

The best Forex strategy



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 **Intro**

SUMMARY

Descriptions of a multitude of trading strategies in the financial markets, including Forex, can be found on many open sources. The diversity of trading strategies makes it difficult to choose just one. TU experts conducted a research in order to find out which strategies are used the most by successful traders in Forex trading and which of them are the most profitable. Therefore, the experience of successful colleagues will help other traders, especially the beginners, to make the best choice of a trading strategy. The task of the research is to provide the principal features of a successful Forex trading strategy, which can be considered the best for the majority of traders.

In order to fulfill the task and obtain a trustworthy answer to the question of the research, the team of TU analysts surveyed 2,400 successful traders, trading Forex via the brokers from the Top 10 of the Traders Union rating. As a result, TU experts collected objective data that shows the experience of successful traders and were able to determine the best type of profitable trading strategies for the novice traders.

In addition, TU research provides answers to the following questions:



Which types of strategies exist in the Forex market?



Which strategies do successful traders use?



What are the things to consider when choosing a trading strategy?



What the vast majority of Forex trading strategies are based on?

The results of the research are based on in-depth analysis of the issues raised and studied in the course of the research by the TU's analytical team. Therefore, the traders from all across the world will be able to apply them when choosing a successful trading strategy in the Forex market.

 **Glossary**



Forex is a global financial market for exchanging currencies. The participants of Forex trading include central banks of different countries, companies, top international businesses, commercial banks and private traders.



Forex broker is a financial services company performing the function of an intermediary between the buyer and the seller of currency in the Forex market.



Trade deposit means the funds deposited by a trader to his/her account with a Forex broker with the purpose of performing trading transactions.



Volatility is a term used to describe fluctuations of trading prices within a specified period of time. It is believed that the higher the range of price fluctuations, the higher the volatility.



Slippage is the difference between the expected price of a trade set by the trader and the price at which the trade is executed.



Spread is the difference between the best buy price and the best sell price in currency exchange.



Trading strategy is a set of rules and algorithms used for making decisions when trading in the Forex market. The trading strategies are based on either technical or fundamental analysis, and there are also combined trading strategies.



Technical analysis is a type of asset evaluation based on the assumption that with similar market conditions the price of the asset will change in the future in the same manner that it had in the past.



Fundamental analysis is a type of asset price forecasting based on macro- and microeconomic indicators and their changes. It assumes that as a result of the change of the economic indicators, the price of the asset will change accordingly.

Opinions available in open sources

Having reviewed Forex trading strategies published in open sources (forex-ratings.com, sashares.co.za, ig.com, fxtradingrevolution.com, dailyfx.com and others), TU experts came to a conclusion that there is no agreement of opinion on the best Forex trading strategy in the open sources. Some traders are convinced that position or swing trading strategies are worth using. Others believe that scalping and day trading are the best strategies. Some traders build their trading strategies on the basis of technical analysis, while others use fundamental analysis. There are traders who use combined trading strategies. There are supporters of trend as well as counter trend trading in the Forex market, and those who prefer sideways trend trading.



TU experts have tasked themselves with finding out which opinion of the above and which strategy are the best for trading in the Forex market.

Theoretical part of the research

Having analyzed trading strategies available in open sources, the experts of TU analytical team came to the conclusion that all these strategies can be classified as follows.

BY THE PERIOD OF HOLDING AN OPEN POSITION:

- Day Trading.
- Position Trading.
- Swing Trading.
- Scalping.



Day Trading (Intraday Trading)

Day trading is a strategy that implies opening and closing of trading positions on the same day, with none of the positions opened overnight or rolled over to the following day.

This Forex trading strategy is one of the most popular strategies among the traders. The reason why it is so popular is because by closing positions daily, a trader can react to the market events more flexibly, rather than when using position trading or swing trading, for example avoiding the gaps when the session opens (passing them) and also react timely to intraday changes of liquidity and volatility of the chosen currency pair.



Position Trading

Position trading is a trading strategy based on working with large time intervals. Long-term charts are used in the position trading to determine the direction of the market movement – from daily to monthly. Within this strategy, the traders can hold their positions from several days to several weeks and longer, depending on the trend. Traders seek sequences of maximums and minimums of the price in order to determine the direction of its movement. Having 'caught the wave', the traders try to earn profit both from the growth and from the decrease of the price of the asset. As a rule, traders open positions after a certain trend has set (for example, the price of the currency pair started to hike), and close the position when the trend ends. This means that it is risky to use the position trading strategy in the periods of high volatility in the market.



Swing Trading

Swing trading is a trading strategy that involves using the adjustment moments in the process of trend formation for entering the market. Traders using this strategy, as a rule, enter trading at the moment of the trend change.

