Trading

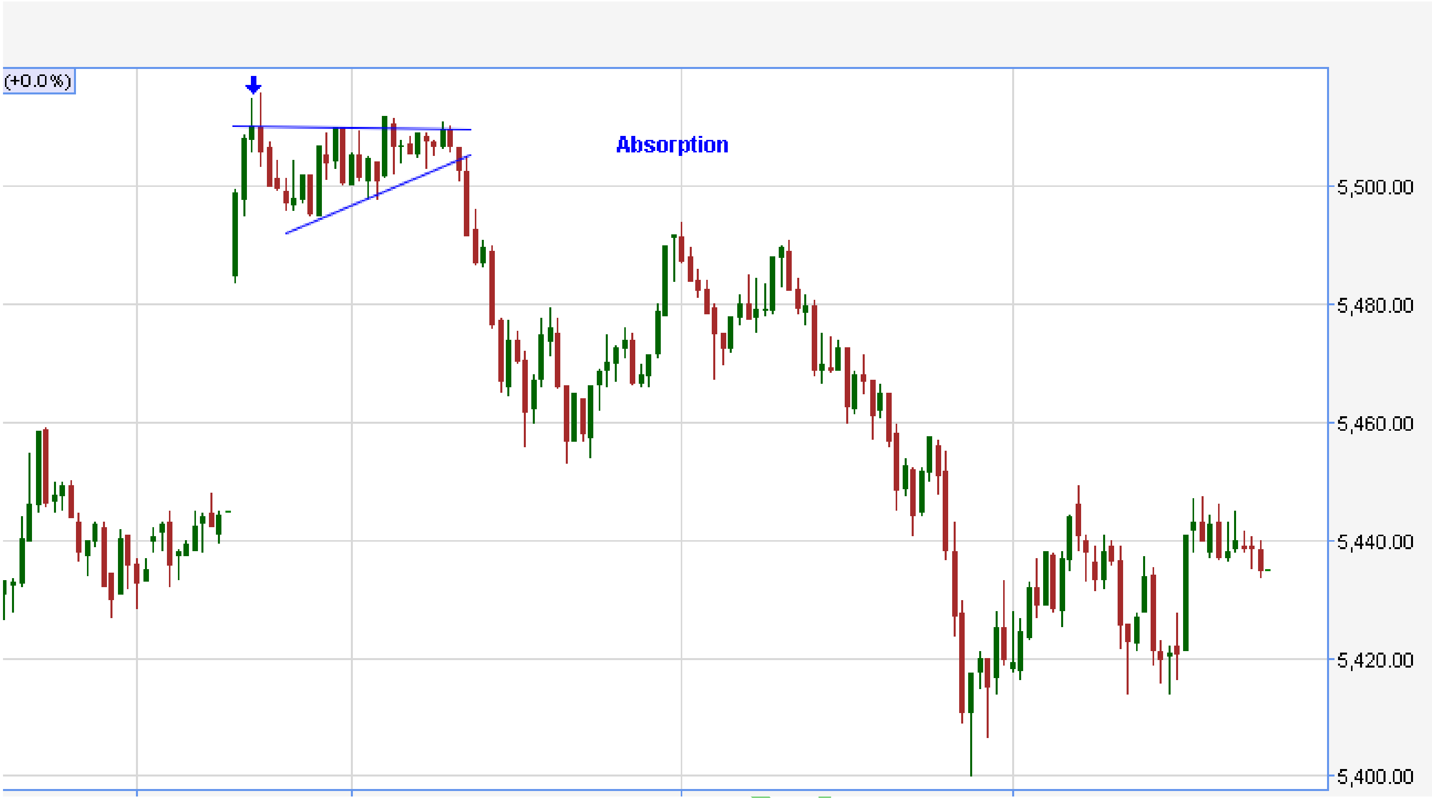
DECISION POINTS

Structure and Patterns

A New Approach to Day Trading Nifty Futures

SMART TRADER

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

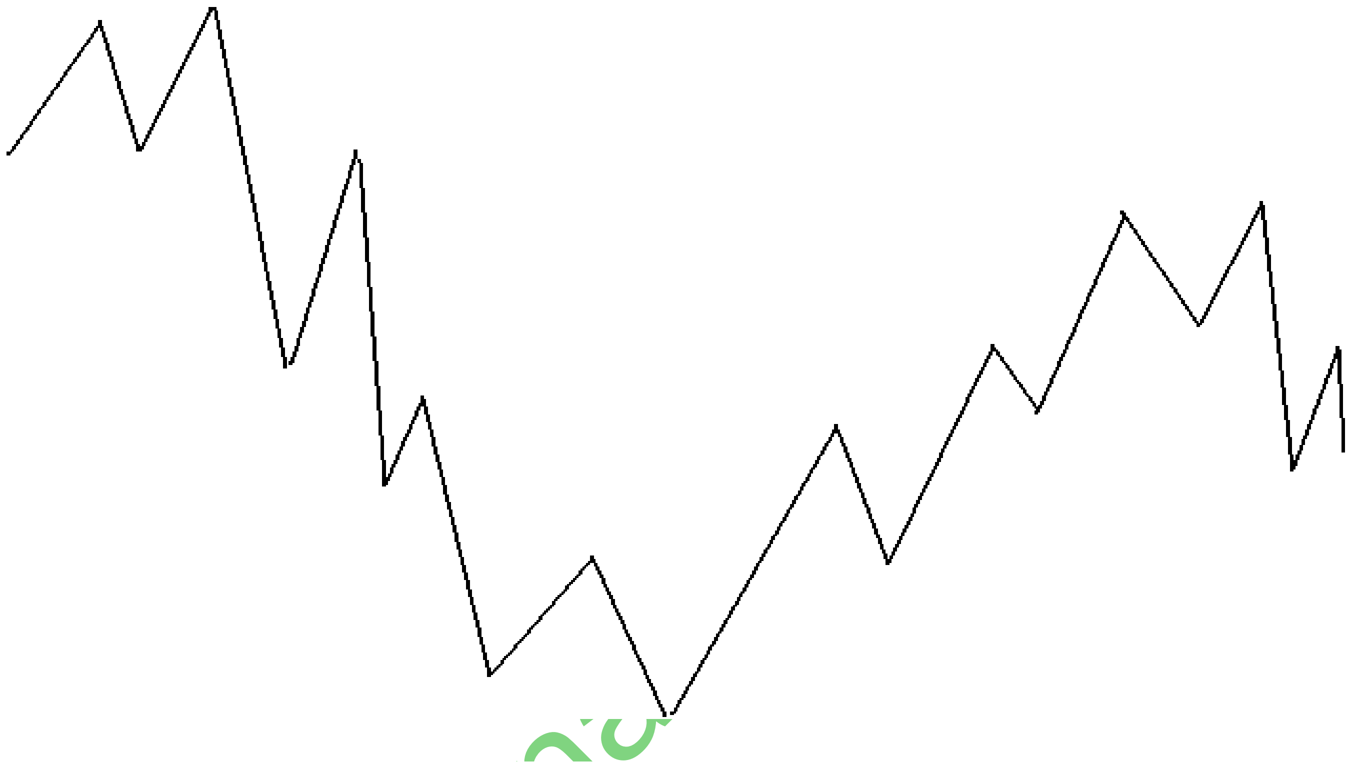
Big sell orders were sitting above this level and all the buying was getting absorbed quietly. After a while Bulls started panicking and started to exit bringing the market down.Who ever played this game made lorry loads of money for sure.

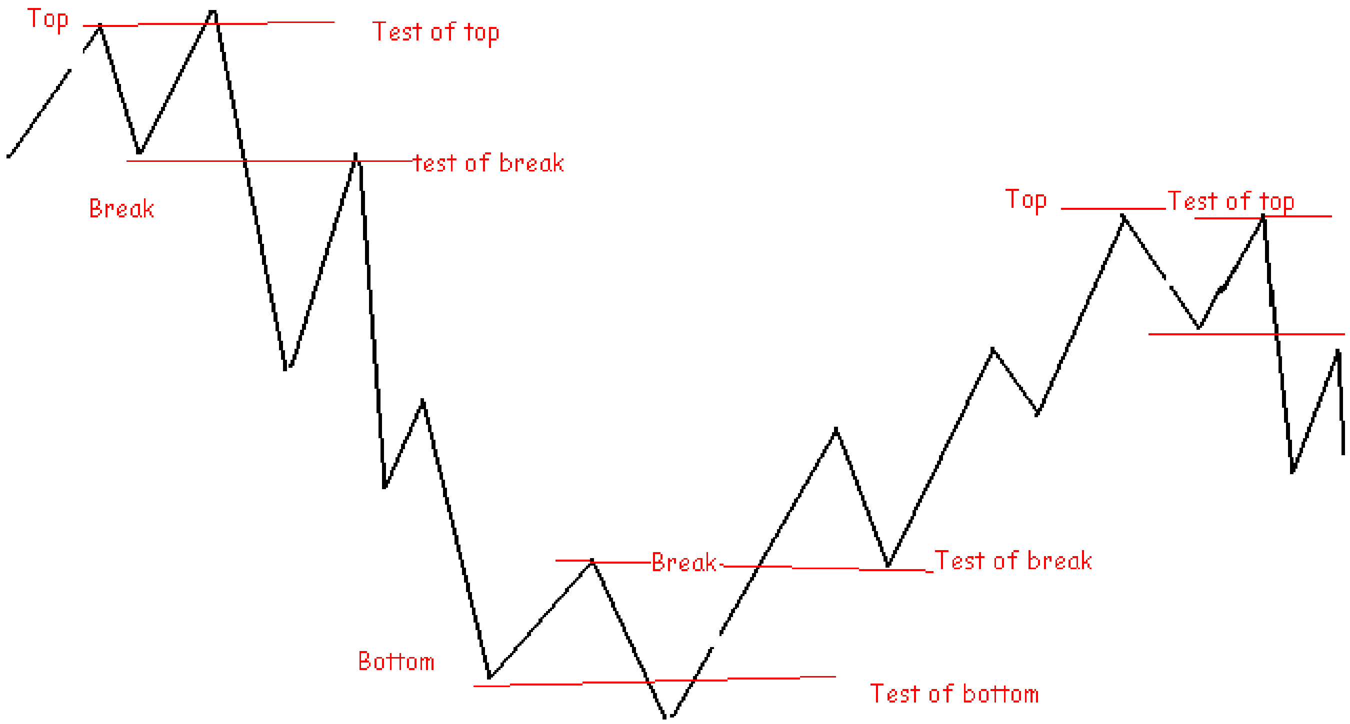
At this time NF was trading at a hefty premium . This gave the sellers more confidence . Even if spot Nifty goes up there was enough "Crumble Space" to absorb and minimize the impact.

