How To Determine When A Reversal Is Going To Take Place

Introduction

I think it's fair to say that most forex traders have a lot of trouble determining when a reversal is going to take place in the market. Most are pretty good at finding places where a reversal has a high probability of occurring, like support and resistance levels for example, but encounter difficulty once it comes to actually spotting when a reversal is in the process of taking place.

The reason why is because they don't really understand the market structure that leads to reversals occuring. Most of the reversals you see take place in the market occur after a specific structure has formed. This structure forms as a result of the way the bank traders get their trades placed into the market when causing a reversal to take place.

I like to call this structure the reversal structure pattern.

The reversal structure pattern is very much like the common technical analysis patterns you probably already have some knowledge on. It always contains the same features when it forms, but it almost never forms in the same way as it did previously.

The core of my trading method revolves around identifying and trading this pattern. I have other setups which I look out for, like stops hunts, pin bars, supply and demand zones etc, but my main method is based on trying to get a trade placed when this pattern is in the process of forming, because it usually tends to form right before a large reversal is about to take place.

What I'm going to show you in this book, is how to identify and trade the reversal structure pattern.

I'll start by giving you a bit of background about the pattern itself, like why and how it actually forms, and then I'll move onto showing you how to identify and trade it. Because whilst it maybe quite similar in terms of it's formation to the normal technical analysis patterns, the method you have to use to identify when one is likely to form is quite different, as is the process you must go through to get a trade placed, so I want to make sure these are both really clear by the time the book comes to an end.

If there's anything which you have trouble understanding or would like further clarification on, please email me at forexmentoronline@hotmail.com and I'll be sure to get back to you as soon as I get chance.

I've left a little reminder at the end of the book just in case you forget.

What Is The Reversal Structure Pattern?

Okay, I thought the best way to start would be to spend some time talking about the pattern and to show you some examples of what it looks like when it's forming, to give you an idea of what you need to look out for to see when one is forming on your charts.

The pattern itself is not like the common technical analysis patterns you can read about in books and on trading websites, due to the fact that it's formation does not resemble any common shapes or structures, like the head and shoulders pattern does for instance, it just has certain features which are present in all variations of the pattern.

As you can probably tell from the name, the reversal structure pattern is a reversal pattern, which means you'll only see it form immediately before a reversal takes place in the market.

It can be found forming on all time-frames and is a fractal pattern, i.e it's a pattern which is constructed of the same pattern forming on a lower time scale (more on this in a minute). It can form as a result of the bank traders either getting their trades placed to make the market reverse, or from taking profits off trades they've already got open.

There are two main features of the pattern which you'll always find to be present whenever you see it form in the market.

The first is that by the time the pattern has fully formed multiple up and down swings will have taken place, (At least two upswings are required for a bullish pattern to be valid, and at least two downswings have to form for a bearish pattern to be valid.)

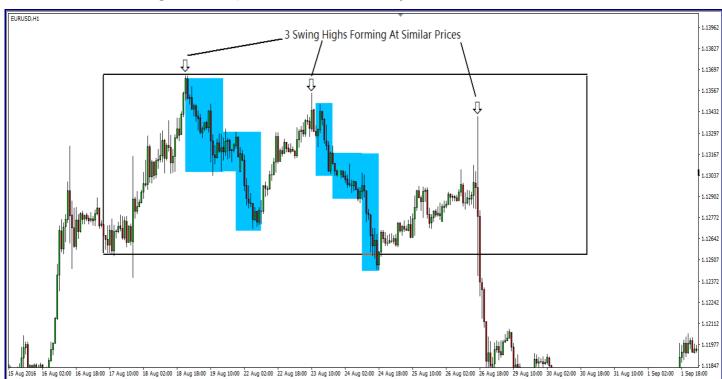
And the second is that the swing lows (or highs depending on the which type of reversal the pattern is creating), of the up and down swings will form at a similar prices to one another.



Here's an image of a reversal structure pattern which formed on the 1 hour chart of AUD/USD.

This is the bullish variation of the pattern, which means that it's formation is a signal the current down-move is going to come to an end. You can see that the pattern consists of the two main features I was just talking about. It has at least two upswings (which is a requirement for all bullish patterns), and the lows of these upswings have all formed at similar prices to one another.

The lows don't all have to form at similar prices but at least two do, so keep that mind when looking for the pattern to form on your charts.



Here's a bearish reversal structure pattern which formed on EUR/USD.

Again, just like the pattern in the previous image the reversal structure pattern we see here contains the same two features. It has at least two downswings forming (three if you count the one which caused the reversal to occur), with the swing highs of each these downswings all forming at similar prices to one another. The pattern you can see in this image is actually part of an even bigger bearish reversal structure pattern which had been forming on the daily chart.



If you go onto the daily chart you can see where the reversal structure pattern in the previous image formed, in relation to the bigger pattern that was in the process of forming.

The small orange box I've marked shows the point where the pattern in the previous image was forming. It turned out that the pattern just caused the first downswing in this bigger pattern to form, with another one being created only a couple of weeks later.

The fact that the swings which form in reversal structure patterns are often created by the same pattern forming on a lower timeframe, means you can figure out where additional upswings or downswing are likely to form on the higher timeframe just by watching for a pattern to form on a lower timeframe.

