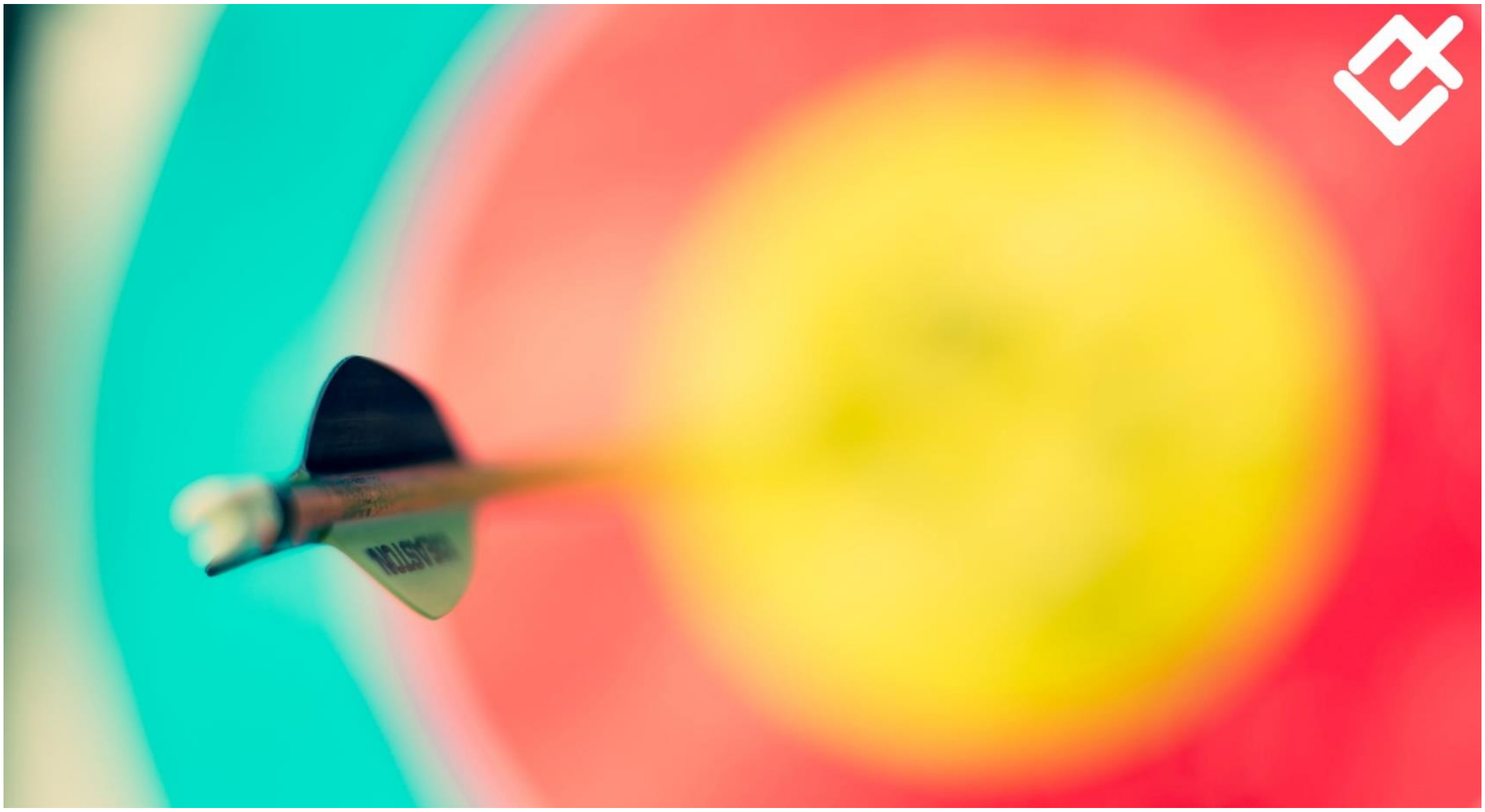


Breakout Trading Strategies for Beginners

Written by Oleg Tkachenko

Simple forex strategies for beginners to trade breakouts and price pull-backs

Forex strategies to trade breakouts for newbies: trading with channel indicators, spotting channel breakout or the price rebound. Types of levels, rules for entering and exiting a trade.

