



HowToTrade

CHANGE OF CHARACTER TRADING [PDF]

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Change of Character in Forex Trading

You've probably heard the forex markets mantra that "the trend is your friend." But we know trends don't last forever. So, where does the trend stop being your friend? And how do you make the switch immediately? That's where Change of Character (ChoCh) comes in.

Used in [the Wychoff trading model](#) and now adopted by traders using different trading styles, ChoCh helps traders to identify a sign of weakness in a prevailing trend while also preparing them for a reversal.

This ChoCh trading pdf guides you into what it is and how to trade it.

What is the Change of Character in Trading?

One of the key concepts that successful traders in the highly volatile forex market often use to gain insights into potential reversals is the "Change of Character" (ChoCh).



A Change of Character, abbreviated as ChoCh, essentially signifies the initial major shift in order flow within a financial market. This structural shift occurs when a minor demand or supply zone fails to hold, indicating a potential shift in market trend. It is often a potential signal for a short-term or even long-term reversal of assets, equities, or currencies.

Ultimately, ChoCh is a valuable trend reversal pattern for traders seeking to identify moments when the market's typical behavior transforms. It's akin to noticing the subtle signs of a changing wind direction before a storm.

How to Use ChoCh in Trading

Change of Character is fractal. That is, it appears on any trading instrument and on any timeframe. As a result, this gives it a wide range of uses. But ultimately, these many uses boil down to two main categories:

- Higher Timeframe ChoCh.
- Lower Timeframe ChoCh.

Using ChoCh on higher timeframes is to look at the big picture. It helps traders gauge the broader market direction and anticipate potential significant reversals. By recognizing a ChoCh transition, you can [better align your positions](#) with the prevailing market sentiment.

On the other hand, when analyzing lower timeframes, such as the 1-minute timeframe, traders use ChoCh to identify potential trading opportunities and also make informed decisions. This meticulous analysis allows them to spot short-term shifts in [order flow](#), enabling them to make precise trade entries.

Identifying Change of Character – Tools and Techniques

You can identify Change of Character on your charts and in various market conditions using two major methods: price action and [the use of indicators](#).

Identifying ChoCh Using Price Action

To identify it using ordinary price movement, you need a good understanding of market structure and break of market structure.

For a ChoCh pattern to happen, there must be an established trend. A series of higher highs and lows where the market continuously breaks structure to the upside represents an uptrend. In contrast, a downtrend is represented by a series of lower highs and lower lows, where the price is breaking the structure to the downside.



For a ChoCh to take place in a bearish trend, we expect two things:

- The market once more breaks structure to the downside, forming another lower high and lower low.
- The market, having formed a lower low, reverses until it surpasses the most recent lower high. That is your bullish Change of Character.

Similarly, for a market in a bullish trend, we expect two things:

- The market keeps breaking structure to the upside in a series of higher highs (HH) and higher lows (HL).
- Once the market forms the last HH and reverses immediately to fall below the most recent higher low before that higher high, you have your bearish ChoCh.

Identifying Change of Character Using Indicators

For traders seeking a more automated approach to detecting market structure, break of structure, and ChoCh patterns, the “Smart Money Concepts” indicator by Luxalgo offers a convenient solution. This indicator is available in both free and premium versions on TradingView, making it accessible to traders with varying budgets.



The indicator simplifies the process by seamlessly adding ChoCh to your trading strategy. Here's how it works:

- **Market Structure Analysis:** The indicator automatically identifies market structure, highlighting the prevailing trend's key levels, such as higher highs and higher lows in a bullish trend and lower highs and lower lows in a bearish trend.
- **Break of Structure Detection:** It monitors price movements and promptly signals a [break of structure](#) when it occurs. This can be a game-changer for traders who prefer a more hands-off approach to technical analysis.
- **ChoCh Alerts:** When the market forms a ChoCh pattern, the indicator provides alerts, ensuring that traders are promptly informed of potential reversals.

However, the downside to using an indicator is that it won't catch all the ChoCh. So, you might miss out on some opportunities. On the flip side, however, indicators can help you catch those ChoCh that are hard to find in various market conditions. It also takes the guesswork out of the equation if you're a newbie to the concept.

How to Trade the ChoCh Trading Strategy (2 Trading Examples)

Now that we know how to identify them, there are different ways of trading ChoCh. Depending on your trading style, here's how to trade ChoCh with graphical examples.

A. Price Action Traders

For naked chart traders, using the market structure and CHOCH can be a valuable tool to identify market trends and entry opportunities.

