

Make 100 pips Trading Divergences.

There are several ways to trade divergences and several indicators that can help you identify the divergence between price and the indicator itself.

I prefer to use the CCI indicator to trade divergences and it has worked well for me over the past 10 years.

This technique most likely works on many different time frames but I have only used it with the Daily, the 4 hour, the 1 hour and the 30 minute charts.

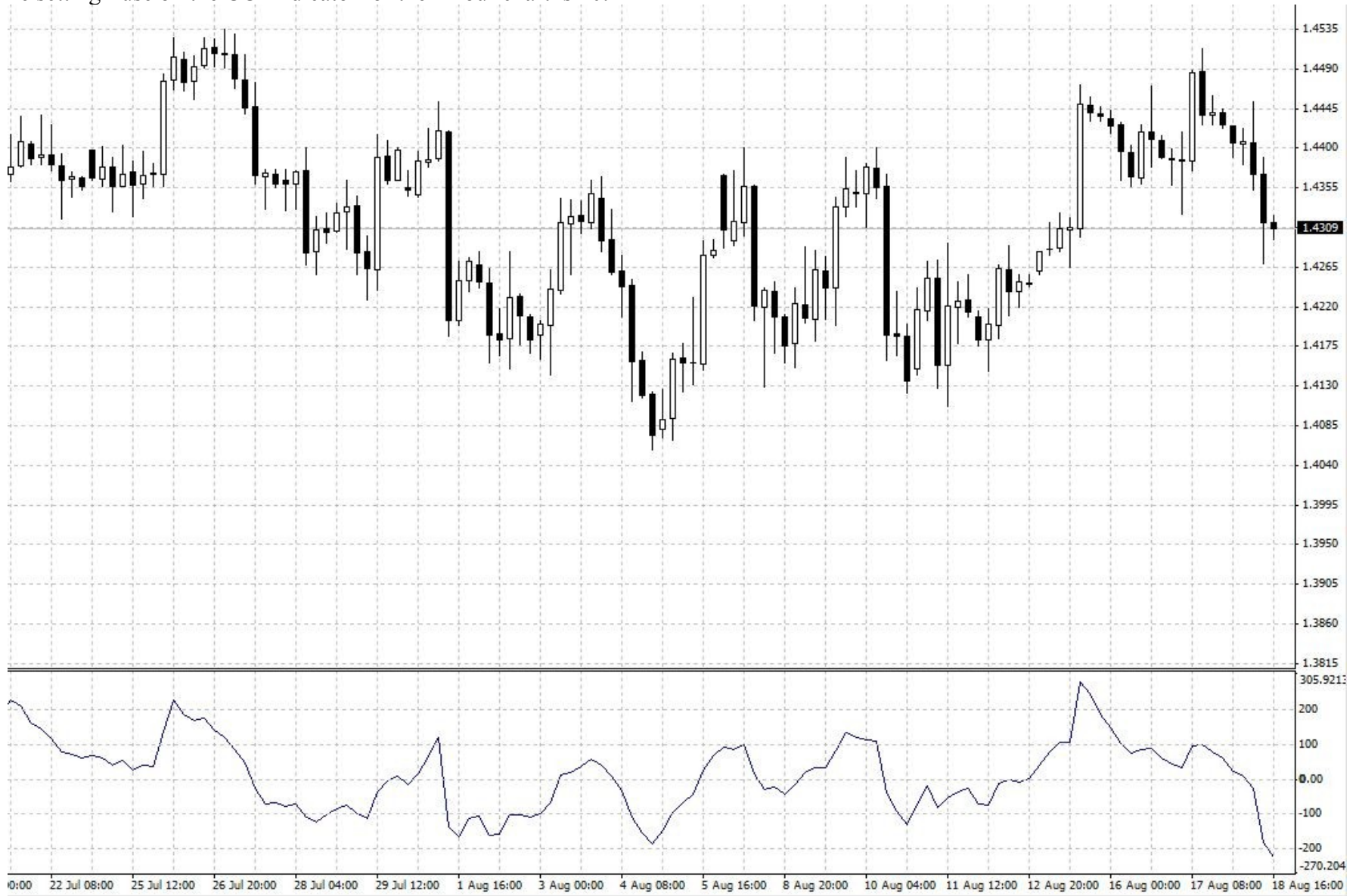
I prefer to use the “trading divergences” technique on larger time frames to make more money on the trade and I am not required to sit in front of the computer screen minute by minute until price hits a target.

