Trade Away From Open (TAFO) Strategy

Today in the Compass FX training room, we discussed a technique referred to as "Trade Away From Open". Trading the market as it moves away from the Open can be a good trending trade simply due to overall market sentiment and momentum.

The core concept of this technique dates back to 1848 when the Chicago Board of Trade (CBOT) established what would become the world's first futures exchange. Futures contracts, agreements between grain farmers and merchants, were made exchanging a certain amount of grain at a future date for a particular price. In a nutshell, an initial price was given for a grain crop at the Open, and farmers and merchants would barter based on its perceived value and settled on a "future" price. Thus, the market price opened at a level, moved away from that level, and settled elsewhere. The same process is true today for most everything traded.

Before discussing the "Trade Away From Open" technique in detail, it's important to be aware that the Open of the Day will act as a near-term Support level when price trades above it or a near-term Resistance level when price trades below it.

Trading the "Trade Away From Open" is a fairly simple trade technique if you are aware and follow the notes below.

1. Market Bias – Expect the market to test the Open after an initial move away. If the Open level holds price, then a bias for the day or that trading session is implied. For example, if price moves up then down to test the Open level and price bounces off the Open level and moves higher, then it is assumed the market bias is Long.

2. Chart Pattern – Look for a chart pattern that matches the Market Bias. In the example above of a Long market bias, look for a Double Bottom, Inverted Head & Shoulders, or other bullish pattern.

3. Fibonacci Levels – Depending on the bounce or break of the Open of the Day, look for the market to test a Fibonacci Retracement or Extension level.
    a. If the market bounces off the Open and retraces to 38.2% or only 23.6%, look for continuation of the prevailing trend. On the other hand, if the market closes beyond a 38.2% retrace look for continuation to 50% or 61.8% levels.
    b. If the market breaks through the Open and continues, look for a push to the 127% extension from the previous day's High to Low.

4. Support & Resistance Levels – As the market trades from the Open, look for previous repeated Highs and Lows as strong levels of Support or Resistance. The market will be drawn to the levels because of resting limit orders. Once the market reaches these levels, expect a bounce away unless there is a strong economic driver to push price beyond the level.

5. Market Sentiment – Give consideration to overall trend and direction of sentiment using the Traders Dynamic Index or other oscillator such as the MACD, RSI, or Slow Stochastic. If at Open the trend of the market is aligned with the direction of sentiment, look to trade in the direction of price. However, if at Open trend of the market is moving opposite the direction of sentiment, wait for price to turn in the direction of sentiment. In this case, the bias of the market may reverse.

The "Trade Away From Open" technique works for all major trading sessions: Australia Open, Tokyo Open, Europe Open, London Open, and U.S. Open. With major economic data releases, there will be times that the Open of Australia or Tokyo will be treated as the Open for the Asian market. Likewise, the Open of Europe or London will be treated as the Open for the European market.

Good trading,

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