Trade Models Overview

Understanding market structure models is essential for predicting price movement and making high-probability trades. This section outlines the four main types of models, their characteristics, and how they influence trade decisions. Combining these models with dynamic management strategies ensures a systematic approach to trading.

Market Structure Models

There are four main models, two bullish and two bearish:

1. Accumulation (Bullish)

• Defined by an up-down-up pattern of structure breaks.

• Expectation: Price will continue to make higher highs.

• Example:

• Up, down, up → Accumulation model confirmed → Long entries are favorable.

2. Reaccumulation (Bullish)

• Occurs after an accumulation model experiences one to three structure breaks to the downside.

• Expectation: After a short retracement, price will resume its upward trend.

• Example:

• Up, down, down → Reaccumulation model → Long entries targeting new highs.

3. Distribution (Bearish)

• Defined by a down-up-down pattern of structure breaks.

• Expectation: Price will continue to make lower lows.

• Example:

• Down, up, down → Distribution model confirmed → Short entries are favorable.

4. Redistribution (Bearish)

• Occurs after a distribution model experiences one to three structure breaks to the upside.

- Expectation: After a short retracement, price will resume its downward trend.

- Example:

- Down, up, up → Redistribution model → Short entries targeting new lows.

Key Rules for Models

1. Switching Models:

- Four consecutive breaks in one direction will change the model.

- Example: In an accumulation model, four breaks to the downside will shift it to a distribution model.

2. Breaks in Reaccumulation/Redistribution:

- Up to three breaks against the prevailing trend are allowed before the model switches.

- Example:

- Accumulation → One breakdown = Reaccumulation → Two more breakdowns = Still Reaccumulation → Fourth breakdown = Switch to Distribution.

3. Analyzing Models:

- Always analyze structure breaks from left to right on the chart.

- The most recent structure break determines the current model.

4. Practical Application:

- Use models to anticipate future price behavior and identify trading opportunities.

- Avoid trades that conflict with the current model's direction.