FOREX RANGE TRADING

WITH PRICE ACTION

FOREX TRADING SYSTEM

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By Laurentiu Damir

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Introduction

It is well known and generally accepted that in about 80% of the time, the financial markets are moving sideways. If you are a day trader then you will probably not agree, but if you take the time and zoom out to a high enough timeframe you will find out that this is actually true. The financial markets just do not have it in their nature to make a new historic high or a new historic low too often. Most of the time they move up and down repeatedly, without going higher past the historic high or lower past the historic low. This is a range bound market.

Ranging markets are the things that give the most headaches to forex traders. The majority of traders out there trade with the trend, they have a trend following system and they wait for that system to provide them signals or setups to enter into the market and trade. When the trend ends or stops for a period of time, those trend following systems start to give false signals and the trader has a good change unfortunately to lose all the profits previously earned. Or, in a best case scenario, they can judge for themselves when the trend has ended and just decide to play it safe and stay out of the market for a period of time. This is obviously better than the first option but it is still not good enough. A market moving sideways usually offers excellent trading opportunities as long as you are able to identify in a very early stage the trading range and then read the price action to enter and exit the market. The ability to recognize when the trend ends and a trading range is just beginning to develop can be the difference between success and failure in forex trading. Knowing how to spot a trading range in its early stage will not only keep you out of losing trades but it will also give you an edge as you will start to trade successfully when the market moves sideways and often times make even more profits than trading with the trend.

This is what this book provides, a range trading system for the frequent time periods when the forex market moves sideways in a tight range. The system is based solely or reading the price action, it doesn't use any technical indicators or anything resembling technical indicators. All of this being said, let us move on to the actual trading system.

Spot a Trading Range Early with Price Action

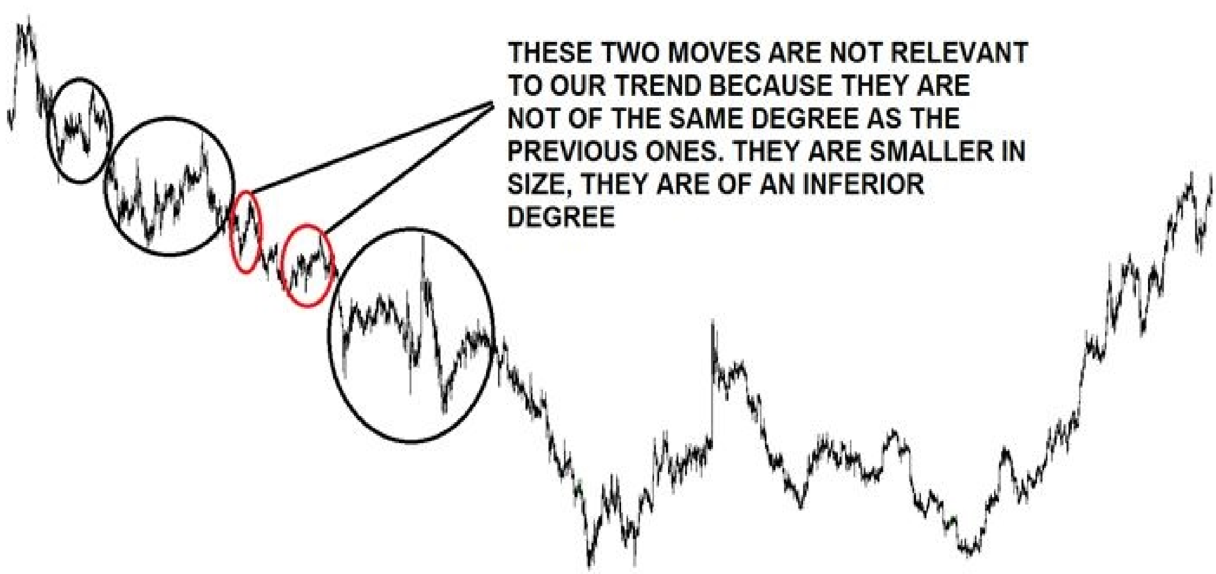
First of all, in order to be able to do this you must first have knowledge from a technical point of view of how to differentiate between a trending market and a ranging one.

Trending versus Ranging Market

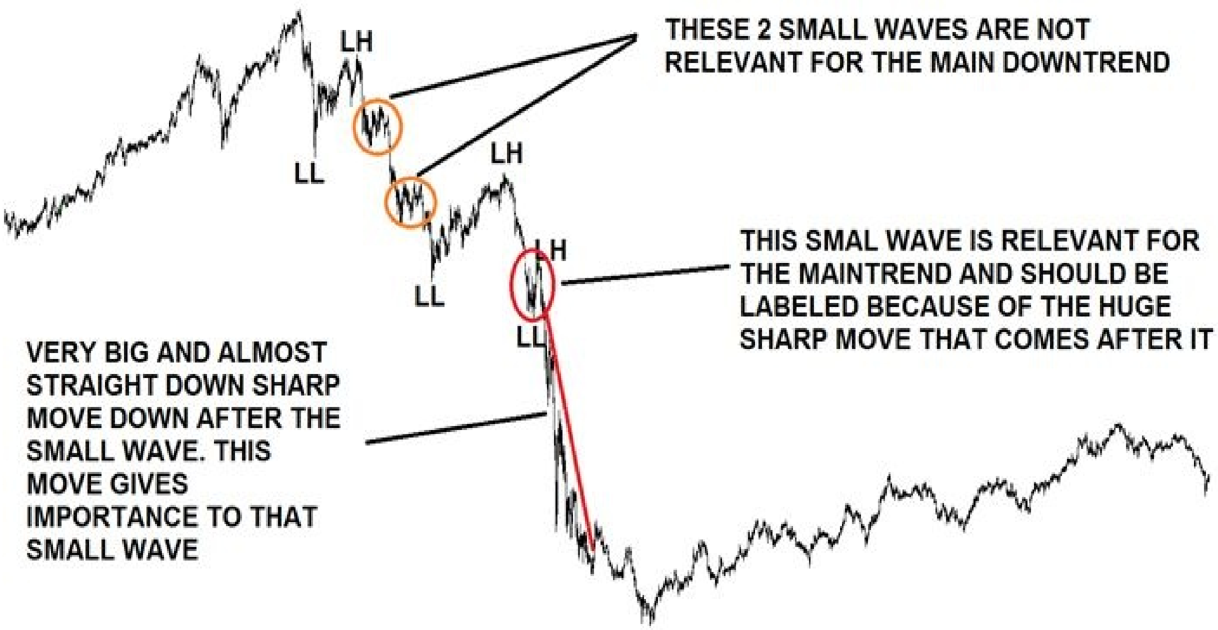
If you look at any forex pair on any timeframe you will see that when price moves strong in one direction it makes strong impulsive moves followed by smaller correctional moves that are pointing against the direction of where the pair is clearly going. That is a trending market with a clear direction and determination of the pair to go up or down. Let's see an example of such a trend.

As you can see, in a trending market, in this case we have a down trending pair, the trend has a clear down direction but after those impulsive moves down, it stops to take a breath and correct itself. This generates smaller counter trend moves. After the correction phase, the trend down resumes and goes further down. This type of price movement generates swing highs and swing lows in the market. The points in the diagram above marked as LH are the lower highs or swing highs of the trend and the points marked as LL are the lower lows or swing lows of the trend. An impulsive move in the direction of the main trend is every strong move down in this chart that starts at a LH and ends at a LL. A correction move is every small counter trend move in the chart above that starts at every LL and finishes at every LH. Let's see the same trend again to illustrate this.

An important thing to always consider when judging a trend and trying to correctly label its highs and lows is the degree of the moves. Please notice in the example above that I have only labeled as LH and LL the price moves of roughly the same size or amplitude or degree. Those smaller moves inside the bigger moves are not relevant to our main trend. Let me illustrate this.

