

# The RSI *Swing* Trading Strategy



This **swing trading guide** will teach you all you need to know before you start swimming with the sharks. We're going to give you a comprehensive introduction to swing trading and what you can expect in terms of growing your account as a swing trader.

The main advantage of swing trading is that it gives you the opportunity to turn small profits into big profits. Unlike day trading, if the market conditions are favorable you can hold your trades for weeks or even months.

However, one trading style isn't better than the other. In the end it all comes down to which trading style suits your personality and your needs. But still swing trading is like a microwave trading comparing with the fast pace associated with day trading.

Swing trading can be less stressful and has some advantages that can help you increase your account balance. But to accomplish this, we're going to use some swing trading indicators that will give us a picture of where the market is headed.

We're going to go over different steps and give you some simple but yet profitable **swing trading strategies** to get you started as a swing trader. Our goal is that by the end of this swing trading guide you'll have a solid understanding on how to find, evaluate and execute successful swing trades.

## **Introduction to Swing Trading**

In technical analysis, swing trading is a trading strategy that has the main goals to catch bigger moves in the markets. The swing trades can last anywhere between few days to several weeks but no more than 3 weeks. There are three major trading rules for swing trading that anyone needs to follow to be a successful swing trader.

- The first rule is that a good trade will always be hard to place from a psychological point of view.
- The rule number two is to always fade short-term trends against the long-term trend.

- The third rule is more controversial because we suggest to always placing your entry where the crowds places their stops. The majority of traders will place their stops at very predictable places, like below and above major swing low and swing high points.

To explain more the third swing trading rule you need to know that the institutional trader's job is to generate the liquidity to get into the position. They can't trade like the retail traders do. Invariably the market makers will not know where the stops are, but they know where most of the uneducated traders will place their stops and invariably the market will go to where the stops are over and over again.

One of the main objectives behind swing trading is to profit from different price swings in the market. As a swing trader you don't trade every single day. You want to capitalize off of a larger time frame thus getting much better profits than what you can get from shorter time frames.

The second advantage of employing **swing trading strategies** is that it minimizes the time commitment. If you have a full-time job you can't be actively involved in the market so if you want to take advantage of the financial markets, swing trading is a good alternative.

Let's now talk about some of the **swing trading indicators** you can use to profit the markets.

See below:

## **Swing Trading Indicators**

This is a quick overview of the three top swing trading indicators that you can use so you can trade profitably immediately. The swing trading indicators will tell you if you need to buy or to sell. They will paint a clear picture of the trend direction.

Let's begin.

### **Swing Trading Indicator #1 Moving Averages**

There are all sorts of settings that you can use with moving averages. The bottom line is to understand that moving averages are pretty simple. It's just the average price over the course of whatever time period your indicator is set to.

That's the reason why it's so important to carefully select the appropriate settings for your preferred swing trading indicator.



The preferred moving average settings for swing trading is 20 period. 20 is a multiple of 200 and the 200 day moving average is regarded as being the most influential moving average.

## **Swing Trading Indicator #2 Relative Strength Index RSI**

The RSI indicator is more suitable for swing trading because it's more responsive to the price action. This feature makes the RSI indicator much more dynamic than other swing trading indicators that don't give the same clear picture.

In comparison to the moving averages, the RSI indicator is a leading indicator. This means that the RSI readings are not relying that much on past price action but instead they show you the future.

Like with all indicators the key is to appropriately select the right settings for your preferred swing trading indicator. If you don't get the settings right the indicator will either be too slow or too fast to respond to the price action.



When combining multiple indicators together we want to keep the settings the same across the board. In this regard, we use 20 periods as the appropriate setting for the RSI indicator. See chart above.

### **Swing Trading Indicator #3 Chaikin Money Flow**

The Chaikin money flow is a unique indicator that takes into account both the price and the volume data to generate buy and sell signals. This is more than just a volume indicator that shows the buying and selling pressure, it's also a momentum indicator.

We like to use a 20 day period of time to measure the buying and selling pressure. When the Chaikin money flow is above the zero line it indicates buying pressure. Naturally, the higher the reading above the zero line the bigger is the buying pressure.



Conversely, when the Chaikin money flow is below the zero line it indicates selling pressure. Naturally, the lower the reading below the zero line the bigger is the selling pressure.

With the Chaikin Money Flow we can confirm if behind an uptrend we have real buying pressure or behind a downtrend we have real selling pressure.

Knowing what swing trading indicators to use it can dramatically improve your performance. We have carefully picked the best combination of swing trading indicators to avoid using indicators that show the same type of information.

