

RSI 80-20 TRADING STRATEGY



Learn to trade divergence, and find a low risk way to sell near the top or buy near the bottom of a trend.

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Thanks for checking out the RSI 80-20 Trading Strategy,

You are going to benefit from this strategy by learning to trade divergence, and finding a low risk way to sell near the top or buy near the bottom of a trend.

This strategy will identify a break of a trend and take advantage of the movement to the opposite direction.

In this Report, I am going to be showing you a simple trading strategy using the RSI indicator, which happens to be a well known tool to any trader.

Before we get started, I want to let you know that we have a special forex master trader community that we could love you to check out.

[Click here to see the forex master trader community \(SPECIAL DISCOUNT\)](#)

Indicators Used for RSI 80-20 Trading Strategy

The RSI indicator is **one of the most popular** indicators used by traders in any market (stocks, forex, futures, options).

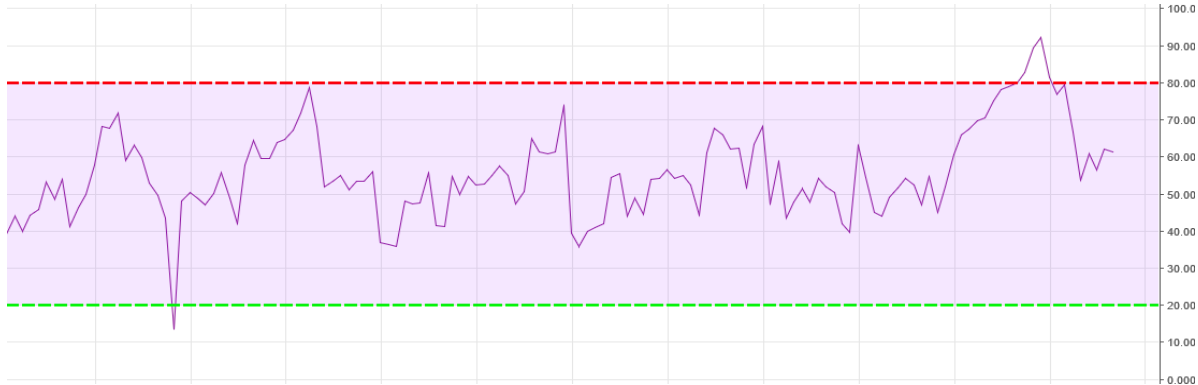
What is the RSI (Relative Strength Indicator)? This indicator was developed by Welles Wilder around 1978 when it quickly became one of the most popular oscillator indicators for traders in financial markets. This momentum indicator can fluctuate between 0 and 100 providing overbought and oversold signals. The formula for this indicator is a bit complex:

$$\begin{array}{ll} U = \text{close}_{\text{now}} - \text{close}_{\text{previous}} & U = 0 \\ D = 0 & D = \text{close}_{\text{previous}} - \text{close}_{\text{now}} \end{array}$$
$$RS = \frac{\text{SMMA}(U, n)}{\text{SMMA}(D, n)} \quad RSI = 100 - \frac{100}{1 + RS}$$

I could explain this whole process to you, however, I will spare you the details. I just wanted to share this with the mathematicians that are reading this who enjoy seeing equations. You can do a quick google search if you would like to learn more about this..

Indicator Settings

The default settings for this indicator is a smoothing period of 14. We are going to change that setting to **8**. Make sure you change this setting before you jump into this strategy. The reason I like 8 rather than 14, is that the RSI will be much more responsive for us which is very important when looking for overbought or oversold price areas. Also go ahead into the RSI setting and change the lines in the indicator to **80, 20**. You will learn more about this later.



This indicator will be the only indicator we use for this strategy. The reason we only use this, is because we have a strict set of rules we need to follow before we can enter a trade. And these rules will, without a doubt, validate a reversal for us to enter a trade.

So before you want to use this strategy make the following changes to the RSI indicator:

Adjustments to RSI Indicator:

14 time period, **to 8**.

70 and 30 lines, **to 80 and 20**.

This indicator comes standard on mostly all trading platforms. You just need to make these adjustments to this. Need a simpler indicator to use...then [click here!](#)

Step One: Find the currency pair that is showing a high of the last 50 candlesticks. (OR low depending on the trade)

This strategy we can use any time period.

The reason for that is that there are reversals of trends in virtually every time period. So this can be a swing trade, day trade, or a scalping trade. As long as it follows the rules it is a valid trade.

The only thing we need to make sure of in this current step is that it is the low or the high of the last 50 candles.

Below is an example:

Note** We will use this same example to explain this strategy. This is a USDCHF currency pair and will be a BUY trade.



Once we determine this low or high then we can move on to the next step.

I drew vertical lines on the chart so that you can see the 50 candle low that we identified.

If you need to use horizontal lines on your chart to verify that the candle has closed the lowest the last 50 you can do so. This is not necessary but may be helpful for you to do and see how strong the trend is.



Step Two: When we find the 50 candle low, it needs to be coupled with RSI reading 20 or lower. (If it's a high it needs to be coupled with the RSI reading 80 or higher.)

Below we have a reading that hit the 20 line on the RSI and was the low of the last 50 candles.



Once we see that we had a low the last 50 candles AND the RSI is BELOW 20 then we can move on to the next step.