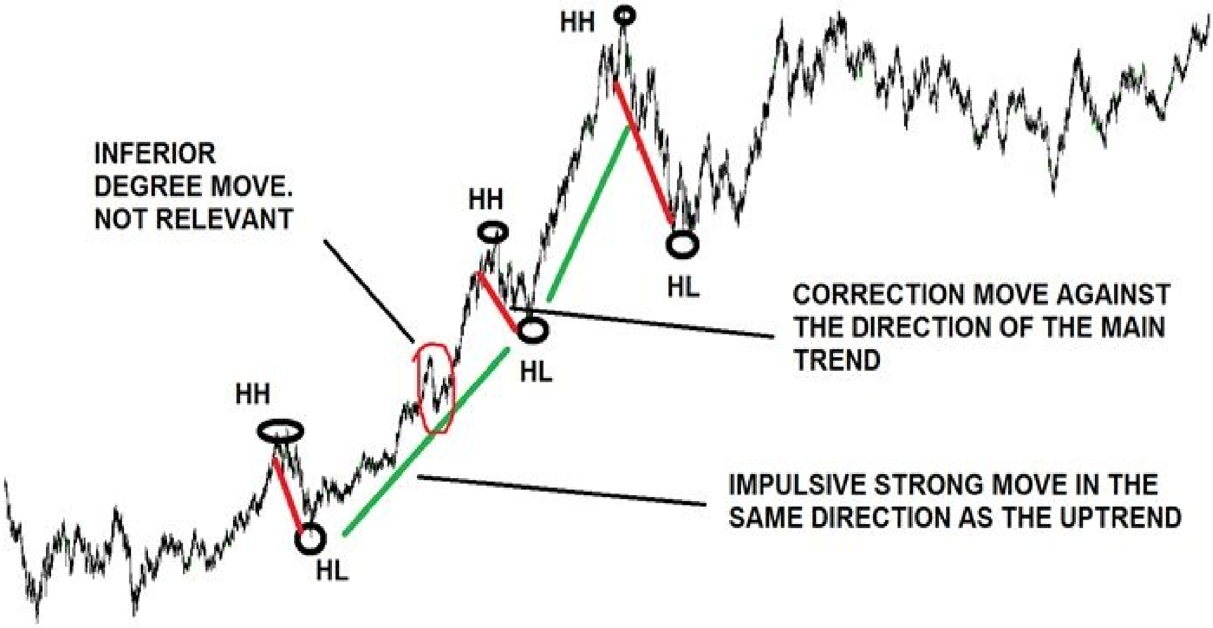


In the same downtrend you can see there two small correction moves that do not qualify to be taken into consideration. They could be relevant for a downtrend on a smaller timeframe, but for this 4 hours timeframe trend they do not matter because they are of an inferior degree. There is however one exception to this rule. Small waves like the one above should be taken into consideration when labeling the trend only if the impulsive move that follows that wave is huge in length and very sharp or steep. Please look at the chart below.



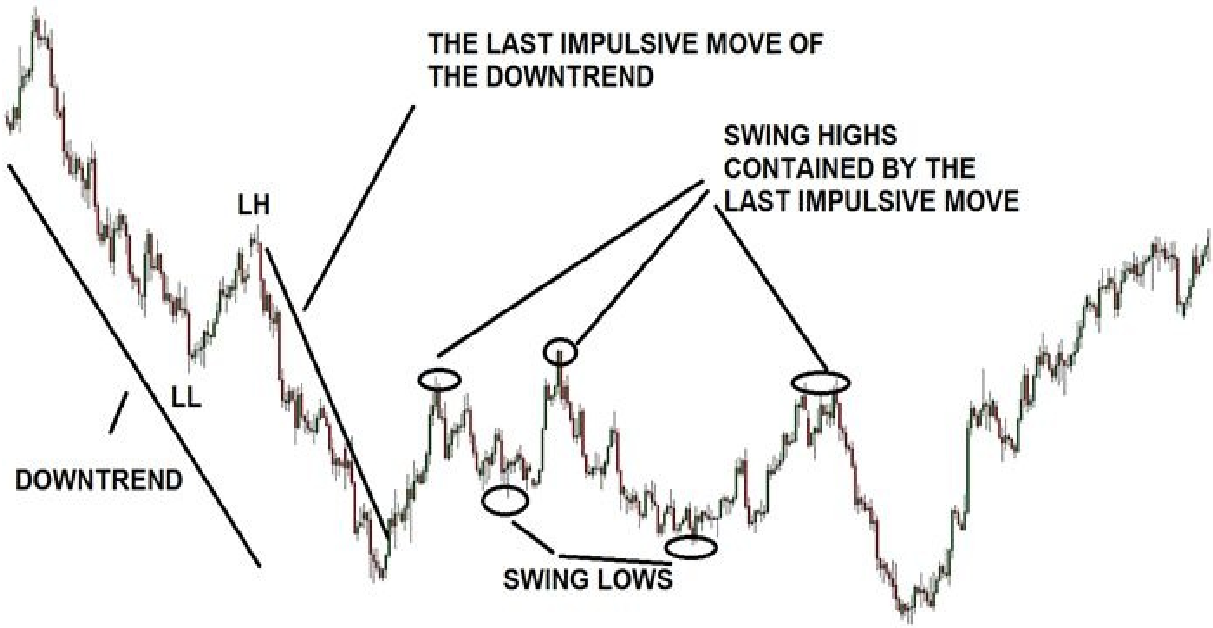
Please note that all three small waves in this chart are of the same degree or size. The difference between the first two and the last one is made by what price does after them. In the case of the first two small waves circled in orange price behaves rather normally after making them in the sense that the impulsive moves that follow are small themselves and match their preceding waves. These two are not to be taken into consideration when deciding on how to label the trend. The third small wave circled in red is different because of the huge and very sharp move down that follows. That move validates the small wave and gives it importance. As a consequence, this small wave is relevant to the main trend and should be labeled as a new pair of lower high and lower low in the downtrend above. As guidance, you should label the waves of an inferior degree like the one in the above chart if the impulsive move that follows after it is at least 4-5 times greater in length than the wave itself.

You can see if that is the case just by looking at the chart, you do not have to measure exactly the number of pips. This is the only exception that you should make with small waves when labeling your trend.
An up trending market looks the same way, the only difference being that the trend is up and, as a consequence, the big impulsive moves within the trend are pointing upwards and the correctional small moves are pointing downwards against the trend. Let me illustrate this.



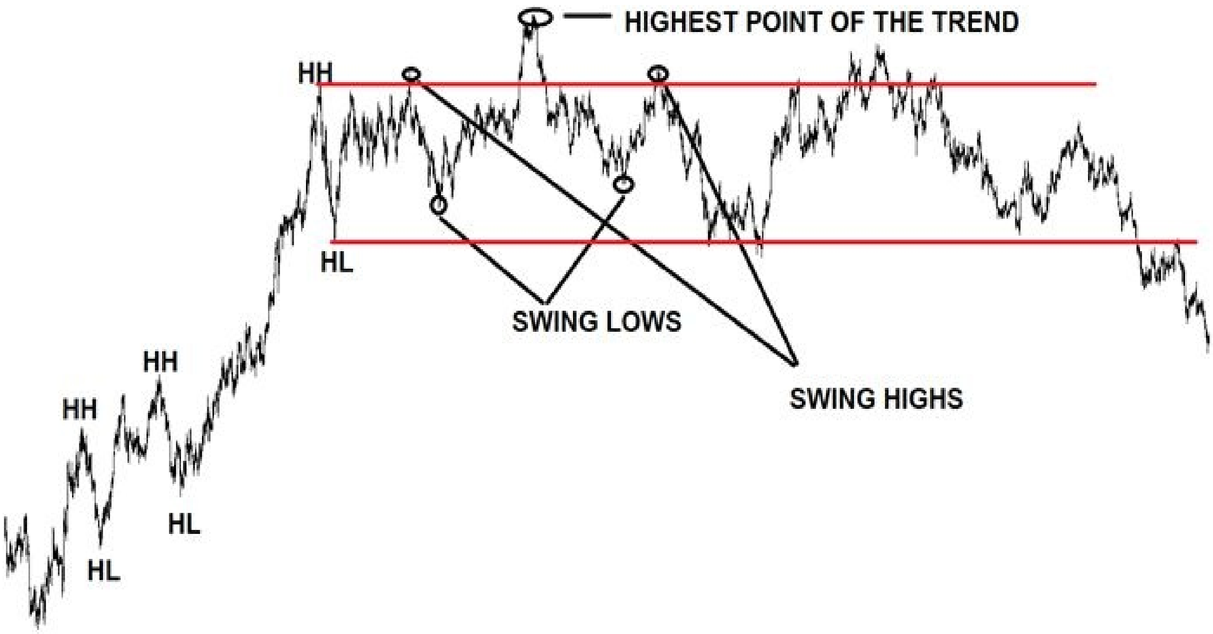
In this example you can see an uptrend. Price is moving up alternating impulsive moves in the same direction as the trend with correction moves against the direction of the uptrend. The price moves marked with green lines are the impulsive moves and the red ones are the correction moves. The small move circled with red is of an inferior degree and it should not be labeled as a HH-HL pair because it is too small when compared to the other ones to mean something for this big 4 hours timeframe trend. This is a trending market from a very technical point of view. The trends move in waves creating highs and lows in the market. You should always label your trend's highs and lows as this will become important when judging if a trading range is starting to develop.

