Basic Stuff

There are a few basic concepts that you **must** understand if you are to trade forex successfully:

1. Swing
2. Trending markets
    - Retracement
3. Ranging markets
4. Fibonacci support and resistance levels

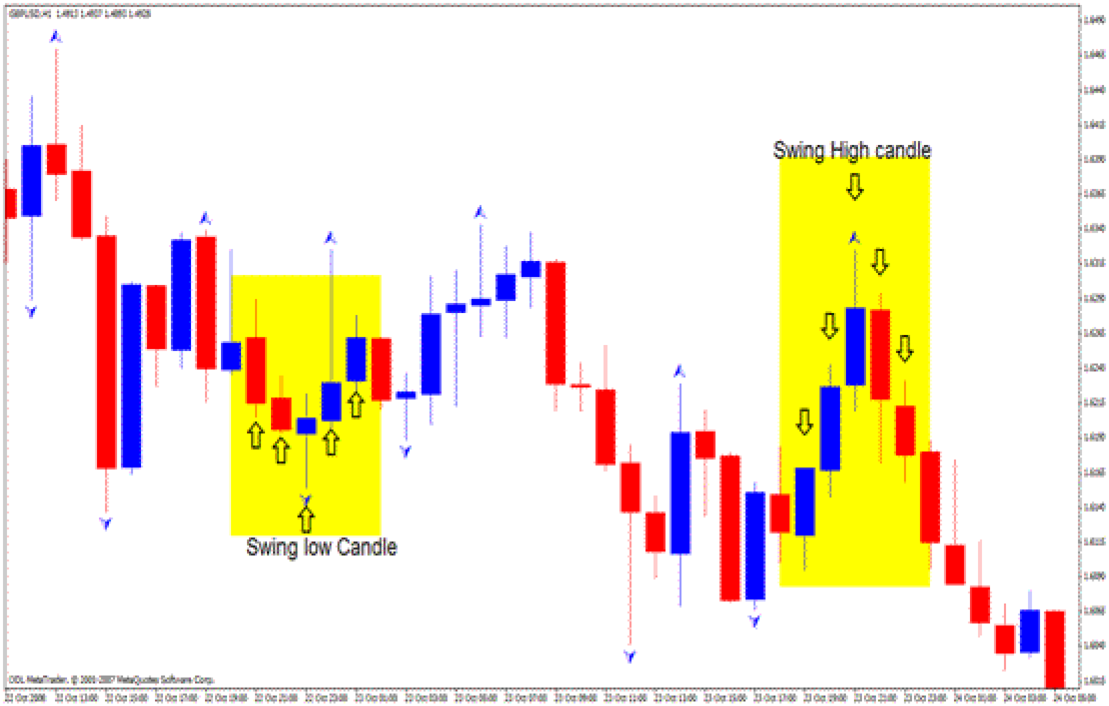
The 'swing'

Definition of a 'swing'

A swing consists of five candles.

- For a 'swing low' the 5 candles are:
    - 1, 2, 4 & 5 all have higher lows than no 3, forming a downward-pointing wedge shape. Previous to the swing, the market will have been moving downwards. Remember, it is the *low* of each candle that counts; high, open and close are irrelevant.
- For a 'swing high' the 5 candles are:
    - 1, 2, 4 & 5 all have lower highs than no 3, forming an upward-pointing wedge shape. Previous to the swing, the market will have been moving upwards. Remember, it is the *high* of each candle that counts; low, open and close are irrelevant.

I found this brilliant pic on a site I was directed to, that illustrates this beautifully.



Some of the things that newbie traders find hardest to get their heads around are these.

- From any given point:
  - The market will go up.
  - Or it will go down. Suppose it goes up:
    - Then it will go down again.
    - Then it will go up again.
    - Then it will go down again.
    - Then it will go up again.
    - ....

Sometimes the going ups will be greater than the going downs. The market is trending up.

Sometimes the going downs will be greater than the goings up. The market is trending down.

Sometimes the goings down and the goings up will pretty much cancel each other out, so the market is ranging.

The sharp-eyed will have noticed that the above chart pictures were all taken from the same pair – EURUSD – but with different time frames; M15, H4, M5. They were all taken from the same chart on my trading platform, yet all show different information.

Why?

Because different chart time frames show different positional information. A stunning rise on a 1 minute chart is a retrace on an falling hourly, is a barely noticeable blip on a 4 hourly, does not even register on a daily.

Another *really* difficult thing for newbies to get your heads around is this: you have no way of telling when the markets are going to move in the opposite direction to that in which they have just been travelling.

It is the 'big money' players who move markets – the big banks, people like Gorge Soros. They have millions to play with. When the Bank of Japan decides it needs the Yen stronger, it spends gazillions buying it, so the xxxJPY pairs fall. The principle here is; big money trumps small money. Big money trades the high time frames with lot sizes that make ours look silly.

The waves, or swings that we see on our charts are caused by a change of sentiment on the part of market movers. We small guys have to trade within the confines of the market movement caused by the bigger guys, but we do not try to trade the longer time frames. Instead, we let one of these be our trend setter, and we trade the moves within this trend, but on a smaller time frame.

