MACD Trend Following Strategy

The Best Trend Following Strategy you will find

Trading Strategy Guides.com

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If you're searching for that one trend following strategy that will turn your trading around, then today's your lucky day. The MACD Trend Following Strategy as the name suggests is a successful trend following system and this strategy is similar to our trend following strategy we have developed a while back. One of the most important features of trend following strategies is that even if you're wrong on the trade, usually you can limit your losses because ultimately the market will reverse and resume the trend. But, at the same time, which is even more important, it maximize the potential profit as well.

Our team here at Trading Strategy Guides.com only strives to provide you with the best trading strategies.

The MACD Trend Following Strategy works best on the higher time frames like the 4h chart or the daily chart. So if you're a swing trader this is the perfect strategy for you. We have developed this trend following strategy because we felt the need to show the world how to properly use the MACD indicator and to show how accurate this tool can be in forecasting market turning points.

Now, if you're a day trader and don't like holding positions overnight, don't you worry we've got your back. Our favorite day trading strategy Day Trading Price Action- Simple Price Action Strategy has attracted a lot of interest from the trading community.

Let's move forward now to the incredible MACD strategy that we have developed.

What is the MACD indicator?

The beauty of the MACD Trend Following Strategy is that it only requires the use of one simple tool: the MACD indicator, which by the way is among the most popular Forex indicator.

Without further ado, let's move straight to the point and:

- Define what is the MACD indicator;
- How the MACD indicator works;
- What MACD indicator setting to use;

So, what is the **MACD indicator**?

The MACD is one of the most powerful trend following and momentum indicator. The MACD is a commonly used technical indicator and the acronym stands for **M**oving **A**verage **C**onvergence **D**ivergence.

Put it simple, a trend following indicator helps you to determine the overall direction of the market, be it up (bullish) or down (bearish). While a momentum indicator seeks to determine the speed of the trend. Put them together and you have the perfect combination for a trend following strategy.

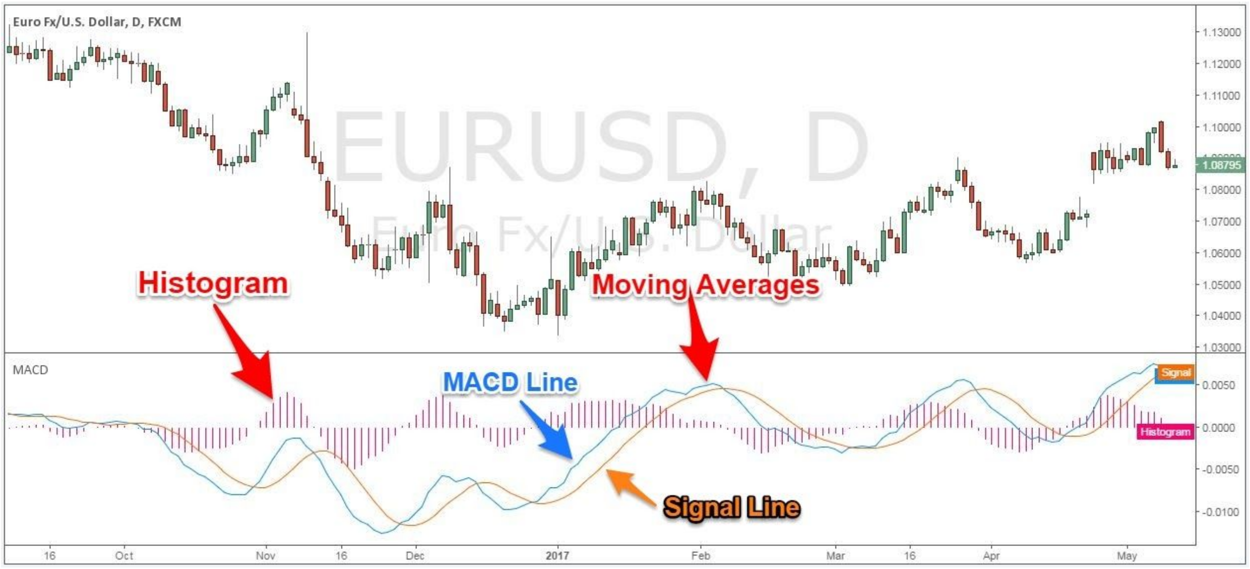
A picture is worth a thousand words, so here is how the classical MACD indicator looks like on a chart:

MACD Indicator

The MACD can provide earlier indication that an **OLD** trend is about to end and a **NEW** trend is about to start. The MACD manipulates its moving averages in a rather clever way and can signal changes in trend much closer to when they actually occur. Please have a look at the chart example below to see the power of the MACD indicator.

So, how does it work?

Well, the MACD’s moving averages and histograms (see chart below) are derived from the price chart. They are calculated using a formula which adds greater weight to the most recent price data.



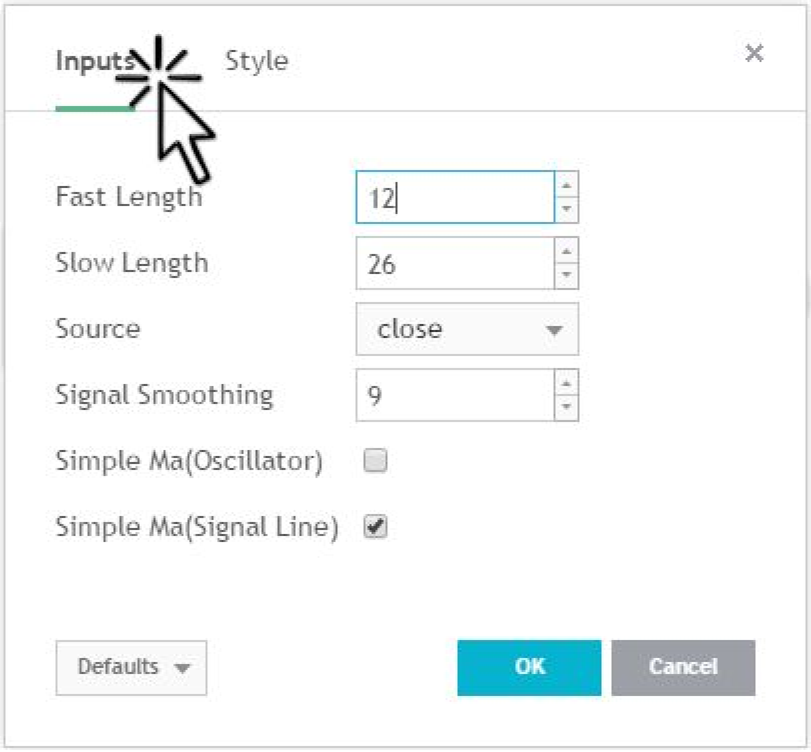
Remember? Price is king!

Our popular [Price Action Pin Bar Trading Strategy] is a great introduction to what a pure price action strategy should look like and it can be also used in combination with the MACD Trend Following Strategy for higher success rate.

What about the indicator setting?

The preferred settings for the MACD indicator are the default settings.

See below:



MACD Settings

Let's move forward to the most important part of this article, the buy/sell rules of the MACD Trend Following Strategy.

Now, before we go any further, please take a piece of paper and a pen and note down the rules.

Let's get started…..

MACD Trend Following Strategy

(Rules for A Sell Trade)

Step #1: Wait for the MACD lines to develop a higher high followed by a lower high swing point.

This is an unorthodox approach to technical analysis, but we at **Trading Strategy Guides.com** are different and we don't mind doing uncomfortable things if that's what it takes to succeed in this business.

First, let's visualize how an authentic swing point really looks on the MACD indicator:

The first rule of thumb to recognize a swing high on the MACD indicator is to look at the price chart if the respective currency pair is doing a swing high the same as the MACD indicator does. A higher high is the highest swing price point on a chart and must be higher than all previous swing high points. While a lower high happens when the swing point is lower than the previous swing high point.

This brings us to the next rule of the MACD Trend Following Strategy.

Step #2: Connect the MACD line swing points that you have identified in Step #1 with a trendline

This step is quite simple, right?