Remember that this strategy is a reversal strategy. It is going to be breaking the current trend and moving the other direction.

Step Three: Wait for a second price low candle to close after the first one that we already identified.

The second price low must be below the first low but the RSI indicator must provide a higher signal than the first one.

Remember, divergence can be seen by comparing price action and the movement of an indicator.

If the price is making higher highs, the oscillator should also be making higher highs. If price is making lower lows, the oscillator should also be making lower lows.

If they are not, that means price and the oscillator are **diverging** from each other.

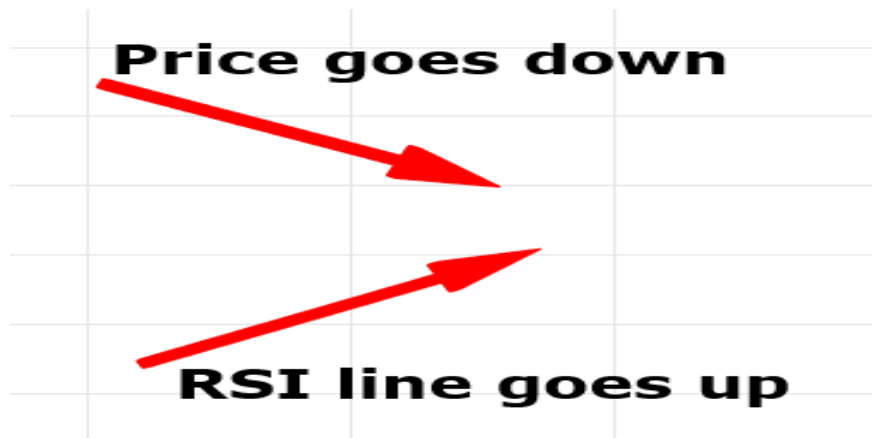
Which is why it's called "**divergence.**"

Just because you see a divergence, it doesn't necessarily mean you should automatically jump in with a position.

We have rules in place that will capitalize on this divergence so that we can make a great profit.

Keep in mind that this step may take a bit to develop. It is very important to wait for this second low because it gets you in a better position to make a trade.

This sounds a bit complex, but think of it like this for our example we are using:



Price goes down/RSI goes up. That is the Divergence.

Remember, that our example is a current downtrend looking to break to the upside. If this was a 50 candle high we would be looking for the exact opposite with this step.

With that said, let's take a look at our chart,



Once this criteria has been met we can go ahead and look for an entry because the charts are showing us that a reversal is soon coming.

Step Four: How to Enter the Trade

The way you enter a trade is actually very simple.

You wait for the price to head in the direction of the trade and wait for a candle to close above the first candle that you identified that was the previous 50 candle low.



Save this picture for reference, if you are struggling with this step. This will guide you when you look for a trade.

Step five: Once you make your entry, place the stop loss.

To place your stop bump back 1-3 time periods and find a good level to place your stop that makes logical sense. So you are looking for prior resistance, support.



We placed our stop below this support area. That way if the trend continued and did not break it could hit this level and bounce back up in our direction.

I recommend you follow at least a 1 to 3 profit vs. risk level. This will ensure that you are maximizing your potential to get the most out of this strategy. You can adjust as you wish, but most good strategies that identify breaks of a trend use a 1 to 3 profit vs. risk level.

If you have any questions or comments about this trading strategy, you may reach us at info@tradingstrategyguides.com and tell us the strategy you have a question on, and what we can specifically assist you with.

If this seems hard to understand and you need more RSI training with videos/written guides then [click here!](#)

To Recap, here are the rules of the strategy:

RULES OF THE 80-20 TRADING STRATEGY

Step One: Find the currency pair that is showing a high the last 50 candlesticks.
(OR low depending on the trade)

Step Two: When we find 50 candle low, it needs to be coupled with RSI reading 20 or lower. (If it's a high it needs to be coupled with the RSI reading 80 or higher.)

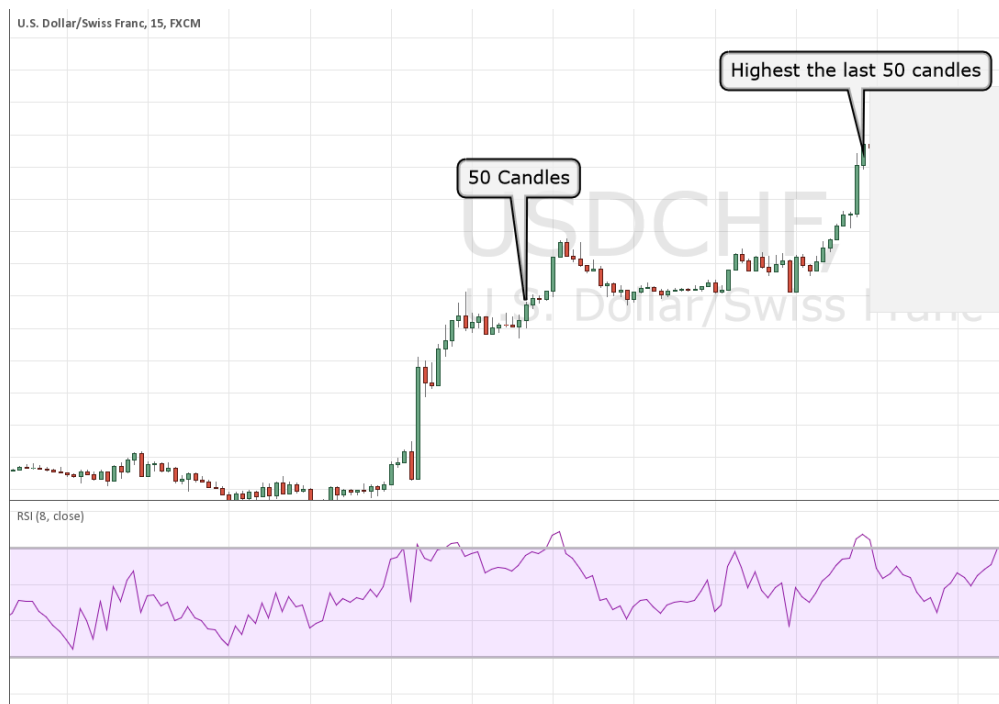
Step Three: Wait for a second price low candle to close after the first one that we already identified.

