Inside Bar Trading Strategy

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Traders are often told things about what they should do in their trading, and how they should do them. It is rare however that these traders are told about why it is these things happen that way.

Not only should traders be told about what they need to do, but also why it is things work that way.

This article is going to explain why the market moves like it does with the inside bar strategy. From this you will be able to take away the knowledge, and apply it to your own trading.

Understanding why something happens will help you understand the market a lot more clearly, and help you to think about other parts of your trading that could be improved.

The Inside Bar Strategy

Many traders love to trade the inside bar as a signal to enter the market.

The main reason for this love is inside bars form regularly on many different charts and time frames. This gives traders plenty of chances to enter trades. This is also why so many people have their accounts eaten by trading the inside bar.

The inside bar is an indecision candle that is showing that neither the bulls nor the bears are in control of the market. This tells us that the market could go either way, and it really isn’t sure.

It is this same reason that the inside bar in most scenarios does not give traders an edge on the market, or a statistical advantage when used as an entry signal.

Trading the inside bar as an entry signal can be very challenging unless a trader is very experienced and has the knowledge of market workings. There are far better signals and candle patterns that traders can use in the market that give them clear entry signals, rather than the inside bar.

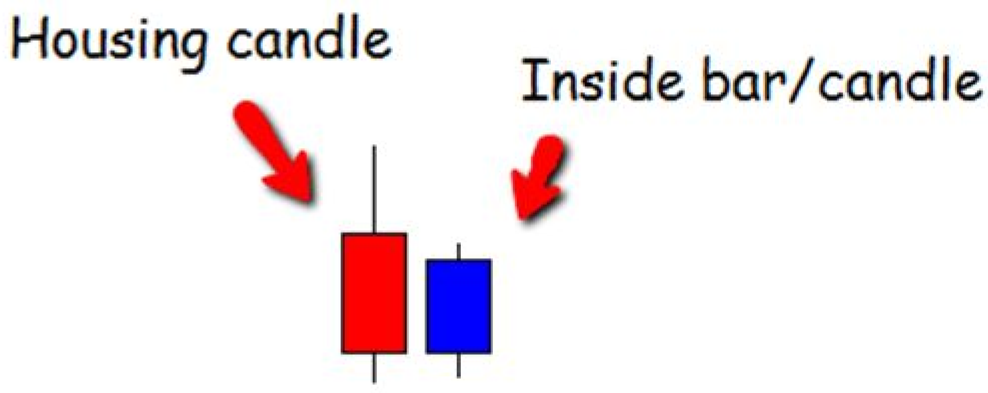
Just because the inside bar is not the best entry signal candle to use, does not mean we can’t use the information the inside bar gives us, to help us in our trading. We can use the inside bar in many ways, from reading what a market is looking to do, to managing trades or taking profit etc

What is the Inside Bar?

An inside bar or inside candle (acronym IB) is a pattern made up of a minimum 2 candles/bars. The first candle is called the “Housing candle”.

The second candle is referred to the inside bar. For the inside bar to be structurally correct we need to see the range of the candle be completely inside that of the housing candle. Matching lows and highs are acceptable, however the inside bars range must not be outside of the housing candle by even 1 pip.

An example of an inside bar is below. On the left is the housing candle, and on the right is the inside bar. The inside bar is completely inside the housing candle.



What Information Can We Gather From the Inside Bar?

The information we gather can be very different depending on where in the market the inside bar forms.

The first thing to remember is the inside bar is showing indecision and highlighting that the bulls are bears are fighting for control of the market.

The two most common inside bars form when:

1. The market is about to turn
2. The market is stalling before continuing

Quite often after a strong move in one direction we will see an inside bar form.

