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Range Trading Guide

What is Range Trading? What are its Advantages?

Although the vast majority of FX research is geared towards helping traders detect trend, the fact of the matter is that currency markets range most of the time. By analyzing the records of thousands of retail currency traders we have concluded that those traders who focus on range trading strategies tend to be more successful and consistently profitable over the long run than those who do not.

In this trading guide we will show you how to use the range trading approach with the utmost efficiency by employing key technical indicators as well as proprietary tools developed on www.dailyfx.com and www.fxcmtr.com websites to help you pinpoint the most advantageous areas of entry and exit for each trade. We will also show you the times when this strategy does not work and will demonstrate to you the importance of proper discipline and of putting aside this strategy when extreme volatility and strong trending behavior appear in the markets.

True range traders don't care about direction. The underlying assumption of range trading is that no matter which way the currency travels, it will most likely return back to its point of origin. In fact, range traders bet on the possibility that prices will trade through the same levels many times, and their goal is to collect on those zig zag changes in direction as many times as possible.

Range trading is a unique concept that tries to profit from buying support and selling resistance. By finding major support and resistance levels a range trader buys pairs at the lower level of support (bottom of the channel) and sells them near the resistance (top of the channel). The trader may repeat the process of buying at support and selling at resistance many times over until the currency pair breaks out of the channel. Range traders live by the premise of buying bottoms and selling tops.

Range trading can be a very lucrative strategy that takes advantage of the currency markets natural tendency to move within defined price channels for weeks and sometimes months on end. The key to its long term success, however, is the trader’s ability to retain the profits made during this phase of the market activity and not squander them when price action turns to trend. First, this guide will help you to understand how to construct a proper range trading approach and then it will help you to identify the key warning signs for when this approach should be terminated. In short we hope that this guide will educate you about this unique trading methodology and will allow you to put the idea of range trading currencies into practice.

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What are its Disadvantages?

The drawback of range trading however is that when a pair breaks out of the channel consolidation, it usually experiences a large price movement in the direction of the breakout and traders who do not properly control their risk could experience severe losses.

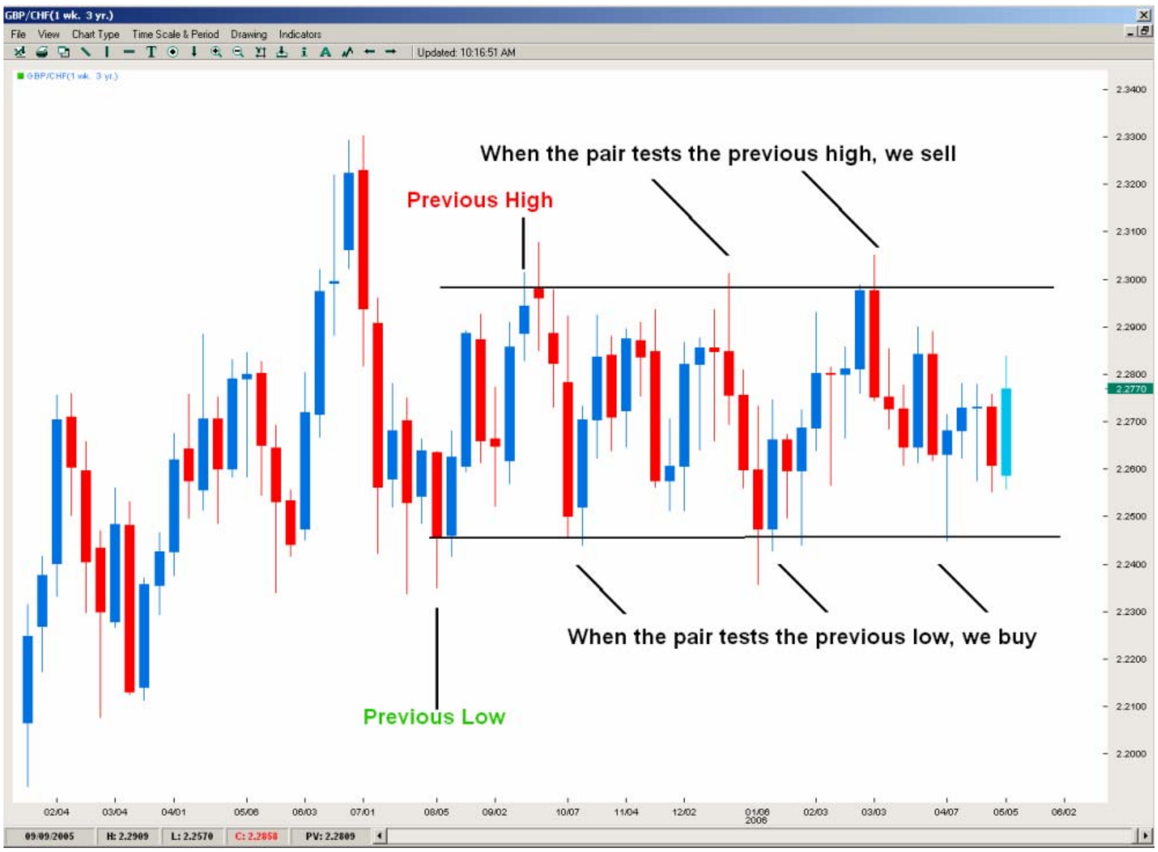
A good example is shown in the EUR/CHF chart above. The currency pair traded in a tight range for a solid 11 months, offering traders many opportunities to sell profitably anywhere above the 1.5500 level and buy anywhere below the 1.5400 level. However when the pair broke out of its consolidation above the 1.5600 figure, the rise was rapid and traders without proper stops would have been caught short in a major drawdown. Range trading works well, but only up until the currency pair breaks out, which makes the need to use stops the number one rule that all successful range traders must abide by.

