level for closing an open long position.

Support

A support line is a level that restricts a further price decrease.
The price moving down reaches the support level. At this point, buyers enter the market in such a quantity that allows them to get an advantage over sellers and prevent the price from falling lower. Support levels can be used to enter the market with a long position or to close short positions.

Support line

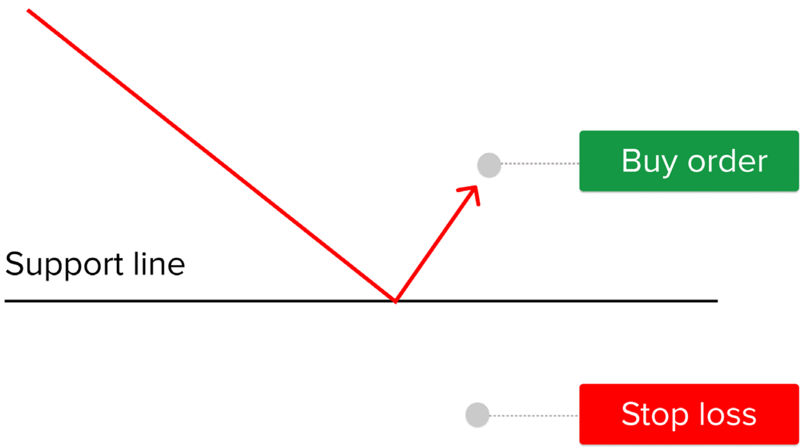
How to determine support and resistance levels

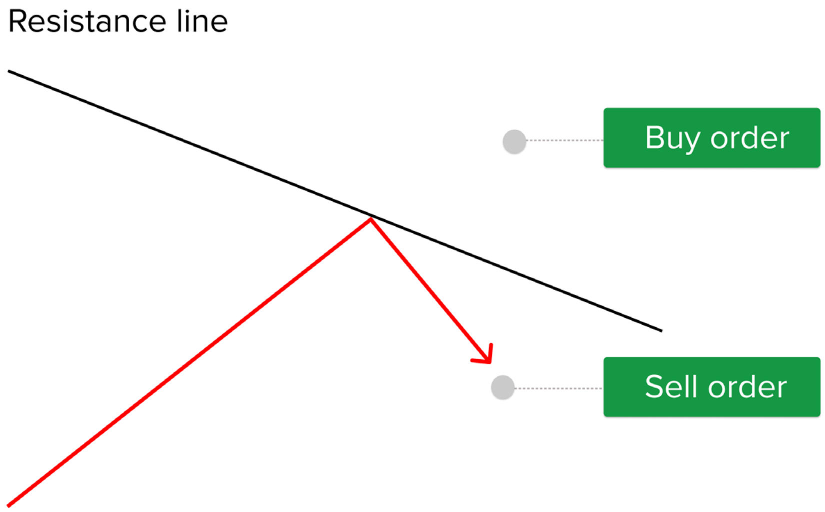
To determine support and resistance levels, you need to find the points at which the price movement stops constantly. At these moments, either buyers or sellers enter the market.
As you can see in the chart below, if we draw a horizontal line through the point at which the price stops, we will determine the resistance level at which sellers enter the market.
In the chart below, a horizontal line is drawn across this level, helping to determine the level of support at which buyers enter the market.

TRADING SUPPORT AND RESISTANCE LEVELS

Rebound

A resistance line is a level that restricts a further price increase.



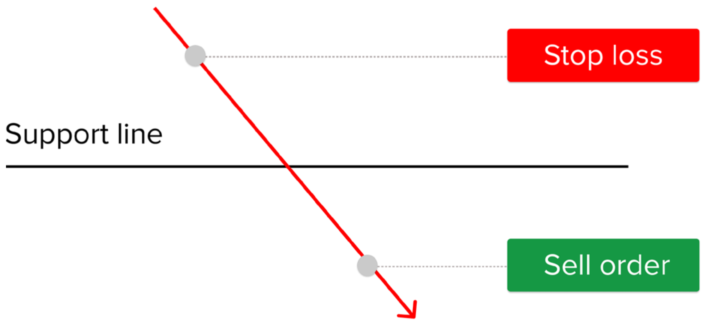


Break

Support and resistance levels can’t hold forever. In a perfect forex trading world, we could just open positions whenever the price tested given levels and earn loads of money. But our world is not perfect, and the price often breaks through the levels of support andresistance. Therefore, you cannot always trade only bounces. You should know what to do when the price breaks support and resistance levels. There are two ways to trade breaks: aggressive and conservative.

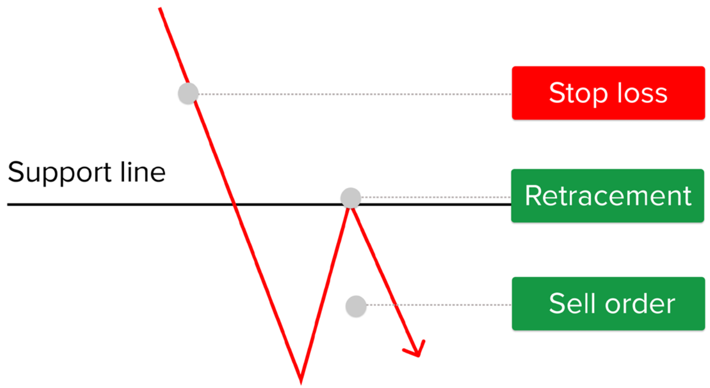
Aggressive way

The simplest way to trade breaks is to either buy or sell whenever the price passes confidently through either a support or resistance zone. The key word here is confidently, that is the price breaks a particular level at ease. Below, we see how the price breaks through the level without stopping and continues to decline. In such a case, an aggressive trader would immediately open a position..



Conservative way

You need to be patient to use a conservative approach. Instead of opening a position immediately after a break, you should wait for a pullback to the broken support or resistance level and open a position immediately after a bounce from this level. Below, you can find an example.