In this situation, there is usually certain volatility in prices, as the new trend is only beginning to set in. Swing traders buy or sell an asset as the volatility grows. Usually they hold their position for more than one day, but still for a shorter period than position traders. It is not mandatory in swing trading to accurately predict the peak of the price growth or the bottom of the price drop; this strategy can be used on a stable market that has confidently chosen the direction. The market moving within a limited range or in a sideways trend carries a risk for swing traders.



Scalping

Scalping is one of the trading strategies used by traders for quick gains in the Forex market. It involves skimming profits from the difference between prices of purchase and sale bids, and also the flows of orders within short timeframes. Traders usually make their money from the difference of prices, buying the asset at the supply price and selling at the demand price.

Scalpers try to hold their positions open for a short period of time, thus reducing possible risks. In addition, scalpers do not try to profit from substantial price changes or from buying/selling large volumes of assets; they try to benefit from small, but frequent price changes and sell and buy smaller volumes frequently. As the profit per trade is small, scalpers aim to have as many trades as possible and use the most liquid currency pairs. Unlike swing traders, scalpers prefer 'calm' markets that are not prone to sudden fluctuations.

i Note:

TU experts note that when using trading strategies that involve scalping, traders need to consider trading conditions of the chosen broker, specifically the speed of order execution, spread and/or commission and also presence of slippages. These trading criteria directly impact success of trading with scalping strategy.



By the method of applied market analysis:

- **Strategies based on Fundamental analysis** involve monitoring of macroeconomic news (decisions of central banks on key rate, unemployment rates, GDP, inflation, etc.) and the corresponding reaction to them.
- **Strategies based on Technical analysis** involve taking into consideration price indicators of the financial asset in the past (such as volatility, buyer/seller balance, resistance and support levels, price turning point, etc.) and projecting them to the future movement of the price. All strategies built on technical analysis are largely based on the psychology of traders, who, according to the supporters of technical analysis, should act in the future in the same manner they acted in the past with equal market conditions.
- **Strategies based on combined analysis** involve both elements of technical analysis and of fundamental analysis. For example, fundamental factors can serve as the key indicator for opening a position with one of the technical analysis indicators used as a confirming indicator.



In terms of following the trend, the strategies are divided as follows:

- **Trendline strategies** imply opening trades exclusively in the direction of the trend and closing them after the trend movement ceases.
- In **counter trend strategies**, positions are opened against the movement of the trend (pullback) and closed when the pullback ends.
- Strategies chosen by the traders **during a sideways trend (flat)** are based on the movement of price within a stable price range at the moment of price consolidation and are no longer used as soon as the trend gains new momentum.

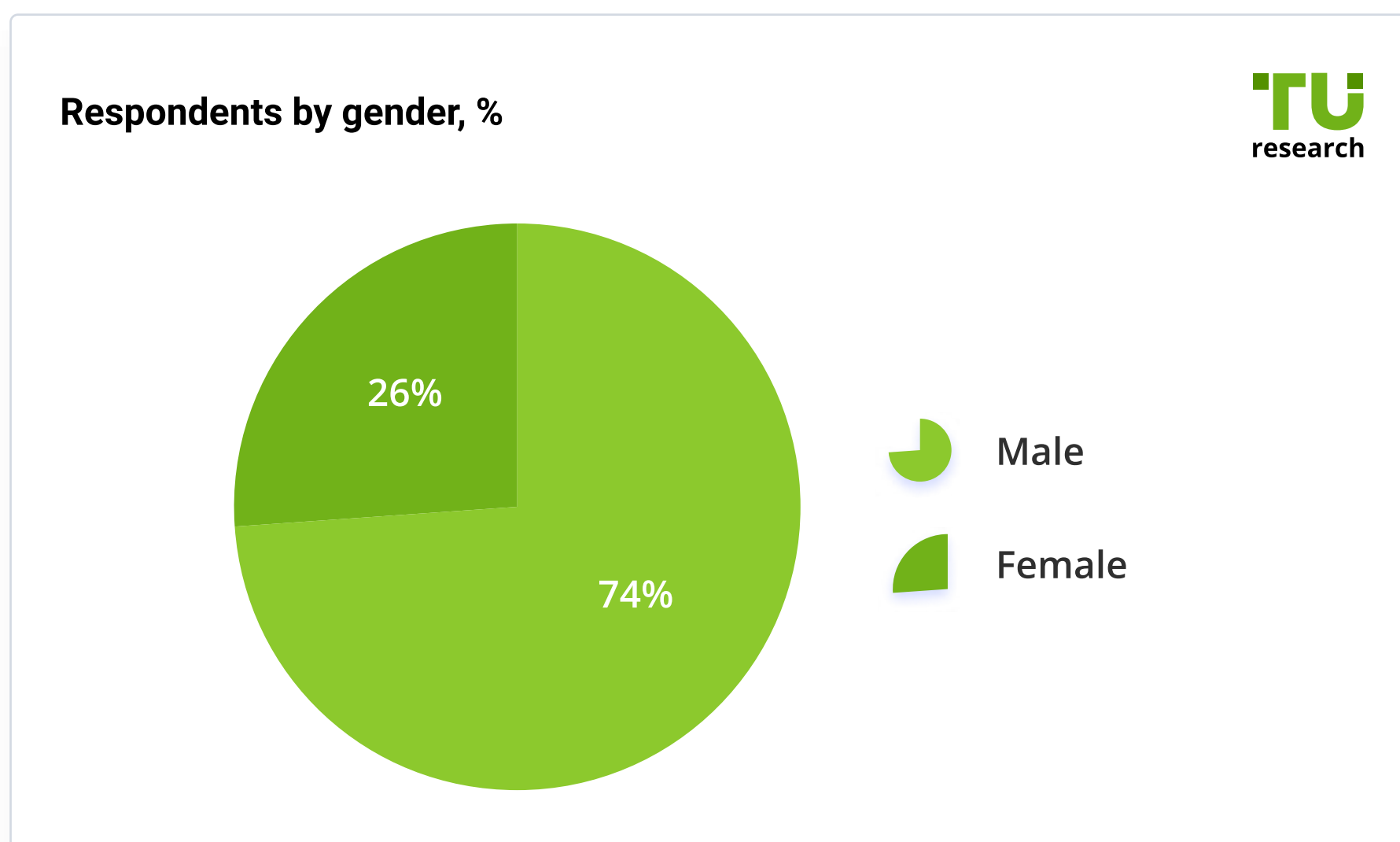
Results of the research by TU Research Department (*)