Although range trading may seem easy at first glance, it is not. Most major hedge funds and institutional investors dedicate their time to trend based strategies instead of range based strategies because they realize that big profits are made in trends. Unlike the equity market, which is really a market of many individual stocks that are is governed by the micro dynamics of the particular companies, the currency market, is driven by large macroeconomic trends that can sometimes take months to play out. However, little do they know that with the right selection criteria, big money can be made in ranges as well. The most important point is to range trade only in environments where a currency has the highest probability of remaining range bound. In this range trading guide, we explore many ways to increase the probability of range trading successfully from both a fundamental and technical perspective.

The Basics: Support and Resistance

Range trading works off the concepts of support and resistance. At their core, support and resistance are nothing more than the art of isolating key reference points in the market that provide buying and selling pressure. In other words support is where the majority of market players would like to buy a given currency pair and resistance is a price point where the majority would like to sell. The most fundamental form of looking at support and resistance is to look at the price and how many times it touches a specific level but fails to break through. The inability of the currency pair to break through that level indicates that it is an indecision point for buyers and sellers. The longer the indecision point remains, the more significant the support or resistance level. On the chart, these points are relatively easy to spot. Just take a look at the chart below which shows a typical scenario of how range trading plays out.

We see that the price first makes a significant high and then a significant low. It then rallies back towards the previous significant high and fails to break past it, giving the first indication of indecision. It then trades lower and back towards the significant low and fails to break through that as well, establishing our support and resistance zone. This is when a range trader starts to look for opportunities to buy and sell between those levels using the significant low and high as stops. As you can see from the chart below, trading between the significant high and low points are repeated several times over. The GBP/CHF chart shows that those levels provide great entry and exit points for range traders on both the long and short side with clear and low risk.



Range Trade Only Specific Currency Pairs

The number one rule of successful range trading in the currency market is selection of the appropriate currency pair to trade. Unlike many other markets, range traders can have a leg up trading the FX market over other markets by simply being able to narrow down which currency pairs have the highest probability of remaining range bound versus other currency pairs that are more likely to only range trade for a short period of time before breaking out into a strong trend. The key is the US dollar. Trends best manifest themselves in currency pairs that involve the US dollar because it represents the other side of 90 percent of all currency transactions. The US dollar is a very trending currency which means that more often that not, it forces the other currencies that trade against it to be trending as well. These are the ones that we want to avoid. They are:

- EUR/USD - Euro / U.S. dollar
- USD/JPY - U.S. dollar / Japanese yen
- GBP/USD - British pound / U.S. dollar
- USD/CHF - U.S. dollar / Swiss franc
- USD/CAD – U.S. dollar / Canadian dollar
- AUD/USD – Australian dollar / U.S. dollar
- NZD/USD - New Zealand dollar / U.S. dollar

Crosses Are Best for Range

In contrast to the currencies listed above, all of which are strongly trending, currency crosses present the best range-bound opportunities. In forex, crosses are defined as currency pairs that do not have the USD as part of the pairing. This is extremely important point since it makes these pairs immune to dollar factors and focuses exclusively on the diverging performance between the two countries in question. These are simply the different combinations of the majors listed above such as EUR/GBP, EUR/CHF, CHF/JPY, GBP/JPY, AUD/CAD etc. Within this group, there are high risk and low risk currency pairs. High risk currencies have wider trading ranges while low risk currencies have narrower trading ranges. Naturally low risk ones are safer, but also offer lower returns while high risk ones are more volatile, but can offer greater returns.

How do you Determine High Risk vs. Low Risk Currency Pairs?

The best way to determine whether a currency pair is high risk or low risk is by looking at interest rates. The interest rate differential between two countries affects the trading range of their currency pairs. The interest rate spread between Switzerland and the Eurozone for example is only 125 basis points while the difference between UK and Japanese interest rates is a far more substantial 450 basis points. The rule of thumb in forex is the larger the interest rate differential, the more volatile the currency pair and the wider the trading range. This rule is clear when you look at the table below which highlights the interest rate spread of each currency cross and its 12 month trading range between May 2004 and May 2005.

High Risk / High Reward Currency Crosses

Currency Pair	Central Bank Rates (in basis points)	Interest Rate Spread (in basis points)	12-Month Trading Range (in pips)
AUD/JPY	AUD - 550 / JPY - 0	550	1000
GBP/JPY	GBP – 450 / JPY - 0	450	1600
GBP/CHF	GBP – 450 / CHF - 125	325	1950
EUR/JPY	EUR – 250 / JPY - 0	200	1150

Range Trade Only Specific Currency Pairs

Low Risk / Lower Reward Currency Crosses

Currency Pair	Central Bank Rates (in basis points)	Interest Rate Spread (in basis points)	12-Month Trading Range (in pips)
EUR/GBP	EUR – 250 / GBP – 450	200	550
EUR/CHF	EUR - 250 / CHF – 125	125	603
CHF/JPY	CHF - 125 / JPY - 0	125	650

In general, cross currency pairs that have narrower ranges tend to involve countries that are more culturally and economically similar. Take the Eurozone and Switzerland for example. Both regions have very close political and economic ties due to their free trade agreement, which means that it is hard to fathom that the Eurozone could go into a depression while Switzerland merrily expands. However, healthy performance in the UK could have little impact on the economic performance of Japan. Therefore it makes sense that the more different the two countries in question, the wider the likely trading range of the currency pair.

