In The Name Of God

TECHNICAL ANALYSIS
PRICE ACTION
SWINGING
&
SCALPING

Dr. Saeed Ranjbar

سرشناسه	: رنجبر، سعید، ۱۳۴۳ - Ranjbar, Saeed
عنوان و نام پدیدآور	: Technical analysis price action swinging & scalping[Book]/ Saeed Ranjbar.
مشخصات نشر	: تهران : سنجش و دانش دکتری ، ۱۴۰۵= ۲۰۲۶م.
مشخصات ظاهری	: ۱۰۷ص.: نمودار.
شابک	: 978-622-111-469-6 :
وضعیت فهرست نویسی	: فیپا
یادداشت	: زبان: انگلیسی.
یادداشت	: کتابنامه:ص. ۱۰۵-۱۰۷.
موضوع	: سهام -- قیمت‌ها -- جدول‌ها و نمودارها
موضوع	: Stocks -- Prices -- Charts, diagrams, etc.
موضوع	: سرمایه‌گذاری -- تجزیه و تحلیل
موضوع	: Investment analysis
موضوع	: معاملات آتی ارز
موضوع	: Foreign exchange futures
رده بندی کنگره	: HG۴۶۳۸
رده بندی دیویی	: ۳۳۲/۶۳۲۰۴۲
شماره کتابشناسی ملی	: ۱۰۴۹۴۰۲۷

عنوان: TECHNICAL ANALYSIS PRICE ACTION

SWINGING & SCALPING

مؤلف: **Dr. Saeed Ranjbar**

ناشر: انتشارات سنجش و دانش دکتری

صفحه بندی: نسرین قشقایی

نوبت چاپ: اول- ۱۴۰۵

تیراژ: ۵۰ نسخه

قیمت: ۴۵۰۰۰۰۰ ریال

شابک: ۶-۴۶۹-۱۱۱-۶۲۲-۹۷۸

آدرس و نشانی نشر: تهران، میدان انقلاب، خیابان انقلاب، خیابان دانشگاه، نبش خیابان روانمهر، پلاک ۱۲۶. ساختمان سنجش و دانش.

تلفن: ۰۲۱۶۱۲۶- ۰۲۱۶۶۹۷۳۶۳۵

http://sanjeshodanesh.com

Table of contents

Author's Introduction

Children of gifted potential who grow up in poor and constrained communities are often confronted with traditional and predetermined expectations from their community and parents: that they must follow the very path their predecessors have walked. I was no exception to this rule. However, in 1980, when I was a junior secondary school student, I started to explore the inner and outside world of mine to meet my curiosity and stable my bewildered soul. So, I read books on every aspect of life, my relation with universe, myself and people. My course found a new way when I was admitted to university as an English language student leading to teaching.

For many years, I devoted myself to teaching at universities, ministries, educational institutions and schools, guided by a deep love for knowledge and language. Yet at a certain point in my life, I gradually realized that it was time to change course—toward a field that would truly challenge my mind and keep my searching spirit alive: the world of business, finance, and trading.

After more than three decades of teaching English, still interested in teaching; there was no longer a subject that could genuinely stimulate my intellect. By nature, I am a calm and contemplative person; I have never taken pleasure in superficial, everyday conversations and have always tried to distance myself from the pervasive routine that governs so many lives. The greatest joy of my life is "reading and thinking"—deep, structured, and continuous reflection.

The world of trading became the very arena that kept my mind awake and alert: a place where I could spend hours in silence, gazing at charts, analyzing price behavior, and continuously seeking the hidden order within the apparent chaos of the markets. For me, trading is not merely a professional activity; it is an endless intellectual game—one from which I never grow tired and which I greet each day with renewed enthusiasm.

The intellectual pull and ever-present excitement of the markets guided me toward a path that harmonizes with my inquisitive and thought-centered nature, while offering a precious opportunity for a deeper experience of self-knowledge.

Today, all that I have learned on this journey of trading I owe to my spiritual and intellectual mentor, Dr. Al Brooks, a thinker who has dedicated more than forty-five years of his life to analysis, education, and trading in the field of price action. He has inspired a path that, for me, is not merely a profession, but a way of thinking, living, and continuous growth.

This book is the result of five constant years of studying Classic PRICE ACTION based on ***John Magee*** considered a seminal pioneer in technical analysis, and his research with co-author, ***Robert D. Edwards***, clarified and expanded the ideas of ***Charles Dow***, who laid the foundation for technical analysis in 1884 by developing the "Averages," and ***Richard Schabacker***, former editor of Forbes in the 1920s, who showed how the signals, which had been considered important when they appeared in the averages, were applicable to stocks themselves. However, the core framework of this text is the teaching and understanding of

Dr. Al Brooks.

Dr. Al Brooks is a man who transitioned from the operation room to the trading floor and in the process became one of the most respected voices on full price action trading. He's the author of definitive, almost encyclopedic books like "Trading Price Action Series", The Bible for Many Traders, covering trends, trading ranges and reversals. He's a former physician, a futures trader, a tech analyst for futures magazine, and the mentor behind thousands of traders at WWW.brookspriceaction.com.

I'm a student of my master Al brooks, so everything I know I learned from him. I got to know Al Brook in 2019 through his books, videos, seminars and speeches.

This book is the first one to explain and illustrate the way I understand and trade Price Action, to be precise Swing and Scalp Trading. As Al Brooks says, "I am metaphorically teaching you how to play the violin. Everything you need to know to make a living at it is in these books, but it is up to you to spend the countless hours learning your trade." You play price action patterns which come from our DNA, it will not change until we evolve.

Dr. SAEED RANJBAR

Chart formations

Chart formations identified and analyzed by the authors are graphic representations of unchanging human behavior in complex multivariate situations. They are the depiction of multifarious human actions bearing on a single variable (price). On price converge a galaxy of influences: fear, greed, desire, cunning, malice, deceit, naivete, earnings estimates, broker need for income, gullibility, professional money managers' need for performance and job security, supply and demand of stocks, monetary liquidity and money flow, self-destructiveness, passivity, trap setting, manipulation, blind arrogance, conspiracy and fraud and double dealing, phases of the moon and sun spots, economic cycles and beliefs about them, public mood, and the indomitable human need to be right. Chart formations are the language of the market, telling us that this stock is in its death throes; that stock is on a rocket to the moon; that a life and death battle is being waged in this issue; and in that other, the buyers have defeated the sellers and are breaking away. They are, in short, the unerasable fingerprints of human nature made graphic in the greatest struggle, next to war, in human experience. As Freud mapped the human psyche, so have Edwards and Magee mapped the human mind and emotions as expressed in the financial markets. Not only did they produce a definitive map, they also produced a methodology for interpreting and profiting from the behavior of men and markets. It is difficult to imagine further progress in this area until the science of artificial intelligence, aided by yet unimaginable computer hardware, makes new breakthroughs.

John Magee, who died on June 17, 1987. was considered a seminal pioneer in technical analysis, and his research with co-author, ***Robert D. Edwards***, clarified and expanded the ideas of ***Charles Dow***, who laid the foundation for technical analysis in 1884 by developing the "Averages," and ***Richard Schabacker***, former editor of Forbes in the 1920s, who showed how the signals, which had been considered important when they appeared in the averages, were applicable to stocks themselves. "***Technical Analysis of Stock Trends"***, which summarized their findings in 1948, was, now considered the definitive work on pattern recognition analysis. Throughout his technical work, John Magee emphasized three principles: stock prices tend to move in trends; volume goes with the trend; and a trend, once established, tends to continue in force.

A large portion of Technical Analysis of Stock Trends is devoted to the patterns which tend to develop when a trend is being reversed: **Head-and Shoulders, Tops and Bottoms, "W" patterns**, **Triangles**, **Rectangles**, etc. — common patterns to stock market technicians. Rounded Bottoms and Drooping Necklines are some of the more esoteric ones.

John urged investors to go with the trend, rather than trying to pick a bottom before it was completed, averaging down a declining market. Above all, and at all times, he refused to get involved in the game of forecasting where "the market" was headed, or where the Dow–Jones Industrial averages would be on December 31st of the coming year. Rather, he preached care in individual stock selection regardless of which way the market "appeared" to be headed.

To the random walker, who once confronted John with the statement that there was no predictable behavior on Wall Street, John's reply was classic. He said, "You fellows rely too heavily on your computers. The best computer ever designed is still the human brain. Theoreticians try to simulate stock market behavior, and, failing to do so with any degree of predictability, declare that a journey through the stock market is a random walk. Isn't it equally possible that the programs simply aren't sensitive enough or the computers strong enough to successfully simulate the thought process of the human brain?" Then John would walk over to his bin of charts, pull out a favorite, and show it to the random walker. There it was — spike up, heavy volume; consolidation, light volume; spike up again, heavy volume. A third time. A fourth time. A beautifully symmetrical chart, moving ahead in a well-defined trend channel, volume moving with price. "Do you really believe that these patterns are random?" John would ask, already knowing the answer.

We all have a favorite passage or quotation by our favorite author. My favorite quotation of John's appears in the short booklet he wrote especially for subscribers to his Technical Stock Advisory Service: "When you enter the stock market, you are going into a competitive field in which your evaluations and opinions will be matched against some of the sharpest and toughest minds in the business. You are in a highly specialized industry in which there are many different sectors, all of which are under intense study by men whose economic survival depends upon their best judgment. You will certainly be exposed to advice, suggestions, offers of help from all sides. Unless you are able to develop some market philosophy of your own, you will not be able to tell the good from the bad, the sound from the unsound."

I doubt if any man alive has helped more investors develop a sound philosophy of investing on Wall Street than John Magee.

Richard McDermott
President, John Magee, Inc.
September 1991

The Technical Approach to Trading and Investing

The technician claims, with complete justification, that the bulk of the statistics which the fundamentalists study are past history, already out of date and sterile, because the market is not interested in the past or even in the present! It is constantly looking ahead, attempting to discount future developments, weighing and balancing all the estimates and guesses of hundreds of investors who look into the future from different points of view and through glasses of many different hues. In brief, the going price, as established by the market itself, comprehends all the fundamental information which the statistical analyst can hope to learn (plus some that is perhaps secret from him, known only to a few insiders) and much else besides of equal or even greater importance.

All of which, admitting its truth, would be of little significance were it not for the fact, which no one of experience doubts, that prices move in trends and trends tend to continue until something happens to change the supply–demand balance. Such changes are usually detectable in the action of the market itself. Certain patterns or formations, levels or areas, appear on the charts which have a meaning, and can be interpreted in terms of probable future trend development. They are not infallible, it must be noted, but the odds are definitely in their favor. Time after time, as experience has amply proved, they are far more prescient than the best-informed and most shrewd of statisticians.

The technical analyst may go even further in his claims. He may offer to interpret the chart of a stock whose name he does not know, so long as the record of trading is accurate and covers a long enough term to enable him to study its market background and habits. He may suggest that he could trade with profit in a stock knowing only its ticker symbol, completely ignorant of the company, the industry, what it manufactures or sells, or how it is capitalized. Needless to say, such practice is not recommended, but if your market technician is really experienced at his business, he could, in theory, do exactly what he claims.

Should the reader, at this point, find the technical approach to trading or investing, as explained in the foregoing, completely abhorrent, perhaps he had better close the book now. For it is primarily the technical approach, the science of technical analysis, with which the remainder of the book deals.

Robert D. Edwards, John Magee - Technical Analysis of Stock Trends (2001, AMACOM)

The Technical Approach to Trading and Investing

Few human activities have been so exhaustively studied during the past century, from so many angles and by so many different sorts of people, as has the buying and selling of corporate securities. The rewards which the stock market holds out to those who read it right are enormous; the penalties it exacts from careless, dozing, or “unlucky” investors are calamitous. No wonder it has attracted some of the world's most astute accountants, analysts, and researchers, along with a motley crew of eccentrics, mystics, and "hunch players," and a multitude of just ordinary hopeful citizens.

Able brains have sought, and continue constantly to seek, for safe and sure methods of appraising the state and trend of the market, of discovering the right stock to buy and the right time to buy it. This intensive research has not been fruitless — far from it. There are a great many successful investors and speculators (using the word in its true sense, which is without opprobrium) who, by one road or another, have acquired the necessary insight into the forces with which they deal and the judgment, the fore thought, and the all-important self-discipline to deal with them profitably.

In the course of years of stock market study, two quite distinct schools of thought have arisen, two radically different methods of arriving at the answers to the trader's problem of what and when. In the parlance of "the Street," one of these is commonly referred to as the fundamental or statistical, and the other as the technical. (In recent years a third approach, the cyclical, has made rapid progress and, although still beset by a "lunatic fringe," it promises to contribute a great deal to our understanding of economic trends.)

The stock market fundamentalist depends on statistics. He examines the auditors' reports, the profit-and-loss statements, the quarterly balance sheets, the dividend records, and policies of the companies whose shares he has under observation. He analyzes sales data, managerial ability, plant capacity, the competition. He turns to bank and treasury reports, production indexes, price statistics, and crop forecasts to gauge the state of business in general, and reads the daily news carefully to arrive at an estimate of future business conditions. Taking all these into account, he evaluates his stock; if it is selling currently below his appraisal, he regards it as a buy.

As a matter of fact, aside from the greenest of newcomers when they first tackle the investment problem, and to whom, in their inexperience, any other point of view is not only irrational but incomprehensible, your pure fundamentalist is a very rare bird. Even those market authorities who pretend to scorn charts and "chartists" utterly are not oblivious to the "action" chronicled by the ticker tape, nor do they conceal their respect for the **Dow Theory** which, whether they realize it or not, is, in its very essence, purely technical.

Definition of Technical Analysis

The term "technical," in its application to the stock market, has come to have a very special meaning, quite different from its ordinary dictionary definition. It refers to the study of the action of the market itself as opposed to the study of the goods in which the market deals. Technical Analysis is the science of recording, usually in graphic form, the actual history of trading (price changes, volume of transactions, etc.) in a certain stock or in "the Averages" and then deducing from that pictured history the probable future trend.

The technical student argues thus: it is futile to assign an intrinsic value to a stock certificate. One share of United States Steel, for example, was worth \$261 in the early fall of 1929, but you could buy it for only \$22 in June of 1932! By March 1937, it was selling for \$126 and just 1 year later for \$38. In May of 1946, it had climbed back up to \$97, and 10 months later, in 1947, had dropped below \$70, although the company's earnings on this last date were reputed to be nearing an all-time high and interest rates in general were still near an all-time low. The book value of this share of U.S. Steel, according to the corporation's balance sheet, was about \$204 in 1929 (end of the year); \$187 in 1932; \$151 in 1937; \$117 in 1938, and \$142 in 1946. This sort of thing, this wide divergence between presumed value and actual price, is not the exception; it is the rule. It is going on all the time. The fact is that the real value of a share of U.S. Steel common is determined at any given time solely, definitely, and inexorably by supply and demand, which are accurately reflected in the transactions consummated on the floor of the New York Stock Exchange.

Of course, the statistics which the fundamentalists study play a part in the supply–demand equation — that is freely admitted. But there are many other factors affecting it. The market price reflects not only the differing value opinions of many orthodox security appraisers, but also all the hopes and fears and guesses and moods, rational and irrational, of hundreds of potential buyers and sellers, as well as their needs and their resources — in total, factors which defy analysis and for which no statistics are obtainable.

PART ONE :Analytical Mindset

1. **The Analytical Mindset in Market Analysis**
2. **Defining Price Action Beyond Indicators**
3. **The Always-In Perspective and Probability**
4. **Market Dynamics: The Significance of Tests and Reversals**
5. **The Virtue of Patience: Navigating the Opening Chaos**
6. **Computer Math and the Logic of Measured Moves**
7. **Strategic Trade Management: Scaling and Position Sizing**
8. **The Path to Consistency: Moving Beyond Psychology**
9. **The most common mistake traders make**

Summaries

Defining Price Action Beyond Indicators

Price Action

Price action simply means how the market is moving. You can use that to get an idea what will likely follow. So, you just study, is the market going sideways? Is it going up? Is it going down? Is it about to reverse? Is it going to break out? You look for behavior and what's in front of you to get an indication of what is likely to follow.

Indicators are all based upon charts. And what happens with a lot of, especially people starting out when they use indicators, they don't look at the charts. They look at the indicators. The chart is there, but they're not looking at the bottom at the indicators. They're afraid to look at the charts. They don't trust their own ability to understand. **They're looking for a god to protect them, a savior.** And that little indicator down there is going to be their path to making money. They're going to follow that indicator into great wealth, it's nonsense. Those indicators are based on the charts. If you create indicators, you come up with a concept based upon behavior. You're simply programming, your observations.

Also, indicators, a lot of them are oscillators. That's a real problem if the market's in a trend. Because let's say the market is going up and you're looking at some kind of an oscillator like RSI or stochastics. It's always forming divergences and tops. So, if you're looking at an indicator, you're always looking to sell. When, in fact, you look at the chart and it's clear you should only be buying.

There are many more important things to look at that you can see on a chart that indicates whether it's going to continue up or whether it's going to pause or whether it's going to reverse. And most of those things are not, you can't see them in indicators.

Theoretically, you could program a dozen different indicators and have a dozen different indicators on your chart looking at different aspects of price action. But it's simply easier just to look at the chart to see what the pullbacks look like.

There are things that you cannot see with indicators, but you can see by looking at the charts, for example:

1. What the breakouts look like, what the breakout points look like,
2. How close the pullback comes to the breakout point.
3. If it dips below it, how many consecutive bear bars there are in the pullback,
4. If the bear bars are big and closing on their lows.
5. If there are consecutive big bear bars closing near their lows,
6. If there's a big bear bar closing near its low
7. when the next bar opens,
8. Are the next few ticks up or down?

9. Are traders looking at that bear bar as the start of a continuation down or are they looking at that bear bar as a great opportunity, a brief opportunity to buy at a great price?

So those are all things that you cannot see with indicators, but you can see by looking at the charts.

The Always-In Perspective and Probability

***"You live in a probability of between 40 and 60%, you know, for 95% of the bars on the chart."* Al brooks**

If you look at websites, you see perfect setups, perfect wedge tops with perfect sell signal bars or perfect wedge bottoms or perfect double bottoms with great-looking buy signal bars. And that's not the real world.

Look at the past week of charts and find how many perfect signals you'll see. You might see one or two. You could see something to do on every bar during the day. So, a person is wasting their time looking for perfection. A lot of the best trends begin with something that looks good but not perfect. And if it looks good and the context is good, the bars to the left, is it at a support level? You got to take the trade.

A simple way to think about it is if you figure out how much money you have to risk and you go for a reward that is at least twice your risk, mathematically, you're going to make money. And that's because **for 95% of the bars on the chart, you cannot be more than 60% certain of what the**

next 10 ticks will be up or down. And you can't be less than 40% uncertain.

So, **you live in a probability of between 40 and 60%, you know, for 95% of the bars on the chart.** 5% of the bars on the chart, the trend is so strong, a series of big bull bars or a series of big bear bars, the probability of the market falling 10, 20, 30 ticks before it goes up 10, 20, or 30 ticks is 70%. But for most of the bars, there's a lot of uncertainty. You just accept that assuming you're an average person, you're going to be wrong at least 40% of the time. You're not going to be right more than 60% of the time. You just look for setups that are good enough. And if you go for a reward that is at least twice your risk, you're going to make money.

Now, for always in, on the five-minute chart, an average trend typically lasts at least a couple hours. And it'll usually go three or four times the size of your risk. So, if you're in an average trend and you hold, if there's no reason to exit, you're going to make three or four times your risk. Given that you had a 40% probability of the trend working, you can end up making pretty good money.

As far as always in goes, you look at a chart and you ask yourself at any moment, is it better to be long or short or flat? For most traders don't choose flat, but for a lot of times, most of the day, it's fairly clear whether it makes more sense to be long or short.

If a person is trying to stay in the market always, or most of the bars of the day, at any moment, he decides, is it better to be long or short? And he takes that position. If it's better to be short than long, he'll exit as long and get short. If you do that, looking at your chart all day long, say you get the start of a bull trend, always in long, and then it keeps going up, up, up, up, and then there's some kind of a topping pattern that is good enough to go short. You get out of wrongs and now the market's always in short. So, one good part of that is it forces you to trade.

let's say the market is breaking out strongly to the upside. You say, I didn't take the original signal. Now it's four bars later. If you did take the signal, you're currently long, you may have taken some profits, whatever size position you would still have right now, you could put that position on now. So, if you miss the original trade, you should put that position on right now.

It doesn't matter when you take a trade, and any given bar, you just ask yourself, where was the original signal? What would be my position size right now? If I'm flat, I take that position size right now. Where would my stop be? Well, I use that stop.

If you're entering very late, if the risk is big, or if the probability is low, trade a small position size, about 20% of your normal size. If you normally trade five contracts, trade one contract. Then if the market goes up the size of a scalp, then there's another signal, put a second contract on the position scale into a winning trade. You're not going to make as much money as the person who bought the original signal, but you're still going to make pretty good money instead of watching all day hoping for a pullback, put something on, even if it's very small.

Look where your stop has to be. If your stop gets hit, how much are you going to risk? And that determines your position size. If you don't want to spend a lot of time being precise, just put on a 20% size position and then manage it the way you would manage it as you bought the original signal.

Market Dynamics: The Significance of Tests and Reversals

Why is the second or third attempt often the higher probability trade?

Referring to a strong trend and then a reversal. If the market's going up very strongly and you get a reversal and it lasts four or five bars, 70% chance there's going to be a second leg sideways to go up.

Do you want to be shorting when there's a 70% chance it's going to go back to the high or higher? No. But if it goes back to the old high and the traders who bought at the top decide that the sell-off was so big, it's better now not to be holding long at the top. So, they bought at the top, it goes down, and up here they say, I don't like the size of that sell-off, I'm going to exit. If a lot of traders do that and if a lot of bears bet that the market has either converted into a trading range or is reversing into a bear trend, they'll sell. So, the market likes tests. So anytime it does something, especially if you're looking for a reversal of a trend, the market wants to be certain that the trend is actually reversed.

So, they want to take a test. If you're looking for a bottom and you get a very strong bear trend, sometimes you'll get a reversal that goes up and turn into a bull trend. But most of the time, the market has to stop going down, enter a trading range, and then the probability of a rally, a bull trend, becomes higher.

If you have a strong bear trend in their trading range and you get a buy signal, 40% chance that buy signal will lead to a bull trend. 60% chance that will either lead to more trading range or a resumption of the bear trend.

Now, if the market's going down strongly and goes up, there was a lot of buying. Most of that initial buying is going to be bears buying back shorts. And if the rally is strong enough and then the market resumes down, a lot of bulls will wonder if the market is reversing into a bull trend or converting into a trading range. In either case, they're going to look to buy around the first low, betting that there'll be a rally that will be big enough for them to buy.

Also, if you're a bear and there's a big bear trend, and the market goes up and you took profits, are you going to sell again right away? Probably not. If the reversal is fairly big, you're going to wonder if the market has converted into a trading range or reversed into a bull trend. So, you want to see if the bulls will buy again at that price at the bottom.

So, you give the bulls a second chance. Will they buy again? And if they buy again, a lot more traders will say, the bears tried twice to get a price lower than the first low significantly lower than the first low. They failed twice and the bulls succeeded twice.

So, any time you're looking for a reversal, you'll get a much higher chance of actually having a reversal if there's a test. And the test could be **a double bottom** or it could be **a wedge bottom**. If you think of a wedge bottom, all it is three reversals instead of two.

And instead of them being around the same level, they're slightly different. So, the bears failed, we got a rally. The bears failed a second time we got a rally.

The bears failed a third time. If you're a bear, are you going to be eager to sell again? Probably not. If you're a bull and you see two prior reversals and now it's reversing a third time, you're going to be much more willing to buy.

The Virtue of Patience: Navigating the Opening Chaos

Let me give you some examples. Let's say there's a big gap down on the open and the first bar is a very big bull bar closing near its high. There's a 30% chance that will be the low of the day and that is a reasonable buy. You should buy above that first bar. On the other hand, let's say the first bar is a small bull bar closing around the open of that bar and the next bar is a big bull bar closing near its high. You should buy above that bar.

But neither bar is big and neither bar closes near its high. Then you should wait, and a lot of times you'll get some kind of a small rally and then a test down and then a double bottom. 80% of the time, if you have a big gap on the open up or down, the market is going to be sideways or pretty much sideways for 18 bars, 24 bars, a couple hours or so.

And let's talk about an example of a gap down. The bears will look for a rally up to around a 20-bar exponential moving average and that rally, they'll expect it either to be a wedge rally and they'll look for a sell-off or reversal down from around the moving average or they'll look for some kind of a double top around the moving average. If they get either of those and they get a bear bar closing near a slow, they're going to short betting on a swing down. The bulls, **on the other hand**, will look for, strong buying on the first bar or a wedge bottom. So, it goes up a little bit, down more, down more. They'll look for a wedge bottom or a double bottom and then they'll buy. But they're going to look for a strong buy signal bar.

If you're a bull buying in a bear trend, a strong bear trend, a big gap down, you want as many bullish things as you can get. And you definitely want a bull bar closing near its high. It could be the first bar, it could be the second bar, it could be 20 bars later after the market forms a double bottom.

If you're a bear, let's say the first couple bars have bull bodies, even if they close near the middle. Let's say you've got the first five bars, three are bear bars, but none of them is big and none closes near a slow. Are you going to sell? And the answer is no, because if you're getting average looking bars, look at the average price. The moving average is one measure of the average price. If the moving average is up here and you have average bars down here, you're not going to want to sell far below average. So, you're going to wait until the market goes sideways to up until it's closer to the average price. Then you will be willing to sell bars that look average because it's now at the average price.

These are the kinds of things that I look at all day long. If the market is sideways, let's say yesterday ended with a trading range and then today the first several bars have prominent tails up or down, and you get a bull bar, bear bar, bull bar, alternating every one, two, or three bars. I don't want to be doing anything other than waiting. I want to wait for a good-looking bull bar closing near its high at the bottom of the trading range, and I'll buy that. Or I'll look for a good-looking bear bar closing near its low at the top of the opening range, and then I'll sell that. It's better to wait.

If you're a really experienced scalper, you can make a lot of money with limit orders. Anything bullish, you sell. Anything bearish, you buy. So, if you see a big bear bar closing near its low and you have a trading range, you buy it. You use a wide stop, scale, and lower. And at the top, if you see something bullish, like a breakout above a prior high and the bull bar closes near its high, you sell it. You don't buy it, you sell it, because the market is probably going to continue to do what it's been doing. And if it has been going sideways and having a lot of reversals, it makes more sense to bet on a reversal than to bet on a successful breakout.

If you get consecutive big bull bars closing near their highs and both of them close above all the prior highs and the body of the second bar is completely above the trading range, that's a strong breakout and a 70% chance the market is going to go up for **a measured move**. So that's an example of a trading range converting into a confirmed bull trend.

Computer Math and the Logic of Measured Moves

What a measured move looks like, and why this simple pattern is so powerful and recurs constantly?

Most of the trading is done by computers. Computers use math, and you have to have some rationale for doing things, and the computers are always looking for measured moves.

If the market breaks out of a trading range, breaks above a trading range, the computers are going to take profits at a measured move up based on the height of the range. They bought at the top of the range, their stop was at the bottom of the range, and the probability was high if they had a strong breakout that the market's going higher, so they're happy to take a profit that's equal to their risk. So, they'll take profits at a measured move up .

Another example of computer math is leg 1, leg 2. Let's say you have a two-legged pullback in a bull trend. If the second leg down falls below the first, the bears are hoping that it's a lower low after a lower high, and the market has become a bear trend. So, the bears are hoping that break below the first low will convert the market into a bear trend. The bulls are betting that? no, it's a bear trap trapping bears into a bad short, and they're going to look to buy. Some will buy as the market falls below that first low, and others will buy at some kind of mathematical move. And one common thing is a second leg down that is the same size as the first, so a leg 1, leg 2 measured move.

50% pullback is another common one. Another one is a pullback to test the breakout point, the top of the trading range.

Very often you'll have several things at the same time. You'll have a leg 1, leg 2 measured move that retraces 50% and tests the top of the trading range. And if you get a really good buy signal bar, you've had several good reasons to buy, the probability is going to be 60% or 70% that the market is going to go back up to the high.

Strategic Trade Management: Scaling and Position Sizing

What is the strategic advantage of scaling into trade versus using a single entry with a fixed stop, especially in strong trends or complex trading range?

In strong trends, If the market has a bull bar closing at a time, and then another one, another one, another one, the first bear bar, there's going to be a 70% chance there'll be more buyers on the close of that bar and below that bar. It is advised that not exit below the first bear bar. But if there's a second bear bar, second consecutive bear bar closing near its low with a reasonably big body, typically get out. I wouldn't short, but I would get out. And because sometimes you'll get a buy climax, especially on the open, and it just immediately reverses down in a series of bear bars. So, if I see two bear bars after a strong bull breakout, I'll exit. And if the next bar is a bull bar closing near its high, I can always buy again. So, I will not be missing much of the trade.
If the market's more two-sided, deeper pullbacks, complex pullbacks, multiple legs, I'm more inclined to use wider stops. But I'm also more inclined to scalp more. So, if I think the market's converting to a trading range, I'm going to be looking to sell out of longs on strong legs up near the top. So as far as the patience go, whenever a person uses the term patience, I always think of trading range.

If the market is selling off very strongly and has a pullback, and then another low, and then another pullback, and it's a stair-stepping down. But if you notice that the market pulls back, goes up, and the bounce goes above that prior low. So, if the pullback goes above the breakout point, a trader who bought that low and bought more lower, and then the market goes back here, he can get off break-even on his first buy with a profit on his lower buy. So, I look for that kind of behavior.

And if I can see the bears making money with limit orders, excuse me, if I can see the bulls making money with limit orders and the bear trend, that's what I'll start to do. I'll start to buy at prior lows and add on the size of a scalp lower. Or if the trend is fairly strong, I'll start buying at the size of a scalp below the prior low and add on lower.

Probably the Most Difficult Thing for Traders Starting Out

Beginners should not be entering with limit orders, they should not be scaling in to losing trade, and they should not be using white stops.

Somebody on television, a trading expert saying, "oh, I bought NVIDIA today, and if it goes lower, I'll buy more tomorrow." That is an experienced trader. He's comfortable doing that.

What happens with a beginner is, it's high probability to do that, by the way. But this is what happens invariably with a beginner. A beginner uses limit orders, and he scales in, and he does really well. Now, he scales in once, scales in twice, and he finds that he's making pretty good money for two or three weeks. And then one day, he scales in once, he scales in twice, and it goes down a little bit further. He scales in a third time, then he scales in a fourth time, and then the market never goes back up, and he ends up losing more on that one trade than he made in the prior couple of weeks. And that's one of the biggest reasons why beginners lose money. They do enough things well to make money, but they do one bad thing that's terribly bad, and it erases all of their winnings.

So, the point is, the best way to make money is stop doing dumb things. If you can get rid of the bad things, the odds of you making money are really good. Now, limit order scaling in, that is not for an average trader.

An average day trader should not be scaling in, because he'll get scared, and he'll manage it badly. An experienced trader, in a bear trend, if he sees the pullbacks going above the breakout points, he'll buy maybe a 20% size position. And then if it goes down the size of the scalp more, 20% more, 20% more.

So, he's trading really, really small. So, whatever a beginner thinks is a small position, it's probably twice as big as what small really is. So, a beginner thinks, I'll create a half-size position, and that's small. No, that's not small. If you add them once, you're up to a full position, and that's not small. So, beginners should not be entering with limit orders, they should not be scaling in to losing trade, and they should not be using white stops.

If a beginner wants to scale in, the best way to scale in is in the direction of the trader. So, if a beginner buys, and the market keeps going up, and it goes up the size of a scalp, and then has another reason to buy, a bull bar closing near his high, he can add to his position.

And one thing he can do is exit if the market falls the size of a scalp below the prior bar. Because if it falls the size of a scalp below a bar, then a bear selling with a stock below that bar had the ability to make a scalp. And in a strong bull trend, the bear should not be able to make money. If the bears are making money, it's not a strong bull trend. So, stop trading it like a strong bull trend.

The Path to Consistency: Moving Beyond Psychology
The Single Most Important Thing (It has nothing to do with psychology)

How does a trader know if they are making a logical mistake versus a psychological one?

"**I lost money for like a decade back in the 80s**. But once you get past that, then life becomes a lot easier. Also, I make more money than I can possibly spend. My goal now is not to make money. My goal now is to be happy. And I want to have fun. I want to enjoy my life. Back then, my goal was I want to become a billionaire."

Al Brooks

If your account is smaller today than it was when you started, don't assume it's psychology. **The single most important thing is learning market behavior, understanding price action. The better you understand it, you don't even think about psychology.**

It has nothing to do with psychology. It has completely entirely to do with learning how to read charts. So, spending a lot of time on psychology is really not going to be helpful. What you have to do is get good at reading charts, understanding what markets are doing, and focus on that. And the psychology will take care of itself.

Traders should trade the smallest possible size until they're consistently profitable. Everyone who starts trading has dreams of becoming rich. I'm going to become rich. I'm going to become super rich. And that's wrong. It is a nice dream, but there are many steps to get there. And the first one is starting to place trades. And then the longest stretch in the process is learning how to stop losing money. So, you're going to lose money.

"I lost money for like a decade back in the 80s. But once you get past that, then life becomes a lot easier. Also, I make more money than I can possibly spend, right? My goal now is not to make money. My goal now is to be happy. And I want to have fun. I want to enjoy my life. Back then, my goal was I want to become a billionaire."

It's really wrong to focus on that. What you need to focus on is stop losing money and start to make a little bit of money, and then slowly increase your position size. And you don't have to increase your position size very much to make a decent living.

The difference between making nothing and making what a lawyer or a doctor earns, being a lawyer or a doctor, it really doesn't take a very big position size to make a pretty good living doing this. Focus on not losing money, starting to make money consistently, and then slowly increase your position. Invariably, once you increase your position, you're going to make mistakes, and you'll lose money again. Well, then go back to your previous position size. And that whole process, it's not something that takes a few months. It'll take at least a couple of years to work through all of that.

Everybody has more than enough IQ power to become a trader.

Everybody has more than enough IQ power to become a trader. What you have to work on is the ability to understand what the market is telling you, and then structuring trades and managing trades correctly. You don't have to be a genius to do that. Most people have the ability to do that.

High-frequency trading. You have computers that, or firms, there's a node where the internet comes up in Manhattan. And the rent in those, in the buildings right there and next door, is super high. Because there are hedge funds, high-frequency trading firms, that want to be as close to that internet as they can to gain some nanoseconds faster on prices.

So, when a trade actually takes place, and you see your chart move, it might take, half a second, a quarter of a second. You know, sometimes it might take two or three seconds. So, your real-time chart is not real-time. It's delayed. And by the time that trade takes place, and you see the movement, high-frequency trading firms have already placed 10 trades. So, before you even see anything on your screen, they've already placed a bunch of trades. So, you at home, do you want to compete against a high-frequency trading firm?

No. They have a tremendous advantage over you. Their advantage is speed. They get that data before you get data. They can analyze it faster than you can analyze it. They don't have to push buttons to place trades. They don't have to make decisions to exit. They're trying to make one tick, two ticks, three-ticks profit. They're scaling in constantly. They're doing all kinds of things that you cannot do.

