THE ESSENTIAL GUIDE TO CURRENCY STRENGTH METER

WHAT IS A CURRENCY STRENGTH METER AND HOW DOES IT WORK?

Now, one of the struggles of a Forex trader is you've got many currency pairs to choose from.

For example:

You're bullish on EURO but, you have the option to trade: EURUSD, EURJPY, EURGBP, EURAUD, EURNZD, EURCAD, etc.

So which currency pair do you trade?

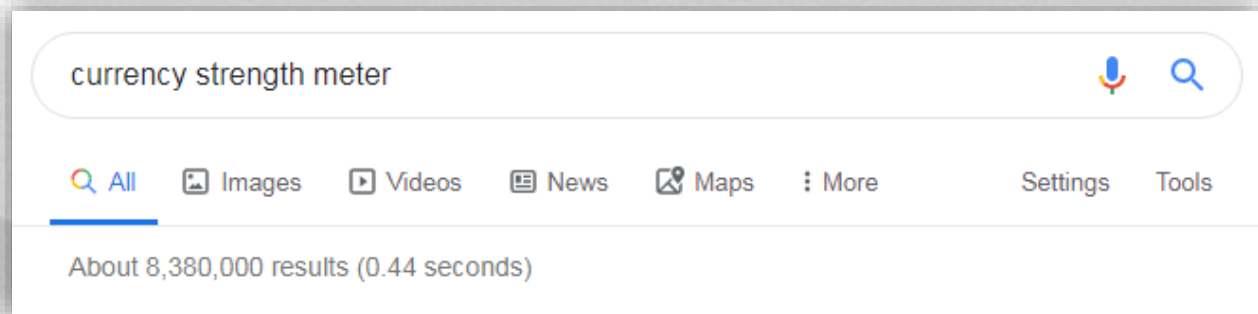Well, that's where a currency strength meter comes into play.

It helps you to identify the strongest/weakest currencies so you can pick the right currency pair to trade (more on this later).

But first, I want you to avoid these common mistakes traders make when using the currency strength meter…

DO YOU MAKE THESE MISTAKES WHEN USING A CURRENCY STRENGTH METER INDICATOR?

If you google "currency strength meter", it returns 8.3 million results — crazy.

And you know what's crazier?

Almost none of them tells you the pitfall to avoid when using a currency strength meter.

That's why traders lose money even with a "GPS" in their hands.

So here are the mistakes to avoid when using a currency strength meter (the stuff nobody tells you) …

Mistake #1: You randomly use a currency strength meter without knowing how it works

Now, a currency strength meter is like any other trading indicator.

There's a formula behind it to determine the strength/weakness of a currency.

But if you don't know the formula behind it, how can you trust the result of the currency strength meter?

What if the formula is wrong?

What if the currency strength meter only works on the daily timeframe but, you're unaware of it, and use it on the lower timeframe?

That's why no matter what tools or indicators you use, you must always know the formula behind it and how it works.

(And later, I'll teach you how to create your own currency strength meter so you have confidence to use it.)

Mistake #2: You use the currency strength meter to time your entries

Now, a mistake many traders make is to blindly trade based on the currency strength meter.

For example:

You identify what's the strongest currency pair right now and immediately buy, thinking the price will move higher — big mistake.

Here's why…

A currency strength meter isn't meant to generate buy/sell signals.

It only tells you which are the strongest/weakest currencies at a point in time.

Let me explain…

According to my currency strength meter right now, JPY is the strongest and GBP is the weakest…

(Don't worry, I'll show you how to create it later.)

Market	15-week ROC	Ranking
EURUSD	-1.06	JPY
GBPUSD	-4.26	CHF
AUDUSD	-2.02	CAD
NZDUSD	-3.09	USD
CADUSD	1.25	EURO
JPYUSD	3.38	AUD
CHFUSD	2.15	NZD
		GBP

But if you look at the charts right now, it's a bad time to short the GBP/JPY...

Why?

Because you're chasing the markets lower after it has made a big move.

There's no logical place to set your stop loss and you'll likely get stopped out on the pullback.

Next...

Mistake #3: The lower timeframe is prone to false signals

Here's the thing:

Most currency strength meters calculate the change in price (over a fixed period) to determine which currencies are strong or weak.

But this is prone to false signals on the lower timeframe.

Because high impact news can cause a "spike" in the price which misleads the strength/weakness of a currency pair.

That's why you want to use a currency strength meter which calculates the change in price from the higher timeframe.

And here's how you do it...

HOW TO CREATE A CURRENCY STRENGTH METER THAT WORKS (AND WITHOUT CODING)

All currency strength meter works in a similar manner.

The idea is to calculate the change in price over a given period and then determine which are the strongest/weakest currency pairs.

