Welcome to the first lecture of the price action trading volume 2. We will analyze a trade example in the EUR/USD daily timeframe, but remember once again that market and timeframe don’t matter. After watching the lecture about the level zero of the market in the price action trading volume 1, you should be able to understand that the main driver of markets is human behavior, or supply and demand if we want to be more precise about it. By logical deduction, all markets are exactly the same because they all use the same proxy of human action to unfold.

In these practical examples contained in the price action trading volume 2 and onwards, we will try to create professional market analyses using everything that was taught in the theory of the volume 1. This is where all the information will come together, and you will get a feel of how all these pieces fit together. If you study these practical examples with the required level of seriousness, you will start seeing and analyzing price professionally without thinking too much about all the details. That’s the ultimate goal here.

So, without further ado, let’s begin the analysis. In this chart we can see a naked chart with a low and a high marked by short horizontal black lines. The first problem here is the classification of these lows and highs into major or minor, and of course, the constant problem of a trader, which is to find the optimal interpretation of the counterpoint between major and minor players. Between the low and the high marked in the chart, we can see what appears to be a major price vector going up, but looking at the previous down vector, a trade could interpret that the low marked is a minor one.

Still in this image we can see that right after the high marked by the short black line, there seems to be a minor flow attempt to break the high, but we can see that the attempt is frustrated. The big question here still remains the same. Are we dealing with a major or a minor flow at the low marked?

IMAGE 2

In this second image, we can see a few new details. We extended the low that was marked before to see how price reacts to it. The two short sloped black lines show frequencies acting as support and resistance, and that displays the switching motion of market players near the extremes of price. The green rectangle shows the precise supply and demand zone of the solid market structure we are analyzing. Look how the upper limit of the zone comes out of the inward frequency, and the lower limit of the zone comes out of the outward frequency. Notice also how the down sloping black line shows a frequency line being shifted exactly where the inward frequency happens.

In the up sloping black line, we can see how price hugs the line creating a couple of pressure bars that overthrow the line down. Notice how price tests that frequency 5 times before switching to the downside. Observe also how after price switches from support to resistance how the sloped frequency line is test two more times. We can see in this image that the failed attempt of the minor flow to break the highest high in the chart starts to form a flow down with the failed attempt becoming a solid minor high now. The question a trader should be asking himself at this point is which player has the most power. The minor flow going down or the flow that went up from the green rectangle. We can also see at this point how price is free falling with lower highs and lower lows.

If you have an idea to buy the green rectangle somewhere, this might be a risky endeavor. Let’s move on to the next slide to see how price reacts to the green demand zone. We should be able to see some reaction from the buyers, We just don’t know the magnitude of this reaction for now. This reaction should tell us if the low we have been analyzing is a major or minor one.

IMAGE 3

In this third image we can see some very clean and interesting details. We can see that buyers appeared again in the green demand zone, and this reaction started with a shy fractal bar that is also a pressure bar, so we could call this a hybrid bar. Notice that the bar in question has pressure on both ends. This could be a result from the battle between to sellers that were creating a clean move to the downside and the buyers who were ready to appear again inside the green demand zone.

We also have a dynamic frequency breakout after the fractal bar appears, which makes sense because the buyers started to show their power so the down vector terminated. One interesting detail here is how the last bar on this chart is a hybrid bar which contains the fractal and the pressure qualities. Notice how the lower tail of the bar comes right back to the level where the dynamic frequency breakout occurred. The original idea of a long trade inside the green rectangle could happen once the fractal bar appeared. The correct stop loss should be below the low marked with the long horizontal line.

We have a new problem now. Notice that price reacted as expected in the green demand zone, but now price is heading for the red supply zone, which has a solid high attached to it, so are the buyers going to break that or are the sellers going to react at the red zone? Looking at the chart, the two players seem to be similar in strength. However, we can safely assume that buyers are showing a cleaner and slightly more volatile move than the sellers. The buyers that reacted at the green rectangle also created the price vector with the highest high in this chart.

