The Ultimate Swing Trading Guide

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About the Author

Hi, my name is Andrew Arm.

No, I am not the world's richest trader and I don't own a dozen sports cars either.

However, I am a very successful and independent trader who has been in the game for very many years now. I also happen to be the founder of the *Income Mentor Box Day Trading Academy*, one of the most highly regarded Forex and day trading schools in the world.

What I love to do is to take research performed by others, improve on it using my own knowledge, and then applying this to real world trading scenarios. Up until now, this has proved to be extremely successful.

The end goal of my mission is not only to learn everything there is to know about trading the markets and to make healthy profits, but to pass this knowledge on to traders like you, so you can become successful, consistent, and profitable, just like me!

Best of Luck!

Andrew Arm

The Basics of Swing Trading: What it is & How it Works

Swing trading is a type of trading, otherwise known as a trading strategy, that focuses on taking advantage of a single move in the market, what we call a swing.

The main point here is to go through as little trouble as possible and it's done by closing trades before pressure comes in from the other direction.

It's all about quickly banking your profits before a market reversal happens and your profits are wiped out.

Here is a good example of what swing trading looks like.

Pros of Swing Trading

- Trades can last for days or even weeks, so you don't need to spend countless hours in front of your computer.
- It's a great way to trade for those with full time jobs.
- There is much less stress involved than with regular day trading.

Cons of Swing Trading

- Riding trends is not a possibility with swing trading.
- There is a certain amount of overnight risk involved.

Now that we have the basics behind swing trading down, let's move on and talk about some swing trading methods.

Methods in Swing Trading: Finding the Best Opportunities

Here is a simple question for you; If you went to the local grocery store, and a single banana would cost you $20, would you still buy it?

Of course, the answer is most likely no, you would not buy a banana for this price. The better way to go about it would be to wait for a few days to see if the price drops down, maybe to $2 instead of $20.

This is the exact same thing when it comes to swing trading. When the price is through the roof, you definitely don't want to enter a long position.

Instead, the point of swing trading is to enter a trade when the price of an asset is as low as possible. The cost of any particular good, from the lowest to the highest possible cost, is known as the "area of value".

With that being said, defining what the area of value is can be quite difficult. However, when it comes to swing trading, there are two main ways of determining the area of value.

You can use either **Support & Resistant** or **Moving Averages** to accomplish this. Let me explain in some further detail.

Support & Resistance

A great way to define the area of value is by using support and resistance. So, what exactly is support and resistance?

Support

This is an area featured on the chart which displays potential pressure from the buyers.

Resistance

This is an area featured on the chart which displays potential pressure from the sellers.

The most important thing to keep in mind here is that you want to buy when the price is low and sell when the price is high, which means that on your chart, you are looking for long support and short resistance.

However, support and resistance is not the only thing that you can use to define the area of value. Moving averages work very well too.

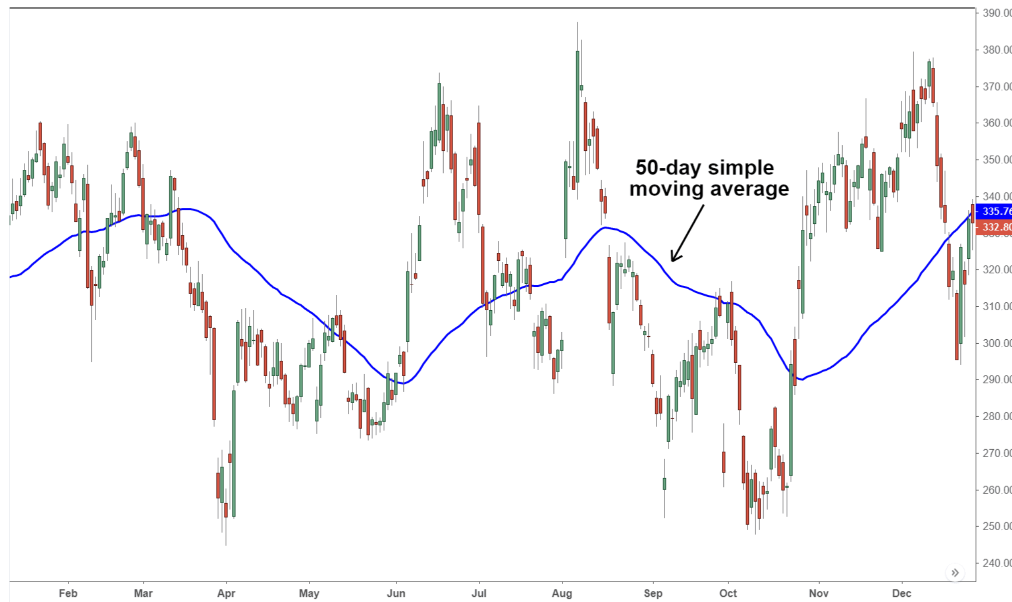
Moving Average or MA

Here is how moving averages work.

