The "Trend Collapse" Forex Strategy

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1. The Definition

The Trend Collapse Forex strategy seeks to exploit the sharp reversal moves we occasionally see in our charts once an established trend shows weakness.

When this happens, traders who had been riding that trend are very quick to protect their hard-earned pips by closing out at once all their trend-based trades, and therefore the market bias suddenly changes. As a result, a counter-trend collapse swing takes place in momentum.

2. The Outer Trend Line

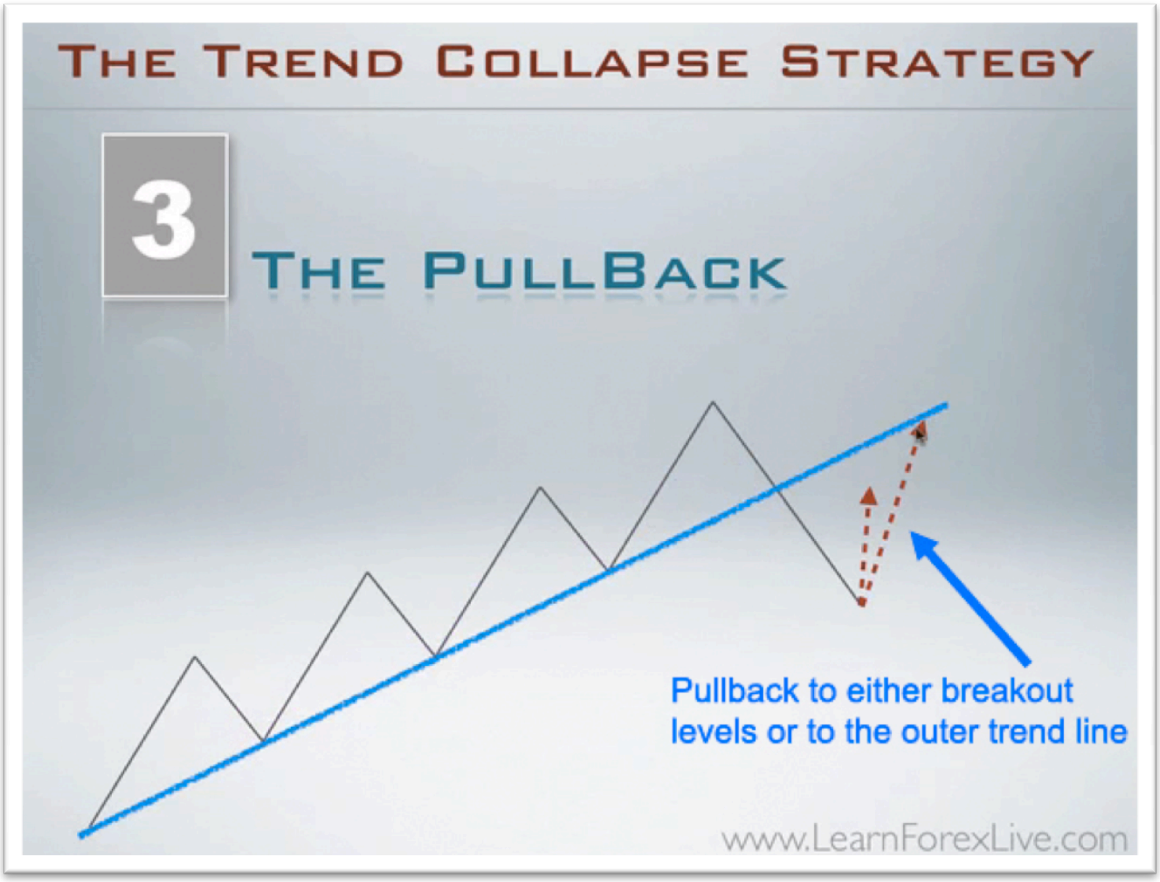
In order to define the breakout point, meaning the point upon which the market will deem the trend as weak or as jeopardized, we must draw the trend's outer trend line. This trend line is to be set from the trend's original focal point. It's impossible to determine an exactly number of bars or candles we are to scroll back in our chart in order to define the trend's starting point, so that's something that you, as a trader, will have to gauge from a visual point of view.

Please mind that we'll only be interested in the very outer trend line, so please do not draw any inner trend line at all. The outer trend line is the last line of defense for a trend, so once the outer trend line give way, there's nothing beyond to hold the price fall.

3. The Pullback

Upon the breakout of the outer trend line, we're not to trade the initial breakout thrust. Initial breakout thrusts are risky because we might be caught up in a fake breakout. In order to protect ourselves from these fake breakouts, we will wait for that initial breakout thrust to die out and then we will wait for the first swing pullback.

That first swing pullback usually comes back to rest either breakout levels or the outer trend line from the other side. That's precisely where we'll be hiding behind the bushes, ready to enter the price as price eventually pulls back to either of the mentioned levels.