We also have an interesting situation at the highs of this chart. The outward frequency of the red supply zone intersects with the highest frequency line that cuts through the highest high of the chart and the minor solid high. You might be tempted to think about a short trade at the red zone with a stop above the minor solid high, but the fact that there is an overlap of the outward frequencies at the top of chart simply invites market makers to wash out that level. Notice also that the current bar in this chart could very well be a Von Restorff effect. When we have a tricky situation like this, it’s always a good idea to wait and see what price does at the critical levels.

IMAGE 4

Here we have a crucial bar in the chart. First of all, notice how price seems to ignore the red zone. It fails to create even an inside bar at that level. In other words, the red supply zone seems to have zero effect in price as if the zone was already out of the short-term memory window of the market. Most importantly, look at the last bar in this chart. This bar alone in the context we are describing deserves a special attention since there is so much detail contained in it. First of all, it is a clear hybrid bar with a fractal quality and a selling pressure quality. The upper tail of the bar pokes the minor solid high and the last major high of the chart. Not only it pokes it but it closes way below. This is the retail trader’s nightmare.

Many people would attempt to go long as soon as price went one pip above the last major high of the chart. If you were in this position, it’s easy to see how you would be in bad shape after this last bar in the chart. Notice how cleanly the Von Restorff induces people to the upside. If you know about these things, you could simply step back and watch the rest of the unaware trader get burned while you would wait for the smart and strategic point to act.

The long down sloping line you see is a frequency line with a real grounding and an abstract grounding position where the alleged manipulation happened. Notice that is almost catches the minor solid high frequency as well, but not quite. At this point it’s quite difficult to see price continuing going up given the amount of contextual details for a manipulation of this market. This last hybrid bar also produces a dynamic frequency breakout signaling the end of the upward price vector we were analyzing up to this point. Now we have further decisions to make and more information to analyze. By the way, notice how closely I'm looking at the market. Can you see how scrolling the chart back would tell me absolutely nothing about this market now? I hope you can see how the recent past is much more relevant.

Ok. Even though buyers reacted at the green demand zone, these buyers were not able to prove themselves because they failed to create a higher high. If that large hybrid bar had closed above those major highs, we would have a new major solid low in this market, but the bar just poked it, so the low in which buyers reacted at the green zone is a fake low, which means we cannot trust it as protection for a possible long trade opportunity around that area. The solid major low here still remains that low out of which the green demand was created.

If this is indeed a market manipulation, we should see price going down from now on, at least to the green zone again, which would be an area of conflict between buyers and sellers.

IMAGE 5

Fast forwarding price a little bit we have new elements for the analysis. As it was expected, price started to come down after that clear hybrid bar. The first new detail here is that price makes a momentary stop at the dynamic frequency breakout line that showed the end of a down vector and the beginning of the up vector that preceded the alleged manipulation of this market. Price finds a barrier in there but notice the selling pressure happening in the upper tails of those candles. Price eventually breaks down due to the power of market makers to the downside.

However, a few moments after that the solid selling pressure meets the solid buying pressure at the consolidated green demand zone that has been working so far. We have a hybrid bar happening at the solid major low. Price pierces it a little bit, but I don't think this could be classified as a manipulation maneuver since the market has a natural background noise. The poke is too shy for that I believe, but I could certainly be wrong about that. Notice that the hybrid bar is a response to a very solid level in this market. This last bar shows clearly how we still have buyers in that major low.

In this chart we also have the formation of a major solid high where the manipulation occurred because the price vector that follows that high closes below the low that precedes the manipulated high. This gives us a signal to draw a precise supply and demand zone near the high where the manipulation happened. It's important to realize the validity of the concepts of solid and fake market extremes. After the manipulation, you could try to go long near the fake low, but that would be equivocated. The possible long trade there is still in the green demand zone with a stop below the major low.