When I find a potential trade set up, I will not enter a trade unless I can find a target. This means a target that I have tested and a target that makes sense by providing a reliable opportunity.

Divergences are, for the most part, easy to spot on a chart. The difficulty is in knowing if price will continue in its present trending move or reverse and provide a sufficient move that will allow for profits in a trade.

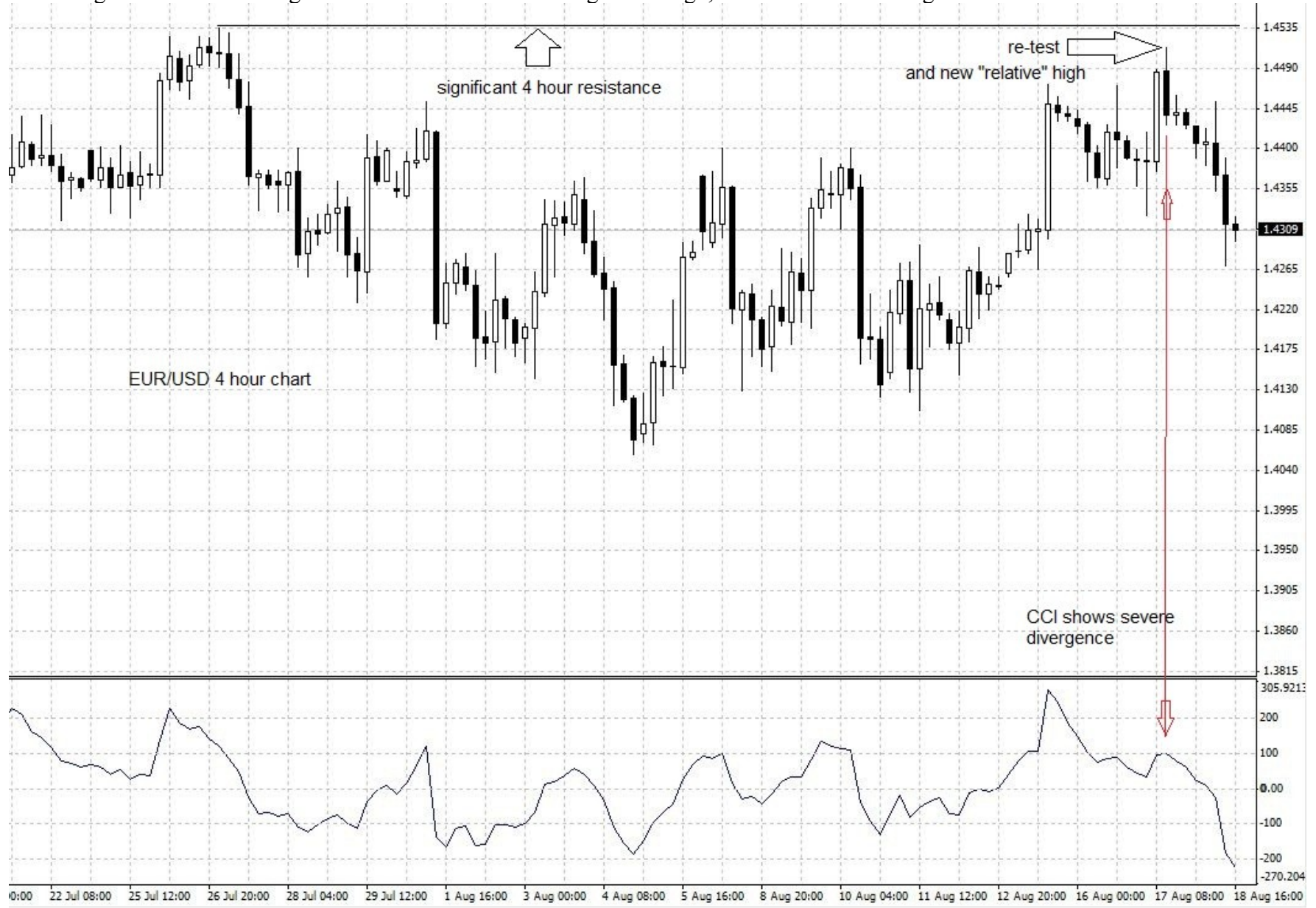
I prefer to use the 4 hour and 1 hour together to first, identify the pattern and divergence and then the 1 hour chart to locate the point of entry.

