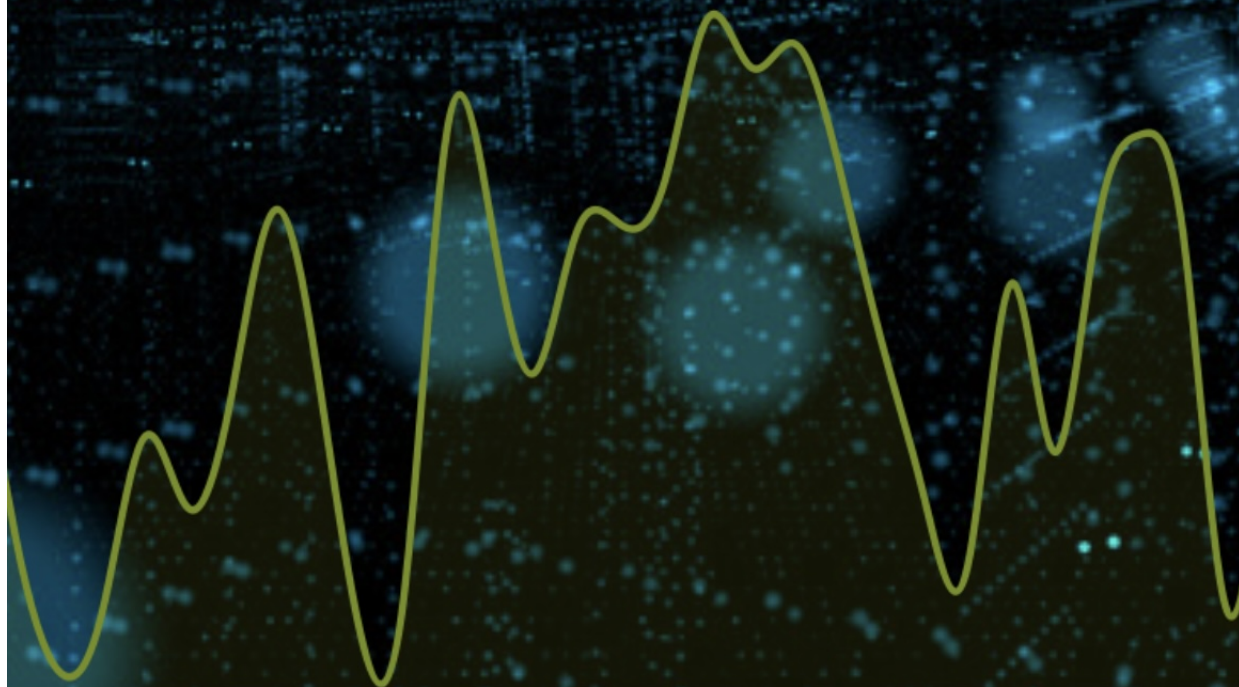




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THE ULTIMATE GUIDE TO PRICE PATTERN TRADING



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Ultimate Guide to Price Pattern Trading

By Coach Shane Daly

Netpicks.com

Welcome

Welcome to this ultimate guide to price pattern trading, where we will dive into the fascinating world of price action analysis.

Trading can be challenging, but by understanding how price patterns work, you can gain an edge in the market.

In this guide, we'll explore the reasons why **price action is crucial for successful trading** (especially for retail traders) and examine the four stages of the market.



Source: avanti_photo

We'll also uncover the significance of support and resistance levels, and how to identify them during different market phases.

You will learn about swing analysis, a powerful tool for determining trend strength, and its role in identifying trading opportunities.

You'll become an expert on mean reversion trading and how to spot potential trend reversals in overextended markets.

Trend continuation is an essential aspect of price pattern trading, and we'll delve into pullbacks as vital opportunities for entering trends. Strategies for

entering pullbacks will be shared, PLUS insights into trading ranges and breakouts.

This guide aims to provide practical insights and guidance by leveraging the expertise of an experienced trader, giving you the tools you need to make well-informed trading decisions based on price action analysis.

At the end of most sections, you will have a chance to “Test Your Knowledge” on what was just covered. The answers can be found on [page 83](#).

Let’s dive in and unravel the world of price pattern trading.

Trading: Truth Time

Trading is hard. The **act** of trading is simple.

But putting it all together in a consistent manner takes effort, drive, and success will only come to those who put in the work.

Methods to analyze your charts are simple. But humans enjoy complexity! Yet that does not guarantee success.

Common theories surrounding moving averages acting as support and resistance are flawed.

When you start to look at the usual teachings with a critical eye and ask “why”, the theory starts to unravel and leaves the trader confused.

Simple works. I'm not asking you to trust me.

I'd rather you not.

What I am asking is that you approach the information with an open mind and be critical - prove it to yourself. I want you to know....

You are going to lose.



Source: Lesia Hnatiuk

There is no “sure-fire” trading strategy or system that will let you book 100% win rates or let you off the hook without a string of losses.

Your wins and losses will come in a random distribution and your job is to consistently execute your trading plan and let your edge bring you back on the right side of the winners circle.

Losing Streaks as a Function of Win Percent					
WIN %	100% Probability	Average	10% Probability	1% Probability	Maximum
80	2	3	4	5-6	7
60	4	5	7	9-10	14
40	7	8	11-12	15-16	25

Source: Netpicks.com

You are not going to read about a bunch of indicators and best settings that will “tip you off” to a winning set of trades.

Those don’t exist.

What does exist is how markets have always moved, how traders behave,

and the subtle clues that show up that can point to the probability of one thing happening over another.

For that reason, there is no table of contents.

Each section builds on the previous section and jumping around will leave gaps in your understanding and you will not get the full value of what you are reading.

Ready to get started?

Cracking the Code

Open up any chart and look at what the price is doing.

Is it going up? Going down? Going sideways?



Source: sitthiphong

Whatever direction it is going, what is causing the price to move?

The demand and quantity for whatever you are tracking is based on how valuable it is.

If an item is deemed valuable, if there are plenty of them, and if it's a fair price, we can expect subtle fluctuations in price but nothing to be concerned about (trading range).

Once the supply of the item is running out, the value of that item will increase as long as there is sufficient demand for it (uptrend - higher prices).

The more demand for it, the faster it sells, and the higher price climbs.

What if people start to return the item because it's poor quality?

Supply starts to increase and because word got out that the item is not very good, the demand starts to dwindle.

Soon, the supply is so great that price drops to entice buyers. The more the demand falls and supply increases, the price will fall (downtrend - falling prices).

That movement in price, is the action of price and as price action traders, how it moves and how fast it moves is important.

When traders make trading decisions based on repeated price patterns that have formed, they put themselves in a position to find success in trading.

Test Your Knowledge

1. What factors determine the direction of price movement in trading?

- a) Supply and demand
- b) Quantity and value
- c) Price fluctuations and trading range
- d) All of the above

2. How does the value and demand for an item affect its price?

- a) It leads to a trading range
- b) It causes an uptrend with higher prices
- c) It results in a downtrend with falling prices
- d) All of the above

3. How do price patterns influence trading decisions?

- a) They have no impact on trading decisions
- b) They serve as a basis for successful trading
- c) They only matter when prices are falling
- d) They indicate the availability of the item

3 Reasons Why You Should Trade Price Action

Trading price action involves analyzing the movement of prices on charts without relying on complicated indicators or lagging signals.

It focuses on **how price is behaving** in real-time and how it is interacting with key support and resistance levels.

1. Price action represents collective human behavior

Human behavior in the market creates some specific patterns on the charts.

Price action trading is really about understanding the psychology of the market using those patterns.

- That's why you see price hit support levels and bounce back up
- That's why you see price hit resistance levels and head down

Why?

Because of a collective human reaction!

2. Price action forms structure to the market

Price action forms the backbone of the market, creating a structure that helps us find opportunities to trade.

While we can't claim to predict market movements with 100% accuracy, understanding the patterns and structure that price action forms can reduce uncertainty and provide insights into the probable next moves of the market.

By studying price action, we can identify key support and resistance levels, trend lines, and chart patterns that act as guideposts in our trading. These structural elements serve as valuable tools for interpreting market behavior

and making educated trading decisions.

3. Price action helps reduce market “noise” and false signals

Price action helps us filter out the distracting market "noise" and false signals that often plague traders. While indicators like RSI or moving averages may seem enticing, they frequently generate unreliable signals depending on how you use them.

Price action, on the other hand, provides a more robust approach as it directly analyzes the raw price data, making it a superior choice over indicator-based trading.

Now, don't get me wrong—I'm not suggesting that you completely abandon trading indicators. They can still have their place in your trading toolbox. However, not everyone has the same level of expertise or time to dedicate to understanding the details needed for price action trading.

For those individuals, following indicator trading signals may actually be a better option.

While understanding price action should ideally be the primary focus when making trading decisions, some people may benefit more from relying on indicators. These signals can provide a simplified way to interpret market trends and potential entry or exit points.

By following indicator trading signals, individuals with limited time or experience can still participate in the market.

By increasing your ability to read price action, you'll become better equipped to differentiate between significant market movements and minor fluctuations.

This skill will ultimately guide your risk-taking decisions and help you avoid getting caught up in false signals and ineffective trading strategies.

While indicators may have their uses and benefit some, **recognizing the power of price action** and making it your focal point can significantly enhance your trading outcomes.

Test Your Knowledge

1. What is one advantage of trading price action?

- A) It allows for 100% accurate predictions of market movements
- B) It helps identify key support and resistance levels
- C) It relies on complicated indicators and lagging signals
- D) It eliminates the need for understanding market psychology

2. How does price action trading help reduce uncertainty?

- A) By relying on indicators like RSI or moving averages
- B) By analyzing the movement of prices on charts in real-time
- C) By predicting market movements with 100% accuracy
- D) By ignoring key support and resistance levels

3. Who might benefit from following indicator trading signals?

- A) Traders with a strong understanding of market psychology
- B) Traders with limited time or experience in market analysis
- C) Traders who prefer relying on complicated indicators
- D) Traders who want to eliminate market "noise" and false signals

Should You Care About The 4 Market Stages?

Markets do not move in a straight line up, down, or sideways.

There is an alternation of movement (trend to range) that forms the basis of not only an increase or decrease in price, but also of the overall market direction over the long term.