Of course, you can complicate things by adding formulas, weightages to different timeframes, etc. — and it'll not make much of a difference (besides confusing yourself).

So, for this currency strength meter, there's no complicated formulas or any complex algorithm.

Here's how it works…

1. Create a list of major currency pairs
2. Calculate the percentage change over the last 15-weeks (for the major currency pairs)
3. Rank them from strongest to weakest

Let me explain…

#1. Create a list of major currency pairs

The list includes EUR/USD, GBP/USD, AUD/USD, NZD/USD, JPYUSD, CADUSD, CHFUSD.

Now you're probably wondering:

"Why do you use JPYUSD instead of USDJPY?"

Simple.

You want to standardize USD as your quote currency so you can compare them "apple for apple".
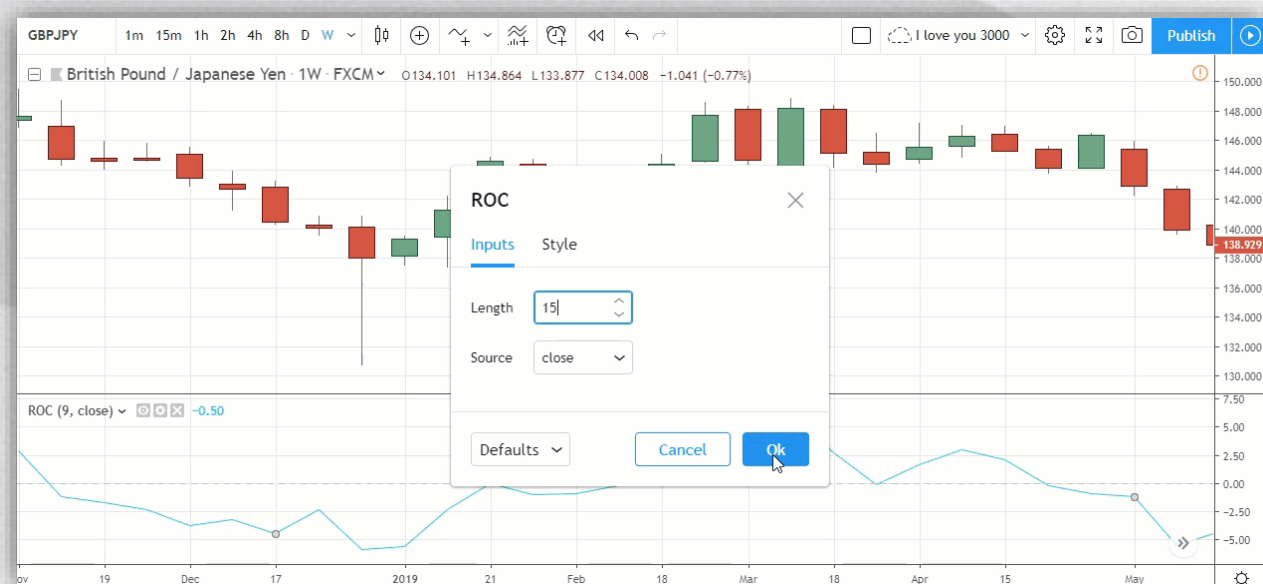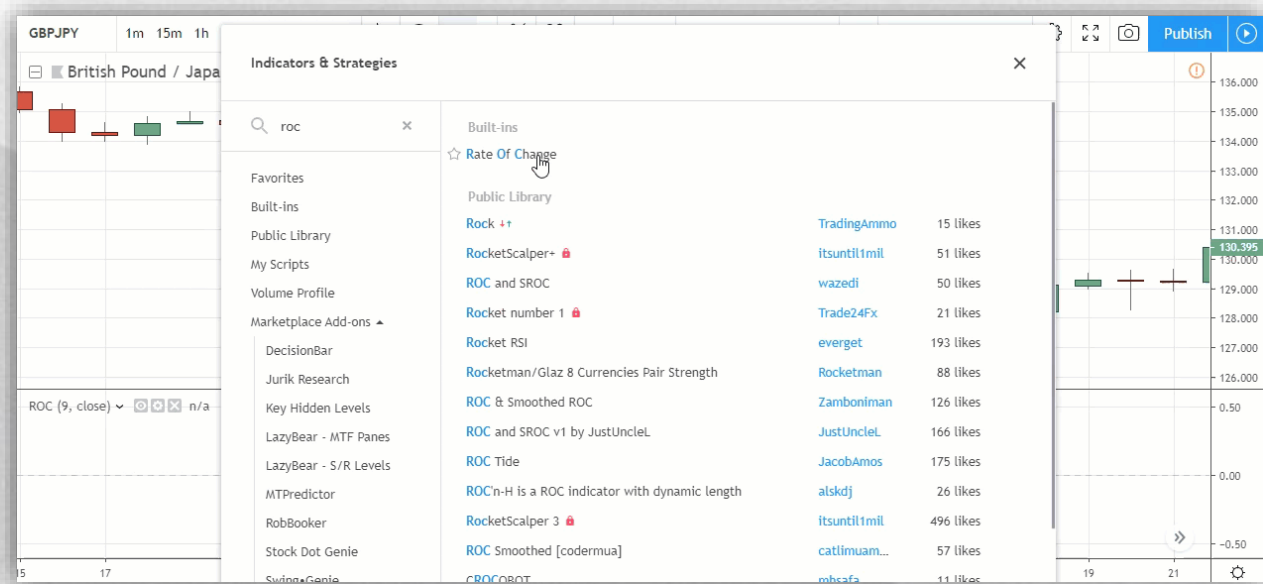
#2: Calculate the percentage change over the last 15-weeks

