3 EASY STEPS TO TRADE WITH CONFLUENCE

Learn How to Find High Probability Trade Setups

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Finding the High Probability Trade

You've heard the phrase so many times it sounds cliché.

"High probability trades."

I hate to even say it.

The truth is… "high probability" is meaningless for new traders.

Selling credit spreads 10 miles out of the money is high probability.

You'll make money 19 times out of 20.

But your first loss will wipe out a year of steady winners.

A high probability of success is not enough.

Only when coupled with favorable risk/reward numbers will "high probability" do you any good.

But there's a secret…

A secret that traders often learn $20,000 too late.

And today I'm going to share it with you.

That secret is... "confluence."

What is Confluence?

Confluence is a junction – a coming together of several things.

For traders, these things are indicators, chart patterns and fundamentals.

The more that line up, the higher the probability of a trade's success.

The specific tools will vary from trader to trader, but waiting for confluence is a universal tactic.

And any trader worth his salt will tell you the same.

I'm going to share with you 3 of my favorites. Each is very simple.

But when these indicators converge, all pointing in the same direction – I know I have a high probability trade setup.

And because of the counter-trend indicators I've chosen, the potential profit is always greater than the risk for the trade.

This is a daily chart of the NZD/USD forex pair.

The uptrend is clear, but I'm not going to just buy and cross my fingers.

Before I have high probability trading setups.

I need a clear sign that now is the time to buy.

I need to see confluence.

Confluence Indicator #1: VALUE ZONES

To keep risk low, I prefer trading from value. In an uptrending market, this means buying pullbacks.

I marked the deepest pullback with a black X in the following chart. This was the ideal buy point and the trade we'll be focusing our indicators.

There are two primary tools for identifying value zones: support/resistance and Fibonacci retracements.

Trading support and resistance levels are commonly known areas of value.

If buyers are unable to penetrate a particular price, this will act as resistance on the next attempt.

Once broken, that resistance level will now serve as support.

Think of support and resistance levels as battlegrounds for traders where bulls and bears went to war in the past.

Look at the support and resistance level above.

Notice that early in the year, bulls spent a month trying to breach the area. It was clear resistance.

But after finally breaking above it, the same level served as support.

Buying on the June pullback to this support level would have been an ideal entry into the NZD/USD pair.

But to ensure a truly “high probability” trade setup, we can not rely solely on support and resistance trading.

We need to see confluence from other indicators.

That brings us to our second tool for identifying value zones – the [Fibonacci Retracement](#).

We’ve covered this indicator extensively, so I won’t bore you with the step-by-step(click here if you would like a step-by-step explanation of the Fibonacci Retracement). But it identifies key retracement zones with the highest likelihood of reversing.

In other words, it tells you where a pullback is likely to stop. This is crucial for buying retracements, especially if your goal is to limit risk.

From swing low to swing high of the last move higher, the Fib Retracement buy zone (between the 50% and 61.8% retracement levels) spots a perfect entry at the pullback we identified earlier.

And, when we overlay the previous support and resistance levels, you can see things start to line up.

So, for confluence indicator #1, we have two value zone indicators lining up at the exact same price, strengthening our resolve to consider a long entry here.

Confluence Indicator #2: MOVING AVERAGES

Moving averages are, by themselves, not much to trade on.

But they're another piece to our confluence puzzle.

I prefer to keep it simple and use just two – the 50 and 200-day exponential moving averages.

Far too many hours have been dedicated to studying these simple lines, but all you need to know is this:

If price is above them, you're in an up trend.