The first chart below is the EUR/USD 4 hour chart. I deliberately left the chart plain without technical drawings to highlight the divergence. The setting I use on the CCI indicator for the 4 hour chart is 20.

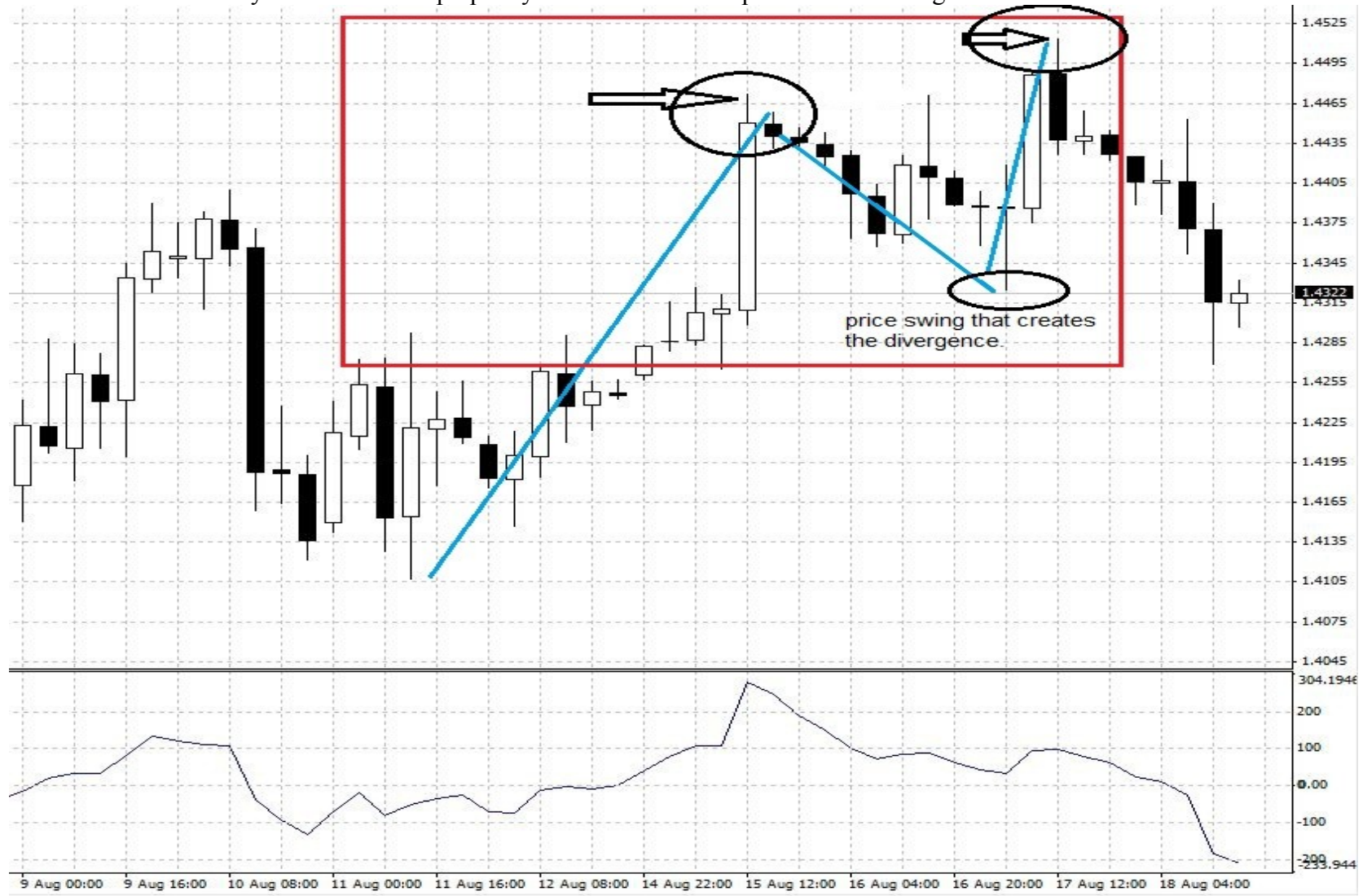


The next four charts are the 4 hour time frame.

