

## LESSON 2: BOLLINGER BANDS

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# Forex Training Summary and Quiz

## Bollinger Bands in Forex

Bollinger Bands were introduced in the 1980s by technical analyst John Bollinger.

Bollinger Bands make use of a moving average and the statistical concept of standard deviations to create bands or "price channels" that show the strength of a market trend as well as overall trade volatility.

Bollinger Bands must be placed over a pricing chart such as an Asking Price, a Minimum / Maximum Price Chart, or a Candlestick Chart. This provides the current market price, as well as a moving average price that "smoothes out" rate fluctuations.

The greater the distance between the bands, the greater the overall exchange rate volatility.

The region between the average rate and the upper band is the buy channel - the region between the average rate and the lower band is the sell channel.

A series of spot rates falling outside either of the bands is said to be breaking the bands and is a strong trend reversal signal.

**Double Top** - a trend reversal signal that the market is resisting further price increases and a sell-off is likely as traders settle their open positions prior to an anticipated pullback in the exchange rate.

**Double Bottom** - a trend reversal signal that the market is supporting the current rate suggesting that rates could increase as buyers enter the market.

### Putting It All Together

1. Bollinger Bands provide insight into the level of \_\_\_\_\_ for a currency pair.

- relative strength
- volume
- volatility
- risk

2. Bollinger Bands use the concept of standard deviations to measure the \_\_\_\_\_ of a data set.

- effectiveness
- size
- depth of market
- dispersal pattern

3. The area between the moving average line and each band is called a \_\_\_\_\_.

- target
- channel
- trough
- resistance point

4. When spot rates fall outside the bands ("breaking the bands"), this indicates a(n) \_\_\_\_\_ in volatility.

- leveling out

increase  
easing  
decrease

5. As the bands widen, this is an indication of \_\_\_\_\_ volatility.

a decline in  
weaker  
straight-line  
greater

6. Volatility tends to \_\_\_\_\_ following a rate reversal as traders wait for a clear signal as to the market direction.

decrease  
increase  
remain constant  
cease

Score 6/6

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