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Forex tips and tricks:

10 ways to improve your trading strategy

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Introduction

Our motto in trading is quite simple:
“Get better every day”. Professional traders are always searching for ways to improve. If you share this philosophy, this book is for you. In this book, you will find 10 ways to improve your strategy and achieve a consistent quality performance.

Each chapter is dedicated to a trading habit, piece of information, or useful tool that can help you become a better trader.

We are not big fans of fancy indicators or unconventional tools. Most opportunities can be spotted with the tools that you already have. Many professional traders have a naked price candlestick chart and one or two additional indicators—nothing more than that. It is how you interpret this publicly available information that makes the difference between successful and unsuccessful trades.

Enjoy the read!

Stanislav Bernuhov

Stanislav Bernuhov
Professional trader and coach

Chapter 01

Remove tools that you don't use

Remove tools that you don't use

How many indicators do you follow? Moving averages, MACD, Stochastic, RSI, and a couple of others?

We would recommend to first clean your workspace and make it as simple as possible. Some traders only start to develop after removing all indicators, leaving the naked price chart alone.

The more indicators you have, the more "signals" for buy/sell you receive. For instance, a moving average tells you to buy, but at the same time, the RSI alerts you about an "overbought" market condition. Having too many indicators can lead to an overwhelming amount of conflicting information, thus confusing you.

Cognitive dissonance is a serious obstacle to successful decision-making!

In trading, there will always be cognitive dissonance. Bullish and bearish trading signals coexist every single moment and you never know exactly which signal to follow. With this in mind, it is best for you to simplify your decision-making process. The easiest way to go about it is to identify and recognize the **function** of each tool, and **why** you choose to include it in your workspace.

Every tool (indicator, chart) helps to:

- Identify a trend
- Measure the volatility and tempo of price action
- Measure average deviation from the mean
- Find an exact entry point

If you are a trend-following position trader, active trends and decent entry points are important to you while the rate of intraday change in prices may drop out of your list of priorities. Your tools in this case may be reduced to two moving averages (fast and slow) for the identification of the trend direction and the candlestick formation for entry.

If you are a momentum trader, you may not need to know where the trend is headed—your money is earned when the market breaks out from narrow consolidation areas. In this case, you need to know the current level of volatility—in case it drops to new lows, you can expect the market to break soon. Your tools in this case are the price chart (for identifying consolidation) and Average True Range indicator (for measuring volatility). Candlestick formations are not necessary in this case because the market breaks quickly without showing any candlestick patterns on the way.

If you are trading in a range-bound market, you need to know possible trade locations for reversal. For this, you need the Envelopes or Bollinger Bands. Once the price comes to the lower or upper band of the indicator, you can monitor for specific candlestick reversal patterns.

Please note that the above scenarios are just examples. You may use different tools for your trade; the key here is to know **why** you use certain tools and **what** you want to achieve. Knowing the answers to these questions can simplify your trading.

Key Takeaway

Get rid of tools that you don't use. Create a list of all your current analytical tools and try to state the purpose of each in two to three sentences. Doing so helps you realize which tools are important in your decision-making process and helps in reducing cognitive dissonance.

Chapter 02

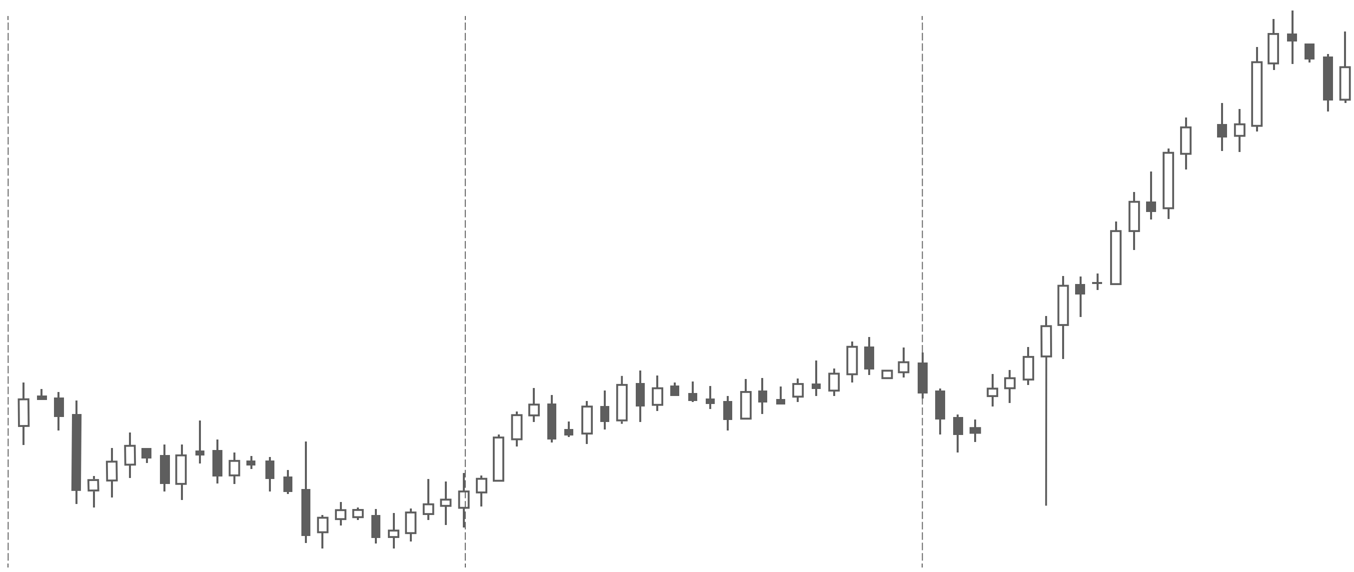
Trading in volatile vs noisy environment

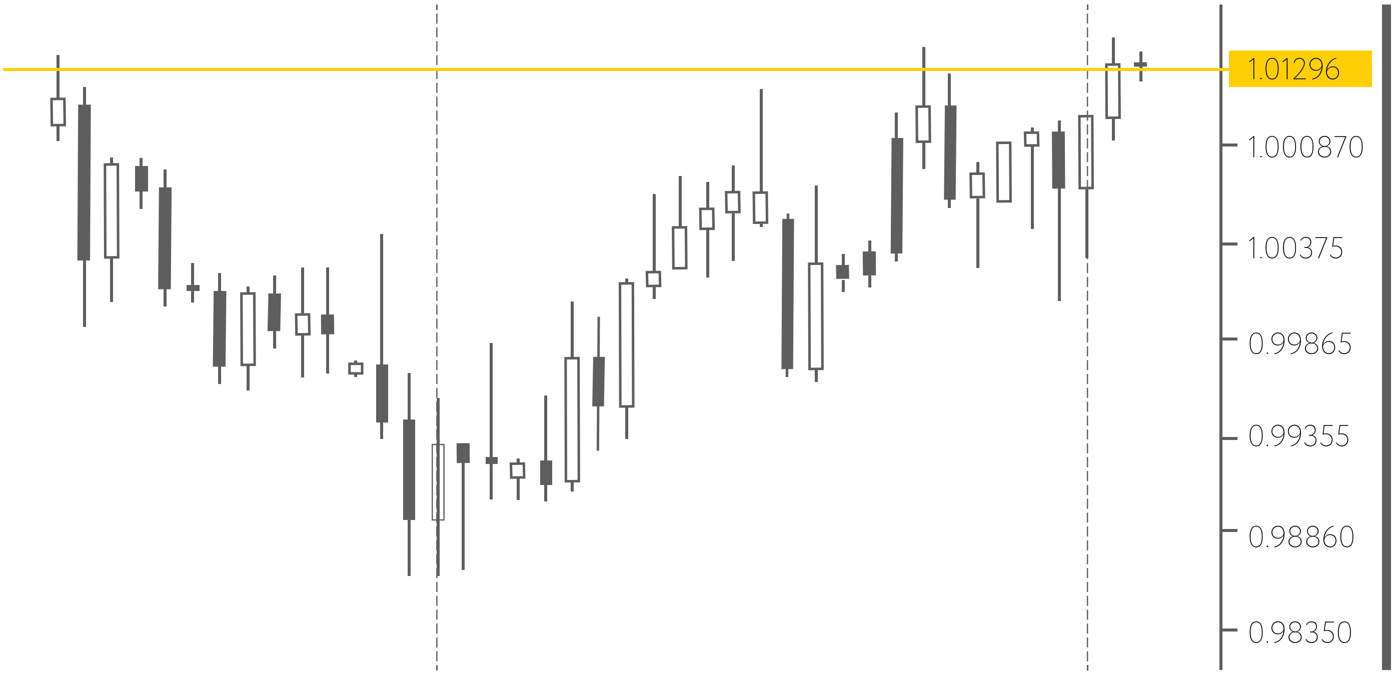
Trading in volatile vs noisy environment

Traders can profit when there is a change in price and market direction is identified correctly. Sometimes, prices move back and forth. This may seem like an opportunity at first, but in the heat of the battle, it is difficult to identify the destination of a trend in such a case. It requires a lot of skills to have positive trading results from choppy, “flat” markets. A strong, volatile market may present more trading opportunities, but one must take caution in such cases and weigh the risks associated with volatility.

Volatility can be measured in two simple ways—either by average volatility of each day, which is beneficial to short-term traders, or by the volatility of large trending moves.

