



Momentum Trading Strategies Quick Guide



The goal of momentum trading is to find markets and time frames that are making strong moves and use that to your advantage to capture profits.

That can be done with a number of different strategies to find the highest probability setups.

In this post we look at exactly what momentum trading is and how you can use it to find high probability trades.

What is Momentum Trading?

When momentum trading you are looking to find markets that have already made a clearly defined move either higher or lower.

For a momentum trade to buy or [go long](#) you would be looking to first identify when price has made a strong push higher.

You would then be looking to make a profit by using this momentum in your favor by buying within the momentum and selling as price rises higher.

See the chart example below; price is making a strong move higher. In this example we could have looked to buy with the strong momentum and make a profit as prices continue to rise.



The best momentum strategies involve finding the markets and time frames where there is a clear short-term trend in place.

Whilst there is always the risk that the trend will bend and reverse, looking to trade with the trend and momentum will often add confluence to your trading setup.

How to Trade Momentum in the Forex Market

One of the best markets to momentum trade is the Forex market. The reason for this is because it is a 24 hour market and can make some large moves on the back of explosive volatility.

Volatility offers a lot of trading opportunities and the potential to find momentum trades.

Another large bonus is that you can be in and out of your positions quickly with very low costs.

When momentum trading in the Forex market you have an abundance of Forex pairs to trade from. Because you want to find the strongest moving markets and time frames you don't want to be stuck watching just one pair or one time frame.

The Forex market allows you to scan and monitor many different pairs and many different time frames from the monthly to the one minute charts.

When using momentum [trading strategies](#) in the Forex markets remember moves can be explosive. You need to practice strict money management controls. Use tight stop loss levels and always make sure you have worked out how much you are prepared to lose before entering each trade.

Short-Term Momentum Trading

Many traders will use momentum trading to find short-term [intraday day trades](#).

This involves looking for trades on smaller time frames such as the five minute or 15 minute time frames.

The reason this can be an incredibly popular way to find momentum trades is because you can enter and exit trades quickly and have your trades closed before you log off your computer.

If trading higher time frames such as the 4 hour or daily charts you will often be holding trades for days on end and then also be faced with costs such as rollover.

Trading the smaller time frames such as the 15 minute charts will also present you with far more trading opportunities over many different markets because the trends are changing far quicker.

Momentum Breakout Strategy

Two of the simplest ways to find momentum trading setups are to look for momentum [breakout trades](#) or use an indicator.

Momentum breakouts occur when price has already formed a strong move either higher or lower. Price will then consolidate and often move into a box formation. When this box breaks out the momentum trader will look to trade in the direction of the momentum and the breakout.

An example chart below shows how this works. Price moved higher before pausing and moving into a box. It then broke out higher and continued on with the momentum.



What is the Best Momentum Indicator?

One of the most popular indicators to find momentum trades is the moving average.

The reason the moving average is so popular is because it can show you when a trend is forming and also when strong momentum is building.

This can be done when using two moving averages together.

Below is a chart that has the 50 EMA (exponential moving average) and 200 EMA attached to it. As the 50 EMA crosses below the 200 EMA we can see price moves into a downtrend.



As the EMA's begin to widen we can see that the trend and momentum get stronger and it becomes a potential market to start looking for momentum trades.

Momentum Trading Setups Examples

Most traders want to get into the market at the best price. This is no different with momentum trading.

A common strategy used to do this is to wait and watch for price to pullback into a supply or demand zone within the momentum.

The first step to doing this is identifying when price is making a strong momentum move. The chart example below highlights this with a strong move lower.

After this, we are looking for a pullback higher so we can find a potential entry. As the example shows below price pulls back into the recent resistance level. This could be a possible entry level to go short with the momentum lower.



Lastly

Momentum trading can be highly profitable when done correctly. Many traders will use the strategies discussed in this post and add their other favorite tools and techniques to find high probability entry points.

These include strategies such as using Japanese Candlesticks, using price action clues to confirm breakouts or their other favorite indicators.

Very lastly, always test any new strategies, systems or indicators on [free demo / virtual charts](#) to make sure you are successful with them before ever risking real money.