

The Inner Circle Trader

ICT Monthly Mentorship

November 2016 –

ICT Mentorship November Study Notes

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The possibility exists that you could sustain a loss of some or all of your initial investment and, therefore, you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with off-exchange foreign currency trading and seek advice from an independent financial advisor if you have any doubts.

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Trading performance displayed herein is hypothetical. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance trading results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

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If you purchase or sell Equities, Futures, Currencies or Options you may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain your position. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice in order to maintain your position. If you do not provide the required funds within the prescribed time, your position may be liquidated at a loss, and you may be liable for any resulting deficit in your account.

Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a "limit move." The placement of contingent orders by you, such as a "stop-loss" or "stop-limit" order, will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders. By viewing any <http://www.TheInnerCircleTrader.com> text, audio, visual commentary, video or presentation, you acknowledge and accept that all trading decisions are your sole responsibility, and the author, Michael J. Huddleston and anybody associated with <http://www.TheInnerCircleTrader.com> cannot be held responsible for any losses that are incurred as a result.

Timeframe Selection & Defining Setups For Your Model

A. Timeframe Selection

- 1) Monthly Charts – Position Trading.
- 2) Weekly Charts – Swing Trading.
- 3) Daily Charts – Short Term Trading.
- 4) 4 Hour or Less – Day Trading.

B. Defining Setups For Your Model.

- 1) Trend Trader: Trading only in the direction of the Monthly & Weekly Chart direction.
- 2) Swing Trader: Trading the Daily Chart intermediate term price action.
- 3) Contrarian Trader: Trading reversal patterns at market extremes.
- 4) Short Term Trader: Trading the weekly ranges for 1-5 days in duration.
- 5) Day Trader: Intraday swing trading with exits by 2:00 pm New York time.

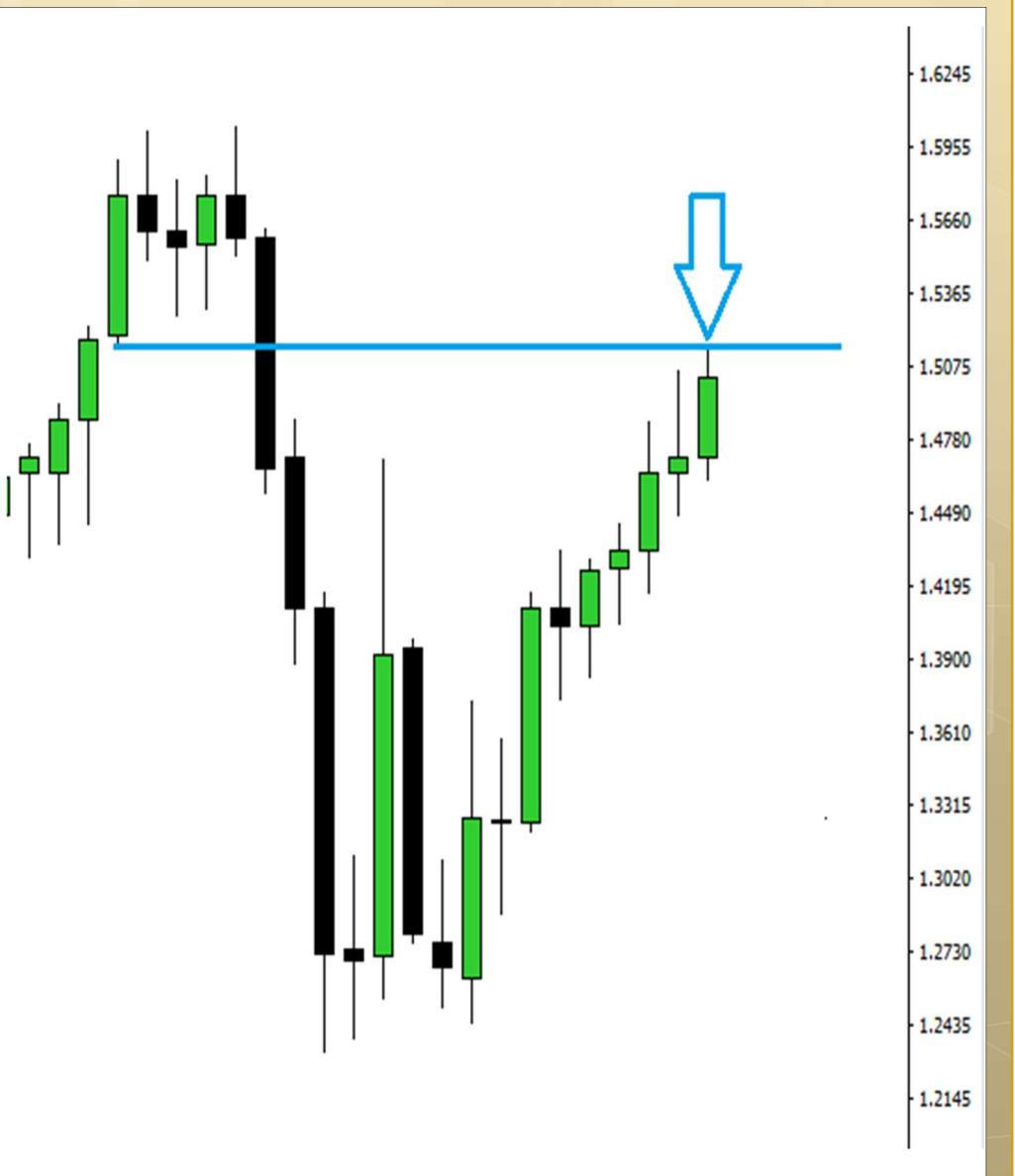
Monthly Chart

The Long term Price Action reference for the largest Price Action Swings in trading.

Trading setups take a great of time to form on this timeframe but when they unfold – they tend to unfold over many months.

Due to the length of time this chart requires to present a setup, trading in the direction of the most recent setup can yield low risk & high reward conditions.

Swings can be several hundreds of pips.
Over a long time period.



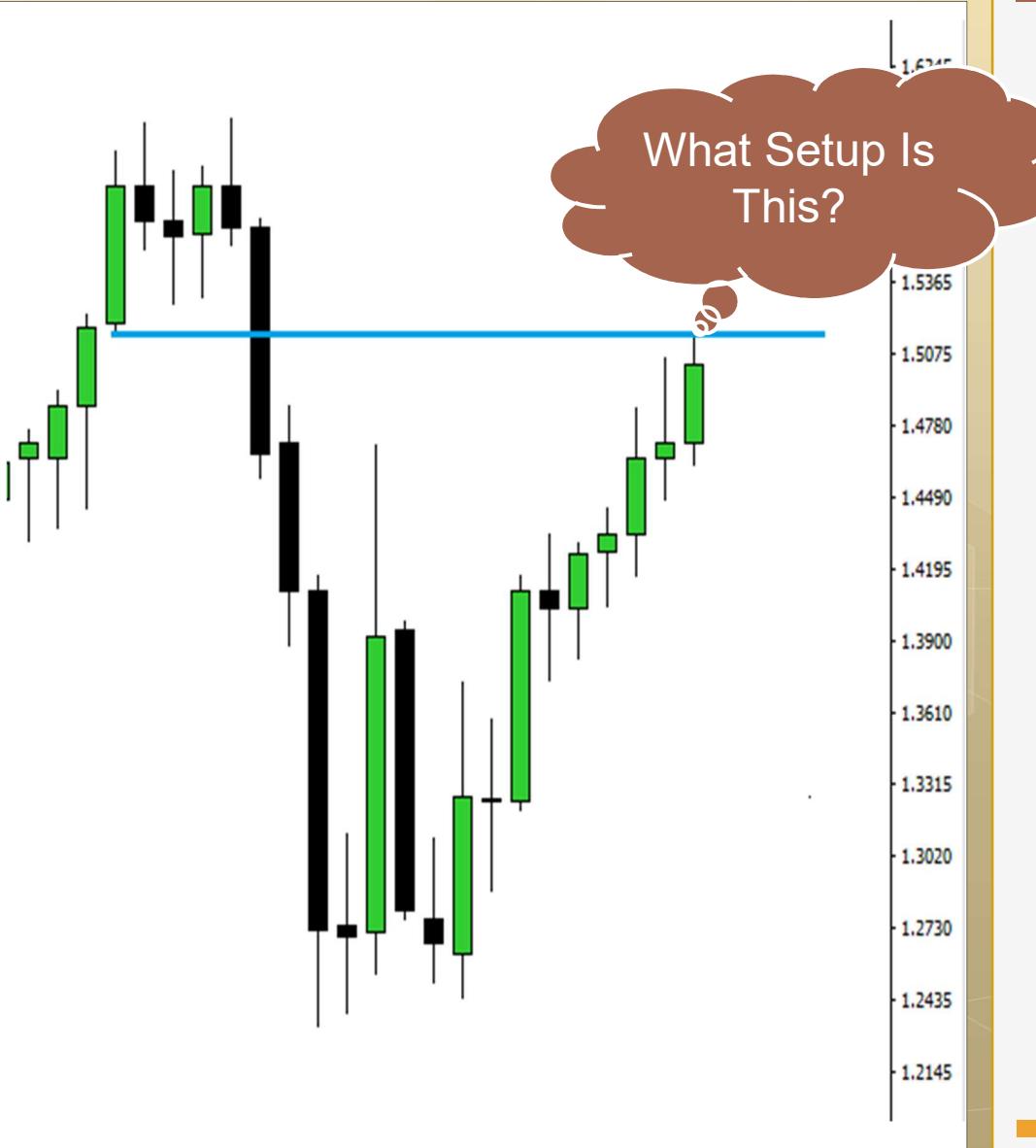
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What's Under
Here?



