

GETTING STARTED WITH MEDIAN LINES

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I have studied most of the trading books and web sites out there on Andrew's Pitchforks and Median Lines. MarketGeometry has been the most helpful so far. Median lines provide a framework to approach understanding market structure. Median lines are not meant to be used in isolation but they do offer clues into market direction and when price approaches "a line" of the median line set it can often be an area to look for an entry.

Here I will begin with some fundamental concepts to help you get started with Median Lines. But let me warn you...I am not here to tell you how or when to trade. I'm not going to give you the perfect set-up because there are none. You will have to study and practice and determine on your own how and when to trade. Let's get started.

Swings

One of the most fundamental aspects of the market is the fact that price swings or moves in waves. If you learn nothing else even this fact can be exploited to one's benefit. Everything from here forward will always be based on swings.

Below price is swinging down. It's making lower lows and lower highs. Every new low confirms the previous swing high.



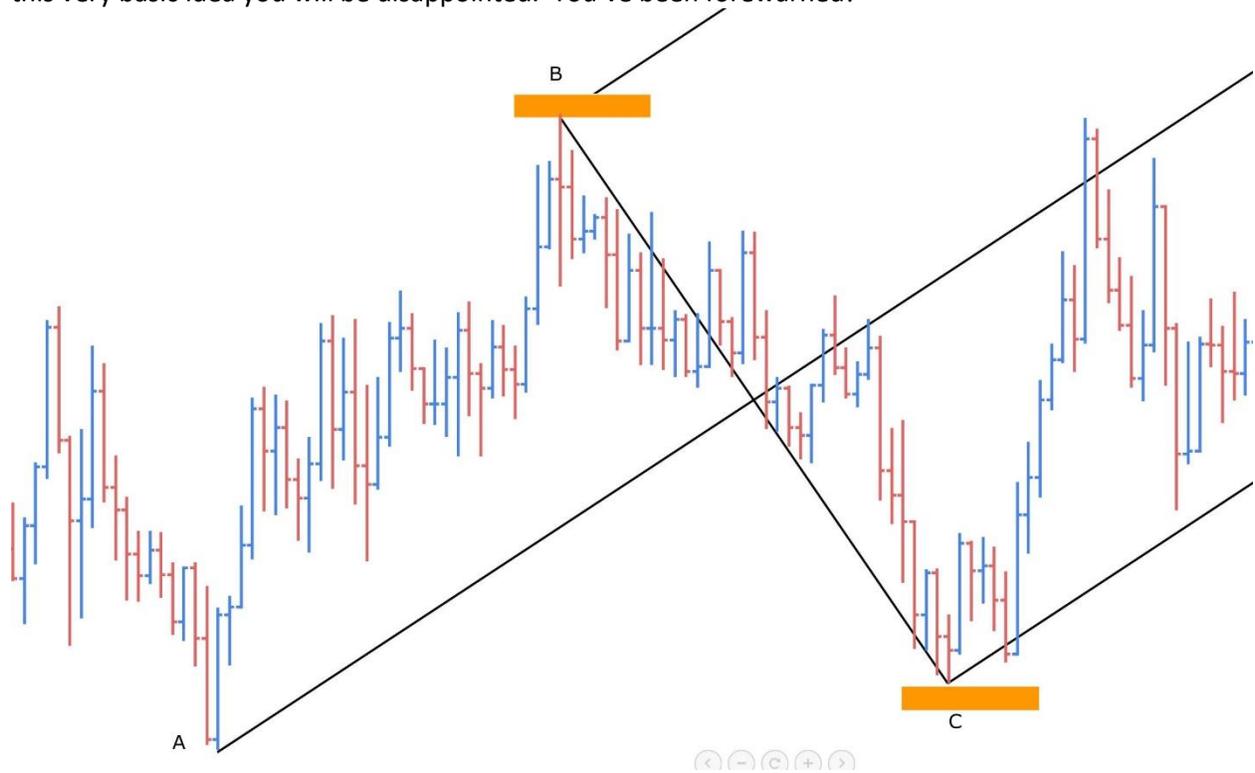
The impulse move is the movement of price that takes out the previous lower low and making a new low. After making a new low the retracement swing is the movement of price upwards that does not take out the previous lower high.



