

FOREX TRADING:

13 EXCLUSIVE PRO TIPS FOR USING CHART SETUPS



CONTENTS

Simply click the topic you'd like to read, to go directly to it.

- 1** Know Your Setups
- 2** Selecting Your Currency Pair is Part of Your Set-up
- 3** The Art of the Chart – Some Damn Good Technical Setups
- 4** The First Step – Know Your Market Type
- 5** Use a Trend Filter to Befriend the Trend
- 6** Some Useful Trend Filters
- 7** Chart Patterns, Trend Lines, Support and Resistance Levels:
The Basis of Excellent Setups
- 8** News-Based Setups
- 9** Some Damn Good Fundamental Setups
- 10** You Don't Need to Be an Expert to Try Expert Setups
- 11** Some More Damn Good Setups
- 12** Here's What to Do Next
- 13** A Last Bit of Advice

Foreword

Trading is an incredibly hard past time, but it doesn't have to be. Education is key to your development but with so many websites, videos, and general material it's hard to know what will help, and what will lead to information overload. In my experience it's always best to stick to the basics, I've seen so many examples in my career of traders who have jam packed charts with indicators, or learnt the ins and outs of various complicated trading strategies without understanding the basics of risk management, stops and limits, even in some cases how to actually place a trade.



The eBooks on offer here give you that information, they give you the basics and then look to build on that base knowledge to leave you in the best position to continue, or begin your trading journey. The information provided is not just for the novice either, the eBooks go a long way to cater for traders with different skill sets. I myself am a qualified technical trader, the information provided in this series is not just your bog standard technical analysis it's in depth enough to give the experienced trader useful tips, but digestible enough to be the perfect help for the beginner.

James Hughes

Chief Market Analyst

AxiTrader

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The secrets to success are not really secrets at all!

Traders who succeed in the forex market are those who have developed a successful strategy. And such strategies can be replicated and taught.

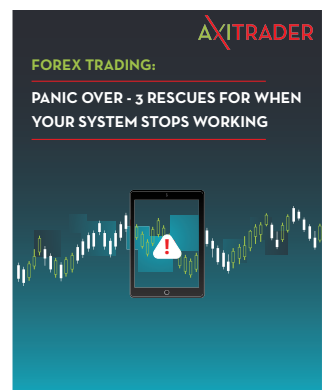
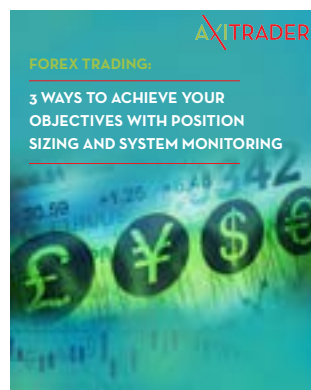
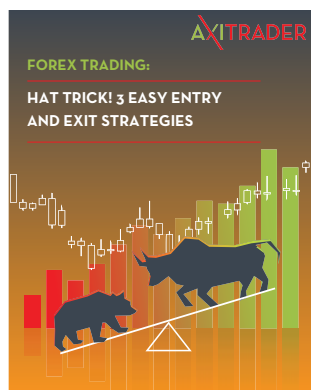
This ebook is the second in a series of five that focus on Building a Successful Forex Trading System. In this series of ebooks, you'll find information that's based on several years of studying top traders and the application of their principles.

In this ebook, you'll learn about identifying a trading strategy or chart setup that best suits your trading style. You will also get to know some great technical and fundamental setups, how to select the currency pair and market type, using trend filters and recognizing chart patterns and trendlines



These learnings have been shared with a single objective – To empower you with the knowledge that can make the difference between success and failure in forex trading.

Others in the Series to Help You Build a Successful Forex Trading System



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“Although the cheetah is the fastest animal in the world and can catch any animal on the plains, it will wait until it is absolutely sure it can catch its prey. It may hide in the bush for a week, waiting for just the right moment. It will wait for a baby antelope, and not just any baby antelope, but preferably one that is also sick or lame; only then, when there is no chance it can lose its prey, does it attack. That to me is the epitome of professional trading.”

MARK WEINSTEIN



Yes, you need not only the keen vision of a cheetah but also the patience to wait for just the right moment to be a successful trader. Fortunately, in the forex jungle, you can rely on automated tools to generate trading signals, based on the trading strategy of your choice. However, the first step is to zero in on a trading strategy or setup that best suits your trading style.