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

Basic Structure

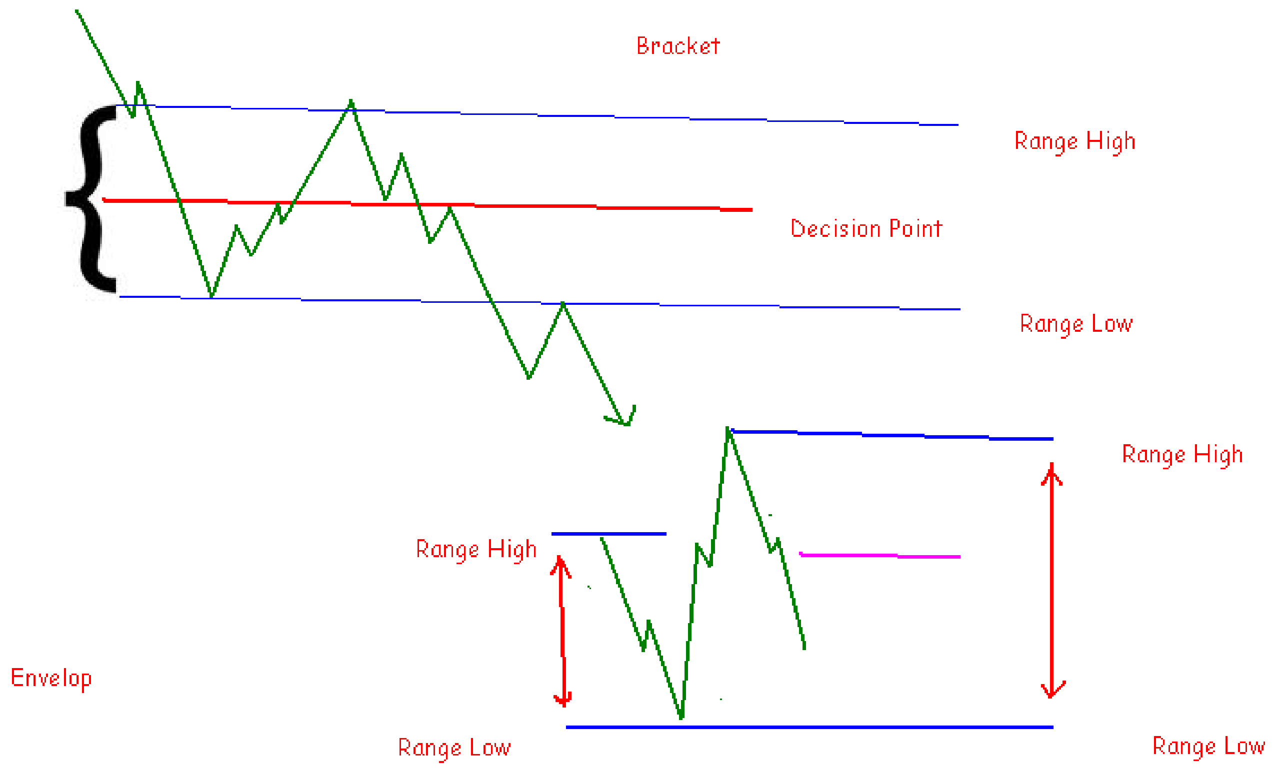
Look at the chart below , What is happening ?





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.

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”

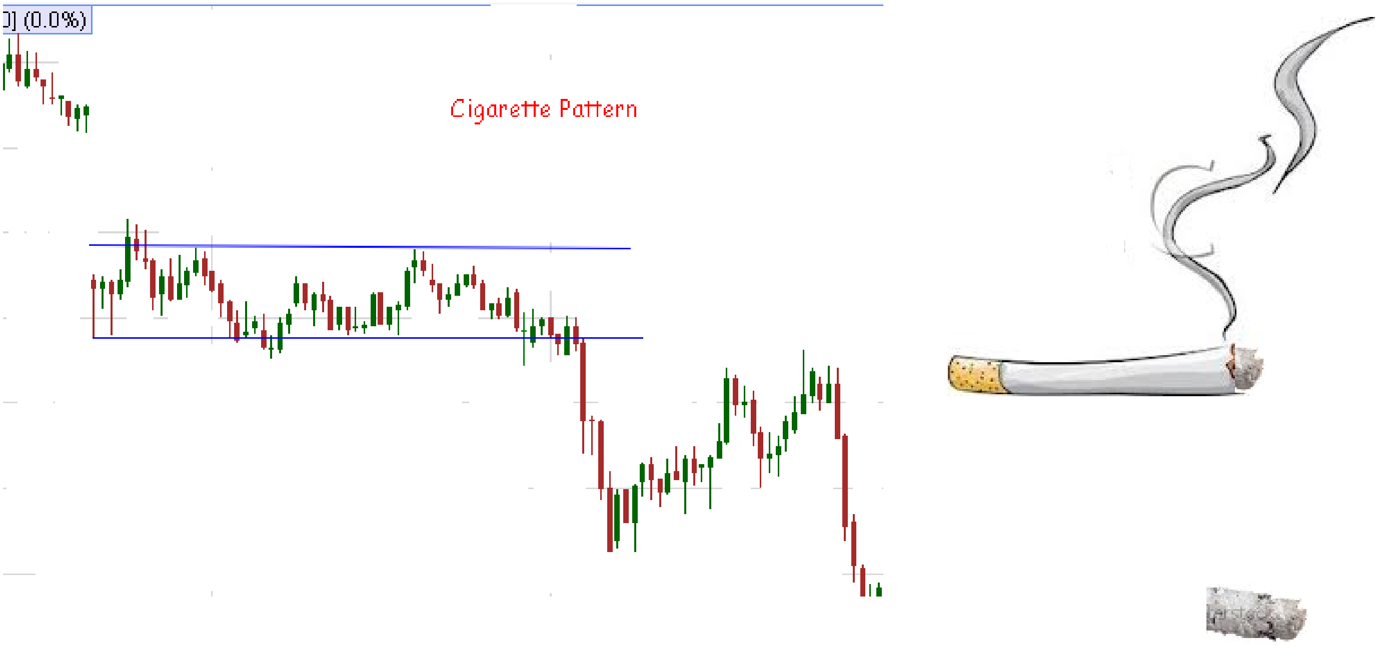
"Brackets" are formed when a range establishes around a decision point. In such cases mostly the DP acts as a midpoint of the range. Yes, you guessed it right. It is a Barbed Wire pattern. Barbed wires are tight bracket formations where we stay out. Bracket formations could be wide and tradeable. Once 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.

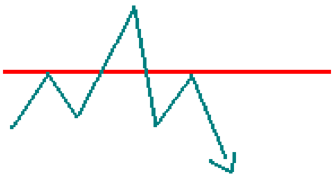
Most of the traders enter their position within the first half an hour of trading. As the time passes more traders join. These people will keep their stop loss orders just above or below the range. Some others will place limit orders at the extremes to capture the imminent breakout. Now there are clusters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

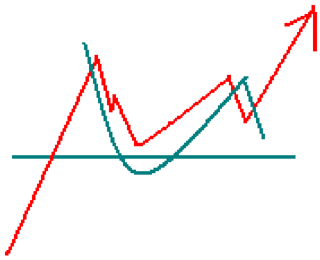
These moves will almost always come back. There are Algos sniffing around looking for such temporary imbalances. They will act within seconds and execute trades to exploit this price variance. Index arbitraging and cross exchange arbitraging are their bread and butter. Their action will make the market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

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

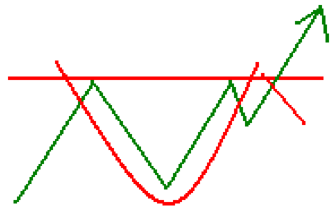
Classic Patterns



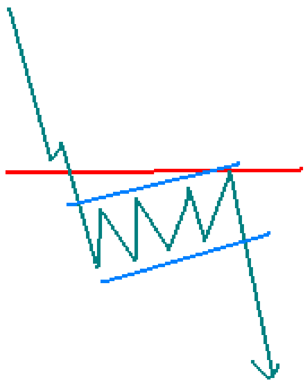
Head & Shoulder



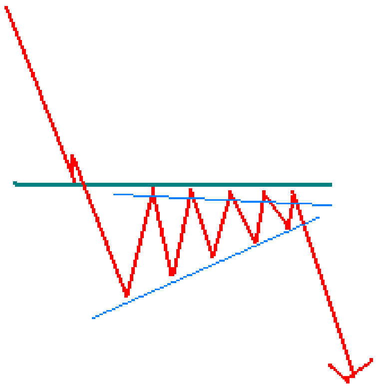
Cup & Handle



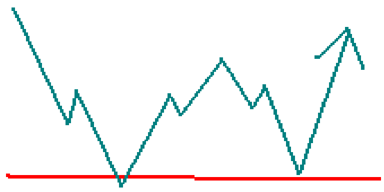
Cup & Handle



Flag



Pennent



Double Bottom

I do not trade classic chart patterns. People have written Encyclopedias on this subject. Many of these patterns can be traded, if you know where to look for them.Unfortunately many masters have no clue

Location where they occur is more important than the pattern itself. Observe closely when price hangs around a Decision Point or an important Flip Zone. You will identify many tradeable classic patterns

Frankly, yet to find a way to trade Jerry's Dragon Pattern and HPT's C&B Pattern.

Daily Dose

I am not a fan of multiple time frame analysis. Markets have no time frames. It produces a continuous stream of data from open to close. We chop it and chart it as per our own convenience. Candles and resultant patterns will differ as per the charting method.

This logic is not applicable to 'Daily' charts in respect of a day market. Here there is no question of chopping. They are for real and all the traders watch the very same levels.That is why levels like PDL,PDH and PDC attracts a lot of order flow. These are simply the High Low and Close of the previous day candle.

Every 'Day candle' is considered as a range. Price breaking out of this range is a major transition. Price moving above PDH and falling below PDL are important events. Breaking the PDH is a bullish event and a break down below PDL is very bearish.

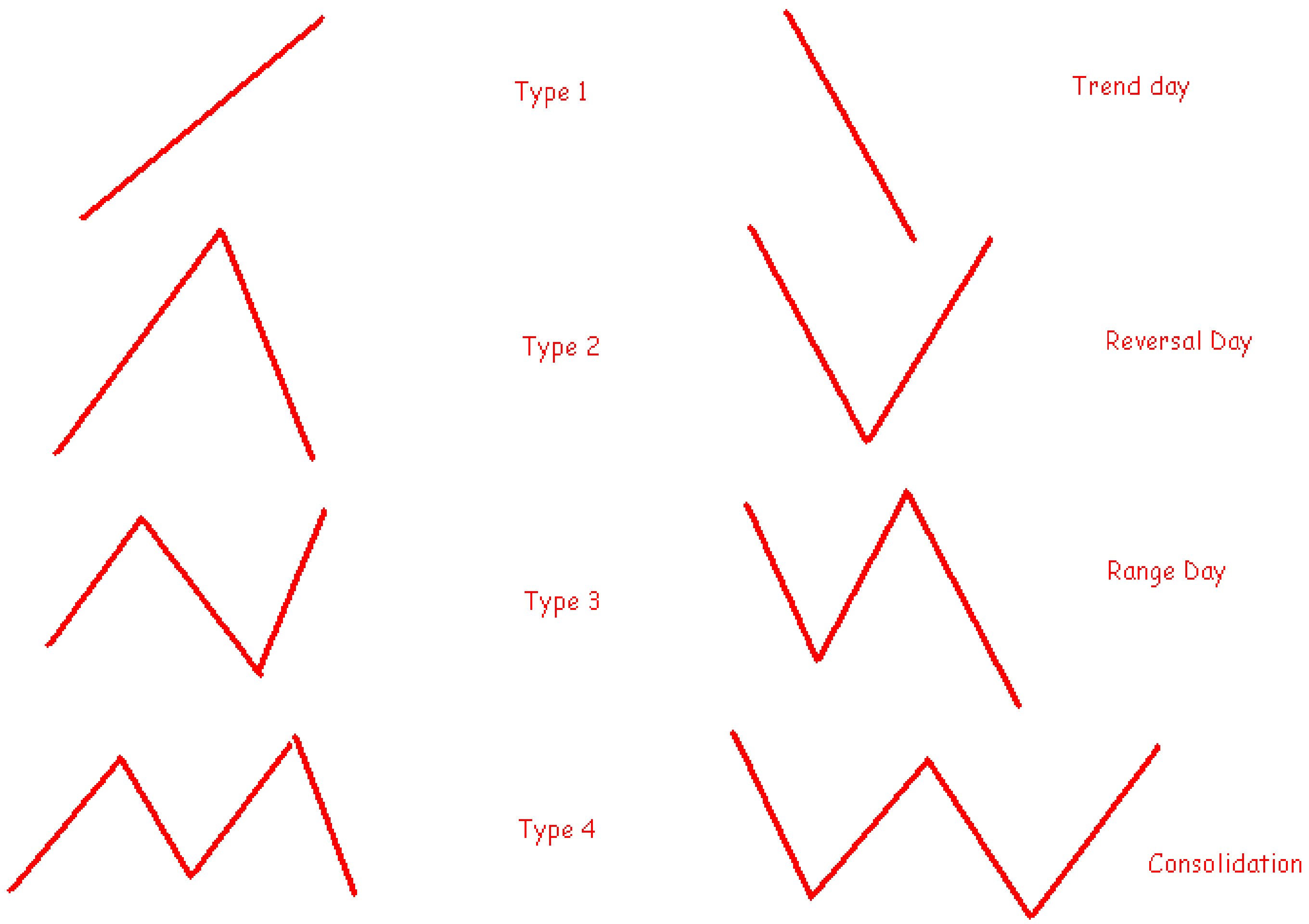
Decision Point method works well when the day traders are in control of the market and fortunately most of the days they do. But it is important to know what the positional and investor side of the market is doing and its impact on our trades. The easier way is to have a look at the daily and see whether it is in a rally mode or in a decline mode. In other words look at the micro trend in Daily chart. (Read More)

When market is in a rally mode, buying range lows can be more rewarding and in a decline mode selling range highs are preferred trades. Be very careful while shorting rallies and buying on declines. Focus on PDL on rallies and monitor PDH on declines. Break of these levels will change the trading mode.