Let’s zoom into the second method of volatility measurement.





The first chart presents greater volatility than the second, with the price changing faster and with very limited correctional moves—an indication of active buyers and a prominent imbalance between supply and demand. Sometimes, traders are afraid to go with the price in such cases, and more often than not, they go short (sell). Statistically and historically speaking, traders tend to achieve better results by going with the strong trend.

Of course, you do not see such smooth trends often, considering the fact that prices of currency pairs float in trading ranges 80% of the time. If no trend is spotted, you can still find a volatile market for short-term trading by applying the Average True Range (ATR) indicator in the daily chart of your preferred trading instrument.

Ask yourself: Is the ATR value low or high? Is it increasing or decreasing? By trading currency pairs with high ATR, you are choosing to trade in a more volatile market.

For example, take a look at the GBPUSD chart below. The ATR has been of high value. Now, it is decreasing and entering a narrow trading range. Of course, the market could break from this range soon, but opportunity is limited here since volatility is lower.

In general, you may set any parameter of ATR as long as you are comfortable with it. For your reference, an ATR of 21 is popular among traders who wish to trade in volatile markets. Remember, the more volatile the market, the more trading opportunities it presents. However, do note that trading in volatile markets can also lead to greater losses.

Key Takeaway

To trade in volatile markets, you first have to find it. Use the ATR indicator to measure the volatility of your preferred instruments every day. Create a list of the most volatile currency pairs—these will be candidates for day and short-term (one to three days) trading.

While volatile markets present more trading opportunities, they typically fit traders with considerable risk appetite given the fact that high volatility trading can lead to high losses.

Adjust your trades to match the dominant trend

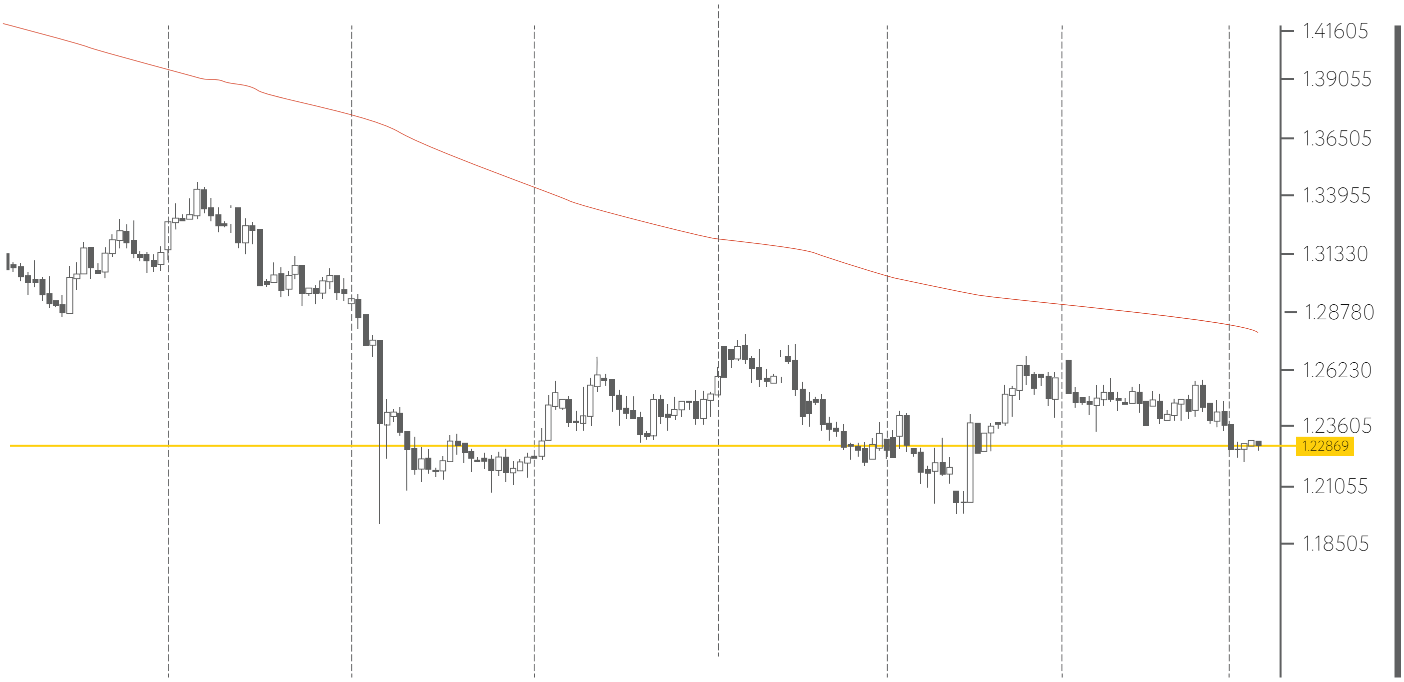
The trend is your friend. We have heard this old adage many times, yet traders always forget this simple principle. Why? Simply because they expect to see a fast-moving, notable trend, which, in reality, rarely appears on charts.

The average trend may look like an ascending trading range. Yet, if you adjust your trades according to the direction of this trend (buying when the trend is up and vice versa), you are strengthening your edge.

In general, going with the trend is an instinctive way to increase winning trades since the number of bearish daily candlesticks is greater in a descending trend and the number of bullish candlesticks is greater in an ascending trend.

How do you know that the trend is there?

First, take a look at the 200-day moving average. If the price is consistently positioned at one side of the moving average, there is probably a trending component. At this point, it is common for traders to align trades with it. However, do bear in mind that past performances of an asset is not a reliable indicator of future results.

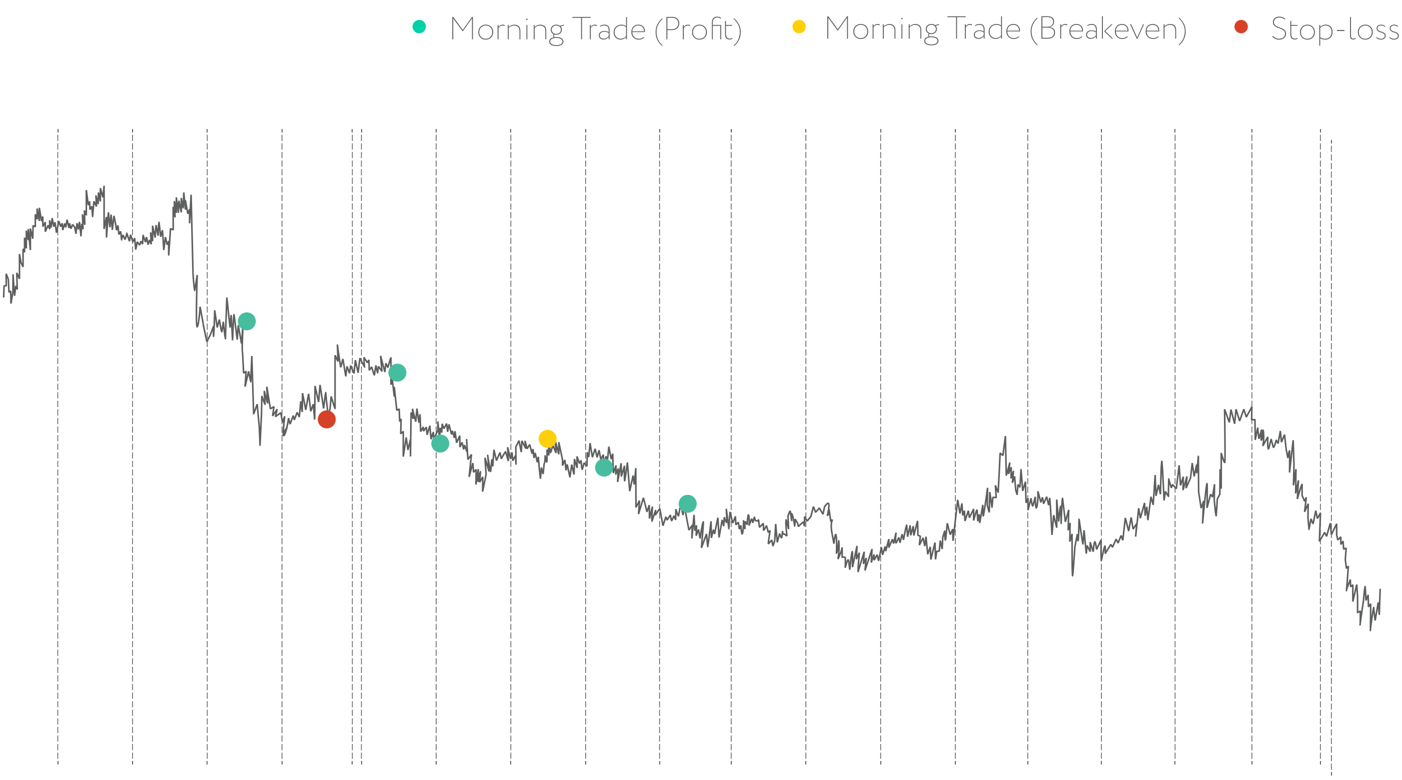


Knowing that trends transform into trading ranges at some point, smart traders often go with a trend while it is **still active**.

There is no way to predict exactly how long a trend will persist (otherwise, you would become a millionaire very quickly), but a trader still has better odds of success sticking to trends than trying to catch tops/bottoms in an attempt to find a reversal.