Taking a further look, EUR/CHF has a relatively tight range of 350 points over the period shown in the chart below, but a pair like GBP/JPY as shown in following chart has a far larger range of 1800 points. The relationship between these two countries and their interest rate spread are the primary reasons for this difference in volatility. It is worth repeating that the interest rate differential between two countries affects the trading range of their currency pairs. The interest rate spread between Switzerland and the Eurozone is only 125 basis points while the difference between UK and Japanese interest rates is a far more substantial 450 basis points. Remember, the rule of thumb in forex is the larger the interest rate differential, the more volatile the pair and the wider the trading range.

Source: Intellicharts

Range Trade Only Specific Currency Pairs

Chart by Intellicharts Image Copyright © 2005 Investopedia.com

While the relationship between interest rates and currency pair volatility is not perfect, it is certainly substantial. Going back to our previous tables of interest rate spread vs. trading range, we see how pairs with wider interest rate spreads like AUD/JPY typically trade in larger ranges while the ones with tighter spreads like CHF/JPY tend to trade in tighter ranges. Therefore, when contemplating range trading strategies in forex, traders must be keenly aware of rate differentials and adjust for volatility accordingly. This is extremely important because if you have a low risk profile and want to only take safer trades, it is imperative that you stick with low interest spread, low trading range currency pairs. On the other hand, if you have a larger risk profile and can stomach a wider volatility that in some cases can be upwards of 100 pips, then the higher risk and higher reward currency crosses are the ones for you. Failure to take interest rate differential into account could turn potentially profitable range ideas into losing propositions. Currency crosses like EUR/CHF and EUR/GBP can be traded with relatively tight stops and bigger sizes. However crosses such as GBP/JPY or AUD/JPY which have much wider ranges need to be given much more room and therefore require bigger stops and smaller leverage in order to successfully execute the trade setups.

Know Which Technical Indicators to Use

Remember range traders are agnostic about direction. They simply want to sell relatively overbought conditions and buy relatively oversold conditions. There are many technical indicators that range traders can use to help their analysis, but only a few are designed specifically for a range bound market and it is important to know how and when to use them because when the market breaks out, they are no reliable. Savvy range traders may choose to use RSI, Bollinger Bands, Stochastics, MACD, CCI or ADX. If these sound like foreign languages to you, do not worry, we will examine at the two of the best indicators in further detail.

Relative Strength Index (RSI)

The Relative Strength Index (RSI) is an extremely useful and popular momentum oscillator. It was developed by J. Welles Wilder in 1978. The RSI compares the magnitude of the currency pair's recent gains to the magnitude of its recent losses and turns that information into a number that ranges from 0 to 100. The indicator has one single parameter, which is the number of time periods to use in the calculation - Wilder recommends using 14 periods. The standard interpretation of RSI suggests that a reading of 30 or below is oversold and 70 or above is overbought, although traders are advised not to initiate trades until RSI crosses over those zones since the RSI reading can remain overbought or oversold for many periods in a trending environment.

Here is an example of a common approach using the RSI on the hourly charts of a range bound currency such as EUR/GBP. The trading rules would be the following:

1. Go long when RSI crosses up above 30
2. Place stop at -10 points below the swing low to allow for slippage
3. Take profit when RSI reaches overbought territory at 70
4. Wait until RSI loses strength once again and drops below 70 then go short
5. Place stop at +10 points above the swing high to allow for slippage
6. Take profit when RSI reaches oversold territory at 30

Using these rules, let's take a look at how this method would have worked in the EUR/GBP between 4/10 and 4/18 of 2006. At 15:00 hours the trader using RSI would have gone long on EUR/GBP at .6945 as RSI crossed above 30 from the downside placing a stop at .6925 10 points below the swing low pf .6935 On 4/11 at 5:00 the trade would have been closed at .6965 for a 20 point profit. Next at 6:00 on 4/11 the trader would have entered a short at .6945 with a stop at .6975 – 10 points above the swing high. Nearly 24 hours later at 5:00 the trade would have been closed at .6923 as RSI dipped below 30 booking another 22 points of profit. At 7:00 the same day another long would have been taken at .6917 with a stop at .6904, 10 points below the swing low. This time the trade would have been stopped out for 13 point loss as the pair moved lower. The next trade opportunity occurred at 6:00 on 4/13 with RSI once again crossing above 30. The trader would have entered long at .6908 with a stop at .6890 10 points below the swing low. The trade would have been liquidated at 22:00 on 4/16 at .6929 fro a 21 point profit The final trade opportunity would have occurred at 1:00 on 4/17 as RSI once again retraced below the 70 reading and the trader would have entered a short at .6926 placing a stop at .6943, 10 points above the swing high. This trade would have been successfully closed out at .9:00 on 4/19 at .6898 for a 28 point profit. Let's review the sequence of trades during this time period