As a beginner, all those amazing indicators and charts seem mesmerising, especially given that they aid you in predicting the future of the forex market. The reality is that they are amazing, but only for those who learn to use them. This is where demo accounts prove invaluable, giving you a glimpse of the real world and allowing you to test out different trading setups till you find the one that best suits you.

Finding the right setup is a process of trial and error. The key is to know what you are doing and why, and then analysing the results. Testing your setup is the best way to understand how to minimise risk and make the most of trading opportunities.

1 Know Your Setups

Before you start testing, you should know that there are 5 primary types of setups:

1. Technical set-ups
2. News-based set-ups
3. Big picture fundamental set-ups
4. Sentiment set-ups, and
5. Expert set-ups

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These set-ups can be used on their own or combined to create high probability, low risk/high reward trade ideas. But be careful... The essence of a good trading plan is simplicity. Pick and choose only the best set-ups that suit your trading personality. Doing more than that is a recipe for disaster as conflicting set-ups cause confusion, indecision and mistakes.

To give you an idea of a good set-up, here's a look at the EUR/USD chart for May 31, 2018. What happened on this day was that the Eurozone saw higher than anticipated inflation, which rose from 1.2% in April to 1.9% in May, well above market expectations of a 1.6% increase. So, the EUR/USD pair opened at about 1.1600, with a target of 1.1780, indicating a bullish, long stance on the EUR/USD pair. A possible stop-loss could be put in at about 1.1510 (which, of course, was not reached in the 30-minute chart).



So, a set-up is a scenario that occurs before a trade is executed, rather than the trade itself. The set-up signals a trading opportunity.

Once the set-up conditions arise, you don't necessarily enter straight away. You want to time your entry with precision to increase the risk/reward on the trade.

To continue with the cheetah analogy, once the cheetah chooses its prey using patience (the set-up), it still needs to execute the kill (the entry). For this, it has a specific routine involving stealth, speed and strength. The cheetah moves low in the grass using the small rises of the land to disguise its approach. This is followed by a terrifying burst of speed to get close enough to pounce on its prey. Then the cheetah closes in, using raw strength and skill to target the prey's vulnerable areas with its powerful jaw and sharp claws.

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We can illustrate this with an example using a simple volatility contraction set-up on the GBP/ USD, with breakout entry signals. You can see how volatility contracts on the right-hand side of the chart, which is our set-



By patiently waiting for the right trigger, we might be able to either make profits off a short position or wait till a long position is triggered. If you see the daily chart of the GBP/USD, you will see how the price continues to rise following the trigger for a long entry, giving the trader opportunities to make a profit

However, for any set-up to be successful, you also need to have signals for when to exit the trade. This way, you not only get triggers to enter a trade but also stop-loss triggers. This will help you manage risks and minimise losses.



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As mentioned earlier, online trading platforms give you the tools to automate such signals, based on your specific set-up or strategy, rather than you having to constantly monitor the markets



“Luck is what happens when preparation meets opportunity.”

SENECA (ROMAN PHILOSOPHER)

Once you find a good set-up, it is helpful to have a framework for thinking about how you are going to best exploit it.

Consider as your framework:

- ❑ What are 2–4 options that can come out of this set-up?
- ❑ How am I going to make money out of this set-up?
- ❑ Where are my potential entry points?
- ❑ Where are my potential profit targets?
- ❑ What could happen after I enter my trade?
- ❑ Where can I re-enter if I get stopped out?
- ❑ Where can I scale into the trade?

To answer each of these questions, let's take the example of the GBP/USD pair. In this case, our main set-up is a low volatility sideways market type.

What are 2–4 options that can come out of this?

What options do I have for a sideways market? Typically, it could either breakout or stay within the range.

How am I going to make money out of this?

In this example, the best risk/reward trade

opportunity is the breakout, so it's best to ignore the range trade for the moment.

Where are my potential entry points?

A close above or below the Bollinger Band on the 15-minute charts would be a suitable entry on this set-up.

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Where are my potential exit points?

As prices tend to move towards the clusters of stops at the highs and lows (represented by the red lines on Chart 5), these can/could be viewed as potential profit areas. A stop could be placed on the lower Bollinger Band, meaning that you'd have a risk/reward of at least 3:1 on the trade. It's recommended to also look to apply the complex exit approach to the trade.



