other cases, the situation is best assessed anew, just like a trader who did act on the initial break would have to assess whether it is wise to stay in the trade or best to bail out. Anyway, always be alert when a profit fill on a current position is very close to, or accidentally coincides with, an entry signal to another trade. With a bit of luck you can enter on the second trade, too.

The second point of interest in the chart is of a technical nature and concerns the third box in the trend. If you ever wonder whether you should go on trading to the downside when a market has already sold off so much and so fast, my advice would be to not burden yourself with such futile reservations and just keep trading what you see. That same perception-that a particular trend is way overdone-is actually the main reason why these trends are so persistent. I am sure the early bird bull, who traded the false break of the third box to the upside (3) , can not appreciate that irony when forced to close out his contracts for a loss, contributing to the very trend he tried to fight.

Chapter 1 1

Range Break (RB)

It has been my intention from the very onset of this book to not just hand the reader a bunch of workable setups to only play certain phases of the market, but to present to him a complete series of scalping tech niques that, when properly applied, could be set to work in virtually any kind of market, be it a trending, a countertrending or a non-trending one. The reader should bear in mind, though, that the key to sophisti cated scalping is not found in the mere ability to recognize these setups, but to truly understand their role in relation to the overall picture . Dis respecting this subtle distinction, or being fully ignorant of it, could very well mean the difference between marginal and extraordinary results. For example, acting on an otherwise excellent pullback setup in an environment that does not allow for immediate continuation can seri ously hurt a scalper's performance, and not uncommonly without him really understanding why.

Particularly in a sideways market, a scalper's all-round proficiency, or lack thereof, is easily brought to light. The novice, on average, finds it much harder to reap profits from a ranging market than from a trend ing one. Whether it is discomfort, fear, hesitance, or simply a lack of understanding of price action principles, it is not uncommon for the struggling trader to even decide to skip the ranges altogether.

Although very understandable-after all, trending markets do pos sess a visual clarity that is not easily matched-this inhibition towards trading the non-trending phases of the market is totally unnecessary. In fact, the progressive nature of the ranging market offers a huge benefit over trend trading, because it allows a scalper ample time to assess the current price action and to pick a moment of entry with sniper precision.

No matter what preferences the aspiring trader may secretly entertain-whether he favors complexity over simplicity, speedy markets over dull ones, trends over ranges, countertrend over with-trend-his overall results are best served by mastering the full array of trading techniques available to him. After all, remaining on the sidelines for countless hours on end, waiting for a pet setup to appear, could not be the intention of scalping (although at times there is no way around it).

After having studied the Double Doji, the First Break, the Second Break and the Block Break setups, it is now time to take a look at the very interesting Range Break setup (RB). Believe it or not, most of our trades, one way or another, will be related to a sideways pattern of sorts; the block break pattern, for instance, is nothing other than a miniature trading range. But even the very trendy double dojis appearing in the end of a pullback could also be regarded as a trading range, though be it on a micro-level. It all depends on whether one is looking at the market through a telescope or a microscope.

For our purposes, a range could be defined as a somewhat extended sideways market phase in which prices seem to be contained between a horizontal top level and a horizontal bottom level. Ideally, these barriers are very straightforward, with at least two equal tops and two equal bottoms touching them, but in practice we will often find the ranges not to be so textbook defined. Still, a range by itself should be easy to spot, its main characteristic being a lacking of trend. A very wide range could easily have trends in them, but unless the highs and lows are clearly visible on our scalping chart, we scalpers may be totally unaware of these wider patterns. On a 70-tick chart, range formations usually last anywhere from a around 1 5 minutes to a couple of hours, with the best part of an hour being a very good average.

Its most splendid characteristic, and the one a scalper should try to exploit to the fullest, is the simple fact that the range will ultimate-

ly crack. The longer it lasts and the more defined the barriers can be drawn, the more players will spot the same break, which will enhance the likelihood of necessary follow-through (a term for visible market participation in the direction of a new event) . But not all breaks are created equal. As is the same with the BB setup, pre-breakout tension is one of the better leads to a dependable breakout. In Chapter 1 0 on Block Breaks we have observed the interesting phenomenon of how a small set of little dojis underneath a signal line often acts as a precursor to the upcoming break. This concept holds up for the range breakout as well, the main difference being that there are usually more bars involved to build up sufficient pressure to warrant a break. Yet the price action principle behind the event is completely identical. If you grasp the concept of the BB setup and the typical way it is broken, then you will understand the range and the nature of its breaks as well.

But does that make the range breakout as recognizable and trad able as the average breakout of the smaller block? In most instances, very much so. But there are a few things to consider. First of all, as is the same with the signal line of the BB setup, we may have to apply similar flexibility when it comes to drawing the smartest barriers. It is not uncommon for the range box to show the majority of equal highs at a level one or two pip below the absolute highs; or show the major ity of equal lows at a level one or two pip above the absolute lows. In other words, it demands flexibility and technical logic on the part of the scalper to pick the most strategic highs and lows to draw the barriers by. In general, the absolute extremes should be our first choice, but every now and then we may be able to create a better barrier, and thus a better entry level, by squeezing the width of a box a bit. This tactic is most useful in the more volatile markets where the absolute extremes tend to be a bit spiky and may not even be duplicated by another bar. When dealing with very slow or compressed ranges, it may pay off to just concentrate on the absolute extremes instead of opting for a more economical entry below or above them.

The usual starting point of a range barrier is often a visible top or bottom from which the market clearly bounced. As the forming of the range progresses, new highs and lows get printed, often very close to or

equaling previous ones. It is very common to have to adjust the barrier levels along the way as the market slowly defines the most prominent highs and lows (by respecting them) and dismisses the less significant ones. On average, the majority of ranges will be rather straightforward and their boxes can be drawn with little room for debate. And even if a barrier is slightly off, it may still offer a tradable entry level, especially so since the underlying forces will be pushing in the direction of the trade (when scalping along the path of least resistance, that is) . Overall and with a little experience, a flexible chartist will not encounter much difficulty in identifying the proper extremes to draw his barriers by. Usually, the barrier from which a potential break is to be traded will show the most streamlined resistance, whereas its counterpart on the other side of the box can be very choppy or not even have one high or low match another.

When it comes to trading range breaks, however, a scalper’s biggest challenge is not how to draw the ideal box, but to be able to identify, in time, two very tricky phenomena that are definitely known to wreak havoc amongst those traders not yet fully up to date with range break tactics. I am referring to two typical traps that appear on a regularly basis and the scalper is best advised to study them with some extra attention.

The first one is the notorious false break trap and the second, less malign but deceitful nonetheless, I have come to address as the tease break trap.

Let us look at the false break version first. The reader may remember the false break discussed in the previous chapter (Figure 10.7, 2), where the market came down from the high of a pattern straight to the low of it and then went on to break that low almost instantaneously. That indeed is a terrible way to set a break and it often leads to a very classic trap. With next to none pre-breakout buildup, prices that break through a pattern barrier are highly prone to have exhausted themselves; this offers countertrend traders excellent odds to do what they love to do, which is to prove the break false. They may only be successful to a cer tain extent, but their activity is usually forceful enough to shake at least a large number of unsophisticated break traders out of the market.

Getting trapped in a false break is arguably the main concern of any trader exercising a pattern breakout strategy. After all, there are always two opposing forces at work: traders that anticipate the barrier to fail and those that trade in the opposite direction, anticipating the barrier to hold, even despite a temporary breach. The good part is that both par ties can buy and sell contracts from each other without having to chase price (they just exchange their opposing ideas) ; the bad part is that one of these parties will soon be on the wrong side of the market.