If you try to get good at that, 100% certain you're going to lose, because they can do it consistently 24 hours a day forever, even at your best. You're not going to be as fast as them. You're not going to analyze as well as them.

So that, trying to compete against the high-frequency trading firms is meaningless. As far as them offering the markets, they're high-frequency trading firms. They're holding positions for, a millisecond, five nanoseconds.

They're in and out. Don't see them as competition at all. You know, there are much bigger factors that influence the market.

Oracle having surprisingly big profit projections, that kind of stuff is much more important. Every company has many facts coming out every day. Every government has many facts coming out every day. Then there are technical things every day. So, don't worry about competing against computers. The market ultimately is going to be controlled by forces that unfold in our time frame.

You can see trades on every bar. You can see something to do on every bar during the day. And the high-frequency trading firms may have taken a thousand trades during that five minutes.

It doesn't matter. You can look at the bar and you can see trades that you can take on my time frame that I can structure and you can make money. And don't feel threatened by the high-frequency trading firms at all.

Are the buy and sell signal bars less reliable or less, are the good ones less frequent than they were 30, 40 years ago? Yes, but that still doesn't bother. A market cannot go up unless most of the bars are bull bars. And therefore, if I see most of the bars being bull bars, especially big bull bars closing into their highs, I don't give any thought to the high-frequency trading firms. I'm going to buy. If the market's going to go down, it's not going to have a whole bunch of bull bars. It's going to have a whole bunch of bear bars. So, I don't care about the computers or high-frequency trading firms. I can just look at the chart and I can see if the market is in a range and it's starting to get a whole bunch of bull bars; it's probably going to break out of the top.

The most common mistake traders make

What is the most common mistake traders make when learning price action and how can they best overcome it?

The biggest one is not knowing when they're wrong. You have to have some way to know when you're wrong. And there are two ways that beginners should have.

For example, in a bull trend, one is you have a protective stop. You have the stop below the most recent leg up. So that's a reasonable thing. Another way to know you're wrong is, let's say you're in a bull trend and there are now consecutive big bear bars closing in their lowest. You exit. Exit below that second bear bar. So, it could be well above where your stop would be, but a strong bull trend should not have consecutive big bear bars closing near their lowest.

And if you see that, the market is probably not in a strong bull trend anymore and therefore you should exit. So, I think the most important thing for beginners is exiting when they're wrong. And those are the two easiest ways to know when you're wrong.

And again, trade your absolute smallest size. And even if you're rich, **if you're starting trading, trade this absolute smallest size until you're consistently profitable**.

Part One: Summaries

1: The Analytical Mindset in Market Analysis

The microscopic attention to detail required in technical analysis. The focus is on the **intellectual challenge** I found in the markets, which I felt was lacking in the routine of established jobs. Readers will learn how a disciplined, diagnostic approach allows a trader to view each bar as a critical piece of evidence in the market's history.

2: Defining Price Action Beyond Indicators

This section establishes the core philosophy that **price action is the primary language of the market**, representing how prices move and what behavior is likely to follow. It provides a rigorous critique of indicators, describing them as "nonsense" derived from price itself and often serving as a "god" or "savior" for traders who fear trusting their own analysis. The chapter emphasizes that indicators, particularly oscillators like RSI, can provide **misleading signals** in strong trends where pure chart reading would dictate a different action.

3: The Always-In Perspective and Probability

This section introduces the **"Always-In" mindset**, a revolutionary concept where a trader determines at any moment whether it is better to be long, short, or flat. It addresses the futility of seeking "perfect" setups, noting that most bars exist in a **probability zone between 40% and 60%**. The chapter explains how traders can profit by accepting uncertainty and ensuring their reward is at least **twice their risk**.

4: Market Dynamics: The Significance of Tests and Reversals
Focusing on higher-probability trades, this chapter explains why the market "likes tests". It details the logic behind **double bottoms and wedge bottoms**, illustrating how the market seeks certainty that a trend has truly reversed before a significant move occurs. The chapter challenges classic textbooks by advising caution on the first test of a level, favoring the **second or third attempt** as a more reliable signal.

5: The Virtue of Patience: Navigating the Opening Chaos
The opening hour of trading is often filled with false signals; thus, this chapter advocates for **waiting until "Bar 18"** (the first 90 minutes on a five-minute chart) for the initial volatility to settle. It provides specific examples of gap-down and gap-up scenarios, explaining how to wait for the market to return to the **average price (moving average)** before committing to a trade.

6: Computer Math and the Logic of Measured Moves
Given that most modern trading is algorithmic, this chapter examines how **computers use math** to determine profit targets and pullbacks. Concepts such as **"Leg 1 = Leg 2"** and the **50% pullback** are explained as mathematical rationales

used by institutional programs. Understanding these measured moves allows the individual trader to align with the forces controlling the market.

7: Strategic Trade Management: Scaling and Position Sizing

This chapter delineates the **strategic advantage of scaling into positions** for experienced traders while warning of the dangers this poses to beginners. It emphasizes that beginners should **never scale into a losing trade** and should instead focus on scaling into winning trades. The core directive is to trade the **absolute smallest size** possible until consistency is achieved.

8: The Path to Consistency: Moving Beyond Psychology

The final chapter posits that **trading success is a result of logical analysis**, not psychological management. Dr. Brooks argues that when a trader truly understands market behavior, the "psychology" takes care of itself and the trader remains at peace. The path to wealth is described as a gradual process:

First, **stopping the loss of money**;

Second, **making small, consistent profits**;

Finally, **slowly increasing position size over several years**.

PART TWO: DAILY SETUPS

Steps to Finding the Day's Trades

"I have hundreds of patterns that I rely on when I'm trading. I've developed them over the years. I've been watching pretty much every tick in the stock market now for well about 30 years. When you do that for such a long time, you tend to notice things. I have names for things. I classify things. I have an encyclopedia of chart patterns available to traders on my website. I have things categorized. I look for those patterns to repeat every day. And I know what the market will tend to do once it starts to develop a pattern and that helps me structure a trade. When I'm marking up a chart at the end of the day for other people to study, I put the names of the patterns and some information about the pattern to help traders understand what they should do the next time they come across that pattern."

Al Brooks

It is really important as a trader to do the same thing every day to develop a routine. It's important to approach every market and every time frame the same. When you think about trading, trading is exactly that. It's rational human behavior.

Every chart is just a portrayal of rational human behavior and it doesn't matter what market it is. It doesn't matter if you're trading fruit in Africa. It doesn't matter if you're trading property in Europe and buying an apartment, selling an apartment. It doesn't matter if you're doing stocks or commodities. It's all the same.

It doesn't matter on the time frame either and therefore when I look at a chart, a map of interaction between humans, it doesn't matter what the market is. It doesn't matter what the time frame is. It's all going to be the same. It's based upon the same rational human behavior.

When you look at a chart and you are going to mark it up, put lines on it to try to look for patterns, begin with the lines and, look for channels, wedges. Look for double tops, double bottoms, and triangles and, draw lines to highlight those things.

Next, look at unusual bars, special bars, very big bars, a bar that is small. It's low above the low of the prior bar. It's high below the high of the prior bar, an inside bar, consecutive inside bars, an outside bar, a big bar followed by a bigger big bar and then a combination of an inside, outside, inside bar, things like that.

Finally, after having highlighted the lines and the special bars, draw red and green boxes for where you would enter or where you think an ideal entry is. And then finally, add text boxes.

Traders must practice

If you're a professional football player, you play on Sunday. You're not staying home watching TV the rest of the week. You're practicing every day. If you're a professional musician and play for a major symphony orchestra, you're going to practice as well. You may perform a few times a month, but you're going to be practicing every day.

Traders should not just show up when the market opens and expect to do well. They should practice after the market closes. Spend some time reviewing the day's price action on the charts that you trade and look for patterns. Think about what you did and what you could have done.

The same approach for all markets and all timeframes

Use the same approach for all markets and all timeframes. **What's the key to practicing as a trader?** It's simply looking at charts and trying to find patterns. It's obvious. The more you understand about what the market is doing and the better able you are to anticipate what it's about to do, the more money you stand to make. The quicker you recognize a pattern, the faster you'll be able to structure a trade.

Here we got a bear channel. Don't have a line drawn in across the top, but we're trending down. We have a channel. We're breaking below the channel, and we are reversing up. We have three legs in a channel. One, two, and three. It's a wedge.

Also, on this bar, we went down, we went up. On this bar, we went down, and we went up. And that's a micro-double bottom. I call it a micro-double bottom because it takes place over two, three, or four bars. If you were looking at a much smaller timeframe chart, it would be an actual double bottom. The lows could be 10 or 20 bars apart, depending on what timeframe that you looked at.

So, it's important to recognize this. You have a wedge bottom and a micro-double bottom, and now you have a bull bar closing on its high, and it's a second consecutive bull bar. The odds are we're going higher. It's reasonable to buy on a stop one tick above the high of that bar, so you get filled on this bar.

FIGURE 2.1 How Should Traders Practice?

At a minimum, you should always be trying to go for a profit that is at least twice your risk. If you buy on a stop above this bar and you put your stop just below it, this is two times your risk. So, your risk is from your entry price to your stop, and that's twice that distance. Therefore, your reward is twice your risk. If you do that, you have structured a good trade.

If you do that consistently, you have a very good chance of being a consistently profitable trader. When I talk about structuring a trade, I'm talking about thinking about your position size. Where's your profit target? How much risk? How likely is it that you're going to make your profit? You also have to be aware of what the market would do that would make you decide your plan is no longer valid. You should get out early sometimes.

Create your charts in PowerPoint. Use a capture program like Snagit or the Snipping program. On my trading platform, capture the chart and then I paste it into a slide on PowerPoint. Then add the lines and the entry boxes, sometimes the exit boxes, and add text with the reason for your behavior.

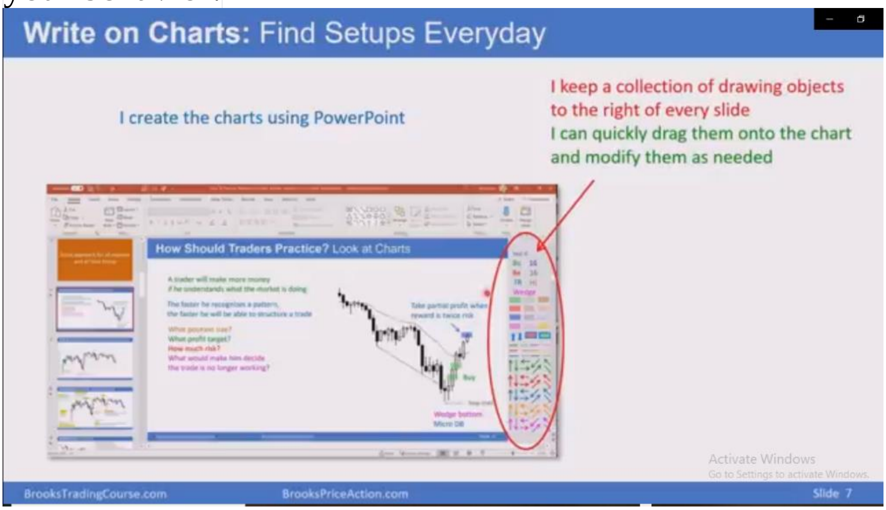


FIGURE 2.2

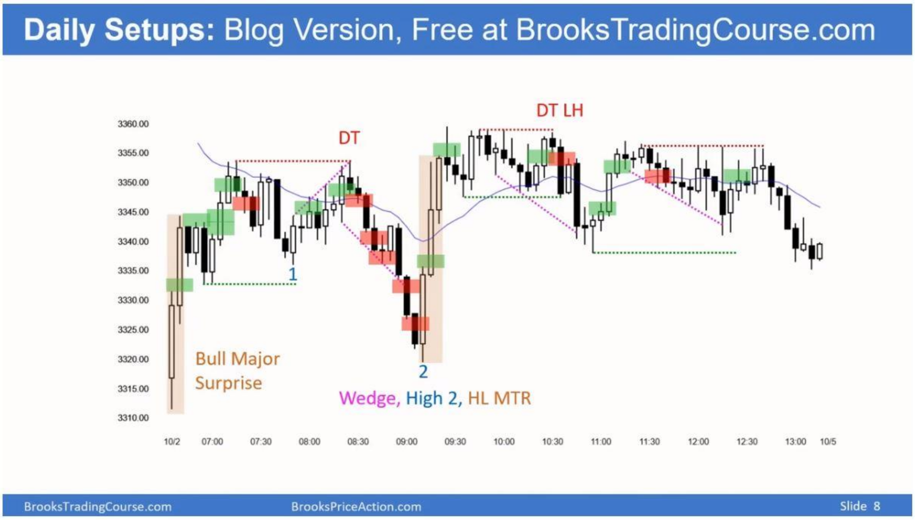


FIGURE 2.3

FIGURE 2.4 A sample of a daily setup chart with extra detail.

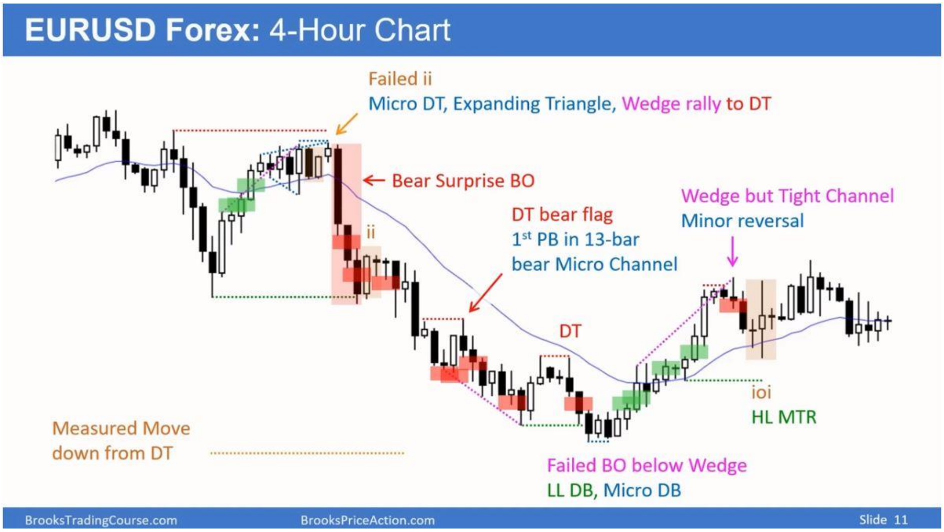
This is a four-hour chart of the euro versus the dollar, Forex market.

FIGURE 2.5

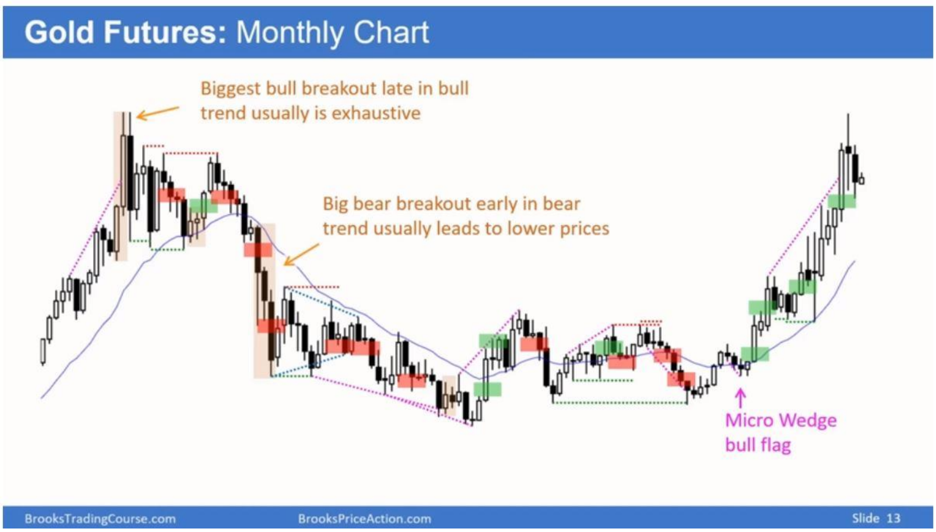
So, every bar is four hours with price and time.

Traders trade based upon logic which results in reliable patterns. People use the same logic in everything they do. And the result is that the patterns are present on all markets and all timeframes. Therefore, traders look at all charts and all markets the same. I don't pay attention to price. I don't pay attention to time. I just look at the charts.

If you watch TV and you see professional traders talk about a chart, they'll sometimes talk about gold, crude oil, stocks, stock index futures. You never hear them say, this is Apple, and therefore, trade it differently from how to trade gold or stock index futures. They don't say that because they understand that the chart is just a representation of rational human behavior. And it's going to be the same for all markets and all timeframes.



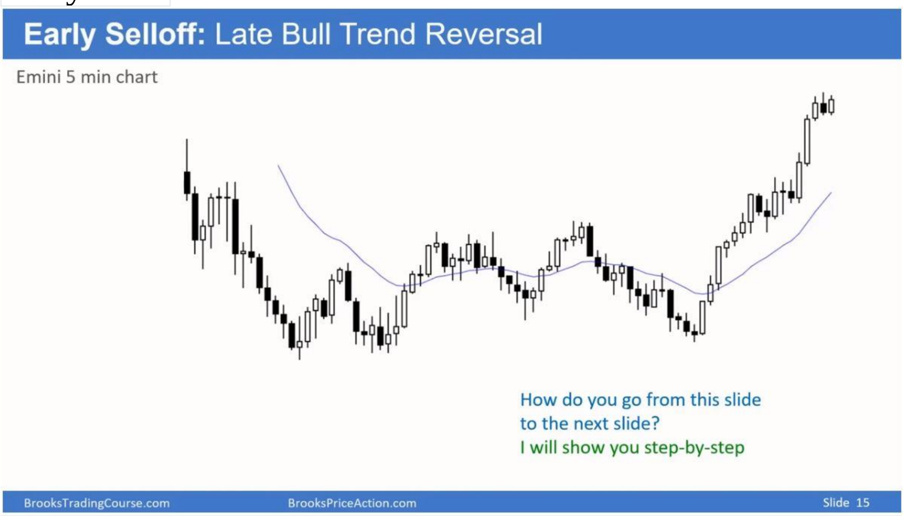
If you did not know it was a Forex chart, you would not be able to tell that it was a Forex chart. It could also be a stock index futures chart, an E-mini chart. It could be gold because all charts look the same, and the patterns are the same. Here's a gold futures chart, and it's a monthly chart.



If you remove the price and time and mark up the chart, it looks the same as any other market and any other timeframe. It is a monthly chart, but it has the same patterns that you see on any other chart and any other timeframe.

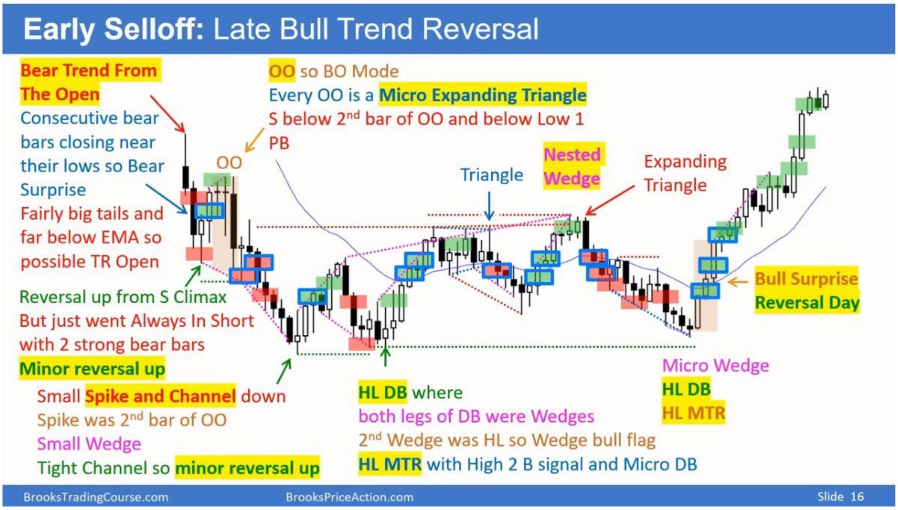
Develop Daily Routines

When marking up any chart, always begin with lines. It is really important to develop routines to do the same things every time.



Let’s see step-by-step. Start with this slide, with nothing on it other than a 20-bar exponential moving average. This is a 5-minute E-mini chart, 81 bars to the day session.

At the end of the day, when marking up the chart, this is what we have, and that's the end of the practice. There is everything drawn in.

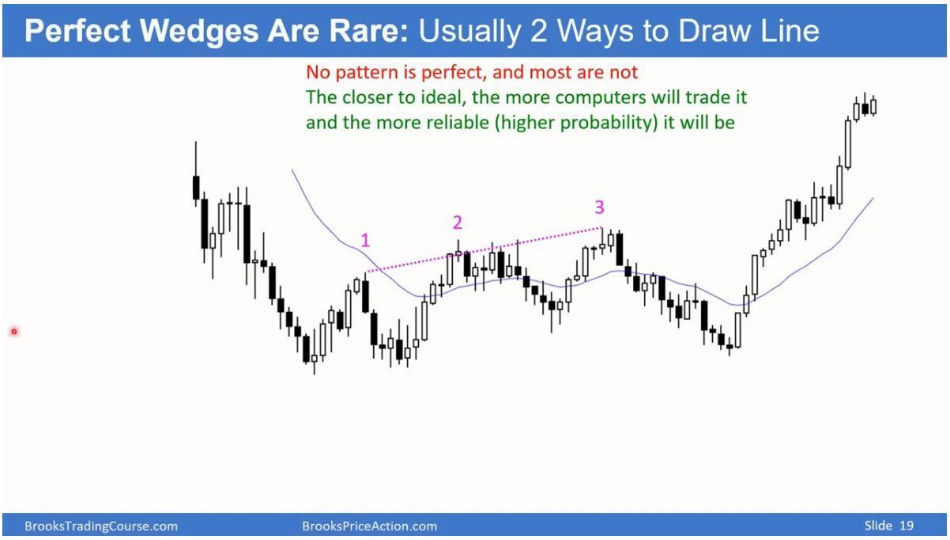


Channels and Other Wedges PATTERNS

First of all, we have a chart with nothing on it, and then look for channels, wedges. A wedge is a channel, and it has three or more points. You could draw a channel up like this. It has point 1, point 2, and point 3. Sometimes wedges are contracting. Sometimes they're not.

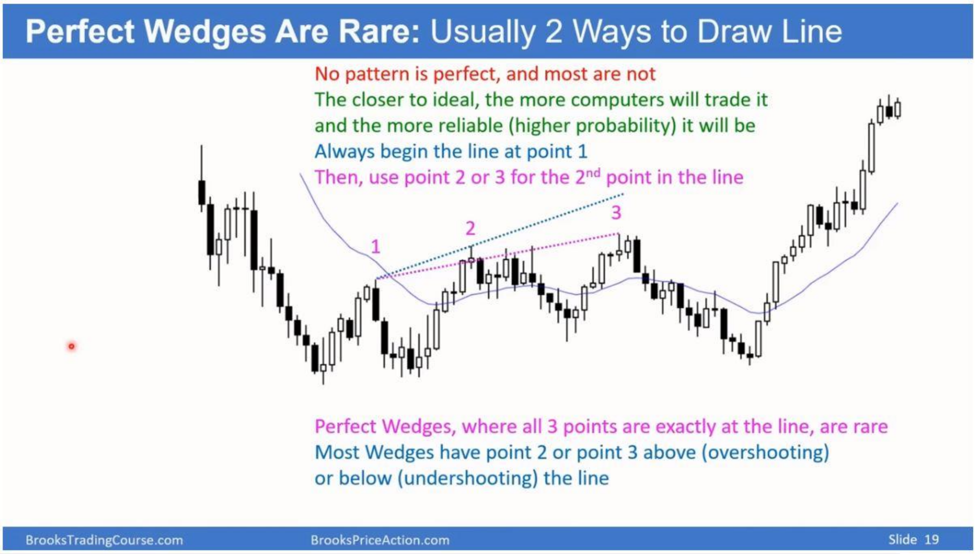
This one's fairly parallel, maybe a little bit contracting the way you have it drawn.

When a wedge is rising, look for a reversal down, so only interest in the top line. You shouldn’t want too many things on my chart, so don't even draw that bottom line.

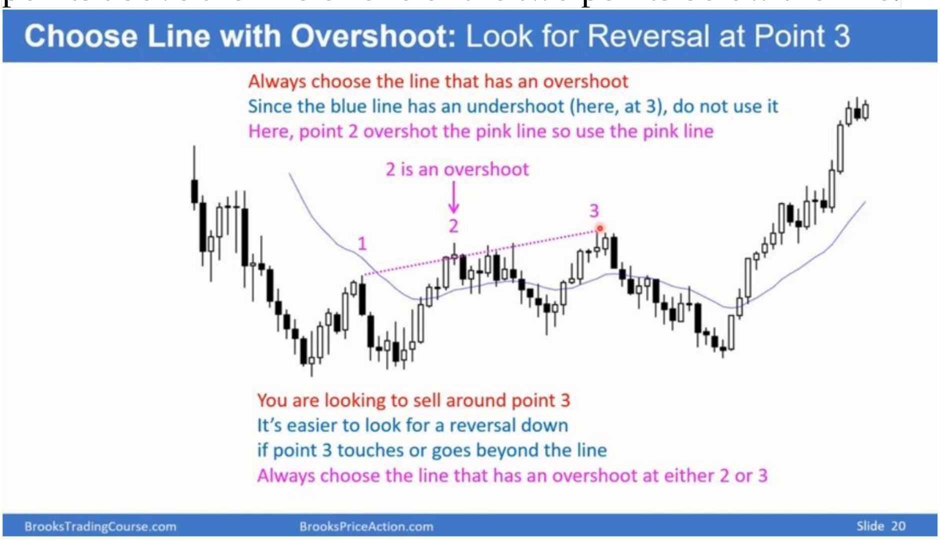


No pattern is perfect. Most patterns are not perfect, and therefore, you would not expect the three points to be exactly at the line. One of the two points here or here is going to be above the line. ***The more perfect a pattern is, the more computers will find it, the more computers will trade it, and the more reliable the pattern will be. The higher the probability it will unfold the way you want it to unfold.***

Always start with point 1, and then you could draw a line using point 2, and the line would be there. Or you could use point 3 to draw the line, point 1 and point 3. So, there are two ways to draw the line. All lines start with point 1, and you could either create a line using point 2 or point 3.

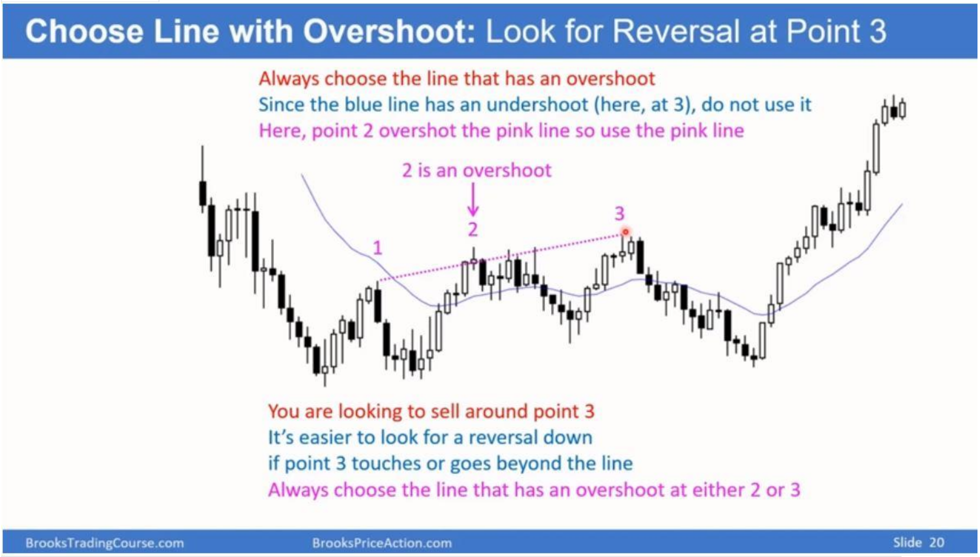


It's rare to have a perfect wedge where the three points are on the line. Almost all wedges have either one of the two points above the line or one of the two points below the line.



For the blue line, point 3 is below. For the pink line, point 2 is above the pink line. Point 2 overshot the pink line. Point 3 undershot the blue line.

Your routine is to always choose the line where there's an overshoot.



Since the blue line has an undershoot, use the blue line. The pink line here, point 2 is an overshoot, and an overshoot either at point 2 or point 3, so use the pink line and get rid of the blue line. look to sell a reversal down from the top of a channel.

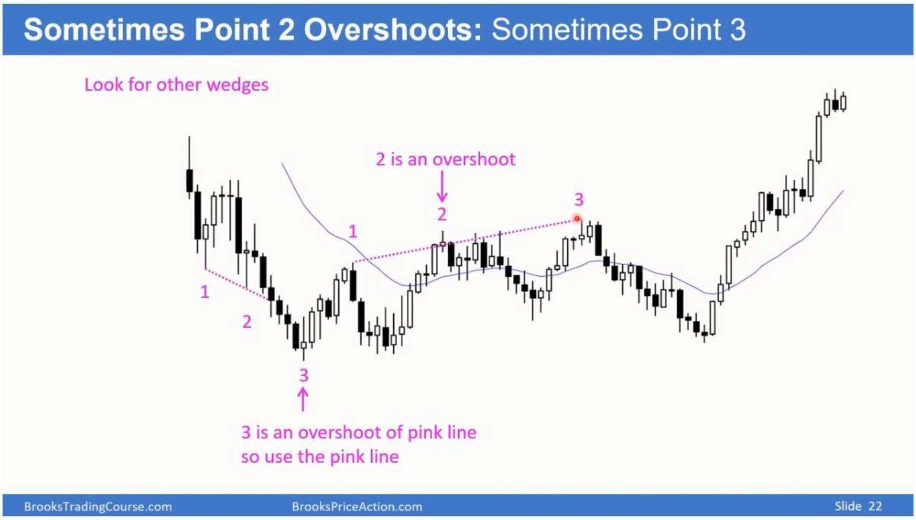
If we start to reverse somewhere around a possible line using 1 or 2, look to sell a reversal down, especially below a bear bar closing on its low, expecting lower prices.

After drawing the first line, look for other channels, other wedges, and there are any varieties.

For example, we have another channel here. This is a bear channel, and we've got three or more points, 1, 2, and 3.

You can draw the line using point 1 and point 3. You can draw the line using point 1 and point 2, and if you do that, point 3 overshot the line, and remember, you want lines that overshoot. Here, point 2 overshot, and here, point 3. Point 2 here undershot the line.

You don't want lines that undershoot. you want lines that overshoot, so you'll get rid of the blue line, and this is an example of a channel where the line from point 1 to point 2 created an overshoot at point 3.



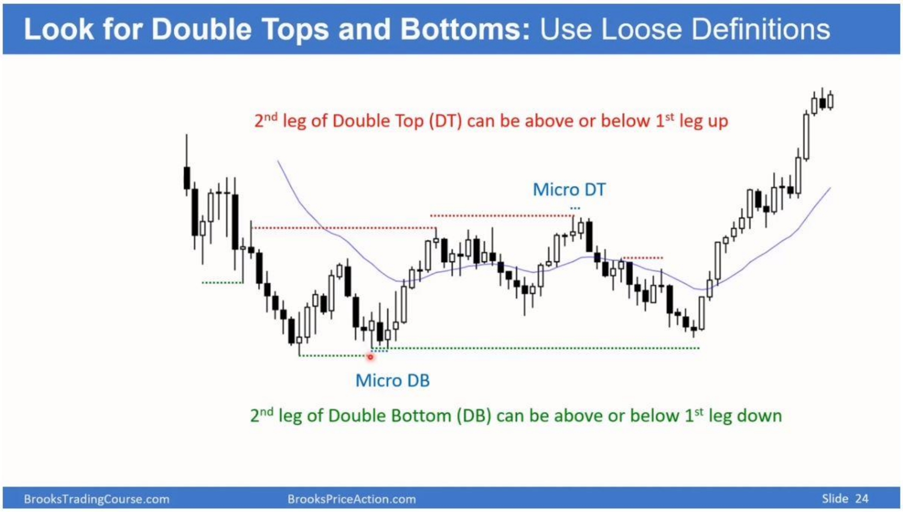
Here's an example of a line using point 1 and 3 has an overshoot at point 2, and therefore, I'm going to choose 1 and 3 to draw the line here, but I'm going to choose 1 and 2 to draw the line there, and there are many other wedges on this chart as well, and I just keep adding lines for every conceivable wedge. Some of them are hard to see.

For example, if there are three pushes down here, 1, 2, 3, I have a little pink line there.

It's hard to see, and here, there are three points down, 1, 2, and 3. When the pattern is small, it's a micro wedge, and then here, you could also use 1, 2, 3, or 4. Remember, a wedge is at least three lines, so we have a channel with at least three points in it, so that blue line is another way to draw a wedge, and I'm looking for a reversal. We got a reversal.
you want to buy above a bull bar that closes near its high, hoping that we get a trend up. Sometimes patterns fail. We got a push up here, big bar, and then a small bar, and then a big bar, a second push up, and then a bear bar, and then a third push up, so we have a wedge and a very tight channel. You would call that a parabolic wedge, but we did not get a reversal down below the bear bar. Instead, we get an upside breakout, so you would look to buy above the high of this bar, betting that the wedge top has failed.

Double Tops and Double Bottoms PATTERNS

Next, look for **double tops and double bottoms**. Double tops and double bottoms are rarely perfect. If you look for a perfect pattern, you're not going to find many setups, and you're not going to trade very much, so it's better to be flexible. The more perfect something is, the more likely it will lead to a profitable trade.



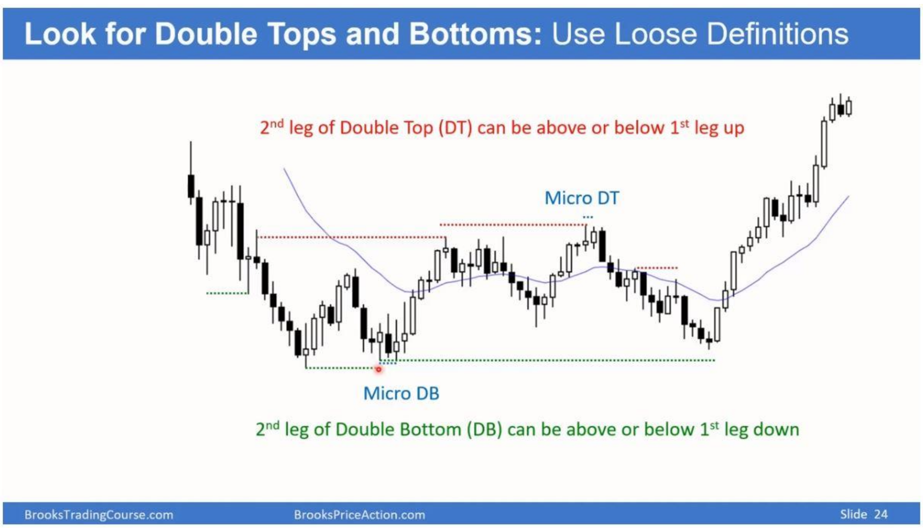
Here we're rallying. We broke above this high, but always look to the left to see the context. If there's a possible double top, we might get a reversal down.