What could happen after I enter my trade?

Once the trade is entered, there are four things that could possibly

1. The breakout continues and a trend forms
2. The breakout fails and goes down and hits my stop-loss
3. There is strong reversal signal
4. The strong reversal signal fails and the breakout continues.

Consider how to handle each option and note it down if it is not already in my trading plan.

Where can I re-enter if I get stopped out?

Look to re-enter in either direction, if there is a similar signal.

Where can I scale into the trade?

If a reversal failure occurs, it's best to scale into the position on a close over the reversal candle. If a strong trend develops from a breakout, then that is a new setup that allows me to add another position, in the direction of the trade. (You would then need to ask yourself the same set of questions about the new set-up.)

2 **Selecting your currency pair is part of your set-up**

No doubt you've been advised to keep it simple and stick to the major currency pairs, such as EUR/USD or GBP/USD. While this may be true for some, the smarter trader might decide to trade the cross rates instead.

Don't be shy to explore the full spectrum of currency pairs that are on offer to see what is going to best suit your system. The cross rates often have spreads that are very close to the majors, and because less people specialise in them, you may find that you can develop a nice edge by choosing to focus on them.

3 **The art of the chart - some damn good technical set-ups**



“The 10-day exponential moving average (EMA) is my favourite indicator to determine the major trend. I call this ‘red light, green light’ because it is imperative in trading to remain on the correct side of moving average to give yourself the best probability of success. When you are trading above the 10-day, you have the green light, the market is in positive mode and you should be thinking buy. Conversely, trading below the average is a red light. The market is in a negative mode and you should be thinking sell.”

MARTY SCHWARTZ

While technical analysis offers some of the simplest and best set-ups, your primary guide should always be price. Ignoring what the price is telling you is just like ignoring a diversion sign because Google Maps doesn't tell you it's there. Don't ignore the evidence in front of your eyes.

But there are hundreds of set-ups that you can potentially use, so let's help you simplify by selecting a few of the most useful.



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4 The first step - know your market type

Market types make excellent set-ups. You should be aware of the market type you are in before you trade. In addition, consider using the transition from one market type to the next as the set-up.



5 Use a trend filter to befriend the trend

As mentioned earlier, developing your own trading system is all about trial and error. Each trade can be a learning experience, helping you to make systematic changes step by step, which will improve your results over time.

A trend filter is a set-up that can be used in this way. You simply apply a trend-following indicator to a chart and never trade against it, like Marty Schwartz with his 10-day EMA. If the price is above the indicator you never go short; if it is below the indicator then you never buy.



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The best way to check the effectiveness of a trend filter is through back-testing, either by manually looking at the charts or by programming a back-test. Again, trading platforms like MetaTrader offer simple ways to set up back-tests.

However, manual testing is great/useful/preferred since it can offer insights you can't glean from a computerised back-test (though the same could be said for the reverse).

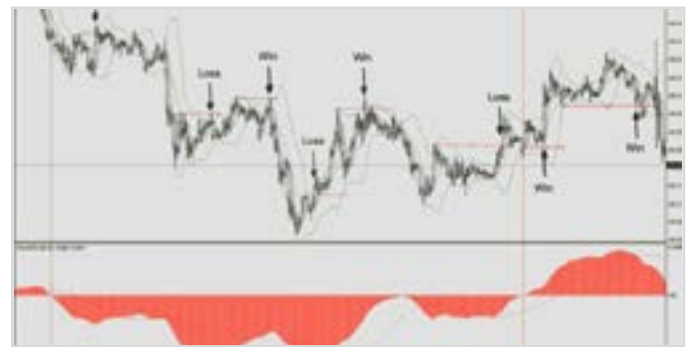
6 **Some useful trend filters**

10-day Exponential Moving Average	You would never trade against the 10-day EMA. In this case your entry would be on a lower timeframe.
Displaced moving average. Try a 25-period moving average displaced by 5 periods for short-term trends or on a higher timeframe for long-term trends.	This indicator was discovered/realised by/through Joe DiNapoli who recommends displaying moving averages to avoid whipsaws experienced by the typical moving average.
Displaced moving average. Try a 200 x 5 period moving average on your entry timeframe.	A variation of the 25 x 5 above for use on the main timeframe you use for the trade.
MACD – Normal settings of 12/26/9	You can use this on both your entry timeframe and on a higher timeframe.
MACD – Settings of 70/200/70	Use this on the main timeframe you use for the trade.