Know Which Technical Indicators to Use

4/10 - 4/18

1.	Long at .6945, closed at 0.6965	+20 points
2.	Short at .6945, closed at 0.6923	+22 points
3.	Long at .6917, stopped out at 0.6904	-13 points
4.	Long at .6908, closed at 0.6929	+21 points
5.	Short at .6926, closed at 0.6898	+28 points
		__________
		+78 points

In summary the trader would have made 5 trades with 4 winners and only one loser for a total of 78 points of profit demonstrating the power of RSI in range based trading. However the key is to wait for RSI to cross back beyond the 70 and 30 levels. More specifically, if we are looking to go long, we would wait for RSI to break below 30, stay there for a while and then cross back above 30. This way we avoid taking the RSI range trade in trending environments where the indicator will remain over bought or oversold for prolonged periods of time. On the short side, we would wait for RSI to cross above 70 and then back below it before getting short.

Know Which Technical Indicators to Use

Bollinger Bands – Made for Range

Another indicator that is quite useful in a range trading environment is Bollinger Bands. Bollinger Bands allow users to compare volatility and relative price levels over a specific period of time. The indicator consists of three bands designed to encompass the majority of a security's price action.

- A simple moving average in the middle
- An upper band (SMA plus 2 standard deviations)
- A lower band (SMA minus 2 standard deviations)

The idea is that since two standard deviations are suppose to incorporate the majority of the price action, if the price hits the upper band, it is considered overbought because it is far above the average and in contrast, if it hits the lower band, it is considered oversold. The goal of range traders is to buy and sell when the price hits the respective bands. The standard setting for the moving average is 20.

Let us take a look at an example of the AUD/USD on the following page and how Bollinger Bands uncannily pick tops and bottoms, allowing the trader to profit from the range moves. In our example we prevent against fake tags of the Bollinger bands by selling only after a lower high is made and buying only after higher low is established, giving the first signs that the previous move is exhausting.

We begin by selling short the AUD/USD on 4/22/06 after it made a swing high at .7831 entering the trade on the next candle at .7822. The price proceeds to sell off and we cover the short after the first positive candle on the lower Bollinger Band at .7771. Then instantly, we establish a long position placing the stop below the swing low at .7743. We ride the move up all the way until the currency pair posted a negative candle on the upper Bollinger Band taking profit at .7809 and then immediately establish another short position at that level with a stop at the swing high of .7837. The short trade would last all the way until a positive candle prints on the lower Bollinger band and the trade would be covered at .7746. Again the range trade would go long with a stop at .7722 with the trade finally terminating for profit at .7811. The range trader would then be able to ride the short trade all the way to .7726, flip it and close out the last range trade at 0.7780.

Here is how the summary of Bollinger Band trades would look like:

4/22 - 5/12

1. Short at .7822, closed at .7771	+51 points
2. Long at .7743, closed at .7809	+66 points
3. Short at .7809, closed at .7746	+63 points
4. Long at .7746, closed at .7811	+65 points
5. Short at .7811, closed at .7726	+85 points
6. Long at .7726, closed at .7780	+56 points
	+386 points

Know Which Technical Indicators to Use

Source: Intellicharts

In short a trader using the Bollinger band to trade range would have benefited very handsomely in the AUD/USD trade. While directional traders sit listlessly watching the price bounce between .7850 and .7700, the range bound trader would have banked 6 consecutive winning trades harvesting a total of 386 points. The key to properly using Bollinger Bands and not getting caught in a fake move is to match it with a reaction low at a bottom. Remember, for a true bottom to form and a downtrend to reverse, a pair needs to form a low that is higher than the previous low. Properly set Bollinger Bands should hold support established by the second (higher) low. If the second low penetrates the lower band, then the moving average is too short. If the second low remains above the lower band, then the moving average is too long. The same logic can be applied to peaks and reaction rallies. The upper band should mark resistance for the first reaction rally after a peak.

As we have mentioned earlier, there are many other indicators that can be used for range trading such **as Stochastics, MACD, CCI** or **ADX.** However, like RSI and Bollinger Bands, it important to know how and when to use them. In both scenarios, blindly buying or selling would have resulted in big losses.

