FOLLOW PRICE ACTION TRENDS

FOREX TRADING SYSTEM

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Follow Price Action Trends

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Introduction

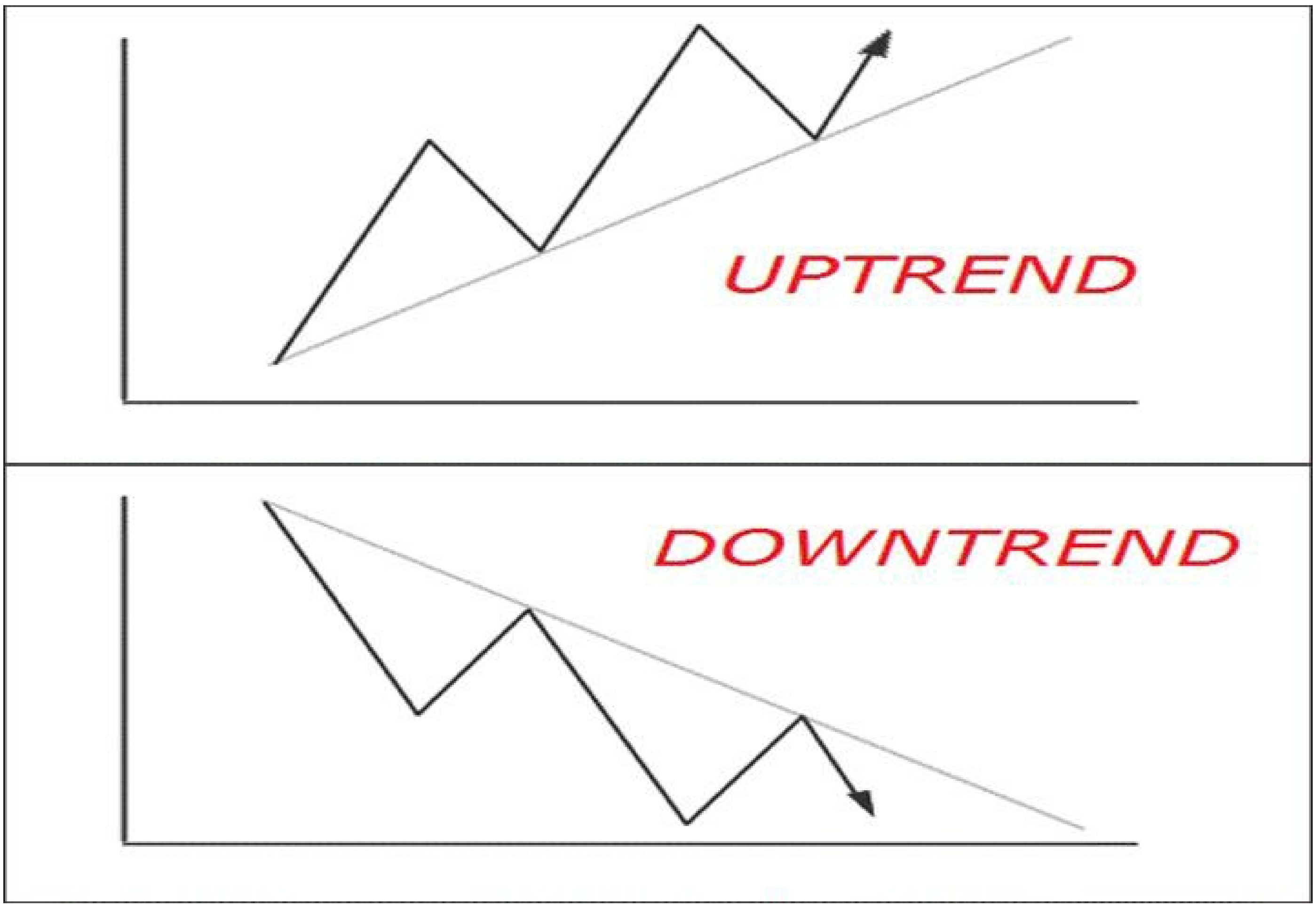
This is a forex system based solely on reading the price action. It is a trend following system that focuses on points in the market where the trend is about to change its direction, enters the market trying to ride the newly formed trend all the way to its finish line. By doing this in the correct way, this system has the potential to deliver thousands of pips in the long run because shortly after a trend ends, usually another one emerges preceded by a small period of consolidation. It sounds simple, but the key component of this price action system is to correctly identify the current trend, know when a change in direction of the trend is about to take place and then manage the new developing trend in a way that allows you to ride it until it ends. All of this is done by carefully reading the price action without the use of any technical indicators, magical formulas and other nonsense like that.

This is not a very easy thing to do as you must pay great attention to every single detail of the price action, but once you get the hang of it trading this way will make you very profitable in the long run. This book explains with very great detail all of the above and gives you the complete trading system with clear entry, stop loss and exit rules, rules that if respected to the letter, can bring you hundreds of pips for every trade you make.

Let us move on now to the core part of this forex system which is the trend.

Trend

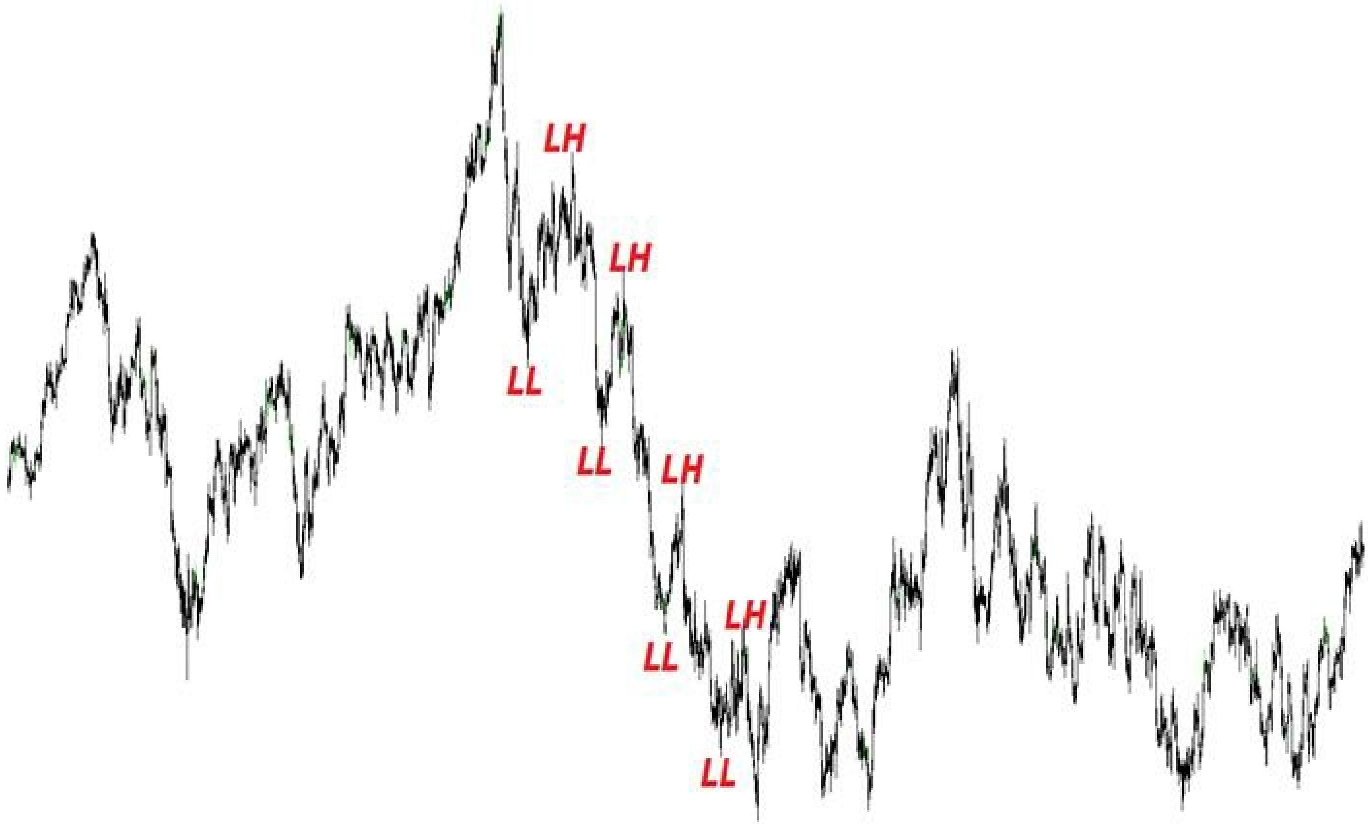
You've probably heard a million times by now the saying "the trend is your friend". Well, you've heard it because it is true, if you want to be profitable in trading you must always know what the trend is because the trend signifies strong conviction from the vast majority of market participants that the fair price, fair value of a specific currency pair should be above or below the current level at that time so they all join forces and push the price up or down creating a trend this way. But let us see what a trend actually is from a technical point of view. A trend is a series of impulsive strong moves in one direction, each of them followed by small corrections or retracements. Let's visualize a textbook trend:



We have in the above pictures an ideal uptrend and a downtrend. As you can see they consist of strong directional moves followed by smaller moves in the opposite direction which are in fact formed by traders taking some profit from their positions. This alternation of impulsive moves with correctional ones gives birth to what are known as the highs and lows of a trend.