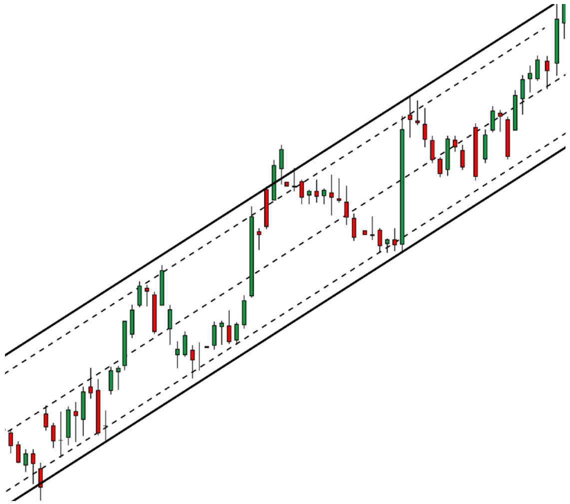
A few words of caution. Retests of the broken support and resistance levels do not happen all the time. Sometimes, the price just moves in one direction. Therefore, always place your Stop Loss orders above or below the level and get rid of an unprofitable position. In the example above, the Stop Loss order is set above the level.

CHANNELS AND HOW TO PLOT THEM

Price channels, also called trading channels, are a way to graphically depict trends and ranges on a chart. They can show levels where the price is likely to reverse.
What is a price channel?
A price channel is a limited trading range in which the price moves for a certain period of time. In other words, this is a corridor on the price chart. The borders of the price channel are outlined by two lines: resistance and support.
You can create a channel by drawing two trend lines or using a tool to build a channel with your charting program.

Determining price channel

When the price moves in an uptrend, as illustrated we can say that it moves in an ascending channel.



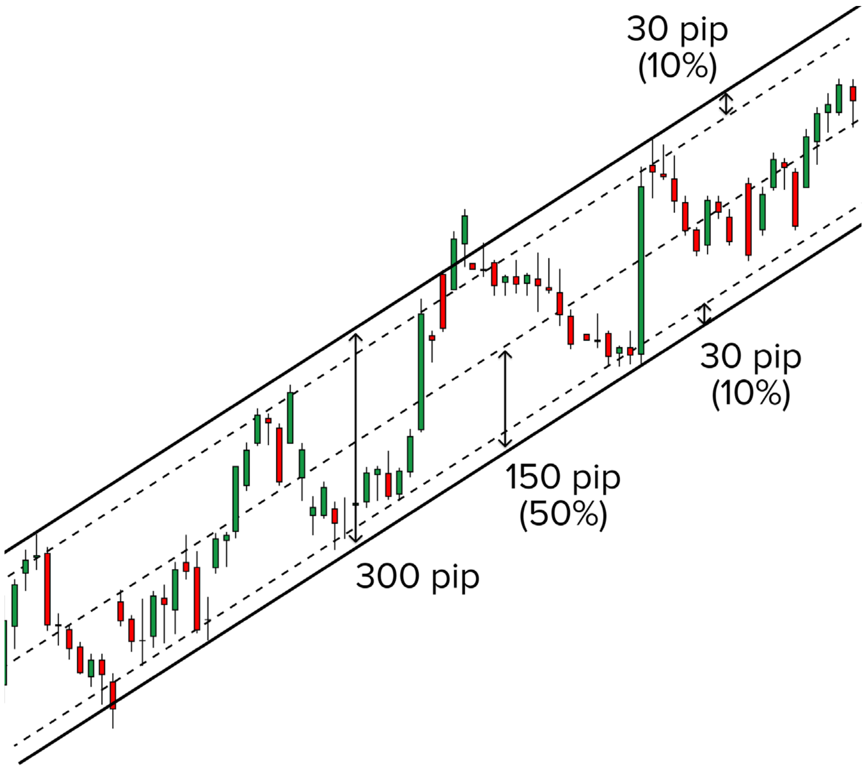
When the price moves in an uptrend, as illustrated below, we can say that it moves in an ascending channel.

If the price moves in the zone of horizontal support and resistance, as you see below, then it moves in the so-called horizontal channel.

If there is an uptrend or downtrend, it means that a horizontal channel may form in the future.
To plot a channel, you need to draw two trend lines, one connecting two lows, and the other one connecting two highs. It is normal when two or more candles go beyond the boundaries of the trend lines, but most of the candles should be within the boundaries of the channel.

Channel trading principles

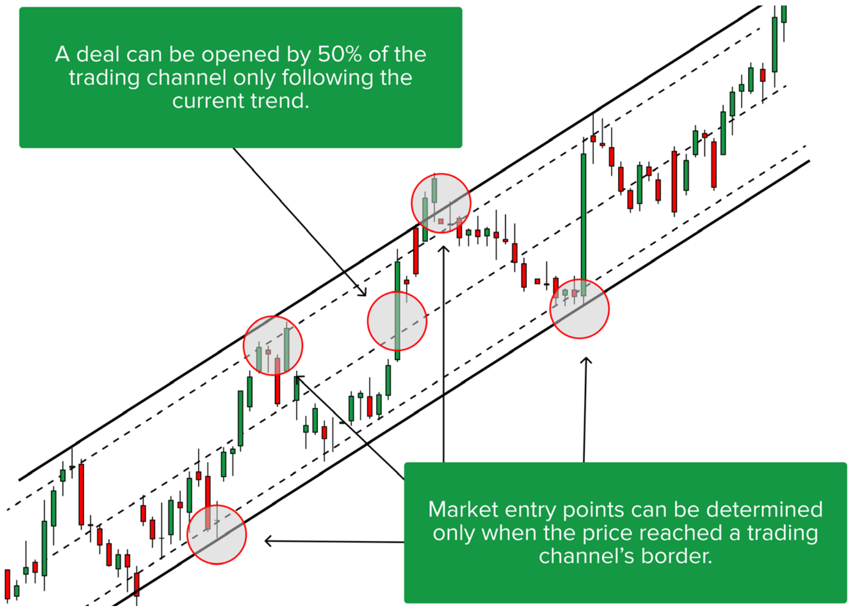
To start trading, you need to draw a few additional lines. To draw the first one, set aside 50% of the total width of the range. It is built strictly in the middle between the lines of support and resistance. Draw the second and third lines inside the channel parallel to the upper and lower boundaries, at a distance of 10% of the width. The chart is below.



