Quoting hoom

{quote}edit: I guess I am thinking out loud with a lot of BS in the background of my thoughts could we say that market is eager for positive US data prints ? In such case , does market sometimes have **certain bias no matter what FA outcome**unless it gets short circuited by major factors ?.

On the contrary, you are getting to the **key point**ÂÂI have been making (trying to)all along (although some don't realise):**EXPECTATIONS**.

Markets primarily trade expectations not facts. When markets have an expectation for an outcome and ÂÂnumbers don't align, we minimise its importance (the opposite is equally true).

When a series of numbers keep holding expectations we get stuck in **narrow chop** until facts and numbers confirm expectations. Only a major flop or game changer will realign expectations to somewhere else.....

When markets are divided in expectations we get stuck in **wide chop** until things are clearer and the new direction is defined....

In a nutshell that is 90% of trading....the rest is just technicalities....

Good post mate you nailed it....that is the forest not the trees....

sisse

Quote

When price reaches a point where it is going down and stops and reverses upwards that is Support were price reversed

--> That doesn't mean anything mate. It's like asking you whats you trading plan?: and you replying Sell high/buy low .... yes sure nice but what does it mean in practice and TA terms.

--> Look I am being annoying with this because I am trying to force you to standardise and have a **CONSISTENT** TA framework in whatever TA tools you use (in this case pure price).

--> You have hear me a a million times hammering those with a machine gun approach but equally bad or worst are those traders that use every single weapon on the arsenal regardless of your plan of action (trying to force TA or/chart fit trades, etc) so they end up using a nuke to kill an ant and 2 hours later they try to use a knife to fight a tank ... basically anything than satisfy your analysis ...that is one of the worst things you can see around these boards (and you sound like you are edging toward that with you TA analysis)

Point being you must be able to automatically define how do you use your TA tools (price based or else). So if its a MACD 12/26/9 thats the answer period. If its a S or R? what is the answer?

Let me walk you though from some very basic ...

According to your definition:
" When price reaches a point where it is going down and stops and reverses upwards "

It implies every time a candle change colour from green to red (up and down) you have a S/R ...which is the most useless and misleading definition of S and R.

-> How can you define a R or an S in chart without the benefit of 100 candles hindsight?

Why these are R and S

and why these are not R or S...

or are they both?

It may sound extremely annoying for a seasoned trader like you to talk about these basic concepts but honestly I think not only you but a few around have serious troubles with consistency both TA and risk management wise ....

Quoting Pharm0r

> It's everything and nothing fibs, pivots, trend lines, tea leaves, sma, daily/weekly/monthly close, mofu, dofu/1000s of different candle patterns... which came first? the chicken or the egg? it's a circular argument based largely on the collective psyche of hundreds of thousands of individuals and hft machines

It's not important why or what or if his definition is right and your or mine is wrong, etc , the only important part is whatever you choose is STANDARIZE IT and MAKING IT CONSISTENT.... If you choose fibs/mofu or what have you must follow the same principle in and out for any chart and any instrument, etc ...

The point I am trying to make to IMARICH rather than preaching if this or that or the other xxxxx tool is better is that he must be able to exactly define how he call his S/R whatever definition, it has to be measurable, repeatable and clearly extendable to any chart ...

Saying yes sometimes is high and sometime is low and sometime a wick is good and sometime is not and sometimes etc wont cut it ...

------ -------

The following post are a hack of copyright material that is long gone on the cemetery of forgotten data in the internet. Sadly most of the content and images are gone but the 10 absolutely key basic principles are still there ... so will try to add the images and fill the blanks ...

From the Gourmet Trader .... TBC

sisse

Dissecting the market (The Basics)

" More than a recipe book, the first collection Dissecting the market in a few bars (The Basics) defines the fundamental elements behind price analysis. These are my core trading principles, all trading analysis and decisions are derivate from them.

Trading is just a probability game based on pattern recognition

If every potential trade is a probability game, the job for a trader/scalper is not forecast the future but to minimize risk using every available tool to find the best available scenario.

1. The importance of order in the analysis.

In mathematics the order of the factors doesnt changes the result (5 x 8 = 40 and 8 x 5 = 40). However, when trading the order of analysis change everything.

a. If you only focus in how to pull the trigger (timing i.e LT rainbow, Stoch Crossover, MA Crosses, CCI, etc ,etc ,etc) you can have some results especially in trendy markets, but you are doom to fail in the long run.

b. If you only focus in direction you will have 95% hit rate but only in your head cause u will end up getting stopped out every single time, full of loses because whipsaws or caught with million doubts every time a S/R or trendline is touch or broken.

But before analysing DIRECTION, TIMING and MOMENTUM...

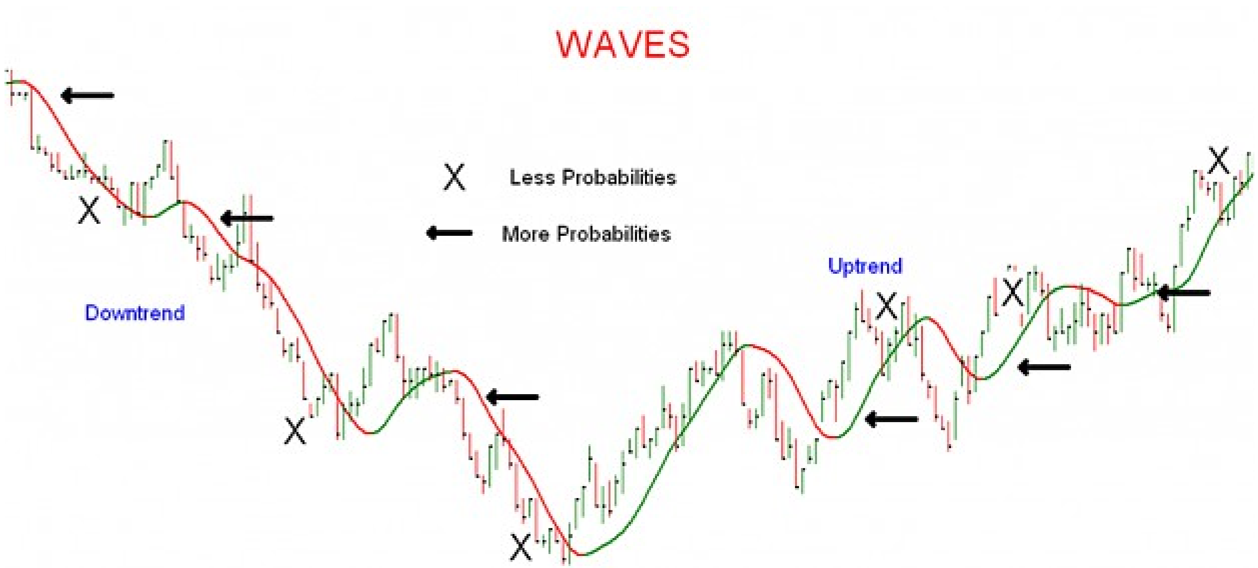
2. Price moves in Waves.

Regardless of the instrument and timeframe and despite of the market direction or its condition (in a trend or in a range) markets always move in waves. Thats why the Elliott Wave Theory and its followers. But we ~~scalpers~~ [traders] are not interested in counting waves or forecasting the next possible move but in minimizing the probabilities of a bad trade.

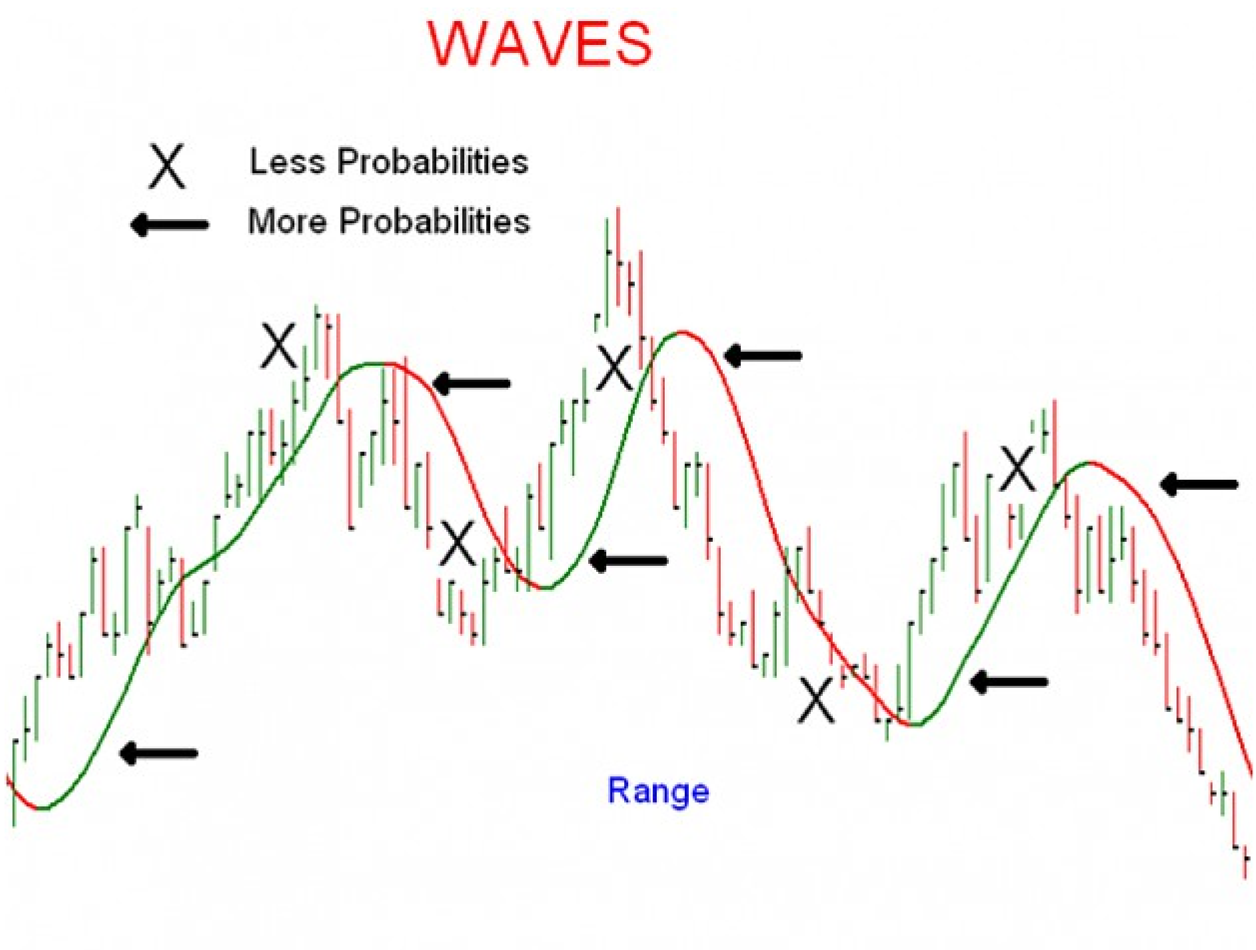
a.What we dont know about waves:

i.The exact beginning or end of a wave
ii.The potential height of the next wave

<u>b.What we know:</u>
i. Where we have less probabilities for a successful trade regardless of the direction or condition of the market



c. <u>Have u ever wonder why you end up trading the death lows or highs in a trend</u>



Your analysis might be right, the direction, condition and timing might be good but you are playing a low probability trade because you are forecasting that next wave is going to be a lot deeper than the previous one when statistically this is not true.

3. The first factor for a ~~scalper~~ trader is to understand in which part of a wave is the market.

Not using a statistical method but using common sense (sadly the least common of the senses). Before you analyse trend S/R lines, Direction, Timing, Momentum and despite the drawdowns, etc a trader should ask himself in which part of the wave is the market.

The only rule of thumb is the later you enter a new wave the less probabilities you will have to be successful.... "

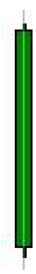
TBC...

sisse

Bar 1: The Forgotten

A single bar is the first and one of the main pieces of information in a chart and is usually forgotten or overseen by Indicators, S/R zones, Volume, Fibs, News, etc filtering the noise of a single bar. But a sound analysis of that noise in key areas can have a huge impact in market direction analysis and sometimes can make the difference between a good or a bad trade.

We can spend days defining each potential 1 bar formation (e.g. doji, hammer, hanging man, etc) but the important issue is understanding the core implications for any 1 bar formation. The 4 cases in Figure 1 cover all potential formation (all other cases derivate from them). The obvious static analysis is:



1. A bull bar opens on the lows and closes on the highs. Buyers were in control in all or most prices covered in that bar

1. A bear bar opens on the highs and closes on the lows. Sellers were in control in all or most prices covered in that bar

1. In a bullish bar buyers managed to control the lows and the close but at some points (the highs and below the open) sellers were in control.

1. In a bearish bar sellers managed to control the highs and the close but at some points (the lows and above the open) buyers were in control.

<ins>Every time we introduce a piece of static information in a chart we are adding many new variables to the equation.</ins> Some are clearly seen in a chart, others are hidden because of the static nature of an ex-post chart. In this case:

1. A closed bar only identifies in absolute terms where buyers or sellers were in control. We dont know if the buyers/sellers in those areas were strong enough relative to the market participants (e.g. volume). In other words, in a bear bar we can see that sellers were stronger in all or most prices in that bar but we dont know, for example, that this was because of lack of buying interest (too high to continue = the start of a retracement in an uptrend) or because there were a genuine new selling pressure (the continuation of a downtrend or a top in resistance) or because liquidity disappeared and even small sell trades can push the market to the extremes (news, consolidation after a major break, etc)
2. The other important hidden issue is that in a static 1 bar we dont know what was the flow of trades in that particular bar. For example in a bullish bar we dont know if buyers first push to the highs and after that sellers took control but they couldnt get rid of the buyers on the lows (more bullish signal) or if sellers first push to the lows but buyers took control but they were overpowered by the selling on the highs and barely could close above the open (a more bearish signal).

Paying attention to this information in areas of potential trades or in the analysis of macro direction will definitively help a trader to stay in the right side of a trade. It will be clearer when more bars added to the analysis.

TBC....

Bar 2: Two to Tango

A second bar adds a lot of depth in the analysis but before analyzing its implication is important to remember that there are many variables in a consistent and sustainable trading plan: the most important are timeframe, risk, market liquidity & volatility and capital.

All of them have their unique implications, yet they all are mutually interdependent. The success or the failure of a trading plan is given by how consistent these unique implications and their interrelations are in your own trading plan. Finding the equilibriumbetween those is the key for trading successfully and consistently.

However, these interrelations must never interfere or blur basic price analysis; on the contrary they are adaptive variables that have to be used to facilitate trading. As in any chart, the longer the timeframe (or a widely use timeframe) the stronger its implications. Nevertheless, with the cases in figure 2) we can outline the key implications that are applicable for any chart.

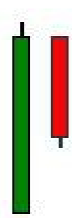
As you can see for example in 2a), sellers took control from the close of the 1st bar. The early **buyers** on the opening of the 1st bar are the stronger. We dont know if they are long-term positions, swing traders, day traders or scalpers. But 100% sure there are in profits (or out with profits) even after the second bear bar. On the other hand, the late buyers (**we dont know who they are**) on the close of the 1st bar are in red.

Additionally is clear that weaker long hands (scalpers, small daytraders, amateurs, etc) are betting on a break of the previous high to be in profits and every tick down can trigger their stops especially if price break the low of the 1st bull bar. The same analysis can be done for the sellers.

The early **sellers** on the opening of the 2nd bar are the stronger and a break of 1st bar lows will confirm the move down. We dont know if they are long-term positions, swing traders, day traders or scalpers. But 100% sure there are in profits at the close of the 2nd bar. On the other hand, most of the weak sellers on the 1st bull bar are out and a break of the 1st bar high will almost 100% confirms their defeat. However the break hasnt happened yet.

Good to know but what do we do with this information? Is there any way to define these implications in a coherent, objective framework to use them for price analysis? Yes, with only two bars and ceteris paribus (with all other things being constant) there are core notions (mini points of control, when is too late to take a trade, and price breaks) that are relevant for any chart in any timeframe. Lets check them for the 4 main cases:

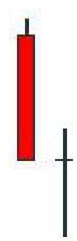
Case 2a)



The stronger buyers at the open of the 1st bar have a **wall** protecting them. This make the open/low of the 1st bar a **mini point of control.** As long as price is trading above these levels bulls will be in control. A tick below will put buyers underwater, weaker hands will start covering their position with a loss and new potential breakout sellers may appear.

1. Sellers need to break the bulls in every single price on the 1st bar range to take control. In this case, and although sellers were dominating in the 2nd bar, the outlook is still bullish. If the sellers that werent taking profits (and betting on the top/reversal or pullback) on the 2nd bar fail to take over the bulls (break the wall), they will stoke the move up when they cover their positions. This make the open/high of the second bar the second mini point of control. A tick above will confirm the move up and force the bears to cover and new potential buyers may appear.
2. This case is a clear setup for potential longs. The closer to the 1st point of control (open/low of the 1st bar) you go long the smaller the stops and the higher the potential targets for profits but because the move is not confirmed until a break of the 2nd point of control (open/high of the 2nd bar) there is also greater chances that price can fail to continue the move up.

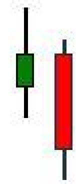
<u>Case 2b)</u>



The stronger sellers at the open of the 1st bar have a wall protecting them. Buyers need to break the bears in every single price on the 1st bar range to take control. In this case they already failed to break the mini point of control (open/high of the 1st bar).

1. The 2nd bar confirmed the move down. However, buyers overwhelm the sellers at the lows closing the bar at the break point(low/close of the 1st bar) meaning that sellers on the break that didnt take profits are not in profits anymore and every tick above the close of the 2nd bar (and especially the high of the 2nd bar) will add pressure on them to cover positions or trigger short stops (especially weaker hands).
2. In this case bears are in full control and its too late to get in the train.

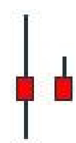
<u>Case 2c)</u>



In 2c) we already knew that buyers managed to control the lows and the close of the 1st bar but at some points (the highs and below the open) sellers were in control. Because of the static nature of an ex-post chart we didnt know the exact flow of action in that bar. Adding a second bar make the picture clearer.

1. The second bar shows, that the sellers on the high of the 1st bar were strong. They broke the wall protecting the bulls on the opening of the 1st bar triggering stops and new selling and every tick down will add a lot of pressure to the bulls that are still in. Also the 2nd bar broke and closed below the mini point of control (open/low area of the 1st bar).
2. Now, the strong sellers have a wall protecting them. Buyers need to break the bears in every single price on the 2nd bar range (and the highs of the 1st bar) to regain control. As long as the second mini point of control (open/highs of the 2nd bar) is holding bears will be in control.
3. In this case bears are taking control. There are potential setups for shorts forming but it need a better entry because its too risky to get in at the close of the 2nd bar (you dont want to be one of the weak hands that get shaking out before the moves continue)

<u>Case 2d)</u>



In the 1st bar on 2d) sellers managed to control the highs and the close but at some points (the lows and above the open) buyers were in control. The second bar shows that sellers are still in control. Buyers couldnt break the 1st mini point of control (high/open are of the 1st bar). The wall protecting the sellers is still holding (but it was already breach by the buyers on the 1st bar).

