TRADING VOLATILITY

DURING A FINANCIAL CRISIS

INTRODUCTION

Trading has become increasingly popular for many reasons. One of them is how quickly you can turn trades into profit. That, plus the ability to place trades virtually anywhere (that has an internet connection) make it more appealing than ever before.

New traders enter the fray every day, but few know or have what it takes to remain consistently profitable. There are many things that contribute to success, but most traders quit before they discover it.

One of the biggest measures of a trader's success is how they handle high volatility. Market volatility is a facet of tradable markets every trader needs to be prepared for.

In the current economic climate, volatility is as unstable and unpredictable as ever. And savvy traders know how to take advantage of long and short-term market movements.

Regardless of your skill and experience level in trading, it's important to know what affects volatility. So, you can be prepared to tackle it like a seasoned professional.

When the markets are moving, how can you know what your trade setup should look like?

In this guide, we will dive deep into what you need to know about trading volatility in the wake of unexpected economic turmoil.

WHAT IS VOLATILITY?

Volatility is defined as the rate of bullish or bearish momentum that's dependent on a particular of returns for an index.

For example, macroeconomic data reports have a direct impact on an index's volatility. Labor statistics are one such piece of data that has an effect on a currency's value. If jobs are increasing, the currency's value also increases, because that respective country's economy is benefiting from labor growth.

The current economic climate is less than favorable to most people. But traders can still capitalize with a few smooth setups.

It's safe to say that nowadays, the markets are in a financial crisis. So, they're more unstable and unpredictable than ever.

It's creating a parallel with the stock market crash of the 1920s, which means volatility is fast. But with high yield. And trading profitably comes down to how you perceive economic instability. Chances are you're on the same boat as everyone else trading.

STRATEGIES

During times of financial hardship, your trade setups might look a little different. Financial crisis mode means every trader needs to manage risk even more heavily. Here are some strategies that can work in any market, whether it's stocks, Forex, or options. They can protect your capital and still pull profits out of unpredictable volatility.

RESISTANCE BREAKOUT

A resistance breakout occurs when price passes a resistance level, and continues into an uptrend.

Once the charts break through the resistance level, you should trigger a buy order. And if the trend continues to break resistance levels, you can continue to stack buys.

To trade these breakouts, it's best to use longer timeframes, like 1 or 5-hour.

For this setup, all you need is to place resistance levels using a horizontal line tool. It's not necessary, but it might be a useful visual tool.

Then comes candlestick analysis. There are certain patterns charts can form that determine where price is headed.

For example, technical traders often look for a "hammer," a candlestick with a long wick and short body. They often indicate a bullish reversal. So, if this is forming on your charts, it's likely price will shoot up.

Since markets can be unpredictable, keep your take profit and stop loss orders within two pips. If price continues to break resistance, you can use a trailing stop to ride the wave.

TRADE THE GAP

This strategy is more simple, yet very powerful. A gap in trading is defined as assets that have a gap between the previous close and the current open.

Gap traders can use this right at the market open to identify where sentiment is headed early on.

