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# Basic Strategies

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## Introduction to Technical Analysis

- ▶ There are many different methods and tools utilized in technical analysis, but they all rely on the same principles - that price patterns and price trends exist in the market and that they can be identified and turned into profit opportunities.
- ▶ The pure technical analyst is only concerned with price movements, NOT the reasons behind the price movements (i.e Fundamental supply and demand).

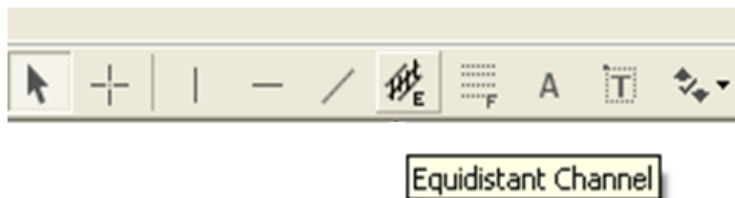
## Prices Move in Trends

- ▶ Prices can move in three directions - they can move up, down or sideways.
- ▶ A trend is a term used to describe the persistence of price movement in one direction over time.



## Recognizing Trends

- ▶ The easiest way to spot trends is via trend lines, drawn below price lows or above price highs. The MetaTrader 4 Platform allows users to effortlessly trace trends using Equidistant Channels.

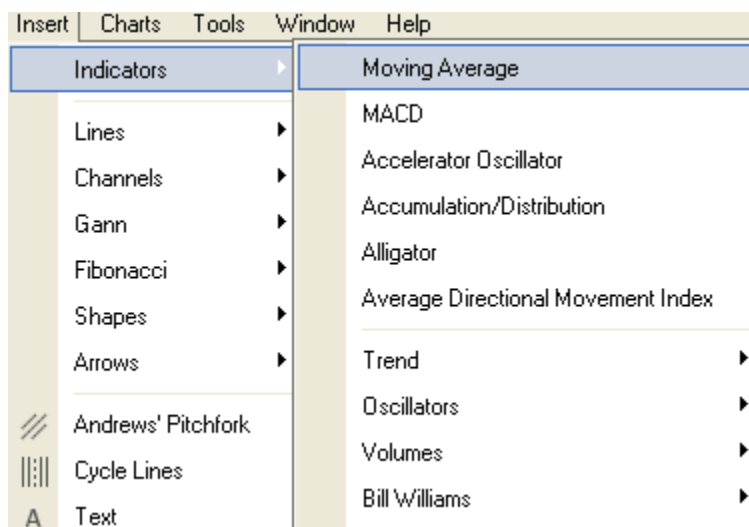


- ▶ To activate, Simply press the Equidistant Channel button and drag your cursor from the lowest point to the highest point.



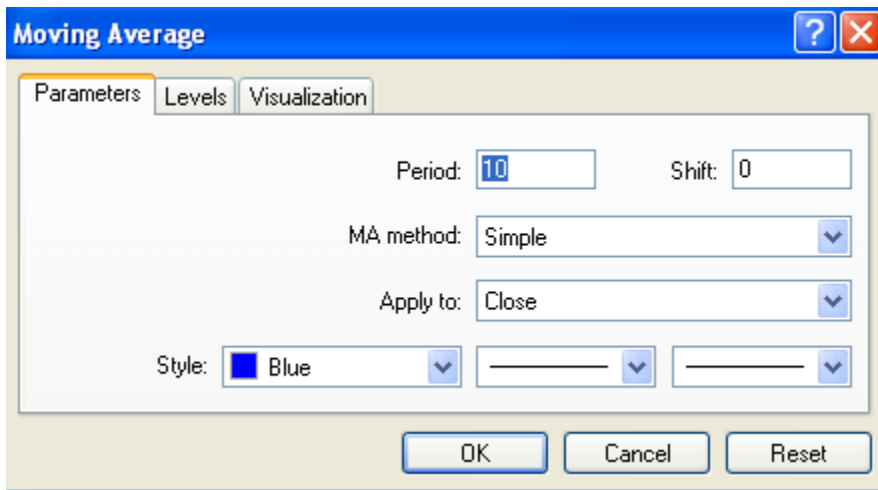
### Moving Averages

- ▶ Another effective method to spotting trends is a moving average.
- ▶ To add a moving average to the chart: in the top toolbar, select “Insert”, “Indicators”, “Moving Average”.



- ▶ In the “Moving Average” window, select the desired period, color and style.

- ▶ To activate press “OK”.



