First Trouble Area (FTA)

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I am not a financial advisor and hold no formal qualifications in this area.

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General Remarks

- I <u>urge</u> you to watch the video on Time Frames and the video on Trade Management before watching this one.
  - No, seriously. Just pause this and go watch them. Trust me, you'll struggle without doing so.
- One of the more complex topics in this series, but almost guarantee you'll have a eureka moment towards the end when all the concepts are brought together.
- Don't need to trade support/resistance to use this framework, but that's where my experience lies.
- System almost certainly needs to afford some reasonable degree of discretion for FTA framework to be useful.
- Small pet peeve!

Acronym Explained

- FTA = <u>F</u>irst <u>T</u>rouble <u>A</u>rea
- Definition: The support/resistance structure nearest to price*
  - If market is rallying and/or for long positions: FTA is the nearest resistance structure
  - If market is falling and/or for short positions: FTA is the nearest support structure
- Broadly-speaking we're trying to ascertain where the market is most reasonably and most likely going to give our trade some trouble, and use that area (FTA) to manage the trade
- Underlying logic: The market doesn't care about where you entered or where your take profit is. FTA is a tool for identifying areas where probabilities may shift unfavourably and therefore areas to 'pay attention'.

FTA for Profit-Taking

- Principle: *FTA can be used for take profit orders on positions*
  - Long position: Take profit orders at FTA i.e. nearest reasonable level of resistance
  - Short position: Take profit orders at FTA i.e. nearest reasonable level of support
- Underlying logic: As before, price doesn't care about your entry and/or your 'ideal' take profit level. Position was established at/near a reversal point in the market, and therefore position will be closed at/near a reversal point in the market. Within reason, we do not take levels for granted.
- This one is really as simple as it seems, but some nuances later.
  - Bought support → get out at nearest reasonable resistance
  - Sold resistance → get out at nearest reasonable support
- Benefit: Take profit orders determined (and placed) in advance to deter from emotional or suboptimal trade management later e.g. when greed or FOMO takes over, PnL trading etc.
  - Also, despite discretion, adds <u>replicable logic</u> to profit-taking element of one's system

FTA for Trade Management

- Principle: *How price reacts at FTA can generate trade management signals*
  - Especially applicable when dealing with large, high time frame swing trades where there's likely to be a lot of 'empty space' between Entry, Stop, and Target
- Underlying logic: If your (high time frame swing) trade idea is correct, price should be able to overcome interim (lower time frame) levels along the way
  - E.g. If trading from Weekly resistance to Weekly support (short), Daily support along the way must break for the idea to be correct
  - E.g. If trading from Daily support to Daily resistance (long), Hourly resistance along the way must break for the idea to be correct
- If a market fails to break (lower time frame) FTA:
  - Evidence that it's not ready to break out/break down (and will likely revisit entry)
  - Evidence of strength (if FTA support holding) or weakness (if FTA resistance holding)
  - Signal:
    - Close the trade (aggressive)
    - Prepare for retest of entry structure (do nothing/conservative)

FTA for Trade Management II

- If a market succeeds in breaking (lower time frame) FTA:
    - Evidence that your trade idea is on the right path
    - Evidence of weakness (if FTA support broken) or strength (if FTA resistance broken)
    - Signal:
        - Compound/add to position* (aggressive)
        - Move stop loss to new invalidation at FTA structure
        - Do nothing
- Remember that this is a different FTA use case
    - Two FTAs at work:
        - Take profit for the swing trade (where you <u>exit</u> the trade)
        - First reasonable obstacle between your entry and your target (where you <u>manage</u> the trade)
- Another reasonable question: How to find trade management FTA for swing trades?
    - Answered in Time Frames section

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FTA for Trade Entry

- Principle: *When price is moving between (high time frame) levels, and a trade at the (high time frame) level itself is unfavourable, a position can be established on a break of FTA*
  - Also valid if the market is in the middle of nowhere/between levels
- Underlying logic example:
  - *“$6000 is weekly support, but I am not comfortable buying it given it has been tested too many times. I need more proof. If the move from $6000 (weekly) breaks daily resistance at $6300 (FTA) I will enter a trade.”*
- This is the closest I can articulate a non-charlatan version of entering after ‘confirmation’
  - I want to buy a level of support. My conviction is not high. If this support is going to do its job, it should have no issue breaking nearby resistance (FTA). Therefore, I will only enter if nearby resistance (FTA) is broken. → Bullish example
  - I want to sell a level of resistance. My conviction is not high. If this resistance is going to do its job, it should have no issue breaking nearby support (FTA). Therefore, I will only enter if nearby support (FTA) is broken. → Bearish example

