

The Trading Mentor

DEDICATED TO YOUR SUCCESS

WWW.TheTradingMentor.co.uk

What is Trend Trading? - The surprisingly simple system that teaches you how to plot a trend.



www.thetradingmentor.co.uk

Trend trading the financial markets is no longer only for the Wall Street big shots or the highly educated bankers in Canary Wharf. These days with the internet and the prevalence of online brokers providing access to the markets, barriers to entry are so much lower. No longer are the days of manic trading pits and having to pick up the phone to take a trade. Now, the time between first hearing about trading to placing your first trade can be a matter of hours.

This is a double edged sword, because on the one hand it opens up so much opportunity. On the other it presents a danger of financial ruin to the ignorant. Day trading and scalping are popular ways to trade the markets from home. However the success rate is astonishingly low. Day trading and scalping is when a trader is taking multiple positions per day on intraday time frames. These methods are time consuming, stressful and discouragingly difficult to find success.

In this article I'll explain how long term trend trading works and its advantages and challenges compared to other forms of trading.

How Does Trend Trading Work?

Rather than being in and out of multiple positions per day, I aim to be holding the same trades for months at a time. Or rather as long as what I'm trading is in trend. If an asset is not trending I will not be trading it.

To get technical, a bullish trend is defined by price action making higher highs and higher lows. The higher highs are formed when price moves up. The higher lows are formed when price then pulls back, usually to some form of support or resistance. This would be followed by another leg up to make a new higher high. The opposite is true for a bearish trend.

The aim of trend trading is to let a trend establish itself, then enter towards the beginning or middle of the trend. Once you've entered your first trade you'll keep a trailing stop loss that will follow price as it makes new higher highs and higher lows. Your stop loss will be strategically placed and wide enough to allow these higher lows to form and not stop you out.

Of course, assuming a bullish trend, the aim is for your exit price to be higher than your entry price, thus profiting from the price difference.

Example Trends

NVDA increased over 700% from when it first appeared on my watchlist. You don't need to capture this whole move to make significant returns to your trading account.

 **NVIDIA**
Bullish Trend



Boeing was another very strong trend in 2017. After appearing on my watchlist, Boeing went on to trend for another 1.5 years, returning 250%.



It was after backtesting some of these trends that really gave me that 'aha' moment. I was hooked on trend trading from there on.

Higher Time Frames

With day trading you'd likely be trading from intraday time frames. Often 15, 30 or 60 minute charts. Sometimes lower with scalping. However, given the longer term nature of trend trading higher time frames are always used. I would start my analysis on the monthly time frame. The monthly chart will show me how the asset i'm analysing has trended in the past and if it's currently trending. The monthly will also show me any significant support or resistance levels to be aware of.

Next I'll look at the weekly time frame. The weekly will show me the *trading bias* and a clearer picture of the current trend. Once satisfied with the weekly I'll move down to the daily time frame which will confirm the trading bias and give me a clearer picture of the state of price action. It is the daily time frame that I take trades from. With trend trading there is no need to look at any time frame lower than the daily.

Below is an example of my multiple time frame charting setup.



Time Efficiency

The advantage of using higher time frames and trading long term is the time it takes to complete your *trading routine*. With day trading and scalping you'll likely be staring at price charts for several hours everyday. Now if this is something you want from a trading career then great. However if you don't have the funds to make a living from trading at the start and therefore have a full time job, this just isn't realistic.

With trend trading I base all my decisions after the trading session has closed (or the next morning). Therefore my trading and portfolio management usually takes me less than 20 minutes per day Monday-Friday. I then spend around 2 hours on the weekend doing my in depth analysis ready for the week ahead. Which I then forward to my [VIP Members](#). This means that my trading work week is less than 4 hours. Not only is this feasible for anyone working full time, but it brings a sense of time freedom if you reach a point when your trend trading can replace your 9-5 job.

Which Markets Are Best to Trend Trade?

Trend trading strategies can be applied to any market that is liquid and that trends. The majority of traders will encourage you to only trade a handful of currency pairs, like the majors. With trend trading only trading a few instruments will massively limit your potential. I would trade currencies, but then diversify to stocks and shares, oil, Gold, Indices etc.

Not all markets are trending at the same time. But my aim is to follow the institutional money and trends from market to market. The main market classes I trade are US and UK stocks, Forex and Commodities. All these asset classes combined gives thousands of potential instruments to trade.

To combat this quantity of candidates I use scanners and charting software to analyse which are the best of the best opportunities at any one time. Doing this I can objectively decide which trades to take within my limited risk tolerance. Taking the best trade setups will stack the odds of a long and lucrative trend in my favour.

Compounding

When I first discovered the concept of trend trading I wondered how you could actually make decent returns trading from the higher time frames. I thought it was too slow and unprofitable. But how wrong I was!

Once I understood trend trading risk management it began to make sense. As a trend trader you'll likely have a risk allocation of about 10-16% of your trading account. This is personal preference and will depend on your own risk adversity and account size. Now of course this 10-16% isn't all on one trade. This is diversified across a number of trades on different trends at 1 or 2% each. So If you have a couple of strong trends performing well for months at a time the returns will come. However I still wasn't sold on the idea until I was taught compounding.

Compounding or scaling in is when you enter initial trades on the best setups. Then as the strong performers continue to make new higher highs and higher lows you continue to add positions to these trends. As your new compound is triggered your previous positions stop loss is moved to entry to eliminate that risk. So let's assume your trades are 2% risk each. You add another position and eliminate risk on the previous. So now you have 4% working for you with only 2% risk. I'll add up to a maximum of 5 positions in one trend if it allows. This means I could potentially have 10% in position sizing working for me with only my initial 2% downside. Multiply this across however many strong performing trends i'm trading and you can understand how powerful and efficient trend trading can be.

