Forex Price Action Strategy

The Ultimate Guide (2019 Update)

This is a PDF version of my Forex Trading Strategy, it was created in January 2019. I update my strategy regularly, so if you want to see the most recent version **please visit this page**.

Do you want to **master Forex trading?**

Well it all starts with having the right strategy!

Trading Forex using price action is simple, stress free, and highly effective.

In this guide, I will share my advanced Forex trading strategy with you.

You will learn to use powerful price action techniques in a stress free and simple Forex trading strategy.

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CHAPTER 1:

My Price Action Trading Strategy

My Forex trading strategy is based completely on price action: no indicators, no confusing techniques, just pure price action!

What is Price Action Trading?

All price movement in Forex comes from bulls (buyers) and bears (sellers). When GBPUSD moves up it's because there are more bulls than bears and vice versa.

The Forex market (and any market for that matter) is in a constant state of struggle between bulls and bears.

Price action trading is about analysing who currently controls price, bulls or bears, and if they are likely to stay in control.

If your analysis shows that bulls are in control and that they are likely to stay in control, then you can buy (long).

If it shows that bears are in control and that they are likely to stay in control, then you can sell (short).

How do you analyse who's in control of price?

By using two simple price action techniques.

Support and Resistance Areas

These are buy and sell areas you can easily identify and place on your chart. Once price hits these areas you know it is likely to stall or reverse completely.

This allows you to buy or sell at the right time.

Advanced candlestick analysis

This is not that basic doji equals reversal stuff you may have seen elsewhere. Advanced candlestick analysis goes much deeper than that so that you have a full understanding of what a chart is telling you.

Once you understand this, one glance at a chart will tell you who's in control of price (bulls or bears) and if you should buy or sell.

These two techniques make up the core of my price action trading strategy. In fact, those are the only techniques I use to find and trade high probability setups.

My trading strategy differs from most courses you will come across as it is based entirely on Price Action...

- There are **NO** indicators.
- There are **NO** confusing techniques.
- There is **NO** stress.

It's simply about reading price and making smart trading decisions.

Forex Price Action Strategy

My price action strategy was born in 2005 and has been constantly improved over the last 14 years - this strategy has seen it all.

It has survived major market changes from the financial crisis in 2008 to the Swiss Franc disaster in 2014, to Brexit in 2016. It really has seen it all.

My price action strategy works in all market conditions.

From trending markets to low volatility, to ranging, to high volatility, it has weathered it all with consistent profits.

Indicator based strategies work well in specific market conditions. If you have a strategy that works in low volatility markets, it will fail in high volatility, ranging, or trending market conditions.

Price action adapts, indicators don't!

Price action doesn't only adapt to changing market conditions though, it adapts to different pairs, different time frames and, crucially, to different traders.

Above all, **Price Action keeps your trading simple**.

In fact, price action trading makes Forex so simple, you can trade it from your smartphone. I use this strategy to trade on the go - as of 2017 I take over 60% of my trades from my smartphone.

Keep it Simple

The key principle of my Forex trading strategy is simplicity. The most common downfall of today's traders is over complicating their strategy.

We have all seen charts that look like this.

How can you trade comfortably using a chart like this?

How can you trade efficiently using a chart like this?

How can you trade from your smartphone using a chart like this?

You can't, it is too messy.

The core rule of my price action strategy is to keep trading simple. Because **the Forex trading strategies that work best are simple**.

The only thing I place on my charts is **support and resistance areas**. I use these support and resistance areas in conjunction with candlestick analysis to trade Forex.

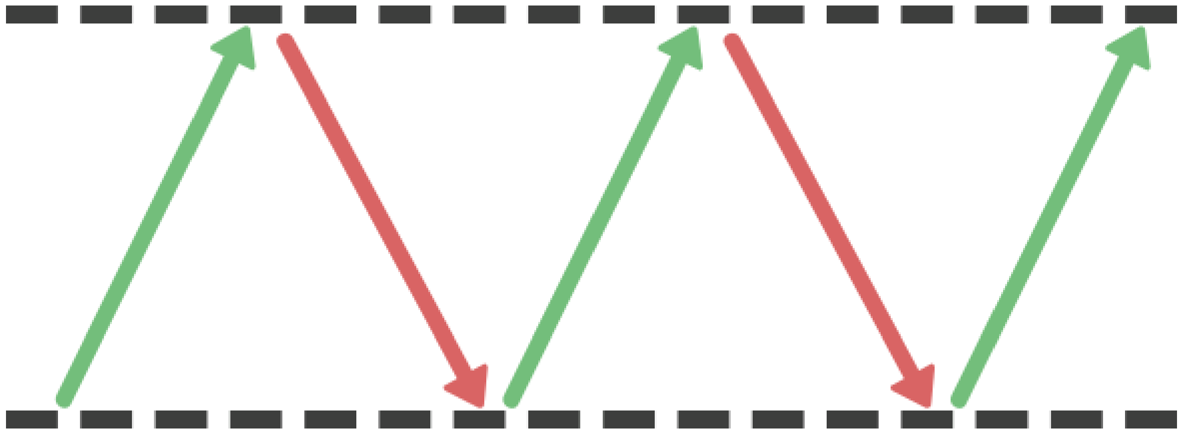
So what does a clean Forex chart look like? Much better than the monstrosity above!

This chart is uncluttered, easy to understand and to navigate, with nothing to distract you from analysing price action.

This style of trading is quick, efficient, stress-free, and you can do it from anywhere, including your smartphone.

CHAPTER 2:

Support & Resistance Areas



Support and resistance areas show you where to buy and sell, they are a vital part of every traders toolkit, and **it is essential that you learn how to place them.**

What is Support and Resistance?

Placing support and resistance areas is the most important skill you can master in trading.

And placing them is easy'.

Support and resistance areas divide your chart up into buy and sell areas. An area that sits above current price is a sell area, any area below current price is a buy areas.

Support = Buy Area

The terms buyers and bulls are interchangeable. Support is a buy area as buyers are found at support.

Resistance = Sell Area

The terms sellers and bears are interchangeable. Resistance is a sell area as sellers are found at resistance.

On the GBPUSD chart below, you can see price is approaching the blue shaded area at 1.3500. This is a strong resistance (sell) area.

When price approaches a sell area large amounts of sell orders are triggered countering buy orders. This usually results in price stalling or even turning around completely for a reversal.

Why does this happen though?

It's simple, the market movers like banks and hedge funds place their orders at areas of support and resistance.

Why Do Market Movers Place Their Orders At SR?