This is something I'll show you how to do later on in the book to trade the pattern itself.

Lets take a look at some more examples of patterns forming.



This image shows a bullish reversal structure pattern which formed on the 15 minute chart of AUD/USD.

You can see that even when a pattern forms on a timeframe as low as this, the same features are all present. In this instance we saw 3 upswings form with their swing lows at similar prices, instead of the two we saw in the previous image.

It's not possible to tell how many swings will form before the pattern causes the market to reverse, but in my experience it's highly unlikely you'll see more than 5 form. If you do happen to see more than 5 form, it's a strong sign that a consolidation is in the process of forming, not a reversal structure pattern.

<u>Understanding The Characteristics Of The Reversal</u> Structure Pattern

Now that you've got an idea as to what the reversal structure pattern looks like when it appears in the market, what I want to do next is explain what causes the different features of the pattern to form, as that will make it easier for you to understand how the pattern is created.

Like I showed you in the previous section, all bullish and bearish reversal structure patterns consist of two main features which will be present in all variations of the pattern you see form in the market.

The first feature is multiple up and down swings forming, and the second is the swing highs (or lows depending on the pattern), of these swings forming at similar prices to one another.

Lets take a look at why multiple swings form during the formation of the pattern.

Why Do Multiple Swings Form?

In order to understand why you always see multiple swings form during the formation of the pattern, you have to have a small bit of knowledge on how the bank traders actually get their trades placed into the market when causing a reversal to take place. When it comes to placing trades, or taking any other action for that matter, the bank traders need to have buy or sell orders coming into the market.

The type of orders they need to have depends on what they are trying to do. For example, if the market was falling and the bank traders wanted to get buy trades placed to make it reverse, they would have to have lots of sell orders entering the market, as the only way you can buy, whether it be to place trades or take profits, is if other people are selling at the same time.

Conversely, if the market was rising and the banks wanted to get sell trades placed to make it fall, they'd need to have lots of buy orders entering the market, because you can't sell unless there are other people are buying at the same time.

Now the problem the bank traders always have when they decide they want to cause the market to reverse, is they don't have enough people buying or selling for them to get all of their trades placed in one go. There's enough there to get some of them placed, but nowhere near enough for them to get their entire position placed. So what they have to do once they've managed to get some of their trades placed, is find a way to get people to buy or sell again so that they can use the orders to get their remaining trades executed.

They way they do this is by taking a small amount of profit off the trades they got placed using the orders they had available initially. When they got some of their trades placed, the market would've moved in the direction they wanted it to reverse, so by taking a small bit of profit off the trades, they make the market to move back in the direction it was moving in originally.

This causes traders to enter traders again, and gives the bank traders some more of the orders they need to get their remaining trades placed.



This image shows an example of the process described above taking place in the market.

When the banks decided to get their first set of buy trades placed to cause this reversal to occur, they only had enough sell orders coming into the market to get 50,000 buy trades placed. The total number of buy trades they had to get placed before the reversal began was 90,000, so once they had got the 50,000 placed, they still had a further 40,000 left to get executed.

In order to get the rest of these trades placed, the bank traders had to find a way to get people to sell again, as the market would've moved up after they got their 50,000 buy trades placed. The way they cause people to sell is by taking some profits off the buy trades they'd just got placed.

When they take profits the price drops and people begin selling again, because they believe the drop is a continuation of the prior move down. With more sell orders now available, the banks are able to get another 30,000 of their buy trades placed, but there's still 10,000 left which they need to get executed, so what they do is carry out the same process all over again.

Once the market has moved up from them placing their 30,000 buy trades, they take another small bit of profit off their trades. This causes the price to fall, and gives them remaining sell orders they need to get the rest of their buy trades placed.

Once these last 10,000 buy trades have been placed, the market starts moving up again, but this time, instead of taking profits to make the market fall like they have do the previous two times, they just let the move higher continue, as now that they've got all their buy trades placed, there's no need for them to cause another drop to occur to generate more sell orders.

This process of placing trades and taking profits to generate orders, is what causes all bullish and bearish reversal structure patterns to form in the market. The example I've shown you here isn't true to life, in terms of the size of the buy trades the bank traders would be placing, but the overall process is the same as what you will see in real market conditions.

Hopefully that's given you a better understanding of why you'll always see multiple swings form during the formation of a reversal structure pattern. Lets now move on and take a look at the reason why multiple swing lows or highs will form at similar prices to one another when a pattern is being created.

Why Do The Swing Lows Or Highs Form At Similar Prices To One Another?

In simple terms, the reason why we see multiple swing lows or highs form at similar prices, is because the bank traders want to get their trades placed in a way which mimics that of if they were causing the market to reverse by getting all of their trades placed at one price.

If they had enough orders entering the market, they would just get all of their trades placed at the same time at a single price, as that would be the most cost effective way to make the market reverse. The fact that they're almost always unable to do that, means they have to find a way to not only get all of their trades placed into the market, but place them in such a way where it's virtually identical to if they had managed to get them all placed at a single price.

The way they do that is by making sure each set of trades they place are placed at a similar price to where the others have been executed. By placing them at similar prices, the banks mimic the effect of having all of their trades placed at the same price, albeit not all at once, which is what they would've wanted had there actually been enough orders available for them to use.