We rallied, and it looks like we're turning down. You'd be inclined to sell below this bar, depending on reasons. You'll look to the left to see if there's a double top.

This high might simply be a test of these highs, so it might be a double top with these highs. Remember, I also had a wedge here. One, two, three. It's a wedge and possibly a double top with that high, maybe a lower high double top with that high. So, a wedge and a double top is an added reason to look for a reversal down, selling below a bear bar, closing near a slow. There's also a micro double top here. This bar went up and down, and this bar went up, and here we're going down. So, we have a micro double top, a double top, and a wedge. So, there are several things going on here that would make me more inclined to take that short.

Here's another double top. The market tried to reverse up, but it failed in the neighborhood of that high. So, it's a double top bear flag.

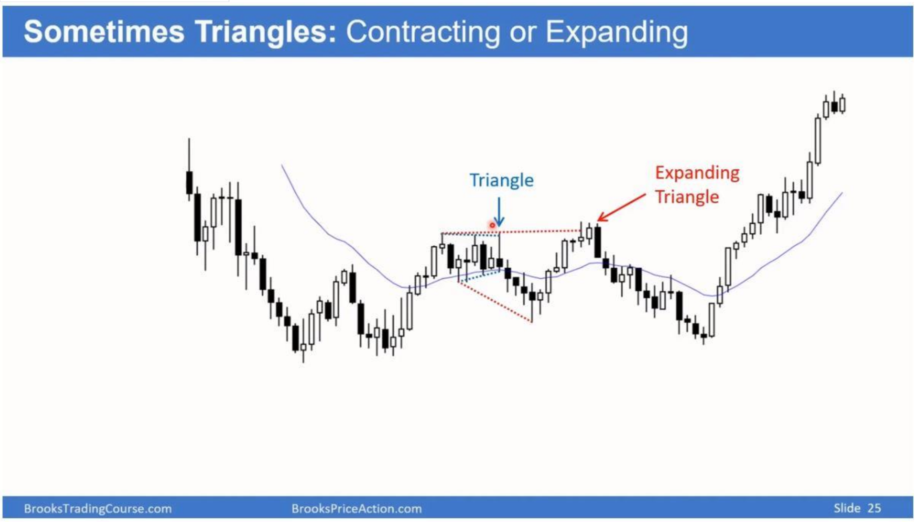
Also look for double bottoms. The second low of a double bottom can be below the low of the first low. Here we tried to get a double bottom, did not go very far.



And here we have a higher low double bottom. Here's a lower low double bottom. This low is below that low, and here this low is above that low. So, it's a higher low double bottom. And again, a micro double bottom. We went down here, we went up, we went down, and now we're trying to go up again. You could buy above this bar or above a bar buying on its high. Here we have a very big double bottom, and it's a higher low above the bottom of the bear trend. So, it's a double bottom higher low, and that has the possibility of being a major trend reversal into a bull trend.

Triangles Patterns

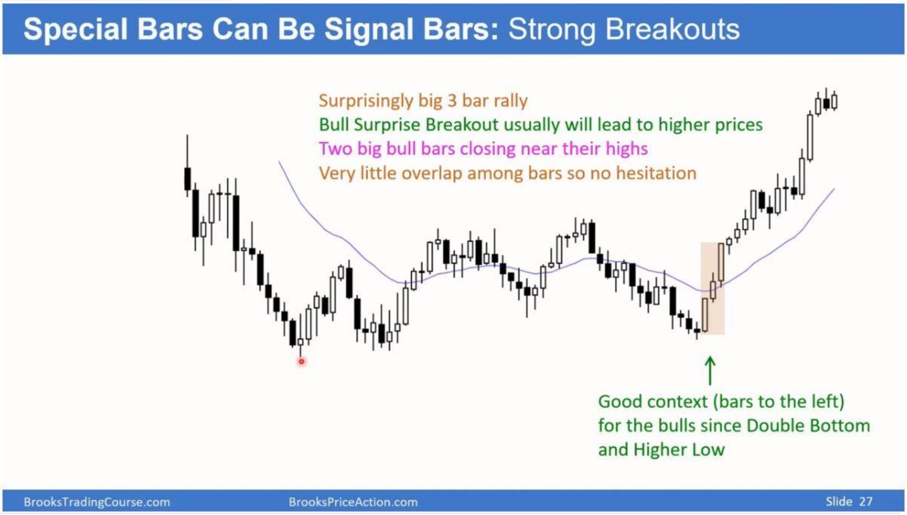
There are often triangles on charts, and again, they're rarely perfect. We have rising lows here, and we're basically sideways here. We tried to break to the upside, and that reversed down.



So that's a contracting triangle. And sometimes triangles are expanding. Here we have this high above that high, and this high is above that high. So, we're going up, and then here we're going down. So, an expanding triangle, five points, one, two, three, four, five, and we keep getting false breakouts. A new low, new high, new low, new high. Again, a reversal pattern. I'll sell below that bar.

look for special bars; II, OO, IOI PATTERNS

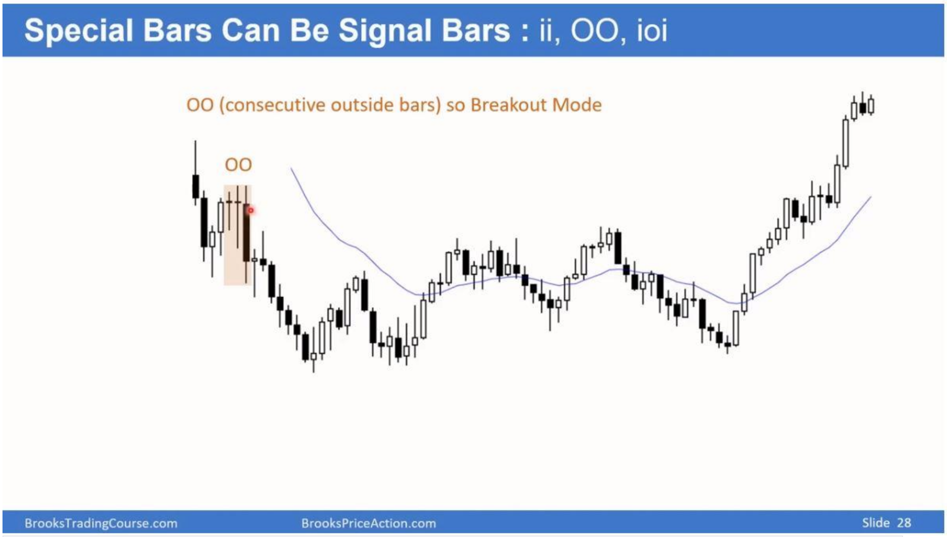
Look also for special bars, big bars or small bars, inside bars or outside bars.



Here we have three consecutive bull bars, not much overlap. This bar is closing on its high. This bar is closing on its high. So, this is sustained strong buying. The context is good. Remember, it's possibly a double bottom with this low, and the double bottom is above that low. So, it's possibly a double bottom higher low major trend reversal. It's a surprisingly strong rally. It's a bull surprise rally, and bull surprises tend to have higher prices.

II, OO, IOI Patterns

This bar, its high is at the high of that bar, its low is below. So that's a variation of an outside bar. And look at the bar before it.



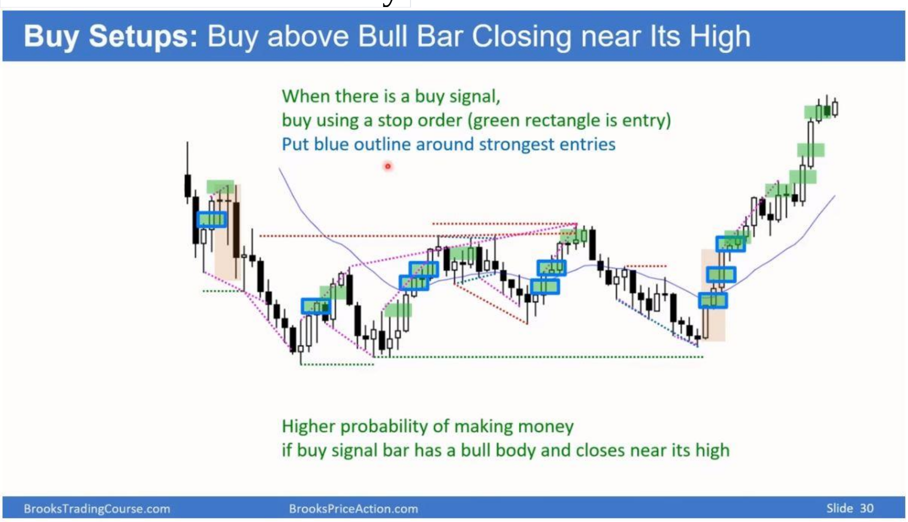
This bar, its high is above that bar, its low is below that bar, and therefore it's an outside bar. And this is a bigger outside bar. So outside, outside, consecutive outside bars. It's a breakout mode pattern. Traders will buy if the market goes above, and they'll sell if it goes below. So, I'm looking for an OO, and I would sell below that bar and below that bar. A bear bar closing near its low, I'd sell below that bar as well.

Add Boxes for Entries

Here is the chart with all those lines drawn in and with the special boxes drawn in. Next, I'm looking for entries.

If looking to buy, buy above a bull bar, preferably one that is closing near its high. If You’re looking to sell, sell below a bear bar, preferably one that's closing near its low.

Theoretically, if we have consecutive bull bars here, it's reasonable to take that buy.



However, it turned out to be a failure, and you would get out either below this outside bar or certainly below that because at this point there's a sell.

Sometimes, you'll put an outline around a green box or a red box, and when you do that, try to highlight setups that are particularly good. They're ones that a person starting out should try to take.

Nobody's going to take all of these setups. What you're trying to do is take as many as you possibly can. Stuff happens. You could be trading on the markets. You have to go to the bathroom. You've got to eat lunch. You could get a phone call. All kinds of things happen. It's hard to watch every tick all day long.

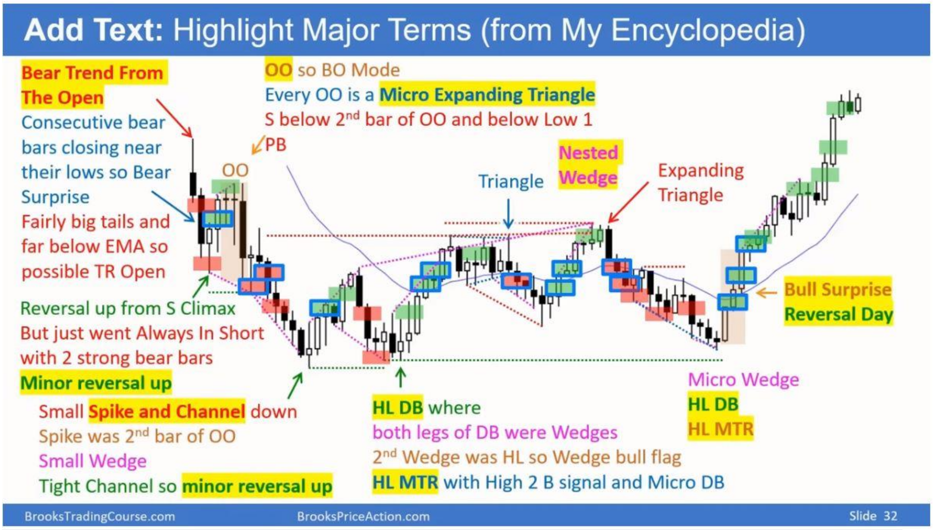
If this was a daily chart, it would be easier. You could simply look at the chart at the end of the day and place your orders for the open of the next day. But if you're day trading, and if this is a five-minute chart, in this case it is a five-minute chart, it's very easy to miss a lot of setups.

After drawing in the buy entries, draw in the red boxes for sell setups.

So, this bar, reasonable to sell below. And here we have an OO pattern below the moving average. It's an especially good sell. So, it would sell below that or it would sell the first pullback.

We have an expanding triangle, a micro-double top, possibly a double top here, and we have a wedge rally to a double top. And it's nested. We have a smaller wedge here and a bigger wedge here. So, this is a very good sell. We have a second consecutive bear bar closing and it's low. That's also a high probability sell.

So, I put a blue outline around the red box. Then add text boxes so people can understand some of the rationale for why I'm taking the trades. And this is something you should consider doing every day at the end of the day, marking up your charts.



You don't have to write the text boxes in, but I would certainly draw lines and highlight special bars. If you do this for several months, you'll begin to recognize patterns unfold during the day and that will allow you to anticipate trades. Then when the trade triggers, you'll be able to take it and you'll be able to manage it well. And that is what I mean by practicing trading.

SUMMARY

It is important as a trader to do the same thing every day, have routines. One routine is to mark up a chart at the end of every day to practice so that you'll develop a lot of experience in your ability to recognize patterns.

Second, use the same approach for every market and every time frame. When I'm marking up a chart, I begin with lines. I usually begin looking for channels, wedges, and then double tops, double bottoms, and triangles.

After that, look for unusual bars. For example, big bars or a series of big bars, surprise bars. Also look for small patterns like consecutive inside bars or consecutive outside bars or an outside bar followed by an inside bar. That is an IOI pattern.

And **finally**, on my daily charts that mark up for my website, add boxes for buy entries and for sell entries. And then finally, add text boxes that explain why you think something is a good buy or a good sell.

Again, it's very important to have a routine every day that you do at the end of trading. It's good to practice recognizing patterns and thinking about how you manage them real time because you're going to keep encountering the same patterns. The more patterns that you know, the faster you are at recognizing them, the more sense you'll have at structuring and managing profitable trades.

PART THREE: How To Trade

Introduction

Chapter I: How To Trade
Chapter II: Market Cycle
Chapter III: Trend Types
Chapter IV: Support and resistance
Chapter V: Measured Move & Other Types of Support and Resistance
Chapter VI: Distinguishing Strong Legs within Trading Ranges and Trends
Chapter VII: Swinging and Scalping
Chapter VIII: Scalping

Summaries

INTRODUCTION
Chapter I: How To Trade

A few key principles to follow:

Focus on 5-minute charts. Trading off 5-minute charts can capture profits regardless of market conditions.

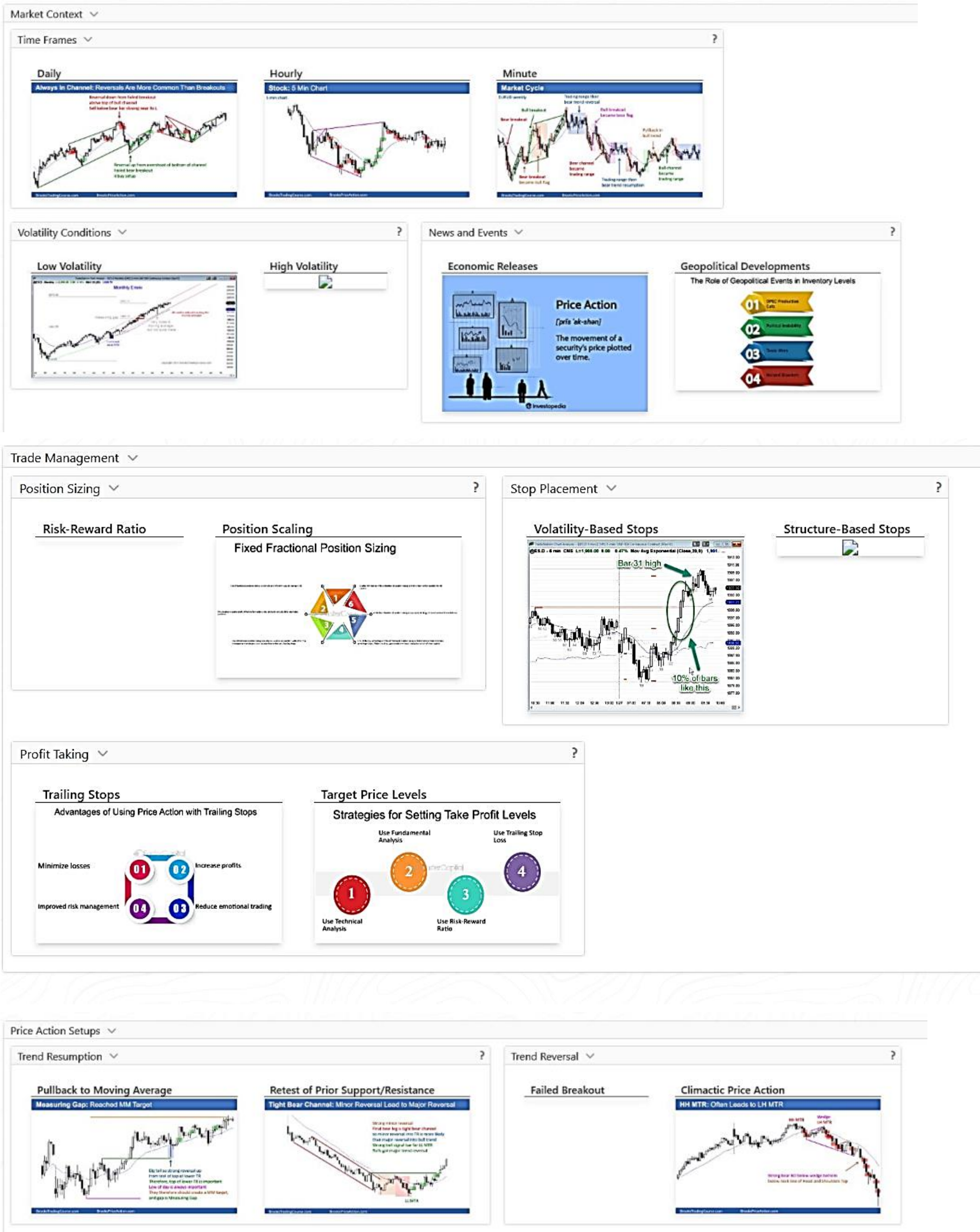
Adopt a swing trading mindset That is the importance of swing trading over day trading, as it provides more reliable trading opportunities.

Develop a top-down analysis approach. Start by examining the broader market context, then drill down to identify high-probability trading setups on the 5-minute chart.

Prioritize selectivity over activity. It advised being very selective, especially during the middle part of the trading day and range.

Utilize specific price action trading techniques, such as identifying failures and understanding broader market structure.

By following these principles and leveraging the detailed insights provided in educational materials, traders can learn to effectively implement price action-based approach in the markets.


Market Context
Time Frames
Daily
Always in Channel: Reversals Are More Common Than Breakouts
Hourly
Stock: 5 Min Chart
Minute
Market Cycle
Volatility Conditions
Low Volatility
Monthly Emini
High Volatility
News and Events
Economic Releases
Price Action
The movement of a security's price plotted over time.
Investopedia
Geopolitical Developments
The Role of Geopolitical Events in Inventory Levels
01
02
03
04
Trade Management
Position Sizing
Risk-Reward Ratio
Position Scaling
Fixed Fractional Position Sizing
Stop Placement
Volatility-Based Stops
Bar 31 high
10% of bars like this
Structure-Based Stops
Profit Taking
Trailing Stops
Advantages of Using Price Action with Trailing Stops
Minimize losses
Increase profits
Improved risk management
Reduce emotional trading
01
02
03
04
Target Price Levels
Strategies for Setting Take Profit Levels
Use Fundamental Analysis
Use Trailing Stop Loss
Use Technical Analysis
Use Risk-Reward Ratio
1
2
3
4
Price Action Setups
Trend Resumption
Pullback to Moving Average
Measuring Gap: Reached MM Target
Retest of Prior Support/Resistance
Tight Bear Channel: Minor Reversal Lead to Major Reversal
Trend Reversal
Failed Breakout
Climactic Price Action
HH MTR: Often Leads to LH MTR

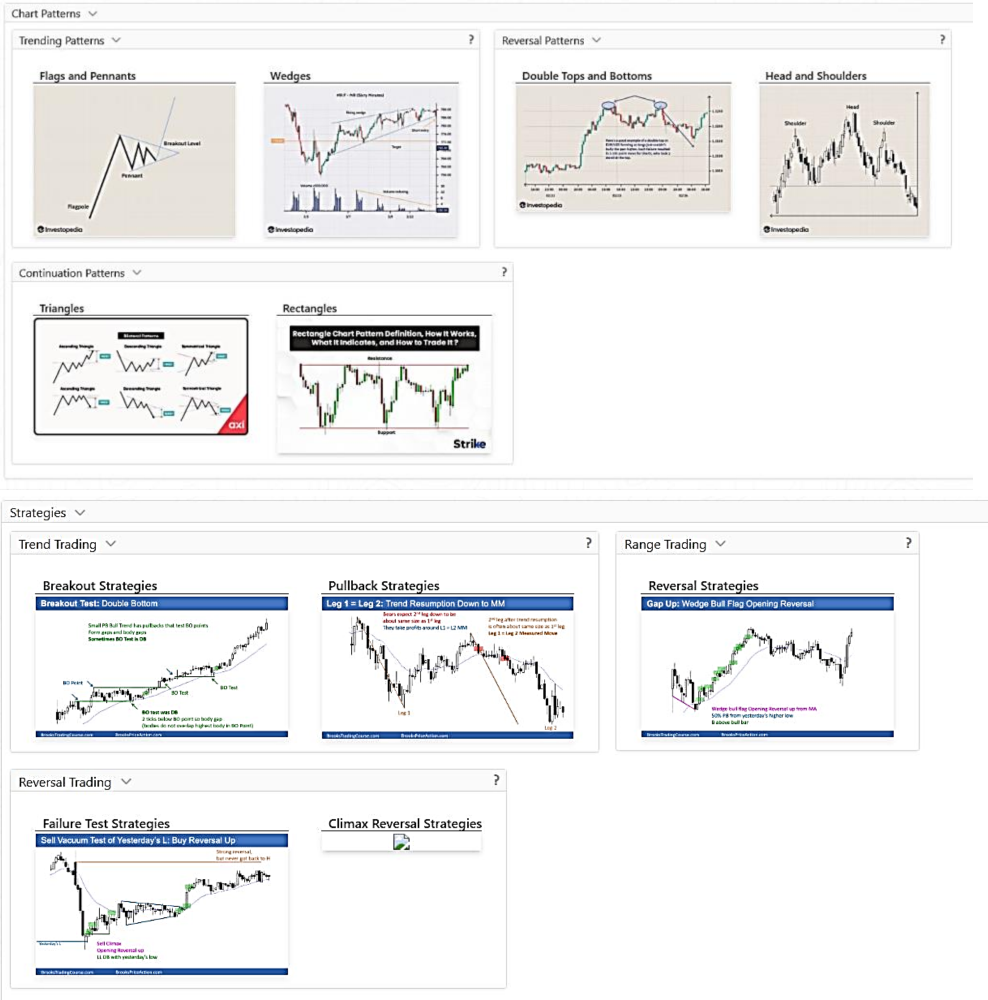
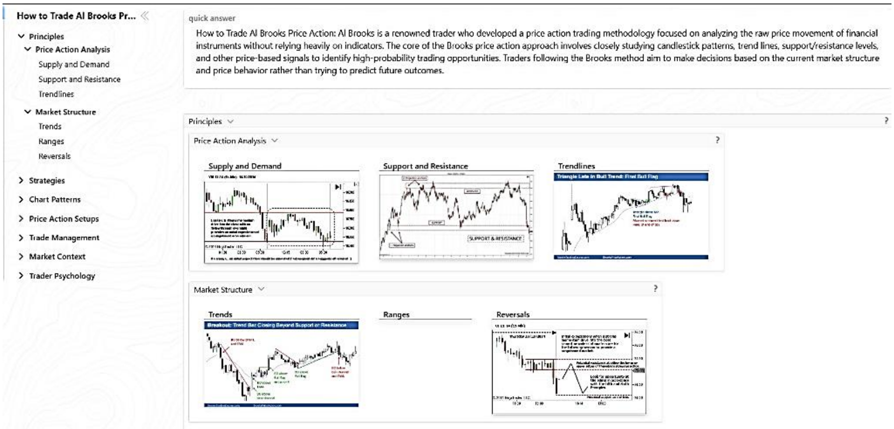
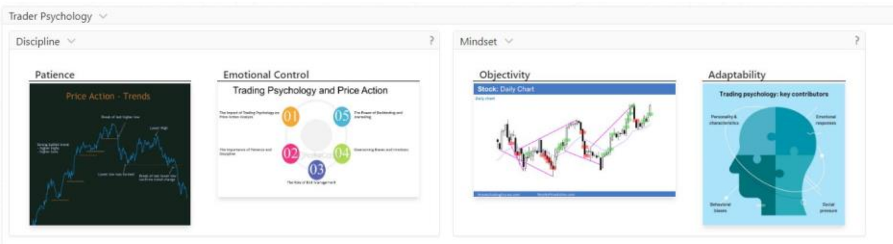


Chart Patterns
Trending Patterns
Flags and Pennants
Wedges
Reversal Patterns
Double Tops and Bottoms
Head and Shoulders
Continuation Patterns
Triangles
Rectangles
Rectangle Chart Pattern Definition, How It Works, What It Indicates, and How to Trade It ?
Strike
Strategies
Trend Trading
Breakout Strategies
Breakout Test: Double Bottom
Pullback Strategies
Leg 1 = Leg 2: Trend Resumption Down to MM
Range Trading
Reversal Strategies
Gap Up: Wedge Bull Flag Opening Reversal
Reversal Trading
Failure Test Strategies
Sell Vacuum Test of Yesterday's L: Buy Reversal Up
Climax Reversal Strategies


How to Trade Al Brooks Pr...
Principles
Price Action Analysis
Supply and Demand
Support and Resistance
Trendlines
Market Structure
Trends
Ranges
Reversals
Strategies
Chart Patterns
Price Action Setups
Trade Management
Market Context
Trader Psychology
quick answer
How to Trade Al Brooks Price Action: Al Brooks is a renowned trader who developed a price action trading methodology focused on analyzing the raw price movement of financial instruments without relying heavily on indicators. The core of the Brooks price action approach involves closely studying candlestick patterns, trend lines, support/resistance levels, and other price-based signals to identify high-probability trading opportunities. Traders following the Brooks method aim to make decisions based on the current market structure and price behavior rather than trying to predict future outcomes.
Principles
Price Action Analysis
Supply and Demand
Support and Resistance
SUPPORT & RESISTANCE
Trendlines
Triangle Late in Bull Trend: Final Bull Flag
Market Structure
Trends
Breakout: Trend Bar Closing Beyond Support or Resistance
Ranges
Reversals


Trader Psychology
Discipline
Patience
Price Action - Trends
Emotional Control
Trading Psychology and Price Action
Mindset
Objectivity
Stock: Daily Chart
Adaptability
Trading psychology: key contributors

Chapter II:
MARKET CYCLE

The market is in a never-ending cycle, alternating between being in a trend, in a trading range, and then a trend again. When it's in a trading range, it can break out in either direction.
The trend can be up or down. It does not matter what the direction of the trend was before entering the trading range. Every trend is composed of a breakout phase, which is an initial big trend bar or series of trend bars, and then a channel phase, when the market starts to have pullbacks, but still contained between a couple of lines.

Channels eventually get flatter and broader and become trading ranges. Trading ranges eventually break out, and if you look at any trading range, you can usually see the beginnings of both a bull trend and a bear trend. The market may have a lower high, and it may have a higher low. The lower high may be the start of a bear trend. The higher low may be the start of a bull trend, and at some point, the market breaks out and one side wins. Usually, you look for signs of buying or selling pressure within the trading range to get an idea of which side is more likely to win.

You can view a trading range as a transition between trends. So, you have a trend, the market pauses, hesitates, and then decides what to do, and then it becomes a trend. So, the trading range is a transition between trends, but a trend is a transition between trading ranges.
There's a trading range, and then the market decides the price is wrong and it has to quickly move to a new price level, a new value level. It might be up, and then a new trading range. It might be down, and then a new trading range.

The trend can be strong, like a breakout, a series of very large bull trend bars, for example, in a bull trend, or it can be weak and contained within a channel, overlapping bars and pullbacks.
Trading range can be as small as a single bar pullback, or it can be as large as the entire screen.

When a trading range is small and it forms within a trend, which is called a pullback. And when it's a pullback, it's part of the trend. It's a pause in the trend, and you believe that the trend will resume, that the breakout will be in the direction of the trend.

When a trading range lasts a long time, 20 bars, 30 bars, 40 bars, it loses its direction. The trend is too far in the past, and the effect that the trend has on the market is too remote, and at that point, the breakout can be in either direction. The trading range means that the trend has lost its influence over the market. The trading range can end up being a continuation pattern, leading to a resumption of the trend, or a reversal pattern. In fact, all reversal patterns are related to trading ranges. Head and shoulders, tops, for example, are trading ranges.

A pullback is simply a small trading range that is a pause in a trend, and you're assuming that the trend will resume, usually within a bar or two, sometimes 20 or more bars. And on a smaller time frame chart, a one bar trading range, for example, on a 60-minute chart, could be a 12-bar trading range on a 5-minute chart.

If the pullback grows so long that it loses its direction, you look at it and say, well, I don't know if it's going to break to the upside or the downside. At that point, instead of calling it a pullback, you call it a trading range.

And all pullbacks are trading ranges on smaller time frame charts. All trading ranges are pullbacks on higher time frame charts. If you have a trading range that is 36 bars long on a 5- minute chart, it could simply be a 3-bar pullback on a 60-minute chart.

The chart below is an example of what I'm talking about. The chart below is the weekly S&P chart and the green boxes are trading ranges.

Look at the first one. So, we have a trading range, we have a bull trend leading up to it, and then a trading range, and the market broke out in the direction of the trend, bull trend. So, we had a bull breakout. And then within that bull trend, we have another trading range.

However, this one broke out in the opposite direction. So sometimes the trading range will break out in the direction of the trend, other times it will break out in the opposite direction. On the left, we had a strong bear trend, and then a trading range, and then a breakout.

However, within 3 bars, the market reversed. The breakout failed. So, the trading range can break out in the direction of the trend, it can break out in the opposite direction, it can break out in one direction and then reverse and go in the other direction.

All trends begin with a spike. You can call this single bull trend bar the spike, or you can call this series of bull trend bars a spike. As soon as it begins to have a pullback, it's entering a channel phase, a more two-sided phase. So, we have a spike, and then a channel, and usually the channel begins with some kind of a pullback.

You can view trends as just transitions between trading ranges. Here's a trading range, then a trend, and then another trading range. And you can view trading ranges as transitions between trends. We have a trend, a pause, and then another trend. Channels usually become broader and flatter, and at some point, the pullbacks become so long that they lose their directional predictive ability. Then you look at it and you say, maybe we're forming a double top bear flag and we're going to break to the downside. We have a low, and we have a lower low. We have a lower high. Maybe this is the start of a bear trend. If the market did end up down here, you would look back and say the bear trend began here. So, in fact, this is part of a bear trend.

Here we have a higher low. If the market goes up, you'll look back and say the bull trend began over here. So, within this trading range, the market is in a trading range. It's also in a bear trend, beginning of a bear trend, and it's also in the beginning of a bull trend, and that's very common. Trading ranges usually have trends within them, and if you have both a bull and a bear trend, one will end and the other will succeed.

Here's another trend. We have a higher low, so we have a trend and then a trading range, and we have a higher low and a bull spike. If the market ended up here, you'd say the leg began over here. So, this is actually the first leg of a new bull trend, a spike, maybe we have a pullback, maybe we'll get a channel up, right? But spikes don't always succeed. In fact, most breakout attempts fail. Here we have a bull channel, and we tried to break to the downside, and it failed. Here we have a trading range, and we broke to the upside, and it failed.

Below is the same chart showing that within everything that you saw on the prior chart, there are nested patterns, there are smaller versions.

Within this channel, there's actually a spike and a smaller channel. Here's a spike. This trading range is also in a channel. On every time frame, the market is both in a trend and in a channel. You can look at any segment of the chart, and if you go to a higher time frame chart, it's something else.

So, here we have a bull trend, but for a while, we had the start of a bear trend. In fact, you could call this a small bear trend. And it's also a trading range, and within every trading range, there will be trends. Here's a small spike in channel. Every part of the chart is always either a trend or a trading range. Every bar is either a trend or a trading range. Here's a one bar trend. A doji bar, it's a small body. It's a one bar trading range.

So everything is either in a trend or a trading range on every time frame, every type of chart. It doesn't matter. You have to understand that this is what the market does, and if you know where you are in the market cycle, you can use trading techniques that are appropriate and give you a better chance of making a profit.

If you're in the spike phase of a trend, once you decide, yeah, this is going up, you have to get long. You cannot say, well, maybe I'll wait for a pullback, because sometimes the pullback does not come for a long time. Here's another example.

Yes, it's in a trading range, but we're starting to get a series of bull bars, and we broke out of this bear channel. Once you decide that, yeah, I think the market's always in long, you have to get long, because sometimes the pullback does not come for a long time. Once you decide that it's in a trading range, you have to decide, well, it's probably going to go up and down for a long time. I better buy low and sell high, and I better not hold my position for long, because it'll come back to my entry price. So if I buy here and hold, it comes back here. So, once you decide it's in a trading range, you've got to buy low and sell high.

You can sell high to take profits on your longs. You can also sell high to go short. And when it comes down again, again, buy low, sell high.

You buy back your shorts to take a profit, and you also might buy to go long. But if you hold, invariably, the market will come back to your entry price. If you bought here and held, it would come back to your entry price, and your profit would disappear.

If you sold here and held, it would come back to your entry price, and your profit would disappear. So, the best way to trade in a trading range is to scalp. Buy low and sell high.

The chart below is a 60-minute chart showing a spike phase, a strong bull trend, followed by a channel phase, a weak bull trend. Channels are usually followed by trading ranges. The channel evolves into a trading range.

So we have a bull channel, and then more sideways, and the entire screen becomes a trading range. Within the trading range, there's a bear spike, a gap, and a series of bear bars, followed by a channel down. And then there was a bull spike, a series of very strong bull trend bars, and then a broad bull channel.

In the chart below, within each part of the trend, there are smaller elements. There are nested patterns. So, within the channel, there's a bear spike going down, there's a bull spike going up, and a channel. A bull spike and a channel. There's a bear spike, and within the channel, there's another bear spike, and then a smaller channel.

Why is it important to know about the market cycle, and where we are in the market cycle?

Because each part of the cycle has different trading opportunities. If you know where you are in the market cycle, a breakout phase, a channel phase of a bull trend, the approaches that you use to trading are different from those that you would use in a trading range.

In general, try to turn everything into binary decisions. Give yourself just two choices. When you're trading, you want to think about as few things as possible. And one way to do that is to try to structure your analysis in a way so that every decision only has two possibilities. An example of a binary decision in a bull market is whether the bull trend is a trend within an actual bull trend, or is the rally simply a leg within a trading range. And that's important to distinguish, because you trade those two rallies differently.

In a bull trend, you're only looking to buy, and you should be swinging at least part of your trade. If it's a bull leg within a trading range, it's good to take the buy signals. However, if there are strong sell signals, especially if there are second entry shorts, you can take those as well. And within a trading range, in general, the focus should be on scalping instead of swinging.

