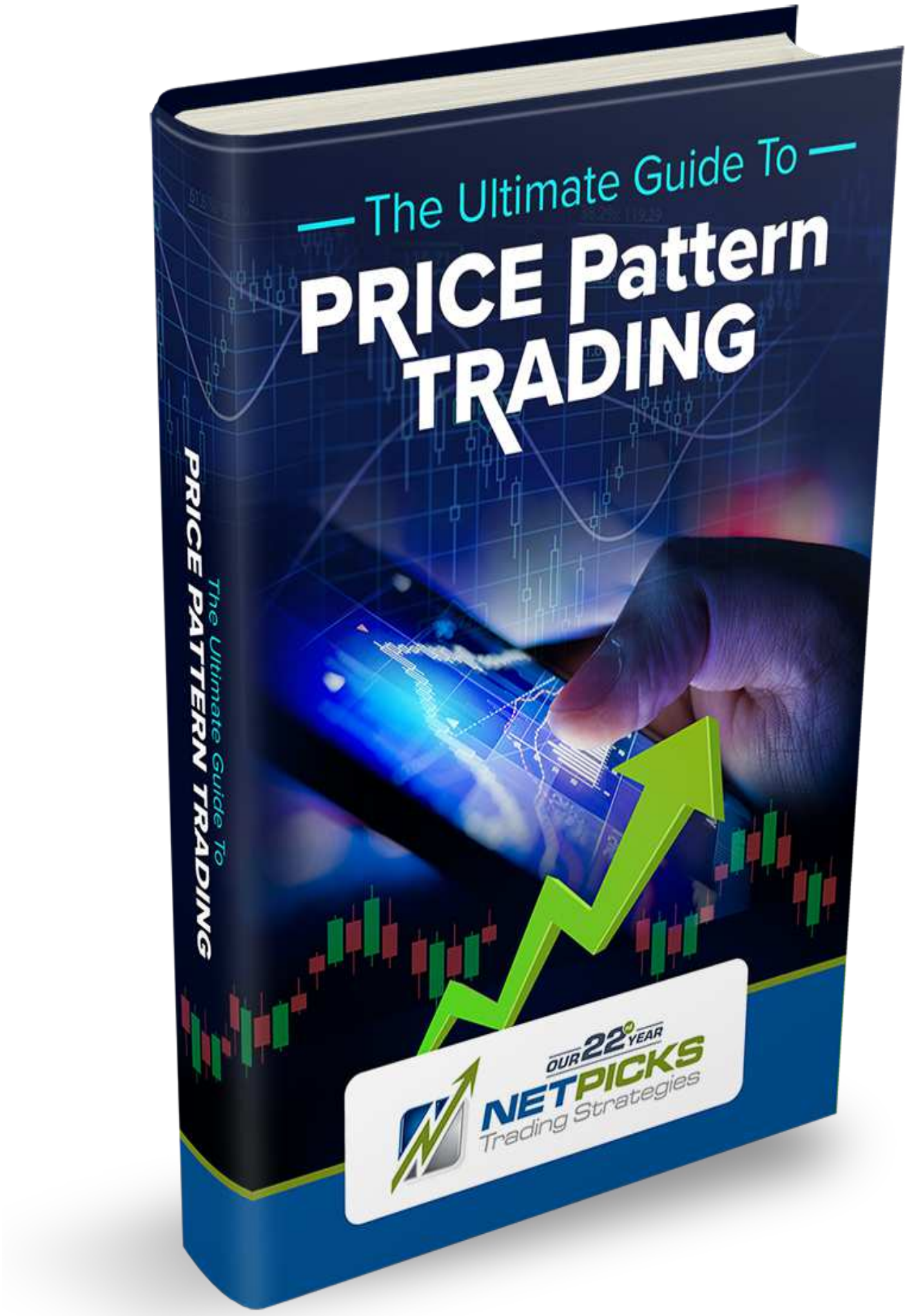

The Ultimate Guide To
PRICE Pattern TRADING
The Ultimate Guide To
PRICE PATTERN TRADING
OUR 22ND YEAR
NETPICKS
Trading Strategies

Introduction

Trading is hard.