Step Four: Enter the Trade by waiting for candle to close above/below the first candle we identified.

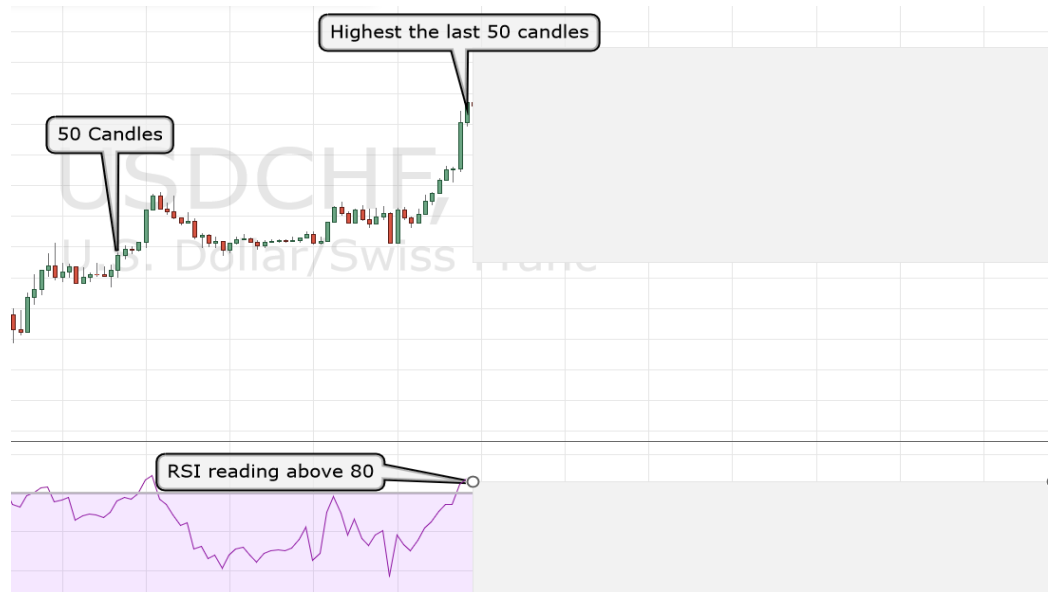
Step five: Once you make your entry, place stop loss.

Since you have a good understanding now as to how the RSI 80-20 Strategy works, I will include for you some examples of trades that follow this strategy:

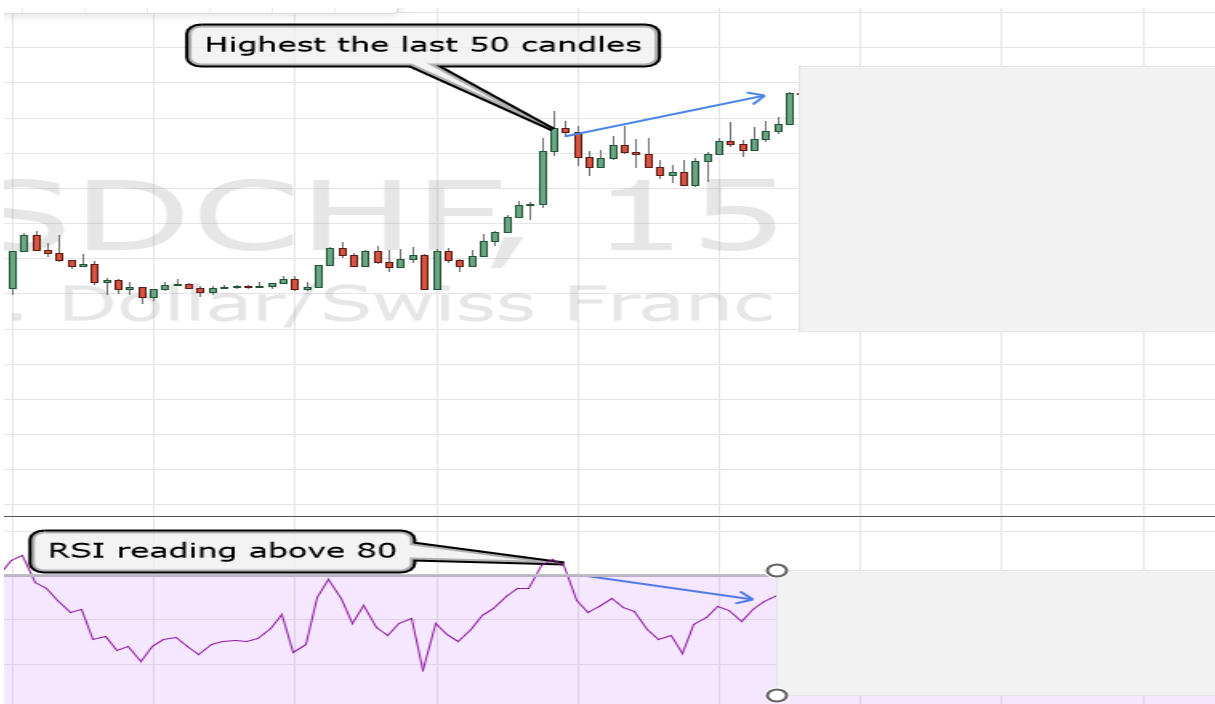
Example #1: (USDCHF 15 Minute time chart)