Good traders don't randomly place entry orders and hope that they get lucky. They place their entry orders at significant price levels. Significant levels come in many forms.

- Yearly, monthly, weekly highs or lows.
- Rounded numbers such at 1.0000 and 1.0500 (also called psychological levels)
- All time highs or lows.

- Areas in which price has stalled or reversed more than once.

In the GBPUSD chart example above, we can see that price has stalled at the 1.3070 twice (green highlights). The next time it approaches the level it pulls back again and then again two more times (yellow highlights).

Why?

Because market movers place their buy orders at the 1.3070 and when price hits the area the buys trigger causing a reversal.

This happens all the time on every Forex pair and in every financial market for that matter.

This is how markets work, buy and sell orders are grouped together in the same general area and when they are hit we see the impact on price.

Placing Support and Resistance Areas

There are a lot of indicators out there that claim to give you great support and resistance areas.

I have tried them all and I do not find them reliable.

Support and resistance placements still need to be done by a person.

[These are my support and resistance areas](), but if you want to trade more pairs, you will need to place them yourself.

But don't worry, it is easy, all you are doing is placing horizontal lines when you spot an area with two or more bounces.

I am going to break it down into a step by step process for you though. But first, we need to define some rules for support and resistance areas.

Three Rules to Support and Resistance

There are three key rules you need to keep in mind when placing support and resistance areas.

1. Place areas on the body of a candle, the body is more important than the wick.
2. The more recent the bounce the more important. Prioritise recent bounces over older bounces.
3. You need at least two connecting bounces to place a support and resistance area. There are a few exceptions to this, the most common one being for points which are yearly or all-time highs/lows. When you spot a year or all-time high/low you can place an area there even if it has only once bounce.

Step By Step Guide to Placing Support and Resistance

Step 1: Select a daily chart and zoom out until you see around one year of data. Don’t worry if you see a little more or less than one year, it’s not a big deal.

Step 2: Identify the highest and lowest bounces in the last year and place an area at each. Remember, place your areas at the bodies, not the wicks and as these are yearly highs and lows placing them based on a single bounce is enough.

Step 3: Place support and resistance areas between the first two by connecting areas which have two or more bounces.

You will generally find that there are 5-8 support and resistance areas on most charts. If you have more than 8 you probably placed too many.

CHAPTER 3:

Advanced Candlestick Analysis

Most new traders learn a little bit about candlestick analysis.

But most of what they learn is completely useless!

Why?

Well the standard approach to candlestick analysis is basic pattern recognition, which fails to work in real trading.

I delve much deeper than that, I look at the story behind the candle and in this chapter I will show you how to do that too.

You can't skip straight to advanced candlestick analysis without knowing some basics first. If you don't know the basics, that's fine, I got you covered!

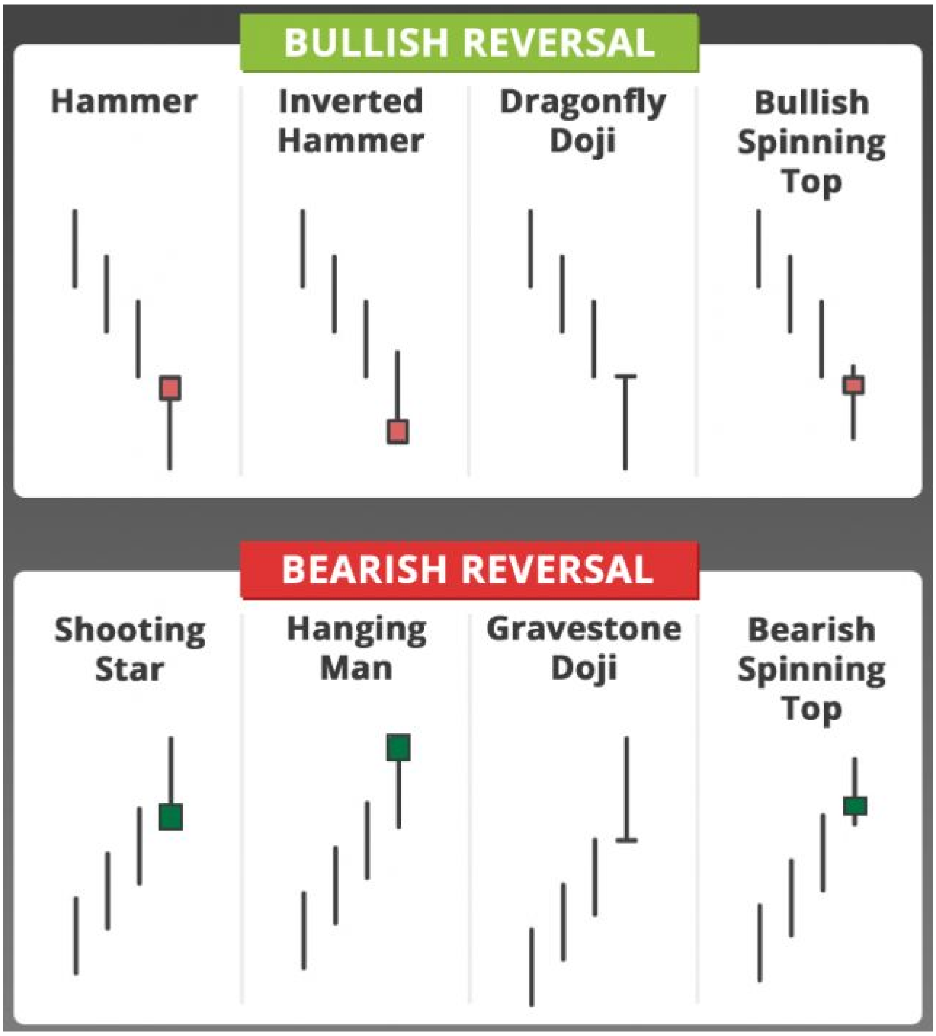
You can read up on the basics here if you need to.

The Truth About Candlestick Analysis

When Forex traders first start out they usually learn about candlesticks.

But what they learn is usually useless.

They normally see a list of "candle patterns" like the one below. Each pattern has a set in stone definition and that is the only meaning it can have.



This is not candlestick analysis, it is pattern recognition.

And for a price action trader, it is useless.

Actually, it is worse than useless. Thinking about candles as just patterns is counterproductive. It makes you a worse trader, it leads you to make massive mistakes.

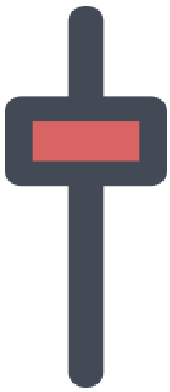
Why?

