

In this lecture we are going to explore another technique of the price action theory called inward parallel, which is a derivation of the normal pitchfork and the idea of inward frequency line. Inward parallels are lines grounded on the inward axis between price vectors, but instead of being horizontal, they follow the angle of a pitchfork grounded on the price vectors in question. You'll be able to notice how different inward parallels sometime correlate with what we would call a normal pitchfork contraction or expansion where the parallel lines of the fork contract or expand together instead of following the usual Newtonian overshoot and undershoot.

In this example you'll also realize the importance of the idea of market edge and waiting for the moment where the techniques intersect with the market edge. All market edges show reversal points and some intersection of techniques, but not all intersection of techniques point to market edges. This is yet another challenge for technical traders. What can happen is that if you identify an intersection of techniques within the correct context, but the market is not on its edge, you will get stuck in the trade unnecessarily, meaning that you will be unnecessarily exposed in terms of time.

Regardless of this counterproductive possibility, having the correct stop loss order will ensure you get out of this situation unharmed. As I said in one of the lectures of the price action course volume one, a good entry won't save a bad stop, but a good stop will save a bad entry. This is remarkably simple, but it's a truly powerful statement, and it may take some time for you to internalize it completely. When we place stop loss orders for our trades, we are always tempted to reduce the size of the stop for obvious reasons, and there are a few cognitive biases gauging that decision. However, the stop loss placement has a rationale that must be followed, and following biases in this process is exactly the opposite of rational. As you might know already from watching other lectures, the requirement of a good stop is that we must have a dominant market player to protect it. This is mainly why we put stop loss orders near solid structures.

In this first slide you can see we have a modified Schiff pitchfork drawn in two major price vectors. We assume the c-axis of the pitchfork in here since price has just created a dynamic frequency breakout to the downside, which can mean the start of a new vector down. Notice the two blue downward sloping lines inside the fork. The upper one is grounded on the inward frequency inflection point that just happened, and the lower one is grounded on the last major inward frequency inflection point that signaled the transition from a major down vector to a major up vector.

These are the lines that I call inward parallels. As you can tell, there is absolutely no creativity in the name of the technique since it describes exactly what it is. These are inward frequency lines that run parallel to the pitchfork angle, hence the name inward parallels. This technique can be extremely useful because as you will experience on a consistent basis, price doesn't always reach the pitchfork lines because that would be too easy. Instead, these hidden lines will provide useful insight a lot of the times.

#### IMAGE 2

In this second picture we can see how price indeed went down after the dynamic frequency breakout identified in the last slide. The important detail here is the fact that price lands on one of the inward parallels, and this tells us that the market is respecting such lines and might continue to do it in the future. Take a moment to appreciate the unlikely possibility of this being a coincidence because the lines are too specific. Observe that we have created a major solid high since price surpassed the previous major low. This means that the major sellers have proven their ground.

I also drew two black horizontal lines representing the inward frequency lines. Notice that the lower one is correlating with a lower candle wick, and therefore it's forming some sort of resistance for price. The problem we have here is that we have two areas of interest that make sense. We have this lower inward frequency that is also a resistance line, but this level is way too far from the major solid high, and price could ignore it and keep going up until the upper inward frequency. That would be a much more comfortable short position to take since we would be near a solid structure and we would be backed up by the major sellers. In other words, low risk and high potential reward.

As we saw in another lecture of this second volume, price doesn't always go back to the textbook level. If it encounters a barrier on its way that is sufficient to nudge it in the other direction, the textbook perfect trade might simply not happen, and you might waste your time waiting for it. This idea of price being nudged by barriers on its way is very interesting, and it correlates with the idea of the butterfly effect and the idea of positive feedback loop. Nice trades and long trends usually start with small events that appear to be insignificant. What happens is that these apparently harmless events are enough to nudge price in one direction and create a positive feedback loop in that area that makes price reverse.

What I mean by positive feedback loop is that when price encounters a barrier it will produce some sort of bounce no matter how small it might be. Some sort of reaction will happen even if it's only a few ticks. If this initial nudge is enough to trigger a positive feedback loop, the initial nudge will increase the probability of a larger nudge happening in agreement with the first one. This is what we would call a self-amplifying pattern where a one positive event increases the likelihood of the next positive event happening. If we are indeed talking about a positive feedback loop, then these positive events will increase exponentially.

Another way of thinking about this is in terms of a domino effect where you have a series of dominoes aligned in a row. The first domino is tiny and the size of the dominoes increase until the last one that is hundreds of times the size of the first domino. If you push the first domino, a series of cascading events that start with very small will produce a massive event in the end. This is more or less what happens with price encounters a barrier in its way. The challenge of course is knowing which one of these barriers will actually produce a positive feedback loop.

