Commentary

Analyzing the Effectiveness of Confluence of Price Action Disciplines in Forex Market

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DESCRIPTION

The purpose of this project is to systematically develop a sustainable and profitable trading strategy based on price action in the foreign exchange market. This study is looking for measuring the effectiveness of confluence of price action disciplines. Price action confluent levels provide the cleanest view of technical analysis in Forex market and help traders make subjective trading decisions based on the recent and past price movements instead of relying solely on technical indicators. In this paper, a trading strategy based on price action confluence is constructed and tested on 10 pairs from July 01, 2020 to 23rd December 2020. We used a 5,000 USD demo account to trade the pairs on the MT4 platform and a total 267 trades were placed during the test period. After collecting all the trading related data, we would calculate the profit and develop a profitable trading strategy. The results obtained from this paper should be applicable to other international markets as well.

The foreign exchange market, which is referred as Forex, is the market where a nation's currency is exchanged for that of another. The Forex market is an online, Over-the Counter (OTC) market in which the participants can trade 24 hours per day. According to the data from the Bank of International Settlements (BIS) Forex Market is one of the fastest-growing sectors of financial markets and the daily FX volume accounted for $5.1 trillion in 2016. So, the daily Forex market turnover is multiple times higher than the trading volumes on any capital markets. Nowadays, anyone can trade in Forex market through the internet and interbank networks which made more people come into this market. According to report, the majority of Forex traders fail to survive and leave the market within six months to a year. The French financial markets regulator, (AMF) released a study result in October 2014 which showed the rate of clients losing money exceeded 89% (surveyed 14,799 active clients), with an average loss of €10,887 per client. Foreign exchange market is difficult to predict. Developing a successful trading strategy for forex trading remains a significant challenge for both traders and economists. One of the most difficult aspects of forex trading is finding a systems, strategies, or indicators that might work best for traders. There are numerous

ways of speculating the market which makes this journey even more difficult. Because no single strategy or indicators ensure consistent and satisfactory results over a subsequent period. We have addressed this problem and developed a systematic approach to trade foreign exchange market based on confluence of price action trading disciplines. Confluence areas of price action disciplines are defined as levels where more than one pattern shows the same direction. Forex market has the highest liquidity in the world and it produces some of the best price action levels than any other financial markets. Our method works as follows: at first, we have constructed our own trading strategy using a combination of various disciplines of price action (Japanese candlestick, support and resistance, trend lines, channels and chart patterns) strategy which includes entry and exit rules of a trade, money management and risk management strategy. Then, from July 01, 2020 to 23rd December, 2020, we have used that strategy in real market using MT4 platform. We have to acknowledge that the magnitude of analysis needed to understand forex market is considerably greater than any other markets to trade in Forex market with price action, a trader does not need to be informed about the world's social, political, and economic situations, because price action trading strategy ignores the fundamental factors and emphasis solely on price movements. Every minute, hour and day, the Forex market is paving its own road. If we know how to read it then this road can become our road map to predict the future price movement. By studying the highs and lows of the recent and past prices and support and resistance levels, we can construct a general idea of what price may come next. We believe this detailed guide of price action strategy would help Forex traders to identify profitable trades, and control risk by utilizing appropriate strategies. The result of this research can be useful for Forex brokers, dealers and any financial institutions.

CONCLUSION

Trading Forex market is often considered as an art rather than a science because it requires the use of practice, experience and intuition to generate profits. Trading with confluence gives a trader an increased edge to look for more than one element to

confirm the bias. Price action levels are no different. When price approaches to these levels, traders look for the potential of a reversal and when multiple price action levels exist in the same region or area, then this confluence of price action becomes stronger and offer traders multiple reasons for prices to reverse. The main point of this project is: a trader does not need a complicated or confusing trading strategy to find high probability entries in Forex market. All he needs is the ability to recognize price action levels in the chart. If a trader just focus on this one strategy and master it over time then he will be able to look at any chart of any.

CONFLICT OF INTEREST

None