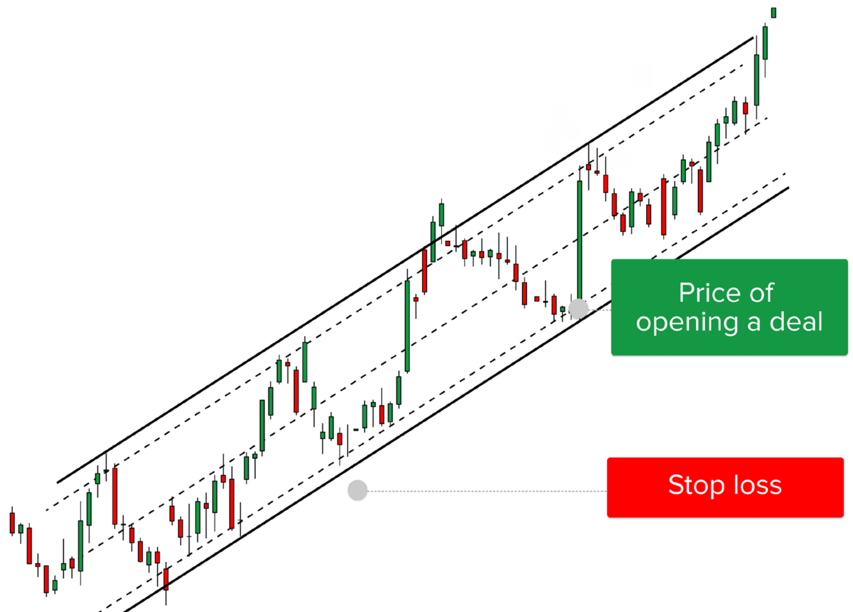
Channel trading is conducted from the borders (lines of support and resistance). If the channel is ascending, then we buy at the lower boundary and sell at the upper one. Profit should be fixed near the opposite border of the channel when the price goes beyond the line of 50% to the 10% zone.

Why is that?

We remember that the market is unstable in nature, and the price behavior in the market is unpredictable, so we can only guess. In order to minimize risks, we give part of the potential profit to the market, closing the deal before the price touches one of the boundaries



Another strong support/resistance level is the 50% line. But if you open a deal at the level, do it very carefully and only in the direction of the channel.
It is up to you to decide where to set a Stop Loss. One of the possible options is to place an SL order above a swing high or below a swing low.
A swing high is a peak reached before the price moved lower, while a swing low is a trough reached before the price rebounded. On the chart below, a red cross marks the stop loss point. This is the nearest swing low.



FIBONACCI SEQUENCE

Leonardo Pisano was a famous Italian mathematician who lived in the XIII century. He was better known to his friends by the nickname “Fibonacci” - the son of Bonacci. He was glorified by the “Book about the abacus”, written in 1202 (Abaca is a counting board). The Fibonacci‘s work discovered the Hindu-Arabic numeral system to Europeans which became a tool in such fields of science as physics, mathematics, astronomy, biology, and others. The Fibonacci sequence makes it possible to interpret various natural phenomena and forms, while the «golden ratio» is one of the treasures of geometry according to Kepler.

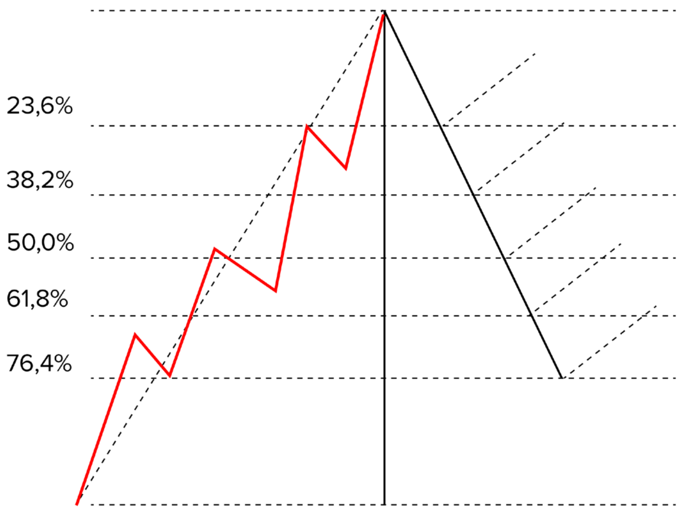
The resulting endless progression (now called the Fibonacci numbers) looks like this: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144...
Each subsequent number is equal to the sum of the previous two.
Moreover, starting from the number 5, any of them is approximately 1.618 times larger than the previous one. Thirdly, any of the numbers is approximately 0.618 of the following. Traders began to use Fibonacci levels on Forex as soon as they noticed that the fluctuation in asset prices often repeats this numerical sequence.

Selecting proportions this way, we will get the following Fibonacci numbers: 4.235, 2.618, 1.618, 0.618, 0.382, 0.236.
The sequence of Fibonacci numbers tends to a certain constant ratio. It is not possible to express this ratio precisely, since it is irrational. Therefore, it was decided to reduce the fractional part and refer to a ratio of 0.618 (1.618). This is called the golden ratio.

Fibonacci levels

In trading, the term «Fibonacci» means a tool that measures the price movement and, based on this analysis, sets horizontal support and resistance levels on the price chart. These levels of support and resistance are called Fibonacci levels and, like ordinary horizontal support and resistance levels, they are used to make trading decisions.
The Fibonacci tool is applied to price movement. When the price moves in a certain direction, the beginning and the end of this movement can be accurately determined. Using the Fibonacci tool, the distance between these points can be measured. This tool automatically sets the so-called retracement levels which could hypothetically help to predict the end of the corrective movement.