1. Identify a Market Structure on a Higher Timeframe

A combination of the understanding of the basic market structure. When there's a continuous break of structure to the upside or downside, that's a form of market structure. [Significant supply and demand zones](#) are also another form of market structure because you expect the market to react in a certain manner when it gets to those levels.



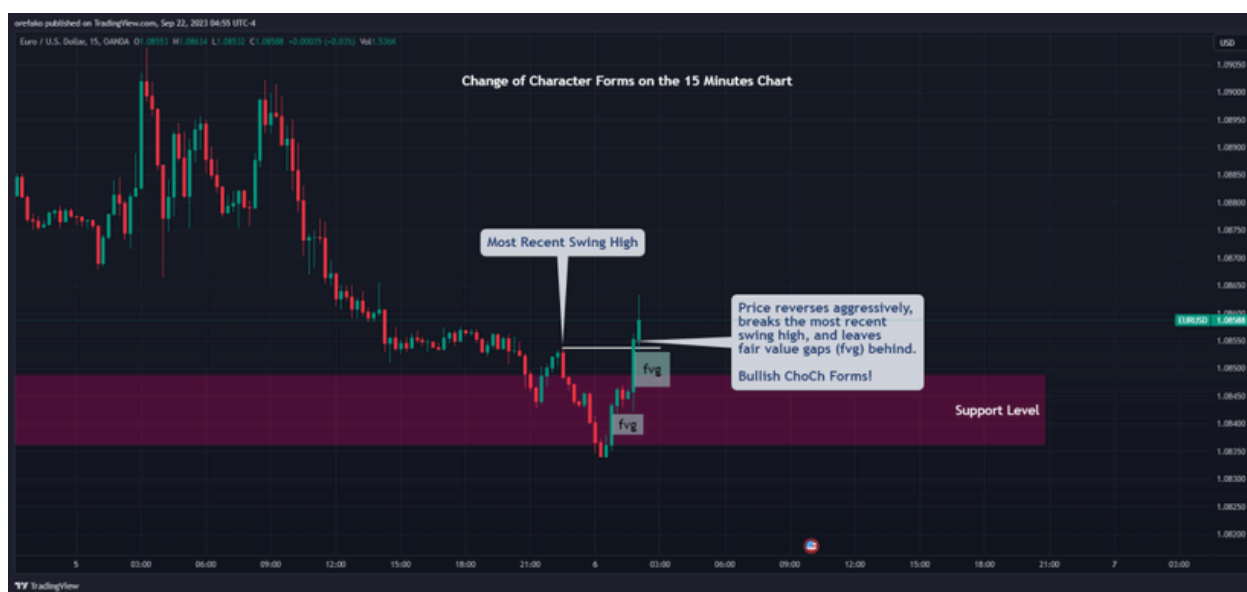
For example, in the chart of the EURUSD currency pair in the 4-hour timeframe, the market has formed a clear demand level. And once again, it approaches that same level.



There are two expectations here. The price either breaks the demand level to the downside or bounces off it. For a ChoCh to happen, we need the latter to happen. If the cases were reversed, the market would need to either go past the supply or bounce from the supply. A bounce from the supply would give an opportunity for our ChoCh to appear.

2. Descend to a Lower Time frame to Scout For Entries

The 15-minute timeframe is the perfect lower time frame pair for the 4-hour, so we head to it. We're expecting to find a Change of Character. This is what confirms our entry.



This clearly happens on our chart. Just after the price dips into the demand zone and liquidity grabs below the zone, it makes a strong U-turn that breaks the most recent swing high. It also forms a series of fair value gaps that show how aggressive the reversal is.

However, if you marked out your market structure on a 15-minute chart, you can go down to the 5-minute or 1-minute chart to scout your ChoCh.

3. Trade Entry

Your Change of Character pattern has formed. A point of reversal has been confirmed. What's left now is how to get into the trade.