Important Note:

It is possible for the bank traders to try to get all of their trades placed even when they don't have enough orders coming into the market. The reason they don't is because of something called slippage.

Slippage is a word used to describe what happens when a large order comes into the market which is much much bigger than the number of orders entering the market at that current time.

For example, if there was 10,000 buy orders entering the market and suddenly someone places an order to sell 100,000, that order would be slipped, because there isn't enough buy orders for the 100,000 sell orders to be executed at the current market price, there's only enough for 10,000, which means the market is going to drop until enough buy orders enter the market for the remaining 90,000 sell orders to be filled.

As the price drops, pockets of buy orders would enter the market and parts of the remaining 90,000 sell orders would be placed, albeit at a much worse price than what the person who placed the sell order would have wanted.

If you want a more in depth explanation of slippage check my order flow trading article below.

Introduction Into Order Flow Trading

Chapter Summary

Below is just a quick summary of the main points I want you to take away from this chapter.

- The reversal structure pattern is a price pattern that forms right before a reversal take place in the market. It can be found forming on all timeframes and will always consists of the same two features which are present in all variations of the pattern. The first feature is multiple up and downswings taking place during the formation of the pattern, and the second is that the swing lows or highs of these swings will all form at similar prices to one another. Note: Only two swing lows or swing highs have to form at similar prices to one another in order for the pattern to be valid.
- The reason why you'll see multiple swings form during the creation of the
 reversal structure pattern, is because of the way the bank traders have to
 get their trades placed to make the market reverse. The banks never have
 enough orders coming into the market to get all of their trades placed in one
 go, so they have place them at different points when they have enough
 orders available. They generate orders themselves by making the market

move up and down, as that causes people to place trades, which gives the bank traders the orders they need to get all of their own trades executed.

• Swing lows or highs form at similar prices to one another as a result of the bank traders trying to get their trades placed, in a way which is similar to that of if they had just been able to get one massive trade placed to cause the market to reverse. If they could get all of their trades placed at once, they'd all be placed at the same price, but since that's an impossibility they have to do the next best thing, which is to get them all placed at similar prices to one another. By placing them at similar prices they basically achieve the same effect of having all their trades placed at once at the same price, only with very minor price differences.

Where Should You Look For Reversal Structure Patterns To From?

In this next chapter, I'm going to show you where in the market you need to be watching for reversal structure patterns to form, because even though patterns can and do form everywhere, there are certain places where they have a better chance of being successful than others, and you need to know where these places are if you going to be successful trading the pattern.

Before we start, it's important for you to know that there are two types of reversal structure pattern that form in the market.

The first is the type which forms in the direction of the current trend and causes a continuation to occur - (current trend of course being defined as the most recent lower low or higher high the market has made), and the second is the type which forms against the current trend and ultimately causes it to change by reversing.

Whilst these two types of patterns can always be found forming around the same points - (the big round number prices), they won't all form in the same location in regards to the trend. For example, a reversal structure pattern which forms against the current trend could form immediately after a trend reversal has taken place, or it could form long after a reversal has occurred.

This difference in location may seem slight, but the affect it has on the probability of the pattern being successful is very big, which means knowing where each type of high probability pattern is likely to form is critical information to have when watching for patterns to appear in the market.

Lets take a look at where the high probability patterns which form against the trend are likely to form.

Patterns Which Form Against The Trend

The patterns which form against the trend will begin forming right after a trend change has taken place. Most of the patterns will cause small retracements to occur, but some will form without generating any counter trend movement at all, these are not the reversal structure patterns you want to be trading.

Even though it is possible to make some small profits off trading the patterns which cause small retracements to occur, it's very difficult to trade these patterns over and over again. It's far easier to just trade the patterns which have a high probability of causing large reversals or retracements to take place, because you only have to trade these once to make a large amount of money.

These patterns only form after the market has been in a trend for a long time. The reason why is because the forex market is a zero sum game, a game where it's not possible for you to make money unless other trades lose money after you've got your trade placed.

Because this simple fact applies to all the people who participate in the market, it means the bank traders only make money when other traders are losing money. If a large enough group of traders open trades in an attempt to make money from the market, the bank traders will cause the market to move in the opposite direction to purposely make the traders lose, as they can't make money from their own trades if everyone else is also making money at the same time.

Of course, the question now is how do you know when a large number of traders have opened trades in an attempt to make money? The answer to that question comes in the form of the trend. The trend is a concept which most forex traders use to determine which direction the market is going to move in the future.

Traders mistakenly believe that the longer the trend has been place, the higher the probability the market has of continuing to move in the direction of the trend in the future. This basically means that the longer the market moves in the direction of the trend, the higher the number of traders there are entering trades in an attempt to make money.

Think about it like this.

When a reversal first takes place and causes the trend to change, most people are not aware a new trend has begun, due to the fact the initial movement of the trend will often just look like a retacement to the prior trend. It's only after the market has moved a large distance against the previous trend that people start to realize a new trend is in place, and begin placing trades to take advantage of the new movement.

Initially there won't be that many people actually getting trades placed, but as the trend continues more and more will start entering, because their belief the market is going to continue moving in the direction of the trend increases the longer the trend is in place.