Giving a pattern a set definition leads to tunnel vision. When you see that specific pattern, you assume that something will happen.

But that is not how candlesticks work.

All candlesticks need to be assessed based on the candlesticks around them, and many other factors.

Below is a candlestick pattern commonly called a "spinning top".



Normally people say that a spinning top means a reversal is imminent, which can be true. However, this same pattern can also mean that a continuation is imminent. It can mean that price is temporarily stalling.

It can mean a lot of different things.

Thinking of candles as simple patterns is the wrong way to do things.

You need to look beyond the pattern and read the story of price.

The Story of Price

Every single candle on your chart is telling you a story. When you combine those candles together, you get the story of price.

Reading and understanding the story of price is vital in Forex. It is vital because it allows you to answer one of the most important questions in trading...

Who is in control of price?

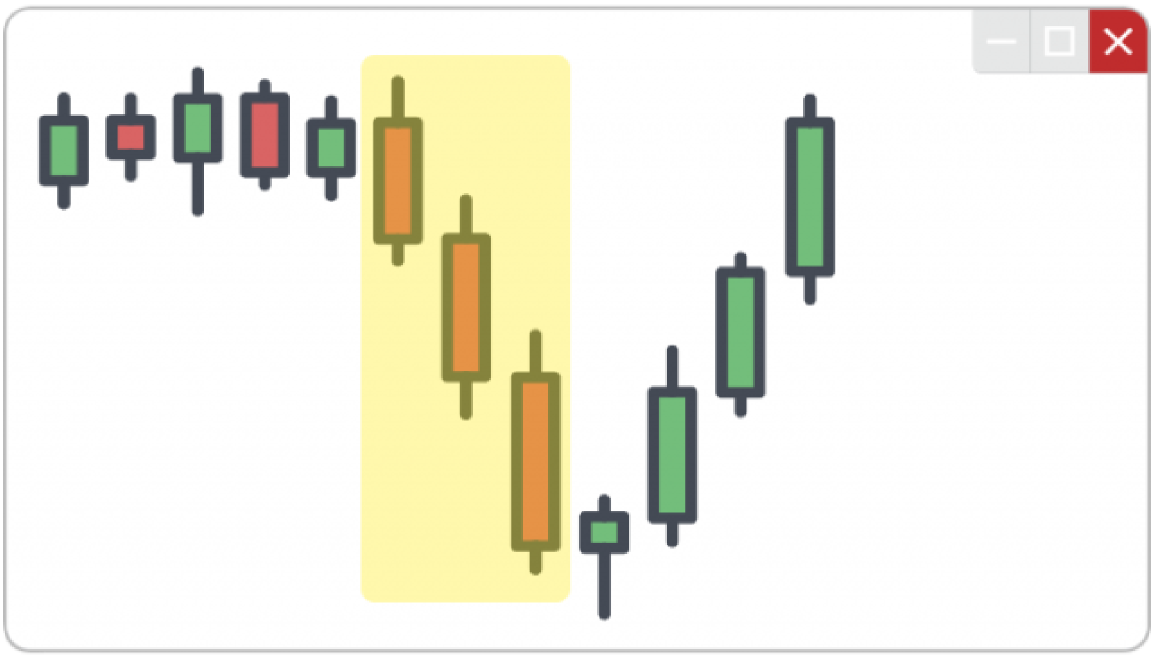
This question has three possible answers: buyers, sellers, or neither.

Being able to accurately answer this question is vital. If you are about to enter a short trade and you ask yourself

"Who is in control of price?" and your answer is "buyers", well perhaps selling is not a great idea.

Let's break down the story of price.

If you look at the three highlighted candles below, it is easy to conclude that sellers are in control of price.



The candles all closed lower than they opened, they all created new lows beyond the previous candles low and they all had small upper wicks in comparison to the candle body. The small upper wicks indicate that buyers were unable to push price up by much.

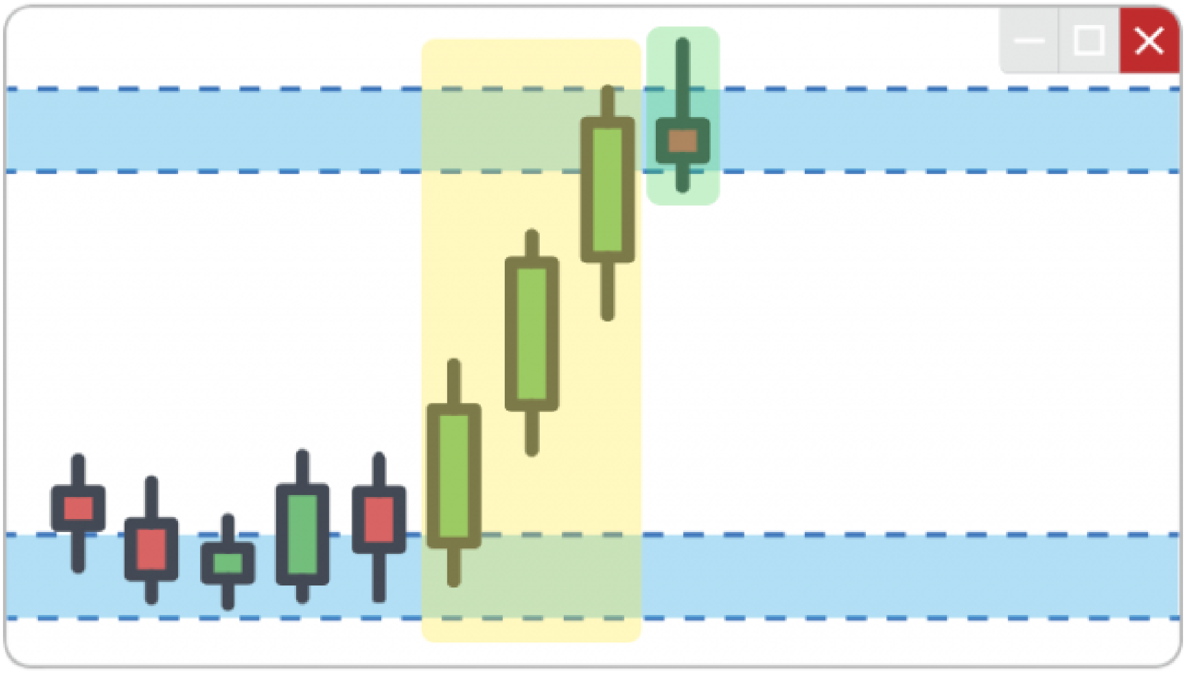
But what does the highlighted candle in the next chart tell us?