Also from a technical point of view, a ranging market is one that is not behaving like in the examples above. A sideways market in characterized by the fact that price is not making new highs and lows anymore, instead it begins to make swing highs and swing lows inside the territory of the last impulsive move. Let me illustrate this.



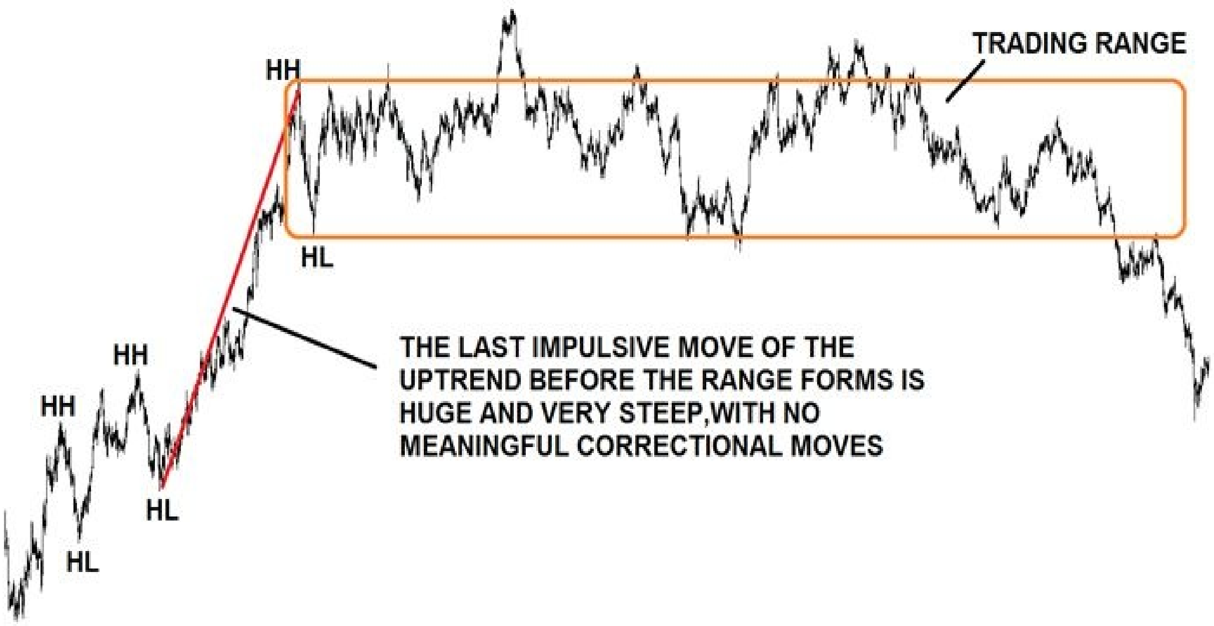
In this example there is a clear downtrend. Price makes a wave that we label as a pair of lower high and lower low. After that second impulsive move down price fails to go below and make another pair of LH-LL. It is starting to move sideways and makes swing highs that stay below the last LH and swing lows that stay above the lowest point of the trend. This is a pair that has entered in sideways movement. Until price goes up past the last lower high or it goes down past the lowest point of the downtrend this pair will remain in sideways price activity and should be treated accordingly. Let me illustrate this clearly.

In conclusion, this is the difference technically speaking between a trending market and a sideways market. When trending, the market makes new highs and lows all the time, when in sideways mode, the trend pauses and the market makes highs and lows inside the territory of the last high and low. When you see this kind of price behavior you should be extra careful about the trading setups your trend following system offers you. Let’s see another example of a trend turned into sideways movement but this time with an uptrend.

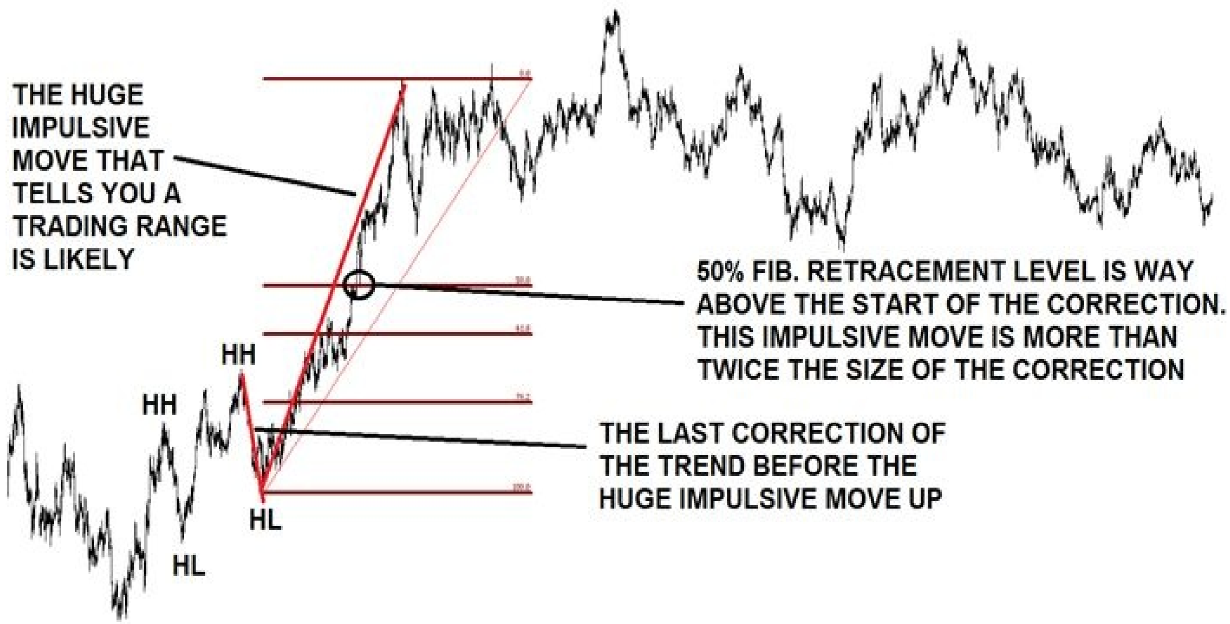


This is an uptrend as price is making new highs and new lows. After the third HH price tries to go further up and make a new HH but it fails and comes back down to make a swing high and a swing low contained by the last HL-HH pair. This is a strong indication that a range is about to develop. You will see later on what is the second thing on this chart that screams there will be a trading range. After that, price does manage to go further up past the last HH only to come back down shortly and make another pair of swing high-swing low inside the territory of the last pair of HH-HL. This was a very lengthy period of sideways movement and it would have been very profitable if spotted from its very beginning. Okay, it should be very clear by now how to use price action to see if a pair in trending or ranging.

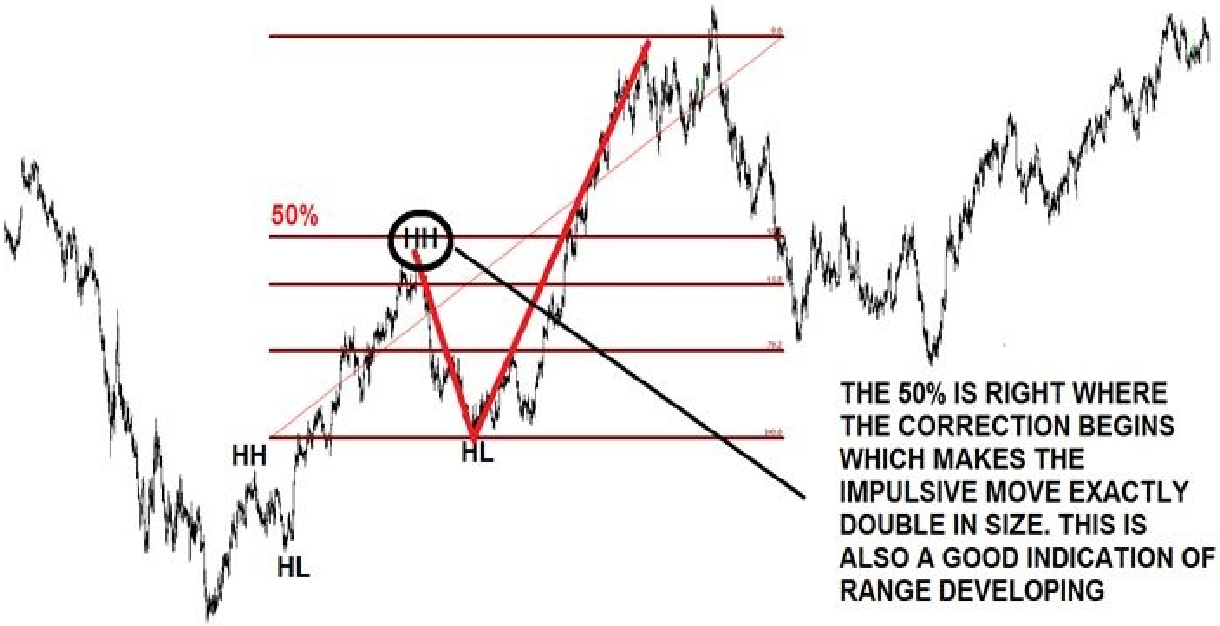
Strong Impulsive Move
Now that you know how a trending market and a ranging one look like it is time to start from the beginning and see how you can judge if a trading range is likely to develop just by looking at price action. If you look at all the ranging market examples above you will find that they have something in common. The last impulsive move of the trend or the strong move in line with the trend, before sideways movement starts to develop is very big and almost vertical, with no relevant corrections.



