

First Post: Dec 26, 2012 5:43pm

Mr. Pip's
Hello Traders,

I'm Mr. Pip; I am a fulltime trader and trade ratios and harmonics. I'm starting this thread with the purpose of providing some insight on the topic of ratios and harmonic trading.

I understand this is an advance method of trading but let's not let that affect our ability to learn from this style of trading. I will not be providing you with any resume as to how long I've been trading nor will I be answering questions about my results, how many pips I make per week and all the other questions that follow suit. Let's understand that my result will not be equal to yours and therefore are irrelevant to the purpose to this thread.

Results have more to do with the trader then the system traded. You will either see value or you won't. If you do great stick around and we can learn from each other. This is a never-ending journey and learning should always be #1 on your priority list.

This system is based on price action, ratios and harmonics. NO indicators will be added or used. Please do not post any as they are not part of this system. All traders and their ideas deserve the upmost respect and that is the only rule for now.

As I mentioned I am a full time trader and my focus will be to my trading first. I will after my trading is finished for the day come here to post and answer questions. Please let me know if there is an interest in harmonics and ratios so I can continue on our journey.

I welcome and call out all harmonics and ratio traders to participate and post. I wish everyone the very best in all your endeavors.

Best Regards,

Mr. Pip

Post# 2

Dec 26, 2012 5:57pm

Mr. Pip's

What is market harmonics? Is it possible that the markets are not random? The answer is yes there is nothing random about this or any other market or instrument you wish to trade.

Harmonics is the process of identifying the market's rhythm or its pulse if you will and exploiting any and all opportunities. There are visual occurrences that have tendencies to repeat themselves over and over again. It is our job as chart technicians to identify them and trade them. The principles of harmonics and ratios have no boundaries. They can be applied to any instrument or timeframe. We will peel away the myth of the term "noise" and learn to focus on the only thing that matters on a chart, PRICE.

Regard,

Mr. Pip

Post #3

A taste of things to come. Enjoy the chart!



Post #4

Dec 26, 2012 7:06pm

I made this short video a while back for a group I was mentoring. It is a great foundation we can build on. View the video on Fibs and Harmonics.

http://www.youtube.com/watch?feature=player_embedded&v=6SvcmyIkmtM

Regards,

Mr. Pip

Post #5

Dec 26, 2012 8:45pm

Let's talk about areas of confluence. Confluence areas are where trading decisions are made. In these areas positions are covered and others are opened. They are by far the best areas for high probability trade setups.

It is a coming together of different technical tools that adds tremendous strength in the decisive nature of price movement. The more elements that meet at a specific place and time the stronger the hurdle for price to overcome. Price often takes the path of least resistance.

The market is what it is, the collective sum of its participants. It is an impossibility for anyone person to think what any one trader is thinking much less the millions that trade it. It is an emotional machine steered by the 2 most basic human emotions fear and greed. Confluence helps us identify where traders collectively have the highest probability to make these decisions with unprecedented precision. The chart below shows the power of confluence.

What is involved in areas of confluence?

Support/Resistance, Fib Ratios, Fib Ext., Harmonic Patterns and on occasion trend lines. We are always building a case for entry. There must always be a reason for getting into a trade. If you cannot answer why you want to take this trade then you should not take that trade.

Regards,

Mr. Pip
(image below is part of this post)



Post #6

Dec 26, 2012 9:28pm

I don't expect you to understand this yet but I like to show chart examples. I just want you to see the confluence. When and if price gets to the PRZ the market will be overbought and there are simply too many obstacles for price to overcome.

I will not confuse you with fancy supply and demand terminology and will keep things simple for the newer folks here. The expectation is for weakness to give way to strength. The bears will be waiting here for an opportunity to take price lower. The path of least resistance will likely prevail.

Don't focus on this pattern too much just want to show you a current example of confluence at a pattern completion point. We will get into patterns and harmonics later on.

