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CHAPTER 3

SWING TRADING STRATEGIES

TRADING STRATEGIES

FROM BEGINNER TO PROFESSIONAL

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Swing Trading Strategies

Swing trading is like cultivating a garden: you plant the seeds (positions) and let them grow for days or weeks, caring for them occasionally until they bloom into profits. It is ideal for traders who cannot be in front of the screen all day but want to take advantage of significant market movements.

Strategy 1: Trends with Pullbacks

Philosophy of the Strategy: This strategy is based on the principle that "the trend is your friend until it bends". We take advantage of temporary pullbacks within a strong trend to enter at a better price.

Identification of Strong Trends:

A strong trend has these characteristics:

- Clear Structure: Higher highs and lows (uptrend) or lower highs and lows (downtrend)
- Confirmatory Volume: Increase in volume in the direction of the trend
- Sustained Slope: The 50-period moving average maintains a clear slope
- Impulses Greater than Corrections: Movements in favor of the trend are longer than the pullbacks

Detailed Configuration:

Main Timeframe: Daily to identify the trend
Analysis Timeframe: 4 hours for pullbacks
Entry Timeframe: 1 hour for precise timing

Complete Process:

1. Trend Identification (Daily Analysis)
 - Price above/below MA(50) and MA(200)
 - Series of highs and lows in the correct direction
 - Volume confirming main movements
2. Wait for the Pullback (4H Analysis)
 - Pullback of 38.2% - 61.8% of the previous movement
 - RSI reaching oversold/overbought zone contrary to the trend
 - Price pattern showing exhaustion of the pullback

3. Confirmation and Entry (1H Analysis)

- Reversal pattern in lower timeframe
- Bullish/bearish divergence in MACD
- Breakout of the pullback trend line

Detailed Example:

Suppose Apple (AAPL) is in a strong uptrend:

- Price: \$180, after rising from \$150
- Pulls back to \$172 (38.2% retracement)
- In 1H chart a hammer pattern appears
- MACD shows bullish divergence
- Entry: \$174 upon breaking the pullback trend line
- Stop Loss: \$170 (below the low of the pullback)
- Take Profit 1: \$185 (new probable high)
- Take Profit 2: \$190 (Fibonacci extension)

Advanced Position Management:

Management is where professional swing traders differ from amateurs:

- Dynamic Trailing Stop: Use the 20-period moving average as trailing stop
- Position Scaling: Add 25% more if the price breaks previous highs with volume
- Partial Profit Taking: Close 50% at the first target, let 50% run for maximum profit



Strategy 2: Breakout of Chart Patterns

Base Concept: Chart patterns are like market fingerprints: they show us the battle between buyers and sellers, and their resolution usually indicates the future direction of the price.

High Probability Patterns:

1. Triangles (Symmetrical, Ascending, Descending)

Triangles represent consolidation with decreasing volatility. They are like a pressure cooker: when they finally explode, the movement is usually powerful.

- Formation: Minimum 4 touches (2 on each trend line)
- Optimal Timeframe: 4H to Daily
- Target: Height of the triangle projected from the breakout point
- Confirmation: Volume 50% above average on the breakout

2. Flags and Pennants

These patterns are temporary pauses in strong trends, like a runner taking a breath before continuing the race.

- Context: After a strong movement ("the pole")
- Formation: Consolidation in parallel channel (flag) or small triangle (pennant)
- Duration: 1-3 weeks typically
- Target: Height of the pole projected from the breakout

3. Head and Shoulders (and its inverse)

This pattern is the king of reversals. It represents a fundamental change in market sentiment.

- Formation: Three peaks, the central one higher than the laterals
- Neckline: Connects the lows between the peaks
- Confirmation: Breakout of the neckline with volume
- Target: Distance from the head to the neckline, projected downward

Detailed Trading Process:

Phase 1: Identification and Validation

- Identify the pattern in formation
- Verify that it meets all technical criteria
- Evaluate the context: is it in line with the general trend?

Phase 2: Preparation

- Calculate price targets using pattern measurements
- Determine invalidation points (stops)
- Plan position size based on the distance to stop

Phase 3: Execution

- Enter on the confirmed breakout
- Place stop loss according to the pattern rules
- Set partial profit takes at calculated targets

Practical Example - Ascending Triangle in EUR/USD:

- Formation: 3 weeks of consolidation between 1.2000 (resistance) and ascending support line
- Breakout: Price breaks 1.2005 with volume 2x the average
- Entry: 1.2007 (breakout confirmation)
- Stop Loss: 1.1985 (below the triangle's support line)
- Take Profit: 1.2045 (triangle height: 45 pips, projected from breakout)



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