1. In this case bears are in control. This case is still a good setup for potential shorts. . The closer to the 1st point of control(open/high of the 1st bar) you go short the smaller the stops and the higher the potential targets for profits but because the move is not confirmed until a break of the 2nd point of control (close/low of the 2nd bar) there is also greater chances that price can fail to continue the move down. In this case the break of the 2nd looks imminent.

These notions are especially <u>useful if you using a longer timeframes for your direction or S/R levels</u>. In fast single timeframes analysing where are the mini points of control, who is controlling or losing control and where not to get in a trade are definitively key pieces of information that can exponentially increase your W% and improve your profit/loss ratio.

...Thats is enough information for now ...TBC

1. **A map**

   As we did with price analysis, lets create a blank map for this. I deliberately hide <u>the time axis</u> for now.

   We are taking the **Euro** case you are referring (currently in play) from the last 'choose your poison time' for the **mid term swing**....you can track back as much as you want for similar cases or track forward for the next one to come.

1. **A map**

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We are taking the **Euro** case you are referring (currently in play) from the last 'choose your poison time' for the **mid term swing**....you can track back as much as you want for similar cases or track forward for the next one to come.

2. Think like an investor

We are not going to talk about why, how or when for this topic so try to focus on **capital, ROI and risk....** period**.**

So despite the FA or TA or anything else, Take this map and analysis from a strictly investment perspective what is worth and what isn't on your risk profile.

3. Define Capital and Risk

We are going to use [1 tick = 1$] for the sake of the example and I think is a good, realistic and valid benchmark to start swinging so:

--> **Capital**: $10.000 you shouldn't even consider trading a 1 = $1 with less capital than that and that is a fact !!! and not remotely negotiable to the down side. This is your most basic initial **RISK MANAGEMENT STEP.**

--> **MAX RISK:** Depending on your risk profile you shouldn't be risking more than 5% of your account in one single trade. For the sake of this example we are going to use a bit riskier than normal approach and decide on 3% (=$300). This should be your 2nd **RISK MANAGEMENT STEP**

Keep me in mid that here we haven't even check a chart yet.

4. Define your investment criteria in the range

A superb trader will hit +80% or more on a trading range. If you are hitting below -40% you are doing something wrong and your trading plan is wrong. Lets assume for this example you aiming at 60% of the range so:

The current range goes from 1.13 to 1.07 (btw I am rounding up numbers and handles because is not important for this) which give you 600 tick range from which you are aiming to grab +/- 360 ticks.

Here we will **trigger a lot of inner demons** so bear with me for a second. I know you can say '*thats is BS, i can take that range in and out 10 times and squeeze 10x that*'… **wrong** !!! and micro scalper will come and say 'I *can squeeze 12500 trades in that range and make 1 million bucks in that same range*' …**WRONG** ….

Lets just leave there for now. The important is that you have your FILM CLEAR. YOURS and ONLY YOURS

5. Define your position management plan

Here you will need to define your partials and etc. No less than 2 but no more than 5 as you will not be efficient.

Irrelevant for this topic how do you decide this targets but lets assume for this case we are going to divide in healthy 3 parts. TP1/TP2/TP2 at 33% of the range each.

6. Define your position size

Now that you have all that you can clearly define your position size and stops from a risk management perspective (nothing to do with TA or price etc)

-> Your max risk is $300
-> Your positions size is 3

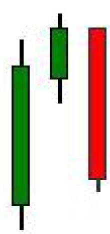
Therefore: Your **max stop size** is $100 for each position is 100 ticks

So what you gain with this...that doesn't matter what TA or FA or anything in charts. If a potential TRADE doesn't allow you to have your max stop size you pass .... IT DOESN'T MATTER IF IT'sS THE TRADE OF THE YEAR !!!!

...tB

Three to Swing: Waves, Support & Resistance Levels, S&R Zones, and Trendlines

Bar 3: Three to Swing



S/R and Trendlines are surprisingly misplaced and misunderstood, usually as consequences of problems recognizing the basics (High and Lows), or the implications of multiple timeframes.

At first glance, they are very efficient and so simple to understand that it seems impossible to deny their validity. But as you know, in a live chart they can be very difficult to recognize before is too late (lagging) or they can spread faster (too many contradictory swings) than swine flu, blurring the analysis of any rational trader.

S/R Levels are not the same as support or resistance points in a trendline

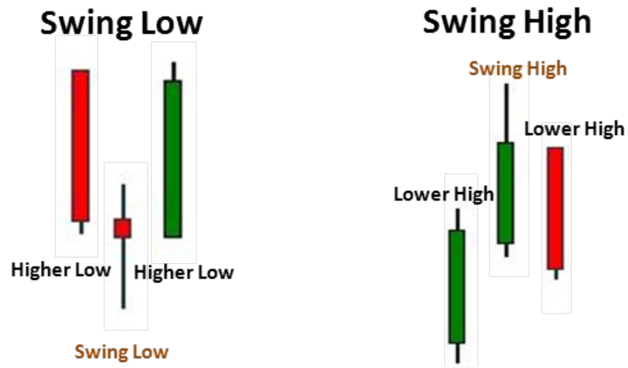
Its amazing how these 2 basic TA concepts are usually misunderstood and misinterpreted. A typical example of this problem is newbies (and sometimes not only them) calling the top or the bottom of a trend because a trendline got broken (just quickly glance at some the 1000s threads calling tops or bottoms). But before go in details, we need again to go back to basics.

In order to identify these areas and Trendlines, its necessary to add a 3rd bar in the analysis and define the 5 core notions for price analysis from a technical perspective: **Swings (Highs and Lows), Waves, Support & Resistance Levels, S&R Zones, and Trendlines.**

1. Swings

1. Like always, in the foundations is where all problems start. What is a swing? What is the faster

and most efficient method to determine a swing?

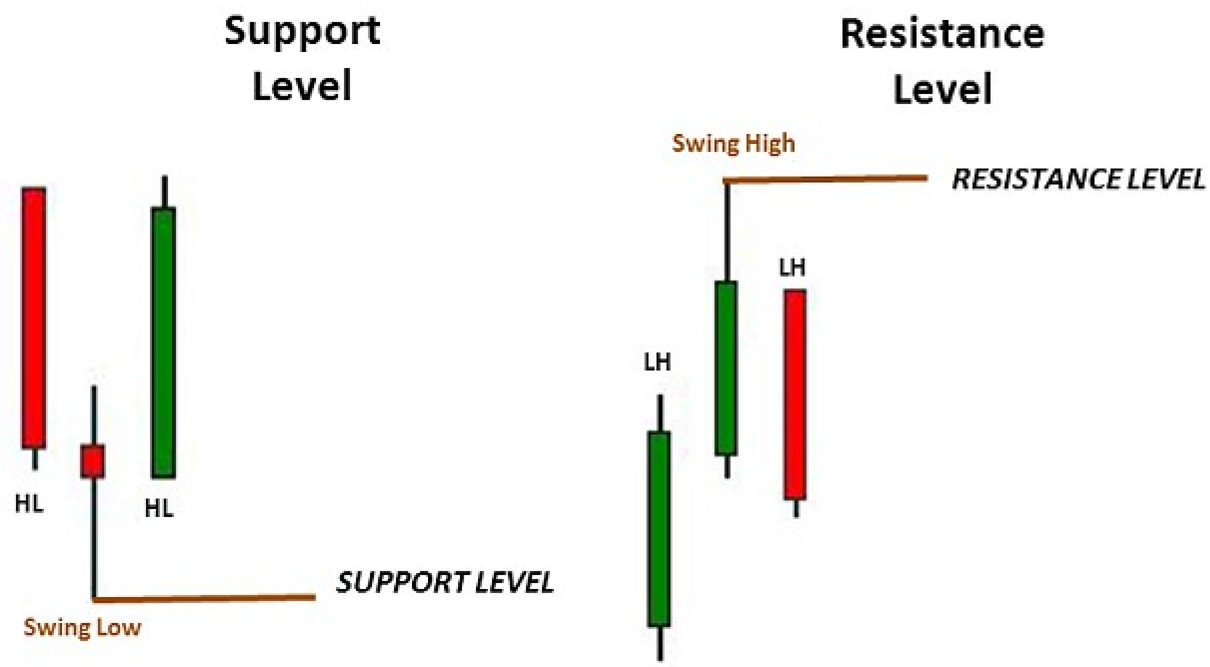


The simple and more effective way that will cover most of the swings (in very volatile conditions especially with very small timeframes a swing can be formed in only 1 bar!!! another reason why trading very fast charts requires a lot of skills and experience) is the one shown on the charts. So you need3 bars and the only rule for a swing high is a Lower High in the Bar [-1] a Higher High in the bar [0] and a confirmed LH in the bar [+1]. The opposite for Lows:

2. **<u>Support and Resistance Levels</u>**

This is one of the core fundamentals on Price Analysis. Once you have determined a swing you can also start defining (but not analyzing and even worst trading) S/R levels and Trendlines. These levels will also allow us to objectively define if price is making Higher Highs, Lower Highs, Higher Lows and Lower Lows.