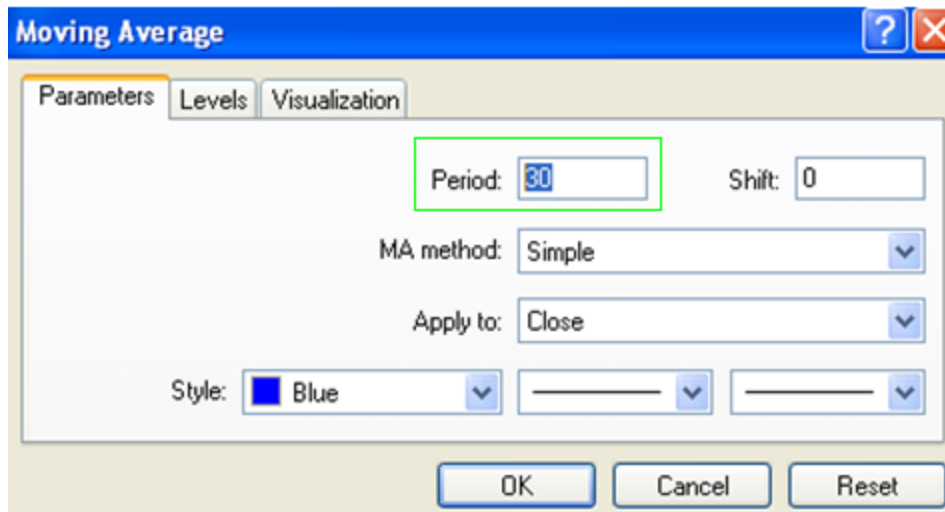
### Moving Average Example

- ▶ Here is a chart showing a moving average with relatively low period of only 10 units.

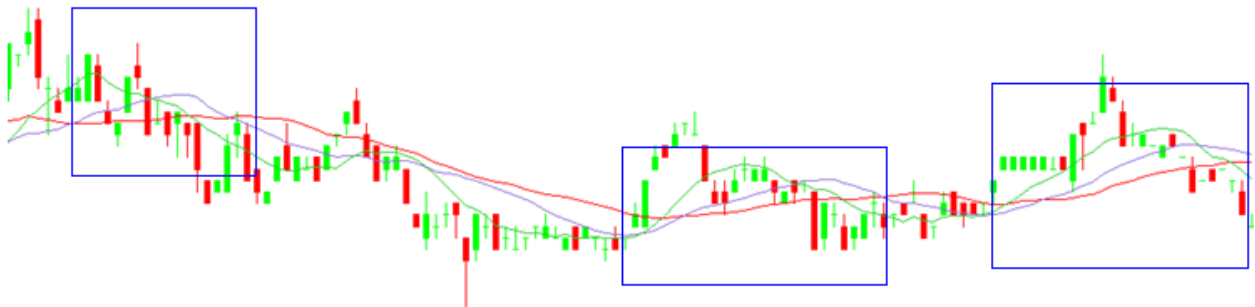


### Moving Average Strategy

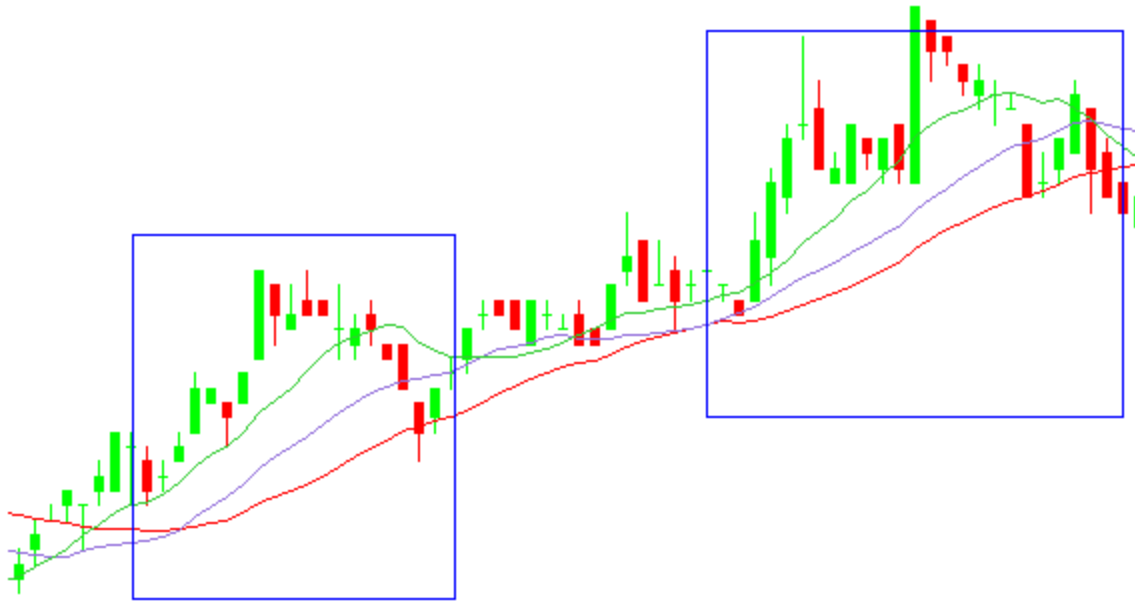
- ▶ Many traders use multiple averages to identify strong trends.
- ▶ To use this strategy, add 3 moving averages to your chart, the first with Period 10, the second with period 20, and the third with 30.



