If you have been trading for any length of time, you have probably noticed that the markets are moving sideways A LOT. Consolidation is a huge part of the market's balance and so it makes sense to learn strategies that take advantage of the sideways/consolidating type of market conditions.

Often, ranging strategies are high probability but they do not offer a good Risk to Reward. But today, you will learn a strategy that has both a high win rate and the opportunity for some very good R:R.

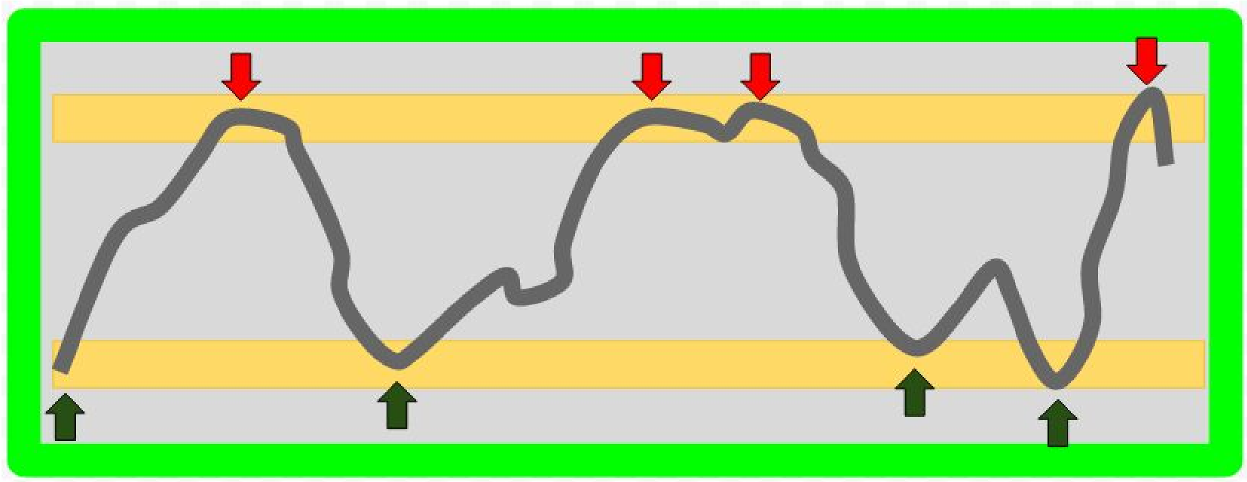
The entire strategy can be boiled down into just a few steps. If you read the report carefully, you should be able to begin implementing the strategy virtually right away. Though, as always, I do recommend trying new strategies on a demo account and getting comfortable with them before trading them live.

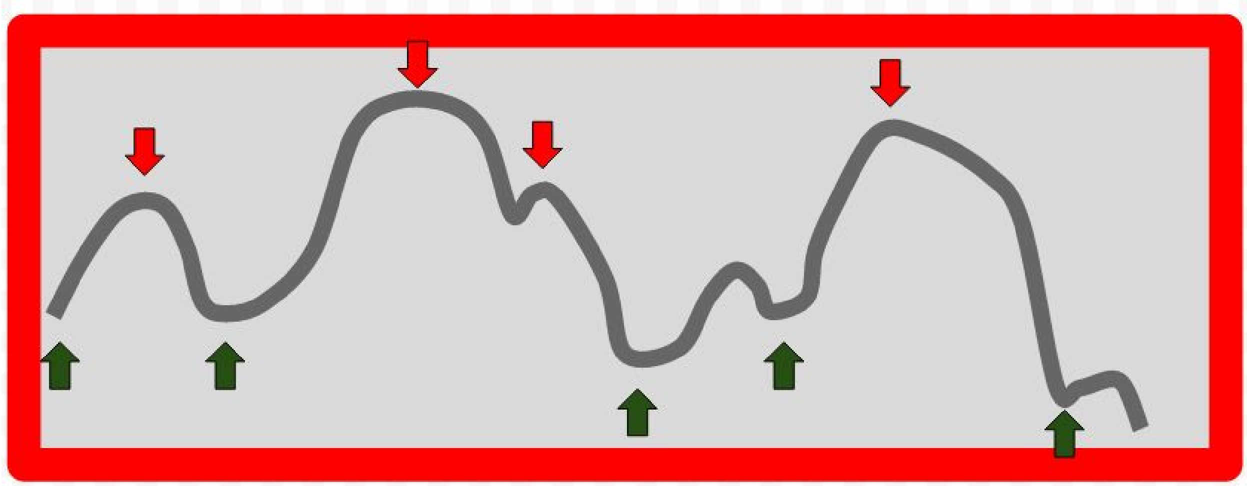
With that, let's dive into the steps.

