In this lecture we are going to study a relatively difficult price analysis in the US Dollar versus the Japanese Yen in the daily chart once again, but remember that market and timeframe are not relevant for us. This could very well be the 5-minute gold chart or the 1-hour Google stock.

IMAGE 2

In this example we have a pretty clear major and minor flow definition. The short black lines mark the major highs and lows, and the short red lines mark the minor highs and lows. Notice also the classification of market flows and the current type of counterpoint between the flows. We have a travelling motion in both major and minor flows and right now we have flows moving in similar motion. These two aspects generally mean a favorable situation for trading.

In this chart we also have two extended horizontal black lines that mark the inward and outward frequencies of the major solid low at the bottom of the chart. The combination of the two lines form the textbook precise supply and demand zone. These zones are straight forward to draw, but the problem is that price will not always come back to the zone before taking off again because that would be too easy. Sometimes price will stop before with no obvious reason, and that's where subtle line work will come to help. This is also why you need to pay attention to the subtle clues and details that price will leave on its way.

You can observe that in the minor flow developing to the upside, the market extremes are retracing back near the demand zones, but keep in mind that this isn't always the case. Just so you can see an example that all charts have more than what meets the eye, let's try to observe the subtle geometry in the current chart in front of us. Can you spot some sort of line that cuts through price action catching several tail frequencies?

IMAGE 3

In this next chart you can see a new down sloping black line. This is a powerful line because it catches the frequencies of 14 different bars unveiling one of the main angles of this market. If you are not aware of the concept of frequencies in price, it would be almost impossible for you to observe such a line with this kind of precision. Notice also the support and resistance switching quality of this frequency line. It acts as resistance, and then when price switches it, it starts to act as support just like a regular support and resistance line would.

There is an interesting detail in here that refers to what I talk a few moments ago. Notice that the first retracement of the minor travelling flow goes deep into the previous demand zone. However, notice how price fails to retrace back to the next demand zone after switching to the other side of this black frequency line. This serves to prove that sometimes price will fail to come back to the precise supply and demand zone, and it will take off from somewhere less obvious than that. This represents one difficult aspect of trading because it's not always easy to identify these other points where price will react.

Notice also that on the top of the chart I identified a major high with a question mark. The reason for that is related to this powerful sloped frequency line in the chart. If we create a simple line extrapolation to the real anchoring position of the major solid low in the chart to create an action space, and then we extrapolate this action space upwards with a Newtonian method, you will see why I put that question mark up there in the chart.

IMAGE 4

In this next image we can see the final result of the Newtonian action space extrapolation. First, we have the simple line extrapolation to the major solid low on the chart to create the action space, and then we extrapolate this action space equidistantly to the upside to create the Newtonian action space extrapolation. Observe how the final line cuts through the upper wicks of those bars. Notice also that we have two hybrid bars in that potential major

high. The two bars are almost twins with the exception of the difference in volatility between the two. Both are fractal bars and pressure bars with pressure on both ends. This is a nice combination to pinpoint a market edge. However, we still have some buying pressure on that last bar. Other than that, this specific configuration is screaming a reversal to the downside.

Now we have an overall reading of raw price, and we have some lines that are in tune with reading of price action as well. Judging by the degree of validation of the original sloped frequency line, it's obvious that price will create some sort of reaction if it ever reaches that line. Trusting the line alone is not wise, but watching what price does around it is certainly a smart thing to do. Another subtle detail here in the realm of raw price action interpretation is the fact that after price switched to the upside of the original frequency line, a lot of headroom opened up, and price was able to expend its volatility to the upside with a lot of freedom as we can see in those large bullish bars before the Newtonian action space extrapolation line.

It's incredible to realize how the identification of one single line like that can completely change the lens of interpretation. Let's see what price does next.

IMAGE 5

In this next image we can see that price indeed developed to the downside after touching the Newtonian action space extrapolation line. The first barrier that price encounters is the inward frequency of the minor solid low right after price switched the important frequency line to the upside. Notice that this was the moment buyers realized that there was a lot of headroom for they to travel to the upside. Right when price touches that inward frequency, we have a fractal bar that is also a pressure bar, so the combination of both qualities creates a hybrid bar. We also have wick expansions in those lows as price approaches the inward frequency.

There is an important detail here because we are treating a minor inward frequency as if it was important. The reason for that is not the inward frequency itself, but the context of where it happened. We are talking about a minor market structure, but it happened in a key moment of this market. We can see that price generates a reaction to the upside after touching that minor inward frequency, which brings us to the next barrier. Before the major high in the chart, we can see a minor low. When price went right down after touching the Newtonian action space extrapolation line, we can see that those minor buyers were unable to hold their position because major sellers were already taking over the market.