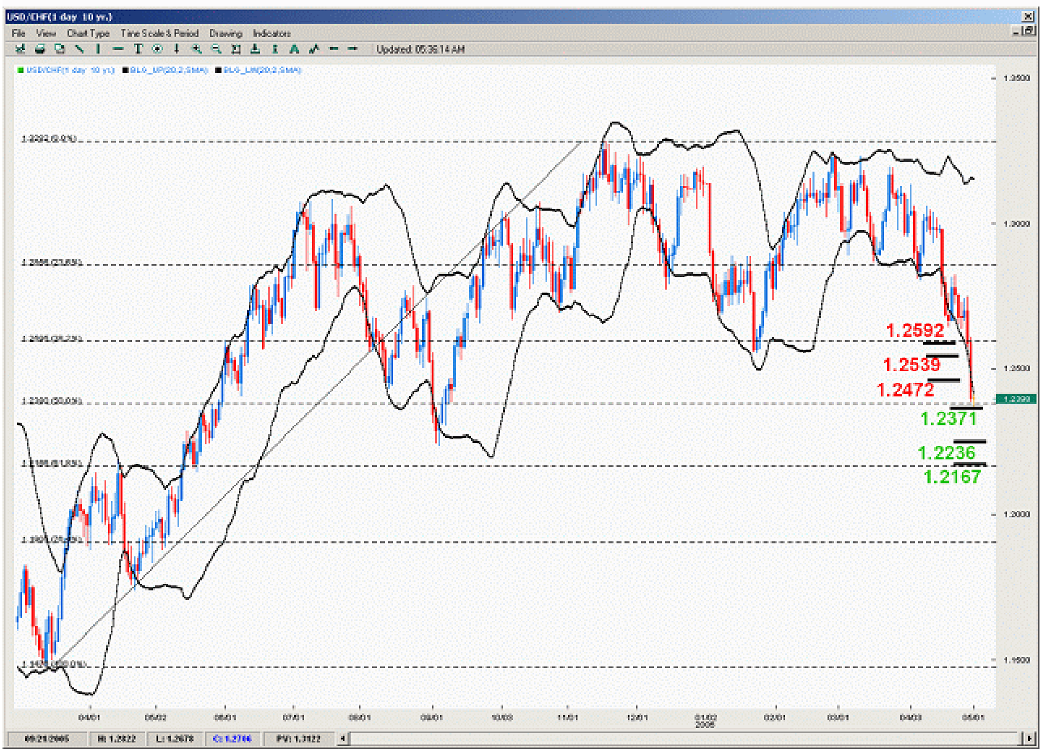
Resources to Help Ranger Traders Succeed

The foundation for a successful range trade is the ability to accurately forecast support and resistance levels. To that end both www.dailyfx.com and www.fxcmtr.com offer a plethora of resources for range oriented traders to obtain unique technical information vital to the success of the strategy.

DailyFX.com

Daily Support and Resistance from DailyFX - Daily Technicals

Every day, range traders can look to Daily Technicals column published by 6 AM EST for support and resistance levels in the four major pairs, the three commodity dollar pairs as well as three selected crosses. Each level is clearly marked with support levels colored green and resistance levels colored red as shown in the chart below. These can be good reference points for range traders to buy and sell.



Charts created using *Intellichart* – Prepared by Jamie Saettele

These support and resistance values are derived from a variety of sources including but not limited to daily highs / lows, weekly highs / lows, monthly highs / lows, intraday session high / lows (London high/low, New York high/low, Tokyo high/low) as well as moving averages, Fibonacci retracements, Fibonacci extensions, and trendlines. Furthermore, support/resistance levels from Daily Technicals are always accompanied with the reason for being designated as such. For example, "A break below targets the confluence of the 10 day SMA / 38.2% fibo at 1.2452/60." – Daily Technicals, Tuesday May 2nd, 2006.

Resources to Help Ranger Traders Succeed

In addition, each currency room within DailyFX also has regularly updated support and resistance levels as shown in the figure below. These generally correspond with the levels listed in the Daily Technicals, but are updated if those levels are broken.

Full Article
Central Bank Interest Rate Outlook

EUR/USD Support & Resistance

R4	1.2990	Medium	Daily High May 5
R3	1.2730	Medium	2/8/05 Low
R2	1.2690	Strong	Dbl Day High May 18 & 19
R1	1.2652	Strong	50% of 1.366-1.1640
S1	1.2543	Medium	23.6% of 1.2068-1.2688
S2	1.2460	Medium	10-day SMA
S3	1.2359	Strong	38.2% of 1.1825-1.2688
S4	1.2230	Medium	34 Day EMA

Current Interest Rates

Current interest rates can be found on the lower of www.dailyfx.com. These are updated after every central bank rate decision.

CENTRAL BANK RATES

NZD	7.25%	AUD	5.50%
GBP	4.50%	USD	4.75%
CAD	4.00%	EUR	2.50%
CHF	1.25%	JPY	0.00%

Range Breakout barometer

Another tool of great value to range traders is the Range Break Out Barometer. The report uses option volatilities to help predict potential movements in the spot market, which is one of the most popular strategies of systems traders and other professional hedge funds. Each week, the Range breakout Barometer tells you which currency pairs are close to breaking out or may be reverting to range trading conditions. Therefore range traders looking to get an upper hand on the possible change in the environment may consult this report for a possible assessment of the upcoming trading environment.