To answer the question of which strategies the most successful traders use the most, the team of TU analysts surveyed 2,400 traders – members of the TU community. The survey was conducted using the CAWI (Computer Assisted Web Interviewing) method. The non-sampling error of the survey with a confidence level of 95% is no more than 2%.

Successful traders from different countries were offered to fill out a structured questionnaire, sent to them via email. All respondents have shown profitable trading for at least one year.

6.1 Surveyed traders by gender:

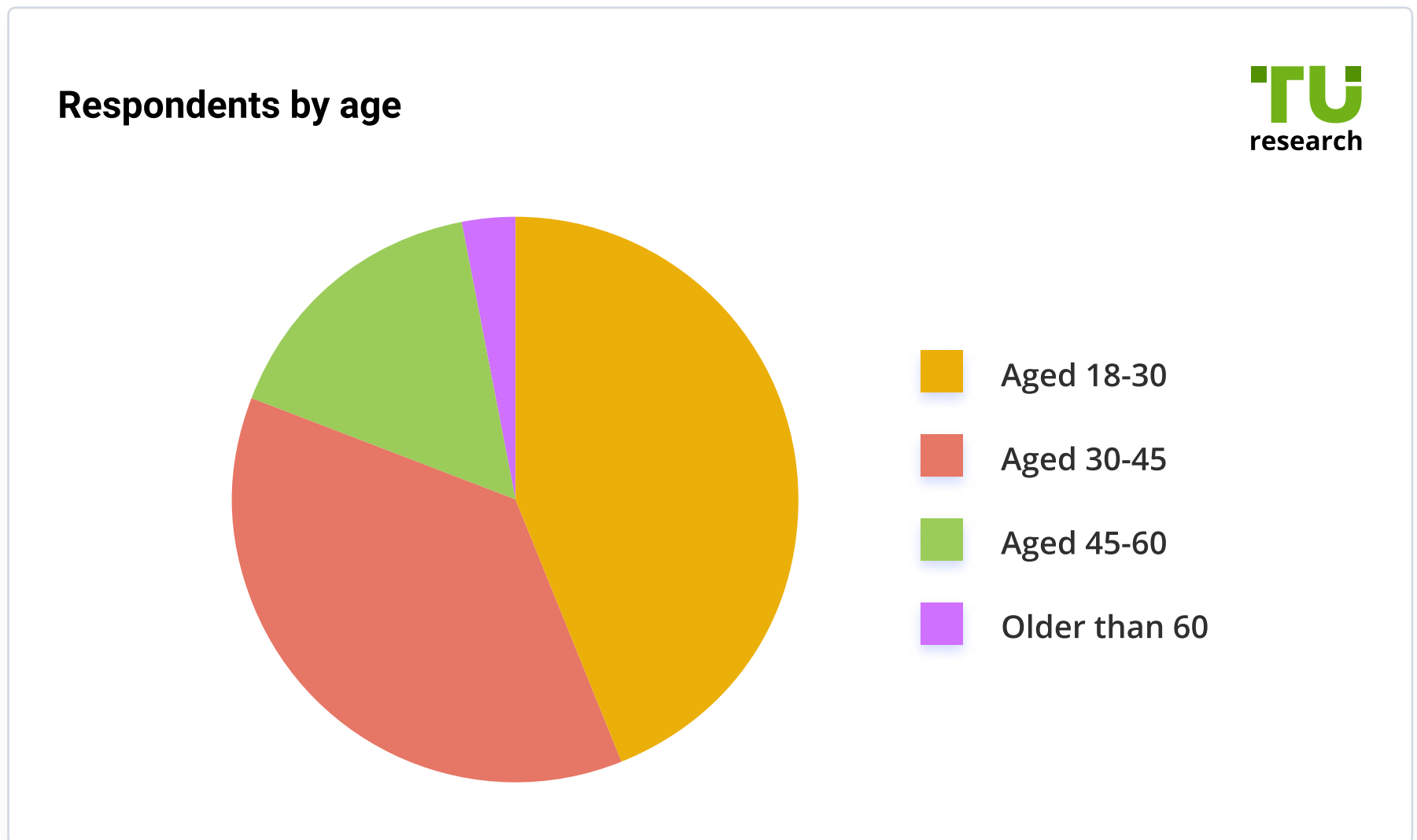
- 74% men;
- 26% women.