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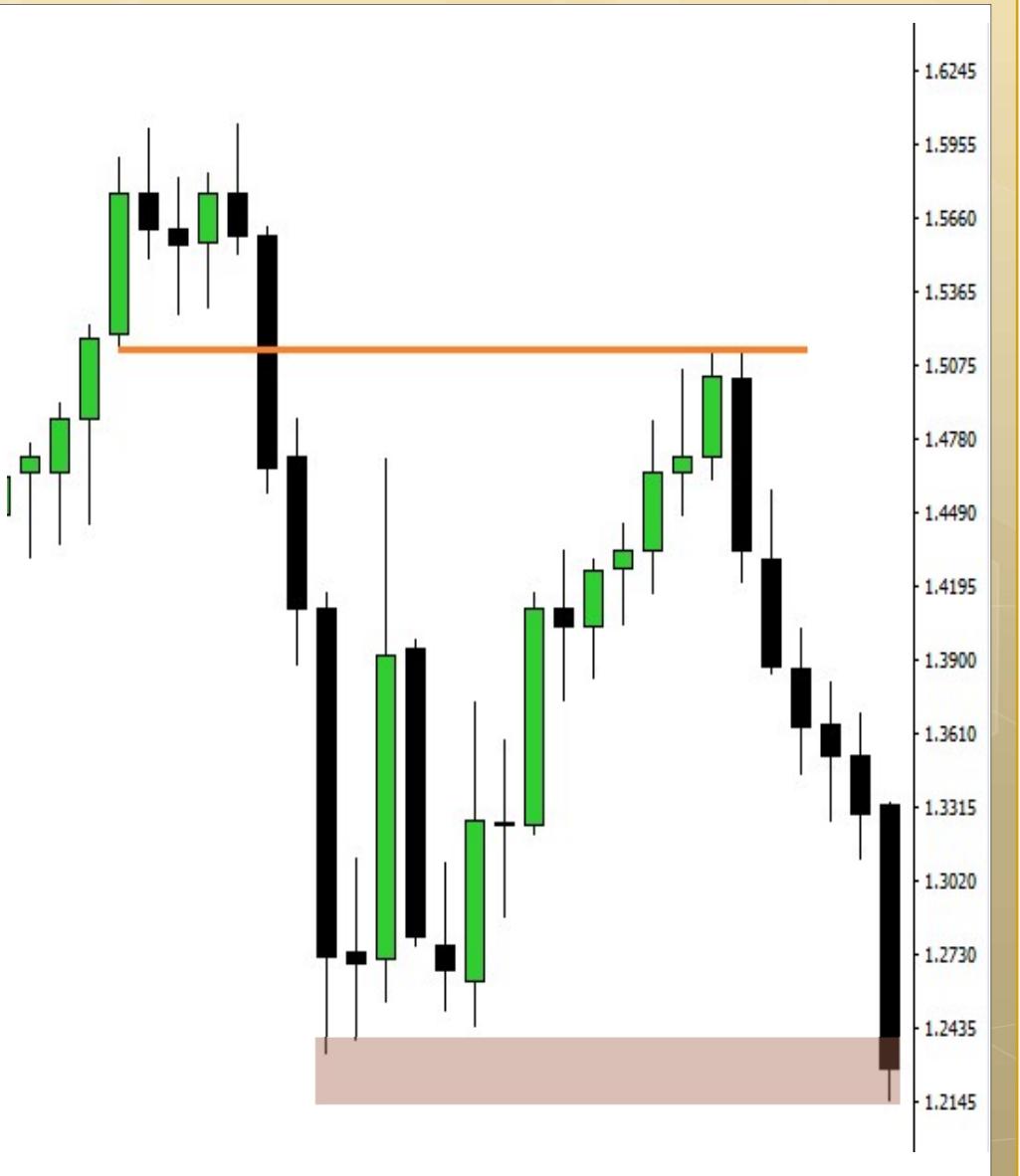
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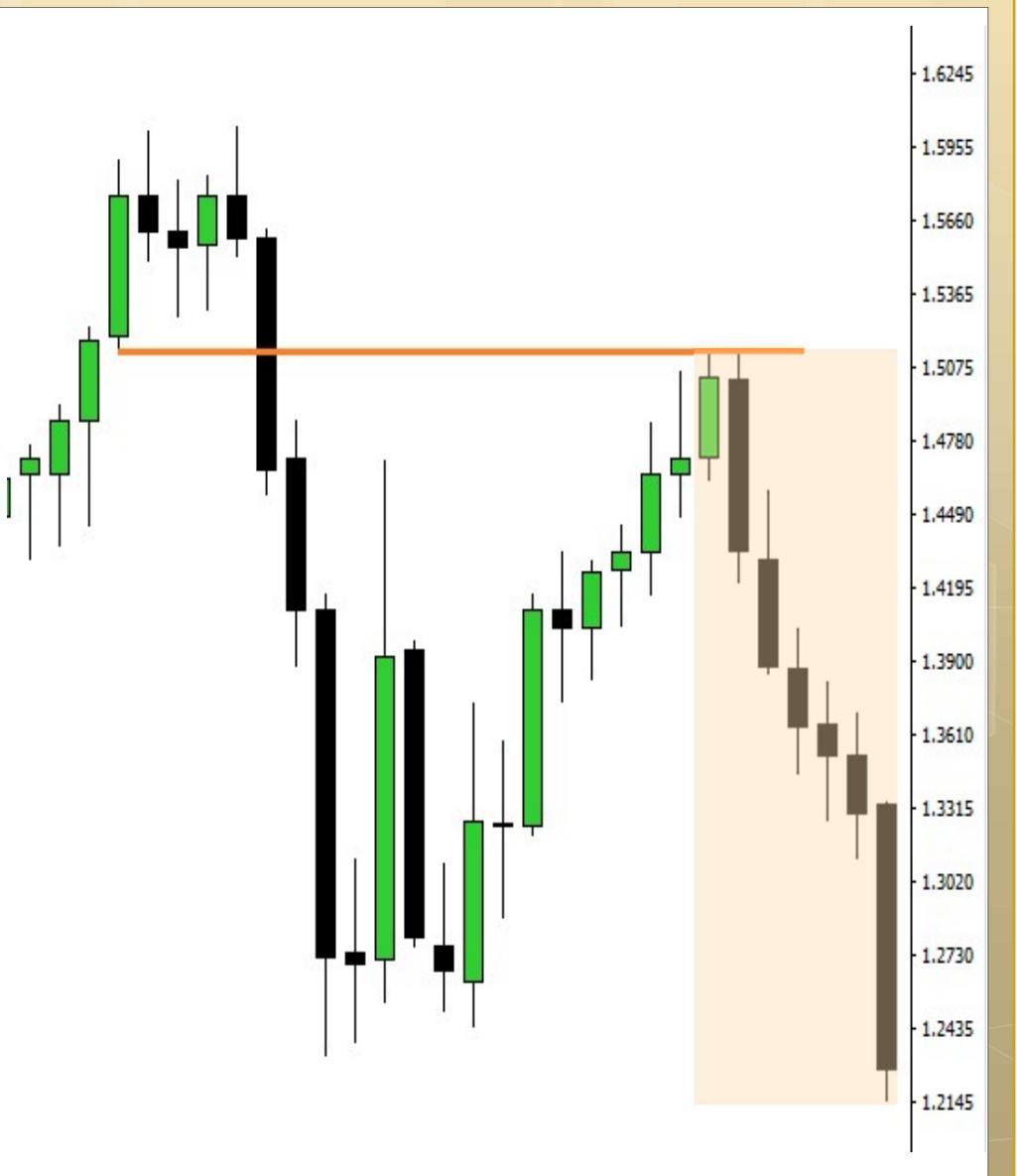
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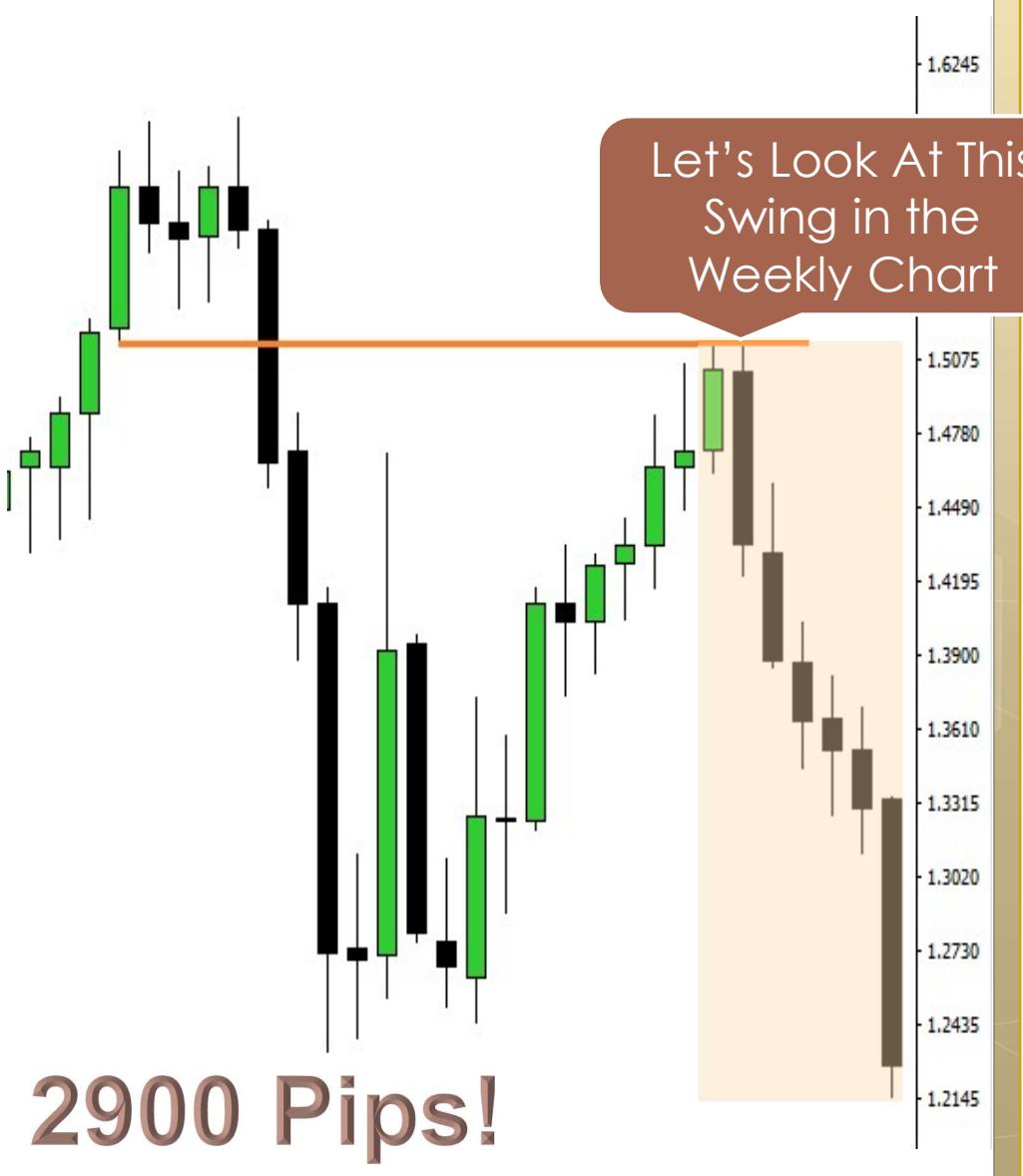
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2900 Pips!



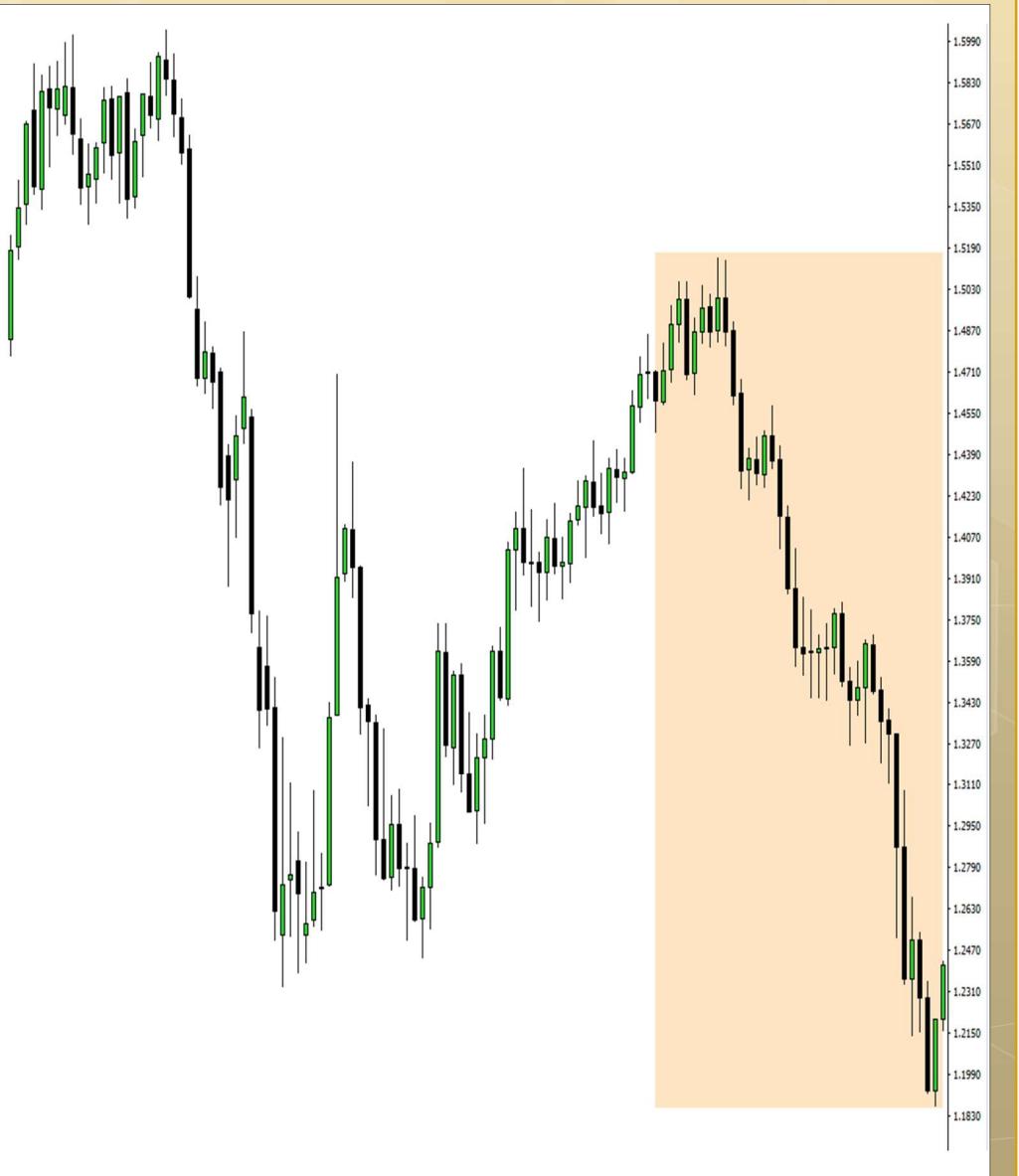
Weekly Chart

The Intermediate term Price Action reference for the intermediate Price Action Swings in trading.