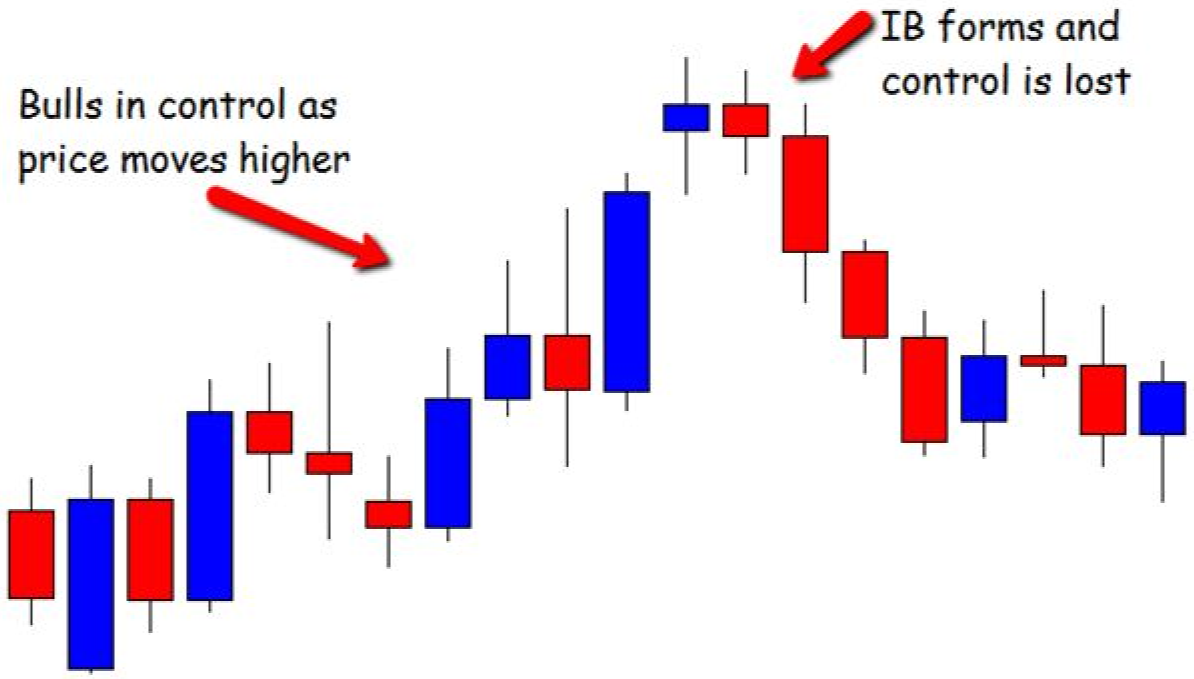
An example of this would be; the market moves up strongly with the bulls firmly in control. An inside bar forming at this point could be signalling that control of this market is in the balance, and the bulls are no longer having it all their own way.

If the bears gain control from this inside bar you will see price move lower. This is why so often when you see an inside bar form after a strong move, it will be followed by price changing directions.

The inside bar is showing that whist one team was in charge when the market was moving either higher or lower, now market control is in the balance, and price could be about to change directions.

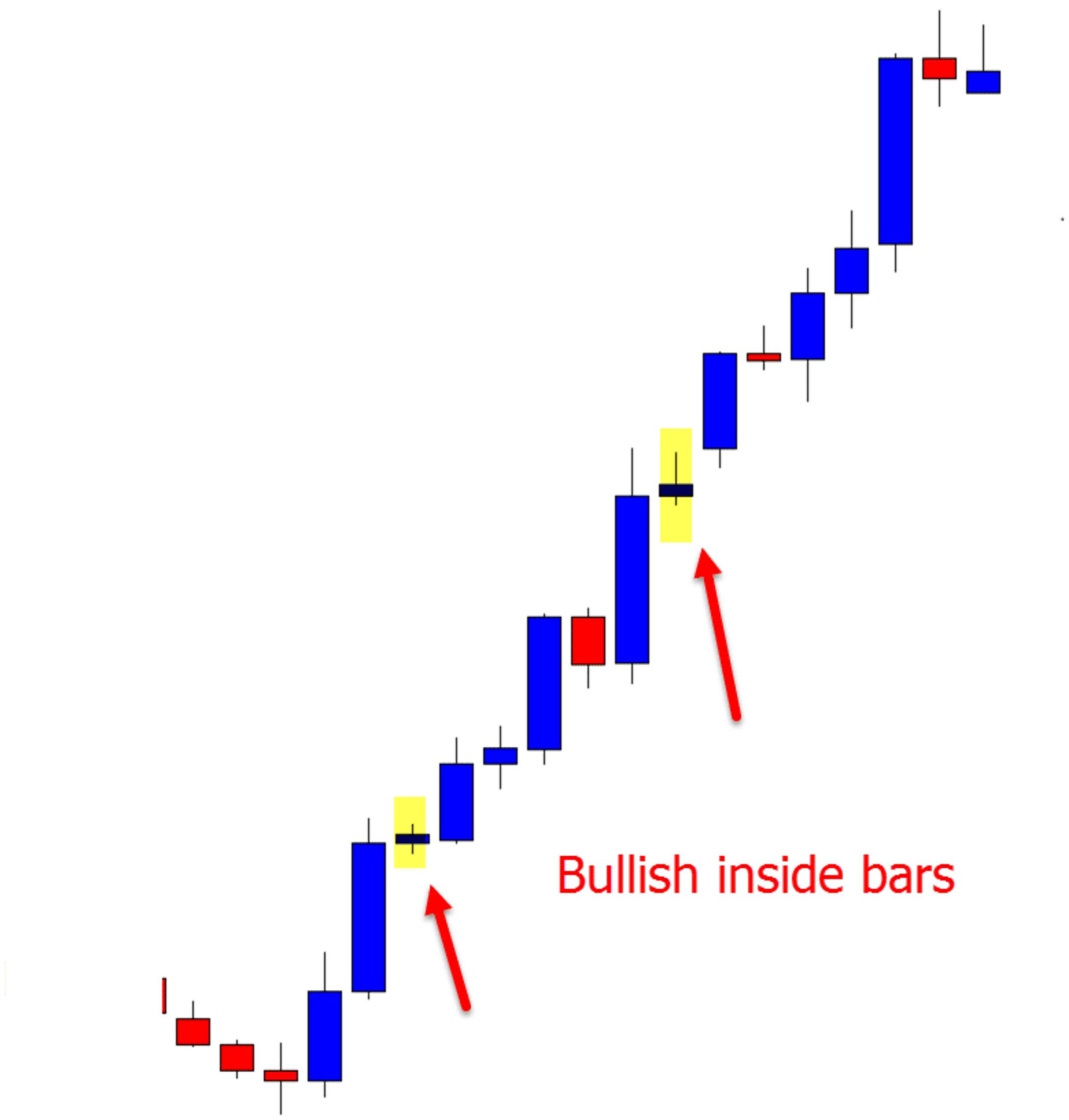
An example of this happening on a chart is below.