I welcome readers to our trading blog. Today, I'd like to write about the beginner trading strategies that use channel indicators, which are always treated as a separate category. Such simple Forex trading strategies suggest entering a trade at the time of the channel breakout or the price rebound. Trading skills here are necessary to distinguish between the correction or the inertial price movement and the major trend direction. From this article, you will learn about price levels and simple forex strategies that work, based on them; you will also learn forex strategies that apply combined indicators.

Breakout trading strategies for beginners

Any forex trading strategy for beginners is made based on a particular regularity. It doesn't matter if it is about fundamental or technical factors. An example would be entering a trade after certain events (news publications) or when any indicators meet with each other. A separate group includes strategies built on the breakout of any important level or channel. Another way to interpret such kind of strategies is when the price returns in the channel after the rebound from its border or the rebound from the important level. The difficulty in trading with such strategies is to find out whether the price will break out the level or it will reverse. I will describe the important trading levels and give examples of real strategies with channel indicators.

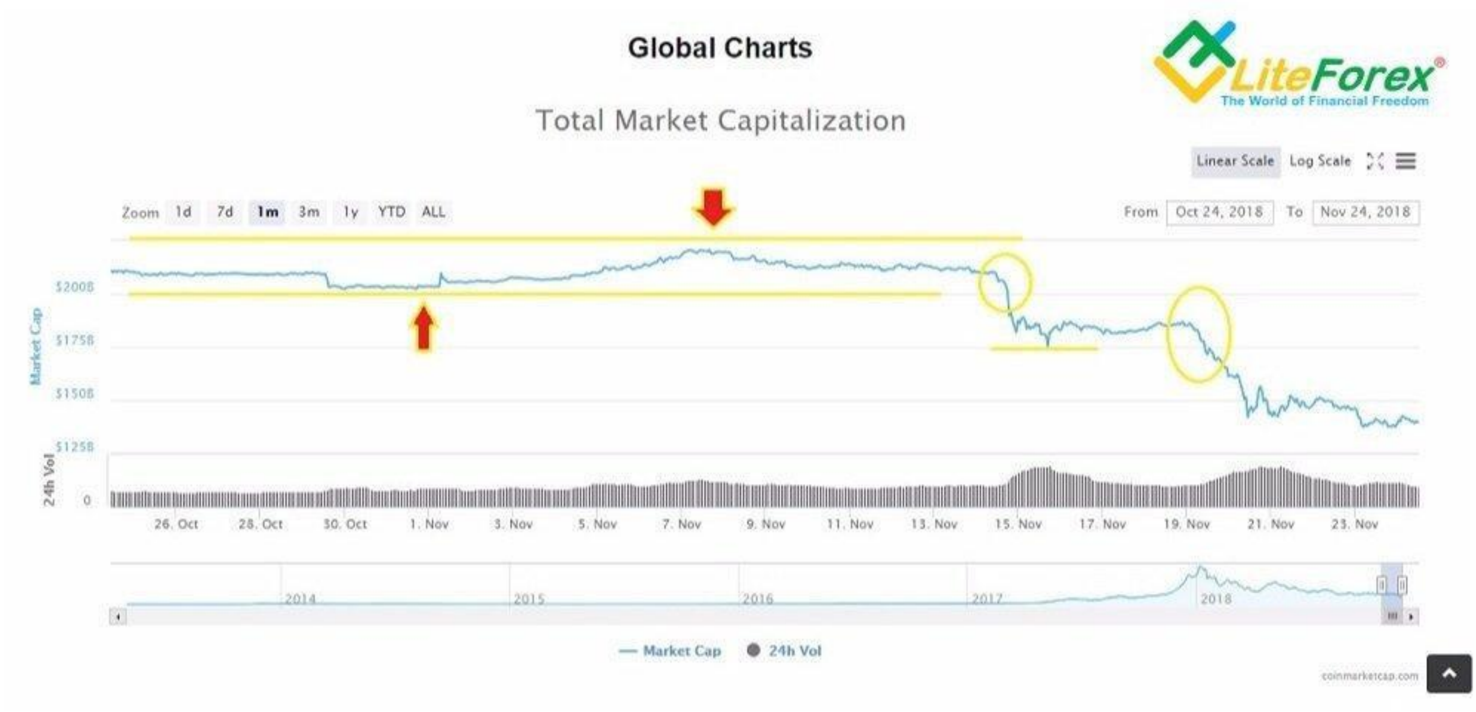
Soon, you will have to make your own strategy (based on the features of the trading platform you like best). It doesn't matter whether it be a trading range (price range), a moving averages-based strategy based entirely on technical analysis or a price action strategy. Before you become a forex trader with your own trading style it's better to try every other style there is to know the difference and find the one that suits you best.