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Swings can be several hundreds of pips. Over a intermediate term time period.



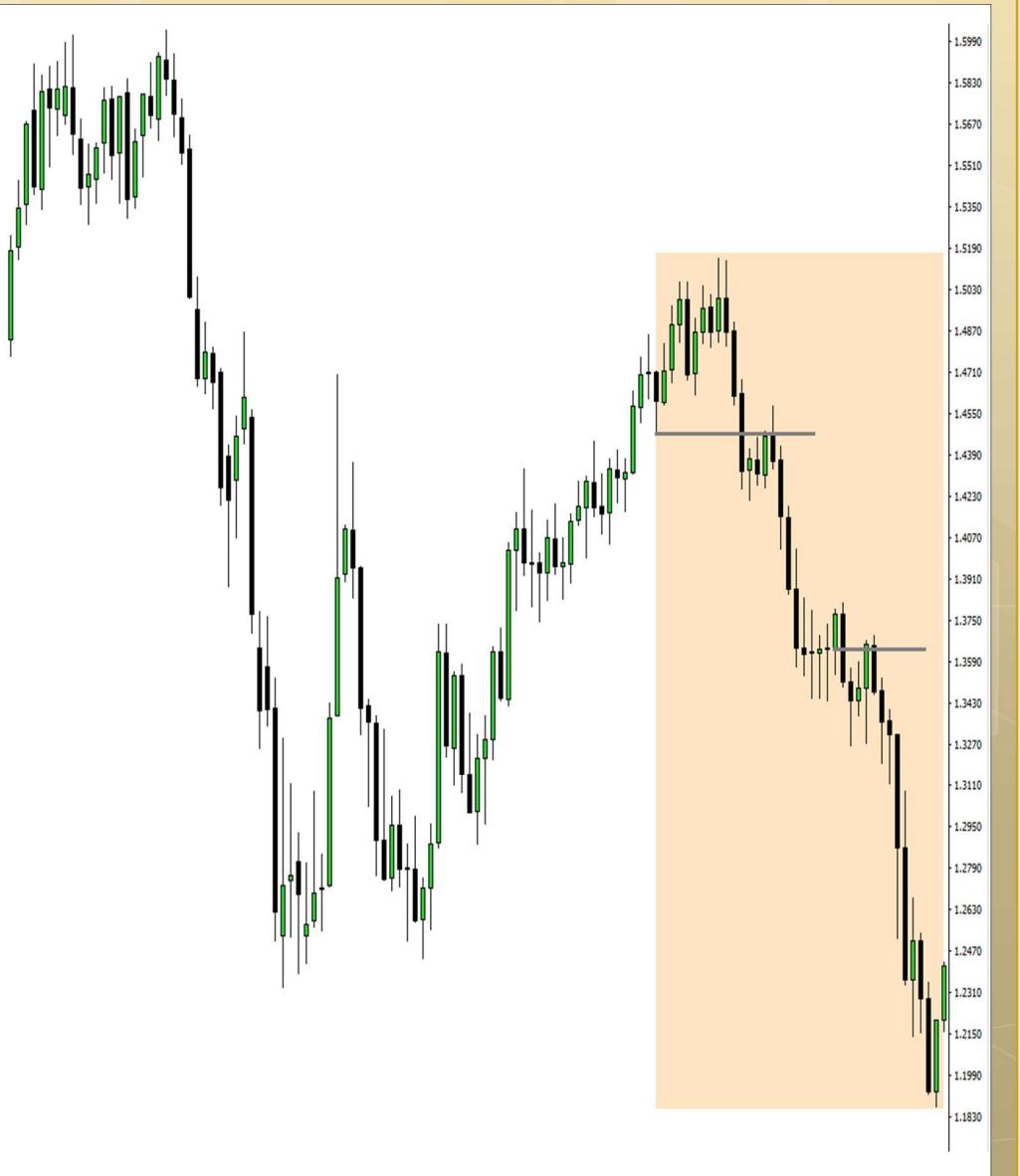
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Swings can be several hundreds of pips. Over a intermediate term time period.



Daily Chart

The short term Price Action reference for the short term Price Action Swings in trading.

Trading setups take a little time to form on this timeframe but when they unfold – they tend to unfold over 1-3 weeks.

Due to the length of time this chart requires to present a setup, trading in the direction of the most recent setup can yield low risk & high reward conditions.

Swings can be 50 - 300 hundred of pips.
Over a short term time period.

