Stock Markets Guides

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Swing Trading Strategies

In trading, the asset price is never linear. No matter how prolonged, any trend is always punctuated with a series of fluctuations resulting in price pullbacks.

As a swing trader, you can profit from these upswings and downswings in the market price.

This guide discusses every element of swing trading and shows how beginner traders can profit from it.

What is Swing Trading?

Swing trading describes a [trading strategy] where you try to profit from price fluctuations. Typically, asset prices never develop in a linear trend.

Even in a prolonged bullish or bearish trend, the trends are often punctuated by instances of short-term price pullbacks. These pullbacks observed in established trends are called price swings.

Volatility is often essential for swing traders. The higher it is, the more trading opportunities a swing trader gets. It is about taking advantage of smaller market swings of longer-term price trends. The long-term trend is not decisive whether it comes to swing trade.

Essentially, swing trading is based on two primary strategies: trend trading and breakout trading.

In trend trading, the swing trader tries to take advantage of the persistent price trend of an asset.

Breakout trading is the opposite of trend trading. In breakout trading, the swing trader tries to detect chart signals that indicate that a price is breaking out of its normal trading range. Usually, this is the case when a critical support or resistance line is broken.

Swing Trading for Beginners

For beginner traders, swing trading presents an opportunity to make a profit from short-term market volatility. The approach is simple. It involves observing an already established market, then anticipating the price pullbacks.

In swing trading, you focus on price points in the market where a reversal is more likely. In these price ranges, you open or close your trades.

In the uptrend, you intend to buy from these price lows and close the trade at the swing high. When the general trend is bearish, you short the market when the prices are high and close the trade at the swing low. Note that for swing trading to be effective, you need to select an asset with sufficient volatility.

Effective swing trading involves a three-point plan:

1. Ensure you have a clear plan of when the market conditions are ideal or you to enter and exit a position. This is where establishing support and resistance levels is imperative.
2. Invest what you can afford to lose. This might seem like a no-brainer, but it's often overlooked and ignored. Swing traders must have thick skin and have the mental fortitude to ride out short-term fluctuations. Suppose you invest a significant portion of your portfolio in swing trading. In that case, you might be tempted to exit your trade prematurely and either incur unnecessary losses or not maximize potential earnings.
3. Use stop-loss and trailing stop to limit your downside in case of extreme volatility. Remember that markets can be volatile and that no matter how proficient you are in market analysis, there are always chances of a loss. Using SL and trailing stop, keep the uncertainties under control.

Unfortunately, it is not possible to accurately anticipate the highs and lows of a swing movement. Your goal should be to pick up as much of a swing movement as possible with a trade. Whether you are trading stocks, Forex, or any other asset, the approach to swing trading always remains the same.

Typically, you hold positions for several days to several weeks. Due to the longer holding period and the orientation towards overarching long-term trends, investors also use larger timeframes instead of lower timeframes for day trading and scalping.

First, choose the asset with sufficiently large liquidity and the lowest spread. Then you wait for a clear signal that a price pullback is finished, and the asset resumes the long-term trend. There are numerous possible indicators for this, especially typical candlestick patterns that have established themselves here. We'll cover these later in this guide.

Ideally, swing trading uses a combination of these technical chart patterns and suitable indicators. They ensure that you can properly identify swing lows and swing highs and gauge the market trends and momentum.

Swing Trading vs Day Trading

In theory, swing trading is a lot like day trading (including scalping). However, they all have glaring differences.

Intraday traders never let their open positions roll over to the next day. However, swing traders often leave their positions open for months. However, depending on the market volatility, swing trades can sometimes last only a few hours.

Day traders do not necessarily keep their positions open throughout the day. Some of the positions can only remain open for a few hours. That is because intraday traders often have a minimum target number of pips they aim to earn in a day. When this goal is achieved, they close their positions and call it a day. However, if they won't have achieved their daily trading objective by the end of the day, they also close any open positions.

Typically, intraday traders also rely heavily on technical analysis when executing their trades. Observing the short-term and medium price action helps them identify the ideal entry and exit positions. Intraday traders rely on hourly and daily charts to set up their trades.

Unlike scalpers and day traders, swing traders often seek to accumulate larger profits by keeping their positions open for longer periods, typically ranging from a few weeks to months. Swing traders aim to take advantage of the subsequent news release.

Swing traders incorporate both fundamental and technical analyses to inform their trade decisions. We'll discuss these strategies next.

The Best Swing Trading Indicators

Since swing trading involves establishing the market trend and its magnitude, the most important trading indicators are momentum and trend indicators.

Swing Trading Using Bollinger Bands

The Bollinger bands measure market volatility.

The preferred time frame for this simple swing trading strategy is the 4-hour chart. The strategy can also be used for the daily and weekly charts. Smaller units of time should be avoided.

