

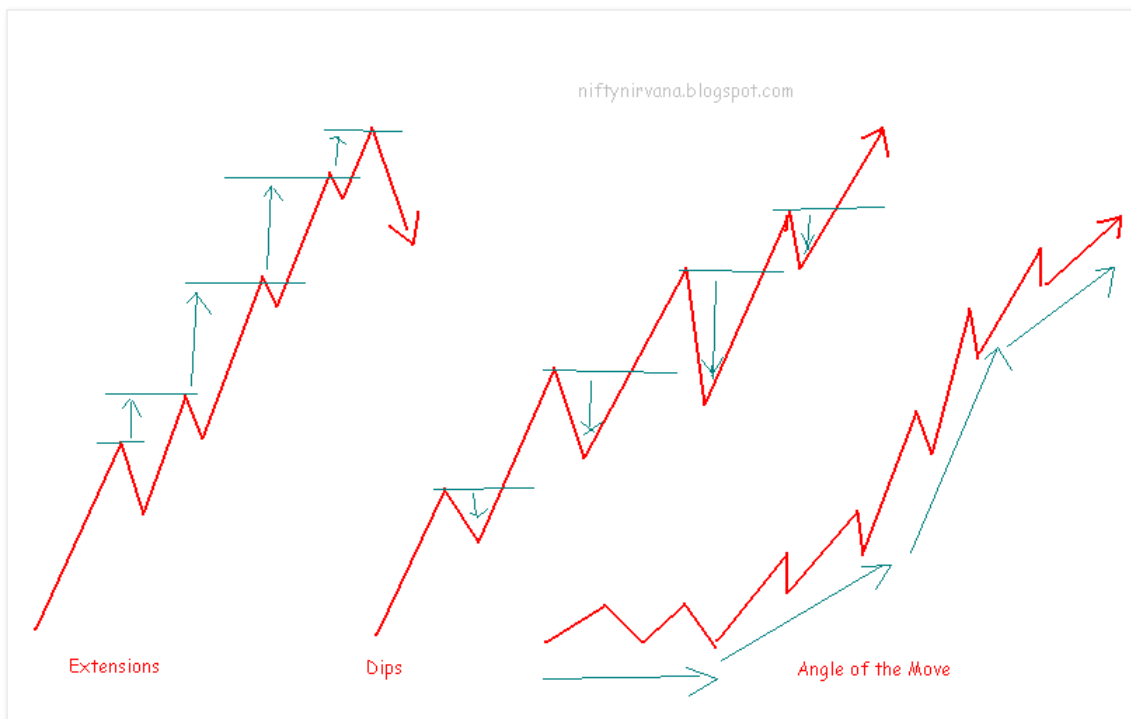


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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Thursday, November 8, 2012

Make-or-Break Levels.



Imagine a Tennis ball hitting your window pane. What will happen? It may break the glass or bounce back, depending upon your “Head Line”. If you are destined to ruin your weekend, hunting for somebody to fix it, nothing can help. The ball may even break your prized flower vase.

In reality it depends on many factors such as the strength of the glass, speed of the ball, force with which the ball is hit, and how far the ball has traveled. The angle of hit is also important so is the barriers it encountered on the way which might have reduced the impact.

Time and again I have written that my trading revolves around Decision Points. Decision Points are Make or Break levels, which may hold or yield. Acceptance or rejection of price at these levels decides my course of action. We will never know for sure what will happen when price interacts with decision points. But we will be able to anticipate it correctly, most of the time, if we are paying attention to details.

This includes Strength of the Decision Point, trend strength, and origin of the move. How far the move has traveled and barriers encountered on this move is also important. I had explained the strength of the [Decision Point](#) in an earlier post.

There are three ways to assess the trend strength. These are.

- Extensions. Notice how far an impulse wave moves over the previous swing high. Compare with the previous extension. If it is more, trend is accelerating.
- Dips. Watch how deep the pull backs are. Compare with the earlier one. Deeper pullbacks denote less strength.
- Angle of the move. Looking at the angle of the move we can see whether the trend is slowing or gaining momentum.

Origin of the move is very important. A move after a BOF will have much more strength than a move after a TST or FTC as there will be trapped traders trying to exit.

How far the move has traveled is another factor. If it has already moved 20-30 points in Nifty Futures, early entrants will start booking their profit on the first sign of a resistance. This will slow down the move.

Arrival of price at the DP is very important. If price consolidates just before the DP for a while, it will attract stop orders above this consolidation. Once price breaks above this, these stops may trigger and provide enough order flow to break the DP

Always pay attention to the details. Never ignore the [small stuff](#).

Please note that I have shown only the "Long" example. The concepts are applicable to "Short" side equally well

Posted by [SMART Trader](#) at 9:05 PM



5 comments:



akshay November 8, 2012 at 10:24 PM

hello sir

Why have you chosen to day trade..instead of swing trading or position trading...any book which i have come across says day trading is the most challenging of all the three...?

Reply



SMART Trader November 8, 2012 at 11:06 PM

Akshay

First reason is I hate overnight holding and always need to be in control of my positions. Markets are fractals in nature and on a lower time frame one can learn trading fast. By nature I am hyper active and this suits my personality well.

ST

Reply



Kavi November 8, 2012 at 11:43 PM

Hi ST

A very good post. I am learning a lot from you. I have confusion about TST and FTC. Will you please write a separate post on these two if possible? Hope you will help me out. Thanks

Reply

senthil November 9, 2012 at 8:22 AM

Nice article !! By doing so, (paying attention to the details), I guess one will be able to feel the market pulse. All these details have been translated into metrics, signals ...Once we get the pulse, we can decide which signal to be used for trading...

Reply



SMART Trader November 9, 2012 at 8:14 PM

@Kavi

Will do a separate post soon on FTC and TST

@Senthil

You will never trade this method if you wait to get the pulse. You trade this and you will get the pulse

ST

Reply

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