Whenever there is a trend is place and you are trading with it based on your trend following system, if you see such a big impulsive move it is time to stop what you are doing to and prepare yourself for a trading range. This is the first clue price action is giving you that the trend is about to end and the pair is preparing for sideways trading. Of course, this is not 100% accurate but in the majority of situations, when you see a strong directional move with no corrections like this one, it is very likely that the pair will start to trade sideways. This is the time to disregard your ”trade with the trend” trade setups and prepare for range trading. As a general rule, this strong and steep move should be at least two times bigger than the last correction move of the trend. You can use the Fibonacci retracements tool to judge this.



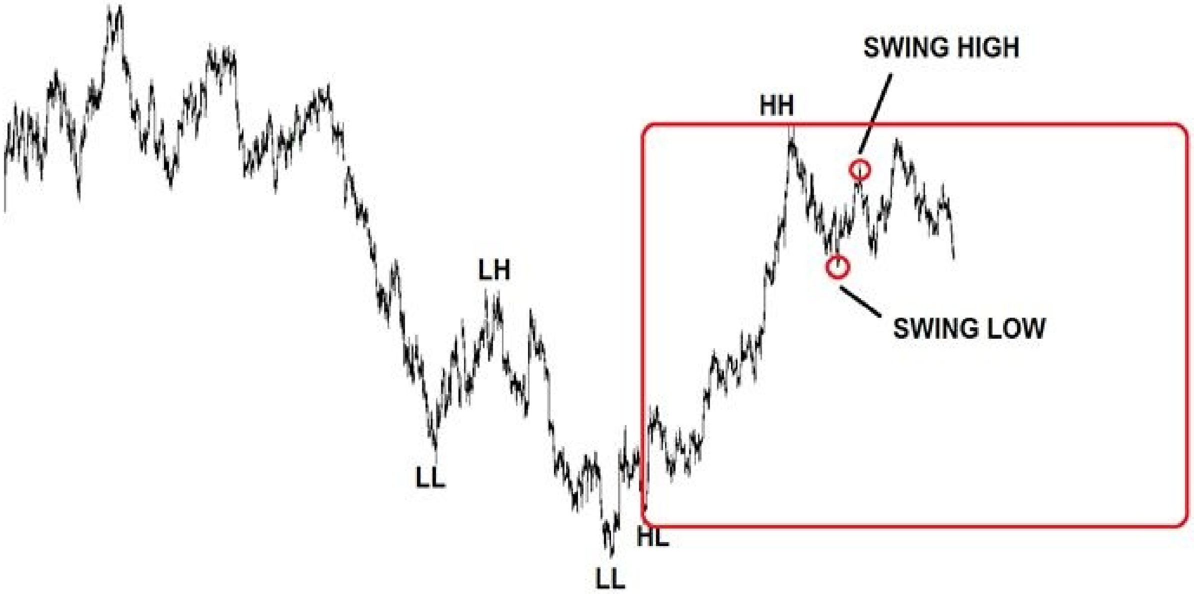
The last correction move that precedes the big impulsive move up is the small red line pointing against the uptrend. You can see by plotting the Fibonacci retracement levels from the start to the end of the impulsive move, that it is more than twice the size of the correction move. If the 50% retracement level was situated right where the correction begun at the second HH of the trend, then the impulsive move would have been exactly double the size compared to the correctional move. Let’s see one more example.



The logic behind this is the following. In these two examples the trend is up so the buyers are stronger than the sellers, they are in total control and they start from the bottom to push the price up. The corrections mean that these buyers are closing some of their orders and taking profits out of the market. When the correction unfolds and the price comes back down at an advantageous price they buy again and push the price higher. When they push the price up that fast and with no corrections it means that nearly all the people who wanted to buy that pair have done so and pretty soon there will be no one left to buy. At the same time, the huge amount of traders who went long will have to start to close their orders and take profits out of the market. That is the time when the impulsive move finally ends and the sideways movement begins. The buyers have pushed the price too high and too fast and they are exhausted, they will be taking profits for some time, they will not be pushing the price further up anytime soon. On top of this, if you look at the way trends behave you will see that if there is a small impulsive move, the following correction will match that move. If the impulsive move is huge like in the above chart, you should always expect the correction move or trading range to be sizeable in length and in time. The bottom line is, when a strong and steep impulsive move without noticeable corrections takes place, you should always prepare yourself for range trading. This is not a mandatory condition for a trading range to take place, there will be from time to time trading ranges without huge impulsive moves preceding them, but I have found that in about 90% of situations they form after moves like this.

Swing High-Swing Low Rule
If the big impulsive move preceding the range helps a lot but it is not a necessary condition this one is the number one rule when it comes to identifying a range and it is mandatory. This refers to what we talked about earlier when discussing the technical differences between trending and ranging markets. After the strong impulsive move, you have to see price making a swing high and a swing low that are confined in the recent price action territory. Let me illustrate this.

The trend is down. After making that last LL, price stays above it for a while and makes a first swing high and a first swing low without going higher than the last LH or lower than the last LL. This is a very clear indication that the trend has stopped or paused and a trading range is very likely to develop. As long as the price stays confided in that red rectangle this pair is moving sideways and you should look to trade a range if one forms. Let’s see another example.

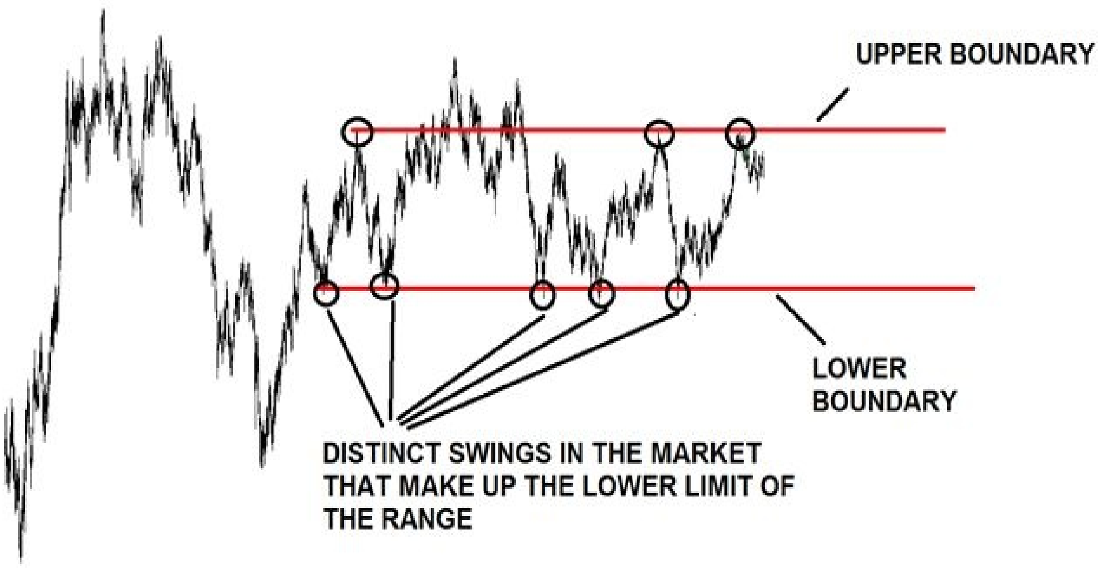


The same thing happens here. The trend changes from downtrend to an uptrend after which price makes a swing low first and a swing high after it, both of them inside the recent price action territory. This is how trading ranges start and this rule of the swing high and swing low must always be respected. Please note that the swing high and the swing low must be relevant for price action on the timeframe you are in. Make sure that they are of roughly the same size or degree as highs and lows of the surrounding price action. This is the same situation like the one you have when labeling the trend's highs and lows. Let me illustrate this.