To define S/R levels you just need <u>Horizontal lines on those swings:</u>

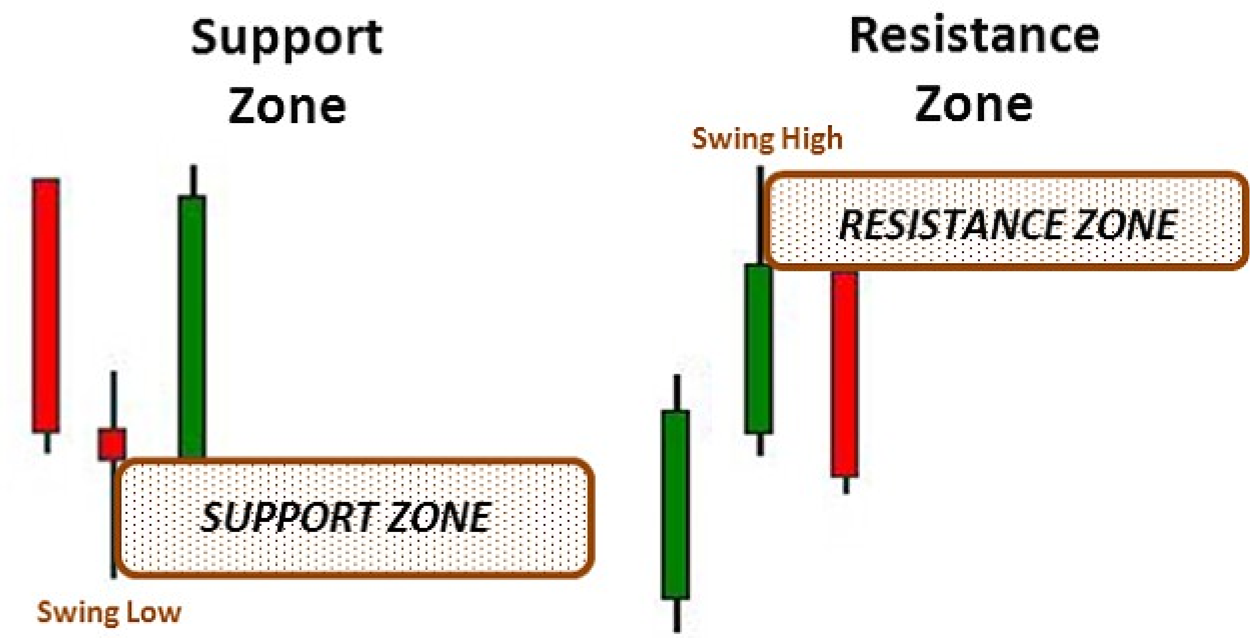


3. Waves

1. Once you have recognized a swing you will also have answered the first issue in price analysis: **The direction of the current move (wave direction).**
2. This is a key concept because it allows you to establish if the new wave its going in the direction of the trend (meaning a potential entry) or its against (meaning you will have to wait until the end of the this wave for a potential entry if the conditions are still valid [e.g. HH and HL or LL and LH]).
3. It also allows you to trail and adjust stops if the trade is not a scalp or exit a position if conditions are met and price for example is stalling and failing to break new highs or lows.

4. **Support and Resistance Zones**

S/R Zones are particularly useful when using multiple timeframes to identify potential areas where price may stall, or profit targets if already in a trade, or filtering false breaks (or anticipating one). To identify these zones we need a confirmed valid swing.



- In the case of a Resistance zone, the area between the high of the swing bar, the close of the swing bar and more important the open of the next bar after the swing will define the resistance zone.
- In the case of a Support zone, the area between the low of the swing bar, the close of the swing bar and more important the open of the next bar after the swing will define the support zone.

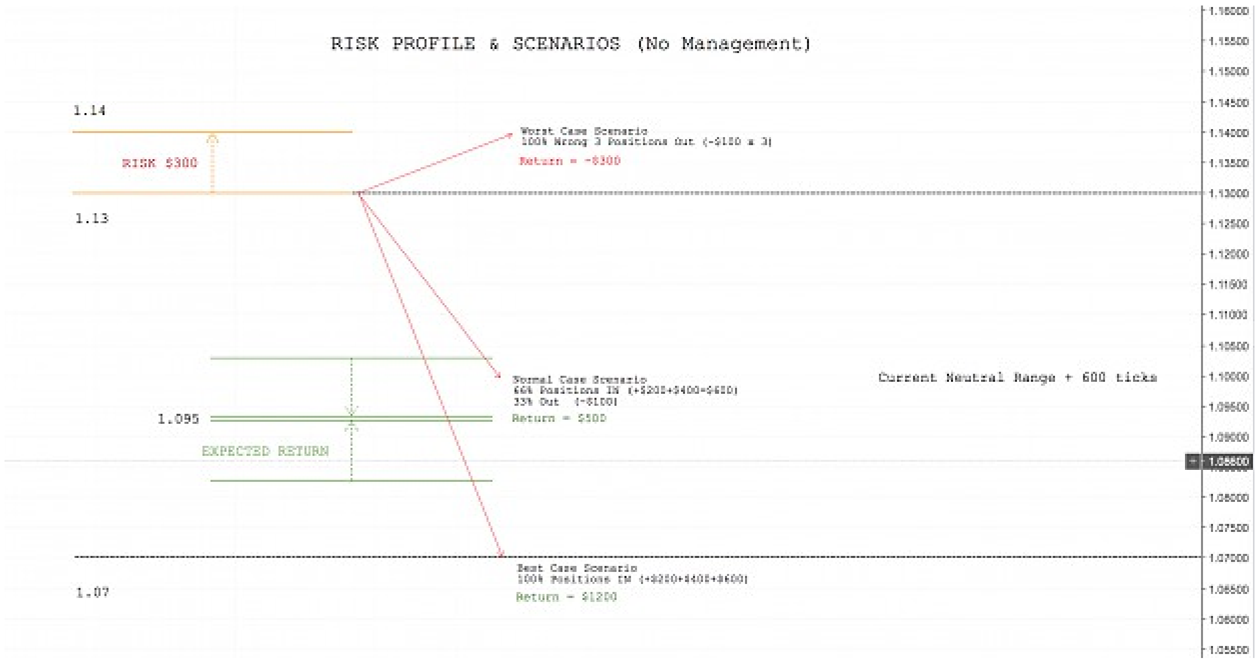
Quoting sisse

> **6. Define your position size ....** Therefore: Your **max stop size** is $100 for each position is 100 ticks

...now we finally can establish your **risk profile** from an investing perspective

7. Risk Profile & Scenarios

Before we move to the mid term swing, I am going to use the short range first as example on how to define a risk profile. Chart is self-explanatory.



Keep in mind that this is your investment profile map and its has nothing to do with your trading map or fundamentals or anything trade related. Basically, this mark your first and most important part of **managing risk** and thinking like an investor:

In a nutshell: Hoom do you want to put $300 for this potential investment? yes or now? is the profile and expected ROI in the next few weeks interesting for your capital? yes or no?

Thats about it there is nothing to see about managing trades or timing or nothing...that is your first and only investment decision. You take the investment TP1, TP2, TP3 or stops whatever comes first. No trailling, no management not nothing ....just quantifiable**risk:reward**

Nice. so what ? that doest tell much except to sit and wait.....well that leads to the second part of managing positions:

8. Act as trader

--> The main job as a trader is: First, **managing risk** !!! not managing potential gains and here is where the fun and complex part start. Second, **managing rewards** and third **managing time.**

9. Managing Risk

Lets go step by step (@hoom or anyone who want to jump in)

-> If the most important job for a trader is **managing risk** the first think you want to do is reduce you**r average capital per trade.**

What does it mean? It means your first task is to reduce your **risk exposure** before you even think in counting gains. So what will be the impact when price reach to TP1 in your risk profile?

This first step is simple:

@ Entry
Risk: $300
Return:0

@ TP1
Risk: $200
Return: $200

Which means without doing any trade management you have reduced your **Risk** to 0

Simple and obvious, nothing new, but here I open the 1st Question

What would you do if price hits TP1 (1.11) and then retrace all the way back to your entry level (1.13)? We know as an investor we don't care and do nothing but what about as a trader?

Keep in mid that TA or FA is irrelevant for this example. We only care about perspective, risk and trade management....

TB

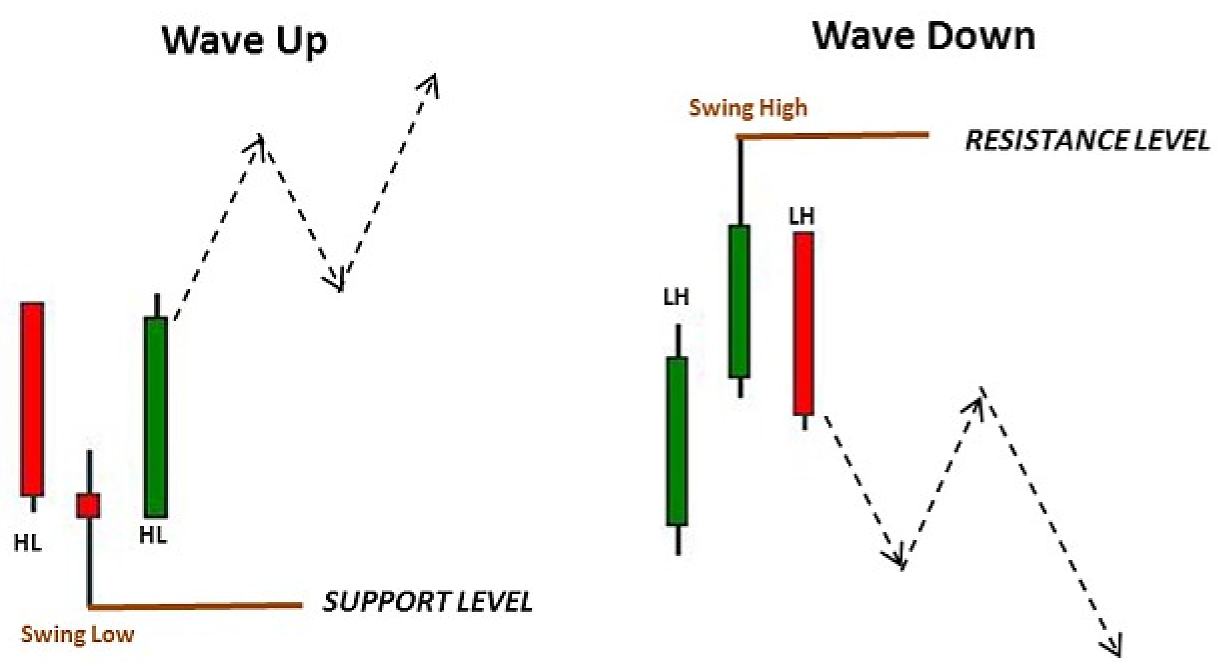
Quoting sisse

> **Dissecting the market** (The Basics)
>
> Quoting sisse
> **Bar 1: The Forgotten**