For an uptrend the high is formed when the correctional move starts and the low is where the same move ends and price resumes the trend. For a downtrend things work

the other way around meaning that a low is formed at the beginning of a correction and a high takes form at the end of the same correction and price resumes the downtrend.
In the examples above you can see that these highs and lows can easily be connected with a trend line. So, to conclude this, we have an uptrend when the price starts to make higher highs (HH) and higher lows (HL) and we have a downtrend when price is making lower highs (LH) and lower lows (LL) just like in the pictures above.
Unfortunately, trends so simple and clear like those above are very rare in real market conditions. Let’s see some real trends:



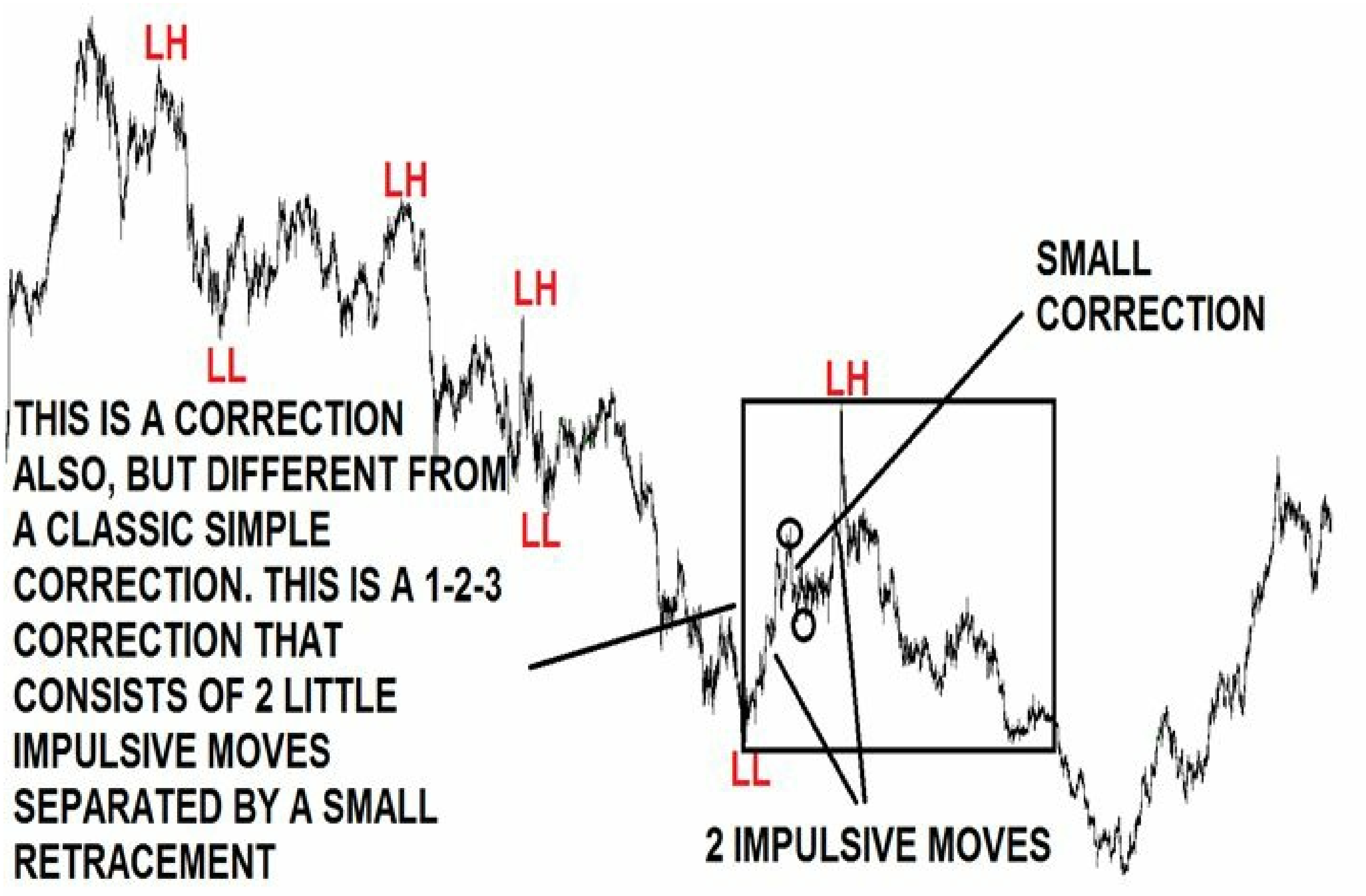
We have above one uptrend and one downtrend. This is just about the closest that real market trends can get to resemble those ideal textbook trends. It doesn't get any easier than this in real market conditions. However, trends like these two above are rare especially in the forex market which is known to be a very volatile market. Even in these clear trends you can see that there are some variations, there are some smaller trends contained in the bigger trend. Let's see now how a more common trend for the forex market can look like:

This is a downtrend but you can tell it is more complicated than the previous ones just by looking at it. There are some important rules I designed to help you correctly identify and mark the components of a trend. Here is the first one.

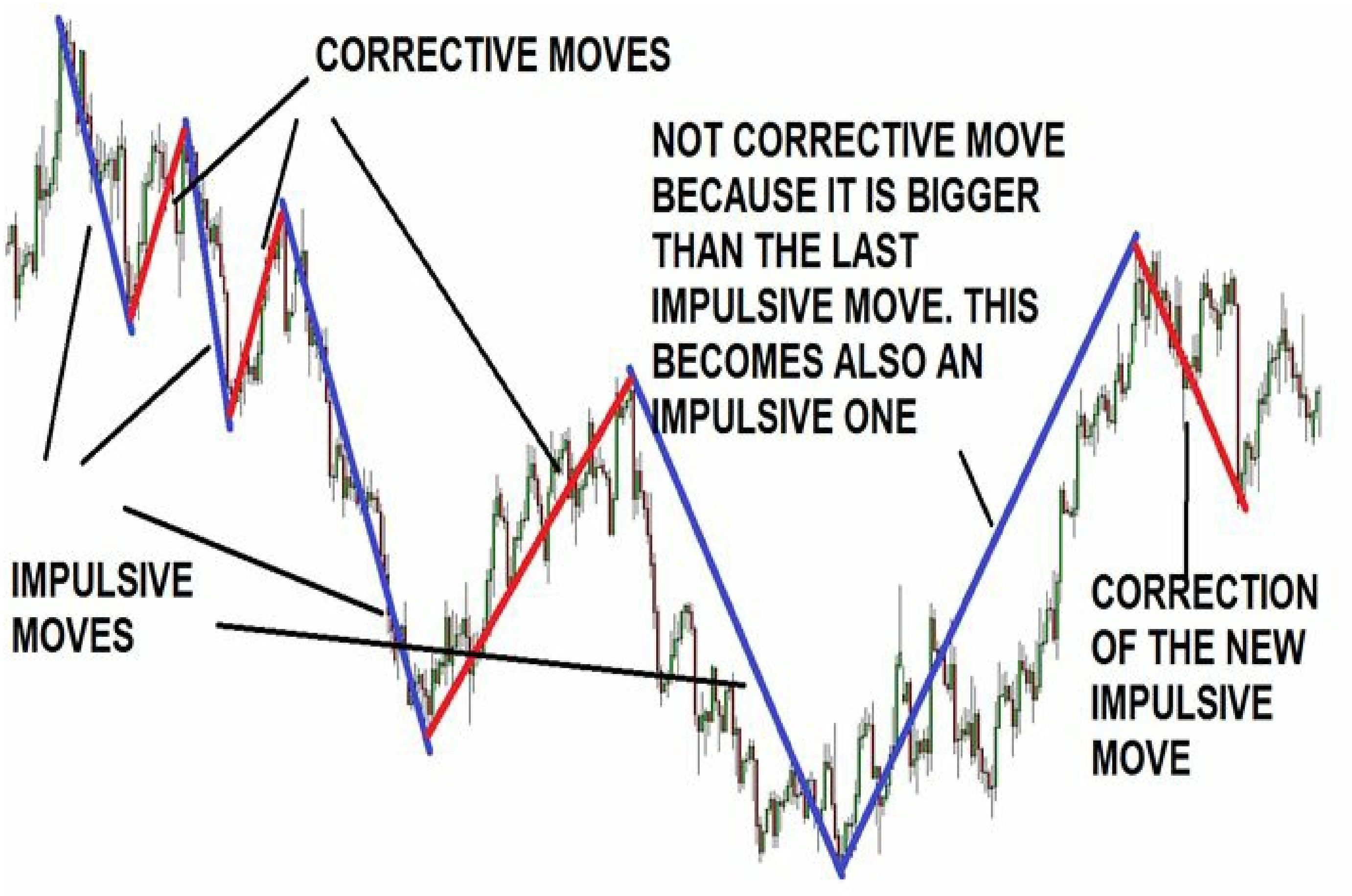
Corrections

Corrections or retracements can also exist in the form of a trading range that has an upper and a lower boundary where price stalls for a period of time and takes a breath before resuming the trend.

As you learned before, a correction move happens when traders start to take some profit out from the market and, as a consequence of that, price goes for a short period of time in the opposite direction only to resume the trend later on. In this particular example we have a downtrend and the people that are short are starting to take profits. When these sellers start to do this, the people that are convinced that this pair will go upwards from here decide that this is a good level for them to buy this pair. So, in general, a correction move begins because some traders decide to mark some profits and at the same time other traders enter the market in the opposite direction. In the case above, there weren't many people buying this pair at the level where the correction started to unfold and so price did not make a classic correction. When a correction looks like a consolidation range it means that the current trend in very strong and it is very likely that it will continue further.



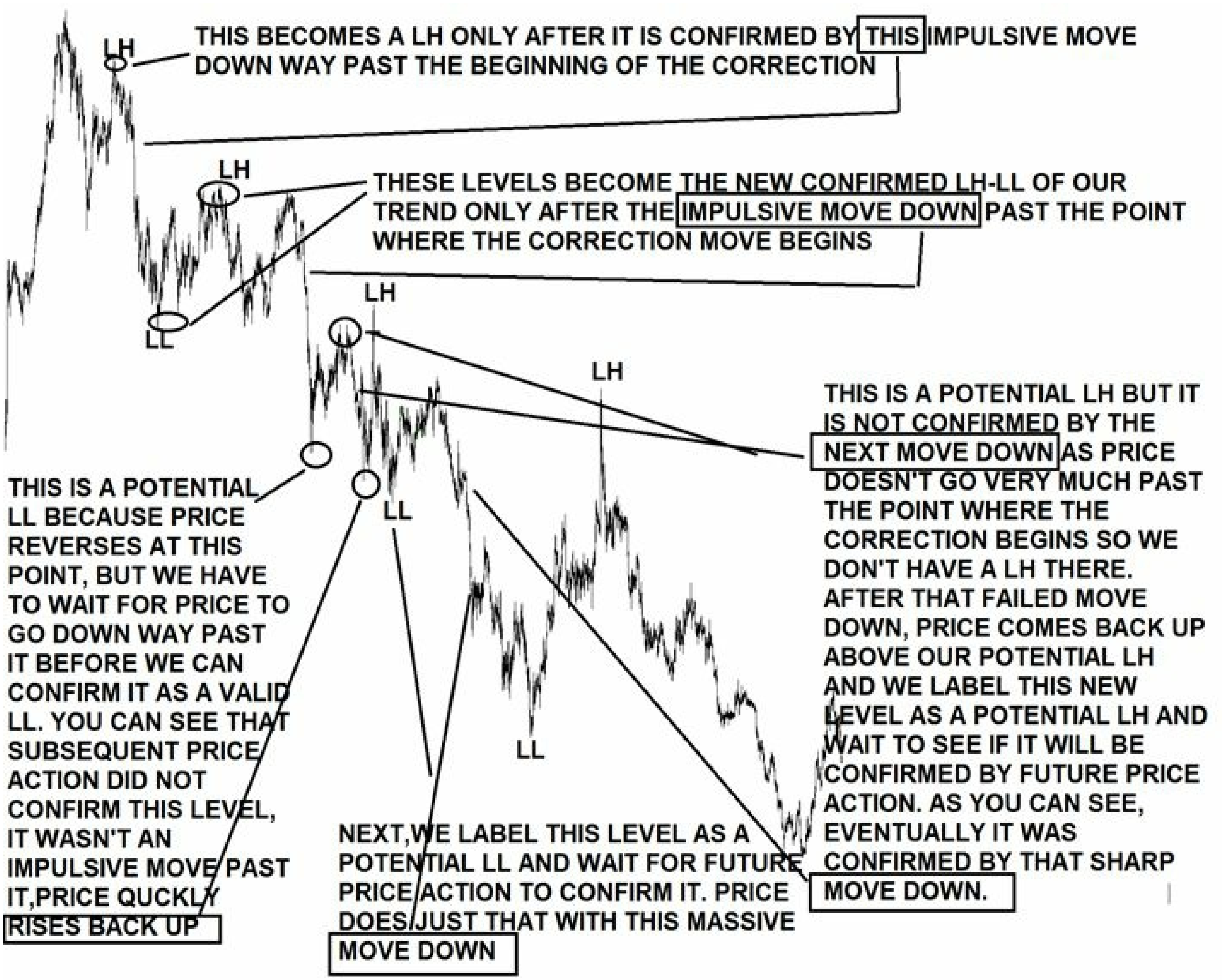
In the above example you can see that in the same trend further down we have a different form of correction that basically has its own highs and lows. It has a first impulsive move opposite to the trend direction and at that point you could very well say that this is a classic correction but, as you can see it makes a small correction and then another impulsive move upwards. Because this correction has its own highs and lows you could make the mistake to consider it as a trend change. However, it stays very well confined into the territory of the last impulsive move down of our trend. It stays well below the last lower high of our trend so it is still a correction even if it develops a higher high. But you will learn more about this we get to the change of trend section. Corrections can take a lot of forms, these are just the most common ones, the important thing to remember is that for a correction move to be valid it must not be bigger than its impulsive move, it must not surpass the beginning of the impulsive move. Let's see some examples:



You can see on this chart that the correction move has to always be smaller than the last impulsive move. At the bottom of the chart you see an impulsive move but it is followed by a larger move in the opposite direction so that cannot be considered a correction. This is how a trend usually changes direction but we will learn more about this later on. Okay, I think it is pretty clear what a correction is by now it is not hard at all to see it. Now let us go to the second important rule of a trend and that has to do with correctly identifying highs and lows.

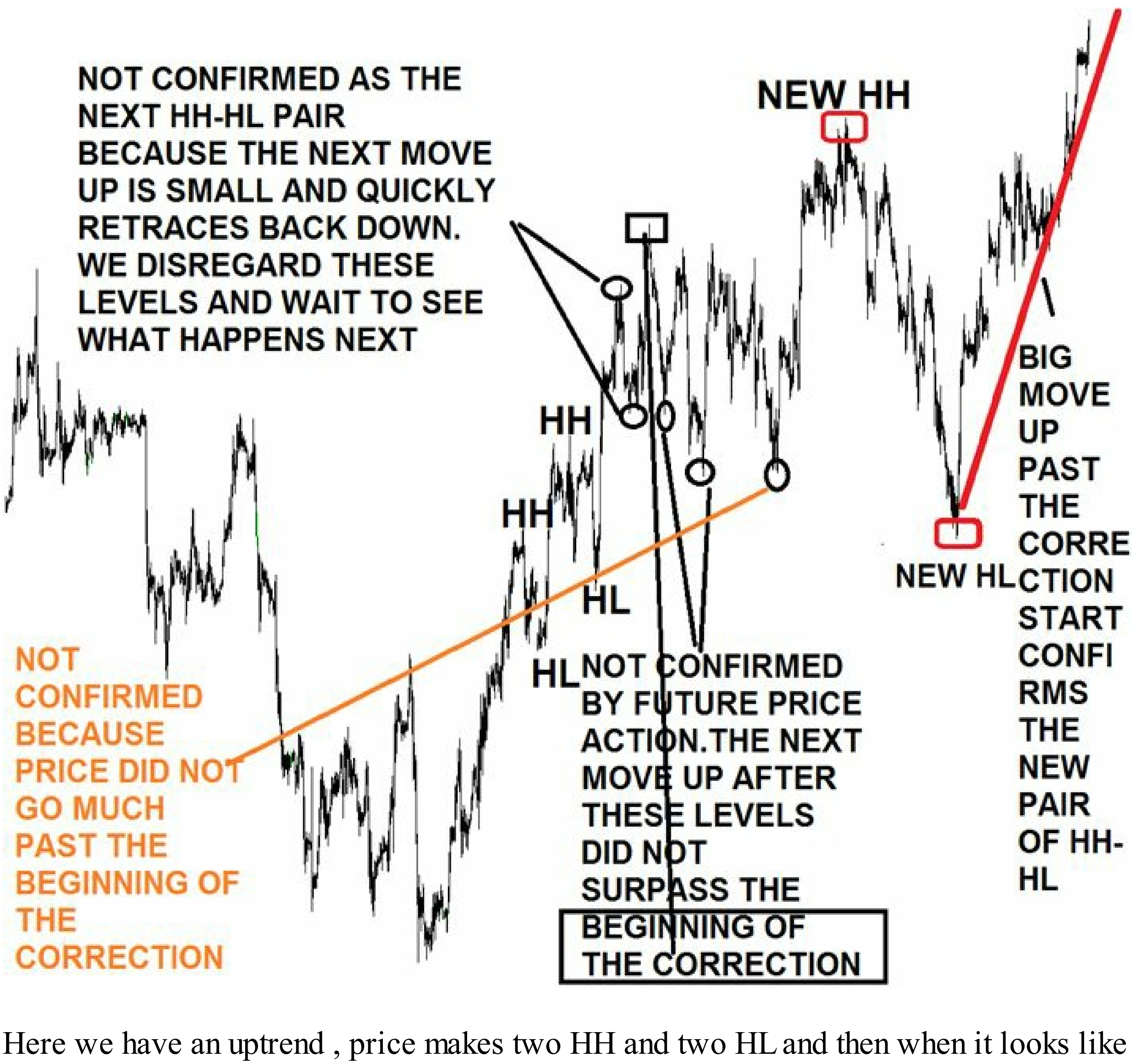
Confirmation

The rule is that any high or low must be confirmed by the subsequent price action. We know from the above pages that highs and lows are formed at the beginning and finish of a correction move but, for those highs and lows to be valid price has to make another strong impulsive move in the direction of the trend. By strong impulsive move I mean price has to go well beyond the beginning of the correctional move that made these potential highs and lows. Only after this strong impulsive move happens we can label those potential highs and lows as new valid, confirmed highs and lows in our trend. If this impulsive move does not happen or it is not strong then our potential highs and lows are not confirmed, they are not valid. Valid highs and lows remain the previous ones that have been confirmed by subsequent price action. Let's see a chart so you can better understand this:



You can see in this chart above that what we have to do to correctly identify the highs

and lows of our trend. As the trend unfolds in real time we mark every level where there has been a change in direction as a potential highs or low and then we wait for the next impulsive move down, in this case, to tell us if our potential high/low has been confirmed and it is valid. If the next move down doesn't go well past the start of the correction then we disregard these levels that we marked as potential high/low and we wait for price action to make its next move and show us where the new and confirmed high and low will be.
Let us see another example:



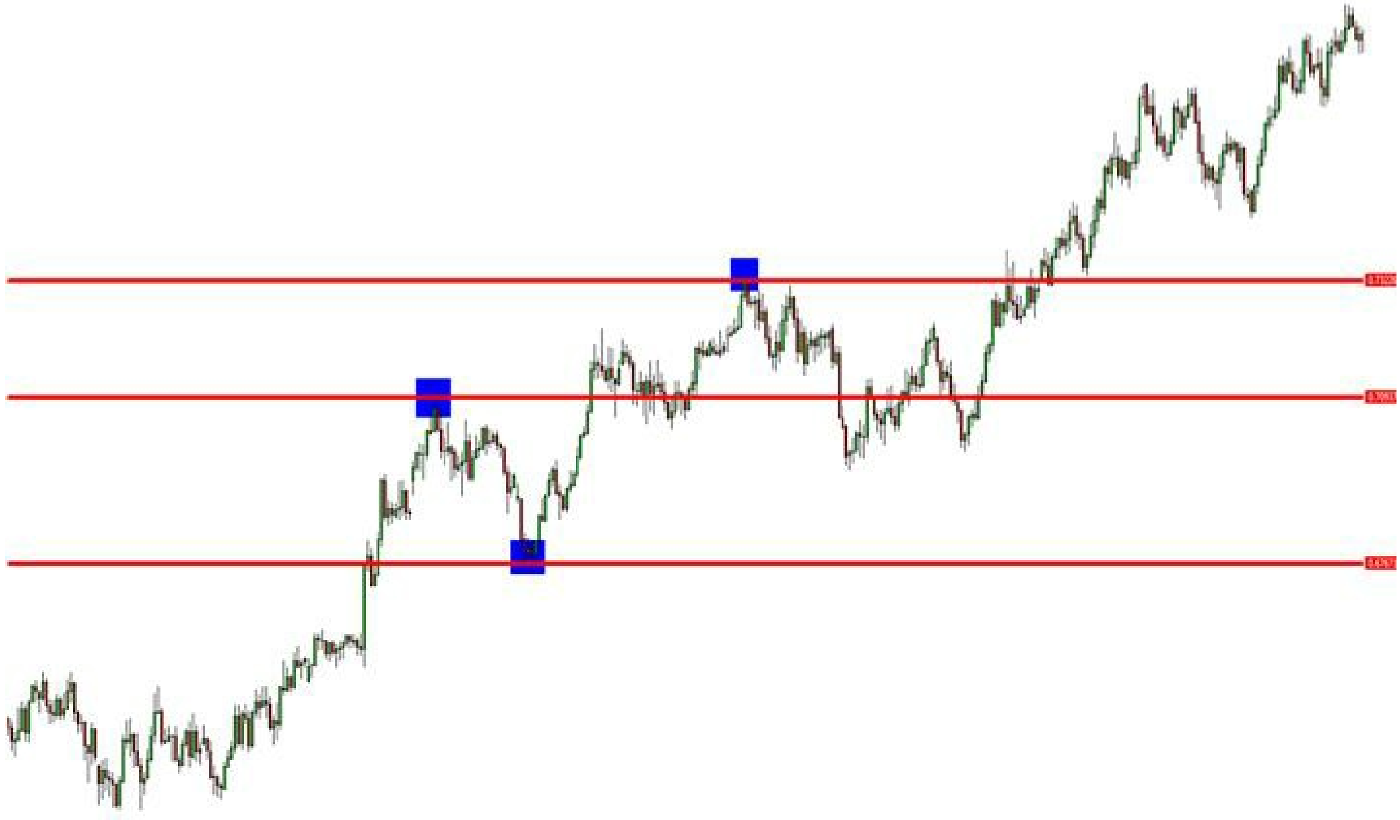
Here we have an uptrend , price makes two HH and two HL and then when it looks like it is preparing to make the third pair of HH-HL the pair starts a series of quick up and down moves almost equal in length. None of these can be considered as a new HH-HL because price doesn't go up at all, it just stays there and consolidates and so we do not have a new pair of HH-HL here. After this you can see that price does go up with a pretty strong move past the point where correction began but doesn't go far and retraces back down. We still don't have a confirmed pair of new HH-HL. In the end, finally price goes very strongly upwards with a massive impulsive move, thus confirming our trend's new HL and HH. Things like this are pretty tricky to manage in real time but with the help of this book and with practice it will become easy in time. Let's see some other examples:

In the chart above we have the same situation as in the previous chart. Okay, now let's see a more complicated one:

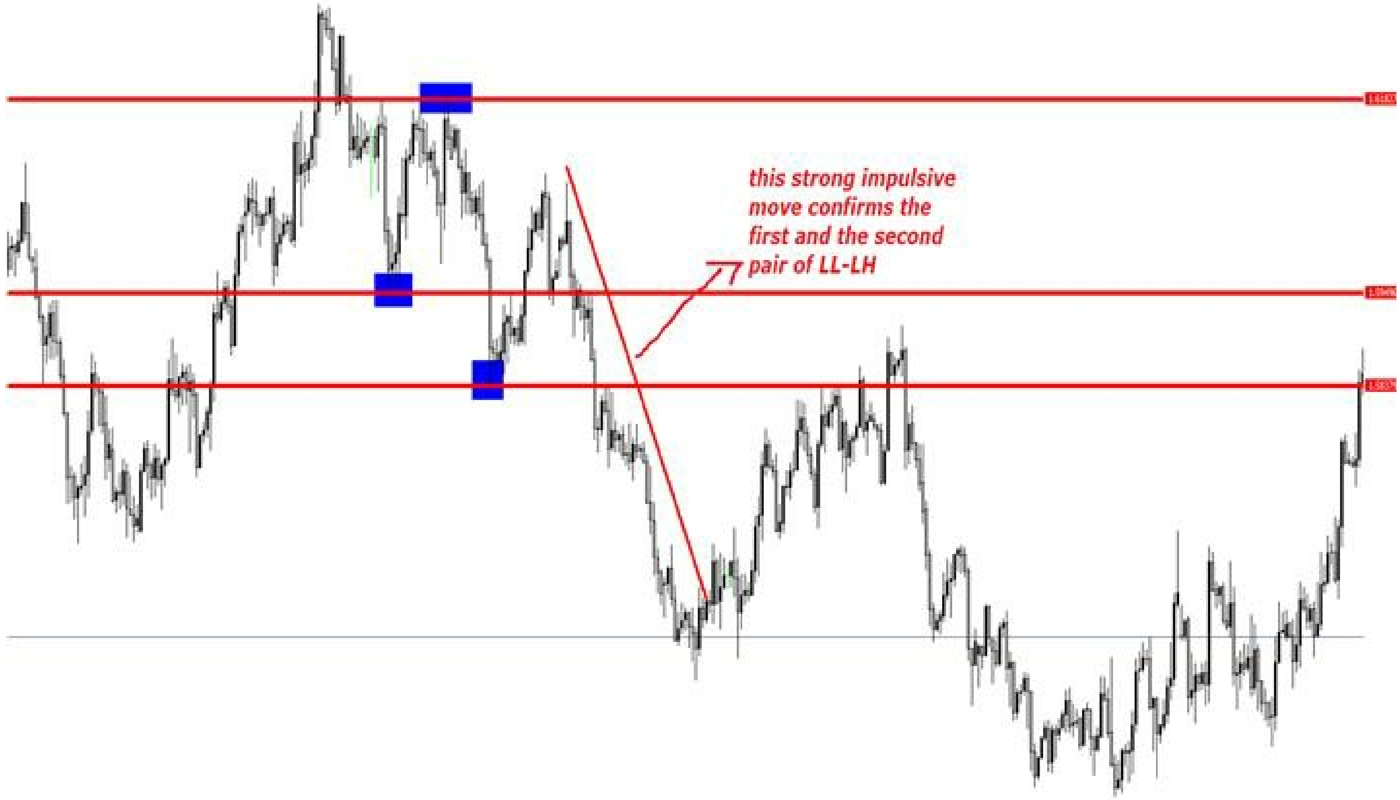
In the downtrend above you can see that we have a strange trend that has the first and the last two pairs of LH-LL very close to each other. You saw in the earlier examples that we disregard our potential highs and lows if the next impulsive move does not go past the starting point of the correction move or it goes past just slightly. In situations like in the chart above where things are somewhere in a gray area, meaning that the impulsive move goes past a little bit more than slightly but still not enough to confirm the pair of LH-LL, we do not disregard this pair of LH-LL, we take note of it and after the price makes another pair of potential LH-LL and it is finally confirmed by a strong impulsive move, we label the first pair as well as LH-LL. So we have two pairs of LH-LL close to each other in situations like these two in the chart above. Let me explain better so you can understand when to disregard a pair and when not to. From my experience I have come to the conclusion that the impulsive move that comes after a correction to continue the trend has to have the length, size of approximately two times that of the correction move for me to consider it as a strong impulsive move that confirms and validates any potential high or low. Remember: strong impulsive move is a move with the length of approximately 2 times that of the correction or more. Moderate impulsive moves are those two in the last example where we had to lable 2 pairs of LH-LL close to each other. Let’s go to that chart again and see what was the size of these moves with respect to their preceding corrections:

This is the the same chart with the same trend but it is zoomed in so you can better see what is going on with those first 2 pairs of LH-LL we talked about. You can see the correction move has a span of approximately 260 pips and moderate move down as I call it is 380 pips in length. This means it surpasses the start of the correction by almost have of the correction move length. If the amplitude of the move down would have been 500 pips or so then this would've been a strong correction move and we would have labeled the first pair of LH-LL right after the move, we wouldn't have to wait for that huge move down after the second pair. Let's see on the same trend the last two pairs of LH-LL which have identical dynamics as these first two:

Here the impulsive move is not that big compared to the correction move like in the previous example but it is still 30% bigger in length so this is also a moderate impulsive move.



Here is another moderate impulsive move.



And another one:

And yet another. You can see here that the sebsequent strong move down never came so our potential pair of LL-LH was never confirmed.

This is a strong impulsive move down, it is almost two times bigger than the correction in length.

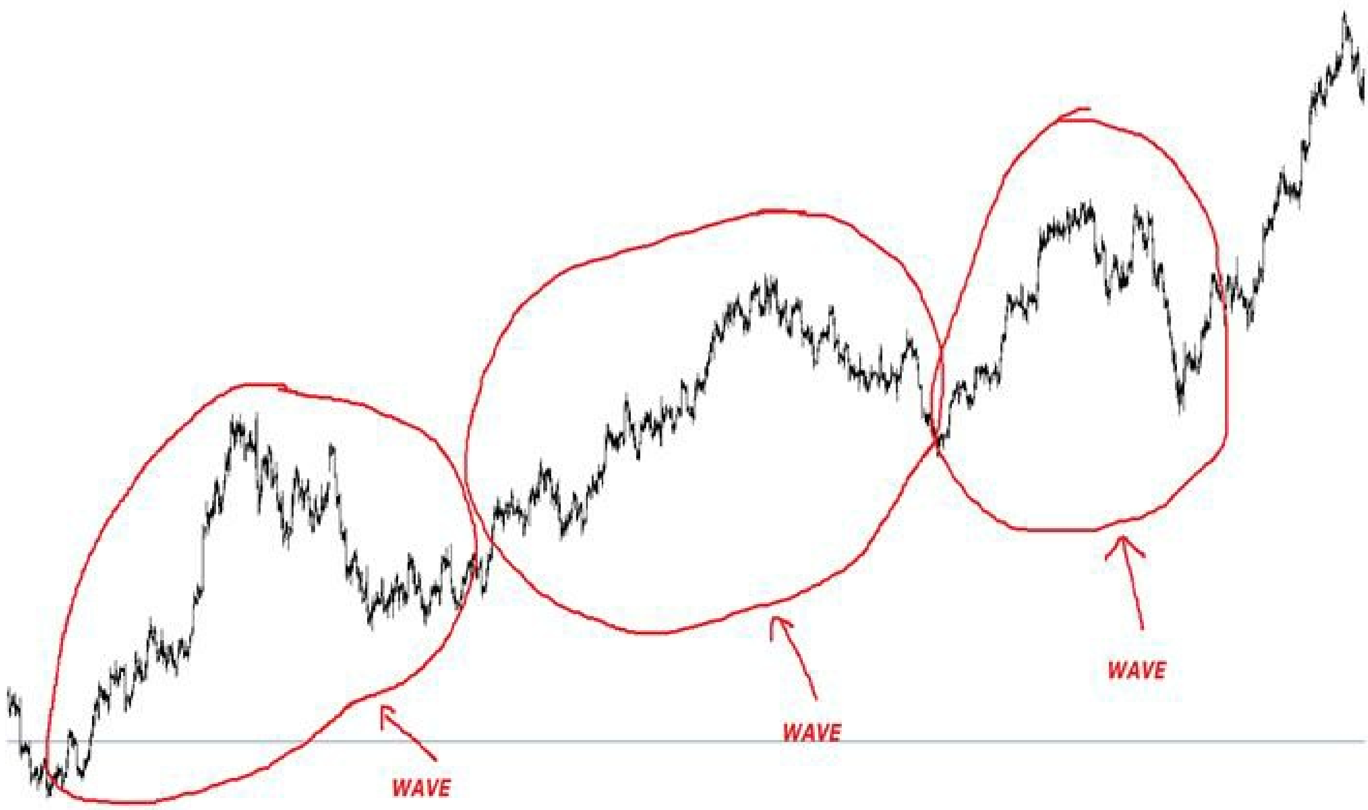
This is a very small impulsive move that passes the start of the correction by only a few pips. We definitely do not have a pair of LH-LL here.

