Swing Trader, Trend Trader or Both

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Swing Trader, Trend Trader or Both

Financial markets are enormously complex, but most trading strategies tend to fall into one of two categories: trend following or swing trading.

- Each strategy has advantages and disadvantages, as well as specific requirements that investors must follow consistently in order to avoid errors.

- However, many investors randomly apply these contrary strategies without understanding how that can undermine profitability. Identify whether you are a trend trader or a swing trader in order to hone your strategy correctly.

Swing Trader, Trend Trader or Both

In theory:

- The trend trader takes risk in an uptrend or downtrend, staying positioned until the trend changes

- The swing trader works within the boundaries of range bound markets, buying at support and selling at resistance

Swing trading tends to work best for shorter time frames while trend-following strategies can be applied for months. However, the lines have blurred in recent decades, due to the availability of real time charting for all time intervals

Swing Trader, Trend Trader or Both

- New and intermediate traders should choose one of these disciplines early in their market educations and stick with it until mastered

- Experienced traders can mix and match these strategies at will, often building highly effective hybrids that require strong discipline but produce excellent bottom line results

- This dual effort works best for those with strong multitasking skills who can contain each strategy within its proper boundaries while adjusting risk management to address unique characteristics of hybrid strategies

- For example, typical long-side swing trades require fast exits at resistance, like old highs, while trend-followers sit on their hands and allow securities to test and break those levels

- A hybrid approach might be to sell half the position at resistance, keeping the other half for a breakout

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Still confused?

80-20 Rule (or Pareto Analysis)—Markets trend about 20% of the time and spend the other 80% grinding through trading ranges, pullbacks and other counter trend action that tests boundaries. Price rate of change rises in trends, attracting the trend trader and falls in trading ranges, attracting the swing trader

The Big Picture—Trend traders watch broad economic, political and environmental issues that might impact position selection or risk management. Swing traders safely ignore these macro influences, focusing squarely on short-term price action

Trade Frequency—Swing traders execute more positions but hold them for shorter time frames while trend traders execute fewer positions but hold them for longer time frames

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Position Selection—Trend traders own or short sell securities with the strongest uptrends and downtrends while swing traders own or short sell securities sitting at support or resistance levels

Position Size—Swing traders hold larger positions for shorter time frames while trend traders hold smaller positions for longer time frames. Swing traders apply leverage more often than trend traders

Position Timing—Swing traders seek perfect timing because average win or loss will be smaller than for trend traders, who can miss the beginning or end of a trend and still book substantial profits

Entry Strategy—Trend traders enter positions while momentum is strong, or wait for a counter trend to lower risk. Swing traders take risk at support or resistance, fading the barrier by positioning in the opposite direction and placing stops where they're proven wrong

Exit Strategy—Swing traders exit positions when stops are hit or profit targets are reached. Trend traders hold positions until the trend changes, regardless of time frame. They place stops at the price level that signals the trend change

The Bottom Line: Swing traders and trend traders execute market timing strategies that require different skill sets. While experienced players can successfully mix and match these strategies, new and intermediate traders should focus on one approach and stick with it until fully mastered.


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Trend Trade
Trend Trade
Swing Trade
$327.76
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TrueStrengthIndex (8, 8, 3, EXPONENTIAL) 35.0265 23.6649 0
Momentum (12, OHLC4, no) 14.4825 0
MarketForecast 43.4721 94.3911 82.072
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