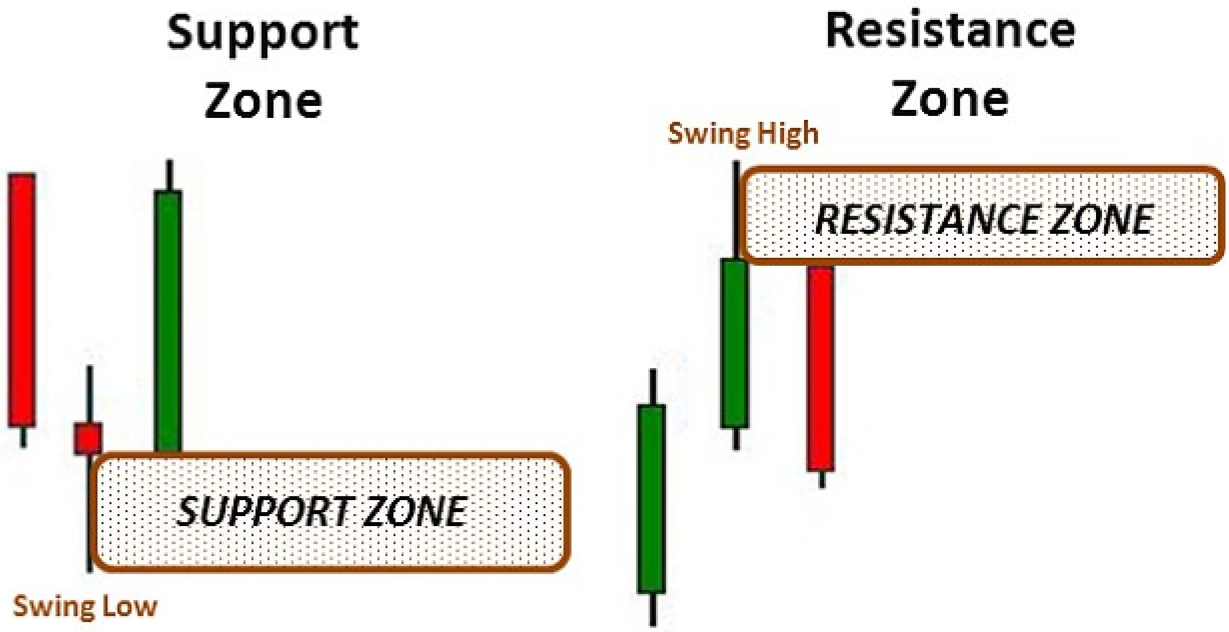
[Quoting sisse](#)
Bar 2: Two to Tango

[Quoting sisse](#)
Bar 3: Three to Swing

Three to Swing: Waves, Support & Resistance Levels, S&R Zones, and Trendlines (Continuation)



4. Support and Resistance Zones …



In general if you have a setup to get in a trade, and price is trading inside this zone, you may have a very good entry given the reduced risk of placing your stop. On the other hand, if you are already in a trade and you are using multiple timeframes and price enters in this zone you may consider closing your position or at least banking some profits.

Nonetheless, and probably the more important information you can have with S/R zones is filtering a fake Break or anticipating a valid Break when you are using a longer timeframe for direction.

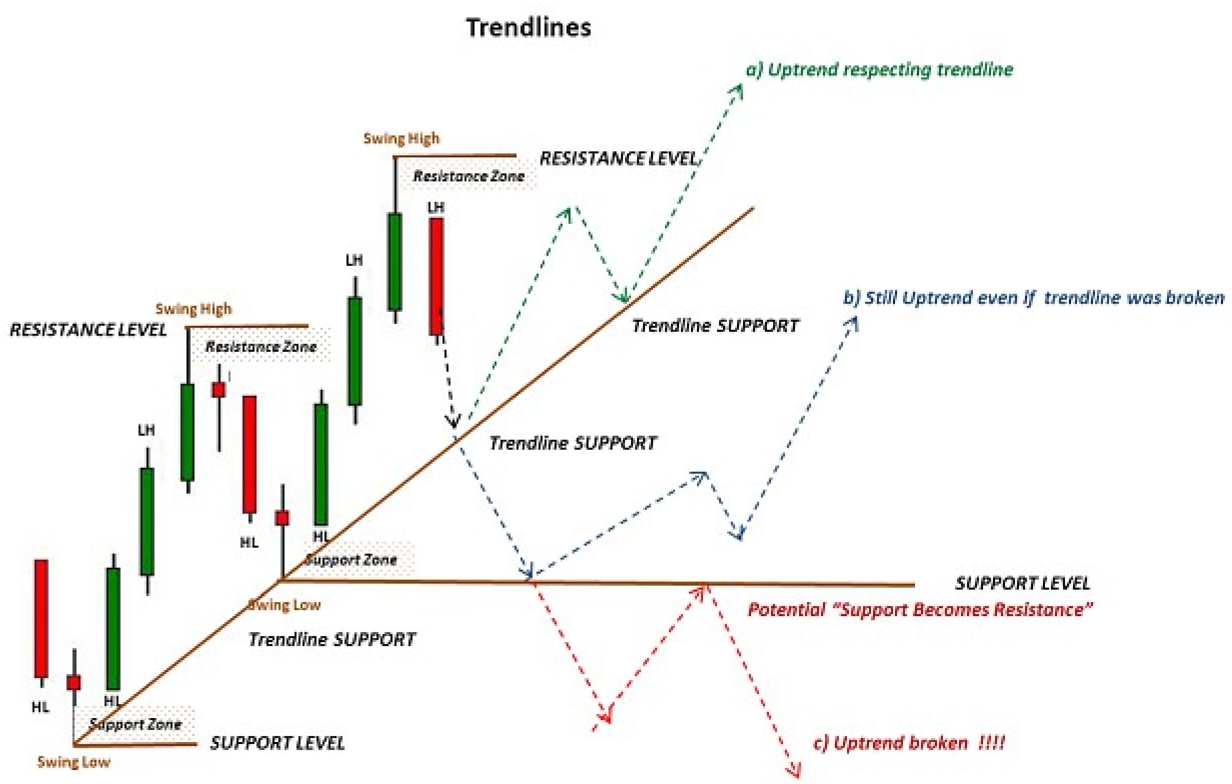
1. For example in the case of a **fake break** of a swing high, price can breach the swing high but if that bar **CLOSED BELOW**the resistance zone is a FAKE Break (happens every day).
2. On the contrary if price breach the swing high and closed **INSIDE** the resistance zone the break would most of the time be**imminent** (happens occasionally and only when markets are "behaving" especially outside of major news or the opening and close of the markets),
3. Of course if it closed ABOVE the swing high the **break is already confirmed** (happens every day especially when the move is driven by fundamental reasons or when there is change of trend direction).

Some very important notes on S/R zones:

1. The timeframe is key. S&R zones are worthless if you are trading very fast charts because of the tiny range. Also the most widely used and longer the timeframe the more important these levels become.
2. Recognizing a fake, imminent or confirmed break in a second timeframe is not a reason to take a trade. Triggers are completely independent of this analysis.
3. If you are using a single timeframe, S&R zones may be lagging most of time and will only serve to confirm a trade you already in or exit a trade when you confirm a false break.
4. Don’t confuse S/R zones with S/R levels. The latter are more important for price analysis because they will define if prices are making HH/HL/LL or LH.

5. **Trendlines**

While S&R levels give you a horizontal perspective, trendlines give a more vertical approach. For trendlines you connect 2 swings(in the case of the chart 2 swing Lows).



