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

Friday, November 23, 2012

## Anchoring

If you visit Kerala during monsoon season ,you can find many hawkers from North India selling blankets and sweaters.They come in groups and sell their stock door to door.They follow a unique selling strategy. First Some of them will go to the villages and quote shockingly high prices for their products.They wont reduce their price and will not be able to sell much.

After a few days another group will come. They will move down the price and convince villagers that they are selling at a discount because the season is over and they have to go back to their native places.People think this price as bargain comparing with the old price and happily buy out.

This behavior is called **Anchoring** in behavioral finance.Investors are anchoring when they buy a stock that has fallen a lot without a second thought. They are mentally anchored in the price it was trading before the crash. That makes the present price look like a bargain. Such Anchoring could be injurious to your financial health

Price action trading works because of Anchoring. Traders notice the price levels where the market turned earlier and act there again.These are the ideal locations to initiate trades with the lowest risk.**Decision Points** and **Flip Zones** are nothing but anchoring points.

Half of the battle is won if you know where to initiate the trades.

Posted by **SMART Trader** at 8:34 PM



## 8 comments:



**Rajesh Shahani** November 23, 2012 at 8:50 PM

Thank you for flip zone explanation, had gone long on Nov 22 at point A got stopped out.

Reply



**SMART Trader** November 23, 2012 at 10:03 PM

Rajesh

The whole method is built around price flips.Don't ignore it

ST

Reply



**augubhai** November 25, 2012 at 7:58 AM

Do you consider bar volume in your trading?

Reply



**SMART Trader** November 25, 2012 at 10:47 AM

Augu Bhai

Only for BOF

More volume means very large number of traders will get trapped and will be forced to reverse their trade

ST

Reply



**akshay** November 25, 2012 at 4:02 PM

hi

I have a doubt regarding trading bof,suppose there is IR low and high formed and we take the bof of IR low,price goes to IR high pulls back then breakout...how do you come to know whether its a breakout failure of IR high or a pullback?

Reply



**SMART Trader** November 25, 2012 at 6:23 PM

Akshay

"how do you come to know whether its a breakout failure of IR high or a pullback?"  
Sorry, I could not follow your question properly. If price goes above IRH and fails to maintain that level it is a BOF. Price may just test the level, pullback and attempt another breakout, which may or may not succeed

ST

Reply



**akshay** November 26, 2012 at 8:55 AM

hi

Do you use volume spread analysis ...?What are your views on it?

Reply



**SMART Trader** November 26, 2012 at 7:35 PM

Akshay

NO. I have not learned it.

ST

Reply

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