Stage One: Accumulation phase



Source: Netpicks.com

This is the phase preceding a bull run that comes after a sell off where you can start to position before the move begins.

This is the zone where informed traders start to accumulate positions and the market is virtually ignored by other traders.

This accumulation must be done in a way so as to not get on the radar of other traders.

Bigger traders are attempting to build a position at a low price and not draw attention because more buyers could rapidly increase the price and

this is not what you want to happen when attempting to gain a position.

This phase is not easy to spot as it could be just a consolidation before another leg down.

You can increase your chance of labeling these price areas:

- Support holding with small probes (springs) below the zone
- Strong upthrusts at resistance designed to entice longs, stop out the longs, and price drives lower as longs sell = cheaper buy points
- Exhaustion thrusts in the same direction of the down move.

Stage Two: Markup (participation) phase



Source: Netpicks.com

This phase is when the average trader begins to take notice and begins to “trade the trend”.

A breakout from consolidation and the occurrence of retests of the zone is a standard trading play for traders wanting to participate in the potential up trend in price.

Stage Three: Distribution Phase



Source: Netpicks.com

This sets the stage for a bear market. One thing you will notice is that price movement is not as smooth as in stage two.

- Springs at resistance are unable to drive price above highs
- Bear candlesticks are wider range than bull candlesticks
- Swing analysis points to stronger down moves than up

This is where traders who've held positions begin to unload.

They don't want to do it quickly so as to cause a rapid drop in price.

It's even possible that the probes below support and then bought up are bigger players supporting price to entice more longs to enter.

Larger players can then unload at higher prices.

Make no mistake, you are in this business with professionals who have the capital to move prices to cause other traders to do certain things - like buy when the market is about to fall.

Stage Four: Mark Down Phase



Source: Netpicks.com

The bear market began and price action was showing you the probability that it could happen while in stage three.

This is the opposite of stage two in that traders are now dumping their holdings.

Forex is different when thinking about the mark up/down phase.

You have replaced a strong currency and have now flipped camps believing the second currency (the quote currency) will be stronger than the base currency.

Forex pricing is impacted by macroeconomic factors such as inflation and employment as opposed to supply and demand.

Test Your Knowledge

1. Which stage is characterized by a consolidation before another leg down?

- a) Accumulation phase
- b) Markup phase
- c) Distribution phase
- d) Mark Down phase

2. In which phase do traders begin to "trade the trend"?

- a) Accumulation phase
- b) Markup phase
- c) Distribution phase
- d) Mark Down phase

3. What is one characteristic of the distribution phase?

- a) Springs at resistance drive price above highs
- b) Bear candlesticks have wider range than bull candlesticks
- c) Swing analysis points to stronger up moves than down moves
- d) Traders begin to accumulate positions

4. Which phase is characterized by traders dumping their holdings?

- a) Accumulation phase
- b) Markup phase
- c) Distribution phase

d) Mark Down phase

5. What impacts forex pricing the most?

- a) Supply and demand
- b) Macroeconomic factors such as inflation and employment
- c) Breakouts from consolidation
- d) Accumulation of positions

Why Are We Covering The Bigger Picture?

We're looking at the bigger picture because it plays a vital role in successful trading. It's important to step back and take a broader view of the market, as it offers insights that inform our trading decisions.

Understanding the four stages of the market has its advantages.

Markets **never move in a straight line**; instead, they go through distinct phases of

1. Accumulation
2. Markup
3. Distribution
4. Mark-down

By recognizing and understanding the meaning of these stages, we gain a deeper understanding of market dynamics and can anticipate the overall direction of the market.

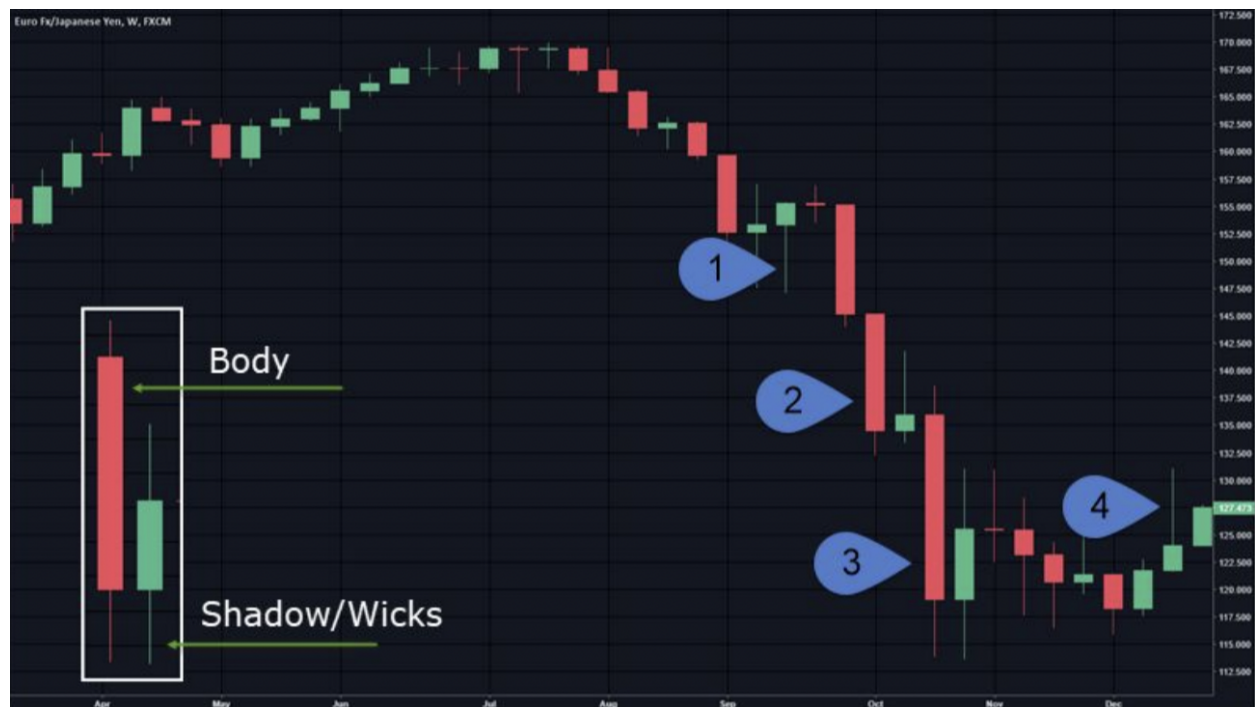
In addition, analyzing the bigger picture helps us identify significant support and resistance zones. These levels serve as important reference points in the market where buying or selling pressure tends to emerge.

These “higher level” zones often carry more significance than ones appearing on an intraday chart.

Plotting Price: Candlestick Overview

I won't go into the many different candlestick types (do they even have an edge?) but want to make sure you understand the basic candlestick design because they will come into play in this guide.

Variations of the basic design, **at specific locations**, can give valuable information.



Source: Netpicks.com

Candlesticks will have a body that can vary in size depending on the opening and closing price values.

Shadows show the highs and lows that occurred during the opening and closing prices.

This size of the body and the presence or lack of shadows can give you insight into which side, bulls/bears, held the balance of power during the time period you selected for each candlestick.

While the formation of 1,2,3 candlesticks can produce a pattern, 1 and others **have found no edge** in the way these are generally traded.

Here are the main types of candlesticks I do pay attention to **depending on where they show up on the chart**:

1. Lower shadow on a candlestick mean lower price rejection and may be of interest depending on location
2. Strong momentum candlesticks show conviction in the direction and in this example, it is to the downside.
3. This candlestick is “out of the ordinary” and often represents a climax in price. In this case, it could halt, at least temporarily, the down move in price.
4. The upper shadow indicates a probe into and a rejection of higher prices. Like the lower shadow, location is important.

We are putting the pieces together so take a moment and refer back to the four stages.

The location of where these candlesticks appear is of vital importance. They will appear all over your charts, but a few areas are where you want to take notice.

Test Your Knowledge

1. Which part of a candlestick indicates the highs and lows that occurred during the opening and closing prices?

- A. Body
- B. Shadows
- C. Upper shadow
- D. Lower shadow

2. What does a strong momentum candlestick indicate?

- A. Rejection of higher prices
- B. Lower price rejection
- C. Conviction in the direction
- D. Climax in price

3. What can the upper shadow of a candlestick indicate?

- A. Lower price rejection
- B. Probe into and rejection of higher prices
- C. Conviction in the direction
- D. Climax in price

Swing Analysis - The Importance It Holds

Markets transition between ranges, trends, and that trends are more likely to continue in its direction than to stop trending.

There can be different directions when switching between higher and lower time frames and what will be covered in this guide is not time frame dependent.

For clarity purposes, **I will be using daily charts in the examples.**

Given that trends persist, it makes sense that if the market is trending, that you find a way to get a position in the same direction as the trend.

Traders will find more success entering in the first or second leg of a trend. Extended trends have the threat of a large correction.

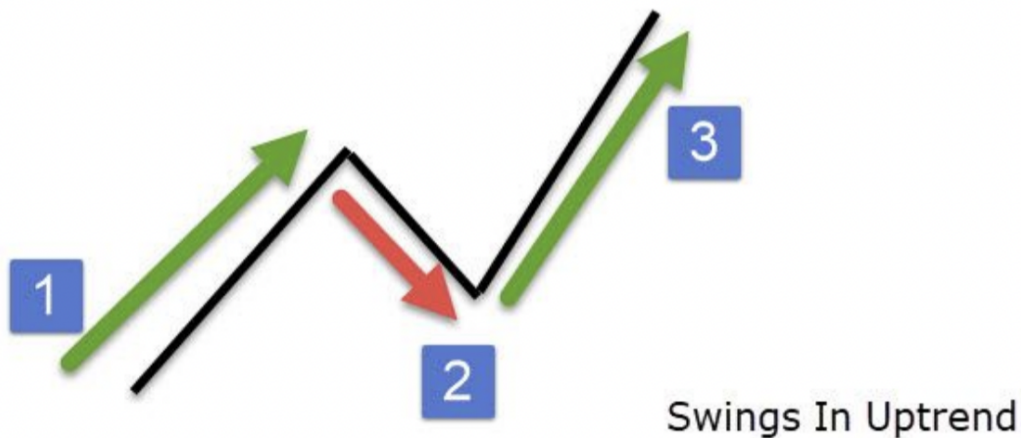
The first thing you'd want to do is to determine the strength of that trend and that is where swing analysis takes over.

