

# 1-2-3-4 Forex Reversal Trading Strategy

A 1-2-3-4 reversal chart pattern is build up of 4 definable points, known as point 1, 2 , 3 and 4. A typical 1-2-3-4 chart pattern is best traded after a strong currency pair up - or downtrend and can be defined by an easy set of trading rules. A trader can confirm the reversal trade using a technical indicator such as DMI or MACD.

## 1-2-3-4 Basic Rules for Short Trades

Point (1): The high in an up trending currency market.

Point (2): A downward correction in the up trend, the lowest bar in the correction before the price moves back up to point (3).

Point (3): The high in the move up from Point (2) but a failure to make a new higher high(Point 1).

Point (4): Go short 1 pip below point (2)



## 1-2-3-4 Basic Rules for Long Trades

The reverse is true when applying these basic rules for long trades but now:

Point (1): The low in a down trending currency market.

Point (2): An upward correction in the downtrend, the highest bar in the correction before the price falls back up point (3).

Point (3): The low in the move down from Point (2) but a failure to make a new lower low(Point 1).

Point (4): Go long 1 pip above point (2)

## 1-2-3-4 Up Forex Reversal Strategy using MACD



- 1) Trade this reversal pattern only after a strong downtrend
- 2) Place points (1),(2) and (3) on your chart
- 3) Place a BUY order 1 pip above (2)
- 4) Confirm the trade using the MACD indicator (or another); the MACD must signal a buy or in buy mode already.
- 5) Target level: Calculate the distance between (2) and (3); if for example the distance between (2) and (3) is 50 pips, than 50 pips is your target level.
- 6) Place your stop 1 pip below (3)

### 1-2-3-4 Down Forex Reversal Strategy Using DMI



- 1) Trade this reversal pattern only after a strong up trend
- 2) Place points (1),(2) and (3) on your chart
- 3) Place a SELL order 1 pip below (2)
- 4) Confirm the trade using the DMI indicator (or another); DMI must signal a sell or in sell mode already.
- 5) Target level: Calculate the distance between (2) and (3); if for example the distance between (2) and (3) is 250 pips, than 250 pips is your target level.
- 6) Place your stop 1 pip above (3)