



Daily Trading Setup

Introduction

Here at FXLR we concentrate on Forex - Currencies. We usually trade 8 currency pairs: EUR/USD, GBP/USD, USD/CHF, USD/JPY, USD/CAD, AUD/USD, EUR/JPY, and GBP/JPY.

Strategic support and resistance levels are used to identify trading opportunities on a daily basis.

It is quite obvious in trading that having an idea where support and resistance will develop and what will happen if the levels holds or breaks provides traders with potential entry and/or exit points. They can also assist in where to place a stop loss order. In turn this can both improve our profits and also our drawdown levels, a key element in becoming a profitable trader.

However, the generation of consistently accurate support and resistance is something which is not particularly obvious. If we are looking at a correction then we can talk about pivotal areas that have observed the basic definition of support and resistance, that when support is broken then it becomes resistance, and vice versa. Sometimes this can happen in a trend when a valid trend line can be drawn and provides the same reaction.

However, it is the generation of targets which are beyond current and recent trading levels which can provide us with greater confidence in where price may stall. It does require understanding of price structure and development and when the correct structure can be identified the accuracy can be on some occasions astoundingly accurate.

The levels are primarily based around the Elliott Wave Principle which identifies both the manner in which the price moves and also ratios in projections and retracements. Combined with Fibonacci levels and Pivot Points, these key support and resistance levels provide excellent trading opportunities. Simple recognizable trading patterns are used to confirm a trade.

It is important to note that we have a daily bias on each pair, but, please note - it must not be viewed as the only direction for our trades. The trading levels allow us to adapt to a changing bias and be able trade accordingly.



Chart Setup

The strategic support and resistance levels provide the structure within which we look to identify trading areas. We can look at an example or two here. **Chart 1** shows how the support and resistance levels would be displayed on the trading chart. Although the levels themselves provide good trading opportunities, it is important to filter these by using other techniques (pattern setups).

Horizontal Blue Line - Resistance Level

Horizontal Red Line - Support Level

Horizontal Grey Line – Minor Support or Resistance Level

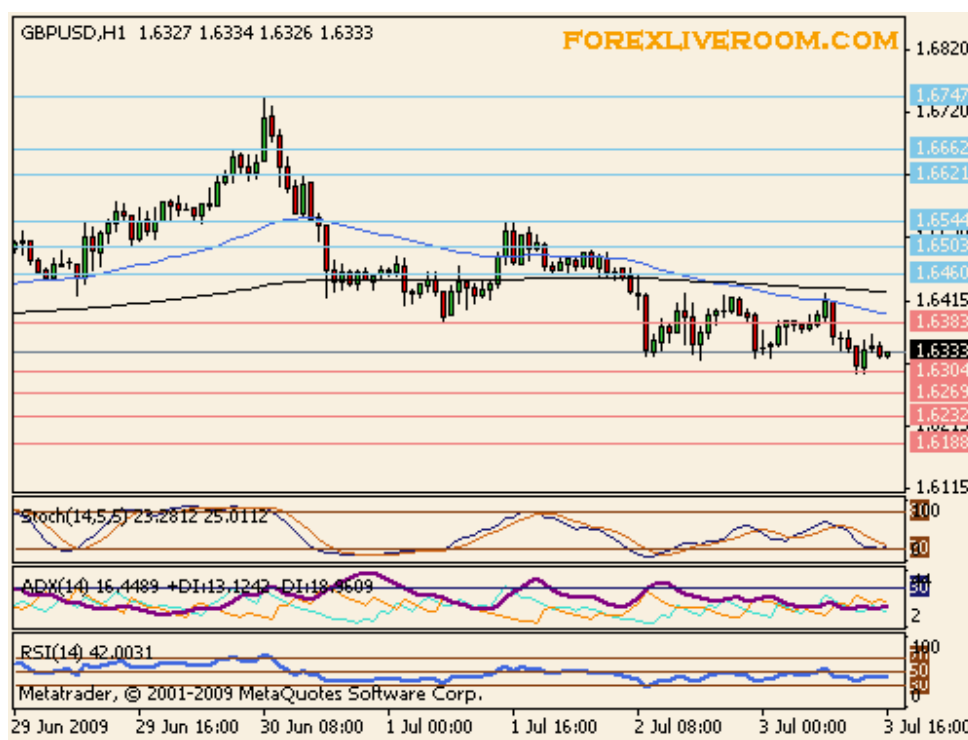


Chart 1: Initial display of support and resistance levels

There will always be some sort of price reaction at these key levels. Some of the levels will act as stalling or even reversal points. Further to the levels seen in Chart 1, possible trading levels are highlighted by identifying which support/resistance will hold in an uptrend/downtrend, or which projection will price move to in a trend.