In a strong bull trend, that's the breakout phase. It is also called a spike. You need to get long immediately. In general, if it's a bull trend, you should buy at least a small position at the market. When the spike is so big, your stop has to be far, far away. That's where your stop has to be. But the reward is so large that it's worth it to take at least a small position and use the wide stop.

When the trend weakens and it enters a channel phase, if it's a very tight channel, it is a breakout on a higher time frame chart. It's a spike on a higher time frame chart. And you should trade it exactly like a breakout. So, when a channel is very, very tight and very vertical, very small pullbacks, trade it just like a breakout, a strong bull trend, and only look to buy. If the channel starts to get broader and flatter, less vertical, with bigger swings up and down, you should always make sure to take the buy signals if it's a bull channel. But if the swings are very big and it's basically a trading range that's sloped only slightly up, you can trade in both directions. And in that case, the more it resembles a trading range, the more you should trade it like a trading range. BLSHS, buy low, sell high, and scalp.

If the market's going down, also binary decision. It's a bear trend or it's a bear leg within a trading range. And again, you trade them differently.

If it's a bear trend, only look to sell and try to swing at least part of the position. On the other hand, if it's a bear leg within a trading range, you definitely should take the sell signals. But if the buy signals are strong enough, especially if there are second entry buys, you can take them as well. And again, if it's a trading range, it's better to be scalping.

If the market is in a very strong bear trend, the breakout phase, the spike phase, you need to get short immediately. If you can't figure out how to get short within the next minute or two, sell at least a small position at the market and put your stop at the top of the bear spike. It's a very wide stop most of the time. When that's the case, just trade small. Then look to enter more as the trend progresses.

If the trend is a weak bear, in other words, if it's in a channel, it depends if the channel is tight or broad. If it's very tight with very small pullbacks and it's very vertical, then trade it exactly like the breakout phase, the strong bear trend, and only look to sell and try to swing. If it's a broad channel, you make sure to take the sell signals because it's still a bear trend. But if the swings are big, trade it like a trading range. Buy low, sell high, scalp, and take trades in both directions.

Chapter III:
Measured Moves & Other Types of Support and Resistance

Support is a price below the market where buyers might be stronger than sellers and resistance is a price above the market where sellers might be stronger than buyers.

Why should we bother finding support and resistance given that most of the time support or resistance will not stop a trend? It's because all reversals take place at support and resistance. So, if you know where support and resistance is and you watch the market's behavior when it gets there, you're in a position to take a trade. You'll either look for a breakout or a reversal.

Most of the time traders are buying at support and selling at resistance. And then the other time that they're taking trades is during breakouts, strong trends. For example, if the market's in a strong trend, it's racing towards some resistance level, traders will be buying the market in very tiny pullbacks and they'll expect that every minor resistance level along the way will fail. The market might pause at resistance levels as bulls take partial profits, but the market will usually continue up through all resistance levels. Ultimately, when it does reverse, it'll be at a resistance level. (1:48) But during a breakout phase of a bull trend, traders will be buying for any reason.

Similarly, with a bear breakout, traders will sell for any reason. (The market is racing downward to a support level. You can't be sure which support level will eventually stop the market. However, you should assume that most support levels will not. The market may pause as bears take partial profits, but the market will usually continue through all the support levels. When it finally does reverse, it'll be at a support level. But during a bear breakout, traders will be shorting for every conceivable reason.

Most of the time, the market is not in a breakout. Most of the time, it's either in a weak trend or a trading range. In either case, traders will be looking to buy at support and sell at resistance. If the market is in a strong bull trend, and it pulls back to test a breakout point, they'll buy. If it pulls back and tests a prior higher low, they'll buy. If it pulls back and tests the bottom of the bull channel or trendline, they'll buy.

If it's in a bear trend, let's say a broad bear trend, they'll sell rallies. Rallies to the moving average. Rallies to the bear trendline, the top of the channel. Rallies to test a breakout point above. If the market had a bear breakout below a bear flag or a trading range, they'll sell if it gets back up there again. If it rallies up and tests a prior lower high, they'll sell there.

Most of the time, that's what traders will do. And how do you know this? They tell you. Just turn on television. Watch on CNBC. Watch Fox Business News. When traders are talking about trades that they take, most of the time, they're simply buying at support and selling at resistance. If a stock comes out with an earnings report and the stock's in a bull trend and it has a big gap down, you won't hear the trader say, oh, I'm selling that. You'll hear some traders say, I'm selling that. Another trader saying, well, I don't know. It's down near the prior low. I'm going to buy. You will virtually never hear them talk about candlestick patterns. A dark cloud cover. A Harami pattern, a hanging man. That's not how they're trading.

Candle patterns are nice, but they're minor in importance. The big picture is support and resistance. This is really, really important to understand that and to use it as probably the cornerstone of your trading. You've got to be looking at support and resistance. It's far more important than candle patterns.

A setup is made of context and a signal bar. The signal bar is the little candlestick pattern at the end. The context is what all the bars to the left show, and that includes mostly support and resistance. And it's far more important than the candlestick pattern.

For example, in a strong bull trend, a candlestick pattern is meaningless. You're going to buy for any reason, even if there's a strong bear reversal bar. Experienced traders will buy below the strong bear reversal bar, expecting the bar to be just trapping inexperienced bears into shorts. And the short will quickly turn into a bull flag. And smart bulls will enter exactly where those bears will have their stops and where they'll exit with losses.

So big picture, support and resistance. And then 5% of the time when it's in a breakout mode, you enter for any reason in the direction of the breakout.

The advantage of placing trades at support and resistance is that the trader's equation is very strong. The reward can be much bigger than the risk, and the probability is usually between 40 and 60%, and that creates a very strong positive trader's equation.

What types of support and resistance are most useful?

1. **Trend lines**,
2. **prior highs and lows**,
3. **measured move projections**.

For example, if the market is in a bear trend, and you draw a trend line across the highs, you look for the market to test the trend line, and if you get a strong bear reversal bar, you have a strong setup for a short.

Your risk is small, the height of the signal bar, and your reward is large, probably at least twice as much as what you are risking.

Here are examples of other reversals. Again, a trend channel line, the market broke below it and immediately reversed up.

Below is a bull trend, and we have 3 pushes down. The market fell below the trend channel line and reversed up. So you have a wedge bull flag after a very strong breakout, so it's a high or low major trend reversal at a trend channel line.

Here we have a double top. You can call it a wedge, you can call it a triangle, and it's at the top of a trading range. The market poked out of the top and then reversed down.

A bull channel, now at the bottom of a trading range, so near a prior low, so you have a large double bottom, and the market poked below the trend channel line and is reversing up. So small risk, you enter 1 tick above the high of the bar, your stop is 1 tick below the low of the bar, and your target is somewhere around the top of the trading range, and that's several times bigger than the amount that you're risking, yet the probability is at least 40%. I say that because probability for most trades is 40 to 60%, and if you're not certain, assume that it's 40%. If you're very, very confident, assume that it's 60%.

Prior highs and lows are support and resistance. So, we have a high here. The market went a little bit above it and then reversed down in a strong bear reversal bar, creating a double top.

A prior low here, the market touched it but broke through. However, when we got down to another low, just a little bit lower, we got a big tail.

We tried to push down again and got a tail. We tried to push down again and we got a tail, and this time we have a strong bull reversal bar. So the market is reversing at support, just below this low and just above that low.

So that provides a good entry for a trade where the reward is bigger than the risk. Probability may be 50-50 in a situation like that.

Here's a more complete list of support and resistance:

- **Trend lines**
- **Prior highs and lows**
- **Measured move projections**
- **Moving averages on any time frame**
- **A bull entry bar low and a bear entry bar high**
- **A bull signal bar high and a bear signal bar low**
- **The high, low, open and close from today, yesterday, on the daily chart, the weekly chart, monthly chart.**

Less reliable support and resistance.

- Daily pivot points, I never look at them.
- Fibonacci retracement levels and projections, I never look at them.
- Any type of band, Bollinger band, Keltner band, I never pay attention to them either.

Below is an example of a strong bull trend, and the moving average is support.

I use a 20- bar exponential moving average. We have a strong bear bar trying to reverse the trend.

It hit the moving average, and we immediately got a bull inside bar. So that is a good high two pullback at the moving average in a strong bull trend. One push down, two pushes down.

It can be called an ABC pattern. You can call it a high two buy setup. In any case, it's a strong buy signal and a strong bull trend at a support level.

Prior bear signal lows, we have a sell signal, a bear signal bar below. We have a bear signal bar here, and a bull trend, and the bull trend keeps going up. Eventually, the market reverses.

This is a parabolic buy climax at the top of a spike in channel pattern, spike in channel. And then we have a lower high major trend reversal. Targets on the downside are failed sell signals below. So, the market tried to reverse here. The market will probably come back and test it. It did here.

It did again here. Here's another possible sell signal for a higher high at the top of a trading range. The market did, it trapped bears in and went up.

Bears will short here. They'll scale in higher. They'll add on here. And they'll hold until the market gets back down to their original signal. Once it's in the area of their original signal, they buy back all of their shorts. They take profits on the shorts from here. They take profits on the shorts from here, and they get out at break even here. So, the market is drawn down to this price level, and the bears are not going to buy back their shorts until it gets here.

And that's what happened here. We got back to the low of the earliest sell signal, and the market found buyers. Bears bought back their shorts to take profits, and you had some aggressive bull scalpers buying for a scalp.

A bear signal bar low. We have an IOI top to this spike in channel pattern, possible sell signal. We sold off, and then we got drawn back up to test the original entry price, the low of the signal bar.

So that is a magnet. It's a resistance level, and you can see the market created a two-bar reversal here. So it's a short one tick below the bear bar.

It's also a wedge bull flag, three pushes up, one, two, three. Or you could use maybe this high, one, two, three. And it's a good-looking sell signal for at least a test down to the bottom of the range.

And possibly a second leg down, and a leg one equals leg two bear trend. Most measured moves that I use are based on spikes. You can use the term breakout.

You can use the term trend bars. It doesn't matter. All the same thing.

Most measured moves are based upon breakouts and on trading ranges. In other words, strong trends and trading ranges. Measured moves are most useful for profit taking.

Remember, most support and resistance fail to stop a trend. However, it's a good area for taking profits if you're holding a position in the direction of the trend. If the context is good, you can look for a reversal trade at a support or resistance level, for example, one based upon a measured move.

Remember, the market's always alternating between a trend phase and a trading range phase. When a measured move is based upon a spike, a breakout, it usually leads to a trading range. When a measured move is based on a trading range, it usually leads to a breakout, a spike.

If there's a trading range, look for a measured move up or down after the market breaks out. And you base the measured move projection on the height of the trading range. And you look to take partial or full profits once breakout reaches the measured move projection.

Here's an example. We have a bear trend and we have a trading range.

And the market could break out up or down. Here, it started to break to the downside. If you went short anywhere in here, for example, at the top of this ABC, two legs up, one, two.

So, it's a large low two short and a bear trend. If you took that short, you're going to be taking profits at some point. One area where you might want to take profits is at a measured move down from the height of the range.

So here's the top of the range, the bottom of the range. Here's the measured move projection. And look what happened when the market got there.

We had a little reversal. And that tells you that a lot of traders took profits there. It doesn't matter if they shorted up here, if they shorted the failed breakout of this microchannel, or if they shorted here on this small wedge bear flag.

Three pushes up. One, two, and three. It doesn't matter where they shorted. They'll probably take partial profits based upon a measured move created from the trading range. And you can see they took partial profits. They didn't buy everything back. We got a little bounce, and then the bear resumed.

If the breakout keeps going after hitting a measured move target, then look for a measured move based upon the height of the spike, on the height of the breakout. And then you take more partial or even full profits at measured move projections.

Below is an example we have. The market just kept going. If the trend continues, you take more profits at projections based on the height of the spikes.

For example, we have a trend down, a leg 1, a trading range, and then trend resumption. So, traders will look for the market to possibly reverse once it reaches the length of the first leg. So, here's the first leg. Here's exactly the same number of ticks. And look what happened when the market cut down to the measured move based on a leg 1 equals a leg 2 projection. Again, you have a small reversal. Traders obviously took profits here.) Partial profits, full profits, different traders do different things. Also, you can make a measured move based upon the height of this breakout attempt.

Here's how high this original bear spike was. And you can project down from below its low, and it takes you to this price level.

And again, traders will use that as an area where they'll take profits on their shorts.

Here's another example of a leg 1 equals leg 2 move. There are actually two in this picture.

So leg 1 here is A to B. The market pulled back to C, a higher low major trend reversal. And when it reached a move up equal to the height of AB, in other words, when CD became the same size as AB, traders took profits. And this is what happened.

Now we have a larger pattern. We have a leg up from A to D. And when the market sold off to E, and then the trend resumed up again, traders will look for a measured move equal to the height of A to D. And that's what happened up here. You see profit takers on the leg 1 equals leg 2 measured move up.

What ultimately happened was we had a larger leg 1, leg 2 move. The larger leg 1 is A to D. It's subdivided into two smaller legs. And then the second leg up, E to F, also subdivided into two smaller moves.

The middle of a trading range often provides a way to create a measured move projection. Remember, a trading range is an area of agreement. The bulls agree that it's a good place for putting on longs. The bears agree that it's a good place to put on shorts. So it's probably the middle of something. It's probably the middle of the value for both the bulls and the bears. So, if it's the middle of something, it can lead to a projection, a measured move projection.

Here the market rallied sharply from 1 to 2, and then it entered a trading range. The trading range might be the middle of the move.

f you look at the middle of the trading range, you can use that to project up to where the move might go, and traders will then consider the move has gone too far. So you get low here, the middle of the move, and you project up here, and you can see what happened when the market got equally high above the middle of the trading range. It started to find sellers.

Some of the sellers were profit takers, and some of them were shorts. Obviously, there were a lot of shorts because the market came back down into the middle of the trading range.

So, a trading range is an area of agreement, so it might be the middle of a bigger move.

Here the market sold off and then went sideways. So you have to wonder, trading range, traders agree that this is probably a reasonable price. So it's probably the middle of value.

Both the bulls and the bears like this area. Both the bulls are buying and the bears are selling. That's why we're going sideways.

It might end up being the middle of the entire move. Traders can project down from the top of the move to the middle of the trading range, and then find where a measured move down would be, and bears will look to take profits in that area. Here on the upside, we have a pretty strong move up, and then two-sided trading.

So both the bulls and the bears think of this as value, so if it's an area of value, it's probably in the middle of the developing trend, and you can project up, and traders will use that as an area for taking profits. The height of the spike, in other words, the height of the breakout, often leads to a measured move projection.

Here we have a very strong bear breakout. You could say the breakout continued all the way down to here, or all the way down to here. It doesn't matter. But when you have two, or three, or even one, one, two, three, four consecutive very strong trend bars, traders will look at the open of the first bar to the close of the last bar, and project down, and that's an area where they'll look to take profits.

And that's what happened when the market reached the measured move projection. The bears took profits. Aggressive bulls started to scale into longs for a scalp up.

Here's a strong bull spike.

You can use the open of this bar to the close of this bar, the open of this bar to the close of that bar, the low of the spike to the top of the spike, the open of the spike to the top of the spike. No one knows in advance what traders will use for measured move projections, and I tend to look at all the possibilities.

And measured move projections based on spikes can go either direction, up or down. So here's a bull spike, and the market started to reverse. So, when the market started to form these two bear bars, you had to wonder that it might break out below the low of the spike, and then go down for a measured move, which is what it did.

There's something interesting about this measured move. I said use the open of the spike. This is also the open of the day. And this is a fairly common situation where you have an open of the day, and then the market goes up for about half of an average daily range. It then reverses through the low of the day, and it very often then finds support at exactly a measured move in the opposite direction.

So, we had the open. It traded up for about half of an average daily range, and then it started to reverse. When it's starting to do this, traders expect it to trade down for about the same number of ticks, and for the open of the day to end up as the exact middle of the day, creating a perfect doji bar on the daily charts. So, traders will look to take profits down here, and aggressive bulls will even buy, looking for the market to come back to the open of the day and possibly form a perfect doji bar on the daily chart.

Instead, on this particular day, we had a double bottom bull flag here for a high or low major trend reversal, and a reversal up toward the high of the day. On the daily chart, this will be a reversal day. Here's the open, then a tail on the bottom, and then a close on the high.

So the point, again, the open of the day sometimes is the middle of the day, and traders look for measured moves based upon the first move.

Here's a strong bear spike.

So, you always look at the open of the spike to the close of the bar, and you look for a measured move up or down.

Here, here's the measured move up, and look what happened. Okay, the market broke above the high of the bar and raced up and went a tick or so above the high of the bar and found sellers. Who's selling? Well, the traders who bought down here will look to take profits at measured move projections, and it turns out that today, they took profits at a measured move based upon the height of the bear body, the height of the bear spike, and you probably had other traders shorting as well.

Here, we have a bull spike. Here's the open of the spike. Here's the top of the spike.

I could have also used the open of the spike to the close of the final bar of the spike to generate a measured move projection. You can also generate a measured move projection based on the height of the trading range. Here's the bottom of the trading range. Here's the top of the trading range, and here's the measured move projection down, and traders will use measured move projections to take profits, and that's what happened here. When the market reached the two measured move projections, you had a lot of buying. Most of the buying was probably mostly bears taking profits, and the market went sideways a little bit, and then the bears came back, and they reached this point and reversed up a lower high major trend reversal, bear trend.

Here's the trend line. Here's the trend line break, even though it did not reach the moving average. There was a lot of sideways trading with a lot of bull bars, so that's enough buying pressure for traders to look for a reversal.

Once the market started to reverse up, traders will look for areas to take profits. One thing that they'll do is look for a measured move based upon the height of this trading range, and that's what happened up here. Bears might scalp shorts.

Bulls certainly will look for areas to take profits, and this is a logical place for them to take profits. It's also a test of the original breakout point in the sell-off back here. Here's the breakout point, and here's the breakout, and the market came back to test that area.

Micro gaps. Every trend bar is, for every trend bar, you always look at the bar before it and the bar after it, and if those two bars do not overlap, you have a micro gap. The trend bar is a micro gap, and it's a sign of pressure.

If it's a bull trend bar, it's buying pressure. If it's a bear trend bar, it's selling pressure, and it increases the chances that there'll be follow-through in the direction of that trend bar.

For example, we have a bear breakout and the bar before it, and you can look at the bar after it or even the bar over here.

We have a micro gap. The bulls were unable to push the market back above the breakout point, the low of the bar before the trend bar. That's a sign of selling pressure, and it increases the chances that there'll be further downside movement.

We have some highs here, and then we have a little breakout bar, and the pullback did not fall below the breakout point. So that's a sign of buying pressure, urgency on the part of the bulls. You'd expect higher prices.

We have a big bear breakout here. Here's the breakout point, and the market did not come anywhere near the breakout point on its pullback, so a sign of tremendous urgency, a lot of selling pressure, and the market probably will go lower. A gap here.

Here's the breakout point. Here's the bear breakout. The pullback did not go above the breakout point, so we have a micro gap in here, and it's a sign of strong selling, and you expect lower prices.

Here's a bull breakout. The close above the high of the prior bar. The next couple of bars tried to come back and test, but they could not fall below the breakout point, a sign of buying pressure, and it increases the chances that the market will go up.

If the gap fills, the chance of follow-through is less likely.

For example, here's a bear breakout. Here's the breakout point, but this rally went above the high of the breakout point, and that reduces the chances that the market will go down much further.

Each of these red lines is other examples of that. Here's a bull reversal bar. The market had a strong bull trend bar here.

It closed well above the highs of these bars, but the next bar, instead of staying above the highs of these bars, quickly reversed down below the highs of those bars. The micro gap immediately closed. This trend bar basically is an exhaustion gap on the part of the bulls. It's a one-bar bull trend.

Bull breakout. Close above the high of the prior bar. The next bar did not hold above the high of this bar. The micro gap closed, and the market fell. Bear breakout.

And here's the gap, the low of this bar, the high of this bar. We have a micro gap, but it closed, and it became an exhaustion gap, and the market went up instead of down.

Here we have a trading range and a gap up.

So, we have a large gap, and a lot of times the middle of a gap leads to a measured move. So here's the start of the move. Here's the middle of the gap.

And if you project up for the measured move, we eventually got there at bar number nine.

We have the markets trading down to this point, and then rallied, and then broke below 0.2 over here. So potential measuring gap.

And the high of this bar stayed below.


Measuring Gap: Euro Futures
@EC(D) - 5 min CME L=1.3225 0.0000 0.00% MAX 20 (20) 1.3224 aTime of O no text (.25,635)
1
2
3
4
5
6
7
8
9
10
11
12
13
BrooksTradingCourse.com
BrooksPriceAction.com


Measuring Gap: SPY
BrooksTradingCourse.com
BrooksPriceAction.com

Measuring Gap: Emini

Chapter IV:
TREND TYPES

The strongest types of trends, they provide the best opportunity for a big profit, however, they're often scary for beginners because a lot of times there are very big bars. Big bars mean fast market and not enough time to make decisions, and they also mean the stop is further away, so the risk is bigger.

Beginners are always wanting a smaller stop than what is required in a strong trend. They're waiting for a pullback, and the pullback doesn't come for one bar, two bars, five bars, ten bars, and the trend just keeps going on and on and on, and before beginners realize it that they've missed most of the trend and most of the profit because they were so determined to wait for a pullback where they could use a tighter stop.

Once there finally is a pullback, the setup is usually less clear. It's more uncertain, and the pullback begins to look like a reversal to a beginner, and the pullbacks are small and not convincing. It doesn't look like the trend will resume, but it does. The signal bars are often weak in a pullback in a strong trend, so the beginners choose not to take the pullback trade, so they miss the pullback entry as well, and they continue to wait as the trend continues onward.

Then the beginners finally decide they're ready to take the trade, and they're thinking, okay, I missed the breakout, I missed a lot of the channel, this is going on too far too fast, it can't go on forever, it's got to go the other direction pretty soon, it's got (to be way overdone, this has got to be a climax, so they bet on a regression to the mean that the trend has gone far enough. So why not try to pick reversals, since the risk is small. If you have a bull trend and a bear reversal bar, you short below, you put your stop above, and you're only risking the height of one bar. Sounds like a great way to trade.

What they forget, or what they don't realize, is that trends have inertia, and 80% of reversal attempts will fail. And they don't realize how low the probability is for their reversal trade, so they end up losing money on a huge trend day, a day when they should have made a lot of money, because they started taking reversal trades that have very little probability of success, reward probably no bigger than the risk, and therefore a terrible trade equation.

Trends offer a great opportunity to make profit, but you have to understand how they operate, and one good way to understand is to classify them into different types based upon how they) behave.

All trends begin with a spike. You can call it a trend bar, you can call it a series of trend bars, you can call it a breakout, you can call it a strong trend, I usually refer to it as a spike. Eventually the trend starts to have pullbacks, and it enters a channel. As time goes on the channel gets flatter and broader, and it evolves into a trading range. The momentum in the opposite direction increases, and you can start taking trades in both directions, and if the trading range goes on long enough, traders are uncertain whether the direction will be, of the breakout, will be up or down. And eventually you get that breakout, up or down, and then the market cycle begins all over again with a new spike, then a new channel, and then a new trading range.

All trends contain both a spike and a channel. The spike is the breakout, the two words mean exactly the same thing, and it also is to me the strong, it's also a strong trend.

A channel is a weaker phase of the trend, and there's some two-sided trading going on, there are some pullbacks. For example, if you have a bull trend, you'll occasionally have pullbacks, and during the pullbacks the bears will be in control, at least for a bar or two.

Most strong trends begin with big breakouts, like a gap on the open, and then one or two more big trend bars, or there can be a series of consecutive big trend bars. What constitutes a strong trend bar? A bar with a big body and small tails, so for example, a big bear trend bar closing on its low tick with no tail on the bottom.

Here's an example, spikes can be very, very big.

Here's a two-bar spike, but it's also a continuation of the gap up, so the actual spike is the gap plus these two bars.

Then we have another spike here, another spike here, another spike here. This channel, it's actually in a channel at this point because we're getting some overlaps and little pullbacks, but the channel is so strong that you know it has to be a spike on a higher time frame chart. This is a five-minute chart, and if you look at a 15-minute chart, you will not see a spike and channel.

You'll just see one spike composed of a series of bull trend bars. Within the channel, there are smaller spikes, and then other channels. Here two bull trend bars, both large, closing near their highs. That's a sign of a strong trend.

Look at this trading range, a quiet trading range for all of the day, and then at 9.30, there was a report, an FOMC report, and look at this bar. A huge bar rallying almost 1% in just a matter of minutes.

It's about 10 times bigger than the prior bars. That's a very significant bull trend bar. Even with the tail on top, it's still a huge bull body, so this is a huge bull breakout, and this is what followed, an unbelievably large trend.

The market went up several percent over the course of the next couple of hours, so a huge breakout can be followed by a huge trend.

A huge trend can begin with a small spike. If the context is right for a trend, you can have a single, unremarkable trend bar leading to the start of the trend, and it can be followed by a channel that can go on for 30 or more bars without much of a pullback, and the channel can accelerate as the trend goes on, and then have a strong breakout. Sometimes the channel can accelerate into a parabolic curve.

Here's a huge bull spike and a channel, and then we're trying to breakout again, so we're getting a bull breakout of a bull channel. Most of the time, that fails.

Here's the failed breakout bar, so we have the bull breakout, and then we have the bear bar, which is the failed breakout bar. At this point, it looks like we're probably going to form a pullback, and the trend will probably resume.

However, you have to pay attention. You got a bear bar here, and you have a bear bar here, trend bar, decent-sized bar, especially this one closing near its low. You always have to keep the thought in your mind that, you know, it's a bear spike. It's possible that this will lead to a bear trend, and that this was an exhaustive buy climax. Probably not. The odds are this is probably going to end up being a failed attempt by the bears and a bull flag and another buy, but you have to be open to the possibility that this little bear trend bar, or maybe this little bear trend bar, will be followed by a bear channel that will go on much longer than what you think is realistic.

And that's what actually happened here.

So, we had a bear spike here, another bear spike here, and a big, big channel, another bear spike, and then a wedge-shaped channel down here, another bear spike, and a wedge channel here.

You have a spike down here and a channel, a spike down here and a channel, spike down here and a channel, spike down here and a channel. It doesn't have to be textbook. You don't have to have a spike and then a perfect channel right away.

You can have several spikes; you can have channels that can be drawn different ways. I could have drawn this as a micro-channel, instead I drew it as a wedge channel. I could have started the channel with this bar instead of up here. I could have drawn it very tight, just over these bars as a micro-channel.

The point is, anytime you see a bear spike and the context is supportive of a possible bear trend, here an exhaustive buy climax, you have to be aware of that possibility and be ready to take shorts if a trend follows.

Here's another way to view that same chart.

You can refer to this as the spike and then this as the channel. It doesn't matter which bars you use to create the channel; it doesn't matter how you draw the channel; it doesn't matter which spikes you use for the spikes, you just simply have to understand that the market is in a bear trend. It's channeling down, no matter how you draw the channel.

There are nested patterns, patterns within patterns. There is a spike and a micro-channel, another spike, another spike, channel. You just don't want to lose sight of the big picture. The big picture is it's a bear trend.

Here's another example, a two-bar bear spike within a trading range and it could simply be a cell vacuum test of the bottom of the range. We had that over here, we had it over here, less so over here.

This could be simply another version of it, but anytime you see a bear spike, you always have to be thinking that it could be the start of a bear trend and it could be followed by a channel. And here it was, we have another bear spike and a tight channel. This channel became parabolic.

If you draw lines connecting the lows, the lines became increasingly steep. So, this is a parabolic cell climax. Usually this leads to a pretty sharp rally.

Let's say you have a channel that's extremely tight and you cannot tell if it's a spike or a channel. It doesn't matter. Assume that it's a breakout, a spike, and trade it like a breakout.

Even if it's a channel, you still trade it like a spike. If you can't tell whether it's a spike or a channel, assume it's a spike, trade it like a spike. And you can look at the module on trading strong trends. It talks about how to trade breakouts.

When a channel is very tight, it's still a weak trend compared to a breakout. Remember, a trend is either weak or strong. A strong trend is a breakout, a weak trend synonymous with a channel. But sometimes channels can be very vertical and very tight, very small pullbacks, and essentially a spike. And they usually are spikes on higher time frame charts.

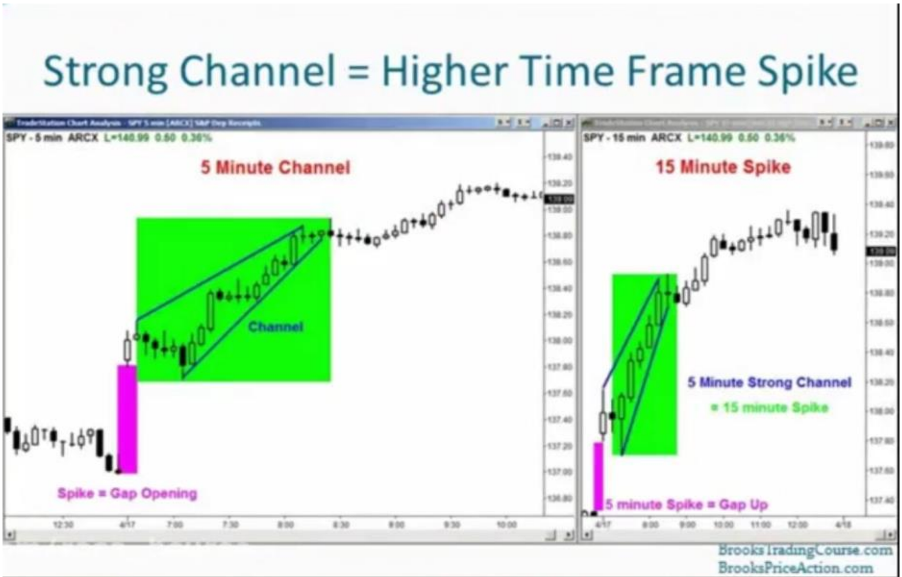
And when you have a channel that is so strong that it's almost as strong as a breakout, you trade it like a breakout. And you only take trades in the direction of the trend and you try to swing.

Here's an example of a gap and a spike.

So, here's a bull spike in green and then a channel. But the channel is very tight, very small pullbacks. You certainly would not be looking to short. You would treat this like a very strong trend, even though technically it's a channel and therefore weak, weak compared to a breakout. The slope is less than that of the breakout. But when it's this strong, it's going to be a spike on a higher time frame chart. And I would treat it like a spike and trade it like a spike.

Here's an example, a gap and a spike.

So, this is a spike is the gap opening plus this bull trend bar.



And then we had a channel. But the channel has very small pullbacks and the channel is very tight. This kind of a channel almost certainly is a spike on a higher time frame chart.

Here's the identical chart on the 15 minutes. This pink box is the gap. And then here is the five-minute channel.

Here's the five-minute channel over here. And this is what it looks like on the 15-minute chart, a very strong bull spike. When you see a five-minute channel that is very tight, trade it like a spike because you know that it's a spike on a higher time frame chart.

On the other hand, when a channel is very broad with big, big swings and it's not very vertical, it's almost flat, it's very much like a trading range that has a slight slope. Trade it like a trading range. Take trades in both directions. And like with all trading ranges, buy low, sell high, and scalp.

For trading broad channels, you can see the modules on trading weak channels. And you can also see the modules on trading within trading ranges.

Here's an example of a very strong bull spike, but it's followed by a channel that has pretty deep pullbacks. The channel is pretty flat and pretty broad. So, it's a broad bull channel or a pretty weak channel. You can take trades in both directions when a channel has swings that are this deep.

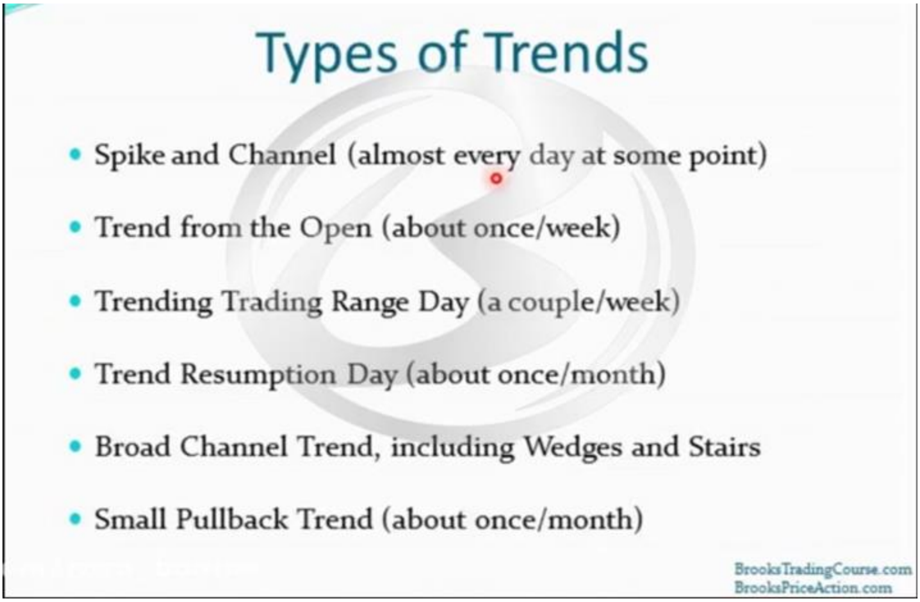
You should make sure that you buy the pullbacks. It's less important to sell the rallies.

Remember, we have a spike, a bull spike, so it's a bull trend. We have a bull channel, higher lows, higher highs. It's a bull trend, so you want to make sure to take the longs. You don't have to take the shorts, but if you're aggressive and good at scalping, you can.

If you have a bull channel, is it weak or strong? Is it very tight and very vertical, or does it have big swings, or is it something in between? It doesn't matter. Sometimes it's impossible to tell how weak or how strong it is. When in doubt, remember it's a bull channel, which means it's a bull trend. Only take the trades in the direction of the trend. So, in the example that I just showed, only look to buy.

So why classify the trends into different types? Because there are different types, and they don't behave the same way. And different trends offer different kinds of opportunities for trading. The one thing they have in common is once you decide that it's a trend, try to swing most of your position.

