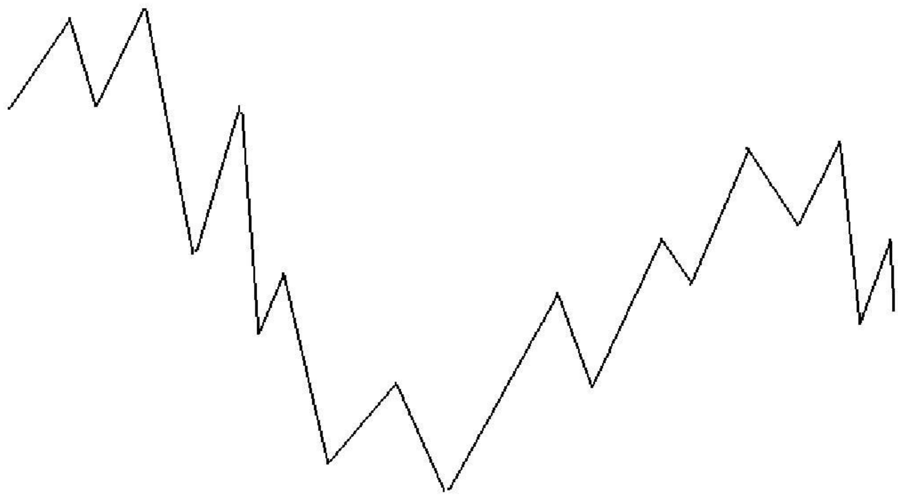
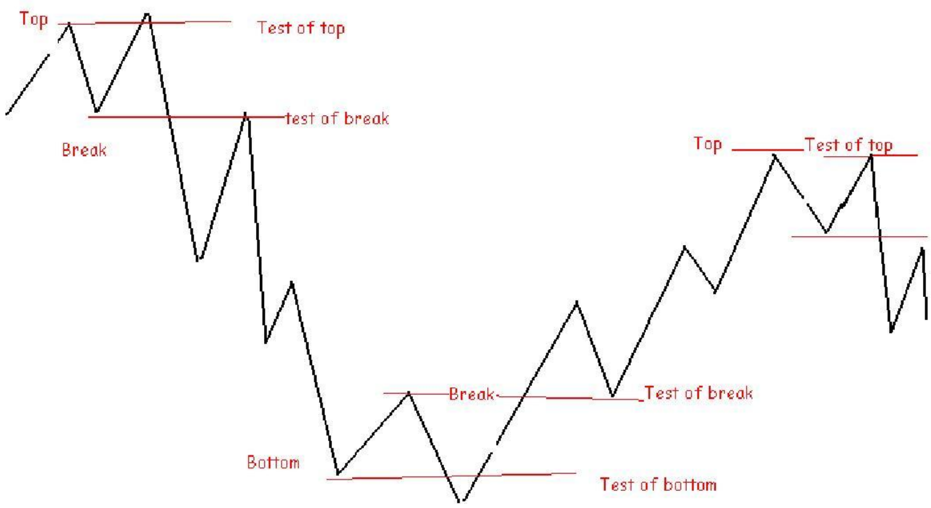
Handbook for my Favourite posts of [“Smart Trader”]

Basic Structure

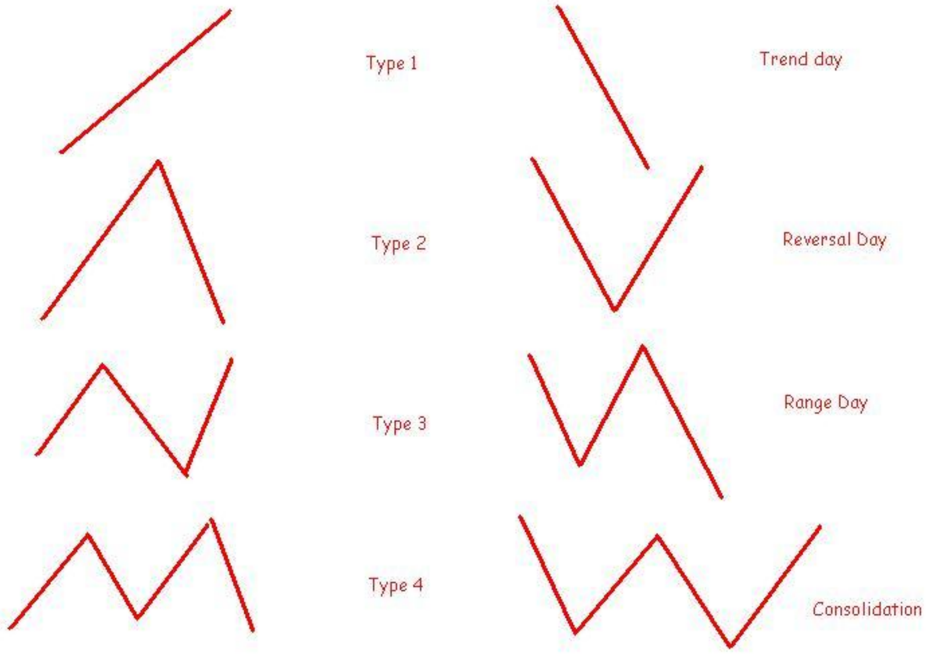
Look at the chart below, what is happening?





This is the basic structure of the market. Market will do this again and again in all time frames. But the price action will unfold differently each time.

Daily Trading Patterns



Learn to recognize the daily trading patterns. There are four types of trading days

1. Type 1 day are trend days. Market trends either up or down during the trading hours. This can happen after a reversal day or any significant news shifts the sentiment to bullish or bearish. More than two trend days in the markets in a row are very rare. Trend days generally follow a reversal or consolidation.

2. Type 2 days are reversal days. This happens when a price hits a strong higher time frame decision point during the day and reverses; this will show as hammers or shooting stars on a daily chart. We can expect a trend day after a reversal day

3. Type 3 and 4 days are consolidation or range days. This usually happens after a trend day when the effect of earlier news dries up and there is no significant event to shift the market sentiment.

More than four swings very rarely happen on a day. Try to catch these swings and limit your trades to a maximum of four. Do not over trade

Inside and Outside Days

When price trades within yesterdays range it is an inside day. It shows nothing has changed since yesterday and market is likely to trade within the band...Previous day's price band acts as a big range. So trade this as you trade a range. Selling the highs and buying the lows.

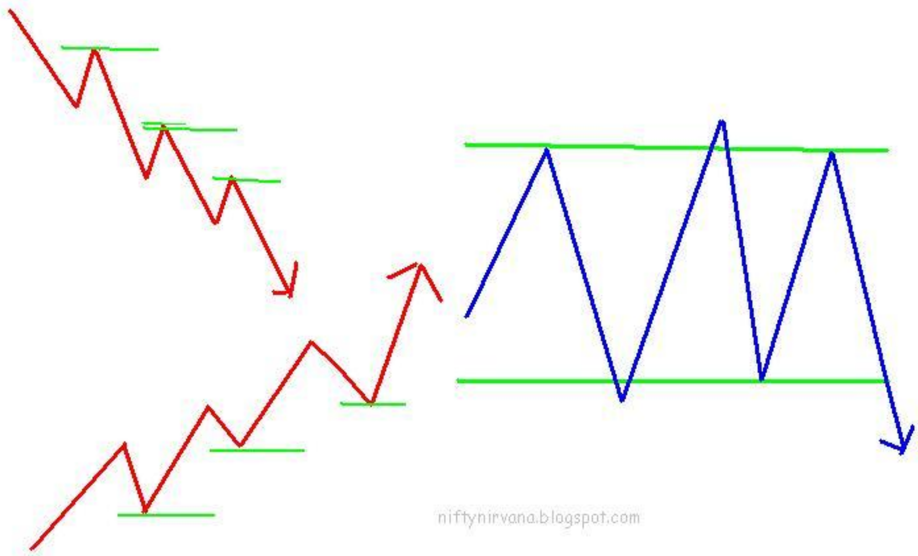
If the market is trading above PDH or below PDL it is an outside day. If it is above PDH bias is bullish and below PDL bias is bearish .An outside day shows us that something has changed since yesterday.

Inside the range, buy at support when price falls, and sell at resistance when price rises.

If price trades above the PDH the buyers are clearly in control and buy pullbacks

If price breaks below the PDL the sellers are control and sell retracements.

Trends and Ranges



Trade the pullbacks in trends. In trading ranges trade the Breakout failures
Trend is a series of Breakouts and trading ranges are a series of Breakout failures

Execution

I am not an expert in trading. I do make mistakes all the time.

In fact, there are no experts in trading. If somebody claims to be an expert in this field, he is a fraud. There are many people who are much more skilled and experienced than you or me. Skill and experience makes one consistently profitable.

Most of the traders are well aware of many profitable patterns and setups; still they fail to make money. Why?

You may be having a trading plan with a proven edge. Still you fail. Why?

Knowing the patterns and having a trading plan is not enough. It is all about execution of your plan. It is a lot harder than most people think. When we see a setup that fits our rules we have to take it. Most of us are discretionary traders, so we have to think about our entries and exits. But when we see them, we have to take them whether the trade works or not.

If you freeze and you are not able to pull the trigger at the right time, you are not going to win in this game.

Execute or be executed. Believe and achieve...or doubt and die

Waypoints

Waypoints are sets of coordinates that identify a point in physical space. Waypoints have become widespread for navigational use by the layman since the development of advanced navigational systems, such as GPS.

In olden times also people travelled using reference points. Traditionally these have been associated with distinctive features of the real world, such as rock formations, Rivers, Mountains etc. Later on artificial reference points such as Buoys, Light Houses, Radio Beacons Sign boards were created to aid navigation.

In order to navigate the chart space traders also use some reference points. If we are not aware of these reference points we will not be able to trade successfully.. It is a fact that big money traders move the market on a day to day basis especially in small time frames. They are creatures of habit and they react to these reference points in the same way again and again.

Pay attention to waypoints such as PDL, PDH, PDC, DO, HOD, LOD, DT, DB etc.

If you want to win, swim with the sharks and hunt with the hounds.

Absorption

This is an interesting pattern that can occur in Nifty Futures frequently. This is a game played by Big money to trap the retail traders. They can be some institutions or some HNI cartels. Whoever they are, be very careful when you see this pattern or slightly different variations..

Nifty gaped up above the previous day high and printed two bullish candles which closed at the extreme. The sentiment was extremely bullish. Next two candles were reversal candles with topping tails. Traders thought it was a normal pullback and bought aggressively. For the next one hour NF traded at the area forming an ascending triangle with higher lows. Everybody expected a breakout to new highs

Big sell orders were sitting above this level and all the buying was getting absorbed quietly. After a while Bulls started panicking and started to exit bringing the market down. Who ever played this game made lorry loads of money for sure.

At this time NF was trading at a hefty premium. This gave the sellers more confidence. Even if spot Nifty goes up there was enough "Crumble Space" to absorb and minimize the impact.

Pay attention to absorption and play the right side of the market

Trouble Areas

This is a concept I learned from James16 of Forex Factory. 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. There is no way to know for sure what can happen but still we can have some precautions to turn the odds in our favour.

While entering trades better to make sure that the First trouble area is within our Risk Reward rules. 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.

Always think FTA (First Trouble Area) as your first target

Layer Over Layer

LOL, An abbreviation of Laugh out Lound is very common internet slang. Historically it was used on Usenet and now it is widely used on electronic communication like Email and SMS.LOL secured its place on Oxford English Dictionary in March 2011.

Here LOL means Layer Over Layer. I use this to denote two or more important Support or Resistance levels positioned very close. A lot of traders will get trapped in these areas. Usually the price will break the first level and the break of second level will fail.

Trapped breakout traders of these levels will panic and start to exit initiating a move in the opposite direction. Then momentum traders join them and fuel the move further.30 to 50 point moves are very common from LOL areas.

Watch "LOL" and laugh all the way to the bank
Wish you all "LOL"(Lots Of Luck) with "LOL"(Lots Of Love).

First Trouble Area

FTA (First Trouble Area) is the first area that price is likely to stop and reveres. It is the nearest price level where one can expect some opposing order flow.

