

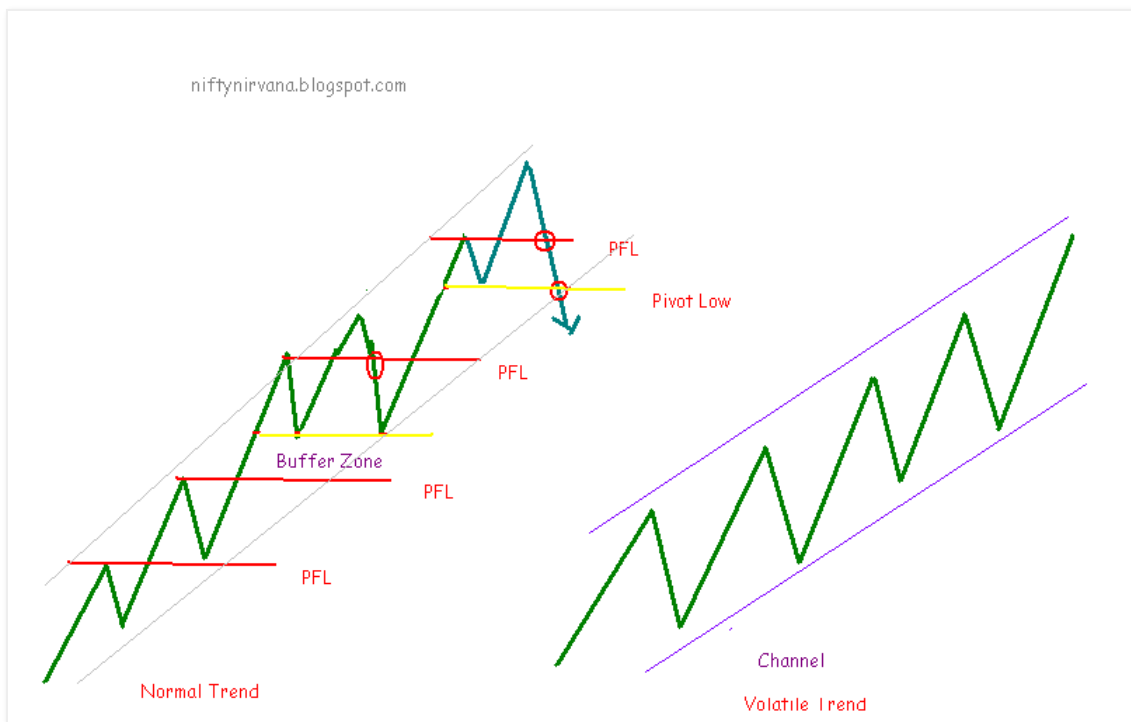


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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Saturday, August 25, 2012

Price Channels



Real breakthrough in my trading came when I started trading the Market as if it is in a range all the time. I consider the trend as a series of range breakouts. (Read). I try to buy the lows and sell the highs (Read). But there are situations where we cannot trade a trend with this approach. This is when the price is in a Channel.

A Channel is a very difficult pattern to trade. It is like a diagonal **Barbed Wire**. In fact Channels are nothing but trends. Most of the traders do not correctly distinguish between a trend and a channel. I will try to explain.

Look at the above picture. You can see two types of trends. Both look like channels. You need to look closer to know the difference. First one is a normal trend and second one a volatile trend which we call a Channel.

Markets move in swings. A swing high is a minor resistance and once broken it may act as support. There is an imaginary line above each swing high which I call Price Flip Line (PFL) In a normal trend generally price respects PFL .Some times pull backs in a trend reverses before testing a PFL creating a buffer zone. A Buffer Zone indicates the trend is strong. Once the price breaks the low of the swing that made the highest high, we can safely assume the trend has reversed..

A Channel is volatile trend where price will not respect the PFL. Pull backs will reverse somewhere between PFL and Pivot Low. Be very careful while trading dynamic DPs such as HOD and LOD. Ensure that you are not in a volatile trend which is called a Channel.

If you are in a trade and riding a trend never exit before the PFL cracks and never stay in a trade after the Pivot low cracks. I have shown the long example only, but this is applicable in short side also.

Posted by [SWART Trader](#) at 8:00 PM



5 comments:



[K_Vir](#) August 27, 2012 at 7:09 PM

Excellent(series of) post. Thanks for sharing this beautiful perspective in simple language with effective graphics.

I love your posts ! Keep it up.

Reply



SMART Trader  August 27, 2012 at 9:55 PM

K_Vir

Thanks.

ST

Reply



Unknown May 31, 2014 at 4:26 PM

hi

Channels occur usually at dynamic DP's like HOD ,LOD ??

Reply

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SMART Trader May 31, 2014 at 4:43 PM

Channels can occur anywhere. These channels are soft trends and not harmful to a trend trader.

But it will not mix well with DP method. For example look at 30052014

At 14.30 we did not know it was a channel, 14.24 and 14.27 candles broke below RN and LOD

Price pull backed and went above the flip zone 7250. It is a long as BOF of RN/LOD as per the method and we get trapped when price reversed.

For a trend trader it is a cool ride with trailing stops behind successive lower lows. Hope I could convey the idea properly

ST



xrtrader1 January 4, 2015 at 11:49 AM

Thanks ST. Very clear explanation.

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