Here are the lists of types of trends as I categorize them:

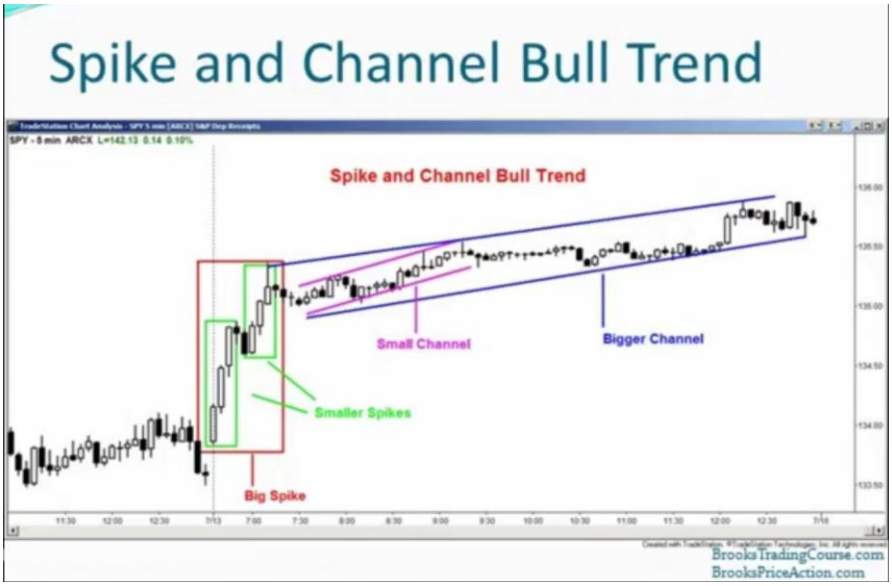


1. **Spike and channel**. Every trend that you see has a spike and channel component to it. So, you see spike and channel trends every day at some point.
2. **A trend from the open**, in other words, from the very first bar or very first few bars (16:35) of the day, the market trends for the rest of the day. (16:39) That happens about once a week.
3. **Trending trading range days**, where the market is in a trading range, and then it breaks out, and then it forms another trading range. Sometimes it breaks out again and forms a third or fourth. They're pretty common. Very clear ones occur a couple times a week.

4. **Trend resumption day**. (16:59) For example, if the market sold off and then went sideways for four hours and then sold (17:04) off again, that's trend resumption. You get those, I have it down here, once a month. (17:11) The textbook perfect ones are about once a month, but different versions of it are more (17:16) common than that.
5. Broad channel trends, including broad wedges and stair patterns. (17:24) In some form they occur maybe once a week.
6. A small pullback trend, where the trend is trending all day long and the pullbacks are tiny. The move is not going up very fast or going down in a bear trend, but the pullbacks are very, very small. This is the strongest type of trend, and you get it about once a month.

Every type of trend usually can be classified as another type as well, but usually one type of behavior is dominant. For example, every type of trend has at least one spike and channel in it, but if other characteristics are more prominent, I would classify it as another type and trade it like the other type.

Here's a spike and channel bull. The red box is the spike, and the spike subdivided into a couple of smaller spikes. And then we had a channel, and there was a small channel in here and a bigger channel.



Big picture, the red box, spike, blue channel, and the blue channel, with other patterns within. But this is a typical spike and channel day. A strong bull spike and then a channel for the rest of the day.

Trends tend to trap traders. Once you think a bull trend is likely, don't get trapped into shorts, don't keep looking to pick tops, and don't get trapped out of longs. Every time you see a little reversal, don't assume it will succeed. And exit your longs. Once you think there's a bear trend, don't get trapped into longs. Don't be bottom picking.

And don't get trapped out of shorts. Every little reversal looks like it's going to be the end of the trend. Don't get out of your swing shorts. Because those reversals, 80% of them, will simply go for a few bars and become a bear flag.

Again, here's that spike and channel trend. Once you decide it's probably a bull trend, don't get trapped out of longs every time you see the market trying to correct.

Assume that every one of those corrections will fail, and that the market will resume up. And not only don't get trapped out of longs, don't get trapped into shorts. Don't be thinking, ah, this looks like a great top, I'm going to short this.

It's still a bull trend until it's clearly not. And to me, there's no evidence anywhere in this channel that the trend is ending. So don't short.

All channels evolve into trading ranges. The channel usually eventually reverses, and the market then comes back to test the beginning of the channel. And at that point, you're no longer in a trend, and no longer in a channel, you are now in a trading range.

For example, this is the monthly E-mini futures contract. We have a strong spike up, and then a channel. Anytime you see a channel, a bull channel, you assume it's a bear flag, and that it will be followed by a trading range.

At some point, you'll look at this and say, oh, it's part of a trading range. And the market usually comes back to test the beginning of the channel. It can bounce there, and the trend can resume. We can go sideways into a trading range, or the market can reverse.

And that's what happened here.

Here's the SPDR, the same chart, SPDR is the ETF, spike and channel. We came down, and we fell strongly through the bottom of the channel. We have a bull channel evolving into a trading range, and in fact, instead of just a trading range, it turned into a bear trend.

Here are a collection of spike and channels. Every blue box is a spike, followed by a channel. So, we have a bull spike and a channel. A channel evolves into a trading range.

And look at the chart. After this bull spike, the market has been in a trading range. So if you only looked at this point, you'd say, wow, it's a bull trend. We have a spike and a bull channel. Yes, but you have to assume that this bull channel will eventually become part of a trading range. At this point, if you don't see the bars to the right, all you see is a bull trend, a spike and channel up. But that channel probably is also the start of a trading range.

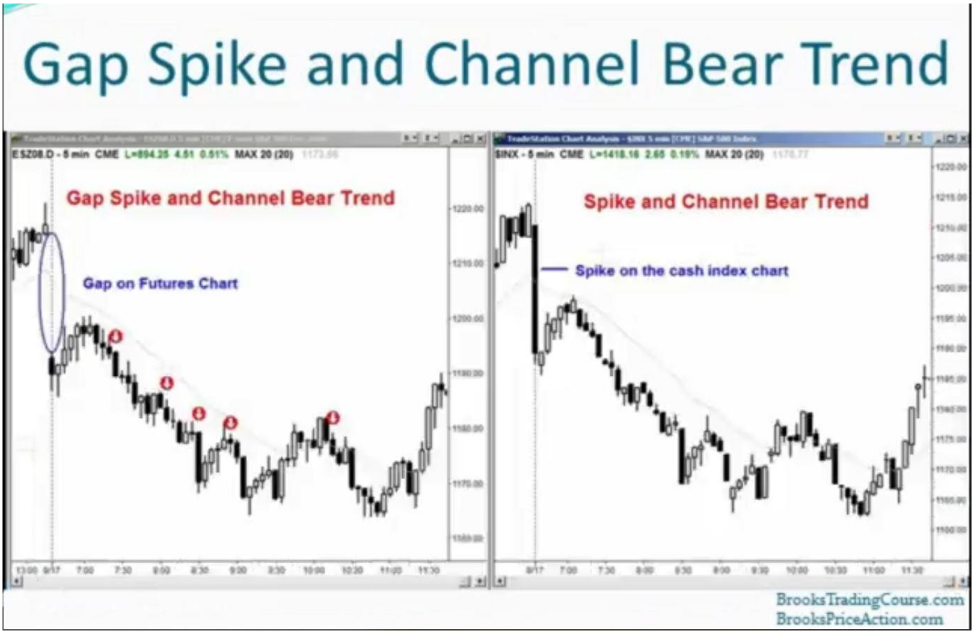
Once you have the entire chart, you can see that this is part of a trading range. If you ask to draw the trading range on this chart, it's all the way back here to bar four, right? And it includes that channel. So even though this channel was part of a bull trend, it ended up as part of a trading range.

Market came down, tested over here, tested the bottom of the channel. We have a spike down, wedge channel down, and the market rallied and tested the top of the channel. Here we have a channel up where the lines are parallel instead of wedge shaped as they were on the two prior channels.

Within every pattern, there are smaller patterns that are nested patterns. So within this wedge-shaped channel, there are spikes down and channels down. There are smaller spikes up and channels up.

And this is very common to see smaller patterns nested, nested inside of larger patterns. If you go to higher timeframe charts, whatever you're seeing on the chart in front of you is nested inside some even larger pattern.

This is a particular type of spike and channel.



If you look at the cash index, you can see the spike down and then a channel on the S&P futures. You don't have a trend bar here.

You have a gap. Remember, every trend bar is a gap. Every gap is a trend bar. So, this gap is effectively a trend bar and a spike. So this is a gap spike and channel type of trend. It's just a different version of a spike and channel trend.

A trend from the open

This is often a strong type of trend. Within the first few bars of the day, sometimes on the very first bar of the day, the market forms either the high or low of the opening trend.

The market often forms a trend in the first hour or two. And sometimes the high or low of that trend can begin with the very first bar.

Sometimes it remains the extreme of the day for the entire day. And it's a sign of urgency. For example, if the first bar is a strong bull trend bar and the market keeps trending up all day, that's a sign of urgency and usually a sign of a very strong bull trend.

Sometimes it can become a trading range, but most of the time when you have a trend from the open, it's a reasonably strong trend.

Here's an example.

Yesterday, there was a very strong bull close and we gapped up, but the first bar of today was a big bear reversal bar closing on its low. It's a good swing short for sure.

And it turns out that it was the high of the day. First bar of the day often tells what the day will be. Here we have a very big bear trend bar and it was followed by a very big trend day.

This is also, it's a trend from the open, right? The first bar of the day was the high of the day, so it's a trend from the open bear, but it's also an example of a trend resumption bear. We trended down for the first couple of hours. We went sideways for a few hours and then we had a second trend down. So, a leg one equals leg two move. Here's leg one and then sideways and leg two fell for about the same number of points as occurred during leg one. And within this channel, there's also a spike in channel.

All days have spike in channels, all trend days. In fact, all days have spike in channels occurring at some point during the day.

Here's an example of a trend from the open bull.

The trend began on the third bar of the day. The third bar of the day was the low of the day, but then we had a very strong trend up from there. A bull spike up through here, another spike here, and then a channel. Several different things that you can call spikes that led to the different channels.

Another example of a trend from the open bear:

Not a good signal bar for the bears. You're within a trading range and you have a bar with a small body and big tails, so the day might be a trading range day.

However, it trended down from the very first bar. Traders would probably start shorting somewhere in here. A low two short after trading down for seven or eight bars and then a double top.

Another short wedge bull flag. Three pushes up. One, two, three. Second entry moving average gap bar. The low of this bar is above the moving average. So, it's a gap bar in a bear trend. Usually, a short. Three bars up. Okay to wait for a second entry.

Here's a second entry short. Here, a bull spike and three pushes. So, this could be effectively a three-push pattern or a wedge pattern.

Also a good short. Here, a low two short. The market went up and then down and then another bull body up at the moving average.

It's a short below the low. A bear micro channel after a very strong bear spike. The reversal up will probably fail. So, it's okay to short this as a low one short.

A trend from the open can be one of the very strongest type of trend days. This is also a trend resumption day. There was a bear trend, a trading range, and then a resumption of the bear trend.

Low of the day on the very first bar. So a trend from the open bull. Very strong spike. Pretty weak channel. Lots of overlap. Small bodies. A lot of tails. And the day ended up as a trading range.

So even though it's a trend from the open bull. And the close of the day was above the open of the day. So the daily chart had a bull bar, a bull body.

It was basically a trading range day. You get rid of these two bull bars and all the rest of the day was just sideways.

These **10 Best Price Action Trading Patterns** are my favorites, and successful traders use these patterns every day to make money. Be flexible because each has many variations. If you keep your mind open to all possibilities, you will begin to see them every day, in every market, and on every time frame.
Which is the best price action trading pattern for swing trading or for scalping? Which is the best for Forex markets? What about for day traders or commodity trading? It does not matter because any pattern can be the best, depending on the chart in front of you.
Also, several might be present at the same time. For example, there can be a failed breakout above a bull channel at a measured move projection, and the breakout might have been out of a triangle. Some traders would call it a final flag reversal, others might see a major trend reversal, and some would concentrate on the failed channel breakout.
The key is to understand what forces are behind the price action patterns and be ready to trade them as you see them unfold.

Major trend reversals

A bull trend is a series of higher lows and highs, and a bear trend is a series of lower highs and lows. Trading a major trend reversal pattern is an attempt to enter at the start of a new trend, hoping that a series of trending highs and lows will follow.

Since traders are entering before the new trend is clear, the probability of even the best-looking setup is usually only 40%. These traders are looking for low risk (a tight stop), but that almost always comes with low probability. The math is good for both these early entry traders and for those who wait for the strong breakout into a clear trend. The components of a major trend reversal include a Trend Pullback that breaks out of channel Resumption of the trend 2nd pullback that grows into opposite trend

First breakout above a tight bear channel is typically minor. The 2nd reversal has a 40% chance of being major, like here. Buy above a bull bar closing near its high (green rectangle).

A reversal down from a breakout above a bull flag (here, a triangle) is often a higher high major trend reversal. Sell below a bear bar closing near its low. A lower high major trend reversal frequently follows a higher high reversal. There were many opportunities to sell (red rectangle) below a bear bar in the bear trend. Traders do not take every sell signal. However, they need to understand that the bears have taken control, and they should try to take at least one sell signal.

There was a very strong reversal up in the middle of the chart, but the bears got one more new low. Sometimes a new low can simply be a deep pullback from a strong rally, like *here. Every Expanding Triangle Bottom is also a lower low major trend reversal. There were many opportunities to buy above a bull bar closing near its high.*

Final flags

The components of a final flag areT ren dPullback that is usually mostly horizontal. It can be as brief as a single bar Trend is typically close to a magnet (resistance in a bull, support in a bear)

There are likely other signs of a possible reversal (in a bull, examples include building selling pressure near the top of a channel)

A final flag is a trend reversal pattern that begins as a continuation pattern. Traders expect the continuation to fail and are ready to take a trade in the opposite direction.

Like all trend reversals, the probability of a swing is usually only about 40%. My general goal is 10 bars 2 legs, which means a swing that has at least Ten Bars and Two Legs (TBTL). A swing also means a reward that is at least twice as large as the risk (my minimum criterion for a successful swing).

Sixty percent of the trades result in small wins and losses that usually balance each other out. Traders who want a higher probability usually will wait for the reversal to have a strong breakout in the new direction. At that point, the probability of a swing trade is often 60% or more, but the stop is far away.

That increase in risk is the trade-off. There always has to be something in the trade for the institution taking the other side of your trade. If you get great probability, you pay for it with bad risk/reward (reduced reward relative to risk).

A tight trading range late in a bear trend is often the Final Bear Flag. Traders will look for the breakout below to reverse up.

A triangle is a tight trading range. When it forms late in a bull trend, it usually is the Final Bull Flag.

Breakouts

Breakout of what? Of any support or resistance. It does not matter. Every trend bar is a breakout of something, if only the high or low of the prior bar. With experience, traders begin to see what is truly being broken out.

The most common things are trading ranges, pullbacks, prior highs and lows, trend lines, channels, and moving averages. Sometimes traders need to switch to a higher time frame to see the breakout.

Among the 10 best price action trading patterns, breakouts are my favorite because I like high probability trades.

A breakout is simply a trend bar up or down. A breakout always closes beyond at least minor support or resistance.

The bigger the bar and the more important the support or resistance, the more likely the trend will continue at least a little longer.

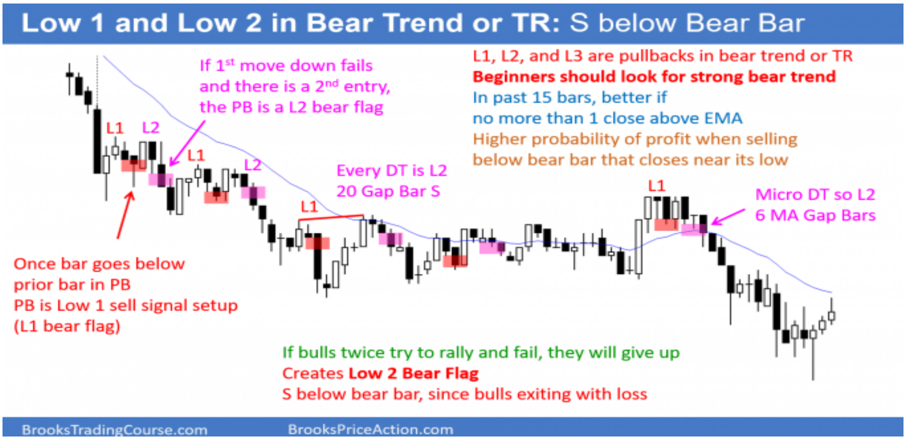
High 2 bull flags and Low 2 bear flags

Many traders find bar counting confusing because they want it to be perfect and clear. What they don't understand is that the purpose of the market is to create confusion. It wants to spend as much time as possible at prices where both the bulls and bears feel that the price is fair. This facilitates trading, which is the reason why the market was created.

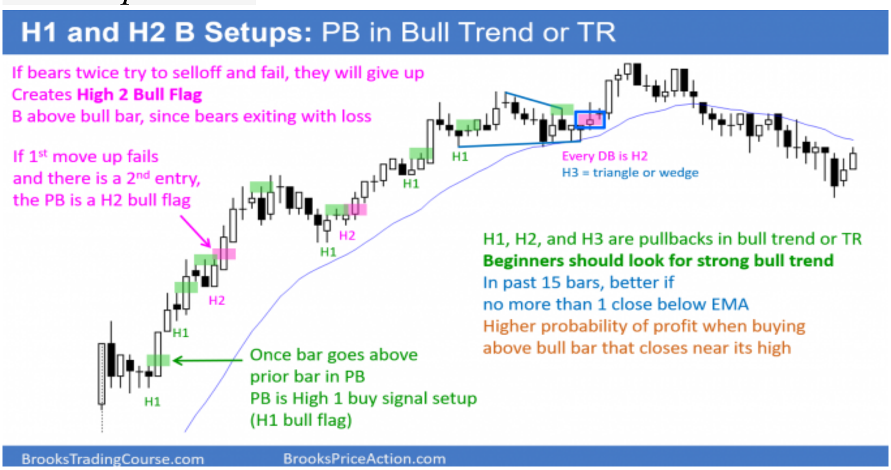
The basic idea of these flags is that the market often makes a couple attempts to reverse a trend, which creates two legs. If those two reversals attempts fail, the market usually tries to go in the other direction. Since the other direction is a trend and it is now resuming, the countertrend traders know they are in trouble and will be quick to exit once that second attempt fails.

They will also not be eager to try again. The result is a high probability continuation pattern trade that usually moves quickly. Traders often scalp these setups, but when the trend is still strong, they can swing part or all of their position.

The patterns are often nested, with a smaller version forming in each of the two bigger legs. It does not matter whether a trader enters on the smaller version or the larger, as long as they use the correct swing stop.



In a bear trend or a bear leg in a trading range, a one-legged pullback (small rally) is a Low 1 sell setup. If it triggers, but there is then one more leg in the pullback, it creates aLow 2 bear flag. A Low 3 is either a triangle or a wedge (a triangle that is diagonal). A double top is a Low 2 bear flag. Sometime the legs have many ba rs and subdivide into smaller patterns.



In a bull trend or a bull leg in a trading range pullback, the 1st time the high of a bar is at or above the high of the prior bar, the pullback is a High 1 bull flag. If it triggers, but there is then one more leg down, that creates a High 2 bull flag. A *triangle is a sideways High 3 bull flag, and a wedge bull flag is a triangle that is sloped down. Every small double bottom is a High 2 bull flag.*

Wedges: three pushes up or down

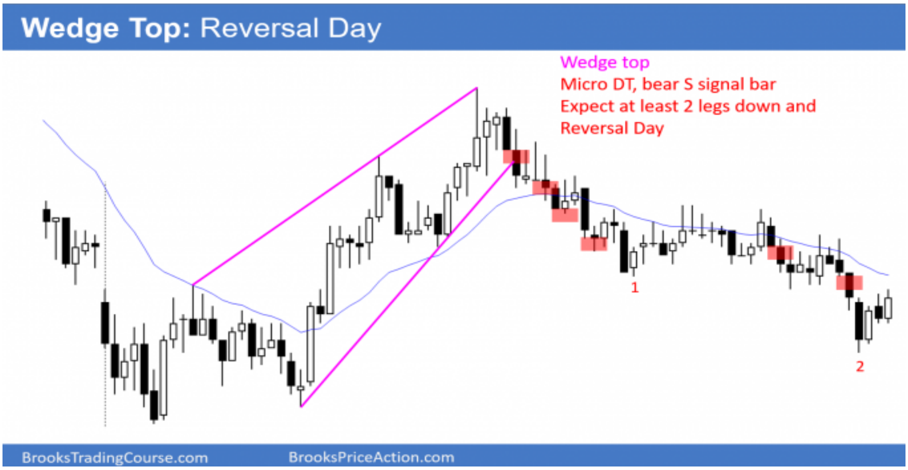
The traditional definition of a wedge is a converging triangle that slopes up or down, and traders expect the breakout to be in the opposite direction of the slope. They look for an upside breakout of a wedge that is sloped down, and for a downside breakout of a wedge that is sloped up.

Wedges are continuation patterns when they are pullbacks within trends, and they are reversal patterns when they are large and the context is right. When they are flags, they are small reversal patterns. For example, when there is a wedge pullback in a bull trend, the wedge is a small bear leg. Traders expect that bear leg to fail and to reverse up.

In the broadest sense, a wedge is any pattern with three (sometimes four or five) pushes that is sloped up or down. It does not have to be convergent and the third push does not have to exceed the second.

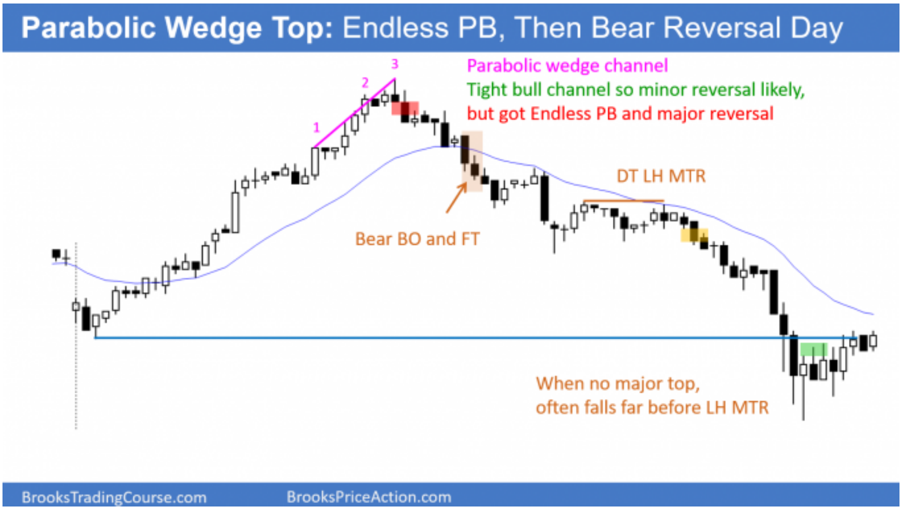
As soon as there are two pushes, traders can draw a line connecting them and then they can extend the line to the right (a trend channel line). They will then watch for a reversal if the market approaches the line for a third time.

The closer any pattern is to ideal, the more reliable it is because more computers will treat it as significant. However, traders should never lose sight of the underlying forces and should learn to become comfortable with every conceivable variation of every pattern. This will give them far more trading opportunities.



A wedge top is a bull channel that is converging. Most wedge tops have 3 legs up, but some have a 4th and rarely a 5th. Traders sell below a bear bar closing near its low and expect at least 2 legs down. The legs often subdivide into smaller legs. Any bull channel should be viewed as a bear flag since there is a 75% chance of a break below the bull trend line.

Wedges are rarely perfect, and most do not look like a textbook wedge. If a bear channel has 3 legs down, even if *the channel does not have a wedge shape, view it as a wedge. The same forces are at work. The market is trying to go down repeatedly, but keeps reversing up.At some point, traders decide it needs to try the other direction (up).*

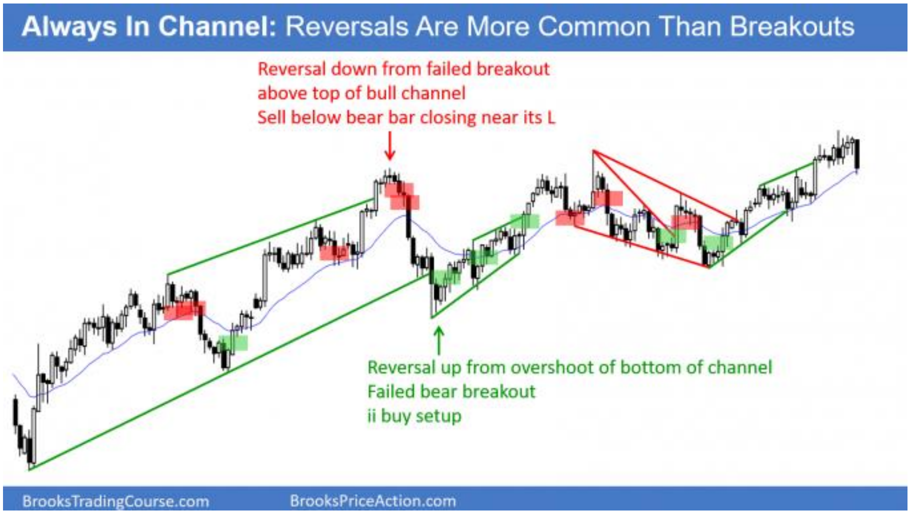


If there are 3 surges in a tight bull channel, the channel is a parabolic wedge. This is a buy climax and it can lead to a trading range, or even a bear trend reversal, like here.

Channels

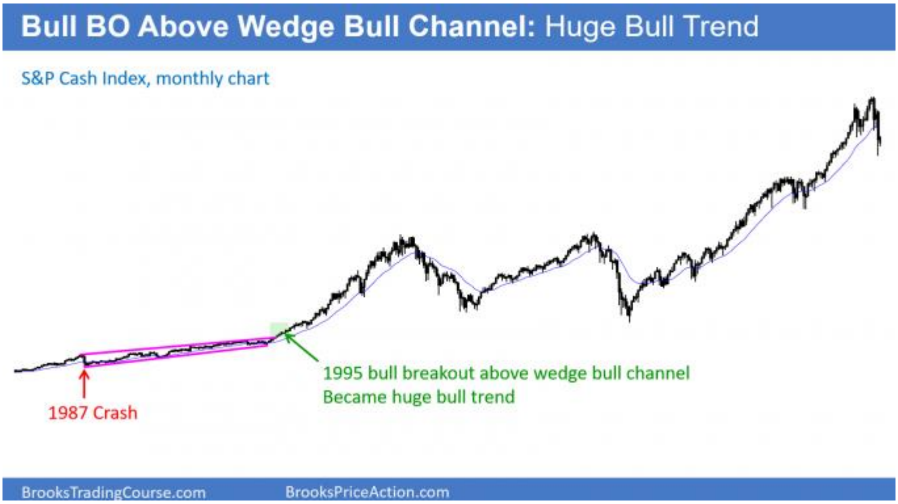
The market is always in channels. Sometimes traders have to look at a higher time frame chart to see them. Most are not what textbooks and websites describe as channels.

However, traders know what channels really look like and they are very flexible when they choose points to draw lines. Once they see two points, they draw a line and watch to see if the market reverses if it get back to the line. They are constantly erasing lines that the market is ignoring and are always drawing new ones.



Every market is always in a channel. Sometimes it is clearer on a smaller or higher time frame chart. Traders look to enter on reversals since reversalsare more common that breakouts.

A micro channel is a series of bars without a pullback. It is a strong trend, but once it reaches about 10 bars, it is unsustainable. It therefore is also a climax. A climax typically evolves into a trading range.



The S&P cash index was in a wedge bull channel from the 1987 crash to late 1994.It is difficult to see because the rally that followed a breakout above the bull channel has been huge. There is only a 25% chance of a successful breakout above a bull channel.

Measured moves

The market often tries to do something twice. The result is that most tops are variations of double tops, most bottoms are variations of double bottoms, and trends often have at least a second leg with the size of the second leg related to that of the first leg.

Everyone is familiar with a Leg 1 = Leg 2 measured move. This i, where the market has a second leg that is almost identical to the length of the first.

Also, traders look for a measured move after a breakout from a trading range. They expect the move to be about the same size as the trading range is tall. The are many other types of measured moves that the computers use to either take profits or to enter reversal trades, and several are based on intraday gaps, or the height of breakouts.

When there is a pullback from a trend, the trend typically resumes. The 2nd leg is frequently very close in size to the 1st leg. This is a Leg 1 = Leg 2 Measured Move. Traders look to sell a reversal down for a test of the Measured Move target.

When there is a breakout, the trend often continues for a measured move based on the height of the earlier range. Traders buy the bull trend and any pullback. They especially like a pullback that tests the breakout point, but then reverses back up.

Trading range reversals

Even before a trading range is obvious, the market usually has signs of two-sided trading that alert traders to a possible trading range day. When that is the case, the market often races to the top with enough momentum to make traders erroneously believe that they can buy a small pullback and reasonably expect a second leg up. Similarly, they see a big bear trend bar at the bottom and then begin to sell bounces because they do not understand what is actually happening.

The market regularly gets vacuumed to the top, where bulls take profits instead of buying more, and the bears appear out of nowhere. Both the bulls and bears expect the test of resistance to lead to a failed breakout.

The opposite is true at the bottom. When the market gets near support, bear scalpers sell even more, expecting the market to fall just a little more. Bulls stop buying because they are confident that the market will reach the support and probably poke through it. Why buy now when they can buy lower in a few minutes?

The result is that the market creates strong bear bars at the bottom as it is vacuumed down to support. Instead of follow-through selling, buyers come. The bears buy to take profits and the bulls buy to initiate longs.

The legs up and down in a trading range are often strong. When they are, traders have a higher probability of making money if they wait for a 2nd signal.

When traders start out, they often do not realize that the market is forming a trading range until the day is over. The bars often give early signs, as they did here. There were many bars with prominent tails, lots of pullbacks, yesterday ended in a tight trading range (markets have inertia and tend to continue what they have been doing), and few areas of 2 or 3 consecutive big trend bars. This means that the bulls and bears were disappointed by the follow-through.

Beginners feel confused and disappointed by the repeated reversals, not realizing that these feelings are the hallmarks of trading ranges. When experienced traders detect those feelings, they look at them as opportunities. They bet that every breakout will reverse and they look to buy low, sell high, and scalp.

Even when the market trended down at midday, they expected the breakout to the new low of the day to fail. This is because that's what usually happens on trading range days. They bought the reversal up, betting that the rally would get back above the breakout point (the low of the first hour) and back into the trading range.

Opening reversals

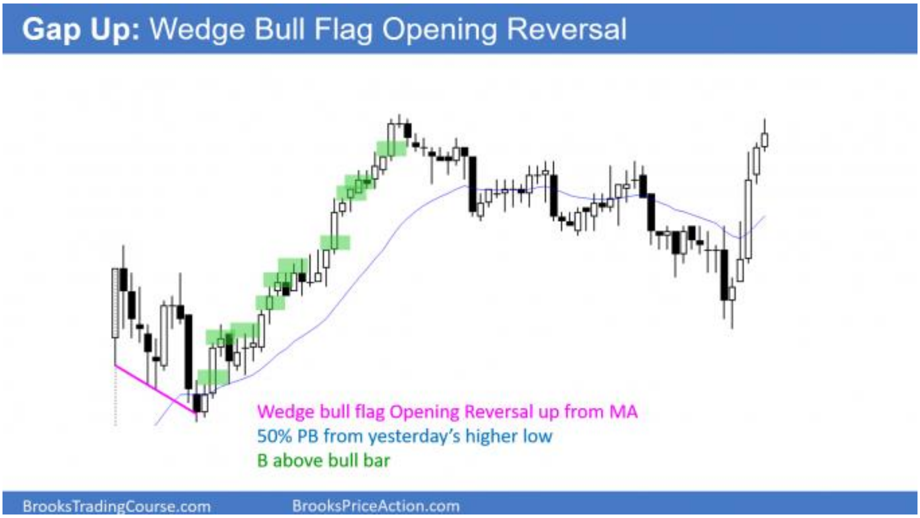
The components of an opening reversal pattern are:

Usually fast move to a magnet (support or resistance)

Reversal in 1st 60 – 90 minutes that leads to a swing for the next few hours or the entire day

Most strong bull trend bars on the daily chart have at least a small tail on the bottom, which is usually caused by an opening reversal (a selloff on the open that reverses up, and it is therefore a reversal pattern). Similarly, most bear trend bars on the daily chart usually have a tail on top caused by an opening reversal down.

There was a huge selloff on the open. It was a sell vacuum test of yesterday's low, which is always a good candidate for support. The market rallied for the rest of the day.



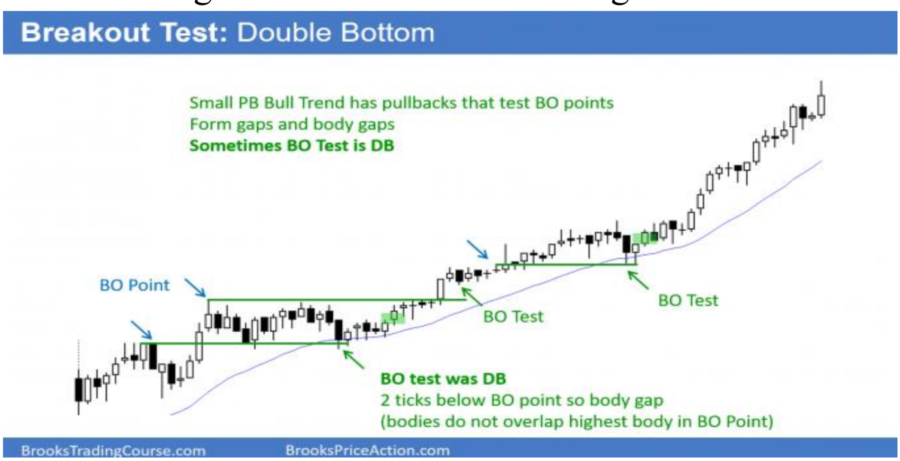
After a gap up, the market pulled back to the 20 bar EMA. The reversal up was the 3rd rally attempt and therefore this Opening Reversal was a wedge bull flag test of the EMA.

Whenever there is a gap down, traders will watch for a double top bear flag around the EMA. They will sell the *reversal down, hoping for an early high of the day and a bear trend.*

Magnets (support and resistance)

The final pattern in my 10 best price action trading patterns is more of a concept than a setup. The market is always testing as it tries to establish a price range. It usually cannot tell if it has gone far enough up or down until it goes too far. Support is any price below the market where buyers might come in, as either bulls buy to create new longs or bears buy to take profits. Resistance is any price above the market where bulls might take profits on longs and bears might short.

Common magnets include the tops and bottoms of trading ranges, prior highs and lows, trend lines, channels, measured move projections, and moving averages. Computers control the market, and all support and resistance is based on things that computer programs can calculate. The result is that the market often accelerates near the target once a substantial number of algorithms believe that the target will be reached.



When a market breaks above a prior high, it often pulls back to test that breakout point.Bulls will buy a reversal up.

A trading range day often oscillates around the open all day. If the market is near the high or low of the day in the final 2 hours, look for a reversal toward the open. Most trading range days end the day around the open.

Beginner gets upset by strong rally suddenly becoming endless bear trend.

Experienced trader knows where resistance is and looks for a reversal down. Any strong rally to resistance can simply be a buy vacuum test of the resistance.

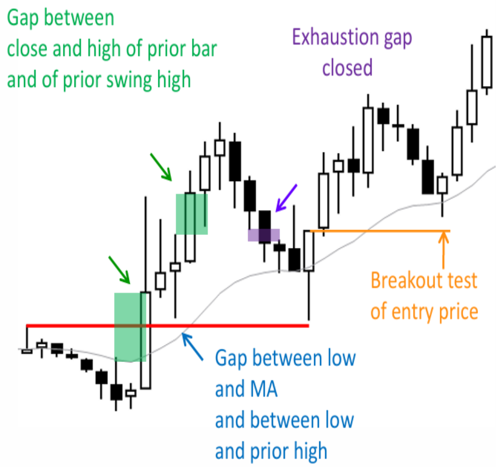
Limit Order Bulls and Bears Bet on PB: Can They Make Money?