The black horizontal line you see there represents the level where those minor buyers lost the battle to the major sellers of the major high. Respecting the idea of short-term memory window of the market, when price reaches that level, it starts to display selling pressure at the upper wick, and it creates a fractal bar as well. In other words, sellers appeared again at the place where they won the last battle against those minor buyers. Right after the hybrid bar, price starts to come down, so we observe the very next barrier, which is the next lower inward frequency line marked with the black horizontal line.

However, before reaching that line, observe how the wick expansions in the last minor inward frequency enables us to draw a sloped frequency line that acts as support and resistance once again in the very near future. In the current bar we have an interesting situation. We have price touching an inward frequency line, we also have price touching the most important sloped frequency line in the chart, and we have a hybrid bar composed by the fractal and pressure qualities. The intersection is too great for price to simply ignore it, so we can expect at least some sort of bump in there.

The raw price action and the line work are giving us mixed signals here. The raw price action is telling us that the major demand zone is down there between those two black

lines we drew a while ago. However, the line work is telling us that price is reaching a point where sellers have exhausted their energy, and buyers are ready to take off from here, so which of these two possibilities do we trust? The answer is we don't know yet. We have to watch price more carefully from now on. Beyond that, going long at this point would not be the smartest thing because we don't have a real solid place to put a stop loss. The safe stop loss order is still below that major low.

If we put a stop below the minor solid low in red, we wouldn't be as protected because of the major sellers coming right down from the major high, so we need more information to trade in here. Notice that once again we find ourselves at a crossroads. We can go long in here, and we can go short at the latest minor supply zone in the red lines. Let's advanced price a little bit more to acquire more information.

IMAGE 6

In this next image we can see that price respected the last minor supply zone to some degree, and that could represent a short trade. However, there is a competing minor flow developing to the upside from the moment the hybrid bar touched the significant sloped frequency line. Notice that price breaks a solid minor high and goes to the supply zone in the red lines. Right now, price came back to the inward frequency of the newest solid minor low as shown by the green arrow.

We also have a blue standard pitchfork from the major points in the chart. Notice the principle of validation working at the pitchfork tail as we see frequencies testing the center line of the pitchfork. The wick of the current bar is finding a barrier in the lower line of the pitchfork, and this bar is also a hybrid bar with buying pressure and a fractal quality. This is a critical moment in this chart because we have a deeply ambiguous situation. We have a valid idea for the downside at the last supply zone, which would agree with the premise that price should go lower to the major demand zone near the solid major low.

However, the line work and the more recent context is telling us that the major turning point occurred when price touched the significant sloped frequency lines that was identified in the beginning of the video, and we have further evidence supporting a long trade in the most recent minor flow and in the blue pitchfork line as well. Following the same tone from the first lecture of this second volume, the game theory of this situation is very straight forward.

By maintaining a healthy risk reward ratio in our trades, the correct stop loss placements, and the correct entries near the current marked edges, we can eliminate the subjectivity by playing both sides of the market. The mitigation of the risk comes at a cost of course, but the essential points is that the potential reward is still greater than the cost of playing both sides thanks to the correct risk reward ratios. The sell trade could be triggered somewhere inside the red zone with a stop above the minor solid high, and with a target at the major demand zone at the solid major low.

The long trade could be triggered at the open of this current bar with a stop below the minor solid low that touched the important frequency line of this chart. The target can follow the centerline of the fork in a dynamic way, so the risk reward ratio increases as time passes by. Let's see how the market develops after this point.

IMAGE 7

In this image we can see that the short trade would be frustrated and the long trade would be successful. As I said in the beginning of the video, price doesn't always come back to the textbook precise supply and demand zone. The only way we can spot that in real time is by carefully watching the counterpoint between players as it develops. A final detail that I

want you to pay attention to is the Newtonian action space extrapolation line, and how it points to a minor flow shift in the chart that could give you a second opportunity to go long, with an even greater risk reward ratio in relation to the centerline of the blue fork.

Observe that this was the moment where the short trade went wrong, so price breaks the Newtonian action space extrapolation line to the upside. We can spot a small flow developing in there, and we can see that price comes back to the inward frequency line marked in red exactly when it touches the Newtonian action space extrapolation line, but treating it as support now. The bar that touches the intersection is a hybrid bar with buying pressure and a fractal quality point to the upside. The stop loss would be below the minor solid high marked by the bar that breaks the Newtonian extrapolation line, and the target could be the centerline of the fork just like the other long trade.

This would be a long-biased trade if you didn't catch the other two trades I talked about previously. A biased trade is always riskier than a market neutral trade derived from a game theoretic perspective, and therefore, it contains a greater potential reward as the universal tradeoff between risk and reward is never broken. Hopefully you can appreciate the mental comfort of the market neutral trades and the reward potential of the biased trades.