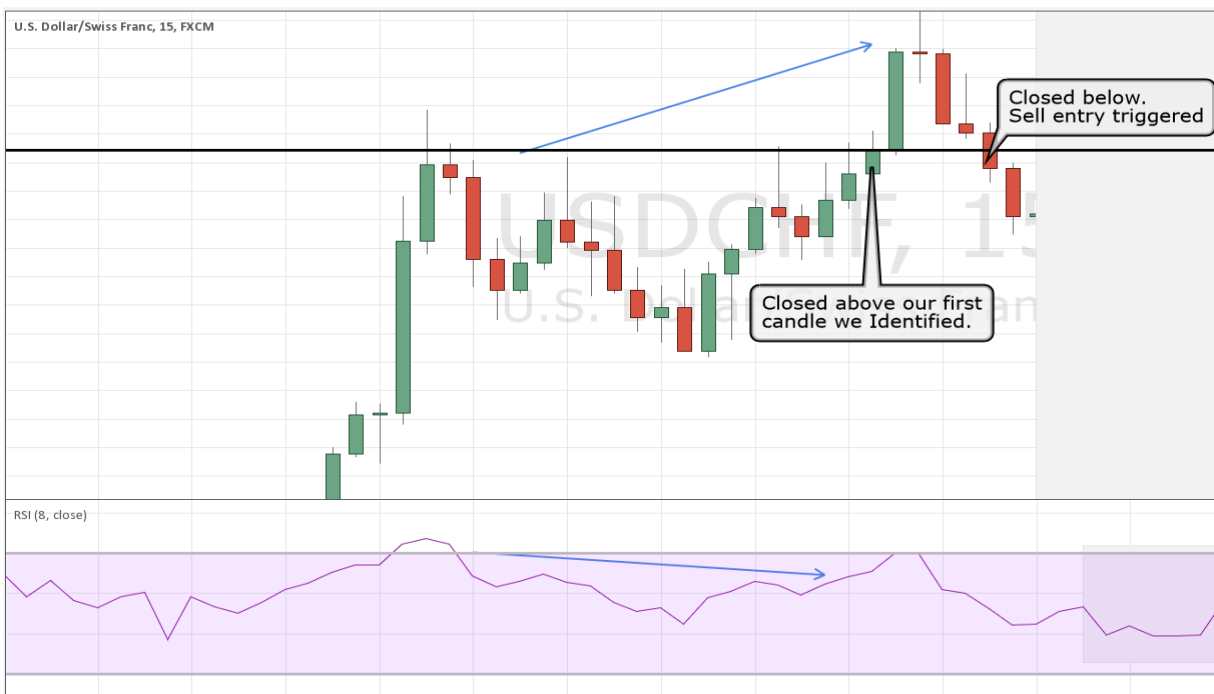
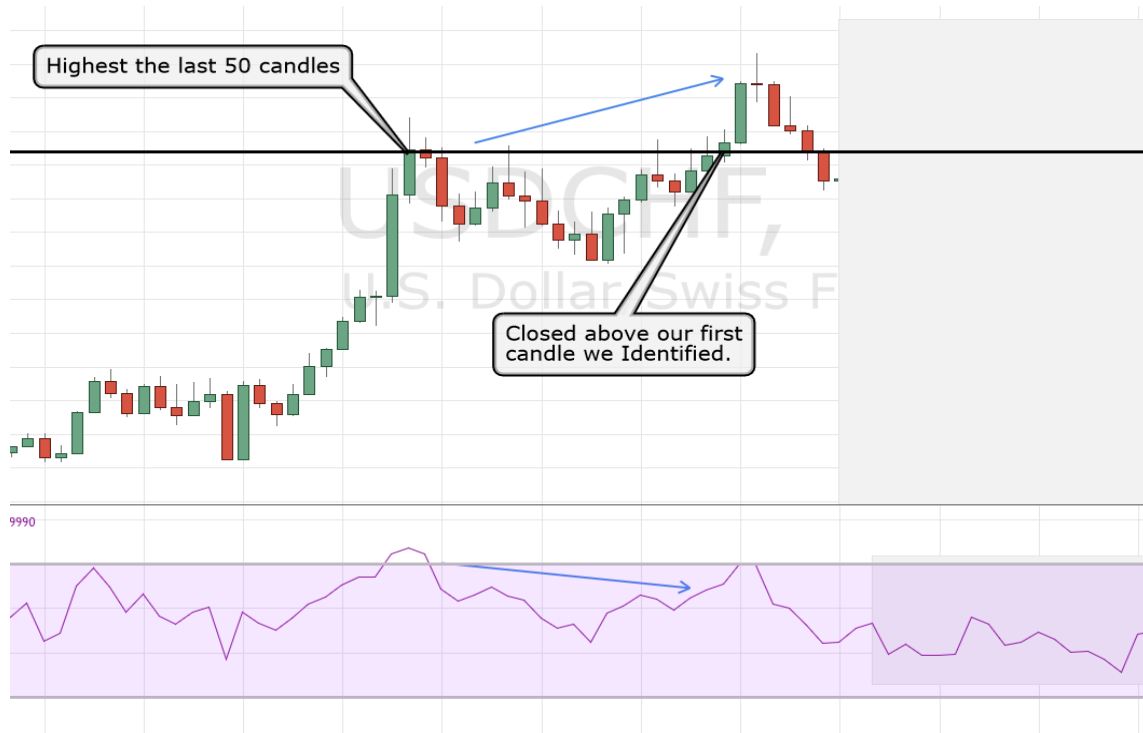


