Bollinger Bands Scalping Strategy

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Profitable Forex Scalping Strategy

Bollinger Bands (hereinafter referred to as BB) is one of the popular indicators among traders. This indicator is named after its creator, John Bollinger.

Bollinger Bands can help you measure market volatility and estimate the range of price movements. The indicator consists of three lines that move along with the price movement.

The three lines referred to are the upper band, middle band, and lower band.

The middle band itself is a moving average, which is the basis for calculating the upper and lower bands.

Typically, a simple moving average is used. The distance between the upper band, lower band, and middle band is also affected by the volatility that occurs.

The greater the volatility, the wider the distance between the bands, and vice versa. Thus, BB helps you recognize whether the market is "busy" or "quiet".

When BB widens, it means the market is "busy", while when BB narrows and tends to move flat, it means the market is "quiet".

You don't need to learn the BB calculation that involves high-level mathematics. You just need to learn the practical use of BB so that you can use it to read the opportunities from price movements.

Application of Bounce Trading Strategy

The bounce trading strategy can be applied to BB. You will use the upper band and lower band as dynamic resistance and support (upper band as dynamic resistance, lower band as dynamic support). You will also involve the middle band, especially as a target.

Prices tend to bounce back to the middle band after reaching the upper band or lower band. You will use this phenomenon to look for entry points.

The strategy is to look for buy levels in the lower band area or look for sell levels in the upper band area. The target is, of course, the middle band area.

When the price reaches the upper band, it is difficult for us to determine whether the price will stop there or break through the upper band.

However, this area is a good area to sell. The tip is to wait for confirmation of a bounce in the form of a candlestick or bar chart that is closed below the upper band.

Once you have found the confirmation, you can sell. The target is at the middle band. The same goes for determining whether it is the right time to buy when the price has reached the lower band. Where is the stop loss? It's easy. Just look for the nearest support or resistance.

The bounce trading strategy with BB is effective when the market is in a sideways state and using a longer-term frame, such as a 4-hour chart or a daily chart. However, it is possible to use it during trending, although it must be done with caution.

By using BB, you can also recognize breakout opportunities. As we have discussed before, BB tends to narrow when the market is "quiet".

The philosophy is that at that time, market participants are not sure where they will be taken. At that time, sellers, and buyers (supply and demand) are equally strong, so the price moves within a relatively narrow range.

Because the price moves within a narrow range, the Bollinger Bands also narrow. Breakouts that occur are usually followed by BB that quickly widens and the price breaks through the upper band or lower band. This condition becomes a signal for you to jump into action. If the upper band is broken, then the strategy is to buy. Conversely, if the lower band is broken, the strategy is to sell.