Enter with Limit Orders

What Is a Gap?

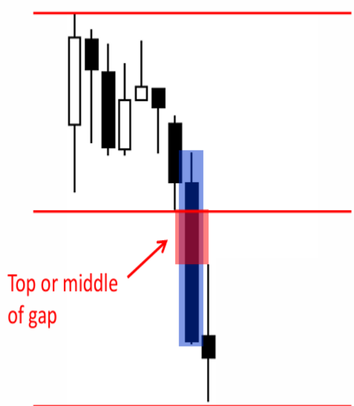
Any space between any support and resistance

- H, L, O, C of any bar
- Moving averages
- Trend lines
- Can be very minor

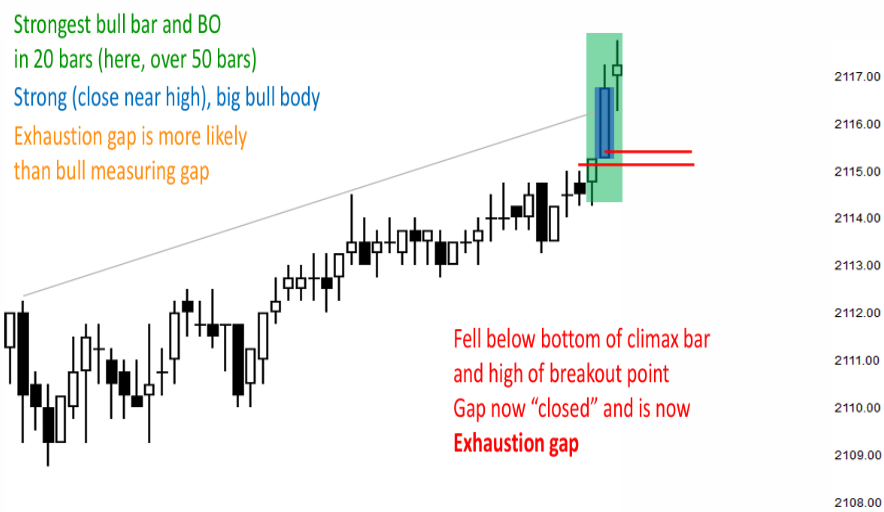


Bear Measuring Gap

- **Bear trend bar** after bear has gone on for 5 – 30 bars
- Low of bar before is above high of bar after
- Often leads to measured move
- Becomes Measuring Gap



Bull Exhaustion Gap



Every Bull Chart Made of 1 or More of These 4 Patterns

Each pattern might be 1 – 2 bars,
or 20 or more bars

Some charts contain only 1 pattern

Bull breakout
No PBs
Bears cannot make money

Tight bull channel
PBs last 1 - 3 bars
Gaps and almost gaps (minimal overlap)

Bears rarely can make money

Broad bull channel
PBs last 3 - 10 bars
No gaps (lots of overlap)

Bears usually can make money

Trading range
Bull and bears about equally strong

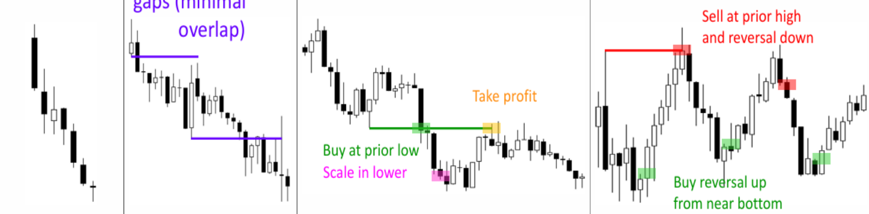
Easy for bulls and bears to make money

Every **Bear** Chart Made of 1 or More of These 4 Patterns

Each pattern might be 1 – 2 bars, or 20 or more bars

Some charts contain only 1 pattern

Bear breakout	**Tight** bear channel	**Broad** bear channel	Trading range
No PBs	PBs last 1 - 3 bars Gaps and almost gaps (minimal overlap)	PBs last 3 - 10 bars No gaps (lots of overlap)	Bull and bears about equally strong
Bulls cannot make money	Bulls rarely can make money	Bulls usually can make money	Easy for bulls and bears to make money

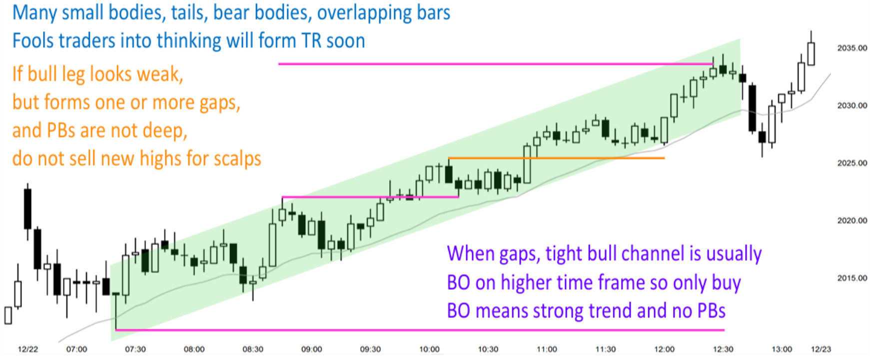


Bull Leg in Bull Trend Instead of in Trading Range

Small Pullback Bull Trend
One of the strongest types of trend
Looks weak, like leg in what will become TR
Many small bodies, tails, bear bodies, overlapping bars
Fools traders into thinking will form TR soon

Gaps make Small PB Bull Trend more likely
Possible measured move up
Limit order bears get trapped

If bull leg looks weak,
but forms one or more gaps,
and PBs are not deep,
do not sell new highs for scalps



Bear Leg in Bear Trend Instead of in Trading Range

Small Pullback Bear Trends look weak
Overlapping bars and prominent tails
Many small bars with small bodies and bull bodies

Weak bars make traders think
tight channel will evolve into TR soon,
but very strong type of bear trend

If bear leg looks weak,
but PBs are shallow and only 2 – 3 bars,
and there are one or more gaps,
do not buy new lows

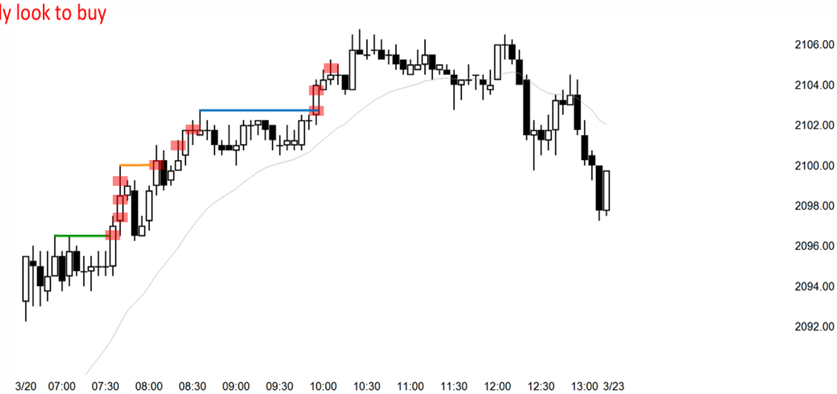
Gaps often lead to measured move
They trap limit order bulls who then have to sell

Gaps usually mean BO on higher time frame
BO is strong bear so only sell

Do Not Sell When Hard to Make Money Selling

If **Limit Order, Scale In Bears**
rarely make money, bull trend is strong
Only look to buy

Whenever it is hard to make money,
it is usually better to only do opposite



Trade like a Breakout (Almost!)

Look for an reason to buy
Since it is BO on higher time frame,
can buy exactly same

One difference from BO is better to
not buy above prior high,
but still reasonable

Determine where protective stop goes

Figure out position size, based on risk
Buy, right now, this minute!
Trust your stop

Trend, so 60% Probability of Profit

You know it is trend
Therefore believe 60% chance of more trend
Yet, it never feels 60% certain
60% is as good as trading gets so TRADE!!

Buy close of strong bull bar or follow-through bar
Buy close of strong bear bar, betting reversal will fail
If cannot decide, buy market
More ways on next slide

Always Try to Buy Near Bottom of Channel

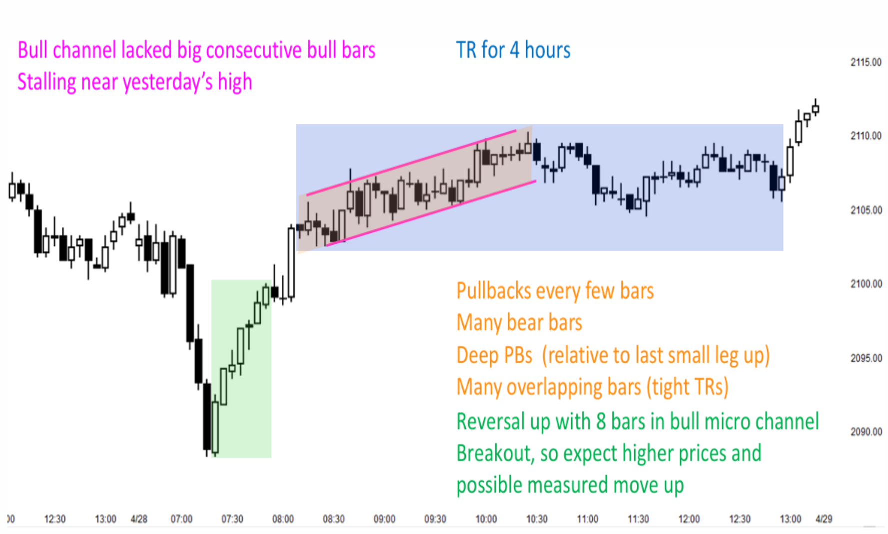
Beginners often afraid to buy as market is falling
Math is good in bull channel if rely on stop

Many Ways to Buy

Can buy breakout above swing high,
but many bulls take partial profits there,
unlike in strong bull breakouts
where bulls buy there

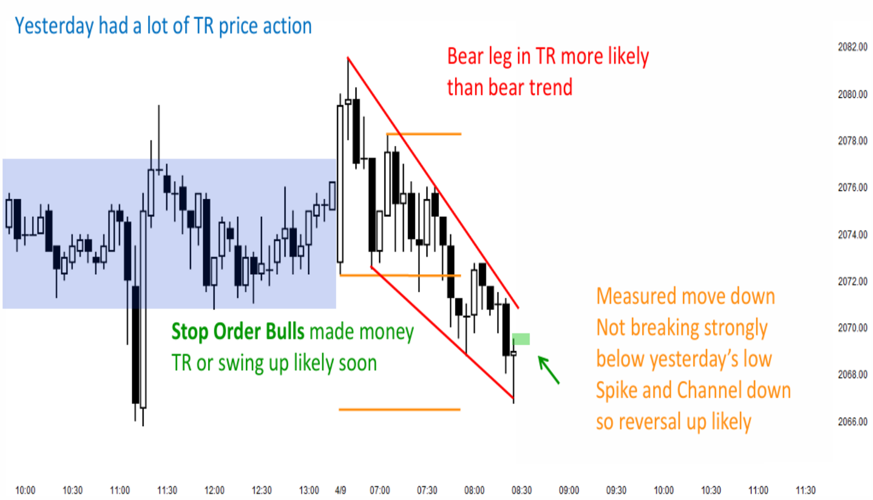
Channel has frequent pullbacks
so many opportunities to buy below the high

Trend or Just Leg in TR?

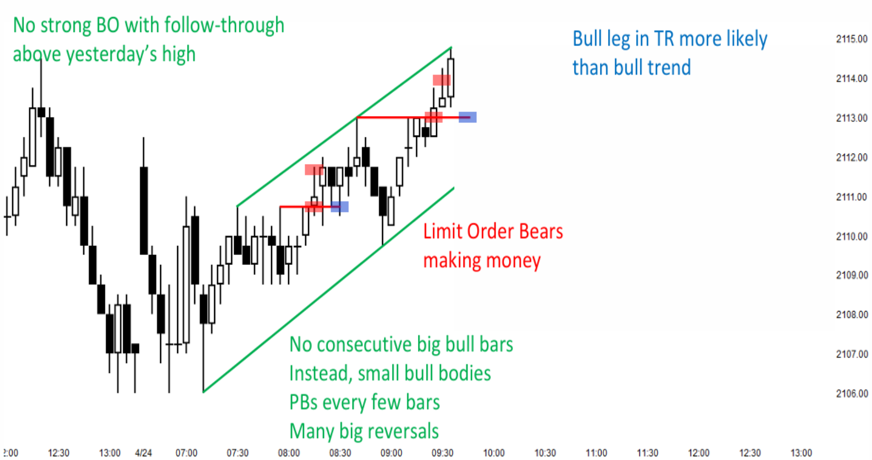


Trend or Just Leg in TR?

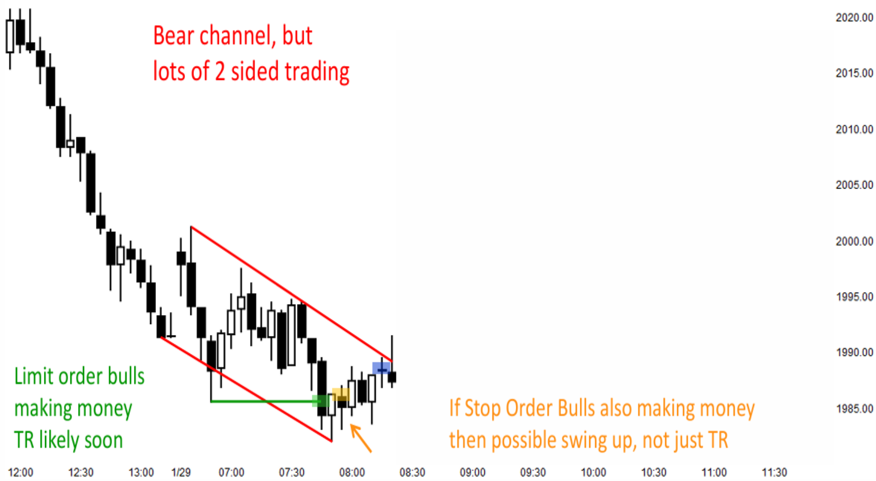
Probably Bear Leg in TR



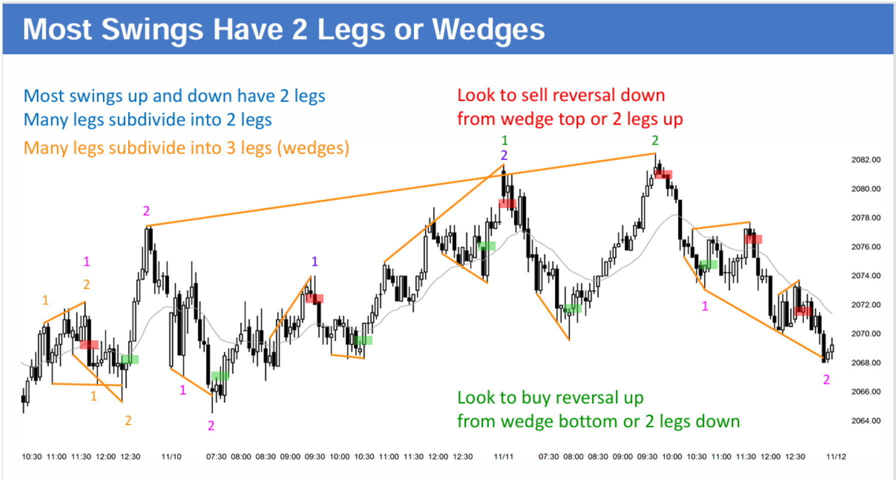
Trend or Just Leg in TR?



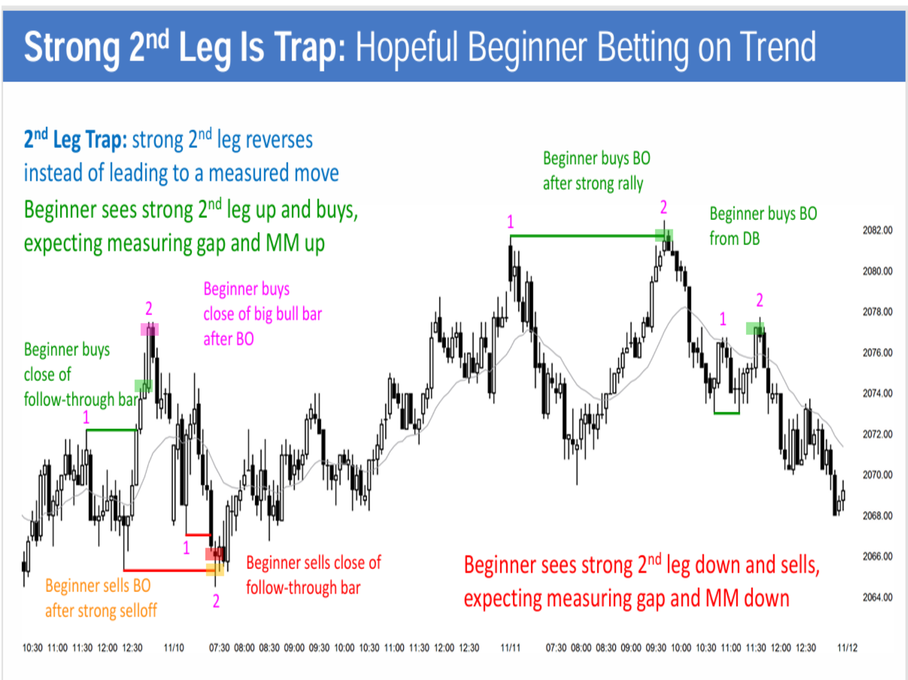
Bear Trend or Bear Leg in TR?



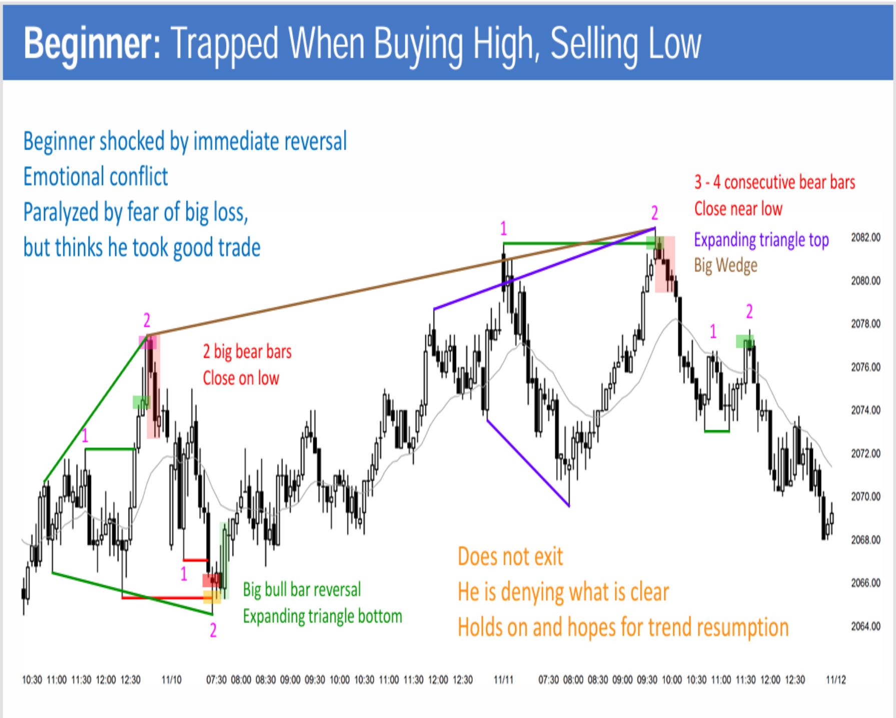
Why Important to Know If Trend Becoming TR?



Most Swings Have 2 Legs or Wedges
Most swings up and down have 2 legs
Many legs subdivide into 2 legs
Many legs subdivide into 3 legs (wedges)
Look to sell reversal down
from wedge top or 2 legs up
Look to buy reversal up
from wedge bottom or 2 legs down



Strong 2nd Leg Is Trap: Hopeful Beginner Betting on Trend
2nd Leg Trap: strong 2nd leg reverses
instead of leading to a measured move
Beginner sees strong 2nd leg up and buys,
expecting measuring gap and MM up
Beginner buys BO
after strong rally
Beginner buys BO
from DB
Beginner buys
close of big bull bar
after BO
Beginner buys
close of
follow-through bar
Beginner sells BO
after strong selloff
Beginner sells close of
follow-through bar
Beginner sees strong 2nd leg down and sells,
expecting measuring gap and MM down


Beginner: Trapped When Buying High, Selling Low
Beginner shocked by immediate reversal
Emotional conflict
Paralyzed by fear of big loss,
but thinks he took good trade
3 - 4 consecutive bear bars
Close near low
Expanding triangle top
Big Wedge
2 big bear bars
Close on low
Big bull bar reversal
Expanding triangle bottom
Does not exit
He is denying what is clear
Holds on and hopes for trend resumption
1
2
2082.00
2080.00
2078.00
2076.00
2074.00
2072.00
2070.00
2068.00
2066.00
2064.00
10:30 11:00 11:30 12:00 12:30 11/10 07:30 08:00 08:30 09:00 09:30 10:00 10:30 11:00 11:30 12:00 12:30 11/11 07:30 08:00 08:30 09:00 09:30 10:00 10:30 11:00 11:30 12:00 12:30 11/12


Beginner: Trapped When Buying High, Selling Low
Beginner shocked by immediate reversal
Emotional conflict
Paralyzed by fear of big loss,
but thinks he took good trade
3 - 4 consecutive bear bars
Close near low
Expanding triangle top
Big Wedge
2 big bear bars
Close on low
Big bull bar reversal
Expanding triangle bottom
Does not exit
He is denying what is clear
Holds on and hopes for trend resumption
1
2
2082.00
2080.00
2078.00
2076.00
2074.00
2072.00
2070.00
2068.00
2066.00
2064.00
10:30 11:00 11:30 12:00 12:30 11/10 07:30 08:00 08:30 09:00 09:30 10:00 10:30 11:00 11:30 12:00 12:30 11/11 07:30 08:00 08:30 09:00 09:30 10:00 10:30 11:00 11:30 12:00 12:30 11/12

Expert: Fades BO, Betting on Trapped Traders

Trend Bars: Expect Bad Follow-Through

TR: Very Forgiving to Limit Order Traders

TR is forgiving to traders
who can use wide stops and scale in
Good management is necessary

Even if buy the high,
usually can avoid loss if manage well
Exit breakeven on 1st buy and scalp on 2nd buy

2nd Leg Trap Is Strong, but Fails

Strong breakout above wedge top
50% chance of measured move up
50% chance of failed BO and reversal down

Good follow-through from BO above prior high
Probably buyers below and then 2nd leg up,
but maybe just one more bar up
1st reversal down probably will be bought
Bears should wait for 2nd sell signal

Strong breakout above channel
75% chance of failed BO within 5 bars

Possible exhaustive buy climax
and start of trading range
1st leg up was wedge, 2nd was bull BO

2nd Leg Trap Is Strong, but Fails

Strong breakout above wedge top
50% chance of measured move up
50% chance of failed BO and reversal down

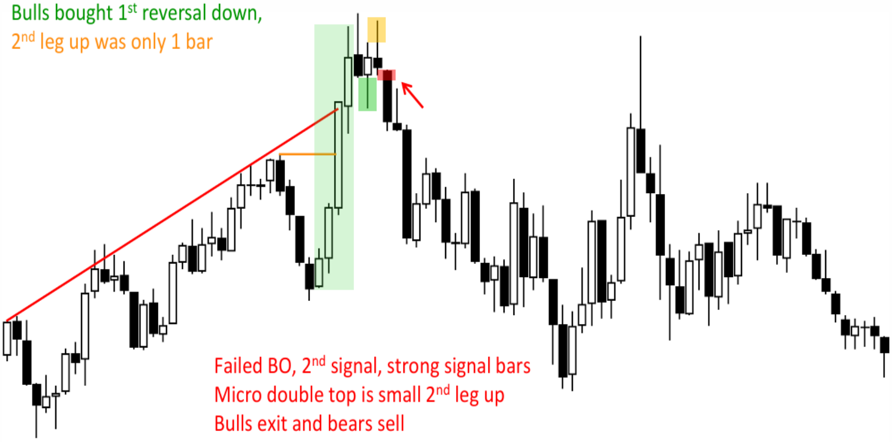
Good follow-through from BO above prior high
Probably buyers below and then 2nd leg up,
but maybe just one more bar up
1st reversal down probably will be bought
Bears should wait for 2nd sell signal

Strong breakout above channel
75% chance of failed BO within 5 bars

Possible exhaustive buy climax
and start of trading range
1st leg up was wedge, 2nd was bull BO

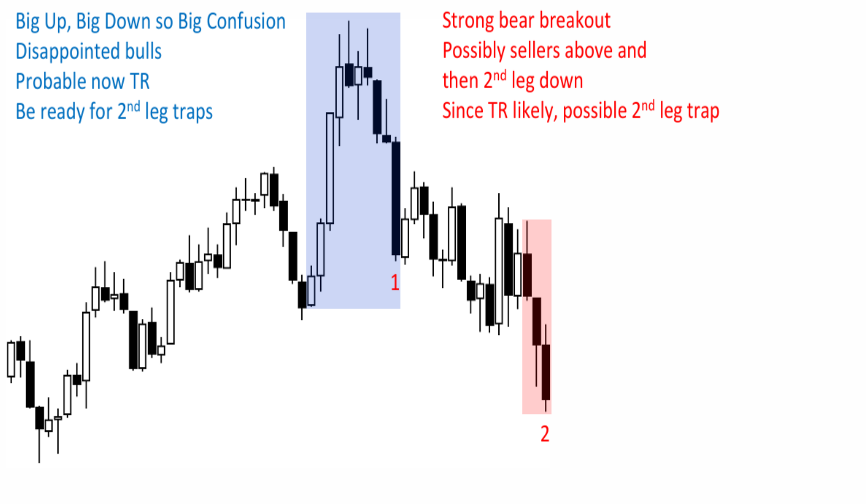
2nd Leg Trap Is Strong, but Fails

Bulls bought 1st reversal down,
2nd leg up was only 1 bar

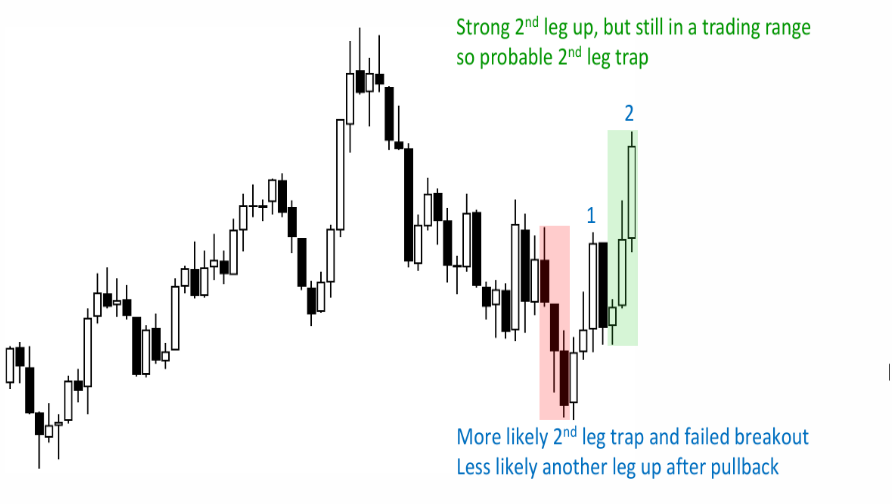


Failed BO, 2nd signal, strong signal bars
Micro double top is small 2nd leg up
Bulls exit and bears sell

2nd Leg Trap Is Strong, but Fails

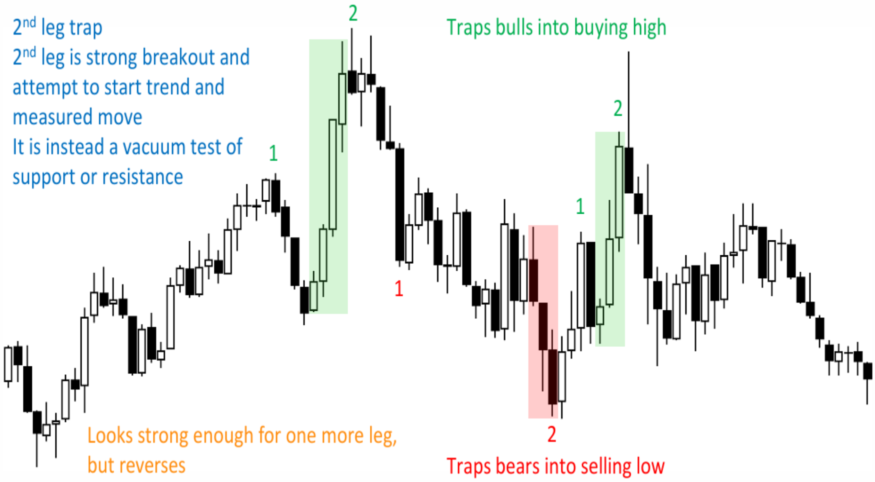


2nd Leg Trap Is Strong, but Fails



2nd Leg Trap Is Strong, but Fails

2^{nd} leg trap
2^{nd} leg is strong breakout and attempt to start trend and measured move
It is instead a vacuum test of support or resistance



Trading Range Breakout

Eventually there will be successful BO

Usually better chance of profit if wait to see strong BO far beyond TR

Big breakout bar

Big Follow-through on next bar or two

Consecutive big trend bars
No tails
Close far above highs of past 50 bars
Good context

Market Cycle: 10% of Bars Are in Strong BO

From the Market Cycle, traders know that
10% of bars are in strong breakouts up or down
Strong enough bull BO on the open for
70% chance of measured move (MM) up
based on the size of the BO

Take profit around MM target
Very positive Trader's Equation
High probability of MM based on **Initial** Risk
Only need reward of 1x **Actual** risk

Buy close of consecutive big bull bar
Closed on its high and above neck line of double bottom
Could wait to buy close of follow-through bull bar

Market Cycle: 90% of Bars Are in Channel or TR

During the 10% of bars that are in a strong BO,
usually difficult to make money
trading in the opposite direction

If bear decided to stay short and
try to manage to get a profit,
he might sell more below 1st bear reversal bar

Bear sold at prior high

Most bears get out after
2 – 3 more bull bars

Might change goal and just try to avoid loss
Exit at average entry price
Never fell to 1st entry price
Running out of time
Exit at average entry price on reversal up to
get out breakeven on entire trade

Difficult to hold short for 40 bars during bull trend
Missed many buying opportunities
to make money

Bad Management: Causes Most Losses

90% of the bars are in channel or TR

40 – 60% chance direction will continue or reverse

Probability for bulls and bears is between 40 – 60% during 90% of the bars on every chart

From Trader's Equation, trader knows that even with only 40% probability, it is winning strategy to exit with reward at least 2 times Actual Risk

This means that during 90% of the bars, both bulls and bears can make money by managing trades correctly

The reason for most losses is **bad management**

When manage well, 90% of time can get out breakeven (without a loss)

Bad management is the major cause of losses
Must manage position size, risk, and reward
If fail at any step, you will lose money

Good Management: Can Save Most Bad Trades

During 90% of bars, even buying at top or selling at bottom can be managed to avoid loss

Buy BO above bull flag, even though far above MA

Buy more on BO of High 2 bull flag

Exit with small profit at 1st entry

Sell BO below neck line of DT
Sell more below
bear reversal bar

Exit shorts with small profit on reversal up from micro DB test of 1st entry

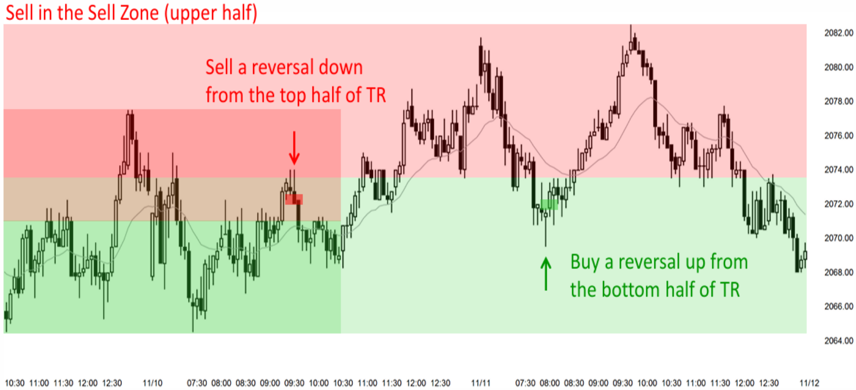
Timing an Entry Can Be Difficult

Skilled trader often uses wide stop or scales in
When not confident, most should
wait for 2nd signal or strong reversal

Entering with Stop Orders

Beginners should only enter with stop orders
Buy in the Buy Zone (lower half)
Sell in the Sell Zone (upper half)

Market going your direction
so higher probability of profit

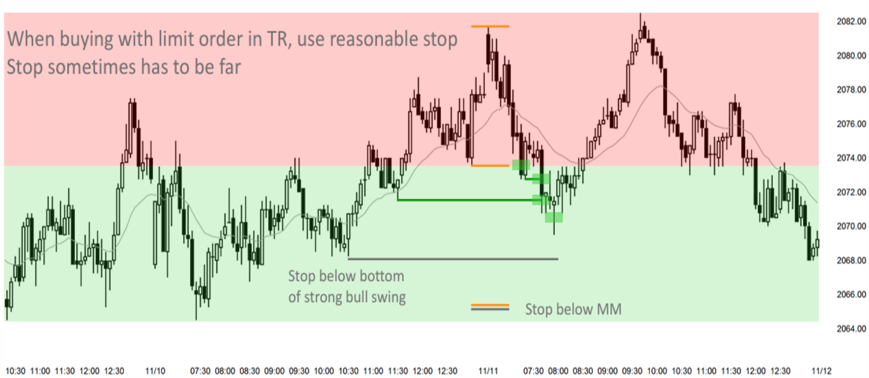


Entering with Stop Orders

When a leg up is strong,
wait for a 2nd entry sell signal,
like a micro double top, or for strong bear BO

Entering with Limit Orders: Use Reasonable Stop

Bulls will buy below a prior low
when in the bottom half of the range



Scale In: To Increase Chance of Profit

Some bulls will buy more lower
Increases chance of profit
Reduces size and chance of loss

Increases risk so trade small enough
so that risk is acceptable

Minimum scalp is 1 point
Scale in 1 – 2 points lower

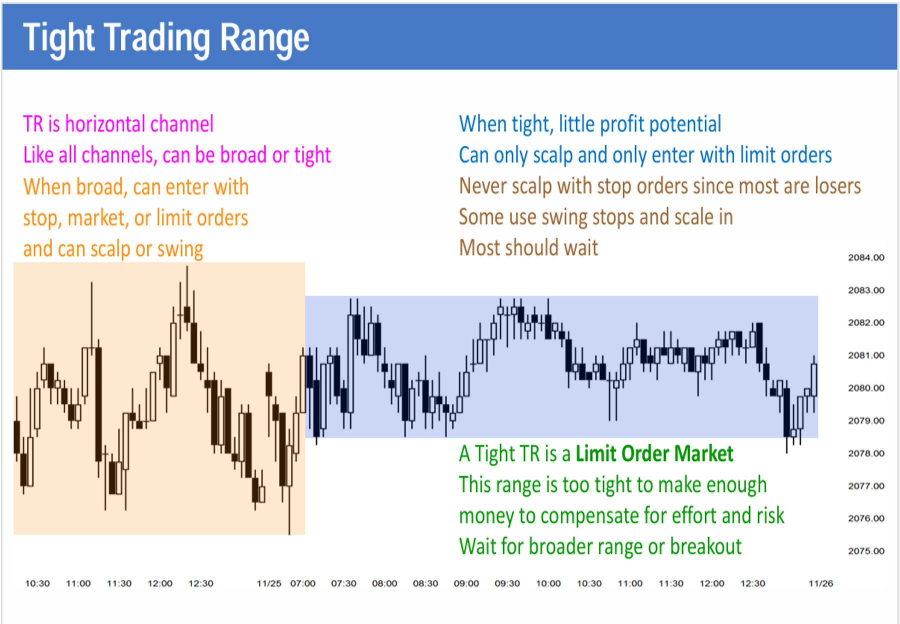
Take Profits: Trading Range So Many Will Scalp

Ok to scalp out at 1 – 2x Actual Risk,
as long as bigger than minimum scalp
(1 point in Emini)
That is minimum needed for
profitable Trader's Equation
Minimum is rarely best choice

Scalper can take profit at 2x Actual Risk
Profit on both buy entries

Take Profits: Many Logical Choices

Take Profits: Big Swings up and down So Many Will Swing


Tight Trading Range
TR is horizontal channel
Like all channels, can be broad or tight
When broad, can enter with
stop, market, or limit orders
and can scalp or swing
When tight, little profit potential
Can only scalp and only enter with limit orders
Never scalp with stop orders since most are losers
Some use swing stops and scale in
Most should wait
A Tight TR is a **Limit Order Market**
This range is too tight to make enough
money to compensate for effort and risk
Wait for broader range or breakout
2084.00
2083.00
2082.00
2081.00
2080.00
2079.00
2078.00
2077.00
2076.00
2075.00
10:30 11:00 11:30 12:00 12:30 11/25 07:00 07:30 08:00 08:30 09:00 09:30 10:00 10:30 11:00 11:30 12:00 12:30 11/26

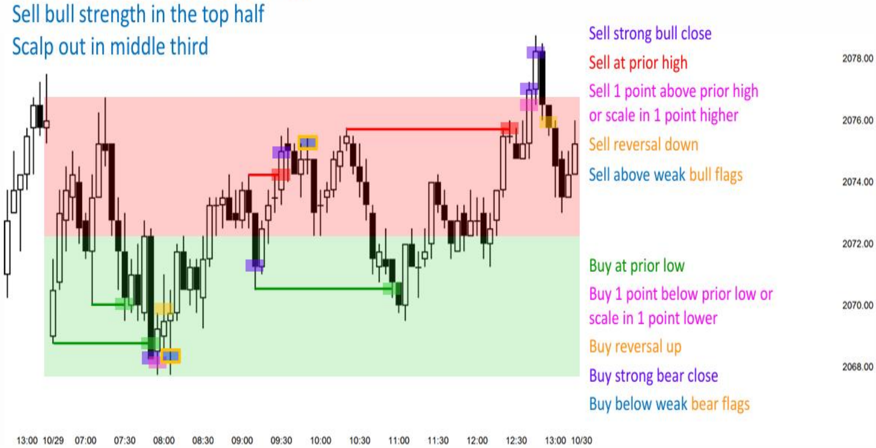
Tight Trading Range

To scalp in **Tight Trading Range**, need:
Most bars more than size of scalp (4 ticks)
Height of TR at least either 3 times size of average bar, or
3 times bigger than smallest scalp (1 point)

Tight Trading Range

Trade like any other Limit Order Market
Buy bear strength in the bottom half
Sell bull strength in the top half
Scalp out in middle third

Many scale in, scalp, and use wide stops



PART FOUR:
Swinging and Scalping

A swing trade is any trade where the reward is at least twice as big as the risk. Anytime you're going for a reward that's twice as big as your risk, it is a swing. If you go for a trade where the reward is less than twice the risk, it is called a scalp.

