

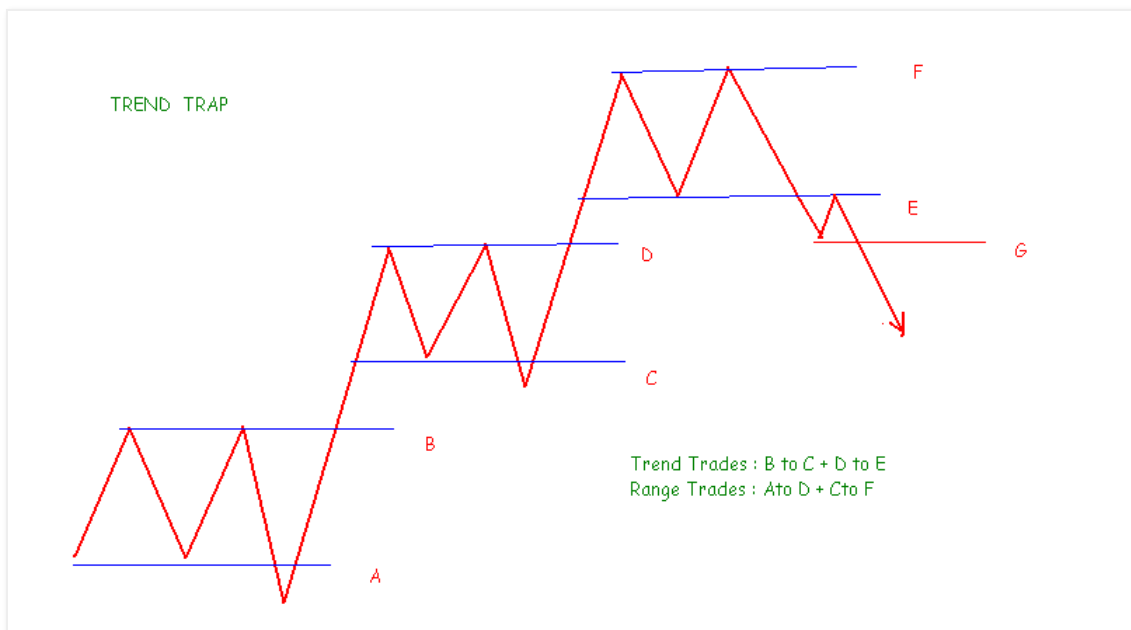


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*There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits*

Saturday, June 28, 2014

## 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.

## 17 comments:



**Trekkie** June 29, 2014 at 7:28 AM

Hi ST,

Thank you for the clear overview of price movement. This gives a nice overall perspective.

Reply



**Unknown** June 29, 2014 at 11:23 AM

ST Sir,

Thanks for this informative writeup.

Regards,  
KSG

Reply



**amber** June 29, 2014 at 11:29 AM

Sir good morning and a nice writeup thnx

Reply



**PA Trader** June 29, 2014 at 1:43 PM

As range traders, once you have entered the BOF at A, shouldn't you be coming out at B, expecting the range AB to hold? Because if you are not coming out at B, you are then hoping for a trend. Then once you have exited at B, then maybe wait for a BPB long at B, which would serve as the lower boundary of the next higher range.

Reply

▼ Replies



**SMART Trader** June 29, 2014 at 2:23 PM

Usually BOF of a range high will lead to the BO of the other range extreme.

If a BOF at A happens don't exit the trade at B in a hurry. Many times price will consolidate around B and make an explosive BO. Decision cannot be taken in isolation. It will depend on the trend and how the critical mass is positioned

Look at the 26062014 chart as an example. It is a good example on short side. Our aim is to capture IRL > Range Low and Range High > BRN. Trend trader will enter at IRL and get stopped out at Range High. He may go short again at Range low. Knowing when to hold and when to fold makes all the difference in a discretionary method. There is no substitute for screen time experience.