- ▶ After you add the 3 moving averages, you will see a chart similar to the one shown below.
- ▶ If the lines are close to each other or “criss-cross” each other – it means that it is NOT a good time to enter the market.



- ▶ When the lines “spread out”, it means that there is a strong trend to follow, and you should enter the market.



### Support and Resistance

- ▶ Trend lines will help you easily spot support and resistance levels.
- ▶ Support and resistance describes the price levels where markets repeatedly rise or fall and then reverse.
- ▶ This phenomenon reflects basic supply and demand, as well as human psychology.



### Support and Resistance Strategy



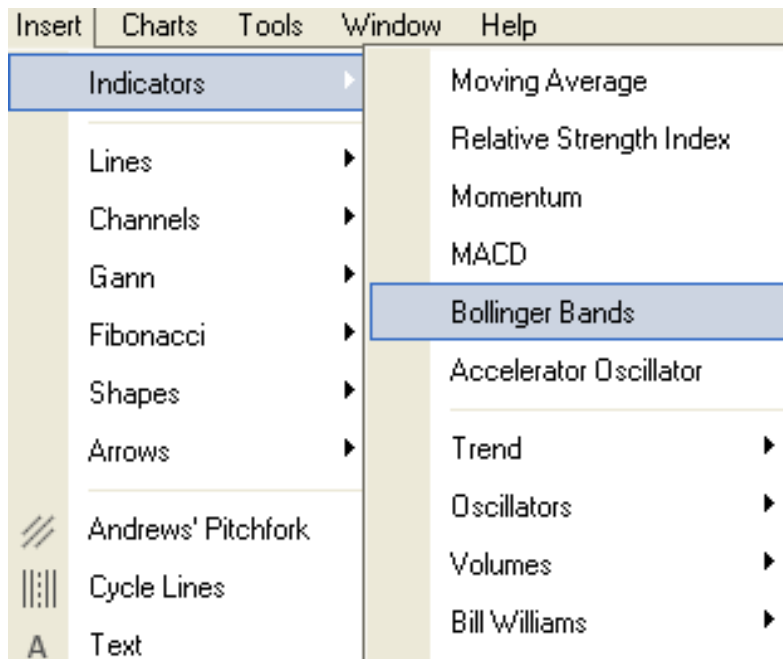
### Bollinger Bands

- ▶ Developed by John Bollinger, Bollinger bands are volatility bands drawn around a simple moving average.
- ▶ As moving averages have been traditionally used to identify the underlying trend, Bollinger bands combine this with the volatility of the individual market (or the standard deviation) – to plot a trading envelope.
- ▶ Bollinger Bands predict big trending moves, act on big trend reversals and time trading positions with greater accuracy.
- ▶ The distance between upper and lower Bollinger bands reflects the volatility of the market traded.

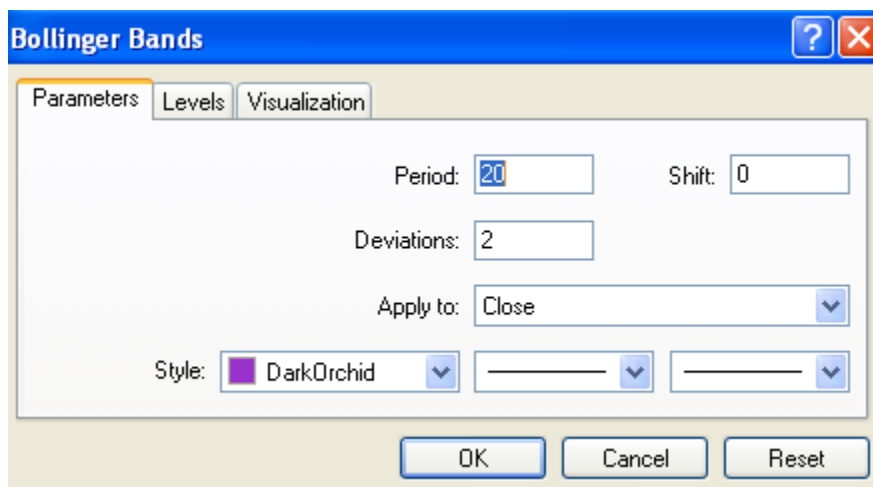


- ▶ To add Bollinger Bands to the chart: in the top toolbar, select “Insert”, “Indicators”, “Bollinger Bands”.



