In this lecture we are going to analyze an interesting example of the Fibonacci square field, how the subtle tuning of a standard pitchfork can make all the difference in an analysis, and also, how the circular decomposition can be an extra confirmation for the pitchfork tuning and validation. As you may know already from the price action course volume one, techniques like circular decomposition are more refined because they deal with abstract vector spaces in the chart. The level of complexity of such techniques is definitely higher, but that's a good thing since way less people will look at these things in the chart. The result is that if you master these techniques, you will be able to access information that almost nobody else can, and that's absolutely paramount in the financial markets if you want to have some sort of edge.

In this chart of the daily New Zealand dollar versus the US dollar we can see that price started zigzagging with an upward bias, and then we have major sellers appearing and breaking down two solid lows of the previous upward move. A couple of interesting observations about this is that even though sellers broke two solid lows, these sellers were not able to go back to the inward frequencies near the beginning of the major vector up. That's a mixed signal since sellers are showing power and weakness simultaneously. It's interesting to note that buyers picked up speed again at a simple support line that happened before the inward frequencies in the beginning of that major vector up. Notice how the bar that touches the simple support line creates a hybrid bar with fractal and buying pressure qualities.

Another extremely important detail in here is the formation of a major solid high in the highest high of the current chart. Notice that we are dealing with an expanding pivot formation in there. The interpretation is quite simple. Buyers were creating higher highs and higher lows until sellers realized that things were getting out of hand, so selling pressure increased dramatically. That creates the famous expanding pivot formation by the creation of a lower low preceded by a higher high. Expanding pivots can be tricky because they twist the standard notion of trend that comes from simple logic. An uptrend should have higher highs and higher lows. A downtrend should have lower highs and lower lows, so when we find a higher high followed by a lower low, this standard definition of trend is disrupted, and confusion arises in the analysis.

Since buyers picked the market at the simple support line and the rather prominent hybrid bar, they were able to create another solid low before reaching the standard supply zone of the highest solid high of the chart, which is where price is at right now. That poses an interesting dilemma for the counterpoint between the market players because once again we have to look for clues to decide which market player is going to win over the other, which seems to be the common denominator of all price analyses. The important epiphany here is that when we have a market scenario where players seem to be similar in strength, we can treat both long and short opportunities with the same respect. That seems simple, but it's difficult to see how that could be an incorrect statement.

Right at this moment, we have a short trade opportunity due to the alignment of several pieces of information about this market. First, we have price exactly at the classic supply zone drawn at the highest high of the chart, which happens to be the axis of the expanding pivot formation that disrupted the major buyers of this market to a certain degree. That's a major contextual information for this short trade idea. The second thing is that buyers have already exhausted some of their energy after picking the market at the simple support line, so when they encounter a barrier that is strong enough like the one we are at right not, that could trigger an accumulation phase for the buyers and an exhaustion phase for the sellers, which would render the short trade idea as a winner.

The third detail is the appearance of a hybrid bar with the fractal and selling pressure qualities exactly at the supply and demand zone coming out of the axis of the expanding pivot formation. Not only the appearance, but also the fact that the bar wick is clearly respecting the upper and lower limits of the supply zone. The other nice thing about this supply zone is that it is very simple to detect it because price switches between the upward and downward price vectors without creating too much confusion in the near extremes. In other words, price creates a smooth transition between price vector, which is one of the things you should look for if you're willing to trade dynamic frequency breakouts for example.

We also have a good place to put a stop loss order above the highest high on the chart to benefit from the protection of the major sellers of this market, so let's see what happens next.

IMAGE 2

Here we can clearly see the effects of the intersection of techniques and context of the last slide. Sellers did show up and started a strong vector down. Price is now on the first important barrier of its way down, which is the demand zone created before price went up to the supply zone out of the axis of the expanding pivot formation. Price ignored the inward frequency line, but it seems to be respecting the outward frequency line by the appearance of a small bullish fractal bar. This can represent a long trade opportunity because we have a good place to put a small stop, and sellers exhausted some of their energy on that large bar down. Remember also that it's a bit difficult to tell which one of the market players is stronger in this whole analysis, and that means we can play both sides if reasonable evidence appears for a high-quality trade. Let's see if the buyers respond at the current signal.

IMAGE 3

The buyers did respond and they were able to bring price back up to the supply zone that has been effective for the sellers in the recent past. This is where the story between the two players gets difficult to read because buyers and sellers are displaying similar signals of strength. This is a moment where we must try to put things in the correct perspective without failing for the trap of focusing too much on nuance. As I often say, this is a real challenge for most traders for obvious reasons. It's not exactly clear how we should maintain this perfect balance between the big picture and the little nuances of price.

Even though this is a difficult call. We can find more evidence for the strength of sellers. Their capacity to disrupt the buyers out of nowhere with an expanding pivot formation, and then show that the respective supply zone holds is a good indication that sellers will eventually win over the buyers. The reason for this is that an expanding pivot formation out of nowhere shows a violent disruption or the reflection of an event that changes the natural flowing bias of the market. That's why expanding pivots can be potentially misleading, but also potentially profitable if we understand how to read them.

At the present moment, price is touching the already proven supply zone with an explicit hybrid bar pointing down. We can clearly see the fractal quality and the selling pressure on that bar. Observe that there is a pattern here. The last time price touched this supply zone, it tested the zone two times without closing above it. The first bar touching it was bullish, and the second bar touching it was a hybrid bar with fractal and selling pressure qualities. The same exact pattern is repeating right now, and obviously have the same stop loss placement to trust. A situation like this seems to be a no brainer because beyond the convergence of techniques and context, the recent past shows that the exact same pattern is working, so that's an extra confirmation.

