Trading
DECISION POINTS

A New Approach to Day Trading Nifty Futures

SMART TRADER

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To my wife Anitha and daughter Ranjana
Without their support, I would never have become a trader.

DISCLAIMER

There is a substantial risk of loss associated with trading derivatives. Losses can and will occur. My methods will not ensure profits
No responsibility for loss occurred to any person acting or refraining to act as a result of reading this material can be accepted by the author

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ABOUT ME

My name is Rajesh and I am also known as SMART Trader. The name SMART Trader is not because I think myself a smart person, but because I was trading a swing trading system called SMART (Significant Move Analysis Related Trades). I am a full time trader now and before that I was working for a public sector Bank. I day trade Nifty Futures three minute chart for a living.

I do write a blog and share my trades and thoughts regularly. You can visit my blog at http://www.niftynirvana.blogspot.in/. Please do use the mail ID niftynirvana@gmail.com if you want to contact me.

My first exposure to the stock market was in the year 1987. I started participating in the market by applying for primary issues. I used to make multiple applications in different names and sell on listing at a profit. There were a lot of public issues coming to the market that time and companies were required to make new public issues only at par, giving the subscribers good profit margin on listing.

In the early 90s government abolished the control on primary issues and gave permission to issue stocks at premium and primary issues became unattractive. So I turned to secondary market. It was just before the security scam of Harshad Mehta. Everything was going up and up. I made good money to give back everything when the market crashed. Same thing happened when dot com bubble burst

I learned some good lessons. I was reinvesting all the money I made from the market and always the correction brought down everything. I was playing an endless Snake and Ladder game without pulling out the money from time to time. Slowly my investment horizon became shorter. I was doing position trading and later I became a swing trader holding the position less than a week.

I was getting bored with my day job. I wanted to quit and do something else which gave me a little more freedom. I wanted to develop some skill with which I can earn a life long income. For me, day trading was a natural progression.

I was doing swing trading and was writing a blog on the subject. My system was a long only method and it was not performing well after the last market crash. I stopped everything and started working on day trading. It took me three long years to find a working method. Finally I started trading the method with real money in January 2012 taking all my accumulated leaves. I started to blog again to document my trades.

In August 2013, I quit my day job to trade for a living. I know there is a long, long way to go. But I am confident and I trust my method. I know it works. I know there is an edge in the method and it will perform well in all kind of markets.

ABOUT THE BOOK

Why the book is free

When I told my relatives and friends about writing the book, everybody's response was the same. Trade the method for a few years and prove to other traders that the method is consistently profitable, then write a book and sell it for a price. But I decided to do it now and distribute it free.

Traders, especially discretionary traders, do not trade the market. They trade their beliefs and concepts. Even if I can trade the method profitably, others may not be able to do it. Some times another person will be able to trade my concepts much more efficient than me. So the usefulness of the concepts are not dependent on my profitability but on the personality and beliefs of the person trading it.

Many of the books on trading and trading psychology are written by people who do not trade themselves. That is irrelevant if we are able to make use of their concepts in our trading. There was a popular blog on trading by "TraderX". Google it and you will find it. Trader X never traded. All his trades were imaginary. But many people did not know it and traded his methods very profitably.

Making money selling a book on trading is the last thing I want to do in my life. Earlier, I myself had bought so many books on trading. Most of them were total disappointments and I could not derive any benefits from them. May not be the fault of the author, but their methods were not suitable for my personality. I really regret having purchased some of them, that too paying as high as hundred dollars.

My methods and beliefs may not be acceptable to the majority as they are not very conventional. I don't want somebody to spend on something that is not useful to them. If you find something useful in this book you can always do me a favor. Please do forward this to your friends and relatives. After all the success of a book is its wide readership.

Why Sharing the Method

Many traders think their trading system will lose its edge if they disclosed it. I have no complaints against them. Let them trade it and make lorry loads of money. I am referring to the "Gurus" of our trading forums. They keep it secret as if it is some nuclear bomb code or cryogenic engine technology. I can understand if it is some High Frequency Trading Algorithm they developed after spending a few million dollars. But almost always it could be a crappy curve fitted Amibroker code based on some indicators every Tom Dick and Harry is well aware of.

I think there are two reasons for keeping the system a secret. The first one is they want to sell it and make some money. Otherwise the system could be so crappy that they themselves have no confidence to share it and they are not able to defend it on public scrutiny.

Sharing the method publicly will have some huge benefits. Other traders trying the method will prove its worth fast. I will always get feed backs so that I will have a better idea about the positives and short coming of the method. Then I can focus on its strengths and modify it to eliminate the shortfalls

Who the book is for

This book is not a trading text book. This is all about some concepts and its implementation in real trading situations. It is very difficult for a total novice to follow this. I assume a minimum level of market knowledge for the reader.

It is a fact that 95% of the traders are struggling and are losing money consistently. Most of them are struggling because they are not getting proper direction how to proceed. I feel a few of them will at least learn to recognize an edge and will be able to design a method around it, reading this book.

If you are expecting to buy a private jet or a luxury cruise trading, the method is not for you. I am afraid you will not be able to order a custom made Lamborghini or own an island in Caribbean. Believe me, you can make more than you earn from your day job.

This book is all about “How I Day Trade”. This is not the only way to day trade profitably. There are a million other ways. There could be and there will be much easier and efficient ways to day trade. But I can’t write about them because I don’t know about them. This is the way I traveled and this is the only way I can show you.

How the book is structured

The book is in two parts. The first part deals with my trading philosophy. There is no logical or chronological order for these short write ups. These are the basic beliefs I have about the market and trading. You may or may not agree with these or you may agree with few of them.

The second part of the book is how I designed a trading method around this philosophy. It is all about finding an edge in the market. Defining a structure or framework within which the prices move and finding tactics to trade it. There is a little bit of trading psychology and thoughts on skill development.

You will never find anything related to the conventional technical analysis in this book. It is all about trading price action in its purest form. There are few chart examples in the book but they are there only to illustrate a point, rather than to teach a complete trading method. You may need to understand the core concepts and work on it. I feel that this is way more valuable than just learning entries and exits

I have not touched many important topics about trading like Money management, Skill development and Psychology. These topics are beyond the scope of this small book. This is all about finding an edge in the market and building a trading method based on it.

Please do read on. I sincerely hope it will not be a sheer waste of time

PART -1
Trading Philosophy

1.01. Trading and Investing.

Nobody knows who is an investor and who is a trader. Surprisingly when one talks about trading, the person sounds irresponsible and labeled as a gambler although he may be a great risk manager. While if one talk about investing, the person sounds much matured conservative and risk averse

I think investors are those who purchase the stock of a company to become the part owner of the business. They control the management of the company and most of the time acquires a big chunk so that they are assured a seat in the board. Well known investors like Warren Buffet and our own desi versions are doing the same.

The intention of a trader on the other hand is always to profit from the rise or fall in price of a security. If you are in the market to profit from the price move of the security, you are a trader. Time frame of the trade and the tools used to make the analysis of price can be different. Some traders use fundamental analysis others technical indicators and a few trade pure price action. Some stay in the trade for a few seconds only and some others stay for months.

Most of the so called investors we come across are just longer term traders who use fundamental analysis for their trading decisions. They will claim they are disciples of Buffet and they are in the market for wealth creation. Every trading method needs an edge and here the edge is access to inside information. If you think you have such an edge, go ahead.

Many of the so called successful investors made it big either on inside information or by manipulating the market with raw money power siphoned out from banks and other institutions. They happened to be at the right place at the right time and had the guts to act on it. Where are those guys who made lorry loads of money and appeared as the cover picture of our business magazines during early 90s? What happened to their investment acumen?

Most of them were brokers doing institutional business and was front running the domestic institutions like UTI and LIC. The entry of FIIs and electronic trading just destroyed their edge.

Don't think long term if you have only limited resources. It is very difficult to create wealth through the equity route. Times have changed Companies can rise and fall within months. Companies once considered as bluest of the blue chips are struggling to survive. We can always cherry pick some examples for argument sake but practically it is very difficult to create Alpha. One among the portfolio can be a ten bagger, but what if few others are not performing? It will be very difficult to outperform the index acting on published information.

So in my humble opinion, it is better to trade the market for income and not for wealth creation. You may differ.

1.02. Fundamental Flaws

I too started as a buy and hold investor. Like any other investor, I used tools like PE ratio, PB ratio, EPS etc for my analysis. I compared the company PE ratio with the Market, Sector, Industry and the historic PE of the same company. I wasted a lot of money, energy and time after buying an undervalued stock and waiting for the market to discover the value.

One fine morning, it dawned on me that I must focus on market price rather than on this ratios .So I changed the formula.

PE Ratio = Market Price / Earnings per share to
Market Price = Earnings per Share * PE Ratio

So the Market price is a multiple of EPS and a variable. This variable is nothing but the market sentiment. Our companies declare their results quarterly and this EPS remained a constant at least for a quarter. Then everything was clear, the focus should be on the sentiment rather than on earnings for the short term player.

People may argue that projected EPS is more important and we may need to research and pick stocks. I was doing all the “Research” reading the pink news paper and other published information. Later I understood all these reports were either planted or the wishful thinking of the employed analyst.

I was working with a public sector Bank at that time and I tried to predict the profitability of the particular branch where I was working. I could not. There ended my fundamental analysis. How can I project the profitability of thousands of companies operating in different sectors, industries and geographical regions?

Please do analyze and predict the profitability of the company for which you are working at least for a quarter before wasting your time on other companies operating in scores of sectors and hundreds of industries.