Trading levels and level-based forex strategy

The psychology of forex level and channel strategies is that traders behave in the same way in particular situations, and trading together with the majority is often quite efficient. The psychology principle is as follows:

- Each trader expects a particular target profit and each trader has his/her own risk limit. It is expressed in the fact that traders put stop losses and take profits at particular levels and these levels are the same for the majority. This is how strong support and resistance levels appear. Support is the level, below which don't let the price fall; resistance is the level, above which bear don't let the price grow. The strategy is based on that you enter a trade in the opposite direction when the price reaches the level, that is, you open a position on the price pull-back in the direction of the reversal.
- The level breakout means that there has been come fundamental factors that encouraged most traders to open positions even when the price reaches the psychological level. It means that if there price hasn't rebounded, a strong trend appears.

Both trading ideas are well illustrated in the chart of market capitalization.



The price has been trading between levels 200 and 250 during a month. Although the price hasn't touched the channel borders, it is clear how it is rather smoothly moving from the bottom border to the top one and back. Arrows mark the moments of entering trades (the price chart of top cryptocurrencies corresponds to the market cap chart). Following the breakout of level 200, the price touches the next psychological value of 175 and follows by trading in a narrow range for a while. The second yellow circle highlights the new breakout and the start of a strong downtrend.

The difficulty of trading is to find out whether it is the breakout or the price is moving on by inertia and is about to reverse. So, there are a few tips to spot it when a breakout occurs::

- Do not be too early to enter a trade in the opposite direction if the price has touched the target level. Expect either a reversal or the movement continuation, followed by a correction.
- Do not open a trade too early if the price has reversed without touching the level. It may not be a reversal, it may be rather a temporary rollback, after which the price will resume the major trend.
- Pay attention to the trend features and its angle the angle of its movement. If the angle was narrow for a long time, after which there was a sharp change, this is a signal to enter a trade. An example of such a situation is on the figure above (the first yellow circle).

Types of Forex levels:

- Fibonacci levels. It is an infinite series of numbers, based on mathematical approach. As experience proves, traders adhere to these levels intuitively. You can learn more about their nature and applications in this article. You can calculate Fibonacci levels, using calculator.
- Psychological levels. These are levels that are based on human psychology, often being chosen intuitively. For example, they are often at round numbers.
- Historical levels. They are strong levels that are regularly hit by the price, they are clear in the long time periods.
- Mirror levels. They are the levels, which the price breaks through, returns to them after the correction and again goes in the main trend. The resistance level thus turns into a support level.
- Pivot levels. They are the levels, drawn based on the history opening and closing prices. I will describe them in more detail in one of the strategies below.

Channels (dynamic) levels are similar with the only difference that the channel borders here look like flexible lines. There are many channel indicators and none of them can be said to be more or less accurate. Much depends on a particular market situation. I will give practical examples of such indicators further. Let's see the 3 basic forex trading strategies for beginners:

1. Basic forex strategy: Dynamic Channel Trading

This trading system applies the Keltner channel (KC) indicator, a combined tool that constructs a dynamic price channel. It is based on two standard tools:

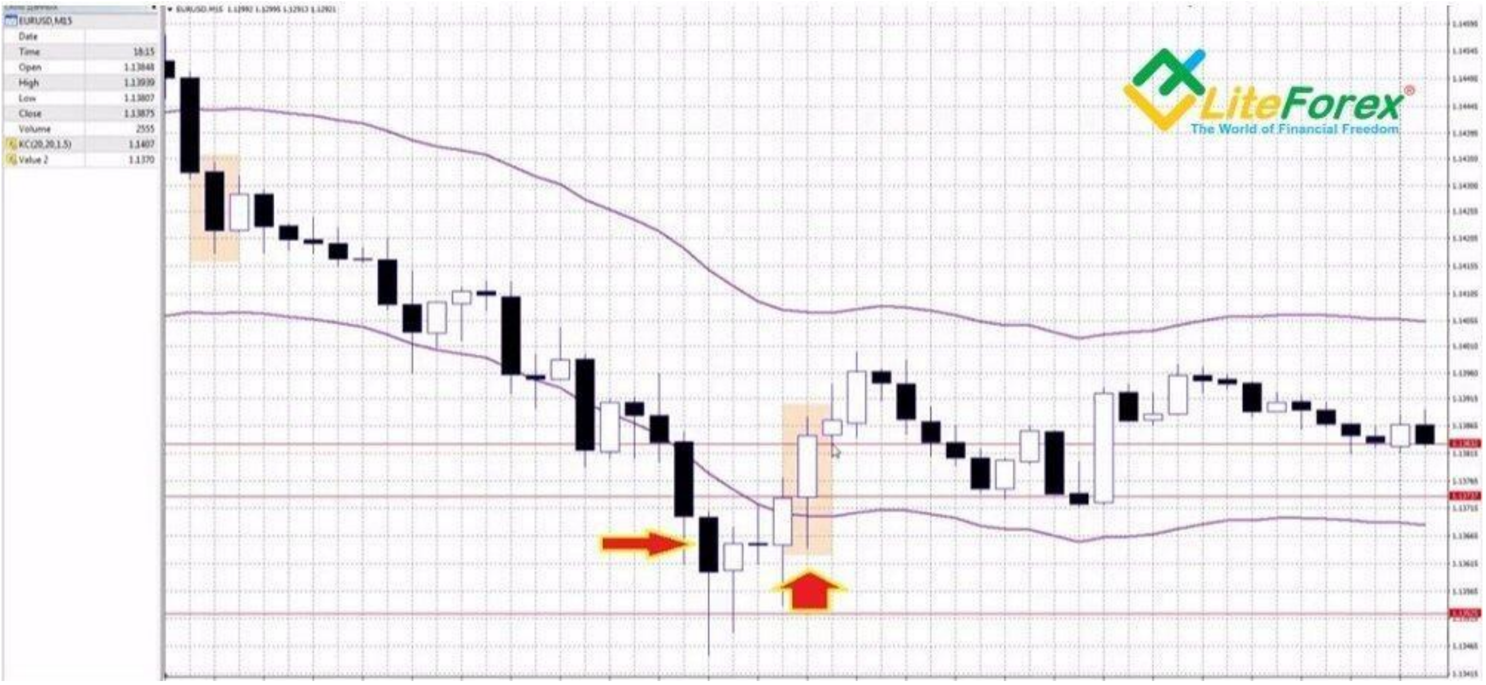
- EMA - Exponential MA.
- ATR – Average True Range.

The principle of the strategy is that in a quiet market, the price moves inside the channel, taking its average values. When it deviates from the average values (i.e., moves towards the borders), it tends to return. The EUR/USD pair, traded in the M15 timeframe suits the indicator settings the best. It is not recommended to shorten the timeframe; it can be longer for other pairs if it provides more accurate signals.
KC settings: EMA period =20, ATR period ATR = 20, Factor = 1.5 (the factor, by which the ATR value is multiplied). You can download its free template for MT4 following this link.

Requirements to open a long position:

- One or more candlesticks go lower than the channel bottom border. But there shouldn’t be more than 7 of them, as, otherwise, it can be about the channel breakout and the start of a new strong trend. The candlesticks must be located completely below the channel line.
- The distance between the dynamic line and the high of the candlestick below it must be longer than 5 pips.
- After all these requirements are met, a rising candlestick is emerging in the chart, which closes above the dynamic line. Differently put, the price has reversed and is going back to the channel centre. The longer is the body, the better.

You enter a trade at the next candlestick. A protective order is put at a distance of 15-30 pips. I recommend exiting the trade after the price has reached the channel centre. You may close 50% of the position, and protect the rest of it by trailing stop, having moved the stop loss at the breakeven.



Requirements to enter a short trade:

- One or more candlesticks go higher than the channel top border. But there shouldn't be more than 7 of them. The candlesticks must be located completely above the channel line.
- The distance between the top dynamic line and the low of the candlestick above it must be longer than 5 pips.
- After all these requirements are met, a falling candlestick is emerging in the chart, which closes below the dynamic line. Differently put, the price has reversed and is going down to the channel centre. The longer is the body, the better.

The entry and exit requirements are similar. An additional confirming signal can be a candlestick reversal pattern, formed beyond the channel.

