

In this lecture we are going to study a market manipulation case that has some unusual details that steer away a little bit from the textbook definition of market manipulation. We are also going to observe the many possibilities and linework that could be identified for a possible entry and an exit. One lesson that is perhaps more refined is that you are going to notice that pitchforks tend to work more effectively when the market is not trending too hard. In other words, pitchforks, for some reason I'm not quite sure, work better when we have a stationary market or when the market displays a moderate trend angle. Many other people have noticed this already, hence the modified Schiff pitchfork, which sort of takes care of this problem of steep trends.

From number zero to number 4 we need to clarify a few things that might confuse you if you are new to the methodology or the market in general. Highs 1 and 3 are more or less the same height, and lows 2 and 4 are obviously not. However, we can say that high 1 and 3 are solid market extremes because 4 surpassed number 0, not because it surpassed low number 2. The reason for this is intuitive. Since the vectors 1-2-3 happened inside the vector 0-1, a solid high will only form once price closes below number 0, meaning that when price breaks out of the major 0-1 vector. Price could, for example, break down number 2 without breaking number 0. That would make high number 3 a solid extreme, but high number 1 would not be considered a solid extreme, so we have to be careful with this kind of detail.

Both highs number 1 and number 3 have their importance in the overall context because they sit in the same level, and they are obviously related. Even though the vector 1-2 is a failure to breakdown low zero, the previous vector 0-1 still creates the backbone of what should be broken down in the first place, meaning that high number 1 is part of both the backbone of what traders are expecting and part of a failure. Regardless of which information we want to take into account, high number 1 as important as high number 3. Once price dives below the level number 0 in number 4, it immediately starts to come back up. Price even opens up in a small gap upwards.

Here we can start deploying some linework to confirm a few details in the chart. First, we should notice the fact that price comes back to the level of high number 1 and number 3 in number 5. Price also pierces that important level without closing above it, and the bar that does it is a clear hybrid bar with fractal and selling pressure quality. In fact, it's a quite dramatic bar in its shape, even though it's not that dramatic in its volatility. If we plot a pitchfork using 0-1-4 as the axes, we will see that the centerline of the pitchfork cuts through the tip of the bar where the manipulation occurred. If we change the axes of the pitchfork to 2-3-4, which is also perfectly valid, we will see that the centerline points to the same area, but in this case, price gave a frequency shift a few bars back. Either way, high number 5 seats at a level that is considered to be an exhaustion point of everything else that came before.

This relates to what I said in the beginning of the lecture. Look how pitchforks with gentler angles tend to work more precisely. With all of that said, in this case we don't see a clear Von Restorff effect, meaning that we don't see a volatility charge to the upside that gives the impression price will skyrocket once it breaks the level of 1 and 3. A few bars before and a few bars after high number 5, we have an important fact that confirms the manipulation maneuver despite the lack of a Von Restorff effect. Look how before high number 5, price began to form a minor flow, creating a minor solid low just before hitting number 5. Once the hybrid bar happens at the top, price comes back charging down and wipes out that minor low. That creates a minor expanding pivot formation that is highlighted by the black lines.

That charge down means that buyers went to the tip of that hybrid bar at the top of number 5, and then they realized that there were sellers much stronger coming in the other direction. Sellers then proceeded to wipe the minor buyers out, and according to our methodology, create an opportunity to go short. This leads us to the most difficult part of any analysis, which is identifying the precise level of entry, and in this case, we have several lines to consider.

First, notice that in the expanding pivot formation, we have an inward frequency line marked by the horizontal black line, and we can clearly see that price action reacts to it a few bars later. Remember that because of the expanding pivot formation, high number 5 is a solid minor high at this point, so the inward frequency line represents a precise supply line. The other interesting detail here is that if we draw a smaller pitchfork in the expanding pivot formation, we will see the hint for a confirmed entry in the inward frequency line. I say that it is a hint because price fails to reach the upper line of the fork, even though it hits the lower line perfectly.

However, we must consider that in this situation, we already have an inward frequency line, and as you might be getting used to already, there are other frequencies that are not so obvious to see. The angle of the small pitchfork and the frequency of upper tails in high number 5 give access to this other frequency that I'm talking about. If we adjust this small pitchfork to those abstract frequencies at the top, you will see that the upper line of that pitchfork converges with the inward frequency line. That happens more than once. In fact, price tests that upper line of the pitchfork three times in a row. This is the principle of reverse engineering that we talked about in the price action trading volume 1.

In other words, if we have an area of interest in the chart, which in this case would be the inward frequency line, we need to find lines that will converge to the same level. It's virtually impossible to choose the correct linework for your analysis without this idea of reverse engineering because there are too many possible lines, and it's really not clear which one you should use. The difficulty of this kind of analysis is that you need to think fast, and it all happens within a moving window so to speak. On the advantage side however, it's hard to imagine something more precise than this.

If you notice on those three opportunities to enter this market with a stop above number 5, in all three of them price displays a fractal bar, which is something too perfect to be considered a mere coincidence. If we draw yet another pitchfork using high number 5 as the a-axis, and the third chance to get in the market as the c-axis, we will see that getting out of the trade could also be done in a pitchfork line. Strangely enough, that exit point gives a little over 1 to 3 risk reward ratio, which is the goal for most of the trades.

Beyond the lesson about how market manipulations can work a little differently, I hope you take from this lecture the fact that the reverse engineering principle is of extreme importance if you want to be precise in your analysis, and as we saw in a previous lecture, being precise is not actually a futile exercise. It's a requirement if you want to minimize your risk and maximize your return in the market. Don't be fooled if someone says to you that trading is not risky or that you can trade with zero risk because that's a ridiculous idea. Every single action, and inaction for that matter has a risk attached to it, and I'm not even talking about the market specifically. Everything you do or don't do in life has a risk.

So, your job is to do your best to minimize the risks you face for obvious reasons. The best tool for that is knowledge of course. The more you understand the risks, the better you are at minimizing them, but at the same time, keep in mind that you won't get rid of the risks. The best you can do is to get them under control.