Resources to Help Ranger Traders Succeed

FXCMTR TOOLS

Tick Volume Analysis

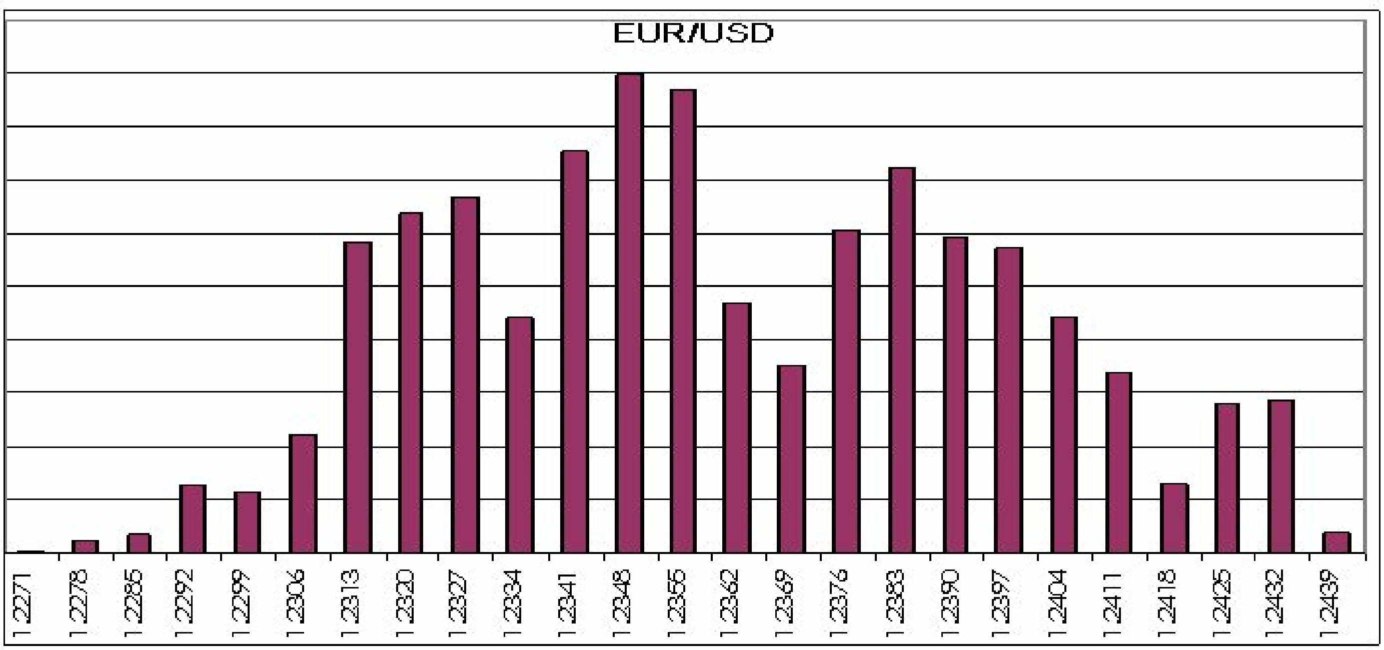
Finally, range traders may find the new proprietary indicator available on www.fxcmtr.com called the Tick Volume analysis of great interest as it offers a novel way to extract support and resistance levels that may not be apparent from regular price charts. On the most basic level, supply and demand is what drives prices in any market. This is one of the major reasons why volume analysis is so important to traders. There are four common ways to use volume for trading. Volume can be used to determine the validity of a breakout move, to see whether a retracement is an actual reversal or simply a pause in the trend and to gauge key support and resistance levels. In the FX market, although direct spot volume data is not readily available, tick volume can actually be used to determine support and resistance. When an area has a significant amount of tick activity, meaning that prices hit that level on multiple occasions, it becomes a battle zone between the bulls and the bears. If the zone is broken to the topside, it becomes support. If the zone is broken to the downside, it becomes resistance. This is what you have to keep in mind when going through our weekly tick report, namely that high level of tick activity represents a key support and resistance levels. A sample is shown below:

<Sample on Following Trade>

Resources to Help Ranger Traders Succeed

EUR/USD (04-19-06 to 04-26-06)

Weekly High: 1.2439 Tick Volume Concentrations: 1.2317-27, 1.2341-55, 1.2376-83
Weekly Low: 1.2264 Weekly Trading Range: 175 pips



Knowing When NOT to Range Trade

In order to increase your probability of range trading successfully, it is also important to know when to not range trade. Range trading by implication is a low volatility strategy that profits from the back and forth movement of prices. Therefore news events which can jar the currency market into one direction or another are poor times of the day to trade. Table 1 posts the most common times for news releases during the Asian, European and North American sessions in Eastern Standard Time. Table 2 posts some of the most important reports that affect the currency markets. For a full weekly calendar, traders should go to http://www.dailyfx.com/calendar/briefing/ to see the latest upcoming news releases that may affect range trade strategies.

Session	News Release Times
Asia	11:30 PM EST
Europe	4 AM – 6 AM EST
North America	8 AM – 10 AM EST

Table 1 – Times to avoid range trading during the global day.

Currency	News Release	Description
USD	Non-Farm Payrolls	The single most important report US calendar which drives analysis of the whole US economy
EUR	IFO Business Survey	A gauge of German business confidence, based on executives' inputs from 10,000 European companies
UK	BoE Quarterly Inflation Report	An assessment of UK inflation that drives BoE interest rate policy
JPY	TANKAN Report	An economic survey of Japanese business issued by the central Bank of Japan, which it then uses to formulate monetary policy. The report is released four times a year in April, July, October and mid-December.
CHF	KOF LEI	The Swiss KOF leading indicator of business expectations – the most important gauge of the strength of the Swiss economy

Table 2 – Key news reports that may affect volatility and endanger range strategies.

Also, Don't Forget to Avoid the Majors:

- **EUR/USD - Euro / U.S. dollar USD/JPY - U.S. dollar / Japanese yen**
- **GBP/USD - British pound / U.S. dollar**
- **USD/CHF - U.S. dollar / Swiss franc**
- **USD/CAD – U.S. dollar / Canadian dollar**
- **AUD/USD – Australian dollar / U.S. dollar**
- **NZD/USD - New Zealand dollar / U.S. dollar**

Knowing When NOT to Range Trade

Whenever trends develop, they are most often expressed in the majors. Trends can last for weeks, months or even years as major shifts in economic activity take time to play out.