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Let's look at an example of how a trend filter works using the 70/200/70 MACD. In this example, a simple support and resistance trading system is operating that sells on resistance in a downtrend and buys on support in an uptrend. The exit is on the opposite support/resistance level. Each winning trade has a 3:1 risk/reward ratio.



By trading with the trend filter there are five wins and three losses, but the winners are three times bigger than the losers, returning twelve times the amount risked over eight trades. Note this is an idealised example. With any trend filter, you can experience periods of whipsaws as markets consolidate before a new trend forms

7 Chart patterns, trend lines, support and resistance levels: The basis of excellent set-ups

If you love charts and have the foundation of comprehensive charting knowledge, your carefully drawn triangles, wedges and Fibonacci levels can all serve as perfect set-ups. However, don't be in a hurry to enter a trade the first time you identify a potential pattern. Move to a lower timeframe to improve the risk/reward on the trade.

For example, on the GBP/CAD trade we have a resistance level on the weekly chart that has held six times before the breakout finally comes.

After the breakout, rather than rushing to enter the market, you move to a shorter timeframe to improve the risk/reward on the trade.

You can see that not only do you improve the risk/reward on the trade by using the resistance level as a set-up instead of an entry, but also it potentially helps you avoid several failed breakouts.



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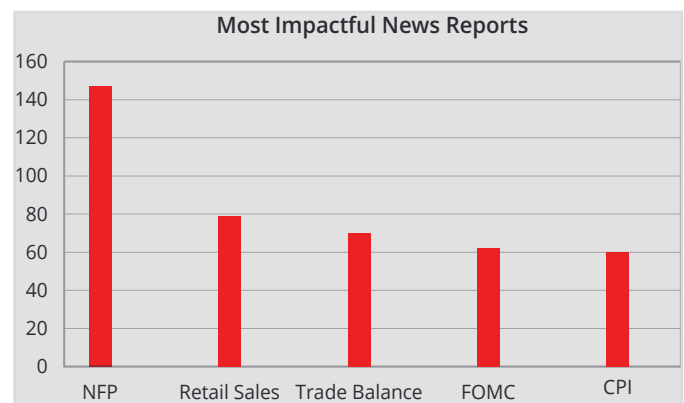
8 News-based set-ups

Some people are attracted to Forex trading for the buzz of it. You can spot them a mile away. They have itchy trigger fingers, they trade big because it gives them a rush, and they tend to lose. Forex trading is not the place to get your thrills. That part of your psyche needs to be put aside when you trade. Needless to say, this type of trader is attracted to the thrill of the news announcement. The promise of quick profits is hard for the gambler inside to resist.

And this presents opportunity.

Where there is a lack of discipline and emotion in the markets, there is profit potential for the prepared and patient trader. For you to take advantage of this opportunity, you will need thorough knowledge of news set-ups. Some types of news have a much greater impact than others. Here's a look at the news that tends to lead to the most volatility in the forex markets.

In addition, you should look to answer some key questions before trading on news. Here are some important ones.



How has price reacted to this news event in the past?

You can get this information from a service such as Autochartist's event impact analysis tool.



What have previous news results been like?

Do they come in as expected or is there a typically a variance? How does the market typically react if numbers come in over or under? You can see past results in any decent Forex economic calendar.



How important is the event?

Some events move the market more than others. Again, you can find this in an economic calendar



How long do the moves typically last?

The reaction to events can be fleeting or can last for months. Try to know how long you can expect the move to last.



What are analysts' predictions?

You could read your favourite sources of expert commentary about what to expect from the news event. Try www.forextell.com.

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Do you think what the market expects has been priced in?

Harder to gauge, but see if you can glean from market sentiment, analysts' commentary or chatter if the market is overly long or short and likely to get caught out.



Is there news divergence?

A powerful set-up can occur if the price reacts the opposite to how it should. For example, if there is negative news and the price reacts positively then it could be a good set-up for a buy.



If it is an interest rate announcement, what do the Central Bank minutes say?

Some traders read the Central Bank minutes to get an insight into their directional bias.