The **act** of trading is simple.

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

Methods to analyse your charts are also simple but humans enjoy complexity yet that does not guarantee success.

Common theories such as moving averages act as support and resistance is flawed. When you start to look at the usual teachings with a critical eye and ask “why”, the theory starts to unravel and leaves the trader confused.

Simple works.

I'm not asking you to trust me. **I'd rather you not.**

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

You are going to lose.

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

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

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

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

They don't exist.

What does exist is how markets have always moved, how traders behave, and the subtle clues that show up that can point to the probability of one thing happening over another.

For that reason, there is no table of contents.

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

Ready to get started?

INTRODUCTION TO PRICE ACTION

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

Is it going up? Going down? Going sideways?

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

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

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

Once the supply of the item is running out, the value of that item will increase as long as there is sufficient demand for it.

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

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

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

Soon, the supply is so great that price drops to entice buyers. The more the demand falls and supply increases, price will fall.

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

When traders make trading decisions based on repeated price patterns that have formed, they indicate to the trader what direction the market is most likely to move.

3 Reasons Why You Should Trade Price Action

1. Price action represents collective human behavior. Human behavior in the market creates some specific patterns on the charts.

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

   That's why you see price hits support levels and bounces back up.

   That's why you see price hits resistance levels and heads down.

   Why? Because of collective human reaction!

2. Price action forms structure to the market. You can't predict with 100% accuracy where the market will go next but structure can help reduce uncertainty and show you the probable next move of the market.

3. Price action helps reduce market "noise" and false signals. If you are trading with stochastic or any indicator, they tend to give false signals.

   Price action is not immune to false signals (think failed breakouts) but it is a much better option than using indicators as your prime trading tool as indicators because they are derived from the raw price data.

Does this mean a trader will not use a trading indicator?

No.

A trading indicator may still be used but **price action is the main focus** when it comes to the ultimate decision to put risk on in the market or to sit on your hands.

Why You Should Care About The 4 Market Stages

Markets do not move in a straight line up, down, or sideways. There is an alternation of movement that forms that basis of not only of an increase or decrease in price, but also of the overall market direction.

Stage One: Accumulation phase

This is the phase preceding a bull run that comes after a sell off where you can start to position before the move begins. This is the zone where informed traders start to accumulate positions and the market is virtually ignored by other traders.

This accumulation must be done in a way as to not get on the radar of other traders. **Bigger traders are attempting to build a position** at low price and any not draw attention.

More buyers could rapidly increase the price and this is not what you want to happen when attempting to gain a position.

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

You can increase your chance of labelling these price areas:

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

Stage Two: Markup (participation) phase

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

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

Stage Three: Distribution Phase

This sets the stage for a bear market.

One thing you will notice is that price movement is not as smooth as in stage two.

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

This is where traders who've held positions begin to unload. They don't want to do it quickly as to cause a rapid drop in price.

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

Larger players can then unload at higher prices.

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

Stage Four: Mark Down Phase

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

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

In Forex, things are a little different when thinking about the mark down phase. You have replaced what you believe was a strong

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

Why Are We Covering The Bigger Picture?

We can consider this the natural evolution of price. These four stages can be identified on the earliest charts ever plotted.

These four stages also occur on a smaller scale on all charts and all time frames.

This means **you can build an entire price action trading plan** around:

- price trending
- price consolidating

You can use what shapes price, the forces of mean reversion and momentum, in order to trade.

Why?

Because that is what markets have been doing since the beginning of time.

Note that these four stages can be difficult to see at times and generally only after the moves have started. The explanation of these four phases was to get you to see the different ways that markets move.

This will become valuable very soon.

Plotting Price: Candlestick Overview

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

Variations of the basic design, **at a few specific locations**, can give valuable information. That will be covered later.

