



HowToTrade

THE DAY TRADING STRATEGY [PDF]

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Day Trading Strategy

Day trading is the dream job for many people, and rightfully so. If you can succeed as a day trader, you'll be able to get financial freedom and the ability to control your time. Moreover, it can give you the adrenaline rush and excitement many other professions simply cannot provide.

What is Day Trading?

Day trading is a popular short-term trading style where traders open and close a large number of trades on the same day, intending to profit from small price movements. Typically, day traders focus on several assets to trade on during the day, getting in and out of positions repeatedly and trying to take advantage of small price changes. Finally, they close all positions by the end of the day and finish the day with either a profit or a loss.

Unlike swing and position trading, day traders do not hold their trades overnight. As a result, they reduce risks associated with holding forex positions overnight.

Day trading forex is suited for forex traders with enough time throughout the day to analyze, execute, and monitor their trade. It could be a full-time or part-time job that might be extremely rewarding and, at the same time, challenging and demanding.

5 Types of Day Trading Strategies

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Day traders looking to maximize intraday profits often use one or more of the following forex day trading strategies.

1. Trend Trading

Trend trading is a strategy that looks at longer time frame charts to determine an overall trend. It is usually considered a mid to long-term forex trading strategy, but in reality, it can cover any timeframe, depending on how long the trend lasts, and can, therefore, be used by day traders as well.

Generally, trend trading is based on the idea that markets have an element of predictability. So, by analyzing past performance and historical trends, a trader can predict what could happen in the future.

When the price moves in one overall direction, such as up or down, it is called a trend. Trend traders enter a long position when a currency pair is trending upward. An uptrend is characterized by higher swing highs. On the other hand, trend traders may opt to enter a short-selling position when an asset is trending lower. A downtrend is characterized by lower-swing lows and lower-swing highs. Here's what trend trading looks like on a 5-Min GBP/USD price chart:



2. Countertrend Trading

Countertrend day trading is a strategy in which traders attempt to trade against the current trend. The idea here is to find the end of a trend and get in early when the trend reverses. For that matter, they often use [various chart patterns](#) to determine whether a reversal is likely to occur.

Countertrend trading refers to the opportunity to take advantage of a trend that reverses or swings in a new direction. It is generally a medium-term strategy in which positions are held between several days and weeks, although it can also be used as a day trading technique.

While this strategy is a little riskier, it can have considerable rewards in the long run.

Here's an example of counter-trend trading:



As you can see in the GBP/USD 5-Min chart above, as the downtrend reaches its support level, and the currency pair price forms a double bottom pattern – the price then reverses, and a new trend begins. That is what countertrend trading is all about – trying to make profits by trading against the current trend.

3. Range Trading

Range trading, sometimes called channel trading, is a day trading strategy that starts with understanding and analyzing the recent price action. In other words, a trader must identify an area where the price consolidates and trades inside a predefined range. A trader will inspect chart patterns and support and resistance levels to identify typical highs and lows during the day while keeping an eye on the difference between these point.



For example, if the price has been rising off a support level or falling off a resistance level several times, then a trader might choose to buy or sell based on their perception of the market's direction. This is known as trading in a range, where each time the price hits a high, it falls back to the low. And vice versa. A day trader using this strategy is looking to buy the currency pair around the low price (support level) and sell at the high price (resistance level).

4. Breakout Trading

Breakout trading is when a trader looks at the range a pair has made during certain hours of the day or on a higher timeframe and then places trades on either side, hoping to catch a breakout in either direction.

While many approaches encourage trade execution in response to current price action, breakout trading promotes market entry by anticipating an upcoming move. This is especially effective when a pair has a tight range for a long period, as it generally indicates that the pair is about to make a move. The longer the range, the greater the breakout.

The goal is to be set up so that you are ready to catch the wave when the move takes place! It is an exciting trading method requiring you to pay attention and be ready to enter and exit at the right time and levels.



5. News Trading

News trading is one of the most traditional, short-term-focused trading strategies used by day traders. News traders pay less attention to charts and technical analysis; instead, they wait for information to be released that they believe will drive prices in the forex market in one direction.

This information could, for example, be a report releasing economic data on an [economic calendar](#), such as unemployment, interest rates, non-farm payrolls, inflation, or simply breaking news and tweets.

To master news trading, day traders tend to have a good understanding of the forex markets in which they're trading and know how to react to each economic event. As such, they must understand what affects the prices of currency pairs, how to read a forex economic calendar, and how to trade the news in the forex market.

Is Day Trading Worth It?

Frankly, day trading is challenging, and the chances to succeed are not that high. Statistically, eight or nine out of ten traders usually fail to become successful day traders.

The reason is that day trading is a very competitive field, and not everyone can deal with this type of working environment. Also, many people start day trading with a lack of knowledge about the economy, financial markets, and technical tools like trading platforms, margins, and leverage. Unrealistic expectations are another major obstacle for many newcomers.

You cannot become a consistently profitable trader in one day, week, or month. It takes time to learn the markets, the financial jargon, and the small tricks (like learning MT4 hotkeys) that make an average trader an excellent one. Finally, trading psychology is the biggest obstacle to overcome in the trading arena. Much like tennis, boxing, or any other individual sport – in trading, your biggest rival is yourself.

As such, to become a successful day trader, you need to put in months and even years of hard work to understand how financial markets work, develop a successful strategy, learn how to control your emotions, and execute your [trading plan](#) consistently. In trading, knowledge is a strength. Those who consistently learn and adapt to new developments will also take the lead. Therefore, you better read [trading books](#), watch [trading movies](#), take online forex trading courses, and regularly visit [forex forums](#). Of course, it does not guarantee success, but it can certainly set you in the right direction. Furthermore, if you decide to become a professional day trader, you must [build a home trading computer setup](#).

On the other side of the coin, when you think about it, the chances to succeed as a day trader are still high compared to other professions. I mean, the chances of becoming an astronaut, athlete, or even a doctor, for example, are not very high as well, right? Only a few traders make money consistently from day trade activities. But when they do, it's worth it. Day trading is an exciting profession that can be done anywhere and on your terms.

What's more, trading is a scalable business, meaning there is no limit to how much money you can make. If you are a good trader, you will be able to increase trading volumes and trade with more capital. Ultimately, you might be able to get the financial freedom you are looking for, which is something that simply cannot happen in many other professions.

And, at last, unlike other professions, starting a day trading career has never been easier. Essentially, you can start your day trading venture as a retail or prop trader. Either way, starting your own day trading business is extremely simple nowadays.

Becoming a Day Trader – Pros and Cons

If you still have doubts, let's see if you have what are the pros and cons of becoming a forex day trader:

Pros

- No overnight risk, which reduces the stress and may assist in developing a consistently profitable trading method
- The possibility to work from any place in the world and on your own terms
- You are your own boss
- Day trading is an exciting job that will assist you in discovering your personality and characteristics.
- It is a scalable business, which means you can grow your wealth exponentially in case you are a good trader.
- Formal education is not necessary. You can educate yourself through online courses and educational material such as books, podcasts, and movies.
- Nowadays, there's no need to invest your capital in starting day trading. Instead, you can start a day trading career without any capital via an online prop trading firm like HowToTrade

Cons

- There's no basic salary. You need to build your own income
- It's a competitive and unfriendly environment
- It requires you to dedicate a lot of time and effort in order to succeed
- It is a stressful job
- Failure is a big part of being a successful day trader. Over time, it can be frustrating and lead to mental health problems.