If market trades within a candle for the next few days this will create a Master Candle and this MC may act as a range. Pay attention to the MC extremes also.

Do not forget to take your daily dose. It is very important for your financial health

Daily Trading Patterns



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

1.Type 1 days 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 follows 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 an earlier news dries up and there is no significant events to shift the market sentiment.

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

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 frame work 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 require 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. We will discuss these factors in a later post.(Read it here)

Dynamic Levels

There is too much of confusion about IR and other levels. I will try to clarify. There are two types of decision points. Fixed and Dynamic. Fixed levels are past levels which will not change like PDL,PDC,PDH,DO etc.. Big round numbers are also fixed levels.Other current day levels are dynamic which will be revealed by the on going market action.

We trade the market as if it is in a range all the time.But many times we may need to take action before knowing the exact structure. In other words we have to trade the provisional or probable ranges or stand out. What we do is to assume a provisional range and take action.Later we may need to change these levels slightly. Go through today's price action

We will never know for sure where the orders are . So we start with provisional levels and modify it later. First we identify the IR. We ignore the lower tail and mark the round number as IRL. High of the pink box is IRH. If we want to go long above IRH then there is no way but to long above this box. It is a BOF. Later the boundaries get extended to the green box.. Now there is no point in projecting the pink box to future. New levels are green box.extremes.

Likewise the purple box levels get modified to the blue box levels. There is no point in continuing with the old levels when dealing with future price action. It is not possible for me to mark all the modifications on the chart. Most of the time the final levels are marked on the chart.

Decision points are not exact levels but minor zones. Do not mark it with a drawing pen. Mark with a highlight pen. Millions of people are executing countless strategies at the same time in markets. Expect some overshoot and overlap. Please do read my earlier article Brackets and Envelops

Hope I could convey what I wanted to say without confusing you. Otherwise let me know.

Exit First

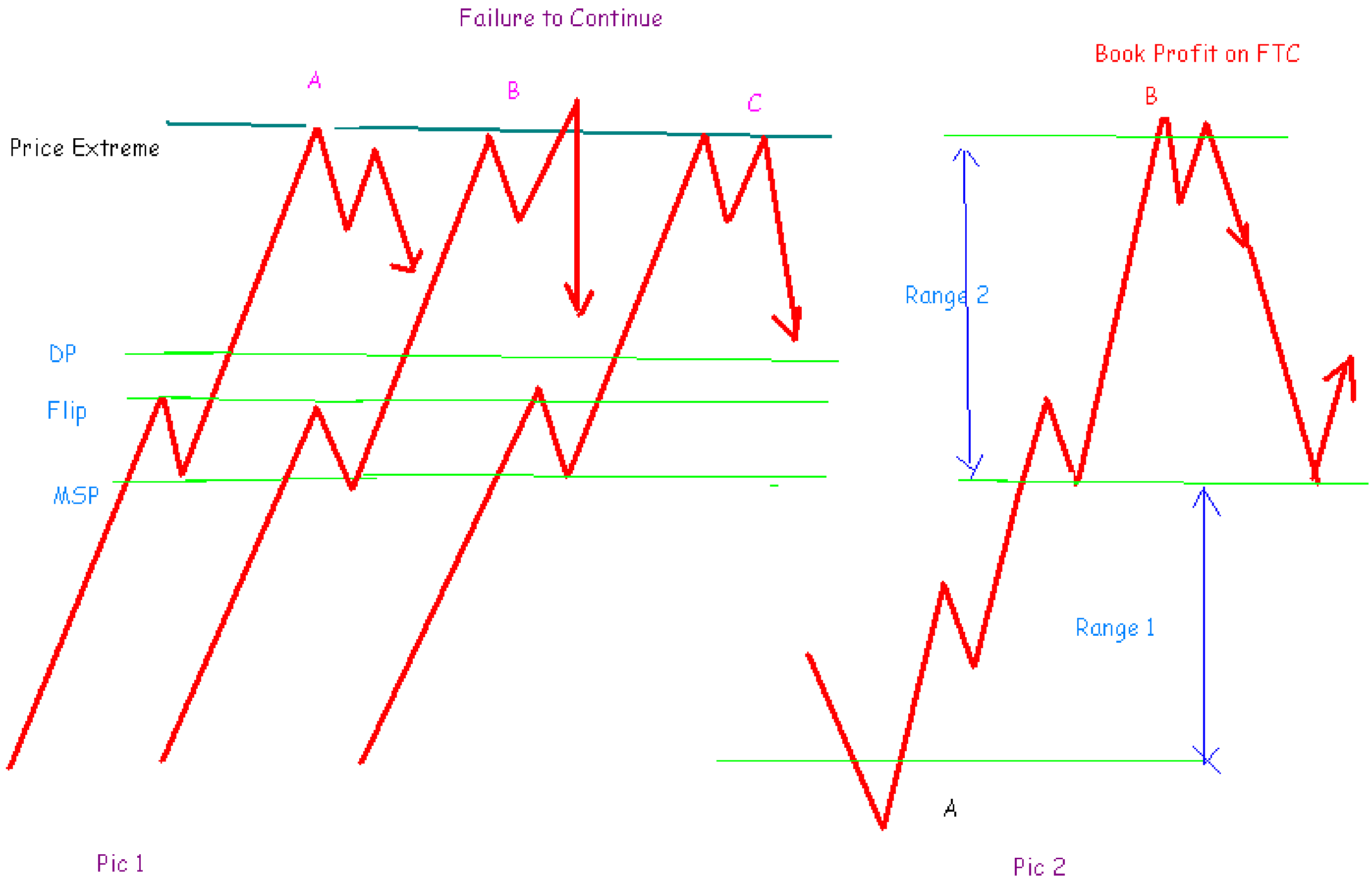
I am a short time frame" Discretionary Trader." I trade for income and not for capital appreciation and I am trying to earn my daily bread from the market.

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 favor. 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"

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.

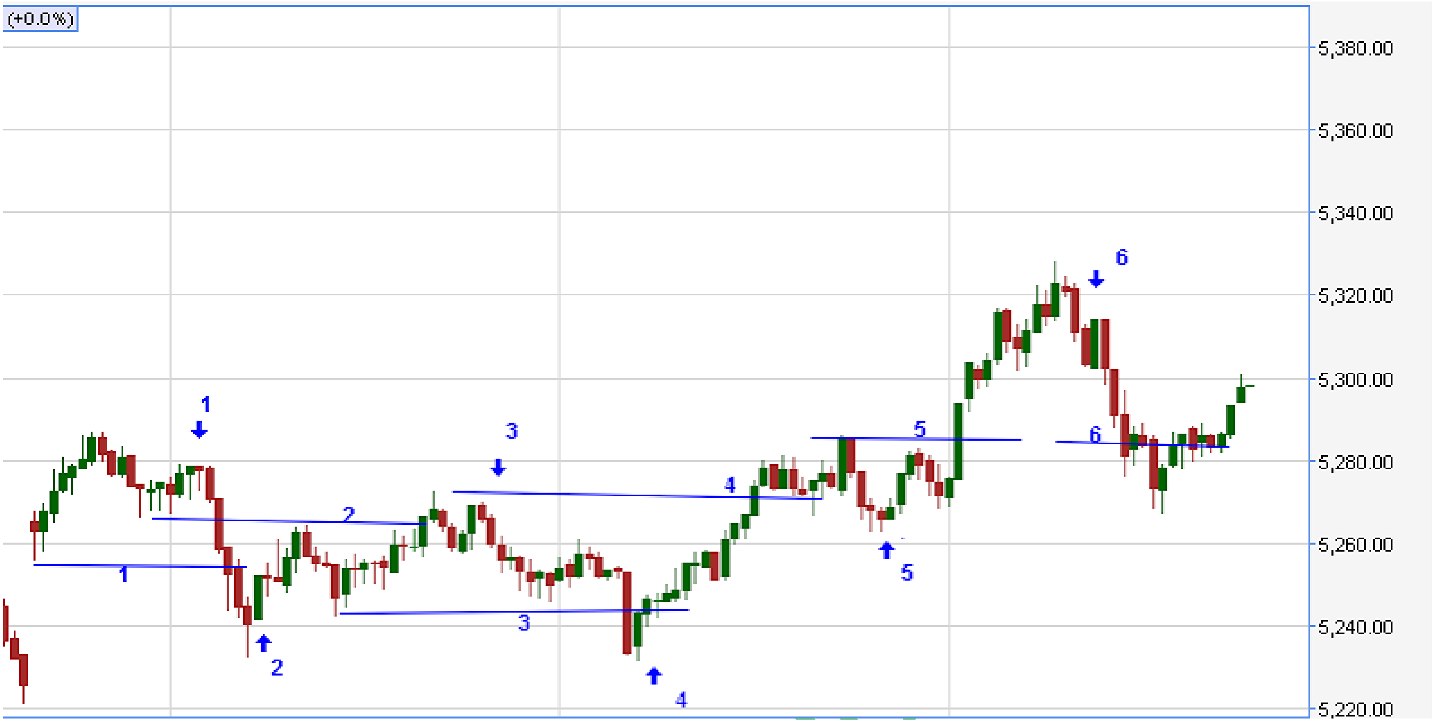
Usually we trade established levels where market reacted earlier. Sometimes market will establish a fresh extreme and change direction from there either to change trend or to establish a new range. FTC is an effort to capture such trades. FTC trades are always counter trend trades and hence relatively 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. Hope it is clear. Otherwise let me know.

First Trouble Area



FTA (First Trouble Area) is the first area that price is likely to stop and revers.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 then one such thing.

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

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”. Over night 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.

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 require 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 start 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.