But what is wrong and right in the melting pot of strategies, time frames, opinions and perceptions? Of course, we can only look at this from the perspective of our personal chart. But even though we may technically put on a trade in the right direction of the market (in terms of overall pressure), when our timing is seriously off, it is nothing other than trading along the path of most resistance, and that is certainly a folly to avoid. It stands to reason that in the face of any faltering trade, a scalper with a tight stop is in much more danger than someone trading the same break from a bigger frame or with a much wider stop. This is the reason why timing the entry on a trade correctly, to any scalper, is so crucial. In the market, it can be a costly proposition to be at the right place, but at the wrong time.

As we have already reflected on, our best ally in a breakout trade is the occurrence of pre-breakout tension leading up to the break. Not only may it cause prices to literally jump out of the box, very often it will also hinder the market from crawling back in afterwards. After all, it is much harder for prices to eat their way back through a cluster of bars that led up to a break than when there is nothing standing in their way. The forming of this pre-breakout tension is actually such a visual pro cess in the chart that getting caught in a break that shows no buildup, or just too little of it, should essentially be a non-issue. We just don’t trade that.

I hope the point is noted, though, that there can be no avoiding the false break entirely. Even the best looking trade in the field could still turn out a loser. But there really is no reason to let ourselves get caught in the obvious traps.

Not nearly as dangerous as engaging in what could be a typical false break trap, but still very much to avoid if possible, is getting ourselves tricked in the tease break variant. This break has almost all the mak ings of a valid trade, yet is technically still bordering on the premature side of things. At times, it can be a thin line, though, between a valid break and a tease break trap. Usually some tension has already been building up before the break will take effect: a number of bars hanging below a top barrier (for a possible long) or resting on the bottom barrier (for a possible short). However, what should be missing in the picture for our break to deserve the tease status is what we can refer to as a proper squeeze: prices being literally sandwiched between the 20ema and the barrier line. When they are contained like this for at least a handful of bars, then things are building up nicely towards a potential break; but it should be added, though, that pre-breakout tension does not always show up in its most ideal form and sometimes we may just have to accept the middle way between a tease and a proper break.

On occasion, it can be a delicate choice between risking to miss a range break entirely and acting prematurely. However, the less malign characteristic of the tease break trap, as opposed to the meanness of the false break variety, is displayed in the fact that the market tends to be a little bit more forgiving on the part of this premature entry. The break is usually not so violently countered as its uglier counterpart. Practice shows us that a faltering trade of this type still has a reason able chance of working out, even though prices may come dangerously close to a scalper’s protective stop. Regardless, we should definitely aim to avoid the tease break trap as well.

As we have already noticed when studying the BB setup, the 20-bar exponential moving average can be an excellent aid in not only pushing prices through a barrier defense, but also in keeping them from slipping back into the box after a break. In the RB setup, it often plays a similar role. Of course, it is not the 20ema itself that has such magical powers, but the visual illusion can be so impressive that it is easy to forget that the average is merely a reflection of what the bars are already showing us.

All of the above is going to make proper sense, I am sure, once the reader gets himself acquainted with the Range Break setups in the

charts. It will pay off to study the coming examples with great attention to detail, because we can expect these ranges to pop up multiple times in any 24-hour session. Also take note of the vertical price axis in all of the coming charts, because more often than not the 00 and 50 round number levels will play major roles in the forming and breaking of a range.

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23:20 23.24 23:28 23.32 23;36 23:40 23.44 23;48 23:52 23:56 22 00.0. 00.08 00:16 00:2<4 00.28 00:32 00:36 00.41

Figure 1 1 . 1 Let’s start out with an almost picture perfect, yet very com mon range formation. The action within the box is about an hour’s worth of price data. I am sure you can see why the barriers are drawn as depicted. When you are watching this develop in real-time there is no way of knowing, of course, that the market will set itself up in such orderly fashion. In many instances, the initial extremes that mark the beginning of a range do not hold up and so a scalper has got to be flex ible in drawing his barriers and be ready to adjust them along the way.

In this chart, the initial levels were very well respected. The bottom barrier is the first to appear. A scalper could have immediately drawn it below the first lows in the chart after prices bounced up, but only once they came to challenge this level again and bounced up once more did the barrier truly earn significance (1 and 3). The top barrier may already have been plotted the moment a first top was put in (2) , but most cer-

tainly after a second top matched the earlier one spot on (4) . With two highs suggesting resistance and two lows offering support there is not much to make of this chart in terms of future direction. All we can do is watch the action with an open mind and let the market run its course. Prices will not bounce back and forth between the bottom and top of a range forever. If they do not force themselves out in an overly eager one directional attack, then at some point they will either start to stall below the top barrier, or somewhere above the bottom barrier.

When the market came down from the second top but could not pro ceed beyond the level of the 20ema again, things started to look up for the bulls (5). If nothing else, at least they got clarity on the job ahead, which is to keep the market in the top right corner of the box and aim for a clever bullish breakout. Now that they got themselves a slight advantage over the bears, it would be a strategic default to let prices fall below the average once more. That would put more significance to the second top of (4) . In fact, the chart would print a bearish double top below a round number zone (1 .3250), which would not look particularly pretty from a bullish perspective. It may very well provoke new bears to start selling more aggressively.

So the bulls have a task: keep prices in the top of the range, prefer ably at all times above the average, and then slowly work themselves a way out of that box. The bears, of course, have a task of their own: to prevent that from happening, and sooner rather than later.

As you can see, when the barrier on the side of the break is of exem plary quality, it is very easy to determine the point of a RB entry (7) .

Was there anything the bears could have done to prevent that break from happening? Of course there was. They only needed to sell more aggressively than the bulls were buying. Apparently something in the chart kept them from doing so.

Was it our squeeze (6)? Who knows. A technical pattern trader may have recognized the bullish implication of a cup-and-handle pattern that formed itself in the last third of the range (3-7). Taking a step back, he may have spotted the elongated and rather tell-tale W-pattern stretching itself throughout the box from left to right. Others may have noticed a lack of follow-through after the market drifted below the 50

round number zone in the beginning of the chart, which implied very little selling interest.

No matter how much the individual setup, as a stand-alone event, may already serve the trader well, it is an absolute necessity to look at the complete picture in the chart. Only when the setup complies with the bigger forces at work should a trade be considered.

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Figure 1 1 .2 This chart is almost the mirror image of the previous exam ple (Figure 1 1 . 1) . Once again, the breaking of a round number zone trapped traders on the wrong side of the market. In the previous chart, it was a downward break through the zone that not long after turned bullish, here it was an upward break that soon turned bearish.

Is there a reason these round number breaks don't hold up? Prob ably no more than there is to any other break or move that fails or falls short: a lack of follow-through. It is not uncommon to see enthusiasm dwindle in rather subdued markets, or in situations where the round numbers are more of a symbolic nature than that they actually repre sent true technical levels of resistance and support. In these cases, it is fair to assume that not too many stop-losses reside above or below the levels. As a result, the price action remains calm; as much as those in position do not see the need to get out, those on the sidelines are not

exactly scrambling to get in, either.

More practical than trying to figure out the reason (foolish in any respect) is asking ourselves if these failed round number breaks could somehow be anticipated and possibly exploited. Interestingly, in the majority of cases there is indeed a pattern to be spotted. First the round number is broken, quite often with hardly any fight. Not much later the break is tested, usually successful. On seeing this, a number of new players step in, thinking they're in for a treat. And then, for some rea son or another, the play dies out like a flame. Traders at any moment in time may buy as cheaply or sell as dearly as the market allows them, but if no new players pick up on their idea of direction (follow-through) , they are trapped on the wrong side of the field. All of this is not uncom monly captured within the confines of an unmistakable range very close to the round number of interest. It is a scalper's task to figure out when the predicament of the trapped becomes unbearable from a technical perspective. Naturally, the idea is to capitalize on their instinct of flight.

