In this lecture we will analyze a very interesting trade idea involving dynamic frequency breakouts and pitchforks. This example is not the best in terms of safety or narrative because we tend to wait for things to line up in such a way that will ensure the force vector behind price is in our favor. Another way of finding trades, which is dangerous, is when the vector force behind price starts to get weaker. Another way of thinking about this is that when price has travelled a certain amount in one direction, it tends to correct that movement at some point.

The motive for this is explained by physics. If price acts as some sort of endless swing between buyers and sellers, it logically follows that buyers nor sellers can have endless energy. One has to necessarily give way to the other at some point. Obviously, this point where the control of the market shifts between the players is not easy to spot, but nonetheless it exists. One of the ways we have to see these moments where the main control of the market shifts is called dynamic frequency breakout.

A dynamic frequency breakout is when the inward frequency of a price vector is broken down by a having a bar closing above or below it depending on the direction of the price vector. As long as bars are piercing the dynamic frequency breakout line there is no problem. As soon as price breaks the inward line, that's a signal that a reversal is about to happen. It is just a signal though. Nothing more than that. You have to remember that a signal is just a signal, and it's like a spec of dust in the middle of a hurricane, which is precisely why you don't trust it alone. You need a whole array of facts pointing to the same idea in the chart to even consider a trade idea.

You are probably tired of hearing me say that context is a critical thing, but some people love to forget this fact just because it's convenient. Certain people just want to make easy money in the market, so as soon as you need to start thinking, as you have to do when finding the narrative and contextual elements in a market, these people simply steer away from the analysis for the simple fact that they don't want to employ any effort to make money. I'm sorry to say, but that's just ridiculous. It's funny because when I say this is not easy, some people, and you can imagine who they are, say to me that I'm trying to complicate things and so on and so forth.

They desperately want to believe that this is all very simple. So simple in fact that most people on earth would not even realize how simple it is. When we begin to examine this whole idea, it's not difficult to see how absurd it is. It seems that some people run away from effort just like the devil runs away from the cross, which is a big mystery to me to be honest. The fact that things that are worthy are difficult is actually a great thing because it means less people will be willing to do it, which by itself means there will be less competition. All you have to do is to learn how reality works and conform with it. The moment we start to impose our wishes that reality is easy, we are basically trying to bend the way the world works just because we have silly pre-established beliefs.

The goal here is to zero in some aspect of price action trading so we can learn as much as possible, so don't confuse that with the suggestion that using one technique alone is enough because it definitely isn't. So, in this chart we have in front of us, we can see an upward price vector that has some noise because of the upper and lower tails of those bars. That's chaotic in the first moment you look at it, but if we attempt to see the dynamic frequency that lies behind it, we will see that this price vector is actually very orderly.

Look how the inward frequency line is not broken down even once on the way up despite being pierced multiple times. That's an amazing thing as far as I'm concerned because just imagine how many force vectors there are acting in this market, and yet, price respects certain boundaries for one reason or another. Eventually, at the top of the price vector, the dynamic frequency line starts to lose strength because it cannot last forever, and price starts to drift away from it. The very moment that price closes below the dynamic frequency breakout line, we have a signal that price might start coming down because that's the first time that happened in this upward price vector.

At this point we have an idea of where the market extreme is, and we can plot a pitchfork using the most relevant highs and lows, and the probable c-axis that was created a few bars before the dynamic frequency breakout. Look how price quickly returns to the upper line of the pitchfork after the dynamic frequency breakout. Notice also that at the top of the price vector, we can see frequency along those upper tails. The horizontal frequency left by price correlates exactly with the moment where that price pierces the upper line of the pitchfork.

That would be the intersection of three techniques at the same time. Four if you consider that the bar that pierces the upper line of the pitchfork is a pressure bar with selling pressure quality. We can clearly see the effects on price action a few bars later when it begins to drop. The breakout in the dynamic frequency kind of opens the door for price to go down, and the pitchfork acts as some sort of guardrail that highlights the non-obvious path of price. We can also see an interesting effect on the other extreme of the pitchfork when it catches the final moment of the downward vector with a fractal bar. Look how the tail of that bar intersects perfectly with the pitchfork line.

As you can see here, there is a lot more than what meets the eye when it comes to simple highs and lows in the chart. There is a lot going on in the transition between upward and downward price vectors. It's obviously in your best interest to understand how this whole dynamic of transition works. Most so-called trading educators out there think that a high is just a high, and a low is just a low. The failure of understanding in that belief is so huge that it's almost difficult to comprehend its magnitude.

Remember that even though we are talking about several techniques that intersect, the element of narrative is still not present in here, so you shouldn't even think about trading this sort of thing. There is no story between buyers and sellers in there. It's mere a technical interpretation of what happened in the transition between two price vectors. The identification of a narrative acts more or less like a substitute for the fundamental analysis in this case. We cannot simply rely on the technical aspect. We need some sort of story or fundamental fact that drives the technical side.

The good thing about the narrative is that we can sort of identify the fundamentals behind a movement by looking at its reflections. It's sort of like understanding what a person does by looking at her actions instead of understanding her motivations. You can infer her motivations by observing her actions carefully. Fortunately, understanding the actions is a lot easier than understanding the motivations. The motivations for an action might be really obscure and deeply intertwined, but the way actions have to manifest in the world have to conform to a good dose of common sense, and that's why they are easier to analyze so to speak.

That's one of the reasons narrative is so important. Techniques are just an instrumental that will guide you, but the meat of what you do dwells in the narrative extraction.