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),

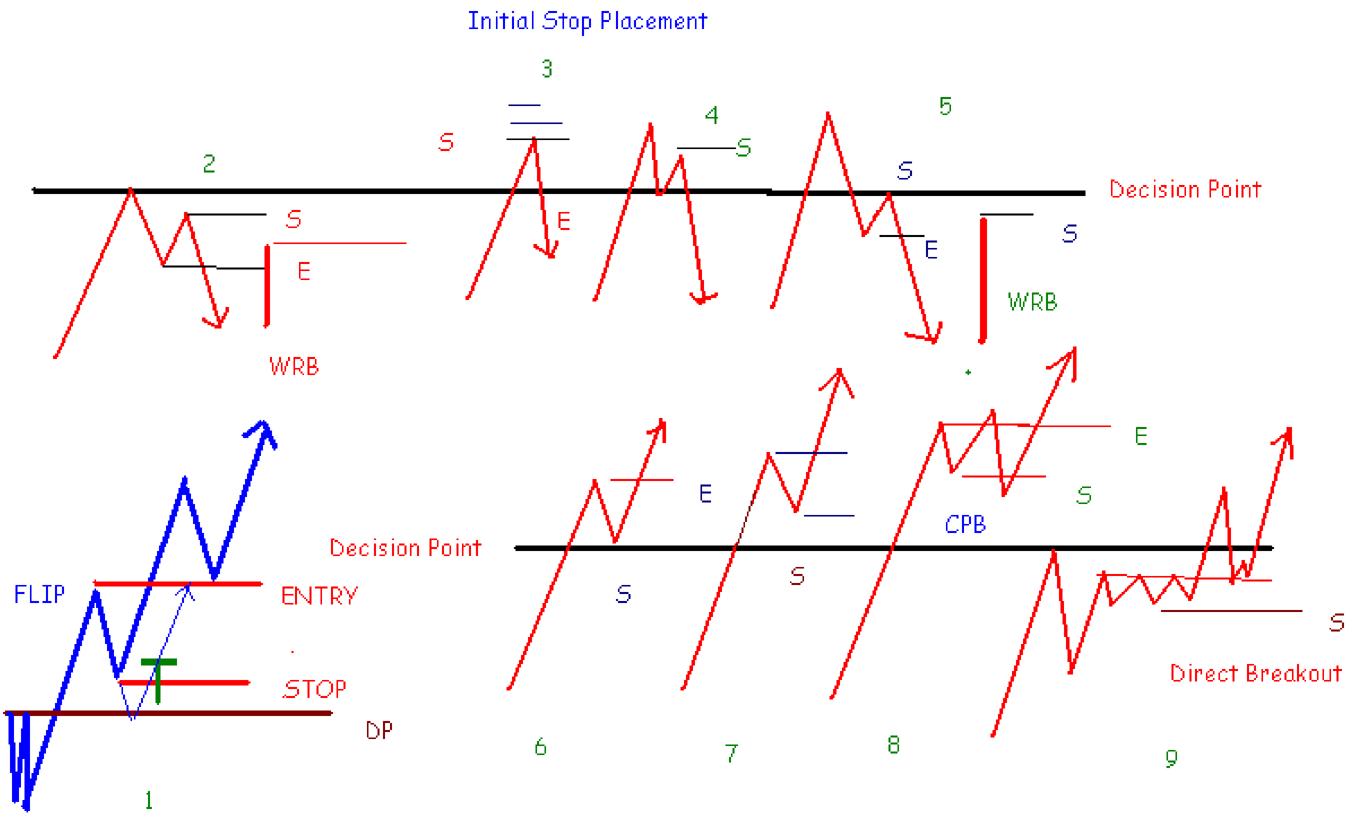
Anyway, I do not like this practice. Who are we to dictate the market to respect our own levels ? So let the market trade after open and show us its own levels and market is for sure going to respect its own levels.*Do not try to impose a time limit on the market*. It will show you the real OR which 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 are 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

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.

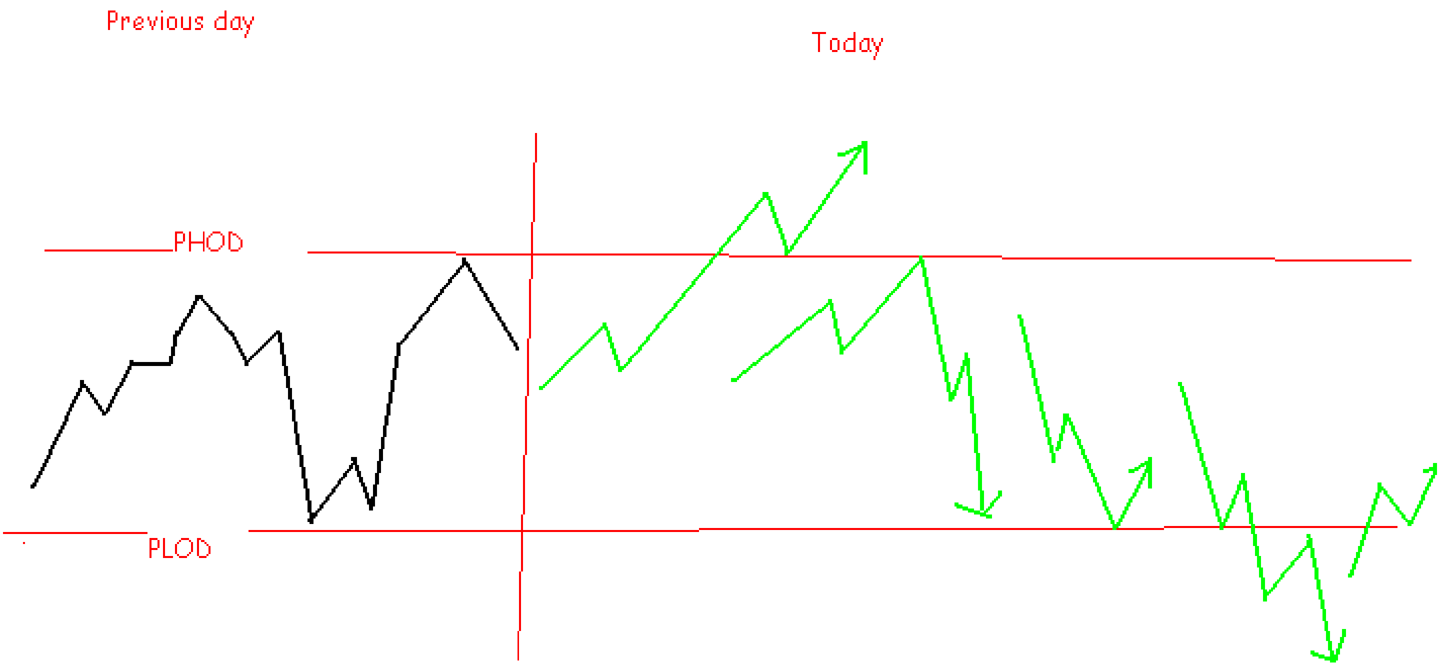
Pics 6,7 &8 relates to a BPB. As you know the ideal stop is below the DP. Alternatively it could be below a swing low. But there is always a danger of a complex pull back happening. Only way to avoid it is to have stop below the

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.

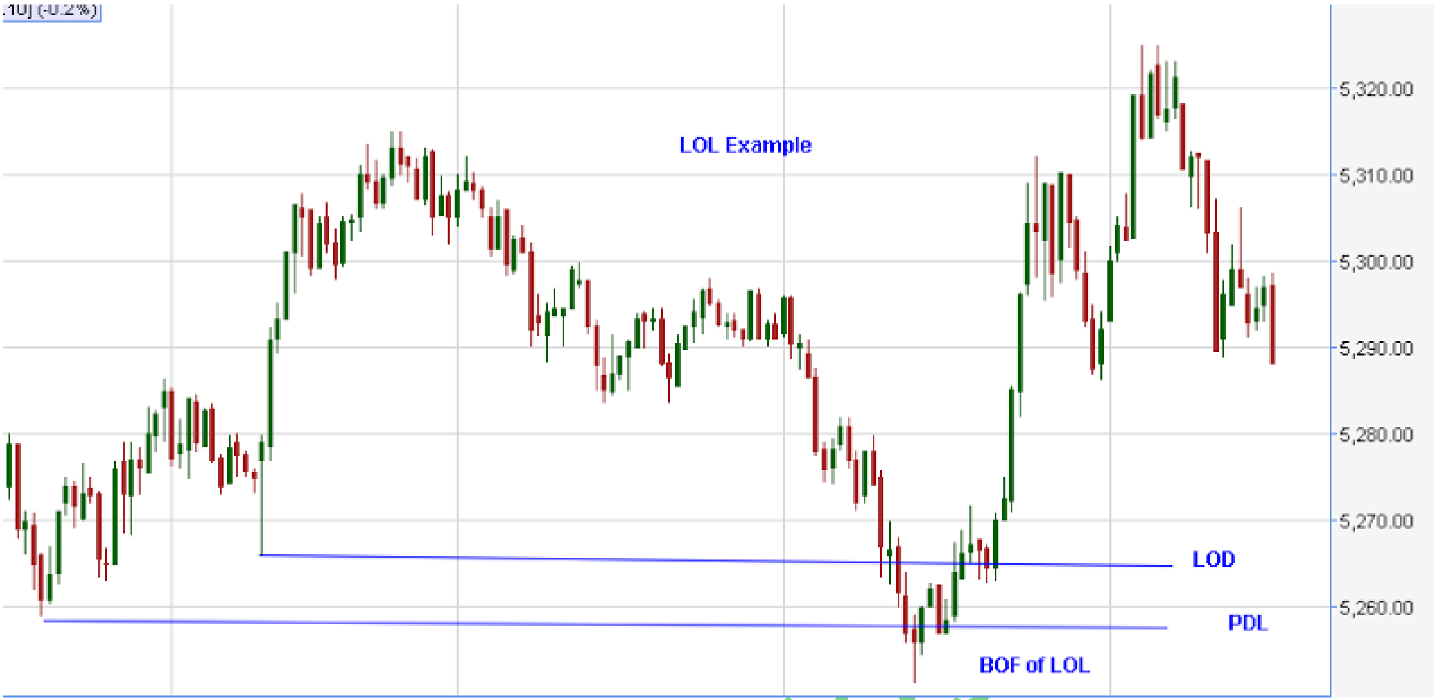
Inside and Outside Days



PHOD and PLOD are major decision points for traders. reat and trade this as a big range. Expect range bound action inside the range. Once it breaks successfully trade the new trend.

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 days 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.

Layer Over Layer



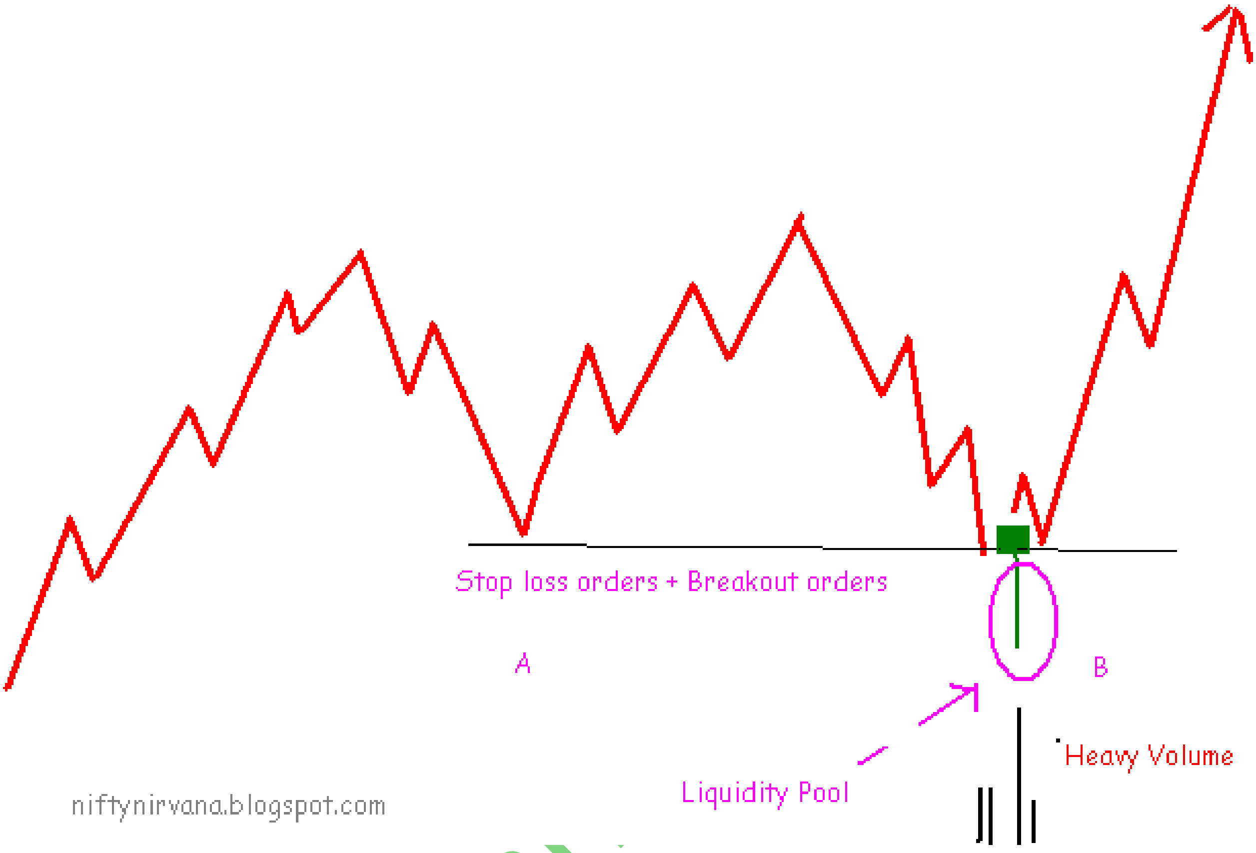
LOL, An abbreviation of Laugh out Lound is a very common internet slang.Historically it was used on Usenet and now it is widely used on electronic communication like Email and SMS.LOL secured its place on Oxford English Dictionary in March 2011.

