In this lecture we are going to study a chart of the Euro versus the British Pound where we can see a smooth transition between a standing flow to a running flow. We'll also the possibilities of trading such a transition and how that would take place in real time. If you watched the price action trading course volume one, you probably already noticed that spotting the transition between different types of market flows can be a challenge. This is one of those major challenges that a trader must face on a daily basis.

In the chart in front of us we have a clear upward price vector that began with a fractal bar pointing up. Notice how the fractal bar opens with a small gap down. The filling of the gap, as it is common to happen, is what creates the fractal quality in that bar, which is an interesting observation. It's almost as if price action had a glitch at that gap, and this glitch is what finished the downward vector. If you were a student of the fractal flow strategy, you can clearly see the small reversal divergence happening in a lower timeframe just by looking at those two candle lows.

Following the fractal bar that gave birth to the current upward price vector, we can notice a few interesting details. The most obvious of those details is that price is creating what is called a standing flow or a standing motion. If you watched the respective lecture about different flow types in the price action trading volume one, you know that a standing flow is an orderly price flow is we make the analogy with the harmonic oscillation experiment. In fact, standing flows are one of the most orderly flow types a market can display. Observe that price rises but it's not zigzagging up and down on its way up. It's kind of rising without that oscillating quality, which would be the characteristic of a running flow or running motion.

Notice also how in the individual candlestick level, price is creating higher highs and higher lows almost exclusively. There are a few small exceptions of course, but we can see that the underlying backbone of this upward price vector is not only primarily bullish, but also very orderly. There are some moments in this upward vector where sellers started to challenge the dominant buyers as we can see by the larger lower wicks in some candles, but it certainly wasn't enough to break the upward momentum. In fact, if we take a look at the inward frequency of this upward vector, we'll be able to see that it remains intact all the way up to the present candle.

There was a moment in there where price opened with a small gap down, just like it did on the very origin of this upward market vector, but even that wasn't enough to break the inward frequency of this upward vector. Trading a pure standing flow is not as easy as it may sound because the swinging motion of price is deeply embedded in the candles, and it can be difficult to see price retracing to give you an opportunity. If you wanted to trade this standing flow, you would have to pay very close attention to this embedded minor flow in the candles and watch the small zigzagging motion that is implied in there.

Trying to observe that in a standing motion is a very good way of exercising the ability to see the Hausdorff dimension in price action. Remember that this exercise of the Hausdorff dimension has two directions. We can abstract a perfect price vector from a set of rough candlesticks, or we can try to see the rough vectors embedded in the candles. Either way this is an abstraction exercise that corresponds to one of the most primal intuitions that a trader must develop as I already mentioned in one of the lectures of the price action trading volume one. In the next slide, I will try to draw the embedded minor flow implied in this standing upward price vector so you can see what I mean by all of this.

IMAGE 2

Take a careful look at this second picture. I drew the implied minor flow in the standing upward vector using a red line, and then I copied this red line to the right side so you can see the minor flow more easily. The blue horizontal lines represent the supply lines of that minor flow contained in the standing vector roughly speaking. Look how many chances you have to get into that market if you were really looking to go long. However, there are a few problems with this. First, standing flows don't last forever, and second, even in a stable standing flow like this, there will be moments where it will destabilize and create expanding pivots like it happened in the upper half of this vector.

The other problem of course is that we never know when a standing flow will begin to shift into something else. In this picture we can already see that happening at the end of the vector. Observe how price seems to be shifting from a standing motion to a running motion. The problem here is that trying to abstract the tiny flow embedded in the candlesticks will not help you in a running flow like it will in a standing flow, so that's why you need to be careful about such an exercise. Look how the end of this upward price vector up to this moment looks a little bit different than the rest of the vector. Price already had created a small supply zone in there at the top of the vector.

IMAGE 3

In this picture you can see the further development of the upward price vector. Notice how price smoothly changes from a standing flow to a running flow. Going a little deeper into the running flow, observe also how it begins to expand a little bit as time goes by. Notice also how the inward frequency lines in blue are pinpointing very good entry opportunities in this market. As I said in the price action trading volume one a few times, running flows are one of the easiest market flows to trade precisely because price will predictably return to the inward frequency line, or at least to a supply and demand zone area where you will have the opportunity to trade near the edge of the market with a small stop and a large potential target.

Going back to a bar analysis, we can spot once again that price almost always produces a fractal bar once it touches those inward frequency lines. A couple of things about the expansion of this running flow is that we will start to see a separation between the major and minor flows of the market, which is another challenge for traders. I say that because at some points you will tend to trust an inward frequency line, but the line will be in a minor flow position that has gone too far out of balance near a major point reversal. This is part of the ability we must develop of maintaining a balance between the big picture of the market and its nuances. Very difficult stuff to master.

At the present moment we can see a very suggestive situation in this market, especially for those of you who already have some experience under your belt. We can see price touching an inward frequency line and creating a hybrid bar that seems to be respecting the inward frequency. That on itself would be a double intersection of techniques, but we can get this a bit further and find some interesting line work that will increase the chance of this being a successful long trade opportunity.

IMAGE 4

In this image we can see two pitchforks drawn in the chart. The blue fork is a standard one grounded on the most obvious market extremes for the current situation. However, look how the centerline of the blue fork fails to catch the lower tail of the current fractal bar. That's the case because, even though this is a valid pitchfork, it's not tuned with the frequency of the market. With that in mind and by using the principle of validation explained in volume one of the price action course, we can tune the a-axis of the fork and create the red one.