We need some space for our trade to move and take our position to profit. Better to ensure that there is some space between our entry and the first point of interest that can give our trade some trouble. Price may not always reverse at FTA. Price often will just stall for a bit before carrying on. It depends on how strong the level it is heading into. Strength of the trend and the price action trigger also matters. If we really think about it, the FTA is also a RR ratio.

FTA could be a recent swing High/Low, a round number, a, price flip zone or a consolidation border. It is best to try to define these areas from situation to situation rather than one such thing.

Pay attention to FTA so that we can be more logical in our trade planning and management.

Emotional Baggages

One of the most difficult aspect of successful trading is dealing with the emotions. it is almost impossible to be emotionless as a human being. But if you experience extremely unpleasant emotions during setbacks and euphoric emotions on a big gain, be careful.

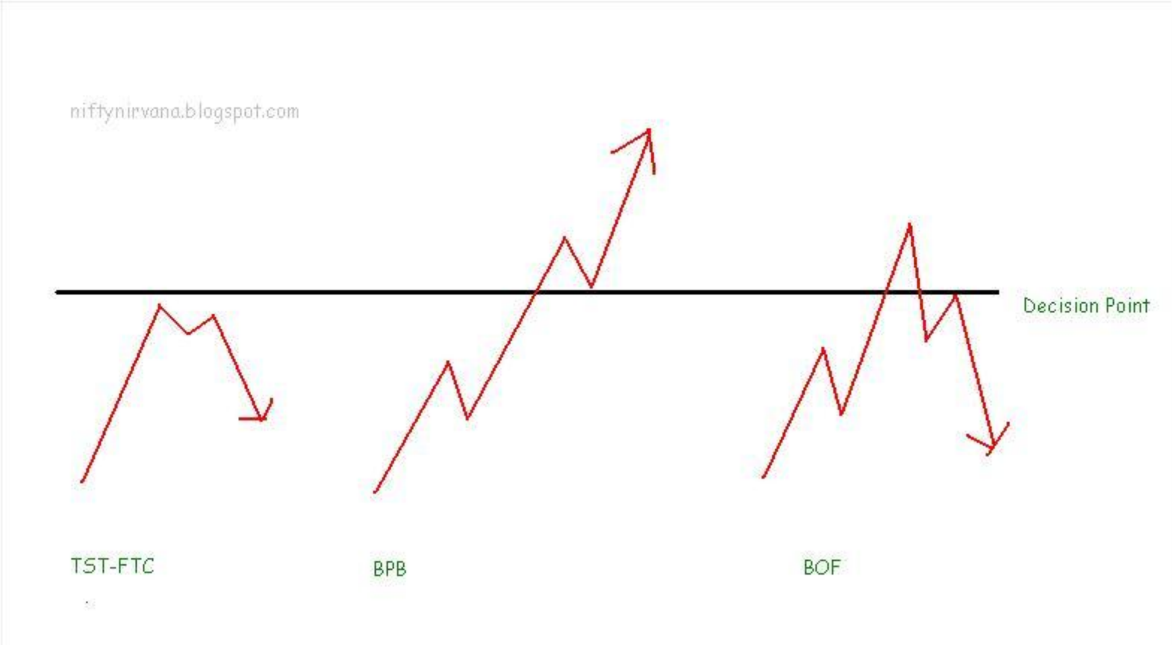
Pleasant emotions are motivating at a moderate level, but extremes can be harmful. Extreme positive emotions will lead to impulsive decisions and abandoning of risk control methods. Likewise If you are frustrated and worried, you will not be able to concentrate and this will lead to incorrect and costly trading decisions.

If you search the web, you can find thousands of articles written about emotions in trading. Read some and you can find the root cause of all emotion related problems is "Living in the past". We carry the memories of past actions and experiences. Only solution is to start "Living in the present"

Stop worrying about what happened .If you have a good trading strategy, stick to it. Ignore the outcome of individual trades, Ignore CNBC, ignore the experts, ignore the gurus.

Leave your "Emotional Baggages" behind, Trade your plan and strategy.It will take care of itself.

Three Trade Setups



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 time they are proven price levels.But market will always create new DP 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 DP and there is no attempt to break the level. In other words it is failure to breakout. I call this TST and FTC (There is a slight difference between the two). 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 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 get rejected.. Naturally it has to come down to a lower DP where new buying emerges, this is called a BOF.

These are the three setups you can trade with the lowest risk.

Trader Analysis

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		

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

In the above example 23 lots are being offered at 10559. Nearest bid is 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 un executed at 10558 level

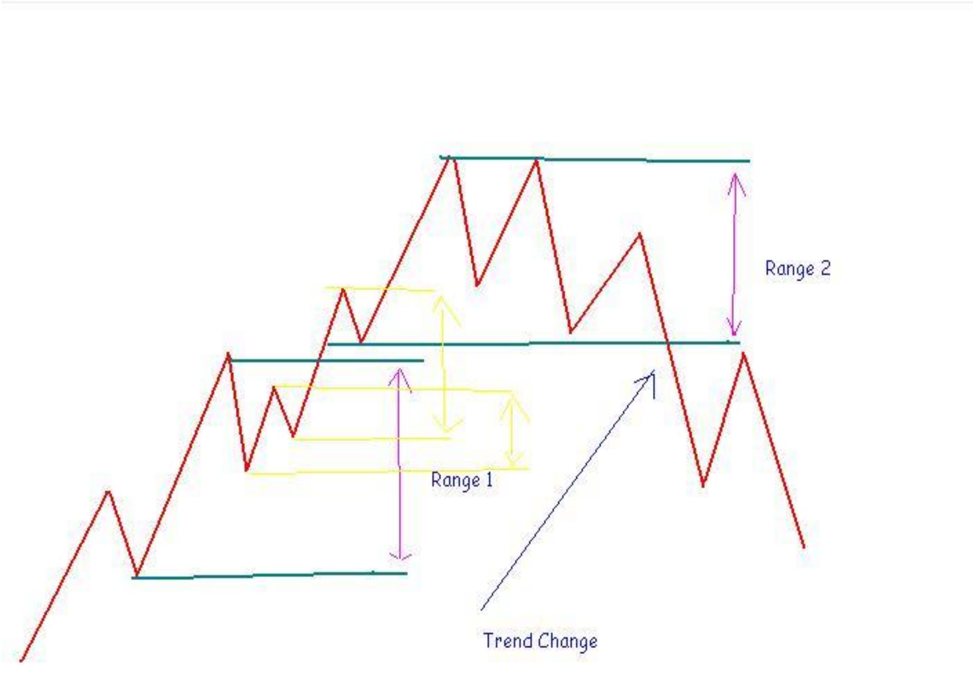
Now imagine somebody punching a market sell order of 275 lots. All the bids shown in the above example will get filled and the remaining one order will get filled at a far lower price say 10300 where another bid exists. And it is a Flash Crash.

Price move is a function of demand and supply. Urgency or desperation of the participants move price. Any trading method which is not based on this reality will fail.

Successful trading is 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.

What we need is not TA (Technical Analysis) but TA (Trader Analysis)

Trading the Ranges



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 whereas the 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 moves 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.

Automaticity

Many studies have been conducted on expertise development and experts in various fields and today psychologists have a very good understanding about what makes an expert an expert.

The difference between an expert and a novice is that a novice has not acquired the “Schemas” of an expert. Novices are highly conscious of the process and the rules involved in performing the task Experts rely much more on their accumulated experience or Schemas. Once you build a Schema, any error-prone, slow and difficult task can be made smooth and effortless

The short term memory of the human brain is limited. The complex skills we learn are stored in the long term memory as “Schemas”. Schemas permit us to treat complex processes as a single element. They are the cognitive structures that make up the knowledge base.

As novice traders we are trying to remember steps or sequence or method rules. This creates additional load on our cognitive processing. That is why we become frustrated and lose confidence. With experience, once you build a schema, performance of the task becomes automatic. This cognitive phenomenon is called
"automaticity”

There are no shortcuts in trading other than achieving “Automaticity”.

Chasing Success

Here is a blog post by Trader X. This post was written in 2006 and influenced my trading a lot

I talk to numerous people through email every week who are struggling to be successful at trading. And, I find two common traits in most of them:

1)They trade too much - most of the people struggling make multiple trades daily, some as many as 10+ round trips.

2)They have a lack of focus.

I will start with #2. I have discussed this in the past - most people jump from indicator to indicator, time frame to time frame, method to method. They will use something for a few days, hit a bump, and move on to something different altogether. One day the holy grail is a XX period moving average, the next day it is MACD or an oscillator. One day it is a 30-minute chart, the next day it is a 5-minute chart. One day it is buying the break of the first inside bar, the next day it is a pullback from the high.

I call this "chasing success". The bottom line is the person does not spend enough time on any one method to really understand and execute it properly. They bounce around, and before they know it a lot of time has passed and they are still struggling.

If you pick something and stick to it, you get good at it. Once you get good at it - once you perfect it, THEN you can add something else to your arsenal.

A final thought on #1 - why do you want to make 20-30 (or more!) trades a week when you are losing money? Stop trading so much! And a way to "force" yourself to do that is to FOCUS on one thing. Pick a timeframe. Pick a moving average. Pick a set-up. And wait for it to happen. What do you do while you wait? Study charts!!! And if a day passes and you do not make a trade, so be it. Look at it as a positive - you did not lose any money!

Buy Low, Sell High

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*, and 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.

Learn to trade sideways markets so that you can trade all the markets

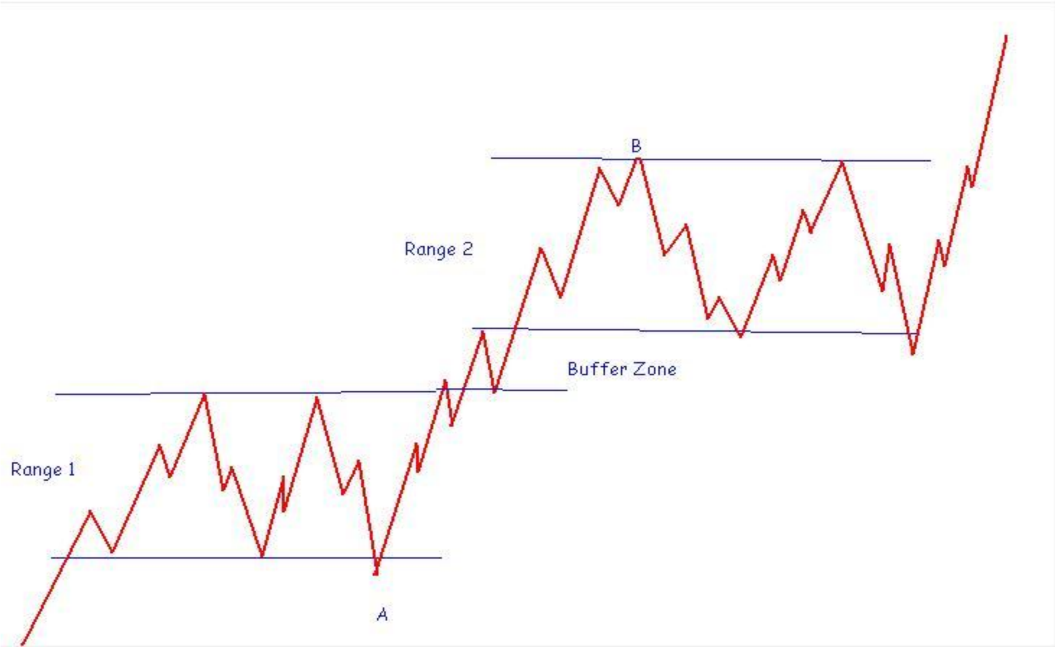
Barbed Wire

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 DP, you may get whipsawed left and right. Fortunately this pattern is rare and most of the time it appears around BRN. Once a BOF trade fails don't be in a hurry to enter again. Better to stay out till price moves out of the TTR. Never attempt Counter Trend trades.

When in doubt, stay out

Trends



“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 BOF 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.

Spike and Channel

In an earlier post, I had written about a dangerous pattern called "Barbed Wire" formed around decision points... Unless you identify this pattern earlier, you may get whipsawed left and right before you know what is happening."Spike and Channel" is another dangerous pattern. If it happens immediately after day open, you may be able to ride it. But better to stay out.SAC is nothing but a diagonal Barbed Wire.