If you want to participate in the stock market better buy an ETF like Nifty Bees during market crashes. You will definitely do better than many professionally managed mutual funds.

If you do not have a lot of luck or right connections to get inside information, chances of becoming a successful investor is very remote. Buying lottery tickets can be a better option. Already I can see some “Fundamentalists” coming with their swords and Warren Buffet placards

1.03. Why Trade for Income?

What is your most valuable asset? You may say your home, your investments or your savings. I don’t think so. None of these things are possible without income. Ability to earn income is our most valuable asset and it is always important to acquire skills required to earn a life long income.

Few factors can impact our ability to earn money. These are death, permanent disability, unemployment and retirement. Death is inevitable and we have no control over permanent disability. Having adequate insurance coverage can protect the financial welfare of the family to some extend in such situations.

Under the new economic environment there is no guarantee for our day job. Nobody knows how long we can continue in the present job and when we may need to take early retirement or when we are going to get fired. Always there is an element of uncertainty. In such eventuality we may need to dip into our retirement funds or savings funds for meeting our day today expenses which is very painful.

Some professionals and experts can offer consultancy and earn life long, but most of the people are leaving their day job with useless skills. Few lucky persons can draw inflation indexed pension and few others may be having other sources of income. But still the reduction in income could be a cause of anxiety. If we want to live a life we envision, we have to get rid of this anxiety by developing alternate sources of life long income.

Wealth is never a substitute for income. People are emotionally attached to their property and will never sell it for meeting day today expenses. Look around you and you will see wealthy people living a miserable life in the absence of regular income. Having interest earning financial deposit is not a solution at all. We will always be worried about the sky rocketing prices and spiraling inflation. The original investment loses its purchasing power over time and the interest income may not be sufficient after a while for comfortable living.

Trading, if learned properly can be an excellent way to make some additional income. Trading for a living is not an impossible task at all. It is just a skill like cycling or driving. You will get better and better in it by experience. Trading is an excellent profession for house wives and the retired as they can do it leisurely at the comfort of their home. With assured future earning potential, we will feel much more secure and security is a warm feeling for sure.

1.04. Why Day Trading?

So called Investing and Position trading are the trading methods for wealth creation. People do swing trading and day trading for income generation. Swing trading and day trading attempt to capture short term moves in the market. A swing trader typically holds a position for 2 to 5 days where as a day trader never holds a position overnight

Short term traders make trading decisions based on the laws of demand and supply and do not care about the fundamentals at all. I prefer to day trade as there is no risk of overnight holding. Derivatives are highly leveraged instruments and it is very risky to hold due to gap up/down openings due to overnight news flow.

There are certain advantages to day trading compared to swing trading. As we discussed earlier, the first one is reduced risk and stress as we are not holding the position overnight. The second major advantage is steady income. Losses are inevitable in trading and even the most efficient method will have draw down periods. For a swing trader continuous loss of 5 or 6 trades means a losing month whereas for a day trader it is just one or two days. Another positive is immediate results and better control over the trades.

If we are trading price patterns, it is always better to practice day trading in lower timeframes. Price patterns occur more frequently in lower time frames and we will be able to learn in a compressed time .Frequent repetition and more exposure will help us to develop the skill faster.

Definitely there are much more trading opportunities in lower timeframes. Price may open and close at the same level most of the days. For a trader of daily charts there are no opportunities but price may give opportunities for the day trader.

The day today market movements are mostly controlled by technical speculators. They are professional traders and their actions can be anticipated with some degree of accuracy if you gain some experience

But there are of course certain negatives. Day trading is not possible without watching the market live. It cannot be done as a part time profession unless you can arrange your day job timing accordingly.

Cost of trading is another major drawback. There are fixed costs like commission, taxes and brokerage to enter a trade. These costs are same irrespective of our trading style or holding period. Day traders are aiming for small moves and enter and exit trades frequently. Fixed costs may eat into the earned profit. Many day traders earn at the gross level but slip into red when costs are accounted.

If we are trading for a living, I feel it is always better to day trade and sleep well at night.

1.05. Is Trading Risky?

Yes. Trading is a gamble and a gamble is always risky.

Everything you do in your life is risky. Always there is an element of risk behind every decision you take. How did you learn to stand up and walk as an infant? Wasn't it risky? There was a risk of falling down and breaking your chin. Still you took the risk and learned to walk.

Crossing the road is risky. Riding the bike is risky. Driving the car is risky. Flying in an airplane is much more risky. Then what is not risky?

Whatever you do with your money always involves some risk and is a gamble. We can keep it in a Bank fixed deposit. The Bank can go broke and your deposit is insured only up to Rs 100000/-. We can buy gold. But is there any guarantee that the price can't fall. It has happened before.

We can buy property. People think reality prices never go down and can't lose on reality. Remember the crisis in US reality markets. The Indian bubble will also burst one day. We can invest in mutual funds and insurance. Go through the performance of mutual funds and ULIP schemes for the last few years. You will know what can happen.

Finally it all comes down to probability. If the probability of something bad happening is very low, we consider it as certainty and accept it without fear. On the other hand if this probability is a little higher we avoid it thinking it is risky and a gamble.

In finance you cannot make higher returns without higher risk. We cannot expect great returns with minimum risk. It is against the natural law of money. We must focus on managing the risk rather than avoiding the risk.

It pays to take risk and gamble if odds of winning are in our favor. There are ways and methods to manage risk in trading. We must learn prudent position sizing and money management techniques and follow it religiously.

1.06. Reality of the Market

Majority of the traders fail because they do not understand the reality of the market. Most of us are not even playing the right game. Materials available over the net and the books written by failed traders teach technical analysis patterns and indicator based signals and we assume this is the reality.

The indicator based TA signals and price patterns are illusions. These are only effects. Cause is something else. Then what is the cause? Price .Indicators and patterns are derivatives of price. Then price is the cause and TA patterns the effect. So we need to focus on price.

Do not reach a conclusion so fast. Price is another effect and there is something that makes prices move in markets. What it is? It is the order flow. Orders make the market move. If the net order flow is on the buy side market will go up. If net order flow is on the sell side market will drift down.

Then order flow is the real thing that moves the market. Oh No .Dig a little deeper. Yes. It is the people who act in the market by feeding their orders. When people start bidding higher, price will move up when they start lowering their offers price will start moving down.

When people are going to bid or offer aggressively? It is when they feel the urgency and desperation to transact. This is when they become emotional. So it all comes down to the emotion of the market participants. Fear and greed are the most powerful emotions that can force people to act.
If you are able to identify the price levels where a large enough group of traders succumb to these emotions and able to act there without hesitation, you will win in this game. Trading is nothing but engaging the other party. Encashing their fear and greed.

Suppose you are in a shopping mall. People will be moving around in a random manner. Then you hear an announcement that the first ten purchasers of a particular item will get another free. You can see so many people rushing to that counter .That is greed in action. Then you go and press the fire alarm button. Everybody except you will rush to the exit. Fear in action.

Now you know it. Fear is much more powerful emotion than greed.

1.07. Probability Game

Market is a dual auction process where multiple buyers compete to buy from the market and multiple sellers competing to sell into the market. Price is where a seller and buyer agree to transact. Price moves depends upon the demand and supply .Let me try to explain this with a DOM view of a trading platform

BUY	PRICE	SELL	
	10570		
	10569		
	10568		
	10567		
	10566		
	10565		
	10564	207	
	10563	86	
	10562	54	
	10561	24	
	10560	20	
	10559	23	1
19	10558		
22	10557		
29	10556		
24	10555		
43	10554		
137	10553		
	10552		
	10551		
	10550		
	10549		
	10548		
FLAT	POS	P/L	C
CANCEL	REVERSE	CLOSE	<<

Figure 1

In the above example 23 lots are being offered at 10559. Nearest bid are 19 lots at 10558. Here no transaction will take place. Either the buyers should bid up or the sellers should quote lower. Suppose those who are willing to sell 23 lots at 10559 revises their order to 10558, 19 orders will get executed at 10558 and the remaining 4 offers will remain unexecuted at 10558 level. Last traded price will be 10558.

Now imagine somebody punching a market sell order of 274 lots. All the bids shown in the above example will get filled and the last traded price will be 10553.What will happen suddenly another market sell order comes? This order will get filled at a far lower price say 10300 where another bid exists and it is a Flash Crash.

Let us take another example on the long side. Think 10560 as a previous resistance area. Some bull operators want a breakout to happen and punch a market buy order of 300 lots. Market will breakout. Orders from 10559 to 10563 will get executed and remaining 93 will be traded at a price of 10564. There are no more buy orders at that price so price will rest at 10564.
Now a single market sell order can make the breakout fail. It will get executed at the nearest bid 10558, well below the breakout level.

Every moment in the market is unique and every single trader is a variable that can shift the market move. It is the order flow that moves the market. This order flow is created by the collective action of a million traders. There is no way to predict how they are going to act. No indicators or black box systems can predict order flow.

Successful trading is all about knowing where a big enough group of traders will succumb to fear and greed, and acting with or before they act, allowing their order flow to take our position to profit. Price move is a function of demand and supply. It is the urgency or desperation of the participants that move price. Any trading method which is not based on this reality is bound to fail.

There are no certainties in markets, only probabilities. Trading is a pure probability game and the only way to make a profit is to win more than we lose. We will not be able to avoid losses. Losses can and will happen. That is the nature of the game.