This brings us to the next question. Should one be a long term trader if he/she has a trend-based directional bias? Not at all! One can still trade during the day, keeping in mind the fact that current day's price movements gravitate toward the direction of a trend, and from there, one can build the trades accordingly.

Below is an example of how traders can align intraday trades with a trend (GBPUSD):



Key Takeaway

Employ trends in decision-making processes. It is a very natural way to build valid forecasts and achieve positive trading results. Find instruments with charts located on one side of the 200-day moving average for a period of more than three months—see what happens if you solely trade in the direction of the trend. Again, bear in mind that past performances of an asset is not a reliable indicator of future results.

Chapter 04

Time matters—work within a stipulated time period

Time matters—work within a stipulated time period

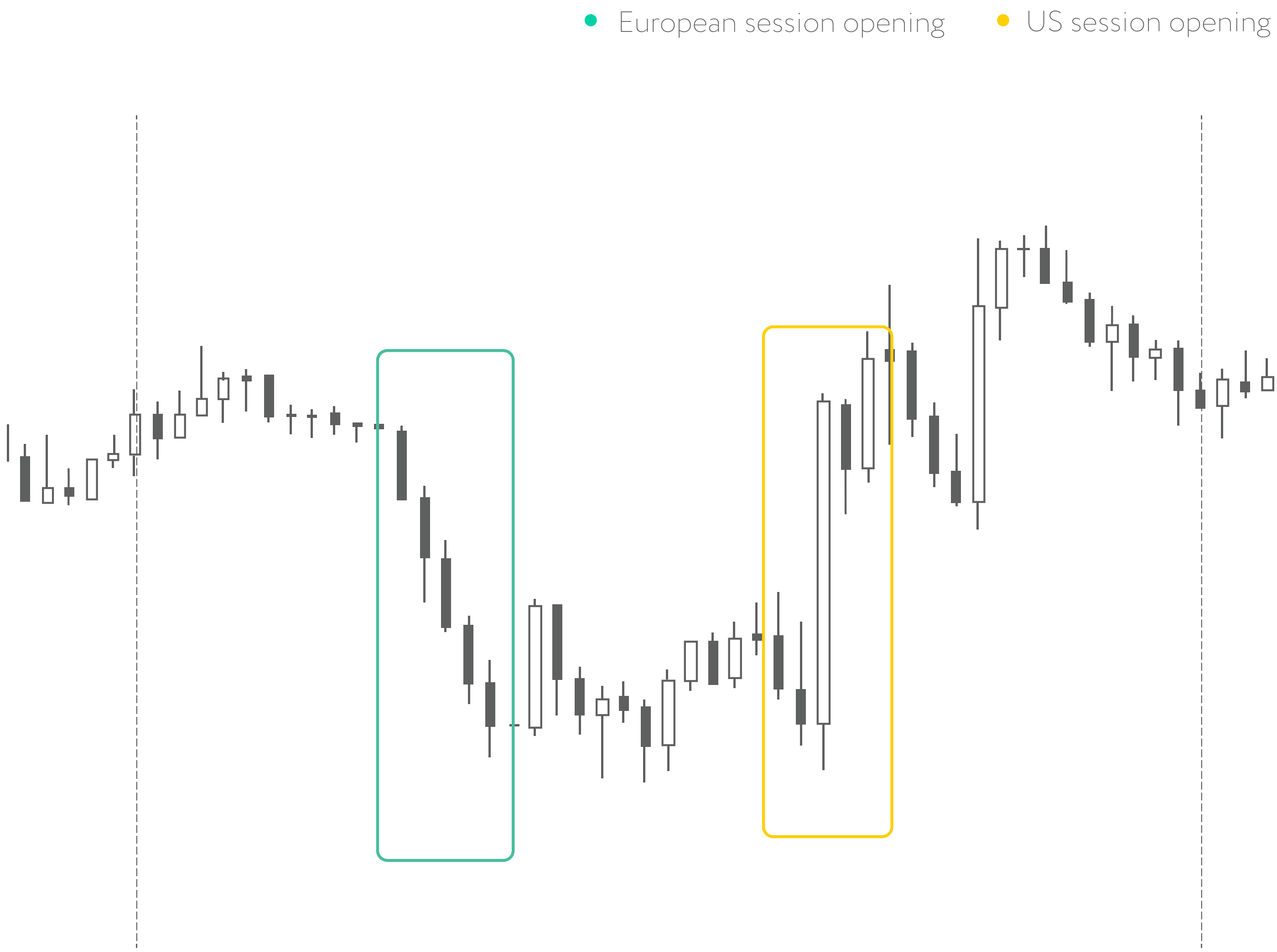
If you are a day trader, the time at which you trade matters—you may achieve more if you trade in a fast-moving market with high buyer/seller participation.

For example, the opening of the Asian session may influence AUDUSD, USDJPY, and NZDUSD, but it may not be significant since most currencies are quoted against the US dollar. The most volatile period is therefore during the US session opening (14:00 to 15:00 GMT), when most important economic statistics, FED speeches, and other key drivers are released.

For those trading in Europe, the London session opening is the most important period (07:00 to 08:00 GMT). Major economic releases for the Eurozone and Great Britain are published around this period.

The market also tends to be choppy and rotational just before the closing of the European session and prior to US session opening. If you are opening a position between 11:00 and 12:00 GMT, be prepared for minimal or slow price movement. Many traders observe a fast, manipulative move to capture stop loss right before the US session opening.

Below is an example of how volatility is distributed throughout the day:



Key Takeaway

For efficient day trading, split the hours to suit the time of the sessions as well as market volatility.

Trading logs are good reference materials to help one trace the active hours that contributed to positive trading results. Should trading performance be found to be directly influenced by market hours, aligning trading activities to the hours that led to positive trading results alone may improve the overall trading performance.

There is no hard and fast rule in trading as every individual has varying risk appetite. When designing your trading strategy, do bear in mind that the market can be rotational and manipulative during less volatile hours, while trading during volatile periods may lead to greater losses should the market not go your way.

Chapter 05

Think in terms of areas instead of levels

Think in terms of areas instead of levels

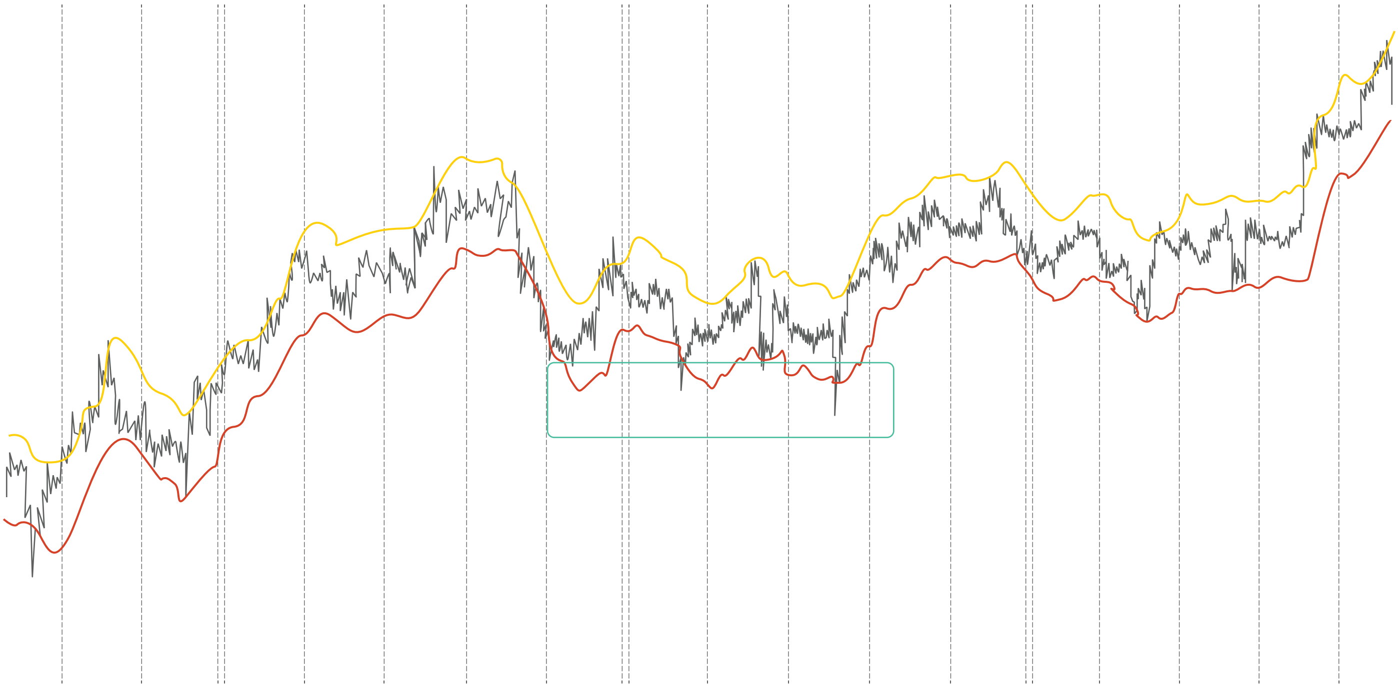
The mention of **support** and **resistance** may have you thinking of a linear, horizontal level, but that is far from how professional traders view it. In reality, smart market participants accumulate positions around certain price levels—we refer to this as the area. This perspective of support and resistance translates to a more sophisticated view of the market, allowing one to transcend the imaginary boundaries set by horizontal levels.