A relatively large move in a short period of time is a spike. It could be an up move or a down move. A spike can be a gap, Wide range bar or a few bars in the same direction. After the spike price moves in a Channel in the same direction of the spike. While trading BOF ensure that it is not a SAC move.

Above chart is today's price action. You can also see a narrow SAC previous day evening. If we did not notice the SAC most of us will get trapped in BOF trade of HOD. Today those who have traded the BOF of BRN-LOD made good money. Imagine if it turned out to be a SAC to the down side.

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 more deeper. Yeah, got it. 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.

A little more deeper. 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.

Trading is war, whether you like it or not. We need blood on the trading floor

Self Feeding Loops

While I was in primary School, one day our science teacher showed us an experiment. When a burning candle was covered with a glass tumbler, the candle burned for a short while and the flame died out. She explained to us that it was because of non availability of Oxygen.

Then I was wondering how the gunpowder packed tightly inside the Diwali cracker is getting Oxygen to burn. I was afraid to ask her. Later, I could learn that Gun powder releases Oxygen while burning and this is used to continue the chemical process. It is a self feeding mechanism.

Markets, especially the Futures, move in self feeding loops. Order flow is the Oxygen that provides energy for the Market to move. When order flow dries up, Market will cease to exist. Like any other living organism, the first priority of the Market is to ensure its own survival.

The beauty of the Futures Market is that nobody can close an existing position without taking an opposite action against their own position. So every fresh order creates a future opposite order. Sooner or later Market is going to trap those who trade the current move. Market will force them to create order flow in the opposite direction.

Your success as a trader will depend upon your ability to accurately anticipate where the Market is going to do this, and to take decisive action without hesitation.

Secret Methods

There are so many trading offers out there that supposedly have “little-known” or “secret formulas” for profitable stock trades. After 18 years of trading and reading over 200 books on the subject I can tell you that even the best trading "secrets" are just old concepts viewed from another perspective.

Here’s the most profitable secret you need to know…NO trading method that is supposedly “secret” or “little-known” will work. You must come to understand that the very premise of making a profit in the markets is to enter trades (long or short) that other profitable traders are trading.

Now think about this…If it’s “secret” then very few traders are using it. Doesn't it take more than a few traders to move a stock price? *The aggressiveness of buyers or sellers in a single direction is what causes a stock to rally or decline in the first place*. This concept is so simple yet so many traders are suckered into thinking that there is some method, system, technique or indicator out there that no one else knows about and will give them the “winning edge.

You don’t want to be a lone wolf with a winning edge in trading; you want to be part of the pack on the right side of the price moves. It is, always has been, and always will be that plain and simple.

Kevin Brown

Critical Mass

" Critical Mass" is a widely used term in Nuclear Science. It refers to the minimum mass of fissionable radioactive material required to sustain a nuclear fission reaction. In a fission bomb, the fuel must be kept in separate sub critical masses, which will not support fission, to prevent premature detonation. Bringing the sub critical masses together to form a super critical mass to sustain a fission reaction at the time of detonation is a major design challenge

All the three patterns I trade are reversals. While BOF and TST are directional reversals BPB is a minor reversal of a pull back or counter trend move. For a reversal to succeed there are three conditions.

1. Those who entered earlier in the move are in profit now. They fear the reduction in their profit and start booking profits causing a pullback

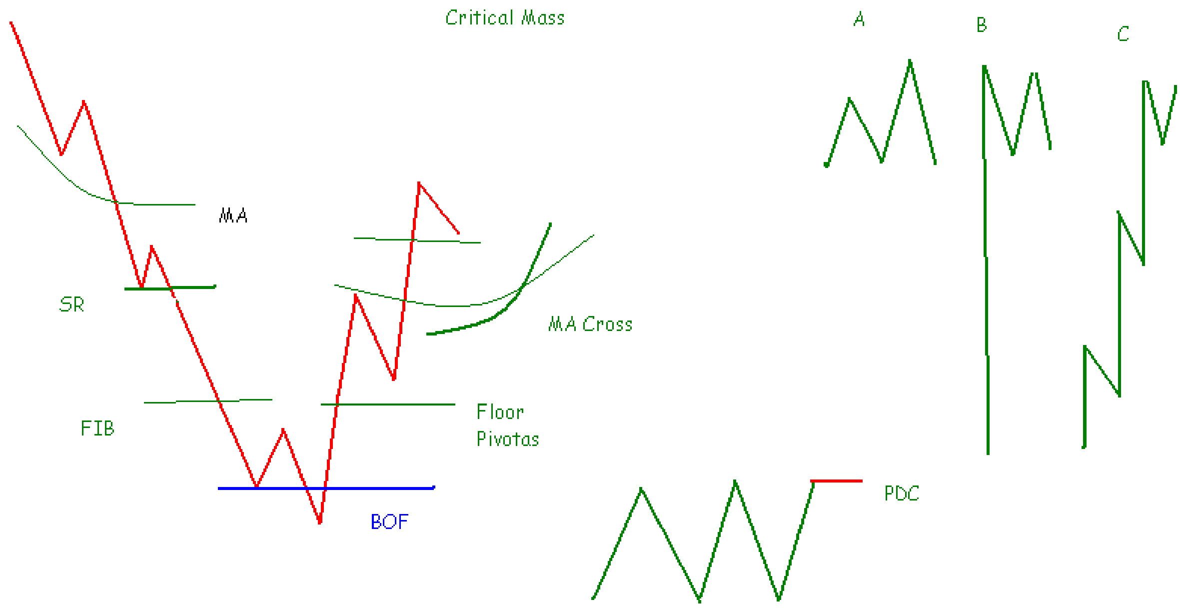
2. Now those who entered late start to panic and start exiting their position in order to prevent loss. .Physical stop loss orders of many traders start triggering. This further fuels the reversal move.

3. A new group of traders expects a reversal and enter. These momentum traders will strengthen the reversal.

This is a chain reaction like the nuclear fission. The greater the number of traders that are positioned in a particular direction, greater the force of reversal. We must ensure that sufficient numbers of positions are created in the current direction before attempting to trade a reversal.

Ensure Critical Mass.

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.Readit 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.

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.

Embrace Subjectivity, Embrace Ambiguity

Exit First

I am a short time frame" Discretionary Trader." I trade for income and not for capital appreciation and I am trying to earn my daily bread from the market.

Like "System Traders", I cannot bet on the probabilistic nature of a system and can't afford draw down while waiting for the probability to work in my favour. My goal is to manage the day's opportunities as good as I can. My edge is minor demand and supply imbalances that occurs in the market frequently and give a 15-20 point move within the next 15 minutes. These moves could be just "NOISE" for many.

My trading revolves around Decision Points. Entries must happen at these levels where a demand and supply imbalance existed earlier. These are proven price levels and I expect the imbalance to be there again. My entry is mainly based on my "read" of the market and my "feel" for the price action at these Decision Points.

I always decide upon my exit before I enter the trade. When the price approaches and reacts to a Decision Point, I identify a point where price should not go if my expectation is correct. I will try to enter as close to this point as possible. Risk is reduced by making my entry close to the stop and not by placing the stop close to the entry.

In my scheme, unlike in the dictionary, "Exit" comes before "Entry"

Gaps

Gaps are regular occurrences in futures market. Gaps occur due to the overnight change in sentiment of the participants. Being technical traders we are not bothered about the "why" but concerned about "What".

Every gap is unique and requires different treatment depending upon the situation. Still general guidelines can be formulated to deal with gaps.

There are two types of gaps depending upon the location of the gap open, Inside Gaps and Outside gaps. Inside Gaps are gaps happening inside prior days range and do not need any special treatment. Let the market trade and interact with a Decision Point .We can trade the price action around DP as usual.

When the price gaps outside the previous day range, it is called an Outside Gap. When the price starts trading outside the previous day range, it is a major transition and a change of sentiment. Price is likely to continue moving in the direction of impulse.

Outside gaps can be further classified into two categories. Trend Gaps and Counter Trend Gaps.

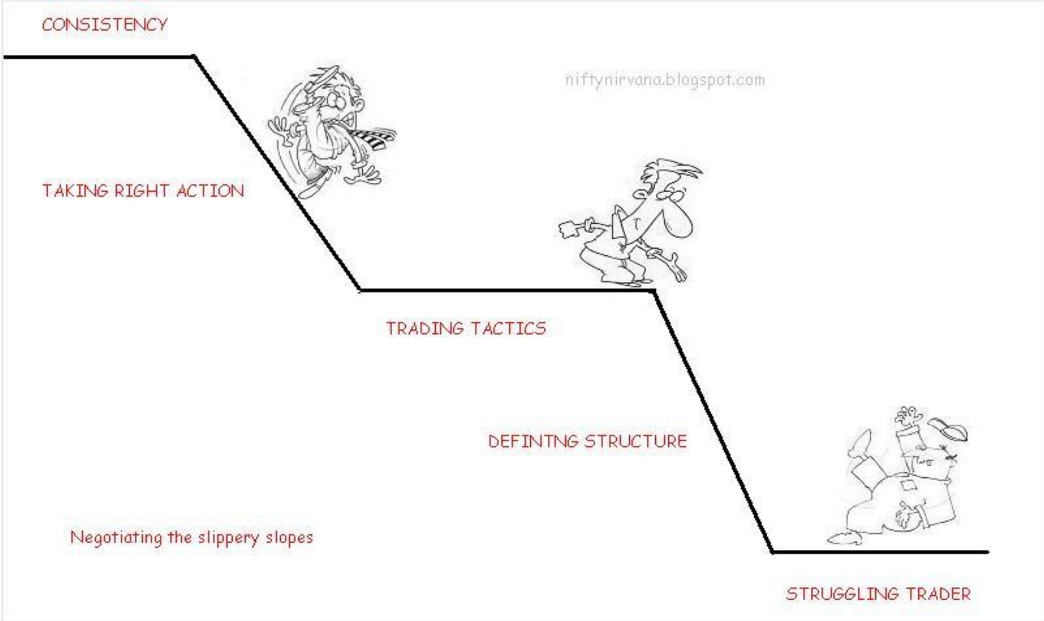
1. Trend Gaps are gaps in the direction of the previous day (or days) trend. For example Gap up above the high of a previous up day (or days) and Gap down below the low of the previous down day (or days).Trend gaps are likely to attract profit booking at the first sign of opposite order flow.

2. Counter Trend gaps are gaps against the previous day (or days) trend. For example a Gap up above the high of a previous down day (or days) and a Gap Down below the low of a previous up day (or days). Counter trend gaps will attract orders in that direction from new traders as well as the covering from trapped traders. CT gaps are likely to trigger an impulse move in the direction of the gap.

As you know, my trading revolves around Decision Points. I always try to hide my stop behind a DP. If the gap is an inside one, I let the market trade and wait till it hit a DP to make a decision.

In case of an Outside gap, if it is trading within my risk tolerance level, I take a position without waiting for the price to hit a DP. I hide my stop below the PDH or above the PDL depending upon the direction of the gap. If the price is not within my risk tolerance level, I let the market trade and reveal its intention.

Slippery Slopes



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 framework within which the market moves. Imagine a football 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 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.*

I Consider Market to move between levels which I call Decision Points. Observing a lot of charts, I am convinced that Market respects these levels repeatedly and these levels are "Actionable".

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. I trade patterns like TST, BOF, BPB and FTC at Decision points.

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. Visualization can be very helpful during this stage. 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 setbacks. 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.

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 .Sometimes 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. Pullbacks 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.

Fundamental Flaws

I started my Stock Market investing in late eighties. I used to submit multiple applications for good primary issues and made good money. Later CCI was abolished and companies started charging premium on their issues. So there was no way to make profit but to go for secondary market investments. Trading was really not an option as there was no internet and electronic trading.

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. Lost 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 and not on this ratios .So I changed the formula. PE Ratio = Market Price / Earnings per share to MP = EPS * 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. So far I could not accurately project not even the profit of the bank branch, where I work, for any quarter even though nothing happens there without my knowledge. Leave alone thousands of companies operating in different sectors, industries and geographical regions.

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.

" Fundamentalism"can be injurious to your financial health.