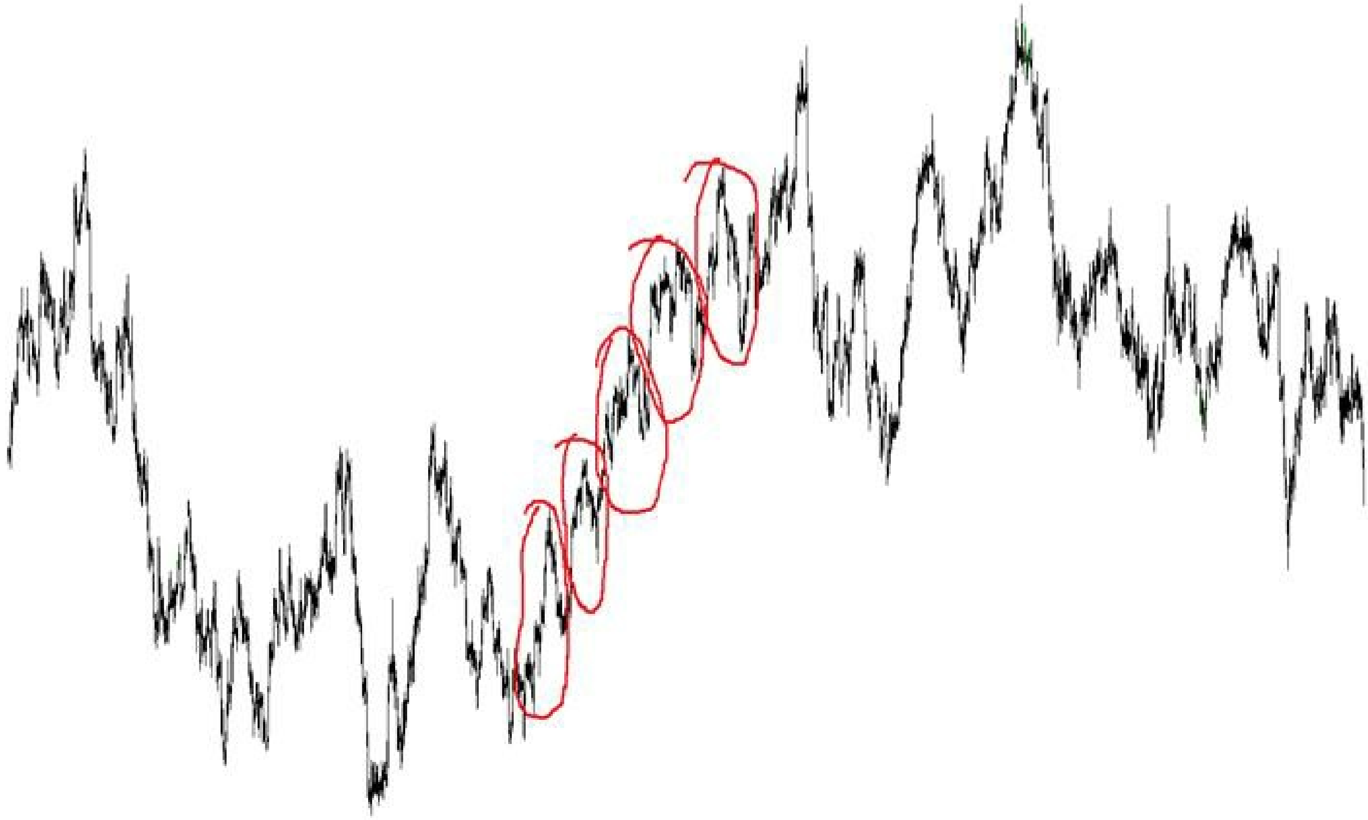
We don’t have a pair here either. We disconsider those potential LH and LL. You can see this was a very goog thing to do as price later rose back up and passed our potential LH by a few pips. We will see later when we get to the stop loss placement why this is important. The exact same thing happened in the previous example.

This example is one of the best as you can see a series of potential pairs of HL-HH that were never confirmed and had to be disregarded as the move upwards right after each one of them was not strong at all and not even moderate. Okay, I think you have a clear idea now on how to correctly label the highs and lows of a trend. After reading all this, you should pull up a chart and start to practice on past price action. Let us go now to the third important rule of a trend which is the degree. This is perhaps the most important part when trying to correctly identify the highs and lows of a trend.

The Degree

You’ve learned by now that a trend is composed of impulsive moves and their corresponding corrective moves. Let’s put together the impulsive move with its corresponding correction move and call it a wave, like in the charts below:





When trying to identify the correct highs and lows of the trend that are basically formed by these waves you have to make sure first that the waves you want to mark as a pair of high-low are of approximately the same degree, measure, extent, amplitude, size like these in the above charts. Look at the following chart:

We have two big waves followed by a very small wave compared to the first two. This is not of the same degree or size as the first two. Do not consider this pair the new HH and HL. You wait for a wave of about the same amplitude to label as new HH and HL. If it does not come like it happened with the trend in this chart, the last pair of HH-HL remains that of the last big wave.

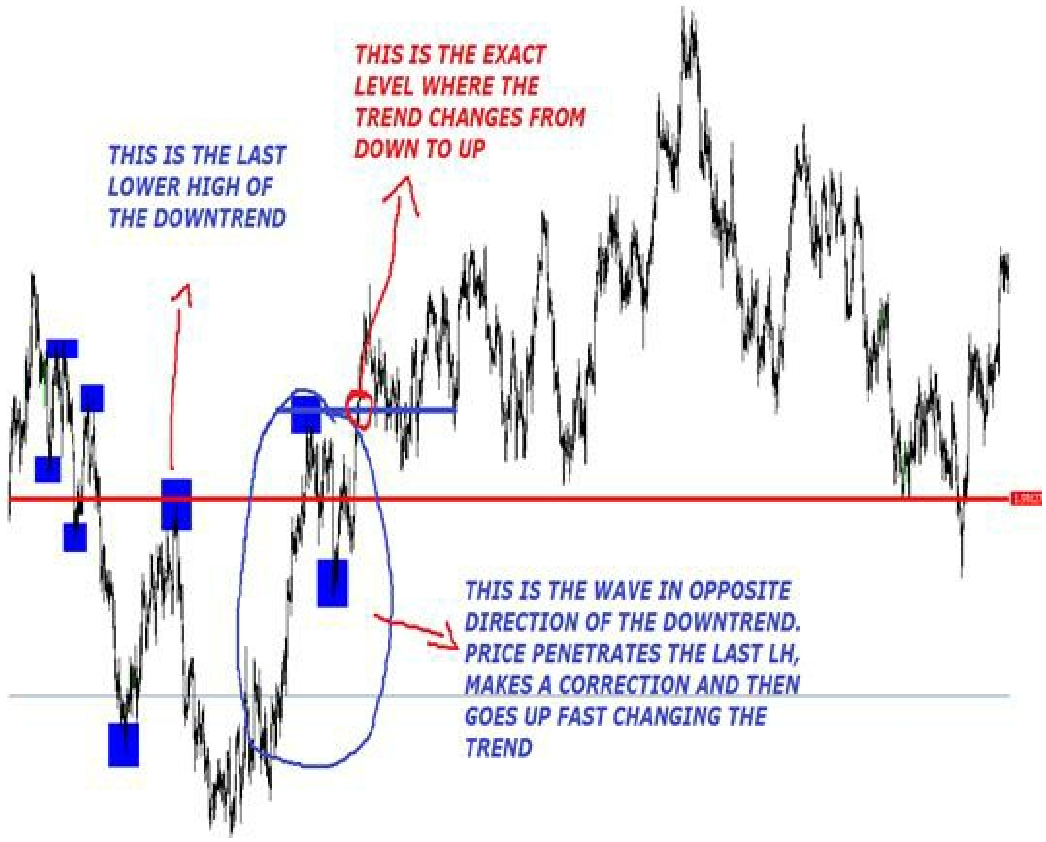
Another example like the one above:

And another one:

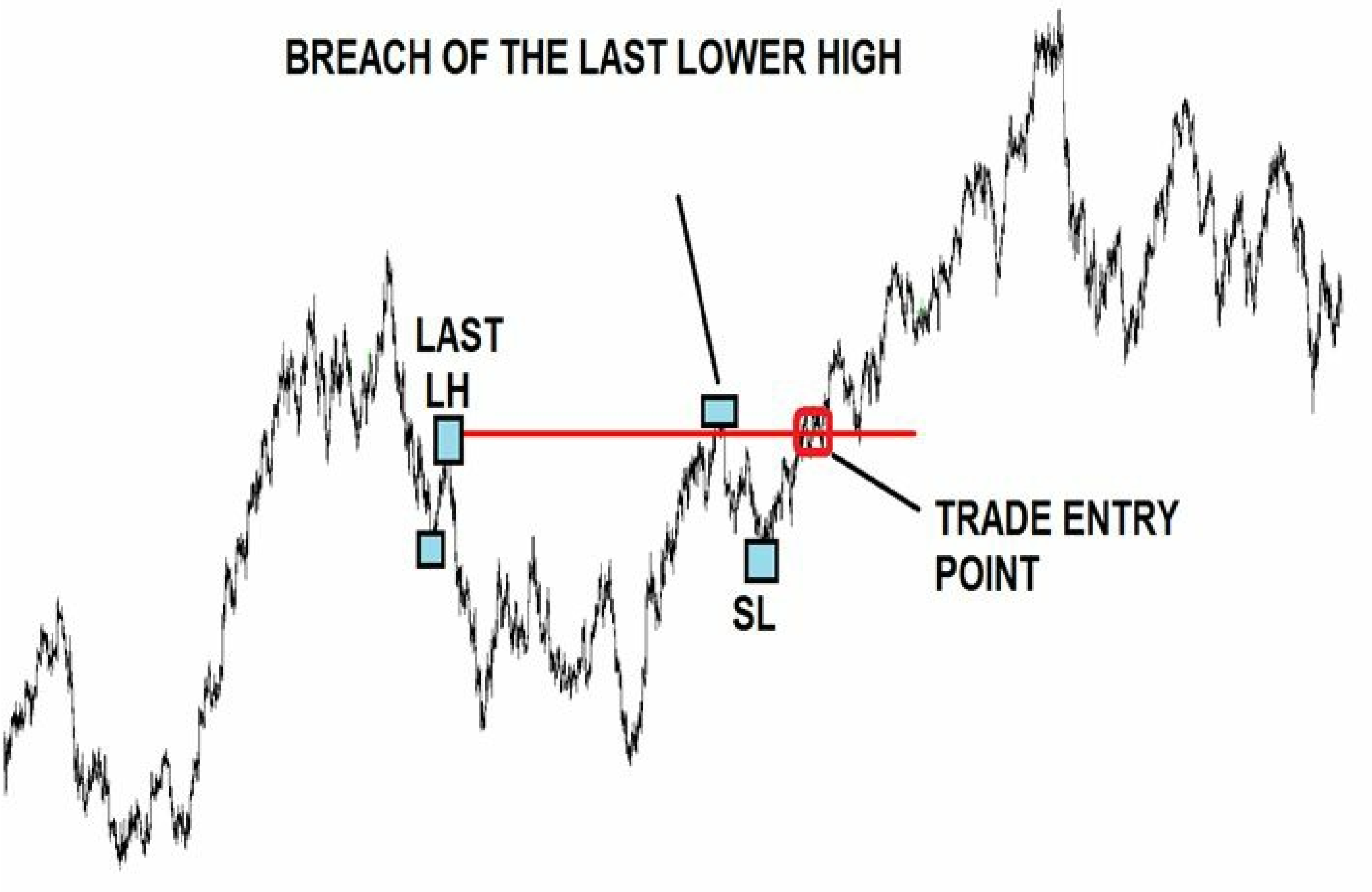
Yet another one. As you can see in these examples this is not exact science, but with practice you will easily know what to label and what not. Okay know you have a very good idea of how to identify the trend, how to identify its corrections and impulsive moves, how to correctly label the highs and lows taking into account the subsequent price action movement and the degree of the waves that form the trend.