It has a short upper wick, a small body, and a long lower wick. This is what I call an indecision candle.

What's an Indecision Candle?

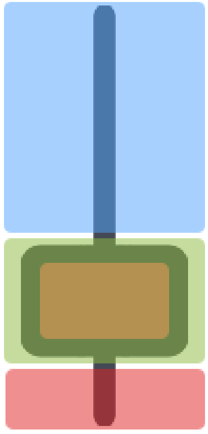
Indecision candles occur when neither buyers or sellers can gain and maintain control of price. They are common, but if used in the right way, they can be very powerful.

Take a look at this bullish trend (yellow highlight), it is a strong trend, there are several bullish candles heading towards an area of resistance. The big bullish candles tell us that during the highlighted period buyers were in complete control of price.



When price hits resistance we get an indecision candle forming (green highlight).

Let's break this candle down into a story so you understand why it indicates indecision.



Large Upper Wick (Blue Highlight)
A large upper wick shows that buyers tried to continue the bullish trend but failed. Sellers took control of price and pushed it down.

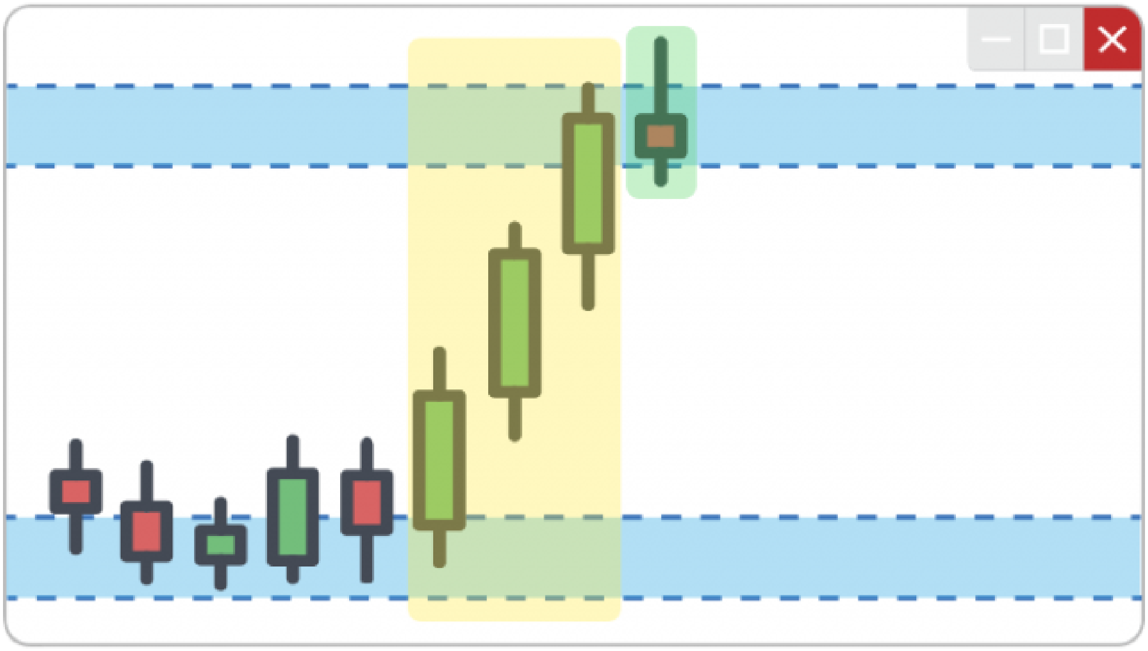
Small Bearish Body (Green Highlight)
The small bearish body shows that sellers were able to close lower than open. This is significant because in the three candles before this price consistently closed higher than open. This shows us that buyers are losing power.

Small Lower Wick (Red Highlight)
The small lower wick shows us that sellers were not able to gain much ground either. This tells us that sellers are not strong enough to turn price around completely. However, they are strong enough to stall further buyer movement.

All together this indecision candle forming right after strong bullish candles suggests that power has shifted from a decidedly bullish (buyer) market to an undecided market. While sellers are not in control, neither are buyers.

But there is one more thing we need to look at…

… The indecision candle is forming on top of a resistance area. Let’s looks at this chart again.



If you remember, in the previous chapter we talked about resistance being a sell area and support being a buy area.

So the image above shows us three strong bullish candles heading into a resistance area. And then...

BAM!

Price stalls and we get indecision forming on top of that area.

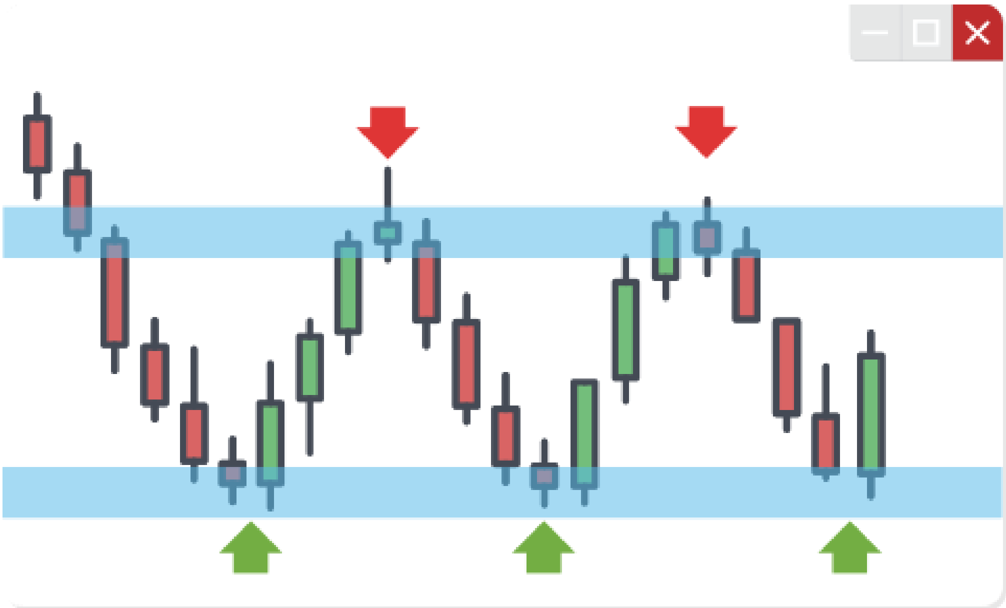
This tells us that the sell area is working. When price pushed into that area sell orders triggered and buyers could no longer continue up.

That is the story of price for this chart.

And this story gives us a nice little price action trade setup.