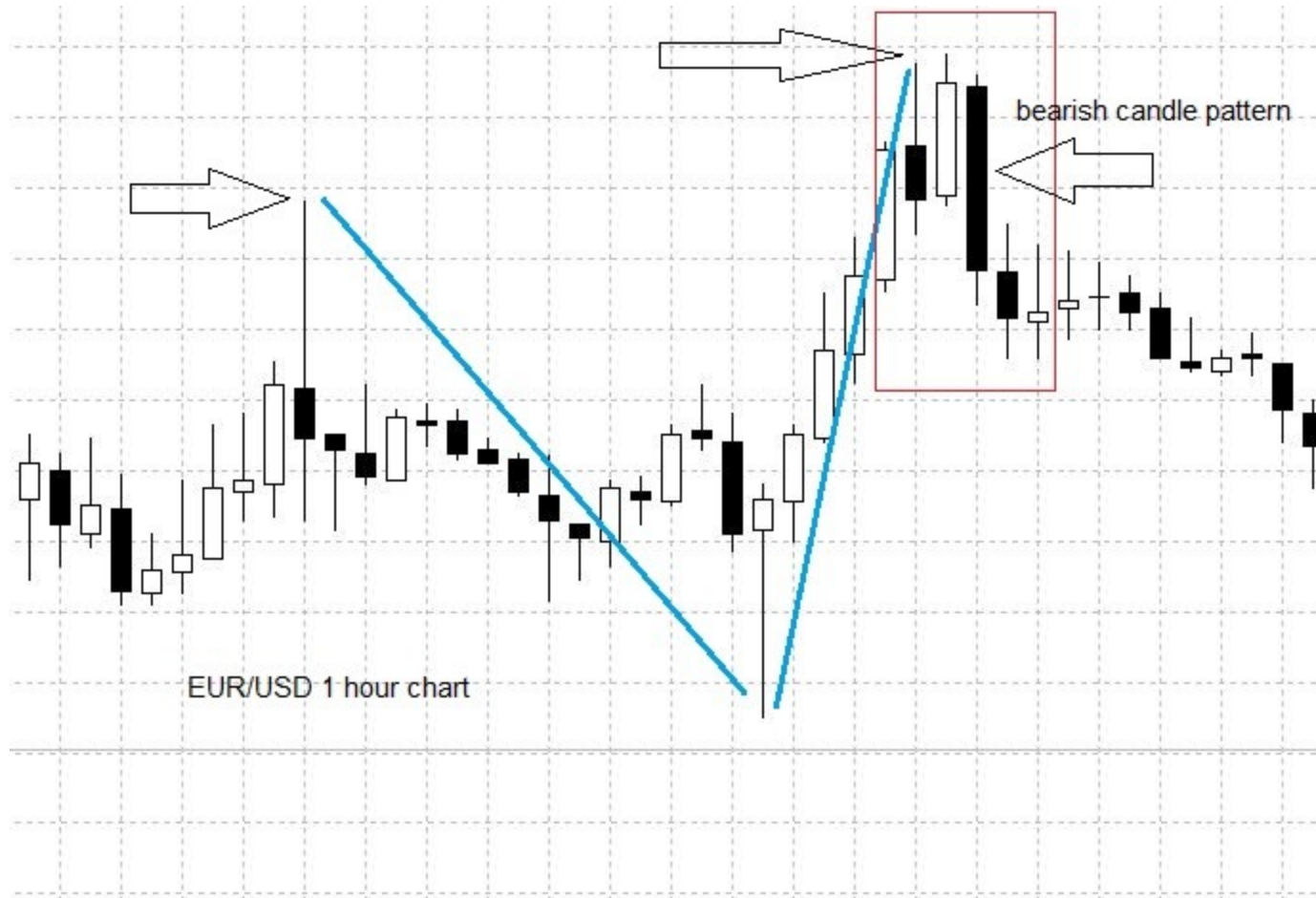
I begin by noticing the new “relative” high in price at the old resistance level and then immediately look to the CCI indicator to see if it is also making a new “relative” high. If the indicator is not making a new high, this could mean divergence and will need confirmation.