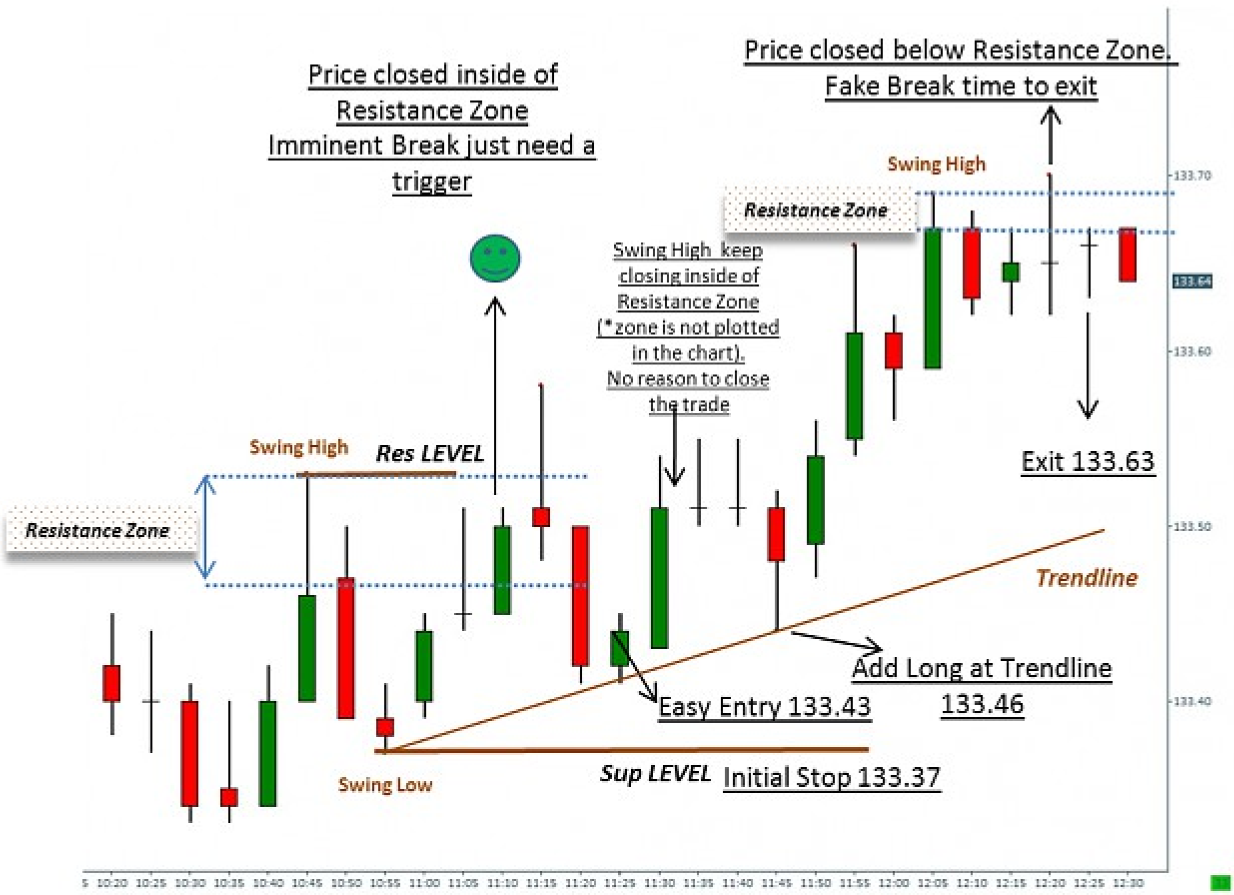
I know these are basic concept but in these very essential notions you can find the roots of most problems in this analysis.

1. For example, based only in this chart you may think to go long in the next test of that trendline [case a] (which is valid idea) but price can go but not break the Horizontal Support level, breaking the trendline and still be a valid long setup [case b].
2. In other words the valid setup for longs is because price is making HH and HL!!! ; And not because the trendline is broken you should start looking for shorts, not until you have new swings pointing to a different scenario!!!! [case c].
3. The second fundamental trendline analysis issue is defining the relation between swings and timeframe. Here is when everything gets messed up:
4. All swings in your current timeframe will be reflected in a lower timeframe but NOT ALL swings from your current timeframe will reflect on a higher timeframe.
5. This means that you can connect an "unlimited" numbers of swings but you need to recognize which swings correspond to your current timeframe and which one are from a higher timeframe. In other words if you connect a major swing to a small swing you may end up with an INVALID trendline.

Real Example of S&R Zones

While writing this post, I fortunately came across with this excellent trade on the euro (6EM0) (and excellent case of S/R zones in action in an imminent break). Today GMT+1:

6EM0 Trade 25/03/2010



Give it a try. Apply these 5 basic notions in any chart without indicators. You will be surprise with the results. Of course new questions will arise like how do you pull the trigger? Or how do you deal with choppy conditions? (Remember that choppy is not ranging … ranging is as tradable as any trend). How do you define a good target? Is it worth using a second longer timeframe? Are the instrument, timeframe and time giving enough room (true range) for entries and exits? .

Despite these questions I can guarantee if you master these 5 core notions you will have solved most of the direction issues in the analysis (AND WITHOUT INDICATORS !!!) and you can then focus in the more micro technicalities such as how to pull the trigger.

TBC ....

Quoting sisse

Q4: So after we chop around in point A for a while price sell off and we manage to get to TP1 b and one more time we bounce back and overshoot to 1.135x (Point B)

9. Managing Risk ...cont

Quoting hoom
{quote} Scale in 2nd time .

Indeed....

Quoting change
Q4: if mantra is "reduce ad manage risk" in B may do nothing (probably my choice) or i can scale out two position for -50 each so i close at BE even if i'm stopped out later. ...

Well you could but why would you.

Let me tell you why in the next point that comes for from Acting as Trader

" --> *The main job as a trader is: First, **managing risk** !!! not managing potential gains and here is where the fun and complex part start. Second, **managing rewards** and third **managing time.**"*

By point B you have accomplish the most important part on this discussion which is **MANAGING RISK** and now you can focus on the second part **managing rewards**.

In point B it's not efficient to take partials or trail from a trading managing perspective because you have transformed a negative risk profile in a positive one:

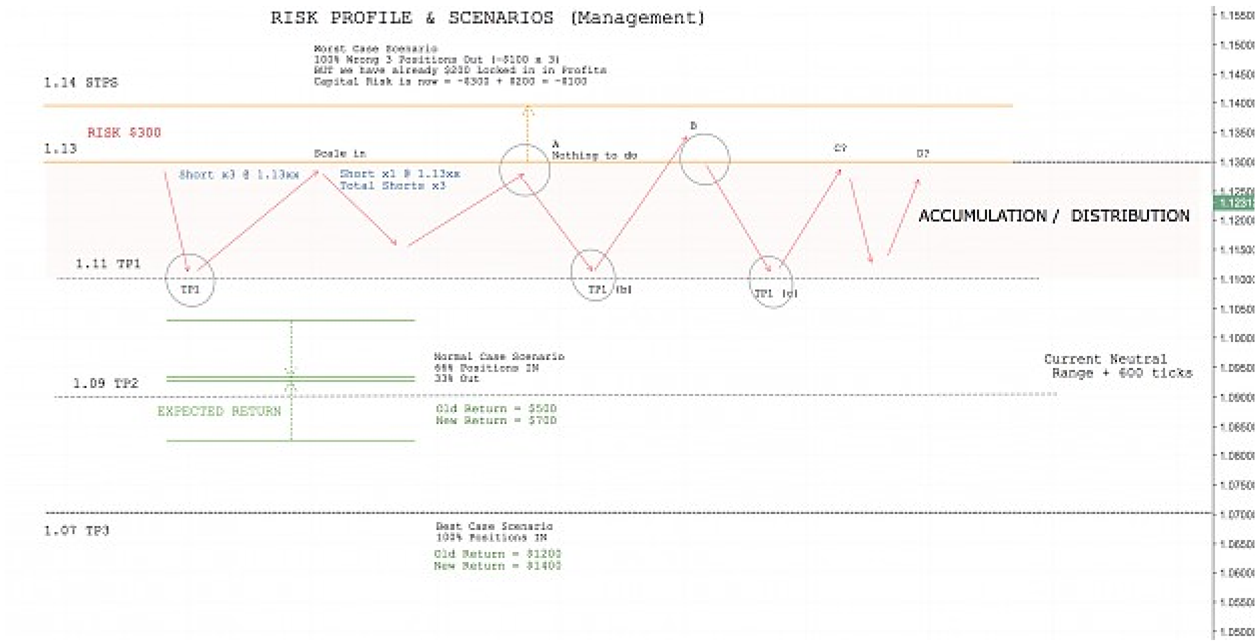
@ Entry
Risk: $300
Return:0

@ TP1
Risk: $200
Return: $200

@ Scale in 1
Risk: $300 - $200 of locked in profit from TP1 **= $100 capital at risk for the same TRADE!!!! which has reduced your risk from 3% to 1% on the trade!!!!**

@Point B
Risk: $100 - 200 in profit from TP B = **-$100 meaning you have not only reduced your risk from 3% to zero you are now in positive returns whatever happens !!!!** (and you haven trail or do anything yet)
Return :$200 TP [+ $200 TP b] = $400

@1.13 From B you **ADD AGAIN because now you are managing REWARDS not risk**



Risk:-$100 + $100 from a new position = **<u>0 RISK for the exactly same trade !!!!</u>**
You can recalculate the returns in each target manually ....won't do it here.

-> What would happen if stubborn price again hit TP1 c and pullback again to the highs to point C?

...well guess what? ...you keep adding (obviusly from a risk/position management perspective not TA or FA no nothing) as, every time it happens you**<u>RISK profile and REWARD</u>** <u>is getting better and better and better.</u> ...and we can keep endlessly playing to point D, E or F or Z...

-> <u>and we call this ????</u> ... a term that you have heard 100 million times (and mainly in the wrong context) : **ACCUMULATION and DISTRIBUTION.**

I don't need to defined any more as I think is self-explanatory whats going on ...

TBC with the final point **Managing Time** ...

@chester123 request here is the next <u>post on the series.</u> For those interested before we open the election day posts, here it is the next one (check back post to follow from the beginning):

> Quoting sisse
> **Three to Swing: Waves, Support & Resistance Levels, S&R Zones, and Trendlines (Continuation)**

Bar 4: The Invisible Line and Points of Control.

The 5 macro notions in price analysis (**Swings, Waves, Support & Resistance Levels, S&R Zones, and Trendlines**) were defined in the previous post. All the following notions are built upon those principles and they will only add depth in the analysis. They shouldnt be interpreted (used) outside of this context.