What I don't want you to do is fire up some technical indicator or start looking for chart patterns. By understanding what **swing lengths** tell us, we can determine the strength of the instrument we are trading.

What is the difference between a range and a trend?

Simple.

And you don't need an indicator to see it.



Source: Netpicks.com

Take a glance at this diagram.

What is it that you notice about each of these swings?

- How are they different?
- How are they the same?
- Does one direction appear stronger?

This is the first question you should ask when you look at a chart: **is it trending or ranging?**

1. This is the impulse leg and we want to see a strong thrust in price that shows that buyers are still excited about taking positions in this market.
2. This is a retrace or corrective move in price. In order to be confident that we have strength in the main direction, we want this pullback to be small and without strong momentum candlesticks.
3. This is the continuation of the trend and we want to see continuing strength in this second impulse leg.

One of the most basic (and effective) trades is seeking out strong impulse moves, finding a position during the corrective stage, and then riding the

second impulse leg to profits.

When you see a strong trend as depicted in the graphic, a rule of thumb is do not think about counter trend trading as it carries a low odds of success.

Higher odds are in the direction of the trend until price action is showing exhaustion and a break of the trending pattern

There is a place and time for trading against the trend and we will be covering that in this guide. We can determine, through price action, when a counter trend trade **may be a risk you can take**.

A market that is climbing higher will, of course, put in higher swing highs and higher swing lows. That is the pattern in an uptrend and the reverse is a downtrend.



Source: Netpicks.com

This is a clear uptrend and I have marked some areas that are of interest to a price action trader looking to take a position long.

1. We don't want to see strong corrections against the trend like we do here. There is a consolidation at the end of this thrust down which may work off the overbought condition of the market without needing another push down. Price resolved at support.
2. Another new high and push down in price. Momentum candlestick can't break support which could mean buyers are stepping in to a support price.
3. Price rises and a small pullback occurs with more of a consolidation. When price **breaks the high and can't continue** with strength, this is a red flag for a long trade. When price broke down and failed to rally, a short trade could be justified with conservative profit targets until/if a new trend is established.
4. Price breaks support and then reclaims support within a few candlesticks. That is a sign that bulls are back in business.
5. This is a special move. The trend is **grinding higher with very little retrace or range**. It may be counterintuitive but a low volatility move like this can point to at least a short term trend change.

Why?

It is loaded with longs. Loaded with traders just piling in.

Think of shaking a closed soda bottle.

You load that up and when it finally pops, it does with a bang.

Takeaways

- Trends in motion tend to stay in motion
- We want to see strong impulse moves in the direction of the overall trend direction
- Corrective moves should be less intense than the impulse
- Breaks of support for longs (resistance for shorts) does not mean the trend automatically changes
- Low volatility pushes in the trend direction often end with a bang, not a fizzle

Test Your Knowledge

1. What is the purpose of swing analysis in trading?

- A) To determine the strength of a trend
- B) To identify chart patterns
- C) To find technical indicators
- D) To analyze range and trend formations

2. What is the difference between a range and a trend?

- A) A range is characterized by strong impulse moves, while a trend has small pullbacks.
- B) A range has low volatility, while a trend has high volatility.
- C) A range moves in one direction, while a trend switches between higher and lower time frames.
- D) A range consists of consolidation and corrective moves, while a trend consists of strong thrusts and corrective moves.

3. What can be inferred from a chart with a strong trend?

- A) Counter trend trading is highly profitable in this situation.
- B) Buying positions should be taken during corrective stages.
- C) Trend exhaustion is likely to occur soon.
- D) Indicators are necessary to determine the strength of the trend.

4. In an uptrend, what pattern would you expect to see?

- A) Higher swing highs and higher swing lows
- B) Lower swing highs and lower swing lows
- C) Consistent range formations
- D) A mixture of higher and lower swing highs and swing lows

5. What does an opposite low volatility move in a trend indicate?

- A) A short-term trend change
- B) A continuation of the trend
- C) Breaks of support for longs
- D) Resistance for shorts

Swing Analysis - Trends To Trading Range

Markets rarely just switch from going up to going down but usually resolve into a trading range.

What is a trading range?

When a market is not making a trending pattern, higher highs/lows in an uptrend for example, you can classify that as a trading range.



Trend To Range

Source: Netpicks.com

Once we are no longer making a higher high in an uptrend, something has changed in the market. We are no longer trending.

When seeing a price pattern as shown by the red star, consider a consolidation is beginning until proven wrong.

Why jump to conclusions?

Don't.

Use what you can see.

There is another clue that tells us the uptrend may be having some trouble: **the corrective swing before the red star is longer** than the previous swing down in price.

Traders that positioned long prior to the final push up, would be considering if it was time to exit the trade.

Is this the beginning of a sideways consolidation?

That is one outcome. Another one is a complex correction.



Source: Netpicks.com

Traders who position at the red line on a pullback usually get stopped out when the market pulls back in two waves.

Another issue is when price breaks the red line, we've put in a lower high and will be putting in a lower low.

That is a downtrend from a technical standpoint which may cause traders to go short but remember - trends generally don't just reverse without a stage three - distribution.

After a strong run in price, you can look for complex pullbacks (2 + legs) to occur and also after one or more simple (one wave down) pullbacks.

Takeaways

- Longer corrective swings show weakness in the instrument
- Break of low of a simple pullback does not mean trend change
- Complex pullbacks should be expected after strong impulse legs and after one or more simple pullback

Test Your Knowledge

1. What is a trading range?

- A. When a market is not making a trending pattern
- B. When a market is making higher highs and lower lows
- C. When a market is switching from going up to going down
- D. When a market is breaking out to new highs and lows

2. Why is it important to not jump to conclusions when seeing a price pattern that indicates a consolidation?

- A. Because it could be the beginning of a complex correction
- B. Because it means the trend is reversing
- C. Because it indicates a distribution stage
- D. Because it shows weakness in the market

3. What does it mean when price breaks support in a pullback?

- A. It indicates a lower high and a lower low
- B. It means the trend is reversing to an uptrend
- C. It suggests a complex pullback will occur
- D. It shows weakness in the instrument

Explosive Price Moves Can Be Dangerous

When trading a pullback, we want to see the prior swing in the trend direction show some momentum that can imply that the market is setting for another leg up.

Weak impulse moves, especially if divergence is seen, can be a warning sign that getting into a continuation trade is not the best play.

We want to see momentum - **just not too much momentum.**



Source: Netpicks.com

1. Price breaks former resistance (3) with momentum and you see that these two candlesticks are different from any in the swing up.
2. If the strong momentum didn't put you on alert, the thrust above highs and failure should have lowered your expectation for a smooth pullback trading opportunity.
3. You can use a trend line to connect previous peaks and watch as price approaches the third touch. Price breaks above this trend line twice giving you pause on taking a continuation trade on a pullback.

“Too much” is subjective but using a trend line can help you decide if price has moved “too far, too fast”.

“That’s Odd”

One simple way to determine if “too much” is really too much is to ask yourself if the current movement is “odd”.

Is it out of line with the previous price movement?



These areas are clearly “odd” considering the price action that surrounds it. To make it clear if you still can’t see it, look at the red line. That red line is a 5 period ATR and the spike is obvious.

Takeaways

- Strength is good. Too much is not.
- We can use an objective means to determine if the momentum is too much
- Too much strength is a sign that the chance of a complex correction and/or extended consolidation is possible

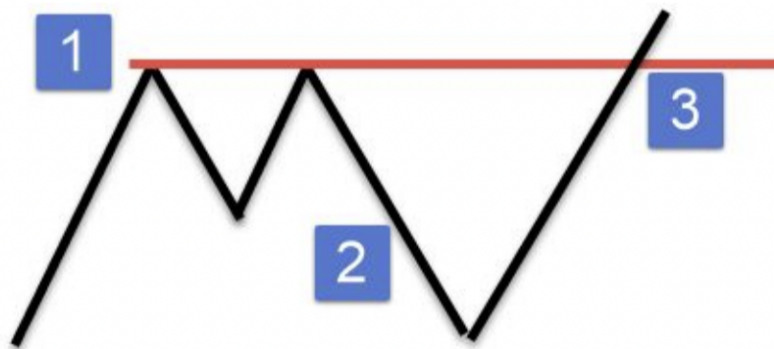
Support And Resistance: Is It Really There?

There are price zones where the price will have a tough time getting through for a variety of reasons.

But can we always know them in advance?

No.

Let's be clear, support or resistance zones (not precise price points) only become those **when** price rejects from it.



Source: Netpicks.com

1. Is this resistance? Be specific. It's not until price actually resists at that point
2. Yes, there was resistance as the price was rejected. Is it still resistance?
3. No. Potentially it was, but price cut through it

The point is not to label a price point support or resistance as price is approaching it.

It could turn into it but each time price is coming back to a zone it could **potentially** be turned back.

Let's see how powerful support and resistance can really be in the right

context.



Source: Netpicks.com

These green arrows highlight zones where price bounced from, some several times and you can see that selling resistance and buying support were some great trades.

Would you have taken some of the tests, retests, or backward bounces off the levels?

Do you see an edge with good levels?

The problem is these lines were placed randomly on the chart with my eyes closed.

If you would have traded these lines, you would have been trading against **random price zones** which have nothing to do with the price action on the chart.

The obvious question is....what should you use for levels?

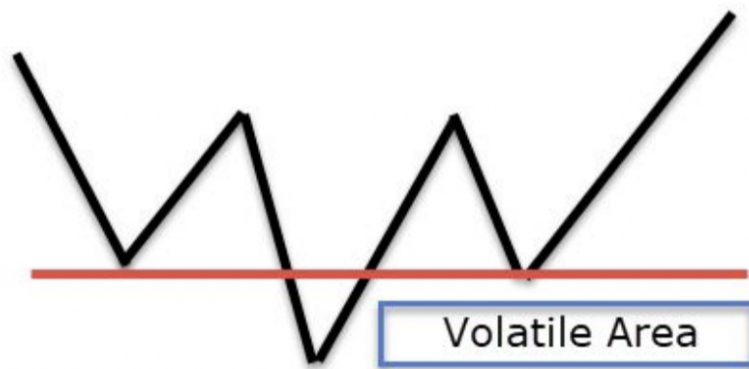
Use levels that are obvious to everyone with a degree of space around those levels. We can have an objective way to measure the space and that will be discussed next.