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 use these levels as way points

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 (Read Mind your words).I always let other traders to fight it out at these levels and try to join the winning team.

The core concept behind my method is the acceptance and rejection of price at these levels. I assume the market to move within a framework of decision points and use just three patterns to trade the levels. Major decision points are previous day high, low and close. After the open, market will create levels like DO, Range Highs/Lows, LOD, HOD,MSP and breakout point Flips.

We need to monitor the price action at these levels closely and take appropriate action .This is purely a discretionary method and we need to rely on our judgement a lot. This requires a lot of experience. We will never know for sure what is going to happen at these levels before hand, but still we can have some anticipation.

While waiting for the price to hit a DP, pay attention to what happened when the market visited this level earlier to assess the strength of DP

a) Number of earlier attempts to break the level. Fresh levels are likely to hold. Levels become weak after many attempts.

b) How long price stayed at the level. Price will run away if the demand and supply imbalance is significant. Otherwise it will hang around

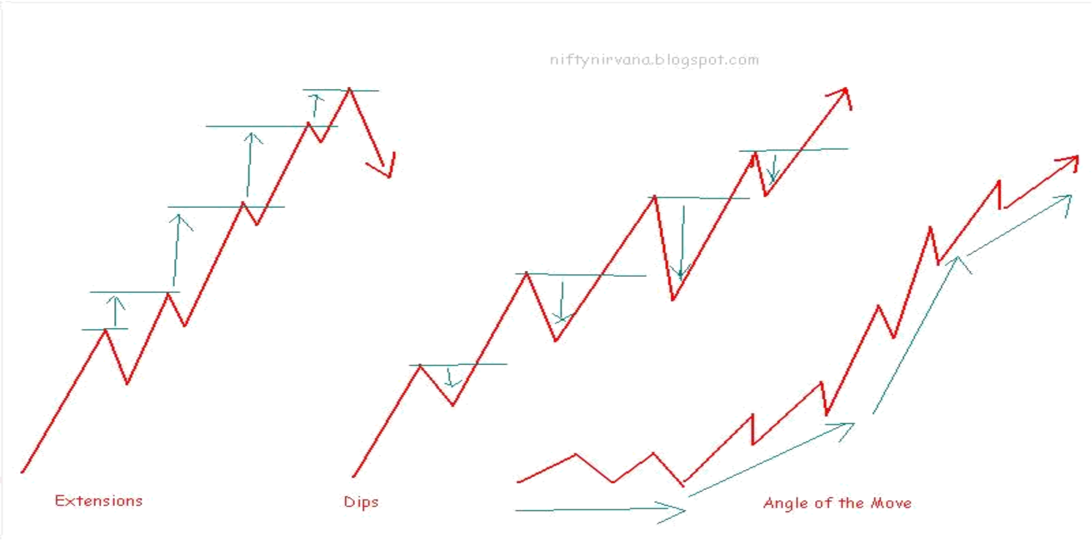
c) How the rejection took place. Price will behave as if it touched an energized fencing, if the level is very strong

d) How far the price moved away on previous attempt. More the better. Rejection could to be of lesser magnitude on subsequent attempts

e) Presence of Layer over Layer. If LOL exists first level may yield and second will hold.

f) Confluence of levels. For example if IR High is also PDH , this level may hold well.

There are other factors like strength of trend, origin of the move, how far the price has moved to reach the DP etc.



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 travelled 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 travelled 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

Losses

We do not like to lose or fail. That is human nature. We have a tendency to view losses as personal failures.. This is disastrous for a trader. Losses are inevitable part of the trading game we need to accept losses as cost of doing this business. World's best traders too lose a lot.

To be successful in trading, we must have a method with an edge. We need to trade the method long enough ignoring the results of individual trades to win. This is not possible without total trust in your methods. If you have confidence in your trading method, losses shouldn't worry you at all. Just take it and move on. Successful trading is not totally avoiding losses but winning more than what you lose.

For every trade we enter, there could be four outcomes. a) Big Loss, b) Small Loss, c) Small Win and d) Big Win. Let us remove the Big Loss from this. Small Wins will take care of Small losses and Big wins will remain with us. Ensure that your trading plan eliminates the possibility of losing big.

"You can't make money if you are not willing to lose. It's like breathing in, but not willing to breathe out"

Price Flips

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

I had written an earlier post on this (Read). I am afraid most of the readers have not understood it properly. 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 trading systems or methods are built. Any trading method ignoring this behaviour 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 this levels are broken this levels become Price Flip zones. In other words a resistance turns into probable support and a support become 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 favourable RR 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

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.

My trading revolves around "Decision Points" where I am able to take action with the least amount of risk. Price can react in three ways at these levels. It may accelerate through it, stall at there or reverse from there. My current focus is to develop a "Feel" of the price action at these levels and enter in the anticipated direction without hesitation.

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

Decision Making

Trading is all about Decision Making. As traders we are continuously making decisions. We need to decide on the price levels to initiate a trade, which direction to trade, where to keep stop loss where to exit etc. Good trading decisions will make money for us .Being consistently profitable is becoming better at this decision making skill.

Any decision making process involves three steps. These are Gathering information, evaluating the necessary inputs and deciding upon the possible action. Information overload is a major constraint for effective decision making. So we need an effective filtering of information inputs to a manageable level. Focus only on the right and important information. Avoid the extra information having negligible impact.

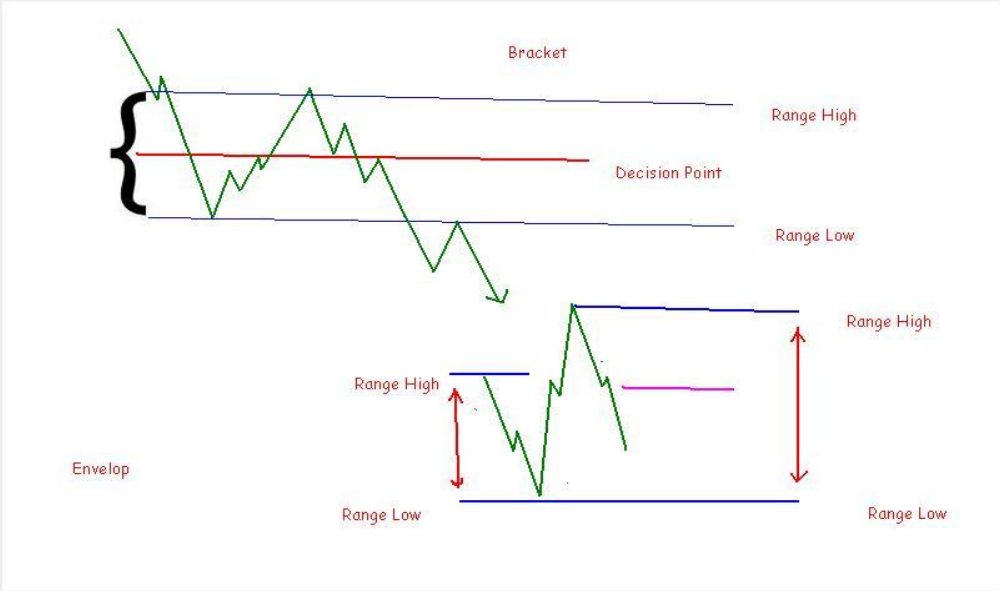
I have seen traders monitoring a plethora of inputs. They track everything you can think of. Elliot waves, Fibs, Gann, Parabolic SAR a dozen moving averages, different oscillators, trend lines and channels. Sorry, I forgot the floor pivots and Camarillas. Supports and resistances are also very important. Oh No, I almost missed the time cycles, Wolfe waves and ORB.

If you mark all these levels on a chart, it will cover the entire chart space. Monitoring all these levels is almost impossible. Even if you do, it is not going to make you profitable. Instead it is going to make you more confused. But it will help the “Trading Gurus” for sure. They can find some or the other reason for all the price behaviour and convince you that “lack of discipline" is the root cause of your trading failure.

The sooner you define your decision making process, the better. Decide on your information inputs, how to weigh them, and what actions to take on them.

To attain knowledge, add things every day. To attain wisdom, subtract things every day. ~ Lao Tsu

Brackets and Envelops



I assume the Market is trading in a range all the time. For me a trend is a series of range breakouts. Market moves in waves and every wave is a probable range. I had written about this earlier (Read).

"Decision Points" are another idea on which my trading is built. Decision points are proven levels of demand and supply imbalance. Once price approaches this area again, traders are expected to act at these levels again and create an imbalance.

Sometimes these two ideas applied together can create confusion. I have identified two different scenarios where we will have some confusion .Two type of range formations repeatedly occur in Markets where we may make costly mistakes. These are "Brackets"and "Envelops"

"Brackets" are formed when a range establishes around a decision point. In such cases mostly the DP acts as a midpoint of the range. Yes, you guessed it right. It is a Barbed Wire pattern. Barbed wires are tight bracket formations where we stay out. Bracket formations could be wide and tradable. Once a Bracket forms, the DP in between loses its significance. Trade a Bracket as if you trade any other range, if it is wide enough to trade.(Example)

"Envelops" are ranges that engulf a previous range. Sometimes market establishes a range and later the extremes get extended. In such cases the previous range loses its importance. Still the old range extremes may continue to attract some order flow and confuse the traders. In case of Envelops, trade the new range as if you trade any other range.(Example)

Pay attention to Brackets and Envelops. Solution is very simple

Trade the extremes. Don't fiddle with the middle.

Cigarettes

Do you smoke? If yes pay attention to the “Cigarette” patterns that frequently occur in Nifty Futures. It may give you sufficient money to buy enough Cigarettes with which you can smoke your soul out. Non smokers can think of some noble cause like donating to some pain and palliative clinic for oral cancer patients.

I had mentioned about this pattern earlier. Many thought it was just a joke. No. It is real. It is actually a very tight trading range .Mostly this pattern appears immediately after the open. Usually a very narrow initial range continues for hours together. Range hardly exceeds 10 or 12 points. This happens because order flow remains more or less matched. This Cigarette like formation at the end can go up like a puff of smoke or fall down like the ash.

Most of the traders enter their position within the first half an hour of trading. As the time passes more traders join. These people will keep their stop loss orders just above or below the range. Some others will place limit orders at the extremes to capture the imminent breakout. Now there are clusters of orders above and below the range.

Finally some small imbalance pushes the price to an extreme and these orders start triggering causing an explosive move to that side. Almost always you may get a 15 to 20 point move within a few minutes. You must be very nimble to trade this. Keep your entry order a little far from the range extreme to avoid false breaks. You should book your profit immediately when the pull back starts. Don’t expect a new trend. If the break out fails and price moves back into the range, kill the trade fast. Explore the possibility of reversing the trade as most of the time BOF of a range extreme will lead to a successful breakout of the other extreme

These moves will almost always come back. There are Algos sniffing around looking for such temporary imbalances. They will act within seconds and execute trades to exploit this price variance. Index arbitraging and cross exchange arbitraging are their bread and butter. Their action will make the market mean revert. Your paper profit may vanish.

Rush in where "Algos" fear to tread. But do not forget to rush out.

The Trading Contradiction

One of the real contradiction trader's faces is that the forces that attract people to trading are exactly what make them lose in trading.

For most traders, trading is attractive because they can:

- Make a lot of money - **greedy**
- Get rich quickly - **impatient**
- You have the best commute - **lazy**
- Make a good living trading only 2 hrs every day. - **super lazy**
- Live anywhere - **mercurial**
- No bosses or employees needed - **poor social skills**
- Be unaffected by economy, political shifts, natural disasters, etc. - **fearful**
- No hard assets, office space, etc needed. - **unattached**.

As you can see, the worst developed personalities are naturally attracted to trading and it's no wonder that 80% of traders lose everything they ever put into trading. To be successful, you need to fight the very qualities that brought you to trading in the first place. ***This is the contradiction that traders face on the very first day that they begin to trade.***

Once you acknowledge that just choosing to be a trader automatically sets you up for failure, you have the opportunity to amend the very qualities that brought you to trading and modify yourself to be the very opposite and thus be successful.

Cadver -- http://ninetrans.blogspot.in/

Win More, Lose Less

I had written an earlier post about the three stages of trader development. (Read). This includes defining the structure of the Market and finding ways to trade the moves within this structure. Rest is gaining practice and experience to execute your methods without hesitation.