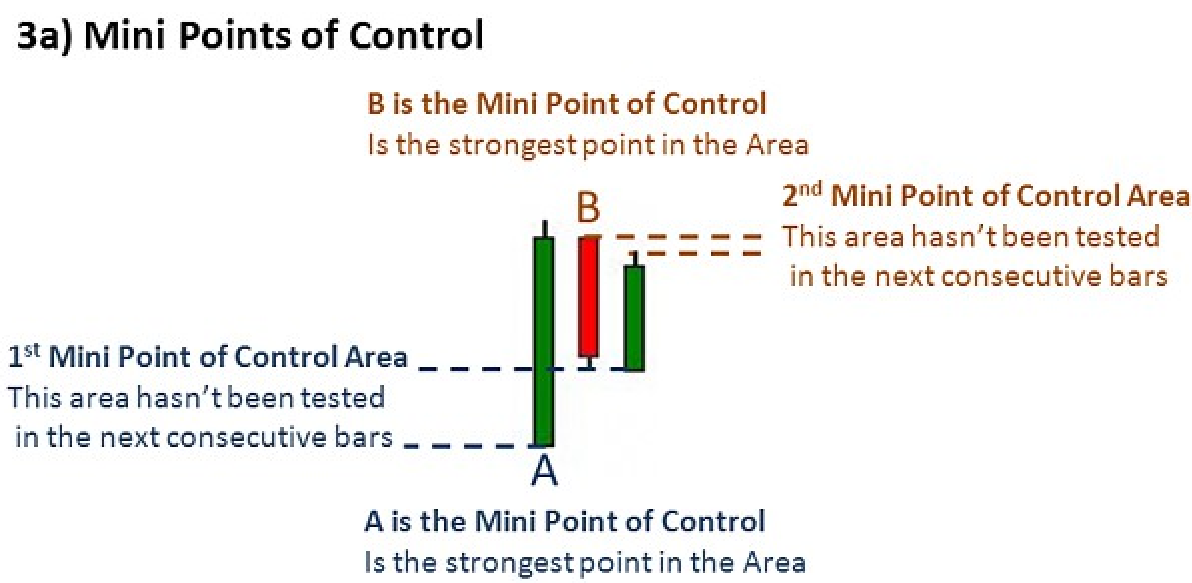
Adding a 4th Bar in the original example will clarify the notion of mini points of control that I mentioned before. It will also give a very powerful visual aid to recognize what is the market doing right now and ,particularly important, will give us the first hint to develop a price based trigger. But before that lets define in more detail what points of control are.

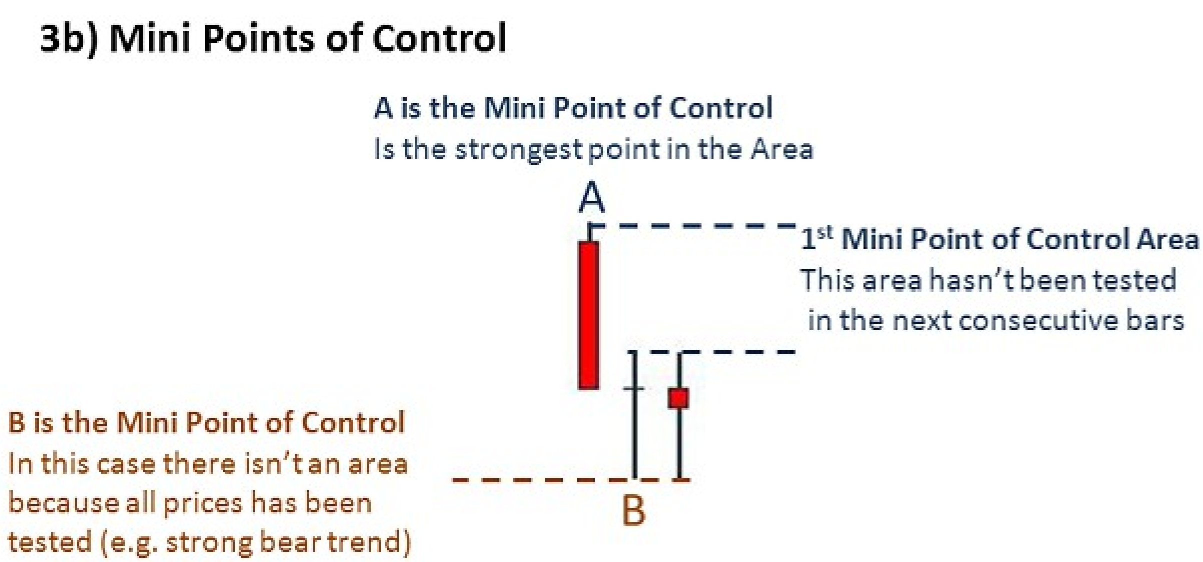
Points of control can be defined as any price or price range that hasnt been tested in the next consecutive bars. They can be the ultimate top or bottom in a chart (strongest points of control), a Support or Resistance Levels in a swing (normal points of control) or more commonly, areas between consecutive bars in a wave (mini points of control).

With just an ex-post chart (after the fact) and with only few bars we dont know why this happened (e.g.

Point A in Fig. 3a. because of lack of selling interest or strong buying at those levels or the opposite on Point A in Fig. 3b.) but in general:

1. As long as price is trading above/below these levels bulls/bears will be in control.
2. The wider the mini area of control the strongest the trend but also the deeper the potential pullback/retracement. As you can clearly see the mini points of control A in both Figures are a lot wider than the mini points of control B sending a clear message to who is in control (bulls in fig. 3a. and bears in fig 3b.)





The Invisible Line

Going back to the original example (Fig 4a)

- We knew that there were stronger (smarter/early) buyers at the open of the 1st bar and there is a wall protecting them. After the close of the 3rd bar, sellers couldnt break the bulls in every single price on the 1st bar range to take control, making the open/low of the 1st bar a mini point of control (Point A).

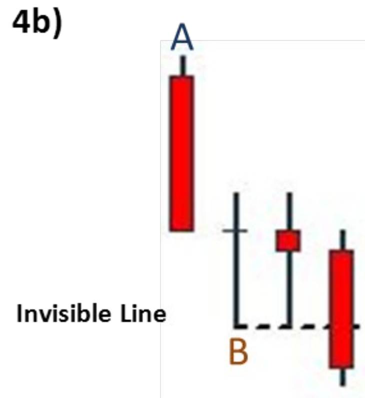
- We also knew that although sellers were dominating in the 2nd bar, there were almost wiped-out by the buyers on the 3rd bar leaving only a few sellers still holding in profits and making the open/high of the second bar the second mini point of control (Point B). The 4th bar confirmed the bears failure to take over the bulls stoking the move up when they covered their positions and attracting new breakout buyers.

- Finally, we knew after the 2nd bar that we had a clear setup for potential longs and the closer to the 1st point of control (Point A) you go long the smaller the stops and the higher the potential targets for profits but because the move was not confirmed until a break of the 2nd point of control (Point B) there was also greater chances that price can fail to continue moving up. **Here is where the invisible line comes to play.**

<u>If you connect with an invisible line (the dotted line in the chart) the Highs/Lows (depending on the case) of consecutive bars you can establish a visual aid of where and when a particular point of control is going to be broken.</u> In the case of fig 4a) you can plot that line joining the highs of the 1st, 2nd (**Point B!!!!**) and 3rd bar and you can clearly recognize how after a few ticks in the 4th bar that line was broken (and not coming back!!!) and the move up was confirmed.

Obviously if you didnt pull the trigger on time the invisible line will tell you <u>YOU ARE TOO LATE, YOU MISSED THE TRAIN, COME BACK LATER</u>
The second very important piece of information with an invisible line is given by its <u>SLOPE</u>. The slope of this invisible line will most of time tell you if you are in the wrong side of the market in the current wave, the strength of a trend and pullbacks and if the move is overextended (overbought in an uptrend) without indicators !!!! (e.g. in an uptrend the invisible line instead of sloping down or horizontal has a steep slope up). These cases will be clearer when more bars are introduced in the analysis.

The same analysis goes for Fig 4b).



- We knew that stronger (smarter, early) sellers at the open of the 1st bar had a wall protecting them. After the close of the 3rd bar, sellers couldnt break the bulls in every single price on the 1st bar range to take control, making the open/high of the 1st bar a mini point of control (Point A) and leaving a very wide mini point of control area untested.

- In the 2nd bar the move down was confirmed. However, by the close of the 2nd bar, we also knew that buyers overwhelm the sellers at the lows closing the bar at the break point (low/close of the 1st bar) leaving the sellers on the break of the 1st bar that didnt take profits uncovered (especially weaker hands may have started covering shorts if price would have moved above the high of the 2nd bar). But this didnt happen and by the close of the 3rd bar all prices of the 2nd bar range were tested making the open/low of the second bar the second mini point of control (Point B).

- Finally, we knew after the 3rd bar that bears were in full control and it was too late to get in the train. Nevertheless, if we introduce the invisible line joining the consecutive lows of the 2nd, (**Point B!!!!**) and 3rd bar, we can clearly recognize that after holding for a while, the bulls gave up and the line was broken and the move down was confirmed.

Remember that the slope of this invisible line will most of time tell you if you are in the wrong side of the market in the current wave, the strength of a trend and pullbacks and if the move is overextended (oversold in a downtrend) without indicators !!!! (e.g. in an downtrend the invisible line instead of sloping up or horizontal has a steep slope down).