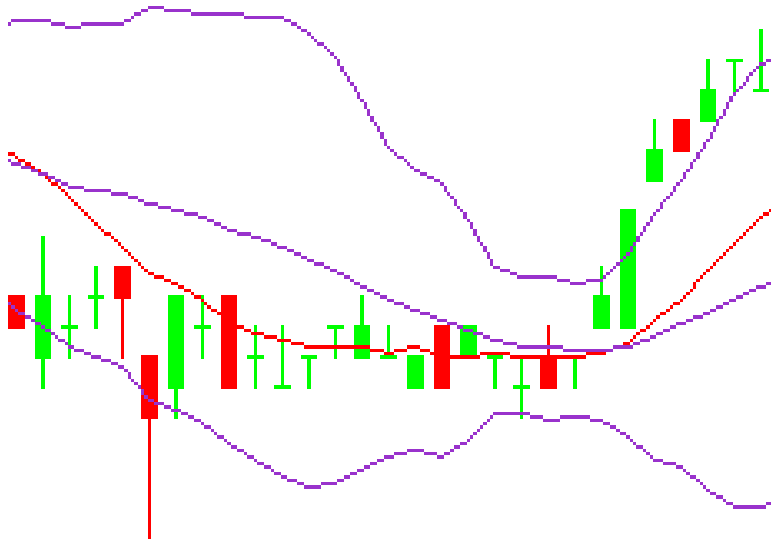


- ▶ The interval between the upper and lower bands and the middle band is determined by volatility, typically the standard deviation of the same data that were used for the average. The default parameters, 20 periods and two standard deviations, may be adjusted to suit your purposes.