Eventually it'll reach a point where the market has been trending for such a long time, that most of the traders will be getting their own trades placed to take advantage of what they are certain to be a trend continuation.

It will be at this point where the bank traders will have to make the market move in the opposite direction, because if all these traders are now placing trades in the direction of the trend, it means they are no longer going to be able to make money off their own trades, as there won't be enough people losing money for them to make a profit.

There are two ways in which the bank traders can make the market to move against the trend. The first is by causing a complete trend reversal to occur by placing new trades into the market. And the second is by causing a really big retracement to take place by taking a large amount of profit off the trades they've already got open.

If they place new trades, the resulting reversal will cause all the traders who had started placing trades in the direction of the trend to close their trades at a loss. This will push the market in the direction of the new trend, and will cause the banks to make a large amount of profit off the new trades they just got placed.

If they take profits to cause a retracement to occur, it'll basically have the same effect, the only difference is the size of the retracement will cause traders to place trades in the opposite direction to the trend, as most of them will mistakenly think an entirely new trend is beginning, and thus put orders in the market for the bank traders to use to get more of their own trades placed.

When they place their trades the retracement comes to an end, and all the traders who got trades placed under the impression the retracement was the beginning of an entirely new trend, now start closing their trades at a loss. Closing their losing trades is what pushes the market back in the direction of the trend and causes the bank traders to make a profit on their trades once again.

Now whether or not the bank traders decide make money again by causing a reversal or large retracement to occur isn't really that important. What is important however, is that no matter what they decide to do a reversal structure pattern will usually end up forming against the current trend.

These are the patterns you want to be watching out for in the market, because they have the best chance of being successful and making you a large amount of money. They're only going to form when the banks decide to cause a reversal or large retracement to take place, which as I've just shown you is after the market has been in a trend for a long duration of time.



If you look at this downswing on USD/JPY, you can see that two bullish reversal structure patterns formed after the market had reversed.

The pattern which caused the large retracement to take place, only formed once the market had fallen quite a large distance, whereas the pattern that formed right after the reversal occurred, didn't cause any up-movement to take place at all. The reason why was because not many people had realized the trend had changed by that point, therefore there was no need for the bank traders to cause a reversal or large retracement to occur, as most traders had yet to start opening trades in the direction in the direction of the new trend.

Now by the time the reversal pattern at the bottom of the image formed, the market had already been falling for quite a long time, which meant that most of the traders in the market would've been opening sell trades to make a profit off what they believed was going to be a continuation lower. This is the point where the bank traders stop making money on their own sell trades, and have to cause the market to change direction, to get people place buy trades which they can use to get more sell trades placed to cause people to lose money again.

The main take away I want you to have from all of this, is that the reversal structure patterns which form after the market has been moving in the direction of the trend for a long time, are the ones which you want to be trading, as these will have formed because the bank traders need to make the market reverse due to too many traders having trades open, not because they're taking profits off trades which they've already got placed. Which is what typically tends to cause the patterns that appear right after a trend reversal has taken place to form.

Of course, what makes locating these patterns really difficult, is the fact that every trader in the market has a different idea as to what constitutes to a long time. For example, two traders who trade on exactly the same timeframe could have completely different ideas as to when the market has been in a trend for a long time. One may think that a trend which has been in place for 6 days is considered to be long trend, whilst another may feel that a trend which has been in place for 6 weeks is a long trend.

Unfortunately it's not possible to know the exact amount of time a trend needs to be in place before it's considered to be a long trend. The reason why is because all the trends that take place in the market are completely different from one another. Some are really long and contain many retracements, whilst others are very short, and may just contain consolidations only.

Even though you can't determine the exact amount of time the market needs to be in a trend, I've still managed to come up with a little method you can use to gauge when a market has been trending for a long time - and thus when a high probability reversal structure pattern is likely going to form against the trend. This method is pretty simple to understand, but it's a little unorthodox too. So what I've done is create a completely separate e-book to help explain it in more detail, to make sure that everyone gets it and know how to use it correctly.

You can use the link below to download the book.

How To Determine Reversals

Patterns Which Form With The Trend

Like the patterns that form against the trend, the reversal structure patterns which form with the trend, can also appear in two different locations. They can either form during a retracement and cause it end, or form without any retracement being created at all. The ones which you want to be watching out for, are the ones which cause retracements to come to an end.

These patterns have a higher probability of being successful than the patterns which form without a retracement, due to the fact they primarily form as a result of the bank traders placing trades to make the price reverse.

Most of the patterns which form without a retracement, are also created by the bank traders placing trades. problem is, during formation it's very difficult to tell if these patterns have formed because the bank traders are taking profits off their trades, or if they are placing trades to keep the market moving in it's current direction.

You don't really have this problem with the patterns that form at the end of retracements, because they'll typically only form as a result of the banks getting trades placed. The ones which do happen to form from profit taking aren't a problem, because they usually cause a decent move to occur anyway, so by the time they come to an end, you would've already closed your trade or at least moved your stop to breakeven.



Here's an example of a pattern which caused a retracement to end on the 15 minute chart of AUD/USD.