Therefore, pay particular attention in this case to the slope of this line (horizontal in a downtrend) in comparison with the previous case (sloping down in an uptrend) and try to find what the market is telling you. (Hint: Starting move, continuation move or potential reversal)
Some very important notes on Invisible Lines:

1. Always respect the order in the analysis (**3 Essential notions in price analysis**). These lines are only worth if you already have defined the current direction (e.g. wave analysis HH, HL, etc) and you are in the right side of the market.
2. So **NEVER EVER** go against the current direction. If you go crazy plotting invisible lines connecting every single consecutive High or Low you are going to have a very poor profit/loss ratio and your broker will end up making more money than you (if you make any). Remember this is a visual aid to recognize what is the market doing right now, and a first useful hint to develop a price based trigger.
3. In other words, you only draw these lines on the side that is controlling the current move. In case 4a) we only draw a line on the highs because bulls are in control and in 4b) on the lows because bears were in control.
4. Always check if the instrument and timeframe are giving you enough room (true range) to apply this notion. If you are trading very fast charts or tiny range instruments, your analysis can be right but it may be impossible to implement in practice.

The final use of these lines are to add a fast, objective and efficient tool to evaluate any chart without getting lost in translation with indicators.

Try it. Open any chart, find the last 2 or 3 swings, define what are they signaling (HH, HL, LL, LH), check the last bars on the current wave and plot the invisible line connecting the highs or lows (depending on the direction you see in the swings). If you can't establish[in the first minutes you see the chart] the current direction and where in the current wave the market is, just close everything and come back later, the market is in choppy mode....

TBC....

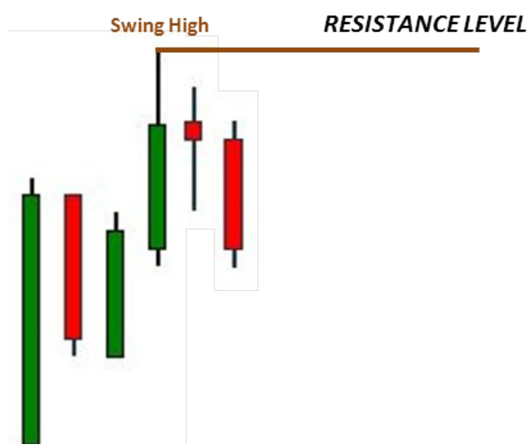
sisse

<u>Bar 5 and 6: Mastering price analysis in real time</u>

"Execute the basics; master the basics...when you master and execute the basics, the rest comes naturally

Yes all these notions make sense and look great in an ex-post chart. The problem is applying them in a live chart. Sound like a clich but its true, only trading (screen time) day after day like in any other activity will make the process natural. No mentor, guru, blog or book can give you a shortcut to proficiency. Therefore, the only think I can aim is to establish some basic notions in price analysis that can at least set a potential pathway to follow; but **<u>at the end successful trading is a personal journey that cannot be canned in a recipe book.</u>**

There is only one last thing left in this collection: bullish and bearish traps. But before that I will add a 5th and 6th bar in the analysis to talk a little about the types of charts and wrap up the notions defined before.



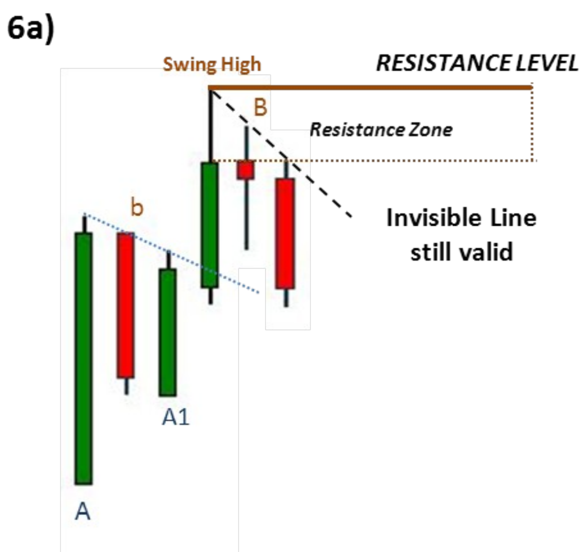
Time charts have a unique feature over all other form of charts: the obvious <u>control of time</u>. Controlling the frequency in which each bar is formed it is very helpful, it allows to have a time reference to make decisions, it tells a trader when to watch the screen, when its too late to entry and when to get ready to pull the trigger among other things.

These characteristics are especially important if you are scalping or trading fast timeframes. However and as you probably know,there is always a tradeoff when trading: in this case, bouncy charts, more whipsaws, lots of choppy (because of the nature of time charts, bars are plotted regardless of volume size or # trades) and missing some trades (most of them if you are using a bad time chart for your instrument) because of the size of the trigger bar can make a very bad entry.

In my opinion, the higher the timeframe the less impact these bad factors your trading plan will have. Again, the fundamentalist (long term traders) and investors are right and thats why, ceteris paribus, trading daily, weekly or monthly charts are by far the best option from a technical perspective.

Sometimes time charts can be poor for trading analysis but good enough as 2nd timeframe trigger when using multiple timeframes in slow charts. In general as a rough reference (it depends on the instrument) common used time charts are better for direction and volume/tick charts can be more useful for triggers. Yet at the end it doesnt make much difference if you dont have a consistent trading plan, a winner/loser is a winner/loser regardless of the chart type.

As you can see in fig 6a) again the bears took control from the highs of the 4th bar testing a good range of the buyers in that bar. By the end of the 5th bar buyers appeared and manage to push price up a few ticks below the open but they were overpowered again by sellers on the 6th bar.



In any case, the analysis in order of importance will go like this:

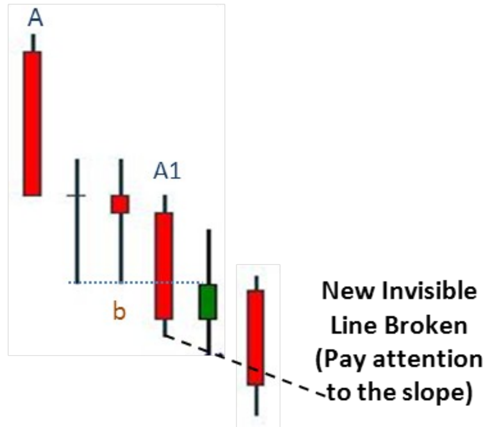
1. The most important issue with these bars is the formation of the 1st swing high(bars 3 and 5 highs are lower that bar 4 high). This marks the **beginning of the wave down**.
2. In that swing we plot a horizontal bar and we have the Resistance level.
3. The area between the high of the swing bar, the close of the swing bar and more important the

open of the next bar after the swing define the resistance zone.

4. The mini point of control A is stronger than ever. The wall protecting the strong (early/smarter) buyers on the open of the 1st bar not only resisted the sellers on the 2nd bar, but know they have a new round of buyers protecting them in bars 3rd and 4th.
5. Now there is a new mini point of control A1 because the price range between the open/low of the 3rd bar and the open/low of the 4th bar hasnt been tested in the next consecutive bars.
6. Its important to remember that we dont know if the new buyers in bars 3rd and 4th are long-term positions, swing traders, day traders or scalpers. But we know that there are stronger buyers holding from bar 1 and therefore these are not the ones who initiated the move up (continuation buyers). By the close of bar 6th we also know 100% sure that all buyers in point A and A1 are in profits.
7. Obviously, every time the move extends, buyers will start taking profits and adjusting the stops to protect profits. For example, scalpers will be mostly out already, day traders and swing traders (depending on timeframe of course) will be probably out, or scaling out and adjusting stops to higher levels. In other words, only if buyers in point A are big enough and have a longer perspective this point will hold for a long time (for long term traders, these bars are just noise. Assuming that point A represent real buying pressure, they can afford to see price chop around for a long time or even retrace back to the A area).
8. Bar 4th broke the mini point of control b. Now there is also a new mini point of control B because the price range between the high of the 4th bar and the high of the 5th bar hasnt been tested yet.
9. We can also plot a new invisible line that is still sloping downwards in an uptrend connecting the consecutive highs of bar 4th and 5th. As you can see the 6th bar not only couldnt break this line but sellers in this bar broke almost all the buyers in the 4th bar (which is a nice visual indication of where were the weaker bulls in that last wave up compare this with the sellers on the 2nd bar). Bears are in control since the beginning of the wave down (as we expect in any a wave down sellers control wave direction)
10. After 6 bars the move up is intact but now there is a new wave down against the tide. Is time to get ready for when the next wave up is forming to get in the first HH and HL high probability setup.

In the case of fig 6b), these bars only keep warning us that the move is overextending.

6b)



There is no new swings, S&R levels and therefore no new S/R zones

1. The mini point of control A is stronger than ever. The wall protecting the strong (early/smarter) sellers on the open of the 1st bar have a new round of sellers protecting them in bars 3rd 4rd and 6th.
2. Now there is a new mini point of control A1 because the price range between the open/high of the 4rd bar and the high of the 5th bar hasnt been tested in the next consecutive bars.
3. Bar 4th also broke the mini point of control b. This time there isnt a new mini point of control (B) forming because all prices have been tested by bar 5th. This is the first clear warning that new selling is evaporating and the move can stall or bottom.
4. If we plot a new invisible line connecting the consecutive lows of bar 4th and 5th (the lows because bears are in control) this time we have a 2nd important warning that the move is overextending and its definitively too late to get in: An invisible line sloping downwards in a downtrend. The move down on the 6th bar was almost impossible to catch because of the risk in placing the stop and the big range that was required to break the invisible line.
5. After 6th bars sellers are in full control and there is not much to do.

I can go forever analyzing an ex-post chart bar by bar but thats not my point. I only wanted to show you a pseudo rational approach that can help you analyzing the basic price notions in any live chart. Before moving to live charts I am going to add one more bar in the next and last post in this collection to define the last basic notion: <u>bears and bulls traps</u>...

TBC

sisse