In this lecture we are going to study two different situations. One is the nice and clean running flow with optimal vector sizes, and the second is the mechanics of a price reversal and the different types of ways in which price sets off from different barriers along the way. In this first chart we can see price transitioning from a standing flow to a running flow in what appears to be the optimal size for the alternating price vectors. What I mean by this is that there are different sizes of vectors within the same flow type classification, and not all of them are optimal for trading in whatever timeframe you choose. If the price vectors are too small, you can find some problems like the background noise of the market distorting the main characteristics that would allow you to trade effectively. If the price vectors are too big, you may run into the same problem.

Price vectors that are not too large and not too small are the easiest and safest ones to trade. The reason for this may be the fact that medium sized vectors are obvious to more people, unlike the tiny vectors buried in the roughness of price or the price vectors that are too large for most people to consider. That's one of the reasons, but it might not be the only one. For example, there is a tendency of medium sized vectors to produce a less distorted mathematical relationship in pitchforks. This is due to the fact that price is displayed in a two-dimensional cartesian graph, and lines that are too steep appear to be less effective in holding price action.

The expansion and contraction of price vectors is a big deal in trading, and yet not too many people talk about that. Beyond this paradigm of expansion and contraction of price vectors, we also have the issue of different flow types emerging and vanishing away quickly as we can see in the current price action. As I said previously, price was in a standing flow, and then it smoothly changed into a running flow. If we look closer, we will see that the last three price vectors show an interesting scenario. The first two price vectors of the running flow are smooth, but the third and current price vector is displaying a Brownian flow in its microstructure.

Notice how flows also have a fractal nature. Even though we can clearly detect the Brownian quality of that last price vector, if we look at it from a certain distance metaphorically speaking, we can see that it fits into a running flow. Paradoxically, we can see a chaotic situation within an orderly one. This is also one of the major reasons we need to look at important areas in price instead of treating every single price bar as an opportunity. This is a lot more uncomfortable of course, but it bypasses a wide array of problems that range from over trading to the state of being overwhelmed by too much information in the chart.

Just as a side note here, notice the clear difference between the dynamic frequency breakouts in the smooth vectors and in the Brownian vector. The frequencies give relatively safe and profitable signals in those two vectors, but as soon as price enters the Brownian motion in the third, the level of noise increases and renders the dynamic frequency breakout technique useless. This is why I say that this technique can only be used in smooth price vectors. Being aware of this paradox on chaos within order or order within chaos will allow us to have a much mellower and sophisticated view of price action.

Notice that price is now coming back to the inward frequency line coming out of the transition between the two smooth and alternating price vectors even though the price action that is returning to this line is a result from a higher degree of Brownian motion. Price is also creating a fractal bar once it touches the line. The touch of an inward frequency line that comes out of a solid market extreme and the appearance of a fractal bar is a powerful combination. It might be enough to decrease the level of Brownian motion or background

noise in the current vector and align it with the smooth running flow that price began to show a couple of vectors back.

This is a very good short trade opportunity because we have the risk management framework with a small and logical stop loss placement idea above the solid high, we have an almost perfect technical scenario with the fractal bar and the inward frequency line, the fact that sellers have been the dominant market player in this market and that buyers are showing absolutely no sign of strength. The only node in this trade idea is the Brownian vector that could be potentially dangerous due to its degree of noise. However, as I said, the technical barriers and the narrative of this market can be enough to nudge price back to its natural running flow downward, which will render this trade idea as a winner. Let's advance price a little bit to see what happens.

IMAGE 2

As you can see here, the contextual paradigm of the last slide was enough to catapult price back to a running flow that renders the fractal bar as a market edge. The development of price in these next bars created an interesting situation that you will tend to see a lot in your practice. Notice that after the fractal bar from the last slide, price starts to go down, but once it hits the last low, it runs into some buyers that are able to hold price for a while. Price then breaks down the bullish barrier rendering the fractal bar as a new solid market extreme.

However, notice that the buyers' attempt to hold price ends up creating a recognizable minor flow with another solid high, which is just there to confuse the minds of traders. Price is currently at the inward frequency of that minor solid high, and it's also at the resistance line that was used by buyers as resistance to hold the sellers for a while. The question here is obvious: Is this the next market edge, or should we wait until price comes back to the inward frequency line out of the fractal bar from the last slide?

If we think in terms of price barriers and the idea that strong barrier will nudge price to a reversal despite of where it is in the chart, we will come to the conclusion that this is indeed a market edge. If we think in terms of the textbook perfect scenarios, we will come to the conclusion that is better to wait for price to go up a little more to that inward frequency line from the fractal bar. When we talk about real price analysis, we cannot be too stuck in the perfect scenarios because they don't appear too often. We don't need the perfect scenario to appear, we only enough to nudge price in a specific direction regardless of our bias.

In the current situation we have 3 things happening at the same time. Price just touched a well-tested frequency line, and an inward frequency line that happens to be almost in the same level. Price also just created a dynamic frequency breakout to the downside. Notice that we are not talking about the smoothest of flows, but if we combine the price barriers provided by the frequency lines with the dynamic breakout, we have a potentially winning combination. If we were to go short at this point, the rules say that we should place a stop above the major solid high, but if those barriers are indeed enough to produce a short trade opportunity, the stop could be placed above the minor solid high. If sellers are going to win again, price shouldn't have any business above that minor high anyway. Let's see what happens next.

