

Channel Pullback Profiting

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The Channel is one of the most reliable chart patterns. Its very core is a strong, one-sided trend with parallel support and resistance lines. It is also one of the easily identified patterns, which makes it ideal for beginners. This is the pattern most of your trading profits will come from.

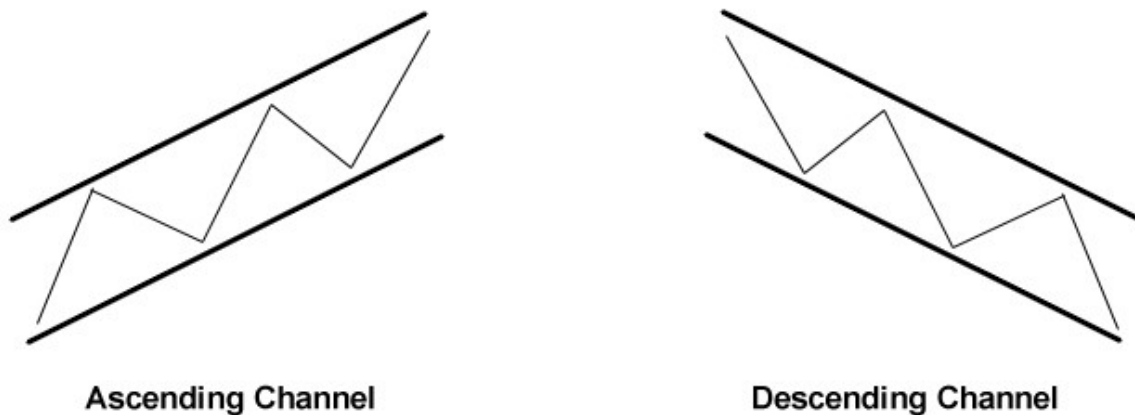


Fig. 1: Illustration of Channels

I will focus only on Ascending and Descending channels when trading. Horizontal channels are trickier to trade and are more often misinterpreted.

I will now teach you the most profitable and least risky method of trading the channel:

The Pullback

This type of entry is designed especially for beginners at trading, as it provides a strong and objective entry point.

The steps to trading it are the following:

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1. After channel is identified, wait for its breakout – price breaking out of one trend line.



Fig. 2: Channel is identified and price breaks its Support trendline

If it is an ascending channel that broke upwards – do not trade it.

2. After a breakout has occurred, wait for a pullback to the trend line that was broken.



Fig. 3: Price pulls back to the Support trendline

3. Wait for trend to be confirmed (Confirmations of pullbacks are described in Chapter 2)



Fig. 4: Short trade is confirmed – candle is below the low of his previous candle

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4. After trade is confirmed, calculate **stop loss** in the following way:

- For short trades: Stop Loss is **1 pip** above the highest high **of 3 last** candles.
- For long trades: Stop Loss **is 1 pip** below the lowest low **of 3 last** candles.



Fig. 5: Stop Loss is placed **1 pip** above highest high

5. Calculate **Take Profit**: measure the **channel size**, and subtract this amount from the breakout place. **Channel size** is defined the distance between its Resistance trendline and its Support trendline. It is **illustrated** in the next chart.



Fig. 6: Target for breakout is measured

6. If the Take Profit divided by Stop Loss is less than 1.5, do not trade. This is called the Risk:Reward ratio.
7. Enter, set take profit.



Fig. 7: Channel pullback trade result

More examples of trades:



Fig. 8: Channel Trade Example – Short trade entered after pullback to the Support trendline

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Fig. 9: Channel Trade Example



Fig. 10: Channel Trade Example

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Fig. 11: Channel at the AUD\JPY. Price touched the target though it is not shown in chart. Note that resistance trendline began earlier than the channel itself.



Fig. 12: Channel Short trade



Fig. 13: Long trade on Ascending Channel



Fig. 14: Short trade after breakout of an Descending Channel. Risk:Reward was 1:8.



Fig. 15: Ascending Channel

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Fig. 16: Descending Channel