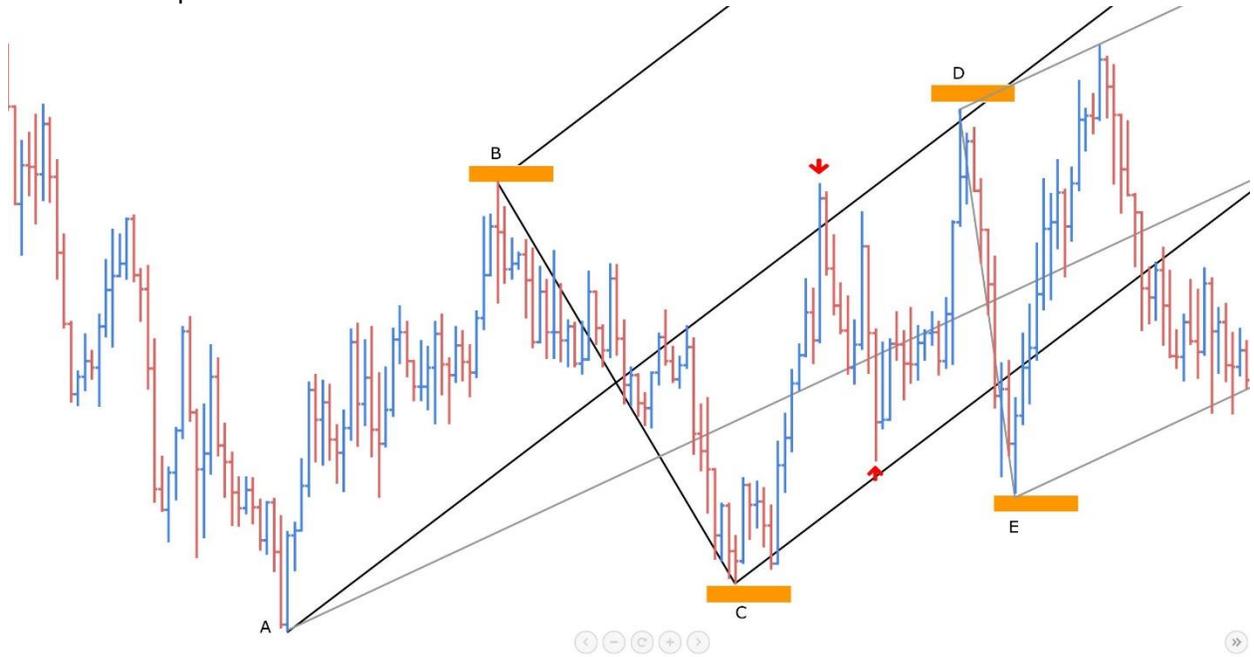
We can insert a median line. Pivot B to C represents the biggest retracement swing on this frame. Other median lines can be drawn but for now it's best to identify the most significant. As you can see this median line set described price pretty good. After Pivot C price descended down to reach the middle median line. Therefore this represents a completed median line. Andrews says that price will reach the median line about 80% of the time. Although price may continue to "respect" this median line set it has no obligation to do so. Pivot C is not known until price begins to come down. When it does start down decisively we can begin to think about it reaching the middle median line. This has the possibility of creating set ups since we know that price reaches the median line 80% of the time.



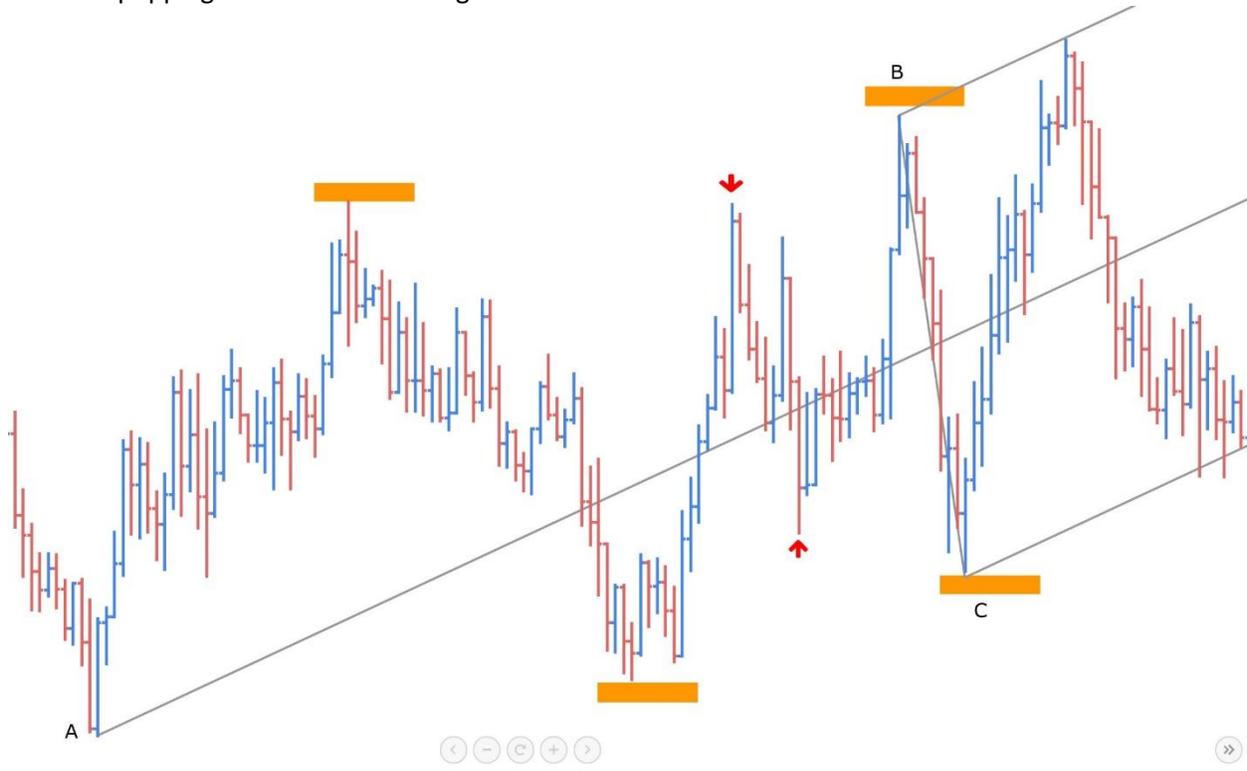
Just to illustrate further the tendency of price to reach the middle median line after C has formed. Please be careful taking this as an absolute. It is not and if you go off and start knocking off trades with this very basic idea you will be disappointed. You've been forewarned!