The Fibonacci levels in trading are calculated based on the Fibonacci numbers, or rather the percentage difference between them.
An example of projecting Fibonacci levels on a trading chart



In the case of an upward price movement, this tool is applied from the lowest point to the highest one - it is moving left to right again. Let's demonstrate it on the chart:

How to apply Fibonacci levels.

Fibonacci levels can be used to predict future price movements. The starting point where the first Fibonacci level is applied is the reversal point, i.e. the point where the price stopped rising and began falling. The second point is the low of the current candlestick. The chart below shows the way how the calculations are done:

Fibonacci levels can be automatically placed in MT4. As can be seen from the chart above, the Fibonacci tool divides the price movement into certain periods, separated from each other by levels.These levels are called retracement levels, which means that the price can resume its initial movement after reaching certain levels (38.2%, 50%, 61.8%).

Fibonacci retracement levels indicate the percentage of the total price movement. Thus, the level set in the middle between the beginning and the end of the movement shows a retracement of 50%. If the price pulls back half the way, it means that it has retraced to the level of 50%.
Accordingly, the retracement levels illustrate how strong the pullback in price action can be and where the movement can be recovered.
The chart below shows the levels of 38.2%, 50%, and 61.8%. These are the most common levels to which the price usually comes back and then resumes the movement.

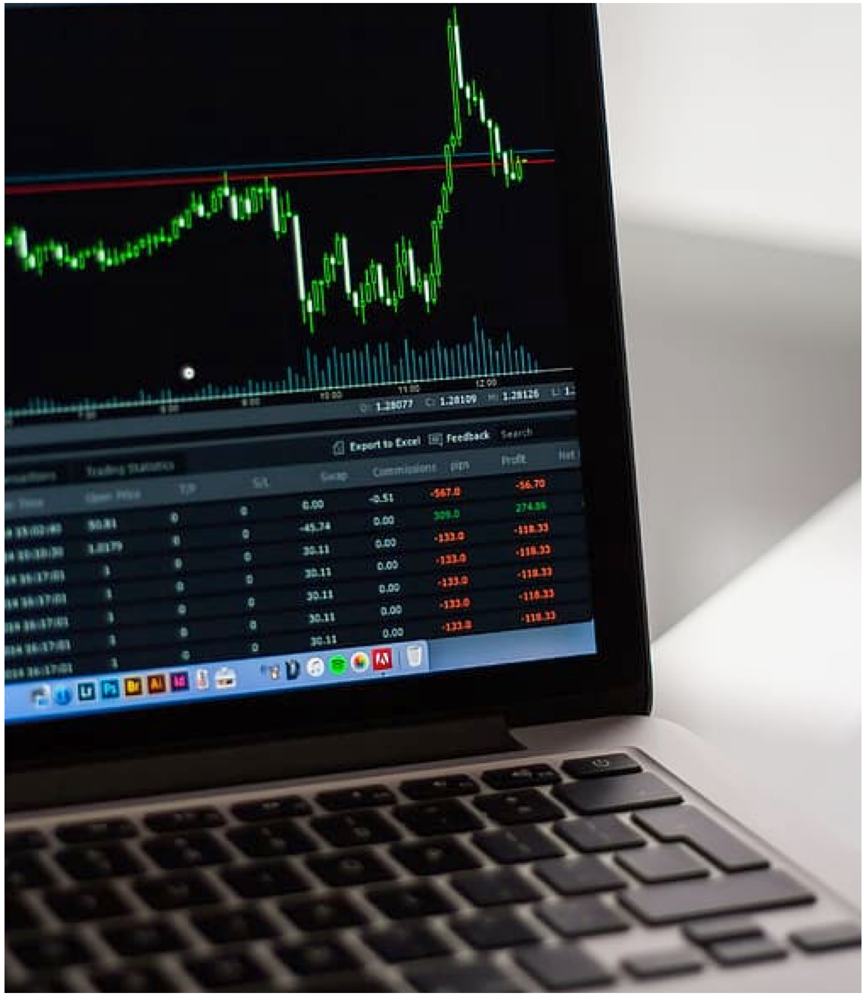
INTRODUCTION TO GRAPHICAL ANALYSIS

As already mentioned, one of the major postulates of the technical analysis is that history repeats itself. There are many methods to search for these repetitions. One of them is graphical analysis.
It involves the visual study of price charts, the identification of patterns repetitions, and the prediction of further price movement on that basis.
Looking closely at price charts, we can see that upon reaching a certain value, the price pauses its movement. Sometimes it turns around and changes direction.
These are the levels of support and resistance which are the fundamental indicators of the graphical analysis in the forex market.

Trend reversal patterns

Every trader longs to open trades at the very beginning of a trend and close them at the end of this trend. Reversal patterns of technical analysis can help in this regard.
Here are the most popular reversal patterns:

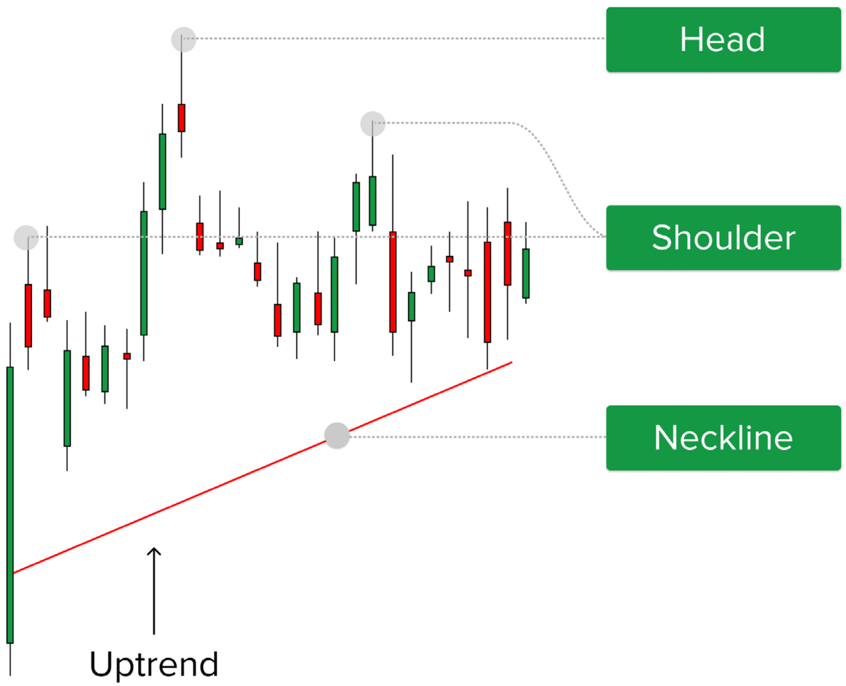
- Head and Shoulders;
- Inverse Head and Shoulders;
- Triple Top;
- Triple Bottom

