



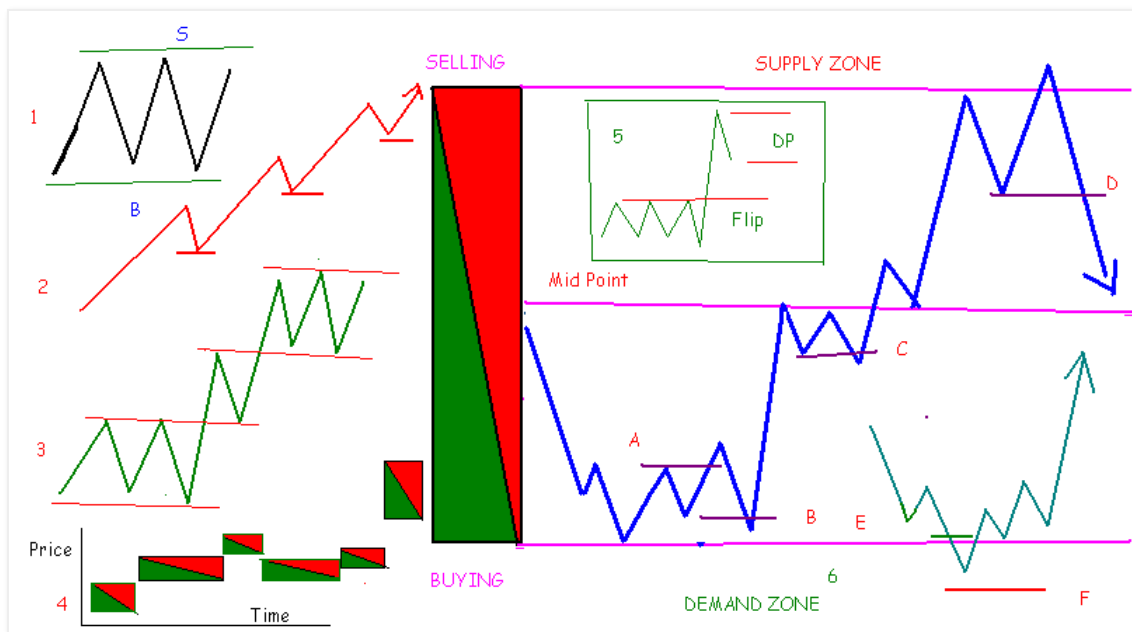
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*There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits*

Friday, November 28, 2014

## More on Structure



Markets cannot be traded without defining a structure, a frame work within which prices move. Nobody knows and will never know the exact structure of the market. It is an approximation, just a thumb rule

We need a directional price move to make money from market. So most of the people define a simple structure like HH/HL LL/LH for a trend and try to trade this frame work. ( Pic 2). Trade tactics is an entry either on BO or on a pull back. Most of the time pull backs are not that simple. We rarely find single leg pull backs in text book fashion. When the trend is not very strong pull backs become complex and become ranges ( Pic 3)

Later, traders understand this structure is inadequate as markets do not trend most of the time and in between it ranges. Solution is either to stay out or learn to sell the highs and buy the lows of Ranges (Pic 1)

We consider ranges as the building blocks of trends. Successive higher or lower ranges are considered as trend. We try to buy the lows and sell the highs of these ranges. In a higher range we prefer to buy the lows to stay with the trend. Selling highs are preferred when price is trading in a lower range. If you plot ranges in a time, price graph it will look like Pic no 4. Ranges may overlap and can gap up also.

When price escapes and move over to a new area nobody knows where it can range later. Ranges form when price get trapped between demand supply areas. The concept of DPs and Flips helps us in this regard. Most of the time Decision Points and Flips act as range extremes. ( Pic5)

Pic 6 represents a typical range. A range forms when price gets trapped between demand and supply zones. Sellers are aggressive when price moves to the higher area. Buyers dominate the lower area as represented by shaded side bar. There will be a mid point for all the ranges where price simply drifts as neither the buyers nor the sellers are aggressive there.

Price move inside the range itself is mostly random and most of the time just noise. It is extremely important to have the entry and exits as close as possible to the range extremes for a good RR. Average range of NF in 3M time frame is within 20-25 points. Waiting for confirmation reduces the profit and increases the psychological pressure.

I feel, we need to take more TST and TT entries. I will try to write more about these types of entries in next week.

## 11 comments:



**xrtrader1** November 28, 2014 at 6:01 PM

Thanks ST..

Reply



**amber** November 28, 2014 at 11:45 PM

Sir thnx for the write up

Reply



**Arvind** November 29, 2014 at 11:12 AM

Thanks sir.

Reply



**Lisa** November 29, 2014 at 2:37 PM

Hi ST,

First of all, as usual, excellent write up from your side.

As I was going through my favorite book 'Reminiscences of a Stock Operator', I realized how similar investing/trading mindset is now as it was around 1901-15.

"There is nothing new in Wall Street. There can not be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again."

So, I quickly wrote and added new page 'Buy & Hold Investing' vs Trading in Bull markets' under Trading Insights in my blog. I hope you and your readers like it and link it to their own trading/investing experiences.

Thanks  
-ResoTrader

Reply

▼ Replies



**SMART Trader** November 29, 2014 at 3:34 PM

Thanks  
Will go through it

ST

Reply



**Unknown** November 29, 2014 at 4:07 PM

thks for good writeup

Reply



**A** November 30, 2014 at 7:55 AM

Hi ST sir,

Structure seems to be complex because to adapt for all market conditions?  
Will tactics needs to be changed as per market condition? Bof worked well earlier now tst rewarding well.  
Please enlighten i got confused.

Reply

▼ Replies



**SMART Trader** November 30, 2014 at 9:18 AM

Nothing has changed  
BOF will continue to reward well. Our focus was more on BOF and BPB  
We were skipping TST and TT type of trades because they are more difficult to execute psychologically  
Need to do such trades also. Structure has not changed at all. It is still the same Buying the low and selling the high of ranges

ST

Reply



**Unknown** November 30, 2014 at 9:42 AM

Hi ST

Thanks for the write up...  
Addition of TST and TT trades will be a great boost to our arsenal.  
Will surely work on this and share the results..

Thanks  
TBP  
Reply



**nifty for bread** November 30, 2014 at 4:34 PM

Sir,

This post throws more light on Range extremes. Waiting for the subsequent posts, which I hope will explain when to take TT at these Range extremes.

Thanks,  
S.Karthikeyan  
Reply



**Trekkie** November 30, 2014 at 6:27 PM

Hi ST,  
Thank you for the nice write up and the pics.  
Reply

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