

In this lecture we are going to examine once again the relationship between buyers and sellers in the chart, and how that relationship translates itself into precise lines that can help us identify good trades. Remember that good trades are not just about good entries. A good trade is about a good entry, a good stop, and a good target. In fact, as I have said already in the past, a good entry cannot save a bad stop, but a good stop can save a bad entry, and that's something to think about. It's obvious that all these three elements are important, but if I had to rank them, I would say that the most important element is the stop, the second most important is the entry, and the third is the target.

That's interesting because this order of importance is usually the opposite of what people think. Traders always want to know how much they are going to make, not how much they can lose in each trade. That's the wrong way of looking at the market because we must first understand the risks of what we are doing before speculating how much we are going to make or not. Remember this, you never know how much you are going to make, but you have the obligation to know how much you can lose. I know this sounds extremely simple, but it's as important as it is simple.

In the vector 0-1-2, we have the formation of a solid market high in the major dimension. The thin black line you see is the inward frequency line that comes out of the transition between the vector 0-1 and 1-2, remembering that an inward frequency line is also the last dynamic frequency breakout of a price vector. It's clear at this point in the chart that major sellers are in complete control of the market. A few bars after high number 1, we can see a strange phenomenon in price highlighted by the green box. Observe how volatility expands quickly for a few bars, and then price starts to go down soon after with a volatility that is higher than the volatility before the sudden expansion.

The praxeological interpretation of that is quite simple and intuitive. In the moment of that expansion of volatility, buyers and sellers engaged in a battle for the control of the market in the major dimension given the size of the expansion. The great thing about a price chart is that we can see the remaining scars of this battle between the players, and that's what those two blue lines are all about. Notice that they come out of the outward frequency and the absolute extreme of the highs around the volatility expansion. That area is marked because it represents the level where the major buyers were defeated by the major sellers.

The market tends to remember this kind of event very vividly assuming we are talking about the relative immediate future. I say relative because there is a difference between real time and trading time. Real time is the time that passes by in the same way for all of us while trading time is conditioned by the timeframe you analyze, so a few bars for a 5-minute chart trader is one thing, and for a daily chart trader is another. Price ends up falling until low number 2, which means a massive exhaustion for the sellers.

During an exhaustion of sellers, it's natural that buyers accumulate energy, so they start to spend this energy at low number 2, and the creation of the upward price vector 2-3 begins to happen. There are a few interesting details about this 2-3 vector. The first thing is related to an implied linework, meaning that if we plot a pitchfork using the obvious major points number 0, number 1, and number 2, we will see how that pitchfork catches the high number 3 with its upper line with a slight frequency shift.

The other interesting detail about the 2-3 vector is that it is similar to the 1-2 vector in a way because the beginning of the vector starts with a weak volatility, and then the market explodes and expands. We can clearly see that in the first one third of the 2-3 vector, there is a shy volatility in the bars, and then one single bar explodes to the upside, and this increase in volatility is sustained for the remaining two third of the vector. Once again we have the

theoretical inward frequency line, which is where price should return to, and then we have a sooner frequency line that is derived from a praxeological perspective.

If you must choose between a theoretical line and a praxeological one, you should choose the praxeological one simply because it's more realistic. The market will care about the praxeological elements before it considers the mathematical framework that might support that praxeological element. It's evident that if both agree it's even better. By the way, that's precisely what happens in number 4. Considering the frequency shifted standard pitchfork, and the volatility shift line marked in red, we can see how price reverses exactly where the praxeological line meets the theoretical one.

This is the kind of detail you must pay attention to while trying to understand where vectors are going to make a transition. Notice also how the frequency shifted pitchfork also catches some frequency in its tail as a matter of validation. In low number 4, we can see that the market touches this intersection of a praxeological volatility shift line, and a theoretical frequency shifted pitchfork lower line, and then a series of interesting bars occur. Right after the touch, price creates an inside bar, and two consecutive hybrid bars with outside and fractal qualities. The second hybrid bar has yet a third element of buying pressure built into it to make things even better.

That sequence of bars after that perfect touch of the intersection of lines is simply screaming reversal. It is at this point that we can draw another pitchfork using low number 2, high number 3, and the low number 4 as the axes. Notice how beautifully this pitchfork catches the lower tails of the minor flow dwelling in the beginning of the 4-5 vector. We can use the minor flow structures to create a small stop loss order placement and a trade in the direction of the centerline of this pitchfork. Speaking of the centerline of this upward pitchfork, it relates to what I was saying in the beginning of the analysis.

Look how the centerline of the pitchfork correlates with the zone highlighted by the blue lines from the expansion in volatility in the 1-2 vector. As soon as price enters the blue zone, which is where major sellers are expected to show up, it starts walking sideways, and this is the perfect moment for us to observe a dynamic frequency breakout. By observing the dynamic frequency breakout, we can plot yet another pitchfork using high number 3, low number 4, and high number 5 to try catching a precise entry to the downside since we have the help of major sellers in the blue zone.

After the dynamic frequency breakout happens, price returns precisely to the upper line of the pitchfork, and from there it goes straight to the centerline of the pitchfork. With a stop above the upper limit of the blue zone and a target at the centerline of the pitchfork, this is a trade with almost 1 to 4 risk reward ratio. This is the kind of trade that you should strive for. In terms of price action analysis and precision, it doesn't get much better than this. As soon as we sense the transition between vectors, we employ our linework to catch the trade on the edge of price action that will lead us to a great opportunity.

The great thing is that if everything fails, we only have a small loss, but if everything goes according to plan, we have a large profit. That relates to what I always say about win ratios. If you maintain this kind of quality in your trades, you can lose more than half of your trades and you will still make money in the end. That's how good the operational structure of these trades is. If you keep going after the quick rewards that have a large risk, you will feel like you are accomplishing more, but one bad day will wipe you out. Meanwhile, the smart trader is just waiting for the right moment to attack. You need the mentality of a sniper in trading, not the mentality of an athlete.