In this lecture we are going to talk about what can be interpreted as the reverse Von Restorff effect in a market manipulation maneuver. If you watched the market maker strategy video course and the price action trading volume 1, you know that the Von Restorff effect is part of the tridimensional axis of market manipulation where we have the Von Restorff effect, the reverse psychology effect, and the bandwagon effect. These three elements in combination form the archetype so to speak for most of the market manipulations we can spot on a chart.

However, as you may be getting used to already, there are many possible variations in the way price action develops. The Von Restorff effect happens when we have a powerful volatile movement leading into a market extreme. This movement gives the impression that the market will break the nearby extreme and continue the trajectory implied by the large move. Retail traders interpret that as a sign that the market will indeed break the next high or low, and then they start to get confident about the old breakout trading techniques where they simply buy the breakout of a high or sell the breakout of a low.

From the market maker perspective, a powerful move in the direction of a market extreme like that is just a way to induce retail traders off the cliff metaphorically speaking. Large traders are well aware that retail traders attempt to get in their positions using this obsolete method of breakout trading, which is terrible when you put it under the examination of trade location and timing. In fact, it couldn't be worse in terms of trade location, meaning that if you enter in the breakout of a market extreme, you are theoretically entering in the middle of nowhere in the chart, so your correct stop loss order will be too far away, and consequently, your take profit target will inevitably be reduced.

That is of course if you still respect the correct stop and target placements, which also doesn't happen if you are a certain kind of retail trader. In reality, these retail traders that are easily maneuvered by large traders will use stops and targets based on cash, which is something that makes absolutely no sense if you think about it. A stop and a target based on cash presumes that the market respects your expectation of how much you should win or lose in a given trade, which is an absurd idea. How much you are going to win or lose must come from the market itself, not from your expectation. A smart trader will use that as a filter to get in the market or not.

For example, if you have an apparently good entry opportunity with several lines converging to the same point almost perfectly, but you don't have a good place to put a stop loss order, and not nearly enough headroom to let the trade breath so to speak, you shouldn't enter the trade at all. People still do of course because of the fear of missing out an opportunity. When a trader believes that entering a position like this is a good idea, it's because he doesn't understand the statistical effects of taking several decisions exactly like this over time.

For some reason, people tend to look at their decisions as if they were isolated in time, but that's not what happens in reality. This is also why Daniel Kahneman won the Nobel Prize in economics for the discovery of the Prospect Theory. This failure in judgement about how decisions occur across time is what makes people perceive the same decision in different ways depending on how this decision is framed, which is exactly what the Prospect Theory proved. The moment you understand all of that, your performance as a trader will get better because you will filter out opportunities a lot more. You will always think about what will happen to your equity if you take a series of such decisions across time, and then you will have a clear picture of what you should do.

Going back to the technical side of this lecture, observe that in this chart we have a running flow to the upside. In number 1 we have a solid low, given that number 2 surpassed high number 0. It's not clear which low you should consider as the extreme as we saw in a previous lecture, but for all intents and purposes in a first moment, it's the lowest one. In the vector 2-3, price comes back down near the level of number 1, and this is where the strange reverse Von Restorff effect happens.

Notice that we don't see a powerful move driving the market down in the direction of low number 1, but an interesting thing happens. Once the market closes below the level of number 1, the very next bar increases its volatility to the upside dramatically. If we examine this quickly, it's the opposite of what you would expect if you had a manipulation maneuver in mind. In a classic manipulation let's say, we would be able to see a spike down preceded by an increase in volatility driving to the downside, and the market would not close below number 1 either.

Here we have the exact opposite situation. The market did close below number 1, it didn't produce a powerful drive down, and it didn't produce a spike. The moment we see a large bar up after the violation of low number 1, the only valid interpretation is that the market was casually going back down as if low number 1 was not an important level at all, otherwise it wouldn't break it so easily as it did, and then as soon as the market got below low number 1, there was a massive buying pressure hanging out. All of that makes sense from a market maker perspective too.

When low number 1 is broken down, a lot of people would still sell despite the lack of a Von Restorff effect. You have to remember here that the Von Restorff effect is an unconscious effect on retail traders, because if it wasn't unconscious, it would simply cease to work on them. By the way, that's precisely what I want you to learn. When you learn that such a thing exists, you will not get caught by it because the process is now conscious. Anyway, despite the existence of the Von Restorff effect there or not, low number 1 still holds great potential for selling power.

As we already saw in many examples, if there is a lot of selling power, there is the potential for a lot of buying power as well, and that's the gap that a large trader would attempt to fill. That's what happened in that large bar up. We can informally call this a reverse Von Restorff effect because the market drive is in the direction of the manipulation. The reverse psychology effect here is also different because the large traders are not inducing people to one side just to whip them around to the other side immediately after. They are letting retail traders think there is no harm in selling low number 1, but as soon as they do, they get a scare.

The bandwagon effect from that point onwards is precisely the same because retail sellers realize they were wrong and they are probably stopped out from that large bar up, so they attempt to reverse their position, and that of course only helps the market makers. A trader with this whole perspective in mind, not being a retail trader nor a large trader, could think about entering the market after the reverse Von Restorff effect. One way of doing this would be plotting a pitchfork in points 1-2-3, and then using an inward parallel to catch the second pullback.

That makes sense because a minor flow starts to form after the reverse Von Restorff effect, and we can even plot a minor pendulum pitchfork to see how its centerline intersects with the inward parallel that was previously drawn. The point where the centerline of the small pitchfork intersects with the inward parallel from the larger pitchfork is also a minor

demand zone given by the minor flow. However, the most important thing in here is the whole logical analysis that leads to the line work, and not the line work itself.