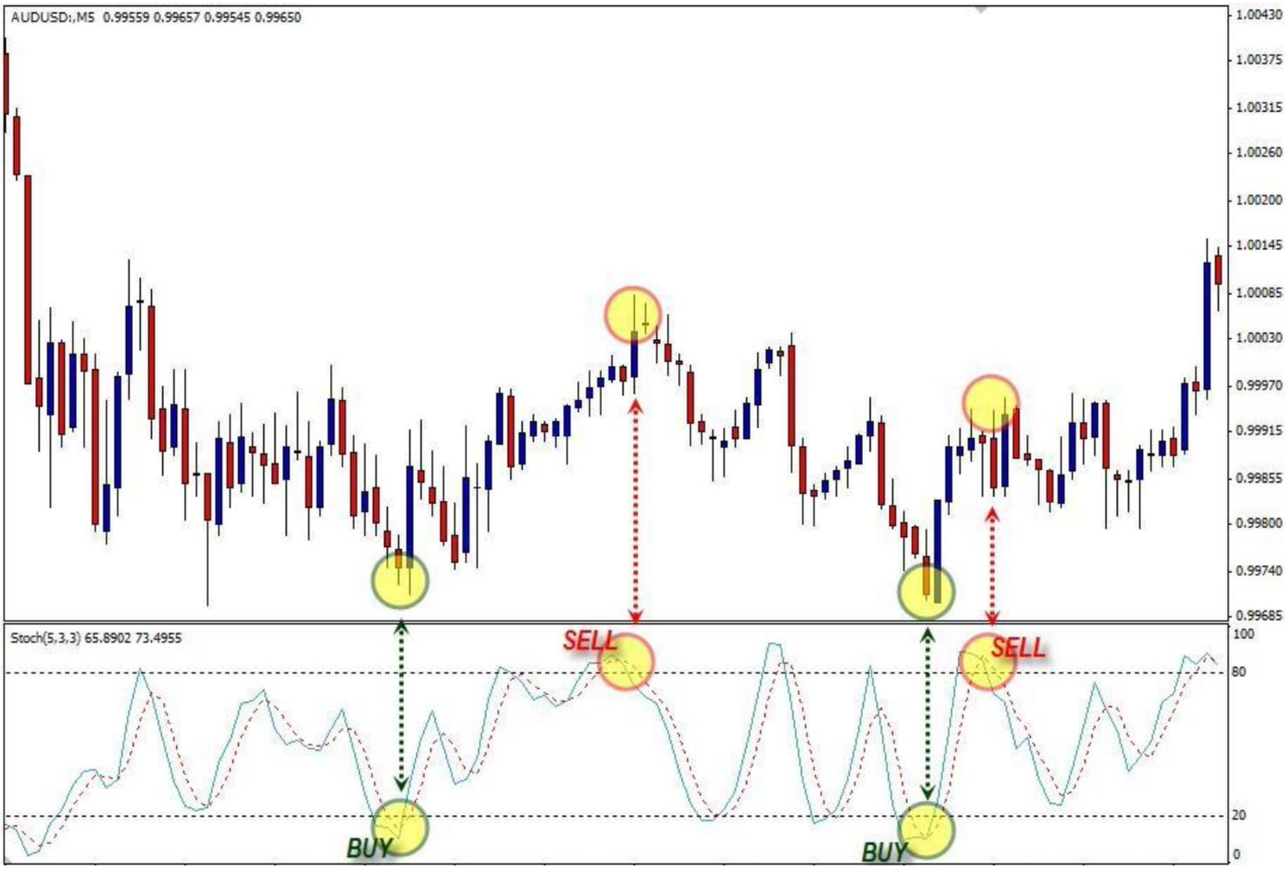
Stochastic Oscillator

Stochastic Oscillator is also a popular indicator among traders because it is easy to understand and use. Additionally, with a good method, this indicator can also produce consistent profits. That's why this indicator is still popular today.

This indicator has two lines: the %K line and the %D line. For ease of differentiation, they are usually given different colors. The common colors used are light blue for %K and red for %D. Additionally, %D is usually displayed as a dotted line. Of course, you can change the colors as per your preference, but what's important is that you can differentiate between %K and %D.

Another component of stochastic oscillator is the overbought and oversold areas. On stochastic, the overbought area is located above the 80 level, while the oversold area is located below the 20 level.

As mentioned earlier, stochastic can help you find good entry points. The signal is the crossover between %K and %D lines. A good sell signal often appears when stochastic is in the overbought area. On the other hand, a good buy signal often appears when stochastic is in the oversold area.



Stochastic usually works well when the market is in a sideways state. Therefore, you should be careful in interpreting buy or sell signals from stochastic when the market is trending.

When the market is trending, you can still use stochastic as a reference. The condition is that the signal that appears must be in line with the current trend. So, during a downtrend, you should look for sell signals, and during an uptrend, you should look for buy signals.


AUDUSD,H1 1.00435 1.00536 1.00309 1.00396
Stoch(5,3,3) 73.2330 58.0651

The Scalping Strategy

One of the most effective and fundamental scalping strategies used in the market is the one we will discuss here. The approach involves utilizing two indicators, namely Bollinger Bands and Stochastic, on the price chart.