See below, how you chart should look like after you correctly identified the swing points on the MACD indicator and connected them through a trendline.

At this point, we really ignored the histogram because much of the information contained by the histogram is already showing up by the moving averages. Look at the price action now and compare it to our MACD trendline we drew early. We can clearly notice that the MACD contains the price action much better and reflects the trend much clear.

But, at this point, we're still not done with the MACD indicator, which brings us to the critical part of our MACD Trend Following Strategy.

Step #3: Wait for the MACD line to break above the trendline. (Entry at the market price as soon as the MACD line breaks above)

When the MACD line (the blue line) crosses the signal line (the orange line) it's an early signal that a bullish trend might start. However, if trading would be that easy we would all be millionaires, right? And that's the reason why our MACD Trend Following Strategy is so unique. We're not only waiting for the MACD moving averages to cross over but we also have our other criteria for the price action to break aka the trend line we drew early.

This is a clever way to filter out the false signals, but you have to be equipped with the right mindset and have patience until all the piece of the puzzle come together. If you were to trade just based on the MACD crossover over time you'll lose money because that's not a reliable strategy. But if you use the MACD indicator along with other criterias such what this strategy tells you to do, you will find great trade entries on a consistent basis.

Step #4: Use Protective Stop Loss Order. (Place the SL below the most recent swing low)

Now, that you already know how to enter a trade at this point you have to learn how to manage risk and where to place the SL. After all, a trader is basically a risk manager.

You want to place your stop loss below the most recent low, like in the figure below. But make sure you add a buffer of 5-10 pips away from the low, to protect yourself from possible false breakouts.

Did you notice?

The MACD Trend Following Strategy triggered the buy signal right at the start of a new trend and what is most important the timing is more than perfection. We bought EUR/USD the same day the bullish trend started.

Now, what this has to do with the SL?

Basically, a good entry price means a smaller stop loss and ultimately it means you'll lose a lot less comparing it with the profit potential, so a positive risk to reward ratio.

Step #5: Take Profit when the MACD crossover happens in the opposite direction of our entry

Knowing when to take profit is as important as knowing when to enter a trade. However, we want to make sure we don't use the same trading technique as for our entry order. When the MACD line (the blue line) crosses the signal line (the orange line) we want to close the position and take full profits.

Before taking profits, it's important to wait for the candle close – either the 4h or the daily candle – depending on the time frame you trade so you make sure the MACD crossover actually happens.

Note The above was an example of a buy trade using the MACD Trend Following Strategy. Use the exact same rules – but in reverse – for a sell trade. In the figure below you can see an actual SELL trade example using the MACD Trend Following Strategy.**

Take a look:

We’ve applied the same **Step #1** and **Step#2** to help us draw the trendline and followed **Step #3** to trigger our trade.

Conclusion:

The **MACD Trend Following Strategy** is a very simple trend following strategy and yet a very profitable strategy at the same time. As the saying goes, “The trend is your friend” and no matter if you’re just starting as a Forex trader or you’re already an established trader life is much easier when trading in the direction of the line of least resistance rather than fighting the trend which is a loser's game.

The success behind the **MACD Trend Following Strategy** is derived from one simple principle: **momentum precedes price**. Our team at **Trading Strategy Guides.com** doesn’t claim to be perfect, but we have a solid understanding of how the market works. For those of you who are not fans of higher time frames and swing trading, we recommend the “Day Trading Price Action- Simple Price Action Strategy” which can be more suitable for your trading style.

Below Are Great Examples of this Trading Strategy:

Example #1: GBP/USD Daily Chart. Long Trade Example

Example #2: AUD/USD Daily Chart. Short Trade Example

Example #3: AUD/USD Daily Chart. Short Trade Example

Thank you for reading!

Please be sure to check out or blog: http://www.tradingstrategyguides.com/blog/ for other great trading strategies for you to learn.

We also have developed indicators that come from our most popular trading strategies. You can Learn more about there by visiting: https://info.tradingstrategyguides.com/pricing-page

Have a great day!

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