Regards,

Mr. Pip

(image below is part of this post)



Mr. Pip



Post #8

Dec 27, 2012 9:20am

Per my rules its a bat pattern



Post #9

Dec 27, 2012 2:58pm

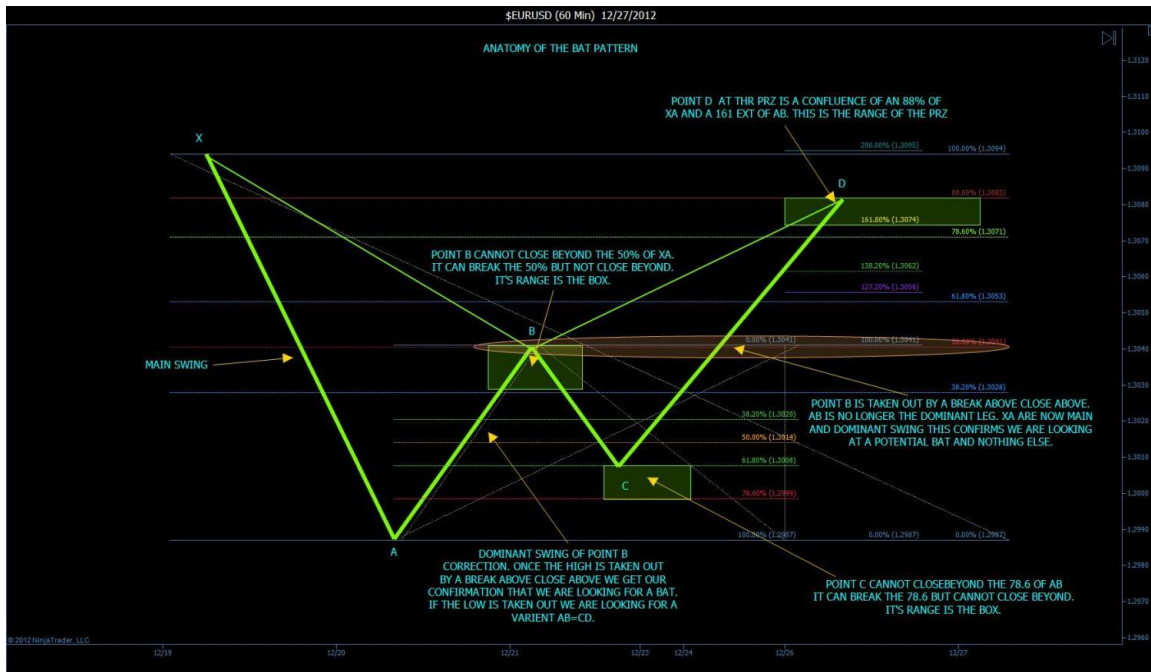
It has been mentioned and eluted to that how often do these patterns occur and if it is missed one could look to a different time frame. As I mentioned in the beginning, harmonics have no boundaries they apply to any timeframe or instrument. The question is really what are you comfortable with? How busy do you want to be and how much chart time do you have as a trader?

You have to address this early in your career. What are your hours of operation? Then you can identify a timeframe that gives you the best possibilities based on whatever system you chose to trade. It makes little sense that if you only have two hours in a day to trade that you look for setups on a 4H chart. Sure they will come but you will miss a lot more then you grab. Make sense?

Post #10

Dec 27, 2012 7:33pm

This is the proper way to analyze a Bat Pattern.



Post# 11

Dec 28, 2012 9:54am

Let's discuss how we apply ratios to swings and begin the process of identifying potential patterns.

We will begin with the Gartley that just completed since it's fresh in our minds.

I will do this in a few posts step by step so we do not get confused.

The first thing we need to identify is a main swing. This is a swing that is obvious just by looking at it, 100 out of 100 people would have to agree on the high and the low.

Once this is identified we have to know that there is a high likelihood that it will at some point become an anchor leg to an advance pattern. It is important to take a look at previous swings to make sure this swing is not part of a pattern already in formation. This can happen if you have not been following the pair and just opened the chart.

Remember I said that it is not uncommon to see patterns within patterns and back to back patterns this happens a lot we just saw it here; just yesterday we had a bat pattern and now a Gartley. So just take a look and make sure you validate your swing as a potential anchor leg.

In the next post we will measure this with our fib tool.



Post #12

Dec 28, 2012 10:19am

We can now draw our Fibonacci retracement lines from the low to the high of the main swing. This first retracement is the most important as it will identify what potential pattern or patterns we are looking at. Also, we can begin the process of elimination. Depending on this correction other patterns will be discarded.

So now our focal point become between the 38% and the 78% correction of the main swing. Price has to close somewhere in this zone and form a low. This low cannot be taken out by a lower close or all patterns become invalid and the process starts all over. Keep in mind that if this occurs, take a look at the previous swing because you could have missed something. Price has to stay within the confines of this zone! This correction will become point B or C of any pattern. Sorry the chart should say B or C in the green cube.