Trend change

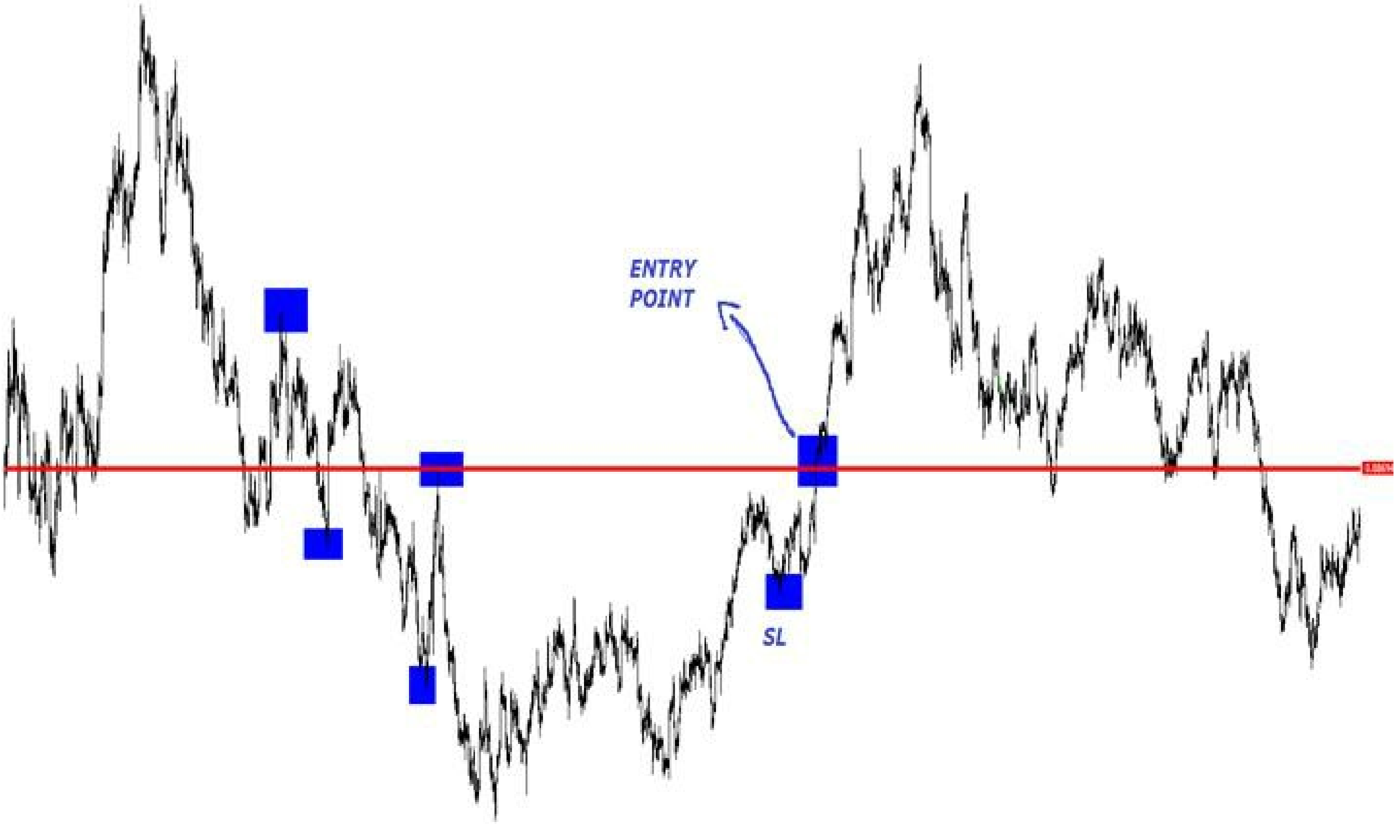
In short, a trend changes direction when price action makes a wave in the opposite direction of the trend near the zone of the last lower high of a downtrend or the last higher low of an uptrend. The trend is considered to have reversed its direction when, after the wave in opposite direction, price action penetrates that last lower high in a downtrend or the last higher low in an uptrend. Let us see an example:



We have a downtrend here. The red horizontal line is where the last lower high of the downtrend is placed. Price makes an impulsive move upwards that penetrates the last LH and then a small correction. The impulsive and corrective move put together are the wave near the last lower high I talked about just earlier. When this small correction finishes and price comes back up passing the start of the correction is when the trend changes from downtrend to uptrend. This is the exact place where we will enter our trades. Let's see more examples of trend changes:



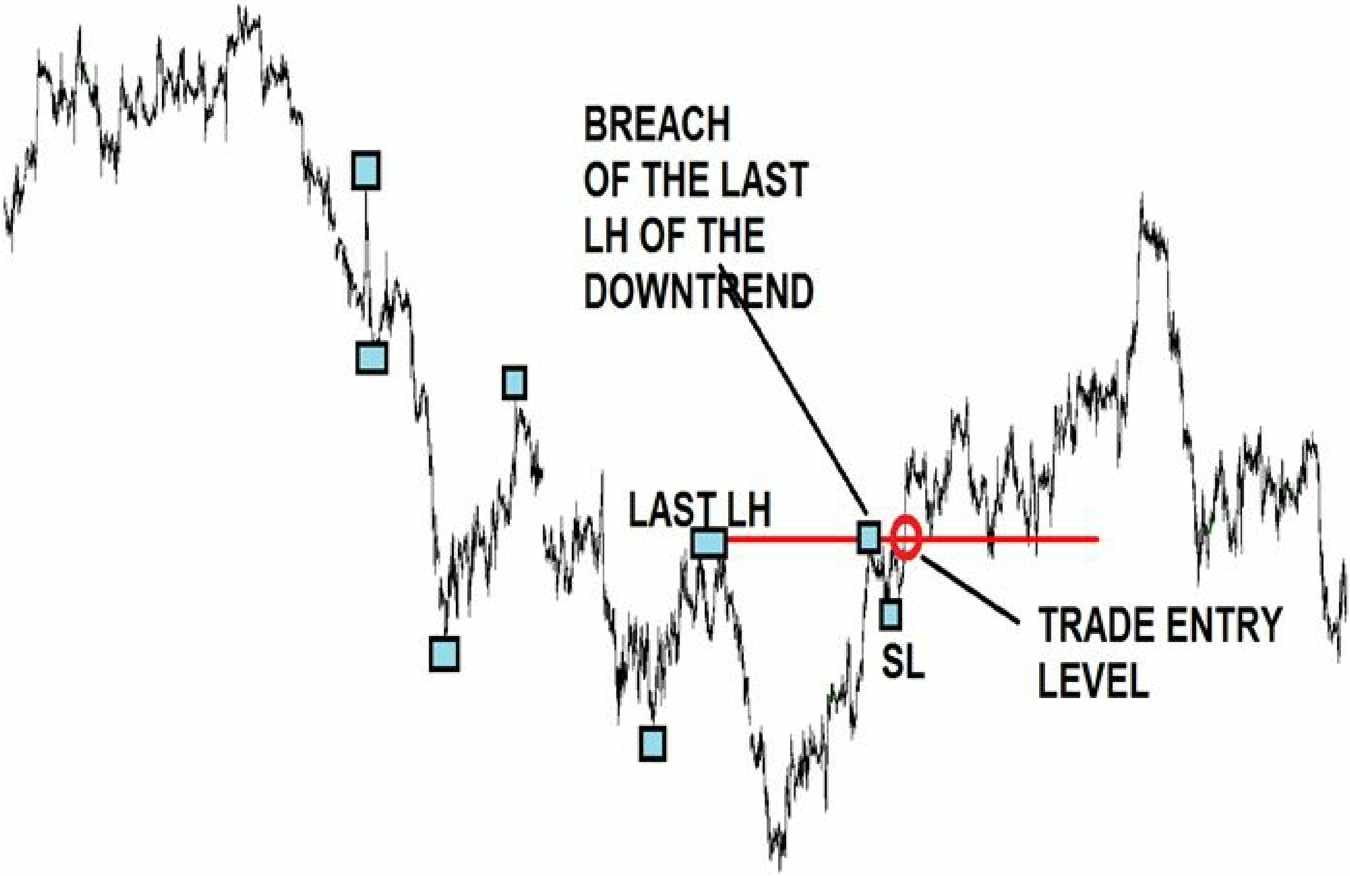
The same thing happens here. Last LH gets penetrated and price continues upwards after a small correction. You can see from this chart where we will enter our trade and also where do we set our initial stop loss. As a rule, the initial stop loss will always be placed like in the chart above, at the level where correction ends, preceding the price move past the breach of last LH/HL level. The entry level has variations but in this example we enter a buy stop order at the level shown in the chart, after we see that price starts to make a correction at that level.



In this example we have a different situation. The wave in the opposite direction does not breach the last lower high but it is in the zone of it. In this case we enter the buy stop order right after price comes up after the correction and passes the level of the last lower high. Remember, in this situation we don't enter the trade at the start of the correction because that level is still below the last LH, it did not breach the LH like in the examples above. These are the only two situations where we have to manage our entry point. If the wave breaches the last LH/HL we enter at the start of the correction because that level already penetrated the LH/HL. If the wave does not breach the last LH/HL like in the example above, we enter the trade as explained above and shown in the chart.