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).

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?

This is a copy paste of an earlier post titled Food for Thought. I had posted the same question in two major discussion forums namely Traderji and Indi Traders. Go through these threads.At least you can have an idea about the quality of content in these forums.
Now coming back to the subject.I have read tons of materials on trading. So far I have not seen any authors, bloggers or traders recommending to buy at the circled area.Then who bought here ?

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.

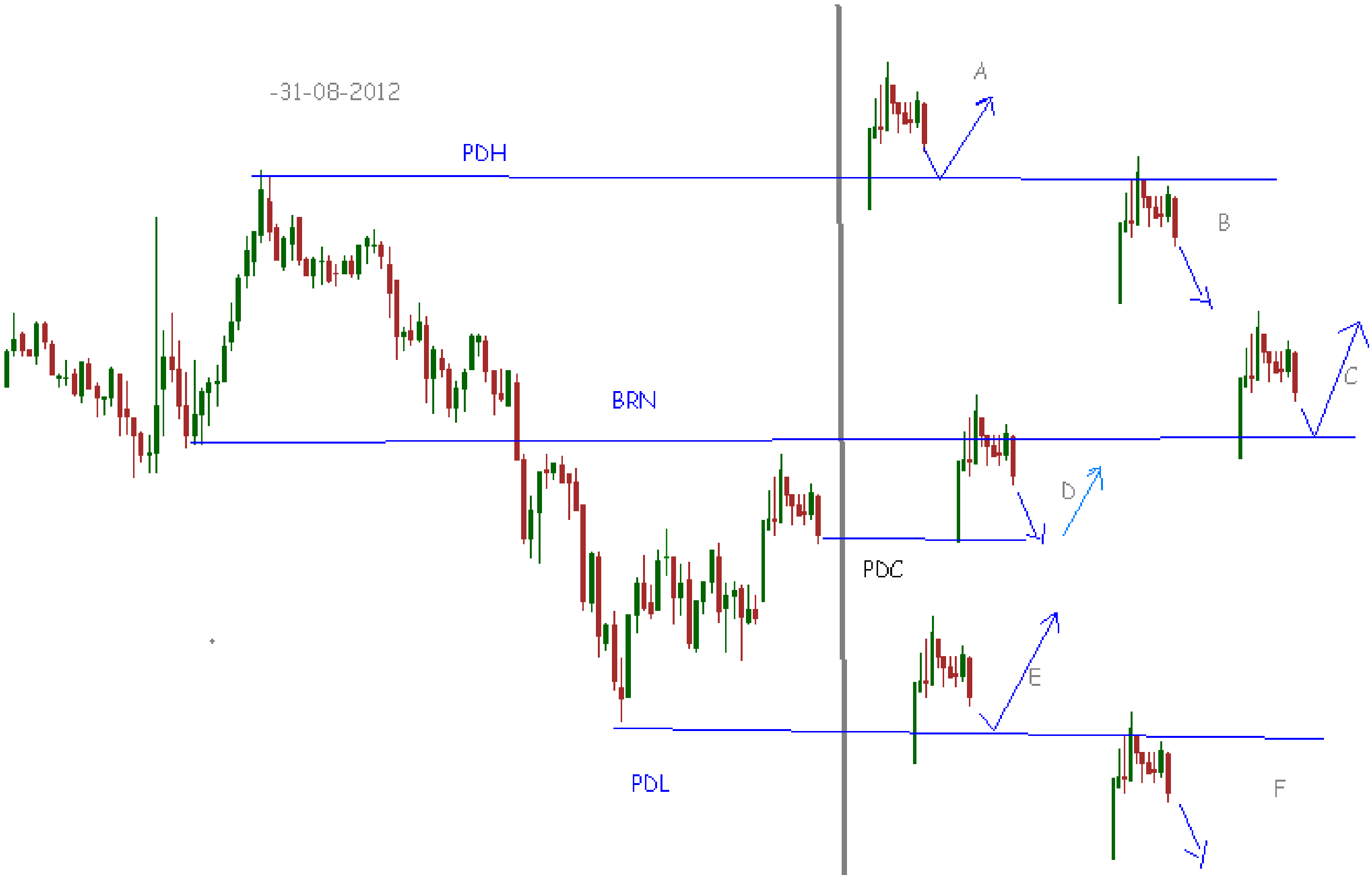
Always pay attention to "Liquidity Pools". You will get a lot of trading opportunities around these areas.

Location

I have written a short post on the importance of location where price action happens. I made this picture for that post.On the left side you can see the chart of 31-08-2012. On the right side you can see the projected 30 Minute price action for the next day as if it is occurring at different places marked A to F. Let me know your bias and thoughts in these situations. I am not going to publish the original post. Your comments are going to serve the purpose.

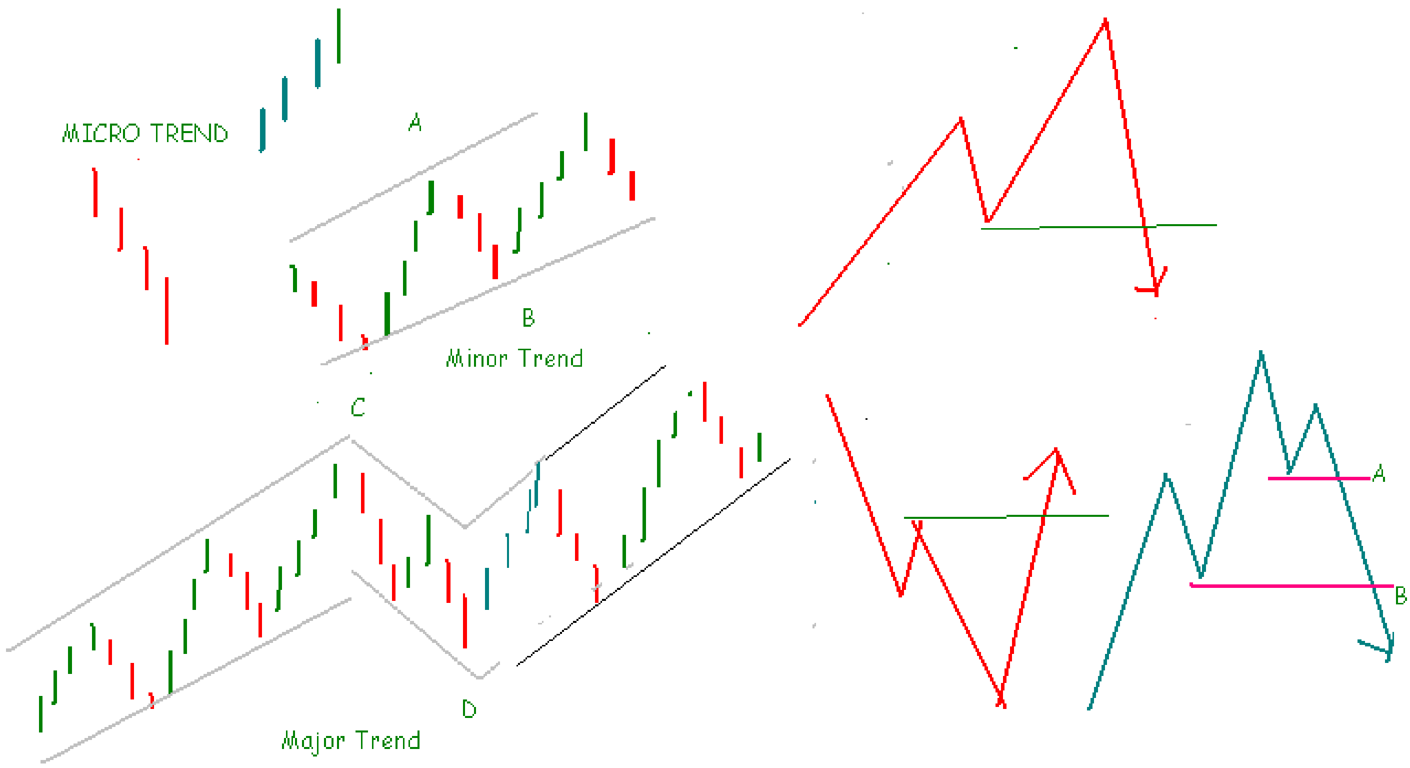
You need not write an essay. Just one line is sufficient, for example. " A-look to go long on TST of IR Low"

I am expecting good response from your side. Please do not let me down



In fact , I am a little bit disappointed with the lukewarm response. Any way happy to note that a few cared to respond.My anticipation of price action will be as per the above picture.Do not forget to notice the Initial Range and BRN.Be aware of the FTA. The very same price action occurring at different locations have different meaning and require different approach.Location is the most important thing in Price Action Trading.Location is very important not only in Real estate investment but also in trading.

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

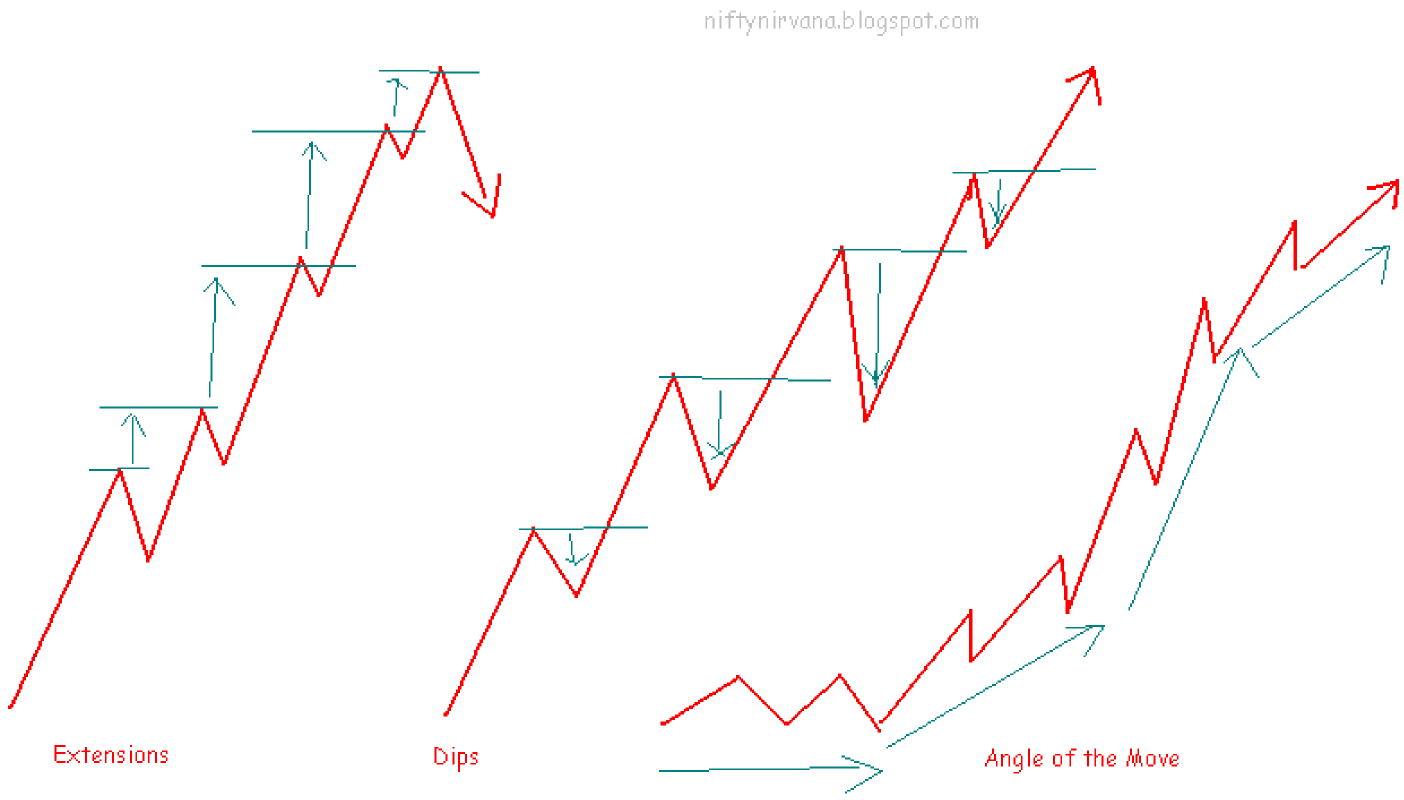
Extreme points where the Micro Trend change happens are Minor Pivots (A&B).Higher minor pivot highs and higher minor pivot lows make a Minor up trend. Lower Minor pivot highs and lows make a minor down trend.

