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

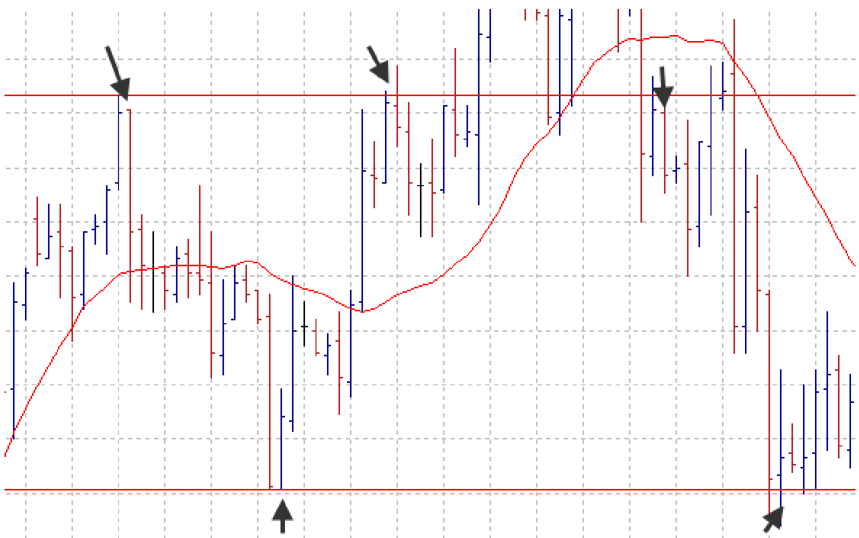
To trade the Swing system there are a couple of things you need to be able to do well. First you need to be able to identify support/resistance levels, and you also need a good understanding of what I call straight bars. Because these two areas are so important for this trading system, we will cover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

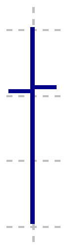
This system makes heavy usage of support and resistance levels so if you are unfamiliar with the concept you should spend some time with some charts. Plot out support and resistance levels to get used to finding them quickly.

Straight Bars

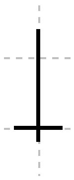
The next thing you need to be able clearly identify is what I like to call a straight bar. You may also hear these referred to as pin bars. The basic idea here is a single bar where the open and close prices are close to the same point.

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:

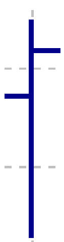


Bullish Straight Bar



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.

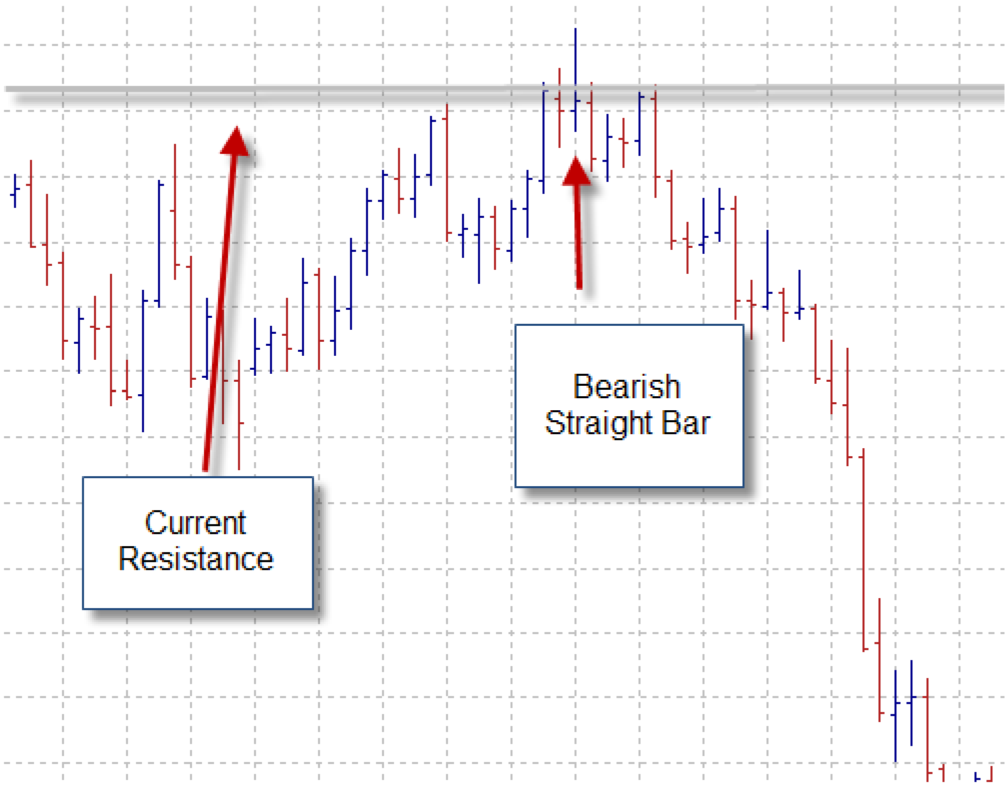
You want to look at the charts right after the trading day has closed. For most this will be midnight GMT. Some brokers do use midnight EST.