Understand that levels can break at any time so consider any line you draw as having the potential to be a barrier **and not a definite barrier**.

Pick zones that literally pop from the chart is the usual advice and there is another way that holds validity.

Look Inside The Swings

Instead of picking the extreme points as is the usual suggestion for finding support and resistance, going inside the extremes puts you where the action usually is.



Source: Netpicks.com

It's common to see price make a low (or high), a lower low and then price does not return to form a double bottom but bounces in the same zone as the pivot before the extreme low (or high).

We can argue there are many reasons for that.

But to keep it simple, let's assume that when price looks to challenge extreme points, more competing participation takes place.

If price stays out of that volatile area, break out traders as one example will sit on their hands as price does not trade into the low.

In reality, this won't look as clean on a chart but if you train your eyes to

see them, it does get easier.



Source: Netpicks.com

This is a gold chart and the white lines begin from swings that precede the extreme points on the chart.

Some are clear on this chart while others will require you to zoom in so you can see the anchor points of these lines.

You will see price spikes into these lines, price basing on these lines, and price turning from these lines - sometimes multiple times.

Test Your Knowledge

1. What is the definition of support or resistance zones?

- a) Price points where the price easily breaks through
- b) Price zones where the price has a tough time getting through
- c) Specific price points where the price rejects
- d) Price areas that are randomly placed on the chart

2. When does a price point become a support or resistance?

- a) When it is randomly placed on the chart
- b) When there is a sharp increase or decrease in price
- c) When the price rejects from that point
- d) When it is an extreme point on the chart

3. What is the problem with randomly placing support and resistance lines on a chart?

- a) It provides clear trading opportunities
- b) It helps determine future price movements accurately
- c) It ignores price action and carries little meaning
- d) It improves the accuracy of support and resistance levels

4. What is the suggestion for finding support and resistance levels?

- a) Use levels that only a few traders are aware of
- b) Draw lines at extreme points on the chart
- c) Pick zones that are clearly visible on the chart
- d) Use price points that are constantly changing

5. What happens when price challenges extreme points on a chart?

- a) The price becomes more predictable and stable
- b) There is a decrease in trading activity
- c) More competing participation takes place, making it more volatile
- d) Breakout traders become more active

The Concept Is Important

Support and resistance is a concept you should understand because it does represent the balance and imbalance of supply and demand at certain prices.

Support and resistance zones will either hold or break and that is useful information for a trader.

At the very least, it will give an objective area for you to determine, through price action, whether you have a trade or not.

Whether this is something you can trade with confidence and consistency is another matter.

Takeaways:

- Look for levels that are extremely obvious
- Use levels where price has shown previous reactions
- These are not precise points. Use a wide range around the levels you choose

Support And Resistance During A Consolidation

As was mentioned earlier, we will find lines on a chart in any random location and they will appear to affect price.

Is randomness a trading strategy?

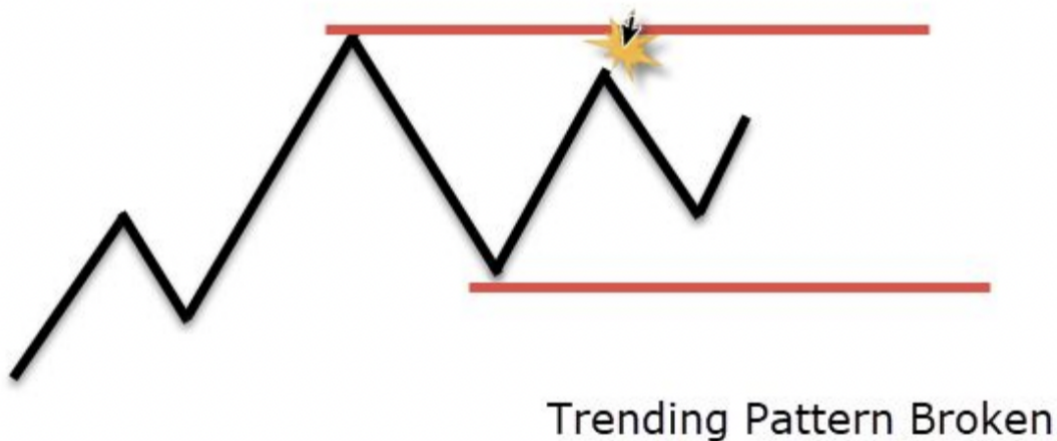
No.

There are places on a chart where certain price points are not random but are built from the way price evolves - trends to ranges to trends.

How do we know when price is consolidating?

The normal trend pattern is higher highs and lows or lower highs and lows. A break of that pattern means the market is not trending.

This was an uptrending market and once a lower high was put in, the pattern of higher highs and higher lows was broken.



Source: Netpicks.com

In order for the market to continue an advance in price (trending action), it will need to take out the previous pivot high in an uptrend and pivot low in a downtrend.

Two things can come out of a trading range:

1. We see a trading range and we expect the market to continue in the same direction once there is a breakout.
2. Price may be in an accumulation range or distribution range which will result in a trend change.



Source: Netpicks.com

This trading range lasted for almost two months before breaking hard to the downside.

It's hindsight that would tell this was a distribution range although there were a few price action clues that the downside had a higher probability of playing out.

- Stronger bear candles in terms of range
- Failure of price to break resistance after basing under it. Can you see why support and resistance, in relation to trading ranges, seems to be less random?
- Price action shows end to trending pattern
- Price is not showing distinct trending action inside the main pivots
- Drawing lines at pivots contains most price action



Source: Netpicks.com

This graphic shows a trading range that resolves into a resumption of the preceding upwards move of the market.

Any clues to an upside break?

- Basing at support + probes but price rejects higher
- Assuming that breakout resolve in trend direction
- Strong momentum into initial high pivot

Let me add that a breakout that occurs where price breaks from the bottom of the range straight through the top, should be suspect.

It takes a lot of buying pressure to move price in that manner and you could argue that it is more so an exhaustion of price as opposed to a continuation of the trend.

Let's take a look at another continuation range



Source: Netpicks.com

Can you spot why this trading range is different from the previous one?

1. Price couldn't hold on the momentum push lower and immediately regained support
2. Basing below resistance which can give you a great entry prior to break
3. Momentum push and tight range at high of momentum candlestick - bullish

Price did eventually come back to test the breakout level and when lower prices were rejected, the market went on to make new highs.

Takeaways

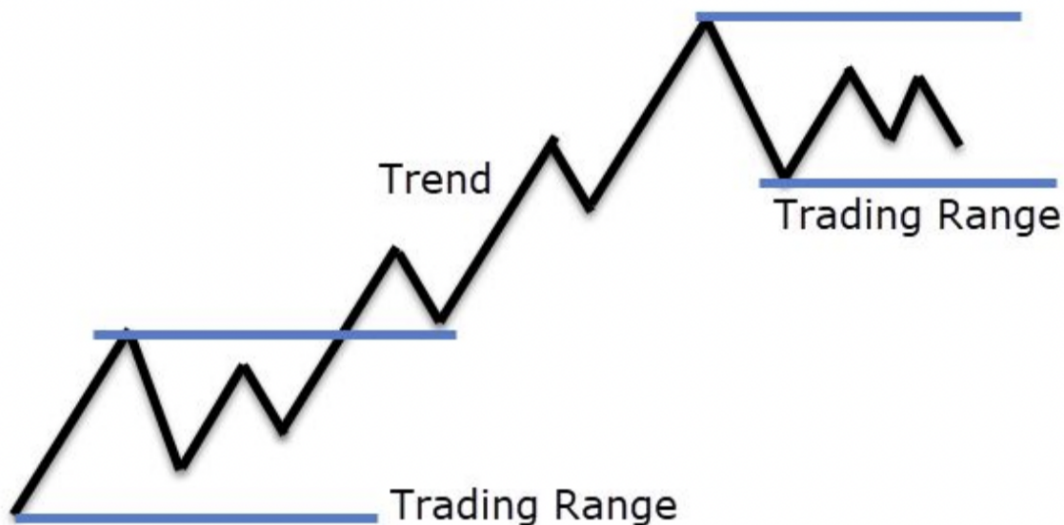
- Markets either trend or consolidate and you must determine which state the market is currently in (this is not as easy as it may seem)
- Trading inside the range is often a crapshoot and playing the extremes is often the better play
- Look for bullish or bearish signs inside the range

A-B-C Of Price Evolution (IMPORTANT)

How price moves allows us to take advantage of the energy that is contained in that price movement.

In these “not so simple movements”, our trading opportunities present themselves in several ways.

**Trading strategies are built around this evolution of price.
Traders will use trend trading strategies or range trading strategies.**



Source: Netpicks.com

This is a simplified view of how the market moves highlighting that markets do not go from A - B.

Price takes a detour giving us an A-B-C route.

On a real chart, these moves are not as clean and can be more difficult to label.

Oftentimes, the simple act of crunching the candlesticks together will take out the minor bumps and highlight the important aspects that we will have an interest in.

Price will:

- Trade inside of a range until it.....
- Breaks from that range and with momentum it will lead to...
- Trending price action that will eventually resolve into...
- Another trading range - either continuation or trend termination

In this progression, we can find our trading opportunities if we are watching for price action and developing structure that gives us a glimpse into where the probability is the strongest.

I should add that there are times where price will form a “V” reversal which will reverse the trend without a consolidation.

These are tough to trade and are very emotional spikes in price.

For these, I simply wait for price to “settle” and trade from a sideways consolidation or a bull or bear flag.