Just take a look at the EUR/USD chart on the following page, the uptrend in the EUR/USD lasted for a full three years, hitting an all time high above 1.35 before retracing for a year and even so, a year long retracement could be just that, a retracement within a longer term trend. Therefore it is important to know how to determine a trending environment so that as a range trader, you can avoid it.

Trends in the majors can be best viewed on longer time frames. Note this monthly chart of the EUR/USD for the past 5 years. Although 2005 showed a retrace in the up move the chart above demonstrates that key structural factors behind euro rise continue to power the move and the uptrend remains in place

How to determine Trend?

Knowing how to profile a trending environment can keep range traders out of low probability trades. The three-Simple Moving Average filter is a good way to gauge the strength of trend. The basic premise of this filter is that if the short-term trend (seven-period SMA) and the intermediate-term trend (20-period SMA) and the long-term trend (65-period SMA) are all aligned properly in one direction, then the trend is strong. The importance of the three-SMA filter does not lie in the specific SMA values, but rather in the interplay of the short-, intermediate- and long-term price trends provided by the SMAs. In a strong down trend, the 7 period SMA is below the 20 period SMA which is below the 65 period SMA. The opposite is true for uptrends, the 7 period is above the 20 period SMA, which is above the 65 period SMA. The USD/CAD and AUD/USD chart show clearly that the trend in both currencies developed when the moving averages properly aligned themselves.

Knowing When NOT to Range Trade

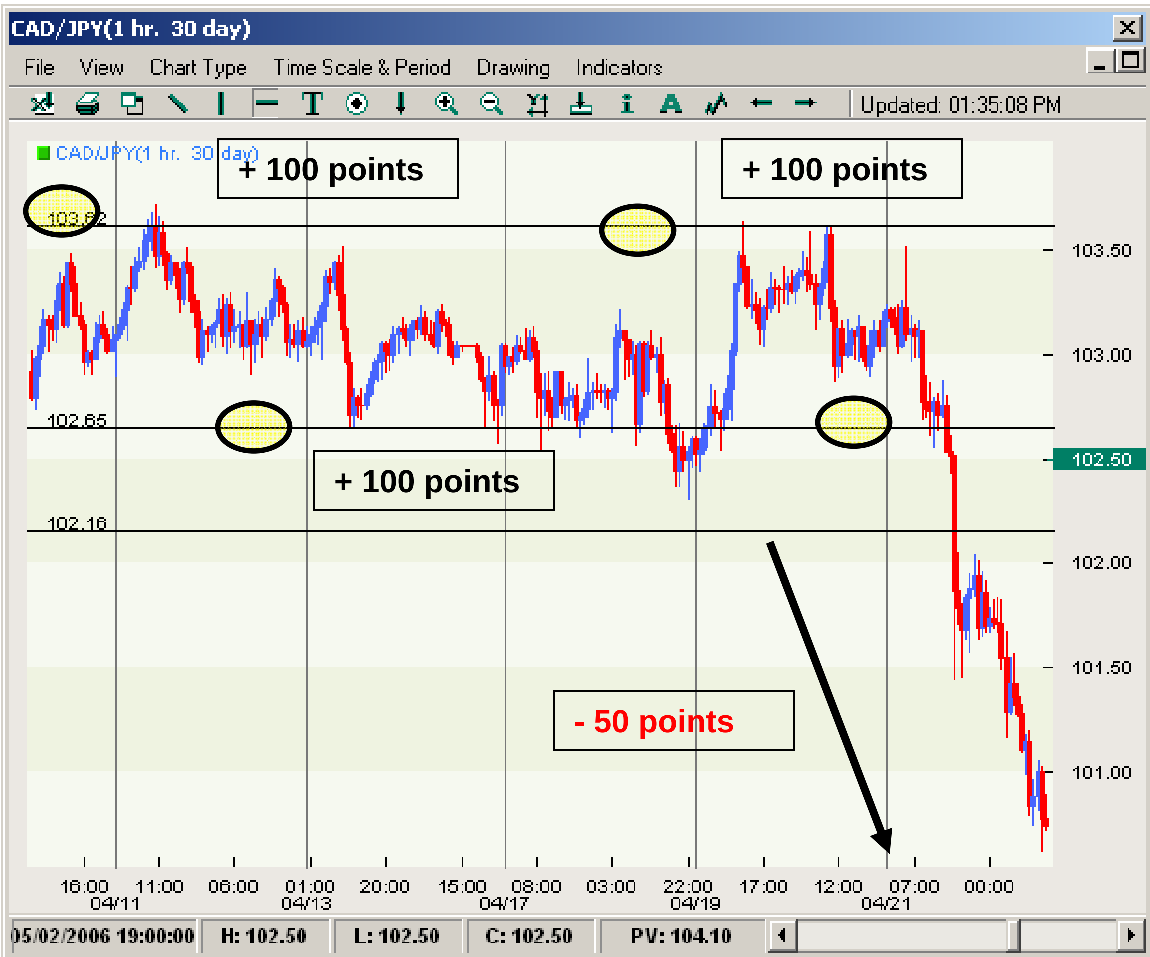
Only Take One Stop

Perhaps the single most important aspect of knowing when NOT to range trade occurs when a range trade gets stopped out. Successful range trading strategy involves making small but consistent profits and minimizing ones losses. Therefore it is critical for range traders not to reenter failed trades and compound their losses. *When a range is broken, the trader should take one loss and one loss only* and not try to pick a bottom or a top over and over again. The general rule of thumb is that range traders should set their stops at about half the amplitude of the range. This provides ample room for any slippage while at the same time preserving a 2:1 reward to risk ratio.