1.08. Discretionary Trading

There are two ways to proceed as a short term trader. Most of the profitable traders belong to either of these two categories. They are Mechanical Traders and Discretionary Traders.

Mechanical traders trade a purely mechanical system based on an algorithm. These trading systems are developed after thorough research and back testing. To develop such a system, you need to be an expert in statistics, programming and back testing. Back testing and developing trading systems are not an easy task. You need to have a thorough understanding of the market to develop such a system.

Most of the mechanical system traders will have different systems to suit different market situations. Markets always change and evolve. Continuous monitoring and fine tuning is required to maintain the effectiveness of the method. If you are not an expert in these fields you are not going to make any progress.

Another way is to become a discretionary trader. These types of traders use their feel and read of the market to make on going decisions. He uses some simple guidelines to analyze the market contextually. He relies a lot on his intuition and experience to make trading decisions.

It takes a lot of time, effort and focus to get hard wired for such methods. But it is not an impossible task if you are willing to take some effort. On the surface discretionary trading will look simple, but it may take some time to develop complex mental maps and achieve automaticity so that you can trade without thinking.

Some traders use a combination of these methods to trade. I think it will do more harm than good. To get the benefit of a statistical edge, we need to take all the signals given by the system. Introducing discretion and avoiding some trades will simply destroy the edge

I preferred the second route as I do not have the technical expertise or statistical knowledge to develop a mechanical trading system.

1.09. Trading Naked

Trading Naked is trading pure price action without the help of indicators and other Technical Analysis tools. Majority of the traders use indicators to make short term trading decisions. Do we really need these technical tools to trade successfully?

I don’t think so. Markets can be traded successfully without TA tools and indicators. Pure price action analysis is more than enough to trade successfully.

Indicators are all derivatives of price volume data and sometimes they serve as effective comparison tools. They are not predictive tools and ineffective in predicting the future price move. Then what purpose they serve?

As traders we are primarily interested in knowing two things. 1. Right location to initiate the trade. 2. The right direction to trade.

I think we do not need an Indicator to identify a location to initiate a trade. Why should one search for a level when market itself is showing us the levels it respects? Why should we use some complex calculations to identify a level to initiate trades? Just eye balling the left side of the chart is enough for the purpose. Market is always going to respect its own levels and do not expect your calculated levels to work.

Indicators are not accurate in predicting future move direction. It all depends on the net order flow. We do not need an indicator to know where the orders are. With a little bit of experience we can accurately anticipate where the waiting orders are

There are simple and effective ways to identify high probability locations and resting order buildup. There are only probabilities and never certainties in markets. Indicators are not going to increase the probability, I think.

I had to select a time frame to trade the markets. Charts of 15 minutes and above were too big a timeframe to day trade. So I experimented with 5 minutes and 3 minutes and settled with 3 minute charts. Lower time frame gave a much detailed view of the price action. I felt 1 minute charts are too fast and I can’t stand its Formula 1 speed. I decided to stick to a single time frame and avoid the confusion of multiple time frame analysis.

Markets have no time frames. It generates a continuous stream of data. We chop this data and chart it as per our convenience. I feel there is no need to look at a higher time frame chart as the levels will show much prominently in lower time frame charts.

1.10. Trader Development

You might have read a lot about the process of Trader Development. There are tons of materials available all over the internet. As always, I have a very simple approach to this subject also. In my humble opinion there are only three stages in trader development. You need to negotiate two slippery slopes and a plateau. These stages are Structure, Tactics and Action.

Structure

First stage is defining the structure of the market. This is a slippery slope and most of the traders fail to climb this. Structure is simply a frame work within which the market moves. Imagine a foot ball field. There are certain rules under which the game is played. If you are not aware of these rules, you will think that the moves are random. Markets do not have such hard and fast rules, yet you need to define a framework to trade it. Nobody knows the exact structure of the market. Indicators, Market Profile, MAs, Elliot waves, Gann etc are all attempts to define the structure of the market. We need to define this structure and identify the “Actionable” price levels where we can initiate trades. Observe and ensure price is respecting these levels repeatedly and these levels are “Actionable”. There is no point in proceeding any further without total trust in your defined structure.

Tactics

The second stage is deciding upon the methods to trade the price moves within the defined structure. This is all about tactics. This is relatively easy part and can be achieved with a little bit of trial and error. Interestingly many traders think this is the most important stage and try to trade without properly defining the Market Structure. I have seen people trading candle patterns paying no attention to the location.

Action

The next stage is Decisive Action. This is going to be another slippery slope. Having defined the structure and identified the tactics to trade, we need massive action. We need to acquire the ability to take the right action at the right time. It is going to take some time and we need to preserve our capital and survive the learning curve. We may need to address many issues related to poor money management, trade management and psychological issues such as impatience, fear and greed.

There will be set backs. Instead of identifying the cause and rectifying it, many traders come back to stage two and start dealing with patterns again or worse start defining their structure again putting themselves all the way back to stage one. Trading Consistency will remain elusive for them.

1.11. Actionable Analysis

As far as trading is concerned every analysis should lead to the identification of "Actionable" price levels. If your analysis is not able to identify the price levels where you can take concrete action, it is a waste of time and you are practicing a useless skill.

Trading being a probability game, your success as a trader will depend on your ability to identify an actionable price level from where a non random directional price move can occur. If your defined market structure is not able to identify such levels, throw it out and look for something else.

Nobody knows the exact structure of the markets and the framework within which the price moves. We are like blind men trying to define an elephant. But still a workable model can be identified and traded.

There are so many trading methods available in public domain. You can very well use them as a template to develop your own method. You have to first ensure that the framework is capable of identifying actionable levels.

If you are satisfied with the template check the entry and exit tactics and ensure they are also actionable. Otherwise try to modify it to suit the structure. Do not waste your money trading a method that is not actionable.

Almost everything you find as technical analysis is an attempt to identify an actionable level or anticipate a directional price move. You can avoid a lot of frustration and loss of money by ensuring the method works before committing money on it.

I have seen many traders spending hours together doing analysis. Unfortunately most of their time and efforts are wasted as their focus is not on identifying levels on which they can “React”. Ensure your analysis is focused on something easily “Recognizable”, “Reactionable” and ‘Repeatable” otherwise you are analyzing to paralyze yourself

1.12. Why Nifty Futures?

There are certain advantages in trading futures especially the index futures. Future contracts of the NSE Nifty index is the most liquid futures contract traded in India.

If you are a day trader, it is always better to stick to a single instrument and timeframe. Every contract will have its own character and behave in the same fashion. Tactics suitable for a particular contract may not work well on something else. Future markets are always dominated by professional traders and most of them are very short term day traders. These traders are habitual traders and with some experience we will be able to anticipate their behavior more or less accurately.

The beauty of the future market is that no body can exit and windup their position without creating an order against their own position. So every new order creates an opposite future order. When a big enough group of traders realize they are wrong, their own exit triggers an explosive move in the opposite direction. This behavior makes the futures market ideal for short term day trading.

Being a very liquid market, we can always enter and exit very easily. Slippages are very rare in Nifty Futures. Most of the times we will get a right fill for our orders. Stock futures barring a few are very illiquid.

Price moves in a stock and stock futures are greatly influenced by the sector move and the broad market move. It is very difficult for a stock to move against the sector and overall market. If you are trading a stock future you may need to monitor what the sector and broad market is doing. By trading the broad market index we can avoid this.

Stock prices are always influenced by other factors like cross exchange arbitrage commodity prices and exchange rates. These factors have negligible impact on Nifty Futures.

I think, as far as day trading is concerned Nifty Futures current month contracts are the ideal instrument to trade.

1.13. Trading Revolutions

My first exposure to the Stock market was as early as 1987. For the last 25 years I was in the market either as a buy and hold investor or as a trader. Earlier, trading for a living in Indian market was only a dream. Exchange membership was confined to a group of brokers. They controlled and manipulated everything.

There was no transparency and proper price information. Investors always ended up buying at the days high and selling at the low of the day. There was no way to monitor intraday moves and change the orders during the day. Commission was as high as 2%.During market falls investors were not able to get out as the brokers did not accept the orders. Their first priority was to get out of their own positions.

Then the first revolution happened. National Stock Exchange started operation in 1994. Floor based trading gave way to transparent electronic trading. Investors and traders could get live price information. Transaction cost came down to reasonable level. Derivative segment started in 2000 and trading became accessible to laymen.

The next best thing happened in Indian Capital market was the debut of discount broking. In 2010 “Zerodha” India’s first discount brokerage started its operation from Bangalore. It was an instant hit and they redefined the Indian brokerage business. Many other brokerages followed suit and entered the arena. The ultimate beneficiary was the retail trader.

Cost of trades came down significantly. One round trip in Nifty Futures was costing around 8 points earlier. Now it is less than 2 points. A buy and sell in Nifty Futures cost less than Rs 100/- now. It became feasible to play for small moves, day trade and scalp

I am a lot more optimistic now. I think the best is yet to come for the Indian Day Trader.

1.14. Blind Men, Blind Elephants.

Six blind men encounter an elephant. The first touches its leg and declares that an elephant is like a pillar. Another touches its side and says that an elephant is a rough wall. Next one feels its tail and says that an elephant is like a piece of rope. Each of them touches different part of the elephant and is convinced that their own explanation is correct and that the others are wrong. None of them realizes that they are all experiencing just one part of the same elephant and that none of their explanations are complete.