So it comes down to a method with an edge and execution skill that will not erase the edge in the method. Edge is simply the positive expectancy of the method and this positive expectancy is not a result by chance. Edge is non randomness.

How do we know our selected method is having an edge? It is very simple. The method will win more and lose less.

Win More, Lose Less

Most of the trading methods barring few option strategies require directional price movement. We are betting on these price moves. We win by accurately assessing these directional moves. If we are right more than we are wrong in this skill, we will win more and lose less.

Win More, Lose Less

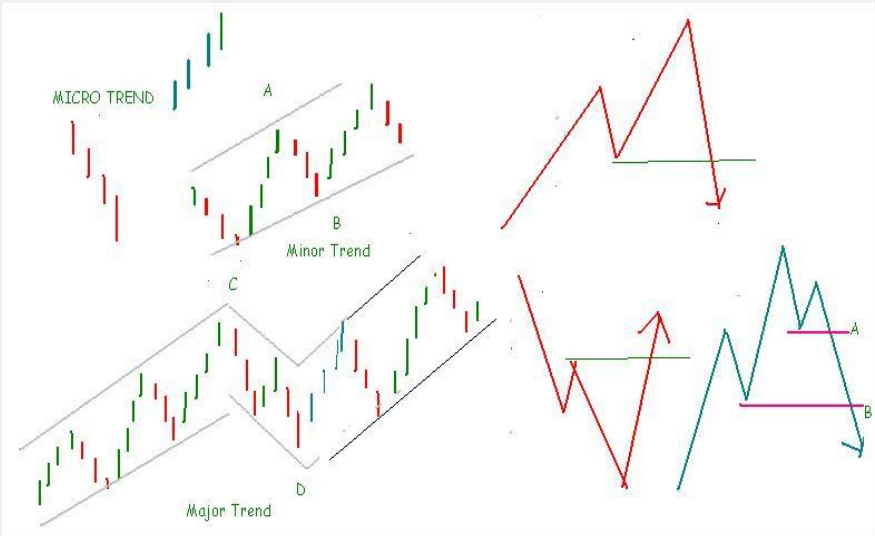
We must win more money if we are right than what we lose if we are wrong. The gain we achieve if we hit our target should be more than the loss we suffer when we get stopped out. In other words Risk/Reward should be favourable

Win More, Lose Less

We need to bet big and win more when we are right. All trading opportunities are not equal. Betting big on high probability trades and being modest on lower probability situations will boost our performance. Position management is very important in trading.

Almost all the new traders focus only on the first thing as they want to be right always and outsmart the market. Real breakthrough in trading will come once you shift your focus on to the other two

Major Swing Pivots



As I have written earlier, my trading revolves around Decision Points. I expect traders to act forcefully at these levels. Major Swing Points (MSP) are considered as decision points. MSP need some explanation. There are two types of MSP.

Auction markets produce a continuous stream of data. 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 (Read) in fact the data is same for all time frame traders. 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 your trading time frame. 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. Even a single time frame trend can be confusing. It may appear in different levels. I will try to explain the important levels.

There are Micro, Minor and Major Trends in all time frames.

Micro trend is the lowest level trend. Successive candles making higher highs and higher lows make a micro up trend. Lower lows and lower high candles make a Micro down trend. Every candle Highs and Lows are pivots .These are called Micro Pivots

Extreme points where the Micro Trend change happens are Minor Pivots (A&B).Higher minor pivot highs and higher minor pivot lows make a Minor up trend. Lower Minor pivot highs and lows make a minor down trend.

Again extremes where a Minor Trend change happens are called Major Pivots. (C&D).

Higher major pivot highs and higher major pivot lows make a major uptrend and the reverse a major down trend. These major pivots are considered as MSP. These levels are very much visible in higher time frame charts and will attract orders from higher time frame players.

Usually traders trade the Minor Trend of their trading time frame. Trend traders try to ride the trend and remain in the trade till the trend reverses. Most of the traders exit the trade when the swing pivot from where the move leading to the extreme cracks. Notice the last picture. Crack of pivot A is not considered as trend change. Crack of B is considered as trend change. A swing pivot, the break of which is considered as trend change is also counted as a MSP .MSP is the pivot low immediately preceding the highest high in an uptrend and the pivot high immediately preceding the lowest low in down trend. Crack of MSP is considered as trend change

As usual do not think too technical and do not be too rigid in your definitions. Now forget everything .Keep it simple. If a swing pivot looks prominent, treat it as MSP and watch price action around this area.

"If it looks like a duck, quacks like a duck and walks like a duck, it's a duck"

Liquidity Pools

Look at the above picture. You might have seen this pattern many times.

Market is in a bull trend. It pull backs and makes a low at point A. Afterwards it goes up and later returns to the same price level and print a beautiful pin bar.

As a trader what will be your action in this area?

Some possibilities are

1. You will keep a stop loss order just below point A if you are holding long position
2. You will sell just below point A expecting a breakout to the down side
3. You will go long above the pin bar with a stop loss below the candle

Will you buy at the circled area? Who bought there? Who absorbed both stop loss selling and breakout selling? Why?

The answer is Big Money not Smart Money. Big Money is not always Smart Money. On many occasions Big Money will end up as Dumb Money. There are specific reasons for BM to place their orders here.

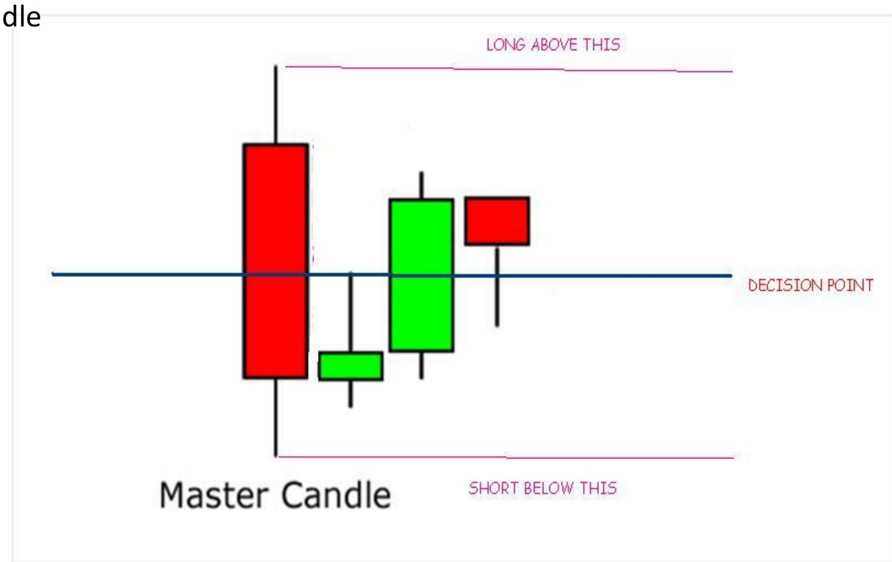
BM trade big and they can be institutions, big funds or High net worth traders Generally they are higher time frame traders and do not bother about ten or fifteen point moves like retail traders. They never chase price. They will place their limit orders and let the market come to them and fill their orders quietly at the right price.

Now think about the above situation. Everybody knows a lot of sell orders exists below the previous support. There exists a "Liquidity Pool" .Where else can BM hide their buy orders ? Most of the retailers will end up providing liquidity to BM.

Market is a living organism. First priority of the Market is to ensure its own survival. Once the orders dry up it will move towards a "Liquidity Pool" where a lot of orders exist. Market will shake out many traders and will create order flow on its own.

Always pay attention to "Liquidity Pools". You will get a lot of trading opportunities around these areas.

Master Candle



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 method was originally traded on higher time frames. But it will work well on all the time frames.

The initial enthusiasm on the method waned soon, as 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 standalone 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.

Scratch and Win

"Cut your losses and let your profits run"

You might have read this good old market wisdom a thousand times. In reality it is easier said than done, especially in day trading. In day trading arena trying to trend trade is a recipe for disaster.

Most of the time markets make narrow intraday moves in both directions. Intraday trends will not sustain for long. If we patiently "let the profits run", we are going to get stopped out regularly. Most of our initial gains will turn into losses.

The usual practice among most of the traders is that they decide on a target and a hard stop. Once a trade is entered they wait till one or the other is hit. In my opinion this method is not going to work. We may require a more active trade management to win.

Let your profits run only during strong established trends where you can trail your stops behind the flip zones. When the market is not in a strong established trend, take small quick profits. Every trade should start as scalp to the FTA (First Trouble Area). Once you feel the initial edge is gone, that is when the market fails to break the FTA, exit immediately without hesitation. Never wait for the market to hit your hard stop.

Do not wait till the market proves that you are wrong. Get out if the market is not proving that you are right. This requires a different approach. You may need to scratch a lot of trades.
Trade for extremely consistent gains with "Tiny" losses rather than for occasional "Home Runs" with a lot of "Small" losses

Consistency

The ultimate aim of every trader is to become consistently profitable. Whether you like it or not, trading consistency will remain elusive for many of us.

In my opinion there are three stages of trader development. (Read). These are defining the structure, deciding upon the tactics and taking massive action. The third stage is the most difficult one to conquer. In fact it is a never ending journey where you evolve continuously as a trader. Be prepared to go through many drawdown, losses and pain

Trading consistency will be preceded by execution consistency. There is always a gap between the analysis and actually executing the trade. This is the difference between how you believe to act under certain situations and how you actually act when time comes (Read).

Having a good method with an edge and being good at analysis alone is not going to make you a better trader. The ability to push the button under pressure is equally important. The difficulty in trading is physically being able to execute the trades. Proper execution alone can make your edge work.

I can tell you one thing. This is not going to be a smooth sailing. Be prepared to feel a lot of frustration. When you hesitate and skip a good trade, price will go exactly where you expected it to go. In frustration, later you will either make a premature entry or chase a trade and will cause a draw-down. Sometimes you may get a nice entry, but Market will come back, trigger your stop by a tick, and will go where you wanted it to go. Time and again this is going to happen especially if you are trading a discretionary method

Trading is all about execution and it is a lot harder than most people think

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”. Overnight 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.

12032013 is a good example of Fluid in action.

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.

Who is in control of the market? Never attempt a counter trend breakout on a trend day where investors and higher time frame traders are in control.

Notice how the critical mass is positioned. If the breakout traps them, well and good.

How far is the FTA and how strong it is? Ensure some space is there for the trade to move.

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 this potential flip zone.

Notice the 2 trades of 10052013. Both of them are Pressure plays. I marked them as BOF as a BOF preceded these breakouts and the concept of Pressure Plays was not explained earlier.BOF + Pressure Play, very high probability trades.

Goal Setting

Goal setting is an aspect of trading which do not receive proper attention. Goals motivate us to devise a plan and maintain discipline. Goals drive us to take action and are a must if one is to succeed in all walks of life. Absence of well defined goals is drifting aimlessly without a proper destination.

Goals should be realistic and achievable. Otherwise it may lead to frustration and discouragement. Better to start with realistic, achievable goals and raise the bar as you progress.

We need to set performance goals and financial goals. In my opinion performance goals are more important than financial goals. I agree the ultimate aim of every trader is to make money from the market, but focusing on profitability alone will do more harm than good.

If our goal is to make Rs 5000/- a day, trading, it will force us to trade incorrectly. We will lose patience and take mediocre trades anxious to reach the set goals. Once we achieve the daily target, we may hesitate to enter on good setups as we will be afraid to lose already earned profit and miss the daily target. Daily financial goals are counterproductive. Do not set daily financial goals; you will be better with weekly or monthly goals.

Focus on performance goals on a day today basis. Our aim should be to stick to the plan and focus on the process. Define the trading process well and set goals to achieve consistency. Let the correct process allow you to achieve your financial targets.

Trading Plan

"Plan the trade and trade the Plan" is perhaps the most common advice given to traders. Planning the trade is very easy. But most of the times we fail to trade the plan. In the heat of battle we become nervous, tensed and fail to execute as per the plan. Still it is better to have some plan and teach ourselves to stick to it.