LH
LL
LH
LL
SWING HIGH
SWING LOW
THESE 2 LITTLE WAVES ARE TOO SMALL TO BE CONSIDERED AS PAIRS OF SWING HIGH-SWING LOW AND A LIKELY BEGINNING OF A TRADING RANGE

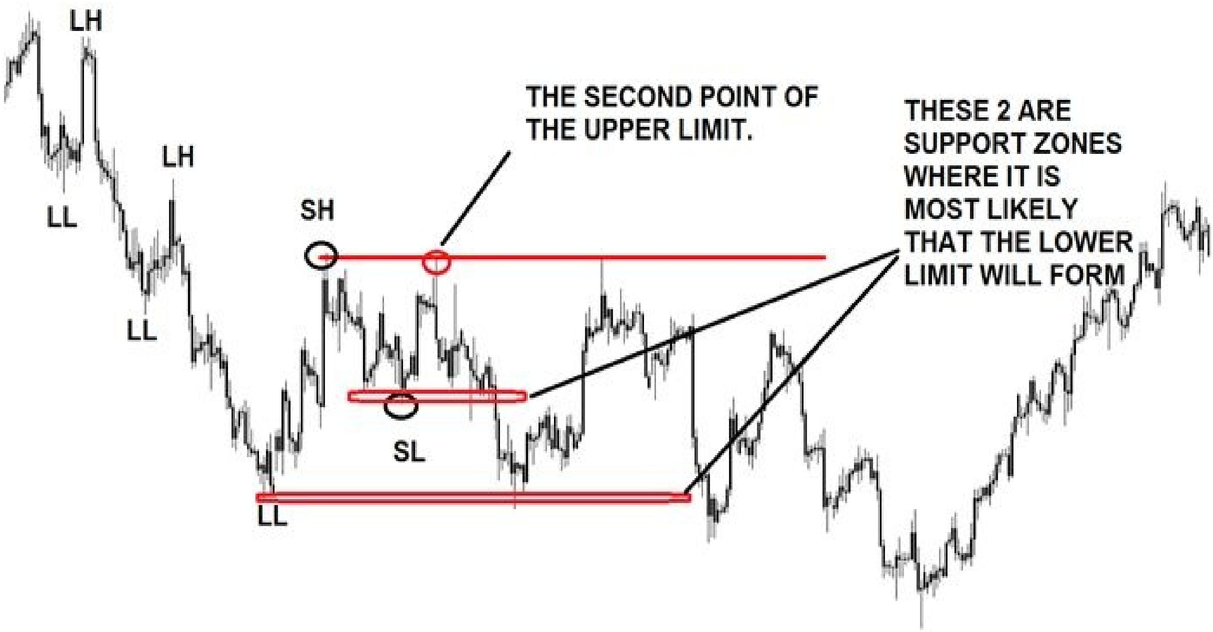
Identifying range boundaries early

Okay, after a big impulsive move and after the price makes a relevant swing high and swing low inside the territory of recent price action you should do the following. In order to spot the range very early you should always assume that a trading range is about to develop and start to look for its boundaries with the help of support and resistance levels. This is a very important part of this range trading strategy. Most traders and books you read about range trading will tell you that by definition, a range has formed when you can draw two horizontal lines on the chart with each of them connecting at least two distinct points in the market. Let me show you a text book trading range.



This trading range is already very well defined in the sense that it has 3 distinct points that make up the upper limit and 5 distinct points that make up the lower limit of the trading range. This is a very mature range and it will probably be broken in the near future as it has held for quite some time. In order to make profits trading a range you have to be able to spot it even before it actually forms. The definition that says you have to have at least two distinct points to make up the lower limit and two distinct points that make up the upper limit is correct, there is nothing wrong with it in theory. But, when put in practice you will very often find out that waiting for two distinct swings on each side is not a very good idea. On many occasions, by that time the range will be over and you will be trading it right when it is about to break. I personally have a different approach when it comes to drawing the boundaries of the range. This has been tested and traded by me over and over again with excellent results.

Instead of waiting for two points on each side you should only wait for two points on one side. After that, you will use support and resistance and price action reading to discover the second distinct swing on the other side. Let me give you a first example.

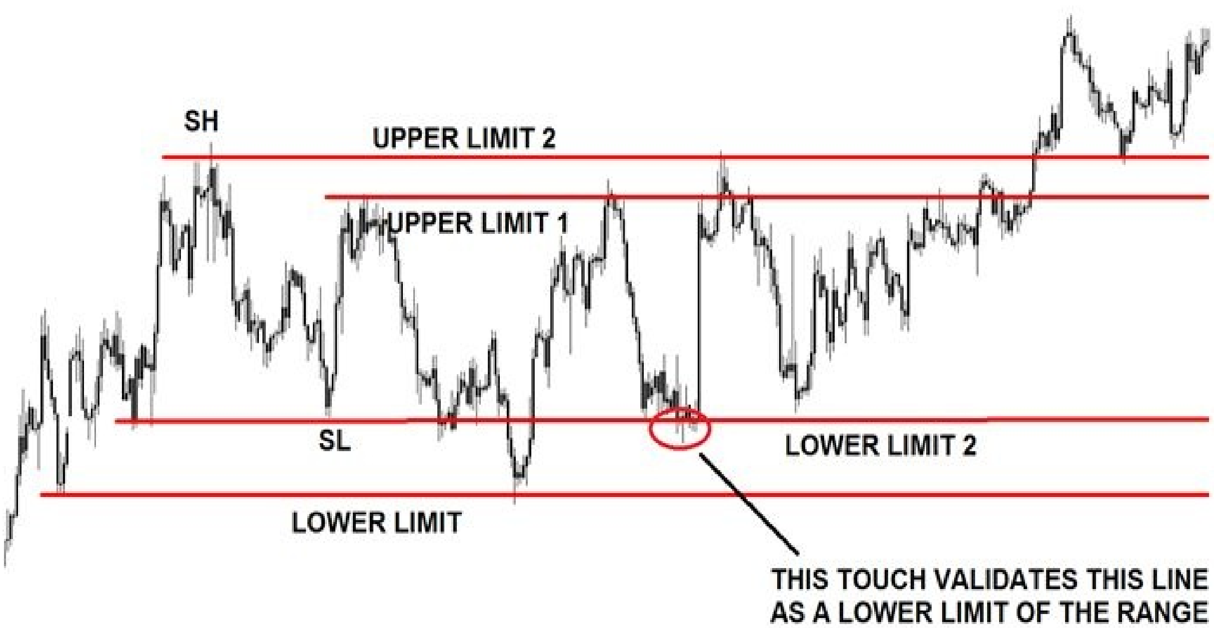


In this chart we have a downtrend. After the second lower high of the trend there is a strong impulsive move down which tells us that the downtrend could be over and a trading range could emerge. We do not know this for sure at this point so we have to wait for confirmation in the form of a relevant swing high-swing low pair inside the territory of recent price action. This indeed happened later as price starts a correctional move against the trend, goes up and down creating the swing high. After that it goes up again creating the swing low and the second point for the upper boundary of the trading range at the same time. We now have two distinct points that make up the upper limit of the range. Next, we try to find the lower limit with the help of price action. The first thing you should do is look at the chart and find the support zones in this case that could and are most likely to make up the lower limit of the range. In the example above, there are only two relevant support zones marked by those small red rectangles. The first is actually the swing low itself, the second is the last lower low of the trend. You draw at these points extended and parallel lines with the upper limit of the range and wait for the market to go there so you can read the signs of price action that will tell you where the lower limit is. This price action reading includes looking at the candlesticks and analyzing them, looking for reversal price patterns at these support zones, looking for diagonal support and resistance zones. You will learn more about this later in the book. For now, let me give you another example so you can understand better how to recognize the swing high, swing low and the first of the range boundaries that takes shape on the chart.

In this example, after price gives us the swing high and the swing low, we do not have any boundary of the range yet. We start to draw extended horizontal lines at the support and resistance levels relevant to the recent price action. The first support that we can see is actually the swing low itself so we draw an extended horizontal line at that level. Further down, we have a smaller support zone represented by that small swing low that we do not take into consideration precisely because of its size. I am talking about the small support that price makes at that big black circle. We draw a line here also. Next, we go even further down and we draw a similar line at the big support offered by the last LL of the downtrend. Now, we wait for the price to come down and react to one of our lines and reverse to give us the lower limit of the trading range. You can see that price stops and reverses at the second red line. This is the lower limit. Of course, you do not have to draw these lines at this moment because no boundary has forms yet. I just wanted to let you know how well you can predict where the range boundaries will be using simple support and resistance. It is at the second limit where we draw lines to estimate where it is most likely to be. Let me show you this chart again with the first boundary already formed.

So we are in this situation where the lower limit of the trading range has emerged. You will now try to estimate where the upper limit will be by drawing lines at resistance points.