How does one avoid the misconception surrounding support and resistance and effectively use these reference points? Below are key principles to bear in mind.

1. Find a trading range which exists in the context of a trend.

In a free floating market which has no directional (trending) component, the trading range can be very volatile, with unexpectedly big moves. Conversely, if there was a trending component, odds are the volatility of correctional moves would be limited, and traders might do a better job identifying support/resistance areas.

In the example below, Gold (XAUUSD) was climbing with a notable trending component (ascending trend), resulting in a relatively narrow support area that allows traders to use as a trade location to build positions with limited risks.



2. Don't expect a rapid market reversal the moment it enters support/resistance area.

The market does not go in your preferred direction just because it enters your support/resistance area. Similarly, it can also stay within the area for several days. That is market logic.

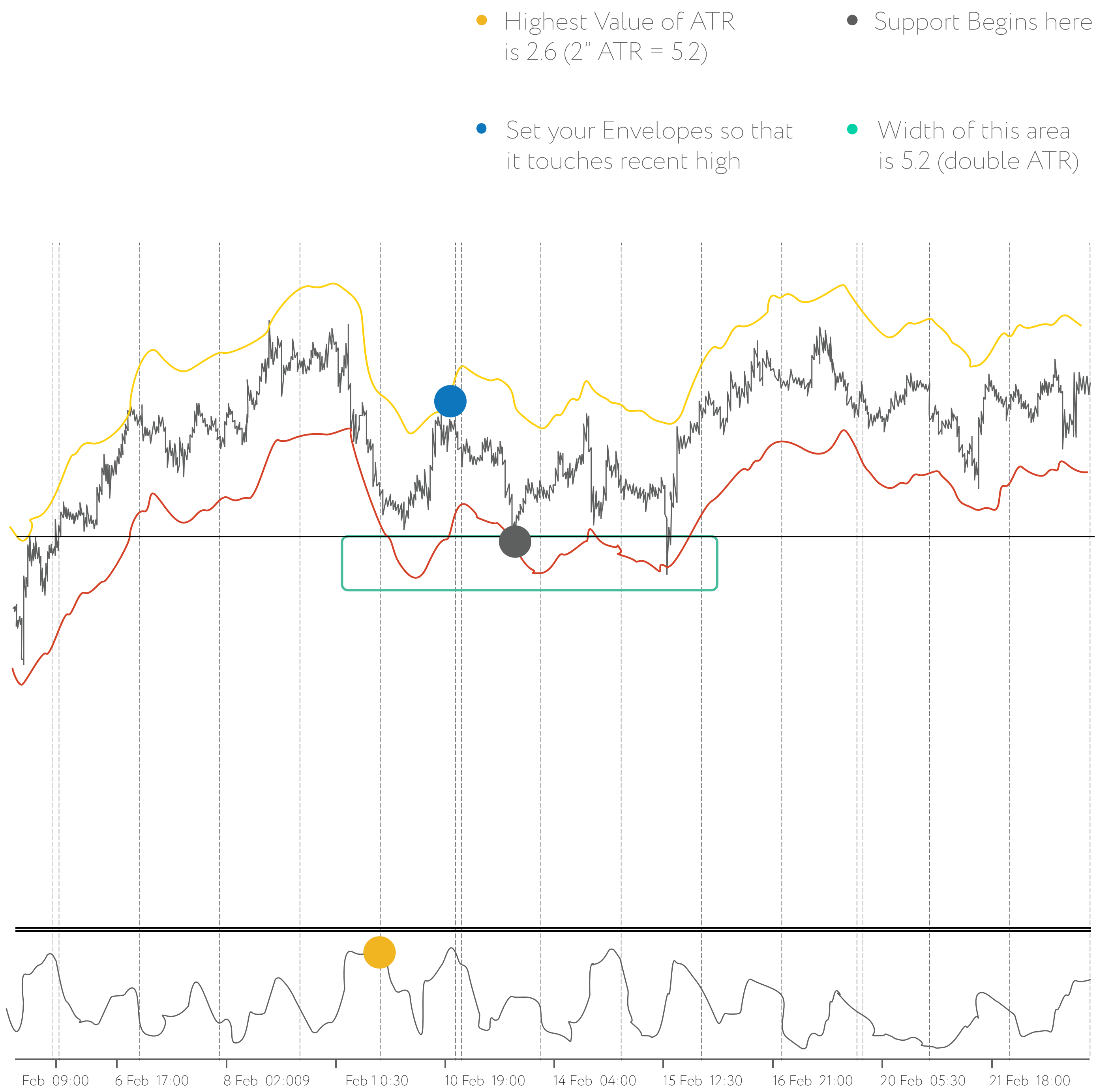
Institutional traders who are responsible for supporting the market accumulate a position over time and tend to keep a position for a while before they see positive results—that is if the market goes in their preferred direction.

3. Take note of entry and stop placements.

After identifying a trend, traders who wish to join a market in the support area usually wait for the market to consolidate before applying the Envelopes indicator. This allows them to define the deviation parameter manually to ensure that the highest and lowest points of the indicator's curve touch the recent highs and lows.

One of the common methods used by traders to limit losses is the placement of stop loss order. A methodical way for setting a stop loss is to consider the market's volatility and your own risk-appetite. Many traders use the ATR indicator when setting their stop loss order. The stop loss order may be set at multiples or submultiples of the ATR value.

In the graph below, we have taken the highest ATR value, multiplied it by two, and added the value to the point where the price touches the Envelopes. Ensure that your increased stop loss will not lead to increased risk; decrease the size of your positions accordingly.



Key Takeaway

Smart traders consider the direction of the trend before building a position within the support/resistance areas. A common practice among professional traders is also the application of Envelopes indicator in the chart to add zones and thereby build the support/resistance areas (refer to the example above).

Chapter 06

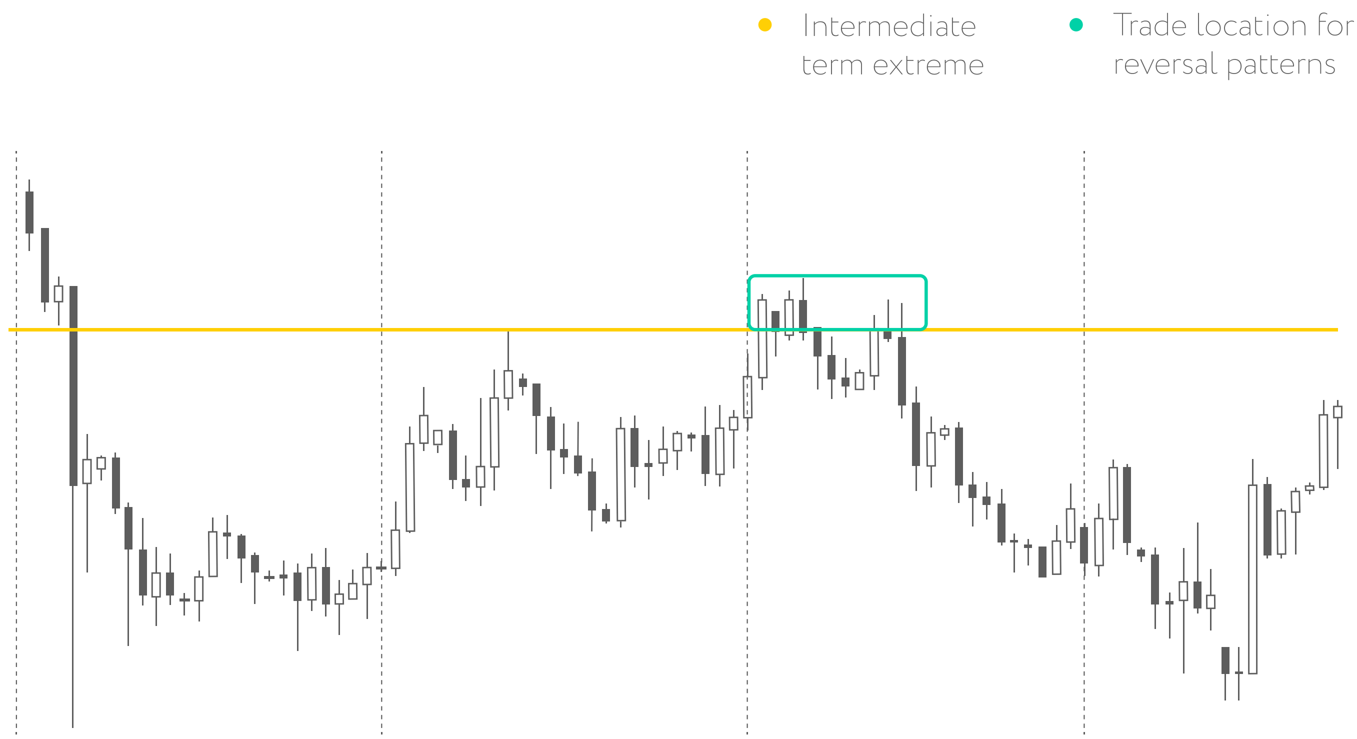
Choose the right trade locations

Choose the right trade locations

One of the most important things in short-term trading is the identification of the right trade locations. A trade location is not just an entry point; it is an area on the chart where your entry points make sense. It is a huge topic that is difficult to cover in just a single chapter, but the examples below should give you a rough understanding of the concept.