We are trading a discretionary method. Everything cannot be defined in such a method. It is impossible to set rules for everything. Discretionary trading totally depends on our judgement. We need to take decisions as per our judgement. So the end result will vary from trader to trader even though we are trading the same method.

I have prepared a brief plan to guide us in trading the method. I think I have covered the most essentials in this check list..I wish you to remind that the method cannot be traded mechanically. It all depends on your ability to Read and feel the Market

TRADING RULES

Entries

- Trade only at Decision Points
- Hide Initial Stop behind a DP
- Entry preferably on break of a potential Flip Zone(To ensure two layers of defence)
- Counter Bias Trades preferably on BOF (Ensure orders from trapped traders)
- BPB entries preferably only on the first BPB of the move(To avoid over extended moves)
- Ensure Space for the trade to move

Trade Management

Scratch if price crack flip and settle (Think Pressure Plays then)

- Trail using flips and pivots
- Exit at the next DP
- Exit on reasonable profit
- Always consider strength of the move before the exit

Market Bias

Initial

- Price Inside or Outside of previous Day Range?.
- Daily chart in Rally or Decline?
- Price at Upper or lower side of Previous day range?
- Price above or below PDC?
- Price above or below Day Open
- Price Gaped on open? Trend gap or CT gap ?
- Initial price move. Bullish or Bearish.

Ongoing

- Current range above or below the previous range?
- Last DP crack. Upside or Downside?

Other Helpful Concepts

- Master Candles at DP
- Initial Range
- Channel after a spike
- Barbed Wires
- Layer over Layer
- Brackets and envelops
- Cigarettes
- Pressure plays and Traps
- Fluid
- Critical Mass

Space

Space is simply the profit margin of a trade. It is the distance between our entry point and profit target. Space determines our risk reward ratio. Before entering a trade we need to ensure there is enough space for the trade to move. I think many traders ignore this aspect.

In fact this is one of the most important things to consider when entering a trade. Price takes the path of least resistance. Most of the time the First Trouble Area will give some opposing order flow and cause the price to stall. I have written a post on how to deal with FTA earlier (Read)

Most of the time the space between entry and FTA will not give us a favourable RR, Price may bounce back from FTA forcing us to exit or it may break through it. We will never know for sure. Exiting all the trades at FTA is not a solution as we cannot let our winners run.

Identifying the right location and patterns to trade is only a part of the game plan. Managing the trade is the next challenge .There is no option other than depend on our “Feel” and “Read” of the markets. This makes trading difficult.

Mechanically trading the three patterns at Decision Points will give us a substantial edge for sure. But the real breakthrough will come only when we achieve expertise in managing the trades. It may take much more time than we think.

Practicing to Fail!

Last week, I was reading about Michael Jordan, the legendary Basket Ball player. His life is very inspiring. . I was very surprised to note how he practiced the game. Despite being number one in the game, his game practice was very basic and simple, like free throws and just dribbling.

Getting the basics right is very important whether it is Basket Ball or Trading. We need a solid foundation to build on. Otherwise the whole structure may collapse. If you get away from the basics, the bottoms will fall out for sure

Unfortunately, many traders do not understand the fact that they are practicing useless skills. They work hard and practice well. Still trading consistency remains elusive for them. They think their problem is psychological or discipline related. Wrong.

The real problem is that they do not understand the “Reality of the Market”. They have no idea how a dual auction market functions and what move prices. Any methods that ignore these realities are destined to fail. The more they practice, the more they will fail and they will become experts in trading the wrong way

Message from Michael Jordan is very clear and relevant even in the field of Trading. Jordan warns that when you “get away from fundamentals… the bottom can fall out of your game, your schoolwork, your job… whatever you’re doing.”

*"You can practice shooting eight hours a day, but if your technique is wrong, then all you become is very good at shooting the wrong way**.** Get the fundamentals down and the level of everything you do will rise”* Michael Jordan

Are you practicing to fail?

OODA Loops

Col.John Boyd of US Air Force was one of the most gifted and effective fighter pilot of all time. John Boyd understood the challenges of time pressured decision making and developed a decision making framework for combat situations. It is known as OODA Loop. The acronym OODA stands for Observe, Orient, Decide and Act.

The application of OODA is not restricted to warfare alone. It is applicable to Trading as well. Aim of OODA is to act fast. The right way is to decide and act fast so that more time can spend to observe and orient.

Observe. First step is to observe what is happening at the moment. Gathering relevant information happens during this stage. Almost always, under time pressure, traders forget to pay attention to the details. Better to simplify and avoid observing irrelevant information.

Orient. Once we gather the relevant information, the next step is to process it and position ourselves for a decision. Orientation will depend upon our beliefs and mental model. Observation and orientation will decide our trading edge. We have to ensure that our methods are based on the reality and not on illusions.

Decide. The next step is to decide a course of action. Depending on the gathered information make a decision to act.

Act. This is the final stage. Implement the decision. Once a decision is taken do not second guess or hesitate. Simply take action. Go back to step one and observe. Cycle through the OODA Loop.

Finally, do not hesitate to use the ejection lever if something goes wrong. Ensure survival. We need to trade another day.

SCORE

As you know, my trading revolves around Decision Points. I never trade into a Decision Point and always trade away from it. Basically I am looking for the three simple trade setups around these areas. If you are trading these setups as standalone patterns, it is not going to work.

The method is purely discretionary and our "feel" and "read" of the price action is going to play a vital role in this method. If you think this is all about setups and patterns, you are likely to get disappointed. Like any other discretionary method, this involves judgement. Remember this judgement has to be made in a probabilistic environment where there is no certainty. It is all about what goes into your judgement process.

When price approaches a Decision point, I visualize my trades. My preference is always for trades in the direction of current Market Bias. Then I "**SCORE**" these trades before making a decision to act. Here is how I do it.

Space

Is there sufficient space for the trade to move? Where is the FTA?. How to deal with the FTA? Whether we should target the FTA or enter on break of it?

Critical Mass

How day traders are positioned? Are they in profit? When they are going to book profits? Where they will panic? Who is in control of the Market?

Order Flow

Where are the orders? Where other traders will keep their stops? Where we should enter to ride these orders?

Risk

How much we are risking on the trade? Where to place stop? What should be our position size? Is it within our comfort level? Ensure RR is favourable.

Earlier Behaviour

How the level behaved when price visited it last time? Rejected? How far? How fast? How long price stayed at the level? How the price returned to the level?

These are all guidelines only. We cannot make rules for all these things. Preparing a flow chart and programming the process is not possible. We must take a trading decision only after processing all these relevant information. There are no shortcuts. You need to train your mind and it is really going to take some time and lot of effort.

Order Flow Trading

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. We must learn to operate inside other traders OODA Loop. Real trading is metagaming. 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 behaviour.

Market is a place where countless traders execute countless strategies at the same time and it is very difficult to anticipate their future actions It is very important to know who is in control of the market at the moment. Day traders, swing traders and investors react differently to a situation. For example you might have noticed that when higher time frame players dominate, Decision Points will not work as expected. Our method work well when the day trading brigade controls

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.

Swiss Haircut

Last week, we were celebrating Onam in Kerala.We had a nice time with friends and family. Many "Mallus" living outside the state prefer to have their vacation in
Kerala during Onam season so that they can meet their old friends and relatives

This season I could meet a class mate of mine after a long period. First I could not recognize him as he had shaven his head. I thought he might have gone to Palani or Tirupati and did it as an offering. That was not the reason

He told me that he is on a project in Zurich, Switzerland for a year. A hair cut there is quite expensive at 95 Swiss Fracs which will be INR 10000. The new hair style is going to save him at least one Lakh during the year.

This always happen once you are abroad. We convert the price into Indian currency and find everything prohibitively expensive.

Trading is not different. The thought of money can really mess up our mind especially when we are trading big. As far as money management is concerned taking a trade risking 1% on a capital of 1 lakh and 25 lakh are same. But losing Rs 1000 and Rs25000 are not the same. This will work both ways and will spoil the trade management and exits. A slight adverse movement will scare us whether we are in profit zone or not , always causing premature exits.

Is there a solution for this? Only way is to focus on the points rather than on money. This will help us to see the market more objectively. If we are watching the market in terms of money we will not be able to scale up and trade big.

Cultivate the habit of watching Nifty points early and make your decisions based on that. Try to manage your money in terms of % value. You can remove a lot of emotions from your trading for sure.

Learning to Fish

I was born and brought up in a small coastal village of Kerala. It was before the “Gulf Boom” and fishing was the major occupation of the village folk. I was always fascinated by the sea. I enjoyed sitting idle at the seashore watching the waves washing the shores, listening to the whisper of the sea.

I used to watch the fishermen repairing their nets and preparing for the next sail. I was really surprised about their respect for the Ocean. They referred the sea as

“Kadalamma” which means the “Mother Ocean”. I could always hear them thank her for a great catch but never heard cursing when they return empty handed. Before leaving the shore, the boat men always prayed to the mother to protect them and bless them with great catch. The first thing they teach their children is to respect Mother Ocean.

Like the Ocean, Market is inviting and notoriously dangerous. As traders, the first thing we should learn is to respect the markets and surrender to her. If we think we can fight and beat the Market, we are totally wrong. Market is supreme and anything happens there is beyond our control.

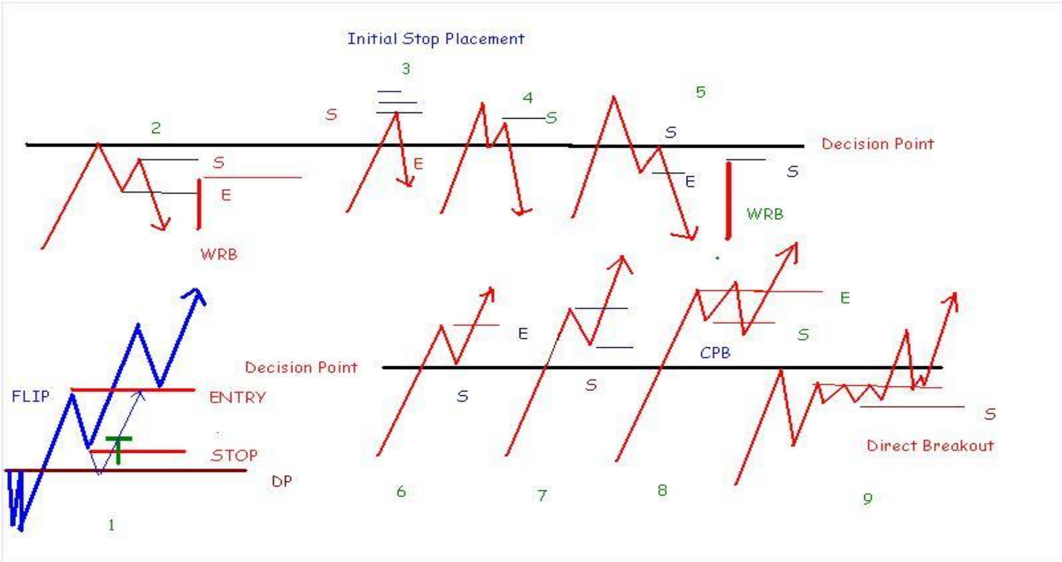
Unfortunately, most of us do not practice this “Lesson No 1”.We constantly try to fight the market. We try to go against the market trend. We try to dictate the Market. We expect the market to respect our calculated levels. We are foolish enough to believe that the Market will listen to us and go where we wanted it to go.

There are terra bytes of information available on the internet about trading. Believe me, 99% of these material is all about identifying the right location to initiate a trade. Almost all the studies, let it be MAs, EMAs, Pivots,Fibos,Gann,EW,Trend lines,MP etc, are all used to identify the trade location. Do we really need it? Market itself is always showing us the levels it is going to respect. We do not believe it and arrive at our own levels using complex calculations and expect the market to respect it. Funny

We are not stopping there. We try to dictate the market what it should do at these locations. We label locations as support and resistance. We expect the market to go up from a support and fall from a resistance. Who are we to dictate the market? Trade locations are nothing but a level at which the market decides its future course of action.

Let us learn to respect the Market and explore the Ocean depths. There are treasure troves waiting to be found.

Initial Stops



Initial stop placement is always a problem area for traders, especially if you are a single lot BPL 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, refers 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.