Picture 6.1 Respondents by gender, %

6.2 There are the following age groups in the sample:

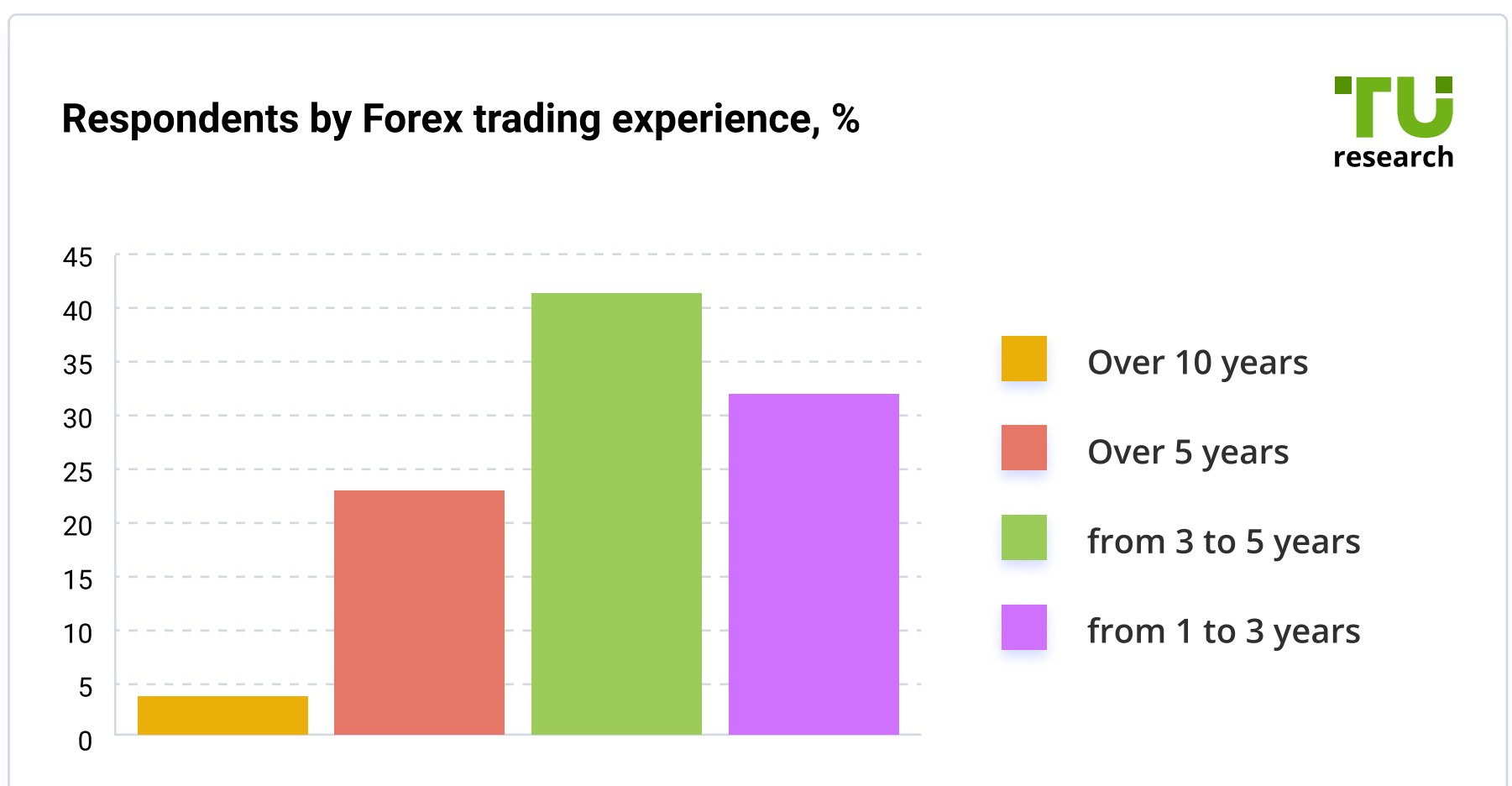
- 44% of the respondents are aged 18-30;
- 37% — aged 30-45;
- 16% — aged 45-60;
- 3% of the respondents are older than 60.