If the market is trending, it will usually never go in a single straight line. Markets do not do this.

Instead, when a market is trending, it will move higher up, then there will be a small pullback, and then it will continue on its upward climb.

The question here is "is there a place where the market retraces to?" The answer is yes, the market may retrace back towards the moving average line.



A Tip for Moving Averages

- If the market is trending very strongly, the price usually pulls back towards the 20 MA.
- If the market is trending normally, the price usually pulls back towards the 50 MA.
- If the market is experiencing only a weak trend, the price usually pulls back towards the 100 MA and further.

When to Enter a Trade in Swing Trading

Something that you need to know here is when it is the best time to enter a trade. Generally speaking, there are two methods you can use to figure this out.

- You can enter a trade at the very moment when the price reaches the area of value, which we discussed above.
- You can let a trend or a price show signs that it is going to reverse, and then enter a trade.

Some people say that *this* way is better, and some say *that* way is better. You need to know that neither way is wrong, and that both methods can work, when performed the right way.

Personally, as a long time trader, I would rather take my time and wait until the market shows signs of a reversal.

Here is how I wait and see if there is going to be a reversal, and yes, here I am going to start talking about candlesticks.

- The False Break
- A Bullish Candlestick Pattern – The Hammer
- A Bearish Candlestick Pattern – The Shooting Star

Let’s take a closer look and talk about this in further detail.

The False Break

This is a great trade entry technique for those breakout traders who feel as though they are trapped and have nowhere to go.

Let me explain how the false break works.

When there are breaks on the highs, breakout traders generally execute long trades.

However, what is going to happen if the market breaks out higher than anticipated, resulting in a downward reversal?

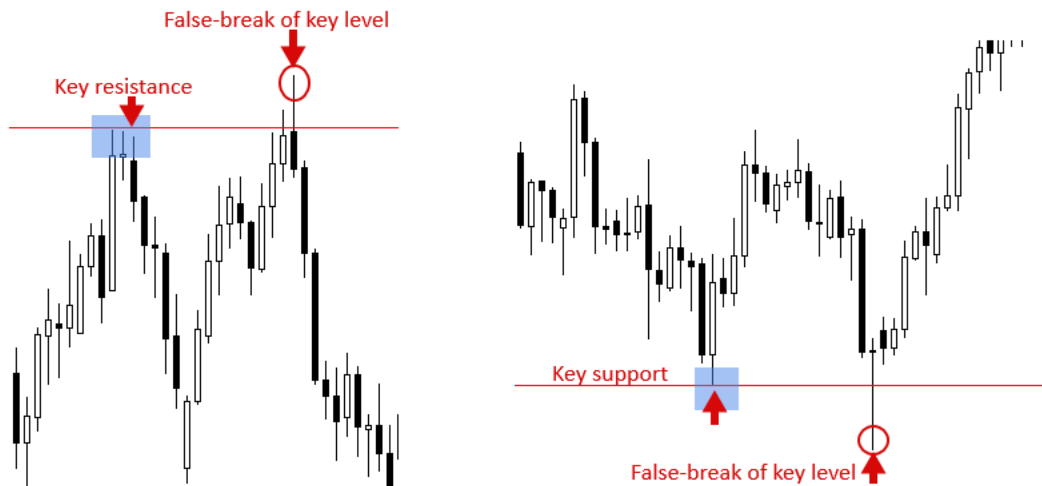
This is exactly what leads to traders being trapped, because the long positions are now in the negative, and as long as the positions are in the red, they will be trapped.

If the market continues this downward trend and the price continues to fall, your stop loss will be triggered, which in turn will lead to an even further drop in price.

This is exactly how the false break can be a trigger for entry into a trade, whether a swing trade or otherwise.

Below I have included an example of a false break occurring at the highs.

False Breakout Patterns



A Bullish Reversal Candlestick Pattern – The Hammer

The bullish reversal candlestick pattern is a signal that buyers are in control for the moment.