Breakout Blues

Breakout trades are least priority trades in my scheme. I assume the market is in a range all the time and the preferred trades are fading the range extremes. Range is a series of "Failure to break" and "Breakout Failures" of range extremes. These three trade setups are my bread and butter methods.

People find breakouts attractive because it is very easy to identify and it is extremely rewarding if they get it right. Predicting a successful breakout is one of the hardest tasks a trader can do. In an established range there could be multiple failures before one succeeds. Most of the breakouts do fail and it is better to wait for the breakout to fail or give a breakout pullback rather than making a direct entry.

I do attempt direct breaks. These trades are called PressurePlays. We must be well aware of the context in which the BO is taking place and ensure a higher probability of success. Be aware that trying to predict a BO is extremely risky and better to stay out if we are not confident. Then it is better to go for a Breakout Pullback.

What if the Market runs without a pullback? Then let it go. Markets are forever.

Further traders believe trends start when price break out of a range. I do not subscribe to this view. I think a trend always start from a range extreme and run further breaking the other extreme of the range. I prefer to enter at the beginning as against the middle

Observe the Obvious

If you are a regular reader of this blog, you might have noticed the market respects the Decision Points repeatedly. Almost always the price stalls at a decision point and decide about its new direction. Most of the time these levels are very accurate and they work like charm.

What is so special about these levels? In fact there is nothing magical. It is all simple common sense. Let me explain.

A lot of traders use 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.

Story is not yet over. Traders are using this method on different time frames. Day traders normally use 1,2,3,5,10,15 minute charts. Try to mark all these levels on a chart. It will cover the entire chart space.

Now think about other methods like trend lines, Fibos, EW , and many other indicators. These people use different settings on different time frames. All these traders are divided and identify and trade different levels. In short there is no unity only diversity.

Now coming back to the Decision Points. These levels 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 BRN is a BRN for all. So all the traders monitoring these levels are going to act at the same level. Decision Point traders are united and they rule the divided rest.

Decision points are not my invention. Traders were using the levels for long. I just gave them a name. That is all. Decision Point traders are a few in numbers, I agree. But they are able to move the market because they trade big. They trade big because they are profitable.Most of the time they win because others are divided.

Do not trade what "you" see on the chart, trade what "all " see on the chart.

TRAP

Here is a guest post from U R Dave who is a regular reader of the blog. The post is self explanatory and do not need any introduction. Kindly go through it and give your feedback. Please do not forget to thank Dave for his valuable contribution. You may also have some of your own observations. Please do share it. You are always welcome to make a guest post if it is something related to pure price action.

This post is an attempt to find a trading opportunity when markets are trending so that we can trade in the direction of the trend. Trend trades are always high probability trades as the market momentum is on our side.

We assume the market is ranging all the time and for us a trend is successive higher or lower ranges. An uptrend is successive higher ranges and successive lower ranges are considered as down trend. We try to sell the highs and buy the lows of these ranges.

Problem arises when market is in a clear trend or in a grinding channel. It is very difficult to identify the ranges on a type 1 trend day or on a channel day. I have experienced that MSP in such situations gives a very good trading opportunity. MSP is a very significant price level and it attracts a lot of order flow.

Let's try to analyze the order flow at MSP. At MSP, we can expect a lot of SL orders from those who are riding the current trend. The break of MSP is perceived as reversal of trend. So there will be lot of BO trade orders trying to capture the new trend. What will happen in case of a BOF at MSP?

All the traders riding the current trend get shaken out of the trade. BO traders entered to capture the new trend get trapped. Those who have shaken out will try to enter the trend again and the trapped traders will hurry to exit. This order flow will create an accelerated move in the original trend direction.

If you observe closely, you can find that meat of the trend move happens after this pattern. This is a kind of trap where a lot of traders get caught on the wrong foot. We will call this Trend Acceleration Pattern (TRAP in short)

Before initiating the trade, we need to make sure that there is enough space for the trade to move and our SL is within acceptable limits

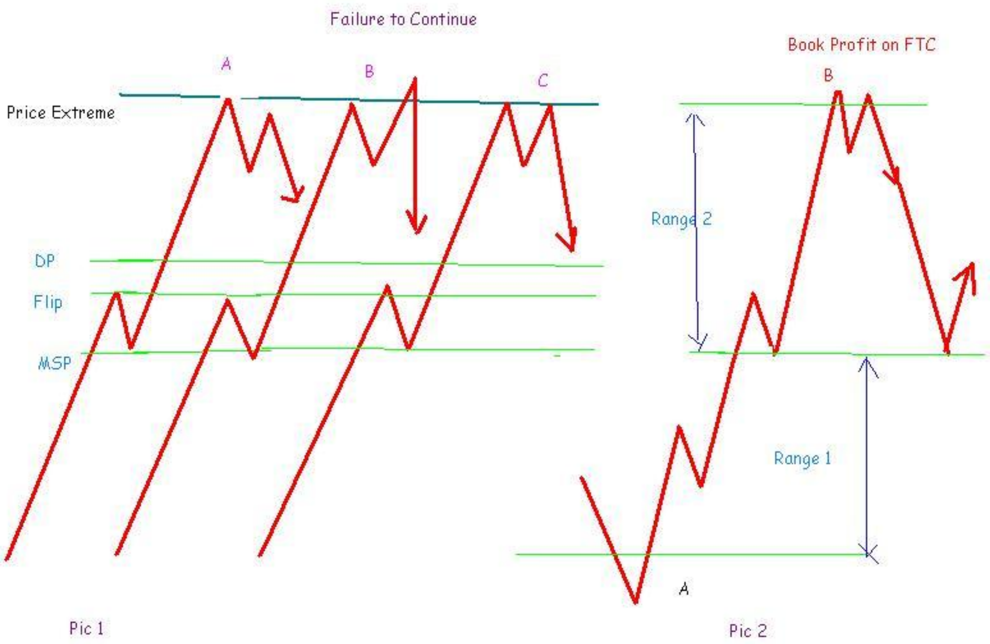
SECRET

This formula explains how and why successful traders make money.

S - Small losses (you must strictly control losses)
E - Extended Profits (you must let your profits run in order to give you big profits)
C - Consistency (you must have a method that you apply consistently)
R - Risk/Reward (This is VERY important)
E - Edge (You must have an edge and understand it clearly)
T - Trade Plan (You must have a trade plan which translates your edge into a plan)

If you master the SECRET formula - you will become successful. If you don't then you are gambling, not trading.

Failure to Continue



There is too much of confusion among the readers about FTC (Failure to Continue). I will try to explain it further. FTC is not really a pattern in the true sense. We are basically trading three patterns at Decision Points namely TST, BOF and BPB. FTC can either be a TST or BOF but never a BPB. Further it can be a failure to test a new price extreme.

There are two types of Decision Points. Fixed levels and Dynamic levels. Fixed ones are levels like PDC,PDH,PDL,DO,BRN etc. These levels will not change. Dynamic levels are levels created by the market during the current session. Market will be creating new DPs and discarding the old ones all the time. Examples are HOD,LOD, MSP and range extremes.

Usually we trade established levels where market reacted earlier. Sometimes market will establish a fresh extreme and change direction from there either to change trend or to establish a new range. FTC is an effort to capture such trades. FTC trades are always counter trend trades and hence relatively high risk trades. Basically we are trying to identify trader exhaustion either on the long side or on the short side.

Look at Pic 1. Price is in a momentum move. It breaks a DP and moves up further to stall at a certain level. We feel that buyers are exhausted and market may consolidate. We look for FTC here. We keenly observe what price is doing. FTC can occur in 3 ways explained as A,B and C. These are failure to test the extreme, BOF of extreme and TST of the extreme. Price may reverse or consolidate. Most probably we can expect a range here. Lower boundary of the range can be the DP, Flip or MSP.

FTC is very useful in managing the trades. Look at Pic 2.We enter on the BOF of a range low at A. Price moves up breaking the range high and stalls at a certain point called B.. An FTC at point B is a signal to book our profits. Here price may consolidate for a long period in a new range. It is better to capture most of the move by exiting at B on FTC and wait for the next signal to act.

I have given only the long example. It is applicable on short side also. Be very careful while initiating new trades at FTC. Ensure that there is clear exhaustion of momentum price move .If you are in doubt, better to stay out.

Market Sense

Many traders relate trading to “Poker”. I have read it a thousand times since I started my market adventure. Still I do not know what this Poker is all about.

I always felt, trading is like driving a car. Everybody start learning it the same way. We learn rules and regulations familiarize with the controls and deliberately practice operating them. But knowing all these won’t make you a driver. To drive the car with confidence, you need something else. What it is?

It is called “Road Sense”. It is something that we acquire by experience. Level of road sense differentiates an excellent driver from an average one. I do not know how to define road sense. It is simply our ability to assess ourselves and others around leading to good judgments and driving habits.

Good judgment of the situation will help us to avoid trouble and accidents on the road. This involves understanding the behaviour of other drivers, assessing our own strength and weaknesses, controlling situations and avoiding risks.

Trading is not different. Knowing all the patterns and trading tactics is not going to work unless you develop “Market Sense”. But it takes time and experience to develop. Unfortunately most of the people won’t stay that long. They will simply quit or flirt to some other method.

If you are really serious about your trading, select a method with a positive expectancy and stay long enough to develop this Market Sense. Your first priority should be the survival during this learning curve.

Anyway, start learning Poker and Golf. Traders are supposed to play these!!!!!!!!

Three Thoughts

Trading is just like any other profession like Medicine, Law, Accounting, Teaching and Engineering . It is all about skill development. But unlike trading, these professions have an advantage. We can always conceal our failure and mediocrity there. We can always put the blame on others and situations .We rarely suffers due to our mediocrity and inefficiency. Our client or our employer always suffers. Just think about this for a moment. How many people you know, excel in their chosen professions?

There is no such escape routes in trading. We just can’t conceal or hide our mediocrity and inefficiency. Our account will shout it louder. There is no other way but to shoulder the whole responsibility for what has happened. Have you ever thought why most of the traders fail miserably in markets? Let me share some random thoughts.

Every other profession has a well defined knowledge base and curriculum. This knowledge is taught systematically for several months or for many years. There are evaluation methods like tests and examinations to ensure that the students have absorbed the knowledge well. Unfortunately, we traders have no such knowledge base. We have to build it on our own and most of the times we end up with wrong methods

In other professions, after learning the basics, people undergo rigorous training under expert supervision. Doctors undergo clinical practice. Lawyers begin practice as juniors to an expert lawyer. Accountants do article ship and teachers go for education training.

Trading is the only profession in this world where you read a book on weekend and start betting big money on Monday.

Finally think about how much money we need to spend on education to land up in a good profession. We may need to spend several lakhs to become a specialist doctor. How much we need to spend for an engineering degree and a reputed MBA?. Here in trading, people are not willing to spend on education and pay tuition fee to the market. Everybody wants to mint money from day one.

No wonder, people find it difficult to survive as a trader. There are no short cuts. Select a method with an edge and get yourself trained. Be ready to pay some tuition fee to the market.