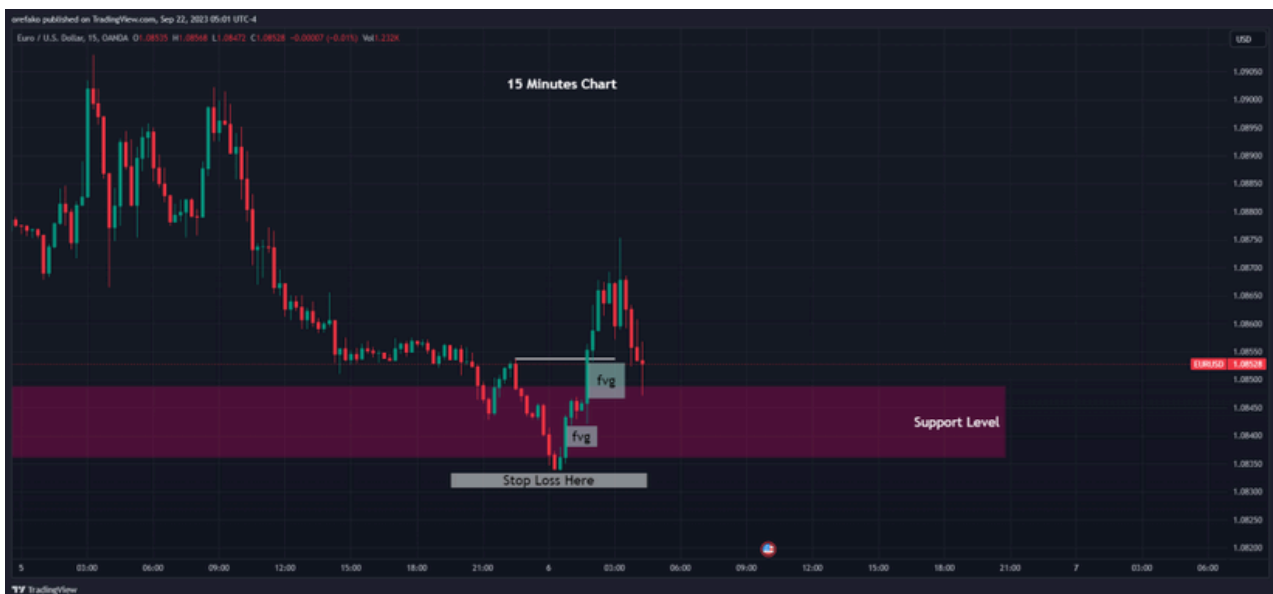
One way to do that is to enter a trade immediately after there's a change of Character. That is the aggressive entry, however. Another way to get in a trade is to mark out the fair value gap that showed up while the market was pushing for the reversal. Place your limit orders at its upper edge (for bullish trades) or the lower edge (for bearish trades).



Continuing with our chart, you can take your aggressive entry on the break of the most recent swing high. Otherwise, wait for the price to return to the fair value gap where your Buy Limit order is waiting.

4. Stop Loss and Take Profit

In any of the execution methods, place your stop loss behind the last swing low (in an uptrend) or above the swing high (in a downtrend).



Setting your target profit can be done in a couple of ways. For example, you can target a fixed risk-reward ratio, target the swing high (in an uptrend) or the swing low (in a downtrend), or you can place your target profit at the next opposite [order block](#). It is advisable to choose only one of these methods and stick to it.



Following the processes, the chart above is an example of what your trade would look like on a 1:2 risk-reward. It's important, though, to not get over-excited and jump into a live account. Instead, start trading a demo account and [backtest as far back as you can before trading it live](#).

B. Indicator Traders

If you use different types of Indicators, incorporating CHOCH into [your trading plan](#) can reduce your losses and help you enter reversals early. Here's an example of how to use ChoCh with RSI.

1. Look for an Overbought or Oversold Asset

Using the RSI in the 1-hour timeframe, you can easily scan through different assets and choose the one that is either overbought or oversold.



An asset that is overbought shows that the buyers are exhausted, and the sellers are about to reverse the price. Hence, we will be looking for a sell opportunity. Conversely, an oversold market shows that the market is preparing to reverse to the upside.

2. Wait for a ChoCh

Once you've identified an overbought or oversold asset, it's time to wait for a ChoCh on that asset. For an overbought asset, you wait for a bearish ChoCh.



Once you've identified that a ChoCh has formed, you can enter the trade immediately.

3. Setting Stop-loss and Exit

Setting your stop-loss is straightforward. For a SELL trade, simply set your stop loss above the swing high and just below the swing low if you are in a BUY trade.



To exit a trade, the best way is to check the RSI. You are to hold a SELL trade till it reaches an oversold level on the RSI before you exit the trade. Similarly, you can exit a BUY trade when the RSI shows that the asset is overbought.



Over To You

The Change of Character (CHoCH) pattern is a great trend reversal confirmation tool. It's important to note that there are also false ChoCh moves, where the price changes character, only to reverse once again to the initial trend. And that's why you should always use every pattern in [confluence with other tools](#).