In general, with a swing trade, traders are expecting at least two legs in their direction. So if you're buying for a swing up expecting at least two legs, maybe many more legs, but at least two. For a scalp, you're usually just looking for one quick leg.

For example, if there's a bull spike and then a pullback and then you're buying for a scalp, you're just buying for one more push up. Even though the market may go much further, you're buying just for a quick scalp, a quick move.

In general, scalping looks extremely easy to do, but it's extremely difficult to do profitably and beginners should not be looking to scalp. Beginners should be looking for swing trades.

As said, scalpers are just looking for a quick move. They usually don't allow pullbacks or they'll only allow very small pullbacks. Swing traders will allow one pullback beyond their entry price, but if the trend resumes in their direction, they'll have a break-even stop and they will not let the market come back to their entry price a second time. In general, they're looking for at least two legs.Here we have a possible higher high major trend reversal or a possible trading range top.

A swing trader, if you are shorted here, the second entry short at the high, he would allow the market to come back to his entry price. However, once the market started down again, he would place his stop at break-even and he would exit if the market came back to his entry price a second time.

A scalper on this trade in the E-mini had to risk a total of five ticks. One tick above the signal bar for his stop, one tick below for his entry price, so he might get out at a five-tick profit.

Again, beginners should swing rather than scalp. When scalping, if an experienced trader is scalping, in general, it's far better to be scalping in the direction of the trend.

If you have a very broad bull channel, for example, a very weak trend, you can scalp in both directions. Beginners, however, they should never scalp against a weak trend. If the market is in a weak bull channel, if they're looking to scalp, they should only be taking the buy signals and not the sell signals.

When there's a pretty strong trend, traders should not be scalping. Trends are always trying to reverse, but almost all reversals end up as flags in the direction of the trend.

Here we have a bear trend, and we have lots of great reversal bars. Here's a bull reversal bar. Here are a pair of bull bars closing on their high. Here is a two-bar reversal after an II final flag. None of these trades was a profitable scalp. Here's the price scale on the right. If you're going for a reward at least as big as your risk or twice as big as your risk, it's virtually impossible to make money scalping when the market is fairly strongly down. So here the channel is pretty tight going down. Not big swings, so traders should not be looking to buy. Every one of these reversal attempts, as good as they looked at the time they formed, they became simply

bear flags failing at the moving average and leading to another leg down.
This is what you should be doing when you see a bear trend.

Even a channel with some swings up, you should concentrate on taking the shorts. So, every time it gets up to near the moving average, you look to go short below bear bars. All of these scalps were profitable, whereas very few of the buy scalps were profitable. So, beginners for sure should only take the shorts. As soon as they diagnose the market as being in a bear trend, here it's a bear trend and it's a bear channel, so it's a relatively weak trend, you still should only trade in the direction of the trend, which means looking to short.
Beginners love to scalp against the trend. They believe that the correction is overdue and that the trend can't go much further, and they're so afraid of losing that they only consider risk in the trader's equation. Trader's equation has three

variables, probability, risk, and reward. All they do is see that, for example, in that bear trend, all they see is that they're buying above a small bull signal bar, and their risk is small. It's only to the bottom side of the bar. However, they're ignoring the reality that the probability is low and that the reward is also too small in the face of that low probability to make a profit, and they'll slowly watch their account melt away.

Again, a terrible trader's equation. When the probability is small and each loss is greater than each winner, you'll bleed to death from a thousand paper cuts. Yes, each loss will be small, and you'll say, well, I'm not losing all that much. But if you keep losing, losing, and losing, those small losses add up to a lot.

Small risk, tight stop for a scalp. You need a high probability trade. This is the key to scalping. If you're going for a small reward, let's say a reward equal to your risk or twice as big as your risk, you need a high probability trade to be profitable.

Can scalping be profitable?

Sure, it can be. High frequency trading firms scalp all the time, and a lot of them make money. Not all of them. A lot of them lose money, but a lot of them make money.

What's the easiest way to make money trading scalps?

First of all, selectively picking out the very best trades and using big volume, or as big as you possibly can use. However, the reality is when you're taking those best trades, most of them end up being swings, so you'd make more money by swinging rather than scalping. If you have the ability to spot those best trades, why scalp them? Just go ahead and swing them.

At the other extreme, impossible for most traders, instead of swinging, is extreme scalping.

High frequency trading firms, they're scalpers, and they're using computers to generate the signals, and they're taking thousands of trades a day going for very small profits. Because the computers are making the trades and making the decisions, they don't get tired, and they take every signal exactly according to plan. So, they can have a relatively low probability, let's say 55% probability, maybe a risk as big as their reward, and if they do it thousands of times a day and do it exactly correctly every time, they can make money. However, it's extremely difficult for humans to do that when the margin of error is so small. Also, high frequency trading firms have minimum commissions.

When you're talking about risk, there are two important types of risk to consider. There's the initial risk, the distance of your initial protective stop, and then there's the actual risk. So, the initial risk is the distance to your original stop, from your entry price to the stop. Your actual risk is once the trade starts to go your way, you look back and to see how many ticks the market went against you before it went your direction. Your actual risk was one tick more than that number. In other words, let's say you short and the market pulls back a little bit after you enter, and then it turns down again. For you to not have been stopped out, you can look back and calculate how many ticks the market went against you, and had your stop been one tick more than that, you would not have been stopped out. That is your actual risk. And you can use your actual risk for determining what your profit target should be.

You can convert a swing trade into a scalp trade. Okay, most swing trades have low probability, but if the market starts to go your way and you discover that your actual risk is very small, you can convert some of your swing to a scalp and still have a sound mathematical equation, trader's equation. But you got to make sure that if you do go for a scalp, a small reward, that your reward is at least as big as your risk.

Going back to what I was saying on how to calculate actual risk, this is what you do. Count the number of ticks that the market moved against you before it went your way. So once the market starts to go your way again, you look at how many ticks the market went against you, and one tick more than that was your actual risk. So, you can reduce your target to your actual risk, and you can convert some or all of your swing into a scalp and have a positive trader's equation.

Here's an example:

If traders bought this higher low major trend reversal, bear trend, trend line break, small higher low, if they bought this going for a swing and they entered and the market went up pretty quickly, they could look back and say, my actual risk was one tick below the low of this bar, my actual risk is small, four ticks, therefore I can scalp out with four ticks. If they took it for a swing, their swing stop, their initial risk was below the bottom of the spike, maybe below the actual bottom of the trend, more likely below the bottom of the spike.

So, when they bought here for a swing, they initially put their stop down here. However, once the market started to turn up, they discovered that their actual risk was just one tick below their entry bar or one tick below the signal bar, and it was small, so they could take out part or all of their trade as a scalp.

PART FIVE:
SCALPING

Almost every bar is a setup for a scalp, and extreme scalpers take 20 to 40 scalps a day on the 5-minute chart. Some of them trade off 1, 2, or 3-minute charts, or tick charts, or volume charts with small numbers of ticks or shares per bar, so that they have 100 or 200 bars per day.

Extreme scalping is a manual form of high-frequency trading. (0:58) So you're doing pretty much what the high-frequency trading firms are doing using computers, and you're doing it by hand. It's extremely difficult to do profitably.

The computers have the advantage of having everything automated, so they're entirely objective on every trade, and they manage their trades properly every time, and it's very difficult to do manually. (1:24) But it's possible.

Scalping always looks easy. (1:27) You look at it and say, well, the risk per trade is not very big, so I'm not risking (1:33) very much, and therefore it's worth giving it a try. (1:36) But you have to remember, the profit is also small.

My first recommendation is not to do it. (1:43) You will lose money. (1:45) It looks so easy at the end of the day, when you look back at the price chart, it's actually (1:49) very difficult to do real-time. (1:51) You have to make constant decisions, lots of decisions, hundreds of decisions, and you (1:57) have to make a lot of them right. Very few great traders can make money using extreme scalping, and very few actually make (2:06) money doing any kind of a scalping.

For the most part, traders who are making money are going for swings, and by swings I mean a reward two times greater than the risk or more.

What's the problem with extreme scalping? (2:19) It's the trader's equation. The risk usually is greater than the reward, and when that's the case, the probability has to be 70% or more, and most traders simply cannot be 70% correct, you know, 40 times (2:34) a day. Remember, 70% correct is just a break-even.

If your risk is 6 or 7 ticks, and you're making 4 ticks, you have to be right 70% of the time, (2:47) all day long, every day, every month, every year, to make money, and that's impossible (2:52) for even most really good traders.

The biggest problem, I think, is not enough time to assess the probabilities, and the probability is often much lower than it appears, and avoiding bad setups is extremely difficult. Very often you'll find yourself entering a trade, and then once it's 2 or 3 ticks against you, you look back and say, gosh, I shouldn't have taken this one, and these infrequent mistakes are all that are necessary to make you lose at the end of the day, so this is my recommendation, don't do it.

However, some people can do it, you know, I did it for years, you know, ***Paul Rotter*** is an example of an extremely successful extreme scalper, and you can look him up on the internet, you can do a Google search of Paul Rotter, supposedly he made $60 million a year for many years, and he said that sometimes he places hundreds of trades an hour for just a few ticks each in the Forex market. So he's doing high frequency trading by hand.

So why am I discussing it if I'm saying don't do it? Because it reminds traders that the market is saying something with every tick, and it's also fun to think about what the very best traders in the world are capable of doing.

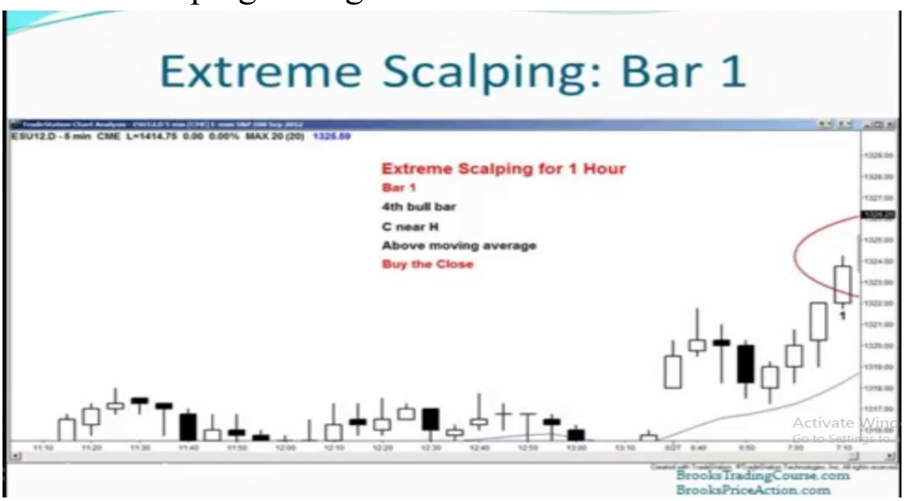
There's nothing special about the techniques, it's the same techniques that you use to trade any chart on any time frame.

For example, here's a 5-minute E-mini chart, and here is about an hour's worth of trading, and what I'm going to do is I'm going to discuss extreme scalping during this 1- hour period.

I could have picked any similar period on the chart and come up with the same approach, and what I'm choosing is these

14 bars, and I'll discuss what I see on those bars, one bar at a time.

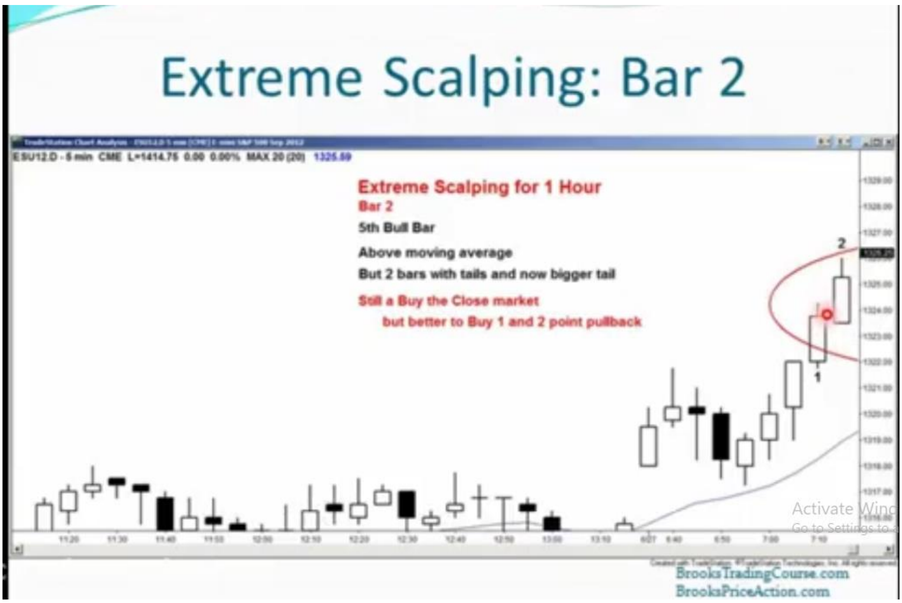
Here is a close-up of those bars, and I'm going to talk about extreme scalping during these 14 bars.



Bar 1, you have 4 consecutive bull bars, all with good bodies, and a close near the high, and a close above the moving average, and the entire day is above the moving average. So this looks like an opening reversal with a strong signal bar, and it looks like it might be a bull trend day.

So, if you just turn on your computer at this instant, you buy the close of that bar. Your initial stop might be below the low of the bar, and you can adjust your reward based upon your actual risk, but right now your initial risk is down here, and throughout these 14 bars, I'm talking about going for 1 point profit.

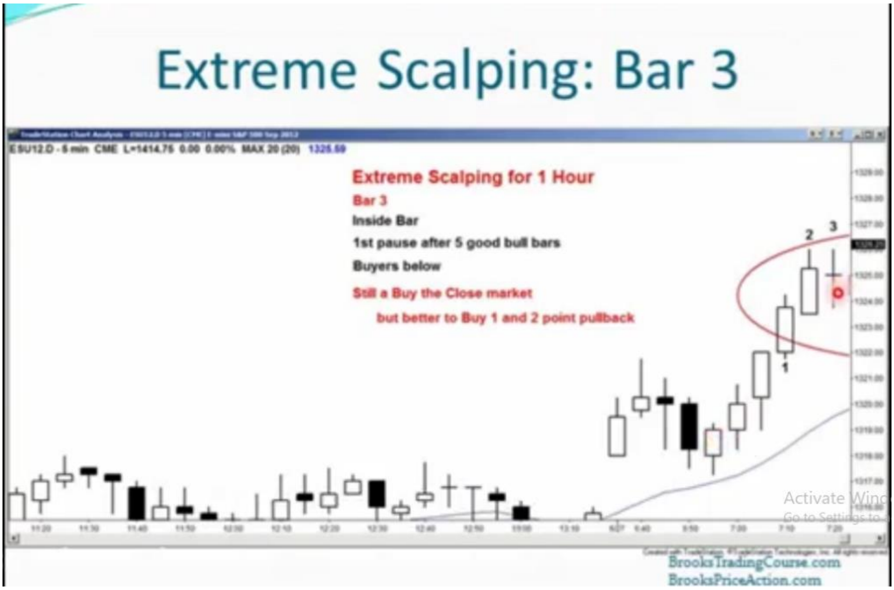
It's still a buy, 5th consecutive bull bar, above the moving average.



The tail is a little bit bigger than it was over here. This is the E-mini chart, by the way. It's still a buy the close market, but it's obviously better to buy a 1 or a 2-point pullback because this might be getting extreme, and if you look at the slopes here, okay, across the tops here, it's more vertical here, and it's getting a little bit flatter here.

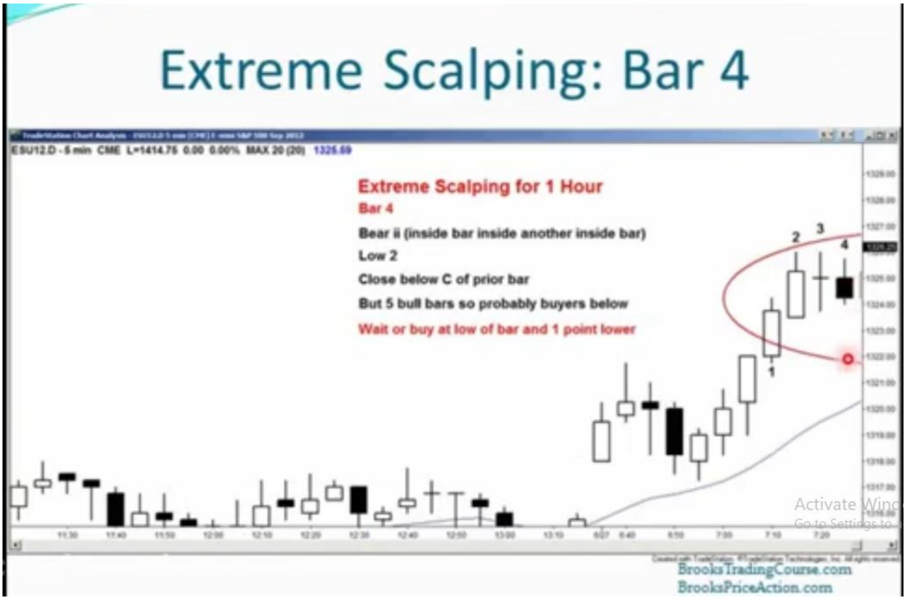
So we're starting to get an S-shaped curve. It's subtle, from here to here, and then more vertical, and then less vertical. So the market is losing momentum.

Here's the 3rd bar.



It's an inside bar, and it's a doji bar, and it's a pause, the first pause after 5 strong bull bars in a gap up day with a trend from the open bull at the present time, an opening reversal with a strong signal bar. So there probably are buyers below. It's still a buy the closes market. You can still buy this close, but at this point, I think it's better to buy a 1 or a 2-point pullback if we get one. So you could buy this close. You could buy that close. You can buy this close. Here, if you bought the close, you could have made a point. If you bought this close, you did not yet make a point. If you bought this close, you have not yet made a point.

Now we have an I-I pattern, possible low too short on the day.



We have a low 1 here. We have a low 2 here, and a bear inside bar. So, it's possible that we'll get a pullback. In fact, it's likely that we'll get a pullback, and it's a close below the close of the prior bar. However, with 5 consecutive bull bars closing in their highs, the odds are very high that) there are buyers below. So you can either wait or buy at the low of the bar, and again, add on 1 point lower. There are almost certainly buyers below, because the swing bulls will keep buying all the way down with the stop below here. So I think everyone's going to be buying. So you could buy this close. You can buy this close. You can buy this close. You can place a limit order to go long at the low of that bar.

And your stop, initial stop, is probably down here. I would use the swing stop. You could use a smaller stop, 2 or 3 points, but I think I would use the swing stop and look to add in, add on as the market goes down.

A third inside bar.

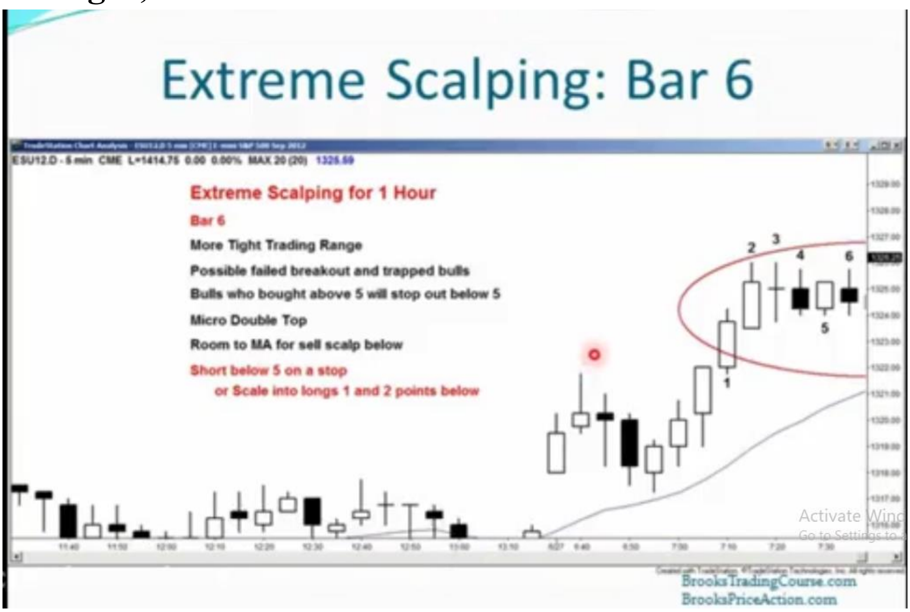
This time, it's a bull bar. So, the market is in breakout mode, and there's too much buying pressure, I think, to short. Four sideways bars. Three have tails on top, right here. One is a doji, and one is a bear bar. It's a tight trading range, so a failed breakout, up or down, is likely. When the market starts to enter a tight trading range, and you start to get bars with tails, and the bars get small, and you get doji bars, chances are whatever breakout there is will not get very far, and it will get pulled back into the tight trading range. A tight trading range, like any other trading range, is a magnet, and breakouts usually don't get far, and they get pulled back in.

At this point, should you buy above 5? I would be hesitant to buy above 5, because there might be sellers there. We sold here, this tail, a tail above here, a tail above here. So, I would not be buying above bars.

I would consider buying below bars. What about shorting below bars, betting that it's the high of the day? I don't think so. I think the strength of this spike is so good that there will be buyers below, and they'll be scaling in below.

So how would I handle this? You could put a limit order to sell above 5. I would not do that, right? The market is too strong. Instead, I would put a limit order to buy below 5, or you could wait to see if you can buy lower.

All right, bar 6.



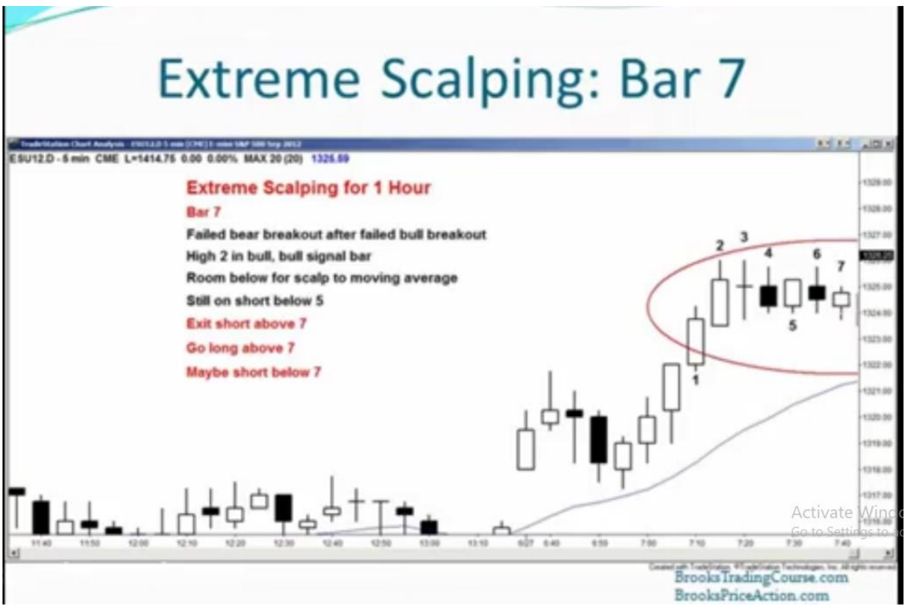
We now have more of a tight trading range, and we possibly have a trapped bull situation. The bulls who bought above 5 are probably trapped, and they will look to stop themselves out below 5, right? We went down. They triggered their long above here. A lot of the bulls, the bull scalpers, certainly will get out below 5 or 6, and it's a micro double top.

There's plenty of room to the moving average. We're about 3 points above the moving average, and at least 2 points above the breakout point. So there's room below for a scalp.

One thing that traders might consider doing is looking at this as a failed III triangle or bull flag. We have the two bear bars. Try to short below on a stop.

Place a sell stop below 6 on a stop to capture the trapped bulls exiting their longs.

If you did take that short, you would be short on bar 7.



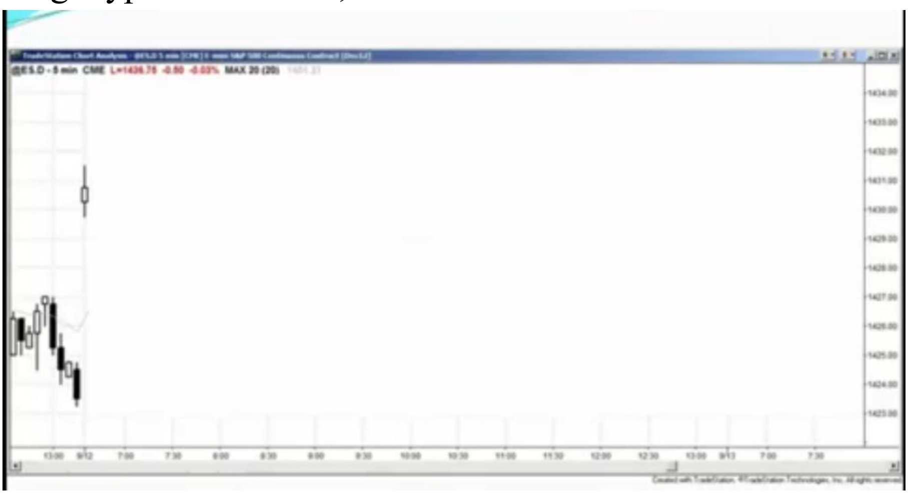
Now if you're a bear and you're short on bar 7, at this point you have a high to buy above 7. So I think you should exit your short above 7 and maybe even go long above

7. (10:59) What about shorting below 7? If you're already short at the 6 low, I would not add to my shorts, but I would definitely get out of shorts above 7 because it's a high 2 and a reasonably strong bull trend. So right now, I would be short right here at the low of bar 6, entering on 7, looking for a 1-point scalp down, but I would get out above 7 and take the loss.

That's a good bar for the bears and it fell 6 ticks below 6 and that would allow bears to get out with a 1-point profit.

Scalping within a Trading Range

All right, so this is what you see, first part of the day. Gap up, good for the bulls. Yesterday ended with some trading range type of behavior, but look at this bar.

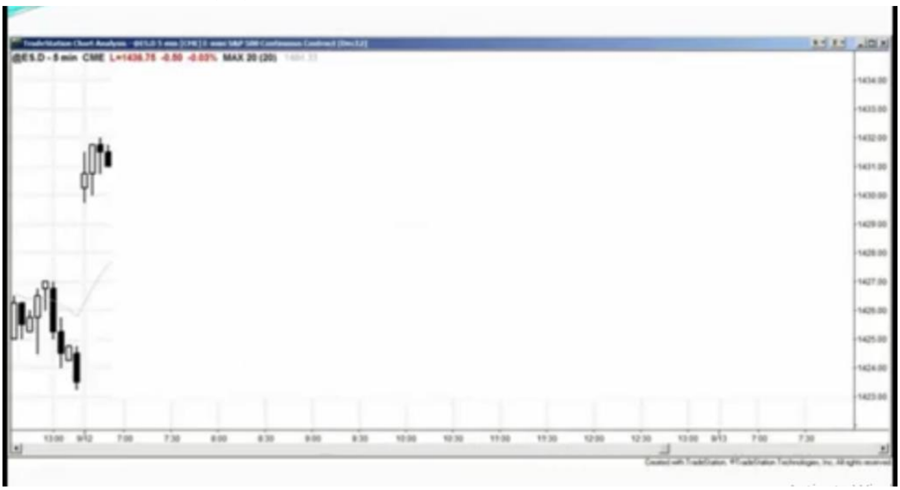


Remember, the first part of the day often gives you an idea about what the rest of the day will be like. Okay, we gap up, but first of all, the bar is not all that big. You know, it's certainly not bigger than the biggest bars at the end of yesterday. And its body is small, the tail on top, tail on the bottom. That's a trading range bar. So that can be a clue that today will be a trading range day.

It's a trading range bar, so entering with stops is usually bad. It's a trading range bar, so the market will try to regress toward a mean. One mean is the moving average. So, to me, there'll probably be buyers scaling in below, but not right below, probably closer to the moving average, and sellers scaling in above. So to me, it's a short. If you're looking for a scalp, it's a short above the high of the bar.

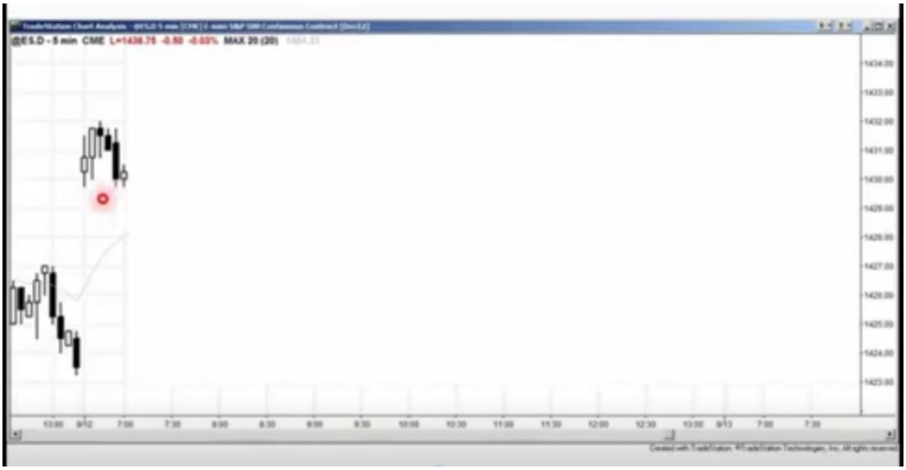
How far is your stop? I probably would start with a stop maybe three points away and sell here, maybe add on one point up and add on two points up.

This is looking good for the bears at this point.



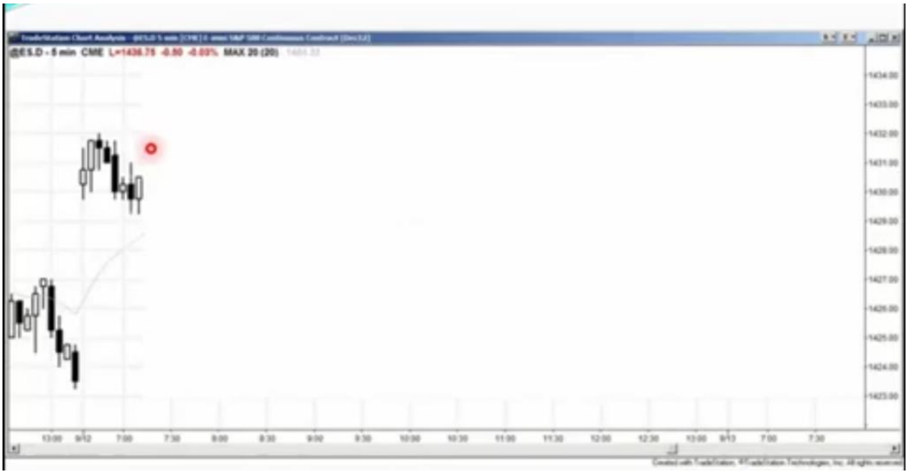
Two closed on its high, but no follow through. It was a breakout, closed above the prior bar, but it closed with the very next bar. And now we have a bear bar closing on its low. So far, trading range behavior, four overlapping bars. The bars are small, bars in both directions and prominent

tails. Trading range behavior, far above the moving average. We should get down to the moving average. I think it's an OK short below the low of this bar.
Good bar for the bears, but so far, five-tick failure. So what do the bears do? Double bottom bull flag, tough call.