Everything is very easy in hindsight, yet if you managed to grasp the concept of the forces in play that caused the upside break in Figure 1 1 . 1 , I am sure you can also see why this particular range, halfway through, started to develop a fancy for a downward break.

Let us examine up close what exactly went on from the moment the third top was set (4) . It started to go wrong for the bulls when the reac tion to this top (a tiny countermove) was not being picked up by new bulls in the 20ema a few bars later. That would have been a perfect opportunity to swing prices back up. From there on, they could have created themselves a nice squeeze by not giving in to whatever bearish pressure and then force themselves a way through the top barrier of the range. In fact, the three earlier tops (1 , 3 and 4) would have made for an excellent barrier to trade that upside break from.

However, instead of working on that upside break, the market set out on its way to the bottom of the range again (5) and now even showed a classic triple top in its wake. These are not bullish signs.

But there was hope still. After all, the round number zone was cracked to the upside and successfully tested earlier on, and that should at least amount to something. If somehow new bulls found it in their heart to aggressively step in above the 1 .33 level, inspiring even more bulls to jump in after them and bring prices once again to the top of the range, the chart would show an unmistakable double bottom in round number support (2 and 5). And that would look quite bullish.

Sometimes it only needs one bar to turn pleasurable hope into the idle variety. How about that little doji (7) that stuck its head a pip above the high to the left of it (6) . A higher high in a bullish market after a possible double bottom in round number support, that should have attracted new bulls to the scene. What kept them away? We can imag ine it to be the triple top pattern to the left; but it is not our business to decipher or explain the actions or non-actions of our fellow traders. Everything is just information.

As observant scalpers our task is not just to monitor a chart, but to look for clues in it. The more crucial the signs we can assemble, the more we can solve the puzzle of who is possibly toppling who in the market. Any sign or hint that leaves a distinctive mark in the chart will work to the benefit of our assessment. These signs, at times, can be quite obvious, like triple tops and other well-known reversal patterns, but they can also be rather tiny, like a one pip false break. The best indication to determine the value of a particular chart event is to con sider its place in the chart in relation to whatever price action preceded it. To give an example, the tiny false upside break of (7) would have been considerably less indicative had the market not printed that triple top shortly before.

With prices now trapped below the 20ema, the market was on the brink of being sandwiched into a bearish breakout through the bottom barrier of the range.

That brings us to the interesting part that you may have already spot ted: the first breakout below the barrier. Why did I mark this one as a tease (T).

Granted, this one reflects the proverbial close call and I couldn’t really argue with anyone looking upon it as a valid break. For my own personal comfort, I would like to see prices get squeezed a little bit more before breaking down. Preferably, I would like to see the market print a couple of dojis right on the bottom level of the range (as in a regular

BB setup). It must be stated, though, that a conservative stance is not always the most successful approach.

It would be nice if we could really put a rule of thumb on these false breaks, particularly on the tease variant, but alas, it often depends on the situation at hand. Here the market was extremely slow and the price action very subdued (almost every bar a doji) . That makes me want to wait for superior conditions just a little bit longer than, for instance, in case of a speedy market, where I might run the risk of fully missing the break on account of being too conservative.

Note: As for the difference between the false break trap and the tease break variant, imagine for a moment the 05:00 low (5) to have dipped a pip below the range barrier. That would have turned it into a false break of the earlier bottom of (2) and not a tease. Why? Because prices came straight down from the high of the pattern (4) to the low of it and then immediately broke through without any buildup. That typifies a classic false break (in terms of potential, of course, for any break, even a silly one, may find follow-through and prove itself true). When it comes to the tease break, on the other hand, the cracking of the range usually starts with a move that originates not at the top or bottom of the pattern, but more from the middle of it, or at least from the 20ema zone. In case of a downward break, for example, before breaking out, prices usually first touch the bottom barrier and then bounce up to make an intermediate high in the 20ema. From that point on there may be some squeezing between the average and the bottom barrier, but usually too little of it to consider it sufficient buildup to a tradable break. It would be prefer able to see prices bounce up and down at least a few times between the bottom barrier and the average, until they are finally being squeezed out. And that makes sense; the more contracts change hands in the squeeze, the more traders will find themselves on the wrong side of the market once support gives in. And most of them will have no choice but to sell back to the market what they had bought at bottom prices just moments before. Add to this a number of sideline bears eagerly stepping in and we have ourselves the perfect ingredients of double pressure and thus follow-through.

At times, the anticipation of this little chain of events is very straight-

forward. At other times, the assessment of the squeeze can be a lot more subtle and it may leave a scalper wondering whether or not to trade. Particularly when the space between the 2 0ema and the barrier line is no more than a few pip in width, the tease break may be almost indis tinguishable from a valid break.

If you ever find yourself caught in a tease break, or in any other valid break that acts as a tease, similar calm is required as in the case of the BB trade where prices break out of the box and then crawl back in. As we have seen already in several examples, the 20ema, just like in the chart above, can still guide prices back out in favor of the trade. In many cases that is also the final incentive for the market to really pop.

Take a moment to compare the string of black bars after the break in this chart with the string of white bars after the break in Figure 1 1 . 1 . What do these moves represent? They clearly show us the unwinding of positions of those traders trapped on the wrong side of the mar ket. In the chart above, for instance, all scalpers that picked up long contracts inside of the range are carrying losing positions the moment prices break down below 1 .33. That string of black bars represents their predicament and their panic, so in essence a rapid unwinding of long positions that are being sold back to the market. Naturally, clever bears on the sidelines, smelling blood, will be happy to add fuel to the fire by quickly selling contracts to whoever still entertains bullish fantasies. Of course, even a falling market will always find traders ready to buy, but these bulls will not be so eager as to not demand lower prices to trade at. As a result, prices will fall even more until eventually the market calms down and more bulls than bears are willing to trade. This, in short, is the principle of supply and demand. It works the other way around in equal fashion. And it is our job to anticipate it before it even takes place. To the non-initiated this may seem like quite a daunting task. Yet those who observe, study and learn will most likely come to see the repetitive nature of it all. And soon they will be able to exploit those who do not.

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Figure 1 1 .3 Anyone who has ever studied the eur/usd pair on intra day basis will surely have noticed this market’s remarkable tendency to move in stepwise increments of 20 pip. For example, if, say, 1 .3 1 20 is cracked to the upside, as in the chart above, and then tested back and proven sound, then, more often than not, the market's next stop will be 1 .3 1 40. Variations on this pattern repeat themselves with such relentless persistence that it is not hard to imagine how numerous intraday strategies are solely built to exploit this phenomenon. And yes, the market's fixation with these round number levels at times is truly astonishing. Of course, as scalpers we are only interested in one thing: can we exploit it?

Psychologists have us believe that the omnipresent round number effect, visible also in many other aspects of life, has no coherent relation to value whatsoever but is simply a way for the human brain to filter out noise to protect itself from information overload. From a practical per spective, there may even be a strong self-fulfilling aspect attached to it: if we all believe that round numbers bear significance, then, naturally, our actions concerning these numbers bring significance about. Any how, if nothing else, round numbers do have the pleasant side-effect of framing things in organized manner, just like wrapping boxes around

ranges gives us clarity on resistance and support. When it comes to the 20-levels (00, 20, 40, 60 and 80) , you will have noticed that I have set up my software to plot these levels thinly in the chart; but I use them solely for guidance and try not to look upon them as absolute levels of resistance and support. They may do so at the moment, but I rather leave that to the price action itself. Frankly, in the never-ending quest for simplicity I have tried to scalp with a clean chart, meaning without the 20-lines in it, but somehow my conditioned brain felt less comfort able without these levels framing the action. This may very well be a personal quirk and any scalper can try for himself what suits him best. One last thing: on the road from 40 to 60, and the other way around, things can get very tricky. Currency trading, like it or not, is a big play ers game, and the 50-level is arguably their favorite toy. Unlike the 00 round number, this level is not a 20-level itself. Hence the occasional conflicting mishmash between 40 and 60. However, do not expect any thing to happen around this level. Just be on the alert. Always monitor any action carefully, but keep a special eye on the two major round number zones of 00 and 50. More often than not, these levels are what the bigger chart is all about and why we see so many ranges appear as a result.