CHAPTER4:

Price Action Trade Setups



Price action allows you to take many different types of trades, reversals, continuations, range, swing, breakout and scalp trades to name a few.

In my free strategy I will focus on one type of setup, the easiest to spot and trade, **reversal.**

How to Spot a Reversal Trade

Reversals occur quite often, but if you do not know what to look for, you cannot trade them.

Reversals are one of the strongest price action setups, and one of the easiest to trade. And because they occur so often, you can trade this setup exclusively and be a profitable trader.

In fact, for years Forex trading strategy focussed on reversals only. However, these days I trade more price action setups.

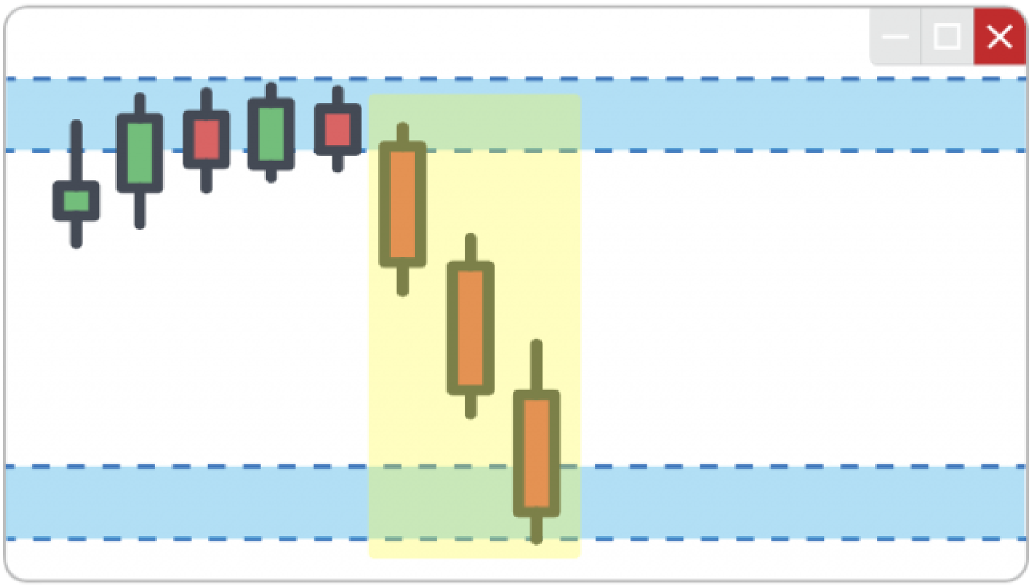
Reversal trades come in three parts:

1. The preceding trend.
2. The Indecision candle(s).
3. The reversal trend.

Let's break down each of these parts.

The Preceding Trend

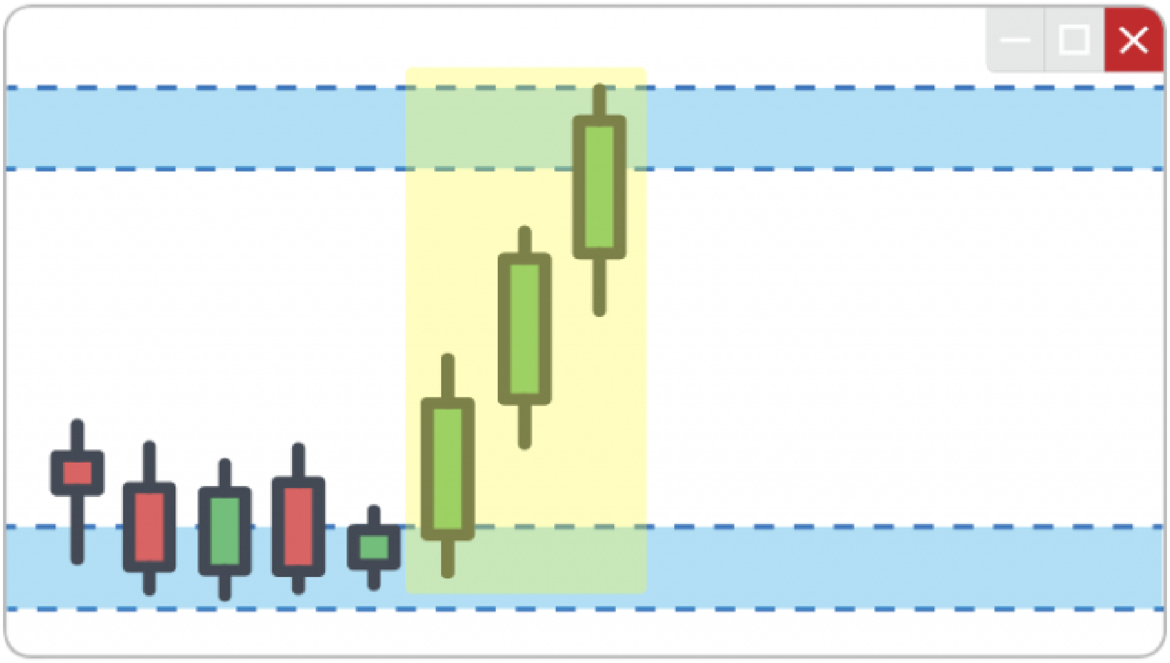
A preceding trend is a strong move by the bears/bulls heading into an area of support/resistance.



In the example above, the preceding trend is a very strong bearish move, indicating that there are a lot of bears in the market and very few bulls. If bulls were strong then price would not be trending down.