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Grading Swings



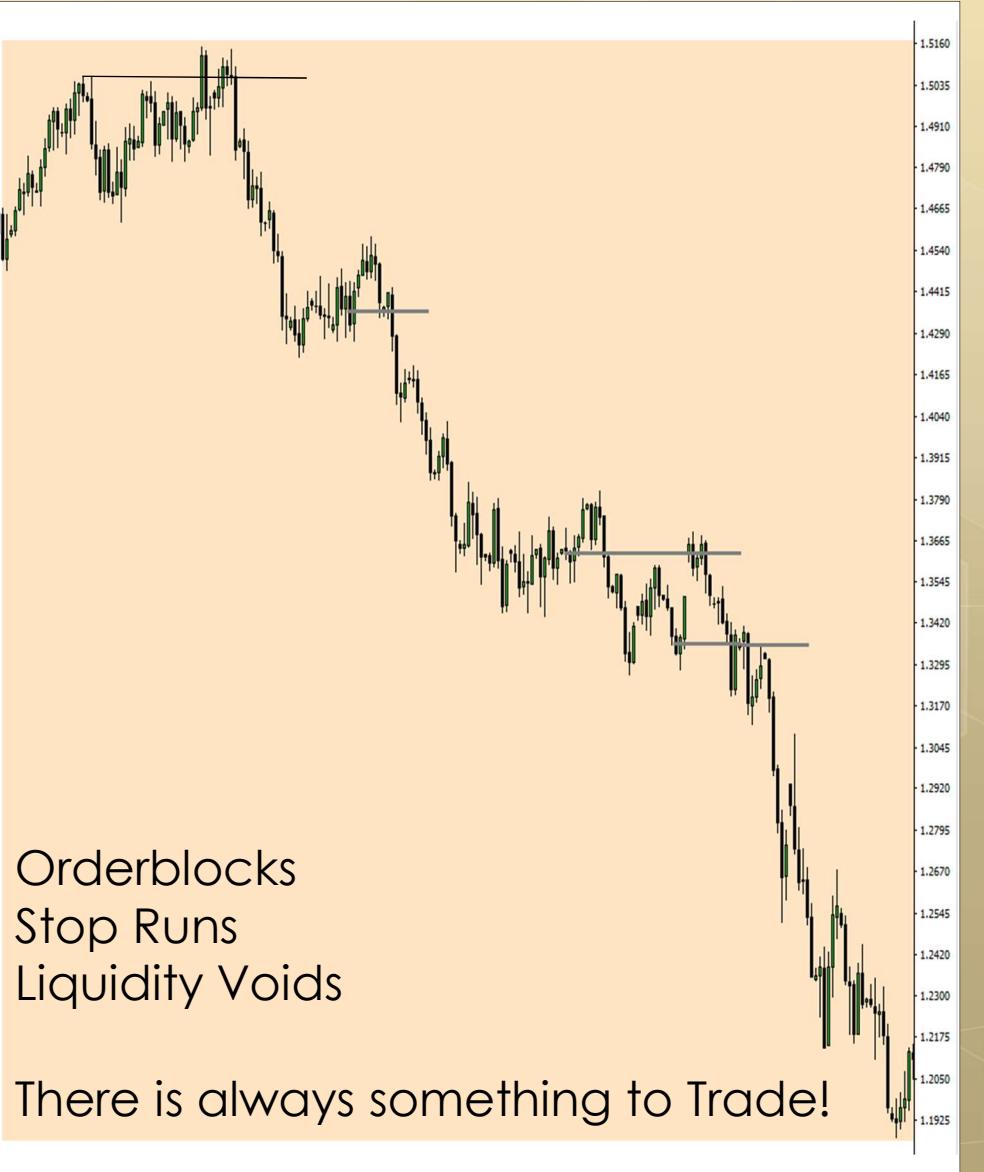
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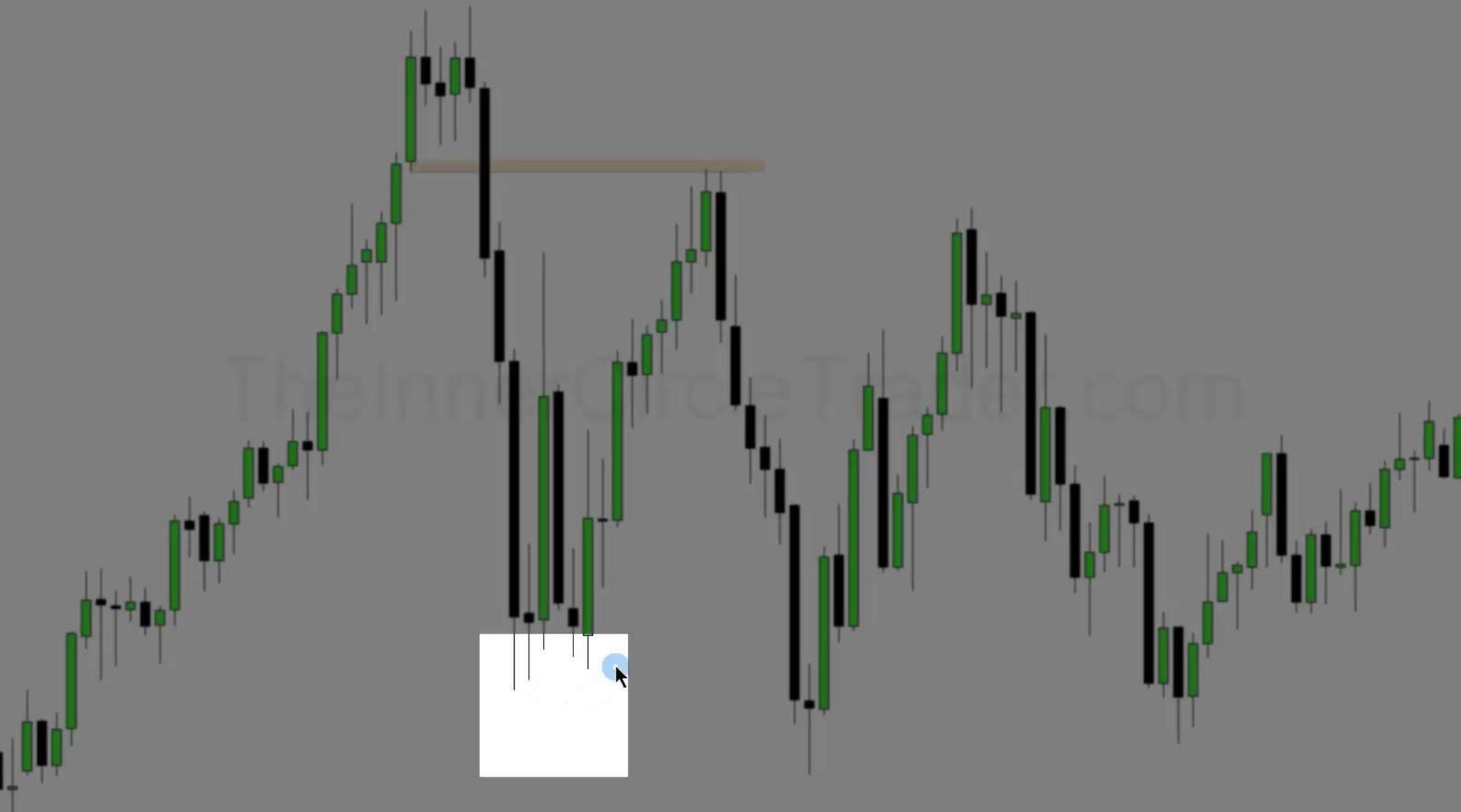
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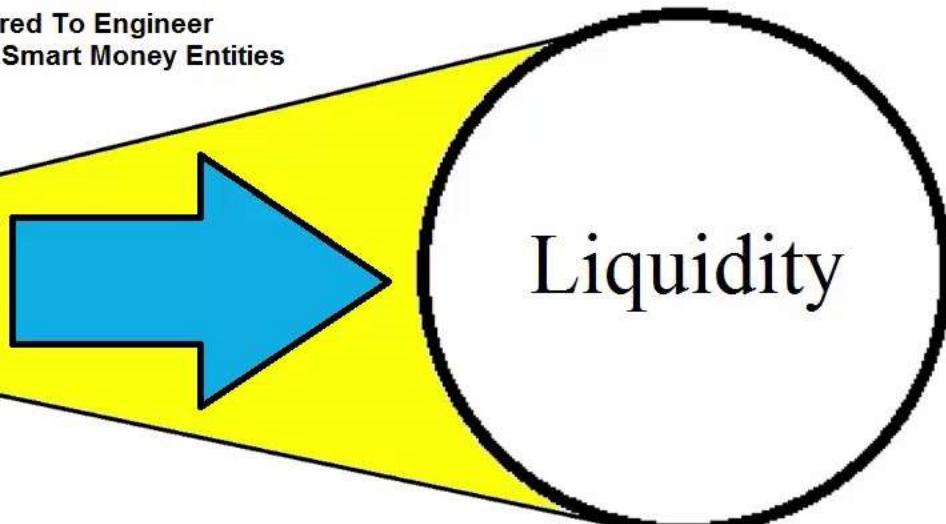
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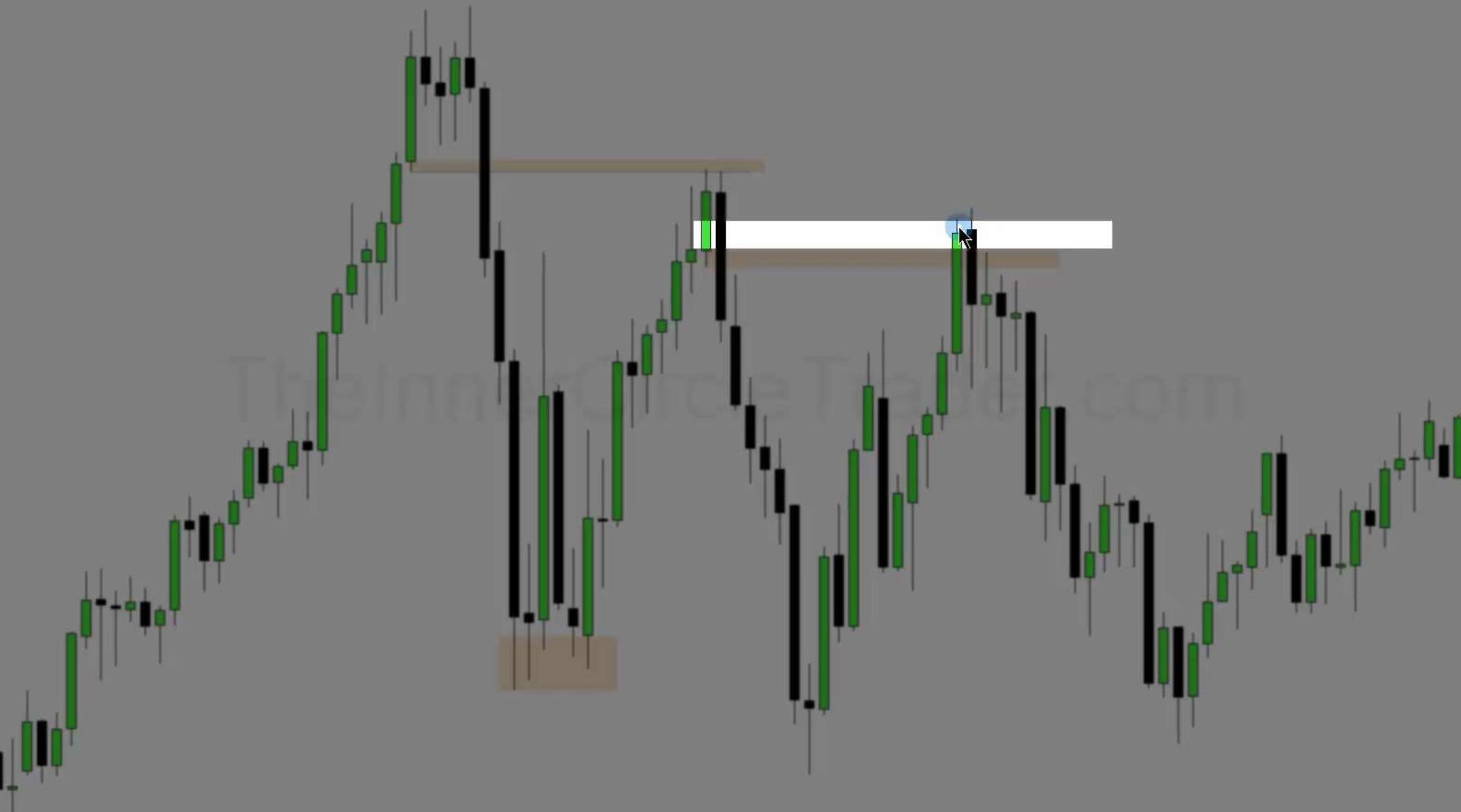
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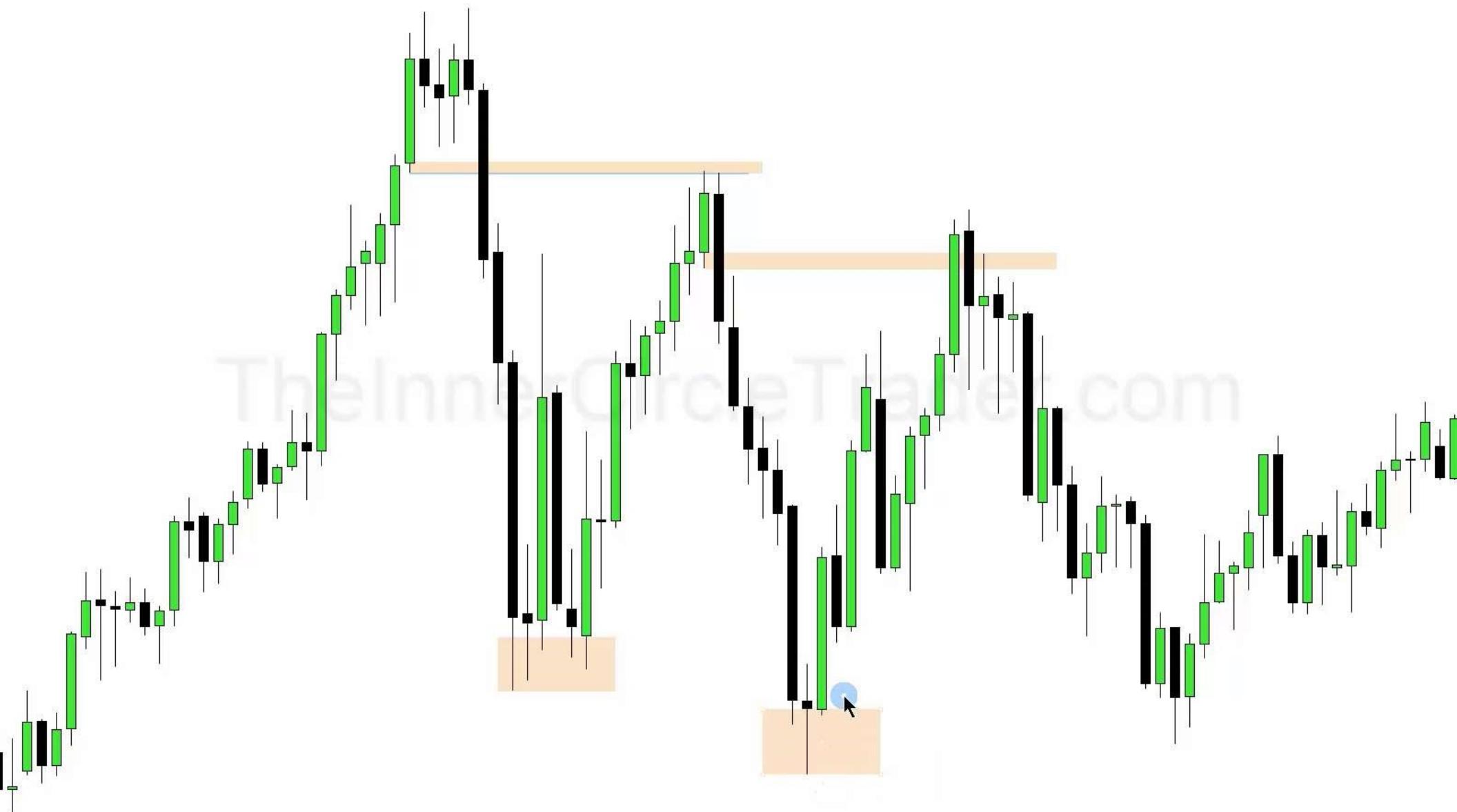
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red To Engineer
Smart Money Entities