Notice bulls had been very much in control. Price action moved higher and then formed an inside bar. This inside bar signaled price may be about to change directions because the bulls were no longer in sole control of the market.



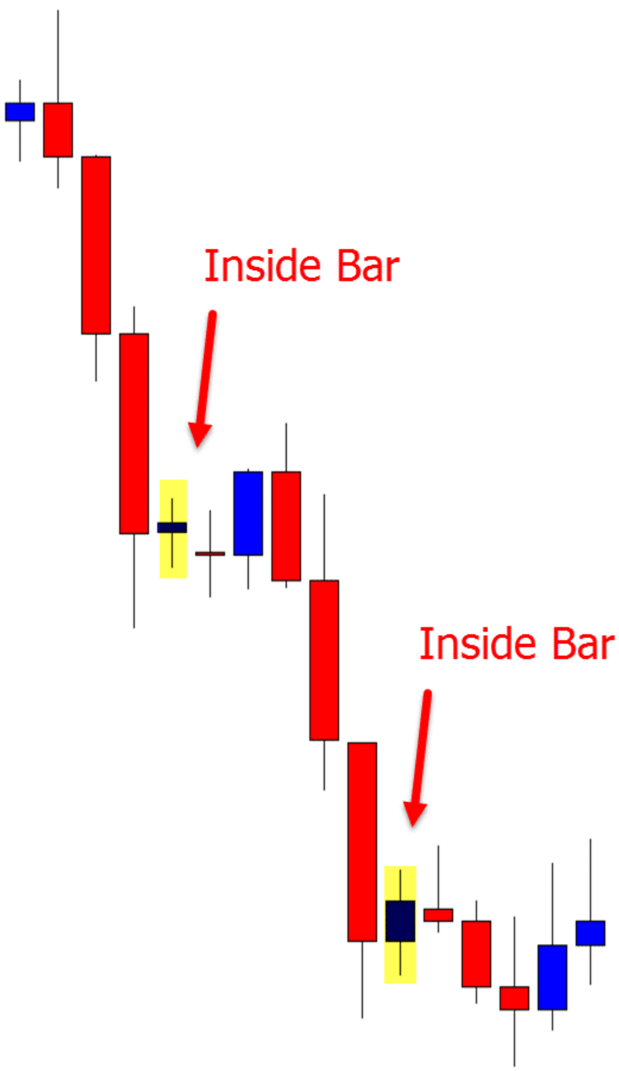
Bullish Inside Bar Examples

Below is an example of a bullish inside bar that formed as a continuation higher;



Bearish Inside Bar Examples

Below is an example of a bearish inside bar that formed as part of a continuation lower;



Reading Price Action With the Inside Bar

The other scenario that can play out after a large move in one direction followed by an inside bar is that the market continues.

As we know, markets do not move straight up or straight down and consolidation is part of market structure, and how the market moves.

Quite often price will move strongly either higher or lower and then pause. Often times during this pause phase price will produce an inside bar.