Examples

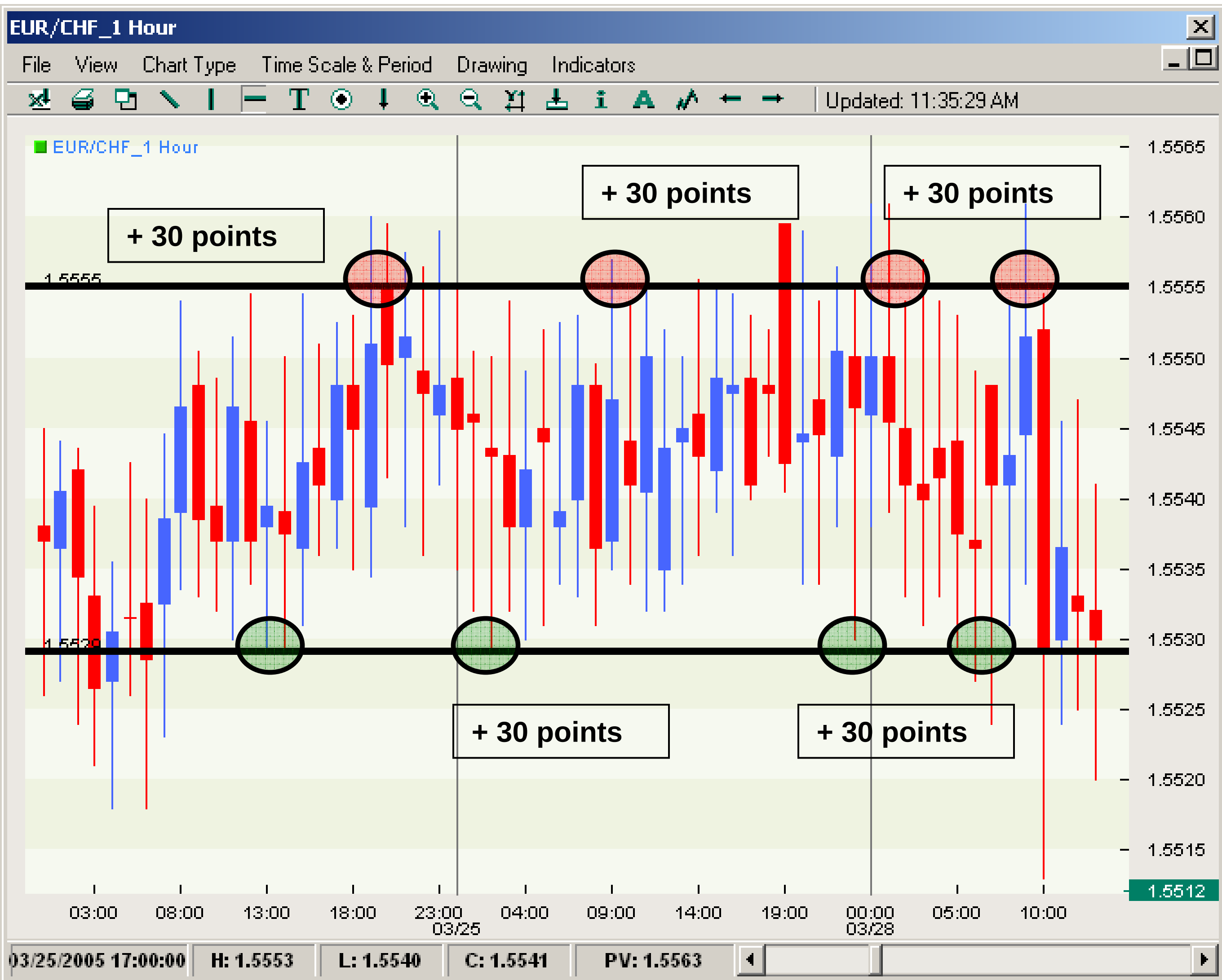
High Risk: CAD/JPY - Range Trade in Action

In the following example we can see how in CAD/JPY pair a range trader would successfully trade the 103.65 – 102.65 range successfully harvesting 300 points over a week's worth of trading. However, once the range breaks below 101.15 which is 50 points below support the trader MUST get out of the trade as conditions have obviously changed from range to trend. Too many traders attempt to fight the move and try to reestablish their positions several more times in the process giving back all of their hard earned profits. That why the single most important range traders must do when their positions move against them is STOP. Successful range traders win by not losing impulsively that which they have gained methodically. We also see that CAD/JPY offers big profits, but the risk is also fairly large at 50 pips. Other pairs with greater interest rate differentials and trading ranges can easily have a stop that is set 100 points away.



Examples

The next example is a low risk example of a EUR/CHF trade - a pair that is far less volatile than the CAD/JPY. We can see a much smaller volatility and the opportunity to trade with far less risk. The range in this particular pair is 30 points wide meaning that we would only need to assume 15 points of risk to trade this range setup properly. Once the initial reference points are established buying support and selling resistance would have resulted in five profitable trades of approximately 30 points each, producing 150 points of profit with only 15 points of risk on any individual trade. The profits are less in our EUR/CHF trade but they are also more plentiful.



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