50 candle high has been identified.



RSI is reading over 80. At this point we need to wait for divergence. As you can see the RSI is going down, as the candles are going up.





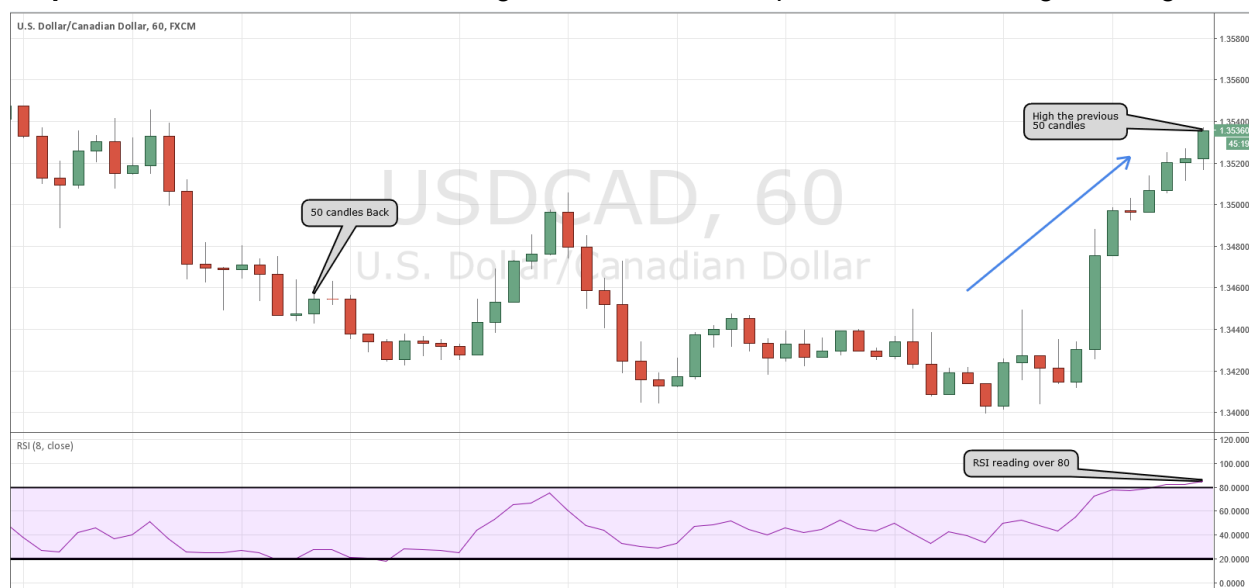


Example #2: (USDCAD 60 minute chart)

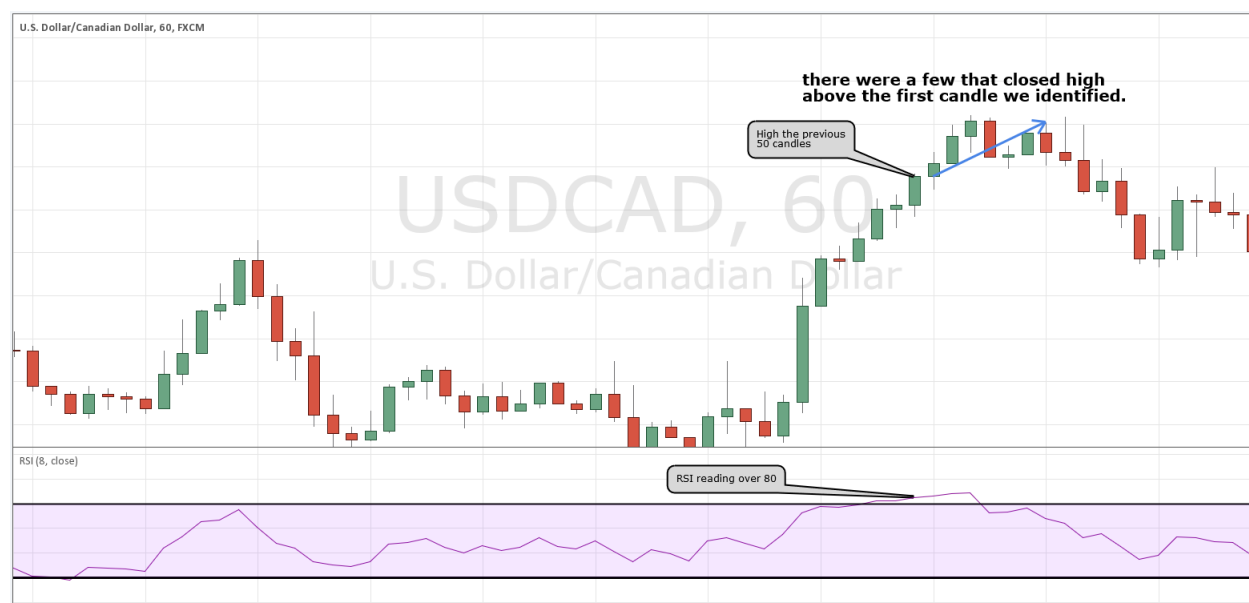
Step One: Find the currency pair that is showing a high of the last 50 candlesticks.