IMAGE 6

In this next slide we can see how buyers still hold their ground after that hybrid bar. Pay attention to the fact that the hybrid bar also breaks the dynamic frequency of the down vector that follows the manipulation. It's interesting to notice that even though price stopped at a previous dynamic frequency breakout line, the dynamic frequency of the down vector never broke to the upside until that significant hybrid bar at the major low. Price is now very close to the major supply zone that comes out of the manipulated high. We can also update the green demand zone to the new area where buyers seem to be sitting after that hybrid bar.

Since we are dealing with a major solid high and a precise supply zone in the red rectangle, we can maybe form a short trade idea. Let me give you an example of a trade that might be valid here using some advanced line work, and perhaps most importantly, the principle of reverse engineering. Notice that I have a whole narrative already in place, and I can use line work to confirm this narrative, and not the other way around. Starting with the complex line work would be potentially confusing. So, the way the reverse engineering principle works is this. We have an area of interest, which is the red supply zone, and we have a decent place to put a stop above the major solid high. We already have one sloped frequency line, but that might be too high.

IMAGE 7

One way to do this would be a modified Schiff fibfork with a 61.8% retracement line. Before looking at the current intersection of the fibfork line with the upper tail of the bar, take a look at the principle of validation in here. Pay attention to how many times the tail of this fibfork has been tested in the past. We have about ten touches of that fibfork tail to validate it. This is one good way of justifying a short trade almost at the red zone.

IMAGE 8

In this image we have a lot of new information and many decisions to make. We can obviously see how the modified fibfork worked well, but the price action itself is throwing some puzzles for us now because we have a minor flow developing to the downside. We even have a minor solid high already. There are two questions here: Will the buyers in the green zone hold their ground, and if they do, will the minor supply zone be able to hold those buyers? First of all, if you took the short trade at the fibfork line, this is the time you collapse your risk as a safety measure.

With that said, it's still difficult to see which of the major players will win here. However, if buyers start to hold their position at the green zone, simple logic tells us that the minor supply zone found in the recent minor flow will not hold simply because major players are stronger than minor players. The green zone represents yet again an opportunity to go long with a stop below the black horizontal line. At the moment, price is touching the inward frequency of the green demand zone. I also drew a pitchfork to justify this trade idea. This pitchfork is interesting because it shows the principle of cross dimensionality.

Look how this is a minor fork in relation to the big modified schiff fibfork, and notice also how price drifts away from it and it is now testing the fork line on the outside. That would be a double intersection of a minor pitchfork line with an inward frequency line.

IMAGE 9

In this image I erased the forks for clarity. Once again, we have several new details and opportunities. First, we have the green demand zone holding its ground once again exactly at the inward frequency. The minor supply red zone failed to hold those buyers simply because the minor sellers were in front of the major buyers. You can see that there is a bump down there once price touches the inward frequency of the minor supply zone, but buyers quickly annihilate the expectations of those minor sellers.

However, not everything is great for those major buyers from the green demand zone because now price is at a major supply zone created by the market manipulation. We have a short trade opportunity in here with some very clear indications. We are exactly at an inward frequency line, and price is touching that sloped frequency line that was created a while ago, but still relevant apparently. To top all of that, we have a fractal bar with the upper tail poking those two frequency lines beautifully.

Shorting the market at the very next bar open would be valid with a stop above the manipulation high. There is a subtle detail here, which is the fact that we identified both edges of this market, and it's very likely that one of these trades will be successful. If we guarantee a good risk reward ratio in both, we can eliminate some of the subjectivity by playing both sides. In terms of game theory, this could be considered as a Nash Equilibrium, which simply means a strategy that maximizes both players strategies simultaneously.

IMAGE 10

In this image we have the outcome of both trades in the Nash Equilibrium. Notice how the short position one and the long position lost, but since we used good risk reward ratios in both trades, the result is a profit of 358 pips even when the win ratio is 50%. That serves to show you how the win ratio is an incomplete metric and the risk reward ratio is a more robust analytical tool. As an exercise, you can attempt to find details that I omitted in this analysis like different linework that points to the areas of interest for example. You can also try to map all the praxeological elements that I haven’t talked about. The more you dissect charts, the easier this will become and eventually this will become second nature to you.