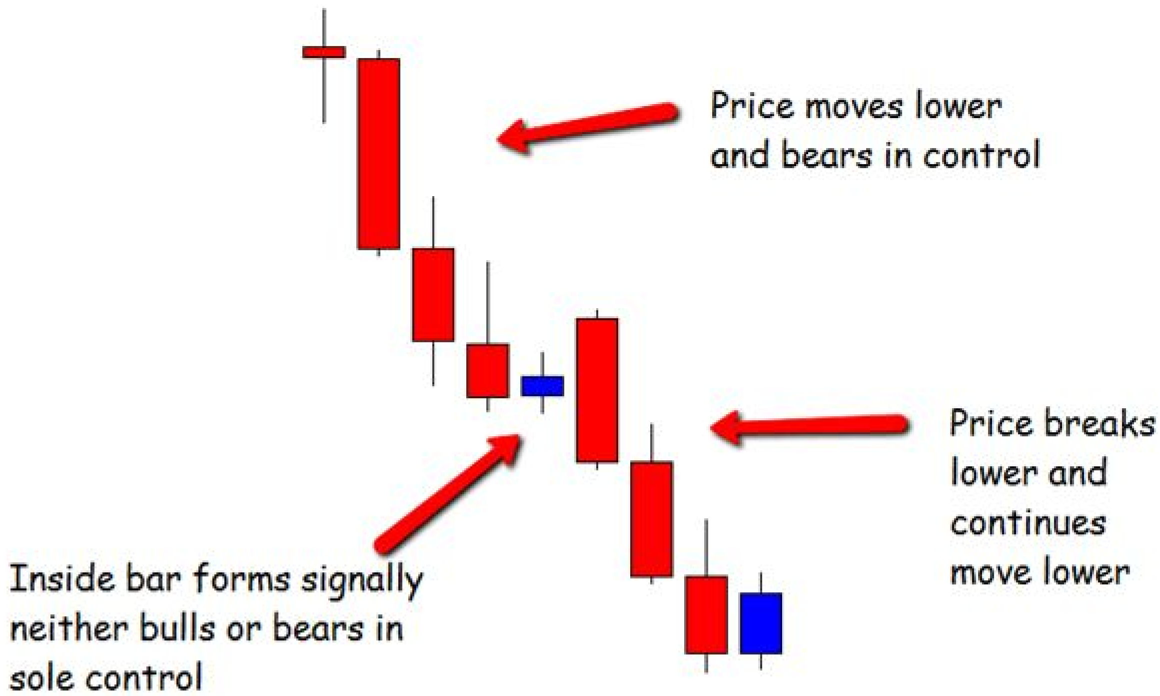
This inside bar is signalling the same thing as when the market loses control. This inside bar is telling us neither the bulls or bears are in sole control of the market and price could move either way, depending on who gains control from the inside bar.

An example would be; price is moving strongly lower and it is clear that the bears are in control.

An inside bar then forms at the bottom of this move lower, which is highlighting to traders that the market is indecisive, and unsure on which direction it wants to go next. This pause in price moving lower can often times be from traders taking profit after the big move down.

If enough order flow to sell builds up from this inside bar, price will move out of the inside bar and continue on another move lower. This is also how the market makes a big move, followed by consolidation and then continuation!

An example of this scenario playing out on a chart is below. The bears were firmly in control as they pushed price lower. Then an inside bar formed which was signalling that a fight was about to start to gain control of the market. The bears regained control once enough order flow built up and price broke lower, to continue on the down move.



Should You Use an Inside Bar Indicator?

Whilst there are many price action indicators including inside bar indicators, when looking for inside bar trades an indicator will not save you time.

Unless the indicator is sending you alerts about possible indicators when you are not at your charts, then there is no major advantage to using an inside bar indicator.

The inside bar is incredibly easy to spot and even if you do use an indicator to point these out for you, you will still have to weigh up whether it is a valid trade.

Last Thoughts on the Inside Bar Forex Strategy

The inside bar as an entry signal does not offer the trader an edge over the market in most scenarios, however the inside bar used for reading the price action story can be very useful.

It is important to understand why the market moves like it does. This will help you in understanding if trades you are about to enter are good trades to make, and also why the market is moving the way it is.

The inside bar is a formation that tends to form very regularly. Don’t be caught out by trading every inside bar just because they are there!

Now you have the knowledge of why the inside bar forms, and how the market tends to react to them.

Hopefully you can use this information to get a better grip on what the market is about to do, and more importantly, how you can position yourself to take advantage from it.

Make sure you use a **demo practice account** to perfect the inside bar before using it in your real cash trading account.

Safe trading,

Johnathon