Another example:

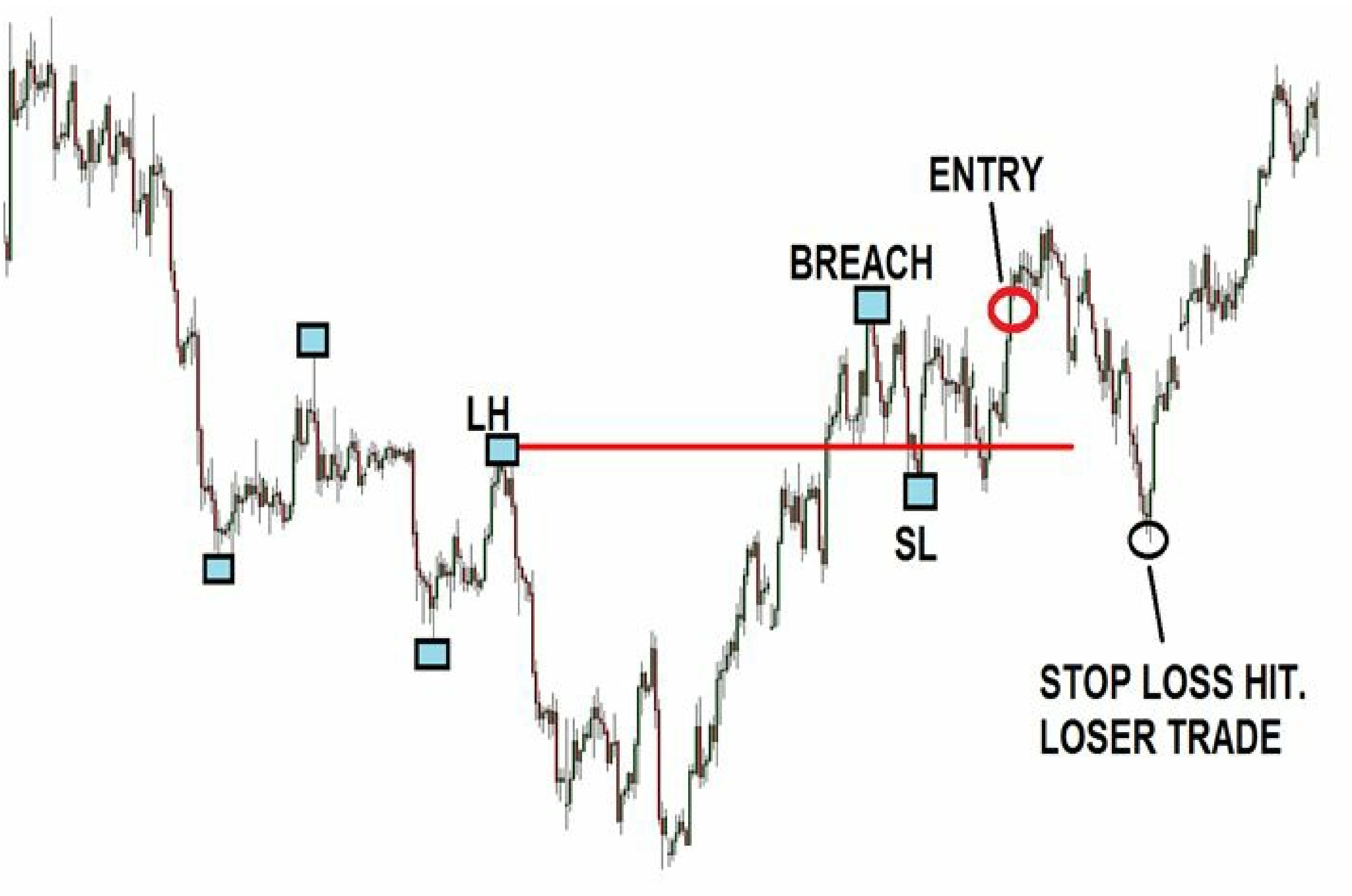
Uptrend changes into a downtrend.



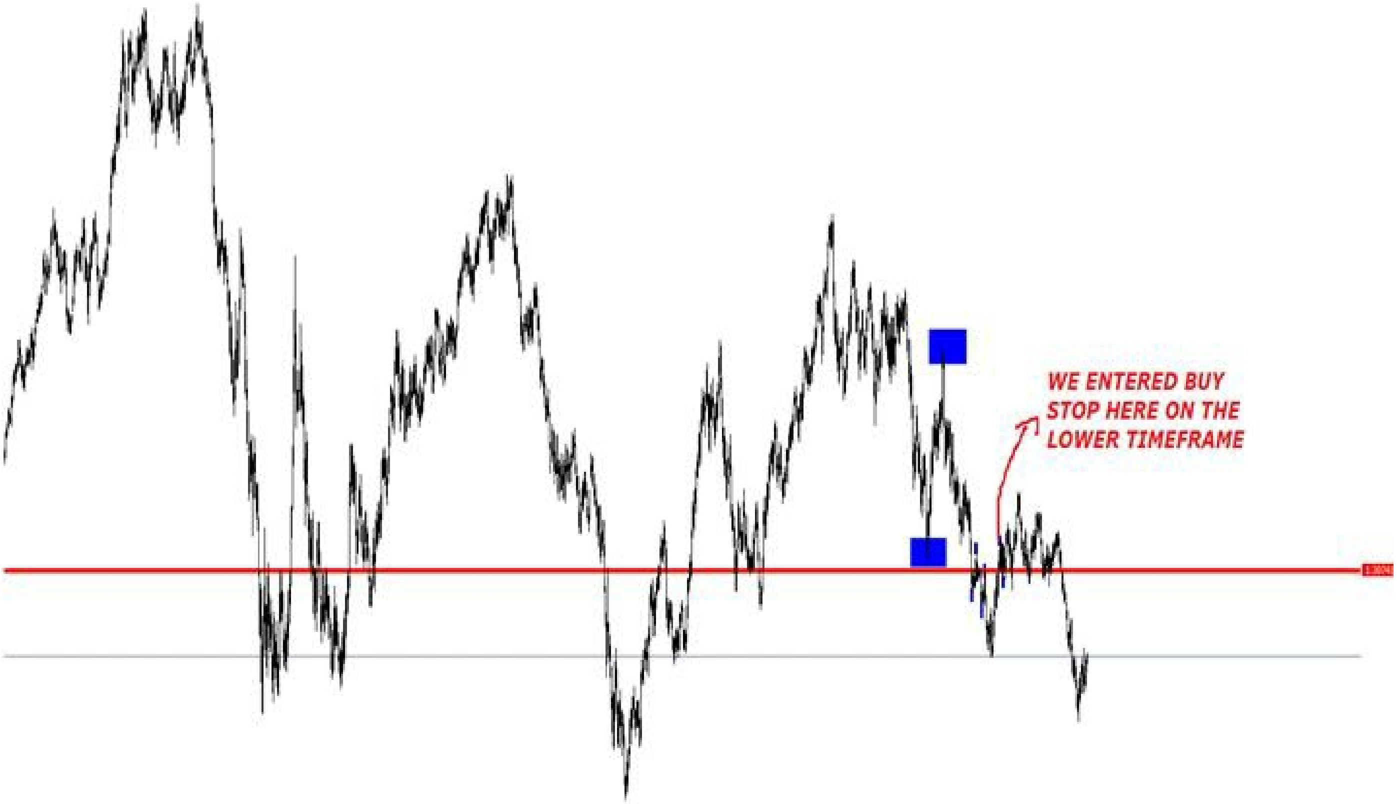
You have here another example of a trend change. Now let's see how we manage our stop loss level so we can get as many pips as we can out of every trade we make. The stop loss will be trailed manually under every valid HL if we are buying and above every valid LH if we are selling.

Trade setup

We will enter trades based on the trend of the 1 hour chart zoomed out to the maximum. This is the most suitable time frame for this strategy because the trend here changes direction frequently, therefore you will be in the market 80-90% of the time using this timeframe and you will not have to hold a trade open for weeks as you would do if you traded with this method on the 4h chart or the daily one. I am not saying not to trade on a higher time frame with this system, in fact that will be more productive in the long term, I am saying stick with the 1h chart if you do not have it in you to hold a trade open for weeks at a time. Now, there is a very important rule here: when the trend changes like in the examples above, before we enter a trade in any direction, we always make sure that the trend on the 4 hours timeframe is in the same direction that we will enter our trade in on the hour chart. Always remember this rule. Let me show you what happens if you do not respect this rule:



Trend changes from down to up, we enter, set the stop loss, price goes just slightly in our favor and then retraces quickly and hits our stop loss. Why? Look as this:



This is the bigger timeframe chart. You can see that here the trend is clearly down. Always look at the 4h chart to confirm that the trend there is in the direction of the trade you are about to enter on the 1h chart.

Trading system step by step

Go to the 1h completely zoomed out chart and find the trend using what you learned here. Don't be shallow with this part of chart analysis. Be very meticulous, this step is the most important.

Wait for this trend to change like discussed in the trend change section.

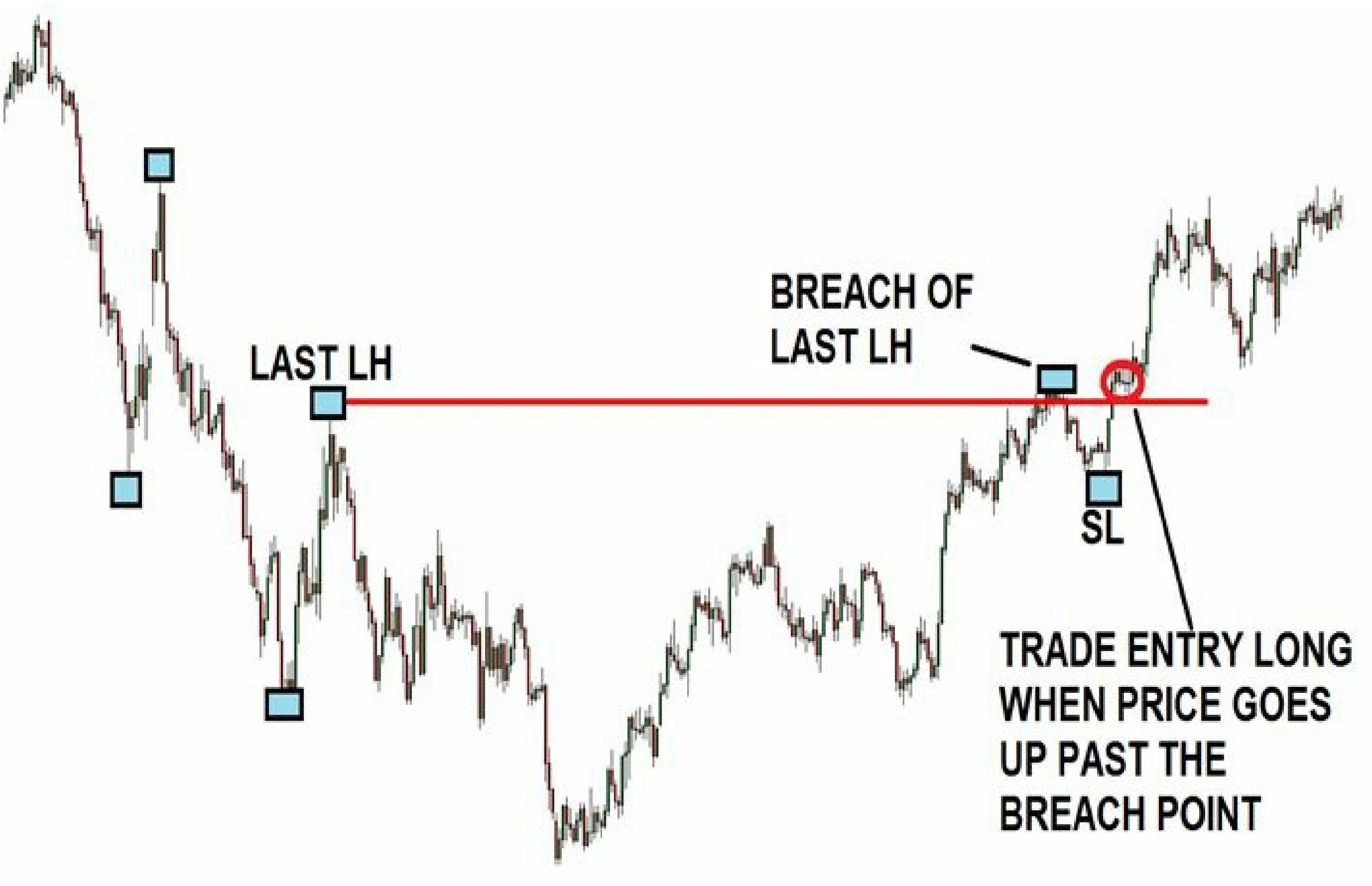
When the trade setup happens go to the 4h chart and make sure that the trend on that timeframe has the same direction as the trade you are about to enter on the 1h chart. If this is not the case, do not enter the trade.