The indicator performs the best during classical market movements, that is, in a calm market. Trading is avoided at the time of news releases, as there are many false signals (false breakouts) during increased volatility. You had better also avoid trading flat and the Asian session. If the channel looks narrow, compared to the previous periods, you shouldn't also enter a trade. You neither enter a trade if the signal candlestick looks too long, i.e. it has reached or is near the channel center.

2. Trading strategy: Pivot levels breakout

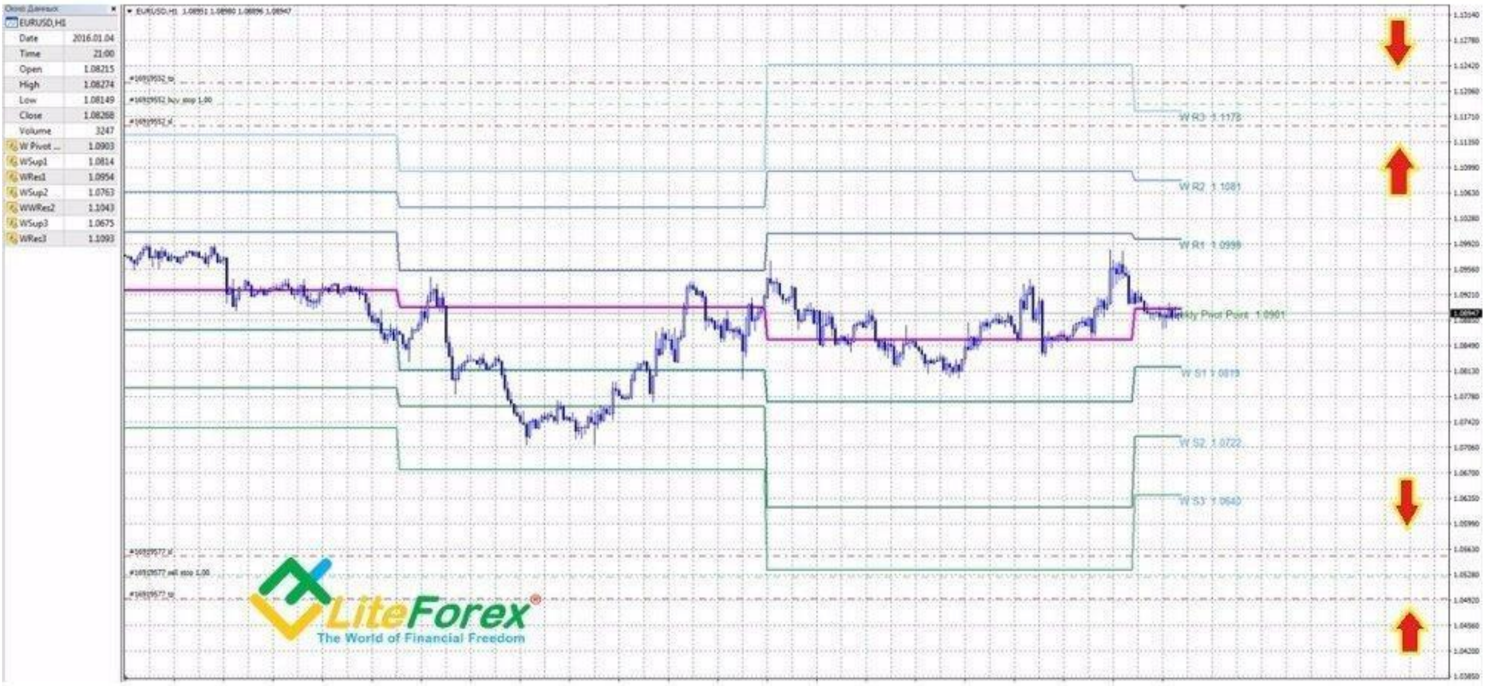
This strategy utilizes a channel indicator that constructs Pivot levels, W1 Pivot. The indicator paints in the chart weekly support and resistance levels, at the breakout of which you can make profits.
First, let me specify what Pivot points are. A candlestick has a body and shadows. Shadows are the price highs and lows during a time period; the extreme values of the body are the opening and the closing prices. Pivot levels are the price reversal levels that are calculated according to the following formula:

- R1 (resistance line) = (Price*2) - min.
- R2 = Price + max - min.
- R3 = max + 2*(Price - min).
- S1 (support line) = (Price*2) - max.
- R2 = Price - max + min.
- R3 = min - 2*(max - Price)

Price is the reference levels that is calculated like this: (max+min+close)/3, where max is the highest price during a particular period, min is the lowest price, close is the closing price of the candlestick. This calculation method is the classic one. There are other, original variants, like Woodie, Camarilla, DeMark etc. I suggest you test on your own which calculation method provides the most accurate results. Please, do share your results in the comments! You can download the W1 Pivot indicator here. The strategy is suitable for any currency pair, the best timeframe is H1. W1 Pivot settings: fortsize = 10, labelShift = 0. However, the formulas are the same and you can't change them.

