Spot Forex Trading - Parallel and Inverse Analysis

Very few spot forex traders conduct any form of parallel and inverse analysis of the major currency pairs an exotic currency pairs to determine the best way to trade the forex market on a day-to-day basis. Forex traders do this in spite of the fact that it would be nearly impossible to trade the forex successfully not knowing where the overall strength and weakness was in the spot forex across multiple pairs or the entire forex market.

Lets look at some examples. Many forex traders like to trade the GBP/USD and they spend countless hours losing sleep waiting to trade this currency pair even when no trends or parallel/inverse currency pair confirmation is available. Losses occur and lifestyles change. Forex traders could increase their odds of success dramatically by setting up some forex trade entry rules and examples like the ones shown below.

Example 1 - Only buy the GBP/USD if the GBP/CHF and GBP/JPY are strengthening as well. This would be parallel confirmation that the GBP strengthening across the board. A simple but effective rule. A forex trader could enhance the rules further by examining the EUR/GBP for weakness. This is inverse currency pair entry confirmation.

Example 2 - Only buy the GBP/USD if the EUR/USD is strengthening and the USD/CHF is weakening. This would be confirming the trade entry with two other currency pairs and verification with across the board weakness in the USD. In either situation you have confirmed the forex trade entry with at least two other currency pairs. Both of these entry management rules would include a stop order.

But this is not what forex traders do. They want to trade the GBP/USD so badly that they â€œmanufactureâ€• a trade, or they want to use â€œ forex technical indicatorsâ€• that all conflict with each other, or trade the forex news. This is a mistake and is equivalent to betting or gambling and driven by greed. There is no logic to support the trade entry. This is not necessary because the forex works in a logical way.

Lets look at some other forex trade entry verification examples. Lets say a forex trader prefers to trade the GBP/JPY, you could set up rules for entry as follows: Only buy the GBP/JPY if the GBP is strong across the board based on parallel and inverse pairs, or only enter the GBP/JPY if the GBP/USD and USD/JPY are both strengthening somewhat or alot. In the second scenario the GBP/JPY will slingshot upward at a very fast pace due to the GBP strength combined with JPY weakness.

Or another scenario is for a forex trader only to buy the GBP/JPY if the EUR/JPY, CHF/JPY and AUD/JPY are all strengthening as well, in this case the USD is not in the picture because of across the board weakness in the JPY. Either way you have confirmed the spot forex trade entry with other currency pairs in the same parallel group..

Another example would be to buy the USD/CAD only if the EUR/CAD and AUD/CAD are also rising. Similar rules can be applied to any major pair or exotic currency pair and easily monitored upon entry. In the case of the three CAD pairs, if you also do a careful analysis of forex support and resistance, and you can trade the currency pair with the most pip potential rather than just trading the USD/CAD.

But this is not what traders do, they get stuck trading the same pairs like the EUR/USD repeatedly and wind up justifying a trade when a trade is not there. These forex trade entries are not based on logic they are based on emotional needs. This leads to losses. The spot forex works in a very logical process and you must let the logic work for you. Stop looking at forex technical indicators and start looking at other pairs in the same parallel and inverse groups to support your entries, these are the best indicators available.

Across the board strength and weakness in the 8 major parallel and inverse groups of currency pairs occurs weekly in the forex. But if you search the internet far and wide you will see that parallel and inverse analysis of the spot forex is rarely and in fact never discussed by forex traders, forex analysts, and forex trade planning services charging hefty monthly fees. People are too busy looking at forex technical indicators and absolutely no discussion of the market forces governing the spot forex ever occurs. This has to stop or the forex industry and traders will suffer.

It is very rare if nearly non-existent for one forex currency pair to move strong without other currency pairs to confirm the move. This is true for any major or exotic currency pair. If you are â€œstuckâ€• trading the same currency pairs while the other pairs and exotic pairs are making strong moves its time to look at all of the currency pairs every night for your forex market analysis then pick the best opportunities to trade based on parallel and inverse analysis.

In order to trade the spot forex daily and weekly, you must analyze 15-20 pairs every day to determine the current market forces within each parallel or inverse group of pairs. This forex analysis will lead to less forex trade entries, but more logical forex trade entries, and better methods of confirmation of forex trade entries when the movement starts. Parallel and inverse analysis is the logic behind the spot forex.

About the Author

Mark Mc Donnell is the owner of www.forexearlywarning.com, an inexpensive forex trading plan service available to all spot forex traders. He has many years of experience trading stocks, equity options and the spot forex. He has spent the last four years of his career devoted solely in studying the movements of the spot forex, conducting forex trend analysis, and determining how this impacts retail forex traders. Mark is also the developer of www.theforexheatmap.com, which is a visual map of the spot forex that monitors 25 currency pairs in real time and tells you the best pair to trade.