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How to use VWAP (Volume Weighted Average Price) for Intraday Trading

VWAP was used to be a tool for an Institutional investor only to collect maximum number of shares at optimal price. But, now a days many traders uses VWAP for intraday trading purpose also.

VWAP can be calculated as follows:

Step 1: Average of high, low and close for intraday period is calculated as (High+Low+Close) / 3

Step 2: Obtained price from step 1 is multiplied with period's volume

Step 3: Cumulative total price and volume is created.

Step 4: cumulative (price X volume) is divided by cumulative volume.

Major reasons VWAP getting popular among day traders are volume consideration in calculation of VWAP, Indicates market bias with support and resistance, Breakout and pullback techniques. All over VWAP is good but not Holy Grail. No trading system is Holy Grail. Let me show you example chart of VWAP for trading purpose.

In the above figure yellow line indicates VWAP and chart is candlestick chart with 1 min time frame. Usually VWAP can be used for trend analysis. Here you can see VWAP line is volatile at the beginning because of the low volume and turns almost flat at the end of the day. One can use breakout or pullback setup for trend trading OR yellow line as a support and resistance for range bound market. If you are a trend follower then sell below white line with SL few points above yellow line and exit before market closing. Here as you can see market bounced at closing hours but yellow line acted as resistance. Advance level traders books profit at standard deviation SD1, SD2 levels. If you are a pullback trader then let the market go below while line and then wait for pullback to yellow line. Do not forget to keep SL few points above yellow line. I have attached VWAP chart with standard deviation here for educational purpose only. It is always advisable to exit at targeted profit when using VWAP because as u can see yellow line does not move downward with price at the end of the day.

How to use RSI (Relative Strength Index) indicator for Intraday Trading

RSI is very popular indicator used by traders all over the world. Relative strength index is a momentum indicator that measures strength and weakness of current trend. This indicator is very popular because it is very easy to use. It is a leading indicator so it gives signal within short time. Major disadvantage of RSI is it gives many false signals.

It's easy for beginners because it trends between 0 and 100.Common interpretation for RSI is range bound between 30 and 70, oversold below 30, overbought above 70. If RSI stays below 50 then trend is bearish and if stays above 50 then trend is bullish. Now, this is common interpretation for general trend but if you want to use RSI for intraday trading then it is not enough. For trading perspective one has to look for RSI divergence.

If you look for only overbought and oversold RSI for trading then you are doomed to death. Divergence creates when price breaches previous low and makes new low but RSI doesn't breach previous low. You can see in above chart price breaches previous

pivot and makes higher high while RSI does not breaks previous high. To generate large profit in intraday trading one should look for an RSI divergence setup.

Chart figure found online and copies for learning and educational purpose only.

RSI divergence can give many false signals so it is always advisable to keep small stop loss (SL).

No matter what trading strategy we use, our trading plan should include proper entry, exit with proper stop loss, risk reward, psychology management.