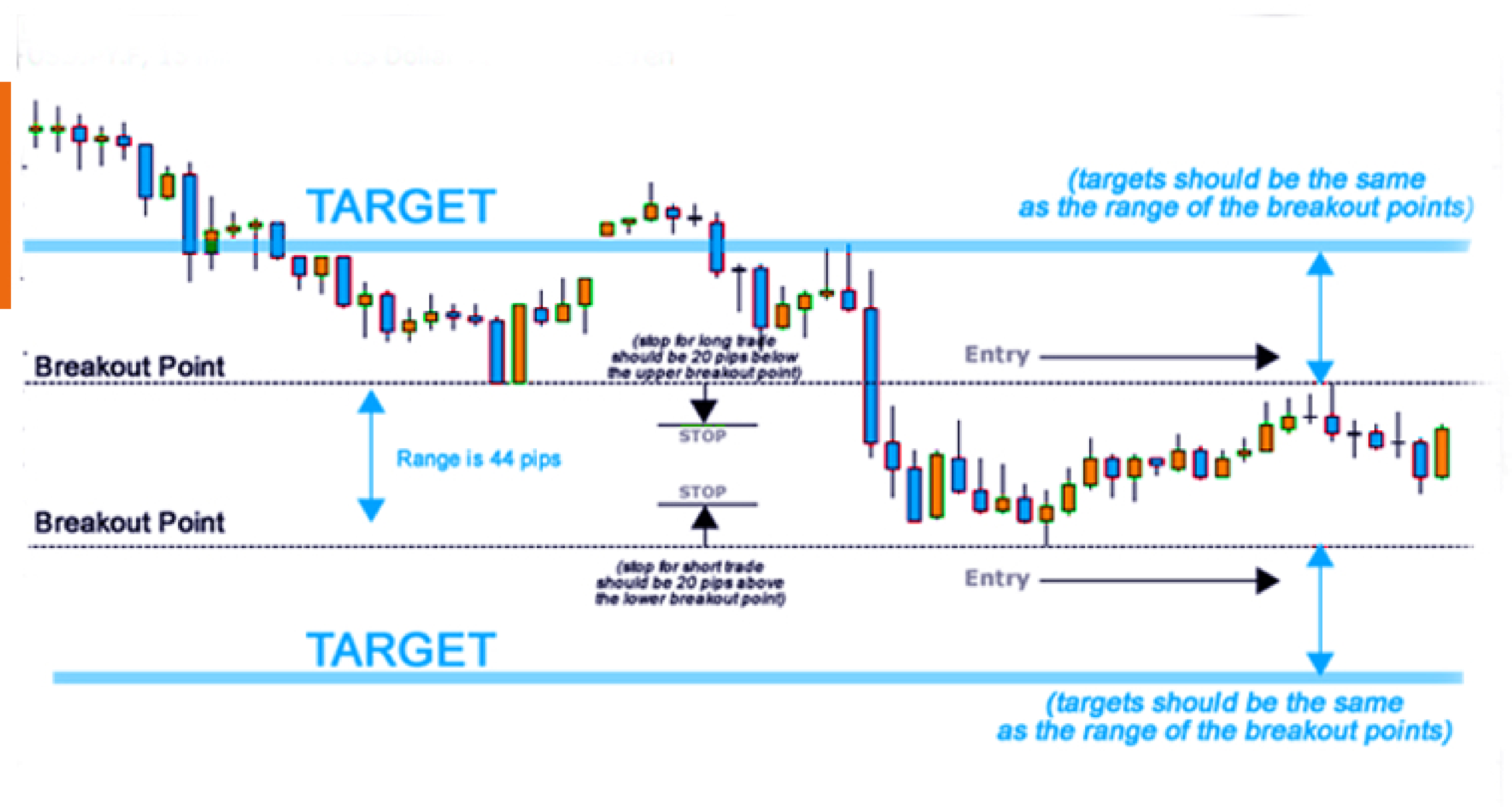
It requires discipline and patience as you need to be ready to place trades at a specific time, depending on where you are in the world.

There are **four** types of gaps to look for:

1. Full gap up: when opening price is higher than the previous day's high
2. Full gap down: when opening price is lesser than the previous day's low
3. Partial gap up: when opening price is higher than the previous close, but not the high.
4. Partial gap down: when opening price is lesser than the previous close, but not the low.

These gaps should influence your shorts and longs, as they indicate where the pressure is and if there was any negative or positive news that causes prices to drop or rise.

THE STRADDLE



This strategy is popular in the options trading world, but it can be applied to other markets, as well.

The straddle involves placing a buy and sell, or a put and call for options, in

Forex traders look for big news releases when they want to try the straddle.

It's important to know what news releases are happening before they happen, so you can look at the range and place your trades.

Essentially, you're looking at a longer timeframe and playing both sides of the trade.

If price goes against you, your entry on that side will be triggered. If that trade is a winner, you end up with profit overall.

If set up correctly, you can still end up with a positive win to loss ratio to end the trading day.

CONCLUSION

In times of fears of economic recession, pandemics, and production halts, it's critical to practice safe risk management procedures in your trading. The markets can swing violently one way or the other. And if you're caught on the wrong side of things, you may be left losing everything.

So, while all these big moves may be tempting, they might not last long. Take what you can and avoid going too heavy.

Practice caution, and know when to get out, and you just might pull in some profit even amidst all this market uncertainty.