Picture 6.2 Respondents by age

6.3 In terms of their trading experience, the composition of the respondents was as follows:

- 4% of the respondents have been trading on Forex for over 10 years;
- 23% — more than 5 years;
- 41% — from 3 to 5 years;
- 32% — from 1 to 3 years.



Picture 6.3 Respondents by Forex trading experience, %

6.4 In terms of the average monthly deposit growth for the last 12 months the results of the surveyed traders are as follows:

- 3% of traders — up to 15%;
- 16% of traders — up to 10%;
- 32% of traders — up to 5%;
- 30% of traders — up to 3%;
- 19% of traders — up to 1%.



Picture 6.4 Average monthly return rate of successful traders, %

6.5 The responses of respondents regarding the trading strategy they use in terms of the period of holding open positions are as follows:

- 27% of traders prefer intraday trading (Day Trading);
- 28% of traders follow position trading strategy;
- 31% of traders use swing trading;
- 14% of traders are scalpers.

Gender, Age	Male		Female		Aged 18-30		Aged 30-45		Aged 45-60		Older than 60	
	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%
Day Trading	497	28%	151	24%	317	30%	222	25%	92	24%	17	23%
Position Trading	480	27%	192	31%	296	28%	231	26%	119	31%	26	36%
Swing Trading	515	29%	229	37%	337	32%	240	27%	142	37%	25	35%
Scalping	284	16%	52	8%	106	10%	195	22%	31	8%	4	6%
Total	1,776	100%	624	100%	1,056	100%	888	100%	384	100%	72	100%

Table 1.1

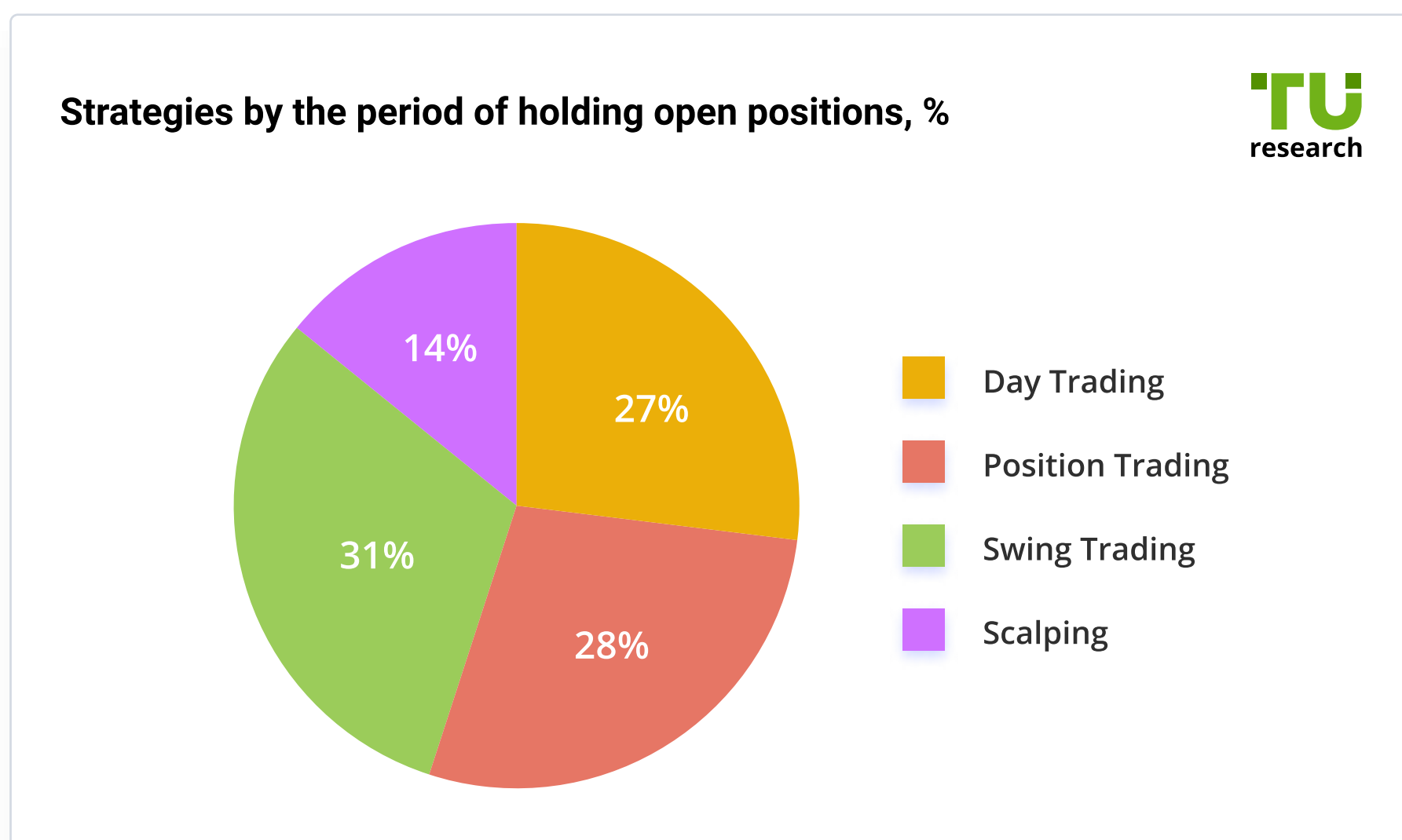
Distribution of trading strategies by the period of holding open positions depending on the gender and age.