Let us look at Figure 1 1 . 3 and see if that RB trade was easy to spot. Halfway through the chart, the options are very much open. There are no trades near and a scalper should just relax and apply patience. To obtain an idea on support and resistance, he may have already drawn a horizontal line across the first top of (1) and then another below the low that followed it (2). Tip: you do not necessarily need to draw boxes, a horizontal line across the tops and one beneath the lows will do just fine.

At any moment in time there are always three ways to look at a chart. Through bullish eyes, bearish eyes, or neutral eyes. Needless to say, observing the price action with a neutral disposition is the way to go. Many traders, however, can't help themselves looking at the market from the perspective of their current positions (or intentions) , so either from a bullish or a bearish stance. It is a bit the same as with the novice chess player who only moves his pieces around in order to attack; this

player usually pays very little attention to position play or even to the many gaping holes in his own defense.

When biased towards the upside, a bull may view the triple bottom pattern (4, 6 and 8) as a very healthy token that the market is building up towards a bullish breakout. And with reason; the market definitely shows signs of support in the 1 .3 1 20 area. Should it continue its pattern of slightly higher bottoms, then breaking out to the upside, eventually, would technically be the most logical result.

When looking at things from the bearish side, traders may find com fort in the triple top pattern (3, 5 and 7) that appeared on a lower level than the earlier, more dominant top of (1) .

A s neutral scalpers, we can only sit back and enjoy whatever the market has in store for each party. If you place your thumb on the chart for a moment, to block the prices after 1 7:00, you can see that it wouldn’t have taken that much of an effort from the Powers That Be to give this chart a more bearish look; cracking the 1 .3 1 20 level by a few pip would have probably done the trick. One thing is of importance, though, and that is to not walk away from this chart in a silly act of boredom. If the bulls show a bit more persistence, particularly when entering a potential squeeze phase, we may have a trade on our hands in a matter of minutes.

The first break through the upper barrier could be classified as a typical tease on account of it not originating from a proper squeeze situ ation yet (T). In order for the market to deliver a more reliable break, it is preferable to see prices first retest the 20ema again and then attack the barrier in buildup fashion. As a matter of fact, the subsequent price action after the tease, that is the perfect squeeze that led to an excellent textbook RB trade (9) .

If these tease breaks, after breaking back, are so often caught by the 2 0ema and then still manage to break out eventually, couldn’t we just always look upon them as valid breaks and trade them no matter what? That is a very fair question. So far the examples here show outcomes that point in favor of that option. It is my observation, though, that in most cases you can get away with being a little more patient. In other words, missing a range break trade due to a conservative stance is less

common than one might think. Secondly, there is also the matter of pro tection to take into consideration. As we will see in the section on Trade Management, squeezes provide excellent levels for stop placement. Con versely, a tease break situation, in essence a somewhat hastier break, seldom delivers the same technical clarity in terms of where to place the stop. When trading breaks, patience truly is a virtue. Therefore, my advice would be to shun the non-buildup breaks entirely (false break traps) and those resulting from little buildup as much as you can (tease break traps) .

Note: If prices after a tease break are pushed back inside the range but not much later break out again as in a valid RB, then it is not nec essary to postpone entering until the tease level is taken out, too. It is usually best to just take the trade as if the tease had not occurred, which means firing a market order on a break of the original range bar rier. An exception would be if there are mUltiple tease breaks in a row that together form a new barrier by themselves. Then it may be recom mended to assess the situation from the perspective of that new barrier (see Figure 1 1 .6 for a good example) .

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Figure 1 1 .4 On a bigger time frame this kind of price action could be seen as a just a brief stalling of prices before the market continued its

downward momentum. It is not hard to imagine two little doji bars, for instance, representing the action from 1 8:00 to 1 8 :30 on a 15-minute chart. Sometimes a trader cannot help himself noticing things that have no informational value regarding his method. A good example would be for a scalper to accidentally spot a huge reversal pattern on a daily chart. That sort of information may easily inspire him to enter his next session with strong directional bias, if only on a subconscious level. A scalper is best advised to not look upon himself as being immune to this trait. My personal take on how to protect myself from the dangers of intuitive bias is to acknowledge that I am only human and thus prone to the folly. As a countermeasure I do not read or watch other people’s market opinions and deliberately curb any unnecessary information by having my 70-tick chart show me no more than about two hours of data in one go, which is about twice the size of the overall chart in this guide. On average, a couple of hundred of printed bars will suit our scalping purposes just fine. In terms of individual bars, you could compare it to at least nine months of price action on any daily chart.

It remains to been seen, though, whether any nine months worth of daily data would be able to print such a picture perfect range formation as depicted in the chart above. No less than 1 2 equal touches made up the bottom barrier of the range before prices finally gave in to the down ward pressure.

Hopefully you can see why there is no need to postpone entering here in fear of a tease. The bears dealt the bulls a perfect little squeeze that is best acted upon straight away (1) . There is never a way to foresee a market's reluctance to accept its most likely fate (2). Whatever hap pens, happens and, whether in or outside of the market, we also have to accept. The next few bars remained capped very well, though, by the 20ema, as is often the case, and since no new bulls came to the rescue, eventually prices chose the path of least resistance.

The round number zone about a dozen pip below the bottom of the range will surely have contributed to the success of the downward break, simply by hauling prices in through the vacuum above it. Why the vacuum? You will not find too many traders ready to buy in front of a round number level with so much resistance (the broken range) hov-

ering above them. They rather wait for the round number to be tested first, or even perforated. Hence the so-called vacuum, which, of course, is nothing more than a temporary shortage of buying interest.

Note: Maybe this is a good time to address a little lUxury problem that may arise when confronted with an almost perfect vacuum trade in front of a round number. For the sake of a hypothetical argument, let us imag ine we get filled on a short at 1 3 pip above a 00 number. With the touch of that round number as one of the most likely occurrences in case of a proper break, would it not be a smart idea to stretch our 1 0 pip profit target by another 2 pip to capitalize on the odds of that 1 3 pip move?

Let us do the math and see if we can come up with a satisfactory answer. If the trick works, then that pockets 2 extra pip. If the trade offers 1 0 pip of profit but then starts to turn sour and somehow needs to be scratched, say, for a 2 pip loss (a pretty good scratch) , then that pockets a 12 pip loser (1 0 pip of missed profit, plus a 2 pip loss) . So, in order for this strategy to break even, a trader needs to successfully repeat this little act of greed no less than six times for every time it fails. And that is just to break even from a clinical viewpoint. It is not hard to imagine the origina1 10ss being accompanied with a loss of emotional balance as well. And that needs to be regained, too. After all, not stick ing to the plan and seeing it backfire is a true classic and known to torment a trader way beyond the actual damage done.

Of course, you could alter the numbers here and try again. But remember that the odds for a winning trade diminish in tandem with every pip you think to add to your original target.

My advice would be to sooner stick to what is already working well than to try and force some extra profits out of the market by deviating from an already sound strategy. Over time, improvements can be made to even the best approach, but these changes will usually come about gradually through a growing awareness, and should better not stem from an impulsive need to score more pip. Once consistently profitable in the scalping field, volume, of course, is free to be adjusted to keep up with a growing account. If a profitable scalper works up to bigger volume by progressively trading more units per trade there is simply no need to score more pip.