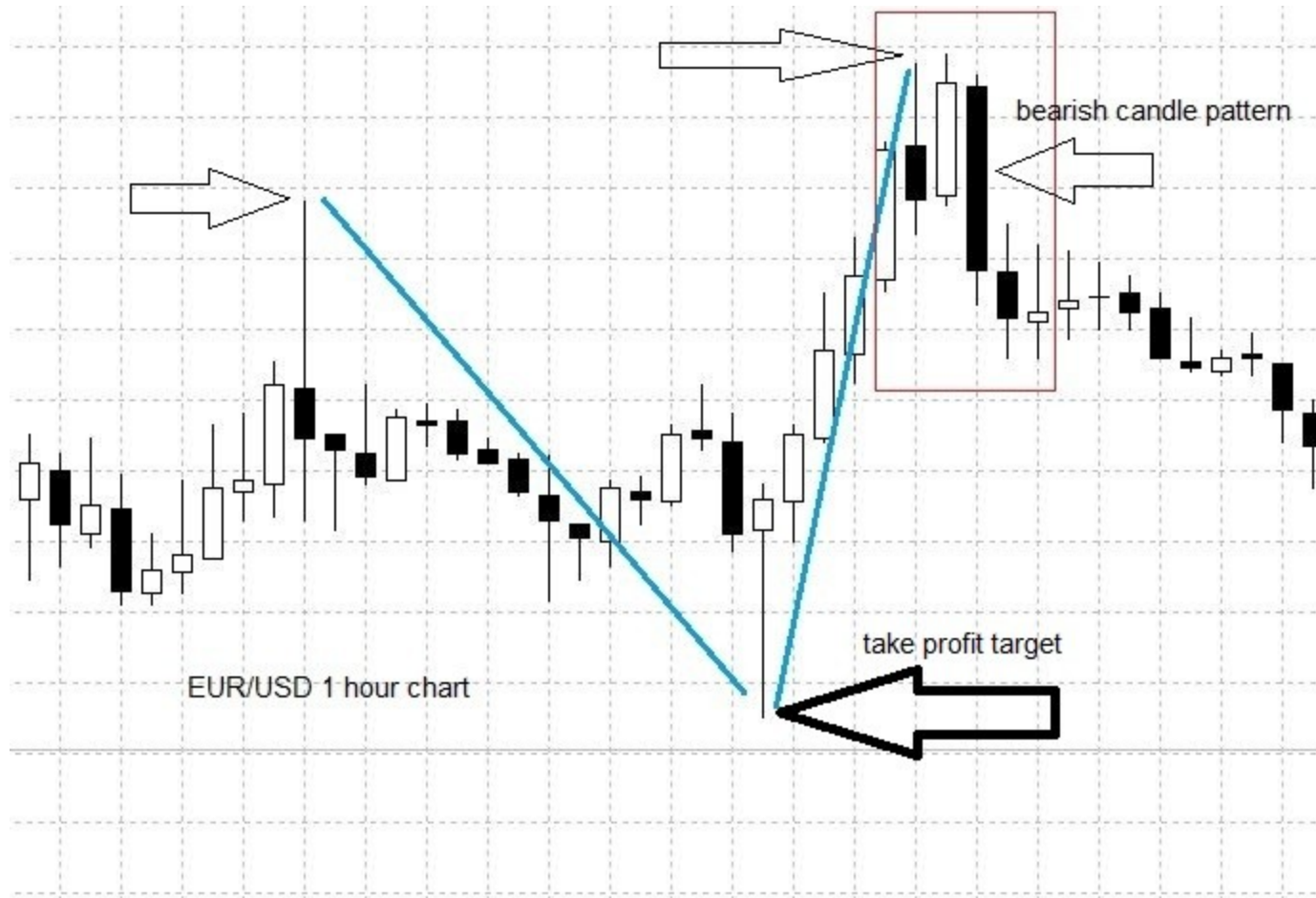
In this chart below we will zoom in on the possible trade area and analyze the candle patterns, the price action and look for potential profit levels. Finally identify the stop loss. It is important to think about price first. What I mean by this is that price will create the divergence, not the indicator. The indicator is only the confirmation. Indicators are derived from the price mechanism. Notice the price swing that creates the divergence. Price moves up one more time to re-test the old resistance on the 4 hour chart and then stops. The “re-test” will always be different so prepare yourself. Sometimes price will move higher than the resistance and other times lower.