Trading experience	Over 10 years of experience		Over 5 years of experience		3-5 years of experience		1-3 years of experience	
	Votes	%	Votes	%	Votes	%	Votes	%
Day Trading	25	26%	138	25%	285	29%	200	26%
Position Trading	23	24%	138	25%	266	27%	245	32%
Swing Trading	27	28%	160	29%	295	30%	262	34%
Scalping	21	22%	116	21%	138	14%	61	8%
Total	96	100%	552	100%	984	100%	768	100%

Table 1.2 Distribution of trading strategies by the period of holding open positions depending on trading experience.

Capital increase	Up to 15%		Up to 10%		Up to 5%		Up to 3%		Up to 1%	
	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%
Day Trading	21	30%	112	29%	214	28%	173	24%	128	28%
Position Trading	16	22%	92	24%	231	30%	202	28%	132	29%
Swing Trading	19	26%	111	29%	253	33%	223	31%	137	30%
Scalping	16	22%	69	18%	70	9%	122	17%	59	13%
Total	72	100%	384	100%	768	100%	720	100%	456	100%

Table 1.3 Distribution of trading strategies by the period of holding open positions depending on the monthly capital increase



Picture 6.5 Strategies by the period of holding open positions, %



The answers to the question about the method of analysis the surveyed traders use were as follows:

- 39% of traders use technical analysis in their strategies;
- 33% of traders use fundamental analysis in their strategies;
- 28% of traders prefer to use a combined method of analysis.

Gender, Age	Male		Female		Aged 18-30		Aged 30-45		Aged 45-60		Older than 60	
	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%
Technical	675	38%	261	42%	444	42%	337	38%	134	35%	21	29%
Fundamental	568	32%	224	36%	326	31%	311	35%	131	34%	24	33%
Combined	533	30%	139	22%	286	27%	240	27%	119	31%	27	38%
Total	1,776	100%	624	100%	1,056	100%	888	100%	384	100%	72	100%

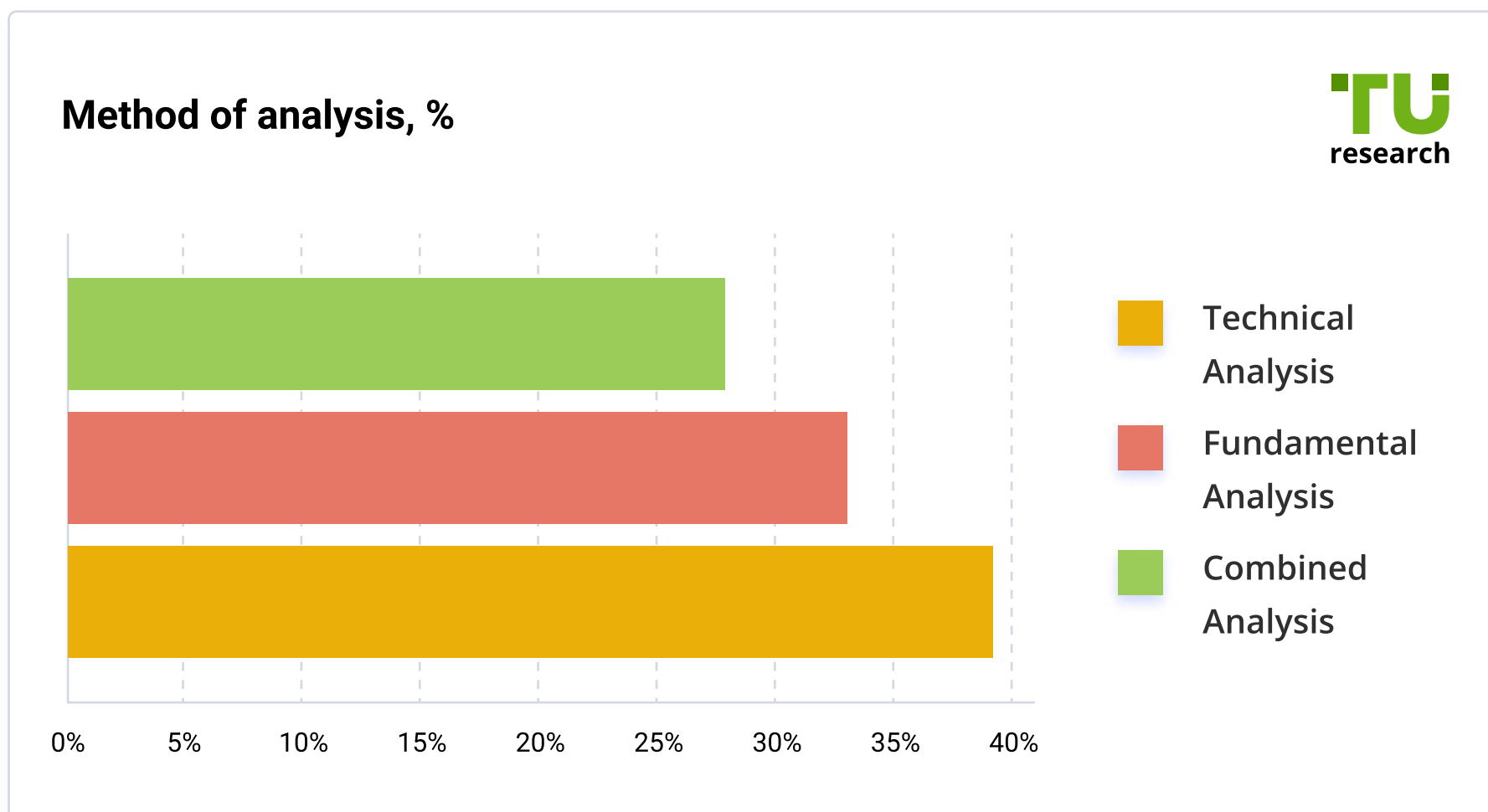
Table 2.1. Distribution of traders' votes by the method of analysis they use depending on the gender and age.