Here's how...

1. Insert the Rate of Change (ROC) indicator onto the weekly timeframe
2. Change the settings to 15-period
3. Do it for all major currency pairs

Here's how to do it on TradingView:

#3 Rank them from strongest to weakest

Now once you've got the values, you want to rank them from the strongest to the weakest.

The currency pair with the highest value would rank at the top, followed by the second, third, fourth, etc.

Here's how it'll look like on excel:

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EURUSD	-1.06	JPY
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AUDUSD	-2.02	CAD
NZDUSD	-3.09	USD
CADUSD	1.25	EURO
JPYUSD	3.38	AUD
CHFUSD	2.15	NZD
		GBP

Strongest → JPY, CHF
Weakest → NZD, GBP

Pro Tip:

You can add exotic currency pairs like USDZAR, USDTRY, USDRUB, etc. so you have more markets to trade.

HOW TO TWEAK THE CURRENCY STRENGTH METER FOR YOUR OWN TRADING STRATEGY

Now, by using the weekly prices to determine strength and weakness, you can avoid false signals from the lower timeframe.

But if you're a short-term trader, using a 15-week ROC as your currency strength meter is too long.

So, what now?

That's where you can tweak your currency strength meter for short-term trading.

So here are some guidelines for you:

- If you trade below the 4-hour timeframe, use 4-weeks ROC
- If you trade between the 4-hour and weekly timeframe, use 15-weeks ROC
- If you trade above the weekly timeframe, use 30-weeks ROC

Now at this point:

You know how your currency strength meter works (without any black-box algorithm). And you know how to tweak it to your own trading style.

So now the question is…

How do you use the currency strength meter for your own trading?

Well, that's what you'll discover next, so read on…

HOW TO USE A CURRENCY STRENGTH METER AND FIND THE BEST CURRENCY PAIRS TO RIDE MASSIVE TRENDS

Here's how...

Use the currency strength meter and pair the strongest currency with the weakest one — so you get a strong trending market.

For example, look at the currency strength meter below...

You can see GBP is the weakest and JPY is the strongest.

And when paired together, you get GBP/JPY which is in a strong downtrend...

Remember:

A currency strength meter doesn't help you time your entries. It helps you filter out the best currency pairs to trade.

This means you need a trading setup to get you into a trade (like breakouts, pullback, candlestick patterns, etc.).

If you want to learn how to time your entries, then check these out...

The Complete Guide to Breakout Trading

The Monster Guide to Candlestick Patterns

The Shooting Star Trading Strategy Guide

HOW TO USE A CURRENCY STRENGTH METER AND FIND THE BEST CURRENCY PAIRS FOR SWING TRADING

When it comes to swing trading, you want the market to be either in a weak trend or range — so you can capture a swing within it.

So can a currency strength meter help with it?

You bet!

Here's how…

You want to pair currency pairs which are of similar strength or weakness.

An example:

If you look at the currency strength meter below, EURO and AUD are ranked closely to one another (both relatively weak).

And if you pair them together, you'll get EUR/AUD which is in a weak trend now…

And as a swing trader, you could look for buying opportunities around the 1.6000 – 1.5900 area.

If you want to learn more about swing trading, then check these out…

The NO BS Guide to Swing Trading

Swing Trading Strategies That Work

CONCLUSION

So here's what you've learned today:

- A currency strength meter calculates the % change in price to rank currency pairs from strong to weak
- A currency strength meter doesn't tell you when to enter a trade, it only helps you to filter for potential currency pairs to trade
- You can tweak your currency strength meter to adapt to different trading timeframes
- If you want to trade strong trending markets, pick a strong currency against a weak one
- If you want to capture swings in the market, pick currencies of similar strength or weakness