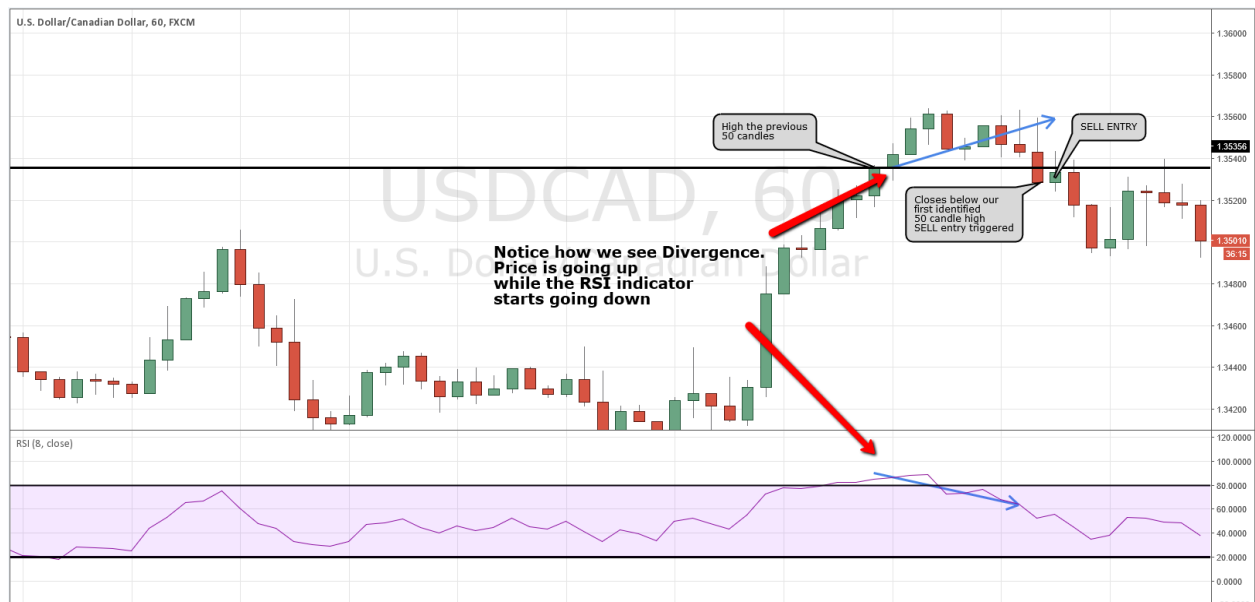
Step Two: When we find 50 candle high, it needs to be coupled with RSI reading 80 or higher.



Step Three: Wait for a second price high candle(s) to close after the first one that we already identified.



Step Four: Enter the Trade by waiting for the candle to close below the first candle we identified as the previous high of the last 50 candles.



Step five: Once you make your entry, place stop loss, calculate risk.