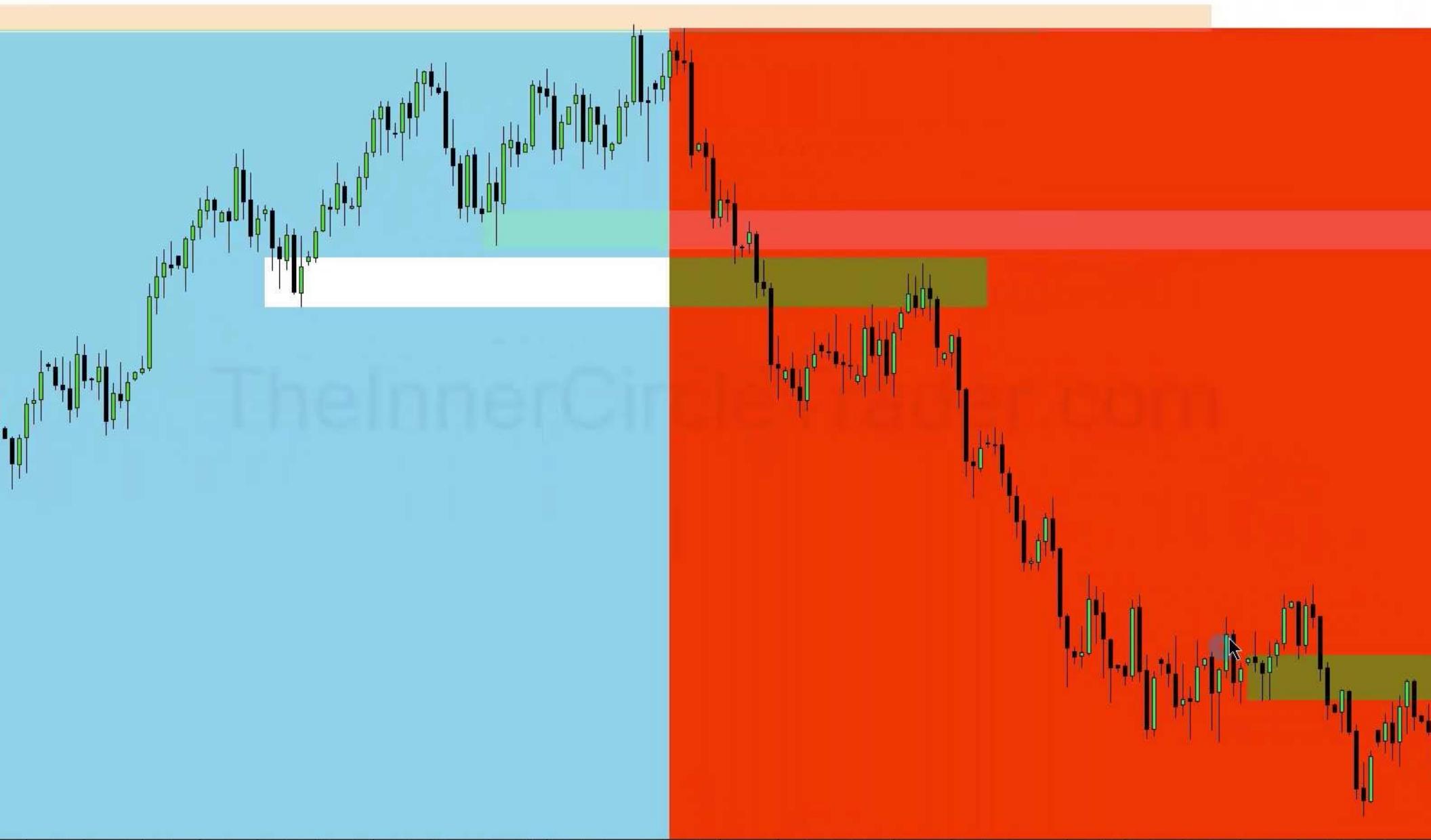






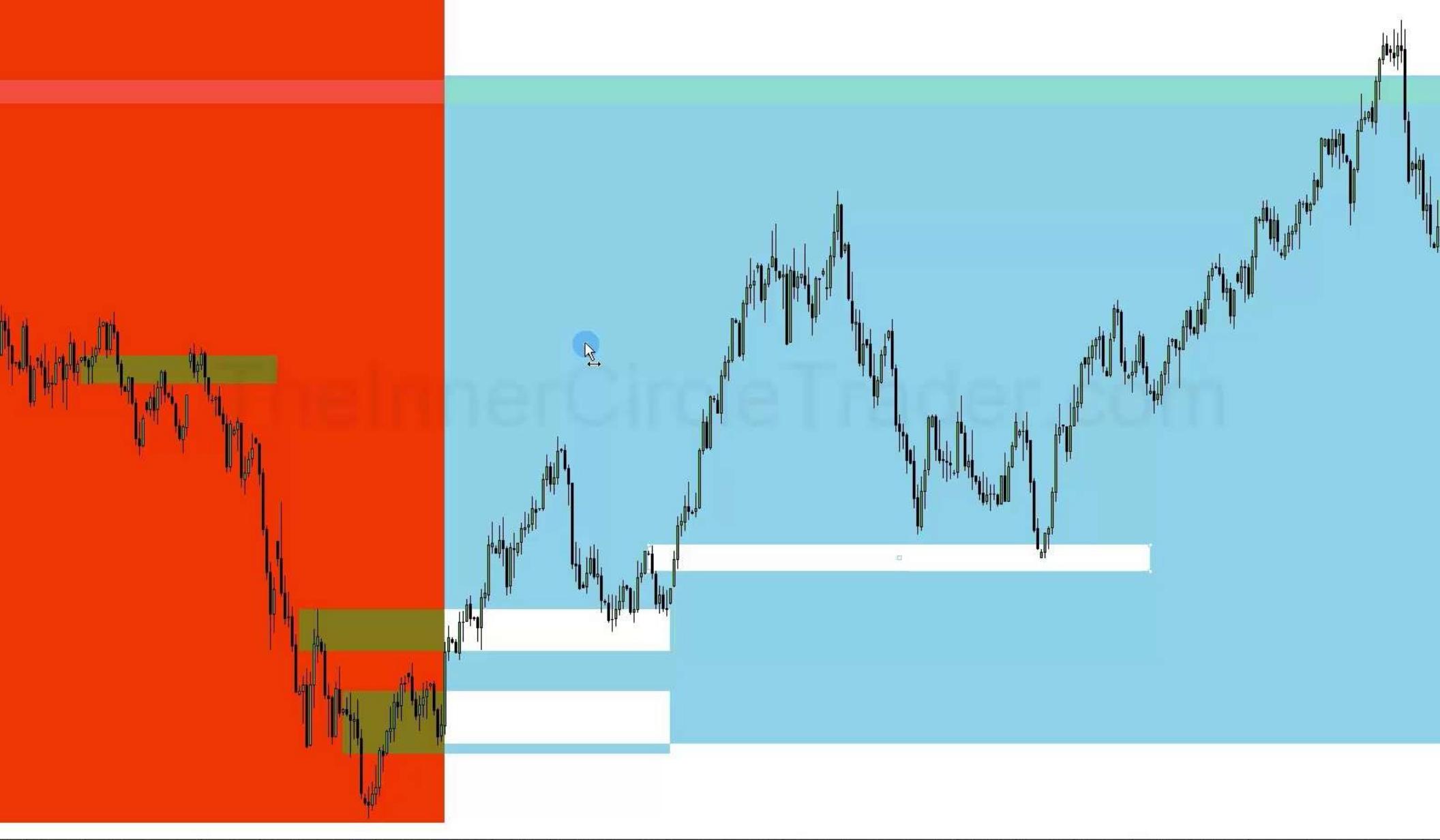












Institutional Sponsorship: How To Identify It In Setups

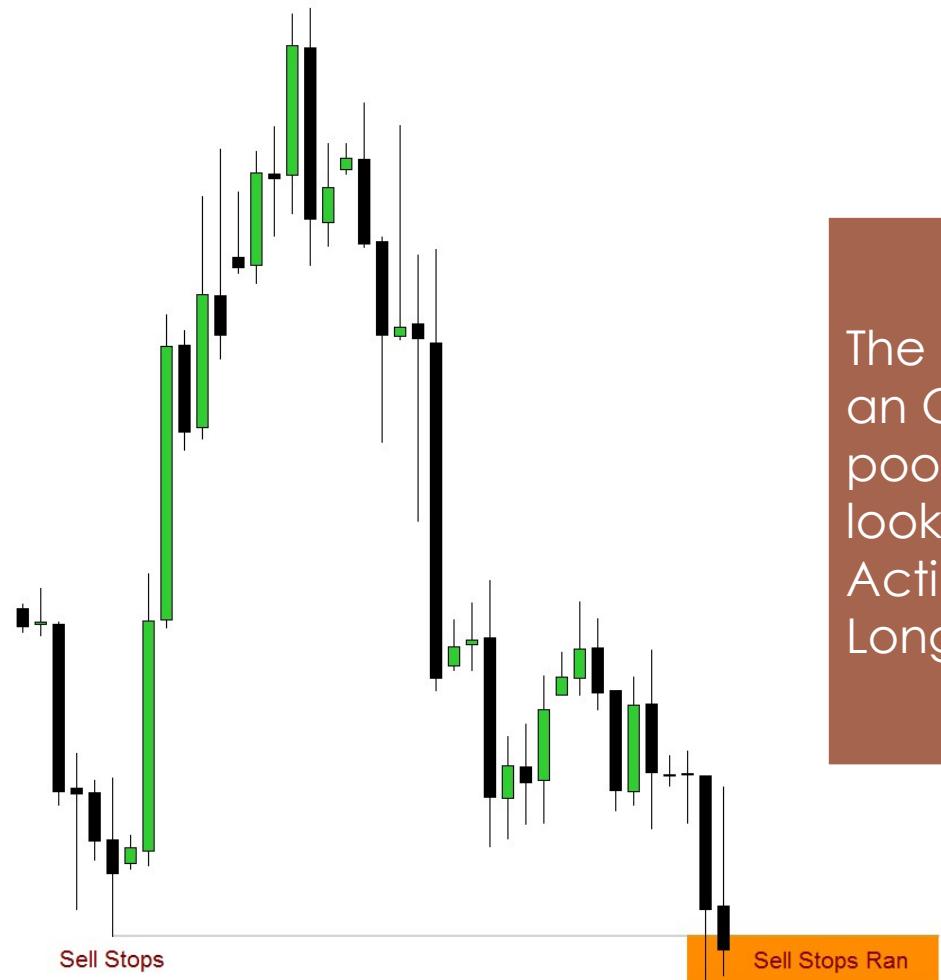
A. Institutional Sponsorship In Long Setups:

- 1) Higher Time Frame Price Displacement – Reversals, Expansion or Return To Fair Value.
- 2) Intermediate Term Imbalance In Price – Move To Discount or Sell Side Liquidity Run.
- 3) Short Term Buy Liquidity Above The Market – Ideal For Pairing Long Exits To Sell To.
- 4) Time Of Day Influence ie. London Open Low Of Day or New York Low Formation.

B. Institutional Sponsorship In Short Setups:

- 1) Higher Time Frame Price Displacement – Reversals, Expansion or Return To Fair Value.
- 2) Intermediate Term Imbalance In Price – Move To Premium or Buy Side Liquidity Run.
- 3) Short Term Sell Liquidity Below The Market – Ideal For Pairing Short Exits To Buy From.
- 4) Time Of Day Influence ie. London Open High Of Day or New York High Formation.

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The Daily Chart shows price dropping down below an Old Low – where Sell Stops would typically be pooled. The Aggressive Trader can at that time look for Lower Timeframes to show similar Price Action in the form of a Low being violated and a Long can be taken.