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 up trend 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 up trend 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"

Make-or-Break Levels.



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

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

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

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

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

- Extensions. Notice how far an impulse wave moves over the previous swing high. Compare with the previous extension. If it is more, trend is accelerating.
- Dips. Watch how deep the pull backs are. Compare with the earlier one. Deeper pullbacks denote less strength.

- Angle of the move. Looking at the angle of the move we can see whether the trend is slowing or gaining momentum.

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

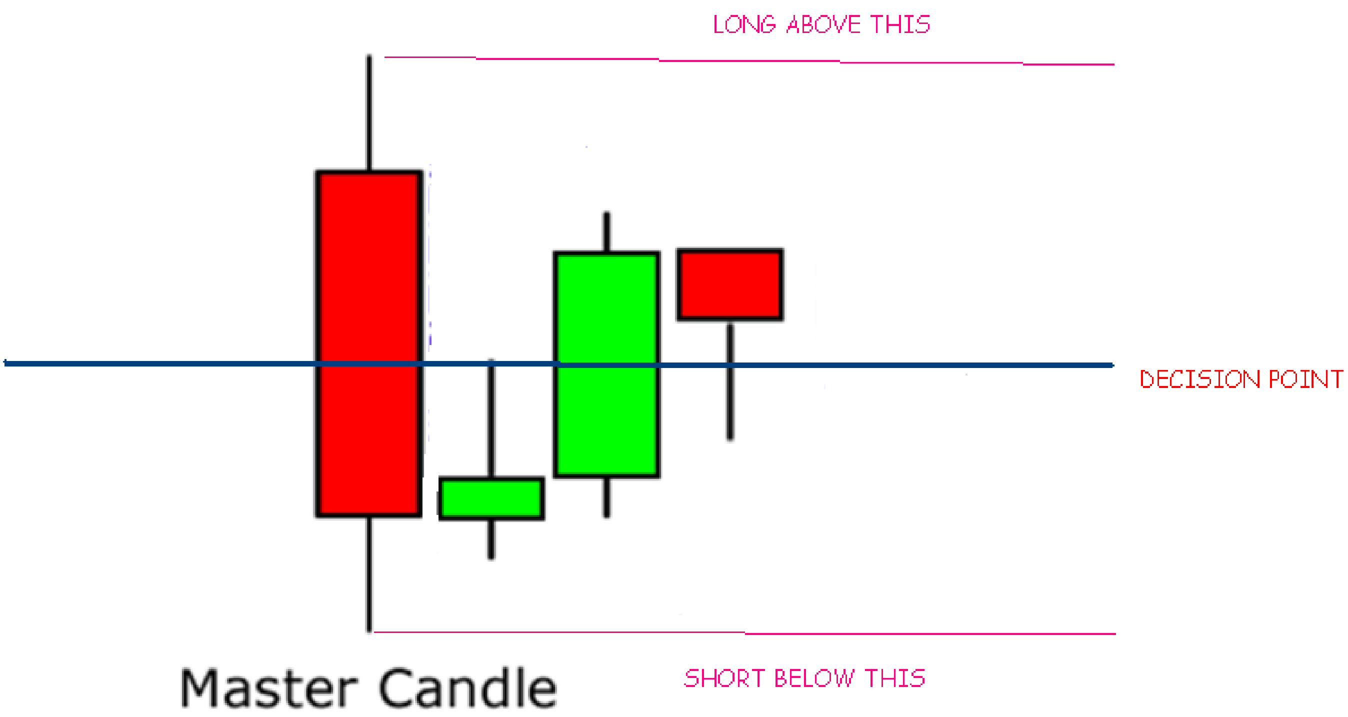
How far the move has traveled is another factor. If it has already moved 20-30 points in Nifty Futures, early entrants will start booking their profit on the first sign of a resistance. This will slow down the move.

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

Always pay attention to the details. Never ignore the small stuff.

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

Master Candle



The concept of “Master Candle” was introduced long back by a Forex Factory member called ” Furious Angel”. Later it was modified and popularized by “NickB”. He has written a small E book on the subject. The concept is very simple.

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 stand alone 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.

09012013 is a very good example of MC. Candle marked “A” is a MC .Notice how we could capture a good move down and avoid a wrong BOF trade.

Opening Price

As a general rule the opening price for the day will either be the high or low for the day at least 50% of the time.

If the market opens above the previous days close, the bias is bullish .So if it is trading above the opening price level of the day, it is potentially going up.

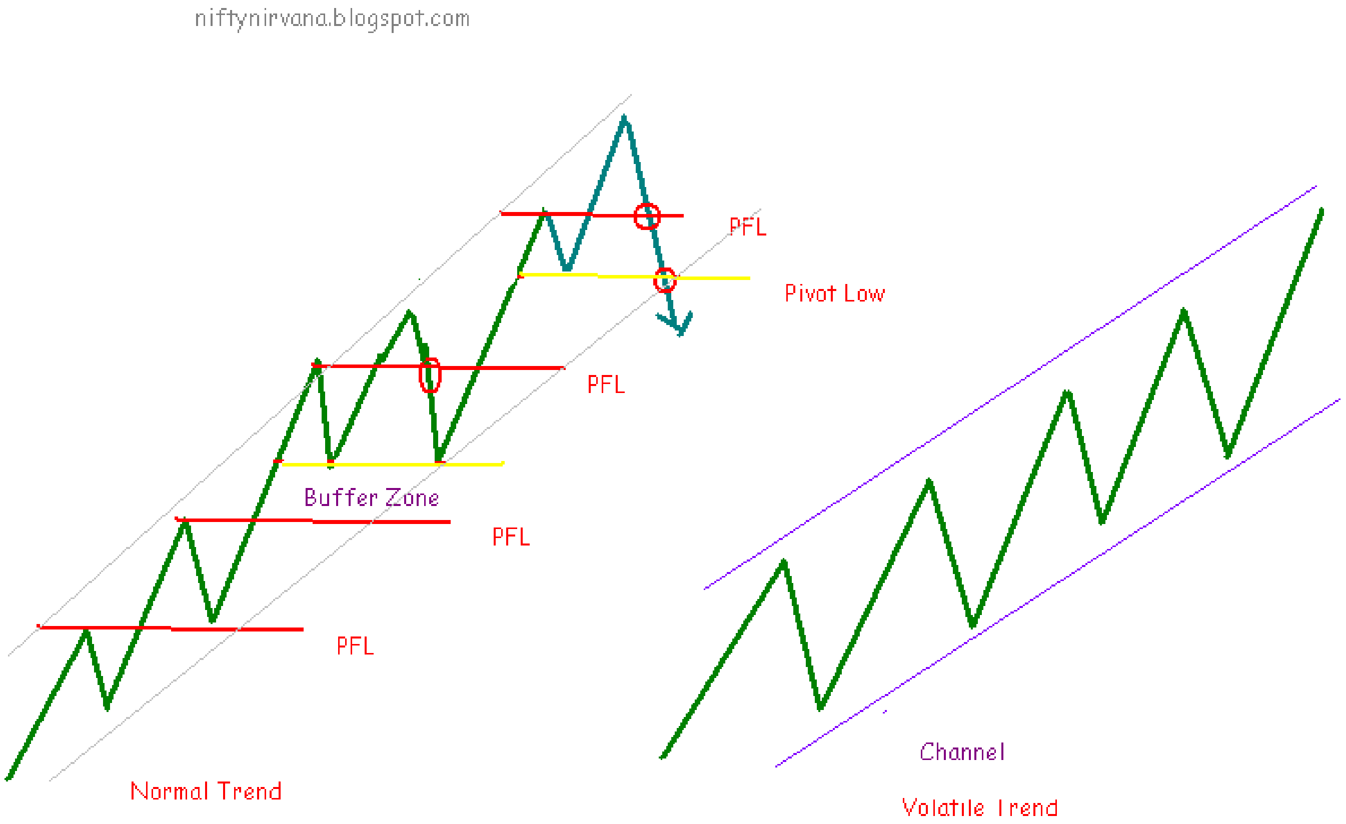
If the market opens below the previous days close, the bias is bearish. So if it is trading below the opening price level of the day, it is potentially going down.

Always be aware where the market is in relationship to the open.If the price action goes below the open adopt a negative stance and if the market goes above the open adopt a positive stance.This approach is very simple but it is also very effective as an indicator to have you thinking in the right direction.

A lot of volume will be generated in the first few minutes of the market opening based on the price action during this period.For every new position there will be an equal amount in the opposite direction. Someone has to be wrong, so what tends to happen is that if the market was for instance going down after the open, and reverses back up through the open, the traders who are short will reverse position. If the price action continued to go down the buyers will quit (by selling) and force the price to go lower.

Derivative markets move in self feeding loops

Price Channels



Real breakthrough in my trading came when I started trading the Market as if it is in a range all the time. I consider the trend as a series of range breakouts. (Read). I try to buy the lows and sell the highs (Read). But there are situations where we cannot trade a trend with this approach. This is when the price is in a Channel.
A Channel is a very difficult pattern to trade. It is like a diagonal Barbed Wire. In fact Channels are nothing but trends. Most of the traders do not correctly distinguish between a trend and a channel. I will try to explain.
Look at the above picture. You can see two types of trends. Both look like channels. You need to look closer to know the difference. First one is a normal trend and second one a volatile trend which we call a Channel.
Markets move in swings. A swing high is a minor resistance and once broken it may act as support. There is an imaginary line above each swing high which I call Price Flip Line (PFL) In a normal trend generally price respects PFL .Some times pull backs in a trend reverses before testing a PFL creating a buffer zone. A Buffer Zone indicates the trend is strong. Once the price breaks the low of the swing that made the highest high, we can safely assume the trend has reversed..
A Channel is volatile trend where price will not respect the PFL. Pull backs will reverse somewhere between PFL and Pivot Low. Be very careful while trading dynamic DPs such as HOD and LOD. Ensure that you are not in a volatile trend which is called a Channel.
If you are in a trade and riding a trend never exit before the PFL cracks and never stay in a trade after the Pivot low cracks. I have shown the long example only, but this is applicable in short side also.