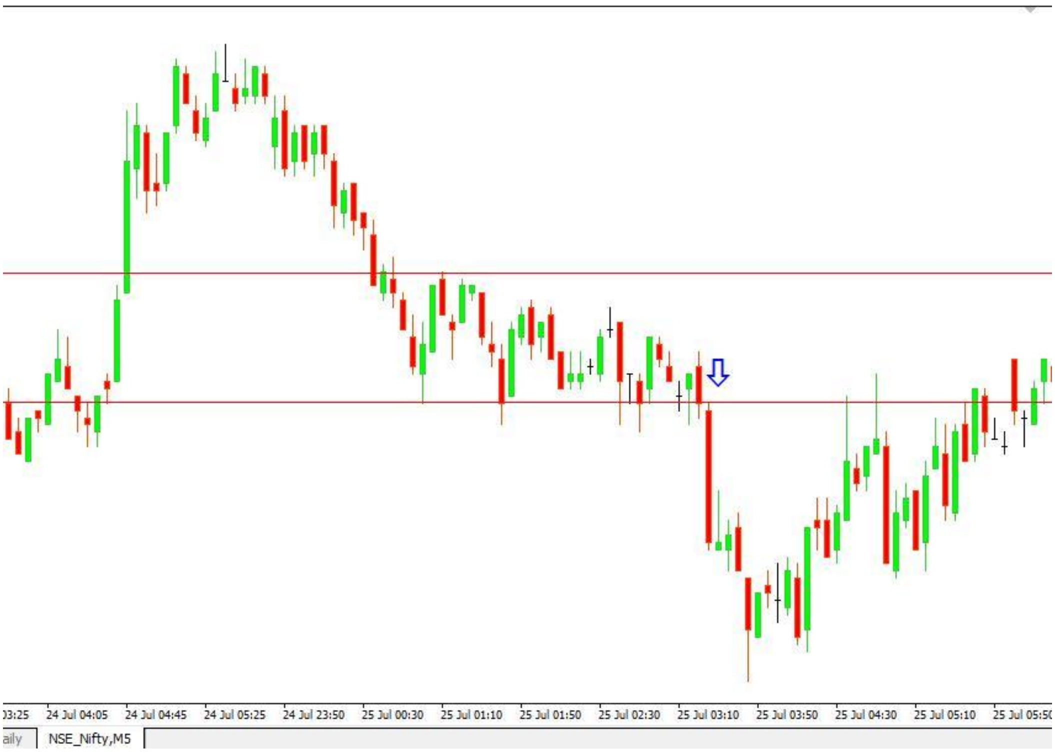
Taps on DP

A Pattern, I have observed many times & am using it is **TAPS on DP**. It's coming frequently in Nifty nowadays. The criteria, i look for is:-

1) A Range Formation between 2 DPs.
2) Price starts knocking at one of the DPs (>2 times). The more the knocks, the better.
3) HL or LH formations as per the BO requirement. If the Taps are on DP above you, see for HL requirements & LH for Taps on DP below you.
4) Tails on that DP are better (For me, Tags on BB are equivalent).
5) Enter Above/ below the DP on BO of Candle Tail.

I will give few examples without BB from recent days..

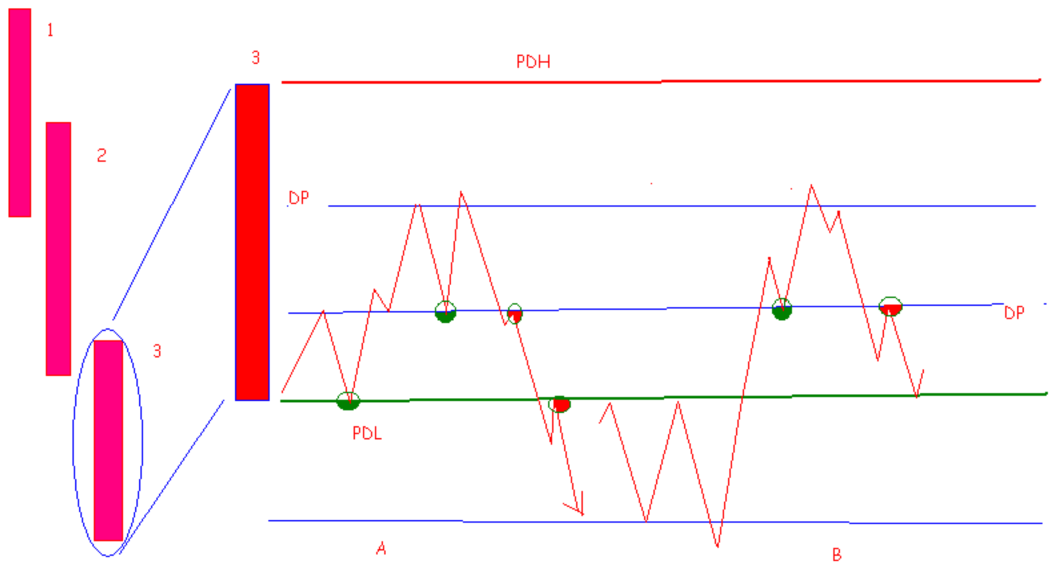
a) See a Range marked with 2 DPs. We would have exited in this range having no position. Now, Price started making LH & tails on lower DP. Knocking started. Nearly 5 Taps on DP. A BO was evident in this case & we can enter with confidence.



b) A Big Range formation. HL formation in Price in the range. Although a BOF in the starting, we would have exited earlier. 4 Taps on DP. we can go long on BO of upper DP.

c) A nice range after BOF, which would have made us out. Nice Taps (3 ~4) on upper DP. An entry on BO was a nice one !!

Taming the Trend



To trade the markets successfully, we need to define a structure for the market and also need to align with the trend. Unfortunately there is no way to correctly define the structure and the trend. All the technical analysis is an attempt to do this.

My approach is based on two assumptions.

1. There are two kinds of players in the market. Day Traders and "Other Traders". Day traders trade intra day moves and never hold overnight position. Other Traders are willing to hold their positions and not interested in small moves like Day Traders

2. All the traders basically attempt to buy low and sell high in the market. Day traders play with smaller time frame charts and others go with Daily Charts.

I will try to explain it with the help of a picture. 1,2 and 3 are Daily candles making lower highs and lower lows. Daily chart is in micro down trend. Today, on the fourth day game will be played within candle 3 which may act as a range. I have shown the enlarged view

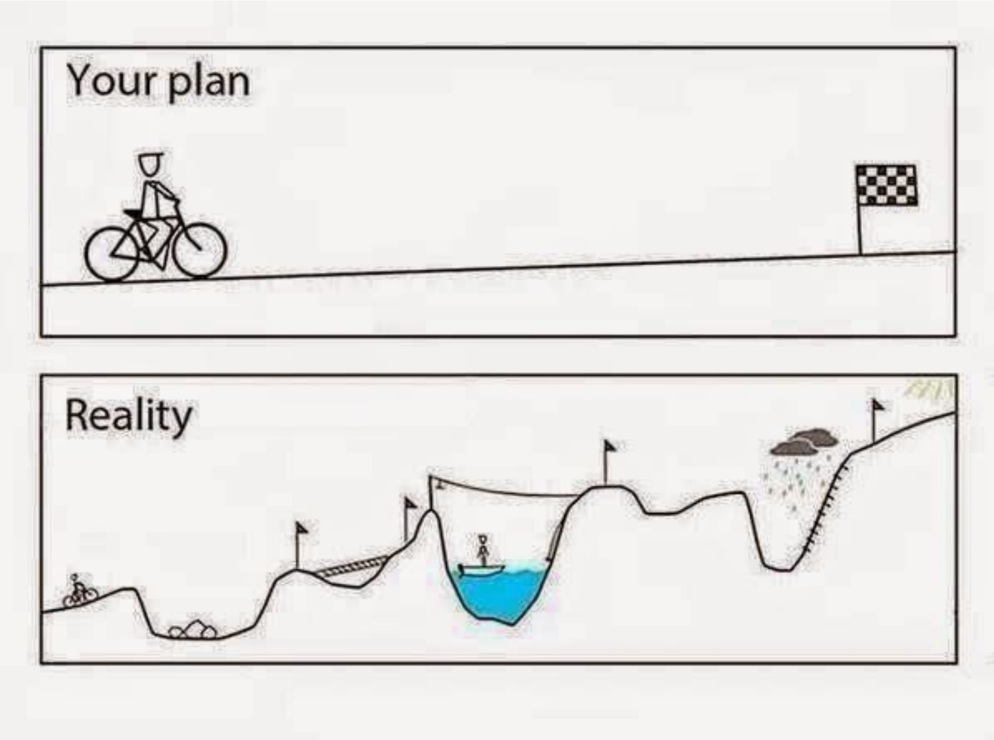
Break above PDH will be a major transition as daily will change to rally mode. Our expectations are a ranging action inside the previous day candle or a breakdown below PDL if selling continues. We assume "Other" traders will sell in force near the top of this range.

Look at example "A". As range traders we try to buy the lows and sell the highs. As price is trading in a higher range, we prefer to buy the lows to go with the trend. Expect opposite order flow from "Other" traders as we approach the PDH. Do not expect these trades to run. Once price breaks down from the higher range to a lower one we try to sell the highs. Here both the groups are selling. Let our profit run.

These are all some guide lines. Do not make it a rule. Sometimes even if our trade is well aligned with the trends the trade may not be a winner. Look at situation B. Price gaps below PDL. Day Traders stay with the trend and short the range low. BO fails and reverses back above PDL Trapped day traders order flow will trigger a momentum up move giving great opportunity to the "Other" traders to sell into. This will trigger another down move trapping longs this time.

Market is never going to give us a static edge. Knowing well what is going on and changing the tactics as per the situation makes one a winner. There is no substitute for screen time experience.

Trading Journey



<u>Seven Pillars</u>

Working Memory of human brain is a concept that always attracted researchers of Cognitive Psychology and Neuroscience. Working memory which is also called short term memory is the system that holds multiple pieces of information in the mind. Short term memory is responsible for the retrieval, processing, integration and disposal of information during a decision making process.

George A Miller of the Princeton University has done extensive research on this subject. His research is one of the most quoted papers in Psychology. This is frequently referred as Miller's Law. He argues that the number of variables an average human can hold in working memory is Seven, Plus or minus to two.

Trading, especially a discretionary method is always a decision making process. It is very important to limit the number of information variables within the capacity of our short term memory for its effectiveness. Earlier I was using a lot more and was not able to cope with that. I had to eliminate and discard a lot and now the structure rests on just seven pillars.

Trend, Range, Decision Points, Space, Critical Mass, Order flow and Risk

If you are trading a discretionary method, please do a system audit. I am sure you will find too many variable that are not contributing anything but only overloads your working memory. Ensure that you are not using too many variables which are beyond the capacity of your short term memory.

The thousand pillar mandapas of South Indian temples are architectural marvels and they weathered natural calamities, wars and invasions for centuries. But your thousand pillar trading method will crumble like a pack of cards in no time.

Scaling Up

I consider trading as a skill. Like any other skill, time is an important factor in trader development. It is very important to focus on skill rather than money during the initial stages even though the ultimate aim is to make money trading. If we cannot make consistent money with a single lot of Nifty, why trade big and lose more? First build the foundation. Fast growth is overrated.

If you have been trading for a few months and the results are quite positive, you can think about scaling up. This has to be done slowly and steadily without affecting the psychology. Recently a reader wrote to me about this and we prepared a detailed plan. Here is it. Use this as a template to create your own plan

Initial Capital 66000/- (3 Months) Position 1 Lot.
Risk Per Trade 0.50% inclusive of commission 66000*.50/100= 330/- (66000)
Maximum Risk cap for the day 3 losing trades 1.50% = 990/-
Maximum allowed loss in a week = 5% =Rs 3300/-
Maximum allowed loss per month=10% = Rs 6600/- per month

Earn at least 200 points per month for 3 months continuously
Profit accumulated should be 200*3*25= 15000/-. Make capital to 132000/- (Add 51000)
Position 50. Risk per trade 660/- Loss per day 1980/-
Weekly Loss 5% @ 6600/-. Monthly Loss 13200/-

Earn 200 points per month for 3 months continuously
Profit accumulated 200*3*50 = 30000/-. Make capital to 198000/- (Add 36000)
Position 75. Risk per trade 990/- Loss per day 2970/-
Weekly Loss 5% @ 9900/-. Monthly Loss 19800/-

Earn 200 points per month for 3 months continuously (Add 21000)
Profit accumulated 200*3*75 = 45000/-. Make capital to 264000/-
Position 100. Risk per trade 1320/- Loss per day 2970/-
Weekly Loss 5% @ 13200/-. Monthly Loss 26400/-

Earn 200 points per month for 3 months continuously
Profit accumulated 200*3*100 = 60000/-. Make capital to 330000/- (Add 6000)
Position 125. Risk per trade 1650/- Loss per day 4950/-
Weekly Loss 5% @ 16500/-. Monthly Loss 33000/-

Go on adding an additional lot for every Rs 66000 of capital addition.If profit is less than 200 point a month do not count that month for adding lots.If makes a loss in a month reduce position size to half for the next month.Roll back to old volume only after earning 200+ points that month

Total capital to be brought in is Rs 180000/- if everything works well. After a while out of every 66000/- addition in capital , one third goes as Income Tax.Add another one third to the capital account and spend the rest.