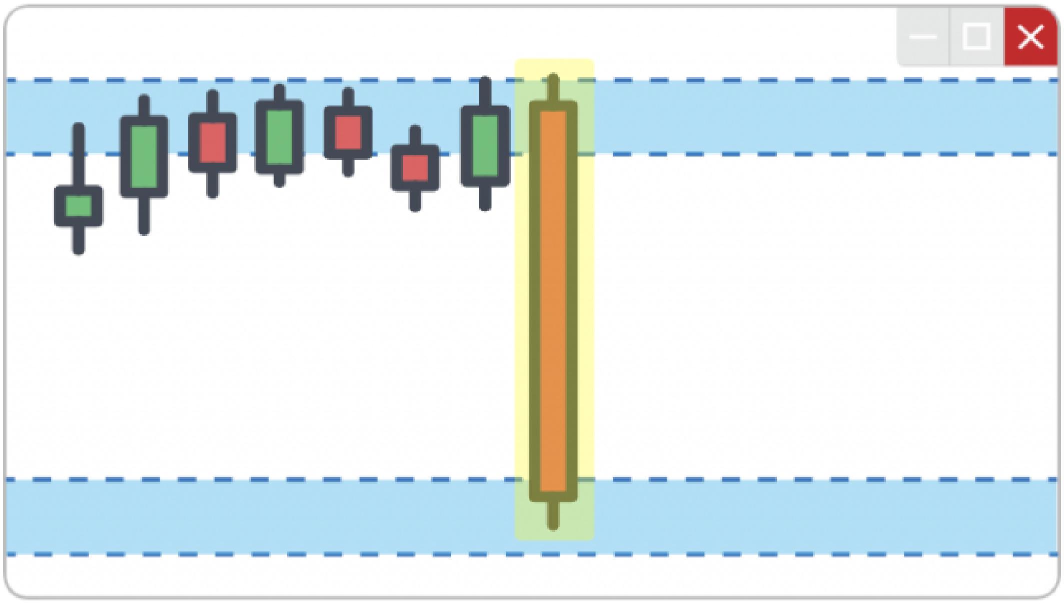
The preceding trend shows us that bears (sellers) have strong control of price and they are pushing price down into a support area.

The opposite applies for a bullish preceding trend which would show bulls (buyers) trending towards resistance, as you see below.



A preceding trend can be formed by as little as one candle. If the candle is strong and covers a lot of price distance, I categorise it as a preceding trend for the purposes of reversal trading.

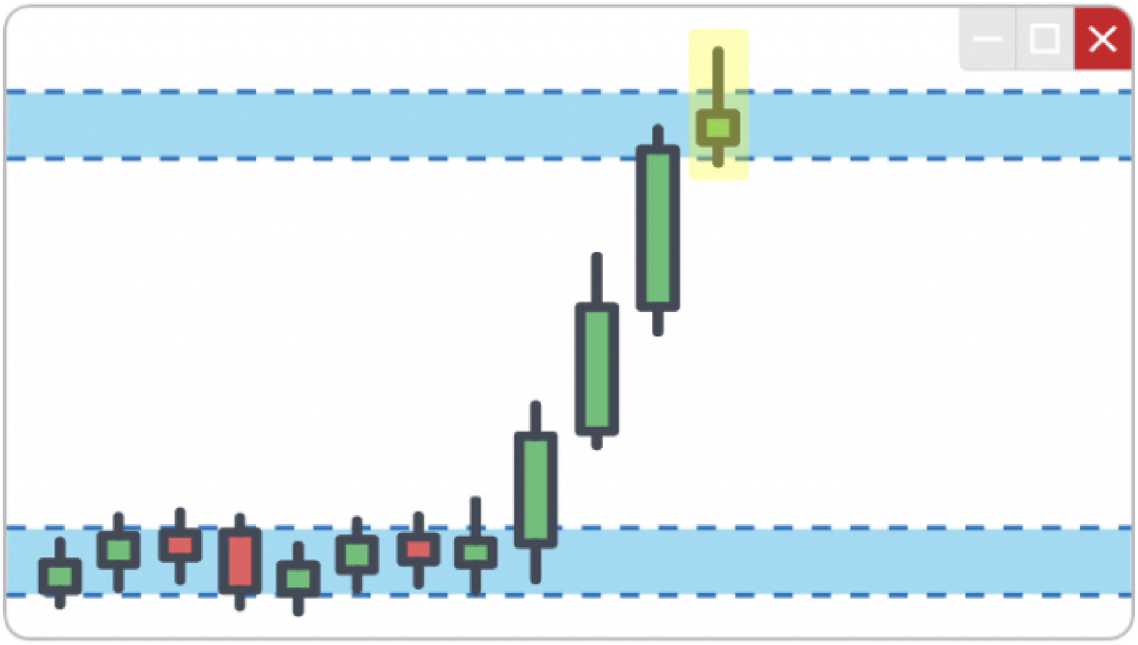
The example below shows a single candle preceding tend.



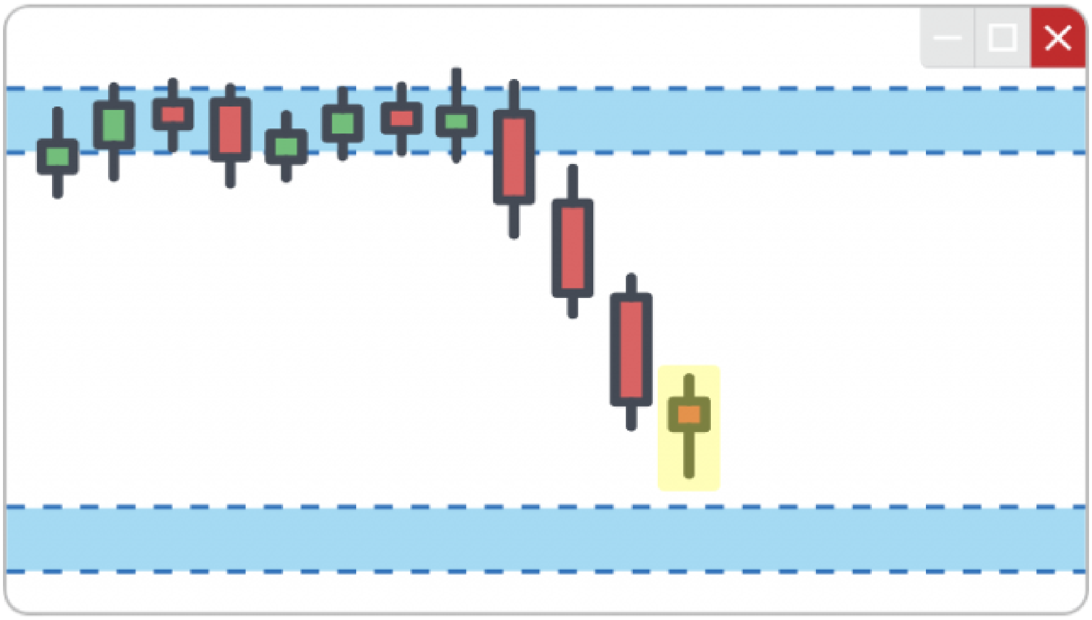
Preceding trends are pretty simple. As long as you see a strong move heading into an area of support or resistance, you can consider it a preceding trend.

The Indecision Candle(s)

A reversal setup will have one to three indecision candles. The indecision candles need to form on or near to the support and resistance area.



If indecision does not form on or near to the area of support and resistance, it is not a valid reversal setup.



Why does it need to be on a support and resistance area?