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

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

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

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

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

1. Lower shadow on a candlestick mean lower price rejection and may be of interest depending on location

2. Strong momentum candlesticks show conviction in the direction and in this example, it is to the downside.

3. This candlestick is "out of the ordinary" and often represents a climax in price. In this case, it could halt, at least temporarily, the down move in price.

4. The upper shadow indicates a probe into and a rejection of higher prices. Like the lower shadow, location is important.

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

Swing Analysis - The Importance It Holds

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

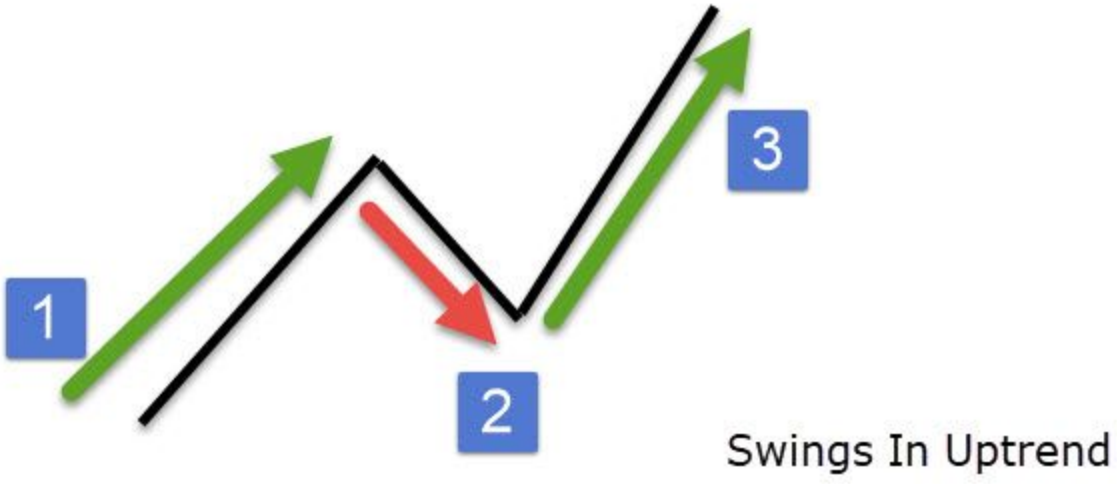
There can be different directions between higher and lower time frames and what will be covered is not time frame dependant.

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

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

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

What I don't want you to do is fire up some technical indicator or start looking for chart patterns. We want to see what the different aspects are between a trend and a range.



Just by a quick glance, what is it that you notice about each of these swings? How are they different? Does one appear stronger than the others or are they the same?

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

1. This is the impulse leg and we want to see a strong thrust in price that shows that buyers are still excited about taking positions in this market.

2. This is a retrace or corrective move in price. In order to be confident that we have some strength overall, we want this pullback to be small and **generally**, without strong momentum candlesticks.

3. This is the continuation of the trend and we want to see continuing strength in this second impulse leg.

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

When you see a strong trend as depicted in the graphic, are a rule of thumb do not think about counter trend trading.

There is a place and time for that and we will cover that as well and we can determine, through price action, when a counter trend trade may be a risk you can take.

A market that is climbing higher will, of course, put in higher swing highs and higher swing lows.

That is the pattern in an uptrend and the reverse is a downtrend.

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

1. We don’t want to see strong corrections against the trend like we do here. There is a consolidation at the end of the thrust which may work off the overbought condition of the market without needing another push down. Price resolved at support.

2. Another new high and push down in price. Momentum candlestick can’t break support which could mean buyers are stepping in to support price.

3. Price rises and a small pullback occurs with more of a consolidation. When price breaks the high and can't continue with strength, this is a red flag for a long trade. When price broke down and failed to rally, a short trade could be justified with **conservative profit targets** until/if a new trend is established.

4. Price breaks support and regains over support within 3 candlesticks. That is a sign that bulls are back in business.

5. **This is a special move.** The trend is grinding higher with very little retrace or range. It may be counterintuitive but a low volatility move like this can point to at least a short term trend change. Why? It is loaded with longs. Loaded with traders just piling in. Think of shaking a closed soda bottle. You load that up and when it finally pops, it does with a bang.