There was another blind man hearing all these arguments. He exclaimed aloud "I wonder what an elephant is really like" .The mahout heard this and took him to the elephant. He made the blind man explore the elephant and told him a lot about the animal. Even though there is no way to know exactly how an elephant looked like, he was able to get a good idea, far better than the other six.

Traders are like the blind men. Nobody knows the exact structure of the market and never will. They reach some conclusions with their limited experience and exposure and refuse to change it. Be like the seventh blind man if you want to survive in the market as a trader.

There is another version of the story. In a forest, there lived six elephants. These elephants were blind by birth. They heard a lot about men and were wondering what men were like. After arguing a lot, they decided to find one and determine it by direct experience.

One day a poor man stranded into the forest losing his way. The blind elephants caught him. The first elephant felt the man with its trunk and front leg. He declared "Men are flat". One by one, the other elephants felt the man. They too agreed. Elephants left the place, happy with their new discovery, leaving the dead man aside.

You know this man and the elephants well. The man was a poor retail trader and the elephants were stocks, futures, options, commodities, currency and bond markets. Be careful. Don't get lost in this jungle and get crushed by the blind elephants.

Part 2
Decision Point Trading

A Different Approach

2.01. Holy Grail

When I started trading, I was also like any other novice. I was searching for the Holy Grail. I thought trading is all about knowledge and research. I was always searching for new indicators, learning technical analysis and doing back testing.

I was not able to make any progress. I could impress my friends and some trading forum members with my deep knowledge. But I was not making money, worse I was losing consistently.

Finally it dawned on me that, I was on the wrong track. There was no point in digging any deeper. I was totally confused. I did not know which way to proceed. At some point of time, I really thought about quitting.

Luckily, while surfing the net I stumbled upon yourtradingcoach.com of Lance Beggs. I was impressed with his market knowledge and insights. Everything he wrote made sense to me. I bought his six volume book YTC Price Action Trader and read it many times. The book changed my approach to trading. It was a new beginning.

My methods are much different from how Lance Beggs trades. But the core concepts are same. I blended his methods with my existing knowledge base and developed my own style. I learned one thing. Any method which is not based on the basic market behavior ignoring the reality of the dual auction process will fail to make money in the long run.

Profitable trading is very simple. Win one out of two trades and win more than the losing trade.

For that we need to

1. Identify a location from where we can expect a non random directional price move
2. Trade with the trend
3. Cut the losses short and
4. Let the winners run

Identifying the right location is the most important thing. This requires defining a structure for the market, a frame work within which the price moves. Surprisingly I found that almost all technical analysis were attempting to do the same thing Rest is all about tactics which can be tackled with little experience.

2.02. Location

After deciding to day trade Nifty futures, next task was to identify high probability trade locations from where I can initiate trades. To trade the market profitably, we need to identify a price level from where we can expect a non random directional price move.

Anticipating a directional price move is very easy due to the nature of the futures market. We let the buyers and sellers fight it out at a chosen location. Sooner or later somebody is going to win and price will move in the direction of net order flow. Losers will be forced to exit their position creating order flow in favor of the winners causing a directional move. Here we will join the winners and ride the move.

So trading is all about Location, location and location. Identifying a location where a decisive group of traders act and fight it out is the key. There is no point is searching for some secret levels. Very few traders act at these secret or little known levels and they can’t move the market. We just need to be part of the pack on the right side of the price moves.

Now it is somewhat clear and we know what to do. Wait for the market to hit the identified price level, watch which side takes command, buyers or sellers, Join the winning team and enter where the losers start exiting and allow their order flow to take our position to profit.

I experimented with many indicators and technical tools but did not find the results satisfactory. Later I found out the most basic structure of the market, support and resistance worked better than any other Technical Analysis tools as far as day trading is concerned.

I started trading Support and Resistance. Support and resistance did not work always. They are make or break levels and all the locations are not equally effective. Only higher time frame levels seemed to work. I was stuck. I did not know how to proceed further.

After a few days I decided to back test. I marked all the 20 point+ moves on a few historical charts and marked the points from where the move originated, where it paused, where it stopped and reversed. I could identify some high probability locations. These price levels were not solid support or resistance areas .But market seemed to pause and make a decision at these levels about the future direction. I called them “Decision Points”.

2.03. Decision Points

Decision points are price levels where day traders are expected to act. Most of the time, these are levels where a demand and supply imbalance existed. My trading revolves around these points and I expect the traders to act forcefully at these areas. These are reference points to navigate the chart space. Day traders are creatures of habit and I assume they act at these levels again and again. Major Decision Points are

High, Low and Close of the previous day
Open, High and Low of the trading day
Major Swing Pivots.
Big Round Numbers
Range Highs and Lows
.
In fact these levels are implied support and resistances. I don't call these levels support or resistance because these words give a wrong impression that a support is a level to buy and resistance, a place to sell. I always let other traders to fight it out at these levels and try to join the winning team.

Do you know what is so special about these locations? These are markets own levels and market is going to respect its own levels. There is no ambiguity or confusion about these levels. They are very obvious and every trader notices these levels unlike the calculated levels.

More people noticing the level means more people will act there. There will be a lot of order flow here. Market always makes a decision here regarding its future direction. A lot of traders are going to be wrong here. Their exit will create more order flow in the new direction.

For example, lot of traders uses moving averages to trade the markets. They identify locations to initiate their trades in many ways. Some people enter on price crossover and some others on average crossovers. These traders use different moving averages to make decisions. This varies from 3 periods to 200 periods. Further, some of them use simple averages and others stick to exponential moving averages. In short these traders are identifying different locations to enter and exit their trades.

Decision Points on the other hand are fixed and visible to all the traders. There is no confusion or ambiguity about the levels. Previous day high is the previous day high for all. A Big Round Number is a BRN for all. So naturally there will be a lot of order flow at these levels. Decision Point traders are united and they rule the divided rest

The core concept behind my method is the acceptance and rejection of price at these levels. I assume the market to move within a frame work of Decision Points and use three patterns to trade these levels.

Figure 2

Figure 3

2.04. Price Flips

Do you know which price pattern repeats over and over again in markets?

Price Flips are the basic pattern of all auction markets. It is the very basic structure of the price action. This is the concept on which almost all the profitable day trading systems or methods are built. Any trading method ignoring this behavior of the market is likely to fail.

Everybody is aware of support and resistance in markets. A price area which was previously support or resistance has a good chance of continuing to provide support or resistance again in the future. Once these levels are broken this levels become Price Flip Zones. In other words a resistance turns into probable support and a support becomes a probable resistance. It is like once you climb the stair the roof becomes the floor

Price Flip zones are an important concept in trading. It is very important to initiate your trades at these levels. It helps us to place our stops at logical levels and enter trades with very favorable Risk Reward ratio. Consider Price Flips as zones and not exact levels. Price Flip zones work in all Markets irrespective of the time frame you trade.

Pay attention to Price Flips zones while negotiating price action. This may provide great help in extracting money from the markets

Figure 4

2.05. Time Frames

Do markets have time frames?

I don't think so. Auction markets produce a continuous stream of data from open to close. As we cannot process this raw data in real time, we chop it and chart it. We cut and package the data as per our own convenience and comfort level. In fact the data is same for all time frame traders. Only difference is in its packaging.

In reality these time frames make trading much more difficult. People use different time frames and use indicators on top of it. They will end up locating different price levels to initiate their trades.

For example people use moving averages to identify trade locations. A 13 period moving average on a 3 minute chart differs from the same moving average on a 5 minute chart. Day traders use different time frames and identify different levels to act. Think about the different period averages on different time frames. Further there is SMA, EMA WMA and many other variations. Moving averages are not the only indicators. There are dozens of other indicators calculated on different time frames.

Mark all these levels on a chart and they will fill the entire chart space. Poor Nifty can't move without touching a few levels. This is very helpful to the technical analyst. They can always find some or other reason for every price move and reversal in hind sight.

In my opinion there is no need to look at a higher time frame chart as everything visible there, will appear much more prominent in our trading time frame chart. The problem with lower time frame is that if we start looking at lower time frame regularly, we will finally end up trading it.

Trends and time frames create a lot of confusion among traders. Most of this confusion can be avoided sticking to a single time frame. Try to identify and trade time frame independent price levels, levels which are visible and obvious to all time frame traders.

I use three minutes charts to trade Nifty Futures and never look at higher or lower time frame charts. I selected 3M charts because I felt 5M too slow for me and I cant stand the Formula 1 speed of 1M charts.

2.06. Order Flow

Many traders think Order Flow trading is all about watching the order book and making decisions. System peddlers and snake oil vendors are responsible for this misconception.

I don't think it is possible to trade the markets looking at the flickering DOM of our trading terminal. Algo trading super computers can feed, modify and cancel orders in milliseconds and many of these actions are for deceiving retailers and other Algos.

Looking at the order book of any kind is not the way to proceed. Traders are creating order flow by feeding the orders. Conventional technical analysis does not address this aspect. Deconstructing the logic processes of other participants is the way to go. Real trading is Meta Gaming. It is engaging the other players.

For me Order Flow analysis is a mindset. It is anticipating future orders and making decisions on it. I don't think we need to see the actual orders on our DOM to do this. It is all about projecting the future price move based on other trader's behavior.

Real order flow trading involves anticipating where large enough traders are going to enter and exit en masse and acting there without hesitation allowing their orders to move our position to profit. Always think order flow. We need to enter where there is enough order flow to support our direction and exit where there is opposing order flow.

Patterns and setups are not that important. Trading is all about people, their decisions and orders.