There are many important bullish candlestick patterns to be familiar with, ones such as the Morning Star, Bullish Engulfing, and yes, the Hammer too. Today, I want to cover the Hammer, as it is one of the most important ones.

Bullish Hammer

The Hammer, specifically, is a -1 candle, a reversal pattern of bullish nature that will form following the decline of a price.

Here is how you tell that you are looking at a Hammer candlestick

- It features almost none or absolutely no upper shadow.
- The price closes in the top ¼ of the range.
- The lower shadow is about 2 to 3 times the size of the body of the candlestick.

So, what does it mean when you see a hammer candlestick on your chart?

- It means that when the market first opened, the sellers took over control of the price and pushed the price lower.
- When the selling climax was reached, large amounts of buying pressure caused an increase in price.
- The end result is that the extreme strength of the buying pressure resulted in the price closing above the initial opening price.

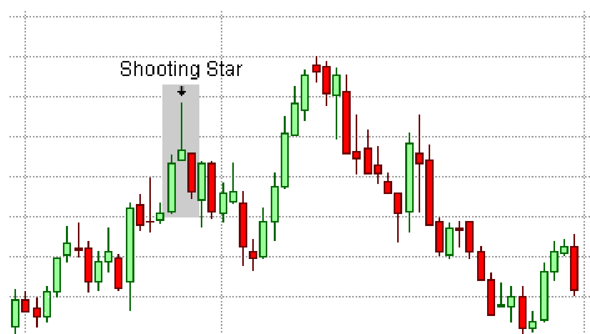
To put it all together, the Hammer is a bullish candlestick pattern that indicates signs of a reversal and the rejection of the lower prices.

A Bearish Reversal Candlestick Pattern – The Shooting Star

Unlike bullish candlestick reversal patterns that signify that the buyer is in control, a bearish reversal candlestick pattern, such as the Shooting Star, indicates that the sellers are in control for the moment.

Just like with the bullish reversal patterns, there are also several bearish reversal candlestick patterns, ones such as the Bearish Engulfing, the Evening Star, and yes, the Shooting Star as well.

Right now, I want to go over the Shooting Star pattern in greater detail.



The Shooting Star is a -1 bearish reversal candlestick pattern. This is usually always seen after an advance in price.

Here is how you can tell that you are looking at a Shooting Star Pattern

- If there is little or no lower shadow to be seen.
- If the price closes within the bottom ¼ of the range.
- If the upper shadow is about 2 to 3 times the size of the lower body.

This is what it means when you see a Shooting Star pattern.

- It means that buyers took control at market open and pushed the price upwards.
- It means that when the buying climax was reached, immense selling pressure caused a price drop.
- It means that the selling pressure is so overwhelming that the price closed at a lower point than the original opening price.

To sum it up, the Shooting Star is a bearish reversal candlestick pattern that indicates that higher prices have been rejected. You can always learn more about the various candlestick patterns from the ***Income Mentor Box Day Trading Academy***.

Let's move onto the next section, which is all about setting the right stop loss level.

Setting Your Stop Loss in Swing Trading to Prevent a Premature Stop Out

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One of the biggest mistakes that you as a swing trader can make is to set your stop loss way too tight.

You may be confused because a tight stop loss would appear to reduce your overall risk of losing money if a trade goes the wrong way.

You might think that improves the ratio of risk to reward, but in swing trading, this is not really the case at all.

The issue with setting a far too tight stop loss is that more often than not, your stop loss will be hit and activated before the market moves in a favorable direction for you.

This could mean that even if your initial analysis of the price direction was correct, your far too tight stop loss caused your trade to stop out before it could turn the other direction, therefore causing you to suffer a loss instead of making a profit.

Yes, it does sound ludicrous, but this is what happens. Let me tell you what the solution to this rather stupid problem is.

You need to increase the size or range of your stop loss so your trade can withstand the so called “noise” of the market, so you can withstand those momentary movements until the market moves in your favor.

Here is how you can do this:

You need to set your stop loss at a level where if it is reached, it will invalidate your trading setup. In other words, for example, if you short a Head & Shoulders pattern, your stop loss level should be set at a place where if the market hits that price, it will break the pattern.

Another example of this would be if you have long support. If this is the case, your stop loss level should be set at a location below support, so that if the market hits that price, the support will be broken.

That said, something I would strongly discourage is setting your stop loss locations directly below support or resistance lines, as this will leave you vulnerable to stop hunting. You want to provide a bit of a buffer so your trade has room to fluctuate without those stop loss levels being activated.

