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THE VWAP STRATEGY

The Proven Strategy Behind High-Probability Trades

1. CONTEXT

The VWAP indicator is one of the most powerful technical indicators used by traders today. VWAP stands for **Volume Weighted Average Price,** and it shows where the majority of trading volume has occurred throughout the day. In simple terms, it represents the market's real-time fair value.
VWAP has been around since the 1980s and is commonly credited to Abel Noser, a well-known Wall Street economist. He developed VWAP as a benchmark to measure whether large institutions were receiving favorable trade execution compared to the market's average price, weighted by volume.

There are two main ways to use VWAP.

The first is the **standard VWAP,** which resets at the beginning of each trading day or session. For example, with the S&P 500, VWAP resets at 9:30 a.m. Eastern Time (2:30 p.m. UK time). For the DAX and the FTSE 100, it resets at 3:00 a.m. New York time, which is 8:00 a.m. in London.

The second method is the **anchored VWAP,** which begins from a specific time or price point that you choose.

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VWAP acts like a magnet for price. At some point during the session, price will often return to retest the VWAP.

THE STRATEGY SETUP

We only look for buy trades when price is trading above the VWAP, and **sell trades** when price is trading below the VWAP.

When price retests the VWAP after moving away from a displacement area, we then draw an **Anchored VWAP (AVWAP)** from that displacement point to refine our trade setup.

Place a **buy stop order** when price breaks back above the Anchored VWAP (AVWAP), aligning with the direction of the main VWAP.

Place the **stop loss** below the swing low that retraced into the VWAP.

SELL TRADE RULES (REVERSE SETUP)

We only look for **sell trades** when price is trading below the VWAP.
When price retraces back up into the VWAP after moving away from a displacement area, draw the **Anchored VWAP (AVWAP)** from the displacement point.
Place a **sell stop order** when price breaks back down below the AVWAP, aligning with the direction of the main VWAP.
Place the **stop loss** above the swing high that retraced into the VWAP.

RISK MANAGEMENT

Risk management is a key part of this strategy.

The **minimum profit target** should be set at a 1:1 risk-to-reward ratio. In other words, you should aim to make at least the same amount as you are risking on the trade.

Profit targets can be set at the next levels of liquidity, such as previous highs or lows, session highs or lows, or other key market structure levels. Alternatively, you may choose to hold the trade until the end of the trading day. This approach can sometimes produce larger winning trades. If you decide to hold for extended targets, it is recommended to move your stop loss to **break even** once the trade reaches a 1:1 risk-to-reward level. This protects your capital while allowing the trade room to continue.

IMPORTANT NOTICE

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