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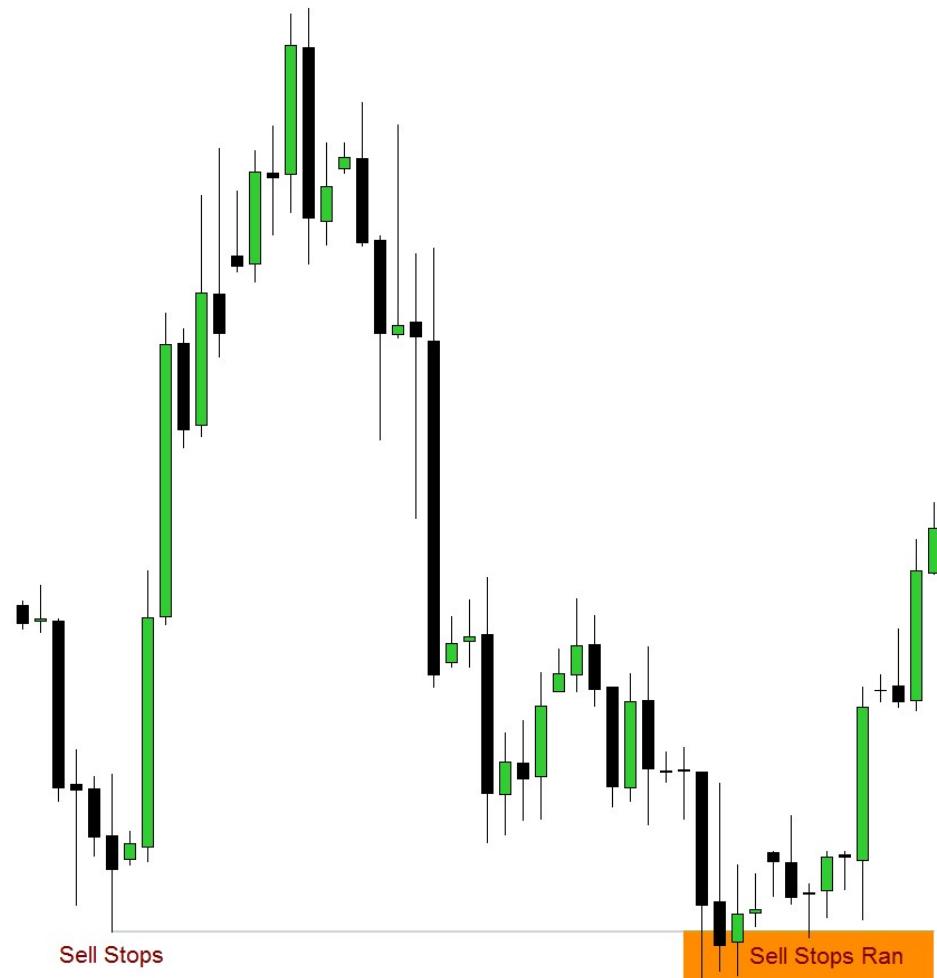


Buy Side Liquidity

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HTF Price Displacement

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Buy Stop Liquidity



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Buy Stop Liquidity

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Bullish Orderblock

Dropping Price
At HTF Level

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Buy Stop Liquidity

Let's Take A Closer Look At
The Institutional Sponsorship
In This Price Action...

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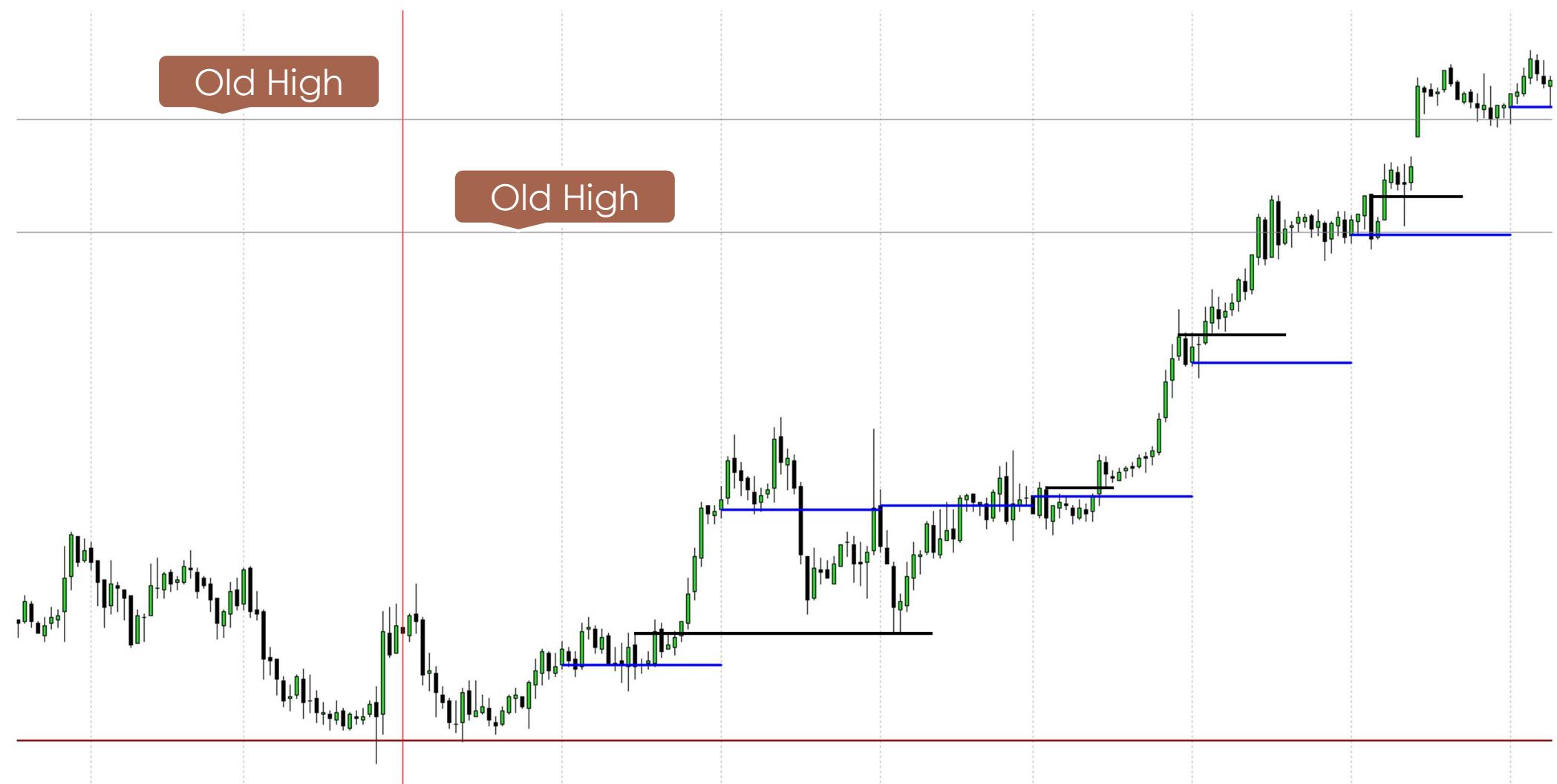
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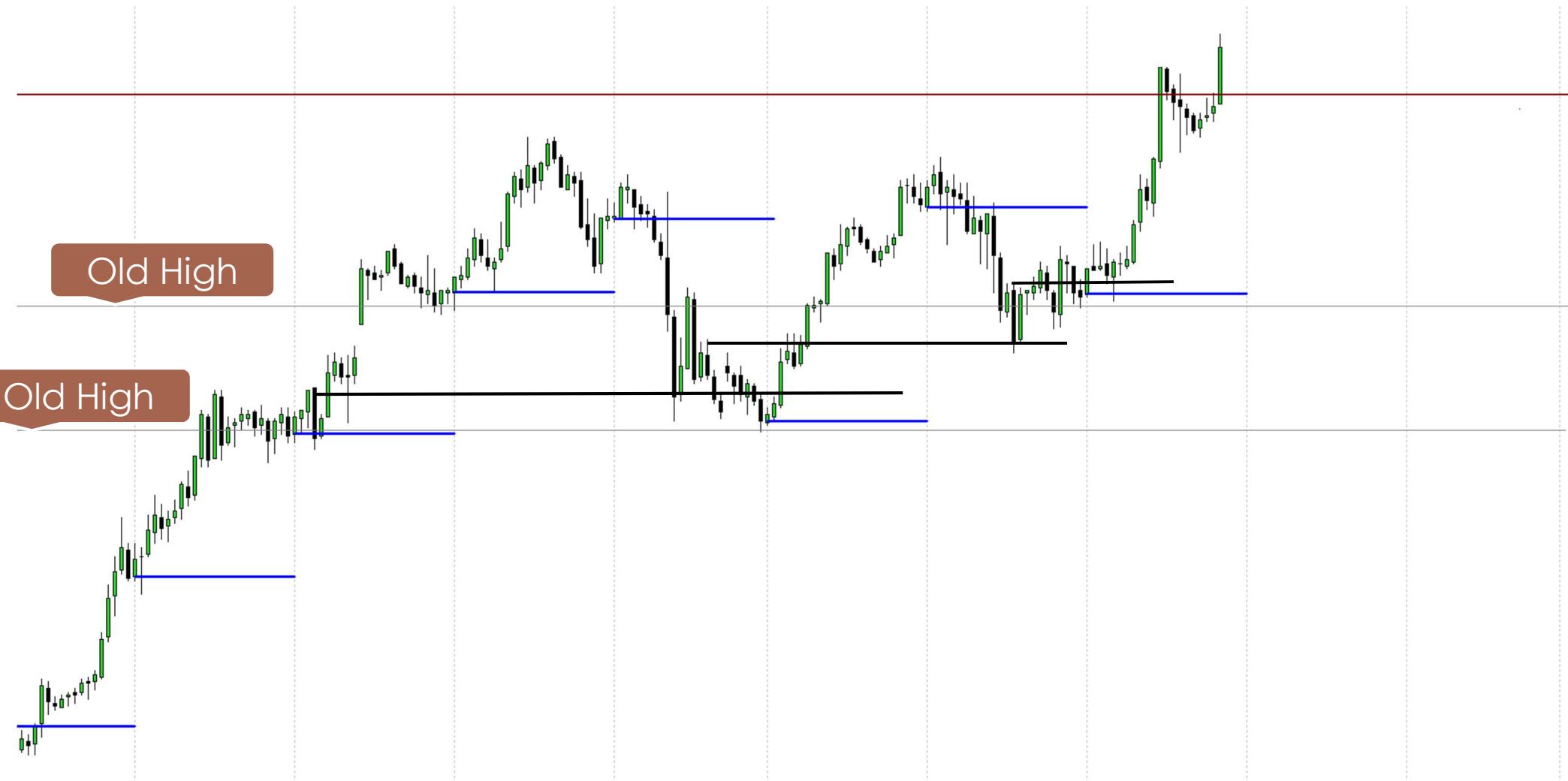
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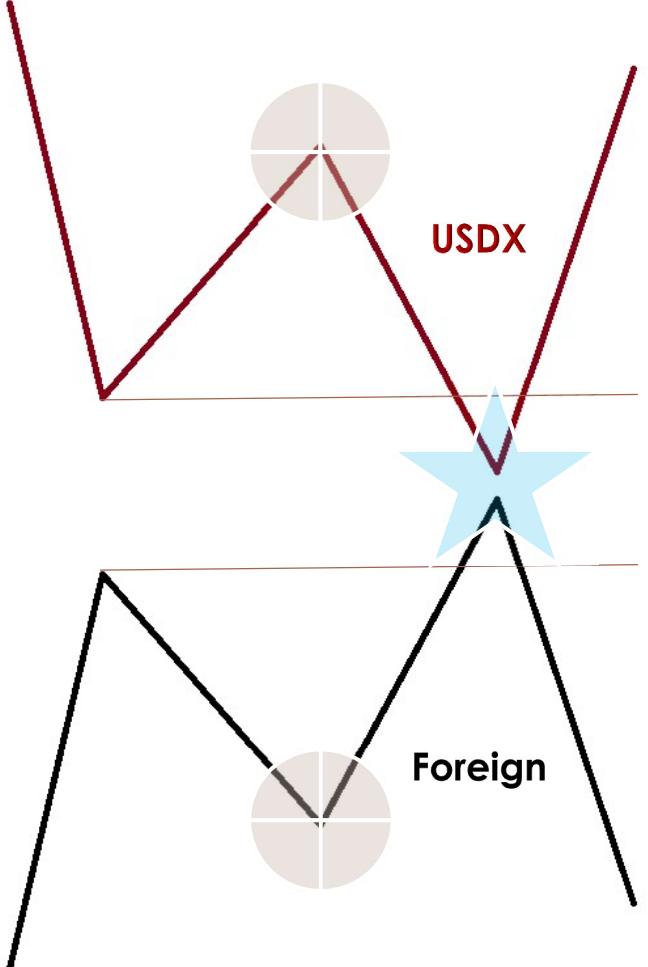
Inside Price Action: Institutional Market Structure

A. What Is Institutional Market Structure?

- 1) The analysis of correlated assets or the relationship to inversely correlated assets.
- 2) The purpose is to determine what the “Smart Money” is accumulating or distributing.
- 3) Currencies are easy to analyze with Institutional Market Structure with the USDX.
- 4) Every price swing should be studied to determine if Market Symmetry confirms it.