Step 1
Identify range-bound markets on Daily or 4 Hour Charts

A ranging market is simple to identify. We are looking for clearly defined sideways movement that is sustained with several tops and bottoms.

One thing to remember is that a sideways market should have similar priced tops and bottoms. They do not have to be identical for us to consider it a range, but if the back and forth movement doesn't have a consistency to it, it's very difficult to take advantage of.



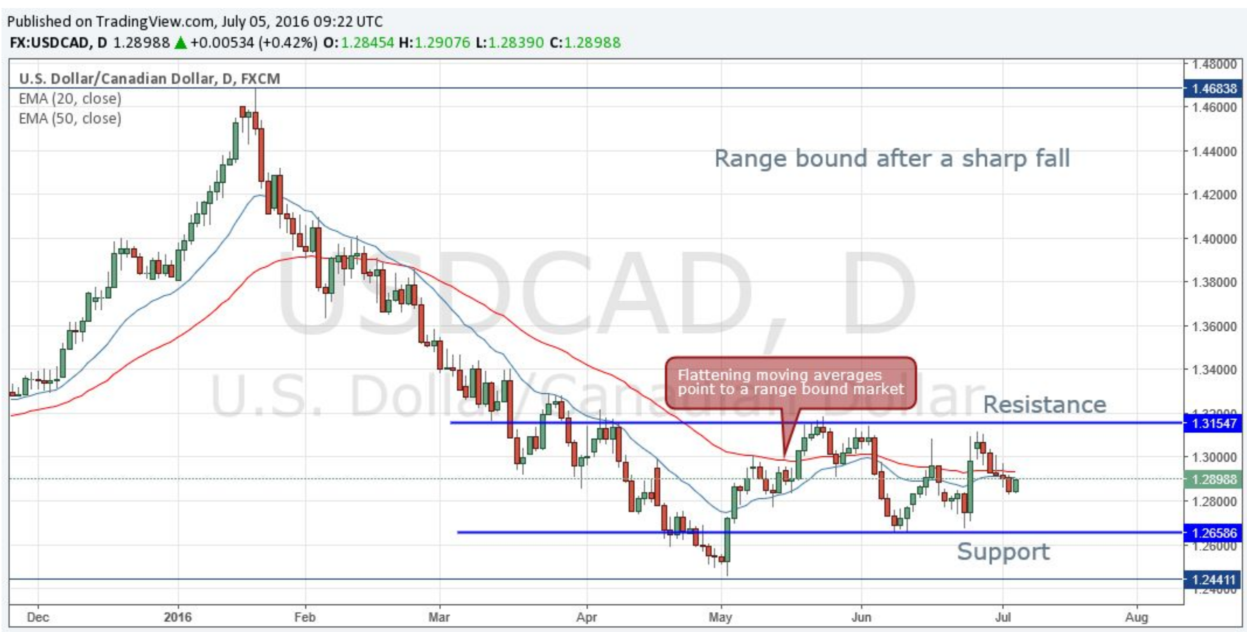


You can see in situations, demonstrated by the green example, that a more consistent top and bottom will improve the chances that the market reacts at the expected time so that is what we are looking for.

The red example shows you a sideways market that is not in a cleary defined range. So while the price is certainly going back and forth, the market is less responsive to a clear top or bottom range that we can utilize.

The truth is that once you've mastered this strategy you can still use it on less predictable ranges, but I recommend beginning with the more clearly defined ranges until you see some success.

Here are a few examples of real ranging market conditions:



In the second example, I used a 20 and 50 EMA to show you how moving averages can also signal a ranging market as they quickly begin to flatten and intertwine with one another. This is, of course, a lagging indicator but for those of you who like indicator confirmations, moving averages are an easy way to confirm a ranging market.

Once you find a ranging market, you can move on to the next step.

Step 2: Identify an Over-Extension within a Dead Market
In this step, we are looking for the market to extend itself within a sideways market.

More often than not, extended steep moves will pull back to settle toward reasonable prices, but this is even more true when the market is in a defined range. When it begins to accelerate and get overbought or oversold we are very likely to see it “snap back” like a rubber band once the it runs out of orders to fulfill.

It’s this “Snap” that we are eventually looking to take advantage of within the Rubber Band Reversal, but first we must define the stretch point of the band.

As always, I like to use multiple time frames to get a complete, accurate view of the market, so once we have a ranging 4 hour or Daily market condition, we’ll zoom into a 60 minute chart to find an over-extended point within the market.

On the 60 minute chart, we’ll add a Bollinger Band (standard settings) and RSI (standard).

The Bollinger Bands and RSI give us a double confirmation to find over-extended conditions.

Bollinger Bands are a great indicator for this because they shrink down and quickly define a range which, in turn, makes it obvious when the market is stretching out of that range.

