

3 Forex Systems Everyone Should Know

So you've delved into the wonderful world of Forex and you're as confused and paralyzed as a deer at a headlight. No worries, let this article enlighten you on some of the most fundamental types of trading systems.

Trend Following

Trend following is the most common type of trading system. Because the majority of the market follows a clear direction, it means that the majority of the market participants agree on the direction as well.

Trend following, to a certain extent, means going with the crowd. If the market is rising most of the time, you'll have an easier time riding the market's waves. What's so good about this trading method? First, the accuracy, the probability of you making a winning trade, is higher. You won't have to make too many trades, but you'll make plenty of profit.

Of course, you'll still have to know the exact rules of when and how to enter and exit. But here some tips:

Entry/Exit Tips:

1. When the trend is up, enter on support. Look for buying at specific levels.
2. Use a trailing stop below recent lows to let your profits run.

Trend following is a very common, basic trading method. To qualify the common saying, "The trend is your friend, until it ends." Let's take a look at another trading style.

Fading

Fading is the opposite of trend following; it's arguing with the market's trend. Essentially, it's bottom picking. What're the potential rewards for fading?

A definite pro of bottom and top picking is that when you're right, your reward is huge. Let's say your reward was 9 times the amount you risked so your reward to risk ratio was 9:1. This means that you could've been wrong 8 times but still generate capital. Of course, your system has to be positive, you can't just guess, hope, and pray, unless you want to lose money.

Two entry signals include a doji and a close below the previous low (or above previous high). Fading, which is very different from trend following, requires a different set of skills. That basically summarizes fading, so now let's talk about the final forex trading style.

Breakout Trading

This type of trading is entering when price makes a new high or low. If the market breaches the 52 week high, you might want to enter then. Or if the market breaches the past 20 week's low, you might want to short it then. The keyword is "breach". Of course, you should make sure that your system has a positive edge and is profitable. Breakout trading is just another way of entering the market. Of course, the way you exit a trade is totally up to you; you might want to trail by the most recent lows. Or perhaps you'll have a predetermined exit.

Note that trend following and breakout trading are different. Trend following is riding the market's wave; breakout trading is enter on a breach.

What Do I Do Now?

Realize that you can splice and dice the methods to suite your taste. You could enter only in the market's primary direction, and use the close above a recent high as a signal, or even the doji.

About the Author

But if you're somewhat stuck on what system you should use, explore my [Forex and Online Income website](#). It's compiled most of today's different forex trading systems and strategies. A safe start would be [this complete discretionary trading system](#).

