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Pivot Points

Those of you who have been trading for a while will be familiar with Pivot Points. During this lesson I want to go over how to find a Pivot Point and also a slightly different method of using them. First let's look at how you calculate a Pivot Point.

Using a bar chart you will observe that each bar has an Open, High, Low and Close. This information represents all price activity during that particular period.

In the case of the following example, we shall use a daily bar. To calculate the pivot point all you need to do is add the High, Low and Close. Once this has been done you next divide the total by three, e.g. the cash FTSE on the 2nd May 02 had a High of 5192.70, a low of 5125.50, and a close of 5174.10. If you add the three together, you get 15492.3. You then divide that total by three to get a Pivot Point of 5164.10.

OK, so far so good, but what do you do with this information? Well, one technique I like to use intra day is to use the pivot point as a trend indicator. We already know that the Pivot Point for the 2nd May was 5164.10 and we will use this the next day as an intra day trend indicator.

If the price is above 5164.10, then I would only be long and if it were below 5164.10, I would only be short.

As price can fluctuate around any given point I also add a further proviso. If I have support close to 5164.10, I will first wait for the price to pass through 5164.10 and support before entering short. If I have resistance close to 5164.10, I will first wait for the price to move through the Pivot Point and resistance before entering long.

This method becomes even more powerful when the Pivot Point is close to the opening price. If, for example, the opening price is 5174.10, the Pivot Point is 5164.10, and I eventually go short at 5155, I can stay short the whole day as long as it does not go above the Pivot Point.

Once in a position I normally have a very tight stop to begin with and then will follow the market with a trailing stop to lock in profits.

Another way I like to add Pivot Points to my analysis is for more long-term projections. I will use the Pivot Point of a Yearly, Monthly and Weekly chart. In this case it would be the High, Low and Close of the previous Year, Month and Week.

I like to think of the weekly Pivot Point as the short-term trend, the monthly as the medium term trend and the Yearly as the long-term trend. I find this particularly useful in Spot Forex. If I am below the yearly, monthly and weekly Pivot Point, I know I am in a strong down trend and I can scale into multiple positions over time. The same holds true for long positions.

The point is there are many ways to determine trend. You can also use Pivot Point to find potential Support and Resistance, which we will cover in later lessons.

Experiment with Pivot Points and see if it suits your trading style. At the very least it is always handy to know where they are and it may help you decide which side of the market you should be trading from.



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