WHEN TWO TRADES DIVERGE

When trading news, you need to make a choice regarding when to enter a trade:

- ❑ Do you enter before the new release, or
- ❑ After?

This decision will influence how you use the news as a set-up. If you are placing your trade prior to the event, then it is your prediction of what is actually about to occur that is the set-up.



If you are waiting to see the result of the news release, either for a technical move or for the impact on the forex market to become apparent, then this is actually your set-up.

9 Some damn good fundamental setups

Most fundamental information is a set-up. Here are two very important fundamental set-ups you could consider before each trade, especially if you are holding long-term positions.

1. INTEREST RATES

The interest rate differential between countries is one of the best predictors of currency movements.

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Currency trading can be seen to be a form of leveraged fixed interest trading. So, if a currency pair has a higher rate, then it can be an attractive long-term buy. When there is demand, there tends to be price increases.

In addition, they have a very real impact on your account balance. If you are buying the currency pair with the lower interest rate, you are likely to have the interest charge subtracted from your account each day.

Chris Lori, a popular American trader, takes this set-up very seriously. He recommends trading only the AUD/JPY and only buying AUD so that he is always earning interest on his trades.

There is an example of interest rates at work on the following chart. Here you can see the correlation between the spread on German and US bonds, versus the price of the EUR/ USD.



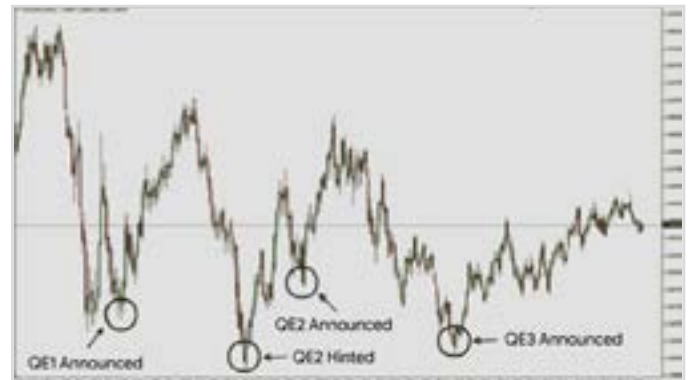
2. CENTRAL BANK BIAS

It used to be all about interest rates, but after 2008 central banks across several major developed nations dropped interest rates to close to zero.

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Their main tool became quantitative easing, where (essentially) they would inject cash into the economy in exchange for toxic debt. This bias towards easing had a telling impact on the movements of currency pairs. Thus, currency traders tune in to the easing or tightening proclivity of central bankers to get an idea of the direction they want to trade. You can see the impact quantitative easing has on the movement of currency pair on the following chart of the EUR/USD.



So, take note of directional biases caused by fundamentals as they can make very good set-ups for longer term trades.

10 You don't need to be an expert to try expert set-ups

The good news for beginners is that there is a plethora of information online regarding forex trading. The bad news is that there is so much advice, it can be difficult for the uninitiated to sort the wheat from the chaff. The key is to look for expert sources of information on the specific currency pairs that you are interested in

By following experts, you can use their experiences and emulate their trade ideas, rather than trying to reinvent the wheel on your own. In fact, some online trading platforms even allow you to copy the trades of more experienced/successful traders.

But beware, don't go all in on the "hot tip" of an expert. You should treat an expert's trade idea like you would any other set-up. It is simply a component to be added into your complete forex trading system.

Why not follow these ideas in full? Because you have your own unique objectives, psychology and motivations, which if not considered will lead to trading failure.

What will you do if the expert you are following:

- ❑ Experiences a drawdown
- ❑ Trades a timeframe that does not suit you
- ❑ Doesn't give you a place to put a stop-loss?

And they certainly won't have a position-sizing model designed to fit you

So, it is a great idea to track experts but integrate their ideas into your own set-up rather than blindly following them. Failing to do so could over time lead to the incongruences piling up and you ending up making mistakes that harm your trading account.



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11 Some more damn good set-ups

Set-ups abound. Wherever you can find a Forex trader you can find a new set-up

In fact, entire books have been written on one or two set-ups alone. Here are a few more set-ups that you should know about.

(Please note that just because these/the examples above are not included, does not mean they are any less useful or important. It all depends on the trader and the edge they are seeking to find.