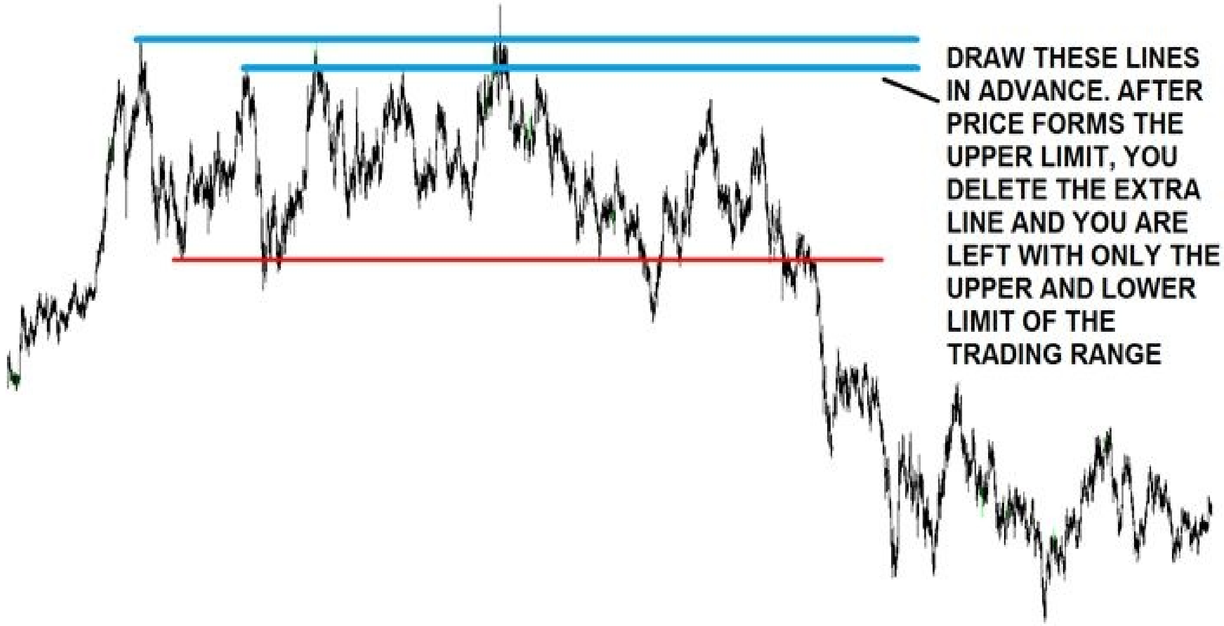
Price goes up, touches the first resistance and goes back down, this confirms that line as the upper limit of the trading range. After that, price comes back up again and this time touches the second red line and goes down again. This validates the second line too and confirms it as an upper limit. So you now have a trading range with two upper limits. Let's look at the same chart again.



You can see that after making the first upper limit, price goes down but not all the way to the already formed lower limit but only to the first support line and confirms that too as a lower limit by making a second touch on it and then reversing. So this is in fact a trading range with double boundaries on each side. Let's illustrate another example of how to find the second boundary of a trading range.

In this chart the trend is up, price makes a strong impulsive move with no corrections which is a good indication that sideways movement will take place. Price reaches its high and then makes a swing low and a swing high. The swing low is higher than the last higher low of the trend and the swing high is lower than the highest point of the trend. This is perfect. All you have to do now is to wait for the first boundary of the range to take shape. As illustrated earlier, most of the time, the first and then the second boundary take shape around the already existing support and resistance levels. In the example above, the price comes down to the area of support represented by the swing low. It stays there for a short time and then reverses, making that area the lower limit of the range. Notice that in its process to make this lower limit, price does not stop exactly at the swing low level, it goes slightly past it before reversing. This is perfectly okay, you will rarely see price stopping exactly at the level it should. It will almost always surpass it or fall short of it by a small amount of pips. This is why it is important that when you draw the extended horizontal lines on your chart that make up the boundaries of the trading range, you make sure that those lines join the swings or distinct points in the market. In the example above, the line should be drawn exactly as it is there, to join the swing low with the second swing in the red rectangle that price has just made. After you draw these lines, you should never change or adjust them. You can see that subsequent price action validated the red line as it reacted to it a couple of times. Okay, let's see now where the upper limit is most likely to take shape.

The chart above pretty much explains itself. The upper limit takes shape at the highest high of the uptrend. That upper red line should be drawn in advance by you, in anticipation that price will reverse there and make the upper limit. Another line should also be drawn at the swing high level which is the second point where the upper limit is likely to form. When you see that the upper boundary forms at the highest high you delete the line drawn at the swing high and you are left with only two line on the chart, the lower and the upper boundaries of the trading range.



After the second point of the upper limit forms right at your already drawn horizontal line you should employ price action to find a suitable level to sell this pair, you do not wait for the range to completely form. By definition, the range would be completely formed only when price makes the second touch on the upper limit and then reverses and goes down to confirm that level. This is often times too late and will keep you out of the market right in the initial phase of the trading range where range trading is the most profitable.

Trade Entry with Price Action

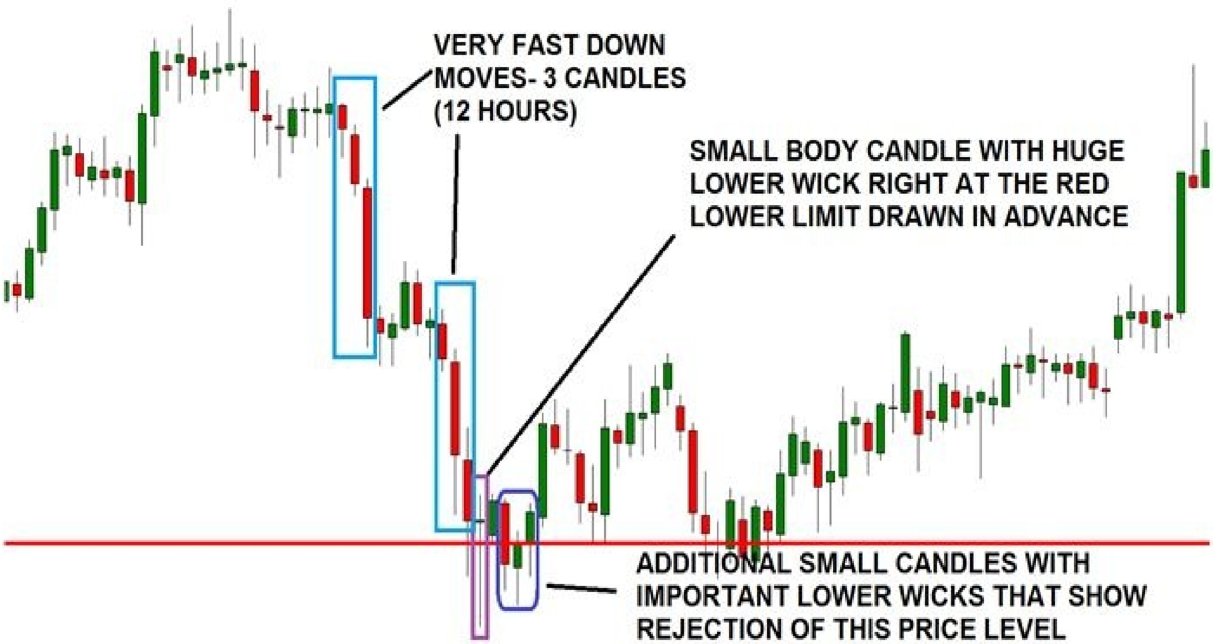
When you see that price is about to form the second boundary of the trading range at one of your already drawn extended lines, it is time to read the price action in order to confirm that the second boundary will take shape there and to enter the market and make some profits by trading the range. You do this by reading thoroughly the signals that candlesticks give you, by looking for reversal price patterns that signal price will change direction and go to the other boundary of the range and by watching diagonal support and resistance zones carefully.

Candlesticks

When trying to read the candlesticks to find clues about what price is most likely to do next you must take into account their shape, the context in which they form and most importantly, you always should take into account the time. Let me illustrate how you can enter a range trade just after price shows signs that the second boundary of the range takes shape by reading candles on your chart.