Figure 5

2.07. Trade the Trend

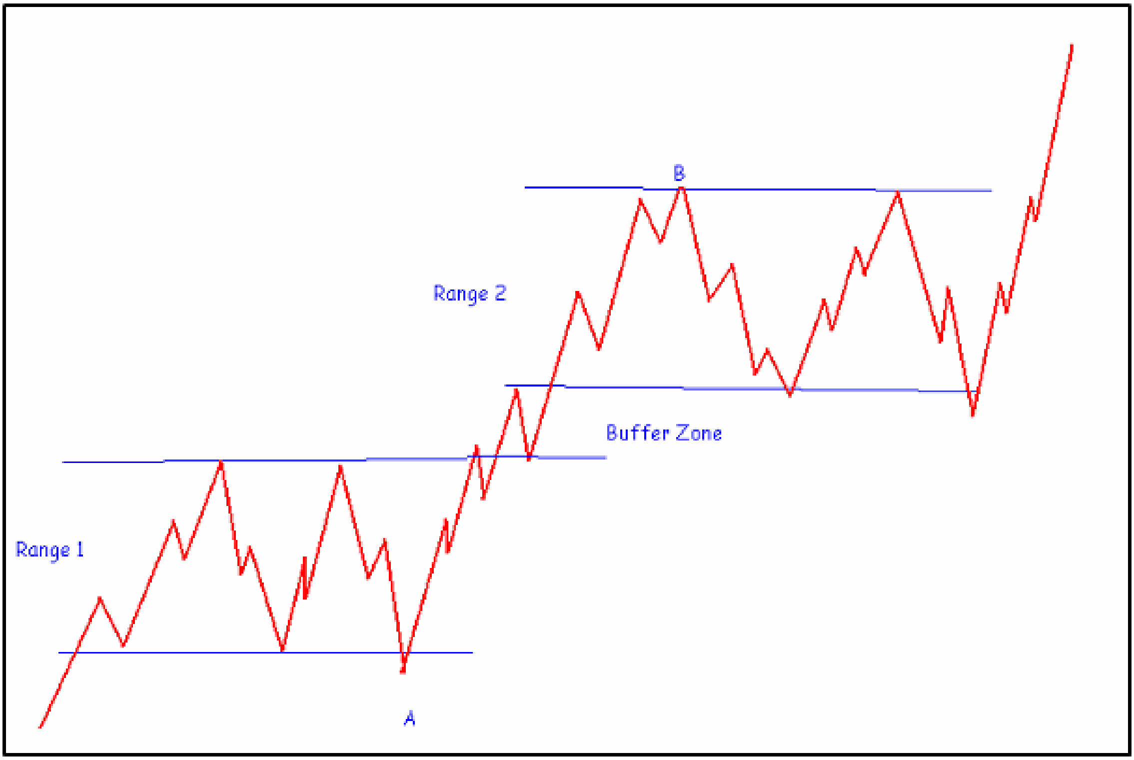

Figure 6

“Trade the Trend”,” Trend is your Friend”. Every trader might have read it a thousand times. But unfortunately nobody knows what a trend is, where a trend starts and where it ends. Many traders think a trend starts when price breaks out of a range. Wrong. They are going to miss most of the trend move

Trend is nothing but a prolonged movement of price in a particular direction. If you approach the market as if it is ranging all the time, there is no confusion. Almost always a trend starts at a range extreme and terminates at the extreme of another probable range.

In the above example you are entering at the Breakout Failure of a range extreme marked “A”. You expect the price to break out above the other extreme and move up to a higher trading range high marked “B”. This approach will help you to capture a major portion of the trend move from A to B and you are doing it with the lowest risk. So love the extremes.

2.08. Trading the Ranges

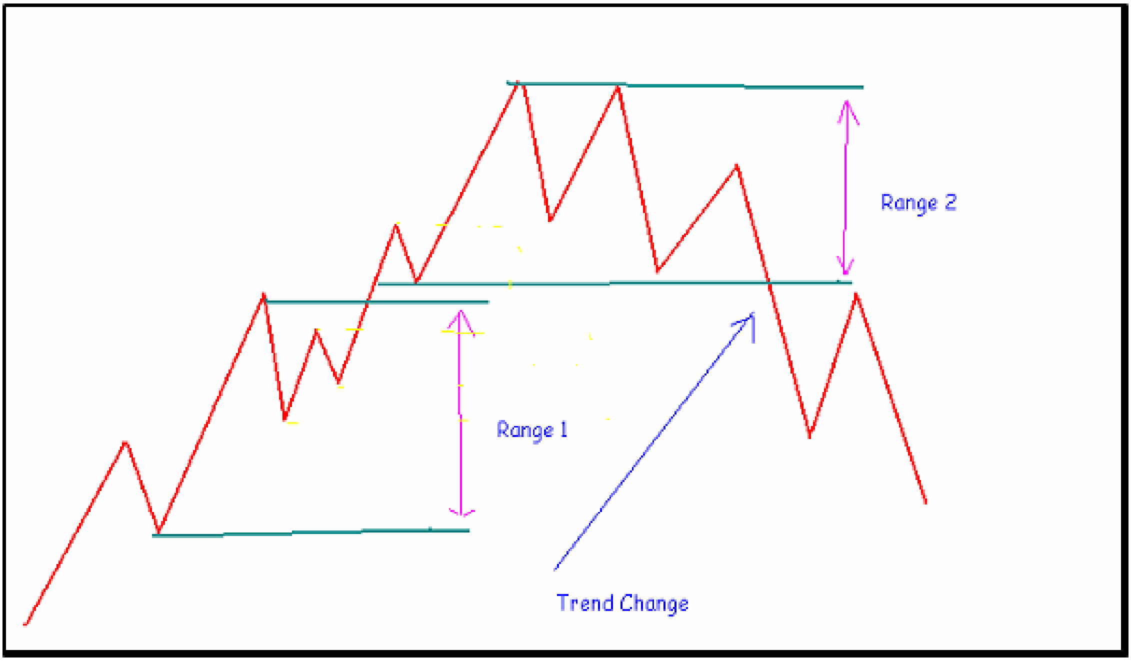

Figure7

Theoretically 70% of the time markets will be trading in a range. They are in a trend only at the remaining 30% of the time. It is very difficult to know exactly where the trend will start and where it is going to end. By the time we know a trend has started it is too late to enter and we are not able to capture a major portion of it.

So I thought it is better to trade the markets as if it is in a range 100 % of the time. Then I am going to be correct 70 % of the time. I assume the market is in a range all the time and for me a trend is a breakout of a range extreme. A prolonged trend is a series of range breakouts where as a range is a series of range breakout failures.

The first task was how to define a range. Markets move in waves. There are two types of waves impulsive and corrective. Impulsive moves are momentum moves in the direction of trend and corrective moves are weak counter trend moves. Every wave is a probable range. Generally during trend periods corrective waves become ranges. Impulse waves too can become ranges especially during sideways market periods. Ranges can overlap and there could be ranges inside a range. I try to buy the range lows and sell the range highs.

Every range extreme is not tradable in my scheme of things. I would like the range extreme to match with trader decision points, in other words a confluence. A slight change in perspective can make a lot of difference. Many people struggle with the concept of trend in multiple time frames and get whip sawed left and right.

2.09. Buy Low, Sell High

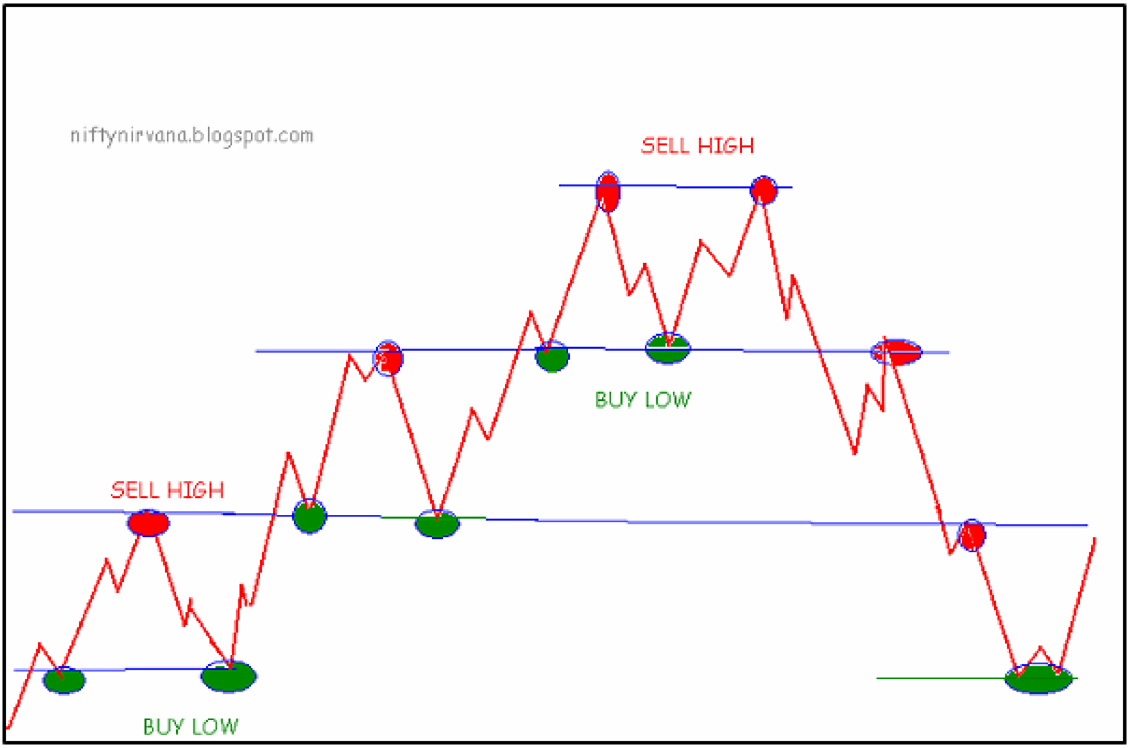

Figure 8

Money is made by buying low and selling high. It is a universal truth. Trading cannot be different. The problem is many traders do not know where exactly the lows and the highs are. You need a slight change in perspective to know this.