Takeaways

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

Swing Analysis - Trends To Trading Range

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

What is a trading range?

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

Trend To Range

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

When seeing a price pattern where the red star is, consider a consolidation is beginning until proven wrong. Why jump to conclusions? Use what you can see.

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

Traders that positioned long prior to the final push up, would be seriously considering the trade they are in.

Is this the beginning of a sideways consolidation?

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

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

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

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

After a strong run in price, you can look for complex pullbacks to occur and after one or more simple pullbacks.

Takeaways

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

Explosive Price Moves Can Be Dangerous

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

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

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

1. Price breaks former resistance with momentum and you can see that these two candlesticks are much different than any in the swing up.

2. If the strong momentum didn't put you on alert, the thrust above highs and immediate failure should have lowered your

expectation for a smooth pullback trading opportunity.

3. You can use a trend line to connect previous peaks and watch as price approaches the third touch. Price breaks above this trend line twice again giving you pause on taking a continuation trade on a pullback.

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

Takeaways

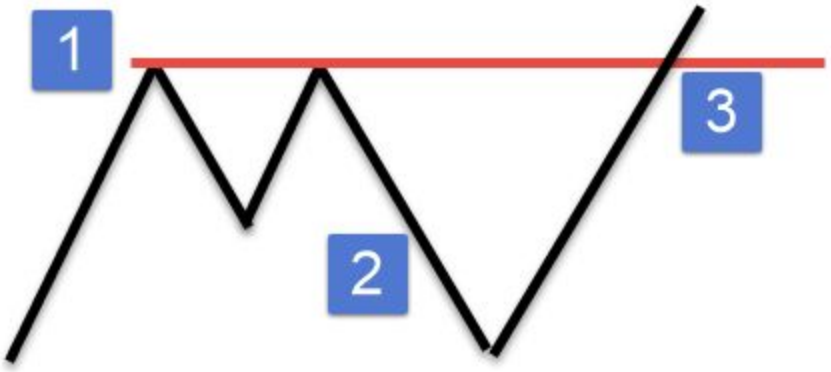
- Strength is good. Too much is not.
- We can use an objective means to determine if the momentum is too much
- Too much strength is a sign that the chance of a complex correction and/or extended consolidation is possible

Support And Resistance: Is It Really There?

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

But can we always know them in advance? No.

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



1. Is this resistance? Be specific. It's not until price actually resists at that point

2. Yes, it was resistance. Is it still resistance?

3. No. Potentially it was, but price cut through it

The point is not to label a price point support or resistance as price approaches it. It could turn into it but each time price is coming back to a zone it could **potentially** be turned back.

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

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

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

Do you see an edge with good levels?

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

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

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

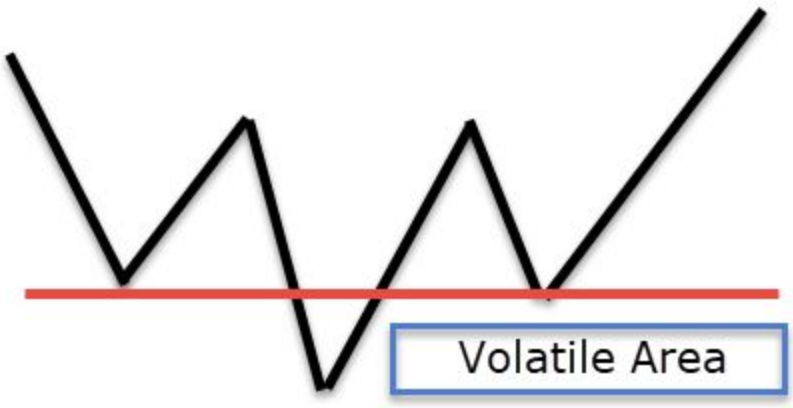
Use levels that are obvious to everyone with a degree of space around those levels. We can have an objective way to measure the space and that will be discussed next.