ST

Reply



**vikram** June 29, 2014 at 4:43 PM

You have explained it very well. In fact, using SAR would incur further losses with going short at A and keeping point B for reversal, then keeping C as SAR and so on... The only problem with day trading is that it is difficult to do with the full time job and we can not leave the job till we learn and earn consistently....

Reply



**nifty for bread** June 29, 2014 at 4:59 PM

Sir,

If we have to go Long at A or any established Range Low, there must be a BOF. In the absence of BOF at A, we may go for a direct BO, (if there is sufficient order accumulation, space and fluidity) or BPB at B. So the main difference seems to be in recognizing BOF and the forthcoming up move and jumping in very early.

In the absence of BOF, there is not much difference between trend traders and Range traders like us, if I may call so. Request you to correct me, if my understanding is wrong.

Thanks,  
S.Karthikeyan

Reply

▼ Replies



**SMART Trader** June 29, 2014 at 5:48 PM

SK

A range trader can trade the ranges by fading the extremes with very low risk

Look at the last two trades of 25062014. We traded a 15 point range without any damage to the account even though trades did not move as expected. We can trade the ranges provided it is wide enough. BOF is not compulsory. We can attempt with the trend TST trades. But a BOF increases the probability much more due to trapped trader order flow.

Basic assumption is very simple. Market ranges more than 70% of the time. We try to trade the ranges buying low and selling high, but always prepared and ready for the BO of other extreme.

ST



**nifty for bread** June 29, 2014 at 6:07 PM

Sir,

I had tried to oversimplify it, shifting the focus to BOF, away from the core concept, being discussed. Your reply, especially the last 2 sentences have given the much needed clarity and put things in the right perspective.

Thanks for the guidance.

S.Karthikeyan

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Reply



**Unknown** June 29, 2014 at 7:44 PM

Thanks ST for the post.

Can i say after this write up that you are more inclined towards BOF compared to a direct BO??

TBP

Reply

▼ Replies



**SMART Trader** June 29, 2014 at 8:32 PM

I am more inclined towards BOF than direct BO not after this write up, but from the beginning  
I never traded direct breaks earlier. I was trading the three patterns  
<http://niftynirvana.blogspot.in/2012/04/my-trading-revolves-around-trader.html>

Later I found I am missing some good moves by avoiding BO trades altogether. So started trading IR breakouts and pressure plays selectively  
<http://niftynirvana.blogspot.in/2013/05/pressure-plays.html>

Later I wrote this not to consider this as a BO trading method  
<http://niftynirvana.blogspot.in/2013/10/breakout-blues.html>

ST

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Reply



**Unknown** June 29, 2014 at 8:57 PM

Thanks ST

Always a delight to read these posts. Thanks !!

I have sent u a mail.

Kindly check when time permits

TBP

Reply

▼ Replies



**SMART Trader** June 29, 2014 at 9:16 PM

TBP

We are trading the acceptance and rejection of price at decision points  
BO of a DP is just an attempt by the price to cross over to a new area.  
We will never know for sure whether price will get accepted or rejected.  
That is why BO trades are riskier and premature entries. But if you get them right you will get rewarded well

ST

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Reply



**Rahul Solanki** June 30, 2014 at 3:43 PM

Good information for all traders and i hope this will continue them

Reply



**Uday Dave** June 30, 2014 at 4:12 PM

ST sir,

Very good article. I have too experienced trend trading intraday a disaster. Range trading is the only answer for a successful day trading. Today's price action is a good example of Trend Traps and I have made a small post on the blog about the same. Please have a look.

Thanks  
URD

Reply

▼ Replies



**SMART Trader** June 30, 2014 at 4:29 PM

URD

Nice one.Thanks  
But the ranges should be wide enough to initiate trades  
Factors like Space, Risk,Order flow,Critical mass, Trend etc should not be forgotten.

ST



**Uday Dave** June 30, 2014 at 4:42 PM

Sir,

Yes sir. Range should be wide enough and other factors are also important. They are always kept in mind.

Thanks  
URD

Reply

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