Post #13

Dec 28, 2012 10:51am

Now that we have our first correction we can establish it as the dominant swing. I use this terminology because it has dominance over deciding what patterns we will discard and which one we will keep on the table. It also has price action trapped within its high and low so it also has dominance on price action. We now know we are dealing with a Gartley, Crab or ABCD all others are discarded per my rules of engagement as the close fell between the 50% and the 61%.

In the next post a Fibonacci will be extend from the high to the low to further define our pattern. We already know it can only be one of three so the process simplifies as price progresses.



Post #14

Dec 28, 2012 11:19am

We can now extend the Fibonacci retracement line from the high and low of the dominant swing. Every swing in the process has its own role in helping us further validate the pattern that is forming. This swing will also iron down our unknown X,A,B,C.

To achieve this we use a conditional thought process our approach should always be an IF=Then process. Let me explain this a bit more. If this happens then I will do this. There is no guessing involved no subjectivity.

If the high of the dominant swing is taken out by a break above close above then the Gartley and Crab are discarded and we are looking at an ABCD.

If price retraces to the green cube then we are looking at a Gartley Pattern.

If price retraces in the dark pink cube then we are looking at a Crab Pattern.

As you can see price pierced the 61.8 making it a Gartley Pattern and we can identify points X,A,B,C.

Our next post we will identify where point D should terminate and identify the all so important PRZ.



Post #15

Dec 28, 2012 11:33am

Great we are almost there. We know we are looking at a Gartley and we need to identify where D is suppose to be and identify our PRZ.

D is by the rules of engagement and area of confluence between the anchor leg XA of 78.6 and a 127 extension of AB.

So now we have D identified great so this is where the pattern completes. Now we have to see what other harmonic element we can utilize to form the PRZ

We will do this in the next post.



Post #16

Dec 28, 2012 11:57am

The PRZ is a magical place. This is where decisions are made and often fast. Price generally does not hang around here long. We don't have a rule for how valid a PRZ is but the more confluence of harmonics and structure line up at a pattern completion point the stronger that PRZ becomes and also the reaction to price.

In this pattern we had the following:

We know price is to begin with at an exhaustion point (oversold by Fib extension).

We have nice confluence at D (78.6 and 127).

We have a Harmonic AB=CD Blue line.

We had a 138 Fib extension lining up with structure.

We now throw a cube around this area and bam the PRZ.

This particular PRZ had four areas of confluence and sometimes there may only be the pattern. The more you find the stronger the PRZ becomes. Don't feel the pattern is any less tradable if it's the only confluence you can find in the PRZ.

Well my friends you can see how we build a case for entry and have plenty of reasons to engage the market.

We identified weakness with harmonics and ratios and took advantage of a very high probability trade.

Are there any questions? Do I need to go over anything again?

Maybe tonight or tomorrow we will get into the PRZ.



Post #17

Dec 30, 2012 8:24am

Okay finally the PRZ. LOL

Now that we have identified where the potential PRZ is, what do we do when and if price gets there? What are we looking for that would give us the signal to engage? Well the simple truth is that it really is up to you and what you are comfortable with. What reversal signal do you feel comfortable with 1,2,3 patterns, engulfing, pins, hammers, price rejections? All these are fine and what works for one may not work for others but I will tell you how I handle this magical zone.

Before I do this let's talk about pricing. As traders I hope you would always be looking to buy or sell at the best possible price. This best price is as close to a top or a bottom as possible. I use the term buying or selling at wholesale. The majority of traders out there are retail traders this group of traders are the breakout traders and indicator traders. Their signals get them into a trade later and at a less favorable price. This is the type of trading you want to get away from. My method always gets you in at wholesale prices and will offer you the best risk reward possible. Enough said, if I need to explain this point further let me know.

Taking the trade at the pattern completion point blindly on a limit order is still a high probability trade. We are talking these patterns depending on the one and identified properly offer a 70 – 80% success rate tested and true but I like to have a stronger case for entry if possible. So I employ other elements and apply them to my PRZ to zero in on that elusive top or bottom. I have discussed these already and don't feel the need to explain them again unless needed. This combination of element or confluence usually gets me in within 20 pips of a top or bottom and most of the time it's even better as you have seen.

Next post I will drill down further.

Post #18

Dec 30, 2012 8:43am

Traders that understand price action have the best advantage in the PRZ. The PRZ is an area of extreme exhaustion and price should behave as such in this zone. Price can and often show acceleration going towards a predetermined PRZ but should not continue with strength into the PRZ. Price should show evidence of slowing down as it gets closer to the PRZ much like you would at an area of S/R.