Trade locations for reversal trades:

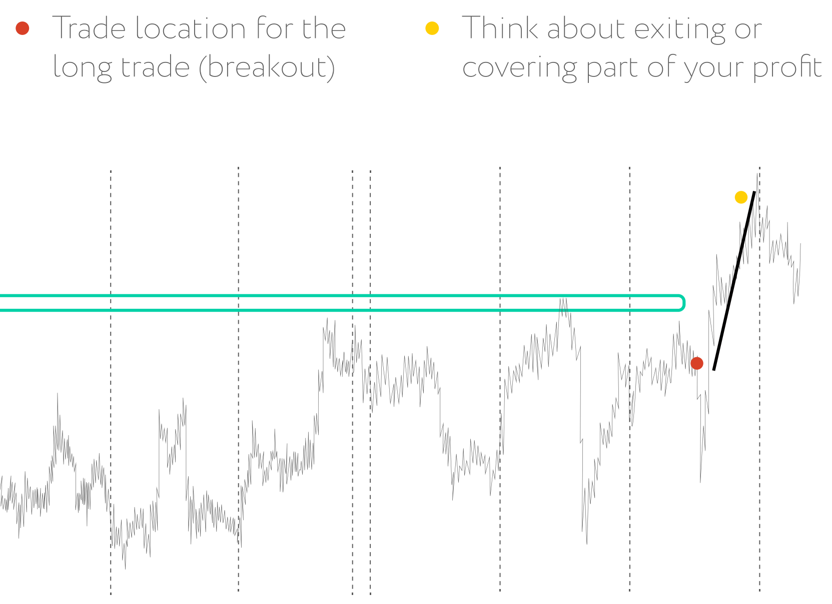
In chasing a reversal trade, focus on areas outside intermediate or long term extremes. Before a reversal, the market usually captures stops and only starts to move after that ("stop running" rally). This is fair for any kind of market, though the market does not always generate "stop running" rally.



Trade locations for breakout trades:

When it comes to breakout trading, the classical trading style, which assumes the buying position when the market breaks high/low, no longer works. Trading practice shows that mean-reversion activity usually dominates and based on statistics, the market will get back into the range.

When positioning breakout trades, I personally use a location close to the suggested high/low before the break. This is also called the "anticipation setup". An example is shown below.



The main idea behind anticipation setup is the effective avoidance of areas that are likely to attract many traders—they tend to buy after an important high is broken, which is precisely why doing the same will not work out!

The same goes for reversals; many traders try to sell near important highs. Majority of the traders' positions are thus insecure, with the market easily taking their stops before reversing. The key is to not trade with the crowd—try to step aside! Avoiding 90% of traders may prove to be more favorable.

Key Takeaway

Choosing smart trade locations is one of the most important steps in trading. To do so, search for overlooked areas on the chart by marking intermediate highs/lows (>2 weeks). At the same time, one should consider searching for reversal patterns after the price breaks those highs/lows and watch out for breakout trades when the price leans toward those highs/lows.

Chapter 07

Optimize your entry points

Optimize your entry points

If you are a short-term trader, you will know that the “noisy” components of price action have serious impacts on your trade. The choppier the price action, the more accurately you should enter to gain an edge over the market.

Why is entry important? At first glance, what seems to be the most important is the point of exit. While that is true, a decent trade location for stop loss is also essential and should be placed beyond a reasonable level instead of a random point on the chart.

How, then, should one optimize entry points? There are several ways to do it, but I prefer the following methods:

Fractal method

There is no need to jump right into the market during trading setup (whatever it may be). Smart traders spend some time figuring out the size of average intraday rotation before entering the market. Additionally, one should also consider the option of entering after a pullback.

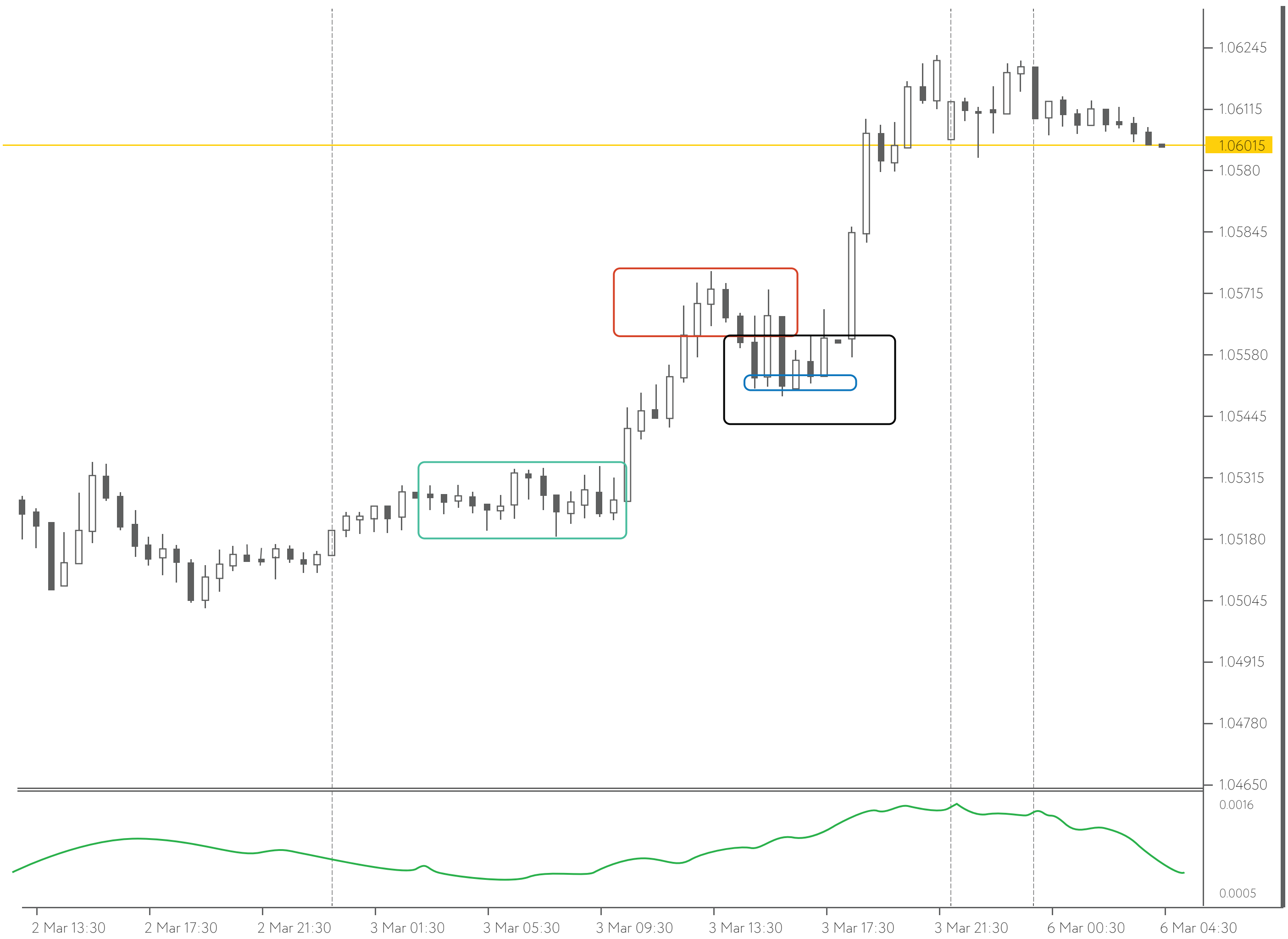
ATR method

Before entering a trade, take a look at the clock—what time is it? Recall from Chapter 4 that volatility may increase during the European and US session openings, so it is advisable to not rely on current volatility (which can be low). Instead, try to capture possible "noise" that may appear soon after.

Additionally, as a good practice, consider the placement of stop loss order to limit losses, a subject that was also discussed in Chapter 4.

In the graph below, we built a buffer zone close to the entry point by multiplying the ATR by two and adding it to the entry price. Entry order was placed in the center of the zone.

- Pullback and Signal to buy
- Buffer zone (24 pips)
- Center of the Buffer Zone
- Value of ATR is 12 (ATR"2 = 24 pips)



Key Takeaway

Optimize entry points by measuring the average volatility of intraday price action with the fractal or ATR methods. Observe and analyze the results.