When you combine the defined ranges with stretched Bollinger Bands, you get a pretty good idea of when price might make a turn around. But we also like to use the RSI to make sure that price is clearly overbought or oversold.

The vertical lines represent when the RSI is above 65 or below 35.

Please Note: The RSI is NOT an entry signal. It simply helps our patience and discipline as we are forced to confirm an overbought or oversold condition before going to the next step.

The Bollinger Band and RSI are what allows us to be certain that the market has stretched like a Rubber Band and is ready for a potential snap back in the opposite direction.

Now we know that the market is in position for our Rubber Band Reversal, but we do not have the ability to enter the trade yet.

This is where a LOT of traders get tripped up. The see the RSI shoot over 65 or 70 and they are too trigger happy--they just begin shorting the market. The problem is that more often than not, when the market hits 65 or 70 it is still in a momentum phase and we simply don't know how long that momentum will last. We do not know how far the rubber band is going to stretch.

So it's very important to utilize the next steps in the strategy to make sure you have a complete plan and are jumping into trades early.

We wait for the price to pierce the upper Bollinger band and simultaneously, we want RSI levels to be above 65 levels. After both conditions are met (Bollinger Band pierced and RSI overbought/oversold) we can go to Step 3.

Step 3: Find an Entry

To find a high probability entry, we look for a unique combination I have used for a long time.

The combination is a 15 Minute Reversal Candlestick (pin bar, inside bar, engulfing, etc.) at a whole number.

Whole numbers are important because of their psychological value. A maximum number of orders are placed closer to the 50 or 100 levels, for example, at the 1.3050 or 1.3100 levels.

In this shorter time frame, we consider anything ending in a 0 (for 4 digits) or 00 (for digits) to be a whole number. The key is that almost every time the market shows rejection around a whole number, we get SOME follow through.

Often, it is only a few pips but when you combine it with the right market conditions like we are doing in this strategy, your odds of catching a reversal that moves 20,30, 50 or even 100 pips is very, very high.

Many times, price pushes slightly above the whole numbers and then quickly reverses, sucking in amateur longs, who get trapped and are forced to cover, thereby aggravating the fall.

On other occasions, the institutional orders push price right at the whole number or even a few pips before.

Either way, if you are prepared with a plan to trade around these whole numbers, you can take advantage of these scenarios.

Once we see a 15 minute candle show rejection at a whole number, we are ready to place our entry.

Here you can see a real trade example of the market spiking through to the tops, piercing the band, above 65 on RSI and getting our 15 Minute rejection candle right at 1.4340.

With our criteria met, we can go ahead and set up the trade.

Step 4: Execution, Stop Loss and Take Profit

With a market order, we will enter as soon as the 15 Minute candle closes (advanced traders can zoom into a 5 minute and anticipate the reversal momentum to improve R:R)

For this particular strategy, our Stop Loss and Take Profit are very easy.

Once the entry is made, we can place the Stop Loss a few pips above the entry candle or previous candle (whichever has a higher high) and we can place our Take Profit at the mid-band of the Bollinger Bands.

The midpoint of the BB will change as the trade progresses but it should remain at the price of the midpoint at the time of the entry candle.

So the full trade setup would look like this:

Here, you have an ENTRY (green line) right as the candle closes, a TARGET (blue line) at the midpoint of the BB bands at the time of the entry candle and a STOP LOSS (red line) a few pips above the high of the piercing candle.

In this case, the entry candle is relatively long given the high piercing wick so our Risk/Reward is about 1:1 (still not bad for a range trading strategy). But as you'll see with practice many entry candles are smaller and the R:R can be 2:1 or even 3:1 in some cases.

Plus, once you become a Rubber Band Reversal Expert, you can zoom in even closer to a 5 minute chart and get ahead of the momentum. Often, once the rejection of the whole number begins to happen, price falls quickly and waiting for the 15 Minute to close can cost you a fair amount of pips.

So I like to get in early when I see that rejection taking place.

Either way, it is a great strategy for ranging markets and I hope you take advantage of it!

Summary Points to Remember:

1. Look for a range-bound market on the Daily charts and 4 Hour Charts.
2. Once you have chosen your currency pair, select the 60-minute time frame and overlay,
3. Wait till the price pierces the upper Bollinger band and RSI is above 65 or below 35.
4. Zoom into the 15 Minute chart to find our entry.
5. On the 15-minute chart, we want two important conditions to be fulfilled.
    a. We want a reversal bar
    b. We want to enter the trade close to a whole number
6. The profit objective is at the midpoint of the Bollinger band, where we take our profits.

With those few steps you can take advantage of the very common consolidating markets we see. If you have any questions about trading the strategy, you can email me at Jcrawford@learntotradeforprofit.com

I do ask that you try to be as specific and clear with any questions as I get lots of emails!

Thanks!

-J

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