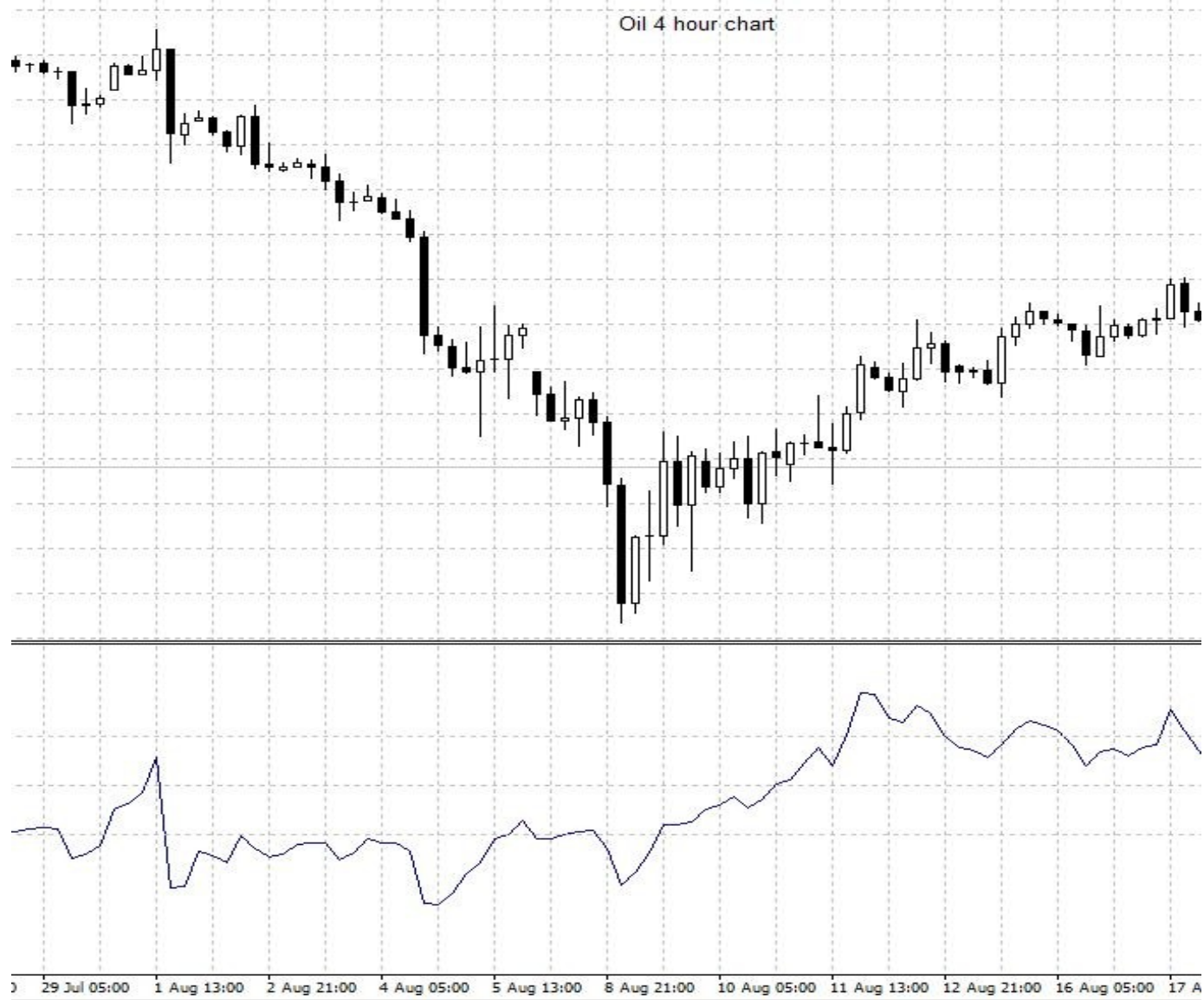
Now that we see the divergence, we need an entry candle. I prefer to switch to the 1 hour chart to pin point the entry.
I wait until I have a closed bearish candle pattern. (I would look for a bullish candle pattern if I was expecting price to move up)
The entry is on the close of the candle pattern. In this example we have a bearish engulfing candle.
The stop is a few pips above the spike high that occurred just before the bearish candle pattern developed.
The target in this trade is the low of the price swing that created the last spike high. (see chart below for the target)