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Figure 1 1 .5 The chart above, on the whole, does not exactly paint a very vivid picture of market activity. The bars were printed in an almost lethargic fashion and the range that came out of it took over two and a half hours to crack (more than twice the average). But this is what we get every now and then, particularly during the Asian sessions, and it couldn’t hurt to go over some of the technicalities in play to see if maybe a lesson or two could still be learned from it.

Without too much of a fight, the market had fallen through the round number zone of 1 .34 in the beginning of the chart. As has already been stated, this does not necessarily mean the round number is truly given up; but from a technical viewpoint we should regard it as such until proven otherwise. Here the bulls, initially, seemed rather reluctant to prove the break false. A first and rather weak attempt to bring prices up for maybe a retest of 1 .34 was easily countered in the area of the 20ema (1) . Not long after, the market slowly drifted lower to a level below the previous low (2). Another round won by the bears.

Despite the technical incentive of a lower low in a slowly falling mar
ket, bearish follow-through turned out to be almost non-existent. This
is interesting info and it will not go unnoticed by the ever-present coun
tertrend opportunists lying in wait: to them, it may be just the incentive

needed to try and swing prices back up.

In the marketplace, the best way for one party to regain possession of
lost territory is to move in on the opponent in a stepwise fashion. With
prices well below the 20ema, for instance, it is seldom a smart idea of
the bulls to buy themselves so aggressively into the market that prices
spike through a bearish defense, only to exhaust themselves. That is
asking for a good whack, and not seldom after a false break of some
kind.

The first step in taking back some control over the direction of the
market starts with re-conquering the 20ema. One of the better ways for
the bulls to convince sideline watchers to join in on a countertrend mis
sion (and provoke with-trend players to exit) is to first print some sort
of technical sign below the 20ema as a token of support. This could be
a very tiny double bottom, a higher low, a strong doji in technical sup
port, or basically anything that stalls, at least temporarily, the bearish
momentum. Here it was a tiny higher low (3) .

The next step i s to try and perforate the 20ema, a crucial moment
in the counterattack because this area is so often used by with-trend
traders to deploy a new wave of activity in the direction of the trend.
Regaining control over the average will definitely earn some technical
respect and convince at least a part of the market to exit their with
trend positions, and another part to enter on some countertrend ones.
In that respect, the first attempt after the higher bottom to take out the
20ema was pretty convincing (4) . One only needs to look at the very
bullish bar-more than twice the size of its neighboring candles-to
acknowledge that bullish feat. Is this the sign needed to convince the
market that the bearish party is over? Not in the least. But it did flatten
the momentum and take away the bearish advantage of having prices
below the 20ema.

Trying to immediately push through and attack the earlier high was
a bit on the greedy side (5) . A smarter idea would have been to calm
ly establish the re-conquered 20ema as a base of support by printing
some candles on top of it and then take it from there. It is all about
slowly convincing other parties to join in, for hastiness usually back
fires pretty fast. The failed attempt did present the market with an equal

high, though, confirming the level of resistance suggested by the earlier
top of (1) . In case of a potential range breakout to the upside, a scalper
now has something to go by: a proper barrier connecting two stand
alone tops.

Had this market been of a faster pace, a scalper may have placed his top barrier one pip below the range extremes. Even before 04:00 this level seemed to be way more respected than the actual highs a pip above it. Still, with a market running so slow as this one, a scalp er is recommended not to try to front-run the breaking of the actual extremes, certainly not by a mere pip. Even so, just in case a trader had opted to draw his barrier a pip lower than depicted, the new high peeking through it (5) would not have been a valid breakout but more a midway between a potential false break trap and its tease break cousin (false, because the move that led up to it originated from the bottom of the range; tease, because prices did attempt to form a bit of sideways tension before breaking out topside).

Next up in the range is a dull half hour fight over the 20ema (6-7) that eventually got resolved in favor of the bulls. They not only managed to keep the 20ema sloping up, they also had two higher bottoms to show for it (6 and 7).

All in all, the activity within the range, though tedious to some, is slowly starting to tip its hand. Technical chartists may have already recognized the very familiar, and quite dependable, reversed-head-and shoulders formation stretching itself throughout the box. No doubt the reversal implication of the pattern must have inspired some bullish enthusiasts to aggressively force a break through the top barrier with out the proper buildup necessary to accompany such an attempt (no squeeze whatsoever) . The result: a typical false break that we can clas sify as a tease since it originated from the area of the 20ema (T) .

Had there been sufficient tension building up below the top of the range, then the expectable resistance of the 1 .34 round number level a few pip above it (8) should not have kept a trader from trading his RB. However, starting from 1 0 pip below (7) , breaking a range in the process and expecting the bullish strike not to run out of steam at 1 .34 is just asking for more than a calm market will normally give. It took a

few bars, but eventually prices re-entered the range, proving the break false.

Apparently, this did not demoralize the bulls for long. Prices, though back in the range, kept themselves glued to the top barrier, also form ing another higher bottom in technical support (9) . The fact that the 20ema did not squeeze the bars out so nicely as in some of the previous examples bears little significance (1 0). It is mainly due to the hesitance of prices to crawl back into the box after that earlier tease. With six con secutive candle closes above the barrier line, the average had no choice but to follow and lift itself up. But bear in mind, the aid of the average, though remarkably visual and accurate at times, is not a requirement to trade. We will always base our decisions on the price action itself.

There is no escaping these long ranges, even as a scalper. It is impor tant, though, to not let impatience disturb your analytical skills or make you feel grumpy with the market. You do not always need to trade. Other traders do not move the market just to oblige your scalping needs. They need a good reason to step in. If you don’t see one, why would they.

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Figure 1 1 .6 Before delving into the specifics of this particular RB entry (1 0), let us take a step back and look at some of the technical key points in the first half of this chart. Obviously, things started out rather well

for the bulls. Not only did they manage to break the round number of 1 .33 in quite a daring move, the bears couldn't even produce a note worthy pullback in return. Instead of retracing, prices merely drifted sideways, forming what is widely known as a classic bull flag pattern (1) . This pattern broke in textbook fashion, but the moment the new thrust of buying activity fell short of breath (2), countertrend traders immediately sprang into action and started slamming the market to make some decent profits themselves. Although prices tried to bounce up from this in the first 20-level they came upon, the bearish pressure remained persistent and did not falter until the market was brought all the way back to test the only valid level of support in sight: the top of the bull flag (3) . Not only was that an excellent spot to pocket some counter trend profits, it offered a sideline bull a perfect opportunity to pick up a with-trend position. We could even imagine a very nimble scalper scor ing a number of pip on the way to support and then profiting again as a with-trend trader in the subsequent technical bounce. Scalping can be fun to those apt and able.

But it is not our business to speculate on how other traders make their living. Our task is to observe the price action from our own per spective and then see if anything develops that may lead to a textbook trade. So far, things were evolving in very technical manner. In a bull ish looking chart like this, our radar should naturally be scanning the horizon for trades to the long side. This is not to be confused with enter taining directional bias. It is simply based on an assessment of current pressure. To understand the importance of that distinction, we only need to cast one look at the second half of this chart; it shows us a stunning example of how even a very trending market can falter and crumble in just a matter of minutes.

Was there any way a scalper could have seen that shift in prospect coming? To answer that, let us pick up the action from the moment the market put in that second top (4) . The fact that it fell a few pip short of the earlier top was not a problem at that point. But it would have been nice, for the bulls, to see new players step in when prices retraced to the 20ema. That level would have been an excellent stepping stone for yet another bullish attack and maybe one strong enough to take

out the earlier highs. Instead, prices slid all the way back to support for a second time and even managed to dip a pip below it (F) . A round won by the bears. However, those bears late to the party immediately saw themselves caught in a classic false break trap (F) . But they only got themselves to blame; with no buildup whatsoever to back up that break through support, shorting a bullish market at that level makes for terrible odds. Clever bulls did not have to think twice about what to do and thus the market quickly moved up once more. A round won by the bulls (5).

