

Pin bars: advanced material

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This tutorial focuses on more advanced pin bar setups. It should only be read after the introductory tutorial as it continues the same themes and assumes some knowledge of pin bars. The source of this material consists of numerous posts by James16 (www.james16group.com) at forexfactory.com and several other members who have experimented with pin bars.

This tutorial covers the following topics:

- **Setting the initial stop loss** – a more aggressive strategy
- **Entering the trade early** – a more aggressive method of entering a trade based on a pin bar
- **What to do if you get an ‘almost pin bar’** – sometimes you will get a bar that you think is a pin bar and this section shows you how you might play it
- **Which pins to trade?** – a short discussion on the types of pins you should be trading
- **Trading using multiple time frames** – how you can use a longer term pin bar to set the scene for several trades on shorter time frames.
- **Closing remarks** – some final thoughts on trading pin bars.

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Setting the initial stop loss

This section talks about setting a more aggressive stop loss initially. This means that the stop loss will be closer to the entry point and will allow a better return on a successful trade but it will be more likely that the trade will be stopped out.

There are three methods of setting the initial stop more aggressively based on the:

- 1) eye
- 2) fib retracements
- 3) confluence

Slightly more aggressive or experienced traders may decide to put their stop above the level of the first eye. Again, the stop may be placed just above the level of the eye. Looking at Figure 1 the stop loss would be placed 10 pips above the high formed by the eye.