You can see that even though this pattern has formed with the trend and is signalling a continuation, all the features of it are the same as what we would see on a pattern which forms against the trend. It has multiple up and downswings forming during it's creation, and the swing highs of these swings all end up forming at similar prices to one another.

Lets look at a pattern which forms without a retracement.



Here's a pattern which formed with the trend, but without any retracement taking place.

As you can see from the image, this pattern also has the same features of the other patterns we've seen so far. The problem is because it's formed without a retracement taking place, it's tough to determine the reason why it's formed in the market.

We now know the pattern formed as a result of the bank traders taking profits off their sell trades, but during the time it was being created, you wouldn't of been able to tell if it was forming because they were taking profits, or placing trades to make the market reverse.

Chapter Summary

Below is just a quick summary of the main points I want you to take away from this chapter.

 There are two types of reversal structure pattern that form in the forex market. The ones that form in the direction of the current trend and cause a continuation to occur, and the ones which form against the trend and cause a reversal or deep retracement to take place.

- You should only trade the patterns which form against the trend after the
 market has been in a trend for a long time, because that's when the bank
 traders will have to cause a reversal or deep retracement to take place as a
 means of continuing to make money off their trades.
- The patterns that form with the trend should only be traded when they form at the end of retracements. The ones that form without a retracement taking place should be left, as they have a low probability of working out successfully.

How To Trade The Reversal Structure Pattern

Now that I've shown you where the different types of reversal structure pattern should form, what I want to do next, is go through some examples to teach you how to actually trade the pattern, so you know what to do upon seeing one form in the market.

Overall trading the pattern is a fairly simple process, although it's one which you may find to be a little bit alien, due to the signals you have to watch for in order to get a trade placed.

Some of the steps you have to go through to trade the patterns which form with the trend, are a little different to ones taken to trade the patterns that form against the trend, so I've split this section in two parts: the first will detail the steps you need to go through to trade the patterns which form against the trend, and the second will show you how to trade the patterns that form with the trend.

How To Trade The Patterns Which Form Against The Trend

The first step in trading the patterns that form against the trend, is to wait until the market has been moving in same direction for a long duration of time, because that's when the bank traders are likely to cause a large retracement or reversal to occur, so they can continue to make money from the market.

To find out if the market has been moving in the same direction for a long time, all you need to do is just use the method I gave you in the book I attached earlier on.

You need to move the chart so that the left hand side sits on the point where the most recent upswing on a higher timeframe began. If the market has managed to move to the bottom middle to bottom right of the graph (top right if you're using this method on an upswing), it means the market has been moving in the same direction for a long duration of time, and you should begin watching for reversal structure patterns to form against the trend.



Here's an image of a downswing which took place on EUR/USD.

You can see I've moved the chart so that it sits on top of the point where the most recent swing down on the daily chart to began from.

Notice that the market is now in the bottom right corner of the chart? The fact that it's moved this far tells us the movement has been in place for a long time, which means that it's likely we could see the banks cause a complete reversal or large retracement to soon take place, as a means to make money from the market once again.

It would be at this point where you start watching for signs of a reversal structure pattern forming against the trend.



If I move the chart along a bit, you can see that a short time after the previous image was taken, an up-swing formed which was bigger than all of the other upswings we'd seen form since the downswing began.

The fact that's it's bigger than the others isn't significant in any way, but the swing itself could end up being important if another upswing begins after the market has fallen down to the swing low marked with an X, as that would be a sign a reversal structure pattern is potentially forming against the trend.

So when the up-swing comes to an end and the market is beginning to drop back towards the low, you would be monitoring the price action to see if another swing higher looks to be developing, because if it is, it's likely a reversal structure pattern is forming.



As you can see from the image, the downswing resulting from the upswing we just looked at does not cause the market to break through the swing low. Instead it terminates when it's just 23 pips away before a new upswing takes place and pushes the market back up to the point where the swing down originated from.It would be at this point where you begin watching the market closely, because there is now sufficient evidence to suggest a reversal structure pattern is in the process of forming, which means another swing down to the point where the 1st and 2nd swing lows marked with X's formed is soon likely to take place.



In this instance, you can see the market ends up falling down to the point where the 2nd swing low has formed before reversing.

This won't be the case with all the reversal structure patterns you see form. Sometimes a couple of up-swings will form, and the market will just drop past the low of the 2nd upswing before reversing, but other times it will create one or two swings before dropping through the lows of both of them before reversing.

It's not possible to know whether or not the market is going to break through the swings, or which swing lows it's going to break through, but it's not that much of an issue anyway, due to the method you use to actually trade the pattern.

When you see the market come close to the point where the 2nd upswing originated from, you need to go onto the 5 minute chart to begin watching for another reversal structure pattern to form. The reason why is because of what I talked about earlier on in the book, about how the reversal structure pattern is a fractal pattern, which forms as a result of the same pattern forming on a lower timeframe.

So in order to find out when the 3rd swing low of the pattern might be forming, all you need to do is watch for a reversal structure pattern to form on the 5 minute chart when the market is around the point where the 2nd swing low formed, as you know that any additional swing lows in the pattern are likely to form around the same point as where the other lows have been created.



In the image above, you can see the reversal structure pattern that forms on the 5 minute chart when the market comes down to the point where the 2nd swing low formed on the 1 hour chart.

