Forex Scalping Trading Strategy: How To Scalp Like A PRO

Table of Contents

Scalp Trading Basics

Scalping is a popular trading method used by both experienced traders and market beginners. The main aim is to obtain small incremental gains that add up to a large profit, rather than big gains from a small number of trades, as in the case of swing trading or position trading.

This method involves holding trades for just a few seconds or minutes, at the most. This means that traders adopting this strategy take their profits early. If the market moves favorably they try to minimize losses by closing positions very quickly.

What Is Scalping

Scalping represents a technique which involves the opening and closing of trades in a very short period of time, in order to obtain quick profits. This trading method is based on opening many trades and closing them with small profits.

While a position trader may enter in trades that are intended to last for multiple weeks to months, aiming for hundreds or thousands of pips, a scalper enters in trades that might only last a few minutes, aiming for profit targets of a few points.

Scalping is a very intense form of trading that requires full attention to maximize the chances of success. Scalpers usually look to place trades in line with the trend, often using technical indicators like moving averages, RSI, pivot points etc. They also stay in touch with the latest economic updates and news, in order to increase their probabilities of winning.

Scalpers will often open and close positions many times over, as the trend develops, in order to lock in small profits along the way, compared to swing traders who may open a position and close it when they believe the trend has run its course.

Scalpers generally choose to trade on highly liquid markets, because this allows them to get in and out of positions quickly. It can also help reduce the cost of speculating on small price movements, as more liquid markets often have lower spreads.

Scalping Tools for Maximum Success

Good Computer + Fast Internet Connection

If you want to engage in the fast-paced world of scalping, a quick computer with fast internet connection is a must. As a scalper trader, you need your charts to display the most up to date price possible. Also, you need your trading platform to execute a trade as fast as possible. You don't want to work on a slow computer, with little RAM, just to see your PC frozen when you want to enter a trade.

Also, a slow Internet connection speed could make the difference between a successful scalping trade and a bad one. Remember, you want to get in and exit the market promptly and 1-2 seconds could be crucial to your results.

You might think that 1-3 points lost on a trade due to Internet connection are not a big deal. But what if you add all your market entries in single day of trading? This can add up to hundreds or thousands of dollars of missed profits.

And it's not only the entry point you have to worry about. Imagine you're in a profitable trade and you want to exit, just to see the profits diminishing because your Internet connection is not responsive enough. Believe me, it could be pretty frustrating.

Good and Reliable Broker

When you are scalping in real time for several hours, it can be an intense experience. The fast, volatile price action combined with a bad broker that practice stop-loss hunting, spread widening and artificial slippages determined a large part of traders to abandon scalping trading.

If you practice scalping with a poor broker, it is very likely that they will not allow you to make short-term profits. Most brokers use dirty practices to stop scalper traders such as:

Stop-loss hunting and spread widening: If the market price is close to your stop-loss orders, the traders could witness an increase in the spread for a couple of points, and that will cause the stop-loss activation
Slippage: this happens when a trader gets a different price than expected on an entry or exit from a trade.
In order to be successful while scalping, a high-quality broker must offer instant execution, because scalping trades happen fast , so your execution needs to be done at a very high speed.

Your broker must provide a live data feed for charts and must have very competitive spreads for the instruments you will be trading on. Also, the trading software must be easy to use and fast to execute trades with.

Also, you need to check the broker's scalping policy. Nowadays, the majority of well-known companies are allowing scalpers the freedom with their decisions. However, there are some brokers that don't allow scalping methods for its clients.

Low–Spread Instruments

Because of the nature of scalping you need to trade only the instruments with the lowest spread. Why you need low spreads? Because as scalper trader you open and exit a number of positions in a day. The cost of the trades will become an important factor.

As a scalper, by default you'll use tighter stop-losses, aiming for small profits. The higher the spread, the lower your stop-loss will become.

For example, if you scalp with a 10 points stop-loss order, a spread of over 3 points will leave room only for 7 more points in order to exit the trade. That's a small margin. In scalping, every point counts so you need to trade with low-spread instruments.

I personally never scalp an instrument that has a spread higher than 2 points. The risk/reward ratio is not worth it.

My favorite low-spread instruments on which I apply scalping techniques are Dow Jones Index, Dax 30 Index, EUR/USD, GBP/USD, EUR/JPY and USD/JPY.

Requirements of Scalper Traders

A Scalper Trader must recognize the daily and hourly support and resistance levels.
Scalpers must recognize chart patterns, in both trending and range-bound markets.
A Scalper trader must be patient and disciplined. Patience and discipline will help the trader entering the market at the wrong times and turning small losses into bigger losses.
Scalpers must control their own emotions while entering and exiting trades.
A Scalper trader must have quick reflexes to react when setups are occurring and he must be skilled at quickly executing the transaction.
Scalpers should be able to stay focused on its graphs for several hours at a time, paying undivided attention to the scalping setups.
A Scalper trader should gain profits from the market by diminishing its risk as much as possible. A Scalper Trader must be aware of the balance between risk and reward.