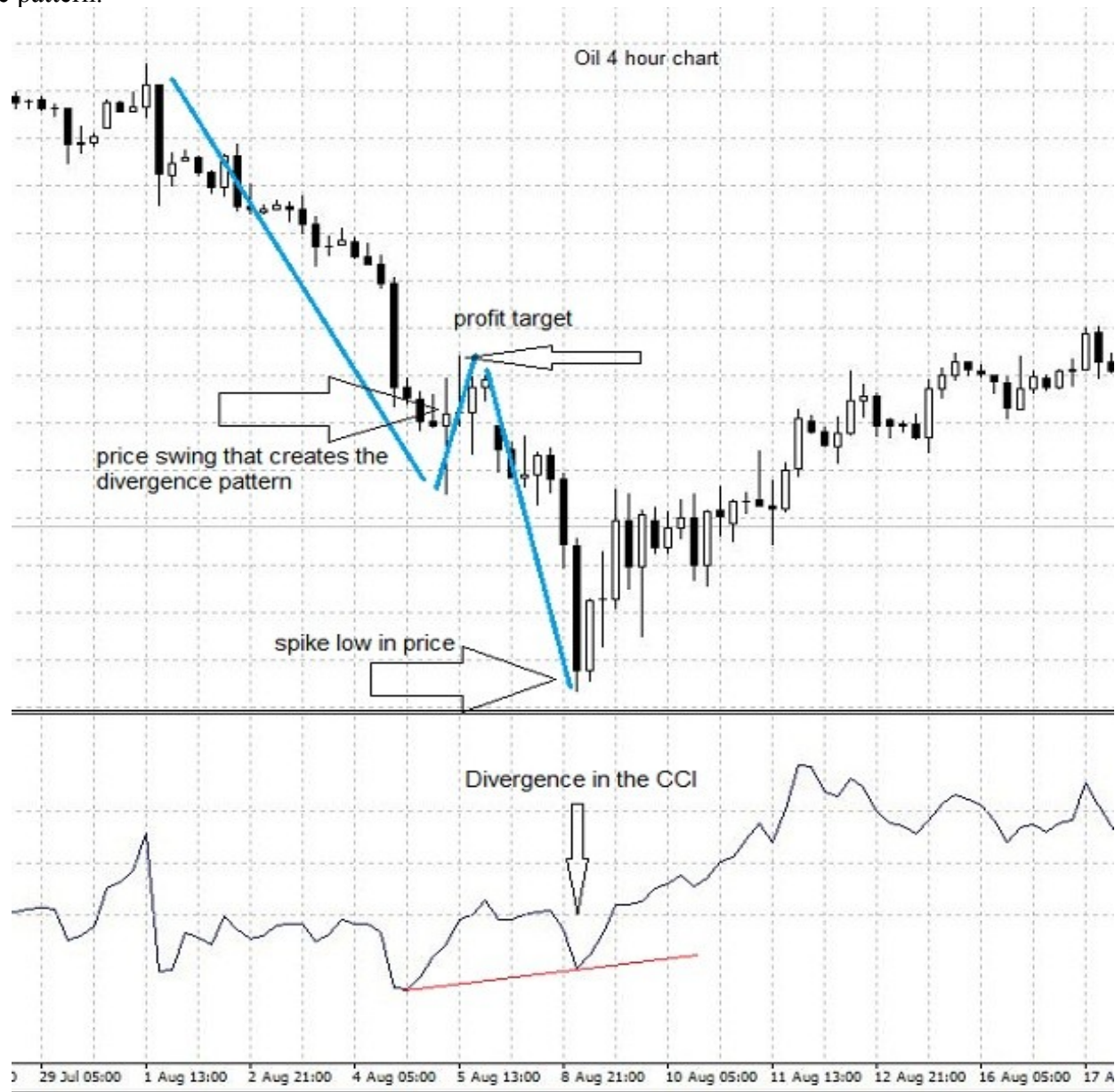
In this chart I placed an arrow to the profit target. This is also the beginning of the price swing that helped to create the divergence. The profit target is always the same and if this technique is used correctly (meaning confirmation) it will work in almost every case as long as the last spike in price is at a “MAJOR” resistance or support level. In this case we started by identifying the MAJOR or significant resistance level on the 4 hour chart. I most likely would not have traded a “Sell” trade if the last spike high in price did not occur at a significant resistance level.



