

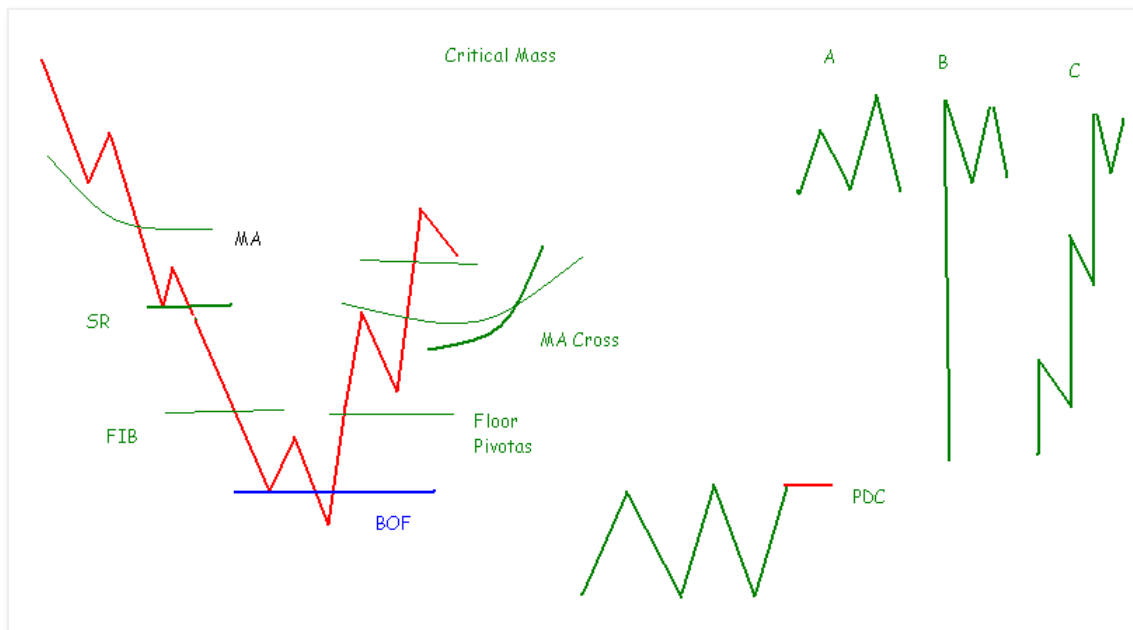


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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Saturday, November 22, 2014

More on Critical Mass



The concept of Critical Mass is one of the [Seven Pillars](#) of Decision Point trading. I had written an earlier post on this concept earlier. [Read it here](#), just to refresh your memory.

The concept is very valid on Futures market. As there are no delivery based trades, every position can be cancelled only by executing an order against our own position. In other words every position guarantees a future order in the opposite direction.

For the purpose of analysis, we assume there are two types of traders in the market, Day Traders and Positional Traders. The concept is applicable to both the groups, but we are more concerned about the Day Trading brigade.

Market is a place where countless people execute different strategies at the same time. They have their own methods and tactics to enter and exit. Everybody is attempting to capture a directional move and more people joining the move means more people need to exit on reversal.

Please do refer to the above picture. Price is moving down. People are shorting different signals such as Swing point break, MA break, Fibo levels etc. Finally price hits a demand area and start moving up. As it moves up, earlier shorts start exiting on their signals and create a lot of buy orders on the way up. Momentum traders also join and fuel the up move. DP traders enter early on the BOF to take advantage of Critical Mass exiting

Look at the second part of the picture. In situation A, Price gaps up and nobody was able to participate in the up move. Critical Mass will not help you on the reversal. Situation B is a vertical move. Very few could take a long position. Situation C is a gradual up move with orderly pull back and might have attracted a lot of longs. The possibility of a reversal is higher in situation C

In case of a reversal, Move from A an B can be faster due to the Fluid created. Fluid moves happen not because of Critical Mass selling but lack of buying on the way down. Do not skip a trade into a fluid thinking about Critical Mass. Moves can happen even if Critical Mass is not trapped.