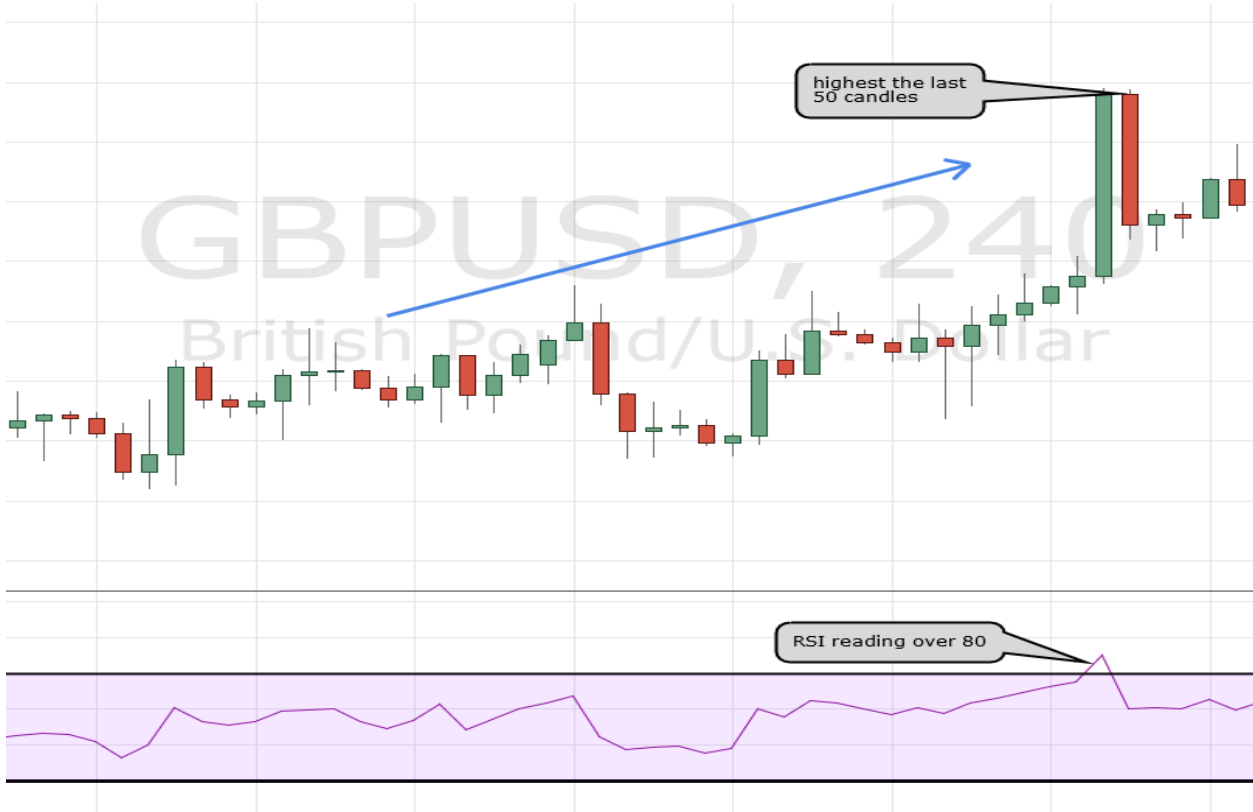


Example #3: (GBPUSD 4-hour time chart)

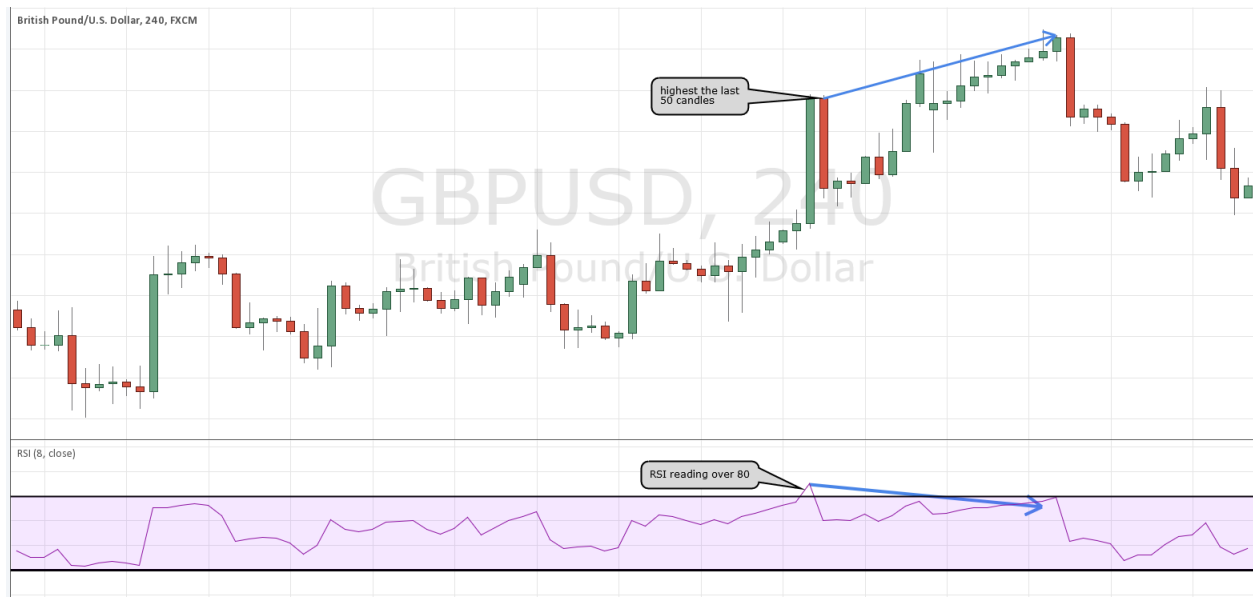
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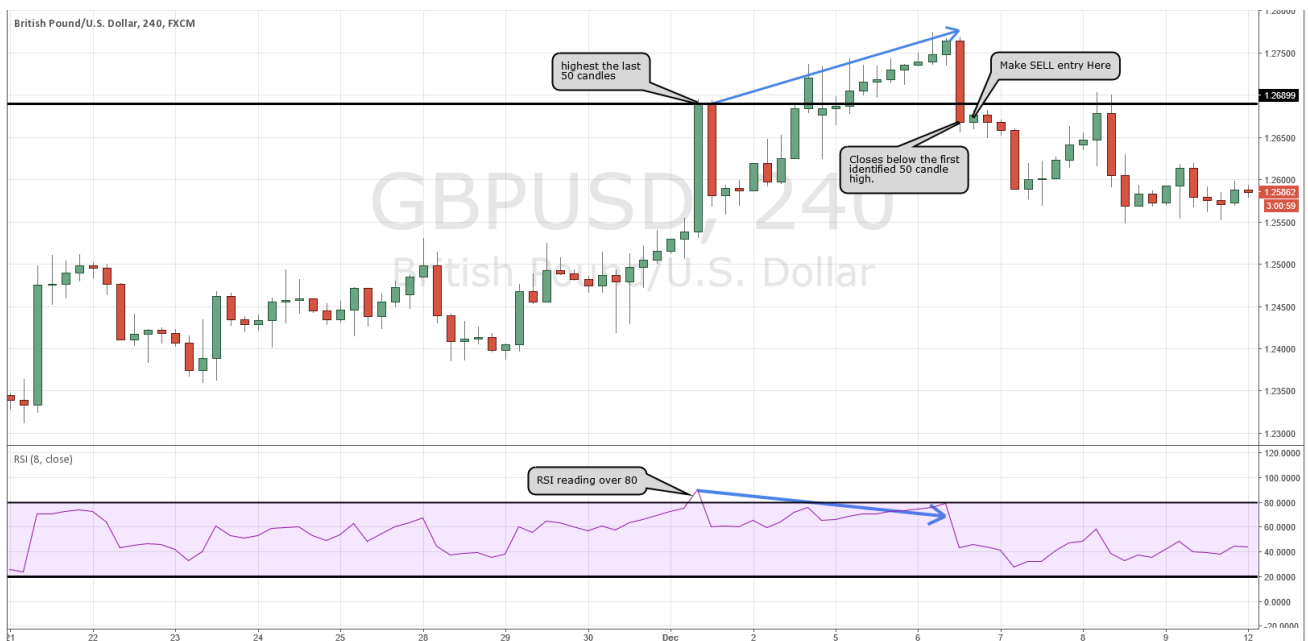
Step Two: When we find 50 candle high, it needs to be coupled with RSI reading 80 or higher.