Scalping Trading – Pros

Faster Profits

When scalping, you are trading with the possibility to record higher profits compared to swing trading or positional trading. You don’t have to wait for days to see an improvement in your balance. This would benefit also to your confidence. Trading with confidence in you and your system would make scalping an enjoyable method.

Theoretically, a scalper trader would see their profits exceed the ones recorded by swing traders or position traders over the same period. Do the math: a compounded daily profit of just 2-3% would exceed by far the profit recorded by a swing trader.

More Trading Opportunities

Scalping trading provides an endless stream of possibilities for entering a trade. Did you miss a signal on the 5-minute chart? No worries, another one will develop soon.

When scalping you won’t get bored. The market is in a continuous movement and trading opportunities on lower time-frames develop quickly. If you enjoy entering frequent trades, you’ll find that scalping offers you the opportunity to enter the market often.

Less Market Analysis

With scalping, you don’t have to wait days, weeks or months for a strong trend to unfold. You don’t have to analyze all the time frames or incorporate complex calculations regarding higher time frames or market fundamentals.

While position traders will have to make a lot of market research and preparation before entering a trade, a scalper trader just uses several tools before entering the market.

With scalping, there is little pressure to analyze the overall market, on all time frames.

No Overnight Swaps or Interest

If you’re trading the Forex market, an overnight position will involve a swap. The swap is an overnight interest, deriving from the fact that the interest rate of each currency is different. When scalping, you don’t have to worry about accumulating swap.

Fewer Concerns About Market Exposure

Have you ever entered a trade, just to see the market going against you, but not hitting your stop-loss level? You could sit on that trade for days, even weeks. Let’s face it, it could be quite stressful to see your position in the red.

With scalping, the pain still exists, but it has a lower intensity. At the end of each trading session you close your positions, take your profits and leave the market. That’s it, you don’t have to concern about market direction. You don’t worry whether the market will turn against you. You don’t have to say a prayer to bring the market to break even.

If it happens to be a bad trade, you don’t have to deal with such durable and intense feelings. Once you’ll enter another trade, the pain is almost gone.

Scalping Trading – Cons

“Screen time” Is Considerably Higher

Scalper traders must monitor the price action very closely. While longer-term trading styles might only require minimal work each day, scalping requires more time paying attention to charts during a trading session.

Exhaustion and Trading Fatigue

During a fast-paced and energetic scalping session, traders often experience trading fatigue. The hours and emotional investment can lead to exhaustion.

Scalping’s main requirement is to have a sound analysis and focus when studying market charts and quotes. Many hours of intense concentration often affect the mental state and levels of energy of scalpers.

Small Margin for Mistake

Scalping can be very risky and costly if not executed in a right way. This trading technique can be very difficult because there is a very small margin for error. If you are a beginner or don’t really understand what you are doing, your account will slowly decrease.

Trading with tight stop-losses involves accurate pinpointing of market entries. Even with the perfect setup, we all know that a spike in any direction could happen in seconds.

That’s why many traders avoid scalping, as they believe they don’t have any control over their positions.

Not Suitable for Everyone

Some traders love scalping, using it as their primary trading style. Other traders avoid it for their own personal reasons.

Scalping is very emotionally demanding. If you’re not comfortable to make decisions without any hesitation and you aren’t capable of following your trading system no matter what, then probably scalping isn’t the trading technique for you.

Over-Trading

Scalper traders open multiple trades a day, depending on their trading systems. Some scalpers execute dozens and dozens of trades each day. This might not beneficial for your mental health in the long term, to trade so often, at such a high intensity.

Over-trading is something many scalper traders struggle with. Scalpers often feel they need to be in the market. Add impatience to this and you’ll have the recipe for an account blow.

Over-trading cause scalpers to exceed their maximum risk limits by entering too many trades. This “trading rush” is not profitable in the long run.

How To Scalp – Forex Scalping Trading Strategies

Forex Scalping Strategy No.1 – Breakout in the direction of the main trend

This system is a conservative scalping strategy, with signals taken only in the direction of the main trend. This setup will focus on breakouts in the direction of the prevailing trend, with tight stop losses and bigger room for profit.

Here’s what we need:

1-min chart
200-period exponential moving average – an indicator used to determine the short-term trend
1000-period exponential moving average – an indicator used to determine the medium-term trend

Note: 1000 EMA on the 1-min chart is the same with 200 EMA on 5-min chart, so basically we are trading with 200 EMA on the 1-min and 5-min charts

And that's it in what concerns the indicators. We don't need other indicators to confuse our trading setup.

Here are the rules that will help you on the right side of the market most of the time. First, we look at the beginning of the trading day at the position of the exponential moving averages.

If the 200-period exponential moving average is trading above the 1000-exponential moving average, we consider this a BUY ONLY DAY, and we look only for scalping long signals
If the 200-period exponential moving average is trading below the 1000-exponential moving average, we consider this a SELL ONLY DAY, and we look only for scalping short signals

Now here comes the most important rule: the exponential moving averages must NOT cross during the day. We aim to trade during stronger trends. If the EMAs will cross, then we will enter a trading range.