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

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

Look Inside The Swings

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



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

We can argue there are many reasons for that but to keep it simple, let's assume that when price looks to challenge extreme points, more competing participation takes place.

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

In reality, this won't look as clean on a chart but if you train your eyes to see them, it does get easier.

This is a gold chart and the white lines begin from swings that precede the extreme points on the chart. Some are clear on this chart while others will require you to zoom in so you can see the anchor points of these lines.

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

The Concept Is Important

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

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

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

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

The key takeaways:

- How do you know the levels you are plotting on your price chart are any better than a random level?
- Look for levels that are extremely obvious
- Use levels where price has shown previous reactions
- These are not precise points. Use a wide range around the levels you choose

Support And Resistance During A Consolidation

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

Is randomness a trading strategy? No.

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

How do we know when price is consolidating?

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

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

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

Two things can come out of a trading range:

1. We see a trading range and we expect the market to continue to in the same direction once there is a breakout.

2. Price may be in an accumulation range or distribution range which will result in a trend change.

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

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

- Stronger bear candles in terms of range

- Failure of price to break resistance after basing under it

Can you see why support and resistance, in relation to trading ranges, seems to be less random?

- Price action shows end to trending pattern
- Price is not showing distinct trending action inside the main pivots
- Drawing lines at pivots contains most price action

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

Any clues to an upside break?

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

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

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

Let's take a look at another continuation range

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

1. Price couldn’t hold on the momentum push lower and immediately regained support

2. Basing below resistance which can give you a great entry prior to break

3. Momentum push and tight range at high of momentum candlestick - bullish

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

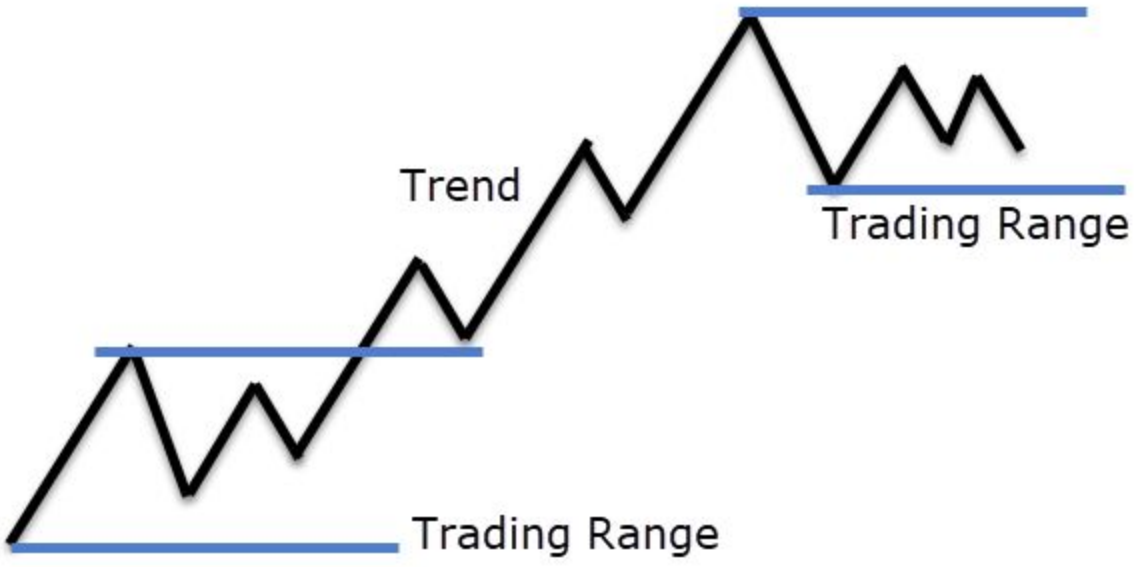
Takeaways

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

The A-B-C Of Price Evolution

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

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



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

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

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

Price will:

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

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

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

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

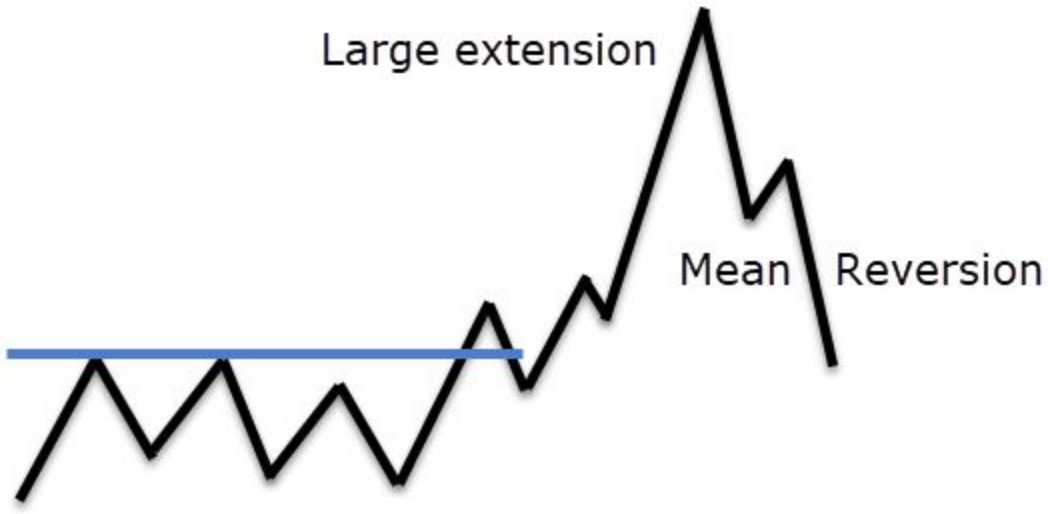
For these, I simply wait for price to "settle" and trade from a sideways consolidation or a bull or bear flag.

The 2 vital takeaways are:

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

Mean Reversion Trading

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



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

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

Not all mean reverting markets are worthy of risk.

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

Some reverting markets are worthy of risk.

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

1. As price starts to pull away from initial trend lines, you start to fan the trend lines when applicable. In general, try to make sure **that last swing before the peak (or trough) in price, has been connected to a trend line.**

2. After two weeks of upside, a strong momentum candlestick pushes to the upside and in the next few days, price does not continue in the direction of momentum.

3. We have price plotting a high over the resistance zone of the two day consolidation and immediately rejects.

Given the context of this chart:

- Fanning of trend lines due to rapid upside in price
- Increased momentum and failure of momentum to continue
- Strong rejection of highs

this is a perfect setup for a mean reverting trade.

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

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

1. Trend lines continue to increase in angle indicating a stronger run in price to the upside

2. We talked about swing analysis earlier and in this example, start to compare the personality of each pullback and subsequent breakout

3. We have price making an upper shadow and rejecting highs. The pullback from this leg takes back 5 previous days gains. The next swing can't make a new high and the red candlestick closes in the bottom half of the previous candlestick

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

- Traders may wait until the highest low is taken out

- Traders may use an upsloping trend line on the pullback and enter on a break. This is a good method when the corrective move is a momentum move.

- Some traders would use a lower time frame and look for a bearish pattern when price attempts to make a new high

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

Takeaways:

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

Trend Continuation - Function Of The Market

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

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

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

Prior to the pullback beginning, some traders will get into the pullback via a mean reverting trading strategy. **Their exits can help propel our trade** as we position for a trend continuation trade.

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

This is BTCUSD - Bitcoin - and it's important that you know that **regardless of market but with minor variations**, what we've been discussing applies.

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

1. This is a simple pullback(?) into a former resistance zone that is now acting as support

2. A complex correction emerges and in this example, price pulls back into the support zone from #1

3. This pullback has a little more momentum to the downside that is quickly recaptured by the either buyers or shorts exiting their short positions.

4. Simple pullback into support

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

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

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

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

With that in mind, we are initially looking for a trend continuation to the upside. It is possible that the trend may be terminating and we

will look for signs of distribution or accumulation depending on context.

