In this lecture I will show you some interesting things about the technique called dynamic frequency breakout. If you watch the lecture corresponding to the dynamic frequency breakout technique in the price action trading volume 1, you'll remember that the changing frequency on the inside of a price vector can give you valuable clues about the termination of the current vector and the beginning of the next opposite vector. This technique can sometimes work as some sort of filter because by using our rough intuitions about price, sometimes we will have the impression that price is about to reverse, but if we look at the dynamic frequency, that bias will quickly disappear because you will have an objective measurement of what level price should break to violate the current dynamic frequency.

Dynamic frequency breakouts can be useful but they can also be misleading depending on the type of flow the market is currently displaying. If you watch and study your charts carefully, you will notice that dynamic frequency breakouts work a lot better when price is flowing smoothly. A classic example of this is when the major flow is displaying a travelling motion, and we can see that the tiny flow buried in the candles are displaying a standing motion. However, When the market is in some sort of Brownian flow and the major and minor flows are mixing themselves together, dynamic frequency breakouts will pose a problem because they will become incredibly unreliable and unprecise.

With all of this in mind, I want to show these specific situations in this lecture so you can tune your mind to these details in your real time analysis. It's interesting to notice that techniques like the dynamic frequency breakouts are extremely simple and yet very non-obvious at the same time. So, let's begin with an example of a smooth transition between two price vectors where the dynamic frequency breakout gives you a 100% objective signal that tells you the next opposite market vector has headroom to develop. Please keep in mind that we are talking about the technique in isolation here. I'm not telling you to buy or sell the market only by watching dynamic frequency breakouts because that would be irresponsible. You always need to pay attention to all the other details of a standard professional price action analysis.

In the image in front of us we have an upward price vector that is composed almost exclusively of bullish bars, higher highs and higher lows with the exception of the middle of the vector where the dynamic frequency is tested but not broken to the downside. Notice how the inward frequency line dynamic changes up as the price vector develops to the upside. The current bar in the chart is actually a hybrid bar with the fractal and selling pressure qualities built in. That by itself is an interesting clue, but remember to resist the temptation of selling bars like this even when you see that a lot of the time it will work pretty well.

The highest short black line in the chart shows the current inward frequency level of this price vector, so if the next bar closes below that level, we will have a dynamic frequency breakout signal. Remember that the bar can freely pierce the line, but it has to actually close below that level for this to be a valid signal, otherwise we are not talking about a frequency breakout anymore.

IMAGE 2

In this next image we can see a clear difference. Observe that the current bar not only breaks the most current frequency line, but it also breaks a couple of historic ones as well. Under this perspective we have been analyzing so far, this is a clear dynamic frequency breakout. Remember what I said previously about the smoothness in the transition between price vectors. We have an upward price vector that is producing higher highs and higher lows almost exclusively, and this current bar simply breaks that pattern quite abruptly, not to

mention the presence of that hybrid bar in the highest high of this chart. Let's advance the chart a little bit more to see how price behaves.

IMAGE 3

In this picture we can see what happened after the dynamic frequency breakout. Price started to go down with significant volatility. This is a daily chart, so this movement down after the bar that signaled the breakout is about 600 pips in length. Pay attention to the dynamic frequency on the way down. We have two places in this down vector where price flirts with the frequency line, but doesn't lose above it to trigger a dynamic frequency breakout to the upside. In the middle of this price vector we can see that price shows a momentary stop, and it actually displays a fractal bar pointing to the upside.

If you were watching this in real time, you could be tempted to simply go long after the fractal bar, but as I constantly remind you, doing that is extremely irresponsible due to the weakness of a single bar pattern like that. As you can see price continued to go down violently to the downside after the fractal bar up. Notice also that right after this fractal bar up we have a fractal bar down immediately after, but this time it is in agreement with the trend. The very next bar is also a fractal bar down, but it is also a pressure bar with selling pressure. Those three bars flirt with the last frequency line up to that point, but they never closed above the line.

The other critical moment in this price vector down is in the current frequency line. Notice how many times the upper wicks of those candles are piercing the frequency line but failing to close above them. You can see that sometimes the current frequency line on the inside of a price vector works as some sort of safety net for the current dominant market player. Let's advance price action a little bit more to see what happens.

IMAGE 4

In this picture we can see the further developments of this market. Notice that after the previous picture, price continues to go down a little bit more. There is a subtle pattern in this downward price vector. Notice that up there in the beginning of the vector, price was having no problem advancing the dynamic frequency down, but as the price vector develops down, it gets increasingly more difficult to maintain this pattern because sellers are expending their energy quickly, and buyers are accumulating it.

The current bar you see in the chart marked by the green arrow is the very first bar in this chart that breaks the dynamic frequency of this downward vector. Observe that it breaks the current frequency and two other historic ones. The bar that does it is also a hybrid bar with a fractal quality and a buying pressure quality. Let me grab your attention to the difference in smoothness in the beginning of the price vector and in the end of it. We can clearly see that towards the end price action becomes noisier due to the fact that sellers are losing momentum and buyers are beginning to show more strength in that fight. This also serves to show you how the minor flow buried in the candles changes from standing motion to some sort of a middle ground between a travelling motion and Brownian motion.

IMAGE 5

In this picture we can see that after the breakout in the dynamic frequency of the downward price vector the market begins to rise. The important thing about this whole thing is that if you didn't know the concept of frequency and dynamic frequency breakout, and you were trying to figure out the end of this price vector down, it would be extremely confusing. However, when we add the layer of this technique, a lot of the fog clears away. Ok, so now let me show examples where the dynamic frequency breakout will not work for you due to the contraction and expansion of the major and minor flows.

IMAGE 6

In this new chart we can see that we have a dynamic frequency breakout in the current bar signaling the end of the downward price vector and the beginning of a new upward price vector. Notice the degree of smoothness in the price vectors. We can clearly notice that price is not really smooth, and it contains a significant amount of noise in the candle wicks. That's a sign to stay away from the dynamic frequency breakout as an entry signal.

IMAGE 7

In this picture we can see that three candles later the market signals a dynamic frequency breakout to the downside pretty much invalidating the last breakout. If you entered the dynamic frequency breakout to the upside, you would be in a bad situation at this point, especially if you didn't place a stop loss order. By the way, when you are dealing with dynamic frequency breakouts, the stop loss should at the potential market extreme a little before the frequency breakout.

IMAGE 8

In this new picture we have an even worse situation than before. Price reverses once again to the upside rendering the last dynamic frequency breakout useless, and this time it does with great volatility. Once again, notice that we are dealing with a noisy minor flow in here. As a rule of thumb, these dynamic frequency breakouts can only be trusted when we see a smooth major flow price vector in the chart. When dealing with a minor and noisy market flow, the changes in the inward frequency signal the change in the price vectors too late, which defeats the whole point of this technique.

This lecture is a good example of the fact that there is more than what meets the eye to each simple technique we can use as far as price action trading goes. I would like to suggest that you open several random charts in random markets and timeframes and try to detect these nuances I explained in this video so you can start to develop a real feel of how all of this works in real markets. Try to identify not only where the dynamic frequency breakouts occur, but also how the inward frequency of the price vectors change with time. This is surgical work, and it's important that you develop this kind of attention to detail in your trading.

Notice the massive difference in looking at price action at this level and just opening a chart with thousands of bars to analyze. With that said, one of the most profound abilities a trader can develop is the ability to maintain a balanced perspective about the big picture of the market and the little and subtle nuances that can trigger massive events.