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:

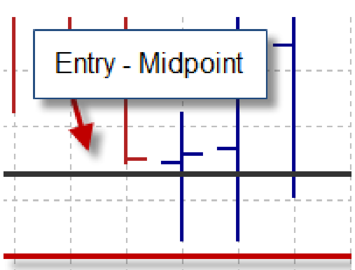
1. On the chart the previous day's close resulted in a bullish straight bar.
2. The currency has just hit a support level.
3. The currency has been moving down for at least 3 days prior.

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).



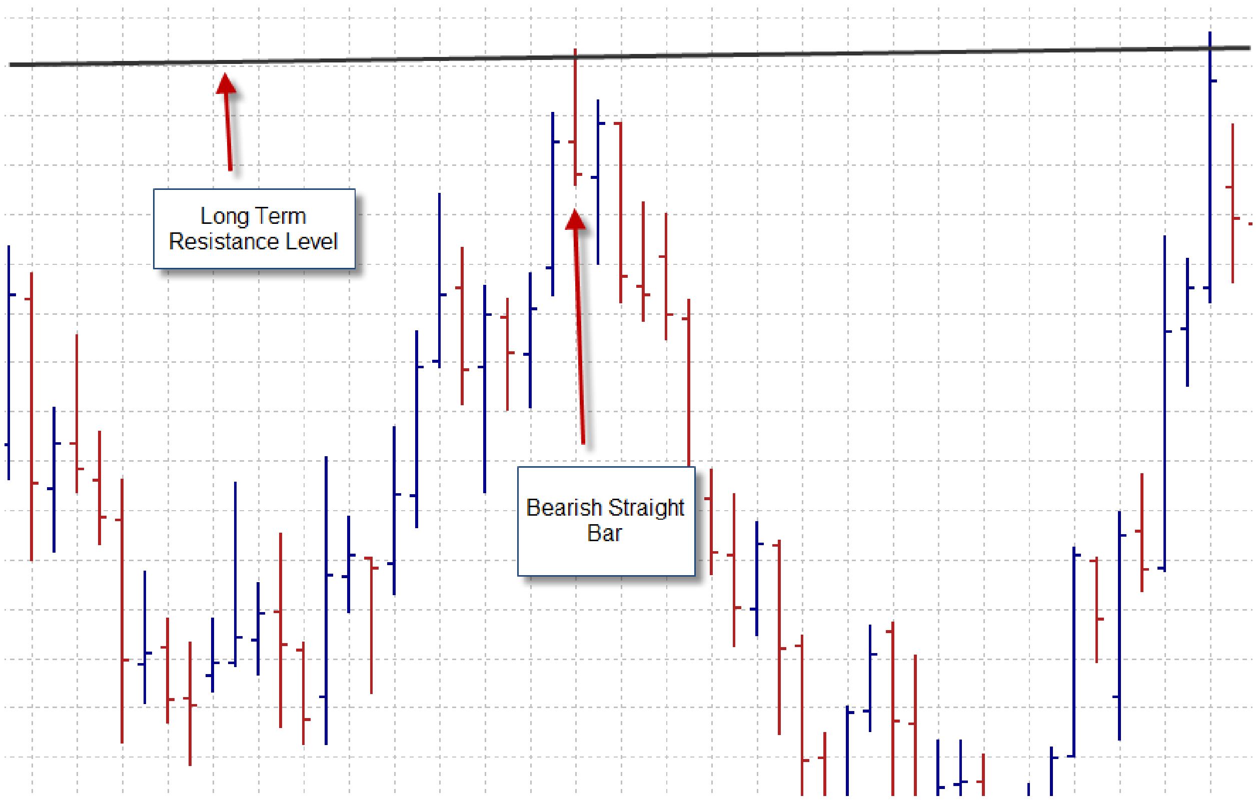
With the example shown above, the next day the price retraces a little, our entry point is hit, and then made its way up. This would have been a successful trade.

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.