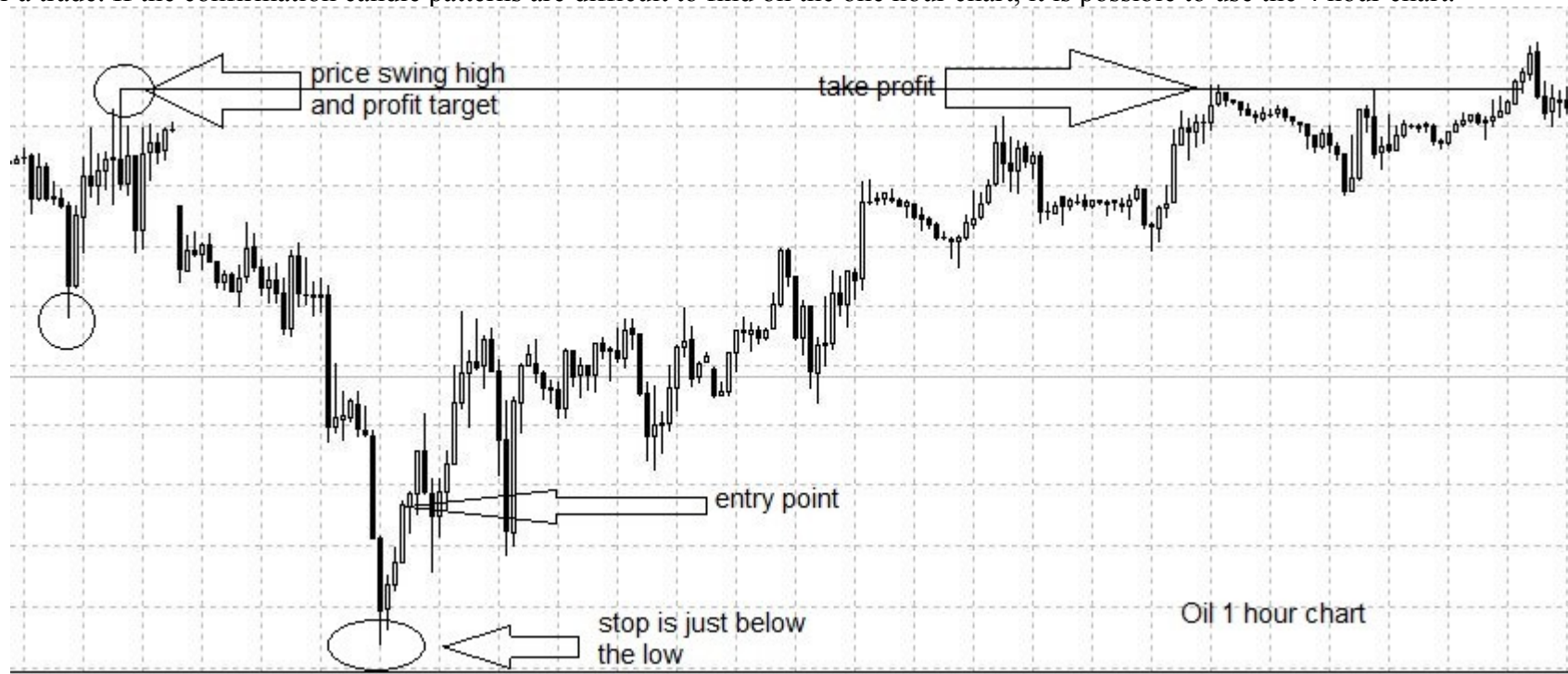
Another example of the same technique using the Oil chart and trading a bullish divergence pattern. Below is the same divergence trading technique only this time the instrument is Oil and the time frame once again is the 4 hour chart.



In this 4 hour chart we can see the divergence between the price and the CCI indicator. Again, the profit target is the price swing “high” that creates the divergence pattern.



This 1 hour chart is the same area as the 4 hour divergence and shows the exact entry, profit and the stop loss. Sometimes it will be necessary to combine several candles to form the bullish or bearish candle patterns that are required for confirmation to enter a trade. If the confirmation candle patterns are difficult to find on the one hour chart, it is possible to use the 4 hour chart.



The EUR/USD trade above is a trade alert I delivered with my Forex Swing trade alerts. The Swing trade alerts are also 100% automatic with our trade copier EA program. Each trade can be automatically executed into your MT4 account.

The exact trade details for the EUR/USD are:
Sell EUR/USD at 1.4425 take profit at 1.4315
stop was 1.4520

This picture below is the MT4 account we use to automate our trade signals for our subscribers.
This is the EUR/USD trade alert for August 17

2011.08.17 21:14	sell	1.00	eurusd	1.4425	1.4520	1.4315	2011.08.18 13:46	1.4315	-2.70	1 100.00
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This trade only took a few hours and the price only went against our position buy no more than 30 pips before continuing to our profit target and paying us a total of 110 pips profit.

I take great pride in my signal service and my primary obligation it to make sure that all of my signal service subscribers receive reliable and profitable trade alerts. I guarantee a monthly profit to all of my subscribers or I will refund their money back.

I also include extensive trading education and I teach this technique and all of the strategies I use to trade the markets.

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