The concept is applicable for Positional Trades also. When price reverses after a multi day move, it can trigger a fast and furious move in the opposite direction. A Counter trend [outside gap](#) is an example of Positional Traders getting trapped

Hope I could convey the idea clearly. Please feel free to ask if you have any doubts.

16 comments:



[Arvind](#) November 22, 2014 at 12:28 PM

Thanks Sir.

Reply



[Lisa](#) November 22, 2014 at 1:20 PM

Very well written and I completely subscribe to using pure price action trading. You have great experience and know how different kind of traders are going to act and prepare your plan accordingly. Based on my limited knowledge, I can not think of any better day trading strategy than yours.

In my experience, Situation B comes after 3-4 days of sideways movement or event days (RBI announcement days). Example, I can remember action of Nifty futures on 2nd Jan when market gave a false impression by going up sharply breaking all the triggers of last few sideways high and then after consolidation at the top, falling very sharply.

Yesterday also, when market moved very sharply from 8430 to 8500 levels triggering all the short covering, I was a little worried about sharp fall from 8465-8475 levels.

By the way, I have added two posts - 'Khujli Trader' and 'Trading for a living' under 'Trading Insights' in my resotrading blog.

Thanks

Reply

▼ Replies



[SMART Trader](#) November 22, 2014 at 11:09 PM

I have gone through your posts.
Well written and it all comes from personal experiences.
Others can only provide a template to build on. We have to build our "Own" thing
All the best

ST



[Sam](#) November 25, 2014 at 11:44 PM

Could not read your blog because it is private. Please send me an invite on carbatta at gmail.com

Reply



[sentu shil](#) November 22, 2014 at 1:31 PM

Thank u sir..

Reply



[Unknown](#) November 22, 2014 at 4:45 PM

Hi ST Sir,

Thanks for this post, as always very insightful. These situations were played out in the market in recent weeks, one can refer the below posts as examples.

situation A 31102014 20102014 22102014

Situation B 21112014

Situation C 21102014 30102014

Regards,
KSG

Reply

▼ Replies



[SMART Trader](#) November 22, 2014 at 9:54 PM

Thanks

ST

Reply

[veer](#) November 22, 2014 at 5:22 PM

Dear ST

Thanks.

Regards,

Veer
Reply



Uday Dave November 22, 2014 at 7:59 PM

Sir

Very nice post. One query, why possibility of reversal is low in situation A and B? Please throw some light on it.
Thanks
URD
Reply

▼ Replies



SMART Trader November 22, 2014 at 10:04 PM

As I have explained in the post we assume two groups. Positional traders and Day traders
In all the three situations positional traders holding since the previous day are very comfortable and sitting on good profits. They are not going to exit till a reversal is confirmed. So the reversal can happen only under two situations
1. Massive selling at the higher levels and 2. Day traders in good profit starts covering at the higher level.
In situation A and B there are not much short term players to sell at higher levels. In situation C it is different.
Hope it is clear.

ST

Reply



Unknown November 23, 2014 at 8:00 AM

Hi ST
Thanks for the post.
I had the same doubt as URD. Got cleared now.
Can it mean that on the flip side any PB, in case it materializes, will be more effective in case of situation A and situation B?

Thanks
TBP
Reply

▼ Replies



SMART Trader November 23, 2014 at 9:43 AM

That too depends on the situation.
If the up move has broken and crossed above a strong DP, that may lend support on the pull back
in such situations price will retest the extreme again. Next move will depend on who win the battle there

ST

Reply



Unknown November 23, 2014 at 10:48 AM

can you please define in our system so that we can increase and decrease size
1. very high probability trades .
2. high probability trades .
3. low probability trades .
Reply

▼ Replies



SMART Trader November 23, 2014 at 11:21 AM

It is not possible.
It depends on a lot of factors like, trend, ranges, Dps, Space, Critical mass, Risk etc
Generally BOF trades are high probability ones

ST

Reply



Price Action Lab November 23, 2014 at 1:04 PM

Hi ST,

Thanks for the post.

Born to trade
Reply



nifty for bread November 23, 2014 at 1:47 PM

Sir,

Thanks for yet another informative post.

S.Karthikeyan

Reply

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