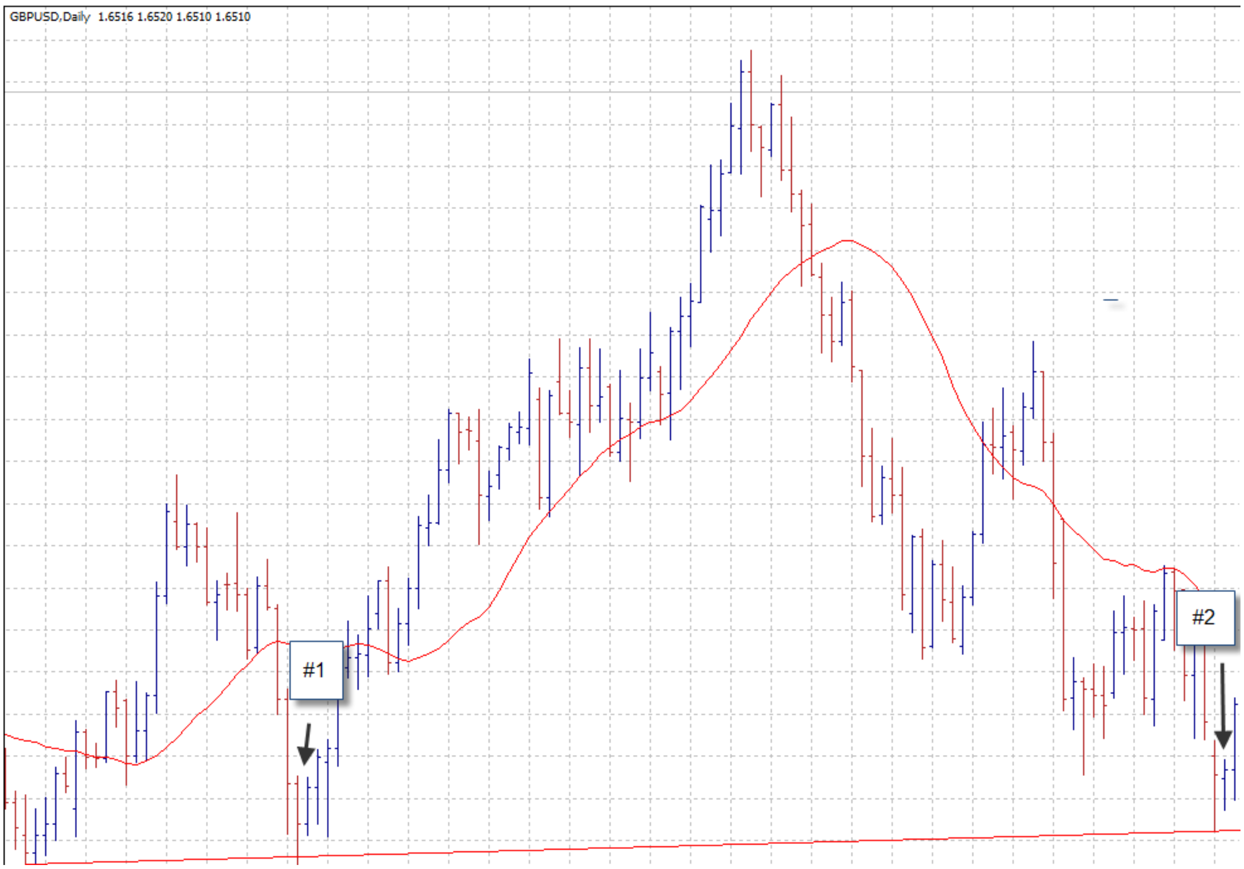
Using this exit method you will sometimes be able to squeeze 500 pips out of the market in just a few days time. Other times you will stop out the same day with a small profit, but it all works out to move your account forward.

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:

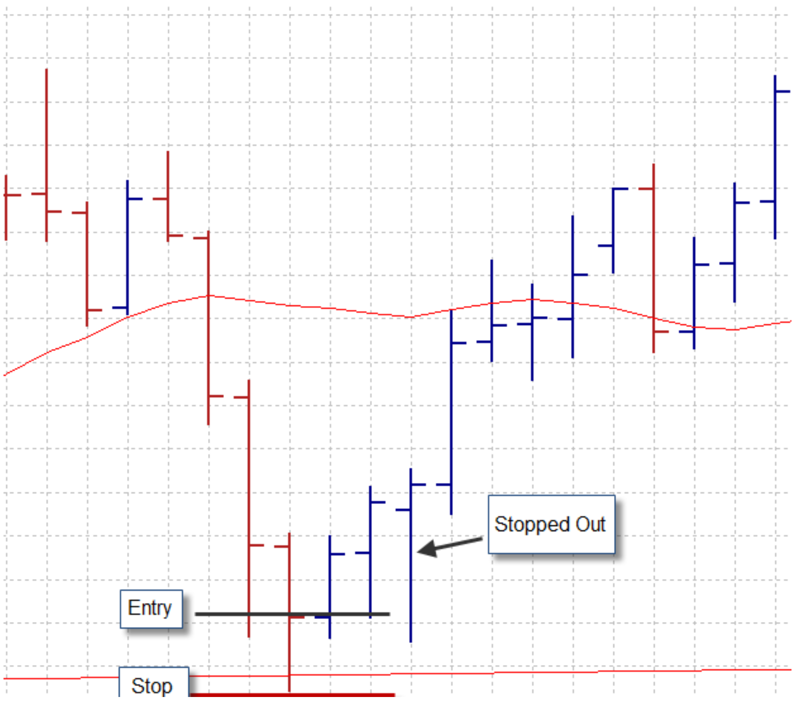
- The day finished with a bullish straight bar.
- The currency has just hit a long terms support level.
- The currency had trended down for about a week.