But things were about to get ugly pretty fast for the latter party. To answer the question of whether is was possible to identify the shift in momentum from bullish to bearish (at least in time to trade that break) , we only need to follow the price action a s i t developed in the next ten minutes of trading. Granted, despite the resistance they encountered, the bulls kept on buying in support, which showed their resilience and their belief in the earlier trend; but the bears kept shorting at lower and lower levels, which obviously showed they cherished some beliefs of their own. In fact, that series of lower tops popping up in the 20ema slowly formed a textbook squeeze (though a bit rough) and sooner or later something had to give. Either the bulls would give up on defending their beloved support, or the bears would come to see the folly of short ing into it.

Allow me to dig into this particular squeeze for a moment, because there are some interesting little clues to discover that may be worth while remembering for future purposes. As you can see, the original box could be drawn the moment a third low in support matched the first (6 matches 3). At that point, the false break level of (F) had no low to con nect with, so it makes sense to ignore it for the moment and draw the barrier a pip above it.

Not much later, after yet another lower top in the 20ema, a fourth low hit support (T), and this little tease matched the level of the earlier false break (F). That's interesting, because now there are two equal lows below the original barrier, and this last one, too, is obviously respected and being bought. Frankly, this situation clearly shows us the tricky proposition of considering a countertrend trade against a strong trend:

if the trend is indeed any good, traders will keep buying into support and they may even buy below it; therefore, it is much harder to tell a true break from a tease break trap.

After seeing that tease successfully test the earlier false break, it may be wise to reconsider the level of support. It is fair to say that the actual extremes (F and T) have earned themselves enough credit to justify low ering the barrier to the level of the dotted line . .

Although on the alert for a bearish break, let us not underestimate the bullish resilience just yet. As long as their support is holding up, there is a fair chance that they may still worm themselves a way out of that squeeze. As a matter of fact, they produced an interesting little feat just moments after bouncing up from the dotted line: a higher low (7) and a subsequent higher high (8) .

And this brings us to another technical marvel that is certainly worth reflecting on . . When prices are caught in a momentary impasse between bullish and bearish forces, the market often needs an incentive, either way, to convince those in position as well as those on the sidelines that a particular play is over. This could be an obvious break, a reversal pat tern, a sudden spike, a false break, a lack of follow-through, basically anything, but usually something either very obvious or odd.

In situations that deal with a possible with-trend break, the obvious incentive will usually do just fine. A good example would be a pullback petering out and then a break in with-trend direction. But when con templating a countertrend trade against a relatively strong trend, it is a nice bonus to first see an odd event defy the obvious. For the sake of explanation, bear with me for a moment and consider the following examples. Imagine a trend to be down and price to have found support at, say, 1 0 . Then the market goes up to 1 3 (against the trend) , back to 1 0 , up to 1 3 , back to 1 0 , up to 1 1 , back to 1 0 and down to 9 . Shorting at 9 probably makes for an excellent with-trend trade (the obvious) . No problem there. Now imagine the trend to be up and price to have found support at 1 0 again. Then the market travels up to 1 3 (with-trend) , back to 1 0 , up to 1 3 , back to 1 0 , up to 1 1 , back to 10 and down to 9. This may seem like a similar obvious short to some, but based on the fact that the trend is up, this break below 10 runs a much higher chance to

be proven false than its with-trend counterpart in the earlier example. Because it concerns a countertrend move. Now let's get to the odd situa

tion; imagine to trend to be up again and price once more finds support
at 10, goes up to 1 3 , back to 1 0 , up to 1 3 , back to 1 0, up to 14(!) , back
to 10, up to 1 1 , back to 1 0 and down to 9 . All else equal, seeing that
break at 14 being pushed back, turning it into a false with-trend break
(the odd), I would now be more comfortable taking that countertrend
short at 9. Another way to put it, purely from a technical standpoint, is
to say that when the obvious event fails, a subsequent not so obvious
event looks more credible as a result. In a bullish environment, this
translates to the following: if an upside breakout gets forced back, a
downside breakout may catch more follow-through.

This does not mean that we need to see an obligatory odd move first
before even considering a countertrend break. Of course not. Any solid
reversal pattern would probably do the trick. The point is to not look
upon the countertrend trade as a with-trend trade in the other direc
tion. With-trend trades do not require nearly as much technical backup
(or clues, if you wish) as do the countertrend trades. After all, counter
trend trades, by definition, will always suffer a major disadvantage, and
that is the undeniable fact that prices have to travel against the trend.

All in all, trading in general, and scalping in particular, is just a mat
ter of picking up clues from the chart, and the more we can assemble,
the better our assessment of the current situation. For example, seeing
the bulls finally crawl away from underneath the groping claws of the
squeeze (8) , only to immediately get sucked back in again (the odd), is a
nice little clue that will warm the heart of any scalper contemplating a
downward break. Events like that, though tiny in size, can have a dev
astating effect on the bullish morale. It may just be the incentive needed
to finally give up on that support.

In this particular situation, it was rather easy to define the exact
moment to fire off that RB short (below the dotted line, 1 0) . But what
about if the last low before the barrier break (9) had not bounced up
from the dotted line but immediately dipped below it; would that have
been a valid short as well?

Fair is fair, since our objective should be to study all eventualities

as they may appear in the actual market, we have no option but to
also consider the possibility of that less desirable break. If we imagine
prices to have dipped below the dotted line at (9) , then we couldn’t really
argue with anyone looking upon it as a tease. On the other hand, a
more aggressive scalper would probably see no problem in shorting that
break straight away, particularly in the light of that last little clue, the
false upside break. So who is right in this respect? Unfortunately, there
is no one definitive scalping approach that could ever rule out the valid
ity of another. Because even traders with very similar methods always
have a choice between aggression and prudence. And it is very hard to
tell which approach will come out ahead in the longer term. Specifi
cally when dealing with ranges, things are not always so evident as for
instance in a DD setup where both type of players will probably hit the
button at the exact same moment.

Trading textbook range breaks, like the earlier one in Figure 1 1 . 1 , for
example, will most probably not even confuse the absolute novice. But

when it comes to handling the somewhat tougher ranges, it may prove wise to remain very conservative until you truly feel comfortable trading them. Rather trade the extremes than front-run the break. And sooner wait for some extra buildup than act on a break that shows too little of it. Keep in mind that even though things may look pretty obvious in terms of directional pressure (they often do) , range barriers can be very resilient, particularly when the actual boundaries are open for debate. Trade your range breaks only when you picture yourself to have an edge . in the venture: a clear barrier, a nice squeeze and underlying pressure in the direction of the trade. And remember, you do not need to engage. A scalper’s true virtue is not his technical grasp of knowing when to enter, but more his understanding of when to stay on the sidelines.

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Figure 1 1 .7 This range may look a little rough around the edges but all in all it contained pretty straightforward price action. Despite the many false breaks, there was no need to get caught in any of them. In fact, a scalper would probably not even have started plotting his barriers before the top of (3) equaled the top of (1) , and the low of (4) equaled the low of (2) ; and that would have already eliminated two false breaks (F I and F2).