So the rule is: if during the Tokyo trading session the exponential moving averages cross one with another, we are done for the day, we don't trade the instrument.

Now that we determined the trend for the day, we are trading support and resistance levels and breakouts in the direction of the prevailing trend.

Let's look at the Dow Jones Index scalp chart above. We plot the 2 exponential moving averages and we look at their position at the beginning of the day. The 200-EMA trades below the 1000-EMA and during the Tokyo trading session no crossover happened.

This is a SELL ONLY DAY, so we begin searching for short scalping opportunities.

From here, the skill and experience of the trader come into play. You have to spot those conservative entries in the direction of the trend.

During this trading day, I spotted 5 scalping signals, 4 of them being successful.

The entry technique was pretty simple: I looked for a short breakout after a period of consolidation.

This system is at the borderline between scalping and day-trading. This is not a classic scalping system, where you aim for several points. With this setup, you can catch a decent swing and bank more points.

That's why I don't have a predetermined take profit level when I use this setup. I move my stop loss to break even or set a trailing stop and let the market do its thing.

Here's another setup. Remember the rule I said before? The 2 exponential moving averages indicated at the beginning of the day a BUY ONLY DAY. However, during Tokyo session several crossovers occurred and we abandoned the setup.

This rule saved us from trading during a choppy day. You can see on the chart that the price traded in a range for the most part of the trading sessions.

Now, let’s analyze a BUY ONLY DAY. We see that the 200-period moving average started the day above the 1000-period exponential moving average and stayed the same during the Tokyo session.

We look for breakouts in the direction of the uptrend. The scalping system generated 4 signals, 3 of them were successful and the last one was a break-even trade.

Don’t underestimate the power of breakout trading. It’s one of the most powerful price action techniques and I advise you to master it.

Forex Scalping Strategy No.2 – Divergence in the direction of the main trend

If you are a scalper trader, divergences should be one of your most important tools. Divergences signal momentum coming into the main trend, suggesting a possible continuation in the main direction of the market.

For this scalping system, we will use the same rules as in the previous one, only the entry points will differ.

So, this is what we need for the setup:

1-min chart
200-period exponential moving average – an indicator used to determine the short-term trend
1000-period exponential moving average – an indicator used to determine the medium-term trend
Stochastic Oscillator with 50-3-10 settings – for entry points and spotting divergences
You probably noticed that I don’t use the standard settings of the oscillator. That’s because I want to eliminate market noise as much as possible. I want fewer signals, but quality ones.

The main rules are the same:

We trade only when there are no crossovers during the day, in the direction of the main trend.
If a crossover occurs during Tokyo trading session, we abandon the setup for the day
The Stochastic Oscillator will help us to spot divergences on the chart. But we won’t trade all the divergences. We are interested in divergences in the direction of the main trend, indicated by 200 EMA and 1000 EMA.

A divergence occurs when price action differs from the action of the Stochastic Oscillator.

This means that the momentum isn’t reflected in the price, which could be an early indicator of a reversal.

A divergence occurs when prices form a lower low while the Stochastic forms a higher low (indicating a possible buy), or when prices form a higher high while the oscillator forms a lower high (indicating a possible sell).

When a divergence occurs, a potential change in price direction could be on the cards.

Let’s look at some charts.

The trading day started with the 200 EMA above the 1000 EMA, indicating a BUY ONLY DAY. The Tokyo session didn’t bring any crossover, so we were good to trade.

As we are searching for long scalping signals, we will search for divergences on the lower side of the Stochastic Oscillator.

During the whole trading day, we found 4 valid buy scalping signals. The Stochastic Oscillator indicated 4 divergences: 2 classic and 2 hidden divergences.

The entry point is the first crossover of the Stochastic, after we spot the divergence.

Stop-loss orders are set at 15 points, while take profit level is set at minimum 25 points. After a few wins, I prefer to use a trailing stop and squeeze as much profit from the market.

The 5th signal was ignored, as it occurred below the 1000-period exponential moving average (despite the fact that it would have been a successful trade).

Let’s analyze a SELL ONLY DAY. The exponential moving averages remained in short mode after the Tokyo session, so we were safe to search for short entries.

During the day, the Stochastic generated 4 divergences, all of the scalping signals being successful.

We ignored the signals offered by the divergences on the lower side of the Stochastic, as we are in a strong downtrend and chances of whipsaw were considerably higher.

The main advantage of this scalping system is the fact that we have 2 market forces on our side when trading:

The strong trend indicated by the 200 EMA and 1000 EMA.
The momentum offered by the divergence.
By using this approach, we’ll reduce the market noise and eliminate false signals.

Final Thoughts

Scalping may seem easy, but the reality is that it’s an advanced trading style. It requires very quick decision making, quick reflexes to react when setups are spotted, and the scalper trader must be skilled at quickly executing a trade.

If you want to make money from scalping, it’s imperative to have a disciplined approach to trading. It is also important to keep things simple, don’t over-complicate your trading.

Keep your price charts clean, without plotting a lot of indicators, and focus on reading price in order to increase your chances to scalp the right way.