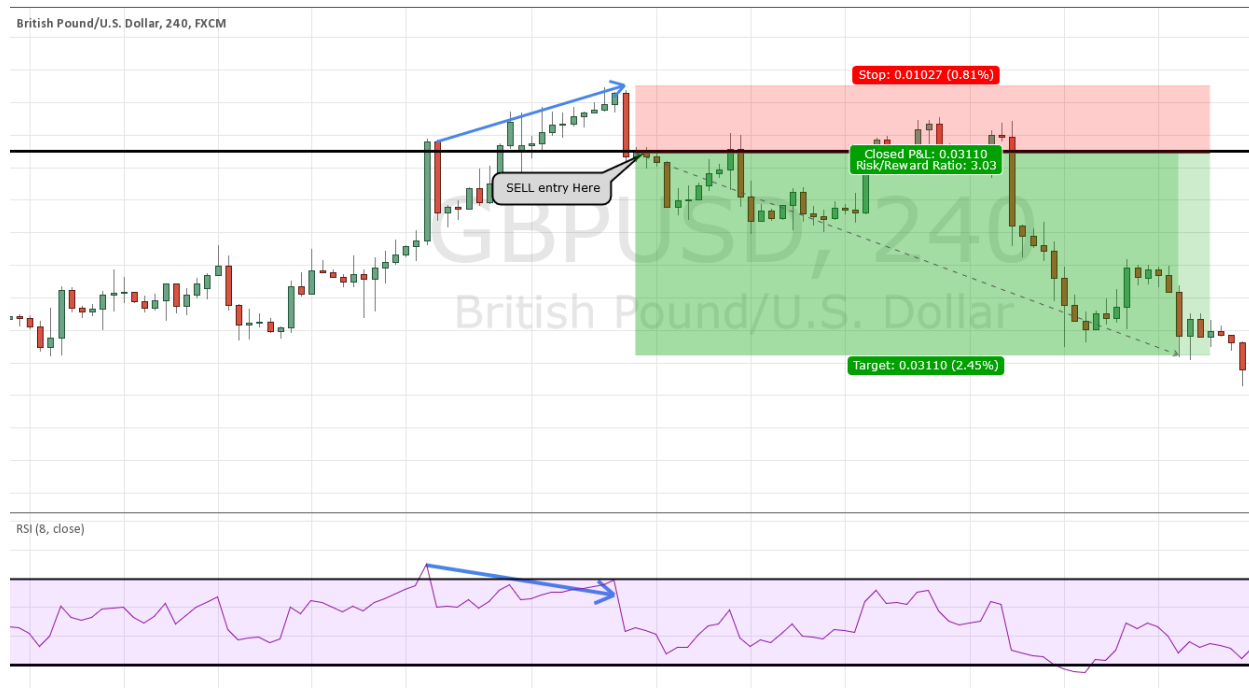
Step Three: Wait for a second price high candle(s) to close after the first one that we already identified.



Step Four: Enter the Trade by waiting for the candle to close below the first candle we identified.



Step five: Once you make your entry, place stop loss and calculate your risk.



As you can see this strategy works with any time frame. I hope the examples were clear enough for you to fully understand this strategy. The great part about this is that you have this PDF guide to come back to.

We hope you enjoyed learning this trading strategy. If you have a question about this strategy you can reach us at info@tradingstrategyguides.com

Thanks for reading!

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P.S. Interested in joining an elite group of traders? Why not check out our Forex Master Trader Community! [Go here to see more about this](#)