Chapter 08

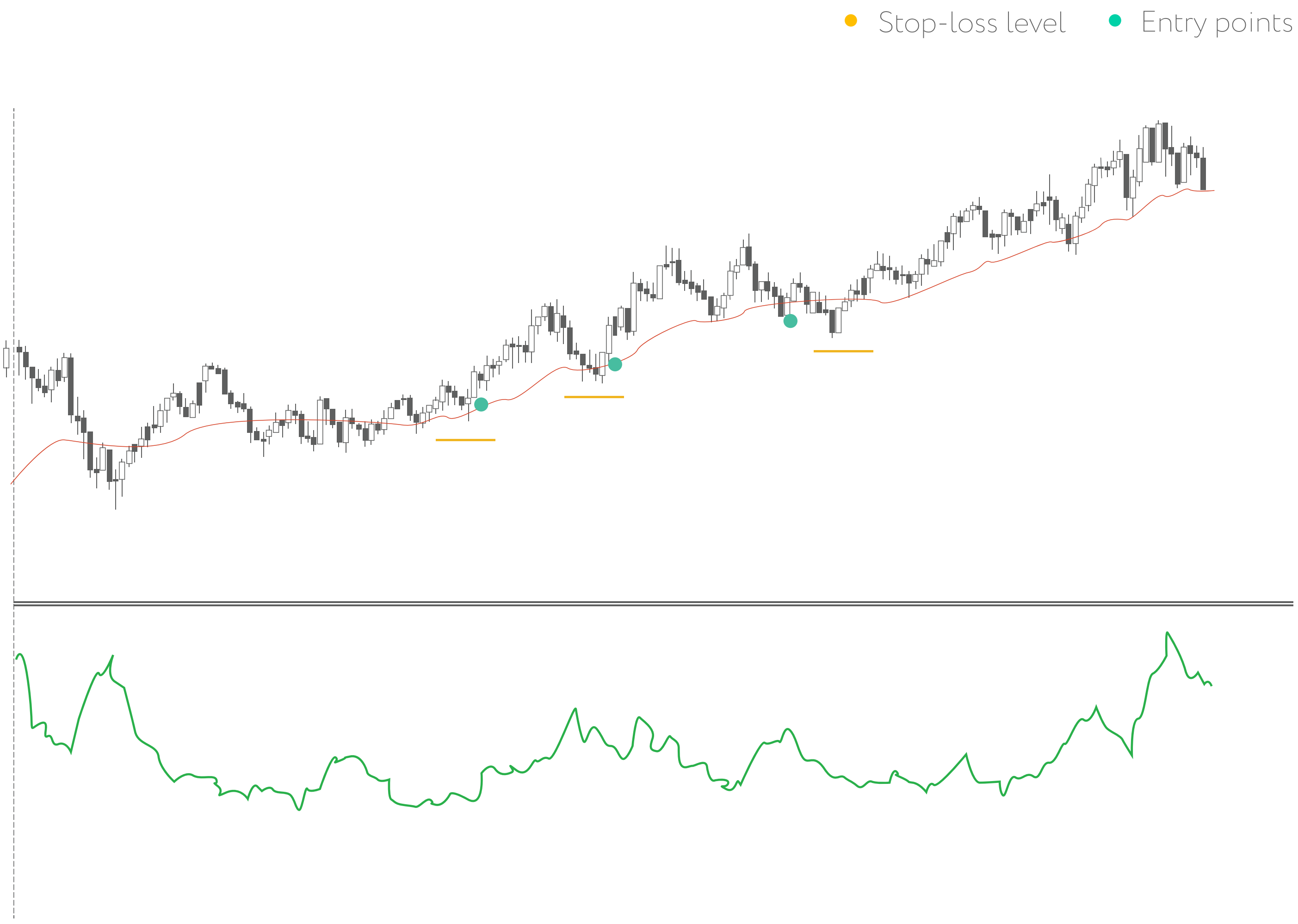
Adjusting stops according to market's volatility

Adjusting stops according to market's volatility

Adjusting stops according to the market's volatility is a pretty simple and straightforward principle that many traders follow. Unless the intention is to go with a breakout or the market is expected to move quickly at that moment (momentum trading), stops should not be too tight; traders typically prepare for pullbacks and conduct tests before the market moves. Doing so allows them to hold a position and stay in the game.

A 5-minute USDJPY chart is shown in the example on the next page. As the price was going up, a buying position was entered after a pullback and an engulfing candlestick pattern was spotted. Taking risk management and position size into consideration, the stop loss implemented in this case was, again, ATR multiplied by two.

In general, part of the entries are usually made in both the active and comparably less active (rotational) phases of a trend. When the trend is active, one can place any stop—even four to five pips—which makes sense should the market move towards the rotational mode. This is also why most traders advice against tight stops, which can unintentionally jeopardize positions.

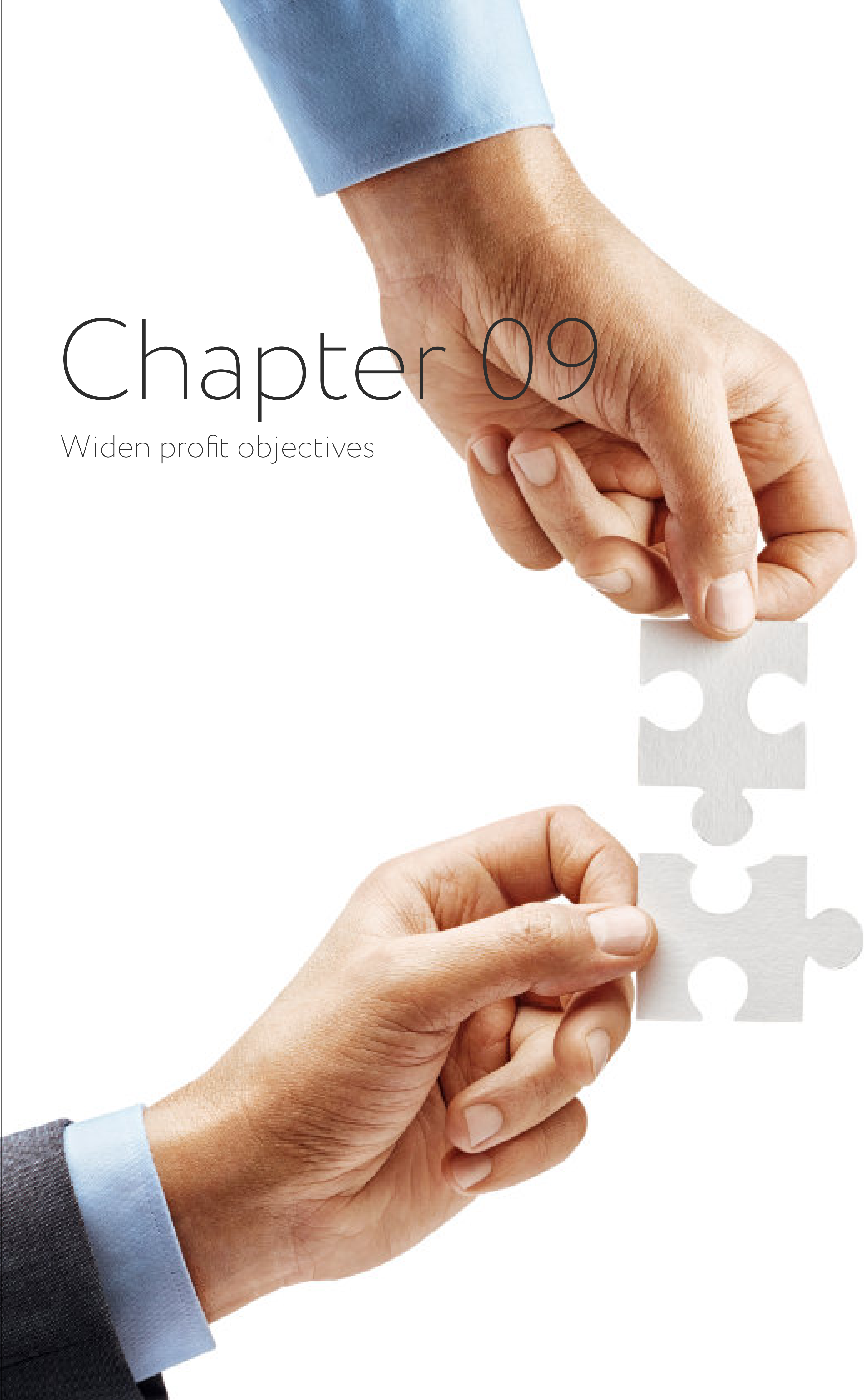


Key Takeaway

Not adjusting stops to current market volatility can lead to whipsaws. Using market volatility for stop placements is a common method employed by traders. However, one should monitor the changes in trading results to gauge the suitability of this method in one's trading style.