The 2 vital takeaways are:

1. It is this simple in terms of this progression in finding your trades
2. It is difficult to do in real markets

Test Your Knowledge

1. What are the two types of trading strategies commonly used in response to price movements?

- a) Trend trading strategies and range trading strategies
- b) Breakout trading strategies and reversal trading strategies
- c) Scalping trading strategies and position trading strategies

2. What is the progression of price evolution?

- a) Range trading, breakout with momentum, trending price action, trading range
- b) Trending price action, range trading, breakout with momentum, trading range
- c) Breakout with momentum, trading range, range trading, trending price action

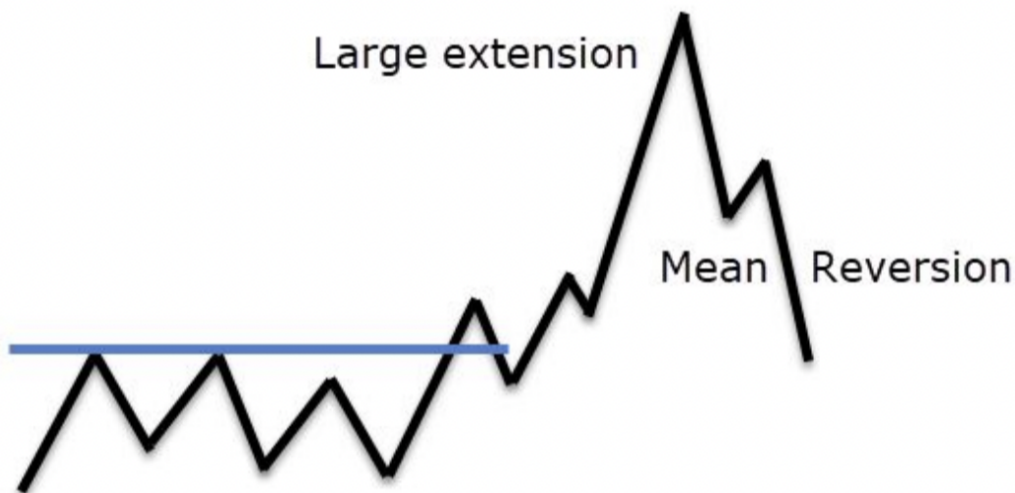
3. What is a "V" reversal in price movement?

- a) A consolidation followed by a trend continuation
- b) A sudden and emotional spike in price, reversing the current trend
- c) A sideways consolidation or a bull or bear flag in price movement

Mean Reversion Trading

Mean reversion is based on a market that has extended “far” from an average price and will eventually reverse to an area close to the average price.

The word “far” indicates you need to define what “far” is. Using a number of momentum style candles in a row or using calibrated channels such as Keltner Channels can assist you in defining “far” for your strategy.



Source: Netpicks.com

These types of trades are often called counter trend trades but there are times that they will halt the current trend and an opposite trend will result.

Your **expectation should be a counter trend trade** with conservative price targets and look as a full trend change as a gift.

Not all mean reverting instruments are worthy of risk.

Oftentimes, the mean reversion is a rollover in price that should have you considering a trade in the direction of the initial push in price after the pullback is complete.

Some reverting markets are worthy of risk.

If the initial thrust is indicative of an over-extended market, traders may opt to look for a trade in the opposing direction of that thrust.



Source: Netpicks.com

1. As price starts to pull away from initial trend lines, you start to fan the trend lines when applicable. In general, try to make sure **that the last swing before the peak (or trough) in price, has been connected to a trend line.**
2. After two weeks of upside, a strong momentum candlestick pushes to the upside and in the next few days, price does not continue in the direction of momentum.
3. We have a price plotting a high over the resistance zone of the two day consolidation and immediately rejects.

Given the context of this chart:

- Fanning of trend lines due to rapid upside in price
- Increased momentum and failure of momentum to continue
- Strong rejection of highs is a perfect setup for a mean reverting trade.

In this example, this reversal was the 2016 high of USD CAD and turned into a trend change for this currency.

This is an example of a turn in crude oil futures.



Source: Netpicks.com

1. Trend lines continue to increase in angle indicating a stronger run in price to the upside
2. We talked about swing analysis earlier and in this example, start to compare the personality of each pullback and subsequent breakout
3. We have price making an upper shadow and rejecting highs. The pullback from this leg takes back 5 previous days gains. The next swing can't make a new high and the red candlestick closes in the bottom half of the previous candlestick

There are several ways to enter these types of trades and depend on how strong the corrective move is.

- Traders may wait until the highest low is taken out
- Traders may use an upsloping trend line on the pullback and enter on a break. This is a good method when the corrective move is a momentum move.
- Some traders would use a lower time frame and look for a bearish pattern when price attempts to make a new high

Those are the types of price events you would want to see, in varying degrees, before deciding to put risk on for a mean reverting trade.

Takeaways:

1. Mean reversion is a normal part of the evolution of price
2. Most mean reverting markets are setting up pullback trading opportunities in the direction of the previous leg
3. Some mean reverting markets are worthy of counter trend trades if price is showing signs of overextension/exhaustion

Test Your Knowledge

1) Which of the following defines mean reversion trading?

- a) A trading strategy that focuses on riding the current trend
- b) A strategy that looks for price to reverse back to the average after extended movement away from it
- c) A strategy that only trades in the direction of the initial push in price after a pullback
- d) A strategy that trades against the trend

2) When is a mean reverting instrument considered worthy of risk?

- a) When the initial push in price indicates an over-extended market
- b) When price begins to pull away from initial trend lines
- c) When momentum candlesticks push the price strongly in one direction
- d) When there is a rejection of highs over a resistance zone

3) What are some possible entry methods for mean reverting trades?

- a) Waiting for the highest low to be taken out
- b) Using an upsloping trend line on the pullback and entering on a break
- c) Looking for a bearish pattern when price attempts to make a new high
- d) All of the above

Trend Continuation - Function Of The Market

In a world where complex often overrides the effectiveness of simplicity, one trading method that can be forgotten is the pullback.

Remember earlier, we talked about the four stages of the market and in the second and fourth stage, we get price trending in a direction.

Markets don't go up or down forever and along the way, we will often get a pullback in price.

Prior to the pullback beginning, some traders will get into the pullback (correction) via a mean reverting trading strategy.

Their exits can help propel our trade as we position for a trend continuation trade.

To do so, we are going to use a pullback in price and use price action to help determine our entry.



Source: Netpicks.com

This is BTCUSD - Bitcoin - and it's important that you know that **regardless**

of market but with minor variations, what we've been discussing applies.

Let's cover the setups on this chart and then we will roll in some of the other topics that we've gone over earlier.

1. This is a simple pullback(?) into a former resistance zone that is now acting as support
2. A complex correction emerges and in this example, price pulls back into the support zone from #1
3. This pullback has a little more momentum to the downside that is quickly recaptured by the either buyers or shorts exiting their short positions.
4. Simple pullback into support

The truth is that **it does look easy** when the chart has developed.

While a pullback in price can be easy to spot even in the initial stages, it can be harder to decide when it ends in real time.

Let's look at the first two setups and apply what we've covered earlier.

The first thing is that an object in motion tends to stay in motion.

With that in mind, we are initially looking for a trend continuation to the upside.

It is possible that the trend may be terminating and we will look for signs of distribution or accumulation depending on context.



Source: Netpicks.com

Starting at “A” and using swing analysis, we can notice that this move up is fairly strong and although we do get an obvious reversal of candlesticks at highs, **trends rarely just reverse trend.**

They will correct. It doesn't always lead to a complete overall trend change.

Trends generally roll into a trading range on some level, before breaking in the opposite direction.

The candlestick after the reversal has long upper and lower shadows and we can infer that on the lower time frames, there was a trending move upwards.

On the daily chart, it looks at first glance as a simple correction but understanding the price action on the lower time frame, this becomes a complex correction.

We can measure the first swing and project that distance from the tip of the doji candlestick - **called a measured move** - which will give us an approximate ending to the second leg where we would look for the entry.

Four Hour Chart

In order to give a better view of the pullback at “A”, let’s look at a four hour chart to zero in on important details.



Source: Netpicks.com

1. This is a hard slam against the trend and is **not something we want to see** in a pullback. If you saw this, you may have sat on the sidelines when price began to move back in the direction of the trend. *Go back to the swing analysis section if needed.*
2. Strong momentum moves like that at turning points will often set you up to position in the counter trend direction for a quick trade.
3. You can see the second leg has a **different character** than the first leg. This is more in line with a pullback that we may want to position in.

In this case, price spikes below support (remember our candlestick section), immediately rejects lower prices, and traders could position with a stop order over the rejection candle high.

Another entry could include the breakout of the 3 candlestick range after rejection.

After the rejection and breakout, price pulls back again and starts to base just under the down sloping trend line.

This is another location to position in.

If you stayed on the daily chart, your entry would have been around the three bar range that happens after the reversal.

If you decide to lower your time frames for entries when price comes into a location of interest, **all targets including stops should be based on the higher time frame chart.**

Not All Pullbacks Are Clean



Source: Netpicks.com

While “A” was a fairly clean pullback, the pullback at “B” is a little more difficult to trade but we can still use everything we’ve covered to give us the advantage when markets become more erratic.

Taking a look at “B”, there are some things that should now be becoming

obvious to you:

- The initial leg before the small rally has momentum and from our swing analysis section, we'd rather not see this type of action
- Again from the swing analysis section, the trend has moved into a trading range and price action inside of ranges, unless at the extremes, can be difficult to get a handle on
- We have a measured move target at the green line where we would expect price to come relatively close to
- From our candlestick section, we see the rejection of lower prices and then upside momentum steps into the market.

This example shows what was discussed in "[The A-B-C Of Price Evolution](#)" section.

- Price moved down
- Transitioned into a trading range
- Transitioned back down
- Completed a complex correction

Given that we were in an uptrend, the probability was high that the final resolution would be upside.



Source: Netpicks.com

This is the four hour chart and this shows how tough markets can be to trade at times. Seeing a market make higher lows and lower highs says one thing: **consolidation**.

In hindsight you could see where you'd position but in real time, this chart, especially the middle, would have been extremely difficult. **These are markets or time frames to avoid.**

Where can we see some trading potential? The arrow is taking a microscope to what you saw on the daily chart.

Remember candlesticks and momentum? This shows price racing into previous support and the measured move completion.

Price stops and lower prices get rejected.

The momentum bear candlesticks are replaced with momentum bull candlesticks.

An obvious change of character with this chart.