A little messy but the median line in the previous pic remains. Between the red arrows is a “swing” but it is between B and C so it is not a new swing. D is a new high that confirms C as a low. In addition B to C is about the same size as D to E although quite technically D to E is just a smidge smaller than B to C. I’ll clean this up in the next chart.



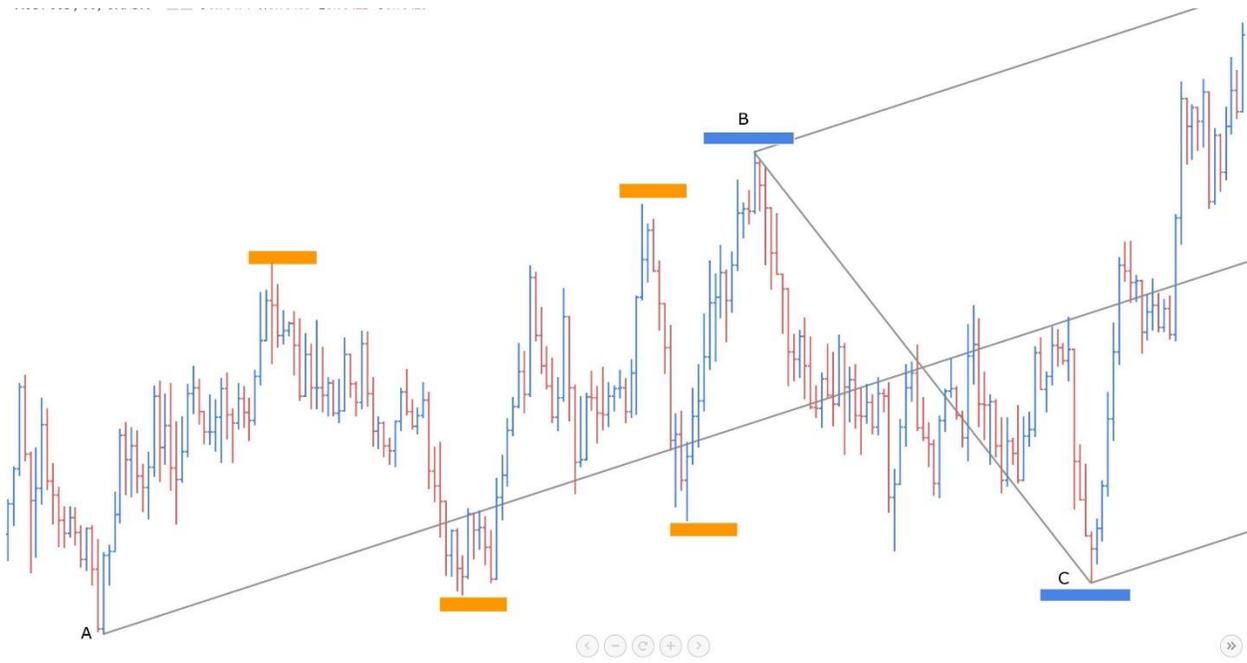
The median line is related with B being the new high. Once C forms we know that price has an 80% chance of reaching the middle median line which it does. In this case it plows through the middle median line, retests it and goes to the upper median line. This is another of Andrew's rules. When price "zooms" the median line it will often retest and move to the next. Again I warn you about taking off with this popping off trades. You will get burned.



Price makes another higher high but also a new low. I redrew the fork using this new retracement swing which is bigger than the previous two retracement swings. Price often moves in a series of relatively equal-sized swings then it makes a bigger swing before moving on again. It doesn't mean that price can't just keep moving down but we can keep an open mind and not assume that since price broke a swing its gotta go down now. After C price moves to median line satisfying Andrew's rule.



Price goes through the middle median line and retests the area before moving on and making a higher high at the upper median line.



We've looked at some basic tendencies of the market. The most important thing to take away from this initial lesson is that price swings.

Step 1: Find your swings. Start with the largest then find the next largest.

..... Do not switch back and forth between time frames.

..... Use a frame size where you can clearly see the OHLC of the bars or candles

Step 2. Use the big swing to start drawing your median line set. I like to draw new median lines sets as price completes the median line by reaching the middle median line or further. This is not completely necessary but I personally believe this helps keep current with what price is doing right now,

A note: Some median line traders like to find frequency. This means you find a median line where price seems to be consistently respecting price. There is nothing wrong with this but it is not the way I use median lines.

See you next time.