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

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

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

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

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

Four Hour Chart

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

1. The is a hard slam against the trend and is **not something we want to see** in a pullback. If you saw this, you may have sat on the sidelines when price began to move back in the direction of the trend. *Go back to the swing analysis section if needed.*

   Strong momentum moves like that at turning points will often set you up to position in the counter trend direction for a quick

trade.

2. You can see the second leg has a **different character** than the first leg. This is more in line with a pullback that we may want to position in.

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

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

   After the rejection and breakout, price pulls back again and starts to base just under the down sloping trend line. This is another location to position in.

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

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

Not All Pullbacks Are Clean

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

Taking a look at "B", there are some things that should now be becoming obvious to you:

- The initial leg before the small rally has momentum and from our swing analysis section, we'd rather not see this type of action

- Again from the swing analysis section, the trend has moved into a trading range and price action inside of ranges, unless at the extremes, can be difficult to get a handle on

- We have a measured move target at the green line where we would expect price to come relatively close to

- From our candlestick section, we see the rejection of lower prices and then upside momentum steps into the market.

This example shows what was discussed in “The A-B-C Of Price Evolution” section.

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

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

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

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

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

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

Price stops and lower prices get rejected.The momentum bear candlesticks are replaced with momentum bull candlesticks.

An obvious change of character with this chart.

How Do You Enter Pullbacks?

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

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

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

1. Momentum candlesticks in the direction of the trend during a pullback can be a sign of the trend continuing

2. Probes and rejections of lower price (in an uptrend) indicates the balance shifting back towards the upside

3. Lower time frames can be monitored for an x-ray view into higher time frame candlestick formation and signs of trend continuation

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

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

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

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

- Price traded down into a support zone (will it hold or fail?)

- The largest green candlestick in recent price action appears in the support zone indicating support is holding (momentum has stepped in)

- Still below the trend line (would you still enter?)
- Price gaps showing strength
- You can buy stop over the high of the momentum candlestick. That's a problem if the interest causes a gap in price
- Enter prior to candlestick close
- Enter at next day open (paying slightly more)

Trade Entry Using Lower Time Frames

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

Also ensure you are consistent with the lower time frame you are using. For this example, I am using the daily chart as the trading time frame and the lower chart is 30 minutes.

1. Strong momentum off the lows and price resolves into a trading range. The only way we can get a further up move is from an upside breakout. We are trading a breakout in the context of the possible resolution of a pullback and not the breakout itself

2. You can use probes below with immediate lower price rejection as an entry which will have you positioned before the breakout.

3. As with the daily chart, you can buy stop the high of the momentum candlestick in this example. Remember that pullbacks from a strong breakout are normal

To expand on point #3

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

Takeaways:

- Pullbacks are a common market movement that offer a trading edge
- Look for a strong set up leg that you would assume calls for another leg in that direction
- Pullbacks can come in different forms - the common ones are simple pullbacks and complex pullbacks
- Momentum inside the pullback legs is not a good sign and we can often see price evolve into a trading range after a correction with momentum
- Lower time frames can be used so traders can monitor price action during the pullback and look for signs of the reengagement of the trend

Trading Ranges - Breakouts - Is There An Edge?

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

The usual guidance on breakout is that they fail. Some do but not all and our job is to find a way to determine, through price action and structures, which ones have a higher probability of being a success.

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

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

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

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

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

Trending Patterns

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

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

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

Accumulation Inside The Range

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

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

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

You must ensure you have risk protocols in place that will protect you if the low of the range is broken with momentum. These can break hard against you and if they do, ensure you are not trading based on "hope".

Range Inside A Range

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

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

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

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

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

1. This candlestick is trading inside the range of the previous two candlesticks and appears that day after price closed off the lows of the previous day.