Challenges in Trend Trading

Firstly, because of the long term nature of it, the paydays are not regular. Expect larger infrequent paydays. With day trading you may well earn money on a weekly or monthly basis. However with trend trading you'll go months at a time without income. This could be because there are not always trends happening. Or because your most profitable trades take months to mature. Remember unrealised or paper profits are not yours until the trade has closed.

Trader Psychology is the biggest Cause of failure

Mindset is the next challenge in trend trading. As mentioned your most profitable trades take what feels like an age to mature. Unfortunately in that time you'll probably take a few losses. That's just part and parcel of any trading style. Losing trades usually don't last long, so it can feel like you're constantly losing before the profitable trades close for profit.

Remember, you need patience for those few slow burners that are consistently accumulating profits. To combat this you must develop your *trader psychology* and train yourself to be *patient and disciplined* with your trading.

The last challenge with trend trading is around compounding.

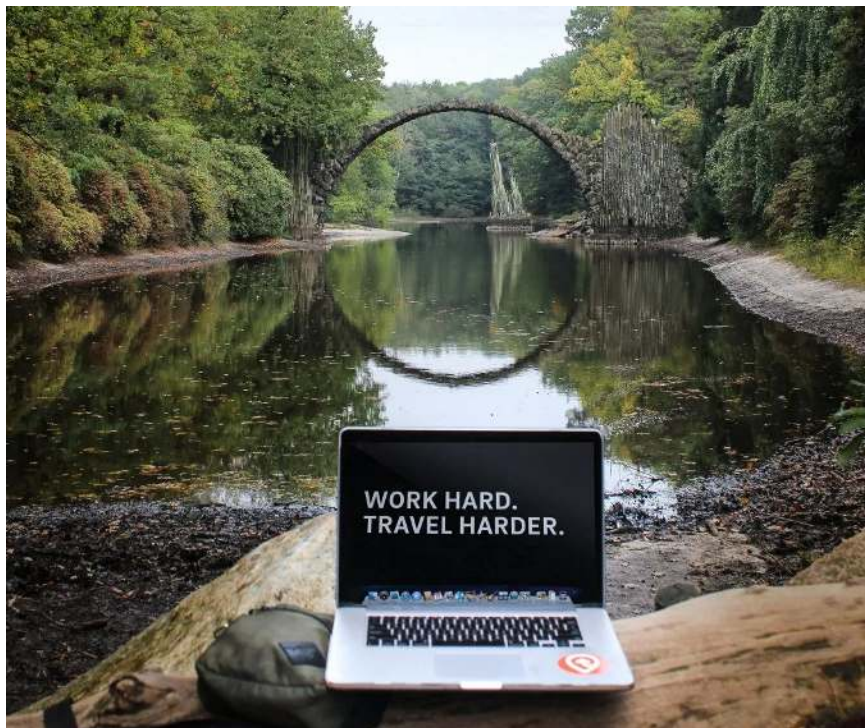
Compounding is essential for exponential growth of your trading account, but it can make your trades top heavy. By this I mean that when the trends are moving in your direction everything is good. You should be accumulating healthy profits across multiple positions per trend. However trends don't move in a straight line. When the pullbacks come the paper profits you originally had can quickly vanish. Of course you're managing your risk so you know your downside potential. That being said, if you involve your emotions, then seeing your paper profits disappear can be upsetting. If you're trading multiple stocks at once, its likely the pullbacks will come all together as well because of the nature of how the stock market works.

To overcome this, again you need to develop your *trader psychology* .

Leave your emotions and ego on the side lines. Remember paper or unrealised profits are not what you'll leave the market with. You need to focus on where your trailing stop loss is because that is realistically how much profit is secure.

Trading Software

Be the Smart Money



Trading from your phone or using free broker software can also be a hindrance to many new traders. To stack the odds of success in your favour use professional *trading software* with the

right capabilities for trend trading.

Do not let the above challenges discourage you. I just want to be honest about what it entails. Other styles of trading come with their disadvantages as well but I believe the advantages of trend trading far outweigh any other trading style. With the right mindset and time, becoming a successful trend trader is achievable. With it you can build wealth and gain time freedom to live life by your own design!

Learn to Trade for Yourself

Here is the video tutorial on [Youtube](#), in order to set your indicators correctly...now you can trade like a professional.

Don't forget to contact me, let me know how you are doing..

Happy Trading...

Disclaimer :

Before using this site, blog, ebook, video, newsletter, please make sure that you note the following important information: Do your Own Research Our content is intended to be used and must be used for informational and educational purposes only. It is very important to do your own analysis before making any investment based on your own personal circumstances. You should take independent financial advice from a professional in connection with, or independently research and verify, any information that you find on our Website/books/blogs/videos/emails and wish to rely upon, whether for the purpose of making an investment decision or otherwise. No Investment Advice We are not an investment advisor, we have no access to non-public information about publicly traded companies, and this is not a place for the giving or receiving of financial advice, advice concerning investment decisions or tax or legal advice. We are not regulated by the Financial Conduct Authority. We are an educational forum for analysing, learning & discussing general and generic information related to stocks, investments and strategies. No content on the site/books/blogs/videos constitutes - or should be understood as constituting - a recommendation to enter in any securities transactions or to engage in any of the investment strategies presented in our site content. We do not provide personalised recommendations or views as to whether a stock or investment approach is suited to the financial needs of a specific individual.