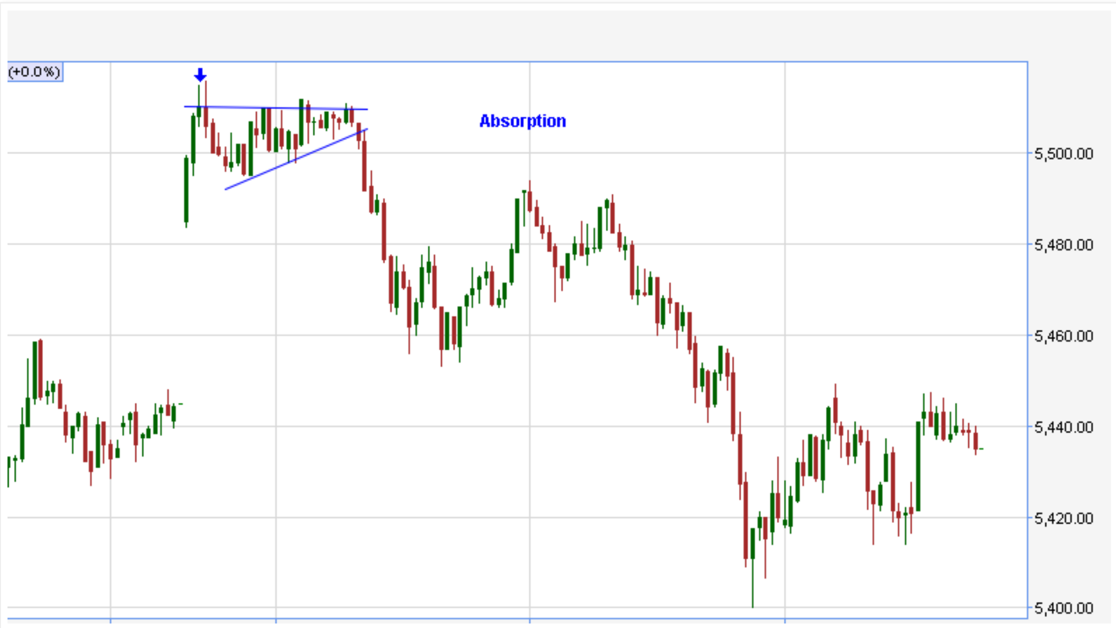
There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Wednesday, February 29, 2012

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

Posted by SMART Trader at 11:40 PM

4 comments:

Anonymous June 21, 2012 at 9:59 PM

What has happened IMHO is not absorption, but "distribution". But volume would have given more clues to it. Without volume, chart is incomplete. Further, traders would have exited the loosing position

1. Firstly upon the break of the lower boundary line of triangle.

2. Secondly upon the break of the large range green candle

3. Die hard optimist/bull should have exited upon the break of upper boundary of the gap, i.e. low of the leftmost large green candle after gap opening.
R. S. Iyer

Reply

SMART Trader June 21, 2012 at 10:33 PM

RSI
Thanks for the comment
1 2 and 3 happened after the fall started. It could be distribution.Bias was clearly bullish and somebody was selling into strength. Anyway large sell orders existed at the point for sure.

Frankly, I do not look at volume.I do not think charts are incomplete without volume.Volume is totally irrelevant in Forex.

ST

Reply

Ramesh Ramachandran August 9, 2012 at 7:45 PM

Volume is very important. If you will observe the volume information you will notice that
a) Very High sustained volume upmove of 30 points
b) Each attempt at the days high is with lower and lower sustained volume
c) If intention is for making higher high and one test of top fails then Nifty should pullback to stronger support. This does not happen
d) Nifty Future makes a 1 lac high volume attempt to take out the high but no follow up high sustained volume.
e) And finally when Nifty Future starts to break the support it is with rising high sustained volume and high volume level break outs

You have posted original content on your blog. But you cannot ignore the tick chart with volume information.

Reply

SMART Trader August 9, 2012 at 9:58 PM

Rameshji

Thanks for the visit and comment. good analysis. Usually I do not look at volume except on BOF. In case of BOF, I look at volume to ensure a lot of traders get trapped.Need to learn something about volume

ST

Reply

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