B. How Do We Identify Institutional Market Structure In Forex?

- 1) Compare every price swing in the USDX with the Foreign Currency you trade.
- 2) As USDX trades Higher, expect a Lower price swing in Foreign Currency pairs.
- 3) If USDX or a Foreign Currency fails to move symmetrically – Smart Money is actively trading.
- 4) As USDX trades Lower, expect a Higher price swing in Foreign Currency pairs.
- 5) If USDX or a Foreign Currency fails to move symmetrically – Smart Money is actively trading.



Institutional Market Structure

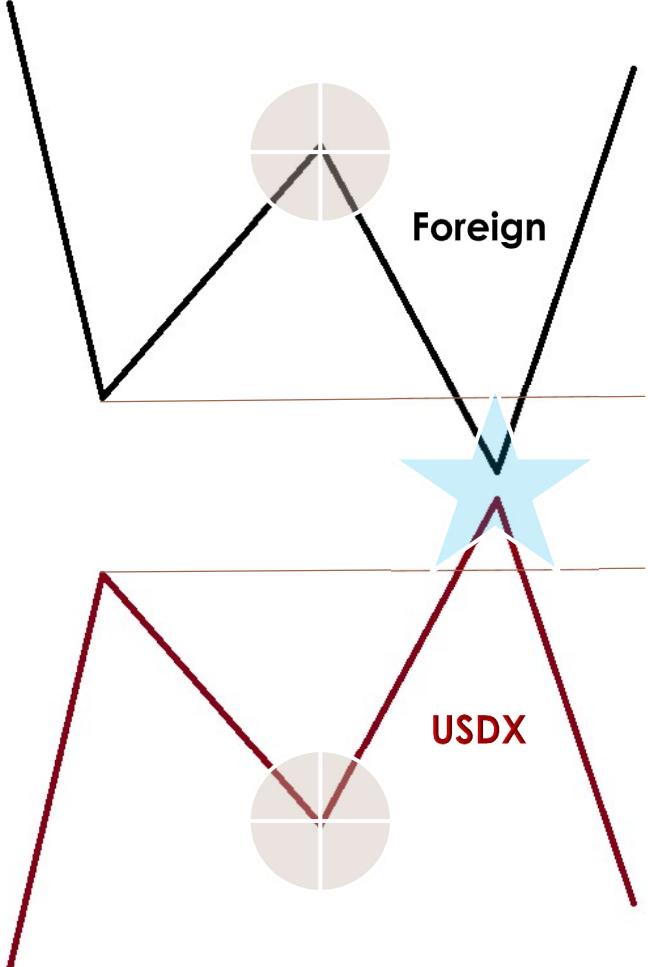
USDX SMT Divergence

In Symmetrical Market conditions:

**When the USDX makes a lower low;
Foreign Currency makes a higher high.**

This confirms current price action and the underlying “trend” is likely to continue.

The idea of stalking reversal patterns in this condition is not high probability and should be avoided.



Institutional Market Structure

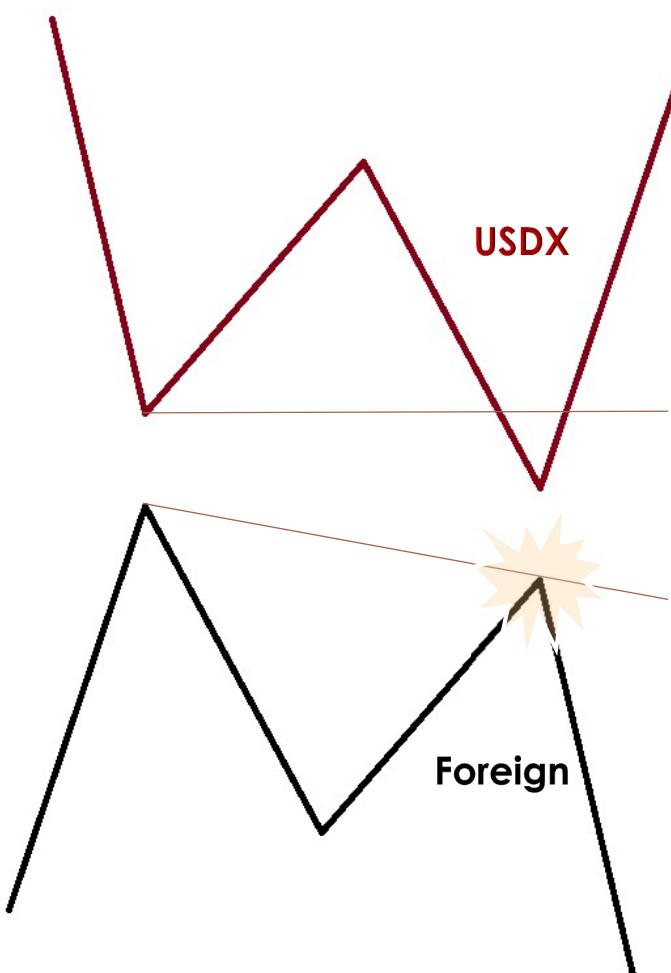
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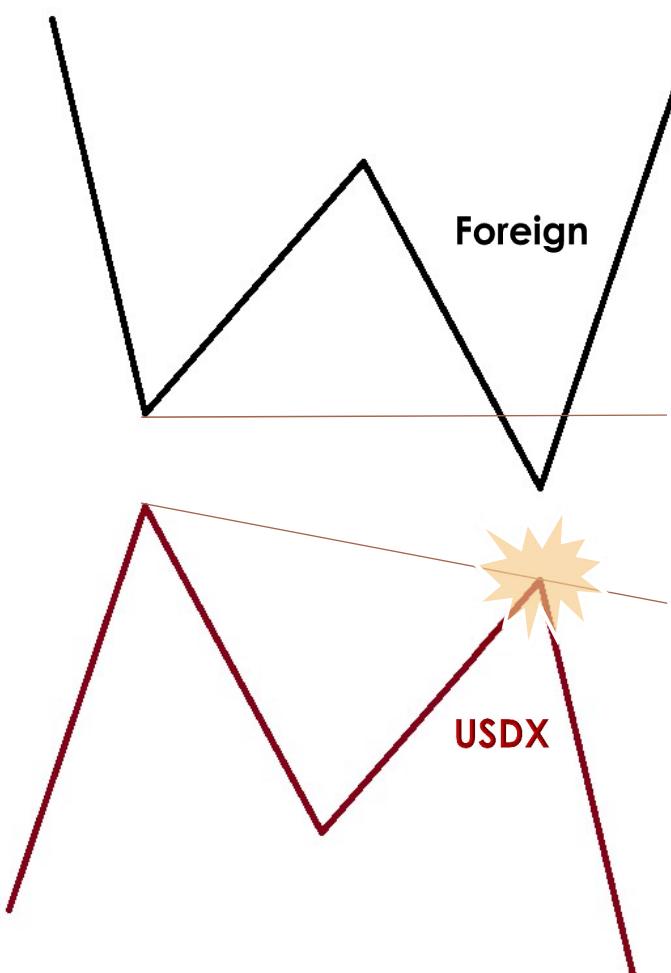
USDX SMT Divergence

In Non-Symmetrical Market conditions:

**When the USDX makes a lower low;
Foreign Currency fails to trade higher than
a previous high – this is **USDX SMT**.**

This does not confirm current price action
and the underlying “trend” is likely not to
continue.

**The idea of stalking reversal
patterns in this condition is high
probability & could reasonably be
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Institutional Market Structure

USDX SMT Divergence

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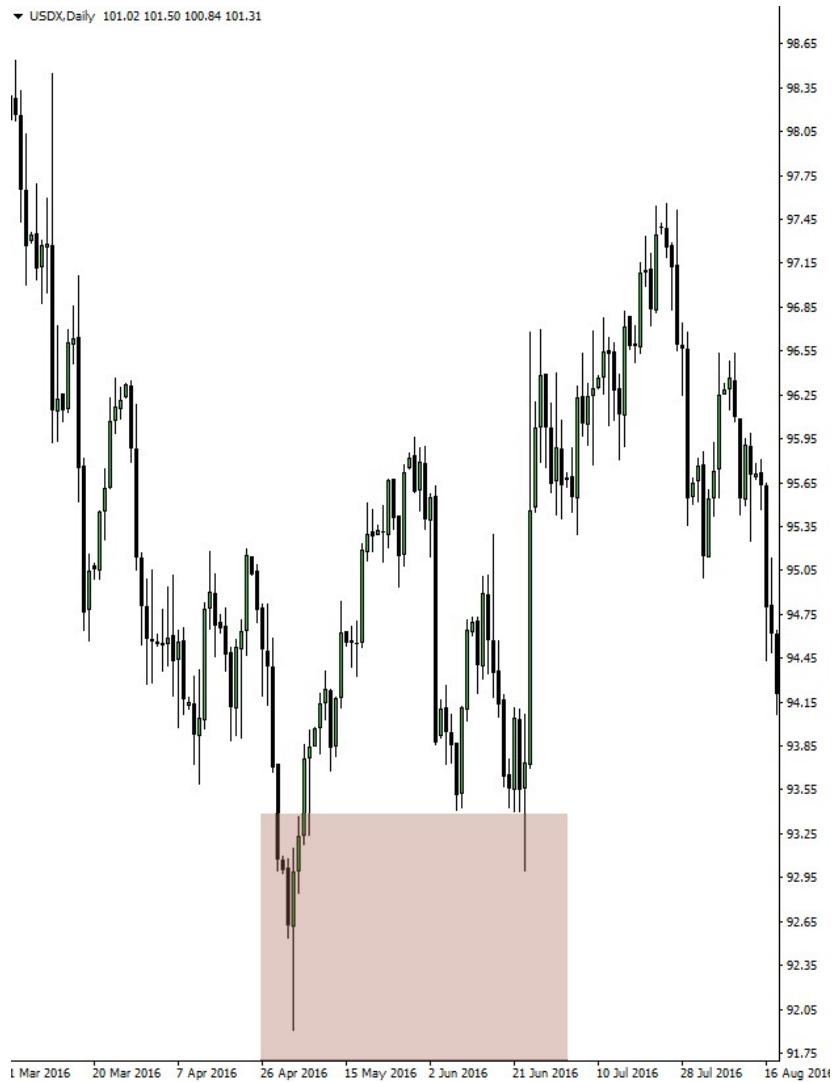
Institutional Market Structure USDX SMT Divergence



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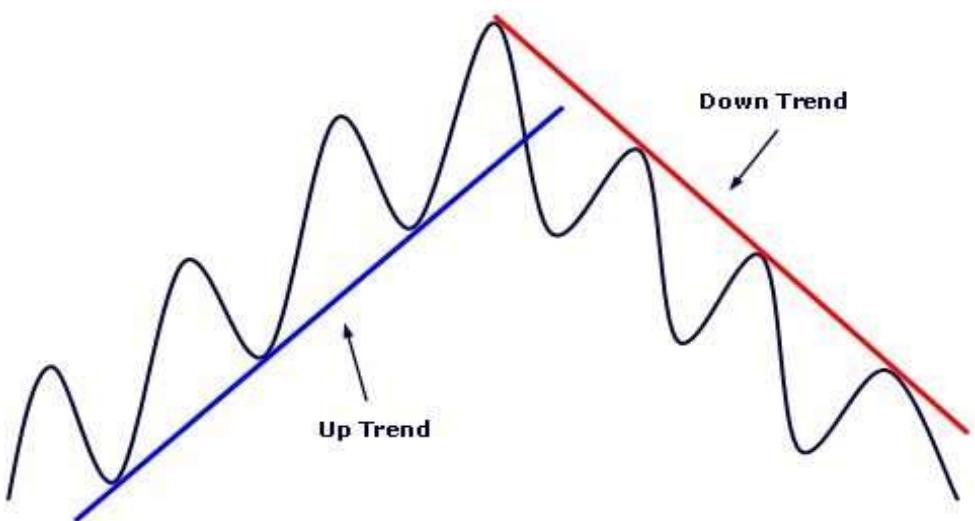
Trendline Phantoms: False Trendlines

A. Diagonal Trendline Support:

- 1) The market begins to make higher highs and higher lows.
- 2) The market appears to have a imaginary diagonal line it seems to repel price higher from.
- 3) Retail Traders will extend these imaginary lines into the future and attribute support theories to it.
- 4) When price hits the extended imaginary diagonal line connecting higher lows – Retail **Buys** then.