We have here the following situation. There is an overall downtrend and the price makes a swing high and a swing low inside the recent price action territory which is the signal that a range is most likely to form. More than that, price goes down to the lowest point of the trend and bounces back giving birth to the lower boundary of the trading range. Seeing this price behavior, you draw extended lines at the resistance zones where the upper boundary of the range has the most chances to form. Notice how price bounces back up from the lower boundary and travels north with ease, there are almost exclusively green candles in that move up and two of them account for a very big part of the entire move. This is the 4h chart so this means that in only eight hours the buyers have pushed the price up with great force and with absolutely no resistance from the sellers, as the price goes almost straight up with not even a very small correction move. However, when price reaches the upper red line drawn in advance by you, anticipating that this will be the zone where the upper limit will take shape, it stalls and starts to move sideways. It is not making strong bullish candles with large bodies anymore, instead this pair begins to go up and down in a very small price range, thus making small candles with small bodies and more important, with large upper wicks.

The fact that price has gone from a strong upward movement with big green candles to a sideways movement with small green and red candles that all have big upper wicks should be the first signal because this is all happening right at the red line you have drawn in advance. The strong rally up that created those big green candles with large bodies and no upper wicks means that the buyers are in complete control. A big wick signifies rejection of a price level. The absence of any meaningful upper wicks on those big green candles means that the sellers were not present there at the time. When price approaches the red line, the candles turn from big, green, with no upper wicks, to small and with huge upper wicks and very small bodies. The big upper wicks right at the red line means rejection of that level or in other words, the sellers have finally started to show themselves, they think that this level is a good opportunity to sell this pair. The small body of those sideways candles means indecision or equilibrium. In conclusion, the small sideways candles with big upper wicks that take place right at the red line gives you a very strong signal that the buyers on this pair are not in complete control anymore, that seller have finally entered the market and have started a battle with the buyers. Notice that this battle between the buyers and the sellers generates a very small range there, highlighted by the blue square on the above chart. If that little range is broken to the upside, it means that the buyers have won the war once again and there will be no upper limit of the trading range there. If it is broken to the downside, the sellers have overpowered the buyers and you have a confirmation that this is the second distinct point of the upper boundary of the range. The red candle with no lower wick in the small orange rectangle on the chart is the one that breaks the small range to the downside and the close of that confirmation candle will also be the trade entry level as you will see later. In general, when you see big body candles, with no wicks, going strong in one direction and in a short period of time followed by a group of sideways candles, smaller than the previous and with big wicks you should wait for a big body with no wick candle in the other direction to show you that the other side has won the war and the price direction will reverse, thus making the second point of your boundary, completing the trading range and enabling you to start trading that range and make some good profits.



Here is another example where reading the candles can tell you what to expect next. The price goes down fast with strong momentum displaying big red candles with big bodies. When it arrives at the price level where you expect that the lower limit of the trading range will be, price action changes and it starts making small candles with lower wicks. The first of them is what you would call a hammer, a candle big in length but with a very small body positioned near the high of the candle and with a very big lower wick. This shows you that the buyers have started to enter the market and are now challenging the sellers at this level. After that price displays additional small candles with small bodies and with wicks that match the size of the candle body. This strengthens your belief that price is most likely to reverse direction from here and make this level the lower boundary of the trading range. But you need further confirmation that this is indeed what is happening. That confirmation comes very soon in the form of that big body and no wick green candle right after the 4-5 sideways small candles with lower wicks. In this example you can see that price doesn't stop exactly at the red line inserted on the chart in advance and it goes down past it for a small amount of pips. This is perfectly okay as long as the price reverses and you have a confirmation candle that price will go in the other direction from here. You will rarely find the price stopping and reversing exactly at the point where you expect it to. It will often times, go past your level by a small amount of pips of fall short of it. It is very important that you treat these support and resistance levels or swing highs and lows as zones of price in the market rather than exact points. If price reacts somewhere close around your level and it shows clear signs that it will reverse then that is good enough, you should not always expect price to hit exactly your level.

Reversal Price Patterns

An additional way to read what the price is most likely to do in the near future is to look for reversal price patterns that take form right around the area where you think it is most likely the second boundary will be. There are two price patterns that signal a reversal in price direction and they are very reliable. The first is the head and shoulders pattern. Here is a chart illustrating this formation right at the boundary of a trading range.

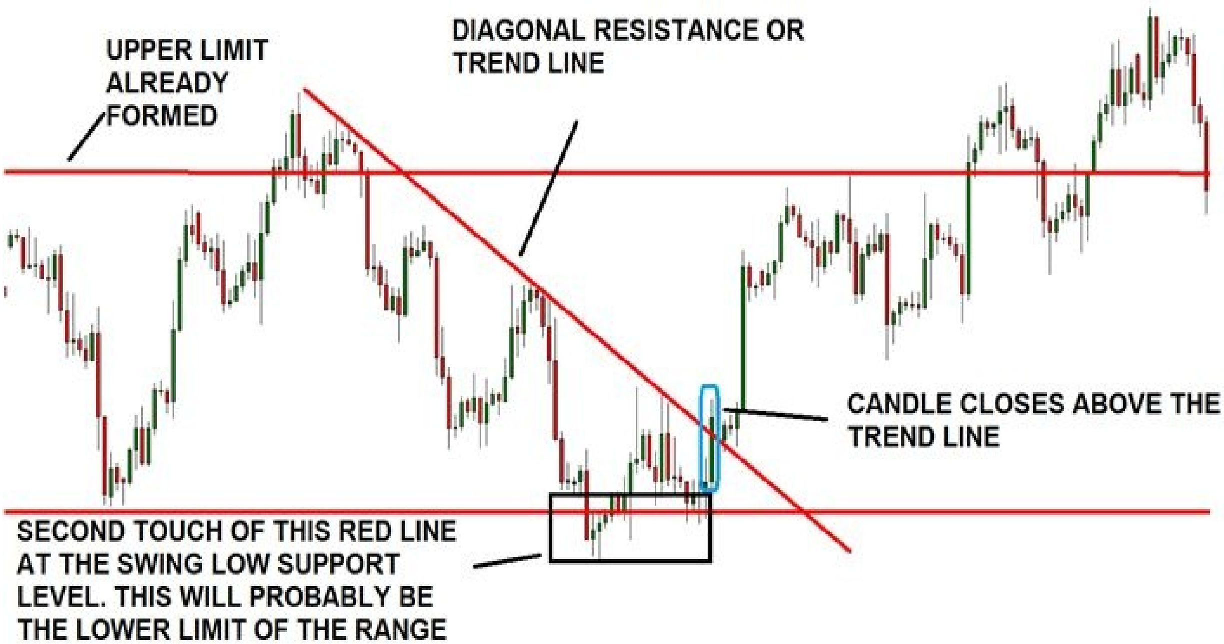
This pattern signals you that price will reverse its direction. In this example, the buyers try to push the price up past the red line for the first time. They do not have the power for this at this time and price comes back below the red line. This makes the first shoulder of the pattern. The same buyers do not give up easily and they try for the second time to push the price further up, this time with greater success than the first time. Still, after price goes slightly higher than in their first attempt, it comes back down again below your red line. This forms the head of the pattern. The buyers then attempt for the third time to push the price up but this time they do not have the power to push it further than they did in their second attempt and price comes down again. This is the second shoulder of the pattern and it is also a very clear signal that the buyers have lost their power because they couldn’t make the price to go higher than in their previous attempt. The sellers will be in control from here on.

This is what the head and shoulders pattern looks like and this is the logic behind it. When you see such a formation in the zone of the price level where you expect the price will form the second boundary you know that there is a very good chance price will reverse direction. Of course, this pattern can also form at the lower boundary and it is called an inverted head and shoulders, but the form and logic behind it is exactly the same. Let’s see also an example of a double top pattern.

This is how a double top reversal pattern looks like. Buyers push the price up to the red line but they don’t have enough power to push it beyond that level and it retraces back down. This price behavior also shows you that some sellers of this pair have stepped in the market at this level. The buyers have a second attempt to surpass that red line but price goes up exactly as it did the first time and then goes back down again. This creates two distinct swings in the market at exactly the same level of price which is a clear reversal signal and you should expect that the price will change its direction and travel towards the lower limit of the trading range. You will of course find this pattern take shape on the lower limit of a trading range and that is called a double bottom. You will also find that this pattern can sometimes make three distinct points at the same level of price and that is a triple top pattern if it happens after an upwards move or a triple bottom if it happens after a downwards move. The logic behind all of these patterns is exactly the same and the result will be a price reversal most of the times, this is what you should remember, the names of the patterns are not that important.

Trend lines

This is a mandatory condition for any trade that you enter into the market when trading a range. Trend lines are in fact diagonal support and resistance levels. Let's see a chart to illustrate this.