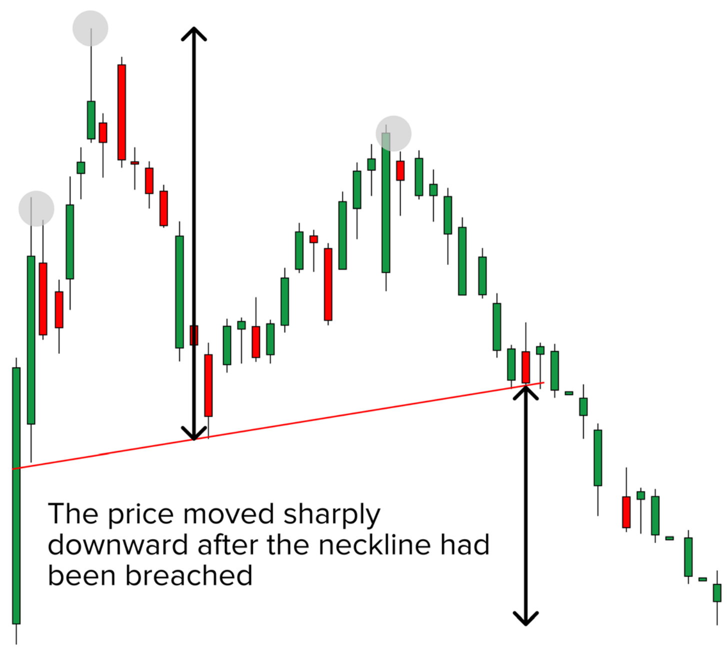


How the Head and Shoulders pattern is formed and how to apply it.

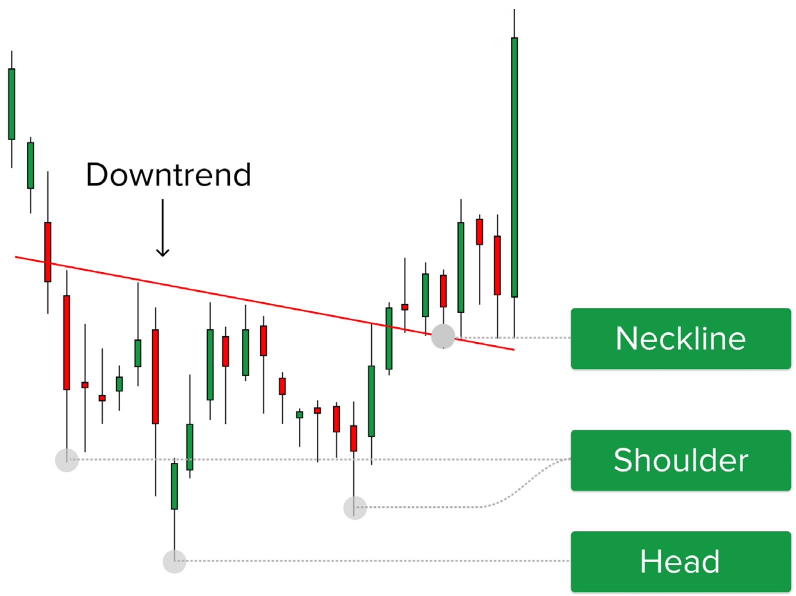
The Head and Shoulders pattern consists of three successive price peaks. The first and third peaks are shoulders, while the second peak forms the head. The latter is higher than others. The line connecting lows of these peaks is called the neckline. Attention should be paid to the slope of the neckline: if the neck is tilted down, the signal will be more reliable.

The Head and Shoulders pattern consists of three successive price peaks. The first and third peaks are shoulders, while the second peak forms the head. The latter is higher than others. The line connecting lows of these peaks is called the neckline. Attention should be paid to the slope of the neckline: if the neck is tilted down, the signal will be more reliable.
We can also define the target of the downward movement. We need to measure the height of the head and subtract this distance from the neckline, after which we will get the target of a possible price movement when the price breaks through the neckline.