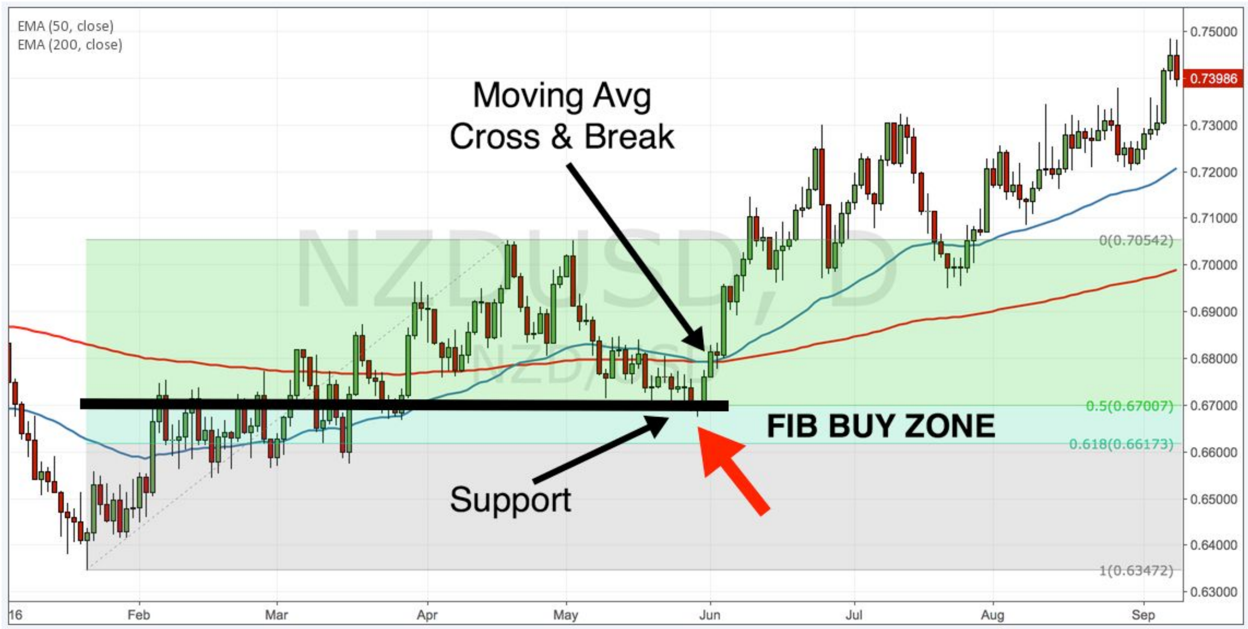
If price is below, the downtrend is still in place.

When overlaid onto our daily NZD/USD chart, they highlight a crucial area.

In the same week that this market tested support and touched the Fibonacci Retracement buy zone, two important things happened: (1) the moving averages crossed and (2) price broke above them both, signaling a move higher.

Additionally, the 200-day EMA will often act as support as you can see above (blue line).

Add in the value zone indicators, and we begin to build a strong case for a high probability trade.



Confluence Indicator #3: STOCHASTIC

The stochastic oscillator is a momentum indicator designed to pinpoint overbought and oversold conditions. The idea is that these conditions cannot be sustained, so a reversal is more likely.

The stochastic does a decent job of pinpointing short-term highs and lows, but it's not meant to be used alone.

However, as a confluence indicator, it checks one more box in the "high probability" column.

You'll notice on our NZD/USD chart, the stochastic flashes a clear oversold signal at the same entry point we've been examining throughout.

Adding to our other bullish signals (a key support level, Fibonacci retracement zone, and 50/200-day EMA cross), we now have a substantial confluence to support a long entry.

This chart is messy. Had I started with it, you probably would have quit reading.

But broken down a step at a time, you realize how simple it actually is.

Bonus Example

Let’s walk through another example for good measure.