Requirements for entering a trade in both directions:

- You set a pending Sell Stop order at level R3 + 10-20 pips. For less volatile currencies, you set stop at a shorter distance.
- You set a pending Buy Stop order at level S3 + 10-20 pips, according to the same principle.
  It is important to choose the right distance for stop loss and pending orders, they shouldn't be triggered by volatility. A reference distance for stop losses is about 30-50 pips, the target profit may put at the same distance.



Although there are few losing trades, the signals are sent rather rarely. That is why you'd better apply the strategy to multiple currency pairs or use a complementary tool.

3. Forex strategy: Trading Dynamic Trend

It is a simple strategy but a dynamic one. It keeps the trader on the ropes. The matter is not just that you need to monitor the trades and the signals all the time; it is rather that it sends quite many false signals. But a few profitable trades are sufficient to cover the loss and gain. High-frequency trading gets use of probability law: you may enter one trade per day and get 100% of loss; but you can enter two trades and only 50% of them are losing. The more signals, the higher is the success chance.
The Dynamic Trend indicator, utilized in the strategy, paints dynamic levels, levels that are constantly changing, following the price. Trades are entered almost all the time wit ha turnover. The currency pair is EUR/USD, the timeframe is H1, but you may try changing it to M30. The indicator settings are Percent = 15 (the percentage of the indicator deviation), MaxPeriod = 50 (calculation period). You can download it here.

Requirements for opening a long position:

- The price line has been below Dynamic Trend for some time.
- There emerged a rising signal candlestick that closes higher than the indicator (breakout of the dynamic level). You put an entry at the candlestick, following the signal one; stop loss is at a distance of 50-100 pips. After the trade has yielded 50 pips of profit, you close one third of the position; after there are 100 pips of profit you close another third and protect the rest with a trailing stop. If the candlestick goes below

Requirements for opening a short position:

- The price line has been above Dynamic Trend for some time.
- There emerged a falling signal candlestick that closes lower than the indicator (breakout of the dynamic level).

You open a position in a similar way. The trader needs fast response to the trade reversal in case of an error. However, you also need to keep in mind that the price may change its direction due to a correction; long stop losses in this case are a risk for the trader. You may adjust the rules for exiting the trade or change the currency pair. You may also draw the trailing stop manually, although it will distract you monitoring the trades entered. I offer curios traders to compare this level indicator with other channel indicators, attaching, for example, Bollinger bands. I don't think it makes any sense to add oscillators.

Let's sum up the information about channel trading strategies

Trading channels is useful because channel strategies have a clear way of application. The trader needs to select the right indicator, currency pair, timeframe and a good moment. Some tips on this:

- Strategies of such type require constant monitoring. So, be prepared to spend quite much time on this.
- Avoid trading at the time of economic data releases, during the first two hours of Monday mad the last two hours of Friday. Exit all trades before the weekend.
- Do not try to open as many positions as possible, you'd better follow the rule that it is better to enter fewer traders but enter better ones.
- Train yourself to "feel" the market. It is very seldom when all the conditions, price lines, and indicators signal the same; so, it is important to take a reasonable risk.

There are no perfect trading strategies; rather, there is a good combination of the market conditions, news and indicators. And, of course, you won't succeed without professional experience. The more you learn different kinds of trading tools and the more you experiment with them, the more you improve your intuition. Therefore, I recommend you to learn about as many new indicators as you can, test them and gain experience on demo accounts and don't be afraid of risk. I wish you successful trading and share the article with your friends! I am really looking forward to your comments, notes, ideas, and tips in the comments! Buy and sell and make profits!

Useful links:

I recommend trying to trade with a reliable broker here. The system allows you to trade by yourself or copy successful traders from all across the globe.
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