Trading experience	Over 10 years of experience		Over 5 years of experience		3-5 years of experience		1-3 years of experience	
	Votes	%	Votes	%	Votes	%	Votes	%
Technical	33	34%	215	39%	404	41%	284	37%
Fundamental	30	32%	182	33%	365	37%	215	28%
Combined	33	34%	155	28%	215	22%	269	35%
Total	96	100%	552	100%	984	100%	768	100%

Table 2.2. Distribution of traders' votes by the method of analysis they use depending on the Forex trading experience.

Capital increase	Up to 15%		Up to 10%		Up to 5%		Up to 3%		Up to 1%	
	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%
Technical	26	36%	131	34%	315	41%	259	36%	205	45%
Fundamental	24	34%	134	35%	208	27%	253	35%	173	38%
Combined	22	30%	119	31%	245	32%	208	29%	78	30%
Total	72	100%	384	100%	768	100%	720	100%	456	100%

Table 2.3. Distribution of traders' votes by the method of analysis they use depending on the monthly capital increase.



Picture 6.6. Applied method of analysis, %



6.7 In regards to following the trend in trading strategies, the opinions of the respondents are as follows:

- 54% of traders use the trendline strategies;
- 31% of traders use the sideways trend trading;
- 15% of traders prefer counter trend strategies.

Gender, Age	Male		Female		Aged 18-30		Aged 30-45		Aged 45-60		Older than 60	
	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%
Trendline	995	56%	301	48%	528	50%	497	56%	227	59%	44	61%
Counter trend	248	14%	112	18%	138	13%	151	17%	58	15%	13	18%
Sideways trend	533	30%	211	34%	390	37%	240	27%	99	26%	15	21%
Total	1,776	100%	624	100%	1,056	100%	888	100%	384	100%	72	100%