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:

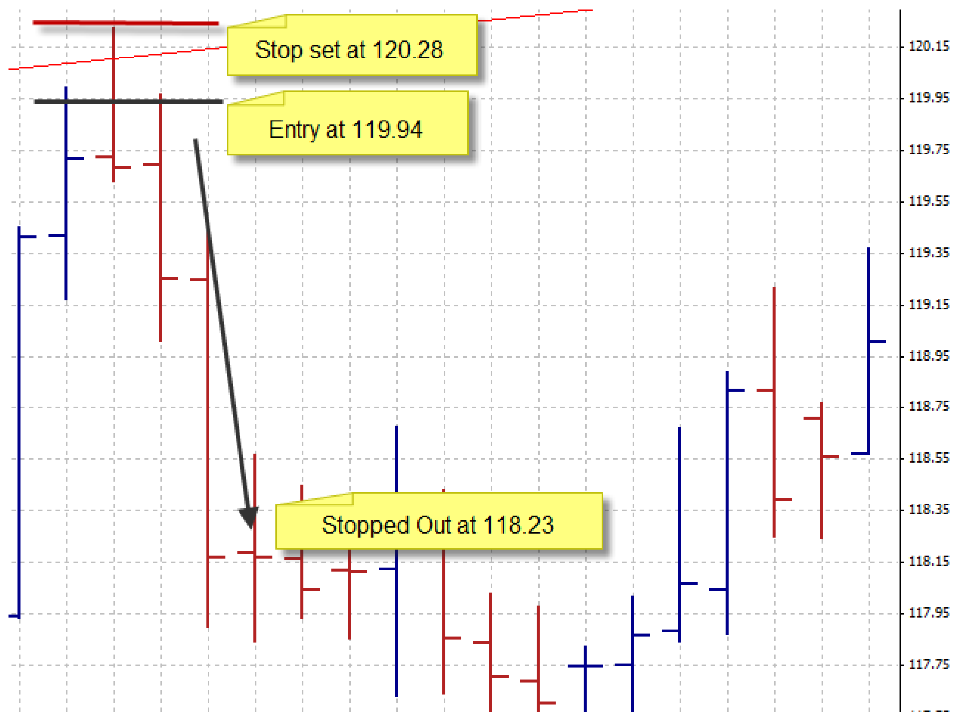
1. The day closed with a bearish straight bar.

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.

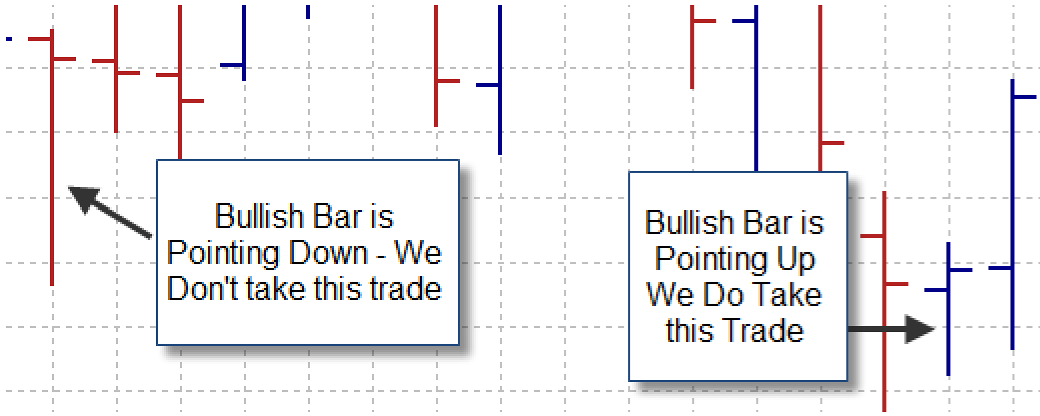
A Couple of notes on this Trading System

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.