When the price hits the lower Bollinger Band and the Stochastic is in the oversold area, it is a signal to go long. Conversely, when the price hits the upper Bollinger Band and the Stochastic is in the overbought area, it's time to go short.

In the chart displayed below, the strategy generated several buy/sell signals in the AUD/JPY Forex pair. The price action was generally in an uptrend, and we took both buy and sell entries accordingly when both indicators signalled us.

Although the buy trades generated good profits, the sell trades were comparatively less profitable, which is common in scalping. If you're an aggressive scalper, trade both buy and sell signals, but if you prefer to scalp with the trend, follow the next strategy.

If the trend is bullish, look for a buy signal with the condition that the candle is at the lower band and the stochastic cross line is at level 10.

Please note the arrows in the screenshot above. If the stochastic is at line 50, whether bullish or bearish,
DO NOT ENTER!

It's better to wait until the stochastic cross line at level 90 or cross line at level 10.

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Setting Take Profit Targets

Remember, the middle line of the Bollinger Band is used as the take profit target for this strategy. However, depending on market conditions, you may choose to adjust their take profit levels to maximize profits or minimize losses.

It is important to always have a clear exit strategy in place and to stick to it, as emotions can often cloud judgement in the heat of trading.

Remember to always manage risk carefully and to stay disciplined in your approach to trading with the Bollinger Bands and Stochastic strategy.

Setting Stop Loss Levels

Setting a stop loss is an essential part of any trading strategy to manage risk. With the risk reward ratio of 1:1, the stop loss level should be placed at the same distance as the take profit target.

For example, if the take profit target is 50 pips away from the entry point, the stop loss should also be set at 50 pips away. This helps to ensure that you have a balanced approach to trading and are not risking more than you are willing to lose.

Always remember to adjust your stop loss levels as the price action moves in your favor to protect your profits.

Lot Size

One of the biggest mistakes that new traders make is risking too much on a single trade. They may have a great strategy, but if they use an overly large lot size, even a few losing trades can wipe out their entire account.

It's important to remember that trading is not about hitting home runs on every trade, but rather about consistent, sustainable profits over the long term.

So, always keep your lot size in check and manage your risk wisely to protect your trading account.

Calculating the lot size based on a 2% risk per trade is a good risk management practice. To determine the lot size, you can use the following formula: Lot Size = (2% of Portfolio / Stop Loss in Pips) x Pip Value.

This will help ensure that you are not risking too much on any given trade, which can help you avoid significant losses.
Remember, proper risk management is essential to successful trading, so make sure to always calculate your lot size and set your stop loss before entering any trade.

When to Stay Out of the Market

When the Bollinger Bands widens or is wide, it is best to stay out of the trade.

This is because a wide Bollinger Bands indicates a higher volatility and uncertainty in the market.

It is difficult to predict the direction of the price movement in such a scenario, and therefore it is better to wait for the market to stabilize before entering a trade.

When the Bollinger Bands widen, it indicates increased volatility in the market. This means that the price can move a greater distance in a short amount of time, which can lead to wider stop loss levels.

If the stop loss level is too big, it can increase the risk of losing a significant amount of money on the trade. Therefore, it is best to stay out of the trade when the Bollinger Bands widen to avoid excessive risk.

Conclusion

In conclusion, the Bollinger Bands and Stochastic strategy is a powerful tool for scalping traders looking to take advantage of short-term market movements.

By combining the signals generated by both indicators, traders can identify high probability trade setups that offer attractive risk-to-reward ratios. While it may take some time and practice to master this strategy, the rewards can be significant for those who are patient and disciplined.

So, keep learning, keep practicing, and never give up on your journey to becoming a successful trader. With hard work and dedication, you can achieve your financial goals and live the life of your dreams.

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