Chapter 09

Widen profit objectives



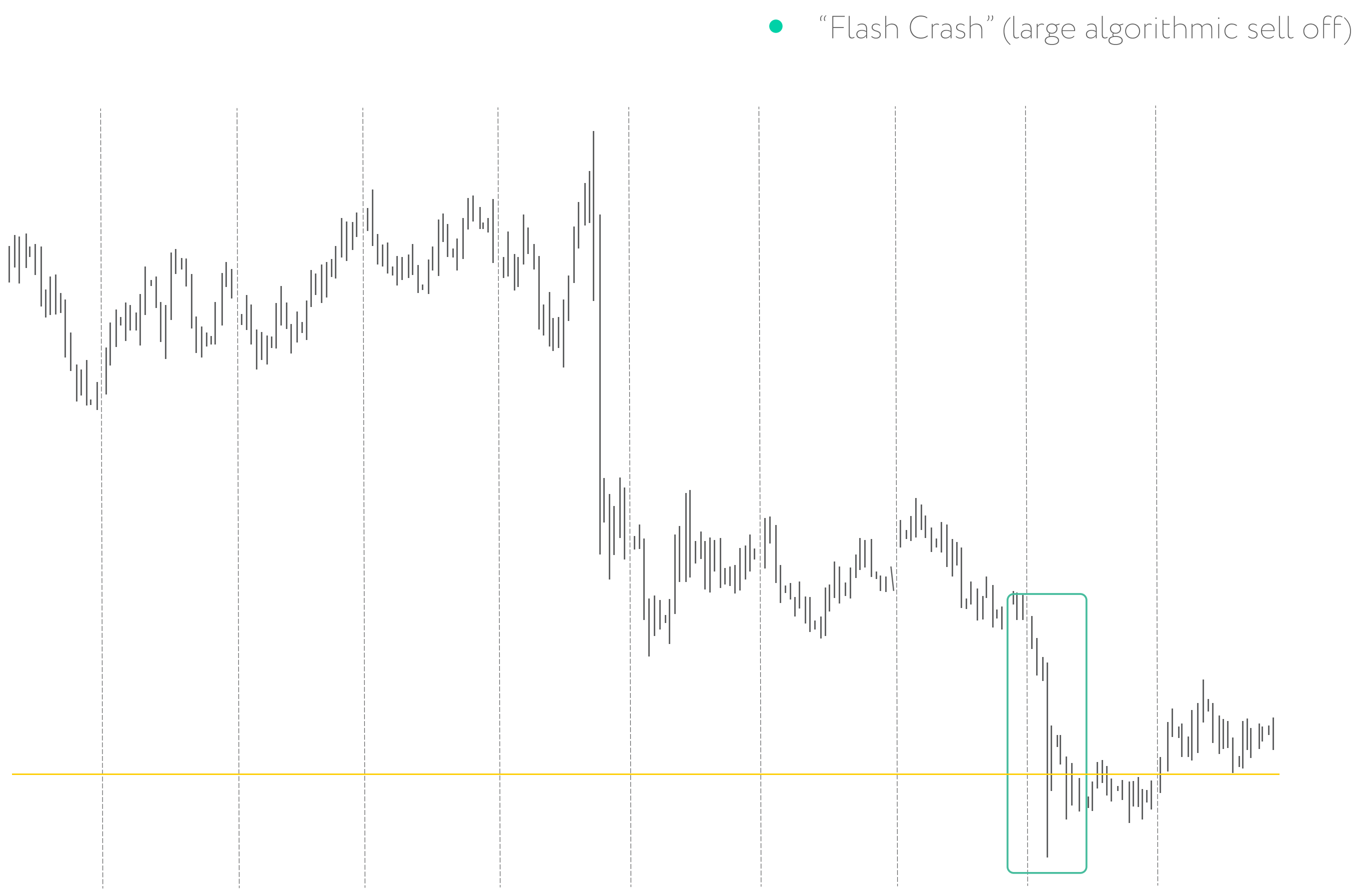
Widen profit objectives

Traders know that there are trading opportunities when they stick to their positions in volatile and turbulent phases of the market. “Let your profit run” is not just an old adage; it is a trading wisdom which can really help one bring his trading performance to the next level.

Today, the most consistently successful traders are those employing high frequency trading robots (quants) which are used by large hedge funds and trading firms. Their edge is built on fast access to marketplace. For retail traders, such technologies are unavailable.

However, the real edge of a retail trader lies in the ability to leverage volatility and unexpectedly large moves. Quant traders simply switch off their algorithms during that period, leaving the cake to retail traders (if, of course, the trader positions himself correctly at the right time). This is also why quant traders sometimes find themselves trapped, leaning against the doorframe while trying to exit their current trades.

Take a look at the GBPUSD chart below, taken in October 2016:



A large sell-off, supposedly initiated by algorithmic activity, presented a retail trader with an opportunity. Should a trader have had a short position on his account, he would have seen a rapid growth on this day.

Although the price bounced back later in the day, the trader would have had more than enough opportunities to fix increased profit.

A key observation here is that the price consolidates with very low volatility near the extremes of the intermediate term for a period of three to five days. This usually happens before massive breakouts. There is no evidence that a breakout will necessarily occur, but should it happen, the payoff would be substantial.

Traders who seek such opportunities usually let some of their profits run (see Chapter 10) and work in the direction of the trend (Chapter 3).

Key Takeaway

When trading with the trend, keep an eye on tight trading ranges located close to the intermediate term's extremes over a period of three to five days. It is believed that the price can break from this range with unexpectedly large volatility. However, do note that trading in volatile markets can lead to greater losses.

Chapter 10

Manage the size of winning positions

Manage the size of winning positions

Most traders do not manage their winning positions, allowing them to run to take profit orders. While this sounds like a good idea, one should always manage his/her winning positions to avoid losing the entire profit made from positive trading.

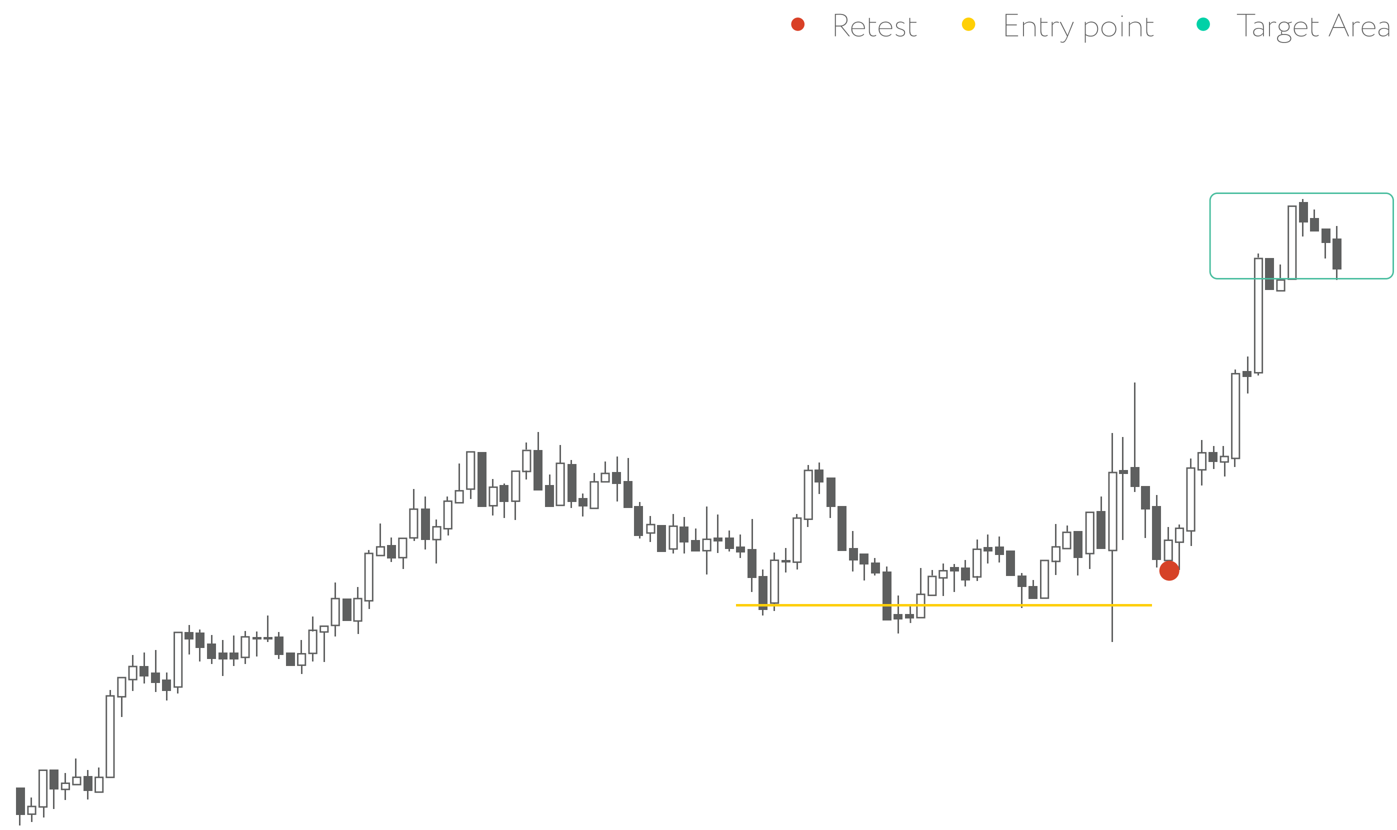
In an ideal world, allowing winning positions to run is perfectly fine, but reality works differently. Usually, only a portion of what you predicted happens—and that is only if you are lucky. Some of your trades may close with a loss (if they are managed with a stop loss), while some may give you profit, then take a turn when the market reverses, leaving you with a loss.

How, then, does one effectively manage winning positions? Also, does this mean that one needs to manage all winning positions?

- Firstly, there are two simple methods—the use of trailing stops and partial profit-taking. Doing so can help one smoothen his/her equity curve.

