Swing Rule and Updated Validation System

Overview

The Swing Rule introduces a refined approach to 1-hour validation and invalidation for confirming trades. It focuses on recognizing "swing candles" and using them as critical reference points for determining whether the 1-hour timeframe remains valid. This enhances the precision of trade entries and avoids premature invalidations based on less significant price movements.

1-Hour Validation Rules

Type 1 and Type 2 Validations

The process for validating 1-hour zones remains unchanged, with two primary methods:

1.   Type 1 Validation:

•   Price taps a demand/supply zone and prints a Triple M (three-move pattern).

•   A green Triple M confirms the zone as valid.

2.   Type 2 Validation:

•   Price taps a demand/supply zone but does not produce a Triple M.

•   Validation occurs when an engulfing candle forms, where the body of the candle closes above the high of the previous candle's wick (bullish) or below the low (bearish).

•   The demand or supply zone formed by the engulfing candle becomes the protected zone for invalidation.

Updated Invalidation Rules: The Swing Rule

Definition of a Swing Candle

A swing candle is defined as a candle whose low (for bullish trades) or high (for bearish trades) is surrounded by higher lows (or lower highs) on both its left and right sides.

•   Criteria for Swing Candle (Bullish Example):

1.   The candle's low is lower than the left and right adjacent candles.

2.   The right candle must wick above or close above the swing candle.

Key Points:

•   A swing candle holds significance as it reflects a legitimate price reversal or consolidation point.

•   Only a break below a swing candle invalidates the 1-hour zone.

•   Random or insignificant candles that break below prior lows but do not meet swing candle criteria will not invalidate the 1-hour zone.

Practical Application of the Swing Rule

Scenario 1: Swing Candles Prevent Premature Invalidations

•   Previous Rule:

•   Any candle body breaking below the most recent Triple M would invalidate the 1-hour timeframe, even if the move was insignificant.

•   Updated Swing Rule:

•   Only a break below a swing candle (a significant low) invalidates the 1-hour timeframe, allowing trades to remain valid longer and improving overall system accuracy.

Example:

1.   A Triple M forms and creates a valid demand zone.

2.   The next candle dips below the Triple M but is not a swing candle.

3.   The zone remains valid, enabling continued trade opportunities on the 5-minute timeframe.

Scenario 2: Swing Validation in Action

1.   Initial Validation:

•   Price taps a demand zone and forms a Triple M.

•   The low of the Triple M becomes the protected low.

2.   Swing Candle Formation:

•   A swing candle forms with a low below the adjacent candles and a subsequent candle wicking/closing above it.

3.   No Swing, No Invalidation:

•   If a candle breaks below the Triple M but does not qualify as a swing candle, the 1-hour zone remains valid.

4.   Example Walkthrough:

•   Price taps a zone, creating a Triple M.

•   A subsequent candle dips below the Triple M but fails to wick or close above it, so it is not a swing candle.

•   The zone remains valid, allowing trades to continue on the lower timeframe.

Example Walkthroughs

Example 1: Classic Validation and Swing Rule in Action

1.   Validation:

•   A demand zone is tapped, and a Triple M forms.

•   The low of the Triple M becomes the protected low.

2.   Swing Candles Hold Validation:

•   A series of candles forms, creating multiple swing candles, each holding the protected low.

•   Price breaks below a non-swing candle.

•   The zone remains valid since no swing candle has been broken.

3.   Entry Opportunity:

•   Price action on the 5-minute chart aligns with the higher timeframe, leading to successful trades.

Example 2: Preventing Premature Invalidation

1.   Old Rule Issue:

•   Under the old rule, a minor dip below a Triple M low would invalidate the zone.

•   This would have caused missed opportunities for trades that remained valid.

2.   Swing Rule Impact:

•   The same dip is ignored if it does not meet swing candle criteria.

•   The 1-hour zone remains valid, preserving potential trade setups.

Key Benefits of the Swing Rule

1.   Improved Trade Opportunities:

•   Prevents premature invalidations, allowing traders to capitalize on additional setups.

2.   Higher Accuracy:

•   Focuses on significant price movements, reducing false signals.

3.   Consistency:

•   The swing rule aligns with the principle of trading based on significant market behavior, not random price noise.

How to Identify Swing Candles

1.   Look at the left and right candles adjacent to the potential swing candle.

2.   Ensure the swing candle's low (or high for bearish trades) is:

•   Lower (or higher) than the adjacent candles.

•   Followed by a candle that wicks or closes above (or below for bearish trades).

3.   Use the Swing Rule Checklist:

•   Is the left candle higher (or lower for bearish)?

•   Is the right candle higher (or lower for bearish)?

•   Does the right candle wick or close above (or below for bearish)?

Conclusion

The Swing Rule refines the 1-hour validation and invalidation process by incorporating a logical, market-relevant approach. By focusing on swing candles as the basis for invalidation, the rule improves the system's reliability and reduces unnecessary trade disqualifications. Integrating this rule ensures a more robust and consistent trading strategy.