A good method here, to provide your positions with some breathing room, is to use the ATR or Average True Range indicator to set your stop loss level at the ideal location.

Here is a good example of exactly what I am talking about.

O173.36 H175.00 L173.05 C174.96
Price bars are bigger here
and ATR is higher than before
Small price bars here,
and ATR is low.
2017
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct

Taking Profits in Swing Trading Before You Suffer a Market Reversal

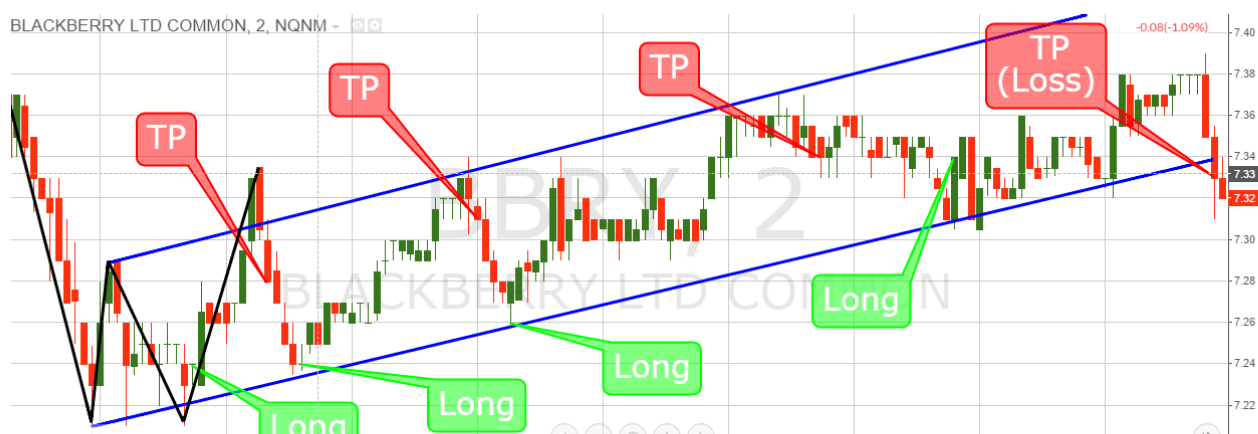
Remember that the whole point of swing trading is to suffer as few problems and as little trouble as possible before you exit a position, before pressure from the opposing side comes in.

In simpler terms, what exactly is meant by this?

It means that if you went long, you want to take profit in those places where big selling pressure could enter the equation, such as swing high or resistance.

On the other hand, if you went short, you want to take your profit in those places where big buying pressure could enter the equation, such as swing low and support.

Here is an example of this.



A Take Profit Tip

- Never set your take profit at the absolute high or low. The market may do a reversal before you hit your target price. You want to aim to exit your trades a few pips prior to you profit target.

A Super Easy Swing Trading Strategy to Make Money

Ok, so up until now, I have covered all of the most important basics that you need to be familiar with. Now that we have all of the puzzle pieces laid out on the table, it is time to put them all together to form a coherent swing trading strategy.

Here are the exact steps that you need to follow in order to execute this particular swing trading strategy.

1. Identify the condition of the market, the market range.
2. Wait until the price reaches the area of value, so the support.
3. If and when the price reaches the support level, wait for a false break, which is your entry trigger.
4. Using ATR, set the stop loss at ATR -1 below the low of the candle, and set the take profit before the resistance, which is the stop loss and target profit.

Here is an example for an uptrend.

Here is an example for a downtrend.
Do remember that this is of course not the only way to swing trade markets. The point here is that using the methods I have shared with you today, you can also use different areas of value, ones such as trend lines, moving averages, trend channels, and more.

Summary

The main point to keep in mind here is that swing trading is all about capturing and taking advantage of a single move in the market, or a swing, by closing your trade before pressure from the opposing side comes in, the end goal of course being to walk away with profits.

Remember, here is your main plan of attack.

1. First, identify the area of value you want to trade from.
2. Second, wait for that entry trigger.
3. Third, set your stop loss, remembering to avoid market noise.
4. Finally, capture a swing by setting your take profit before the market structure.

Want More?

If you want to learn more about swing trading and trading strategies in general, check out
CLICK: IncomeMentorBox.com or Andrews Trading Channel on YouTube!

!!!!!!!!! IMPORTANT NOTICE !!!!!!

If you need Help in Trading, Please email Andrew directly:

askandrewstradingchannel@gmail.com