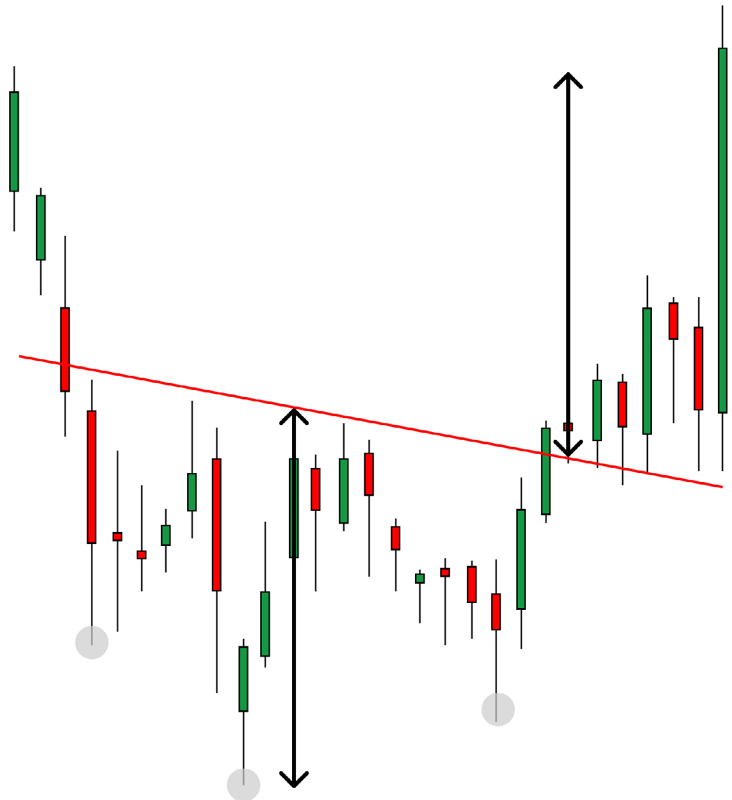




As soon as the price breaks through the neckline, it moves a distance equal to at least the height of the head, and sometimes much more. In such cases, you may be tempted to wait for a further decline, but you need to be careful and close your deal timely. How the Inverse Head and Shoulders pattern is formed. The Inverse Head and Shoulders pattern is a mirror image of the previous model which consists of three consecutive bases. It begins with the first bottom (shoulder), followed by the lower bottom (head) and completed by the third bottom (shoulder) which is located slightly above the head. This pattern is formed when there is a clear downward trend in the market.

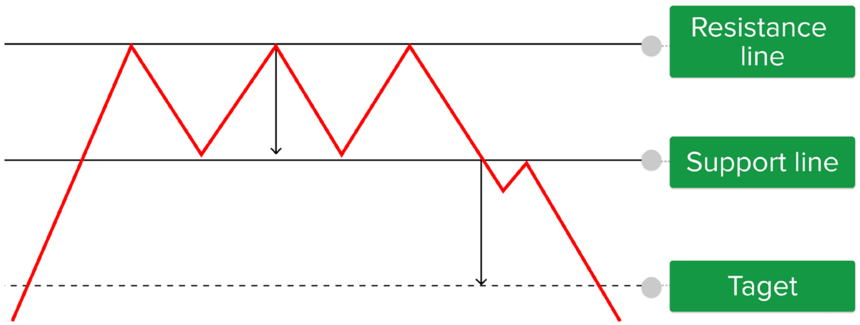


As you can see, it is an exact copy of the Head and Shoulders pattern, but turned upside down. Here we can open a buy order just above the neckline. The target for our position can be defined in the same way as for the Head and Shoulders pattern. We need to measure the distance from the low of the head to the neckline - this will be an approximate distance that the price is going to pass when it breaks through the neckline.

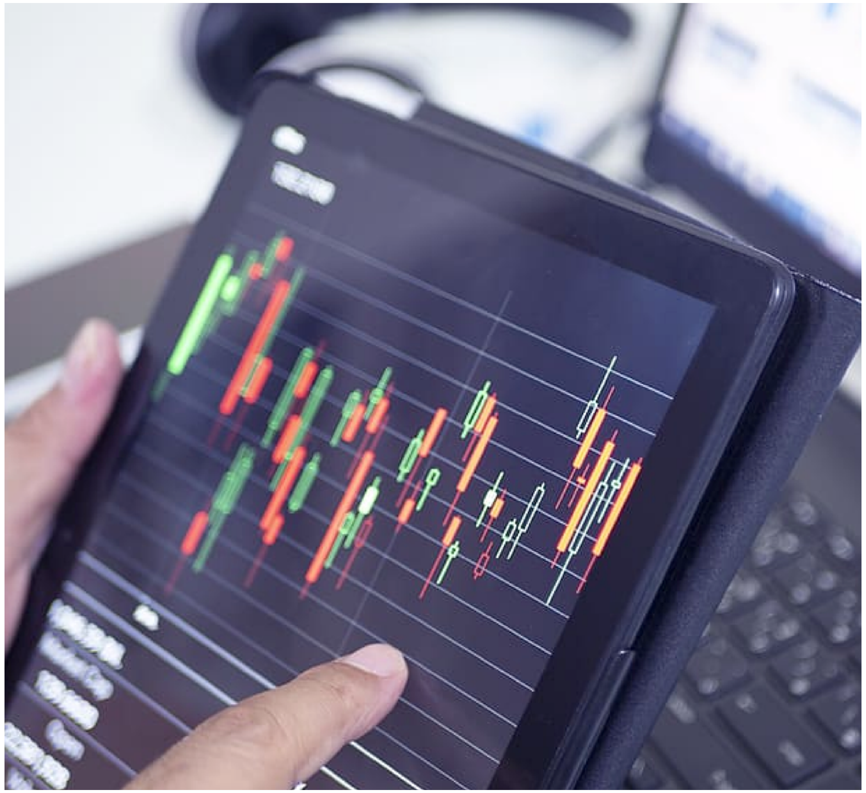


How the Triple Top pattern is formed.

The Triple Top is usually formed after a long-term uptrend and indicates a possible reversal of the trend.
The pattern consists of three successive peaks and is often regarded as a variation of the Head and Shoulders pattern. The Triple Top pattern can be applied in the event that the trend is upward, when the price hits a new high and, after two more attempts to grow, fails to break the resistance level and falls, probably with an acceleration and a price gap. In this case, two horizontal parallel lines of resistance and support are drawn through the peaks and bottoms, respectively.



The ideal pattern includes the peaks and bottoms at the same levels.
The pattern is considered completed only after the price breaks through the level of the bottoms (support line).
The price may return to the support line that turns into resistance and pull back from it,, after which a downtrend develops.
The longer the pattern is being formed (a month or more), the higher its reliability.