An indecision candle in a bullish preceding trend indicates that buyers are possibly losing control, and sellers may be gaining control. In a bearish preceding trend it indicates that sellers are losing control and buyers may be gaining control.

However, an indecision candle does not indicate that price will reverse with any degree of certainty.

An indecision candle indicates only one thing...

Indecision!

You cannot take a trade based solely on indecision. The image below shows indecision forming between support and resistance. If you were to enter reversal trades based solely on indecision, it wouldn't work out too well...

What about when a bullish preceding trend heads into an area of resistance (sell area) or a bearish trend into support (buy area) and indecision forms?

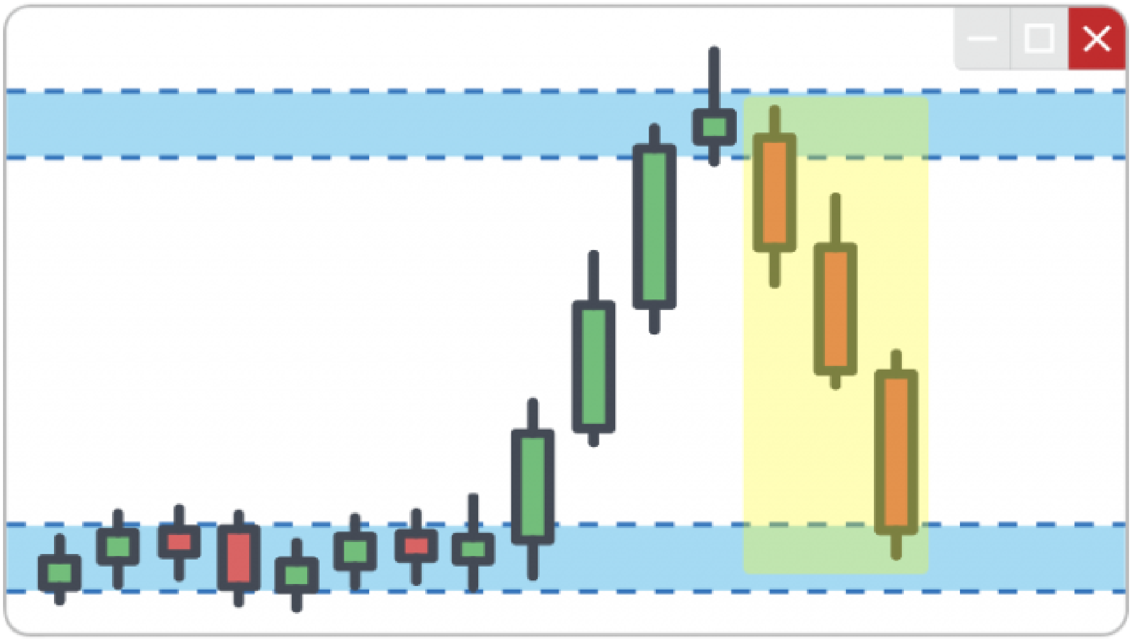
Well, then we get the makings of a high probability reversal setup.

But we cannot enter just yet, we need confirmation, which comes in at part three of a reversal setup.

The Reversal Trend

The reversal trend is the third and most important part of a reversal setup. This is where we make our profit!

After a preceding trend stalls at support, and indecision forms, you often see a reversal trend. The image below shows a bearish reversal trend forming after indecision on resistance.



In this case we saw a transition of power from a bullish preceding trend to a bearish reversal trend separated by a stall on resistance.

Where do you enter the trade though? Let's discuss that in the next chapter.

CHAPTER 5:

Trading Reversal Trades

You know what a reversal trade looks like.

You know that you need to enter after indecision and before the reversal trend.

In this chapter I will show you **exactly where to enter**. So you can trade reversals profitably.

Don't worry, entering reversal trades at the right time is a lot easier than you may think.

Over the years I have refined trade entries down into a very simple formula.

Entering trades does not need to be difficult - remember, my goal is to keep everything simple.

Getting in at the Right Time

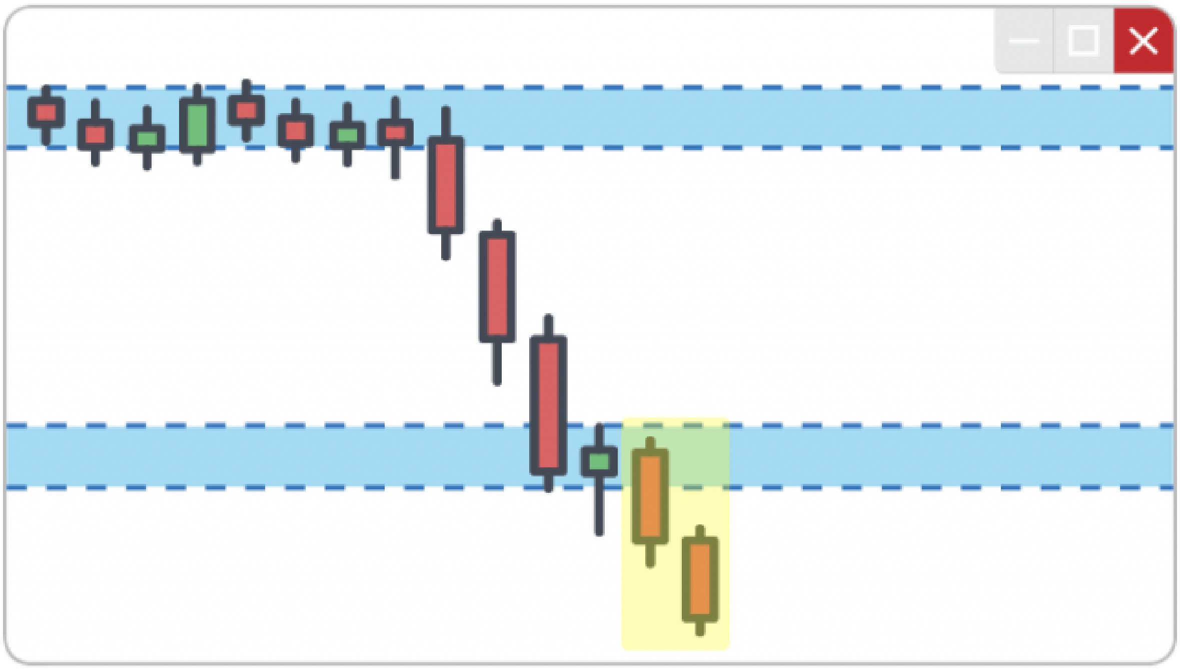
In the previous chapter I explained that a reversal comes in three parts.