This pattern contains all the same features of the pattern which is forming on the 1 hour chart, it doesn't look the same, but all the features are actually present. We have multiple swings being created, the swing lows of these swings forming at similar prices to one another (the other pattern has three but two is the minimum required for a pattern to form), and the swings themselves are large and prominent.

The formation of the pattern is a sign the 3rd swing low might be forming on the 1 hour chart, but this isn't confirmed until the market has managed to close beyond the swing high of the swing down by at least one candlestick.

This means when you see that the 2nd swing low has formed, you don't enter a buy trade until the market has closed past the high of the down-swing which caused the market to fall back to the point where the 1st swing low formed. As soon as you see that it's closed past the high, you enter a buy trade with your stop loss placed below the 2nd swing low



With the trade executed and your stop loss placed, the next task is for you to go back onto the 1 hour chart to wait until the market is close to reaching the source of the down-swing which caused the market to drop down to the 2nd swing low, before moving your stop to the breakeven point.

When it does reach the source (marked in orange), you need to monitor the price action, because if another swing down is going to take place, it will likely do so from near to the point where the previous swing down originated from.

Note:

If a swing low forms without a pattern forming on a lower timeframe, you can still get a trade placed by waiting for the first large bullish candle to form after the low has been created. In the image above you can see I've marked a large bullish candle with a down arrow. This is the candle you would use to enter a buy trade if you didn't see a pattern form on the lower timeframe, as it's formation confirms the swing low as being valid.

Also, if you saw a swing high form without a pattern on the lower timeframe when trading a bearish reversal structure pattern, you can still get a trade placed by waiting for a large bearish candlestick to form after the swing high has been created.

If another swing down does actually occur, it will probably take you out of your buy trade, but don't be alarmed because it's not a signal the pattern has failed, it's just a sign that a 4th swing low could be in the process of forming.



Here's an example of a theoretical situation where the market falls again after reaching the source of the previous swing down.

The downswing that occurs after the market reaches the source (marked with an orange box), causes the price to drop through the 2nd and 3rd swing lows that had formed previously. When you see the market drop down to the point where each low formed, you'd go down onto the 5 minute chart to watch for a reversal

structure to form, because if another swing higher is going to take place, it will do so near to the point where the lows have been created. If one does end up forming, you would just follow the same instructions I gave you before.

You wait until the market has broken above the high of the swing down and then enter a buy trade with your stop loss below the low of the up-swing which caused the high to break. If it manages to move back up to the source of the last swing down on the 1 hour chart, you move your stop loss to breakeven, so as to avoid any losses which could occur if another downswing develops.

Now that I've showed you a bullish example of a reversal structure pattern forming against the trend, I want to give you a walk-through of a bearish pattern, to make sure the process is clear no matter where you see the pattern form in the market.

Just like the previous example, step one is to move the left hand side of the chart window to the point where the current up-swing originated from. If the market has managed to move from the bottom left, all the way up to the middle top to top right of the chart, it means you're likely going to see a reversal structure pattern form soon, as the banks only cause a reversal or large retracement to take place when the market has moved in the same direction for a long duration of time.



The image above shows an up-swing which took place on the 30 minute chart of EUR/USD.

As you can see, this upswing has caused the market to move in the same direction for a long time, as evidenced by the fact that if you move the left hand

side of the chart to sit on the point where the most recent upswing began on the daily chart, it shows the market has now managed to move all the way up to the top right of the chart window.

Because it's moved this far, you know that a reversal structure pattern is likely to form soon, as the banks cannot keep making money from their trades unless they cause deep retracements and reversals to take place every so often.



In this image, you can see that shortly after the previous image was taken a downswing occurs and causes a swing high to form.

This downswing and the swing high it creates, is not anything special or significant at the time of it's formation, but it could signal the beginning of a reversal structure pattern if another swing high ends up forming at a similar price when the market moves back up.



When the market reaches the area where the swing high formed, you would be waiting to see if another swing down takes place, because if it does, that would give further confirmation a reversal structure pattern is in the process of forming. You could decide to go down onto a lower time-frame to watch to see if a reversal structure pattern forms at the point where the swing high formed, as that would be a good sign the second swing down is about to begin.



If you look on the 5 minute chart, you can see that a pattern did actually form when the market reached the area where the 1st swing high formed on the 30 minute chart.

You could have used the formation of this pattern as a sign another swing down was going to take place, but you also could've used it to get a sell trade placed, as a means of trading the pattern earlier. Doing this means you're taking a lower probability trade, not because the trade itself has a lower probability of being successful, but because there's a lower chance the market is actually going to end up breaking through the low of the first swing on the 30 minute chart.

If you do decide to take a trade upon seeing a pattern form on a lower timeframe, you need to make sure you enter your position after the market has managed to close below the swing low of the swing up which pushed the market up to the point where the 1st swing high formed, as that would be confirmation the 2nd swing down on the 1 hour chart is now going to take place. Your stop loss would be placed above the 2nd swing high that formed on the 5 minute chart, and you would move it to break even when the market is close to reaching the swing low created by the most recent swing higher on the 30 minute chart.

Now assuming you didn't use the pattern that formed on the 5 minute chart to get an entry into a trade, at this point you'd still be watching to see if the second swing down continues or causes another swing higher to take place.