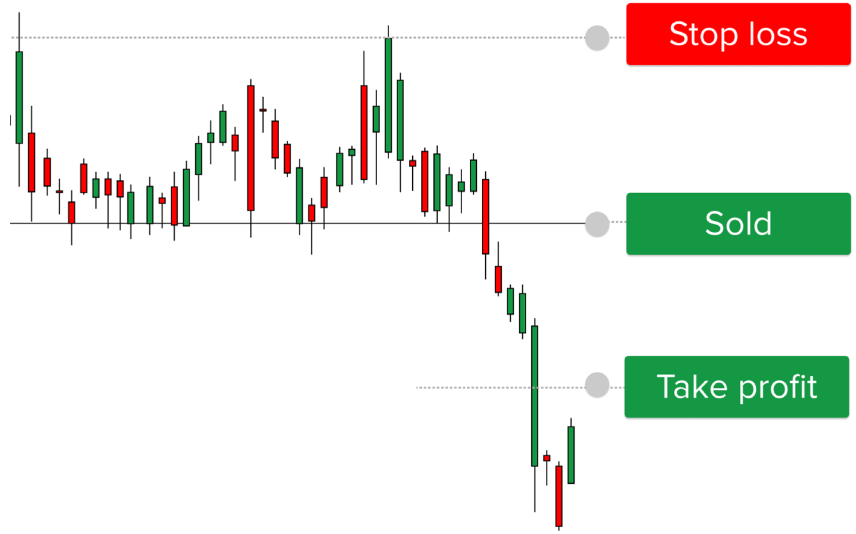
HOW TO APPLY THE TRIPLE TOP ON A TRADING CHART.

The Triple Top sell signals:

- breakout of the level of any bottom;
- breakout of the support line;
- rebound from the support line (new resistance line) from below when the price moves back after the breakout.

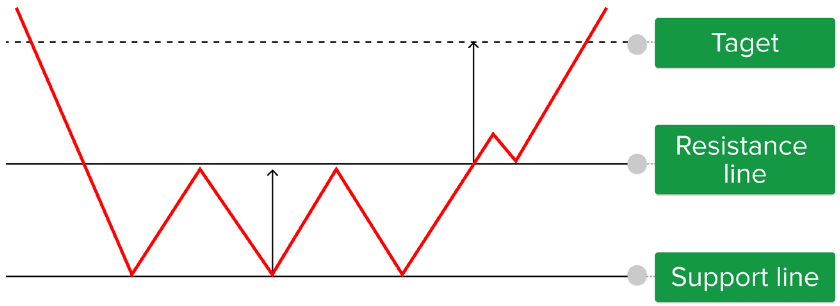
Targets according to the Triple Top pattern movement:

- distance from the resistance line to the line of support, measured downwards from the breakout point of the level of the bottoms;
- if the bottoms are not at the same level - the distance from the resistance line to the support line, measured downwards from the breakout point of the support line.



How the Triple Bottom pattern is formed.

The Triple Bottom pattern is formed after a long-term downtrend and indicates a possible reversal of the trend.
The Triple Top pattern applies if the trend is downward, when the price falls to a new low. After two more attempts to decline, it cannot break the support level and starts to grow, probably with an acceleration and gaps.
In this case, two horizontal parallel lines of support and resistance are drawn through the bottoms and tops, respectively.



The ideal pattern includes the tops and bottoms at the same levels. In fact, there may be slight deviations, resulting in non-horizontal and non-parallel lines of support and resistance. The pattern is considered completed only after the price breaks above the level of the peaks (the resistance line).
The price may come back to the resistance line that turns into support and rebound from it,, after which an uptrend develops.
The longer the pattern is being formed (a month or more), the higher its reliability.
The Triple Bottom buy signals:

- breakout of the level of any peak;
- breakout of the resistance line;
- rebound from the resistance line (new support line) from above when the price moves back after the breakout.

Targets according to the Triple Bottom pattern movement:

- distance from the support line to the resistance line, measured upwards from the breakout point of the top level;
- if the tops are not at the same level - the distance from the support line to the resistance line, measured upwards from the breakout point of the resistance line.

Trend continuation patterns

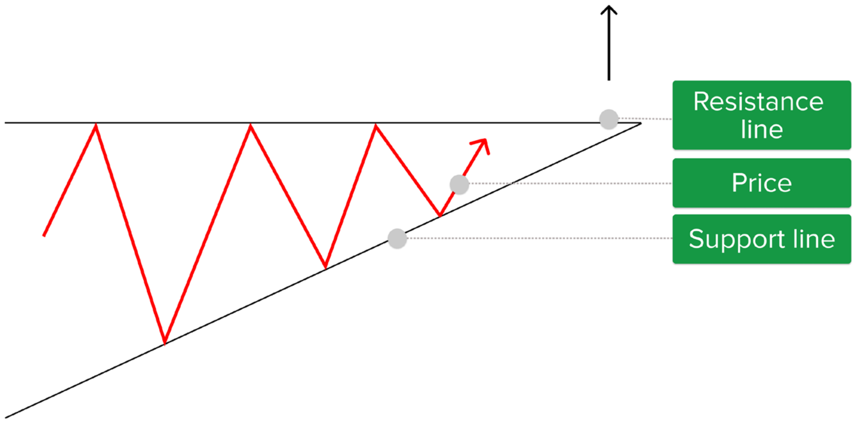
There are trend continuation patterns that can also be applied in technical analysis. These patterns indicate a temporary correction of the underlying trend in the opposite direction. Early recognizing such patterns on a chart can help traders avoid taking poor decisions. Here are the most popular continuation patterns

- Triangles;
- Flag;
- Pennant.

Types of Triangles and their specific characteristics

The Triangle pattern is formed when the market is uncertain about where the price will move further. There are the following types of Triangle:

- Ascending Triangle;
- Descending Triangle;
- Symmetrical Triangle.