Our swing trading strategies combines technical indicators that display different type of information.

Let's now see how we can combine multiple trading indicators into a profitable swing trading strategy.

# Swing Trading Strategies

Our swing trading strategy is developed around the principle to place your entry order where you would place your protective stop loss order. We don't allow for the market to move a lot against us but at the same time we want to capture those huge profits.

This is the style of trading that you can make most of your profits from one single trade idea. Let's now discover a proven approach to swing trade the markets.

As presented above we're going to use the moving average as a trend-spotting tool, the RSI indicator to gauge the momentum and the Chaikin money flow indicator to read the buying and selling pressure.

These three swing trading indicators support and complement each other.

As a reminder, as a swing trader, you want to implement your strategy on any time frame higher than the 4 hour chart. We don't want to go below the 4 hour time frame.

Let's start highlight the main steps of this swing trading guide.

See below:

## **Step #1: Chart Configuration**

The first step is quite easy!

All you have to do is to prepare your charts and make sure you have them set properly with all the necessary indicators and the appropriate settings. It's important to have you charts configured in advance so your focus is on the strategy implementation.

This is the mindset of all professional traders.

Your chart should look something similar with the chart below:



Let's now move one step forward and outline the first signal that you need to see on your chart for a potential buy signal.

See below:

**Step #2: The Price needs to break above the 20-day Moving Average**

A break above the 20-day moving average is the first signal we want to see on our price chart for a swing trading opportunity. The 20-day moving average is a trend-following indicator so a break above the 20-day MA is a bullish signal and an indication that we're potentially starting an uptrend.

Additionally, we also want to see a close above the 20 moving average.

See swing chart below:



We want to see a clear and clean breakout.

What do we mean by this?

Simply we want the breakout and close above the 20 moving average to happen within the same candle as seen in the chart above.

So far all is good and easy. However, there are confluences of other signals that need to be satisfied before we start pulling the trigger.

See below:

**Step #3: The RSI indicator must show a change in the momentum from the previous cycle**

Please hold on for a second and don't let the above heading intimidate you. We're going to explain everything in the next paragraphs.

Traditionally, technician traders use the RSI for overbought and oversold readings. However, more often than not a market can stay in overbought or oversold conditions longer than you can remain solvent.

In order to skew the probabilities in our favor we're reading the information provided by the RSI indicator in an unorthodox way.

What you have to do is to take the previous price swing leg and the associated RSI reading for that period. You should be able to enclose the RSI reading of this swing cycle by using a trendline.

See chart below:



If you can't draw a trendline that encloses the momentum of the previous swing leg than you simply skip the setup and start all over again from step #1.

Now, a change in the momentum from the previous swing leg happens when a breakout above the trendline happens.

See chart below:



Now we have confirmation that the momentum is turning to the upside so there is more weight for the bullish case scenario. The breakout above the 20 moving average has momentum behind it, but do we have any real buying pressure behind this move?

This is a question that we're going to answer in the next step.

See below:

**Step #4: Wait until the Chaikin Money Flow breaks above the zero line**

As we have learned previously once the Chaikin Money Flow indicator breaks above the zero it indicates buying pressure. Of course the higher the reading on the Chaikin Money Flow index the bigger the buying pressure is.

However, we don't have the luxury to wait for the Chaikin Money Flow indicator to show higher readings because by that time the trend will already be on its way higher. This will cost us lots of profits left on the table.

We buy once the Chaikin Money flow shows a reading above the zero.

See chart below:



Before concluding our strategy there is one more step you need to take. Decide where to place your protective stop loss and your exit strategy, which ultimately will determine your profitability.

See below:

**Step #5: Place SL below 20 MA, Take Profit when Chaikin Money Flow breaks below the zero line**

We like to keep things very simple when it comes to our exit strategy. We don't want to wait either for too many confirmation signals because this will either amplify your loss or it will eat from your profits.



We managed to capture 385 pips in the span of a 6 day trading session and generating an amazing risk to reward ratio of 1:7%

## Conclusion – Swing Trading Guide

In summary, the **swing trading strategies** work best when the markets are stable and a trend is clear. When you swing trade you don't have to sit in front of your computer and babysit trades. You simply get into a trade and think long-term. We hope this swing trading guide was able to imprint in your mind some of the basic swing trading principles that will help you capture hundreds of pips in the market.

We didn't just entered right at the beginning of the new uptrend move but we also exited right before the reversal in the trend. We accomplished this by using swing trading strategies that takes advantage in a smart way of the best **swing trading indicators**.

Thank you for reading!