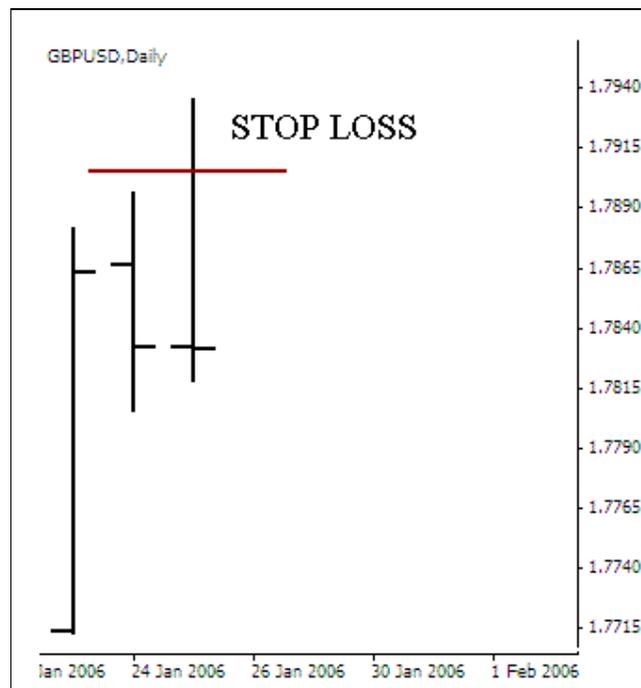


Figure 1. Setting a stop beyond the eye

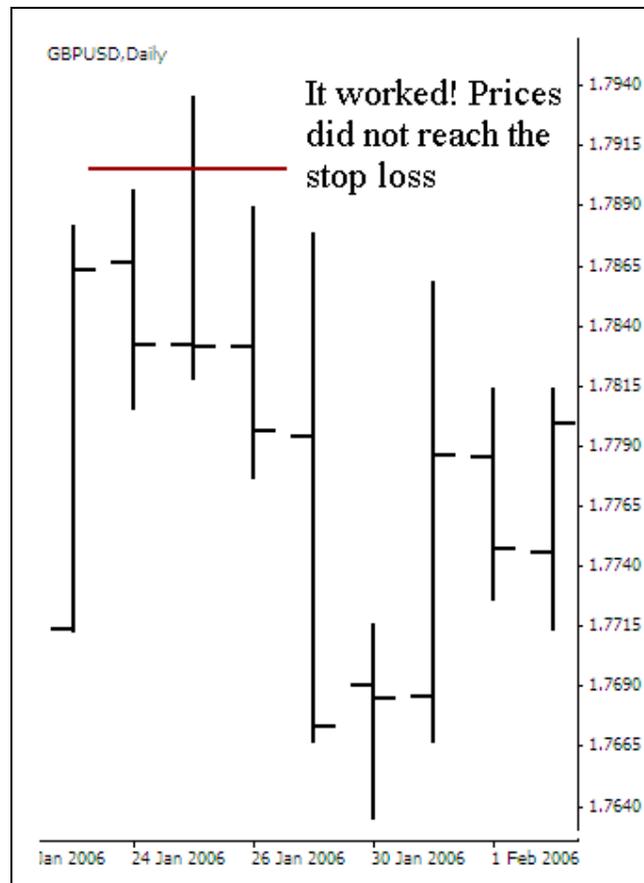
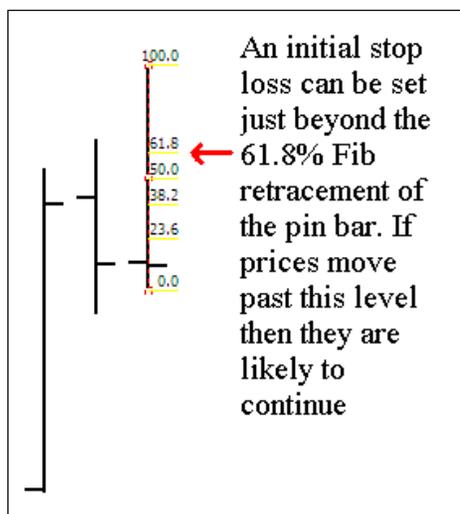


Figure 2. Success after setting the stop!

In Figure 2 the stop has been set just beyond the eye. This is for GBPUSD, daily chart, for 25 Jan. 2006. After the pin bar the price fell nicely and failed to hit the stop!



Alternatively a trader may place their stop just beyond the 61.8% fib retracement of the pin bar. If prices do go past this point then there is a good chance that they will continue to go further. See Figure 3 for how this stop loss is set. Again, Figure 2 can be inspected to see how the trade ran after this point. We see that the prices retrace the pin to where they may just hit the stop loss point.

An alternative aggressive approach is to place stops just beyond a fib level or moving average (or confluence of these) that passes through the nose of the pin bar (this has not been illustrated). This will produce a tighter stop than setting the stop beyond the pin bar;

however it is still more prone to being stopped out. Under these circumstances the trader is hoping that the confluence of factors will exert enough resistance to prices to prevent their stops from being hit.

Entering the trade early

There are several aggressive ways to enter a trade rather than waiting for a break of the pin bar. They get you in at better prices but there is a greater chance that the trade will not work out. The two key methods are:

1. entering on the close of the pin, and,
2. waiting for a retracement of the pin bar.

If the trader decides to enter on the close of the pin bar they will get a better price than waiting for a break of the pin. It is higher risk, however, as the trade is more likely to fail. One benefit is that it will get the trader into the trade. Entering on the retracement might not. (Prices may not retrace the pin bar at all – they may just shoot off in the right direction!)

When a trader decides to enter on the retracement of the pin bar they can get a very good price. It is higher risk than waiting for a break of the pin. It also has the danger that prices may not make it to the retracement level chosen, in which case the trader will miss out on a good trade!

The position of the close of the pin bar will determine which of these methods would be more profitable. If they are coupled with the more aggressive setting of the initial stop loss it is possible to have some good trade setups, even if they are riskier.

Finally some traders may decide to enter on multiple points. They may decide to enter a half of the trade on the close of the pin, then another half of the trade on a 50% retracement if the prices reach this level. This way they will certainly get a half position in place (on the close of the pin) but if the prices retrace 50% then they will get a second half of the trade on at an even better price.

It is also possible to place a sell stop below the bottom of the pin bar as though the pin bar was going to be played conservatively. This means that the trade will be entered and the trader will not miss out. However, prices may first retrace some of the pin bar, allowing an opportunity for the trader to get in at a better price than they would if they took a conservative approach. If this happens the trader may adjust the sell stops so that their overall risk is managed effectively.