I think the market is going down lower, but five-tick failure, a lot of scalpers will get out at break-even. Alternatively, you can say, well, pretty good breakout, I'll take my chances and I'll put my stop above the high of this bear bar. And there's no right answer. I think both are OK. However, I think trading range behavior so far. This is also trading range behavior. A bear breakout bar and instead of follow through, the next bar, a bull reversal bar. So again, trading range behavior, small range. We should get down to the moving average before very long. So, I think either you get out at break-even and then look to sell again, or you hold with a stop above that bear bar.

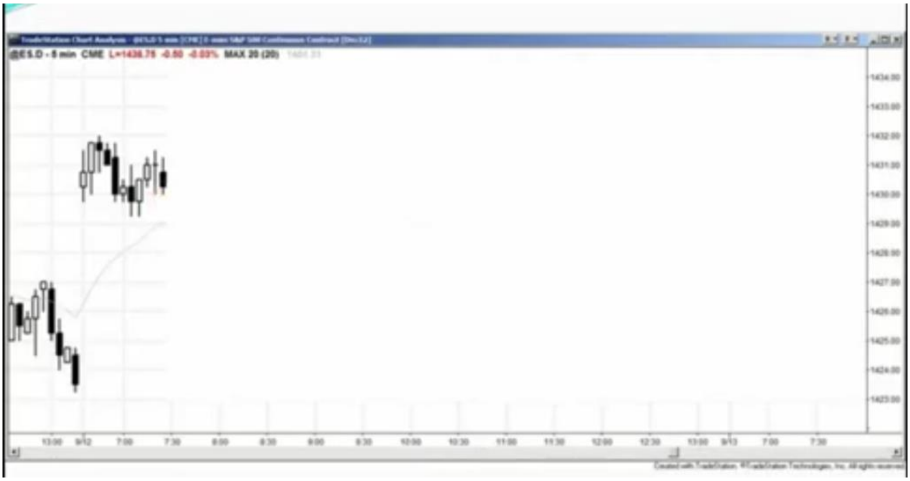
I don't know what happened first here. I don't know if it went above and then below, or below and then above.



So, depending on how you managed it, you may have made a profit. OK, three pushes down, the tail on one, and then this bar, and then this bar. A high two buy, but it's not a bull trend. To me, this is a small trading range type of market. And it could be the law of the day. I think you can take that for a swing long, but I think chances are you'll lose.

But if your reward is sufficiently big, you'll be OK. So for me, the bull case, I'd like to see a breakout and follow through, and then I'll chase it higher. Otherwise, I'm going to assume this trading range behavior will continue. And if it does, we should get down to the moving average.

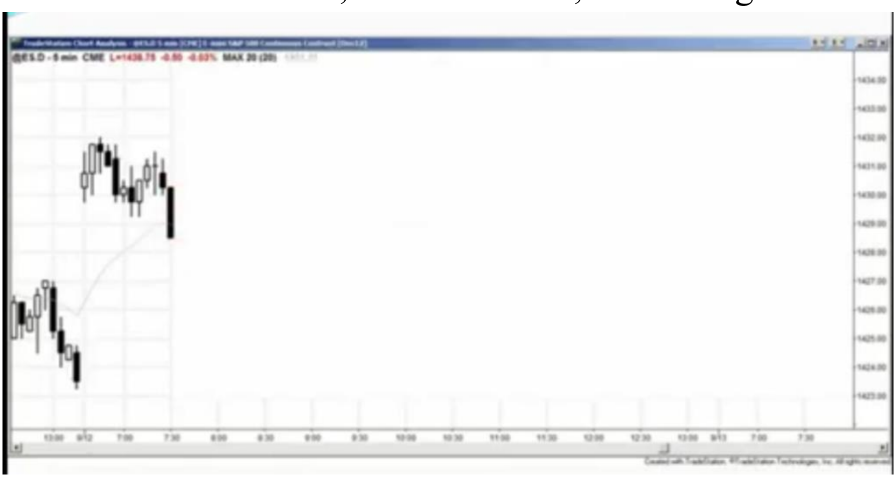
All right, a breakout bar for the bulls, but it's small, tail on top.



And now we have IOI with the bear bar. Tricky call here. It's a failed high two, IOI. We should get to the moving average at a minimum.

My guess is we'll get at least one tick below. So I think you can scalp this, but be quick to get out if it does not go your way.

Good bar for the bears, six ticks down, the bears get out.



Now what to do? Is it a short the close bar? We have a trading range. We had a reversal down and a reversal up, so the market's in breakout mode. Traders will be buying on a stop above this swing high.
They'll be selling on a stop below this swing low, looking for at least a doubling of the range. So at this point, we got the breakout below, and we got a close on the low. To me, I think we're going at least a little bit lower. So, I think you can scalp that with a stop above, and then get out depending on what your actual risk turns out to be.
Okay, so if you sold the close of that bar, you probably scalped out here. Is it still a trading range day?

We have a breakout, and we have bear follow through, but we have a tail, and the bar after that is a doji, and now we have a bar with a tail.
So to me, this is still possibly a trading range day. Three pushes down, here, here, and then here, trapped bears below here if we turn up. Is this an opening reversal buy? It might

be, but with five consecutive bars down, I'd rather buy above the bull bar.

Micro wedge, three pushes down here.

You could buy above there. If you're really aggressive, once you start seeing these tails, you could place limit orders to buy the lows of the bar, and risk maybe two or three points looking for a scalp up.

As far as buying above the micro wedge here, I would not, but I do think it's certainly a swing buy above this bull bar, a two-bar reversal with either this bar or with that bar. To me, I could see buying that and putting a stop below, looking for at least a little bit more up. There's five ticks to that low, and maybe we'll go a tick above.

I think that's an okay buy. Okay, at this point, we have four bars up. We might be flipping to always in long, but look at the bars.

You know, one tick bull bodies, not really impressive. I think we're probably going to go higher. This looks like a bull flag, a bear channel, bull flag, and we have a bull bar for the buy.

At the moment, I think this is not all that strong. I think we're always in long. I think there are buyers below. I think it's okay to place a limit order to buy the low of that bar with a stop maybe below the low of this bar, maybe even scaling in one point down. As far as buying above the high of this ii, I think we're going higher. I think we went always in long on this reversal up, but to me, it's not a strong buy. It's a pretty aggressive buy.

Okay, a better-looking bar, this bull bar, so possibly buying above its high, but for the bears, they still could be in a bear channel.

We could be forming lower lows, lower highs in a very broad channel.

We have a failed breakout above this bar, tails, micro double top, and now we have a triple top. We should test down. This is not that strong a channel. I think we're always in long. It's

maybe an eight or nine bar micro channel, no pullbacks. I think the bears have a case that it is still in a bear channel, and it is.
We're forming lower lows and lower highs, so it's still a bear trend, but it's also a bull trend, and it's possibly, I mean, it's also a trading range, and it's possibly a bull trend. We need clarity. To me, this looks like a trading range day.
This leg up, yes, it's a bull leg. Yes, we're always in long, but it's not a strong bull leg, so it's probably a bull leg and a trading range. So I think you can short that for a scalp. We should get down to this low at a minimum. Five ticks down, maybe we'll go a tick or so low.
High two by here, I would not take it.

Four sideways bars, not a strong bull leg. I think we'll probably come somewhere down in here. I also would not take that long, you know, a wedge bull flag.
To me, this leg up is not all that strong, so I think we'll get a deeper pullback than just a few ticks. Bear breakout,

right? So this is interesting. The bulls see this as a breakout pullback from this rally, so a small higher low major trend reversal.
We had a bear trend, we have a breakout, we have a higher low, and the bears want follow through. If it's a trading range day, breakouts fail, so there probably will be buyers above this bar. You know, we fell below this ledge, and instead of getting follow through, we have a doji bar hesitation.
You know, you have the wedge bull flag possibility. I think we're still always in long. I think it's an aggressive buy above the high of this bar. Maybe put a stop below the low of the bull spike. It's still always in long as long as it's holding above the low of the bull spike.
Strong reversal bar and confirmation of the higher low major trend reversal.

We should go higher. I think you can buy that close with a stop below its low.

Micro double top, but I think this is simply going to be a pullback from this breakout.

You know, could you buy this? Double bottom, high two. I think you could. Now, is the day a bull trend day, a bear trend day, or a trading range day? This move above the lower high, I think, eliminated the bear trend argument.

So right now it's either a bull trend, and it is. We have a higher high, we have higher lows, we're always in long, so it is a bull trend, but it's also a trading range, and we're near the top of the trading range. And as a bull trend, it's not a strong, it's not in the strong breakout phase.

It's in the channel phase, and with this deep pullback, the channel is pretty broad. Okay, so if it's a trading range, we're above a high, you look to short. With these three bars up, especially with this big bull body, I would rather wait for a second entry short.

Can you short this two-bar reversal? You can, but I think your stop is above that high. To me, this is up too sharply from this low. I would wait for a second entry short.
Okay, we have an III, three consecutive inside bars.

For the bulls, it's a breakout pullback buy. We have a breakout and a pullback.
If you think it's a bull trend day, you could take this buy for a swing. I don't think the probability is high enough for a scalp. And if you think it's a trading range, it's a short above here because we're trying to break out near the high of the day. To me, I would probably wait and get more information.
We have a triangle, three pushes up, one, two, three, and we have a bear breakout of the triangle. You could argue taking that short.

As far as the failed breakout goes here, right now we're in the middle of the trading range. And look what's happening so far today. I think something important.

The market fell below this low, found buyers. Fell below this low, first reversal up, it was profitable. It fell below this ledge, it reversed up.

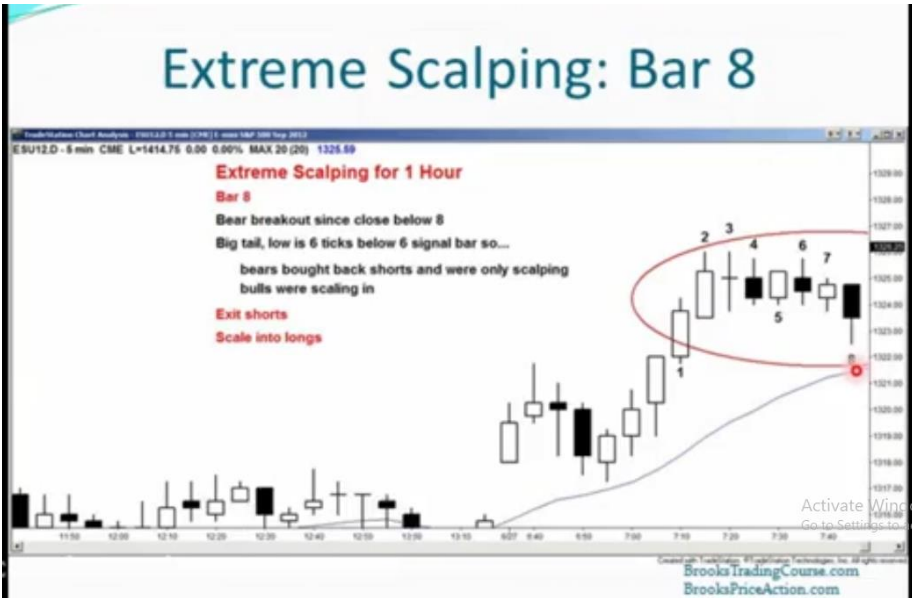
It went above this bear bar, which would have been the stop for some of the bears, and went down, right? So, this is trading range behavior. It went above this bar and found sellers, right? Tried to break out here, reversed down. Went below this low, and below this low, and below this low, founds buyers, right? To me, this is trading range type behavior.

People are buying below lows and they're selling above highs. With that in mind, what about buying below this low? I think the doji bar is not, at this point, I would not take the long. This doji bar is not enough to reverse that bear bar and this bear bar.

However, I think we're probably in a trading range day, and I'm looking to buy low, sell high, and scalp. **(29:57)** When in doubt, I'll wait for a second.

………..

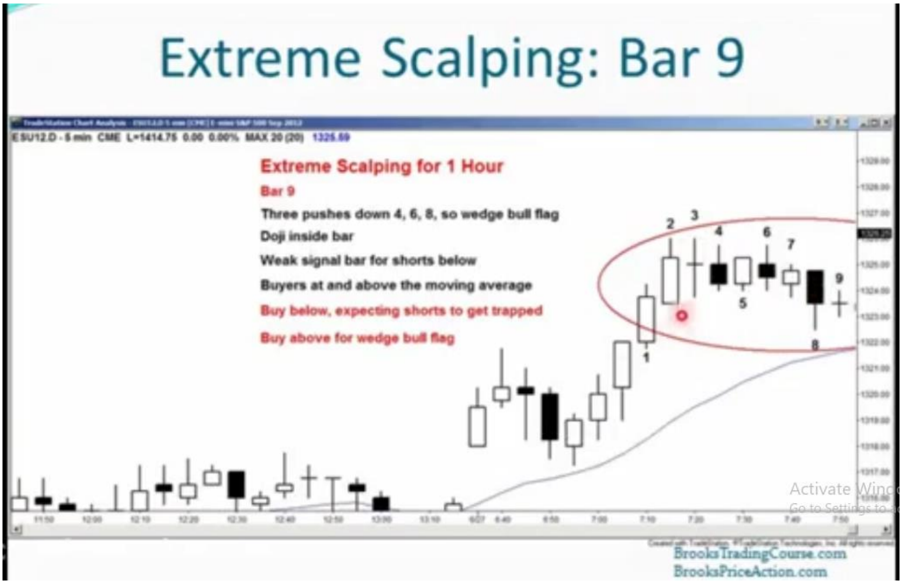
with a 1-point profit.



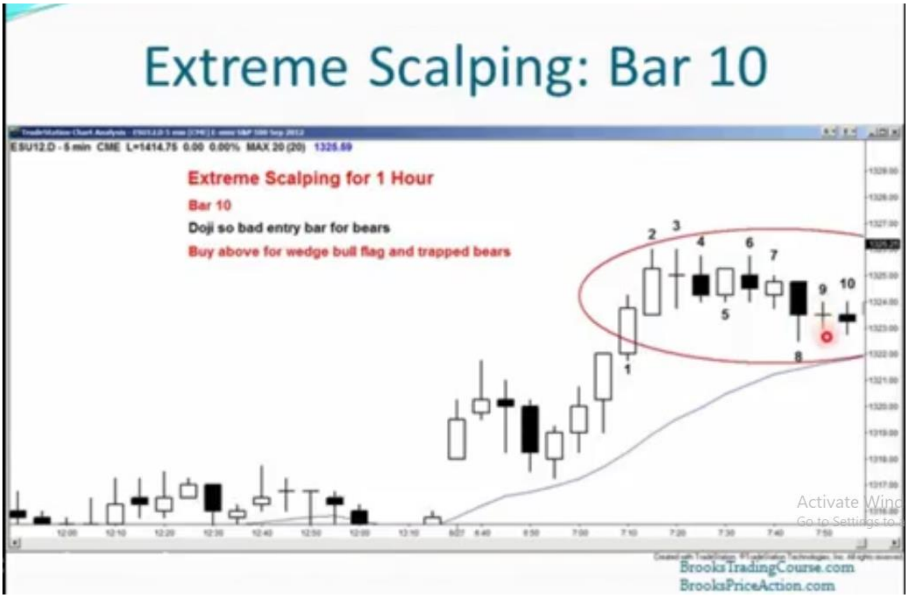
So, the scalpers get out with a 1-point profit. There's a big tail on the bottom of 8, so that shows that there's some buying.

And look, we have three bear bars. One and then a bull bar, two and then a bull bar, and then three. So this is three pushes down and it's a bull flag, so it's essentially a wedge bull flag. I would definitely get out of shorts. Buying above 8 probably makes sense, but I'd rather buy low. What about simply reversing to long and then scaling in lower? I think that's okay.

The thing I would be most interested in doing at this moment is taking profits on my short below 6.
Three pushes down, 4, 6, and 8.



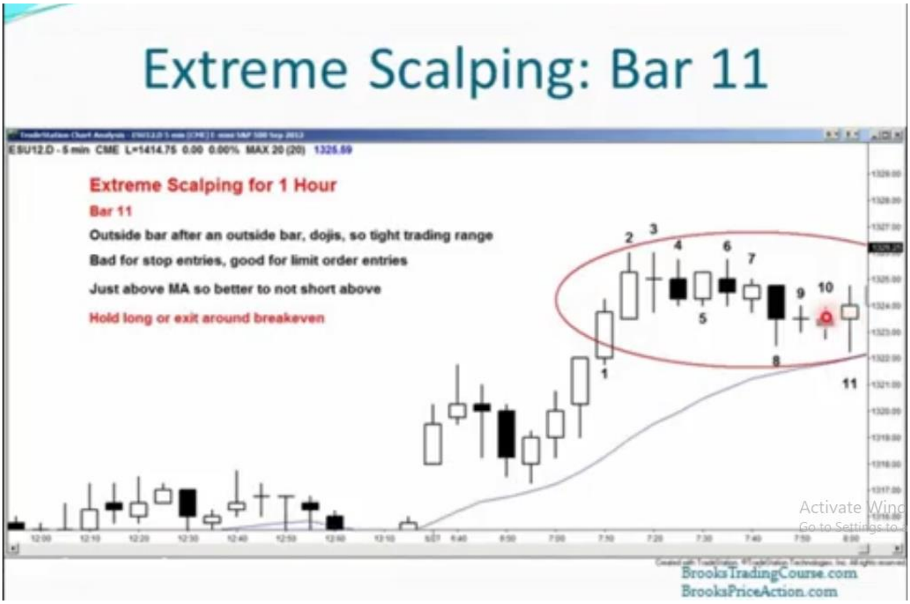
You have a doji inside bar for the signal bar for the wedge bull flag. It's a weak signal bar, but it's a pretty strong bull trend. There probably are buyers around the moving average, so it's probably safe to buy.
For the bears, they view 9 as a pullback from the 8 breakout. I think there'll be buyers not far below, so I think it's okay to buy the 9 low. I also think it's okay to buy above 9 because it's the signal bar for a wedge bull flag and a pretty strong bull trend.
I think the buy signal is still intact.



We now have 4 pushes down, 1, 2, 3, 4. So it's a channel with 4 pushes down, so it's a high 4 buy setup, and I think it's an okay buy scalp above 10. It probably was okay to buy the 9 low.

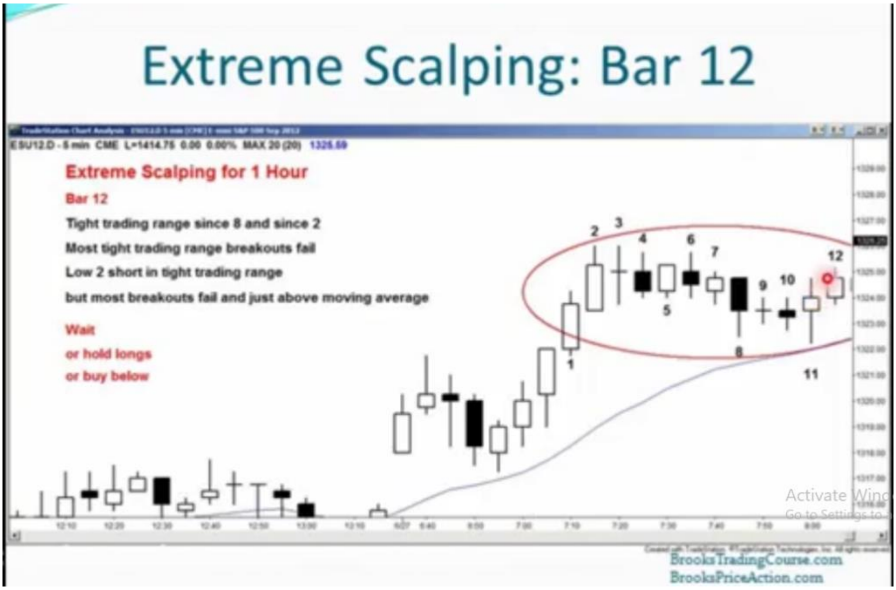
I say okay to buy the 9 low because I think it's a bad sell signal, so there probably are buyers below.

Outside bar after a smaller outside bar, so tight trading range.



We have a bar, outside bar, bigger outside bar, tight trading range.

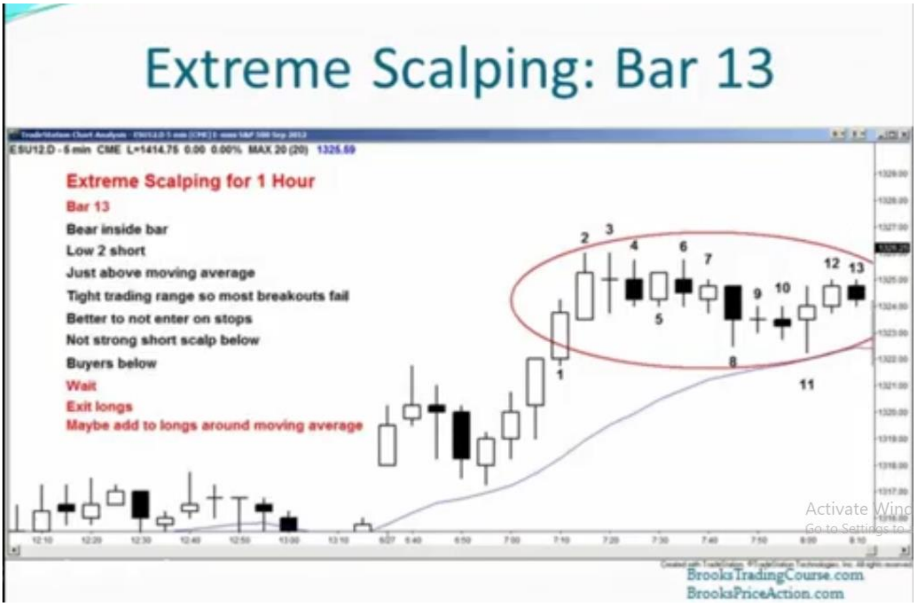
In general, bad for stop orders, good for limit order entries. It's just above the moving average, so I would not be looking too short. I would be holding long either from my long at the 9 low filled on bar 10 or I would be buying as 11 went above 10 and at this point probably put the stop below 11.



Still continuing as a tight trading range. Most tight trading range breakouts fail and we're trying to break out. You can argue this is a low too short. The first short is below 9, second short below 12. I would not take the short. We're still too close to the moving average.

I would continue to hold long either from buying the 9 low or from buying the 10 high and I would be trying to scalp out for 1 point if we go a little bit higher. My stop at this point would be below 11.

13, a bad bar for the bull case.



If you bought the 9 low, you've already scalped out for 1 point profit. If you bought the 10 high, this is basically a low too short. We went down on 8 and then up on 9 and then down on 10, 11 and then up on 12.

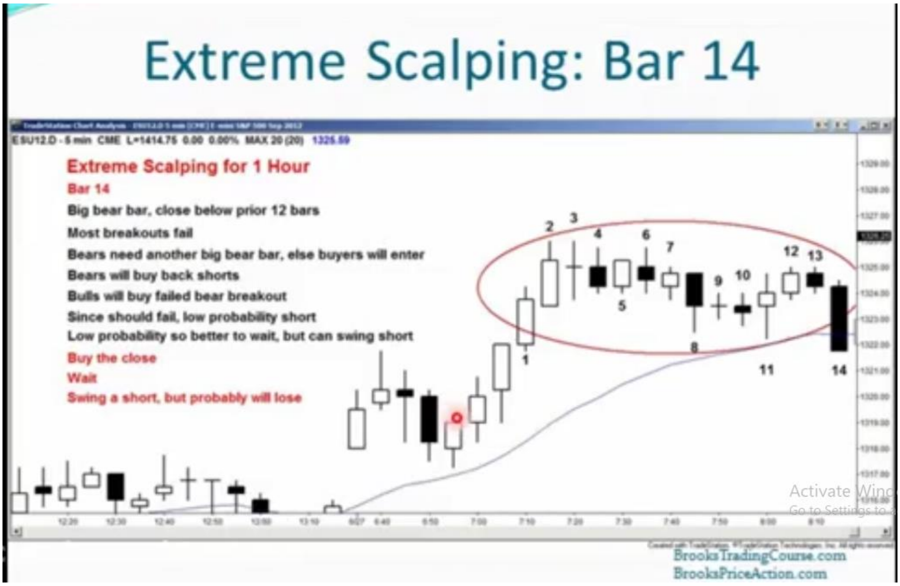
So, to me, had I bought above 10, I would exit below 13 and take a loss. On the other hand, if I was flat, I would consider shorting below 13 for the low too. There's room to the moving average.

Tight trading range, most breakouts fail. We're trying to break out of the top. So, this will probably fail.

I would debate, I don't know if I would take that short. I might take that short. There's enough room.

There are about 6 ticks down to the moving average for the short.

This is interesting.



We have a strong bear bar. The market's still always in long. This bar closed below the lows of the past 12 bars or so. So it's a strong bear breakout.

It reversed the lows of the past 12 bars. It reversed the closes of the past 12 bars. It closed below all the closes.

It closed below all the lows. All the bulls who bought in here right now are holding a loss. However, it's an attempt at a bear breakout, and I think the market's still always in long. And when the market's always in long, most bear breakouts fail. The odds are this bear breakout will fail. Aggressive bulls will buy the close of 14 and scale in lower, keeping a stop maybe below the low of the bull spike, maybe a tick or two below the high of the signal bar. So, I would not short, and I would not be holding short. Had I shorted below 13, I would have scalped out. Had I not shorted below 13, I would buy that close, the first close below the moving average, an attempt by the bears to reverse the market. They should fail. The market's still always in long.

The market went sideways a little bit and then turned up, and the bear breakout did fail.

APPENDIXES

APPENDIX I

"I trade five-minute charts, and I see something to trade on every bar of every chart all day long. I probably have looked at more five-minute charts than anybody on the planet. I probably have thought more about charts than just about anybody on the planet.

I'm very, very comfortable doing it. And doing it all these years now, ***it's been 40 years now****, it's still fascinating. Every day, I just love watching it unfold.*

One of the fun things for me is I see something happening in the market, and I have a good sense of what the possibilities are that will follow. And I'm never surprised by anything. I'm very comfortable with everything.

I feel like as things are unfolding, I know what's going on. I know what the buyers are thinking. I know what the sellers are thinking.

I know where the forces are. I know where the magnets above and below are. And it's very peaceful.

When I started out, I used to just tear myself up inside, because I couldn't understand why the market was doing something. If it looks like it's going up, and then it starts going down, and it goes down relentlessly, it would be really, upsetting. I remember having those feelings, but I don't have those feelings anymore.

I just know that it was very, very difficult. But then somewhere along the line, I started to get a very good understanding. And I'm at the point now that I'm just totally at peace all day long.

Even if the market is doing something crazy, making extreme moves. Those are the time, all the time. I just said, oh, look at that. It's doing that.
I save charts every day. I create maybe five or 10 charts of different things that happen during the day. And I file them away. I have, I don't know, probably 10 or 20,000 charts stored up. So, if I see something happening today, like a gap up, a bull breakout, and then a trading range, I can go look at my file of gap up, bull breakout, and trading range charts. And I can refresh my memory of what is likely to happen later in the day. So, ***it's a fun, it's a really fun game****.* ***And I just don't get bored with it.”***
Dr. AL BROOKS

APPENDIX II

44 maxims of the successful trader

In 2018 I started with the first steps in trading world, and after 10 years of trading the markets I learned **many lessons** and 44 maxims of the successful forex trader. In order to learn to trade forex (or any other financial market) you have to invest time and energy to become a successful trader.

1) You always suck at the beginning. Fall in love with the process and never give up. Do not be afraid to fail and make mistakes. It is part of the progress. There is always room to growth.

2) Nobody will believe you until you achieve it. Never tell about your plans.

3) Trading is one of the best jobs. You will learn more about yourself and human psychology than anywhere else.

4) There are no shortcuts. You are on your own journey to make it work. Learning to trade is an investment in yourself. If you want to learn to trade forex, stock, futures find yourself a forex mentor if you want to fas track your trading progress and save time.

5) If you are having a bad day, close the charts and go to the gym, or on boxing session. Thank me later.

6) When you become successful give something back to trading community. Giving back is trait of successful forex trader.

7) Trading plan is your daily guide to long-term trading success.

8) Trading journal is your best trading book. Trade, track, improve. REPEAT.
9) Be patient. Good things take time. Nothing is built over the night. Even the Rome was not built just in one day.
10) Find yourself a mentor, someone who is already where you want to be. You will be amazed how much time, energy and money you can save yourself in your progress.
11) Short-term results mean nothing. What matters is consistency over the long-run.
12) Forget about trading every day or week. Retail industry is fooling you.
13) Trading should be simple. Forget about the magic indicators and predictions. Price and high-time frames is all you need.
14) Always focus on the process. Money will follow.
15) Risk management is the key, if you plan your trading for the next 10-20 years.
16) Good trades always come. Do not try to find something and chase the moves.
17) PATIENCE. PATIENCE. PATIENCE. Patience to become a good trader, patience to wait for proper opportunities, patience once in the trade, patience with the slow markets,…
18) Trade less and achieve more. One of the main characteristics successful forex traders have is they trade same high-probability setups over and over again, on each and every trade they take. They believe in quality over the

quantity. Markets will be always there – never trade just for the sake of trading.

19) Before you make a trade ask yourself »Does this trade align with my trading plan?«.

20) You do not find consistency. You apply it. To stay consistent – BE CONSISTENT.

21) Always trust your trading rules and process. Stop watching other traders. If you want peace in your trading business, focus on your own trading style and process. Learn to trade forex by focusing on yourself and our trading.

22) Daily habits make you or breaks you.

23) Never complain and control your thoughts and emotions. Negative emotions such as anger, sadness, doubt are waste of your energy. Think positive and stay calm so you can make good decisions.

24) Focus only on the things you can control. You cannot control the market, but you can control your daily process.

25) You cannot be disciplined in trading, if you cannot make a bed or 10 push-ups every morning.

26) Mindset is everything. What you believe you can achieve.

27) Want something? Decide and take action. What you do today determines your tomorrow.

28) No one is responsible except yourself. Always take a look in the mirror before you try to blame anyone else.

29) Market is the BOSS. It does not care about YOU. Respect it and stay humble.

30) Avoid the media. Media is brainwashing you and saps your energy. Protect your mindset at all costs.

31) You need PASSION. Do not trade just to make money.

32) Find ONE trading style and become a really good at it. Own your trading process!

33) Focus on the ONE THING. Stop forcing everything. The man who chases two rabbits catches neither.

34) Never compare yourself with other traders or people. There is no competition. Focus on yourself and your own trading. Stick to your proven process, ignore distractions and everything will fall in place.

35) Stop caring what other people think. Who cares? If you have a passion for your trading, learn to trade forex and try to become the best trader possible.

36) It is all between YOU and the Market.

37) Always be open-minded. Read, lift weights, spend time outside, eat healthy. Healthy body leads to healthy mind. And mindset is everything.

38) Stay out of debt. You cannot trade properly, if your debts are weighting you down. Read books »Rich Dad Poor Dad« and »The Richest Man in Babylon«.

39) Forget a guaranteed monthly income from the trading. Trading is not working like that, and anyone who is promising you this is a liar.

40) You cannot be negative and grouchy, and still be successful. Be grateful, ditch negative people out of your life, and connect with open-minded, positive people. When you

are trading, having the negative mind and thoughts is the last thing you want to have.

41) Trading is a business, not a hobby. Treat it as a business and you can make it work. Treat it as a hobby and you will achieve nothing. Invest some time in your trading plan, trading journal, and learn to trade **forex** with the right trading skills and habits.

42) Live like a spartan. Simplify everything, narrow the focus on important things, manage your money well, take care of yourself, make money, train, read, produce not consume, respect others, …

43) Always have goals. If you are not waking up with a passion and drive, you are not living. You are just existing.

44) Never hate successful people. How can you hate someone who is successful, while you are trying to become one too?

REFERENCES

Technical Analysis of Stock Trends, Eleventh Edition
Robert D. Edwards, W. H. C. Bassetti
EN: Read Robert Prechter's summation of the fundamental methodology as an amusing endnote at the end of this chapter.
Robert D. Edwards, John Magee - Technical Analysis of Stock Trends (2001, AMACOM)
Al Brooks _Trading_PA_Trends
Al Brooks_Trading_PA_Ranges
Al Brooks_Trading_PA_Reversals
Reading Price Charts Bar by Bar_ The Tec - Al Brooks
Al_Brooks_Bulgaria+2014+Nov+28
WEBINARS
Al-Brooks-Traders EXPO-Subtle-Support-and-Resistance
Al-Brooks-Webinar-Distinguishing-Strong-Legs-TR-vs-Trends-May-3-2016
encyclopedia all
The Ultimate Guide To Price Action Trading, RANER TEO
How to Trade with Price Action
"The Handbook of Technical Analysis" The Practitioner's Comprehensive Guide to Technical Analysis; MARK ANDREW LIM, 2016
The Universal Principles of Successful Trading
Wikipedia.org, Price action trading.
Brooks, Al (2009). Reading Price Charts Bar by Bar: the Technical Analysis of Price Action for the Serious Trader.

Hoboken, New Jersey, USA: John Wiley & Sons, Inc. ISBN 978-0-470-44395-8.
Brooks, Al (2012). Trading Price Action TRENDS. Hoboken, New Jersey, USA: John Wiley & Sons, Inc. ISBN 978-1-118-16623-9.
Brooks, Al (2012). Trading Price Action TRADING RANGES. Hoboken, New Jersey, USA: John Wiley & Sons, Inc. ISBN 978-1-118-17231-5.
Brooks, Al (2012). Trading Price Action REVERSALS. Hoboken, New Jersey, USA: John Wiley & Sons, Inc. ISBN 978-1-118-17228-5.
Chicago Board of Trade (1997). Commodity trading manual (9th ed. ed.). London: Fitzroy Dearborn Publishers. ISBN 978-1-57958-002-5.
Livermore, Jesse Lauriston (1940). How to trade in stocks. New York, USA: Duel, Sloan & Pearce.
Murphy, John J. (1999). Technical analysis of the financial markets : a comprehensive guide to trading methods and applications (2nd ed. ed.). New York [u.a.]: New York Inst. of Finance. ISBN 0-7352-0066-1.
Neill, Humphrey B. (1931). Tape reading & market tactics. New York, USA: Marketplace Books. ISBN 978-965-00-6041-1.
Schwager, Jack D. (1996). Technical analysis (Reprint. ed.). New York, USA: John Wiley & Sons. ISBN 978-0-471-02051-6.

Edwards, Robert D.; Magee, John (1948). Technical Analysis of Stock Trends. Springfield, MA, USA: Stock Trend Service. ISBN 1-880408-00-7.