1. The preceding trend.
2. The Indecision candle(s).
3. The reversal trend.

You need to enter the reversal trade after part two (indecision) closes, but before part three (reversal trend) completely takes off. Obviously if you enter after the reversal trend takes off, it is too late.

You also need to make sure you do not enter too early as you could be entering a false setup.

In the image below you see a preceding trend heading into support, indecision, and a failed reversal trend. If you entered too early, you would have failed this trade.



Failed trades happen, there is nothing you can do about them.

But getting in at the right time lowers your percentage of failed trades.

Many people wait for a candle close to get in, but I have tested this thoroughly and waiting for closes gets you in too late. In the image below you can see the first candle in the reversal trend closing far from support.

This means you miss out on a lot of potential profit, which is obviously not good.

The key to reversal trading, or any trading for that matter is **getting in at the right time.**

So, how do you do that?

How to Enter Reversal Trade

I have tested countless entry methods in the last 15 years. In that time I have found three awesome entry strategies: entering on new high/low, retrace entries, and distance entries.

In my free strategy I will teach you the easiest, entering on new highs/lows.

When indecision forms on an area of support or resistance, you can use the high or low of the indecision candle as an entry trigger and as a stop loss.

In the image above indecision has formed on resistance after a bullish preceding trend, so we want to enter a short reversal trade.

We set our entry a few pips below the low of the indecision candle, and our stop loss a few pips above the highest point of the candle.

In trading, highs and lows are very important. If a new low is created from resistance it indicates sellers have taken control of price, which means we want to be short.

Our stop loss sits above the high as a break of that high would indicate buyers have regained control of price.

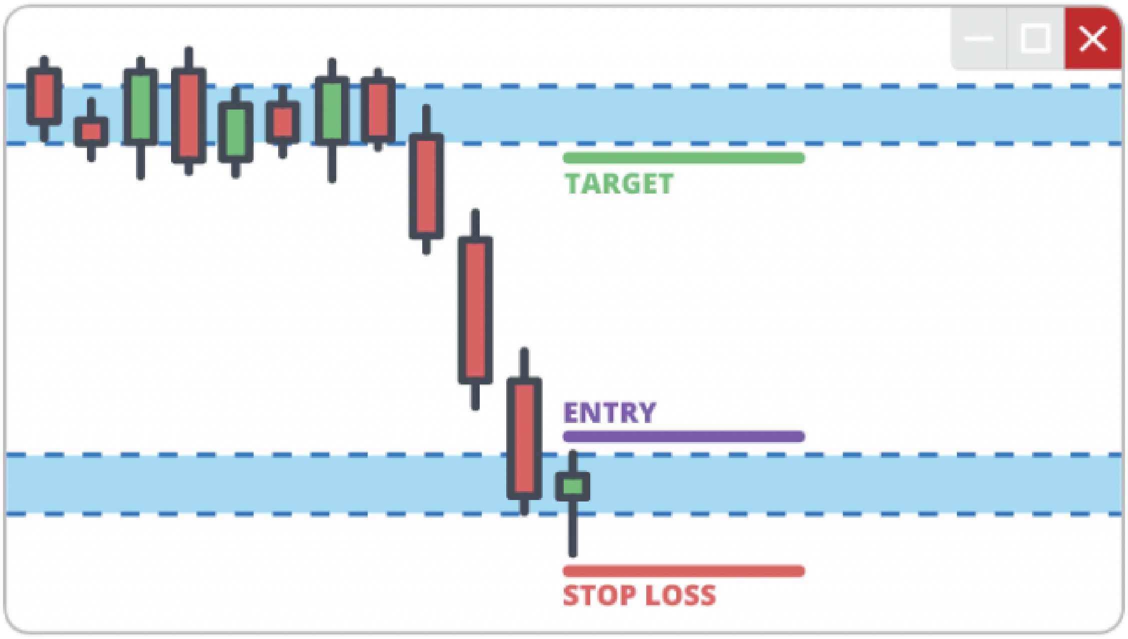
For long trades you set your entry a few pips above the high of indecision, and a few pips below the low.

This is the most simple form of trade entry, but also one of the most effective.

Now that you know how to enter, you need to know where to set your target.

Where to Set Your Target

Targets are also very easy, you need to make sure your target comes before major barriers like the next area of support or resistance.



So, if you enter a long reversal from support, make sure that your target is before the next resistance area.

The minimum risk to reward ratio I use is 1:1.5 R. This means that my target has to be a minimum of 1.5 times the size of my stop.

If my stop is 100 pips, the minimum size of my target is 150 pips (1.5 x 100).

If my stop is 75 pips, the minimum size of my target is 112.5 pips (1.5 x 75).

If there is a major barrier like the next support and resistance area in the way of my minimum target I skip the trade.

In the image above the support area is before my minimum target of 1.5 R is met so I skip the trade.

What Pairs and Timeframes With The Forex Trading Strategy?

The last thing you need to know is the pairs and timeframes.

This strategy works on every single Forex pair, and it also works in other markets like cryptocurrencies, options, futures, stocks and everything.

I trade around 10 pairs regularly.

- GBPUSD
- EURUSD
- USDCAD
- USDCHF
- AUDUSD
- NZDUSD
- GBPJPY
- EURJPY
- AUDJPY
- USDJPY

However, I often have extra pairs on my list that I monitor. If you want to see what I am currently watching **check out my weekly analysis on YouTube.**

As for time frames, I currently trade these.

- 4 hour
- 6 hour
- 8 hour
- 12 hour
- Daily

Many people do not have access to the 6, 8 and 12 hour time frames because their broker doesn't support it.

The general rule in trading is the more time frames you trade the more trades you find.

If your broker does not support 6, 8 and 12 hour time frames you need to find a broker who does, or simply use a charting platform separate to your broker.

While this strategy can be traded with just the 4 hour and daily time frames, there is absolutely no sense in sacrificing potential trades because your broker is too outdated to provide new time frames.

CHAPTER 6:

Learning More About My Forex Trading Strategy

If you want to get my latest analysis, or want to learn more price action setups, I got you covered.

My Weekly Analysis

Every Sunday I do weekly analysis using this strategy, and also the expanded version of my strategy.

You can check it out on my YouTube channel.

Forex Mastermind

If you want a more in-depth guide to my trading strategy you can check out Forex Mastermind.

In my course, I expand on this strategy, and I also share different price action strategies.

You can read more about Forex Mastermind here.

Learn My Forex Scalping Strategy

While the strategy above is an awesome day trading strategy and even a swing trading strategy, for scalping you will need a different approach.

In this article, I share my **Forex Scalping Strategy**