This chart, obviously, shows the market being a bit nervous. If you look closely at the time scale below it, you can see that the second half of the range printed the bars about three times as fast as the first half of it. By that information alone, it is quite safe to assume that halfway through it, the market was bracing itself for a typical news release. News releases bear an intrinsic potential to really rip a chart apart. They are mostly dreaded by those in position, of course, for there is no way of telling how hefty the market will respond. The first sign of news hitting the market is the way the chart speeds up. It means that con tracts change hands so feverishly that it looks like the bars are literally being spit out on the screen. Seeing them get printed ten times as fast as their normal production rate is definitely not uncommon. It is also the time when you can really tell the difference between a tick chart and

a time frame chart; tick charts can still show the ebb and flow of even the wildest markets, whereas a I -minute chart, for example, may just show a huge I -minute bar. A second characteristic of news hitting the market is that resistance and support levels can evaporate in a matter of seconds, regardless of their earlier significance. And then there is the potential for huge spikes, even 50 pip or more; these arrows of death are not only known to shake traders out of their positions at the speed of light, they tend to cause enormous slippage to boot. Not seldom, these spikes are extremely short-lived, but that is of little consolation to those shaken out. All in all, news breaks offer a dangerous environment to scalp in. To avoid getting caught by surprise, traders can check the economic calendars (freely available on the web) for the exact moment of major announcements (like interest rate decisions and non-farm pay roll numbers) . If caught anyway, and not immediately shaken out, just remain calm. Always aim for a technical way out of a trade. With a bit of luck the market hits the side of the target first. If it shoots off the other way, then there is always the automated stop to prevent excessive dam age. It may get hit with slippage, but that is just part of the game (and a good incentive to be more cautious next time) .

But the market’s erratic reaction to a news release may not be the only danger to worry about; retail traders trading through a no-commis sion retail broker are advised to check their company’s policy on spread mark-up, because some spreads are known to go as high as 1 0 pip dur ing news breaks. Of course, traders should avoid these brokers in the first place. But then again, trading through a retail broker is a game of give and take. If the broker is okay in any other respect, offers a solid platform to trade from and keeps the spread at 1 pip throughout 99 percent of your sessions, then a simple solution would be to avoid the occasional mark-up by simply not trading during a hefty news release. The brokers to absolutely avoid are those who mark up their spreads more sneakily for no particular reason and for hours on end. Even if they just add a few pipettes either side, it can have a devastating effect on even the best of scalping strategies.

In terms of turmoil, the reaction to the news in this chart was rather subdued. But not without tricks, though. First appeared another false upside break (F3), which got slammed back pretty fast. Next in line was the tease break (T) that suffered a similar fate.

We have to give the bulls some credit for not throwing in the towel then and there. Instead, they played their last trump card, which was to keep the pressure up by not allowing prices to slide below the last low in the range. And that worked out wonderfully well. The low of (6) matched the low of (5) , forming a double bottom, and not much later prices were pushing against the top barrier once more (7) . Notice the pretty little squeeze and how nicely the 20ema guided prices out of the box. Out of all the breaks through that top barrier, this was the only one that deserved true RB status (8) .

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Figure 1 1 .8 This range IS almost self-explanatory. You may have noticed already that when the round numbers get broken or are being approached, the market does not necessarily tests these levels to the pip. Quite often you will see a range appear with a rather straight forward barrier a few pip above or below a round number level. The technical implications are nonetheless the same, meaning we should try to trade the breaks of them regardless of the fact that the absolute round number may cause some resistance a few pip away. In the chart in question, for example, the 1 .3650 round number resides about 4 or

5 pip below the range, but that should not keep a 1 0 pip scalper from trading this very valid break. If you think about it, that makes sense. The true technical support in this chart is unmistakably displayed by the actual bottom barrier of the range and not by the round number below it. Or look at it this way: if you imagine yourself to have picked up a long position somewhere inside of that range, would you still hang on

to it after the market broke the bottom barrier; would you really hope and pray, as your losses mount with every pip down, that sideline bulls will come to your rescue in that round number below? Or would you dump your long contract then and there and be done with it.

If you can see the logic behind a scalper's reasoning to sell out his position on a break of the box, then you might as well rise to the occa sion and short the market yourself, regardless of what lies below (1).

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Figure 1 1 .9 This is a very textbook range. Let us look briefly at all of the technical clues in it and see if the pattern was also easy to trade.

The beginning of the chart immediately shows us two classic techni cal chart patterns, known as a bull flag (1) and a double top (2-3). The first is regarded as a continuation pattern, a temporary stalling of prices before the market picks up the trend again. The double top, on the other hand, is known to indicate a possible reversal. A pattern like that

doesn't necessarily have to reverse the trend completely, but its mere presence can be powerful enough to at least put a temporary damper on it. That brings us to a third and also very technical feat: a pullback to support (3-4). Support was offered by the top of the bull flag pattern.

Despite the fact that prices had now arrived at support, the bulls had trouble trying to bounce up from it. Either the level could not attract sufficient follow-through, or the bears were just more aggressive short ing into it. From (4) to (6) they kept the bulls trapped in a squeeze between the 20ema and support. What's more, they even managed to slam back a bullish outbreak (5) , causing the much dreaded false with trend break. But the bulls were not beaten yet. As long as their support held up, they still stood a pretty good chance of breaking free and hurt ing the bears in return.

Look at that move from (6) to (7) . That typically shows us the unwind ing of the squeeze. But this time, instead of forcing the bulls out of the market, the bears had basically trapped themselves.

But then the bulls made a classic technical mistake. It wasn't so much the fact that this new top of (7) fell short of the earlier two. In a sense, that was even healthy, because we all know what tends to hap pen when the market takes out a former extreme in an unsustainable one-directional move. But when the mini spike out of the squeeze fell short of breath, the bulls really should have tried to not let prices slide all the way back to the bottom of the range again. It truly betrayed their lack of enthusiasm to not make use of the technical support offered by the 20ema in conjunction with a 20-level and the cluster of bars to the left. As a result, the bears quickly took over and they even managed to break the earlier lows by a pip (F). If all of this rings somewhat familiar, have a look at Figure 1 1 .6 again and the false break in it (F).

Of course, despite the lack of bullish enthusiasm, a disciplined scalp er would certainly have recognized the danger of shorting straight into that support without seeing any sort of buildup first. But not all scalp ers are created equal and those trapped in the false downward break immediately had to pay the price for their incompetence, all the way up to another lower top (8) .

At that point in time, the market could really go either way. In the

chart we could already plot a nice bottom barrier below the lows of (4) and (6) . At the other side of the range, a possible barrier could be drawn across the highs of (3) and (7) , or maybe a pip higher, as depicted. Natu rally, as neutral scalpers we entertain no preference as to the side of the future break. Granted, there is no denying the series of lower tops (2 , 3, 7, 8 and not much later 9) as the range slowly progressed. But then again, support was holding up pretty good. It’s a scalper’s fine preroga tive to just watch and see how things develop.

Although ultimately the range break was one of textbook variety and should have caused a scalper no trouble trading it (1 1) , there are two eventualities that may be worthwhile to address: what if the bar of (6) had broken the barrier to the downside and what if the bar of (1 0) had not bounced up (for a better squeeze) but broken the barrier straight away?

Let us start out with the possible break at (6). Obviously, the bars caught between the 20ema and the range barrier formed an excellent squeeze (reinforced even by the false upside break of 5). That leaves us solely to address the question of whether the technical clues, at that point in time, were supportive enough to risk a trade against the trend. To answer this, let us compare the action between (2) and (6) in this chart with the action between (2) and (9) in Figure 1 1 .6. Evidently, the price action similarities are quite striking. However, the bearish pressure in the earlier chart is much more outspoken, even despite the fact that the uptrend was pretty strong. The double top, for example, was huge and therefore may have kept a large number of potential bulls stuck to the safety of the sidelines. And the squeeze, too, seemed more powerful and determined; the fact that a false break below initial support and then two subsequent tease breaks could still not hold the market up were unmistakable clues of bearish perseverance. Conversely, the bearish pressure in the chart above, though present, somehow lacked the fervor necessary to deem a downward break at (6) , had it occurred, convinc ing enough to risk a countertrend trade. Even despite the false upside break of (5) , which would have offered extra credibility to a downward break (remember the principle of the odd versus the obvious as dis cussed below Figure 1 1 .6), going short at that stage seems very tricky.