Markets move in short term ranges. A trend is a series of range breakouts. When the Markets break to new highs, it is always in the lower end of the range above. Once you become comfortable with this reality, you can always trade whether it is trending or ranging.

If you are not comfortable trading counter trend, stay with the trend. If the current price range is above the previous one, the trend is up. Then try to buy the range low. If we are in a lower price range only attempt to sell the range highs

Many "Gurus" advise to trade trends and stay out when markets range. I do not subscribe to this view.

2.10. Space

Trade needs space to move. This is one of the most important things to consider before entering a trade. Unfortunately many traders are not aware of this concept. They mechanically enter on a trigger without considering the profit potential of the trade. Before executing the trades, we must be well aware of the trouble areas.
Trouble areas are potential barriers to price movement. They are implied support and resistance points obstructing price moves. When we enter a trade, it is very important to know where price can potentially have a bounce. Trouble area could be a recent swing High/ Low, a round number, a price flip zone, or a consolidation border. There is no way to know for sure what can happen but still we can have some precautions to turn the odds in our favor.

While entering trades better to make sure that the First Trouble Area (FTA) is within our Risk Reward rules. If we find a trouble area just beyond our entry, be prepared for a quick reversal that could give us a loss.

At the trouble area you can

1. Exit the trade taking a small profit
2. Exit part and move your stop loss of the remaining position to breakeven if you are trading multiple lots.
3. Hold on to the position hoping for the break of trouble area moving your stop to breakeven
4. If the level is too close enter the trade only after the level has been broken

Figure 9

2.11. Entry Patterns

My trading revolves around trader Decision Points. I trade the acceptance and rejection of price at these areas and always trade away from the Decision Points.

Decision Points are price levels where the market strongly reacted earlier. Most of the times they are proven price levels. But market will always create new levels Traders are creatures of habit and you can expect them to react at these price levels again.

There are three trade setups when price encounters a decision point.

1. Price stalls just before the Decision Point (DP) and there is no attempt to break the level. In other words it is failure to breakout. I call this TST (Test) and FTC (Failure to Continue). After a TST and FTC price drifts down to the lower DP
2. Price breaks the level and pulls back. Pull back find support at the breakout level and the new level holds. This is a signal to trade with the trend. If the level holds price can only do one thing that is to go to the next DP. This setup is called Breakout Pullback (BPB).
3. Price breaks above the DP but fail to hold the level. There is strong opposing order flow on the other side and price gets rejected. Naturally it has to come down to a lower DP where new buying emerges. This is called a Breakout Failure (BOF)

Trading these patterns blindly is a recipe for disaster. There is much more to it. The basic concept is to monitor price action at the DP and decide upon the new direction of price move.

There are other factors to be considered while trading these setups like Strength of Trend, Strength of the DP. Price action at the DP, distance to the next DP level etc

Figure 10

Figure 11

Figure 12

Figure 13

2.12. Entries and Initial Stops

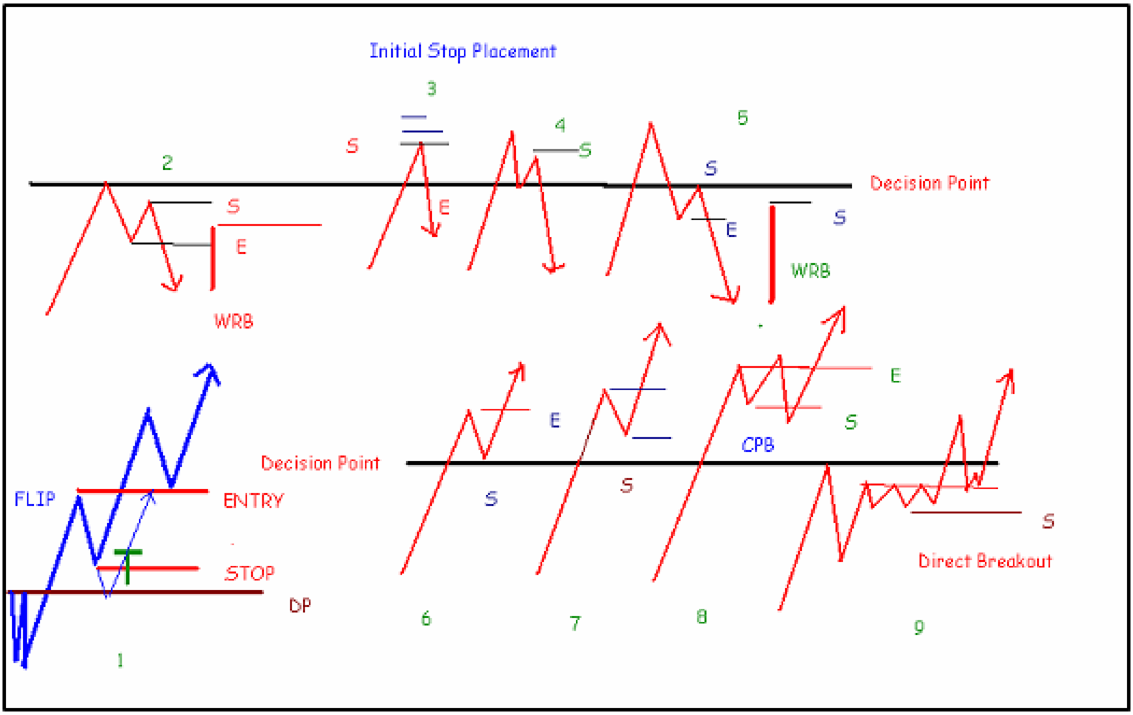

Figure 14

Initial stop placement is always a problem area for traders, especially if you are a single lot trader like me. Many times Market will take away our stop before going in our direction. Nothing is more frustrating than this. We can't help. It is all in the game. How can we place more effective stops? Let me share some thoughts.

I always trade away from DP so that I can hide my initial stop behind a DP. But it may not be possible always due to RR considerations. So we have to think about alternatives. We will have a look at some scenarios

Look at Pic 1. Price breaks a DP and pullback forming a swing high. Now there are three ways to enter into this pullback.1.At DP on pull back with stop below DP .2.Entry on a formation say a pin bar with a stop below it. 3. On break of swing high with a stop below the pull back low. Mostly I go for the third type. I expect this broken swing high to act as Flip and give support on the way down. If the swing low is very far I scratch on break of the Flip. If RR permits ideal stop is always below the DP

Pic.2. deals with a TST. Ideal stop is above DP only. But I wait for a swing low formation and short below it to have two layers of defense, a Flip and a swing point. Stop can be placed above second push swing high if DP is too far. If the bar which triggered the entry is a WRB we can place the stop above this bar also.

Pics 3, 4, 5, refer to a BOF. For a BOF the best stop is always above the extreme. There is no point in keeping stops much above the extreme because once price moves above the extremes, stops will start triggering and price may move up causing more loss to you. As per the situation keep stop losses above DP, swing high or WRB high.

Pics 6,7 &8 relates to a BPB. As you know the ideal stop is below the DP. Alternatively it could be below a swing low. But there is always a danger of a complex pull back happening. Only way to avoid it is to have stop below the DP or exit the trade on break of the Flip as a scratch.

Pic . 9. While trading a direct breakout always be well aware of this trap. Price attempts to break a range high many times creating a lot of stops above this area. Before the breakout, price consolidates just below the range high forming another narrow range high. After the breakout price will pull back to this consolidation high breaking the range high to the down side. We will think it as a BOF and exit. Others will short the BOF. Price will reverse from the consolidation high with a vengeance trapping the majority.

There are no hard and fast rules for price action trading. Price action will unfold in million ways. The ability to think and adapt to the changing market conditions is very critical in trading.

2.13. Pressure Plays

I rarely trade direct breakouts. Most of the breakouts fail and trap traders. Do not try to trade direct breaks blindly, unless you know what you are doing. Altogether avoiding breakout trades is not advisable as we will be missing many low risk high reward opportunities.

Is there a way to know which BO is going to work and which one is going to fail? No. But we can identify some high probability setups if we think order flow. These setups are called “Pressure Plays”. Pay attention to some background information before attempting these kinds of trades.

Ensure order accumulation at the BO level. Market may need to consolidate for a while for this to happen. Notice how the critical mass is positioned. If the breakout traps them, well and good.

An explosive breakout happens when four significant scenarios happen at the same time.

- Many traders perceive a potential break and enter in anticipation.
- Breakout traps critical mass and they scramble to exit
- The level should be very obvious to attract breakout traders
- Ideally breakout should take the price to a level where another set of Stop Loss orders exist, setting a chain reaction.

Good Pressure Plays seldom pullback to the breakout level. Play with a very tight stop loss just beyond the Breakout Flip zone.

Figure 15

2.14. Trade management

Trade management is the most difficult part of trading, especially for the discretionary trader. Once we enter a trade, we have to exit the trade somewhere, whether it is in profit or at a loss. We will never be able to perfect our exits. After each and every trade, we are going to regret.