In this example you have the upper boundary already formed and you draw the lower red line in expectation that price will find support there and reverse to form the lower boundary of the range and give you a range trading opportunity. Very often, in its travel from one boundary to the other, price will make small correction moves before continuing its journey to one of the boundaries. These corrections or pullbacks create little swings in the market that you can connect with a trend line exactly like in the chart above. When trading a range you should always look to see if there are any swings that you can connect with a trend line before entering the trade. These trend lines are actually pretty strong resistance or support diagonal levels and until price closes outside the trend line you should not enter the trade. In the diagram above, a long trade would be entered only when a candle closes above the trend line. You should always do this if you want to have a very high success rate of winning trades. These diagonal support and resistance levels are in fact obstacles that price will have to overcome in its way to the other boundary of the range. For a trade to have 99% chances of success you have to make sure that there are no obstacles between your entry level and the take profit level. Let’s see another example, this time with a diagonal support level.

In this example you also have a double top reversal pattern which strengthens your view that price will reverse its direction from here. You look for the small swings or pullbacks that price made on its way to the upper limit and join them with a trend line. No matter what happens there at the red line, how many signals the candles give you or how many reversal patterns form there, you do not enter a short trade until a candle closes below the trend line.

Out of the three tools you employ to read the price signals, the candlesticks, the price patterns and the diagonal support and resistance, the last one is mandatory, you always have to make sure that the price has surpassed all obstacles in its path and there are all the chances in the world that it will go smoothly to your take profit level. The candlestick signals and the price patterns are very important tools also as they strengthen your view of the market and they give you confidence that price will do exactly as you expect it to do. Usually, after you identify the swing high-swing low inside the territory of recent price action and you start drawing lines on the chart expecting for the second boundary to form, at least one of these two price action reading tools will show themselves at your key level and give you signals that a reversal is about to happen. If, apart from a candlestick signal, you also have a reversal pattern that takes shape at your level, it is even better as this confirms and reinforces what you already know, that a reversal will happen and price will go to the other range limit. The more signals you have from different sources that tell you the same story, the more confident you should be that the trade you are about to make will be a winner. If you have only a candlestick signal without a pattern, or a pattern without some clear candlestick signals it is perfectly okay, as long as you remember to always draw the trend line if there is one to be drawn and wait for price to close outside of it before entering the trade.

Trade Examples with Money Management

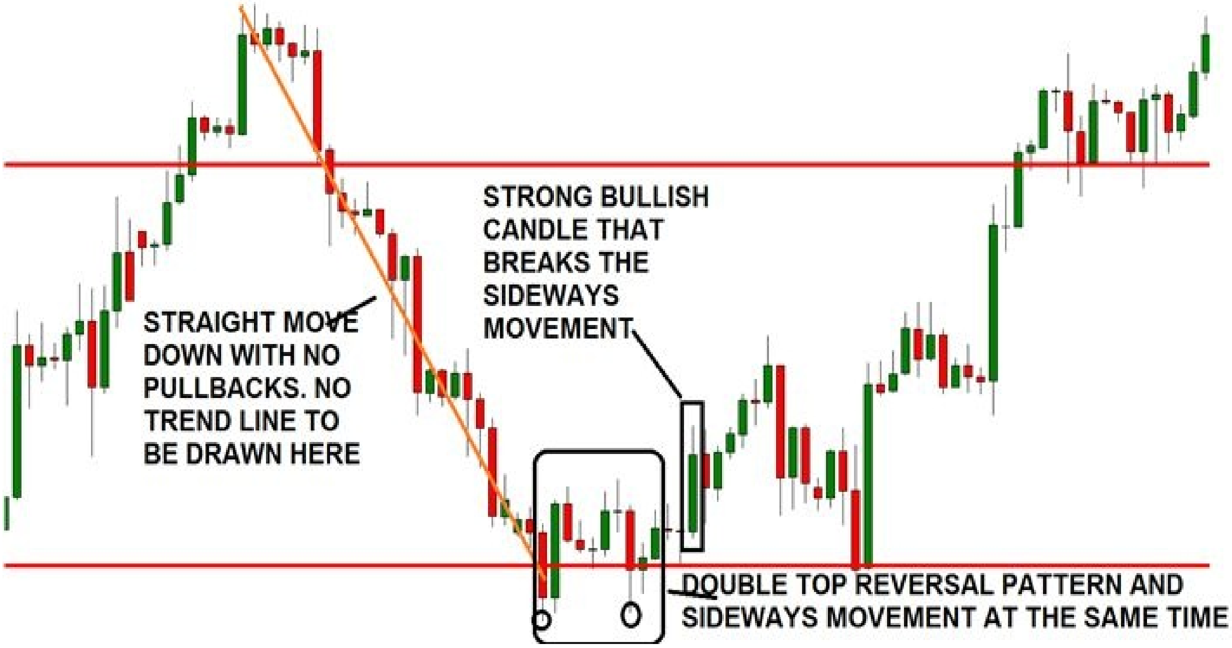
In this small chapter you will see some trade examples that show where to enter, where to place the stop loss, and how to trail manually the stop loss, and when to skip a trade if the risk is greater than the potential reward.

You have here an uptrend, price reaches a high point (HH) after a very strong impulsive move as you can see. It then makes a swing high and a swing low without breaking above the highest point of the trend or below the last higher low of the trend which isn't visible in this chart because it is way down. In the process of making the swing high, price goes down again to the swing low and gives birth to the lower boundary of the range. At this point you have a strong impulsive move, a mandatory swing high-swing low and the first limit of the range has already formed. This is as clear as it gets that a trading range is very likely to emerge here, so you draw an extended line at the HH and one at the SH which are the two levels of price where there are the most changes that the upper boundary will form. Price goes up to the SH level and breaks above it with ease. Seeing this, you remove the red line at that level as this will not be the upper limit and you remain only with the horizontal line drawn at the higher high level. You can see that in its way up price made a little pullback so you draw the diagonal support line or trend line to connect that pullback with the start of the upwards move. This will serve you when you will try to enter a short order if that HH level turns out to be indeed the upper boundary of the range. Let’s now zoom in on the same example and see the candles more clearly.

So, you have a big impulsive move as the first sign, you have a mandatory swing high-swing low as the second sign, you then read the candlesticks and they tell you sellers have stepped in the market at the level you were expecting and it is likely that they will push down the price all the way to the lower limit of the range and this is the third sign of a reversal. All you have to do know is wait for the price to close below the trend line and you should sell this pair.

You should enter the trade at the first close of a candle below the trend line as shown in the chart, the initial stop loss level will always be above the upper limit of the trading range like in this example or below the lower limit of the range if you enter a buy order. The take profit level should be always at the other boundary of the trading range. Before you enter any trade into the market you must make sure that your potential reward is always bigger than the risk you are taking. Regardless of how promising a trade looks, you should always sit on the sidelines if the risk for that trade turns out to be greater than the potential reward. In the example above, the risk is the amount of pips from the entry level to your stop loss level. It is about 100 pips. The potential reward in this case is the amount of pips from the entry level to your take profit level. It is 205 pips. This is a good risk reward ratio which basically says that you will have to risk only one pip for every two pips that you will try to make. If you can lose more pips than you could gain from a trade than that is not a good trade and you should stay out.

After the price picks up some speed and starts to go in your favor towards the take profit level it will make some small pullbacks or swings like in the example above, it will rarely go in a straight line to your take profit level. You should make sure that you always trail manually your stop loss level just above these swings that price makes. These are perfect points in the market where you can trail your stop loss because price is less likely to return there until it hits the lower boundary of the trading range first which is your take profit level.



This example shows a strong move down towards the lower limit of the range. There are no pullbacks so you do not have any important trend line to draw here. Price then starts to move sideways right at the red line with give you a clue about what is to happen. This sideways movement also creates a reversal double bottom pattern which gives you more reasons to believe you should go long here. You wait for a confirmation and that comes shortly in the form of that strong bullish candle that breaks the sideways movement and signals that the buyers have taken control of this pair.

This is how you should manage the trade. Enter at the close of the breakout candle and put your initial stop loss below the lower boundary and below the low of the recent price action. Trail you stop loss level under those small pullbacks that price makes in its way to your take profit level. The risk is much smaller than the reward as you can see. Please note that if a range has already had three touched on each boundary you should be extra careful when trading a forth touch, trading ranges will only go for so long before finally breaking in one direction and starting a trend or continuing an old one.
This is pretty much it, if you learn and respect these rules described here is it impossible not to make very good profits when trading a ranging market. You will find that this range trading system very rarely produces a losing trade and when that happens, it is only a small amount of pips. If you have any questions or you do not understand something very clearly you can contact me at damirlaurentiu@yahoo.com and I will be happy to help you.

In the end I would like to apologize if there are any misspellings in this book and for the rigid way of expressing myself. English is not my first language and I am doing the best I can.

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.

Also, here is a list of my trend following trading systems also available on Amazon if you are interested.

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

Thank you very much and happy range trading !