What to do if you get an ‘almost pin bar’

This section details what to do if the pin bar does not ‘look right’.

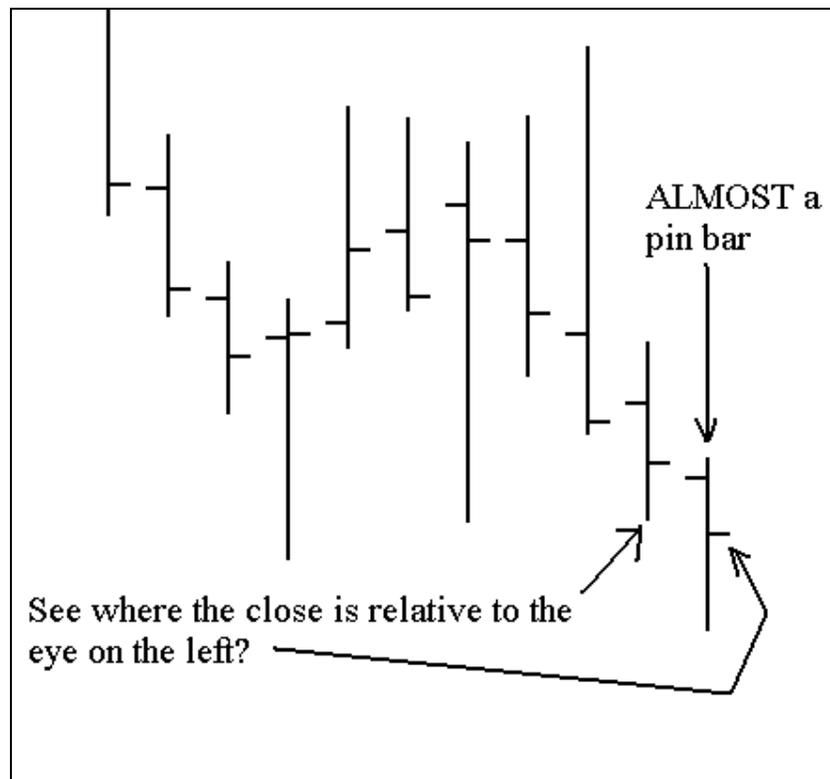


Figure 4. How to trade this like it IS a pin bar

Shown in Figure 4 is a setup that **does not** qualify as a pin bar. This chart is of October 2005 through February 2006 of the USDCAD, weekly chart. Note that the close of the ‘almost pin bar’ is below the eye formed by the previous bar.