See which ones suit you and your trading style. Avoid the temptation to overcomplicate. You must have a specific reason for adding a set-up into your plan, and then you should rigorously test it like a scientist tests a hypothesis.

Time of day / session	The time of day and the session you are trading in can have a big influence on the outcome of your trade
Divergence	Lookout for indicators that are signalling a change in trend before the price reverses.
Size of the candle	Large candles can signal an important event has happened that may create a change in the trend.
Information about the order flow	Information about where orders and stops are sitting in the markets can be excellent set-ups.
Options barriers	If market participants are looking to either protect their options from execution or make sure that an option is executed, then their actions could move the market.
Sentiment indicators	Sentiment trading is a relatively new innovation in the Forex market. By knowing which way the “herd” is positioned, you can choose to either follow or fade the trend.

EUR/USD	USD/JPY	GBP/USD
-1.0085	1.1130	2.9378
50% % Long	53% % Long	75% % Long
50% % Short	47% % Short	25% % Short
Last	Last	Last

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Correlations	Correlations between currency pairs can be important leading indicators across multiple timeframes.																										
Upcoming news events	If you assess the events that you have on the horizon for the coming week, you can get a sense of what can move the market and where.																										
Why a pattern is formed	If a pattern is formed because of a news event or not.																										
Seasonality	Historically currency pairs may have performed differently based on the time of the year. You can see an example in this chart where for the last 5 years USD/JPY has been strong in March. (chart courtesy of Kathy Lien)																										
<table border="1"><caption>USD/JPY Seasonality Analysis</caption><thead><tr><th>Month</th><th>Performance</th></tr></thead><tbody><tr><td>January</td><td>-0.001</td></tr><tr><td>February</td><td>-0.002</td></tr><tr><td>March</td><td>-0.002</td></tr><tr><td>April</td><td>-0.005</td></tr><tr><td>May</td><td>0.007</td></tr><tr><td>June</td><td>0.003</td></tr><tr><td>July</td><td>0.004</td></tr><tr><td>August</td><td>-0.001</td></tr><tr><td>September</td><td>0.010</td></tr><tr><td>October</td><td>0.003</td></tr><tr><td>November</td><td>0.011</td></tr><tr><td>December</td><td>-0.008</td></tr></tbody></table>		Month	Performance	January	-0.001	February	-0.002	March	-0.002	April	-0.005	May	0.007	June	0.003	July	0.004	August	-0.001	September	0.010	October	0.003	November	0.011	December	-0.008
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August	-0.001																										
September	0.010																										
October	0.003																										
November	0.011																										
December	-0.008																										
Environmental or geopolitical events	Such as 9/11, the Japanese tsunami or Russian troops in the Crimea in 2013 can heavily influence the direction of currency pairs																										
Corporate buyers	A large corporate purchasing currency (perhaps due to a merger and acquisition) can be a powerful set-up.																										

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12 *Here's what to do next*

Smart traders know that the search for the perfect combination of set-ups is a chimera.

As you develop your Forex trading strategy, you will be tempted to spend the lion's share of your time in this area.

But don't be so easily seduced. It's suggested you choose:

1. A market type
2. A trend filter

Then choose one other setup from those listed above (or one of your own that you already like).

And simply move on. Go and work on other aspects of your system or your position sizing. You can then experiment with the set-up as a variable as you make changes down the track.

13 *A last bit of advice*



"By failing to prepare, you are preparing to fail."

BENJAMIN FRANKLIN

Yes, the world of forex is an exciting place and you might just be itching to try your hand at it. But, as Abraham Lincoln also said, spend more time on sharpening your axe before you begin cutting down the tree if you want to succeed.

So, learn as much as you can about the market, work out the set-up that works best for you and use a demo account before you step into live trading.

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AxiTrader UK Risk Warning: CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 70% of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

Cryptocurrencies like Bitcoin are extremely volatile and can move or jump in price with no apparent reason due to lack of liquidity and adhoc news. There is little or no fundamental reasoning behind its pricing and as such trading CFDs in Bitcoin pose a significant risk to Retail Clients. While AxiTrader only quotes Bitcoin during the week, it can trade over the weekend, meaning there could be a significant price change between Friday and Monday. It should only therefore be traded by those clients with sufficient experience to understand that they risk losing all their investment, or more, in a short period of time, and only a very small part of their portfolio should be used.

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