IMAGE 3

Price started to go down with a greater degree of volatility after touching both frequency lines once again showing that each market scenario is specific, and we cannot always expect the textbook perfect situation to appear, otherwise we will miss many great opportunities. After going down a considerable amount, price is now creating a transition or passing control from sellers to buyers. This is not a rough intuition of course. There is a

specific rationale for such a statement. This shift in control begins when the minor flow downwards is violated by the buyers as it is demonstrated by the blue horizontal line. That fact renders the lowest low in the chart as a solid market extreme.

The black lines you see in the chart are a simple line extrapolation derived from context. We anchor the first line in a real and then in a abstract anchoring position to create the angle in which buyers might act in the future. The angle is then extrapolated to the low in between the two highs. This is not so difficult to see if we pay attention to the key points in price like the highs and lows, but things can get complicated if you start to lose sight of the bigger picture and start focusing on the details too much.

The price action around this shift in control from sellers to buyers is in a running flow in the major dimension, but it is in a Brownian flow in the minor dimension, especially in the surroundings of the high that violates the minor solid structure marked by the blue line. This is similar to what we observed in some of the previous images reinforcing the fact that flows are fractal. The simple extrapolation line manages to catch the next reversal with a decent accuracy. Notice also the violence of the dynamic frequency breakout to the upside. Even though it is a violent breakout, for this technique this is a bad signal because we want smooth and gentle dynamic breakouts, not violent and volatile.

For example, if you were to go long after this dynamic frequency breakout up, price would be too far away from the alleged stop loss placement. Even though this can work, if your stop is too large, it means that price has to travel too much for your trade to be worth it in terms of risk reward. We want the opposite, which is a small stop with a large potential reward without the need of too much price movement. The key variable for all of this is of course precision. Remember that the resistance line from a while back is still in the short-term memory window of this market. Let's see how price reacts.

IMAGE 4

This image shows the further developments of price and how it respects the most important barriers laid out by the big players of the market. Notice that the new support line comes out of the high that confirmed the strength of buyers and the shift in control of the market from sellers to buyers. That's because when price broke that high, which seems to be in the major dimension, that sends a stronger message than breaking a high that is in the minor dimension of the market.

We also see buyers exhausting their energy near the resistance line that has been tested many times in the recent past of this market. That's the opportunities that sellers have not to dominate the trend, but to correct for the large bullish movement so far since the market is an eternal dynamic of accumulation and exhaustion of buying and selling energy. Since we have been talking about a running flow since the beginning, the fact that sellers make price travel to the support line seems very suggestive, and that puts us in a similar situation we encountered when the market was being dominated by sellers. Will price go back to the inward frequency or it will reverse sooner?

We can never truly know, otherwise financial speculation would be a riskless endeavor, but by analyzing the contextual power of the lines that get in the way of price, we can make educated guesses. For example, when price returns to the support line, which is actually an outward frequency line, it touches it and creates an inside bar. By itself this is not an overwhelmingly powerful sign, but when you add the narrative that this support line is the exact level in which buyers have proven their ground to the major sellers, then you have an opportunity on your hands.

Notice that if you wanted to go long at the support line, you would have to pull the trigger at the open of the bar after the inside bar. If you were to wait for the dynamic frequency breakout, price would expand too much, and the risk reward framework would be twisted to the bad side. This is an example of how simple trading can be when we deal with a running flow and medium sized price vectors. By knowing that this is the easiest scenario possible, you can even practice just trading this even though this will come with a cost of letting more opportunities go, not to mention the increased amount of patience you will need to develop to wait for these types of opportunity only.

One aspect here that you may find difficult to tolerate is the whole paradox of finding order within chaos or chaos within order, which is only possible to observe in reality due to the fact that price, and by extension flows, are fractal in nature. This is both good and bad news simultaneously. The good news is that you can attempt to find order in the smaller dimensions of a major Brownian flow with not much problem. The bad news is that sometimes, minor Brownian flows will attempt to confuse your smooth major running flow like almost happened in the beginning of this lecture.

Notice that it's not enough to talk about support and resistance lines because we have this whole expansion and contraction dynamic of price to worry about, and this is not a futile exercise, it's a necessary filter for you to tell the difference between the illusory opportunities and the real high quality ones that will progressively nudge your equity to the desired direction. This lecture finalizes the second volume of the price action trading course. I hope you were able to absorb as much information as possible about price action in this volume. Hopefully you will be able to understand how it would be nearly impossible to add this sort of material in the first volume.

The reason for this is that this material is very specific, and the theory of how price moves has to be generic in a certain sense. The next volumes of the price action trading course will be similar to this one, and they will focus on all the other remaining details of the market. I believe these volumes to be of extreme value because it takes a tremendous amount of time and study to see these subtle details in price and to internalize them, so consider these lectures as a shortcut. I also recommend that you watch these lectures more than once, perhaps many times each until you absorb everything to the point where you can predict what I will say next.

That's how you can tell if you are really learning how to read price action in the way you should. Thank you very much for investing your time and money in this material and I hope to see you in the next volumes.