GENERAL

trading the trends fred mcallen

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Introduction

In the fast-paced world of financial markets, traders are constantly searching for reliable methods to navigate the ever shifting landscape. One of the most enduring and widely respected approaches is **trading the trends**, a strategy that aligns buying and selling decisions with the prevailing market direction. Among the experts who have championed this philosophy, Fred McAllen stands out as a prolific author, educator, and practitioner whose insights have shaped the minds of countless traders. This article delves deep into the core principles of trend trading, explores Fred McAllen's unique take on the subject, and offers actionable guidance for anyone looking to master the art of riding market waves.

Who Is Fred McAllen?

Fred McAllen is a seasoned trader, author, and educator who has dedicated decades to studying market behavior and developing practical trading tools. With a background in both traditional finance and behavioral economics, McAllen brings a holistic perspective to the discipline of trend following. He has authored several best selling books on trading, including *"Trading the Trends"* and *"The Market Mind"*, and his courses are widely recognized for their clarity, rigor, and real world applicability.

What sets McAllen apart is his emphasis on psychological resilience, disciplined risk management, and the systematic use of technical indicators. He is a frequent speaker at international trading conferences and has contributed to numerous leading financial publications. Through his educational platform, he offers a blend of video tutorials, interactive webinars, and live trading sessions that help traders of all levels sharpen their skills.

The Concept of "Trading the Trends"

At its simplest, trend trading is the practice of aligning trades with the dominant market direction. Whether the market is moving upward, downward, or sideways, trend traders seek to capture profits by staying in sync with the momentum. The underlying assumption is that price movements tend to persist in a particular direction for a period, creating opportunities for systematic entry and exit.

Unlike short term scalping or high frequency trading, trend following focuses on longer timeframes—ranging from daily charts to weekly or monthly charts. This approach reduces the noise associated with intraday fluctuations and allows traders to spot more reliable patterns. Additionally, trend traders often employ a combination of price action analysis and technical indicators to validate their trades.

Fred McAllen's Approach to Trend Trading

Key Principles

McAllen's methodology is built on several foundational principles that guide every trade:

- Identify the Primary Trend – Use a combination of moving averages, trendlines, and price highs/lows to determine the market's dominant direction.
- Confirm with Secondary Indicators – Validate the trend with oscillators such as the Relative Strength Index

(RSI) or Moving Average Convergence Divergence (MACD) to filter out false signals.

- Entry Timing Matters – Enter trades at a pullback or a reversal point within the trend to maximize risk reward ratios.
- Risk Management is Paramount – Allocate a fixed percentage of capital per trade, use stop loss orders, and maintain a disciplined exit strategy.
- Maintain Psychological Discipline – Avoid emotional reactions to market volatility and stick to the plan.

Tools and Indicators

While the core of trend following lies in price action, McAllen recommends a few essential tools that enhance decision making:

1. Moving Averages (MA) – Simple Moving Average (SMA) and Exponential Moving Average (EMA) help smooth price data and reveal the underlying direction.
2. Trendlines and Channels – Drawing straight lines along swing highs and lows can visually represent support and resistance.
3. RSI – A momentum oscillator that identifies overbought or oversold conditions, useful for spotting potential pullbacks.
4. MACD – Measures the relationship between two EMAs and can signal bullish or bearish momentum shifts.
5. Volume Analysis – Confirming a trend with increasing volume adds credibility to the move.

Risk Management

McAllen's risk management framework is one of the pillars of his success. He advises traders to:

- Set a fixed risk per trade (e.g., 1–2% of total capital).
- Use stop loss orders placed just below a recent swing low (for long trades) or above a swing high (for short trades).
- Apply a profit taking strategy that balances between locking in gains and allowing the trend to continue.
- Maintain a trade journal to review performance and refine the system.

How to Implement Trend Trading Strategies

Market Selection

Not all markets are created equal when it comes to trend following. McAllen recommends focusing on liquid instruments with clear trend potential, such as major stock indices, currency pairs (e.g., EUR/USD, GBP/USD), or high volume commodities (e.g., gold, crude oil). Liquidity ensures tighter spreads, easier execution, and better risk to reward ratios.

Entry Criteria

Successful entries hinge on the convergence of multiple signals:

- Primary trend confirmation via moving averages or trendlines.
- Secondary confirmation through RSI or MACD.
- Price action at a pullback—ideally a retracement to a support level or a bounce off a trendline.
- Volume spike to confirm the move's strength.

Exit Strategy

Exiting a trade is as critical as entering it. McAllen's exit strategy includes:

1. Trailing Stops – Adjust stop loss levels to lock in profits as the trend progresses.
2. Profit Targets – Set realistic profit goals based on risk reward ratios (e.g., 2:1 or 3:1).

3. Trend Reversal Signals – Monitor for signs of a trend reversal, such as a crossover of moving averages or a divergence in momentum indicators.

Case Studies and Real World Examples

Example 1: Stock Market Trend Trading

Consider the S&P 500 during the 2018 bull market. A trader following McAllen's approach might use a 50 day SMA to identify the primary trend. When the price crosses above the SMA and the RSI is above 50, the trader waits for a pullback to the 50 day SMA level. Upon a bullish candlestick pattern at the support, the trader enters a long position with a stop loss just below the recent swing low. As the trend continues, the trader trails the stop to lock in gains, exiting once the RSI dips below 30 or the 50 day SMA crosses back below the 200 day SMA.

Example 2: Forex Trend Trading

In the EUR/USD pair, a trader might employ a 200 day EMA to gauge the long term trend. When the pair moves above the EMA, the trader looks for a pullback to the 50 day EMA. Confirmation comes from a bullish MACD crossover and an RSI above 60. A long entry is placed with a stop loss below the 50 day EMA. As the pair continues to rise, the trader uses a trailing stop based on the ATR (Average True Range) to protect profits while staying in the trade.

Common Pitfalls and How to Avoid Them

- Over trading – Trend following requires patience. Avoid chasing every market move.
- Ignoring Risk Management – Even the best signals can fail. Always use stop losses and risk limits.
- Misreading Indicators – Indicators are not guarantees. Use them as part of a holistic analysis.
- Letting Emotions Drive Decisions – Fear and greed can lead to premature exits or over exposure. Stick to the plan.
- Failing to Adapt – Market conditions change. Regularly review and adjust your strategy.

Resources for Further Learning

- Books – Trading the Trends by Fred McAllen, Trend Following by Michael Covel.
- Online Courses – McAllen's Trading the Trends Course, Forex Trading Masterclass.
- Webinars – Monthly live sessions hosted by McAllen on live trading strategies.
- Trading Journals – Keep a detailed record of every trade to identify patterns and improve.
- Community Forums – Engage with other traders on TradingView and Forex Factory.

Conclusion

Trading the trends is more than just a set of rules; it is a disciplined mindset that aligns actions with market momentum. Fred McAllen's teachings provide a clear, structured framework that blends technical analysis, risk management, and psychological resilience. By mastering these elements, traders can reduce uncertainty, capture meaningful gains, and build a sustainable trading practice. Whether you're new to the markets or an experienced professional, integrating the principles of trend following into your strategy can open doors to consistent profitability and long term success.

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