Had I carried a long position, though, the break would certainly have inspired me to exit.

Now, I do realize that this answer is not devoid of selective reasoning and it may not appear solid enough for an aspiring scalper to heed its content. But allow me to add that in the business of scalping the line between skipping and trading a break can be extremely thin, even if I was to provide a more satisfactory answer on the particular matter at hand. Regardless of a scalper’s degree of proficiency, he will always have a personal way of looking at things, and what looks good to one, may look dubious to another. Fortunately, there is a simple solution to solve the issue of a questionable trade when confronted with one; and that is to only trade those breaks that leave absolutely no room for dis pute. Such a trade may still look dubious to another trader, but that is irrelevant from one’s own individual perspective.

The second eventuality, that of a possible barrier breach at (1 0), is a little easier to reject. Had the bar pierced through the barrier at that point in time, I would have looked upon it as a tease. Rejecting a tease, only to see the market shoot off without looking back can be a bit dis heartening at times. But bear in mind that things in the market are only favorable for trading if the chart also provides a favorable setup to join in. And the typical tease does not qualify in that respect. So rejecting it is the proper thing to do.

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Figure 1 1 .1 0 Let us close up this chapter with a pretty common range and one that should not cause too many problems finding the right spot of entry for the RB trade. Compared to most of the ranges we have dis cussed so far, this particular formation, about half an hour in length, is more like a midway between a range and a bigger block. It does not take much technical insight to classify this range as a potential continuation pattern. When prices go sideways after trending, not able to run any further but not significantly pulling back either, it usually forebodes another trending run in the direction of the earlier trend. In fact, a chart like the one above is highly prone to reveal what we can refer to as a trend-equals-trend formation, meaning that the move after the range is likely to mirror the one that came before it. This is more common than one might think and it is also highly anticipated. In that respect, we can be certain a large number of traders, in position as well as on the sidelines, will be following this market's next steps with close atten tion, even more so because the current sideways battle revolves around the 1 .3 1 50 round number level (with possibly many stop-losses floating above the area) .

The reason prices so often stall in the round number zones is not solely attributable to a flood of incoming activity from players who like

to swim against the tide. The fact that those in profitable with-trend positions can only cash in by flattening out is just as much responsible for the market to halt, or even reverse. For instance, in the chart above it is not hard to imagine a number of happy bulls exchanging their paper profits for the real variety, if not at the very moment of prices hitting the level, then certainly somewhere in the area when they start to stall. As always, the question of who causes what in the market represents a classic hen-egg situation: are the bulls stepping out because the bears are stepping in, or are the bears stepping in because the bulls are step ping out. That is a nice riddle to solve and one not devoid of irony. After all, from a transaction perspective, a bull stepping out is essentially a bear, and a bear stepping out is no more than a bull, even when both players carry no positions after the fact. The market will simply not be able to tell the difference between a trader flattening out and one taking a new position. It is just another transaction in the marketplace.

Apart from a technical tendency, was there any telling beforehand that the box in the chart was going to break to the upside, at least more likely than to break down? To answer that, let us assemble the clues that point in favor of the bulls and then those in favor of the bears. These are the bullish signs. 1 : The trend was up. 2 : The bot tom of the box rested in technical support (the rather flat bull flag that got formed in the twelve minutes before 1 2 :00). 3: Prices tightly circled around the round number level but could not really sink through it. 4: The box showed excellent support (a number of equal lows) and even a false break to confirm its validity (F). 5 : The complete range showed a compressed yet unmistakable W-pattern. 6: Some pre-breakout tension preceded the break (not very extensive, though, yet a nice looking little doji after the tease) . 7: The moving average guided prices upwards in the top right corner of the box, basically pushing them out.

As for bearish signs: the possible resistance of a round number level. Can’t think of anything else, really.

With so many bullish signs pointing in favor of an upside break, it is still important to not get cocky and to patiently await the right moment to acquire your contracts. Therefore, disciplined scalpers (bar the very aggressive ones) would probably have passed up on the slightly prema-

ture tease (T) , no matter how much this market looked like it was about to pop.

Note: The most important reason not to trade the tease in this situa tion is not out of fear for a counterattack that may force the trade to be scratched for a loss. It is simply to not teach yourself the bad habit of acting before your turn. If you allow yourself to do that, to stray from your strategy at a whim because the technical signs indicating a pos sible event are just so overwhelming, then, before you know it, you will be doing this all over the place and end up hating yourself every time it backfires. Peace of mind throughout your trading by sticking to your plan is of crucial importance. If you knowingly deviate from your plan by trading prematurely, then your impatience is simply stronger than your calm. Conversely, if you knowingly deviate from your plan by not trading a valid break, then your calm is probably bested by your fear. In either case, what you are essentially doing is trying to outsmart the odds by predicting when a valid setup will fail and when an invalid one will work out. Wouldn’t life be much simpler if we just regard all valid setups as valid and all invalid ones as not. Why not relieve ourselves from the fruitless task of prediction and let probability do the thinking.

I nside Range Break (IRB)

The Inside Range Break setup (IRB) shares many characteristics of the original RB setup discussed in the previous chapter, as well as those of the BB setup examined in the chapter before that. The idea is to explore the possibilities of the sideways market somewhat further. So far we focused on how the ranges are formed and how to go about trading them when their barriers are likely to give in. But what about all these situations in which we can picture these barriers to hold; wouldn't it be nice if we could find a way to trade that as well? And how about looking for a trade in the middle of a range, or getting ourselves positioned for a potential breakout while not even close to the barriers? As we will see, the IRB setup could serve our needs in many respects and it will benefit all scalpers to study its specifics in detail, for it is hard to imagine a day to go by without this pattern showing up in the chart.

One of the functions of the IRB setup is to capitalize on the tendency of prices to bounce back and forth between the top and bottom barrier of a well-established range. From a technical viewpoint that makes sense, since these barrier levels, by their very nature, display clear areas of resistance and support that are widely respected by traders all over the market and hard to miss on a technical chart. How many times, for instance, haven't we seen the top sides get aggressively shorted and the bottom sides aggressively bought. It is not for nothing that it takes such careful planning to break a range successfully. It could safely be stated

that the typical range, before ultimately overstaying the hospitality of the market, is more keen on preserving its existence than provoking its demise.

Admittedly, there is no escaping the irony of paradox in the above mentioned statement, for naturally anything with an expiration date is also ultimately moving towards its own termination. It is the same principle as with the notorious trend: the more prominent it is displayed in the chart, the more it is perceived to continue, while at the same time the inevitable turn is more and more at hand. No matter how a scalper looks at these things, his decision-making process should never be affected by, or based upon, the vagaries of personal perception. There exists no such thing as a range lasting too long or an overextended trend, simply because it is not a trader's call to decide on these matters. That part is already very well taken care of by the market. The scalper should stick to his own task, which is to find and trade setups in a favorable market. Therefore, it is strongly recommended to regard all valid setups as equal and not think in terms of safe and lesser safe trades.

The observant chartist may have noticed that the most explicit barrier bounces tend to be quite elusive and rather hard to capture if one does not apply a very aggressive strategy of shorting resistance and buying support. This is quite true indeed. However, as we will shortly discuss in more detail, there are ways for even the conservative scalper to capitalize on the potential boomerang effect between the top and bottom of a range. The trick, as usual, is to be patient and wait for the market to set itself up favorably.

Quite similar to the price action in a regular BB setup, the bars in the IRB are often printed in a compressed but orderly fashion, with either a bunch of equal highs or equal lows capping the tension on the side of the future break. And just like in a BB trade, a trader could wrap a box around this price action to isolate it from the neighboring activity, creating also a clear signal line to trade a break from. When this