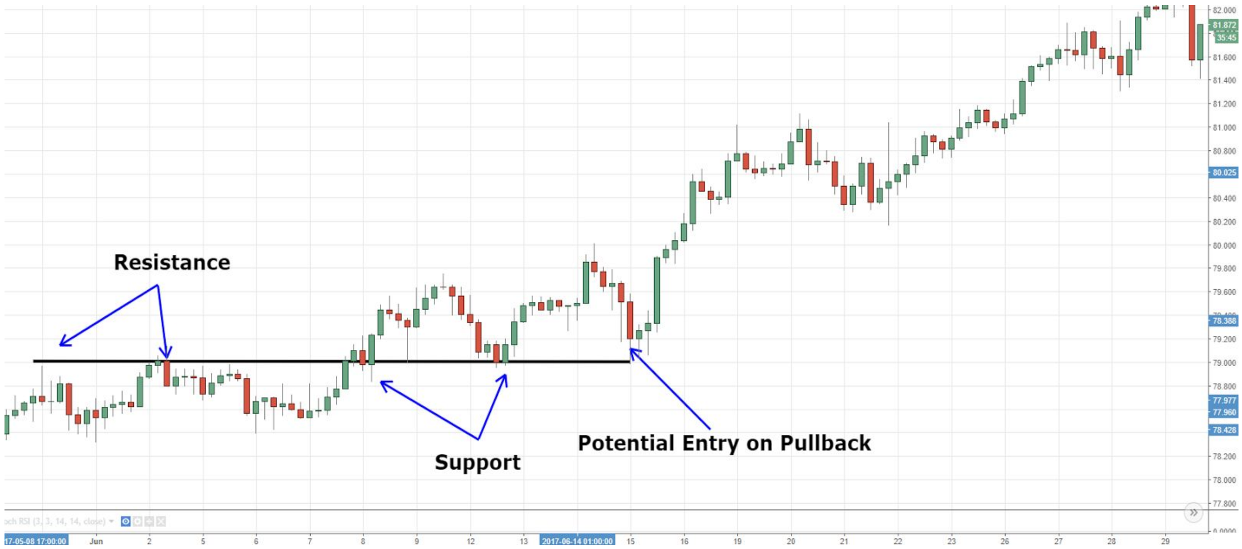
We will be working with the NZD/JPY pair on a 4-hour chart.

The first thing I notice is that it’s currently in an uptrend.

So I check to see what my value zones are looking like.

As you can see below I’ve drawn in my support/resistance level to confirm I am in an uptrend .

Next I am looking for my possible pullback entry for my trade and it is looking pretty good so far:



My next step is to add a Fibonacci retracement to my chart to make sure that my possible entry is within the 50%-61.8% levels, or my “buy zone.”

After adding in my Fibonacci levels I conclude that my possible entry point dips just low enough for me to confirm that it is a buy signal based on my **First Confluence Indicator: Value Zones.**

However, that isn’t confirmation enough me and I need to check my **Second Confluence Indicator: Moving Averages.**

So next I need to add in my two EMA’s at the 50 and 200 day levels and make sure that two things happen.

1. They cross each other.
2. And the price point I want to enter is above the point where the EMA’s are crossing.

Here is what my chart looked like after adding these EMA's in:

As you can see we did not get confirmation for our trade based on our EMA confluence indicator.

The EMA's did not cross each and the entry point is just barely below the 50-day EMA(red moving average).

For me, I would stop right here and cancel this trade idea because I am looking for all three to line up.

But for the sake of the report I continued on to check the **Third Confluence Indicator: Stochastic.**

Like i said earlier, I wouldn't normally continue after getting a negative result from indicator #2, but for the sake of the process I'll show you what the Stochastic RSI reveals:

The stochastic (circled in red towards the bottom) would have given us the third confirmation that we needed.

It is oversold at the point where my potential entry would be, but since my moving averages did not give me the green light I would stay out of the trade.

I know the trade looks good in hindsight, but we can't live ore trade with that mentality.

This brings up a good point to make.

Sticking to your trading rules is extremely important.

It is what separates us from from being a common gambler.

We stick to our systems and never trade on our emotions.

Conclusion

Messy charts are a staple for active traders. Some even pride themselves on them.

And now you know why.

They're looking for CONFLUENCE.

Your personal checklist of converging patterns or indicators may differ from mine.

And that's okay.

Every indicator has its strengths and weaknesses. But when a handful of varying signals all point the same direction, the odds of success are exponentially increased.

And THAT is the real secret to finding high probability trades.

I hope you enjoyed this eBook and found it helpful for your future trading endeavors.

Please email me at: support@learntotradeforprofit.com with any comments or thoughts you may have.

Thanks!

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