In this instance, you can see that the second swing down does actually come to an end, and soon after another swing higher develops. When this new swing causes the market to move back up to the point where the second swing high formed, you need to drop down to the 5 minute chart to monitor the price action to see if a reversal structure pattern forms.



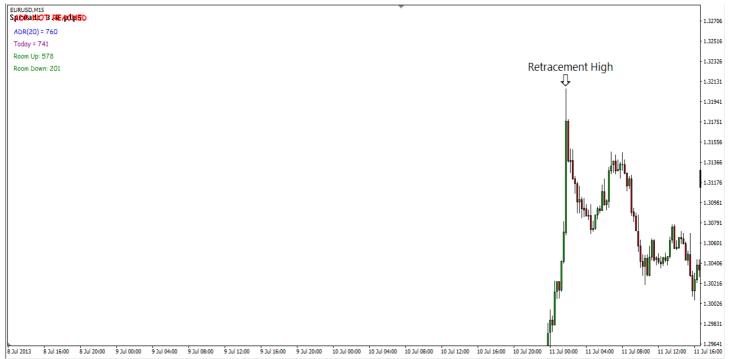
Now unfortunately, although a 3rd swing high does form upon the market returning to the point where the 2nd swing high was created, it doesn't form as a result of a reversal structure pattern forming on a lower time-frame.

In most cases this wouldn't be much of a problem, because you could just enter a sell trade upon seeing the 3rd swing high form on the 30 minute chart. In this example however, the 3rd swing high happens to be a huge spike, which means by the time it's confirmed as actually being a swing high (when the big bearish candle marked with a red arrow closes), the market has already dropped 92 pips.

The fact that it's moved this far, means the size of the stop loss on any sell trades you do decide to place is going to really big. You can still place a trade and have it work out perfectly fine, but in my opinion it just wouldn't be worth it, due to the amount of money you would have to actually risk on the trade.

How To Trade Patterns That Form With The Trend

I'm just going to run through a quick example of how to trade the patterns that form with the trend. It's a very similar process to what we've just looked at, so it shouldn't take long.



In this image, you can see a retracement that took place on the 15 minute chart of EUR/USD.

When this image was taken a swing down had just formed. Just like in the other examples I've shown, this swing down is not significant at the time of it's formation, but it could turn out to be if another swing down occurs close to the point where this one originated from.



If I move chart forward slightly, you can see that another swing down does occur upon the market reaching the point where the first swing down originated from.

The formation of this second swing suggests that a reversal structure pattern is in the process of forming with the trend. At this point, you could decide to do one of two things.

You could either wait for more swings to form, to give further confirmation a reversal pattern is actually forming, or you could decide to get a sell trade placed as a means of entering the pattern early. In my experience, it's better to wait for at least three swings to form before getting a trade placed.

Most of the patterns you see will consists of three or four swing highs (or lows in this case), so waiting until you see them form is usually better than placing a trade once the second low has been confirmed, i.e when a large bullish candle has pushed the market away from the low.



In our example the second up-swing does not cause the market to reverse. Instead it causes it to move back down to the point where the 2nd swing low formed.

This is when you'll want to start watching for reversal structure patterns to form on the 5 minute chart. The formation of a pattern near the point where the 2nd swing low formed would be a good sign the 3rd swing low is about to be created. By trading this pattern, you can get a low risk entry into a sell trade with a really tight stop loss.



In this instance a pattern does not end up forming on the 5 minute chart. This means the only way to enter a sell trade now, is to wait until the swing high has been confirmed via a large bullish candle forming.



Here you can see that 4 hours after the 3rd swing low formed, a large bullish candlestick appeared and pushed the market up towards the highs of the swing down which cause the market to drop to the point where the 2nd swing low formed.

The appearance of this candle confirms the 3rd swing low is now in place, so upon seeing it close you would enter a buy trade with your stop loss placed below the 3rd swing low. When the market reaches the point where the downswing leading into the 3rd swing low originated from (the area I've marked with an orange box), you need to move your stop loss to breakeven, because if another swing down is going to take place, it will do so from somewhere around here.



As you can see from the image, another swing down doesn't actually materialize when the market reaches the source of the downswing. The fact that it didn't occur, means you can now just focus on monitoring your trade and taking profits off at the right time.

In my opinion you should always take some profits off your trade when the market reaches the point where a retracement terminated, or where a consolidation or reversal took place in the past, because these are the points where the bank traders will have got their trades placed. If they're making the market move back to these points to get any remaining trades executed, a reversal or significant move will take place, so it's best to always secure a bit of profit before the market reaches these points.

Also, if you see two swings form with their highs or lows at similar prices to one another when you've got a trade open, regardless of which trading strategy you use, you should move your stop to the point where the low of the swing which created the second high formed. Or if the two swings form during a downtrend, the high of the swing which caused the second low to form, as a reversal structure pattern could be in the process of forming.

Important Things To Keep In Mind

Before we come to the end, there are a couple of things I want to talk about that you need to keep in mind when identifying and trading the reversal structure pattern.