4. The Entry

As already mentioned, we will enter the trade exactly at the moment when, after the pullback, price begins to turn again in the direction of the original breakout. Needless to say, we will be trading only in the direction of the original breakout, or what's the same, in the opposite direction of the trend that has just broken.

Basically, the idea is to wait for the pullback to come be completed so, once price begins to curl around once again in the direction of the original breakout thrust, we can jump onboard as tightly as possible from the bounce point.

There is no particular formula or price pattern to trigger the trade. We will simply try to be as nimble as possible in order to trigger the entry just as the bounce begins to take place. It's important to enter into the trade as close as possible to the bounce point, but without actually getting ahead of it: firstly we wait for the pullback to die out, then we wait for the bounce, and then we simply trigger the trade as nimbly as possible.

The stop loss will be placed immediately beyond the bounce point.

We will use a three-point exit policy, exiting a 33% of our lot size at each consecutive level:

- Target #2 will be around the end of the initial breakout thrust.
- Target #1 will be mid-way through between our entry level and our target #2 level.
- Finally, target #3 will be located at the projection of the full breakout swing measured from the bounce point.

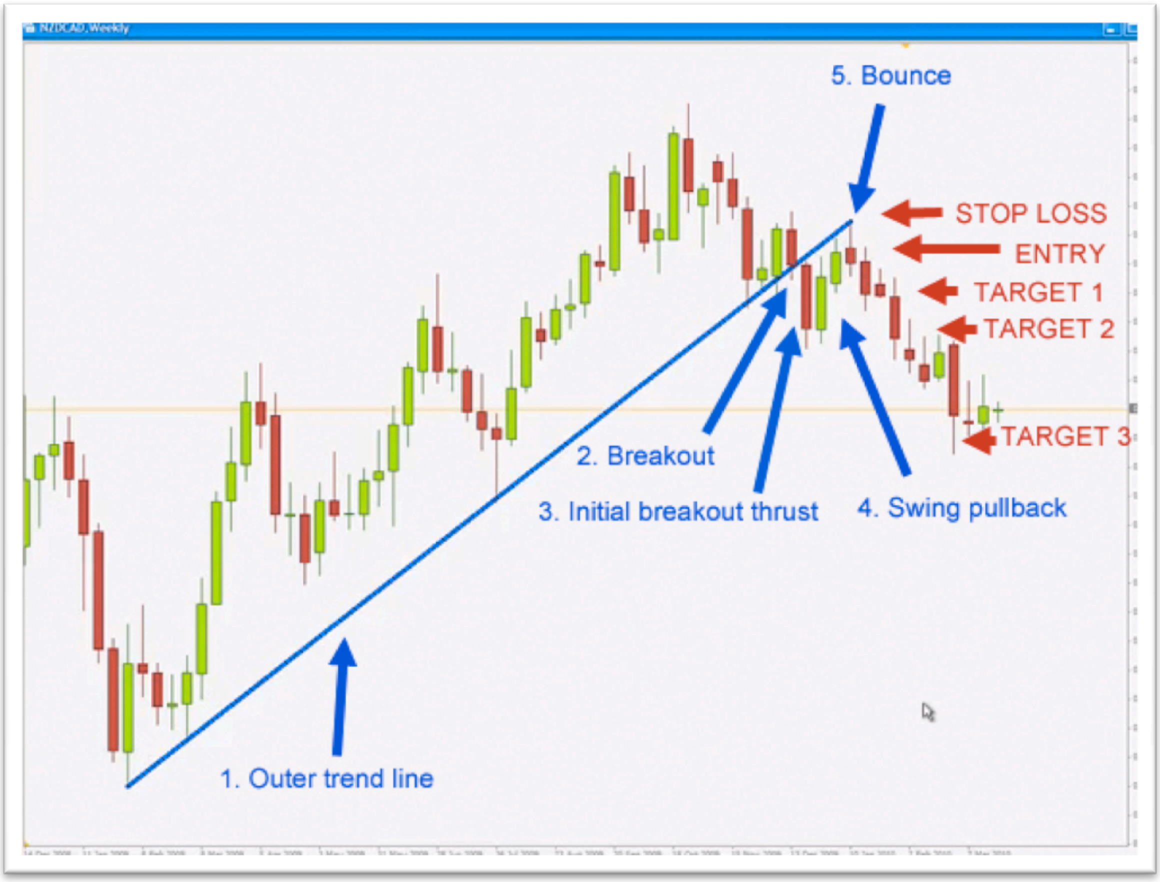
We will trail our stop loss to break-even when price hits our Target #2.

5. Live Examples

Here are some live examples of the Trend Collapse strategy applied to actual real Forex charts.

Please mind that this strategy works on…

- Any currency pair.
- Any time frame (best used on H1 chart and above though).
- Any market direction (both after a down trend or after an up trend, the market dynamics and the way to trade this technique are exactly the same).



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Cheers,

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