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 behavior 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 favorable 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

Round Numbers

Round numbers are an under used concept in day trading.This cannot be used as a stand alone system but is very powerful when combined with any other strategy.

Round numbers are psychologically important levels. We have a tendency to round off any number to the nearest round number. This is a common trait and is applicable to markets as well.Many traders enter and exit trades at round numbers. Most of the stop loss orders in markets are at round numbers. For Nifty futures pay attention to round numbers ending 0 and 5 and always try to place your stop loss orders beyond this numbers as far as possible.

Bigger the number higher the significance. Figures ending 00,25, 50 ,75 are very important.I refer figures ending in 00 as Big Round Number (BRN). BRN of Spot Nifty and Nifty Futures are very important and they are capable of turning the markets on their own.Big players in the markets will have very large option exposures and they will act forcefully around BRN of Nifty Spot Do not forget to monitor these levels.(due to the introduction of xx50 option strikes, 50s have become important Round Numbers)

Awareness about the round numbers will help you to
a) Avoid bad trades into round numbers b) take higher probability trades.c) take profit at the right place and d) find solid stop loss levels.

This is a very simple concept , But it is very powerful and can be used in trading almost all the days.

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 stand alone 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 Behavior

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.

Scouting Party

During war, fortifications are built behind natural barriers such as hills. In open terrains battle tanks and other armored vehicles can move quickly and attack the deep defense. Impassable terrain could be used to the defenders' advantage.

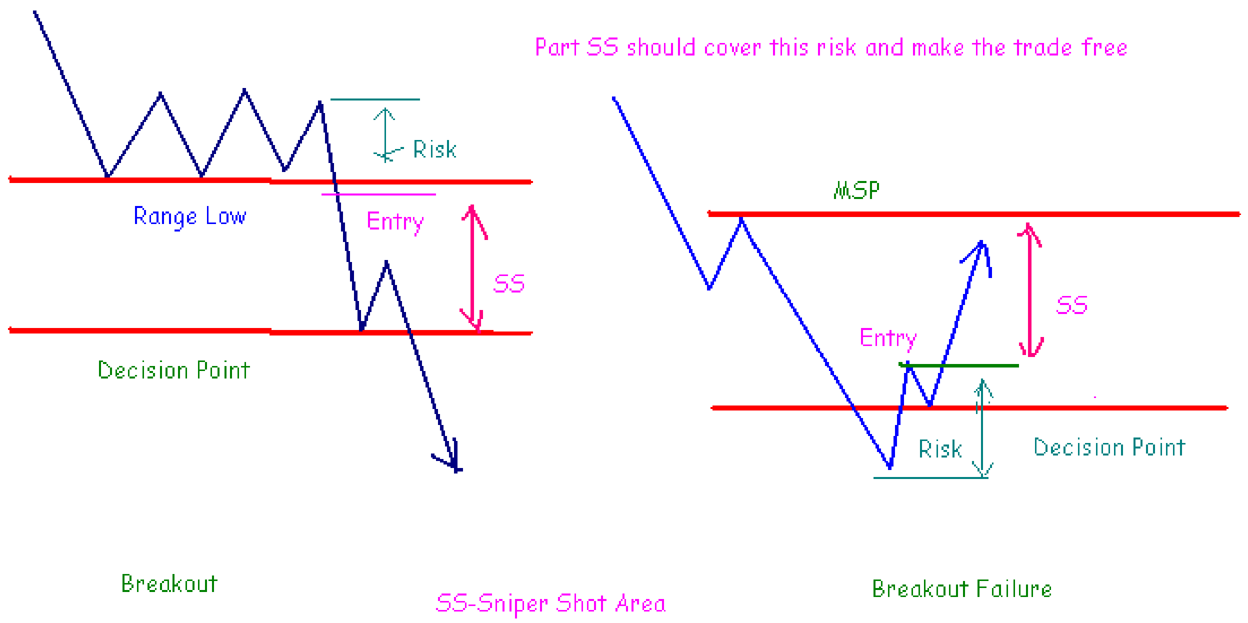
For the attacking forces, there is no way to assess the strength of the other side as they are hiding behind the fortifications built around these barriers. One of the ways to do this is by sending a scouting party. A few troops are send to get information about the area and about the enemy's movements and position.

If the scouting party find the defense is weak they signal other troops to launch an assault. If the defense is strong and cannot be broken they retreat and wait till the arrival of further reinforcement.

Trading is war. Fortifications are built behind trader decision points. You do not know what exists there. The only way to know this is to wait till a scouting party to cross the line and assess the situation. Listen to their signals and act accordingly.

BOF and BPB are much more reliable signals than TST and FTC

Sniper Shots



Snipers are highly trained marksmen who operate from concealed positions and target the most important enemy personnel to cause maximum disruption. The word sniper originated in 17th century British India referring a hunter skilled enough to hunt the elusive bird “Snipe” Hunting a Snipe is considered almost impossible due to its erratic flight pattern.

The key to Sniping is accuracy which applies to both the weapon and the shooter. The sniper must be skilled enough to accurately estimate various factors affecting the bullets trajectory. Mistakes in estimation may seriously impact the accuracy.

“Sniper Shot” is a very short term trading technique which uses the accumulated orders at a certain point to make a quick profit. The only skill required is the ability to identify a location on a chart where there are enough orders once triggered can cause a quick move of 12-15 points. In other words the target is never beyond FTA.

This is a no brainer method. A do or die task. There is no time to think analyze or manage the trade. This method can be traded as a stand alone method or in combination with other methods. We skip many breakout trades as we do not find enough space for the trade to move. This method can be utilized in such situations

The tactic differs a little. Fist you have to identify your breakout entry and the target. Ensure a minimum space of 12 points so that you can make a minimum of 10 points after commission. Now you have to place two orders (For long trade). A stop loss limit buy order for your entry and a limit sell order at the target. Just wait for the breakout to happen. If there is enough order flow as you expected you will be in profit. If the breakout is not moving as you expected, get out

If you are not very sure about a normal trade moving and suspect some opposing order flow at FTA , try it in two parts. Treat one lot as Sniper Shot to FTA and leave the other to run eliminating your risk.

But there are certain dangers. There is a very high probability of market jumping your entry order and triggering your exit. If an explosive move happens we will be in real trouble. We will end up holding a losing position.

We must be very careful to cancel the remaining orders. Otherwise these may execute at a later stage. Another problem in trading such methods is that we will end up taking these kinds of trades always. We will never let our winners run. Now regarding stops, as far as I know there is no way to place an early stop.

I have not traded the method live to assess other pros and cons. ***Please note that my intention is not to change the current method which works very well but to make use of this as something supportive***. Think about it during the weekend and let me know your feed back

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.

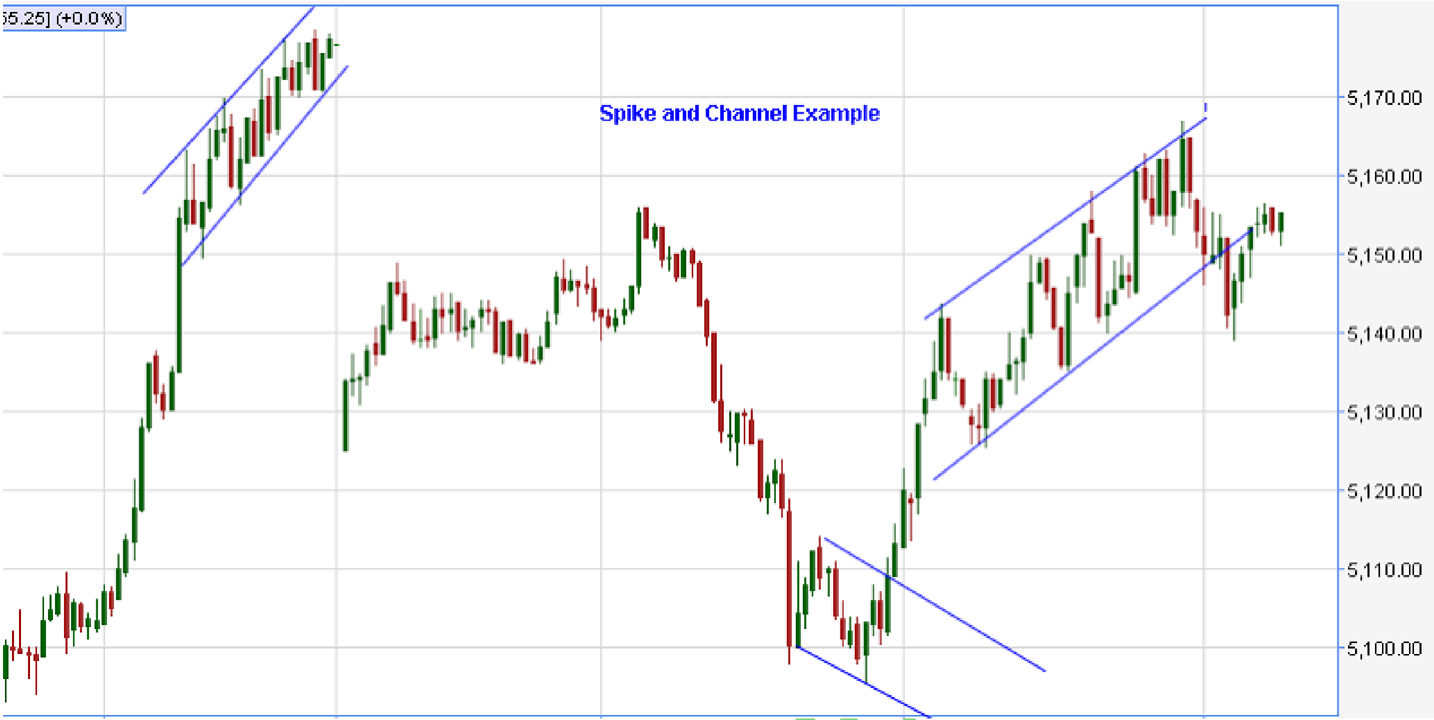
In fact this is one of the most important things to consider when entering a trade. Price takes the path of least resistance. Most of the time the First Trouble Area will give some opposing order flow and cause the price to stall. I have written a post on how to deal with FTA earlier (Read)

Most of the time the space between entry and FTA will not give us a favorable 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.

Spike and Channel

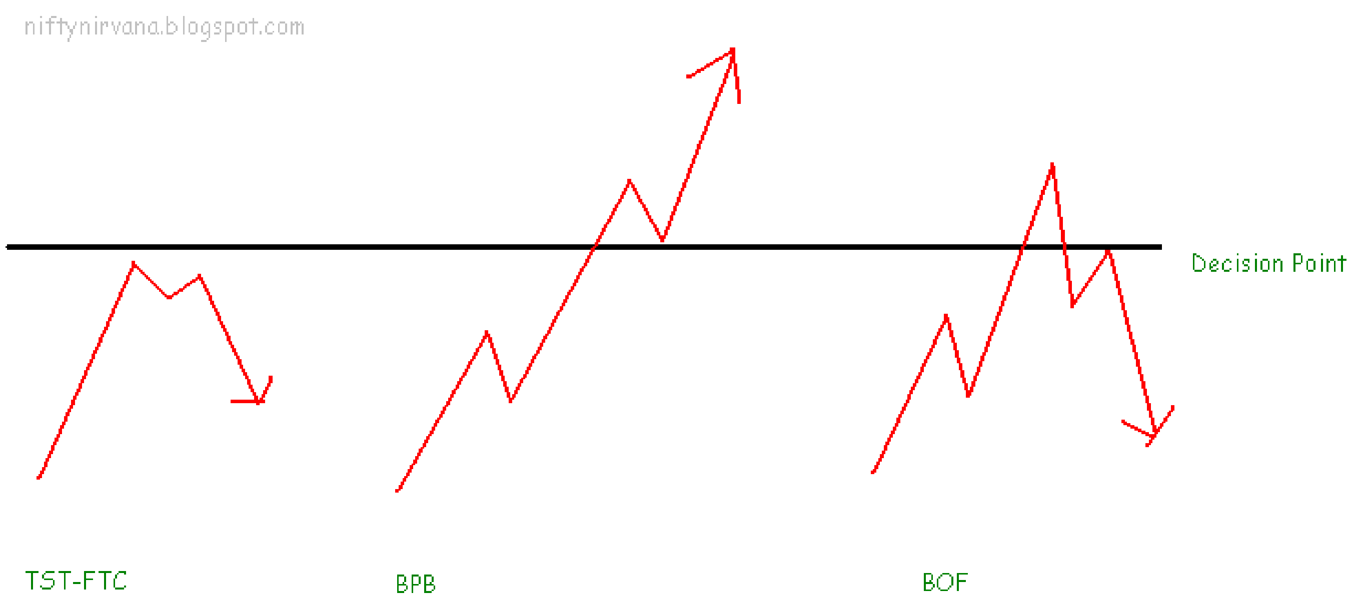


In an earlier post , I had written about a dangerous patten called "Barbed Wire" formed around decision points.. Unless you identify this pattern earlier, you may get whipsawed left and right before you know what is happening."Spike and Channel" is another dangerous patten. If it happens immediately 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.