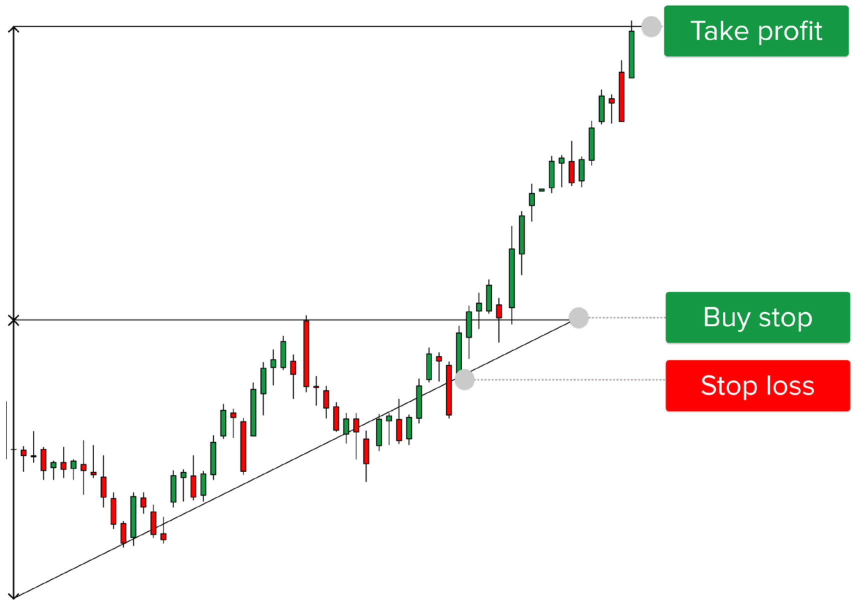


How the Ascending Triangle is formed

The Ascending Triangle is a pattern that is formed when the resistance line is almost horizontal and the trend line connects ascending consecutive lows. This pattern can be interpreted in the following way: bulls push the price upwards (lows are shifted upwards), but bears resist bulls‘ attacks. Clearly, buyers are stronger and they can break the resistance level and push the price above it.

How to apply the Ascending Triangle to a chart.

The key aspect of trading with the Ascending Triangle is to open a deal when the price breaks the resistance level and starts rising.
Also, traders can place a Stop Loss below the ascending line of the pattern.



How the Descending Triangle is formed

The Descending Triangle is a pattern opposite to the Ascending Triangle. It is formed near the horizontal support line and the upper trend line that connects consecutive descending lows.
Formation of this pattern means that sellers are taking control over the market, pushing the price lower.
The scenario is the same as in the previous pattern. Two counter deals are opened: the sell deal is placed below the support line while the buy order is opened above the descending line. The sell order should be placed below the support level while the buy order should be opened above the descending line.

How to apply the Descending Triangle to a chart.

The bottom line of the Descending Triangle is horizontal, and the top one is a downtrend line. If the price breaks the bottom line, this line turns from support into resistance. Where to place the entry spot (depicted in green), the stop loss (red), and the profit level (violet) is shown on the chart below:

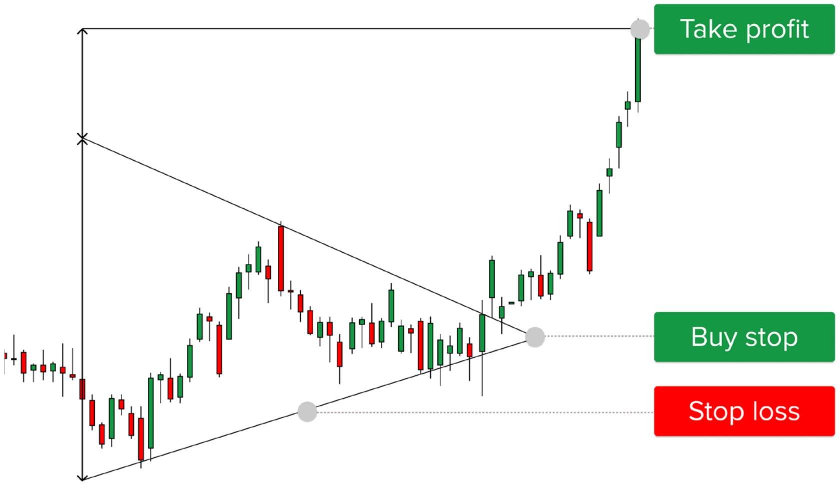
How the Symmetrical Triangle is formed

The Symmetrical Triangle appears at a time when the price reaches lower highs and higher lows. Usually this means that neither buyers nor sellers can take control of the market, which is why the price fluctuates inside the Triangle.
Typically, the price is between trend lines that act as support and resistance levels, that prevent the price from reaching new highs or lows.

How to apply the Symmetrical Triangle to a chart

The key aspect of trading with this pattern is to look for a breakout of any of the Triangle lines and then open deals in the direction of the breakout. Traders should wait for the candlestick to close above or below the trend line before searching for the entry point.

The chart below shows how to set the take profit. In the given example the price broke the upper side of the Triangle.



To sum up, here is what you have learned after reading this course:

1. The technical analysis is essentially the analysis of the previous price movements aimed at predicting the possible future developments on the market.

2. There are three types of trend: upward (bullish), downward (bearish), and sideways (flat).

3. The support level is a line on chart supposed to limit a further fall while the resistance level is a line that presumably caps a further rise.

These levels help traders to plan their tactic. Particularly, there are Break and Rebound methods that are based on the assumption that the price behavior should be closely watched at the resistance and support levels in order to predict further movements.

4. Prices often move in a channel which is a limited trading range with the borders outlined by the resistance and support levels.

5. Forex traders widely employ a theory of a famous Italian mathematician nicknamed Fibonacci who discovered a sequence of numbers aka the Golden Ratio. In Forex, this ratio is used to predict further price movements.

6. Another way to forecast price movements is to spot certain formations also knowns as patterns on charts. Some patterns such as Head and Shoulders, Triple Top, and Triple Bottom signal a trend reversal while others such as Triangles, Flag, or Pennant. indicate a reversal of a trend. This method is called graphical analysis.

Risk Warning: CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 73,78% of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford the risk of losing your invested funds.

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