Chart 2 displays the original support and resistance levels from Chart 1, but with some important levels highlighted as trading areas.

Note that the **bold** levels are still the original support/resistance levels and should be viewed in such a way. The bold levels are just a guide to potential trading areas. If the price is approaching a key buy level we would initially look for a bullish pattern setup. At times the bias and forecast may be wrong, so we must trade accordingly. For example, if we are approaching a buy level and we have a bearish pattern setting up then we must trade with the pattern setup. Trade the chart.

Trading at the key bold levels tends to filter out many bad trades. Trading patterns can occur at any stage during the price action, however, it's important to realise where we should trade the patterns with higher degree of success. For example, a 'double bottom' occurs from time to time, but the rate of success is average. However, when used with the correct support and resistance levels the pattern tends to be far more reliable.

- Bold Blue Horizontal Line - Buy Level
- Bold Red Horizontal Line - Sell Level
- Bold Purple Horizontal Line - Buy or a Sell Level



Chart 2: Support and resistance levels with key trading areas.



Trade Setups

As discussed above the trading levels must be used to see price development with trading patterns used to trade setups. Trade setups will be based on price reversal patterns or price continuation patterns. Some traders use set ups by using indicators, or perhaps a combination of both. There is no one correct way to apply trade set ups and most traders will find one that they find useful.

Reversal Patterns: Head and shoulders, Double tops/bottoms, Trendline breaks, etc.

Continuation Patterns: Triangles (Symmetrical, ascending, descending), Flags, Pennants, etc.

Trade Examples

EUR/USD – 31st March 2009 : Double Top Reversal





EUR/USD - Short trade closed (+44 pips, average)

Opened Short: EUR/USD @ 1.3296

Stop level: 1.3345

Target level: 1.3180

1st Level: 1.3266, +30 pips

2nd Level: 1.3238, +58 pips

The price rallied through the 1.3305 resistance level and created a double top at 1.3339. The trough was at 1.3296, hence beyond the previous resistance of 1.3305. This is a situation where a previous resistance became a support after the break above. The trade was slow in developing as there was some sideways action after the initial break of the trough, but then moved down well. Half position was taken with +30 pips profit and the final closed was with +58 pips.

GBP/USD - 3th April 2009: Triangle Breakout





GBP/USD - Short trade closed (+16 pips, average)

Opened Short: GBP/USD @ 1.4685

Stop level: 1.4740

Target level: 1.4570

1st Level: 1.4653 (+32 pips)

2nd Level: 1.4685 (+0 pips) (+16 pips, ave.)

A small triangle formed at the 1.4685 sell level after a moderate down trend. There was a stochastics cross over but the ADX was showing no strong trend in place. This made the trade little risky but the sell level breach was the key. Initial profit target was 32 pips (height of the triangle) which was reached quickly. From there the pair saw a fairly sharp reversal higher.

USD/JPY – 6th April 2009: Head and Shoulders Reversal





USD/JPY - Short trade closed (+34 pips, ave.)

Opened Short: USD/JPY @ 101.06

Stop level: 101.50

Target level: 100.00

1st Level: 100.82 (+24 pips)

2nd Level: 100.62 (+44 pips); (+34 pips, ave.)

The trade developed above the suggested 101.06 sell level (the neckline was at the sell level), in fact the head part was beyond the buy level. However, there was no continuation pattern but a head and shoulders formed. This was a good setup with the balance of the shoulders, stochastics pointing down and ADX moving up (though below 30). Profits were achieved pretty quickly.

See Articles page on website for more trade examples.

Please use this information to assist you in understanding the levels we use, and see how the examples help the explanations. We do suggest one reads the chart breakout pattern examples PDF that we send to subscribers as well. Further trading and technical trading knowledge is also recommended, but we do try and help with our training sessions. Be careful, and good luck.

FXLR team

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