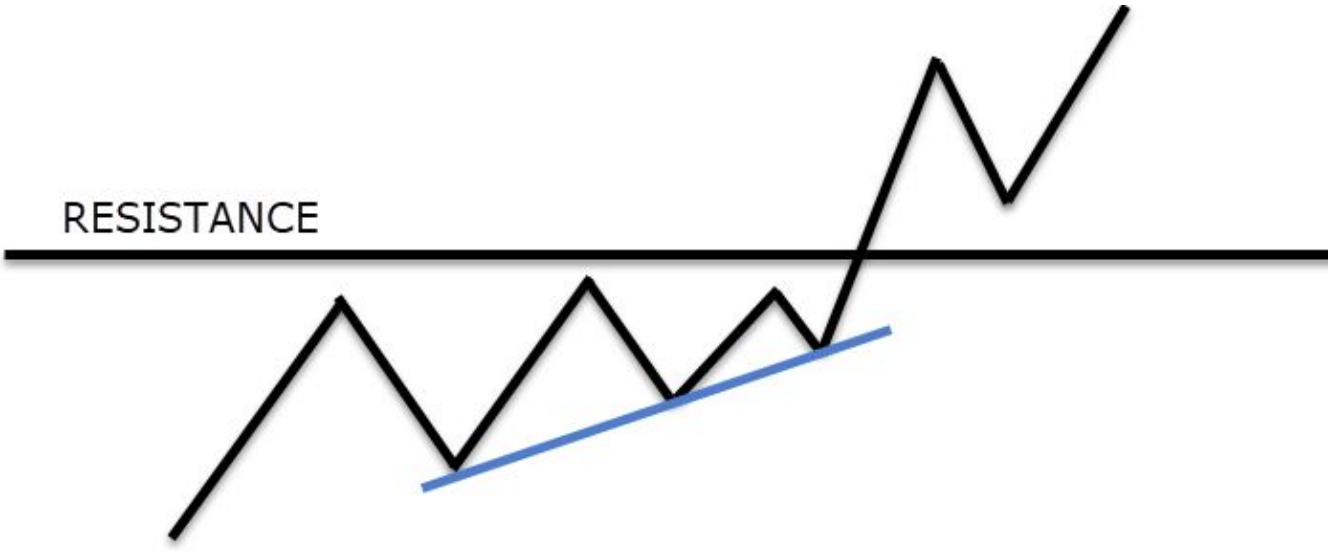
2. This candlestick is inside the range of the previous candlestick which indicates a type of volatility compression. Inside of that candlestick, we find our range on the four hour chart.

Enter After The Breakout

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

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

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



I want to show you a perfect example of what a good breakout would look like. Remember, you missed the entries prior to the break and are looking to position after price has broken from the range.

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

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

Here we can see the range and a strong break from that range. After a 25% increase in price, a pullback emerges and you should be seeing a complex pullback (2 legs) had evolved.

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

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

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

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

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

The dotted green line highlights the support zone of a mini range inside the bigger range. Placing your stop below zones like this afford you the benefit of holding valid trades even when breaching back inside the zone - **which is common and should be expected**.

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

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

Takeaways:

- Breakouts are a normal evolution of price and should not be ignored as a viable trading method
- There are certain patterns that can signify the breakout has a chance of succeeding
- Trading the patterns inside the overall range while not guaranteeing success, puts the odds in your favor.
- If you miss pre-breakout setups, you can trade the pullback after the break and all pullback trading rules apply

Summary Briefing

In these pages, you have learned a framework that you can use to approach any chart with a price action mindset.

You must now do the work and assemble this information into a trading plan that you can use in your trading business.

Some crucial elements have not been covered that must be addressed in order to complete a trading plan and to give yourself every chance of finding success in trading.

I have listed resources below that are a must read and are a tremendous addition to the material we have covered:

- Backtesting Secrets Revealed
- Here Are 2 Quick Ways To Set Your Stop Loss Order
- Use Market Conditions For Profit Targets
- 3 Ways To Tame Trading Psychology Problems
- 6 Trading Insights From Some Of The Best In The Game
- What Is Your Profit Factor And Trade Plan Expectancy

All of us at Netpicks wish you well in your trading journey.