Observe carefully how the centerline of the red fork seems to be much more in tune with this market by how those candle wicks interact with the line.

We also have the fact that the red centerline is intersecting with the already double intersection of techniques created by the fractal bar and the inward frequency line. This triple intersection is a classic example of high probability trade opportunity where you have a context lining up with the technical signals like bar types and line work, and perhaps most importantly, you have a logical place to put a small stop loss order below the major solid low, and a potential for a large target. This might be folk wisdom at this point, but having an average risk reward ratio of 1 to 3 is the key to long term success in this business.

The reason for that is simple. In the short term it's difficult to measure your performance as a trader because you don't have enough data to produce statistical significance about your results, so you might be doing things wrong and making a lot of money, and you also might be doing things correctly and having a small loss. This initial state in the performance not only can, but it probably will be very misleading. What happens is that as time goes by, statistics will catch up with what you're doing, and you won't be able to get away with tricks or with a poor average risk reward ratio. That's not really a matter of opinion. It's the reality of mathematics and statistics.

This idea tends to produce some discomfort because it goes against the idea of scalping that so many traders are fond of. This may sound crude, but there is no reason why trading should be psychologically comfortable. In fact, it's most certainly not psychologically comfortable, and that's partly the reason most people get cut off from the profession. They just cannot handle the amount of not only psychological pressure, but the constant risk exposure and the required discipline. Trading is not only about having the technical knowledge of how the market works.

It's about developing a certain type of character and some traits. Unfortunately, some people simply don't have the necessary personality traits or the work ethic to develop discipline that this business requires. I guess you can change that theoretically speaking, but that's insanely hard to do because your personality is deeply hard wired in your biology, and certain aspects of it are just beyond the possibility of change from mere will power. Anyway, there's a lot more than technical knowledge involved here.

Going back to the chart analysis, let's take a look at how this market develops from the triple intersection onwards.

IMAGE 5

In this next slide you can see how price took off after the triple intersection of techniques. A couple of details in here are the upward standard pitchforks grounded on the most recent major price points, and the fact that we have a Newtonian extrapolation of the fork upwards. The reason for that is that the highest line of the fork where price is currently at represents the first target line where this trade would give a risk reward ratio higher than 1 to 3. That's taking into account that the entry would be at the opening value of the very next bar to the fractal candle that started this last upward vector.

Take a look at the stop of this trade and how it is protected by the major buyers of this market. Whenever you decide to risk your capital, you want the back up of the larger traders in the market for obvious reasons. You don't want to go out there unprotected just because that would be too dangerous. Observe also the difference between trading a standing motion and trading a running motion. Even though price does pretty much the same thing all the time, the nuances of how it does it change the analytical dynamics entirely. In this case we have a rather obvious transition between a standing motion to a running motion, but as you might know already, the market is not always this forgiving.

The moment the market starts to throw those Brownian flows, the analysis can get a lot more complicated than this, but this is a good primer on how market flows transition between each other. Another thing to notice here is that the transition is not always smooth like in this example. The transition can be abrupt, and it can happen more frequently. If you remember the harmonic oscillation experiment in the price action course volume one, you will remember that the array of pendulums changed its motion in a nonlinear way, meaning that the time duration of each type of motion was different, and the next type of motion was not exactly predictable. Add that to the fact that the market is actually more complicated than the harmonic oscillator and you have a good reality check.

Trades like these you see in the running flow of the market are very common almost to the point where you can call them the bread and butter of trading. These are the most obvious and perhaps most reliable trades you can make, and they happen all the time in all markets and in all timeframes, and they will continue happening like that forever. That's because markets are primarily driven by human nature, and human nature doesn't change that much. For whatever untraceable reason, the running flow trade that lines up perfectly like the one you saw in this example is a representation of how the complex human nature reflected on the market will give you opportunity after opportunity to profit in any financial market of your choice. It really doesn't matter if you trade major markets like the currencies or small instruments that nobody knows about. Human nature is the common denominator.

It's interesting that if you take a small market like a fair in a small village for example, and you plot the prices of whatever it is that is being sold in such a market, you will observe the same patterns that we see in the giant markets. That's amazing as far as I'm concerned. It's almost as if human nature had these repeatable market archetypes that can be identified and explored visually in a price chart. In fact, that has to be the case otherwise it would be impossible to trade any market. We need patterns to emerge in order to explore the imminent future in light of the recent past. That's the central axiom of technical analysis.

I often say that you need a lot of exposure to the correct type of information if you want to develop the intuition for these market archetypes as I called them. You must get into this kind of level of detail if you want to truly understand how to exploit these patterns. You cannot keep yourself trapped in the setup mentality because that's shallow and unrealistic. I sincerely hope that after a lecture like this you are able to appreciate the difference between thinking in terms of setups and thinking in terms of the metaphysics of price and all the details that surround it.

Don't worry about being overwhelmed by all this information for now because that's part of the process. You need this kind of shock in your system in order to make this content hard wired in your brain up to the point where you don't have to think about it anymore. Anything meaningful thing is difficult until you practice it a million times, then all of a sudden, it's not hard anymore. That's a pattern that occurs in any meaningful human endeavor, not just with trading. Being able to do something difficult is only possible when you make the difficult seem easy by relentless repetition.