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.

I have only given the long examples These can happen in short side also.There are other factors to be considered while trading these setups. like Strength of Trend,Strength of the DP. Price action at the DP , distance to the next DP level etc. I will try to explain these factors later.

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

Trading Plan

"Plan the trade and trade the Plan" is perhaps the most common advise given to traders. Planning the trade is very easy. But most of the time 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 defense)
- 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

Finally the most important thing. Always think order flow. Learn to identify locations where other traders are likely to keep their orders. Try to position yourself to take advantage of this accumulated orders

Your suggestions are welcome for improving the template

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

I am uploading a few charts. Click to view them.(Remove tick at use download manager) Please do give your valuable feedback. I welcome your views, suggestions, comments and criticism.

Thanks

UR Dave

tradingblisspoints, a regular visitor of the blog has shared another interesting observation about MSP. You can read the post in his own blog. Click to read

Trend Days

Trend is your friend till it bends. All trading methods barring few option strategies need directional price move. I have written about the importance of trading with the trend in an earlier post (Read).Even though my trend definition is different from the conventional one (Read) , as far as possible I do try to stay with the trend.

Statistically, Markets trend one out of ten days. These days are called Type 1 days (Read)where market moves all the day in one direction and closes at an extreme. If we are able to enter early on a type 1 trend day, we can really make our whole month.. There are certain advantages trading these moves. Due to high directional conviction, these days offer very high probability setups where we can size up our positions and also avoid getting caught on the wrong side.

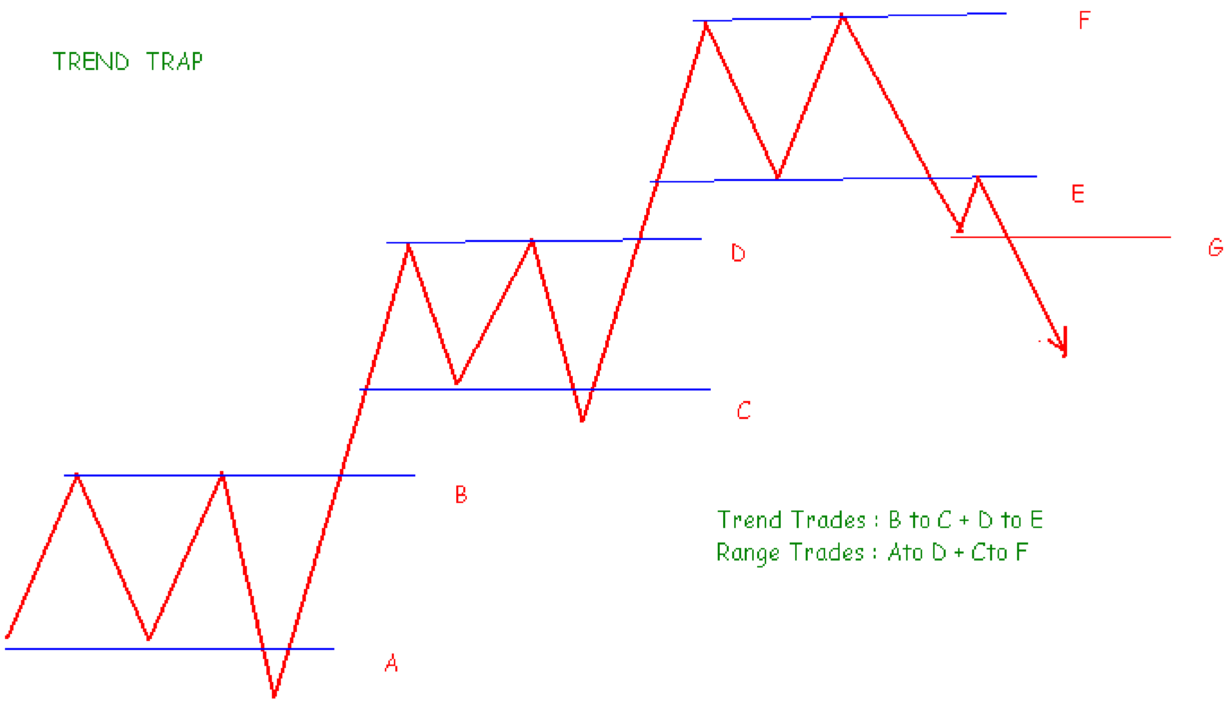
These days are very dangerous also. Being range bound traders our tendency is to fade the moves. Unless we identify the trend days earlier we will get killed, trying to fade these moves. Is there a way to identify these days earlier?

Sure. There are certain clues that may warn us about a trend day..

- Usually Asian Markets influence the open. Strong move against other Asian Markets at open shows directional conviction.
- Breakout from a range can trigger a sustained move. Pay attention to higher timeframe ranges also. Open above or below the previous day range may move further
- Large opening gap can trigger an extended move. Market may channel after the gap. Counter trend outside gaps are very reliable as they trap positional traders.
- We must pay attention to above average initial volume. This could be due to the activity of Investors and higher timeframe players entering in a big way.
- Earlier low volatility, narrow range days. There could be volatility expansion after the prolonged compression. You might have read about NR4 and NR7 concepts.
- Day after type 2 reversal days. Type 2 days are reversal days. This happens when 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

As you know, there are no certainties in Markets. We will do well if we pay attention to these signals regularly.

Trend Traps



In my humble opinion, trading trends on smaller time frames is a recipe for disaster. I have lost a lot of money trying to day trade trends. Trend following strategies will only work when market trends the whole day without any consolidations. That is only on type 1 trend days. But this rarely happens.

Market moves in short term ranges. For me a trend is successive higher or lower ranges. This change in perspective totally changed the way I traded the Markets. I have written about this concept here, here and here.

I will try to explain this concept a little more. Do not expect the price action to be picture perfect. Hunting for the patterns may not work. But I feel the concept will be very helpful in your trading, especially if you are day trading.

Look at the picture. It is the day's price action. Market trended from A to F and reversed. Now let us see how a trend trader might have traded it. Market was ranging between A and B. He enters on the breakout of B. Price goes up to D and consolidates between C and D. This trader brings his stop below C. A Complex pullback or a Breakout failure stops him out and market moves up. He again enters at D on breakout and gets stopped out at E. After this he will most probably miss the reversal entry at G.

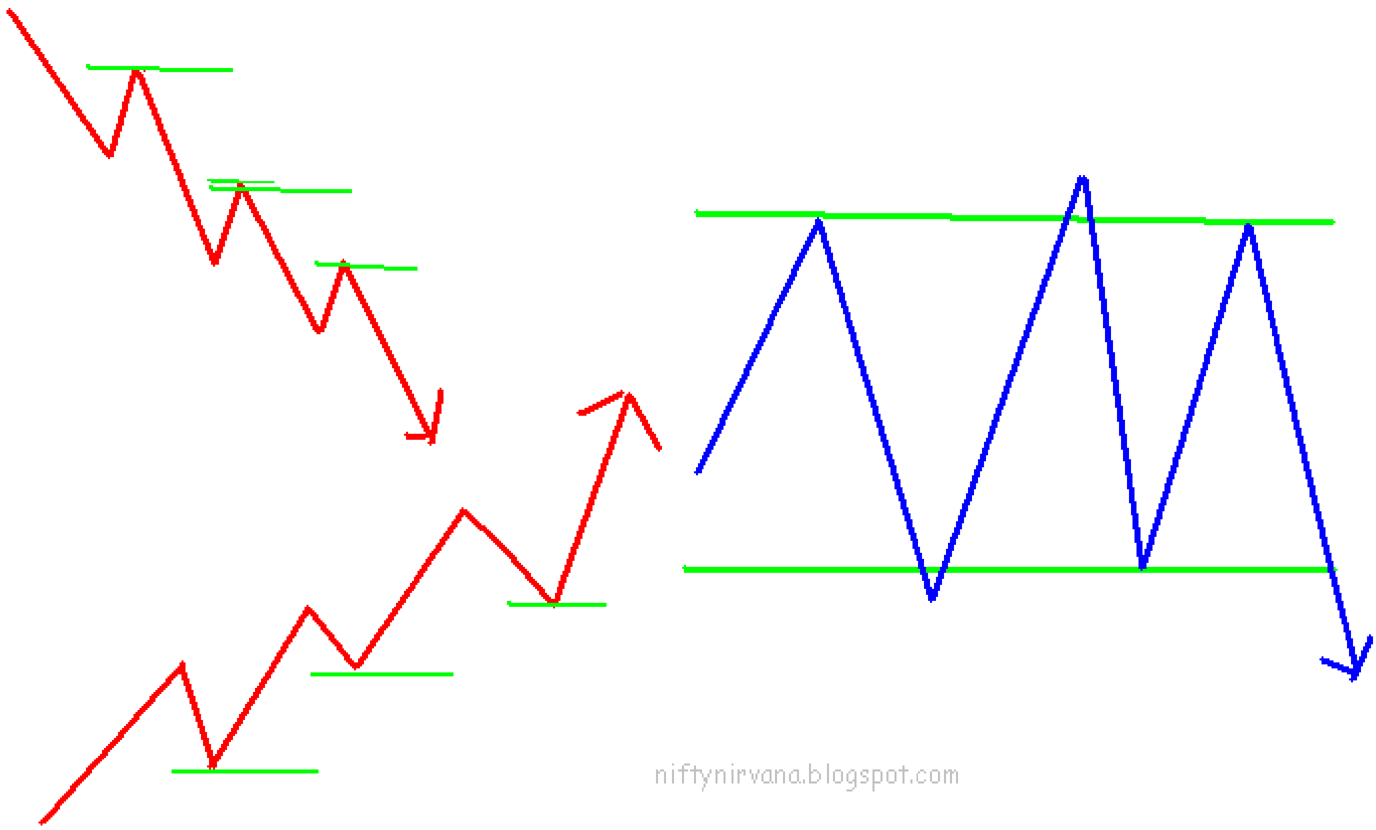
As range traders we are trying to do it differently. We try to sell the range highs and buys range lows. In the above example we are trying to enter on the BOF of point A and ride it till point D where price move exhausts. We exit at D and allow the market to consolidate. Then we look for a with trend entry at C. Another BOF at C may take price to F where we again exit. Once price breaks below G we go short.

Trend/Breakout traders most probably end up capturing B to C and D to E, where as we attempt to capture A to D and C to F. If it work well we will end up capturing more than the whole trend, that is A to F. Further we try to fade the range extremes for small gains. Most of the time we will be able to catch the move down

Our success as a trader will depend on our ability to transform such ideas and concepts into actionable trading tactics and of course on our ability to efficiently execute such tactics. Unfortunately creativity and imagination is in short supply.

Hope I could convey the concept well. If you have any doubts feel free to ask.

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

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.If 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