To go short, we have to wait for a swing high in a bearish market. Wait until the price touches the upper Bollinger Band. The price must be in the overbought range and falls below the middle Bollinger Bands.

After the price has touched the upper Bollinger band, we want confirmation that we are indeed in overbought territory, and the market is currently reversing. The logical filter, in this case, is that the price closes below the middle Bollinger Band. This breakthrough below the middle Bollinger Band is a clear signal for the shift in market sentiment.

Note that the breakout candle needs a "Big Red Candle" that closes near the lower candlestick body. The sale takes place at the end of the breakout candle.

For proper risk management, we place the stop loss above the breakout candle. This candle has great importance because we used it as an entry signal. This candle expressed that more and more sellers are entering the market. If the price exceeds the high of this candle, then it is clear that it was a false breakout.

To go long in swing trading with the Bollinger bands, use the same strategy as when short selling, but in reverse.

Swing Trading Using the Average Directional Index (ADX) and Simple MA

When it comes to showing the market trend, ADX plays a vital role. Most traders learn that the ADX is a powerful indicator that provides information about whether a market is trending.

The usual interpretation states when the ADX rises above 25, the market is in a trend. Note that the ADX doesn't show the market trend. It only shows the magnitude of the trend. If the ADX line aligns downwards, the market could enter into consolidation.

On the other hand, the simple moving average will help show the market trends. With this combination, traders can gauge both trend and its magnitude.

The MA is used to determine swing lows and swing highs.

The Best Swing Trading Strategies

As with any trading strategy, the best swing trading strategies often involve both technical and fundamental analyses.

Swing Trading Using Support and Resistance

When it comes to swing trading using the support and resistance levels, these levels always depend on the traders' price action analysis. Notably, every trader has their way of identifying the support and resistance levels with multiple timeframe analyses.

However, it is the best practice only to identify the peaks in swing highs and swing lows. This allows traders only to use strong price momentum in swing trading. Usually, these swing highs and lows have a "V" shape. Using the peaks as support and resistance help filter out the false breakouts.

Swing-Trade Long position: broken resistance becomes support

- When in a bullish trend, the highs are the resistance levels.

- When the price breaches the resistance and continues in an uptrend, this resistance level becomes the new support level.
- Next, wait for the price to retract and test the support level.
- If the support level is not breached, it's a signal to go long.

Swing Trade Short position: broken support becomes resistance

- When in a sustained bearish trend, the lows are considered the support level.
- When the price breaches the support level and continues a downtrend, the previous support level becomes a resistance level.
- Next, wait for the price to pull back to this resistance level.
- If the resistance level is not breached, it's a signal to short the market.

Swing Trading Using Fundamental Analysis

One of the biggest price movers in trading is often the release of economic news. Fundamental data is always more important than pure chart analysis. For example, it makes no sense to short a currency with high-interest rates and a strong economy, even if there is a short-term downtrend.

Swing traders who favor this strategy should always consider the currency's interest rate, the Central Bank's monetary policy, and past and emerging economic data.

As an information basis for trade decisions, macroeconomic statistics, interest rates, and the respective country's political situation are used. Swing trading strategy is especially related to long-term trading. Fundamental data has an impact on the development of currency pairs over several months to years.

Forex traders bet on the currency’s strength or weaknesses, which are always impacted by a country's economic conditions.

In Forex trading, several economic factors impact the exchange rates. Interest rates, economic news, or central bank policy plays an important role in this. Let's analyze a few.

The Carry Trade Strategy Using Interest Rates

The central bank influences the market through several factors. The most important factors are the interest rate and the money supply. In recent years, central banks have been trying more and more to influence the economy and secure the financial market by increasing the money supply.

For example, during the coronavirus crisis at the beginning of 2020, the US FED started with a high increase in the money supply. In addition, the government spent trillions of dollars in the form of stimulus checks.

This strategy is especially suitable for traders with a long-term orientation. Well-known fundamental strategies include the carry trade strategy.

In the long run, these actions make the US dollar less lucrative compared to other currencies. That means a swing trader can expect the price of USD to drop.

Economic factors

Economic factors and key figures can also have a lasting influence on an exchange rate. For example, if there is bad economic news from Europe, this could lead to an outflow of liquidity from the euro. The investors and traders then look for a haven.

Depending on the economic key figure or factor, the movement in the markets is powerful. Economic calendars show the scheduled economic data. They also indicate the expected impact. For swing traders, this provides a perfect opportunity since high-impact news releases often cause immediate fluctuation.

Lastly

Although swing trading is often seen as a reserve for experienced traders, this guide has simplified everything a beginner trader needs to start trading.

For beginner traders, it eliminates the stress involved with day trading that comes from constant market monitoring.

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