Another important detail here is that since this market seems like it's going to respect the supply zone again, that also means that buyers are failing to create a higher high, and that's also a major piece of information. A failure of buyers and a second confirmation of the sellers' power is obviously a win for the sellers, and that should gauge the study for the target of our short trade in this current position. For that I will use three different technical aspects just so you can see how the complex techniques tend to align just like the simpler ones.

IMAGE 4

In this image we are going to study the Fibonacci square field idea for this trade. We will use the common Fibonacci expansion tool grounded on the most important axes for the sellers, and the Fibonacci time tool respecting the same grounding positions. For simplicity sake, let's consider the simple ratios of 100% and 161.8% of the Fibonacci sequence to create the square field. An important distinction here is that we are not using the high that represents the potential new solid major high for the sellers. Instead, we are using the moment out of which sellers might win over the major buyers, which is the current moment. That's a contextual approach to the placement of techniques instead of a purely technical approach.

The blue rectangle shows the intersection of Fibonacci lines using the simpler ratios. I will erase the rest of the lines and leave the blue square so the chart doesn't get cluttered with the other techniques, but in here you can see how the blue square is derived from the Fibonacci expansion and the Fibonacci time tool combined.

IMAGE 5

In this other image I erased the raw Fibonacci lines and left only the part that matters for the analysis, which is the blue Fibonacci square field. You can also see that I drew two standard pitchforks. The black pitchfork is a detuned pitchfork using a real anchoring position for it's a-axis. The red pitchfork is exactly the same in terms of the b and c-axes, but the a-axis is tuned to the frequencies of the high on which the a-axis is grounded. Notice how this small difference creates a change in the angle of the pitchforks. Observe also that we already have a suggestive area where the Fibonacci square field and both pitchfork lines are crossing. That area would be perfect for a target for this trade if you consider the risk reward as a frame of reference. Let's now take a look at the third technical layer with the circular decomposition.

IMAGE 6

Using the abstract intersection of the two large blue circles as a grounding position for a third green pitchfork, you can see that such an abstract grounding position is telling us that the upper right corner of the Fibonacci square field is a probable path of exhaustion for the sellers. Notice the little details of this green fork. It's a-axis functions as an inward parallel of the highest high on this chart, and it also shows some validation later on. The circular decomposition originated from the two major bullish vectors of the market. Let's see how the market develops after all of this.

IMAGE 7

In this picture we can see a very interesting outcome for this analysis. Look how price respects the upper right corner of the Fibonacci square field as a reversal area, and also, how it respects the center lines of the pitchforks we drew. A major detail here is the fact that the only center line price failed to reach was the original detuned pitchfork. Both tuned fork and the fork grounded on the abstract anchor point found by the circular decomposition caught the future frequencies of price. These technical aspects are one of the most advanced and sophisticated that a trader can use, especially when we talk about abstract anchor points.

These things are not visible to 99.9% of traders because they lack the knowledge about the hidden mathematical structure of price. Price has this layer of anchor points that are nonobvious, and if you have the correct tools to unveil them, you will be able to get an edge over the majority of the market, which is exactly what makes traders succeed in the long term. The financial market is a game of information. Whoever has more and faster access to information gets the best opportunities. It has always been that way, and it will continue to be that way forever.

Some people might argue that computers will get ahead of any human trader for the recognition of these hidden pieces of information about the market with AI, but that's partly true. The analysis you saw in this lecture is too contextualized, nuanced and nonlinear for even an AI to master. Even though we can make a reasonable case both for and against the use of AI, I believe that nothing currently beats a human trader due to our amazing general intelligence and nonlinear pattern recognition. Even though computer have no biases, their intelligence can only be narrow, not to mention the problem of overfitting which is a major deal breaker.

The whole point of a complex analysis like this one with many degrees of freedom is precisely to increase your advantage in the game of information. If you start to think about this market in this way, it's easy to see that having more information is exactly what's needed to get ahead of others. That's also true in terms of market manipulation. Having the correct information about how large traders will manipulate price in certain points can be the difference between being maneuvered like sheep in the market and taking advantage of the movements that market makers will inevitable create.

Of course, there are other aspects of trading like discipline and consistency, but these things without the correct information will lead into the wrong path in trading believe it or not. Discipline and consistency are only a good thing when they are applied to the correct context and information of course. If you are very disciplined in trying overload your positions in the market, I can guarantee you that you will have a hard time in the near future, so it's not just about discipline. It's a whole array of factors that will influence your performance as a trader.

On the other hand, having a lot of information and no discipline or consistency will lead you nowhere, and that's also a problem. A see a few traders who think that information will overcome the need for discipline and hard work. That's not true. The power of this profession comes from the alignment of discipline, hard work, consistency and the correct information. Unfortunately, I don't think someone else can teach you how to be disciplined as this type of thing needs to come from your own specific motivations and desires. Another interesting thing about self-motivation is that if you constantly need motivation for something, maybe you shouldn't do it.

What I mean by this is that if you have to keep reminding yourself you must do something; you may be in the wrong business. True motivation is powerful enough to prevent you from thinking about motivation in the first place, and that is something we cannot control because our true visceral motivations are deeply grounded on our life stories and personality. Not on short term daily doses of wisdom.