Bollinger Bands Guide and Secrets of BB Indicator

Here you will find a quick step by step guide on how to set up and work with the Bollinger Bands indicator. There will be a list of secrets of working with this instrument as a bonus. Keep them in plain sight and don't forget about them.

I work with Bollinger Bands here - https://my.liteforex.com/. The platform is available without registration.
To add Bollinger Bands to the chart, follow the instructions:

1. Select the Indicators section,
2. Select the Bollinger Bands Indicator (BB).

The settings menu of the indicator is under number 3 in the picture.

What do you use Bollinger Bands for?

1. To visualize the “squeezing” and “expanding” of prices - I recommend using this function with trend strategies.
2. To visualize the price distribution area adjusted by the specified multiplier. With a coefficient of 2, the indicator area shows the price distribution zone, which includes about 90% of all closed candlesticks. This function is useful in both trend and channel strategies.

Bollinger Bands Signals

1. As a rule, touching and crossing of Bollinger Bands is interpreted as the beginning of a trend movement. It is often used for channel trading. Bollinger Bands% b show it well.
2. Expansion of the dispersion zone implies the beginning of a new trend. It is shown by BandWidth.
Bollinger Bands Advantages

1. Gives leading signals.
2. Suitable for any timeframe and market.
3. Easy to use.
4. Can be found in any platform.

Bollinger Bands Disadvantages

1. A large number of false signals.
2. Requires the use of additional technical analysis instruments.
3. Ineffective in low volatility markets. It needs a volatile price!

Installing and setting up indicators for MT4

Installation and setup of Bollinger Bands

1. Add Bollinger Bands to the trading instrument window.

How do you do it:
Open the tab - Insert/Indicators/Trend. Left-click on Bollinger Bands in the list of technical analysis instruments.
2. Setting up the Bollinger Bands indicator.
The window with parameters will open after the installation is complete. The following parameters are set by default:

- Period - 20
- Deviations - 2

I recommend correcting the “Period” value so that the middle line showed the trend correctly in case of directional movement. A period of 10 to 50 is recommended.

In accordance with the period, correct the deviation parameter in proportion to the values in the table.

<table>
<thead>
<tr>
<th>Period</th>
<th>Deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>1,9</td>
</tr>
<tr>
<td>20</td>
<td>2,0</td>
</tr>
<tr>
<td>50</td>
<td>2,1</td>
</tr>
</tbody>
</table>

**Attention!** The trading instrument you work with may require individual parameters.
Installing and setting up Bollinger Bands

2. Click on the tab - File/Open Data Directory.

3. Select the MQL4 folder.
4. Select "Indicators" in the folder. Copy the contents of the Bollinger_Bands_3b.mq4 archive there and restart the terminal.
5. Open the chart window that you want to analyze and insert the indicator. How do you do it:
Select Insert/Indicators/Custom, left-click on the Bollinger Bands%. b.
6. Click on the “Levels” tab and adjust the values as 0.8 and 0.2. Click OK.

Installing and setting up Bollinger Bandwidth


Unpack the archive. The installation procedure itself is similar to the one described above for Bollinger Bands%. b.

Add an instrument to the chart. Do not change the settings. Leave the default ones.
How do you work with Bollinger Bands indicators

If you have installed and set up the Bollinger Bands, %b and Bandwidth indicators correctly, you will see a chart on your screen similar to the chart above. At the top of the window, you see a price chart with Bollinger Bands superimposed. In the middle is the Bollinger %b as a yellow oscillator. At the bottom of the window is the Bollinger Bandwidth.

The chart above shows a perfect buy signal. It includes the following conditions:

1. Bollinger Bandwidth is at the bottom of the window for a long time (blue circle)
2. Bollinger% b goes beyond 0.8 (red circle)

3. Bollinger Bands sums up those two signals. The signal from Bandwidth is the narrowing Bollinger Bands channel, and the signal from the% b instrument is the price breakout of the upper Bollinger band.

The signal will be similar for shorts but Bollinger% b should go below the 0.2 level, and Bollinger Bands should go below the lower band.

The example above shows that you can do without additional tools and get all information you need only from Bollinger Bands. However, I recommend working with these indicators in combination until you learn how to identify signals simply from the price chart.

There is a perfect sell signal in the chart above - the downtrend, however, did not develop. The market went up. This is one of the main problems with Bollinger Bands - there are false signals. Therefore, it is not recommended to use this tool alone for making trading decisions.

11 secrets to using Bollinger Bands

I will share the secrets of the indicator and reveal the pitfalls of using this instrument. Print this list or save it somewhere. It will definitely come in handy in the future!

11 secrets of Bollinger Bands:
1. Never use Bollinger Bands as your only decision-making tool. The main task of this indicator is to give a leading signal, which, like a yellow light, should warn the trader about a potential strong movement.

2. When using Bollinger Bands, there is a high risk of running into a false signal. It is necessary to use additional technical analysis instruments to filter out low-quality signals.

**Bollinger Bands work well with:**

- Technical analysis patterns: triangle, pennant, flag, W and M-shaped patterns
- Trend lines and channels
- Fibonacci Retracement levels
- Trend indicators (for example, Alligator)
- Money Flow Index (MFI)
- Relative Strength Index (RSI)
- Moving Average Convergence Divergence (MACD).

3. I do not recommend using the parameters set in the indicators by default. Adjust them for each market, trading instrument and timeframe in such a way that the signal lag is as small as possible and their reliability is as high as possible.

4. Read signals only after the candlesticks are closed. The shape of a candlestick may change and so your signal may change as well.

5. Pay attention to the candlestick closing levels! A close outside the Bollinger Bands channel usually means a continuation of the trend, not a reversal.

6. The Bollinger Bands signal is stronger on a higher time frame than on a lower one. A bullish combination on a daily time frame will be stronger than a bearish one on an hourly time frame, and one on a weekly time frame will be stronger than one on a daily one.

7. Since Bollinger Bands is a leading indicator, as the timeframe increases, the lag between the signal and its coming into life also increases.

8. To open a trade early, you can switch to a shorter time frame. If there is no clear signal on a D1 time frame, you can switch to H4.

9. Reliable, high-quality Bollinger Bands signals will be visible on three time frames: your main one, one shorter and one longer than your main time frame (for example, H4, H1 and D1).

10. Do not use the middle Bollinger band for price crossing signals. This line indicates the direction of a trend, it does not give signals for trading.
11. Bollinger Bands signals do not guarantee a profitable trade. They are designed to increase the chances of success but not a 100% successful trade. Always remember to apply risk management rules and use stop-losses!