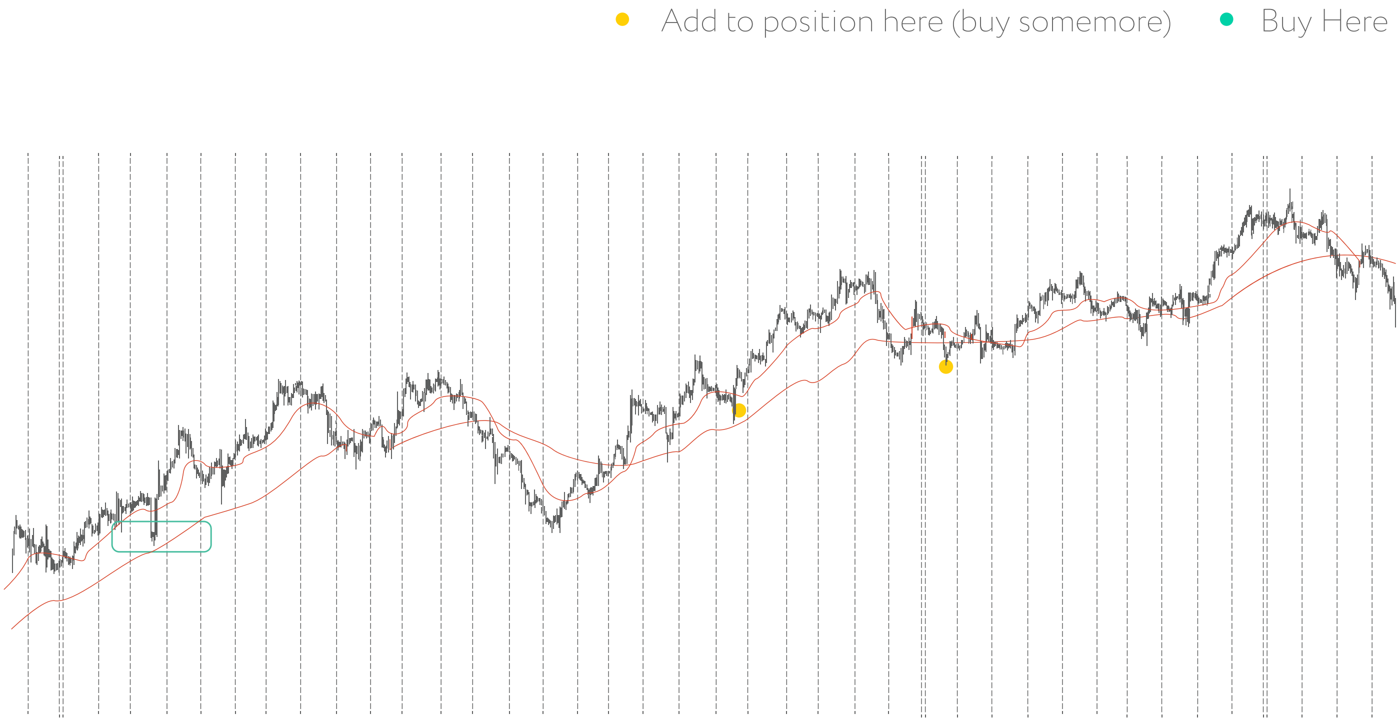
- Secondly, there is no hard and fast rule when it comes to the management of winning positions. Traders on the 5-minute day trading setup with close targets (15 to 30 pips), for example, may choose to not manage their winning positions as price actions can be rotational on small timeframes. By placing trailing stops in such a setup, the trader actually risks experiencing whipsaw.

When setting stop loss, it is wise to keep it beyond reasonable levels as one can never know exactly how deep a correctional move will be. So, when should one make an addition or partial exit?



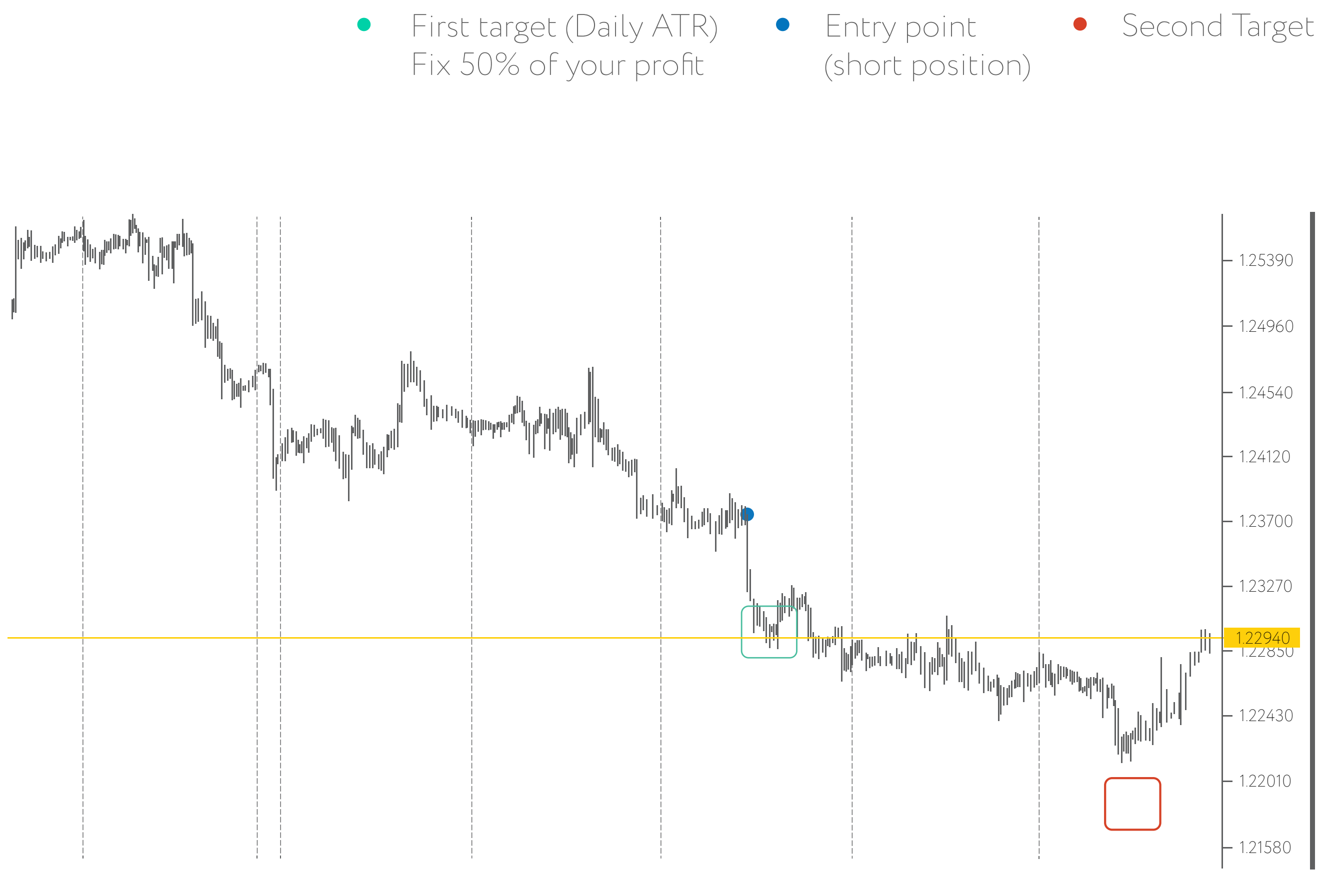
You may have heard that good traders add to their winning positions and never to losing ones. The latter part of this statement is true (adding to losing positions is not a good practice), while the former requires further analysis.

Statistically speaking, adding to a relatively long term (two to three weeks) winning position makes sense. The forex market rarely moves forward without pullbacks and consolidations, and it needs time to confirm a trend. Buying immediately after the price reaches a new high may result in disappointment as there is a possibility that the price will get better in the days to come.



Logically, adding to day trades and swing trades (one to three days) is typically not recommended.In most circumstances, professional traders make partial exits with two or three intermediate targets.

In addition, the odds of capturing a big move in short-term trading is very limited, which is why smart traders take profits as soon as they can. Below is an example of a partial take profit (achieved by placing a limit order that is half the size of the initial order) upon reaching the first target. The second target was a miss.



Key Takeaway

Flexibility is key to smooth and consistent trading performance. A good trader knows when to maintain his positions (e.g. in active day trades), make partial exits (e.g. in swing trades), add to his positions (e.g. in long term trades), and most importantly, to not let greed get the better of him.

About the author

Stanislav Bernuhov

A professional trader and trading coach with more than 15 years of cumulative experience, Stanislav Bernuhov specializes in various trading methodologies including price action, market auction theory, and unconventional chart analysis. Currently, he manages his own capital and mentors traders worldwide.

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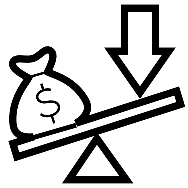

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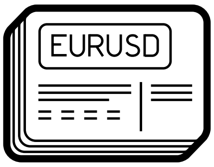
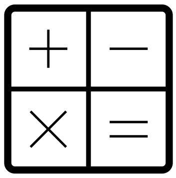
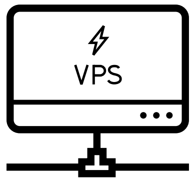


More than 120
currency pairs



Trader's calculator
and currency converter



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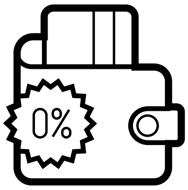
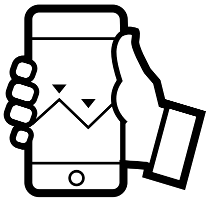


Variety of payment
systems with
0% commission

Tight spreads without
hidden commisions



Range of
trading platforms

Order execution
from 0.1s

OPEN REAL ACCOUNT

exness