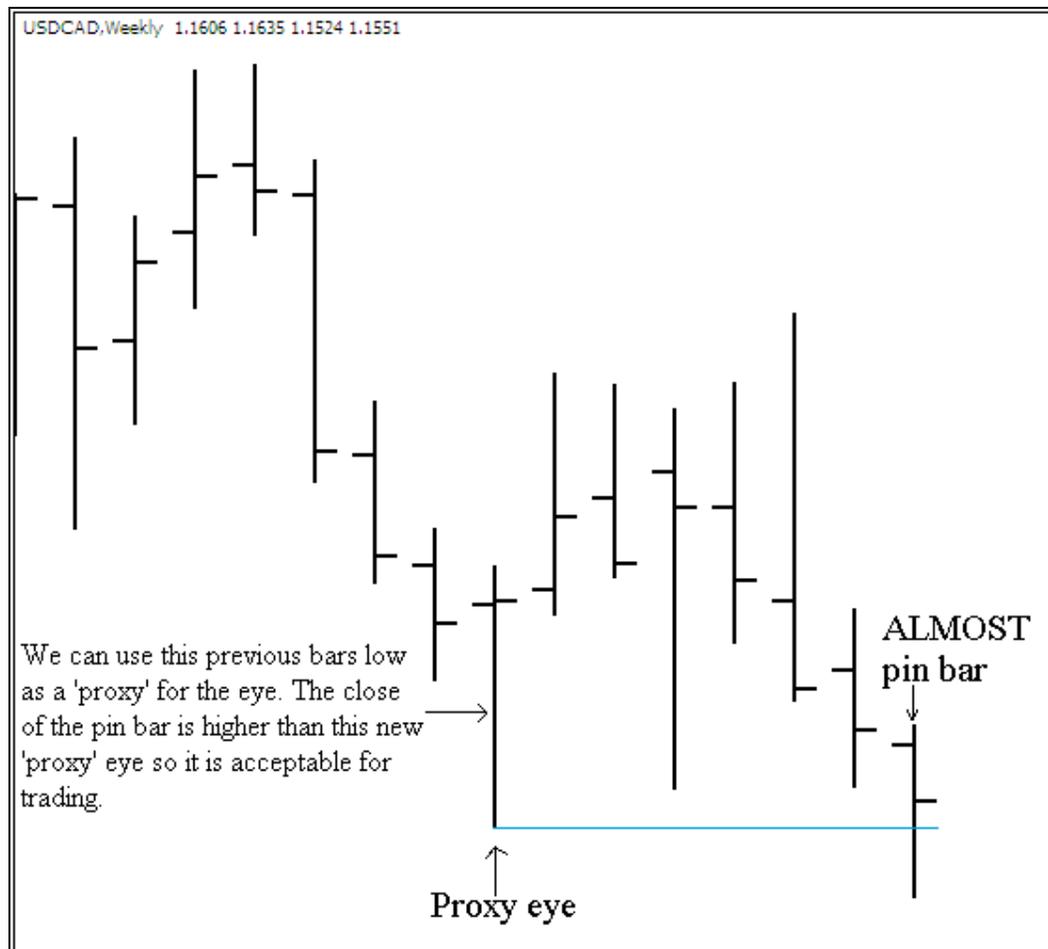


Figure 5. Finding and creating a 'proxy' eye for the pin bar

So, now what? It is not a true pin bar. However in Figure 5 we see that there was an earlier bar (which was coincidentally a pin bar) which has a low that is low enough that it would make a good eye (the low for this bar is below the open/close of our 'almost pin bar'). This bar can be used as a 'proxy eye' in place of the eye that is normally formed by the bar previous to the pin bar. Note how the 'proxy eye' is now level with the current new eye (note that in this case the bar forming the new eye has not finished yet - it may still close lower).

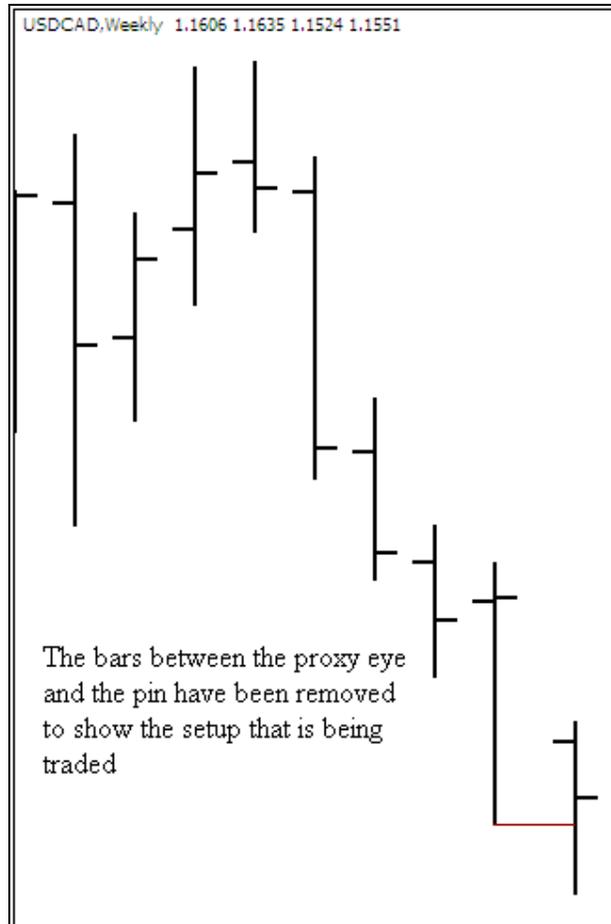


Figure 6. Seeing this pin bar setup

In Figure 6 we can see the pin bar setup using this 'proxy eye'. The image has had the bars between the new 'proxy eye' and the current pin bar cut out so that the pin bar setup can be clearly seen. This pin bar can now be traded as a 'regular' pin bar. Traders may treat this setup with caution and accept that it has a higher risk than an ideal pin bar setup. (If you go back and check this trade you will see that it was good for quite a few pips but was not fantastic.)

