Title:
Bollinger Bands - How to Use Them to Make Massive Profits

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Summary:
Here we have related Bollinger bands to the currency markets (as it is here that they are most useful) - but they are useful in all financial markets.

What are Bollinger Bands?

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Article Body:
Bollinger bands will help you to predict big trending moves, act on big trend reversals and finally, time trading positions with greater accuracy for bigger profits.

Here we have related Bollinger bands to the currency markets (as it is here that they are most useful) - but they are useful in all financial markets.

What are Bollinger Bands?

Developed by John Bollinger, Bollinger bands are volatility bands drawn around a simple moving average.

You calculate Bollinger bands using the standard deviation of price over the same period as moving averages and plotted as lines above and below the moving average.

As moving averages have been traditionally used to identify the underlying trend, Bollinger bands combine this with the volatility of the individual market (or the standard deviation) - to plot a trading envelope.

The distance between upper and lower Bollinger bands reflects the volatility of the market traded.

As prices force themselves away from the longer-term average, the standard deviation rises - and thus the bands will fluctuate in varying amounts, away from the average.

Why Bollinger Bands Work

In any market, the value of currency traded tends to rise slowly over the longer term.

Prices may spike short term, but will normally dip back to the longer term moving average (the centre band) - which represents realistic value.

The volatility of the outer bands therefore gives us an indication of how volatile prices are - and how far away price is from longer-term value.

Most price spikes are caused as much by trader psychology, as the supply and demand backdrop - and this scenario is reflected in the concept of Bollinger bands.

Why are Bollinger Bands so useful?

Bollinger bands perform three major functions for traders:

1. Spotting a Breakout and New Trend

Markets move between low volatility trading ranges, to high volatility trending moves.

When a market makes trades in a narrow range, the Bollinger bands will narrow together and this shows a market with extremely low volatility - however this is a warning that a high volatility trending move is likely to follow.

When prices break above or below the upper or lower band, it is an indication that a breakout and trend is about to develop - traders will then take a position in the direction of the breakout, and try to ride the trend.

2. Timing Entry Levels in a Trend

We all know long term currency trends last for months or years - but we need to get in at the best risk / reward level.

Bollinger bands will help get you in to the trend and time your entry.

All you do is watch for dips toward the centre band - and enter in the direction of the trend - it really is that simple!

To time your entries with greater accuracy, and filter out “false” breaks we recommend using a momentum indicator - such as stochastics, to confirm the move.

3. Spotting Market Reversals

When the price touches the top of the band, a sell is generated, and prices should revert back to mean, or the middle moving average band.

If the price touches the bottom of the band, traders can buy a currency, assuming that it is oversold, and will rally back towards the top of the band.

The spacing, or width of the band, is dependent on the volatility of the market, but gives traders a clear indication of where prices will go, and when to enter.

A Word of Caution!

Bollinger bands are a useful tool - but need combining with other indicators, as with any single indicator, they should not be used in isolation.

We personally feel Bollinger bands should be used with basic charting, to get the big picture - and the best timing indicator is the stochastic as stated, to filter out “false” signals