The First Swing Of The Pattern Must Be Big

The first, is that when it comes to trading the pattern, make sure the first swing of the pattern is big. Don't trade the patterns that form with a small 1st swing, because they've usually formed as a result of the bank traders taking profits off their trades, not from placing trades with the intention of making the market to reverse.



Here's an image of a reversal structure pattern that formed with a small 1st swing.



And here's an image of a pattern that formed with a large first swing.

Notice the big difference between the swings seen in both patterns? The swing in the image above is clearly bigger than the one seen in the previous image.

The fact that it's bigger means the pattern is more likely to have been created by the bank traders placing trades to make the market reverse. This doesn't automatically mean it's going to be successful, but it does give it a much better chance than if a pattern only formed with a small first swing.

Unfortunately I can't give you definite guidelines on exactly how big the swings of the pattern should be, as it's something which I just base off my own discretion and experience. Despite this, I would say that the size of the 1st swing you can see in the EUR/USD image above, is the minimum it needs to be if you want to trade a pattern that forms in the market.

If you see a pattern form with a 1st swing which is comparatively smaller than the one you can see in the image above, it's probably best to not trade the reversal structure pattern.

Which Timeframes You Need To Use To Trade The Pattern

As I showed you in the previous chapter, when watching for a swing to form in order to get a trade placed, it's best to drop down onto a lower timeframe to watch for a reversal structure pattern to form, because you can usually get a really good entry into a trade with a tight stop loss.

Of course, the timeframe you need to drop down to differs depending on which timeframe the pattern you're trading has formed on. So what I've done below is create a small list of which timeframes you need drop to onto when trading the reversal structure pattern.

If a pattern forms on the 30 minute or 1 hour chart, look for a pattern to form on the 5 minute chart to enter your trade.

If a pattern forms on the 5 or 15 minute chart, watch for a pattern to form on the 1 minute chart to enter your trade.

If a pattern forms on the 4 hour chart, watch for a pattern to form on the 15 minute chart to enter a trade.

If a pattern forms on the daily chart, look for a pattern to form on the 1 hour chart to enter your trade.

Watch For Patterns To Form Around The Points Where The Bank Traders Have Got Their Trades Placed

Although you can never know exactly where a reversal structure pattern is likely to form in the market, there does happen to be some places where they're more likely to form than others. These places are the points where the bank traders have got some of their trades placed.

The reason they're more likely to form here, is because when the bank traders are getting their trades placed, they often don't have enough orders coming into the market to get all of their trades placed at one price.

Because they can't get all their trades placed at one price, it means that once they get what trades they can place placed, they have to make the market move back to the point where their trades were executed, so as to get the rest of their trades placed at a similar price to the others.

When they get the rest of these trades placed, it tends to result in a reversal structure pattern forming. So essentially, by understanding the points where the bank traders have potentially got trades placed, you can come up with an idea as to where a pattern is likely to form.

Now even though there are lots of locations where the bank traders have potentially got trades placed, there are some which are more important than others, due to the size of trades they may have placed at the point.

Consolidations - reversals and the point where retracements end, are all places in the market where the bank traders will have got a substantial amount of their trades placed.

These are the places you want to watching for reversal structure patterns to form, because if the bank traders were unable to get all of their trades placed during the consolidation - reversal or retracement, they'll make the market move back to the point where it occurred to get their rest of their trades placed.





Here's an image of a reversal structure pattern we looked at earlier on in the book.

By zooming out a bit, you can see that this pattern formed at a point where the market had reversed a few day's before. This reversal, along with the pattern had been created by the bank traders placing trades to make the market reverse. When the reversal took place, the bank traders were not able to get all of their trades placed into the market at one price.

This meant they had to make the market move back up to the point where the reversal occurred, to generate buy orders to use to get the rest of their trades placed.

If we move onto the 4 hour chart, you can see that once they had got their trades placed to cause the pattern to form, the market dropped before entering a consolidation. This consolidation has taken place because they still weren't able to get all of their trades placed during the formation of the pattern.

We can confirm this to be true based off the fact that the highs of the consolidation - reversal and pattern have all formed at very similar prices to one another. Even the spike which occurred a couple of weeks after the consolidation came to an end, terminated at a similar price to where all the other highs had all formed - thus proving the banks had got positions placed around this point in the market.

To be honest, the patterns that form with the trend are the ones which typically tend to appear at the points where the bank traders have got trades placed, i.e reversals - consolidations - the end of retracements.

The patterns which form against the trend will mainly form from the current price action, so you'll still have to use the method I gave you in the PDF to figure out when one is likely to appear.

Closing Words

Hopefully the examples I've shown you over the past few pages have given you a good idea on the steps you need to go through in order to trade the pattern when one forms in the market. I realize that the reversal structure pattern itself may not be the easiest pattern to identify and trade, but it is a pattern which can help you immensely, because even if you don't decide to trade it, you can still use it's formation as a sign a reversal is likely going to take place.

If you have any questions about the concepts discussed throughout the book, feel free to email me at forexmentoronline@hotmail.com. I'll always try to answer any emails I receive the day I get them, but sometimes I'm unable to due to the overwhelming number of emails people send me each day. Please give me at least 5 days to get back to you if you send me an email, If I haven't replied within 5 days, re-send me the email and I'll make sure to answer it that same day.

Thanks for reading.