FTA Time Frames

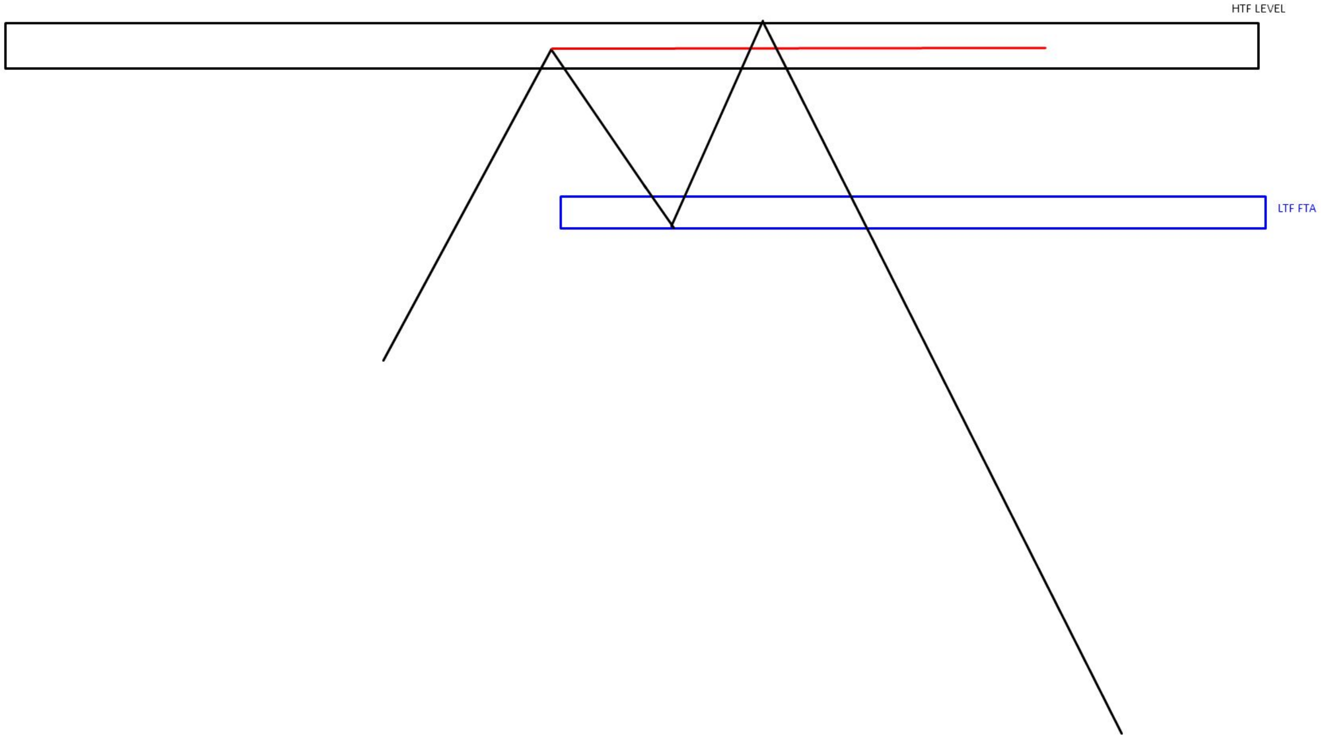
- Watch the Time Frames video
- FTA for Profit-Taking
  - FTA for profit-taking is ascertained on the same time frame as the trade idea
  - E.g. if buying weekly support, FTA for profit-taking is nearest weekly resistance
  - Common mistakes (both extremes):
    - Trading crumbs at HTF levels
    - Expecting mushroom clouds from LTF levels
- FTA for Trade Management
  - FTA for trade management is usually ascertained on one time frame lower or on the same time frame for big swing trades/depending on the context
    - Monthly idea = Weekly FTA
    - Weekly idea = Daily FTA
    - Daily idea = Intraday (H4/H1) FTA
  - Experiment with this as it's a balancing act. No LTF consideration = miss important management signals. Excessive LTF consideration = overmanage the trade/give too much weight to noise.

FTA Time Frames II

- FTA for Trade Entry
    - FTA for trade entry ascertained on one time frame lower or on the same time frame for big swing trades/depending on the context
        - Monthly structure = Weekly entry or Daily break of FTA
        - Weekly structure = Daily or Intraday break of FTA
        - Daily structure = Intraday break of FTA (spectrum from H4+ to M5-M15)
    - FTA for trade entry ascertained on same time frame if the area is crowded/not a lot of room between levels
- I wish all of these guidelines worked seamlessly or self-evidently in every instance, but they don’t
    - Exercise your discretion
    - The wording is deliberate; these are <u>guidelines</u> and what has worked for me personally
- Balancing act
    - Blindly Entry/Target/Stop trade with 0 external factors or management cues = very likely leaving something on the table

Swing Trading Tips / Clarifications

- Refuted the idea that taking profit at FTA = impossible to swing trade
  - Misconception: Buy Weekly resistance close at Hourly support etc.
- Time frames and context are crucial → use some 'common sense'
  - E.g. Is it reasonable to derive strong views about a weekly time frame swing trade based on a short-term reaction at M15 structure? → Probably not
  - E.g. Is it reasonable to manage a daily time frame swing trade if price gets stuck at (or breaks) an outstanding H4 level between your entry and your take profit? → Probably
- If you're trading 'First Test Best Test', and a reasonable FTA has not yet been broken, you should almost always be able to stomach a retest of your entry
- Time frames are not mutually exclusive e.g. a Weekly area is also likely a Daily area etc. → always defer to the higher time frame
- Swing trade graveyard pattern:
    - Enter at HTF level → Price reacts nicely → Stop moved BE → Price retests HTF level (as it often does) → Trade Closed → HTF move materialises


HTF LEVEL
LTF FTA

Conclusion

- Concept of FTA is a versatile tool
- You don't have to pick all (or any) use cases
    - Personally, I use all 3
- Like most concepts in the Technical Analysis Series, these are guidelines to develop a framework and better inform the way you exercise your discretion as traders → <u>not</u> an easily transplantable set of mechanical rules
- Context is king
    - All we're doing is using a framework that can cater for the intrinsically dynamic nature of a moving market
        - (Sounds like that was pulled from my arse, but if all we *ever* had to do was Entry/Target/Stop *ad infinitum* then we'd all be rich)
        - At the very least, we have articulated a consistent framework for profit-taking

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