### IMAGE 3

In this next picture we have an interesting situation. We can clearly see that the lower inward frequency is indeed acting as a strong resistance for price. Notice that the first time price touches it, it creates an inside bar and goes down, but was that a market edge or just a bump? If you were brave enough, you could short the inside bar, but in this case, bravery might not be a good quality to possess. Bravery can usually turn out to be mere ignorance or negligence. We don't really have a good place to put a stop loss if you short that inside bar because look how far away we are from the major solid high. Unless you are really optimistic about how far down this market will go, the stop is too large here.

Notice also that price just touched the upper inward parallel in blue and it created a hybrid bar with fractal and selling pressure qualities. This will almost drive your finger to the trigger due to its perfection in terms of setup, but be careful. The stop here is still terrible. Sure you could place a stop above the high of the hybrid bar, but you have to remember that the market has a natural background noise that might stop you out in this specific situation. Let's see what price does next.

### IMAGE 4

In this picture we have a lot more information. If you didn't go short at the hybrid bar or at the inside bar, you would probably be beating yourself up at this point, but amazingly, price is giving a second chance now, and it gets better because now price has created a new solid high and it is coming back near it. Observe that price is still respecting the boundaries of those two blue inward parallels. That's still important because it's a clue about price being near its edge and now with a good place to put a stop, not to mention the bearish bias created by the major lower high and lower lows.

There is a new pitchfork as well that is telling us that price is in an area where the current buyers may run out of energy. Take a look at the validation on the pitchfork tail. In summary we have the centerline of the new fork, we have the new inward frequency line, we have price near a solid major high, and we are very near the inward parallel created in a recent major solid high. Those are multiple indications that price is near an edge or a significant reversal. On top of that, the fact that we are near a major solid high means we can short this market with more confidence because we have major sellers to protect our stop loss order. It's by no means 100% secure, but it's the closest we can get to that.

Price also just created an inside candle, which is a weak signal but it agrees with all the other details on the chart so far. This would be a favorable scenario to short this market with a stop above the last major high, so let's see what happens.

#### IMAGE 5

Price indeed goes down and now it's presenting another opportunity more or less on the same configuration as the previous one. Let's see if the pattern continues.

#### IMAGE 6

And indeed, price does it once again. This obviously won't last forever, but the lesson here is that you shouldn't get ahead of yourself just because you are afraid of missing the opportunity. If you stop to think about this stuff more carefully, you'll realize that you miss 99.9% of the opportunities of the market. It has to be that way because nowadays the market just keeps throwing a ridiculous amount of information at you, and that's precisely what creates a sense of confusion and this inability to catch high quality trades. You must narrow your domain of analysis if you want to catch the opportunities that really matter.

Another fact you should consider is that you don't need tons of high-quality opportunities to do very well in trading. I know this is a terrible cliché, but it's a matter of quality. Not quantity. I see many traders develop this sort of warrior slash athlete mentality, and it is the wrong way of thinking about this. The market is not a place for you to keep trying to achieve peak performance because that's unrealistic. Peak performance, by definition, is occasional, otherwise it wouldn't be a peak, would it? The underlying point of focus is something called realistic consistency. A very modest but consistent performance is incredibly more powerful than peaks of performance mediated by troughs of performance.

Trying to sustain peaks of performance is trying to bend reality to accommodate the urges of your biases. This sensation of missing opportunities all the time plus the fact that you could always win more is a powerful illusion that will make you drift away from the real focus, which is your level of consistency. Going back to the main point of this lecture, you can observe that price is a nuanced game. This situation regarding the point where a small barrier will nudge price enough to create a positive feedback loop is a perfect example of that.

This also relates to something I said in another lecture, which is the fact that the present moment is slightly more important than the recent past, but we should always look at the present moment in light of the recent past as if price behaved inside this short-term

memory window. Let me remind you once again how you don't need thousands of bars in the chart to understand what's going on. This is a very simple thing to fix, but somehow a lot of people find it difficult to change. I suspect that the reason for this is the fact that even when traders do everything correctly, the trade will simply go wrong sometimes. That's the nature of this business. There are some things that are simply outside of our control.

The problem is that when you do everything correctly and your trade still doesn't go as planned, you get a dissonant message, meaning that you will interpret that you might be doing something wrong, which is a possibility, but not always. That will weaken your trust in the techniques and will make you look for the better technique or the piece of information that you missed and that could have turned your trade into a winning operation. I can tell you that this is both a necessary exercise and a trap because it's not clear when you should stop this exercise. This will both make you discover newer and better techniques, but it can also make you stuck because of the lack of trust you will develop in such techniques.

The solution of course is to understand that sometimes you will make everything correctly and the market will still go against you. It's part of the game. Don't try to look back at what happened in 1963 to try explaining why your trade went wrong, nor try to jump around between timeframes trying to find the excuse that will make this dissonant message vanish away. That's a very difficult thing to overcome, but I'm giving you the insights and tools that you need to overcome it in the easiest and fastest way possible.

I hope you realize that it's very difficult to incorporate these insights in a linear course because there are just too many of these nuggets of information that you should know about. That's probably the highlight of these volumes after the price action volume one. There are too many things to learn and they are nonlinearly connected sort of like a net instead of a chain.