B. Diagonal Trendline Resistance:

- 1) The market begins to make lower highs and lower lows.
- 2) The market appears to have a imaginary diagonal line it seems to repel price lower from.
- 3) Retail Traders will extend these imaginary lines into the future and attribute resistance theories to it.
- 4) When price hits the extended imaginary diagonal line connecting lower highs – Retail **Shorts** then.



Trendline Theory

No Basis – Just Opinion

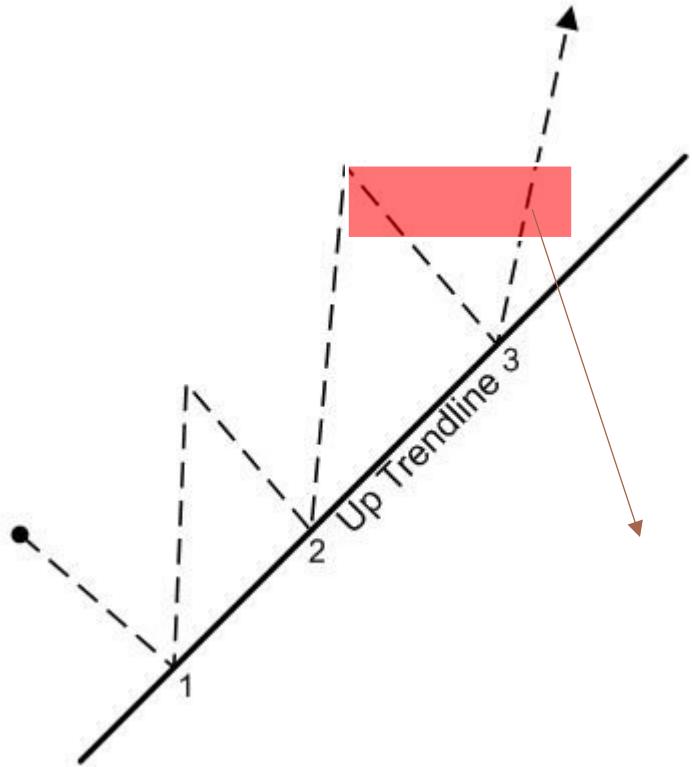
Does price have an awareness of the point of Trendline Support?

Do Banks associate “value” or prognostication on the basis of Trendline theory?

Is the very nature of Trendlines flawed at its core?

How Market Makers capitalize on this fallacy in Price Analysis?

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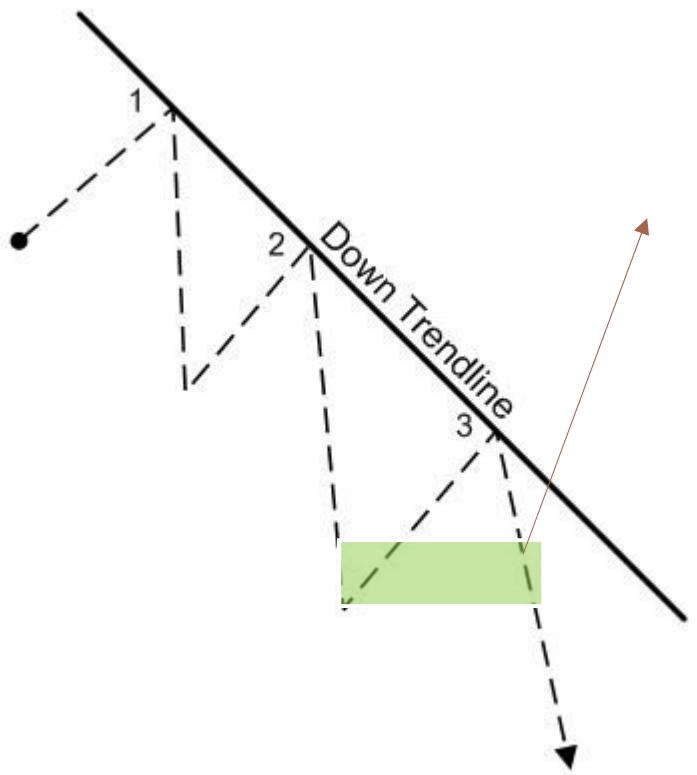
Retail: Bullish Trendline Support Market Maker Trap: Sell Scenario

In periods when price is making higher lows and higher highs, the use of Trendline "Support" will be adopted by Retail Traders.

The influx of weak-handed or less informed money at an area or price level – provides liquidity for the Market Maker.

The chart may appear bullish but the underpinnings are in fact the opposite. The Retail crowd will buy at a moment when price will be devoid of support. Price will collapse and leave the Retail Trader long with drawdown in the trade.

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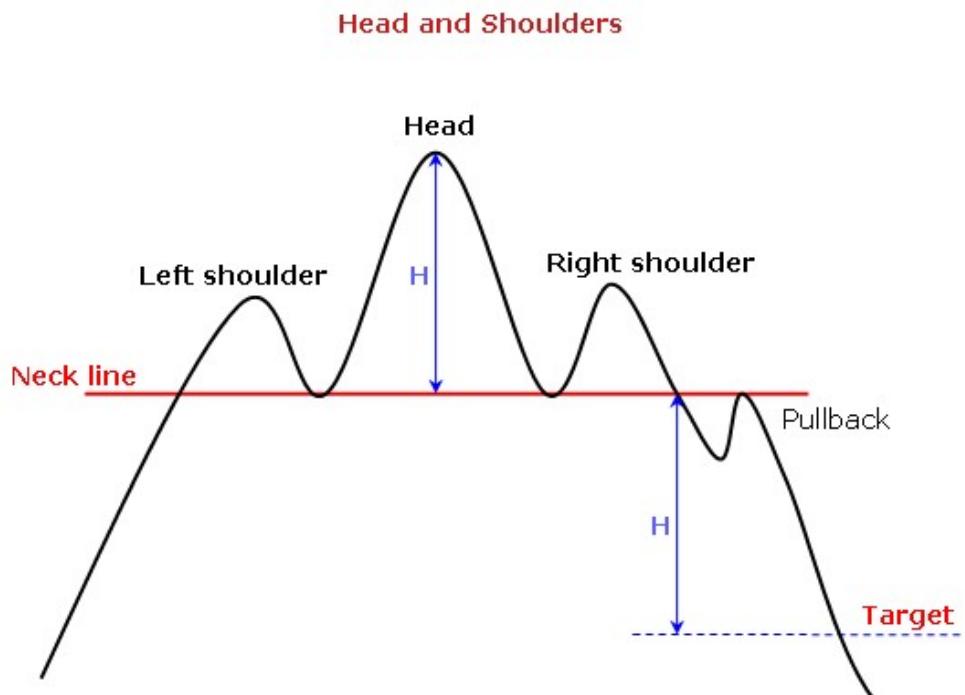


Retail: Bearish Trendline Resistance Market Maker Trap: Buy Scenario

In periods when price is making lower lows and lower highs, the use of Trendline “Resistance” will be adopted by Retail Traders.

The influx of weak-handed or less informed money at an area or price level – provides liquidity for the Market Maker.

The chart may appear bearish but the underpinnings are in fact the opposite. The Retail crowd will sell at a moment when price will be devoid of resistance. Price will rally and leave the Retail Trader short with drawdown in the trade.



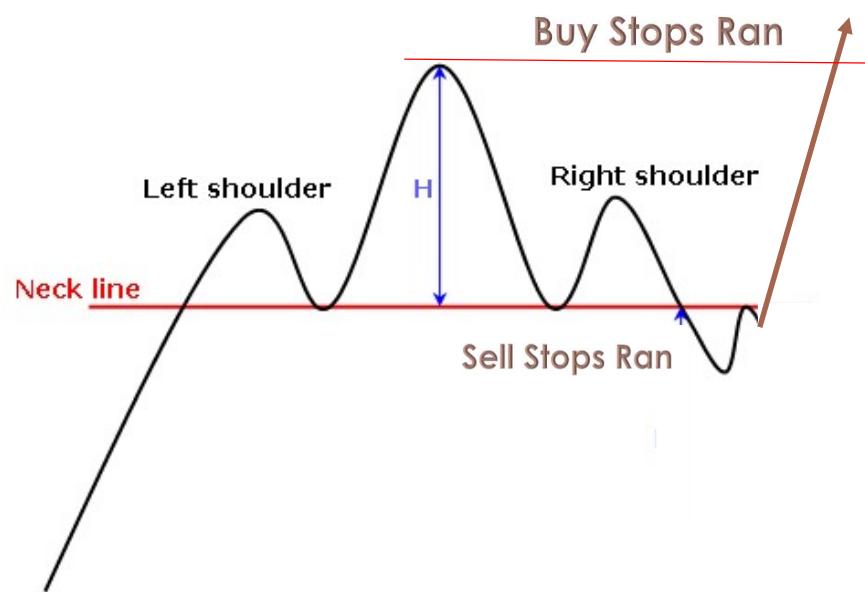
Head & Shoulders Pattern

False Top In Price

Generally price will form these genuinely at intermediate or long term highs.

Due to the low understanding of most Retail Traders – they seek this classic topping pattern on lower timeframes.

Many times at a significant low in price – but they marry the pattern.



Head & Shoulders Pattern

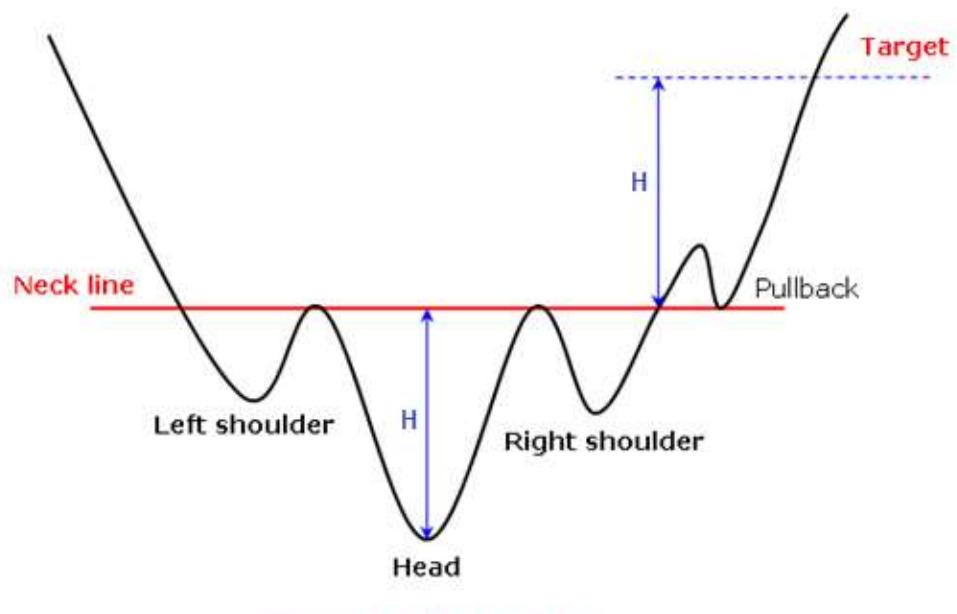
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Inverted Head & Shoulders Pattern

False Bottom In Price

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ICT Monthly Mentorship

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