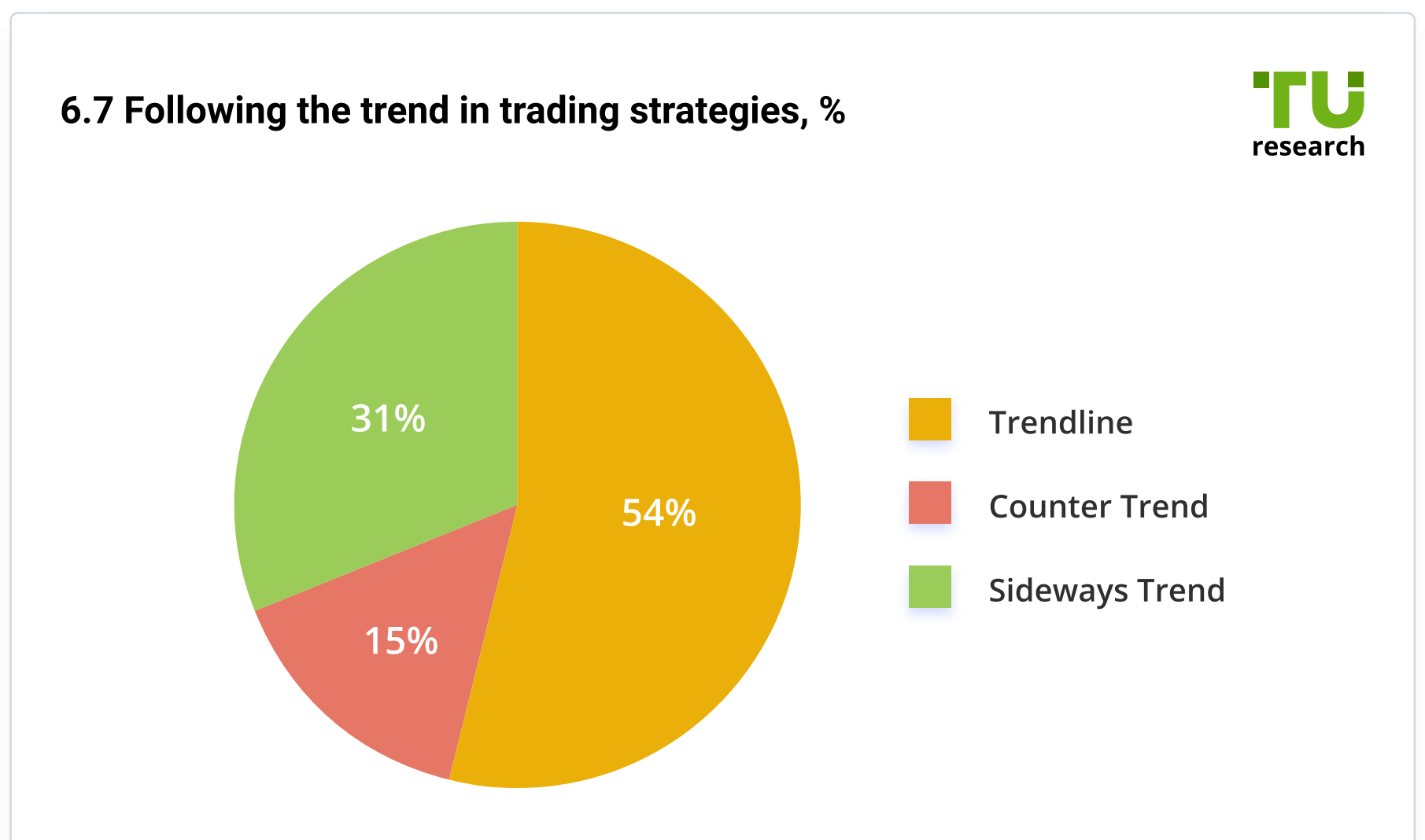
Table 3.1. Distribution of strategies in the context of following the trend depending on the gender and age.

Trading experience	Over 10 years of experience		Over 5 years of experience		3-5 years of experience		1-3 years of experience	
	Votes	%	Votes	%	Votes	%	Votes	%
Trendline	54	56%	331	60%	443	45%	468	61%
Counter trend	19	20%	94	17%	147	15%	100	13%
Sideways trend	23	24%	127	23%	394	40%	200	26%
Total	96	100%	552	100%	984	100%	768	100%

Table 3.2. Distribution of strategies in the context of following the trend depending on the trading experience.







Capital increase	Up to 15%		Up to 10%		Up to 5%		Up to 3%		Up to 1%	
	Votes	%	Votes	%	Votes	%	Votes	%	Votes	%
Trendline	42	58%	242	63%	399	52%	367	51%	246	54%
Counter trend	16	22%	50	13%	92	12%	129	18%	73	16%
Sideways trend	14	20%	92	24%	277	36%	224	31%	137	30%
Total	72	100%	384	100%	768	100%	720	100%	456	100%

Table 3.3. Distribution of strategies in the context of following the trend depending on the monthly capital increase.



Picture 6.7 Following the trend in trading strategies, %

(*) Survey criteria:

-  Survey audience: successful Forex traders of the TU community aged 18 and older trading with the brokers from the TOP 10 list of TU.
-  The sample is representative in terms of age, gender and Forex trading experience.
-  Sample number: 2,400 respondents.
-  Survey method: CAWI (Computer Assisted Web Interviewing).
-  Non-sampling error of the study with a confidence level 0.95: no more than 2%.
-  Period of survey: May 25-26, 2021.

Findings

Based on the results of the research, the TU analysts have reached the following conclusions:

- ① Nearly equal number of traders use swing trading, position trading and day trading, although the number of traders who prefer swing trading strategy is prevalent. The least number of traders use scalping.
- ② The majority of the surveyed traders use strategies based on technical analysis (39% of respondents).
- ③ The vast majority of traders use trendline strategies.
- ④ Novice traders use scalping less than experienced traders.
- ⑤ The results obtained in the course of the research testify that the traders with the highest average deposit increase in the past 12 months most frequently use day trading.





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