Trading, being a probability game our profitability will depend on our ability to cut our losses short and allowing our winners to run. Cutting losses short is not a problem. This can be achieved by placing initial stops.

Allowing winners to run is a real challenge. There is no way to accurately predict how far a trade may run. We have to take a decision, processing the available information that too in an uncertain environment.

The first thing we have to do is to identify the Trouble Areas, where we can expect some opposing order flow. We will never know for sure what will happen at these areas. Price may reverse the direction from there. Some times the trend will continue beyond this point after a pause. It all depends upon the strength of the trend move and the strength of the trouble area. It requires a lot of experience and screen time to read.

It is very difficult to make rules for the exit. Still certain guidelines can be followed.

1. Exit on Failure to Continue after a vertical move
2. Exit the trade at the next Decision Point
3. Exit on the break of a major swing pivot.
4. Exit on the break of a Flip zone, if we are in profit.
5. Finally if you are sitting on undeserved profit, exit and re asses the situation.

If we are trading multiple lots we can exit a part at the First Trouble area and continue to manage the remaining position with reduced risk.

As far as a discretionary trader is concerned, trade management is an art. It may take a long time to perfect it. This requires a lot of screen time and deliberate practice.

2.15. More Concepts-Master Candles

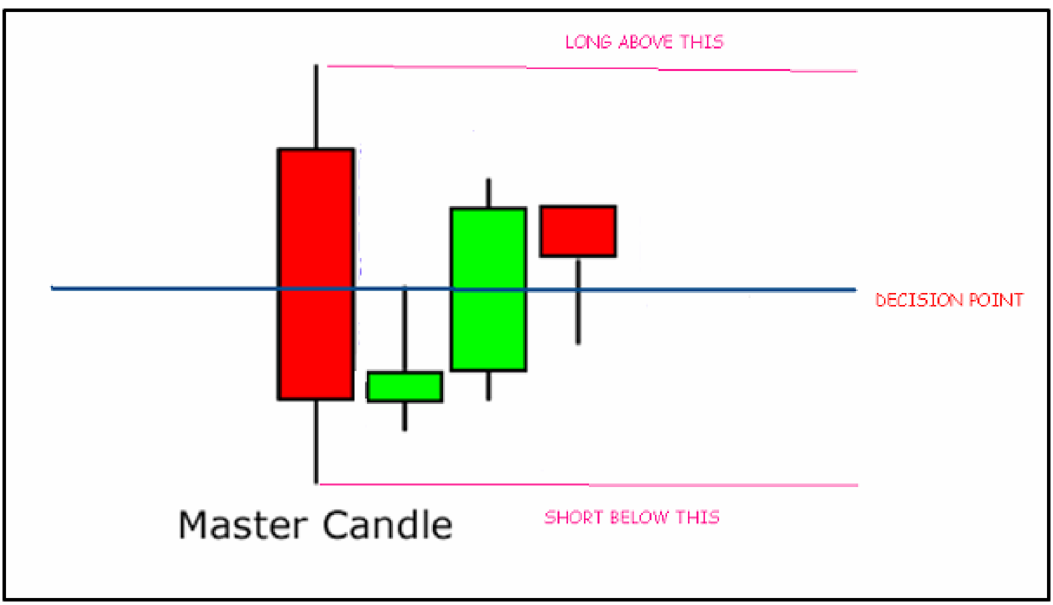

Figure 16

A Master Candle is created when price forms at least two succeeding candles (More the better) whose highs and lows stay within the first candle's high and low. Core concept of the method is capturing a trend move, either a reversal or a continuation after a consolidation. Trade is initiated when the high/low of the master candle break, of course in the direction of the break. Ideal stop is on the other extreme of Master Candle.

The original concept is from "Furious Angel" But the traders were not able to trade it successfully. The problem was not with the concept but the method was wrongly used as the sole analysis to initiate trades. Traders tried to use it as a stand alone system. People were making the mistake of ignoring the location.

I have noticed, on many occasions, break out bar of a Decision Point will end up as a Master Candle. We will be confused and will not be able to decide whether it is going to be a BPB or a BOF. Knowing the concept of Master Candle will help us to deal with such situations.

Ideal stop loss is beyond the candle extreme. If the Master candle is a Wide Range Bar, a stop beyond the DP can be considered

2.16. More Concepts-Fluids

Price does not travel in a straight line. Even during strong trends, price cycles up and down with overlapping bars and consolidations. It is the basic character of all auction markets.

There are times market will move from one price area to another without much gyration. This happens when there is no (or very little) opposing order flow. This could be opening gaps, wide range bars or swift moves with relatively equal closings and openings of bars.

Many things can trigger such moves which is called "Fluids". Over night sentiment changes, news announcements and significant stop triggering can create fluids in markets. Usually price travels fast through such areas later as these are areas where a demand supply imbalance existed earlier. We can predict with some certainty that there will be a lack of balance when price come back to this area again.

Always pay attention to "Fluids". If you are trading into a fluid, don't be in a hurry to exit. It is always prudent to book your profits when you reach the end of a fluid area.
The concept of "Fluids" can be very helpful in managing your trades

Figure 17

2.17. More Concepts -Barbed Wire

Normally price will not stay at the decision points much longer. Decision points are areas from where price moved away historically. These points are proven levels of demand supply imbalance. I expect a significant group of traders to react and act at these levels and create an imbalance again.

On rare occasions price will not run away from these areas, Instead it chops around it creating a tight trading range (TTR) This is a very dangerous pattern which I call ”Barbed Wire”. If you try to trade the Decision Point, you may get whipsawed left and right.

Fortunately this pattern is rare and most of the time it appears around Big Round Number. When a Decision Point trade fails, don’t be in a hurry to enter again. You could be within a Barbed Wire. Better to stay out till price moves out of this trading range. Never attempt Counter Trend trades in a Barbed Wire

Figure 18

2.18. More Concepts-Initial Range

Initial Range is a slightly different approach of the Opening Range. The concept of opening range was popularized by Toby Crabel. He has explained many ways to trade the OR effectively in his articles. It really is a wonderful concept.

So, what is OR? In practice, Traders consider it as a range between the High and Low made during a specific time interval from the open. Traders set specific time interval such as 5M,10M,15M and 30Minutes.So , if we are using a 5-minute OR. The highest high and lowest low reached during the first 5-minutes of trading after the open gives us two price levels. This is OR. (I still doubt Toby Crabel really meant this),

Anyway, I do not like this practice. Who are we to dictate the market to respect our own levels? So let the market trade after open and show us its own levels and market is for sure going to respect its own levels. Do not try to impose a time limit on the market. It will show you the real OR which I prefer to call Initial Range

As in any other market concept, don't be too rigid in your definitions. If it looks like a range and acts like a range it is Initial Range. You can trade the IR as any other range. Fading the extremes and buying or selling breakout pullbacks of range extremes.

The problem with many new traders is they want everything to be defined and set rules for everything to be done. This is simply not possible. There is no other way but learn to operate in an uncertain environment.

Figure 19

2.19. Few Real Trades

Glossary

BRN	Big Round Number	LOL	Layer Over Layer
BOF	Breakout Failure	LOD	Low of the Day
BPB	Breakout Pullback	MSP	Major Swing Pivot
DO	Day Open	PDC	Previous Day Close
DB	Double Bottom	PDH	Previous Day High
DT	Double Top	PDL	Previous Day Low
FTC	Failure to Continue	PDO	Previous Day Open
FTA	First Trouble Area	TP	Take Profit Area
HOD	High of the Day	TST	Test of S/R
IR	Initial Range	TR	Trading Range