Test Your Knowledge

1. Which trading method is often ignored but is effective in trend continuation?

- A) Breakouts
- B) Pullbacks
- C) Mean reverting
- D) Complex corrections

2. What is a potential entry point for a trend continuation trade?

- A) Resistance zone
- B) Support zone
- C) Breakout level
- D) Mean reversion level

3. What is the first thing to look for when identifying a trend continuation?

- A) Signs of distribution
- B) Accumulation patterns
- C) Momentum to the upside
- D) Trend termination signals

4. How can a measured move be used in determining an entry point?

- A) By projecting the distance of the first swing
- B) By measuring the volatility of the market
- C) By identifying trend reversal patterns
- D) By analyzing the candlestick patterns

How Do You Enter Pullbacks?

We can use the same material that we've covered to find an entry to gain a position in the market.

The issue is knowing when the balance has shifted and the continuation of the trend direction will take over.

As with most things in trading, you will never know with 100% certainty but we can find price action that indicates the continuation.

1. Momentum candlesticks in the direction of the trend during a pullback can be a sign of the trend continuing
2. Probes and rejections of lower price (in an uptrend) indicates the balance shifting back towards the upside
3. Lower time frames can be monitored for an x-ray view into higher time frame candlestick formation and signs of trend continuation



Source: Netpicks.com

This is the stock RIOT that was affected when the price of Bitcoin dropped.

After the strong decline in price, the value of this stock began to drift downwards back into the area of where the up trend started.

What we did not see come back into the market is the same type of price thrusts that we saw with the original drop.

The green circle is what we'd like to see when using momentum as a trade entry.

- Price traded down into a support zone (will it hold or fail?)
- The largest green candlestick in recent price action appears in the support zone indicating support is holding (momentum has stepped in)
- Still below the trend line (would you still enter?)
- Price gaps showing strength
- You can buy stop over the high of the momentum candlestick. That's a problem if the interest causes a gap in price
- Enter prior to candlestick close
- Enter at next day open (paying slightly more)

Test Your Knowledge

1. When entering a pullback trade, what is a sign of trend continuation?

- A) Momentum candlesticks in the direction of the trend during a pullback
- B) Probes and rejections of lower price (in an uptrend)
- C) Monitoring lower time frames for signs of trend continuation
- D) All of the above

2. In the case of RIOT stock, what indicates that support is holding during the pullback?

- A) Price traded down into a support zone
- B) The largest green candlestick in recent price action appears in the support zone
- C) Price gaps showing strength
- D) Still below the trend line

3. Which of the following is not a recommended entry strategy for a pullback trade?

- A) Buying stop over the high of the momentum candlestick
- B) Entering prior to candlestick close
- C) Entering at next day open
- D) Monitoring lower time frames for signs of trend continuation

Trade Entry Using Lower Time Frames

One thing you must remember when going this route for trade entry is that your stops and targets **must be from the trading time frame**.

Your trade entry can be on a lower time frame and ensure you are consistent with the lower time frame you are using.

For this example, I am using the daily chart as the trading time frame and the lower chart is 30 minutes.



Source: Netpicks.com

1. Strong momentum off the lows and price resolves into a trading range. The only way we can get a further up move is from an upside breakout. We are trading a breakout in the context of the possible resolution of a pullback and not the breakout itself
2. You can use probes below with immediate lower price rejection as an entry which will have you positioned before the breakout.
3. As with the daily chart, you can buy stop the high of the momentum candlestick in this example. Remember that pullbacks from a strong breakout are normal

To expand on point #3

Once the breakout occurs and the pullback follows, you will now use what you know about good pullbacks in that the price action must not be strong during the pullback.

What Is A “Probe”?

A probe is when price drops below support (above resistance) and is rejected. This rejection is obvious with a long shadow as seen in this support probe.

Note where the price on the right bounced from. We discussed this in the section called [“Look inside the swings”](#).



Source: Netpicks.com

Takeaways:

- Pullbacks are a common market movement that offer a trading edge
- Look for a strong set up leg that you would assume calls for another leg in that direction
- Pullbacks can come in different forms - the common ones are
- simple pullbacks and complex pullbacks
- Momentum inside the pullback legs is not a good sign and we can often see price evolve into a trading range after a correction with momentum

- Lower time frames can be used so traders can monitor price action during the pullback and look for signs of the reengagement of the trend

Trading Ranges - Breakouts - Is There An Edge?

Going back to the four stages of a market, you can see that ranges and the breakout from the ranges are natural evolutions of price.

The usual guidance on breakout is that they fail.

Some do but not all and our job is to find a way to determine, through price action and structures, which ones have a higher probability of being a success.



Source: Netpicks.com

This is T-Bond futures and you can see where price had set a support zone that we could easily define.

Once price breaks support, price continues downwards.

These ranges will appear longer/shorter depending on the time frame you are looking at.

What we want to know is if there is anything that we can look at that will set-up breakouts that have the probability of continuation instead of a breakout failure.

It is easy to see a range, put on a position, and hope for the best. Sometimes you will guess correctly and other times, your losses will mount.

What can we see that can point us towards breakouts that have the potential to succeed?

Trending Patterns

A market seeking higher prices will be putting in higher lows and we can use this information when we find a defined resistance zone.



Source: Netpicks.com

The blue lines show the higher highs that are leading to the resistance zone that we can define once the second peak is plotted.

Traders are buying this market at higher prices so we do have money committing to further higher prices.

Accumulation Inside The Range

This utilizes certain candlestick types that show that lower prices are being rejected while traders accumulate positions inside the range.



Source: Netpicks.com

Seeing lower prices being rapidly bought and price returning into the range is a sign that we could be seeing the accumulation of positions of the instrument.

You could start taking positions at the break of the highs of these types of candlesticks which will have you positioned if and when the breakout to the upside occurs.

You must ensure you have risk protocols in place that will protect you if the low of the range is broken with momentum.

These can break hard against you and if they do, ensure you are not trading based on “hope”.

Range Inside A Range

Source: Netpicks.com



Inside of larger ranges, you will often find smaller ranges and depending on the location of these ranges, you can position inside of those.

This chart has an example of some of the things we've covered in terms of what sets up potentially good breakout trades:

- Price is making higher lows into the resistance area
- Price formed a smaller range in the upper half of the larger range
- Signs of accumulation in the smaller range

Keep in mind that if trading larger time frames, you will have to **infer these types of patterns** and then drill down into the lower time frame to see the formation of the pattern.



Source: Netpicks.com

This is the daily chart of the four hour chart previous.

1. This candlestick is trading inside the range of the previous two candlesticks and appears that day after price closed off the lows of the previous day.
2. This candlestick is inside the range of the previous candlestick which indicates a type of volatility compression. Inside of that candlestick, we find our range on the four hour chart.

Test Your Knowledge

1. When a market is seeking higher prices, it will likely exhibit:

- a) Lower highs
- b) Higher lows
- c) Resistance zones
- d) Defined peaks

2. The accumulation inside the range strategy involves:

- a) Buying at lower prices
- b) Rapidly buying lower prices
- c) Accumulating positions inside a range
- d) Protocols to protect against price breakouts

3. The range inside a range strategy involves:

- a) Finding smaller ranges within larger ranges
- b) Making higher highs into resistance areas
- c) Accumulating positions in smaller ranges
- d) Seeing volatility compression in candlestick ranges

4. In the daily chart, a candlestick trading inside the range of the previous two candlesticks indicates:

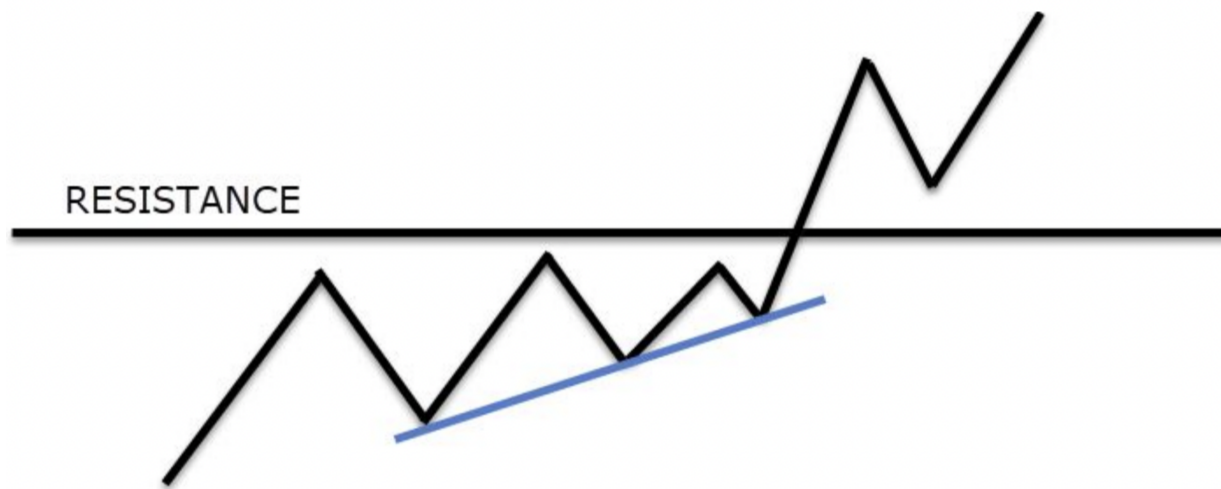
- a) Higher highs
- b) Volatility compression
- c) Rapid buying at lower prices
- d) Formation of resistance zones

Enter After The Breakout

There are times where price action is not clear and you aren't positioned before the breakout.

That can also occur if the time frames you consistently use don't show a pattern you recognize and you do not go outside the trading plan time frames that are chosen.

When this happens, you have to know what a "good" breakout looks like.



Source: Netpicks.com

I want to show you a perfect example of what a good breakout would look like.

Remember, you missed the entries prior to the break and are looking to position after the price has broken from the range.

Normal pullback rules apply because you are actually trading a pullback in price and not the breakout itself.

Pullbacks can form in a few ways but **the key is that we don't want to see strong momentum against the breakout.**



Source: Netpicks.com

Here we can see the range and a strong break from that range.

After a 25% increase in price, a pullback emerges and you should be seeing a complex pullback (2 legs) has evolved.

The green line represents the length of the first leg projected from the peak before the second leg that gives us an approximate ending for the complex correction.

An entry at the green circle would have been justified and the question becomes *“would you have been stopped out on the second leg?”*

Many traders have been taught that if price breaches the former resistance line and heads back into the range, the trade fails so the stop is located around the breakout level.