- A swing high forms when the market *was* rising but is *now* falling. The upward momentum has disappeared, for now; it may return.
- A swing low forms when the market *was* falling but is *now* rising. The downward momentum has disappeared, for now it may return.

There is an indicator that we can use to show us the swings. It is called ZigZag and is found within the Custom Indicators section of your mt4 platform Navigator window.

Drag a zigzag onto a chart and it will look something like this:

Trending markets

A 'trend' is where a market can be clearly seen to be moving in one direction.

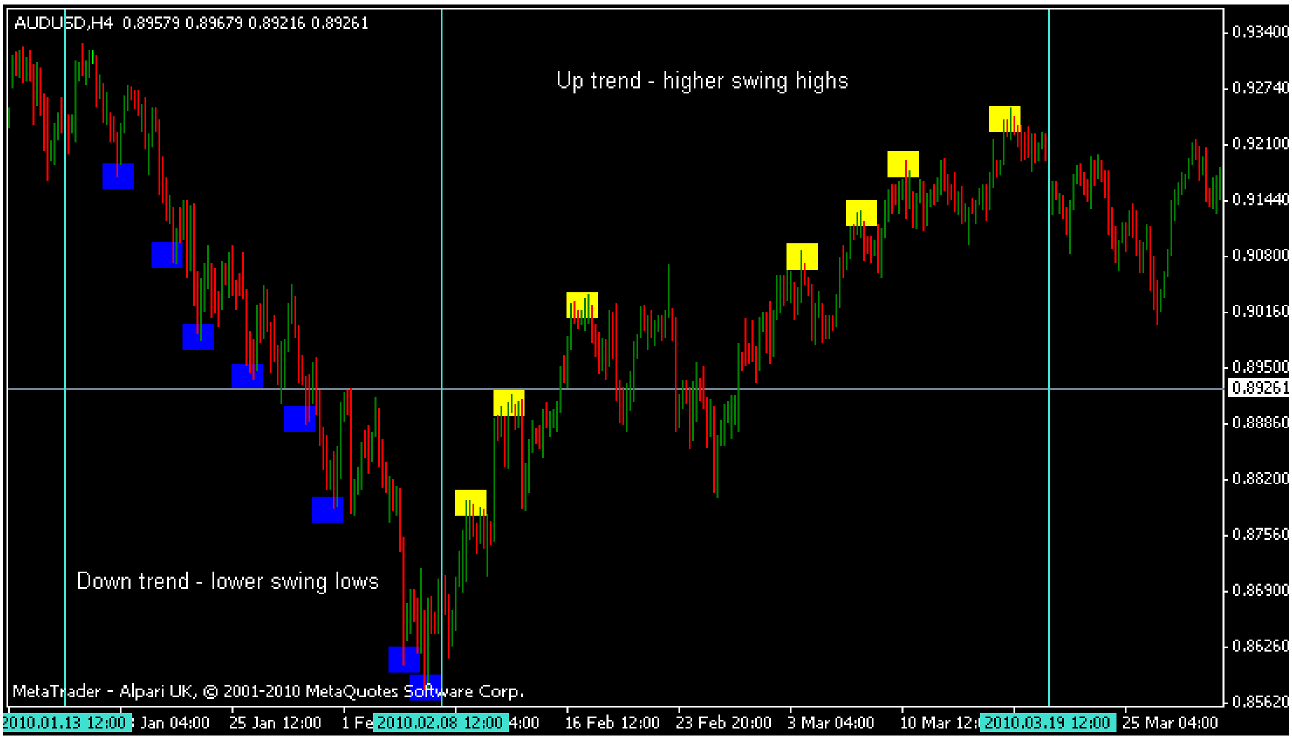
- The standard definition of a rising trend is this: a series of candles with higher highs and higher lows.
- The standard definition of a falling trend is this: a series of candles with lower highs and lower lows.

This is bollocks. You should by now be able to identify a swing and understand this basic concept: a trend is marked by a series of swings in the direction of a trend.

- A rising trend is shown by a series of rising swings high. The trough at the bottom of the previous swing is irrelevant.
- A falling trend is shown by a series of falling swings low. The peak at the top of the previous swing is irrelevant.

Individual candles are irrelevant; it is the swing that counts.

In this picture, the vertical lines divide up the chart and outline a falling trend, then a risingtrend. The blue rectangles mark the troughs of the swings low in the down trend. Yellow rectangles mark the peaks of the swings in the up trend.



Retracements

If you look at that trends picture again and look at the down trend. In between the troughs of the swings low, there are rising (green) candles after each trough. These are retracements, where the market rallies against the fall and the price rises briefly.

Look at the rising trend again. The retracements are the falling (red) candles after the peaks.

Ranging markets

A ranging market has:

- the peaks of the swings high in roughly the same place
- the troughs of the swings low in roughly the same place

The market has 'ranged' from roughly the same high to roughly the same low for a period of time.

In this picture, the vertical lines mark the ranging period; the horizontal lines mark the high and low of the range.

Ranging markets are preceeded by a trend and succeeded by a breakout of the range.

Fibonacci support and resistance levels

I am not going to 'reinvent the wheel' by describing these and how to use them. Go to post 1 in Simone's thread and download the Simple and Consistent Fibonacci Method.pdf. This explains the concepts far more clearly than I can.