If the 4h timeframe trend confirms your trade direction enter the trade on the 1h chart and set your initial stop loss level like discussed above.

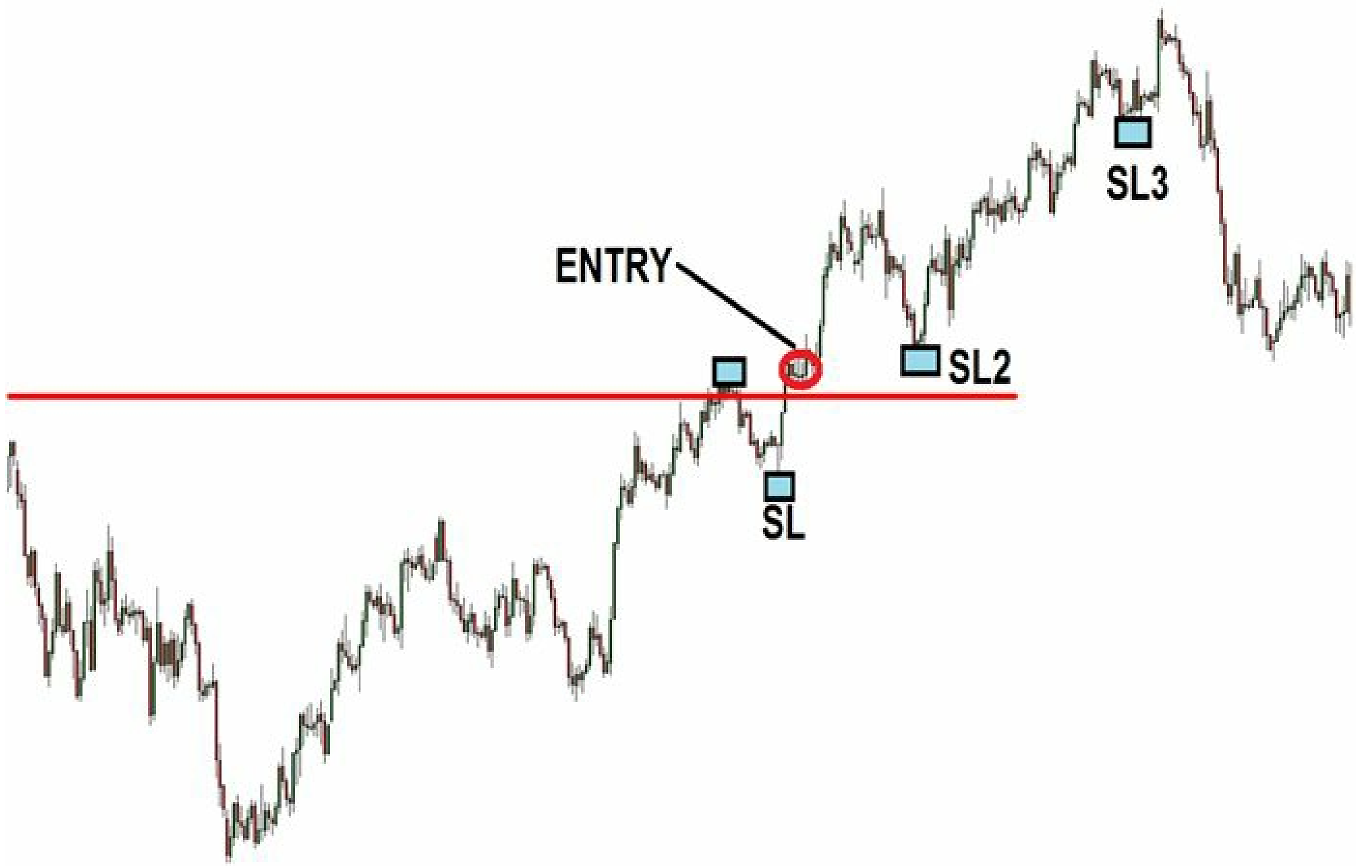
Trail your stop loss manually below every valid HL that the new uptrend makes or above every LH that the new downtrend makes.

You can also use this system to trade the changes in trend on the 4h chart with confirmation of trend direction from the daily chart and you can use it on the daily chart with confirmation of trend direction from the weekly chart. The higher the timeframe, the bigger the profits will be.

[Trade examples]



We enter the trade here on the change of the trend. Let’s see what happens next:

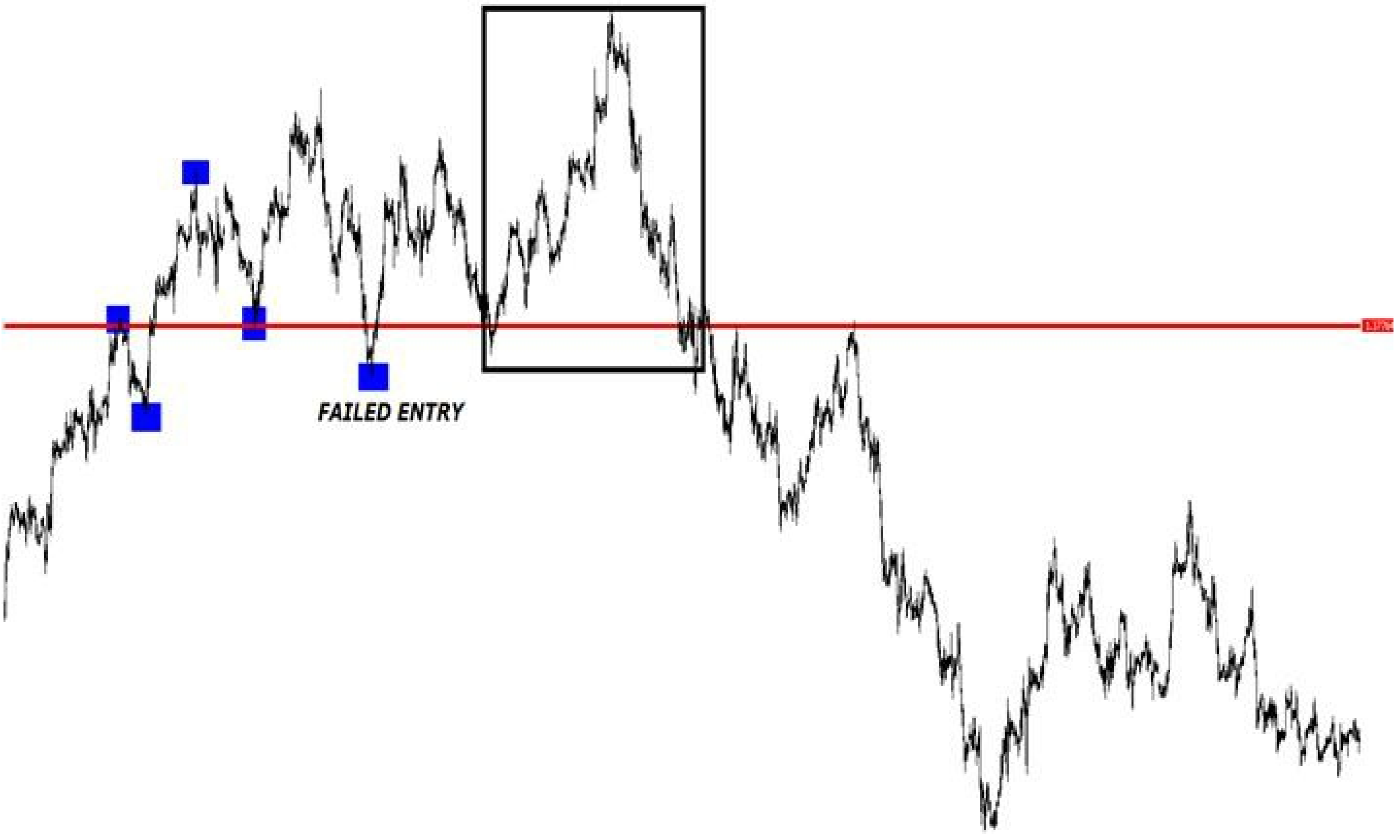


You trail the stop loss only at valid HL's. The trade ends at the SL 3 level.

Another trade just a few hours after we exited the first, SL2 is the level we exit this one.

We exited on SL2 but the trend did not change there, it goes down a little bit more. There is nothing we can do but wait for the trend to change. With the help of that square you can see how long we have to wait before the next change of trend occurs. Of course, keep in mind that you always have to check the 4h trend before you enter any trade.

You exit at SL4 level.



In this example you set your sell stop order at the entry level but the price fails to confirm the trend change and continues the uptrend for a while. There is nothing you can do here.

This is it.
In the end I would like to apologize if I sound a little to rigid in my explanations and if there are any misspellings. English is not my first language. I am doing the best I can.

Thank you and happy trading.

If you find that this adds value to your trading please consider writing a review of the book on Amazon. It does not have to be long, just a few words to state your opinion about the trading system presented in order to help other people make more informed decisions.
Please email me afterwards at damirlaurentiu@yahoo.com and you will receive the PDF version of this e-book so that you can read it more easily and print the contents on paper if you want.

If you want to combine this strategy with other powerful forex trading systems that will give you trade setups in periods like in the square above where there is no trend change you can take a look at the following trading systems:

Trade the Price Action
Trade the Momentum
Day Trading Forex with Price Patterns
Day Trading Forex with S&R Zones
Forex Range Trading with Price Action
50 Pips a Day Forex Strategy