How to Trade with Pivot Points the right way

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How to Trade with Pivot Points the right way

You need to learn **how to trade with Pivot Points** the right way if you want to take full advantage of the power behind the pivot points. Trading with pivot points is the ultimate support and resistance strategy because it will take away the subjectivity involved with manually plotting support and resistance levels.

Our team at **Trading Strategy Guides** will outline why using pivot points is so important!

Pivot Points are derived based on the floor trading guys that used to trade the market in the trading pit. It's important to know this fact to appreciate the value pivot points can bring to your trading.

The floor traders tried to frame the day based on the previous day's trade so they can have a framework or a boundary to analyze the market. Because of this reason pivot points are universal levels to trade off of them.

Pivot points are also called the floor pivot points!

The professional traders and the algorithms that you see in the market use some sort of a pivot point strategy. In the old days, this was a secret trading strategy that floor traders used to daytrade the market for quick profits.

Now …

Moving forward, we're going to give you our introduction to pivot points; show you how to calculate the pivot points and last but not least give you a couple of example of how to trade with pivot points.

What are Pivot Points?

Pivot Points are significant support and resistance levels that can be used to determine potential trades. The pivot points come as a technical analysis indicator calculated using a financial instrument's high, low and close value.

The pivot point's parameters are usually taken from the previous day's trading range. This means you'll have to use the previous day's range for today's pivot points.

Or, last week's range if you want to calculate weekly pivot points or, last month's range for monthly pivot points and so on.

Pivot Points are automatically plotted on your chart so you won't need to waste any time with calculating them. However, if you really want to have an intimate relationship with them here is how to calculate pivot points:

Pivot Point (P) = (High + Low + Close)/3

The main pivot point (PP) is the central pivots based on which all other pivot levels are calculated. The math behind the central Pivot Points is quite simple; we add the yesterday's high, low and close and then divide that by 3, which is a simple average of the high, low and close.

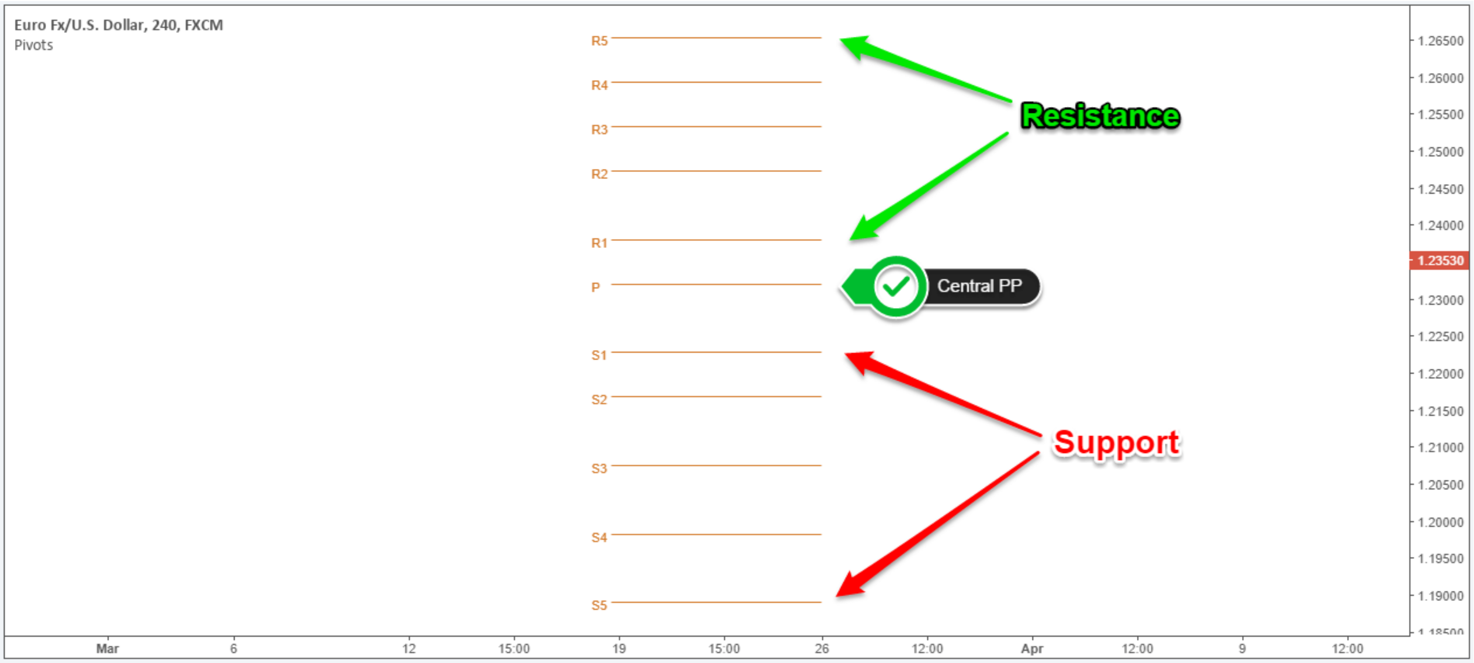
And this is the math behind the support and resistance pivots:

- **Support 1 (S1) = (P x 2) – High**
- **Support 2 (S2) = P – (High – Low)**
- **Resistance 1 (R1) = (P x 2) – Low**

- **Resistance 2 (R2) = P + (High – Low)**

The third support and resistance levels are calculated as:

- **Resistance 3 (R3) = H + 2 * (PP – L)**
- **Support 3 (S3) = L – 2 * (H – PP)**



The central PP is just one of the main support/resistance levels because the pivot points indicator will also plot 10 more distinctive layers of support and resistance levels.

Usually, if we're trading above the central pivot point is a signal of a bullish trend while if the price is trading below the central pivot point, it is considered as a bearish signal.

Most modern trading software or platforms have the pivot points indicator their library, so you don’t have to calculate these levels on your own manually.

Without further ado, let’s see how you can efficiently trade following the best pivot point strategy PDF.

Best Pivot Point Strategy PDF

Pivot Points are one of our favorite trade setups, and we’re going to show you what is the best method to trade pivot points through our best pivot point strategy PDF.

The **pivot point strategy** doesn’t require significant trading capital, and it can yield positive results right away.

More often than not retail traders use pivot points the wrong way. They usually sell to quickly when the first pivot point resistance level is reached and buy too soon when the first pivot point support level is reached.

This is the wrong way to trade because you’re trading against the prevailing momentum which is one of the reasons why retail traders lose money.

Now, before we go any further, we always recommend taking a piece of paper and a pen and note down the rules of the trading strategy. For this article, we’re going to look at the sell side.

Step #1: Trade only at the London open or the 8:00 AM GMT

The best time to trade the pivot points strategy is around the London session open. However, it can be used for the New York session open with the same rate of success.

We trade the London open because that’s the time big banks are opening for business, and the smart money operates in the market.

Note* We’re going to use the 15-minutes time frame and trade based off of the daily pivot points.

We've highlighted on the chart with a vertical line the London open as well as the beginning of a new trading day.

Step #2: Sell at the market if after the first 15-Minutes we're trading below the Central Pivot Point

If after the first 15-minutes into the London trading session we're trading below the central pivot point then we sell at the market.

The trade logic behind this simple rule is that once the market is displaying a disposition to trade below the central pivot point, the same as with the law of motion, we assume that the bearish momentum will continue to persist.

If the price of any currency pair is trading below the central pivot point, then the bias for the day is bearish and we're only looking for selling opportunities.

Important Note * If after the first 15-minutes into the London session we're too close to the first support level we better skip this trade opportunity because the profit margin has tightened.

The next important thing we need to establish for our day trading strategy is where to place our protective stop loss.

See below …

Step #3: Hide your Protective Stop Loss 5-10 pips above the Central Pivot

It's essential to have a good strategy for your stop loss as much as to have an entry strategy.

If the price breaks above the central pivot point then the sentiment has shifted on the bullish side and it's wise to get out of any short trades. However, in order to accommodate any false breakouts, we also use a buffer of about 5-10 pips above the central pivot point for our SL.

Last but not least, we also need to define a take profit level for our pivot point strategy which brings us to the last step.

See below …

Step #4: Take Partial Profit #1 at Support 1; Take Partial Profit #2 at Support 2.

We employ a multiple take profit strategy because we want to make sure we give the market the chance to reach for deeper support levels.

The first pivot point support level is the first trouble area and we want to bank some of the profits here. We also advice moving your protective stop loss to break even after you took profits.

At the second pivot point support level is where we want to liquidate our entire position and be square for the day.

Note the above was an example of a SELL trade using the best pivot point strategy PDF. Use the same rules for a BUY trade – but in reverse. In the figure below, you can see an actual BUY trade example.**

Conclusion

Please Share this Trading Strategy Below and keep it for your own personal use! Thanks Traders!

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STEP #3
Hide your Protective Stop Loss 5-10 pips above the Central Pivot

STEP #4
Take Partial #1 at Support; Take Partial Profit #2 at Support 2

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