If your comfort level is with the higher timeframes then you would want to drop down to a lower timeframe to get a more detailed view of price behavior in the PRZ.

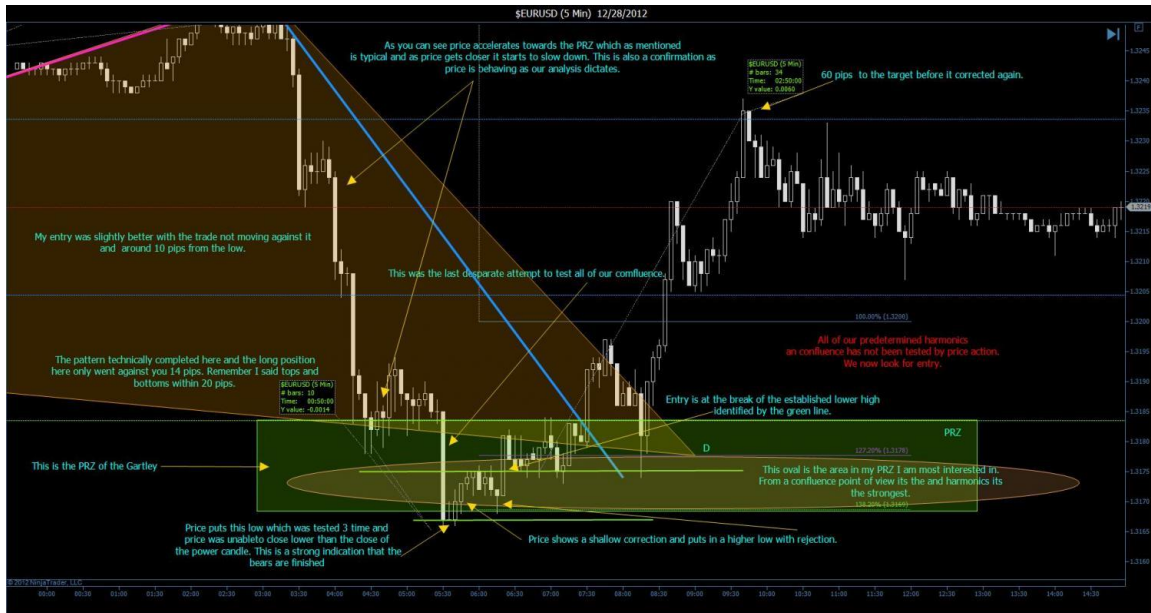
I will tell you price action hates the PRZ and does not hang out for long so decisions often have to be made quickly. Do not over analyze your PRZ find the reversal pattern you feel most comfortable with and take action. Once price moves away it's too late and late entries are not a great idea because it exposes you to more risk. In the next post I will show you the PRZ of the Gartley we were looking at on Friday. I'm sure there will be questions on this so based on those questions I will see how best to proceed.

Post #19

Dec 30, 2012 9:20am

The PRZ of the Gartley we were looking at on a 5 min timeframe to zero in on price and get the best wholesale entry possible. This is my approach to the PRZ and most of these scenarios are typically the same learn to read price and it will tell you what it wants to do. Let me know what needs clarification.

After we get through this we will get into the patterns.



Post #20

Dec 30, 2012 10:42am

Posted by Bary

GM Mr Pip and thx for taking part of your sunday to continue our education.

I can see if watching PA live that most traders would have taken the trade when price first entered top of the PRZ and stalled. Is there any good reason not to have taken it there?

GM Bary,

Great question, taking the trade anywhere in the PRZ offers a great wholesale priced entry as you can see in the chart I provided taking the trade when the pattern completed was good enough. The reason for me to take a different approach is that I always try to find the best possible price. As you become more familiar with the PRZ and skills sharpen you will start to see where in your PRZ price is likely to test and the best area to zero in further in the PRZ that was the oval I drew. Also my price action experience told me that perhaps price was not done moving lower and the other areas of confluence were probably going to be tested. This was evident by the slowing down of price into the PRZ at the pattern completion but also not strong commitment to buy at that level just yet and the ABCD of the Gartley pattern had not yet completed. In my process of building the case price was hinting what it could still push a bit lower.

This type of fine tuning will come with time. Antwhere in the PRZ offers a great entry we were within the low by 14 pips how's that for accuracy and the stop is never within the PRZ but we will get to that. Does this make sense?

My entry was only 4 pips better no big deal in this case.