Price returning to inside the range does not invalidate the breakout.

That stop is too close to accommodate the fluctuations and the volatility that happens around the breakout levels.

Stops should be placed in a location that invalidates the trade and one of the better places is below (for long trades) a pattern found inside the range.



Source: Netpicks.com

The dotted green line highlights the support zone of a mini range inside the bigger range.

Placing your stop below zones like this afford you the benefit of holding valid trades even when breaching back inside the zone - **which is common and should be expected.**

As a price action trader, you should know that strong momentum against you is not a good sign and you should be on alert for further price action showing you the trade may not work.

You do not have to hold the trade to the stop if price action is showing you any failure of the pattern - such as strong moves against the breakout.

Takeaways:

- Breakouts are a normal evolution of price and should not be ignored as a viable trading method
- There are certain patterns that can signify the breakout has a chance

of succeeding

- Trading the patterns inside the overall range while not guaranteeing success, puts the odds in your favor.
- If you miss pre-breakout setups, you can trade the pullback after the break and all pullback trading rules apply

Test Your Knowledge

1. What type of breakout should you be looking for when positioning after the price has broken from the range?

- a. A breakout with strong momentum against it
- b. A breakout that has a small pullback
- c. A breakout that breaches the former resistance line
- d. A breakout that returns to inside the range

2. Where should you place your stop for long trades after a breakout?

- a. Below the breakout level
- b. Above the breakout level
- c. Inside the overall range
- d. Below a pattern found inside the range

3. What should you expect to happen after breaching back inside a support zone within a range?

- a. A strong momentum against the breakout
- b. A price action pattern indicating the trade may not work
- c. A continuation of the breakout
- d. A significant increase in volatility

4. Which statement is true about trading breakouts?

- a. Breakouts should be ignored as a viable trading method
- b. Breakouts are a normal evolution of price and should not be ignored
- c. Breakouts only have a chance of succeeding if the former resistance line is breached
- d. Breakouts always result in strong moves against the breakout

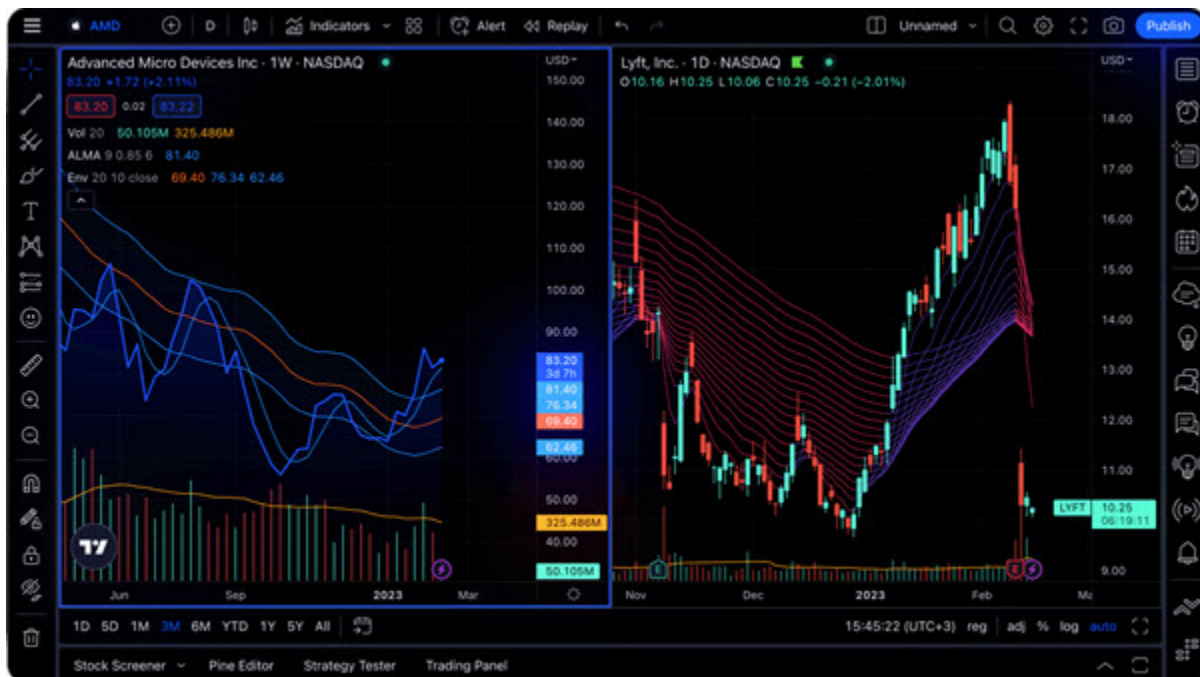
Answer: b. Breakouts are a normal evolution of price and should not be ignored

Charting Platforms

There are many platforms that traders can use and it comes down to cost and personal preference. Here is a list of charting tools that our staff at Netpicks either currently use or have in the past.

Tradingview

[TradingView](#) offers a variety of features and products to assist with trading and market analysis.



Source: Tradingview

Some of their key offerings include:

Supercharts: These are advanced charting tools that provide detailed insights into market trends and movements.

Pine Script™: This is a proprietary scripting language developed by

TradingView for creating custom technical analysis indicators and strategies.

Screeners: TradingView provides several types of screeners, including a Stock Screener, Forex Screener, Crypto Pairs Screener, and Crypto Coins Screener. These tools help traders filter markets based on specific criteria to identify trading opportunities.

Heatmaps: The platform offers Stock and Crypto Heatmaps that visually represent market data to help traders understand the current market situation at a glance.

Calendars: TradingView provides an Economic Calendar and an Earnings Calendar to keep traders informed about important market events.

Sparks: This feature provides quick visual snapshots of market performance.

News Flow: This feature delivers real-time financial news to keep traders updated.

TradingView Desktop and Mobile app: TradingView offers a desktop platform and a mobile app for trading on the go.

CME Group futures and US stocks bundle: These are specific market data packages offered by TradingView.

TC2000

TC2000 is a comprehensive trading and analysis platform that has been setting standards in technical analysis for over 30 years.



Source: TC2000

Here are some of its key features:

Condition Wizard: This is the core of TC2000, allowing users to build conditions for any indicator step-by-step. It doesn't require formula writing, but the option is available if needed.

Options Charting: TC2000 provides historical and streaming bid/ask data, allowing users to plot intrinsic value, time value, and more.

Stock & Option Screener: The platform's EasyScan® feature can quickly scan thousands of stocks and options based on user-defined conditions.

Low Latency Data: TC2000 ensures instant action from user input to platform response, whether changing symbols, sorting a list, or plotting an intraday custom indicator.

Advanced Exits: The platform allows users to place multiple exit strategies without worrying about going short and tracks which limit orders are closest to executing.

Unlimited Practice for Free: TC2000 offers a fully functional trading simulator for practice and learning the platform, which includes a basic layout with chart, positions, trades, option chain, and personal journal.

Dynamic Charting: The platform provides stunning graphics, smooth zooming & panning, indicators applied to anything, and a drawing palette.

Stay Organized with Watchlists: TC2000 maintains and updates hundreds of market index lists, sectors, industries, and ETF's daily. Users can use personal lists, favorites, and flagged items to consolidate and organize.

Option Profit & Loss Zones: This feature shows shaded zones on your chart where an option contract or strategy makes money, loses money, and has maximum risk.

Built-In Options Strategies: TC2000 simplifies option strategies with one-click construction of multi leg orders.

Alerts & Reminders: Users can set reminders or notifications when an indicator hits something.

Personal Journal: Users can journal their notes, which is a great way to remember the exact charts they were studying and monitor their emotions over time.

Custom Layouts: While TC2000 provides 8 pre designed layouts, they are easy to customize, allowing users to build their own perfect workspace.

Stock Charts

[StockCharts](#) is a comprehensive financial analysis platform designed to assist active traders, diligent investors, and those managing retirement accounts.



Source: Stockcharts

Here are some of its key features:

Advanced Charting: StockCharts offers a range of charting tools, from simple candlesticks to advanced technical visualizations. Users can compare symbols over multiple timeframes, choose from dozens of powerful indicators, and customize their charts to suit their personal trading or investing style.

Market Scanning Tools: The platform provides advanced market scanning tools that allow users to find promising new trade targets or investment opportunities faster than ever before.

Custom Alerts: StockCharts enables users to stay ahead of the markets and on top of their portfolio with custom, automatic alerts for all of the symbols they're following.

Advanced Charting Platform (ACP): This is the web's most advanced, interactive financial charting platform, designed to redefine the way users chart and analyze the financial markets. It's highly interactive, insanely flexible, and remarkably powerful.

Pricing Plans: StockCharts offers three pricing plans - Basic, Extra, and Pro. Each plan offers a different set of features to cater to the varying needs of investors and traders.

Free Trial: StockCharts offers a free 1-month trial for users to explore and understand the platform's capabilities.

Portfolio Management Resources: The platform provides comprehensive coverage for every step of your investing journey, from trading tools like Scheduled Scans to portfolio management resources like ChartList Reports

Test Your Knowledge - Answers



Source: wutzkoh

Cracking the Code

1. What factors determine the direction of price movement in trading?

Answer: D) All of the above

2. How does the value and demand for an item affect its price?

Answer: D) All of the above

3. How do price patterns influence trading decisions?

Answer: B) They serve as a basis for successful trading

3 Reasons Why You Should Trade Price Action

1. What is one advantage of trading price action?

Answer: B) It helps identify key support and resistance levels

2. How does price action trading help reduce uncertainty?

Answer: B) By analyzing the movement of prices on charts in real-time

3. Who might benefit from following indicator trading signals?

Answer: B) Traders with limited time or experience in market analysis

Should You Care About The 4 Market Stages?

1. Which stage is characterized by a consolidation before another leg down?

Answer: a) Accumulation phase

2. In which phase do traders begin to "trade the trend"?

Answer: b) Markup phase

3. What is one characteristic of the distribution phase?

Answer: b) Bear candlesticks have wider range than bull candlesticks

4. Which phase is characterized by traders dumping their holdings?

Answer: d) Mark Down phase

5. What impacts forex pricing the most?

Answer: b) Macroeconomic factors such as inflation and employment

Plotting Price: Candlestick Overview

1. Which part of a candlestick indicates the highs and lows that occurred during the opening and closing prices?

Answer: B. Shadows

2. What does a strong momentum candlestick indicate?

Answer: C. Conviction in the direction

3. What can the upper shadow of a candlestick indicate?

Answer: B. Probe into and rejection of higher prices

Swing Analysis - The Importance It Holds

1. What is the purpose of swing analysis in trading?

Answer: A) To determine the strength of a trend

2. What is the difference between a range and a trend?

Answer: D) A range consists of consolidation and corrective moves, while a trend consists of strong thrusts and corrective moves.