Which pins to trade?

This section gives some examples of pins that are ‘good’ and would be good to trade as well as pins that might be avoided. Traders may combine pin bars with other methodologies, particularly technical analysis. Pin bars off support/resistance or channels can be particularly effective.

Traders may decide not to take a trade into an area of support or resistance. Better probabilities will be found trading **away** from areas of resistance / support. Remember that a pin bar with a higher probability of success will be bouncing off these areas! Sometimes it is tempting to play a pin bar on a 4H chart until you realise that on the daily chart there may be some serious resistance that would need to be overcome for the pin bar to be successful.

If there is a weekly pin that suggests that long trades should be taken, traders may be cautious about taking a short position based on a daily or a 4H pin bar soon after this. Remember that pin bars on longer time frames give more powerful and longer-term indications of price movements.

You can be patient and take only the best pin bar trades. Take them at swing low / swing high and when the pin bounces off confluence of fib levels and moving averages or other areas of support / resistance. These are the best setups. Be selective and make sure that the pin bar ‘looks right’. As a trader plays more pin bars they will gain experience and understanding of how price reacts with pin bars. Over time this experience will help traders to trade pin bars more successfully in the future in similar circumstances.

When investigating pin bar setups you may find yourself unsure about a specific pin bar setup. Traders may decide not to take questionable pins that they have doubts about. You might think that you are trading into heavy resistance but the pin bar **does** look good. Do not trade it. Be selective and take the best.

Trading using multiple time frames

As suggested in the previous section, it is often profitable to trade using multiple time frames. Use a pin bar on the longer time frame to set the probably direction of the trend that trades may be taken in. Then switch to a smaller time frame to fine-tune your entry and stop. By doing this you can achieve much tighter stops which can allow greater profits. Trading on the smaller time frames might be using price action and pin bars, or other methods. Traders may use a long-term pin bar setup to determine near-term price movements and trade using different methods on a shorter time frame in this new trend direction. Some traders at forexfactory.com have used pin bars on 1-day charts to identify turning points before entering trades using Vegas’ 4H Tunnel.

If Figure 6 is investigated and daily charts for USDCAD are pulled up there is soon a pin bar forming on the daily chart with the nose pointing UP in the opposite direction to the weekly pin bar! In this case it may be wise to pay more attention to the weekly pin bar because these tend to be more reliable so prices will probably continue up for a while, despite the daily pin bar suggesting that prices may head down.

Closing remarks

In closing I would like to remind readers that it is important to practise good money management while trading. Trade less often and take only the best setups. **Trading is a probabilities game.** The outcome of each trade is going to be random and you cannot know the outcome in advance **but over time you can make consistent profit if you can tip the odds in your favour.** You can do this using pin bars.

I would like to thank Jim (aka James16 at forexfactory.com and the key instructor at www.james16group.com) for teaching many members of the forexfactory.com forums to trade using pin bars. I hope that some readers will find these files helpful and that they will learn to trade pin bars and enjoy it.

It is highly recommended that the James16 Charts thread (at forexfactory.com) is read through as this contains numerous examples of trading using pin bars. Traders may also be interested in the James16 Group (www.james16group.com) where they can get more rapid feedback from Jim as well as many great examples of setups posted as they occur in the markets. Jim also has several other systems posted that he trades. There are two other traders that provide instruction and help. FijiTrader specialises in money management / psychology. Diallist teaches the Knife, a more mechanical trading model adapted from Vegas' 4H Tunnel model.