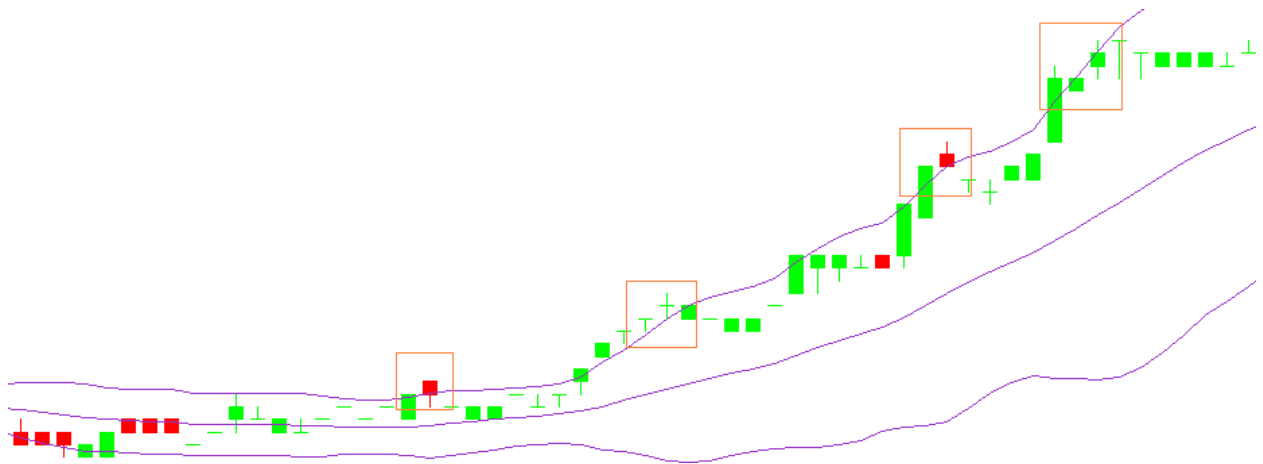


### Bollinger Band Strategy

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



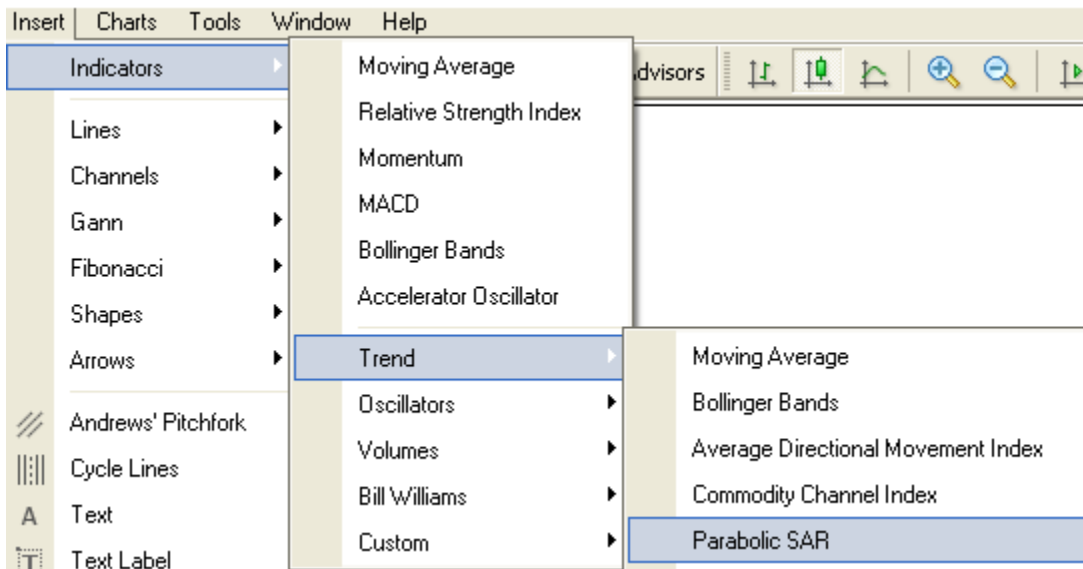
- ▶ When prices break above or below the upper or lower band, it is an indication that a breakout and trend is about to develop - traders will then take a position in the direction of the breakout, and try to ride the trend.



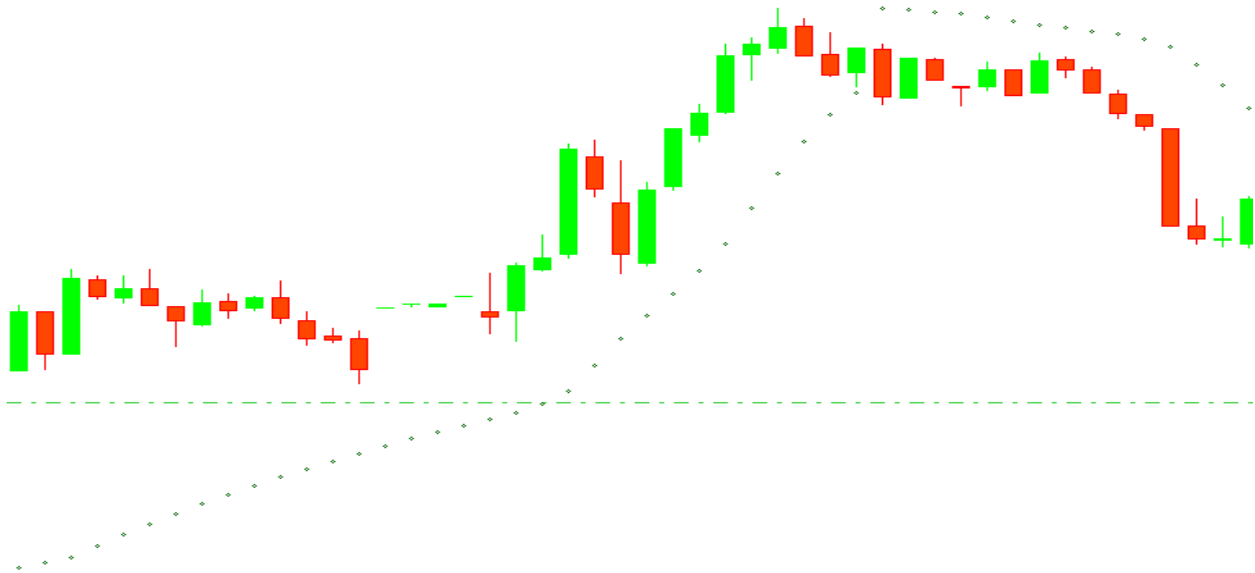
### Parabolic SAR

- ▶ One indicator that can help us determine where a trend might be ending is the Parabolic SAR (Stop And Reversal). A Parabolic SAR places dots, or points, on a chart that indicate potential reversals in price movement.

- ▶ To add a Parabolic SAR to the chart: in the top toolbar, select “Insert”, “Indicators”, “Trend” “Parabolic SAR”



- ▶ Parabolic SAR is really simple to use. Basically, when the dots are below the candles, it is a buy signal; and when the dots are above the candles, it is a sell signal.



You can now continue to [Advanced Strategies](#) (Link to Advanced Strategies)