3. What can be inferred from a chart with a strong trend?

Answer: B) Buying positions should be taken during corrective stages.

4. In an uptrend, what pattern would you expect to see?

Answer: A) Higher swing highs and higher swing lows

5. What does an opposite low volatility move in a trend indicate?

Answer: A) A short-term trend change

Swing Analysis - Trends To Trading Range

1. What is a trading range?

Answer: A. When a market is not making a trending pattern

2. Why is it important to not jump to conclusions when seeing a price

pattern that indicates a consolidation?

Answer: A. Because it could be the beginning of a complex correction

3. What does it mean when price breaks support in a pullback?

Answer: A. It indicates a lower high and a lower low

Support And Resistance: Is It Really There?

1. What is the definition of support or resistance zones?

Answer: b) Price zones where the price has a tough time getting through

2. When does a price point become a support or resistance?

Answer: c) When the price rejects from that point

3. What is the problem with randomly placing support and resistance lines on a chart?

Answer: c) It ignores price action and carries little meaning

4. What is the suggestion for finding support and resistance levels?

Answer: c) Pick zones that are clearly visible on the chart

5. What happens when price challenges extreme points on a chart?

Answer: c) More competing participation takes place, making it more volatile

A-B-C Of Price Evolution (IMPORTANT)

1. What are the two types of trading strategies commonly used in response to price movements?

Answer: a) Trend trading strategies and range trading strategies

2. What is the progression of price evolution?

Answer: a) Range trading, breakout with momentum, trending price action, trading range

3. What is a "V" reversal in price movement?

Answer: b) A sudden and emotional spike in price, reversing the current trend

Mean Reversion Trading

1) Which of the following defines mean reversion trading?

Answer: b) A strategy that looks for price to reverse back to an average price after extended movement away from it

2) When is a mean reverting instrument considered worthy of risk?

Answer: a) When the initial push in price indicates an over-extended market

3) What are some possible entry methods for mean reverting trades?

Answer: d) All of the above

Trend Continuation - Function Of The Market

1. Which trading method is often ignored but is effective in trend continuation?

Answer: B) Pullbacks

2. What is a potential entry point for a trend continuation trade?

Answer: B) Support zone

3. What is the first thing to look for when identifying a trend continuation?

Answer: C) Momentum to the upside

4. How can a measured move be used in determining an entry point?

Answer: A) By projecting the distance of the first swing

How Do You Enter Pullbacks?

1. When entering a pullback trade, what is a sign of trend continuation?

Answer: D) All of the above

2. In the case of RIOT stock, what indicates that support is holding during the pullback?

Answer: B) The largest green candlestick in recent price action appears in the support zone

3. Which of the following is not a recommended entry strategy for a pullback trade?

Answer: D) Monitoring lower time frames for signs of trend continuation

Trending Patterns

1. When a market is seeking higher prices, it will likely exhibit:

Answer: b) Higher lows

2. The accumulation inside the range strategy involves:

Answer: c) Accumulating positions inside a range

3. The range inside a range strategy involves:

Answer: a) Finding smaller ranges within larger ranges

4. In the daily chart, a candlestick trading inside the range of the previous two candlesticks indicates:

Answer: b) Volatility compression

Enter After The Breakout

1. What type of breakout should you be looking for when positioning after the price has broken from the range?

Answer: b. A breakout that has a small pullback

2. Where should you place your stop for long trades after a breakout?

Answer: d. Below a pattern found inside the range

3. What should you expect to happen after breaching back inside a support zone within a range?

Answer: b. A price action pattern indicating the trade may not work

4. Which statement is true about trading breakouts?

Answer: b. Breakouts are a normal evolution of price and should not be ignored

Summary Briefing

In this guide, we have explored the world of price pattern trading and the importance of understanding price action.

Price action analysis focuses on the movement of prices on charts, allowing traders to gain insights into market behavior and make well-informed trading decisions.

We have discussed the four stages of the market, including accumulation, markup, distribution, and mark-down, which provide valuable insights into market dynamics and direction.

Support and resistance levels act as important reference points, indicating areas where buying or selling pressure is likely to emerge.

Swing analysis has been highlighted as a powerful tool for determining trend strength and identifying potential trading opportunities.

The concept of mean reversion trading has also been introduced, allowing traders to identify potential trend reversals in overextended markets.

Trend continuation has been emphasized, highlighting the significance of pullbacks in entering and riding trends.

Trading ranges and breakouts have been explored, with an emphasis on the importance of identifying breakout setups with a higher probability of success.

Steps to Get Started

1. **Educate Yourself:** Familiarize yourself with the principles of price action trading and its various components. Gain knowledge on support and resistance, swing analysis, trend continuation, and breakouts.
2. **Identify a Preferred Market and Timeframe:** Determine which market (stocks, forex, commodities, etc.) you would like to focus on and choose the timeframe that suits your trading style and availability (e.g., daily, 4-hour, 1-hour charts).
3. **Study Charts and Price Patterns:** Spend time analyzing charts, observing price action, and identifying key support and resistance levels, as well as price patterns that indicate potential trading opportunities.
4. **Develop a Trading Plan:** Create a comprehensive trading plan that incorporates the strategies and concepts you have learned. Define your trading goals, risk tolerance, entry and exit criteria, position sizing, and risk management rules.
5. **Practice on a Demo Account:** Before risking real capital, practice your trading strategies and techniques on a demo account. This will allow you to gain experience, refine your approach, and build confidence in your trading skills.
6. **Implement Risk Management:** Always prioritize risk management in your trading. Set appropriate stop-loss orders and determine your position size based on your risk tolerance and account size. Be disciplined in sticking to your risk management rules.
7. **Track and Analyze Your Trades:** Keep a trading journal to record your trades, including entry and exit points, reasons for the trade, and trade outcomes. Regularly review and analyze your trades to identify strengths, weaknesses, and areas for improvement.
8. **Stay Informed:** Stay updated on market news and events that can impact your trading decisions. Stay connected to financial news sources, economic calendars, and company announcements to anticipate potential market-moving events.

9. **Continuous Learning:** Trading is an ongoing learning process. Continuously educate yourself on new trading techniques, strategies, and market developments. Attend webinars, read books, and follow reputable trading resources to expand your knowledge.
10. **Embrace Patience and Discipline:** Successful trading requires patience and discipline. Stick to your trading plan, avoid impulsive decisions based on emotions, and adhere to your predetermined risk and money management principles. Remain calm during drawdowns and avoid chasing after trades that do not align with your strategy.
11. **Seek Mentorship or Join Trading Communities:** Consider seeking mentorship or joining trading communities to connect with experienced traders and gain valuable insights. Engaging with like-minded individuals can provide support, encouragement, and opportunities to learn from others' experiences.
12. **Gradually Increase Position Size:** As you gain experience and confidence in your trading strategy, gradually increase your position size within your risk tolerance. Practice sound money management principles to protect your capital while maximizing profitability.

Sample Trading Plan

Use this as a basic structure when designing a plan that suits your needs.

1. Identify the Market Phase: Begin by analyzing the overall market phase to determine if it is in an uptrend, downtrend, or trading range.

Use swing analysis and trend lines to identify key support and resistance levels that define the boundaries of the market phase.

2. Trend Continuation Setup: If the market is in an established uptrend, look for pullbacks or corrections that present buying opportunities.

Focus on areas where price retraces towards key support levels or trend lines before resuming the upward momentum.

Enter a trade on a bullish candlestick pattern or a breakout above the pullback high, placing a stop-loss order below the recent swing low.

3. Mean Reversion Setup: In cases where the market has experienced an extended move away from an average price, watch for signs of mean reversion.

Look for price reaching extreme levels, such as extended moves above or below a moving average or significant support/resistance levels. Wait for a pullback or consolidation pattern that indicates a potential reversal.

Enter a trade in the opposite direction of the initial move, placing a stop-loss order outside the range of the pullback or consolidation.

4. Breakout Setup: Identify trading ranges or consolidation patterns within the market, where price is confined between support and resistance levels.

Monitor the range for signs of accumulation or distribution, such as candlestick patterns showing strong rejection near support or resistance.

Enter a trade on a breakout above the resistance level or below the support level, placing a stop-loss order on the opposite side of the breakout.

Traders can anticipate breakouts and enter in the range via spring or upthrusts and in [breakouts that occur from smaller ranges](#) inside the larger

one.

5. Risk Management: Implement proper risk management techniques to protect your trading capital.

Determine the maximum amount you are willing to risk per trade, and adjust position sizes accordingly.

Use appropriate stop-loss orders to limit potential losses and consider setting profit targets based on recent price swings or chart patterns.

Position Size Example

Let's assume you have an account with \$10,000 and you're willing to risk 2% of your capital per trade (\$200).

- When entering a trade, determine your stop-loss level based on your analysis of support/resistance levels or recent price swings. For example, suppose you are entering a trade at \$50 and you identify a logical stop-loss level at \$48
- Calculate the position size based on your risk tolerance. If you're risking \$200 on a trade with a \$2 difference between your entry price and stop-loss level, you can allocate $\$200 / \$2 = 100$ shares.
- Place your stop-loss order at \$48 to limit potential losses if the trade goes against your expectations.
- Consider setting a profit target based on the recent price swings or a specific reward-to-risk ratio. For instance, if you're aiming for a 1:2 reward-to-risk ratio, you would set your profit target at \$54 ($\$50 + 2 * \2).

Remember to adjust the risk parameters and position size according to your risk tolerance and account size.

Regularly monitor your trades, adhere to your risk management plan, and evaluate the performance of your trading plan.

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If you trade options, we recommend you read and fully understand all the information contained in the Characteristics and Risks of Standardized

Options. It's also known as the Options Disclosure Document and it explains the characteristics and risks of exchange traded options.

(<https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document>)

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