DP is Decision Point ,MC is a Master Candle and SAC for Spike & Channel

Figure 20

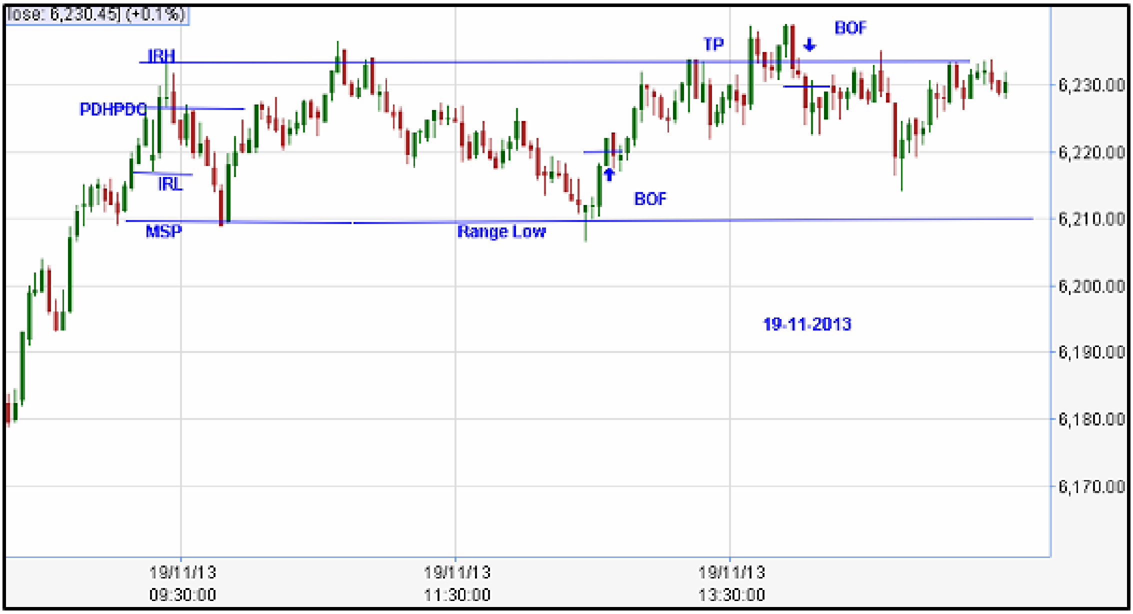

Figure 21

Figure 22

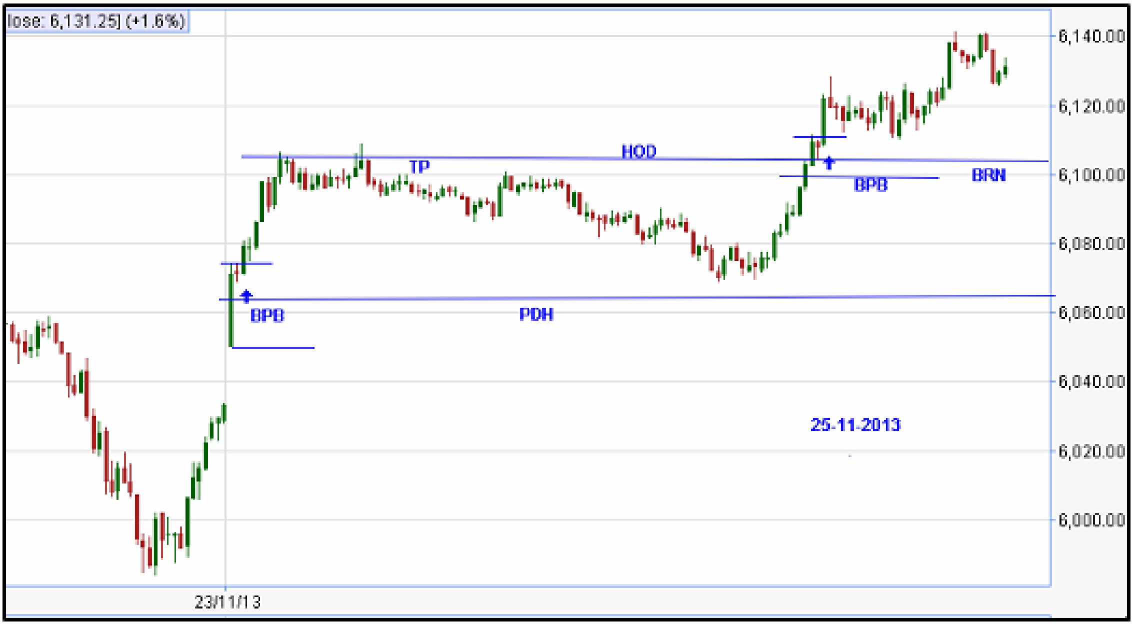

Figure 23

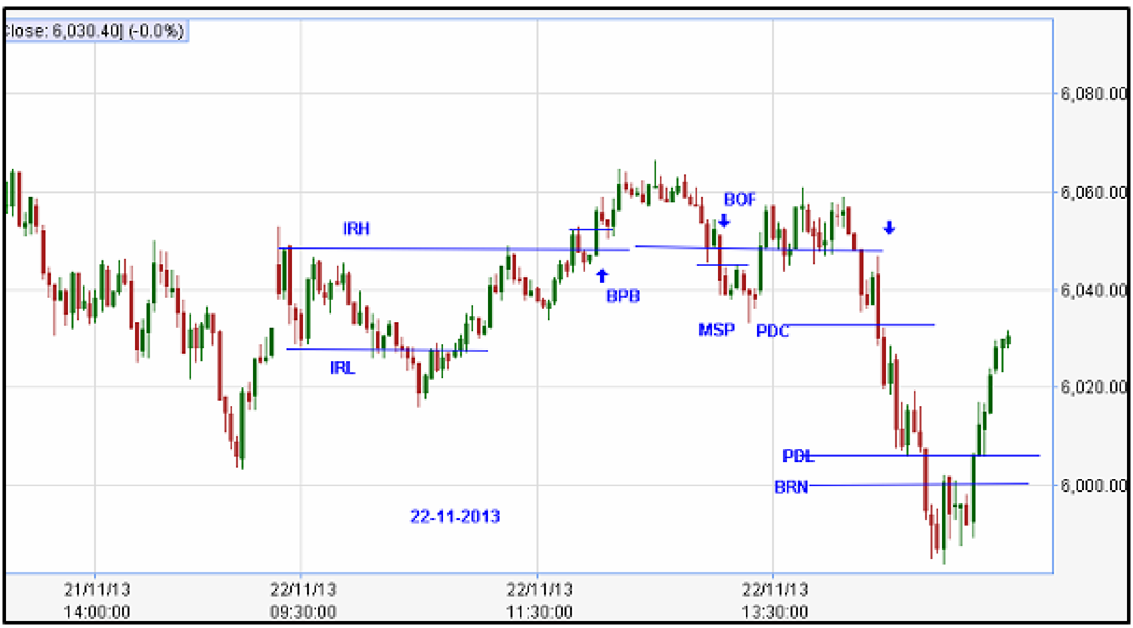

Figure 24

Figure 25

2.20. Trading Psychology

In my humble opinion trading psychology is over rated. Most of the struggling traders think their problem is psychological. This belief is further reinforced by the Trading Psychologists who themselves cannot trade and the Trading Gurus who can escape the responsibility by blaming your lack of discipline when their methods are not working.

Once a person start making money trading, many of these issues will disappear. I think these psychological issues are mainly due to two reasons.

1. You do not trust the method
2. There is no edge in your method

If your method is having no edge and positive expectancy, nothing is going to work. Psychological issues will not go away till you start making profit. This is not going to happen. There is no hope for these traders.

Many beginners will abandon their profitable methods due to the first issue. They do not totally trust the method and will have discipline problems on the execution front. The solution is simple. Do not trade a method with real money till you are confident that it can make money.

Trading discipline involves behavior change. We must train ourselves not to take emotional decisions and act such a way to protect our own best interest. This is done by overriding the emotional reactions and sticking to our original trading plan.

You will have emotions as long as you are alive or have a healthy brain. You cannot suppress it. Emotions are harmless. They won't trigger a buy or sell order in markets. Your physical action only triggers an order.

Why should you act on these emotions? Do you do it in other areas of life?
How many times you have felt like slapping your Boss? Haven't you felt like kicking the balls of somebody who occupies your reserved seat on a train?

But you are not doing it because you are well aware of the consequences. You may get fired or the bully may break your neck. Here your logical thoughts control your emotions and you refrain from acting. Why it is not possible in trading? Are you not aware that violating a trade plan may sabotage the very purpose of trading?

If your methods have edge and they are working, you do not need to make extra efforts to be disciplined or focused. The returns which you get will motivate you to be disciplined. In my humble opinion, there are no psychological problems related to trading alone. If you have any, it may affect the other areas of your life also

2.21. Skill Development

Trading is a skill just like cycling and swimming. This cannot be taught. You have to learn it on your own. How can one be taught to balance on a bicycle or float in water?
It is not possible.

Like any other skill, trading is something you learn by doing. Others can only advise you how to do it. This may help you to avoid some danger and cut short the learning curve but is not going to make you a profitable trader overnight.

Knowing is not enough. There is a lot of difference between knowing something and doing something. Everybody knows how to lose weight, but very few do it. Everybody knows the ill effects of smoking but fail to quit. Ignorance or lack of knowledge is not the problem for many.

A lot of people very well understand how the market works and what the market bias is, but yet very few are able to put that knowledge into practice. It is the application of the knowledge that makes the whole difference. Most people will never put the efforts and the time to consistently apply that knowledge in their everyday trading process

Having defined the structure and identified the methods and tactics to trade, we must acquire the ability to take the right action at the right time. This cannot be achieved without a lot of practice and experience. Having a good method with an edge and being good at analysis alone is not going to make you a better trader. Proper execution alone can make your edge work.

Trading is very simple but it is a lot harder than many people think. This is not going to be a smooth ride. Be prepared for the road blocks. But once mastered it becomes just a ritual that you can perform effortlessly with skill and grace.

All the Best

RESOURCES

niftynirvana.blogspot.com

This is my own blog. I regularly post my trades in this blog. There are about 130 articles written by me during the last two years. Please do visit the blog and do not hesitate to post your comments.

yourtradingcoach.com

This site belongs to Lance Beggs whom I consider as my mentor and guide. His six volume book YTC Price Action Trader is an indispensable read for every price action trader. There are tons of materials available at the site including e-books and videos.

Somebody commented

“If price action trading is a religion, YTC Price Action Trader is the Bible and Lance Beggs the Messiah.”

What else I can say?

THANKS

I would like to thank Lance Beggs of yourtradingcoach.com for showing me the right path. I was so excited to get a positive review from him and he is kind enough to link my blog

I am grateful to Sunil Saranjame of Indian Market Monitor and Kamleshji of VFMDirect for making “Nifty Nirvana” popular. Most of my readers came through their links.

I would also like to thank all the readers of “Nifty Nirvana” for their continued support and their thought provoking comments which greatly helped in the evolution of the method.

Finally, thank you very much for sparing your precious time to go through this small book. I believe at least I could encourage you to look at the market from a different angle. If you find this useful, please do not hesitate to share this with your friends and relatives.

Thank You.